CONTENTS

2	Corporate Profile
3	Five-Year Financial Summary
4	Notice of Annual General Meeting
5-6	Board of Directors
7	Management
8-11	Biographical Details of Directors and Senior Management
12-13	2010 at a Glance
14-15	Message to Shareholders
16-18	Report of the Directors
19	Independent Auditor's Report
20	Consolidated Income Statement
21	Consolidated Statement of Comprehensive Income
22	Income Statement
23	Statement of Comprehensive Income
24	Consolidated Statement of Financial Position
25	Statement of Financial Position
26-27	Consolidated Statement of Changes in Equity
28-29	Consolidated Statement of Cash Flows
30-118	Notes to the Consolidated Financial Statements
119-128	Supplementary Financial Information
129-130	Branches and Subsidiary Companies

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

	2010	2009	2008	2007	2006
FOR THE YEAR (IN HK$ MILLION)					
Net interest income	**1,893**	1,735	1,966	2,036	1,849
Other operating income	**1,255**	1,159	958	1,569	1,008
Operating expenses	**1,044**	1,264	1,004	973	842
Operating profit	**2,020**	1,572	1,547	2,534	1,981
Profit before other comprehensive income attributable to equity holders	**1,701**	1,336	1,185	2,199	1,662
Dividend	**860**	800	800	1,100	506
AT YEAR END (IN HK$ MILLION)					
Shareholders' funds	**17,114**	16,034	14,833	14,886	13,026
Total assets	**118,642**	112,910	109,749	108,025	93,760
Total deposits	**95,463**	91,489	89,532	82,113	75,343
Total loans and advances	**53,344**	44,340	50,168	46,128	38,472
FINANCIAL RATIOS					
Capital adequacy ratio*	**19%**	19%	19%	20%	22%
Liquidity ratio	**51%**	55%	47%	52%	53%
Loan to deposit ratio**	**59.54%**	52.03%	58.06%	59.09%	55.79%
Dividend to profit before other comprehensive income payout ratio	**50.57%**	59.88%	67.49%	50.02%	30.45%
Return on average assets	**1.47%**	1.20%	1.09%	2.18%	1.90%

* 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 Sixtieth Annual General Meeting of the Members of the Bank will be held at its Registered Office, 12 Queen's Road Central, Hong Kong on Friday, 15th April 2011 at 3:30 p.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 2010;
(2) To declare Dividend in respect of the year 2010;
(3) To elect Directors;
(4) To approve the payment of Directors' fees for the year ended 31st December 2010;
(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 Friday, 8th April 2011 to Friday, 15th April 2011, both days inclusive.

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

Hong Kong, 25th February 2011

BOARD OF DIRECTORS



Front row from left to right

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

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.

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)

David Joseph Zuercher
(Clifford Sterling Lawrence, Alternate)

*** Dr. Richard Lee**

*** Johnson Mou Daid Cha**
(Dr. Lam Chat Yu, Alternate)

Stephen Ching Yen Lee

Edward Kawah Chu

David Allen Hoyt
(Ignatius Wooi-kean Choong, Alternate)

Chen Yih Pin
(Yi-Jen Chiou, Alternate)

*** Gordon Che Keung Kwong**

Ning Li Ming
(Li Jian Guo, Alternate)

* Independent Non-executive Directors

MANAGEMENT

EXECUTIVES

Chief Executive & Managing Director	David Sek-chi Kwok	
Director & Assistant General Manager	Edward Kawah Chu	
Assistant General Managers	Henry Koon-man To Paul Kun-kow Wong Daniel Kwok-hung Chan Burton Chi-shan Cheng Hon-ming Mak Frank Shui-sang Jin Stephen Siu-fung Lee	
Senior Managers	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 Michael Yiu-wing Fung Jenny Chui-yeung Chau Tim Yuen

OVERSEAS BRANCHES

Los Angeles Branch
Executive Vice President & Manager — Ching-hsing Kao

New York Branch
Senior Vice President & Manager — Timothy Kam-tim Chan

San Francisco Branch
Vice President & Manager — Philip She-hoi Lee

London Branch
Manager — Frederick Yan Chu

MAINLAND BRANCH

Shenzhen Branch
Manager — Vincent Chi-wing Man

MAINLAND REPRESENTATIVE OFFICE

Shanghai Representative Office
Chief Representative — Chen Li Ying

DIRECTORS

MR. LINCOLN CHU KUEN YUNG, JP

Aged 65. 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 57. 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 88. 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 65. Appointed a Director of the Bank in March 1999. Executive Director of Shanghai United International Investment Limited and Chairman of United MetLife Insurance Company Limited. A Director of Bank of Shanghai.

MR. DAVID JOSEPH ZUERCHER

Aged 64. 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, Insurance Services, Wells Fargo & Company.

DR. RICHARD LEE

Aged 73. 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 59. Appointed a Director of the Bank in September 2001. Managing Director of Mingly Corporation, and also a Director of HKR International Limited, Hanison Construction Holdings Limited and China International Capital Corporation Limited, and member of the Council and Finance Committee of The Chinese University of Hong Kong.

MR. STEPHEN CHING YEN LEE

Aged 64. 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 55. 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 55. 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 71. 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 61. 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 61. 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 49. 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 59. 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 62. 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 53. 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 38. Appointed an Alternate Director to Mr. Shen Ruolei in July 2009. Director of Bank of Shanghai, Shanghai United International Investment Limited and United MetLife Insurance Company Limited.

MR. LI JIAN GUO

Aged 47. 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. HON-MING MAK

Aged 59. Assistant General Manager & Chief of Corporate Banking of the Bank. Joined the Bank in March 1971.

MR. PAUL KUN-KOW WONG

Aged 59. Assistant General Manager & Chief of Treasury of the Bank. Joined the Bank in February 1974.

MR. HENRY KOON-MAN TO

Aged 58. Assistant General Manager & Chief Financial Controller of the Bank. Joined the Bank in December 1988.

MR. BURTON CHI-SHAN CHENG

Aged 49. Assistant General Manager & Chief of Information Technology & Operations of the Bank. Rejoined the Bank in August 1996.

MR. DANIEL KWOK-HUNG CHAN

Aged 49. Assistant General Manager & Chief of Organization and Methods of the Bank. Rejoined the Bank in March 2008.

MR. STEPHEN SIU-FUNG LEE

Aged 44. Assistant General Manager & Chief of Retail Banking of the Bank. Joined the Bank in March 2010.

MR. FRANK SHUI-SANG JIN

Aged 53. Assistant General Manager & Chief of General Administration of the Bank. Joined the Bank in May 2010.

MR. PUI-MAN YEUNG

Aged 58. Chief Auditor of the Bank. Rejoined the Bank in May 1982.

三地上銀 一心為您

The 11th Tripartite Partnership Conference
第十一屆滬港台“ 上海銀行 ”業務研討會

互動參與 長遠發展 邁向國際







The Bank hosted the 11th Tripartite Partnership Conference in November 2010 in Hong Kong and will continue to strive to further collaborate with Bank of Shanghai in Mainland China and The Shanghai Commercial and Savings Bank in Taiwan.

本銀行於二零一零年十一月在香港主辦第十一屆滬港台“ 上海銀行 ”業務研討會，並會致力加強與中國內地的上海銀行及台灣的上海商業儲蓄銀行的合作。



The redevelopment project of the Head Office building is scheduled to begin in the middle of 2011.

本銀行總部的重建項目將於二零一一年中開展。



A series of product and brand promotion campaigns was launched throughout 2010.

本銀行於二零一零年推出多項產品及品牌推廣活動。



Airport Outdoor Billboard

機場戶外廣告

In 2010, the Hong Kong economy benefited from the gradual global recovery and continued economic growth in Mainland China. However, the lingering European debt crisis, the political unrest in the Middle East, the recent earthquake and the fear of looming nuclear disaster in Japan create uncertainty, casting a shadow over 2011. Therefore, it is necessary for Shanghai Commercial Bank (the 'Bank') to remain vigilant and continue to maintain its capital adequacy and liquidity ratios at comfortable levels.

The Bank continued to implement the conservative approach to business and with satisfactory results. The consolidated net profit after tax increased by HK$368 million, or 27.5 percent, to HK$1,704 million. Non-fee income generated from the treasury operation increased considerably, while net interest income and net fee and commission income also fared better than 2009. The return on average total assets and return on average equity stood at 1.5 percent and 10.3 percent respectively, while the Bank's cost-to-income ratio improved to 33.2 percent from 43.7 percent. Also, the Bank's capital adequacy and liquidity ratios were well above the industry average, at 19 percent and 51 percent respectively.

During the year, the Bank continued to expand its business and services, and completed the acquisition of a 4.99% equity stake in Preferred Bank, California. The redevelopment of the Head Office Building is proceeding on course. The general building plan has been approved by the Buildings Department and the demolition of the current structures is scheduled to begin in the middle of 2011.

We look forward to upgrading the Shanghai Representative Office to a full branch status in the second half of 2011. As new business opportunities open up in the Renminbi market, we reiterate our commitment to the "Green Channel", offering convenient one-stop premium banking services in the Greater China region, to the VIP customers of our Bank, Bank of Shanghai in Mainland China and The Shanghai Commercial and Savings Bank in Taiwan.

On behalf of the Board, we would like to express our sincere thanks to our customers for their patronage and business partners for their continuous support. A special note of appreciation goes to our staff for their hard work, dedication and commitment.

2011 may be challenging, however, we look forward to the new year with confidence.

Lincoln Chu Kuen Yung
Chairman

David Sek-Chi Kwok
Chief Executive & Managing Director

Hong Kong, 17th March 2011

The Directors have pleasure in submitting their report together with the audited consolidated financial statements for the year ended 31st December 2010.

Principal activities

Shanghai Commercial Bank Limited (the 'Bank') and its subsidiary companies (together, the 'Group') 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 consolidated financial statements.

The Directors recommend the payment of a final dividend of HK$43 per ordinary share totalling HK$860,000,000.

Other reserves

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

Donations

During the year donations made by the Bank and its subsidiary companies for charitable and other purposes amounted to HK$1,684,000.

Property and equipment

Details of the movements in property and equipment of the Group and the Bank are shown in Note 26 to the consolidated financial statements.

Directors

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

Hung-ching Yung

Lincoln Chu Kuen Yung

Shen Ruolei
(Ye Jun, Alternate)

David Joseph Zuercher
(Clifford Sterling Lawrence, Alternate)

Dr. Richard Lee

Johnson Mou Daid Cha
(Dr. Lam Chat Yu, Alternate)

David Sek-chi Kwok

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)

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

Directors' interests

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

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

Management contracts

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

Financial disclosures

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

Compliance with the Code of Best Practice

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

Auditors

The consolidated 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 2011

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 118, which comprise the consolidated and company statements of financial position as at 31st December 2010, and the consolidated and company income statements, the consolidated and company statements of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's responsibility

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

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

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

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

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 2010, and of the Group's and the Company's profits 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 2011

CONSOLIDATED INCOME STATEMENT

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31st December 2010	2009
Interest income	6	2,357,059	2,395,306
Interest expense	6	(463,622)	(660,326)
Net interest income		1,893,437	1,734,980
Fee and commission income	7	718,579	693,512
Fee and commission expense	7	(38,307)	(38,993)
Net fee and commission income		680,272	654,519
Dividend income	8	22,211	19,455
Net trading income	9	180,887	108,670
Net (losses)/ income from financial instruments designated at fair value through profit or loss		(3,100)	79,027
Net losses from disposal of equipment		(1,509)	(951)
Net gains from disposal of available-for-sale investments		263,175	186,967
Other operating income	10	112,666	111,121
Operating expenses	11	(1,044,213)	(1,263,551)
Impairment losses on loans and advances to customers	13	(84,308)	(57,990)
Operating profit		2,019,518	1,572,247
Share of net profits of jointly controlled entities		18,371	31,152
Profit before income tax		2,037,889	1,603,399
Income tax expense	14	(333,470)	(266,747)
Profit for the year		1,704,419	1,336,652
Attributable to:			
Equity holders of the Bank		1,700,558	1,335,988
Non-controlling interests		3,861	664
		1,704,419	1,336,652
Dividends			
Final dividend proposed after the end of the reporting period	16	860,000	800,000

The notes on pages 30 to 118 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31st December 2010	2009
Profit for the year		**1,704,419**	1,336,652
Exchange differences on translation of foreign operations	15	**18,446**	17,601
Net gains on available-for-sale investments			
Fair value changes taken to equity on available-for-sale investments	15	**457,900**	1,033,513
Fair value changes transferred to income statement on disposal and early redemption of the available-for-sale investments for realised net profit	15	**(263,175)**	(186,967)
Deferred income tax	15	**(33,113)**	(203,989)
Share of changes in equity of jointly controlled entities	15	**161**	4,548
Total comprehensive income for the year		**1,884,638**	2,001,358
Attributable to:			
Equity holders of the Bank		**1,880,423**	2,000,286
Non-controlling interests		**4,215**	1,072
		1,884,638	2,001,358

The notes on pages 30 to 118 are an integral part of these consolidated financial statements.

INCOME STATEMENT

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31st December 2010	2009
Interest income	6	2,293,953	2,321,370
Interest expense	6	(463,678)	(660,607)
Net interest income		1,830,275	1,660,763
Fee and commission income	7	691,879	654,685
Fee and commission expense	7	(31,019)	(31,074)
Net fee and commission income		660,860	623,611
Dividend income	8	91,696	96,083
Net trading income	9	180,839	108,667
Net (losses)/ income from financial instruments designated at fair value through profit or loss		(3,100)	79,027
Net losses from disposal of equipment		(1,499)	(925)
Net gains from disposal of available-for-sale investments		262,979	186,967
Other operating income	10	106,458	112,427
Operating expenses	11	(1,034,837)	(1,251,548)
Impairment losses on loans and advances to customers	13	(84,308)	(57,990)
Profit before income tax		2,009,363	1,557,082
Income tax expense	14	(332,283)	(265,380)
Profit for the year		1,677,080	1,291,702
Dividends			
Final dividend proposed after the end of the reporting period	16	860,000	800,000

The notes on pages 30 to 118 are an integral part of these consolidated financial statements.

STATEMENT OF COMPREHENSIVE INCOME

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31st December 2010	2009
Profit for the year		**1,677,080**	1,291,702
Exchange differences on translation of foreign operations	15	**18,210**	18,336
Net gains on available-for-sale investments			
Fair value changes taken to equity on available-for-sale investments	15	**462,605**	1,037,232
Fair value changes transferred to income statement on disposal of the available-for-sale investments for realised net profit	15	**(262,979)**	(186,967)
Deferred income tax	15	**(32,938)**	(203,900)
Total comprehensive income for the year		**1,861,978**	1,956,403

The notes on pages 30 to 118 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 31st December 2010	2009 (restated)
ASSETS			
Cash and balances with banks	17	25,227,668	26,215,291
Placements with banks	18	11,646,456	14,989,607
Loans and advances to customers	19(a)	53,023,047	44,025,984
Financial assets held for trading	20	610,090	389,026
Financial assets designated at fair value	21	–	398,430
Derivative financial instruments	22	61,484	12,448
Investment securities:			
– Available-for-sale	23	21,468,699	20,225,698
– Held-to-maturity	24	2,766,411	2,868,942
Investments in jointly controlled entities	25(a)	174,473	159,901
Property and equipment	26	608,584	638,398
Investment property	27	1,382,734	1,409,479
Deferred income tax assets	32	56,656	43,979
Other assets	28	1,615,370	1,533,001
TOTAL ASSETS		118,641,672	112,910,184
LIABILITIES			
Deposits and balances from banks		4,138,145	3,566,474
Deposits from customers	29	95,463,191	91,488,908
Derivative financial instruments	22	53,508	31,264
Other liabilities	30	1,471,382	1,552,927
Provisions	31	99,654	94,500
Current income tax liabilities		130,982	4,397
Deferred income tax liabilities	32	113,046	82,708
TOTAL LIABILITIES		101,469,908	96,821,178
EQUITY			
CAPITAL AND RESERVES ATTRIBUTABLE TO THE EQUITY HOLDERS			
Share capital	33	2,000,000	2,000,000
Retained earnings			
– Proposed final dividend		860,000	800,000
– Others		5,830,421	4,985,596
Other reserves	34	8,423,589	8,247,991
		17,114,010	16,033,587
Non-controlling interests in equity		57,754	55,419
TOTAL EQUITY		17,171,764	16,089,006
TOTAL EQUITY AND LIABILITIES		118,641,672	112,910,184

Approved and authorised for issue by the Board of Directors on 25th February 2011.

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 118 are an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

(All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 31st December 2010	2009 (restated)
ASSETS			
Cash and balances with banks	17	25,227,663	26,215,284
Placements with banks	18	11,646,456	14,989,607
Loans and advances to customers	19(a)	53,023,047	44,025,984
Financial assets held for trading	20	610,090	389,026
Financial assets designated at fair value	21	–	398,430
Derivative financial instruments	22	61,484	12,448
Investment securities:			
– Available-for-sale	23	21,250,970	19,879,810
– Held-to-maturity	24	757,471	901,715
Investments in jointly controlled entities	25(a)	116,000	117,300
Investments in and loans to subsidiaries	25(b)	2,108,934	2,203,397
Property and equipment	26	553,543	585,535
Investment properties	27	1,416,589	1,443,762
Deferred income tax assets	32	56,656	43,979
Other assets	28	1,250,005	1,075,116
TOTAL ASSETS		118,078,908	112,281,393
LIABILITIES			
Deposits and balances from banks		4,138,145	3,566,474
Deposits from customers	29	95,463,191	91,488,908
Derivative financial instruments	22	53,508	31,264
Other liabilities	30	1,088,753	1,083,460
Provisions	31	99,220	93,924
Current income tax liabilities		130,654	4,062
Deferred income tax liabilities	32	112,418	82,261
TOTAL LIABILITIES		101,085,889	96,350,353
EQUITY			
CAPITAL AND RESERVES ATTRIBUTABLE TO THE EQUITY HOLDERS			
Share capital	33	2,000,000	2,000,000
Retained earnings			
– Proposed final dividend		860,000	800,000
– Others		5,710,148	4,889,036
Other reserves	34	8,422,871	8,242,004
		16,993,019	15,931,040
TOTAL EQUITY AND LIABILITIES		118,078,908	112,281,393

Approved and authorised for issue by the Board of Directors on 25th February 2011.

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 118 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Attributable to the equity holders			Non-controlling interests	Total equity
		Share capital	Other reserves	Retained earnings		
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
Other comprehensive income						
Fair value gains, net of tax:						
– available-for-sale investments	34	–	843,530	–	408	843,938
Currency translation differences	34	–	3,262	(75)	–	3,187
Net income recognised directly in equity		–	846,792	(75)	408	847,125
Share of changes in equity of jointly controlled entities	34	–	4,548	–	–	4,548
Realised on disposal of available-for-sale investments	34	–	(186,967)	–	–	(186,967)
Total other comprehensive income		–	664,373	(75)	408	664,706
Transfer from retained earnings	34	–	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

	Note	Attributable to the equity holders			Non-controlling interests	Total equity
		Share capital	Other reserves	Retained earnings		
Balance at 1st January 2010		**2,000,000**	**8,247,991**	**5,785,596**	**55,419**	**16,089,006**
Profit for the year		–	–	**1,700,558**	**3,861**	**1,704,419**
Other comprehensive income						
Fair value gains, net of tax:						
– available-for-sale investments	34	–	**423,218**	–	**432**	**423,650**
Currency translation differences	34	–	**15,315**	**4,267**	**1**	**19,583**
Net income recognised directly in equity		–	**438,533**	**4,267**	**433**	**443,233**
Share of changes in equity of jointly controlled entities	34	–	**161**	–	–	**161**
Realised on disposal of available-for-sale investments	34	–	**(263,096)**	–	**(79)**	**(263,175)**
Total other comprehensive income		–	**175,598**	**4,267**	**354**	**180,219**
Dividend relating to 2009		–	–	**(800,000)**	**(1,880)**	**(801,880)**
Balance at 31st December 2010		**2,000,000**	**8,423,589**	**6,690,421**	**57,754**	**17,171,764**

	Year ended 31st December	
	2010	2009
Proposed dividend in retained earnings	**860,000**	800,000

The notes on pages 30 to 118 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in HK dollar thousands unless otherwise stated)

	Year ended 31st December	
	2010	2009 (restated)
Cash flows from operating activities		
Profit before income tax	2,037,889	1,603,399
Share of net profits of jointly controlled entities	(18,371)	(31,152)
Impairment losses on loans and advances to customers	84,308	57,990
Depreciation expenses for property and equipment	72,973	74,900
Net losses from disposal of equipment	1,509	951
Net gains from disposal of available-for-sale investments	(263,175)	(186,967)
Amortisation of held-to-maturity and available-for-sale investments	65,371	64,039
Interest income on held-to-maturity and available-for-sale investments	(683,299)	(629,175)
Dividend income	(22,211)	(19,455)
Negative goodwill	–	(7,430)
Hong Kong profits tax refunded	13,325	204,952
Overseas tax paid	(90,174)	(91,295)
Cash flows from operating activities before changes in operating assets and liabilities	1,198,145	1,040,757
Changes in operating assets and liabilities:		
– Net decrease/ (increase) in cash and balances with banks with original maturity beyond three months	3,260,506	(2,743,722)
– Net decrease/ (increase) in placements with and loans and advances to banks with original maturity beyond three months	1,373,769	(8,639,203)
– Net increase in financial assets held for trading	(221,064)	(79,243)
– Net increase in derivative financial instruments	(26,792)	(6,953)
– Net decrease/ (increase) in financial assets designated at fair value	398,430	(56,564)
– Net (increase)/ decrease in loans and advances to customers	(9,123,288)	5,672,583
– Net increase in other assets	(185,990)	(163,859)
– Net increase/ (decrease) in deposits and balances from banks	571,671	(242,279)
– Net increase in deposits from customers	3,974,283	1,957,035
– Net (decrease)/ increase in other liabilities and provisions	(76,391)	136,954
Net cash flows from operating activities	1,143,279	(3,124,494)

	Note	Year ended 31st December 2010	2009 (restated)
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		661,057	574,510
Dividends received on available-for-sale investments		22,211	18,035
Dividends received from jointly controlled entities		2,660	980
Repayment of advances from a jointly controlled entity		1,300	–
Purchases of equipment		(18,746)	(22,427)
Proceeds from sale of equipment		17	17
Purchases of available-for-sale investments		(14,196,356)	(22,770,834)
Purchases of held-to-maturity investments		(378,219)	(1,203,643)
Proceeds from sale and redemption of available-for-sale investments		13,702,556	15,884,566
Proceeds from redemption of held-to-maturity investments		451,797	1,266,808
Net cash flows from investing activities		248,277	(6,216,780)
Cash flows from financing activities			
Dividend paid to the equity holders		(800,000)	(800,000)
Dividend paid to non-controlling interests		(1,880)	(720)
Net cash flows from financing activities		(801,880)	(800,720)
Net increase/ (decrease) in cash and cash equivalents		589,676	(10,141,994)
Cash and cash equivalents at beginning of the year		23,387,952	33,996,491
Effect of exchange rate changes on cash and cash equivalents		(286,175)	(466,545)
Cash and cash equivalents at end of the year	35	23,691,453	23,387,952

The notes on pages 30 to 118 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Shanghai Commercial Bank Limited (the 'Bank') and its subsidiary companies (together, '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 1,670 people as at 31st December 2010.

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 Hong Kong Dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 25th February 2011.

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 HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) Standard, amendments and interpretations effective on or after 1st January 2010

(i) The following standards, amendments and interpretations, which became effective in 2010 are relevant to the Group:

HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. 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 are expensed. This standard does not have an impact on the Group's consolidated financial statements.

HKAS 27 (revised) 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. HKAS 27 (revised) has had no impact on the Group's consolidated financial statements, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

HKAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The amendment has no impact on the Group's consolidated 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 2010 (Continued)

(i) The following standards, amendments and interpretations, which became effective in 2010 are relevant to the Group (Continued):

HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under 'Leasehold land and land use rights' and amortised over the lease term.

HKAS 17 (amendment) has been applied retrospectively for annual periods beginning 1st January 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1st January 2010 on the basis of information existing at the inception of those leases, and recognised the leasehold land in Hong Kong as finance lease retrospectively. As a result of the reassessment, the Group has reclassified certain leasehold land from operating lease to finance lease. The land interest of the Group that is held to earn rentals and/ or for capital appreciation is accounted for as investment properties and carried at historical cost less accumulated depreciation and impairment loss.

The land interest of the Group that is held for own use is accounted for as property and equipment and is depreciated from the date that the land interest was available for its intended use over the shorter of the useful live of the asset and the lease term.

The effect of the adoption of this amendment is as below:

	Net book value as at		
	31st December 2010	31st December 2009	1st January 2009
The Group			
Decrease in leasehold land and land use rights	**(1,635,842)**	(1,642,311)	(1,648,779)
Increase in property and equipment	**259,382**	264,202	269,022
Increase in investment property	**1,376,460**	1,378,109	1,379,757
The Bank			
Decrease in leasehold land and land use rights	**(1,635,842)**	(1,642,311)	(1,648,779)
Increase in property and equipment	**232,456**	237,046	241,635
Increase in investment properties	**1,403,386**	1,405,265	1,407,144

HK-Interpretation 5 'Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause'. This interpretation was issued on 29th November 2010. The interpretation sets out the conclusion reached by HKICPA that the classification of a term loan as current or non-current liability in accordance with paragraph 69(d) of HKAS 1, 'Presentation of financial statements', shall be determined by reference to the rights and obligations of the lender and borrower, as contractually agreed between the two parties and in force as of the reporting date.

On this basis, loans subject to loan agreements which include a clause which gives the lender the unconditional right to call the loan at any time shall be classified by the borrower as current in its statement of financial position. In this regard, the probability of the lender choosing to exercise its rights within the next twelve months after the reporting date is not relevant. As the interpretation is a clarification of an existing standard, it is immediately effective on issuance, and should be adopted retrospectively. This interpretation does not have an impact on the Group's consolidated 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 2010 (Continued)

(ii) The following standards, amendments and interpretations, which became effective in 2010 are not currently relevant to the Group (although they may affect the accounting for future transactions and events):

HK(IFRIC) – Int 17, 'Distribution of non-cash assets to owners' (effective on or after 1st July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting or arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The application of HK(IFRIC) – Int 17 has no impact on the Group's consolidated financial statements.

HK(IFRIC) – Int 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1st July 2009. This interpretation clarifies the requirements of HKFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both). The Group is not impacted by applying HK(IFRIC) – Int 18.

HK(IFRIC) – Int 9 , 'Reassessment of embedded derivatives' and HKAS 39, 'Financial instruments: Recognition and measurement', effective 1st July 2009. This amendment to HK(IFRIC) – Int 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remain classified as at fair value through profit or loss in it entirety. This will not give rise to any impact to the Group's consolidated financial statements.

HK(IFRIC) – Int 16, 'Hedges of a net investment in a foreign operation', effective 1st July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of HKAS 39 that relate to a net investment hedge are satisfied. In particular, the group should clearly document its hedging strategy because of the possibility of different designations as at different levels of the group. The amendment has no impact on the Group's consolidated financial statements.

HKAS 38 (amendment), 'Intangible assets', effective 1st January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment has no impact on the Group's consolidated financial statements.

HKAS 39 (amendment), 'Eligible hedged items' makes two significant changes: Firstly, it prohibits designating inflation as a hedgeable component of a fixed rate debt. Inflation is not separately identifiable and reliably measurable as a risk or a portion of a financial instrument, unless it is a contractually specified portion of the cash flows of a recognised inflation-linked bond whose other cash flows are unaffected by the inflation portion. Secondly, it prohibits including time value in a one-sided hedged risk when designating options as hedges. An entity may only designate the change in the intrinsic value of an option as the hedging instrument of a one-sided risk arising from a forecast transaction in a hedging relationship. A one-sided risk is that changes in cash flow or fair value of a hedged item are above or below a specified price or other variable. There is no impact to the Group's consolidated financial statements as a result of this amendment.

HKAS 39 (amendment), 'Cash flow hedge accounting' clarifies when to recognise gains or losses on hedging instruments as a reclassification adjustment in a cash flow hedge of a forecast transaction that results subsequently in the recognition of a financial instrument. The amendment clarifies that gains or losses should be reclassified from equity to profit or loss in the period in which the hedged forecast cash flow affects profit or loss. There is no impact to the Group's consolidated financial statements as a result of this amendment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(a) Standard, amendments and interpretations effective on or after 1st January 2010 (Continued)

(ii) The following standards, amendments and interpretations, which became effective in 2010 are not currently relevant to the Group (although they may affect the accounting for future transactions and events) (Continued):

HKAS 39 (amendment), 'Treating loan prepayment penalties as a closely related derivatives' is effective for the annual periods beginning on or after 1st January 2010. This amendment clarifies that loan prepayment penalties are only treated as closely related embedded derivatives, if the penalties are payments that compensate the lender for loss of interest by reducing the economic loss from reinvestment risk. A specific formula is given to calculate the lost interest. There is no impact to the Group's consolidated financial statements.

HKAS 36 (amendment), 'Impairment of assets', effective 1st January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of HKFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics). The amendment has no impact to the Group's consolidated financial statements.

HKFRS 2 (amendments) 'Group cash-settled share-based payment transactions,' effective from 1st January 2010. In addition to incorporating HK(IFRIC) – Int 8, 'Scope of HKFRS 2', and HK(IFRIC) – Int 11, 'HKFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in HK(IFRIC) – Int 11 to address the classification of group arrangements that were not covered by that interpretation. This standard does not have an impact on the Group's consolidated financial statements.

HKFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations', effective from 1st January 2010. The amendment clarifies that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1. The amendment has no impact on the Group's consolidated financial statements.

'Improvements to HKFRS' contains numerous amendments to HKFRS which the HKICPA considers non-urgent but necessary. 'Improvement to HKFRS' comprises 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. For amendments that are effective for the financial year beginning on or after 1st January 2010 (apart from those mentioned in (i) and (ii) above), they have had no impact on the Group's consolidated financial statements.

(b) The following new standards, new interpretation and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1st January 2010 and have not been early adopted.

The Group's and the Bank's assessment of the impact of these new standards and interpretations is set out below.

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 or 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 or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent return on investment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(b) The following new standards, new interpretation and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1st January 2010 and have not been early adopted. (Continued)

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.

Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010 by the HKICPA. All improvements are effective in the financial year of 2011. No material changes to the accounting policies are expected as a result of these amendments.

(c) The following new standards, new interpretation and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1st January 2010 and not relevant to the Group's operations

HKFRS 1 (revised), 'First-time adoption of Hong Kong Financial Reporting Standards' was issued in December 2010. The amendments consist of two narrow amendments to HKFRS 1. The first amendment allows an entity that has been subject to severe hyperinflation to measure assets and liabilities at fair value and to use that fair value as the deemed cost of those assets and liabilities in its opening HKFRS statement of financial position.

The second amendment removes the fixed transition dates in HKFRS 1 requirements regarding the exception to retrospective application for derecognition of financial instruments and the exemption from the initial fair value measurement of financial instruments. The fixed transition dates are replaced by 'the date of transition to HKFRSs'. As a result, a first-time HKFRS adopter is not required to restate derecognition transactions and/or initial fair value measurements that occurred before its date of transition to HKFRSs. Since these amendments are not relevant to existing adopters of HKFRS, the amendment has no impact to the Group's consolidated financial statements.

HKAS 12 (amendment) 'Income taxes' and HK(SIC) – Int 21 'Income taxes – recovery of revalued non-depreciable assets' were issued in December 2010. The amendments introduced a rebuttable presumption that deferred tax on investment property carried at fair value under HKAS 40, 'Investment property', shall be measured reflecting the tax consequences of recovering the carrying amount of the investment property entirely through sale. The rebuttable presumption shall also apply when deferred tax arises from measuring investment property at fair value in a business combination if the entity will use the fair value model when subsequently measuring that investment property.

This presumption is rebutted when the investment property is depreciable and is 'held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale'. In this case, the deferred tax arising from the revaluation of the investment property is measured on the basis of the tax consequences of recovering the carrying amount through use.

The amendment also incorporated the requirements of HK(SIC) – Int 21, which is superseded once the amendments are effective. As the Group adopted cost model for the investment properties, the amendments have no impact to the Group's consolidated financial statements.

HKAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes HKAS 24, 'Related party disclosures', issued in 2003. HKAS 24 (revised) is mandatory for periods beginning on or after 1st January 2011. Earlier application, in whole or part, is permitted.

The revised standard clarifies and simplifies the definition of a related party as well as removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the revised standard from 1st January 2011, and the clarified and simplified definition of related party of the revised standard has no significant impact to the financial disclosures of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(c) The following new standards, new interpretation and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1st January 2010 and not relevant to the Group's operations (Continued)

HKAS 32 (amendment), 'Classification of rights issues', issued in October 2009. The amendment applies to annual periods beginning on or after 1st February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with HKAS 8 'Accounting policies, changes in accounting estimates and errors'. The Group will apply the amended standard from 1st January 2011. The amendment has no impact to the Group's consolidated financial statements.

HK(IFRIC) – Int 19, 'Extinguishing financial liabilities with equity instruments', effective 1st July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Group will apply the interpretation from 1st January 2011. It is not expected to have any impact on the Group's consolidated financial statements.

HK(IFRIC) – Int 14 (amendment), 'Prepayments of a minimum funding requirement' corrects an unintended consequence of HK(IFRIC) – Int 14, HKAS 19 – 'The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise an asset some voluntary prepayments for minimum funding contributions. This was not intended when HK(IFRIC) – Int 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1st January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The Group will apply these amendments for the financial reporting period commencing on 1st January 2011. It is not expected to have significant impact on the Group's consolidated financial statements.

(d) Early adoption of standards

The Group did not early-adopt new or amended standards in 2010.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries made up to 31st December 2010.

(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 Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any 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.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (Continued)

(a) Subsidiaries (Continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income (Note 2.18).

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.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(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 (HK$'000), which is the Bank's functional and the Group's presentation currency.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Foreign currency translation (Continued)

(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.

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 income statement.

All foreign exchange gains and losses recognised in the income statement are presented net in the 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 other comprehensive income.

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 investments, are included in other comprehensive income.

(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.

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 that were recorded in equity 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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) Operating lease

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 lease (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.

(b) Finance lease

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on those assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Property and equipment

(a) Land and bank premises

Land and buildings comprise mainly branches and offices. Leasehold land classified as finance lease and 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 land and buildings is provided annually by charging a sum sufficient to write down the cost of the land and buildings systematically, based on management's appraisal of the conditions of the land and buildings, which includes estimations of the remaining useful lives of the buildings, which are not expected to exceed 40 years.

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

(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 the end of each reporting period. 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.

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).

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 derecognition.

The Group designates certain financial assets upon initial recognition as at fair value through profit or 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:

(i) the application on the fair value option reduces or eliminates an accounting mismatch that would otherwise arise; or

(ii) 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

(iii) 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 recognised 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 investments; 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 investments consist mainly of debt and equity investments.

Available-for-sale investments 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 investment is determined to be impaired the cumulative gain or loss previously recognised in the statement of 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 investments 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 investments 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 investments 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. They are presented within 'net trading income' (for financial assets that are held for trading), and within 'net income from financial instruments designated at fair value through profit or loss' (for financial assets that are designated at fair value through profit or loss). Gains and losses arising from changes in the fair value of available-for-sale investments are recognised directly in other comprehensive income, 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 investments 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 the end of each reporting period 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.

For loans and receivables category, 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (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 investments

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the group uses the criteria refer to in (a) above. 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 investments, 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 investment 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 investments 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 or loss; and

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial liabilities (Continued)

(b) Other financial liabilities

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

(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.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and receivables as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period 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 end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from 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 end of the reporting period 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 for deferred income tax liability 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, which are charged or credited to other comprehensive income, is also credited or charged to other comprehensive income and is subsequently recognised in the income statement together with the deferred gain or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Employee benefits

(a) Retirement benefit costs

The Group operates three retirement benefit schemes comprising of a defined contribution scheme, 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 defined contribution scheme and the Mandatory Provident Fund Scheme. The assets of the Group's Mandatory Provident Fund Scheme, the defined contribution scheme 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 scheme 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.

(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: a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

2.16 Related parties

For the purposes of these consolidated 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 land and office 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 not amortised. Generally all identified intangible assets of the Group have a definite useful life. At the end of each reporting period, 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 initial recognition.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Intangible assets (Continued)

(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 according to HKFRS 8.

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:

- 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 'Repossessed assets' 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2.24 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 consolidated 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 of Directors is to ensure that the Group establishes policies, procedures and controls to manage the various types of risk it faces. The Board of Directors has delegated its powers to the Executive Committee, the Asset and Liability Committee, the Credit Committee, the Operational Risk Management Committee and the Product Development Supervisory 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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

Delegated by the Board of Directors, the Audit Committee has an oversight role over the above management functions as a whole. Supporting the Audit Committee, the Audit Department performs regular audits to ensure compliance with the policies and procedures.

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 end of the reporting period.

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. Management therefore carefully manages its exposure to credit risk.

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

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

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

The Group has issued credit related commitments including guarantees and letters of credit. 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 methods is the taking of security for funds advanced, which is a common practice. The Group implements guidelines on the acceptability of specific classes of collateral for 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.

In addition to the above, the Group will also seek for guarantee where appropriate. To minimise 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 which are partially secured or unsecured.

(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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.1 Risk limit control and mitigation policies (Continued)

(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 established effective control systems that enable to Group to identify, monitor, and determine loan loss provisions in a timely manner. Policies and procedures are in place to ensure the aggregate amount of individually and collectively assessed loan loss provisions are adequate to absorb estimated credit losses in the loan portfolio. The table below shows the percentage of the Group's on- and off-balance sheet items relating to loans and advances and the associated impairment provision for each of the Group's internal loan classification categories:

The Group and the Bank

	2010		2009	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
1 – pass	95.90	0.41	94.18	0.41
2 – special mentioned	2.60	0.47	3.14	0.42
3 – sub-standard	1.16	8.52	2.07	9.23
4 – doubtful	0.28	24.66	0.46	19.65
5 – loss	0.06	46.99	0.15	21.87
	100.00		100.00	

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

Grade 2 'Special mentioned' 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 jeopardise repayment. 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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.2 Impairment and provisioning policies (Continued)

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 the end of the reporting period 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 and management judgment.

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

The Group

	Maximum exposure	
	2010	2009
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with banks	16,612,304	22,923,942
Placements with banks	11,646,456	14,989,607
Loans and advances to customers:		
Loans to individuals:		
– Overdrafts	420,292	445,151
– Credit cards	311,244	284,253
– Term loans and others	5,118,101	4,153,033
– Mortgages	6,764,114	6,564,419
Loans to corporate entities:		
– Large corporate customers and others	33,649,201	25,874,560
– Small and medium size enterprises (SMEs)	6,760,095	6,704,568
Financial assets held for trading:		
– Debt securities	494,869	290,124
Financial assets designated at fair value:		
– Debt securities	–	398,430
Derivative financial instruments	61,484	12,448
Investment securities:		
– Debt securities	22,559,097	21,630,612
Other assets	1,615,370	1,533,001
Credit risk exposures relating to off-balance sheet items are as follows:		
– Financial guarantees	2,186,902	1,919,275
– Loan commitments and other credit related liabilities	46,880,506	42,007,925
At 31st December	155,080,035	149,731,348

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	
	2010	2009
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with banks	16,612,304	22,923,942
Placements with banks	11,646,456	14,989,607
Loans and advances to customers:		
Loans to individuals:		
– Overdrafts	420,292	445,151
– Credit cards	311,244	284,253
– Term loans and others	5,118,101	4,153,033
– Mortgages	6,764,114	6,564,419
Loans to corporate entities:		
– Large corporate customers and others	33,649,201	25,874,560
– Small and medium size enterprises (SMEs)	6,760,095	6,704,568
Financial assets held for trading:		
– Debt securities	494,869	290,124
Financial assets designated at fair value:		
– Debt securities	–	398,430
Derivative financial instruments	61,484	12,448
Investment securities:		
– Debt securities	20,351,543	19,336,022
Other assets	1,250,005	1,075,116
Credit risk exposures relating to off-balance sheet items are as follows:		
– Financial guarantees	2,186,902	1,919,275
– Loan commitments and other credit related liabilities	46,880,506	42,007,925
At 31st December	152,507,116	146,978,873

The above table represents a worse case scenario of credit risk exposure to the Group and the Bank at 31st December 2010 and 2009, 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 2010	31st December 2009
	Loans and advances to customers	Loans and advances to customers
Neither past due nor impaired	51,675,017	41,785,717
Past due but not impaired	867,953	1,372,782
Impaired	801,384	1,181,834
Gross	53,344,354	44,340,333
Less: allowance for impairment	(321,307)	(314,349)
Net	53,023,047	44,025,984

The total impairment provision for loans and advances is HK$321,307,000 (2009: HK$314,349,000) of which HK$104,685,000 (2009: HK$137,729,000) represents the individually impaired loans and the remaining amount of HK$216,622,000 (2009: HK$176,620,000) 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 19.

(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 2010

	Individual (retail customers)				Corporate entities		
	Overdrafts	Credit cards	Term loans and others	Mortgages	Large corporate customers and others	SMEs	Total loans and advances to customers
Grades:							
1 – pass	392,339	305,786	4,893,918	6,517,322	32,046,390	6,266,948	50,422,703
2 – special mentioned	12,847	7,700	69,641	106,541	803,918	251,667	1,252,314
Total	405,186	313,486	4,963,559	6,623,863	32,850,308	6,518,615	51,675,017

The Group and the Bank 31st December 2009

	Individual (retail customers)				Corporate entities		
	Overdrafts	Credit cards	Term loans and others	Mortgages	Large corporate customers and others	SMEs	Total loans and advances to customers
Grades:							
1 – pass	405,571	279,597	3,887,453	6,063,212	23,552,861	6,383,760	40,572,454
2 – special mentioned	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

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 2010

	Individual (retail customers)				
	Overdrafts	Credit cards	Term loans and others	Mortgages	Total
Past due up to 30 days	–	1,615	118,331	93,717	213,663
Past due 30 – 60 days	9	462	12,234	18,308	31,013
Past due 60 – 90 days	14,774	285	581	3,117	18,757
Past due over 90 days	–	–	1,223	3,245	4,468
Total	14,783	2,362	132,369	118,387	267,901
Fair value of collateral	15,919	–	321,265	365,659	702,843

	Corporate entities		
	Large corporate customers and others	SMEs	Total
Past due up to 30 days	465,174	62,441	527,615
Past due 30 – 60 days	8,568	15,121	23,689
Past due 60 – 90 days	48,171	577	48,748
Past due over 90 days	–	–	–
Total	521,913	78,139	600,052
Fair value of collateral	873,619	149,016	1,022,635

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 2009

	Individual (retail customers)				
	Overdrafts	Credit cards	Term loans and others	Mortgages	Total
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	SMEs	Total
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

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

	2010		2009	
	Gross amount of overdue loans	% of total	Gross amount of overdue loans	% of total
Gross advances to customers which have been overdue for:				
– six months or less but over three months	13,766	0.03	39,124	0.09
– one year or less but over six months	58,393	0.11	325,967	0.74
– over one year	78,065	0.15	55,115	0.12
	150,224	0.29	420,206	0.95

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	Current market value of collateral	Covered portion by collateral	Uncovered portion by collateral	Impairment allowances – individual assessment
31st December 2010					
Overdue loans and advances on:					
– Customers	150,224	192,404	109,047	41,177	21,600
31st December 2009					
Overdue loans and advances on:					
– Customers	420,206	476,282	339,893	80,313	54,858

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$801,384,000 (2009: HK$1,181,834,000).

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	Credit cards	Term loans and others	Mortgages	Large corporate customers and others	SMEs		% of total loans and advances to customers	Impairment allowances
31st December 2010									
Individually impaired loans	2,325	4,829	50,385	47,582	500,098	196,165	801,384	1.50	104,685
Fair value of collateral	6,773	–	75,999	99,859	430,697	245,206	858,534		
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		

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.4 Loans and advances (Continued)

(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$319,303,000 at 31st December 2010 (2009: HK$52,952,000).

The Group and the Bank

	2010	2009
Loans and advances to customers – individuals:		
– Credit cards	3,105	3,568
– Term loans and others	11,902	692
– Mortgages	753	10,563
Loans and advances to customers – corporate entities:		
– SMEs	418	5,803
– Large corporate customers and others	303,125	32,326
Total	319,303	52,952

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

The Group and the Bank

	2010		2009	
		% of total loans and advances to customers		% of total loans and advances to customers
Loans and advances to customers	343,938	0.64	105,902	0.24

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 2010

	Financial assets held for trading	Available-for-sale investments	Held-to-maturity investments	Financial assets designated at fair value	Total
AAA	166,656	2,271,590	1,827,616	–	4,265,862
AA- to AA+	103,773	7,597,659	579,039	–	8,280,471
A- to A+	71,900	5,870,362	166,850	–	6,109,112
Lower than A-	–	337,089	3,858	–	340,947
Unrated	152,540	3,715,986	189,048	–	4,057,574
Total	494,869	19,792,686	2,766,411	–	23,053,966

The Bank 2010

	Financial assets held for trading	Available-for-sale investments	Held-to-maturity investments	Financial assets designated at fair value	Total
AAA	166,656	2,143,310	78,069	–	2,388,035
AA- to AA+	103,773	7,541,143	327,544	–	7,972,460
A- to A+	71,900	5,867,017	162,813	–	6,101,730
Lower than A-	–	337,089	–	–	337,089
Unrated	152,540	3,705,513	189,045	–	4,047,098
Total	494,869	19,594,072	757,471	–	20,846,412

The Group 2009

	Financial assets held for trading	Available-for-sale investments	Held-to-maturity investments	Financial assets designated at fair value	Total
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	Available-for-sale investments	Held-to-maturity investments	Financial assets designated at fair value	Total
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

There were no overdue debt securities in the year of 2010 (2009: 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	
	2010	2009
Nature of assets		
Commercial property	1,507	–
Residential properties	40,145	18,038

At 31st December 2010, the fair value of repossessed assets of the Group and the Bank amounted to HK$42,770,000 (2009: HK$26,500,000).

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 2010. 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 2010

	Hong Kong	Asia Pacific excluding Hong Kong	North and South America	Middle East and Africa	Europe	Total
Balances with banks	2,707,204	12,558,261	633,321	42	713,476	16,612,304
Placements with banks	2,723,641	8,528,051	–	–	394,764	11,646,456
Loans and advances to customers:						
Loans to individuals:						
– Overdrafts	418,845	942	26	–	479	420,292
– Credit cards	307,585	3,659	–	–	–	311,244
– Term loans and others	3,901,271	137,482	1,061,275	–	18,073	5,118,101
– Mortgages	6,052,925	109,754	303,616	919	296,900	6,764,114
Loans to corporate entities:						
– Large corporate customers and others	24,716,089	1,011,755	7,718,212	–	203,145	33,649,201
– SMEs	5,901,648	290,306	531,833	1,803	34,505	6,760,095
Financial assets held for trading – debt securities	134,904	193,310	166,655	–	–	494,869
Financial assets designated at fair value – debt securities	–	–	–	–	–	–
Derivative financial instruments	44,595	668	3,314	–	12,907	61,484
Investment securities – debt securities	5,765,357	7,783,683	5,638,992	–	3,371,065	22,559,097
Other assets	1,532,123	1,637	80,874	–	736	1,615,370
	54,206,187	30,619,508	16,138,118	2,764	5,046,050	106,012,627

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 2009

	Hong Kong	Asia Pacific excluding Hong Kong	North and South America	Middle East and Africa	Europe	Total
Balances with banks	1,772,240	13,349,302	2,679,895	18	5,122,487	22,923,942
Placements with 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

The Bank As at 31st December 2010

	Hong Kong	Asia Pacific excluding Hong Kong	North and South America	Middle East and Africa	Europe	Total
Balances with banks	2,707,204	12,558,261	633,321	42	713,476	16,612,304
Placements with banks	2,723,641	8,528,051	–	–	394,764	11,646,456
Loans and advances to customers:						
Loans to individuals:						
– Overdrafts	418,845	942	26	–	479	420,292
– Credit cards	307,585	3,659	–	–	–	311,244
– Term loans and others	3,901,271	137,482	1,061,275	–	18,073	5,118,101
– Mortgages	6,052,925	109,754	303,616	919	296,900	6,764,114
Loans to corporate entities:						
– Large corporate customers and others	24,716,089	1,011,755	7,718,212	–	203,145	33,649,201
– SMEs	5,901,648	290,306	531,833	1,803	34,505	6,760,095
Financial assets held for trading – debt securities	134,904	193,310	166,655	–	–	494,869
Financial assets designated at fair value – debt securities	–	–	–	–	–	–
Derivative financial instruments	44,595	668	3,314	–	12,907	61,484
Investment securities – debt securities	3,745,943	7,747,612	5,518,432	–	3,339,556	20,351,543
Other assets	1,166,758	1,637	80,874	–	736	1,250,005
	51,821,408	30,583,437	16,017,558	2,764	5,014,541	103,439,708

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 2009

	Hong Kong	Asia Pacific excluding Hong Kong	North and South America	Middle East and Africa	Europe	Total
Balances with banks	1,772,240	13,349,302	2,679,895	18	5,122,487	22,923,942
Placements with 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

(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 2010

	Financial institutions	Manufacturing	Real estate	Wholesale and retail trade	Import and export trade	Other industries	Individuals	Total
Balances with banks	16,612,304	–	–	–	–	–	–	16,612,304
Placements with banks	11,646,456	–	–	–	–	–	–	11,646,456
Loans and advances to customers:								
Loans to individuals:								
– Overdrafts	–	–	–	–	–	–	420,292	420,292
– Credit cards	–	–	–	–	–	–	311,244	311,244
– Term loans and others	–	–	–	–	–	–	5,118,101	5,118,101
– Mortgages	–	–	–	–	–	–	6,764,114	6,764,114
Loans to corporate entities:								
– Large corporate customers and others	–	1,913,789	11,472,658	527,321	5,314,990	14,420,443	–	33,649,201
– SMEs	–	689,702	2,514,224	257,539	849,000	2,449,630	–	6,760,095
	28,258,760	2,603,491	13,986,882	784,860	6,163,990	16,870,073	12,613,751	81,281,807

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

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

(b) Industry sectors (Continued)

The Group and the Bank As at 31st December 2009

	Financial institutions	Manufacturing	Real estate	Wholesale and retail trade	Import and export trade	Other industries	Individuals	Total
Balances with banks	22,923,942	–	–	–	–	–	–	22,923,942
Placements with 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

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 Board of Directors.

3.2.1 Market risk measurement techniques

The measuring procedures and limit system used for market risk management have been approved by the Board of 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 2010 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 2010 and 2009

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 2010, if market interest rates had been 100 basis points higher (2009: 100 basis points higher) with other variables held constant, profit before tax for the year would have been HK$61,002,000 lower (2009: HK$1,488,000 higher), mainly due to an increase of interest-bearing liabilities as compared to last year, which is partly offset by a higher net interest income earned on floating rate financial instruments. Available-for-sale investment revaluation shown as other comprehensive income would have been an expense of HK$468,816,000 (2009: an expense of HK$361,453,000).

Foreign exchange risk

At 31st December 2010, over 90% (2009: 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 2010	HK$	US$	CNY	Other	Total
Assets					
Cash and balances with banks	11,429,649	3,336,779	5,065,918	5,395,322	25,227,668
Placements with banks	2,538,482	7,940,668	106,460	1,060,846	11,646,456
Loans and advances to customers	34,246,877	16,901,610	643,465	1,231,095	53,023,047
Financial assets held for trading	–	281,876	328,214	–	610,090
Derivative financial instruments	–	3,267	19,094	39,123	61,484
Investment securities:					
– Available-for-sale	8,321,453	9,751,304	18,127	3,377,815	21,468,699
– Held-to-maturity	2,001,154	765,257	–	–	2,766,411
Total	58,537,615	38,980,761	6,181,278	11,104,201	114,803,855
Liabilities					
Deposits and balances from banks	1,333,143	2,322,593	23,757	458,652	4,138,145
Deposits from customers	45,637,650	33,458,985	5,648,796	10,717,760	95,463,191
Derivative financial instruments	–	4,044	17,688	31,776	53,508
Other liabilities	1,064,075	301,702	973	104,632	1,471,382
Total	48,034,868	36,087,324	5,691,214	11,312,820	101,126,226
Net on-balance sheet position	10,502,747	2,893,437	490,064	(208,619)	13,677,629
Credit commitments	25,880,834	21,958,664	90,654	1,137,256	49,067,408

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 2009

	HK$	US$	CNY	Other	Total
Assets					
Cash and balances with banks	10,106,322	10,175,460	775,669	5,157,840	26,215,291
Placements with banks	3,541,164	8,120,014	56,952	3,271,477	14,989,607
Loans and advances to customers	30,378,318	11,956,156	668,086	1,023,424	44,025,984
Financial assets held for trading	–	257,549	131,477	–	389,026
Financial assets designated at fair value	–	398,430	–	–	398,430
Derivative financial instruments	–	656	–	11,792	12,448
Investment securities:					
– Available-for-sale	8,006,243	9,707,759	–	2,511,696	20,225,698
– Held-to-maturity	1,963,293	904,989	–	660	2,868,942
Total	53,995,340	41,521,013	1,632,184	11,976,889	109,125,426
Liabilities					
Deposits and balances from banks	1,515,652	1,077,234	565,829	407,759	3,566,474
Deposits from customers	43,777,221	35,601,205	824,540	11,285,942	91,488,908
Derivative financial instruments	–	22,750	–	8,514	31,264
Other liabilities	864,372	322,181	1,866	364,508	1,552,927
Total	46,157,245	37,023,370	1,392,235	12,066,723	96,639,573
Net on-balance sheet position	7,838,095	4,497,643	239,949	(89,834)	12,485,853
Credit commitments	26,924,648	16,317,938	103,383	581,231	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 2010	HK$	US$	CNY	Other	Total
Assets					
Cash and balances with banks	11,429,644	3,336,779	5,065,918	5,395,322	25,227,663
Placements with banks	2,538,482	7,940,668	106,460	1,060,846	11,646,456
Loans and advances to customers	34,246,877	16,901,610	643,465	1,231,095	53,023,047
Financial assets held for trading	–	281,876	328,214	–	610,090
Derivative financial instruments	–	3,267	19,094	39,123	61,484
Investment securities:					
– Available-for-sale	8,107,049	9,747,979	18,127	3,377,815	21,250,970
– Held-to-maturity	–	757,471	–	–	757,471
Total	56,322,052	38,969,650	6,181,278	11,104,201	112,577,181
Liabilities					
Deposits and balances from banks	1,333,143	2,322,593	23,757	458,652	4,138,145
Deposits from customers	45,637,650	33,458,985	5,648,796	10,717,760	95,463,191
Derivative financial instruments	–	4,044	17,688	31,776	53,508
Other liabilities	679,610	301,677	973	106,493	1,088,753
Total	47,650,403	36,087,299	5,691,214	11,314,681	100,743,597
Net on-balance sheet position	8,671,649	2,882,351	490,064	(210,480)	11,833,584
Credit commitments	25,880,834	21,958,664	90,654	1,137,256	49,067,408

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$	CNY	Other	Total
Assets					
Cash and balances with banks	10,106,315	10,175,460	775,669	5,157,840	26,215,284
Placements with banks	3,541,164	8,120,014	56,952	3,271,477	14,989,607
Loans and advances to customers	30,378,318	11,956,156	668,086	1,023,424	44,025,984
Financial assets held for trading	–	257,549	131,477	–	389,026
Financial assets designated at fair value	–	398,430	–	–	398,430
Derivative financial instruments	–	656	–	11,792	12,448
Investment securities:					
– Available-for-sale	7,669,871	9,698,243	–	2,511,696	19,879,810
– Held-to-maturity	–	901,055	–	660	901,715
Total	51,695,668	41,507,563	1,632,184	11,976,889	106,812,304
Liabilities					
Deposits and balances from banks	1,515,652	1,077,234	565,829	407,759	3,566,474
Deposits from customers	43,777,221	35,601,205	824,540	11,285,942	91,488,908
Derivative financial instruments	–	22,750	–	8,514	31,264
Other liabilities	392,982	322,158	1,866	366,454	1,083,460
Total	45,685,855	37,023,347	1,392,235	12,068,669	96,170,106
Net on-balance sheet position	6,009,813	4,484,216	239,949	(91,780)	10,642,198
Credit commitments	26,924,648	16,317,938	103,383	581,231	43,927,200

3.2.4 Interest rate risk

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.4 Interest rate risk (Continued)

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

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

The Group At 31st December 2010

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with banks	16,509,861	–	–	–	–	8,717,807	25,227,668
Placements with banks	–	3,839,643	7,732,002	–	–	74,811	11,646,456
Loans and advances to customers	42,549,621	6,923,041	2,920,765	185,208	–	444,412	53,023,047
Financial assets held for trading	280,629	–	93,626	232,523	–	3,312	610,090
Financial assets designated at fair value	–	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	61,484	61,484
Investment securities:							
– Available-for-sale	2,129,603	4,217,340	137,152	10,105,641	3,157,181	1,721,782	21,468,699
– Held-to-maturity	122,935	321,883	900,376	1,280,096	128,645	12,476	2,766,411
Investments in jointly controlled entities	–	–	–	–	–	174,473	174,473
Property and equipment	–	–	–	–	–	608,584	608,584
Investment property	–	–	–	–	–	1,382,734	1,382,734
Deferred income tax assets	–	–	–	–	–	56,656	56,656
Other assets	448,176	–	457,382	–	–	709,812	1,615,370
Total assets	62,040,825	15,301,907	12,241,303	11,803,468	3,285,826	13,968,343	118,641,672
Liabilities							
Deposits and balances from banks	2,662,738	1,355,767	83,573	–	–	36,067	4,138,145
Deposits from customers	62,134,580	17,261,429	7,873,864	14,652	–	8,178,666	95,463,191
Derivative financial instruments	–	–	–	–	–	53,508	53,508
Other liabilities	403,020	–	–	–	–	1,068,362	1,471,382
Provisions	–	–	–	–	–	99,654	99,654
Current income tax liabilities	–	–	–	–	–	130,982	130,982
Deferred income tax liabilities	–	–	–	–	–	113,046	113,046
Total liabilities	65,200,338	18,617,196	7,957,437	14,652	–	9,680,285	101,469,908
Total interest repricing gap	(3,159,513)	(3,315,289)	4,283,866	11,788,816	3,285,826	4,288,058	17,171,764

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.4 Interest rate risk (Continued)

The Group At 31st December 2009 (restated)

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with banks	22,062,742	–	–	–	–	4,152,549	26,215,291
Placements with banks	–	8,412,264	6,577,343	–	–	–	14,989,607
Loans and advances to customers	37,339,903	3,860,785	2,245,463	192,420	–	387,413	44,025,984
Financial assets held for trading	355	96,836	71,066	71,706	–	149,063	389,026
Financial assets designated at fair value	–	–	398,430	–	–	–	398,430
Derivative financial instruments	–	–	–	–	–	12,448	12,448
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	–	–	–	–	–	638,398	638,398
Investment property	–	–	–	–	–	1,409,479	1,409,479
Deferred income tax assets	–	–	–	–	–	43,979	43,979
Other assets	–	–	–	–	–	1,533,001	1,533,001
Total 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
Deposits from customers	57,846,645	16,878,433	9,248,413	56,587	–	7,458,830	91,488,908
Derivative financial instruments	–	–	–	–	–	31,264	31,264
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 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 Bank At 31st December 2010

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with banks	16,509,861	–	–	–	–	8,717,802	25,227,663
Placements with banks	–	3,839,643	7,732,002	–	–	74,811	11,646,456
Loans and advances to customers	42,549,621	6,923,041	2,920,765	185,208	–	444,412	53,023,047
Financial assets held for trading	280,629	–	93,626	232,523	–	3,312	610,090
Financial assets designated at fair value	–	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	61,484	61,484
Investment securities:							
– Available-for-sale	1,925,556	4,217,340	137,152	10,095,408	3,157,181	1,718,333	21,250,970
– Held-to-maturity	122,935	171,081	249,413	209,772	–	4,270	757,471
Investments in jointly controlled entities	–	–	–	–	–	116,000	116,000
Investments in and loans to subsidiaries	–	–	–	–	–	2,108,934	2,108,934
Property and equipment	–	–	–	–	–	553,543	553,543
Investment properties	–	–	–	–	–	1,416,589	1,416,589
Deferred income tax assets	–	–	–	–	–	56,656	56,656
Other assets	448,176	–	457,382	–	–	344,447	1,250,005
Total assets	61,836,778	15,151,105	11,590,340	10,722,911	3,157,181	15,620,593	118,078,908
Liabilities							
Deposits and balances from banks	2,662,738	1,355,767	83,573	–	–	36,067	4,138,145
Deposits from customers	62,134,580	17,261,429	7,873,864	14,652	–	8,178,666	95,463,191
Derivative financial instruments	–	–	–	–	–	53,508	53,508
Other liabilities	403,020	–	–	–	–	685,733	1,088,753
Provisions	–	–	–	–	–	99,220	99,220
Current income tax liabilities	–	–	–	–	–	130,654	130,654
Deferred income tax liabilities	–	–	–	–	–	112,418	112,418
Total liabilities	65,200,338	18,617,196	7,957,437	14,652	–	9,296,266	101,085,889
Total interest repricing gap	(3,363,560)	(3,466,091)	3,632,903	10,708,259	3,157,181	6,324,327	16,993,019

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.4 Interest rate risk (Continued)

The Bank At 31st December 2009 (restated)

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with banks	22,062,741	–	–	–	–	4,152,543	26,215,284
Placements with banks	–	8,412,264	6,577,343	–	–	–	14,989,607
Loans and advances to customers	37,339,903	3,860,785	2,245,463	192,420	–	387,413	44,025,984
Financial assets held for trading	355	96,836	71,066	71,706	–	149,063	389,026
Financial assets designated at fair value	–	–	398,430	–	–	–	398,430
Derivative financial instruments	–	–	–	–	–	12,448	12,448
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 subsidiaries	–	–	–	–	–	2,203,397	2,203,397
Property and equipment	–	–	–	–	–	585,535	585,535
Investment properties	–	–	–	–	–	1,443,762	1,443,762
Deferred income tax assets	–	–	–	–	–	43,979	43,979
Other assets	–	–	–	–	–	1,075,116	1,075,116
Total 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
Deposits from customers	57,846,645	16,878,433	9,248,413	56,587	–	7,458,830	91,488,908
Derivative financial instruments	–	–	–	–	–	31,264	31,264
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 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

3.3 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 Board of 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 statement of financial position 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 the end of the reporting period to the contractual maturity date.

The Group At 31st December 2010

	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
Assets								
Cash and balances with banks	13,886,441	11,341,227	–	–	–	–	–	25,227,668
Placements with banks	–	–	4,020,774	7,625,682	–	–	–	11,646,456
Loans and advances to customers	3,884,907	3,264,670	5,641,934	9,437,294	16,723,623	14,070,619	–	53,023,047
Financial assets held for trading	–	621	2,131	94,186	320,359	77,572	115,221	610,090
Financial assets designated at fair value	–	–	–	–	–	–	–	–
Derivative financial instruments	–	10,391	23,336	26,403	1,354	–	–	61,484
Investment securities:								
– Available-for-sale	–	357,077	536,865	1,036,483	13,888,190	3,971,316	1,678,768	21,468,699
– Held-to-maturity	–	56,044	154,381	751,786	1,804,200	–	–	2,766,411
Investments in jointly controlled entities	–	–	–	–	–	–	174,473	174,473
Property and equipment	–	–	–	–	78,030	495,023	35,531	608,584
Investment property	–	–	–	–	–	1,382,734	–	1,382,734
Deferred income tax assets	–	–	–	–	56,656	–	–	56,656
Other assets	157,130	863,156	6,185	64,740	520,040	2,619	1,500	1,615,370
Total assets	17,928,478	15,893,186	10,385,606	19,036,574	33,392,452	19,999,883	2,005,493	118,641,672
Liabilities								
Deposits and balances from banks	673,054	2,025,047	170,364	1,269,680	–	–	–	4,138,145
Deposits from customers	40,060,203	30,202,433	17,285,630	7,900,255	14,670	–	–	95,463,191
Derivative financial instruments	–	7,887	20,886	23,901	834	–	–	53,508
Other liabilities	38,268	1,047,778	70,673	314,663	–	–	–	1,471,382
Provisions	–	107	99,480	–	–	67	–	99,654
Current income tax liabilities	–	–	–	130,982	–	–	–	130,982
Deferred income tax liabilities	–	–	–	–	113,046	–	–	113,046
Total liabilities	40,771,525	33,283,252	17,647,033	9,639,481	128,550	67	–	101,469,908
Net liquidity gap	(22,843,047)	(17,390,066)	(7,261,427)	9,397,093	33,263,902	19,999,816	2,005,493	17,171,764

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.2 Maturity analysis (Continued)

The Group At 31st December 2009 (restated)

	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
Assets								
Cash and balances with banks	4,264,577	21,950,714	–	–	–	–	–	26,215,291
Placements with banks	–	–	8,410,927	6,578,680	–	–	–	14,989,607
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
Financial assets held for trading	–	714	1,010	7,013	204,970	76,417	98,902	389,026
Financial assets designated at fair value	–	–	–	2,497	–	395,933	–	398,430
Derivative financial instruments	–	2,224	7,786	2,438	–	–	–	12,448
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	509,594	35,478	638,398
Investment property	–	–	–	–	–	1,409,479	–	1,409,479
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
Deposits from customers	38,011,919	27,267,672	16,887,349	9,265,381	56,587	–	–	91,488,908
Derivative financial instruments	–	2,662	4,385	13,188	11,029	–	–	31,264
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 Bank At 31st December 2010

	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
Assets								
Cash and balances with banks	13,886,436	11,341,227	–	–	–	–	–	25,227,663
Placements with banks	–	–	4,020,774	7,625,682	–	–	–	11,646,456
Loans and advances to customers	3,884,907	3,264,670	5,641,934	9,437,294	16,723,623	14,070,619	–	53,023,047
Financial assets held for trading	–	621	2,131	94,186	320,359	77,572	115,221	610,090
Financial assets designated at fair value	–	–	–	–	–	–	–	–
Derivative financial instruments	–	10,391	23,336	26,403	1,354	–	–	61,484
Investment securities:								
– Available-for-sale	–	354,287	422,339	1,030,578	13,812,797	3,971,316	1,659,653	21,250,970
– Held-to-maturity	–	56,044	2,155	94,391	604,881	–	–	757,471
Investments in jointly controlled entities	–	–	–	–	–	–	116,000	116,000
Investments in and loans to subsidiaries	(1,004,855)	(54,271)	964,664	677,214	1,317,364	15,619	193,199	2,108,934
Property and equipment	–	–	–	–	84,728	449,763	19,052	553,543
Investment properties	–	–	–	–	–	1,416,589	–	1,416,589
Deferred income tax assets	–	–	–	–	56,656	–	–	56,656
Other assets	157,130	505,891	5,570	61,407	520,007	–	–	1,250,005
Total assets	16,923,618	15,478,860	11,082,903	19,047,155	33,441,769	20,001,478	2,103,125	118,078,908
Liabilities								
Deposits and balances from banks	673,054	2,025,047	170,364	1,269,680	–	–	–	4,138,145
Deposits from customers	40,060,203	30,202,433	17,285,630	7,900,255	14,670	–	–	95,463,191
Derivative financial instruments	–	7,887	20,886	23,901	834	–	–	53,508
Other liabilities	38,268	678,561	68,234	303,690	–	–	–	1,088,753
Provisions	–	107	99,113	–	–	–	–	99,220
Current income tax liabilities	–	–	–	130,654	–	–	–	130,654
Deferred income tax liabilities	–	–	–	–	112,418	–	–	112,418
Total liabilities	40,771,525	32,914,035	17,644,227	9,628,180	127,922	–	–	101,085,889
Net liquidity gap	(23,847,907)	(17,435,175)	(6,561,324)	9,418,975	33,313,847	20,001,478	2,103,125	16,993,019

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.2 Maturity analysis (Continued)

The Bank At 31st December 2009 (restated)

	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
Assets								
Cash and balances with banks	4,264,571	21,950,713	–	–	–	–	–	26,215,284
Placements with banks	–	–	8,410,927	6,578,680	–	–	–	14,989,607
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
Financial assets held for trading	–	714	1,010	7,013	204,970	76,417	98,902	389,026
Financial assets designated at fair value	–	–	–	2,497	–	395,933	–	398,430
Derivative financial instruments	–	2,224	7,786	2,438	–	–	–	12,448
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 subsidiaries	(838,160)	27,021	186,627	330,064	2,225,849	16,182	255,814	2,203,397
Property and equipment	–	–	–	–	104,095	462,441	18,999	585,535
Investment properties	–	–	–	–	–	1,443,762	–	1,443,762
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
Deposits from customers	38,011,919	27,267,672	16,887,349	9,265,381	56,587	–	–	91,488,908
Derivative financial instruments	–	2,662	4,385	13,188	11,029	–	–	31,264
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

3.3.3 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 end of the reporting period. 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 2010

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits and balances from banks	2,698,678	171,265	1,274,171	–	–	4,144,114
Deposits from customers	70,283,293	17,311,197	7,929,560	15,783	–	95,539,833
Other liabilities	1,086,046	70,673	314,663	–	–	1,471,382
Total (contractual maturity)	74,068,017	17,553,135	9,518,394	15,783	–	101,155,329
Assets held for managing liquidity risk (contractual maturity)	33,930,560	10,587,347	20,058,936	37,523,392	26,968,952	129,069,187

The Group At 31st December 2009

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
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
Total (contractual maturity)	68,485,338	17,083,098	10,256,873	855,784	–	96,681,093
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 Bank At 31st December 2010

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits and balances from banks	2,698,678	171,265	1,274,171	–	–	4,144,114
Deposits from customers	70,283,293	17,311,197	7,929,560	15,783	–	95,539,833
Other liabilities	716,829	68,234	303,690	–	–	1,088,753
Total (contractual maturity)	73,698,800	17,550,696	9,507,421	15,783	–	100,772,700
Assets held for managing liquidity risk (contractual maturity)	32,510,502	11,277,798	20,019,689	37,494,801	27,059,775	128,362,565

The Bank At 31st December 2009

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
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
Total (contractual maturity)	68,026,348	17,081,195	10,248,303	855,785	–	96,211,631
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)

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 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 end of the reporting period 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 2010

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
– Foreign exchange derivatives	–	–	–	–	–	–
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	–	–	–	–	–	–
Total	–	–	–	–	–	–

The Group and the Bank At 31st December 2009

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
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)

(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.

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 end of the reporting period 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 2010

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
Foreign exchange derivatives						
– Outflow	1,009,280	574,787	3,445,046	94,835	–	5,123,948
– Inflow	(1,011,895)	(578,325)	(3,450,693)	(93,747)	–	(5,134,660)

The Group and the Bank At 31st December 2009

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
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)

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 36(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 36(b), are summarised in the table below.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.6 Off-balance sheet items (Continued)

(d) Capital commitments

Capital commitments for the acquisition of equipment (Note 36(a)) are summarised in the table below.

The Group At 31st December 2010

	No later than 1 year	1-5 years	Over 5 years	Total
Loan and other commitments	42,031,753	1,856,822	21,441	43,910,016
Guarantees, acceptances and other financial facilities				
– Acceptances	584,352	–	–	584,352
– Guarantees and standby letters of credit	1,988,782	190,530	7,590	2,186,902
– Documentary and commercial letters of credit	2,386,138	–	–	2,386,138
Operating lease commitments	86,544	206,375	32,251	325,170
Capital commitments	133,126	10,600	–	143,726
Total	47,210,695	2,264,327	61,282	49,536,304

The Group At 31st December 2009

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 Bank At 31st December 2010

	No later than 1 year	1-5 years	Over 5 years	Total
Loan and other commitments	42,031,753	1,856,822	21,441	43,910,016
Guarantees, acceptances and other financial facilities				
– Acceptances	584,352	–	–	584,352
– Guarantees and standby letters of credit	1,988,782	190,530	7,590	2,186,902
– Documentary and commercial letters of credit	2,386,138	–	–	2,386,138
Operating lease commitments	88,346	207,576	32,251	328,173
Capital commitments	136,400	10,600	–	147,000
Total	47,215,771	2,265,528	61,282	49,542,581

The Bank At 31st December 2009

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

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 amounts 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	
	2010	2009	2010	2009
Financial assets				
Balances with banks	24,240,342	25,975,978	24,240,342	25,975,978
Placements with banks	11,646,456	14,989,607	11,646,456	14,989,607
Loans and advances to customers:				
Loans to individuals:				
– Overdrafts	420,292	445,151	420,292	445,151
– Credit cards	311,244	284,253	311,244	284,253
– Term loans and others	5,118,101	4,153,033	5,118,101	4,153,033
– Mortgages	6,764,114	6,564,419	6,764,114	6,564,419
Loans to corporate entities:				
– Large corporate customers and others	33,649,201	25,874,560	33,649,201	25,874,560
– SMEs	6,760,095	6,704,568	6,760,095	6,704,568
Investment securities – Held-to-maturity	2,766,411	2,868,942	2,798,071	2,907,284
Financial liabilities				
Deposits and balances from banks	4,138,145	3,566,474	4,138,145	3,566,474
Deposits from customers	95,463,191	91,488,908	95,463,191	91,488,908

The Bank

	Carrying value		Fair value	
	2010	2009	2010	2009
Financial assets				
Balances with banks	24,240,342	25,975,978	24,240,342	25,975,978
Placements with banks	11,646,456	14,989,607	11,646,456	14,989,607
Loans and advances to customers:				
Loans to individuals:				
– Overdrafts	420,292	445,151	420,292	445,151
– Credit cards	311,244	284,253	311,244	284,253
– Term loans and others	5,118,101	4,153,033	5,118,101	4,153,033
– Mortgages	6,764,114	6,564,419	6,764,114	6,564,419
Loans to corporate entities:				
– Large corporate customers and others	33,649,201	25,874,560	33,649,201	25,874,560
– SMEs	6,760,095	6,704,568	6,760,095	6,704,568
Investment securities – Held-to-maturity	757,471	901,715	758,624	893,830
Financial liabilities				
Deposits and balances from banks	4,138,145	3,566,474	4,138,145	3,566,474
Deposits from customers	95,463,191	91,488,908	95,463,191	91,488,908

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 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 statement of financial position 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, Hong Kong Stock Exchange, 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 HIBOR and 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 2010	Level 1	Level 2	Level 3	Total
Description				
Financial assets at fair value through profit and loss				
Financial assets held for trading				
Debt securities	166,655	328,214	–	494,869
Equity securities	115,221	–	–	115,221
Derivative financial instruments				
Currency forward exchange contracts	–	60,468	–	60,468
Cross-currency interest rate swaps contracts	–	1,016	–	1,016
Available-for-sale investments				
Investment securities – debt	7,806,443	11,983,489	2,754	19,792,686
Investment securities – equity	195,460	–	1,480,553	1,676,013
Total Assets	8,283,779	12,373,187	1,483,307	22,140,273
Financial liabilities at fair value through profit and loss				
Derivative financial instruments				
Currency forward exchange contracts	–	52,473	–	52,473
Cross-currency interest rate swaps contracts	–	1,035	–	1,035
Total Liabilities	–	53,508	–	53,508

The Group As at 31st December 2009	Level 1	Level 2	Level 3	Total
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 investments				
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				
Currency forward 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 Bank As at 31st December 2010

	Level 1	Level 2	Level 3	Total
Description				
Financial assets at fair value through profit and loss				
Financial assets held for trading				
Debt securities	166,655	328,214	–	494,869
Equity securities	115,221	–	–	115,221
Derivative financial instruments				
Currency forward exchange contracts	–	60,468	–	60,468
Cross-currency interest rate swaps contracts	–	1,016	–	1,016
Available-for-sale investments				
Investment securities – debt	7,803,098	11,788,220	2,754	19,594,072
Investment securities – equity	176,345	–	1,480,553	1,656,898
Total Assets	8,261,319	12,177,918	1,483,307	21,922,544
Financial liabilities at fair value through profit and loss				
Derivative financial instruments				
Currency forward exchange contracts	–	52,473	–	52,473
Cross-currency interest rate swaps contracts	–	1,035	–	1,035
Total Liabilities	–	53,508	–	53,508

The Bank As at 31st December 2009

	Level 1	Level 2	Level 3	Total
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 investments				
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				
Currency forward 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)

There were no significant transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

The following table presents the changes in level 3 instruments for the year ended 31st December 2009 and 31st December 2010 respectively.

The Group and the Bank

	Available-for-sale investments		Total assets
	Investment securities – equity	Investment securities – debt	
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	–	–	–
At 1st January 2010	**1,371,583**	**2,754**	**1,374,337**
Total gains			
– Profit or loss	**3,139**	**–**	**3,139**
– Other comprehensive income	**80,273**	**–**	**80,273**
Purchases	**551,477**	**–**	**551,477**
Settlements	**(529,427)**	**–**	**(529,427)**
Exchange differences	**3,508**	**–**	**3,508**
At 31st December 2010	**1,480,553**	**2,754**	**1,483,307**
Total gains for the year included in income statement for assets held at 31st December 2010	**–**	**–**	**–**

Total gains or losses for the year 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 available-for-sale investments' and 'Interest income'.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

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.

	2010	2009
Capital adequacy ratio	19%	19%
Core capital ratio	19%	19%

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.5 Capital management (Continued)

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		
	2010	2009
Core capital:		
Paid up ordinary share capital	2,000,000	2,000,000
Reserves	11,354,793	10,904,409
Income statement	1,677,177	1,291,938
Less: net deferred tax assets	(89,422)	(73,964)
	14,942,548	14,122,383
Other deductions from core capital	(917,656)	(826,846)
Core capital after deductions	14,024,892	13,295,537
Supplementary capital:		
Collective impairment allowances for loans and advances	216,622	176,620
Regulatory reserve	362,370	362,370
Revaluation reserves for available-for-sale investments	396,364	309,214
	975,356	848,204
Other deductions from supplementary capital	(917,656)	(826,846)
Supplementary capital after deductions	57,700	21,358
Total capital base	14,082,592	13,316,895
Risk-weighted assets:		
Credit risk	68,527,493	63,242,408
Market risk	976,650	875,300
Operational risk	5,218,950	5,661,513
Total risk-weighted assets	74,723,093	69,779,221
Which consist of:		
On-balance sheet	70,872,914	65,827,555
Off-balance sheet	3,850,179	3,951,666

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 JUDGMENTS 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 judgment. In making this judgment, 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 investments. The investments would therefore be measured at fair value not amortised cost.

(iv) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment 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 settled 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIE (CONTINUED)

4.1 Critical accounting estimates and assumptions (Continued)

(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') 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 carrying amount in the consolidated financial statements.

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 judgment, 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. Judgment 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 judgment.

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.

5 BUSINESS ACTIVITIES ANALYSIS (CONTINUED)

(a) By business activities (Continued)

The Group 2010

	Retail and corporate banking	Bills	Treasury	Others	Total
Net interest income	1,255,325	117,547	520,565	–	1,893,437
Net fee and commission income	100,920	152,549	–	426,803	680,272
Net trading income	–	–	180,887	–	180,887
Disposal/ fair value gain on other investments	–	–	260,075	–	260,075
Profit before income tax	796,916	215,962	808,810	216,201	2,037,889
Total assets	47,987,674	7,093,751	61,989,440	1,570,807	118,641,672
Provision/(reversal) of impairment on loans and advances to customers	92,719	(8,411)	–	–	84,308

The Group 2009

	Retail and corporate banking	Bills	Treasury	Others	Total
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
Total assets (restated)	41,373,367	3,983,332	65,902,385	1,651,100	112,910,184
Impairment losses on loans and advances to customers	39,333	18,657	–	–	57,990

(b) By geographical activities

The Group At 31st December 2010

	Total assets	Total liabilities	Contingent liabilities and commitments	Total operating income (Net of interest expenses)	Profit before income tax	Capital expenditure
Hong Kong & PRC	106,985,923	94,261,333	47,277,247	2,559,023	1,888,357	18,308
Europe	2,292,395	2,695,754	56,875	20,834	5,761	176
America	9,363,354	4,512,821	1,733,286	306,516	143,771	262
Total	118,641,672	101,469,908	49,067,408	2,886,373	2,037,889	18,746

The Group At 31st December 2009

	Total assets	Total liabilities	Contingent liabilities and commitments	Total operating income (Net of interest expenses)	Profit before income tax	Capital expenditure
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

6 NET INTEREST INCOME

Interest income

	The Group		The Bank	
	2010	2009	2010	2009
Cash and balances with banks	390,098	453,512	390,098	453,512
Investment securities				
– Available-for-sale	550,956	477,499	541,030	463,497
– Held-to-maturity	66,972	87,638	13,477	27,327
Loans and advances				
– To a bank	–	1,731	–	1,731
– To customers	1,341,084	1,368,533	1,341,399	1,368,911
Others	7,949	6,393	7,949	6,392
	2,357,059	2,395,306	2,293,953	2,321,370

Interest expense

	The Group		The Bank	
	2010	2009	2010	2009
Deposits and balances from banks	21,869	30,322	21,869	30,322
Deposits from customers	438,675	627,727	438,731	628,008
Certificates of deposit issued	–	86	–	86
Others	3,078	2,191	3,078	2,191
	463,622	660,326	463,678	660,607

Included within interest income

	The Group		The Bank	
	2010	2009	2010	2009
Interest income on listed investments	303,678	197,760	249,923	139,128
Interest income on unlisted investments	314,250	367,377	304,584	351,696
Interest income accrued on impaired financial assets	7,452	24,827	7,452	24,827

7 NET FEE AND COMMISSION INCOME

Fee and commission income

	The Group		The Bank	
	2010	2009	2010	2009
Commissions from bills	124,174	114,685	124,174	114,685
Nominees, custodian and securities brokerage commissions	277,511	305,998	246,482	270,706
Commissions from wealth management products	78,620	45,043	78,620	45,043
Commissions from remittance	52,115	50,593	52,115	50,593
Facility fees	62,780	63,589	62,780	63,589
Fees from credit cards	44,346	40,070	44,346	40,070
Commissions from retail banking	44,885	41,312	40,129	36,608
Commissions from insurance	27,268	28,658	36,353	29,827
Other fees	6,880	3,564	6,880	3,564
	718,579	693,512	691,879	654,685

Fee and commission expense

	The Group		The Bank	
	2010	2009	2010	2009
Commissions on bills	3,206	2,927	3,206	2,927
Nominees, custodian and securities brokerage commissions paid	17,014	17,168	10,795	10,443
Commissions on retail banking	17,843	18,642	16,774	17,448
Fees on credit cards	106	159	106	159
Other fees paid	138	97	138	97
	38,307	38,993	31,019	31,074

	The Group		The Bank	
	2010	2009	2010	2009
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	238,180	221,908	238,180	221,908
– fee expense	3,312	3,086	3,312	3,086
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers				
– fee income	20,696	17,335	20,051	16,693

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	
	2010	2009	2010	2009
Dividend income from investment in securities				
– listed investments	2,405	3,237	1,810	3,055
– unlisted investments	19,806	16,218	19,806	16,218
	22,211	19,455	21,616	19,273
Dividend income from jointly controlled entities				
– unlisted investments	–	–	2,660	980
Dividend income from subsidiary companies				
– unlisted investments	–	–	67,420	75,830
	22,211	19,455	91,696	96,083

9 NET TRADING INCOME

	The Group		The Bank	
	2010	2009	2010	2009
Foreign exchange	116,957	73,917	116,909	73,914
Interest rate instruments	40,753	14,349	40,753	14,349
Equities	16,576	20,404	16,576	20,404
Other trading income	6,601	–	6,601	–
	180,887	108,670	180,839	108,667

'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 trading in instruments in government securities, corporate debt securities and money market instruments. 'Equities' trading income includes the results of equity securities in overseas markets.

10 OTHER OPERATING INCOME

	The Group		The Bank	
	2010	2009	2010	2009
Gross rental income from investment properties	28,523	33,612	30,127	35,172
Others	84,143	77,509	76,331	77,255
	112,666	111,121	106,458	112,427

The Group's direct operating expenses of HK$3,558,000 (2009: HK$4,089,000) arising from an investment property that generated rental income were included in operating expenses.

The Bank's direct operating expenses of HK$3,872,000 (2009: HK$4,382,000) arising from investment properties that generated rental income were included in operating expenses.

11 OPERATING EXPENSES

	The Group		The Bank	
	2010	2009	2010	2009
Auditors' remuneration (Note a)	7,135	6,943	6,654	6,384
Advertising costs	19,613	9,635	19,157	9,418
Depreciation expenses for property and equipment	72,973	74,900	79,711	83,045
Direct operating expenses arising from an investment property that did not generate rental income	766	268	766	268
Employee benefit expenses				
Wages and salaries and other costs (Note b)	590,953	596,021	574,439	578,281
Pension costs – defined contribution schemes	31,288	32,138	30,730	31,476
Pension costs – defined benefit schemes	30	39	30	39
Premises and equipment expense, excluding depreciation				
Rental of premises	54,191	52,180	56,247	54,255
Building expenses	14,412	13,672	14,412	13,672
Building management fee	6,323	5,776	6,069	5,523
Other operating expenses				
Computer rental and licence	11,133	12,250	10,888	10,826
Credit card business promotion	12,630	13,398	12,630	13,398
Credit card service fee	9,560	8,873	9,560	8,873
Insurance	10,387	15,517	10,184	15,304
Legal and consultancy	9,140	26,615	10,022	27,227
Postage	12,498	12,888	12,471	12,852
Printing and stationery	9,062	8,820	8,699	8,443
Repair and maintenance	15,556	16,567	22,557	22,137
Telephone	24,465	24,422	24,363	24,327
Travelling and transportation	4,478	4,057	4,329	3,926
Water, heat and light	12,381	12,766	12,156	12,545
Others (Note c)	115,239	315,806	108,763	309,329
	1,044,213	1,263,551	1,034,837	1,251,548

(Note a)

The amounts of auditors' remuneration comprised of audit fee for Hong Kong office of HK$3,625,000 (2009: HK$3,671,000) and that for overseas branches of HK$3,029,000 (2009: HK$2,713,000) together with HK$481,000 (2009: HK$559,000) 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 1,702 (2009: 1,790).

(Note c)

Expenses incurred on Lehman Brothers minibonds amounted to HK$2,083,000 (2009: HK$254,000,000, which 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		
	2010	2009
Fees	3,200	2,010
Basic salaries, allowances and bonus	22,631	19,668
Contributions to pension schemes	685	621
	26,516	22,299

13 IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

The Group and the Bank

	2010	2009
Trade bills	10,661	1,275
Loans and advances to customers	73,647	56,715
	84,308	57,990
Net charge/ (reversal) of impairment losses on loans and advances to customers		
– Individually assessed (Note 19)	44,431	80,726
– Collectively assessed (Note 19)	39,877	(22,736)
	84,308	57,990
Of which		
– new allowances	142,142	139,991
– releases	(47,498)	(61,690)
– recoveries	(10,336)	(20,311)
Net charge to income statement	84,308	57,990

14 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 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	
	2010	2009	2010	2009
Current income tax:				
– Hong Kong profits tax	279,034	174,720	277,634	173,387
– Overseas taxation	71,741	92,312	71,741	92,312
– Adjustments in respect of prior years	(2,757)	4,049	(2,538)	4,000
Total current income tax	348,018	271,081	346,837	269,699
Deferred income tax:				
– Hong Kong deferred tax	(2,058)	18,599	(2,064)	18,614
– Overseas deferred tax	(12,490)	(22,933)	(12,490)	(22,933)
Total deferred income tax	(14,548)	(4,334)	(14,554)	(4,319)
Income tax expense	333,470	266,747	332,283	265,380

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	
	2010	2009	2010	2009
Profit before tax	2,037,889	1,603,399	2,009,363	1,557,082
Tax calculated at domestic tax rates applicable to profits in the respective countries	367,134	298,616	362,427	290,974
Tax effects of:				
Income not subject to tax	(38,566)	(35,955)	(39,475)	(36,226)
Expenses not deductible for tax purposes	11,393	10,080	15,603	16,675
Net effect of investments in partnerships	(3,734)	(10,043)	(3,734)	(10,043)
Adjustment in respect of prior years	(2,757)	4,049	(2,538)	4,000
Tax expense	333,470	266,747	332,283	265,380

14 INCOME TAX EXPENSE (CONTINUED)

The income tax rate applicable to the majority of the Group and its subsidiaries' 2010 income is 16.5% (2009: 16.5%).

The Bank has entered into aircraft leverage lease arrangement, involving special purpose partnerships in which the Bank is the general partner. As of 31st December 2010, the unamortised carrying cost of the investments in such partnerships, which was included in 'Other assets', amounted to HK$909,355,000 (2009: HK$892,785,000). 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

The Group

	2010			2009		
	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
Foreign currency translation differences	18,446	–	18,446	17,601	–	17,601
Fair value gains/ (losses) on available-for-sale financial assets	194,725	(33,113)	161,612	846,546	(203,989)	642,557
Share of changes in equity of jointly controlled entities	161	–	161	4,548	–	4,548
Other comprehensive income for the year (net presentation)	213,332	(33,113)	180,219	868,695	(203,989)	664,706

The Bank

	2010			2009		
	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
Foreign currency translation differences	18,210	–	18,210	18,336	–	18,336
Fair value gains/ (losses) on available-for-sale financial assets	199,626	(32,938)	166,688	850,265	(203,900)	646,365
Other comprehensive income for the year (net presentation)	217,836	(32,938)	184,898	868,601	(203,900)	664,701

16 DIVIDEND

The dividends payable to equity holders of the Bank attributable to the previous financial year, approved and paid during the years ended 2010 and 2009 were HK$800,000,000 (HK$40 per share). A dividend in respect of 2010 of HK$43 per share, amounting to a total dividend of HK$860,000,000 is to be proposed at the Annual General Meeting on 15th April 2011. These consolidated financial statements do not reflect this dividend payable.

The Group

	2010	2009
Dividends payable to equity holders of the Bank attributable to the year		
Proposed final dividend of HK$43 (2009: HK$40) per ordinary share	860,000	800,000

17 CASH AND BALANCES WITH BANKS

	The Group		The Bank	
	2010	2009	2010	2009
Cash in hand	987,326	239,313	987,321	239,306
Balances with central banks and Hong Kong Monetary Authority	7,628,038	3,052,036	7,628,038	3,052,036
Balances with banks	16,612,304	22,923,942	16,612,304	22,923,942
	25,227,668	26,215,291	25,227,663	26,215,284

As at 31st December 2010, there was HK$1,500,000 (2009: 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 2010, there were HK$96,159,000 (2009: HK$23,557,000) 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 BANKS

The Group and the Bank

	2010	2009
Placements with banks maturing between one and twelve months	11,646,456	14,989,607

As of 31st December 2010, HK$127,207,000 (2009: HK$90,408,000) 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 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans and advances to customers

The Group and the Bank

	2010	2009
Loans and advances to individuals		
– Overdrafts	422,294	447,164
– Credit cards	320,677	292,757
– Term loans and others	5,146,313	4,190,611
– Mortgages	6,789,832	6,593,263
Loans and advances to corporate entities		
– Large corporate customers and others	33,872,319	26,064,281
– SMEs	6,792,919	6,752,257
Gross loans and advances to customers	53,344,354	44,340,333
Less: impairment allowances		
– Individually assessed	(104,685)	(137,729)
– Collectively assessed	(216,622)	(176,620)
	53,023,047	44,025,984
Gross trade bills and other eligible bills, included within loans and advances to customers	4,104,158	1,619,946
Less: impairment allowances on trade bills		
– Collectively assessed	(16,282)	(5,621)
	4,087,876	1,614,325

The Group accepted listed securities at fair value of HK$3,422,796,000 (2009: HK$2,599,690,000) 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 2010, certain of our branches in the United States have pledged their real estate loans of HK$64,925,000 (2009: HK$67,319,000) to the State of California and with the Comptroller of the Currency in compliance with the regulatory requirements.

19 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	Credit cards	Term loans and others	Mortgages	Total
Movement in impairment allowances on loans and advances to individuals					
Balance at 1st January 2010	262	2,302	21,349	2,900	26,813
Impairment losses (Note 13)	58	3,537	(13,815)	(4,930)	(15,150)
Loans written off as uncollectible	–	(5,073)	(394)	–	(5,467)
Recoveries of advances written off in previous years	3	829	1,681	2,369	4,882
At 31st December 2010	323	1,595	8,821	339	11,078
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

	Impairment allowances – Individual assessment		
	Large corporate customers and others	SMEs	Total
Movement in impairment allowances on loans and advances to corporate entities			
Balance at 1st January 2010	89,613	21,303	110,916
Impairment losses (Note 13)	64,590	(5,009)	59,581
Loans written off as uncollectible	(71,536)	(9,165)	(80,701)
Recoveries of advances written off in previous years	3,873	1,581	5,454
Exchange adjustments	(1,643)	–	(1,643)
At 31st December 2010	84,897	8,710	93,607
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 adjustments	20	–	20
At 31st December 2009	89,613	21,303	110,916

	Impairment allowances – Collective assessment				
	Overdrafts	Credit cards	Term loans and others	Mortgages	Total
Movement in impairment allowances on loans and advances to individuals					
Balance at 1st January 2010	1,751	6,202	16,229	25,944	50,126
Impairment losses (Note 13)	(72)	1,636	3,140	(539)	4,165
Exchange adjustments	–	–	22	(26)	(4)
At 31st December 2010	1,679	7,838	19,391	25,379	54,287
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 adjustments	–	–	13	119	132
At 31st December 2009	1,751	6,202	16,229	25,944	50,126

19 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		
	Large corporate customers and others	SMEs	Total
Movement in impairment allowances on loans and advances to corporate entities			
Balance at 1st January 2010	100,108	26,386	126,494
Impairment losses (Note 13)	37,986	(2,274)	35,712
Exchange adjustments	127	2	129
At 31st December 2010	138,221	24,114	162,335
Balance at 1st January 2009	116,406	24,328	140,734
Impairment losses (Note 13)	(16,535)	2,020	(14,515)
Exchange adjustments	237	38	275
At 31st December 2009	100,108	26,386	126,494

20 FINANCIAL ASSETS HELD FOR TRADING

The Group and the Bank

	2010	2009
Debt securities		
Listed outside Hong Kong	166,655	158,647
Unlisted	328,214	131,477
Total debt securities	494,869	290,124
Equity securities		
Listed outside Hong Kong	115,221	98,902
Total equity securities	115,221	98,902
Total financial assets held for trading	610,090	389,026
Included within debt securities are:		
Other government bonds	227,411	236,254
Certificate of deposits held	152,540	–
Other debt securities	114,918	53,870
	494,869	290,124
Financial assets held for trading are analysed by issuers as follows:		
Sovereigns	227,411	236,254
Banks	270,395	56,802
Corporates	112,284	95,970
	610,090	389,026

21 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE

The Group and the Bank

	2010	2009
Debt securities		
Listed in Hong Kong	–	398,430
Included within debt securities are:		
Other debt securities	–	398,430
Financial assets designated at fair value are analysed by issuers as follows:		
Bank	–	398,430

22 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.

At 31st December 2010

		The Group and the Bank Fair values	
	Contract amount	Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives			
Currency forward exchange contracts	4,347,507	60,468	(52,473)
Cross-currency interest rate swaps contracts	785,416	1,016	(1,035)
Total derivative assets/ (liabilities) held for trading	5,132,923	61,484	(53,508)
Total recognised derivative financial assets/ (liabilities)	5,132,923	61,484	(53,508)

22 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

At 31st December 2009

	Contract amount	The Group and the Bank Fair values	
		Assets	Liabilities
(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)

	The Group and the Bank Credit risk weighted amount	
	2010	2009
Exchange rate contracts	72,778	15,099
Interest rate swaps contracts	–	748
	72,778	15,847

The contract amounts of these instruments indicate the volume of transactions outstanding as at the end of the reporting period, they do not represent the amounts at risk.

The credit risk weighted amounts as at 31st December 2010 and 2009 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.

23 AVAILABLE-FOR-SALE INVESTMENTS

	The Group		The Bank	
	2010	2009	2010	2009
Debt securities:				
Listed in Hong Kong	1,195,895	760,691	1,195,895	760,691
Listed outside Hong Kong	6,610,549	1,808,152	6,607,204	1,798,579
Unlisted	11,986,242	16,192,827	11,790,973	15,875,037
	19,792,686	18,761,670	19,594,072	18,434,307
Equity securities:				
Listed in Hong Kong	136,729	86,867	117,614	68,342
Listed outside Hong Kong	58,731	35,159	58,731	35,159
Unlisted	1,480,553	1,342,002	1,480,553	1,342,002
	1,676,013	1,464,028	1,656,898	1,445,503
	21,468,699	20,225,698	21,250,970	19,879,810
Included within debt securities are:				
Certificates of deposit held	2,815,172	356,450	2,804,699	345,968
Other government bonds	21,065	412,314	21,065	412,314
Other debt securities	16,956,449	17,992,906	16,768,308	17,676,025
	19,792,686	18,761,670	19,594,072	18,434,307
Available-for-sale investments are analysed by issuers as follows:				
Sovereigns	21,065	412,314	21,065	412,314
Public sector entities	756,621	1,274,019	756,621	1,270,028
Banks	17,190,813	15,268,665	16,983,210	14,932,599
Corporates	3,500,200	3,270,700	3,490,074	3,264,869
	21,468,699	20,225,698	21,250,970	19,879,810

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

The Group		
	2010	2009
As at 1st January	20,225,698	11,625,020
Exchange differences	304,320	466,175
Additions	14,260,783	22,978,158
Gains from changes in fair value	456,763	1,047,927
Disposals (sale and redemption)	(13,766,983)	(15,887,528)
Amortisation	(38,374)	(45,088)
Others	26,492	41,034
As at 31st December	21,468,699	20,225,698
Net gains from available-for-sale investments comprise:		
Disposal of available-for-sale investments	263,175	186,967

23 AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)

The Bank	2010	2009
As at 1st January	19,879,810	11,224,599
Exchange differences	304,307	466,177
Additions	14,260,364	22,873,647
Gains from changes in fair value (Note 34)	461,469	1,051,644
Disposals (sale and redemption)	(13,648,856)	(15,742,978)
Amortisation	(33,460)	(35,022)
Others	27,336	41,743
As at 31st December	21,250,970	19,879,810
Net gains from available-for-sale investments comprise:		
Disposal of available-for-sale investments	262,979	186,967

24 HELD-TO-MATURITY INVESTMENTS

	The Group		The Bank	
	2010	2009	2010	2009
Debt securities:				
Listed in Hong Kong	2,040,167	1,922,435	39,121	39,167
Listed outside Hong Kong	726,244	866,587	718,350	862,548
Unlisted	–	79,920	–	–
	2,766,411	2,868,942	757,471	901,715
Market value of listed securities	2,798,071	2,826,514	758,624	893,830
Included within debt securities are:				
Other government bonds	2,268,159	2,223,796	267,114	260,608
Other debt securities	498,252	645,146	490,357	641,107
	2,766,411	2,868,942	757,471	901,715
Held-to-maturity investments are analysed by issuer as follows:				
Sovereigns	2,268,159	2,223,796	267,114	260,608
Public sector entities	39,121	39,166	39,121	39,166
Banks	455,144	523,637	451,236	523,637
Corporates	3,987	82,343	–	78,304
	2,766,411	2,868,942	757,471	901,715

As of 31st December 2010, certain of the United States branches have pledged held-to-maturity investments amounting to HK$189,048,000 (2009: HK$180,226,000) 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$2,001,045,000 of Exchange Fund Notes was pledged to the Hong Kong Monetary Authority as at 31st December 2010 (2009: 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 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 follow:

The Group

	2010	2009
At 1st January	2,868,942	2,950,520
Exchange differences	2,295	566
Additions	378,219	1,203,643
Redemption	(451,797)	(1,266,808)
Amortisation	(26,997)	(18,951)
Others	(4,251)	(28)
At 31st December	2,766,411	2,868,942

The Bank

	2010	2009
At 1st January	901,715	981,626
Exchange differences	2,275	564
Additions	131,703	365,901
Redemption	(271,797)	(441,808)
Amortisation	(1,324)	(1,530)
Others	(5,101)	(3,038)
At 31st December	757,471	901,715

25 INVESTMENTS IN AND LOANS TO JOINTLY CONTROLLED ENTITIES AND SUBSIDIARIES

(a) Investments in jointly controlled entities

The Group

	2010	2009
At 1st January	159,901	125,181
Share of results, net of tax	18,371	31,152
Dividends paid	(2,660)	(980)
Decrease of advances	(1,300)	–
Other equity movement: available-for-sale reserve	161	4,548
At 31st December	174,473	159,901

The Bank

	2010	2009
Unlisted shares, at cost	116,000	116,000
Amounts due from jointly controlled entities	–	1,300
	116,000	117,300

25 INVESTMENTS IN AND LOANS TO JOINTLY CONTROLLED ENTITIES AND SUBSIDIARIES (CONTINUED)

(a) Investments in jointly controlled entities (Continued)

The Group's interest in its jointly controlled entities , which are unlisted, are as follows:

2010

Name	Place of incorporation	Assets	Liabilities	Revenues	Profit/ (loss)	% interest held
Joint Electronic Teller Services Limited	Hong Kong	361,784	3,948	85,432	38,795	20% of 'A' shares [1]
Bank Consortium Holding Limited	Hong Kong	495,463	235,811	288,419	56,838	14.29% of 'A' shares
BC Reinsurance Limited	Hong Kong	435,925	224,563	129,595	20,965	21% [1]
Hong Kong Life Insurance Limited	Hong Kong	4,279,106	3,960,406	855,282	32,462	16.67%
i-Tech Solutions Limited	Hong Kong	6,488	251	6,279	(259)	50%
		5,578,766	4,424,979	1,365,007	148,801	

2009

Name	Place of incorporation	Assets	Liabilities	Revenues	Profit/ (loss)	% interest held
Joint Electronic Teller Services Limited	Hong Kong	378,212	24,875	68,493	32,678	20% of 'A' shares [1]
Bank Consortium Holding Limited	Hong Kong	496,764	294,049	226,287	36,190	14.29% of 'A' shares
BC Reinsurance Limited	Hong Kong	398,786	200,388	110,948	83,026	21% [1]
Hong Kong Life Insurance Limited	Hong Kong	3,502,939	3,217,586	636,456	47,690	16.67%
i-Tech Solutions Limited	Hong Kong	9,302	2,805	6,802	4	50%
		4,786,003	3,739,703	1,048,986	199,588	

[1] During the year, the Bank has received 2.88 % and 21% (2009: 2.88% and Nil) of the dividends paid by the Joint Electronic Teller Service Limited and BC Reinsurance Limited respectively.

Note: The balances with the jointly controlled entities arising from normal business transactions are included in Note 38.

(b) Investments in subsidiaries

The Bank

	2010	2009
Investments, at cost:		
Unlisted shares	193,199	193,166
Loans to subsidiary companies	2,978,635	2,896,995
Amounts due from subsidiary companies	281	462
Amounts due to subsidiary companies	(1,063,181)	(887,226)
	2,108,934	2,203,397

25 INVESTMENTS IN AND LOANS TO JOINTLY CONTROLLED ENTITIES AND SUBSIDIARIES (CONTINUED)

(b) Investments in subsidiaries (Continued)

The following is a list of the principal subsidiaries at 31st December 2010:

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

All subsidiary companies are held directly by the Bank.

(c) Loans to subsidiaries

The loans to subsidiaries are secured, interest free and have no fixed term of repayment. The fair values of loans to subsidiaries are HK$2,978,635,000 (2009: HK$2,896,995,000). The carrying amounts of the loans approximate their fair values.

26 PROPERTY AND EQUIPMENT

The Group

	Leasehold land	Bank premises	Furniture, fittings and equipment	Total
At 1st January 2009				
Cost, as previously reported	–	463,387	608,630	1,072,017
Adjustment for adoption of amendment to HKAS 17	325,589	–	–	325,589
Cost, as restated	325,589	463,387	608,630	1,397,606
Accumulated depreciation, as previously reported	–	(176,745)	(502,368)	(679,113)
Adjustment for adoption of amendment to HKAS 17	(56,567)	–	–	(56,567)
Accumulated depreciation, as restated	(56,567)	(176,745)	(502,368)	(735,680)
Net book amount, as restated	269,022	286,642	106,262	661,926
Year ended December 2009				
Opening net book amount, as previously reported	–	286,642	106,262	392,904
Adjustment for adoption of amendment to HKAS 17	269,022	–	–	269,022
Opening net book amount, as restated	269,022	286,642	106,262	661,926
Additions	–	–	22,427	22,427
Disposals	–	–	(968)	(968)
Depreciation charge	(4,820)	(8,850)	(34,487)	(48,157)
Exchange rate adjustments	–	3,078	92	3,170
Closing net book amount, as restated	264,202	280,870	93,326	638,398
At 31st December 2009				
Cost, as previously reported	–	467,222	610,769	1,077,991
Adjustment for adoption of amendment to HKAS 17	325,589	–	–	325,589
Cost, as restated	325,589	467,222	610,769	1,403,580
Accumulated depreciation, as previously reported	–	(186,352)	(517,443)	(703,795)
Adjustment for adoption of amendment to HKAS 17	(61,387)	–	–	(61,387)
Accumulated depreciation, as restated	(61,387)	(186,352)	(517,443)	(765,182)
Net book amount, as restated	264,202	280,870	93,326	638,398
Year ended December 2010				
Opening net book amount, as previously reported	–	280,870	93,326	374,196
Adjustment for adoption of amendment to HKAS 17	264,202	–	–	264,202
Opening net book amount, as restated	264,202	280,870	93,326	638,398
Additions	–	–	18,746	18,746
Disposals	–	–	(1,526)	(1,526)
Depreciation charge	(4,820)	(8,847)	(32,561)	(46,228)
Exchange rate adjustments	–	(851)	45	(806)
Closing net book amount	259,382	271,172	78,030	608,584
At 31st December 2010				
Cost	325,589	466,163	604,213	1,395,965
Accumulated depreciation	(66,207)	(194,991)	(526,183)	(787,381)
Net book amount	259,382	271,172	78,030	608,584

26 PROPERTY AND EQUIPMENT (CONTINUED)

The Bank

	Leasehold land	Bank premises	Furniture, fittings and equipment	Total
At 1st January 2009				
Cost, as previously reported	–	422,511	663,577	1,086,088
Adjustment for adoption of amendment to HKAS 17	297,513	–	–	297,513
Cost, as restated	297,513	422,511	663,577	1,383,601
Accumulated depreciation, as previously reported	–	(169,972)	(543,389)	(713,361)
Adjustment for adoption of amendment to HKAS 17	(55,878)	–	–	(55,878)
Accumulated depreciation, as restated	(55,878)	(169,972)	(543,389)	(769,239)
Net book amount, as restated	241,635	252,539	120,188	614,362
Year ended December 2009				
Opening net book amount, as previously reported	–	252,539	120,188	372,727
Adjustment for adoption of amendment to HKAS 17	241,635	–	–	241,635
Opening net book amount, as restated	241,635	252,539	120,188	614,362
Additions	–	–	27,902	27,902
Disposals	–	–	(941)	(941)
Depreciation charge	(4,589)	(8,204)	(43,080)	(55,873)
Exchange rate adjustments	–	59	26	85
Closing net book amount, as restated	237,046	244,394	104,095	585,535
At 31st December 2009				
Cost, as previously reported	–	422,618	671,058	1,093,676
Adjustment for adoption of amendment to HKAS 17	297,513	–	–	297,513
Cost, as restated	297,513	422,618	671,058	1,391,189
Accumulated depreciation, as previously reported	–	(178,224)	(566,963)	(745,187)
Adjustment for adoption of amendment to HKAS 17	(60,467)	–	–	(60,467)
Accumulated depreciation, as restated	(60,467)	(178,224)	(566,963)	(805,654)
Net book amount, as restated	237,046	244,394	104,095	585,535
Year ended December 2010				
Opening net book amount, as previously reported	–	244,394	104,095	348,489
Adjustment for adoption of amendment to HKAS 17	237,046	–	–	237,046
Opening net book amount, as restated	237,046	244,394	104,095	585,535
Additions	–	–	21,826	21,826
Disposals	–	–	(1,516)	(1,516)
Depreciation charge	(4,589)	(8,206)	(39,743)	(52,538)
Exchange rate adjustments	–	170	66	236
Closing net book amount	232,457	236,358	84,728	553,543
At 31st December 2010				
Cost	297,513	422,835	667,708	1,388,056
Accumulated depreciation	(65,056)	(186,477)	(582,980)	(834,513)
Net book amount	232,457	236,358	84,728	553,543

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		The Bank	
	2010	2009	2010	2009
In Hong Kong held on:				
Leases of over 50 years	97,501	98,768	70,576	71,612
Leases of between 10 to 50 years	161,881	165,434	161,881	165,434
	259,382	264,202	232,457	237,046

26 PROPERTY AND EQUIPMENT (CONTINUED)

Interests in freehold land outside Hong Kong are included as bank premises above amounted to HK$36,757,000 as at 31st December 2010 (2009: HK$37,342,000) for the Group, and HK$19,052,000 (2009: HK$18,999,000) for the Bank.

In accordance with the amendments to HKAS 17, the leasehold land and land use right held by the Group were considered as finance leases and being reclassified to Property and Equipment and Investment Property (Note 27).

27 INVESTMENT PROPERTIES

The Group

	Leasehold land	Buildings	Total
As 1st January 2009			
Cost, as previously reported	–	62,739	62,739
Adjustment for adoption of amendment to HKAS 17	1,381,406	–	1,381,406
Cost, as restated	1,381,406	62,739	1,444,145
Accumulated depreciation, as previously reported	–	(6,274)	(6,274)
Adjustment for adoption of amendment to HKAS 17	(1,649)	–	(1,649)
Accumulated depreciation, as restated	(1,649)	(6,274)	(7,923)
Net book amount, as restated	1,379,757	56,465	1,436,222
Year ended December 2009			
Opening net book amount, as previously reported	–	56,465	56,465
Adjustment for adoption of amendment to HKAS 17	1,379,757	–	1,379,757
Opening net book amount, as restated	1,379,757	56,465	1,436,222
Depreciation charge	(1,648)	(25,095)	(26,743)
Closing net book amount, as restated	1,378,109	31,370	1,409,479
At 31st December 2009			
Cost, as previously reported	–	62,739	62,739
Adjustment for adoption of amendment to HKAS 17	1,381,406	–	1,381,406
Cost, as restated	1,381,406	62,739	1,444,145
Accumulated depreciation, as previously reported	–	(31,369)	(31,369)
Adjustment for adoption of amendment to HKAS 17	(3,297)	–	(3,297)
Accumulated depreciation, as restated	(3,297)	(31,369)	(34,666)
Net book amount, as restated	1,378,109	31,370	1,409,479
Year ended December 2010			
Opening net book amount, as previously reported	**–**	**31,370**	**31,370**
Adjustment for adoption of amendment to HKAS 17	**1,378,109**	**–**	**1,378,109**
Opening net book amount, as restated	**1,378,109**	**31,370**	**1,409,479**
Depreciation charge	**(1,649)**	**(25,096)**	**(26,745)**
Closing net book amount	**1,376,460**	**6,274**	**1,382,734**
At 31st December 2010			
Cost	**1,381,406**	**62,739**	**1,444,145**
Accumulated depreciation	**(4,946)**	**(56,465)**	**(61,411)**
Net book amount	**1,376,460**	**6,274**	**1,382,734**

27 INVESTMENT PROPERTIES (CONTINUED)

The Bank

	Leasehold land	Buildings	Total
As 1st January 2009			
Cost, as previously reported	–	70,658	70,658
Adjustment for adoption of amendment to HKAS 17	1,409,482	–	1,409,482
Cost, as restated	1,409,482	70,658	1,480,140
Accumulated depreciation, as previously reported	–	(6,868)	(6,868)
Adjustment for adoption of amendment to HKAS 17	(2,338)	–	(2,338)
Accumulated depreciation, as restated	(2,338)	(6,868)	(9,206)
Net book amount, as restated	1,407,144	63,790	1,470,934
Year ended December 2009			
Opening net book amount, as previously reported	–	63,790	63,790
Adjustment for adoption of amendment to HKAS 17	1,407,144	–	1,407,144
Opening net book amount, as restated	1,407,144	63,790	1,470,934
Depreciation charge	(1,879)	(25,293)	(27,172)
Closing net book amount, as restated	1,405,265	38,497	1,443,762
At 31st December 2009			
Cost, as previously reported	–	70,658	70,658
Adjustment for adoption of amendment to HKAS 17	1,409,482	–	1,409,482
Cost, as restated	1,409,482	70,658	1,480,140
Accumulated depreciation, as previously reported	–	(32,161)	(32,161)
Adjustment for adoption of amendment to HKAS 17	(4,217)	–	(4,217)
Accumulated depreciation, as restated	(4,217)	(32,161)	(36,378)
Net book amount, as restated	1,405,265	38,497	1,443,762
Year ended December 2010			
Opening net book amount, as previously reported	–	38,497	38,497
Adjustment for adoption of amendment to HKAS 17	1,405,265	–	1,405,265
Opening net book amount, as restated	1,405,265	38,497	1,443,762
Depreciation charge	(1,879)	(25,294)	(27,173)
Closing net book amount	1,403,386	13,203	1,416,589
At 31st December 2010			
Cost	1,409,482	70,658	1,480,140
Accumulated depreciation	(6,096)	(57,455)	(63,551)
Net book amount	1,403,386	13,203	1,416,589

As at 31st December 2010 and 2009 (restated), the Board of Directors consider that the fair values of the Group's investment property and the Bank's investment properties are not materially different from the purchase costs. The investment property of the Group located adjacent to the Bank's Head Office will be re-developed jointly with the Bank's Head Office building subsequent to the year end.

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

The restatement was in accordance with the amendments to HKAS 17, as elaborated Note 26.

28 OTHER ASSETS

	The Group		The Bank	
	2010	2009	2010	2009
Repossessed assets	41,652	22,365	41,652	22,365
Accounts receivable and prepayments *	1,513,137	1,467,087	1,152,609	1,016,918
Others	60,581	43,549	55,744	35,833
	1,615,370	1,533,001	1,250,005	1,075,116

* As stated in Note 14, there are unamortised carrying cost of investment in special purpose partnerships included in accounts receivable and prepayments.

29 DEPOSITS FROM CUSTOMERS

The Group and the Bank

	2010			
	Large Corporate Customers	SMEs	Retail	Total
Demand deposits and current accounts	4,160,716	1,295,983	2,921,423	8,378,122
Savings deposits	9,646,784	1,790,994	19,786,638	31,224,416
Time, call and notice deposits	23,074,293	1,175,623	31,221,749	55,471,665
Deposits from Hong Kong Government Exchange Fund	388,988	–	–	388,988
	37,270,781	4,262,600	53,929,810	95,463,191

The Group and the Bank

	2009			
	Large Corporate Customers	SMEs	Retail	Total
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

Included in customer accounts were deposits of HK$1,134,275,000 (2009: HK$932,588,000) held as collateral for irrevocable commitments. The fair value of these deposits approximates the carrying amount.

Deposit amounting to HK$55,407,522,000 (2009: HK$54,289,144,000) are at fixed interest rates, HK$39,602,539,000 (2009: HK$36,920,864,000) are at managed interest rates and all other deposits, amounting to HK$453,130,000 (2009: HK$278,900,000) are at variable rates.

30 OTHER LIABILITIES

	The Group		The Bank	
	2010	2009	2010	2009
Margin deposits	349,196	299,064	349,196	299,064
Accounts payable and accruals	538,110	943,870	186,318	502,881
Others	584,076	309,993	553,239	281,515
	1,471,382	1,552,927	1,088,753	1,083,460

31 PROVISIONS

	The Group		The Bank	
	2010	2009	2010	2009
At 1st January	94,500	83,593	93,924	83,005
Additional provisions charged to income statement	169,122	167,416	167,641	165,945
Utilised during the year	(163,968)	(156,509)	(162,345)	(155,026)
At 31st December	99,654	94,500	99,220	93,924
Current	99,587	94,355	99,220	93,924
Non-current	67	145	–	–

Majority of the 2010 and 2009 balances represents provision for staff gratuity.

32 DEFERRED INCOME TAX

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

Deferred income tax liabilities

	The Group				
	Impairment allowances	Accelerated tax depreciation	Fair value gains	Others	Total
At 1st January 2009	–	(79)	–	–	(79)
(Charged)/ credited 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)
(Charged)/ credited to the income statement	(1,234)	3,908	–	(616)	2,058
Charged to equity	–	–	(33,113)	–	(33,113)
Reclassifcation to current income tax liabilities	–	–	–	717	717
At 31st December 2010	34,777	242	(145,743)	(2,322)	(113,046)

Deferred income tax liabilities

	The Bank				
	Impairment allowances	Accelerated tax depreciation	Fair value gains	Others	Total
At 1st January 2009	–	–	–	–	–
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)
(Charged)/ credited to the income statement	(1,234)	3,914	–	(616)	2,064
Charged to equity	–	–	(32,938)	–	(32,938)
Reclassifcation to current income tax liabilities	–	–	–	717	717
At 31st December 2010	34,777	309	(145,182)	(2,322)	(112,418)

32 DEFERRED INCOME TAX (CONTINUED)

Deferred income tax assets

	The Group and the Bank				
	Impairment allowances	Accelerated tax depreciation	Fair value loss	Others	Total
At 1st January 2009	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	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
(Charged)/ credited to the income statement	8,001	(12)	–	4,501	12,490
Exchange differences	115	(8)	–	80	187
At 31st December 2010	39,851	(1,244)	–	18,049	56,656

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

	The Group		The Bank	
	2010	2009	2010	2009
Available-for-sale investment revaluation deficit				
– Reserves in shareholders' equity (Note 34)	(33,043)	(203,909)	(32,938)	(203,900)
– Reserves in non-controlling interests	(70)	(80)	–	–
	(33,113)	(203,989)	(32,938)	(203,900)

33 SHARE CAPITAL

The Group and the Bank

	2010	2009
Authorised:		
30,000,000 shares of HK$100 each	3,000,000	3,000,000
Issued and fully paid:		
20,000,000 shares of HK$100 each	2,000,000	2,000,000

34 OTHER RESERVES

The Group

	Regulatory reserve	Available-for-sale investment revaluation reserve/ (deficit)	General reserve	Total
Balance at 1st January 2009	362,370	(72,763)	7,267,352	7,556,959
Change in fair value of available-for-sale investments	–	1,047,439	–	1,047,439
Realised on disposal of available-for-sale investments	–	(186,967)	–	(186,967)
Effect of deferred taxation (Note 32)	–	(203,909)	–	(203,909)
Currency translation differences	–	(14,414)	17,676	3,262
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
Balance at 1st January 2010	362,370	573,934	7,311,687	8,247,991
Change in fair value of available-for-sale investments	–	456,261	–	456,261
Realised on disposal of available-for-sale investments	–	(263,096)	–	(263,096)
Effect of deferred taxation (Note 32)	–	(33,043)	–	(33,043)
Currency translation differences	–	1,136	14,179	15,315
Share of investment revaluation reserve of jointly controlled entities	–	161	–	161
Balance at 31st December 2010	362,370	735,353	7,325,866	8,423,589

The Bank

	Regulatory reserve	Available-for-sale investment revaluation reserve/ (deficit)	General reserve	Total
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)	–	1,051,644	–	1,051,644
Realised on disposal of available-for-sale investments (Note 23)	–	(186,967)	–	(186,967)
Effect of deferred taxation (Note 32)	–	(203,900)	–	(203,900)
Currency translation differences	–	(14,412)	17,659	3,247
Transfer from retained earnings	–	–	26,659	26,659
Balance at 31st December 2009	362,370	568,032	7,311,602	8,242,004
Balance at 1st January 2010	362,370	568,032	7,311,602	8,242,004
Change in fair value of available-for-sale investments (Note 23)	–	461,469	–	461,469
Realised on disposal of available-for-sale investments (Note 23)	–	(262,979)	–	(262,979)
Effect of deferred taxation (Note 32)	–	(32,938)	–	(32,938)
Currency translation differences	–	1,136	14,179	15,315
Balance at 31st December 2010	362,370	734,720	7,325,781	8,422,871

34 OTHER RESERVES (CONTINUED)

Nature and purpose of reserves:

(a) Regulatory reserve

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

(b) Available-for-sale investment revaluation reserve

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.

35 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.

	2010	2009
Cash and balances with banks	23,561,564	21,288,681
Placements with banks	129,889	2,099,271
	23,691,453	23,387,952

36 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Capital commitments

Capital expenditure at the end of the reporting period but not yet incurred is as follows:

	The Group		The Bank	
	2010	2009	2010	2009
Property and equipment				
Contracted but not provided for	54,870	42,946	57,133	44,435
Authorised but not contracted for	88,856	2,140	89,867	2,869
	143,726	45,086	147,000	47,304

(b) Operating lease commitments

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

	The Group		The Bank	
	2010	2009	2010	2009
No later than 1 year	86,544	47,509	88,346	49,376
Later than 1 year and no later than 5 years	206,375	58,216	207,576	61,328
Later than 5 years	32,251	2,233	32,251	2,233
	325,170	107,958	328,173	112,937

36 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 operating leases are as follows:

	The Group		The Bank	
	2010	2009	2010	2009
No later than 1 year	6,466	16,999	6,466	16,999
Later than 1 year and no later than 5 years	172	2,109	172	2,109
	6,638	19,108	6,638	19,108

(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		
	2010	2009
Direct credit substitutes	2,177,614	1,912,441
Trade-related contingencies	2,979,778	2,800,367
Other commitments with an original maturity of:		
– under 1 year	1,575,238	906,513
– 1 year and over	1,878,263	3,038,037
– unconditionally cancellable	40,456,515	35,269,842
	49,067,408	43,927,200

The credit risk weighted amount of credit commitments is HK$3,777,401,000 (2009: HK$3,935,819,000).

(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.

37 LOANS TO OFFICERS

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

	Balance outstanding at 31st December		Maximum balance during the year	
	2010	2009	2010	2009
Aggregate amount outstanding in respect of principal and interest	537,136	576,267	689,520	714,224

38 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 statement of financial position captions are balances with the ultimate holding company:

The Group and the Bank		
	2010	2009
Cash and balances with banks	10,058	144,860
Loans and advances to customers – trade bills	–	38,247
Available-for-sale investments	115,811	78,211
	125,869	261,318
Collectively assessed impairment allowances	–	153
Deposits and balances from banks at 1st January	454,557	574,992
Deposits and balances from banks received during the year	71,732	3,821
Deposits and balances from banks repaid during the year	(2,010)	(124,256)
Deposits and balances from banks at 31st December	524,279	454,557
Interest income on deposits placed at and loans to the ultimate holding company	279	2,745
Interest expense on deposits from the ultimate holding company	1,491	3,816
Contingent liabilities and other commitments	253,125	121,177

Included in the following statement of financial position captions are balances with subsidiary companies of the ultimate holding company:

The Group and the Bank		
	2010	2009
Deposits from customers at 1st January	304,876	605,932
Deposits from customers received during the year	2,797	3,375
Deposits from customers repaid during the year	(2,365)	(304,431)
Deposits from customers at 31st December	305,308	304,876
Interest expense on deposits from the subsidiary companies of the ultimate holding company	1,774	2,439

38 RELATED PARTY TRANSACTIONS (CONTINUED)

Included in the following statement of financial position captions are balances with other shareholders:

The Group and the Bank	2010	2009
Cash and balances with banks	44,164	14,359
Available-for-sale and held-to-maturity investments	774,504	1,349,498
	818,668	1,363,857
Loans and advances to customers at 1st January	1,426	1,478
Loans and advances to customers granted during the year	–	–
Loans and advances to customers repaid during the year	(1,426)	(52)
Loans and advances to customers at 31st December	–	1,426
Collectively assessed impairment allowances	–	6
Deposits from customers at 1st January	131,894	26,481
Deposits from customers received during the year	19,613	110,410
Deposits from customers repaid during the year	(132,425)	(4,997)
Deposits from customers at 31st December	19,082	131,894
Interest income on loans and advances to other shareholders	3,027	7,566
Interest expenses on deposits from other shareholders	382	647

Included in the following statement of financial position captions are balances with jointly controlled entities:

The Group and the Bank	2010	2009
Deposits from customers at 1st January	251,461	955,258
Deposits from customers received during the year	40,043	83,190
Deposits from customers repaid during the year	(97,027)	(786,987)
Deposits from customers at 31st December	194,477	251,461
Interest expenses on deposits from the jointly controlled entities	660	5,074
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).

38 RELATED PARTY TRANSACTIONS (CONTINUED)

Included in the following statement of financial position captions are balances with the Directors and their relatives:

The Group and the Bank

	2010	2009
Loans and advances to customers at 1st January	293,531	167,140
Loans and advances to customers granted during the year	7,725	148,802
Loans and advances to customers repaid during the year	(78,302)	(22,411)
Loans and advances to customers at 31st December	222,954	293,531
Collectively assessed impairment allowances	892	1,174
Deposits from customers at 1st January	146,411	184,029
Deposits from customers received during the year	43,644	58,414
Deposits from customers repaid during the year	(99,603)	(96,032)
Deposits from customers at 31st December	90,452	146,411
Interest income on loans and advances to the Directors and their relatives	5,642	5,938
Interest expenses on deposits from the Directors and their relatives	357	1,300
Contingent liabilities and other commitments	38,466	79,717

Included in the following statement of financial position captions are balances with companies controlled by the Directors and their relatives:

The Group and the Bank

	2010	2009
Loans and advances to customers at 1st January	409,343	640,071
Loans and advances to customers granted during the year	69,008	101,853
Loans and advances to customers repaid during the year	(181,362)	(332,581)
Loans and advances to customers at 31st December	296,989	409,343
Collectively assessed impairment allowances	1,188	1,637
Deposits from customers at 1st January	741,032	381,786
Deposits from customers received during the year	34,510	546,736
Deposits from customers repaid during the year	(552,362)	(187,490)
Deposits from customers at 31st December	223,180	741,032
Interest income on loans and advances to the companies controlled by the Directors and their relatives	12,003	16,682
Interest expenses on deposits from the companies controlled by the Directors and their relatives	846	2,791
Contingent liabilities and other commitments	335,068	721,752

38 RELATED PARTY TRANSACTIONS (CONTINUED)

Included in the following statement of financial position 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

	2010	2009
Loans and advances to customers at 1st January	14,920	24,673
Loans and advances to customers granted during the year	1,439	1,935
Loans and advances to customers repaid during the year	(5,756)	(11,688)
Loans and advances to customers at 31st December	10,603	14,920
Collectively assessed impairment allowances	42	60
Deposits from customers at 1st January	13,996	12,344
Deposits from customers received during the year	8,312	11,557
Deposits from customers repaid during the year	(3,533)	(9,905)
Deposits from customers at 31st December	18,775	13,996
Interest income on loans and advances to the key management personnel of the Bank and the ultimate holding company and their relatives	569	717
Interest expenses on deposits from the key management personnel of the Bank and the ultimate holding company and their relatives	37	98
Contingent liabilities and other commitments	5,926	4,578

Included in the following statement of financial position 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

	2010	2009
Deposits from customers at 1st January	11,841	14,604
Deposits from customers received during the year	–	341
Deposits from customers repaid during the year	(11,841)	(3,104)
Deposits from customers at 31st December	–	11,841
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
The compensation of Directors and key management personnel of the Bank: Salaries and other short-term employee benefits	52,384	40,551

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

39 ULTIMATE HOLDING COMPANY

The ultimate holding company is The Shanghai Commercial & Savings Bank, Ltd.

SUPPLEMENTARY FINANCIAL INFORMATION

(All amounts in HK dollar thousands unless otherwise stated)

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

1 Liquidity ratio

	2010	2009
Liquidity ratio	51%	55%

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.

2 Non-bank mainland exposures

2010

	On-balance sheet exposure	Off-balance sheet exposure	Total	Individually assessed impairment allowances
Types of counterparties				
Mainland entities	1,761,992	21,623	1,783,615	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	3,252,575	944,108	4,196,683	18,149
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	113,849	157,881	271,730	1,085
	5,128,416	1,123,612	6,252,028	19,234

2009

	On-balance sheet exposure	Off-balance sheet exposure	Total	Individually assessed impairment allowances
Types of counterparties				
Mainland entities	1,157,219	3,058	1,160,277	3,603
Companies and individuals outside Mainland where the credit is granted for use in Mainland	2,990,028	1,295,551	4,285,579	22,353
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	167,644	194,636	362,280	208
	4,314,891	1,493,245	5,808,136	26,164

3 Currency concentrations

The Group

Equivalent in Hong Kong dollars	2010 Spot assets	Spot liabilities	Forward purchases	Forward sales	Net long/ (short) position	Net structural position
US Dollars	40,877,000	(40,870,000)	3,876,000	(4,656,000)	(773,000)	3,193,000
Pound Sterling	1,815,000	(1,811,000)	37,000	(27,000)	14,000	5,000
Yuan Renminbi	6,153,000	(5,961,000)	1,242,000	(1,171,000)	263,000	74,000
Canadian Dollars	1,436,000	(1,446,000)	32,000	(14,000)	8,000	–
Euro	1,696,000	(1,737,000)	289,000	(273,000)	(25,000)	–
Other currencies and gold	7,183,000	(7,296,000)	574,000	(464,000)	(3,000)	–
	59,160,000	(59,121,000)	6,050,000	(6,605,000)	(516,000)	3,272,000

Equivalent in Hong Kong dollars	2009 Spot assets	Spot liabilities	Forward purchases	Forward sales	Net long/ (short) position	Net structural position
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
Yuan Renminbi	1,624,000	(1,546,000)	3,000	–	81,000	53,000
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	7,727,000	(7,777,000)	327,000	(301,000)	(24,000)	–
	59,009,000	(56,366,000)	2,075,000	(1,246,000)	3,472,000	2,070,000

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 property and equipment, net of depreciation;

– capital and statutory reserves of overseas branches; and

– investments in overseas subsidiaries and related company.

4 Loans and advances to customers

(a) Gross advances to customers by loan usage

The Group

	2010		2009	
	Gross advances	Amount covered by collateral/ other security	Gross advances	Amount covered by collateral/ other security
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	2,820,335	948,978	1,566,075	558,066
– Property investment	11,947,671	11,156,783	10,743,049	9,922,766
– Financial concerns	278,883	277,213	85,951	85,353
– Stockbrokers	10,015	–	29	29
– Wholesale and retail trade	879,732	753,337	838,079	601,753
– Manufacturing	1,543,525	895,996	1,126,480	798,880
– Transport and transport equipment	736,772	257,070	783,467	268,422
– Information technology – telecommunication	149,720	148,717	2,294	873
– Hotels, boarding houses and catering	846,265	827,552	676,919	650,340
– Others	2,915,025	1,665,101	2,244,402	1,028,567
Individuals				
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	316,398	315,051	371,051	367,191
– Loans for the purchase of other residential properties	4,685,462	4,685,462	4,631,092	4,631,092
– Credit card advances	301,200	158	279,061	386
– Others	4,794,679	4,744,455	4,307,761	4,195,747
Trade finance	5,224,429	2,814,117	4,353,347	3,035,182
Loans for use outside Hong Kong *	11,790,085	10,856,997	10,711,330	10,108,833
	49,240,196	40,346,987	42,720,387	36,253,480

* Included in 'Loans for use outside Hong Kong' were advances to individuals of HK$2,581,377,000 (2009: HK$1,934,830,000).

(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

	2010			
	Individually assessed to be impaired	Overdue	Individual impairment allowance	Collective impairment allowance
Industrial, commercial and financial				
– Property investment	51,698	152,059	966	47,583
Individuals				
– Loans for the purchase of other residential properties	36,564	91,225	299	18,596
	88,262	243,284	1,265	66,179

	2009			
	Individually assessed to be impaired	Overdue	Individual impairment allowance	Collective impairment allowance
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

4 Loans and advances to customers (Continued)

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

The Group

	2010		
	New provisions	Loans written off as uncollectible	Recoveries of advances written off in previous years
Industrial, commercial and financial			
– Property investment	921	313	1,256
Individuals			
– Loans for the purchase of other residential properties	6	–	2,369
	927	313	3,625

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

5 Segmental information

(a) Overdue and impaired loans by geographical areas

The Group

	2010		
	Individually assessed to be impaired	Individual impairment allowance	Collective impairment allowance
Hong Kong	332,250	39,673	–
North America	469,136	65,012	–
	801,386	104,685	–

	2010		
	Overdue	Individual impairment allowance	Collective impairment allowance
Hong Kong	550,831	20,757	1,580
Asia Pacific excluding Hong Kong	16,807	–	67
North America	606,487	5,032	1,705
Western Europe	25,669	–	103
	1,199,794	25,789	3,455

5 Segmental information (Continued)

(a) Overdue and impaired loans by geographical areas (Continued)

The Group

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

	2009		
	Overdue	Individual impairment allowance	Collective impairment allowance
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

(b) 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

	2010			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Hong Kong	27,404,000	60,000	1,176,000	28,640,000
North America	2,918,000	167,000	981,000	4,066,000
Western Europe	4,538,000	78,000	230,000	4,846,000

	2009			
	Banks and other financial institutions	Public sector entities	Others	Total
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

6 Corporate governance

(a) The Bank has fully complied with the requirements set out in the guideline on 'Corporate Governance of Locally Incorporated Authorised 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 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. Paul Kun-kow Wong, Mr. Stephen Siu-fung Lee, Mr. Frank Shui-sang Jin and Mr. Hon-ming Mak.

(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. Stephen Siu-fung Lee, Mr. Frank Shui-sang Jin, Mr. Hon-ming Mak, Mr. Ho-kei Wan and Mr. Sau-man Hui.

(vi) Operational Risk Management Committee

The Operational Risk Management Committee meets at least bi-monthly 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. Daniel Kwok-hung Chan, Mr. Burton Chi-shan Cheng, Mr. Stephen Siu-fung Lee, Mr. Frank Shui-sang Jin, Mr. Hon-ming Mak, Mr. Pui-man Yeung, Mr. Zachary Wing-kwong Kwan and Mr. Francis Yue-cheong Wong.

7 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 consolidated financial statements.

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

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

(a) Capital charge for credit risk

Capital requirement

	2010	2009
Sovereign exposures	1,414	444
Public Sector Entity exposures	12,732	20,856
Bank exposures	1,311,702	1,385,985
Securities Firm exposures	401	1
Corporate exposures	2,312,267	1,897,555
Cash items	7,281	5,182
Regulatory Retail exposures	258,029	231,889
Residential Mortgage Loans	593,029	582,706
Other exposures which are not past due exposures	644,387	574,800
Past due exposures	32,943	42,420
Total capital charge for on-balance sheet exposures	5,174,185	4,741,838
Direct credit substitutes	171,197	150,234
Trade-related contingencies	46,988	44,104
Other commitments	84,007	120,527
Exchange rate contracts	5,822	1,208
Interest rate contracts	–	60
Total capital charge for off-balance sheet exposures	308,014	316,133
Total capital charge for credit risk	5,482,199	5,057,971

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

(b) Capital charge for market risk

Capital charge

	2010	2009
Interest rate exposures (including options)	26,486	42,748
Equity exposures (including options)	17,966	15,356
Foreign exchange exposures (including gold and options)	33,680	11,920
Capital charge for market risk	78,132	70,024

The Bank uses the Standardised Approach for calculating market risk.

(c) Capital charge for operational risk

	2010	2009
Capital charge for operational risk	417,516	452,921

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

8 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 2010

	Total exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts	Total exposure covered by recognised collateral	Total exposure covered by recognised guarantees or recognised credit derivative contracts
		Rated	Unrated	Rated	Unrated			
A. On-balance Sheet								
1 Sovereign	9,917,262	9,917,262	–	17,677	–	17,677	–	–
2 Public Sector Entity	795,742	795,742	–	159,148	–	159,148	–	–
3 Multilateral Development Bank	128,279	128,279	–	–	–	–	–	–
4 Bank	47,933,991	43,195,465	4,738,526	14,393,079	2,003,196	16,396,275	–	–
5 Securities Firm	10,015	–	10,015	–	5,008	5,008	–	–
6 Corporate	31,098,552	4,376,408	26,722,144	2,181,194	26,722,144	28,903,338	18,673,499	1,280,624
7 Cash Items	989,611	–	2,036,218	–	91,015	91,015	–	–
8 Regulatory Retail	4,300,482	–	4,300,482	–	3,225,362	3,225,362	3,888,956	–
9 Residential Mortgage Loan	11,385,547	–	11,385,547	–	7,412,868	7,412,868	10,184,304	–
10 Other exposures which are not Past Due Exposures	8,054,835	–	8,054,835	–	8,054,835	8,054,835	4,321,158	–
11 Past Due Exposures	403,494	–	403,494	–	411,788	411,788	313,584	–
B. Off-balance Sheet								
1 Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	4,027,750	302,358	3,725,392	114,661	3,662,740	3,777,401	–	137,328
2 OTC derivative transactions	113,509	46,831	66,678	12,380	60,398	72,778	–	–

The Group 2009

	Total exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts	Total exposure covered by recognised collateral	Total exposure covered by recognised guarantees or recognised credit derivative contracts
		Rated	Unrated	Rated	Unrated			
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	–	–

8 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	2010 OTC derivative transactions	2009 OTC derivative transactions
OTC derivative:		
Gross total positive fair value	61,484	12,448
Credit equivalent amount	113,509	47,519
Risk weighted amounts	72,778	15,847

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

The Group	2010 OTC derivative transactions	2009 OTC derivative transactions
Notional amounts:		
– Banks	3,351,224	1,796,826
– Corporates	1,713,374	259,799
– Others	68,325	82,715
	5,132,923	2,139,340
Credit equivalent amounts/ net credit exposures:		
– Banks	46,831	40,044
– Corporates	64,680	5,242
– Others	1,998	2,233
	113,509	47,519
Risk–weighted amounts:		
– Banks	12,380	8,591
– Corporates	58,423	5,081
– Others	1,975	2,175
	72,778	15,847

8 Risk management (Continued)

(b) Asset securitisation

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

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

The Group 2010

	Outstanding amounts	Risk-weighted amount	Capital requirements	Exposures deducted from its Core Capital	Exposures deducted from its Supplementary Capital
Securitisation exposures					
Traditional securitisations					
– Properties	–	–	–	–	–

The Group 2009

	Outstanding amounts	Risk-weighted amount	Capital requirements	Exposures deducted from its Core Capital	Exposures deducted from its Supplementary Capital
Securitisation exposures					
Traditional securitisations					
– Properties	88,867	17,773	–	–	–

(c) Equity exposures in banking book

Gains related to equity exposures are as follows:

The Group

	2010	2009
Realised gains from sales during the year	20,751	12,764
Unrealised revaluation gains at year ended:		
– Amount included in reserves but not through income statement	996,261	931,361
– Amount added to core/ supplementary capital	448,443	419,357

(d) Interest rate exposures in banking book

2010

	Currency				
Equivalent in Hong Kong Dollars	Hong Kong Dollars	US Dollars	Chinese Renminbi	Others	Total
Interest rate risk shock (200 basis points upward) Increase/ (decline) in earnings	27,029	(134,560)	18,082	(22,790)	(112,239)

2009

	Currency				
Equivalent in Hong Kong Dollars	Hong Kong Dollars	US Dollars	Chinese Renminbi	Others	Total
Interest rate risk shock (200 basis points upward) Increase/ (decline) in earnings	87,646	(41,689)	(8,133)	(21,391)	16,433

For 2010 and 2009, the effect of decline in earnings and increase in earnings with interest rate risk shock of 200 basis points downward are contra to that with interest rate risk shock of 200 basis points upward.

BRANCHES AND SUBSIDIARY COMPANIES

Head Office

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

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 09-16, 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