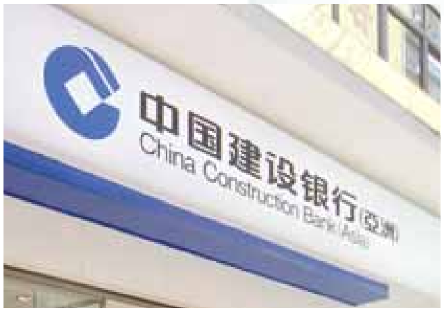
Broadening Business Horizons

Annual Report 2009

中国建设银行(亞洲)
China Construction Bank (Asia)



BANK HISTORY

Broadening Business Horizons

Renamed China Construction Bank (Asia) Corporation Limited [“CCB (Asia)”] on December 30, 2006, we originated from one of the longest-established banks in Hong Kong with a locally-incorporated history of over 97 years.

Our story started in 1912 when our bank was founded by prominent Chinese businessmen as The Bank of Canton, Limited — the first Chinese-owned bank in Hong Kong. Its growth paralleled Hong Kong's development. We thrived until the Great Depression in the 1930s and the Second World War in the 1940s seriously disrupted our operations. Former staff rebuilt the bank when Hong Kong was liberated in 1945, and soon we were back in business.

Over the next four decades, we continued to expand — increasing our product offerings, establishing a network of branches and building a stable customer base.

Following the acquisition by Security Pacific National Bank in 1988, The Bank of Canton, Limited was renamed Security Pacific Asian Bank Limited. In 1992, we became part of Bank of America upon Security Pacific Corporation's merger with Bank of America Corporation [“BOA Corporation”], and changed our name to Bank of America (Asia) Limited in 1993. In 1998, BOA Corporation merged with NationsBank Corporation to form the new Bank of America. In 2001, we changed our Chinese name to make it more closely aligned with the parent company at that time.

In August 2006, an acquisition agreement was made between China Construction Bank Corporation [“CCB Corporation”] and BOA Corporation. As a result, Bank of America (Asia) Limited became a wholly-owned subsidiary of CCB Corporation. We are now renamed China Construction Bank (Asia) Corporation Limited.

In August 2009, we entered into an agreement with American International Group, Inc. to acquire AIG Finance (Hong Kong) Limited. After the completion of transaction in October 2009, AIG Finance (Hong Kong) Limited become our wholly-owned subsidiary and renamed China Construction Bank (Asia) Finance Limited on November 2, 2009.

Our affiliated company, QBE Hongkong & Shanghai Insurance Limited, continues to work with us in offering a comprehensive range of personal and commercial insurance services to ensure our customers' peace of mind.

We have 44 branches and 3 Premier Select centers in Hong Kong and Macau, offering a wide array of consumer, retail and commercial banking products and services to customers through these branches.

For Consumer Banking, we offer conventional transactional, foreign exchange and cash services, as well as deposits, loans, investments, consolidated banking, insurance, credit card and electronic banking services. For Retail and Commercial Banking, we provide a host of financial products and services in trade financing, working capital and term lending, foreign exchange, leasing, insurance, investment and electronic banking services.

CCB Corporation, our parent company, has a long history of operation in China. Its history dates back to 1954 when the People's Construction Bank of China was founded. This entity was renamed China Construction Bank in 1996. CCB Corporation was formed in September 2004 when it separated from its predecessor, China Construction Bank, and assumed its commercial banking business and related assets and liabilities. Headquartered in Beijing, CCB Corporation had a network of nearly 13,384 branches and sub-branches in Mainland China, and maintained overseas branches in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York as well as representative office in Sydney as of December 31, 2009. The bank has a number of subsidiaries, including China Construction Bank (Asia) Corporation Limited, CCB International (Holdings) Co., Ltd., CCB (London) Limited, CCB Principal Asset Management Co., Ltd., CCB Financial Leasing Corporation Ltd. and Jianxin Trust Co., Ltd. The bank has a total of approximately 300,000 staff, and provides comprehensive financial services to its customers.

The bank was listed on the Stock Exchange of Hong Kong Limited (Stock Code: 939) in October 2005 and was listed on the Shanghai Stock Exchange (SSE Code: 601939) in September 2007. As of December 31, 2009, the market capitalization of CCB reached approximately USD201.4 billion, ranking 2nd among listed banks in the world.

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TO CUSTOMERS AND SHAREHOLDERS

The year of 2009 marked the 3rd anniversary of China Construction Bank (Asia) operating within the group of China Construction Bank Corporation. With the support of our parent company and guidance of our Board of Directors, we have undergone healthy and rapid growth since 2007. As compared to three years ago, total assets, loans and customer deposits have doubled, branch network has expanded from 17 to 47 servicing branches now, and total number of employees has increased from 750 three years ago to over 1,700 now. We are clearly one of the fastest growing banks in Hong Kong over the past three years.

Our another remarkable development was the successful acquisition of AIG (Finance) Hong Kong Limited ["AIG Finance"] in October 2009. Upon completion of the transaction, it was officially renamed China Construction Bank (Asia) Finance Limited on November 2, 2009, adding 380 associates and around 500,000 credit card customers to the bank. This acquisition has provided us with an excellent platform to expand credit card and personal loan businesses and is strategically important for the future development of our consumer banking business in the region. We are glad to report that the integration plans have been smoothly implemented, followed by tactical marketing programs and business growth plans to maximize the business opportunities and benefits from this business merger.

We are also very pleased to report that following the improvement of the economy and our effective implementation of the business growth plan, the financial performance of us was outstanding in 2009. The consolidated net profit after tax reached HKD888 million for the year ended December 31, 2009, a remarkable increase of 214% as compared to the prior year, marking a new earnings record in our history.

If the gain from the acquisition of AIG Finance was excluded, our net earnings from normal business operation also registered a year-on-year increase of 24%.

In 2009, our net interest income increased by 28% to HKD910 million as compared to 2008. The increase was mainly attributable to a strong loan growth and widened loan spread during the year. However, under the low interest rate environment of last year, the above increase in net interest income was partially offset by the reduced interest earnings on capital funds and deposit spread. In addition, total non-interest income registered a year-on-year growth of 31%, largely resulting from increases in income from FX related products and gains from our securities investment.

Total operating expenses increased by 35% over the previous year, mostly attributable to rapid branch network expansion and business growth, leading to considerably higher staff, premises, system and marketing expenses accordingly.

Total loans and customer deposits grew by 50% and 29% respectively from 2008 year-end. Our market share in residential mortgage loan, in terms of number of new loan acquisitions, advanced to the 6th position among all banks in Hong Kong in 2009.

For branch network expansion, we opened 10 branches and relocated 3 branches in Hong Kong, and opened 2 branches in Macau during the year. We now have 36 branches and 3 Premier Select centers in Hong Kong and 8 branches in Macau.

During the year, we have introduced a galore of new banking products and services to meet the diverse financial service needs of our customers, such as multi-currency ELI/ELN, Structured Notes issued under the bank's name, Employer Payroll Autopay, Smart Savings, Personal Overdraft HIBOR Plan, Insurance Premium Financing, HKD Credit Cards and more. Online banking services and functionalities were also enhanced to provide more banking convenience to customers, including Online Commercial Interbank Fund Transfer, various new features for Online Securities Trading, Online Account Opening service, Investment Account Overview, and Time Deposit service enhancement, etc.

Our prudent risk management policy has enabled us to do well through the economic volatilities. Our assets quality was maintained at a very satisfactory level. The ratio of total advances overdue for more than three months to total loans was only 0.14% which was better than the industry average of 0.60%. The classified loan (gross) ratio as at 2009 year-end was 0.44% which compared very favorably to the industry average of 1.35%. In view of the continuous improvement in loan quality, the charge for individual impairment allowances decreased to HKD50.5 million in 2009, which was lower than the charge of HKD75.2 million in 2008. The total impairment provision for both individual and collective impairment allowances made in 2009 was HKD74.3 million.

Several major system development projects were undertaken or completed successfully during the year. The Core Banking System upgrade, pivotal for supporting our business growth, was on track for completion in early 2010. The Executive Information System/Data Warehouse System, which facilitates financial reporting, asset and liability management, business performance analysis, as well as customer and product profitability analysis, went live successfully in November 2009.

In 2009, we successfully accomplished the business goals set by our Board of Directors. All these remarkable results could not have been achieved without the concerted efforts and contributions from all of our staff. On behalf of the Board and the Executive Committee, we would like to highly commend our staff and thank them for their hard work and contributions to the bank throughout the year.

Looking ahead, our strategic direction is to continue expanding our branch network and delivery channels to further broaden our customer base, deepen customer relationship, expand our scope of business as well as increase market share in the Hong Kong and Macau region. We will further enhance business development and profit growth through active diversification in our loan and deposit portfolio, development of innovative products and services to satisfy the demand of customers, and expansion in sources of revenue.

Our commitment to providing you, our valued customers, the best banking and financial services will remain our top priority as always. We will count on your continued trust and support in the years to come. We are also grateful to our Board of Directors for their guidance and invaluable advices given to the management throughout the year. Many thanks to you all.

Mao Yumin
Vice Chairman

Miranda Kwok
President & Chief Executive Officer

Hong Kong, April 23, 2010

our STRATEGIC VISION

To become a world-class bank through

- **providing better service to our customers;**
- **creating higher value to our shareholders;**
- **building up broader career path for our associates;**
- **assuming full responsibilities as a corporate citizen.**

REPORT OF THE DIRECTORS

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

PRINCIPAL PLACE OF BUSINESS

China Construction Bank (Asia) Corporation Limited ("the Bank") is a licensed bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 16/F, York House, The Landmark, 15 Queen's Road, Central, Hong Kong and at 11/F, Devon House, 979 King's Road, Hong Kong respectively.

PRINCIPAL ACTIVITIES

The principal activities of the Bank and its subsidiaries (collectively referred to as "the Group") are the provision of a range of banking and related financial services through the Bank's branches and subsidiaries. Other particulars of the Bank's subsidiaries are set out in note 25 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the financial year ended 31 December 2009 and the state of the Bank's and the Group's affairs as at that date are set out in the financial statement on pages 10 to 108.

TRANSFER TO RESERVES

Profit attributable to shareholders of HK$888,327,000 (2008: HK$282,498,000) has been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

DIVIDENDS

The directors do not recommend the payment of a final dividend for the year ended 31 December 2009 (2008: HK$ nil).

FIXED ASSETS

Details of movements in fixed assets of the Group and the Bank during the year are set out in note 28 to the financial statements.

SHARE CAPITAL

Details of share capital of the Bank are set out in note 35 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

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

Fan, Yifei *(Chairman)*
Mao, Yumin *(Vice Chairman)*
Chan, Mo Po, MH, JP
Chan, Wing Kee, GBS, OBE, JP
Dickson Leach, James S.
Fong, Bucky Wing Foon
Kwok, Miranda Pui Fong
Liu, Chak Wan
Ma, Charles Chi Man (re-designated as non-executive director with effect from 1 April 2010)
Zhang, Min

There being no provision in the Bank's articles of association for retirement by rotation, all directors continue in office.

DIRECTORS' INTERESTS IN SHARES

At no time during the year was the Bank, or any of its holding companies, subsidiaries, fellow subsidiaries or associates a party to any arrangement 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.

CHARITABLE DONATIONS

During the year charitable donations made by the Group amounted to HK$180,000 (2008: HK$ nil).

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Bank, or any of its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a director of the Bank had a material interest, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

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

REPORT OF THE DIRECTORS

STATEMENT OF COMPLIANCE

The financial statements for the year ended 31 December 2009 comply with the applicable disclosure provisions of the Banking (Disclosure) Rules.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Bank is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

Mao Yumin
Vice Chairman

Hong Kong, 23 April 2010

KPMG

To the shareholders of
CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of China Construction Bank (Asia) Corporation Limited set out on pages 10 to 108, which comprise the consolidated and the bank statements of financial position as at 31 December 2009, and the consolidated statement 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 notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the bank and of the group as at 31 December 2009 and of the group's profit and cash flows 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.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

23 April 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
Interest income		**1,237,883**	2,599,814
Interest expense		**(327,585)**	(1,889,391)
Net interest income	7	**910,298**	710,423
Net fees and commission income	8	**207,962**	210,692
Net gains from financial instruments at fair value through profit or loss	9	**421,585**	267,687
Other operating income	10	**4,075**	4,575
Total operating income		**1,543,920**	1,193,377
Operating expenses	11	**(1,062,266)**	(784,908)
Operating profit before impairment losses		**481,654**	408,469
Loan impairment charged and other credit risk provisions	12	**(74,256)**	(86,260)
Operating profit		**407,398**	322,209
Gain on disposal of fixed assets		**6,945**	–
Gain on disposal of available-for-sale financial assets	13	**–**	1,938
Gain on acquisition of a subsidiary	14	**536,787**	–
Share of profits of an associate	26	**20,846**	7,676
Profit before taxation		**971,976**	331,823
Taxation	16	**(83,649)**	(49,325)
Profit for the year		**888,327**	282,498
Other comprehensive income for the year net of tax	18		
Net movement in investment revaluation		**27,449**	(20,933)
Net movement in hedging reserve		**754**	–
Total comprehensive income for the year		**916,530**	261,565

The notes on pages 15 to 108 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009
(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
Assets			
Cash and balances with banks	19	**8,749,448**	10,640,774
Placements with banks maturing between one and twelve months		**28,042**	9,283,965
Advances to banks		**4,062,650**	6,091,126
Advances to customers	20	**60,044,268**	40,325,132
Financial instruments measured at fair value through profit or loss	21	**2,175,367**	439,666
Available-for-sale financial assets	22	**3,497,668**	551,479
Held-to-maturity investments	23	**349,997**	–
Derivative financial instruments	24	**860,192**	477,951
Investment in an associate	26	**125,449**	112,253
Current tax recoverable	27	**–**	23,284
Deferred tax assets	27	**89,647**	4,872
Fixed assets	28	**174,222**	189,894
Interests in leasehold land	29	**68,531**	74,869
Other assets	30	**1,354,870**	493,112
Total assets		**81,580,351**	68,708,377
Liabilities			
Deposits and balances of banks	31	**5,923,142**	15,336,042
Deposits from customers	32	**52,753,724**	40,838,600
Certificates of deposit issued	33	**5,439,729**	2,661,870
Derivative financial instruments	24	**743,292**	492,464
Current tax payable	27	**33,481**	5,833
Other liabilities	34	**690,745**	494,772
Total liabilities		**65,584,113**	59,829,581
Equity			
Share capital	35	**6,511,043**	310,131
Reserves		**9,485,195**	8,568,665
Total equity		**15,996,238**	8,878,796
Total equity and liabilities		**81,580,351**	68,708,377

Approved and authorised for issue by the board of directors on 23 April 2010

Mao Yumin	**Miranda Pui Fong Kwok**	**Charles Chi Man Ma**
Vice Chairman	*Director*	*Director*

Ho Sik Ming
Secretary

The notes on pages 15 to 108 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2009
(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
Assets			
Cash and balances with banks	19	**7,721,656**	10,630,423
Placements with banks maturing between one and twelve months		**16,418**	9,283,965
Advances to banks		**4,062,650**	6,091,126
Advances to customers	20	**53,395,584**	38,212,963
Financial instruments measured at fair value through profit or loss	21	**2,175,367**	439,666
Available-for-sale financial assets	22	**4,182,085**	327,273
Derivative financial instruments	24	**912,922**	604,859
Investments in subsidiaries	25	**1,508,238**	929,447
Investment in an associate	26	**10,411**	10,411
Current tax recoverable	27	**–**	22,521
Deferred tax assets	27	**5,535**	5,293
Fixed assets	28	**139,987**	163,071
Interests in leasehold land	29	**68,531**	74,869
Other assets	30	**1,324,890**	465,047
Total assets		**75,524,274**	67,260,934
Liabilities			
Deposits and balances of banks	31	**5,551,184**	16,266,960
Deposits from customers	32	**48,676,932**	38,600,120
Certificates of deposit issued	33	**5,284,744**	3,161,870
Derivative financial instruments	24	**739,791**	485,610
Current tax payable	27	**27,607**	–
Other liabilities	34	**474,119**	472,993
Total liabilities		**60,754,377**	58,987,553
Equity			
Share capital	35	**6,511,043**	310,131
Reserves	35	**8,258,854**	7,963,250
Total equity		**14,769,897**	8,273,381
Total equity and liabilities		**75,524,274**	67,260,934

Approved and authorised for issue by the board of directors on 23 April 2010

Mao Yumin
Vice Chairman

Miranda Pui Fong Kwok
Director

Charles Chi Man Ma
Director

Ho Sik Ming
Secretary

The notes on pages 15 to 108 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	Note	Share capital $'000	General reserve $'000	Investment revaluation reserve $'000	Hedging reserve $'000	Exchange reserve $'000	Regulatory reserve $'000	Other reserve $'000	Retained profits $'000	Total $'000
At 1 January 2009		**310,131**	**836,684**	**(22,531)**	**–**	**(146)**	**314,354**	**15,913**	**7,424,391**	**8,878,796**
Changes in equity for the year:										
Transfer from retained profits		**–**	**8,544**	**–**	**–**	**–**	**–**	**–**	**(8,544)**	**–**
Regulatory reserve		**–**	**–**	**–**	**–**	**–**	**130,816**	**–**	**(130,816)**	**–**
Issuance of shares	35(b)	**6,200,912**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,200,912**
Total comprehensive income for the year	18	**–**	**–**	**27,449**	**754**	**–**	**–**	**–**	**888,327**	**916,530**
At 31 December 2009		**6,511,043**	**845,228**	**4,918**	**754**	**(146)**	**445,170**	**15,913**	**8,173,358**	**15,996,238**
At 1 January 2008		310,131	824,063	(1,598)	–	(146)	265,435	15,913	7,203,433	8,617,231
Changes in equity for the year:										
Transfer from retained profits		–	12,621	–	–	–	–	–	(12,621)	–
Regulatory reserve		–	–	–	–	–	48,919	–	(48,919)	–
Total comprehensive income for the year	18	–	–	(20,933)	–	–	–	–	282,498	261,565
At 31 December 2008		310,131	836,684	(22,531)	–	(146)	314,354	15,913	7,424,391	8,878,796

The notes on pages 15 to 108 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
Net cash (outflow)/inflow from operations	41(a)	**(13,098,376)**	9,200,997
Hong Kong profits tax paid		**(31,126)**	(80,742)
China withholding tax paid		**(5,354)**	–
Macau profits tax paid		**(5,904)**	(8,036)
Net cash (outflow)/inflow from operating activities		**(13,140,760)**	9,112,219
Investing activities			
Net cash inflow from the acquisition of a subsidiary	41(d)	**2,469,894**	–
Payments for acquisition of available-for-sale financial assets		**(4,605,094)**	(1,604,438)
Proceeds received from redemption and disposal of available-for-sale financial assets		**1,769,413**	2,859,277
Proceeds received from redemption of held-to-maturity financial assets		**40,000**	–
Payment for purchase of property and equipment		**(94,767)**	(75,781)
Proceeds from disposal of property and equipment		**68,938**	–
Dividend received from an associate		**7,650**	–
Dividend received from listed and unlisted investments		**3,324**	3,586
Net cash (outflow)/inflow from investing activities		**(340,642)**	1,182,644
Financing activities			
Issuance of shares	35(b)	**6,200,912**	–
Net cash inflow from financing activities		**6,200,912**	–
(Decrease)/increase in cash and cash equivalents		**(7,280,490)**	10,294,863
Cash and cash equivalents at 1 January		**16,882,579**	6,587,716
Cash and cash equivalents at 31 December	41(b)	**9,602,089**	16,882,579
Cash flows from operating activities include:			
Interest received		**1,333,498**	2,606,096
Interest paid		**466,943**	1,897,296

The notes on pages 15 to 108 form part of these financial statements.

1. GENERAL INFORMATION

The consolidated financial statements for the year ended 31 December 2009 comprise China Construction Bank (Asia) Corporation Limited ("the Bank") and its subsidiaries (together referred to as "the Group") and the Group's interest in an associate.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collectively include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Bank. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation

The measurement basis used in the preparation of the financial statements is the historical cost basis except for financial instruments classified as trading, designated at fair value through profit or loss and available-for-sale (see note 2(f)) which are stated at fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect in the financial statements and major sources of estimation uncertainty are discussed in note 5.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Subsidiaries are consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Bank's statement of financial position, its investments in subsidiaries are stated at cost less impairment losses, if any (note 2(k)).

(d) Associate

An associate is an entity in which the Group or the Bank has significant influence, but not control, or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets and any impairment loss relating to the investment (note 2(k)). The Group's share of the post-acquisition post-tax results of the associate and any impairment losses for the year are recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For these purposes, the Group's interest in the associate is the carrying amount of the investment under equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Bank's statement of financial position, its investment in an associate is stated at cost less impairment losses, if any (note 2(k)).

(e) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit that is expected to benefit from the synergies of the combination and is tested annually for impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Goodwill (continued)

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Financial instruments

(i) Initial recognition

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables, available-for-sale financial assets, held-to-maturity investments and other financial liabilities.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets and financial liabilities at fair value through profit or loss is recognised using trade date accounting. Other financial assets and financial liabilities are recognised using settlement date accounting. From these dates, any gains and losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss are recorded.

(ii) Categorisation

Fair value through profit or loss

This category comprises financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition, but excludes those investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives that do not qualify for hedge accounting (note 2(g)) are accounted for as trading instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(ii) Categorisation (continued)

Fair value through profit or loss (continued)

Financial instruments are designated at fair value through profit or loss upon initial recognition when:

— the assets or liabilities are managed, evaluated and reported internally on a fair value basis;

— the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;

— the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract and the separation of the embedded derivative(s) from the financial instrument is not prohibited.

Financial assets and financial liabilities under this category are carried at fair value. Changes in the fair value are included in profit or loss in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in profit or loss.

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 (a) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise advances to customers and banks, and placements with banks.

Securities classified as loans and receivables typically comprise of securities which are issued by the same customers with whom the Group has a lending relationship and are not quoted in an active market. Investment decisions for credit substitute securities are subject to the same credit approval processes as loans, and the Group bears the same customer risk as it does for loans extended to those customers. Additionally the yield and maturity terms are generally directly negotiated by the Group with the issuer. These securities include commercial paper, short term debentures and preference shares issued by the borrower.

Loans and receivables and securities classified as loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (note 2(k)).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(ii) Categorisation (continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity which the Group has the positive intention and ability to hold to maturity, other than (a) those that the Group, upon initial recognition, measures as at fair value through profit or loss or as available-for-sale; and (b) those that meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortised cost using the effective interest method less impairment losses, if any (note 2(k)).

If, as a result of change of intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, it shall be reclassified as available-for-sale and remeasured at fair value.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three categories above. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised directly in other comprehensive income and accumulated separately in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in profit or loss.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be measured reliably, and derivatives that are linked to and must be settled by delivery of such unquoted equity securities are carried at cost less impairment losses, if any (see note 2(k)).

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which are previously recognised in other comprehensive income shall be reclassified from equity to profit or loss.

Other financial liabilities

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

(iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the reporting date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(iii) Fair value measurement principles (continued)

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments, or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the reporting date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the reporting date.

(iv) Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position where there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(vi) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss.

When the embedded derivative is separated, the host contract is accounted for in accordance with note 2(f)(ii).

(g) Hedging

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. The Group assesses and documents whether the financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risks both at hedge inception and on an ongoing basis. The Group discontinues prospectively hedge accounting when (a) the hedging instrument expires or is sold, terminated or exercised; (b) the hedge no longer meets the criteria for hedge accounting; or (c) the Group revokes the designation.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Hedging (continued)

(i) Fair value hedge

A fair value hedge seeks to offset risks of changes in the fair value of recognised asset or liability that will give rise to a gain or loss being recognised in profit or loss.

The hedging instrument is measured at fair value, with fair value changes recognised in profit or loss. The carrying amount of the hedged item is adjusted by the amount of the changes in fair value of the hedging instrument attributable to the risk being hedged. This adjustment is recognised in profit or loss to offset the effect of the gain or loss on the hedging instrument.

When a hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting, or the Group revokes designation of the hedge relationship, any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Cash flow hedge

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, or the foreign currency risk of a committed future transaction, the effective part of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised in statement of comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If the hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity and to be included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Hedging (continued)

(iii) Hedge effectiveness testing

In order to qualify for hedge accounting, the Group carries out prospective effectiveness testing to demonstrate that it expects the hedge to be highly effective at the inception of the hedge and throughout its life. Actual effectiveness (retrospective effectiveness) is also demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method which the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For fair value hedge relationships, the Group utilises the cumulative dollar offset method as effectiveness testing methodologies. For cash flow hedge relationships, the Group utilises the cumulative dollar offset method.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent for the hedge to be deemed effective.

(h) Fixed assets

Fixed assets are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(k)).

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of fixed assets, less their estimated residual value, if any, using the straight line method over the estimated useful lives as follows:

— Freehold land	indefinite
— Buildings (over interests in leasehold land)	period of lease term
— Buildings (over freehold land)	50 years
— Buildings (others)	7–8 years
— Leasehold improvements	shorter of lease term or their estimated useful lives
— Furniture & equipment	2–8 years

Freehold land is not depreciated.

Where parts of an item of fixed assets have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases and hire purchase contracts

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification

Leases which transfer substantially all the risks and rewards of ownership to the lessee are classified as finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the lessee are classified as operating leases, with the following exception:

— Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, whichever is later.

(ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the statement of financial position as loans and advances to customers. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(k).

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased assets, or, if lower, the present values of the minimum lease payments of such assets, are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant leases or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(k). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases and hire purchase contracts (continued)

(iii) Operating leases

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(j) Repossessed assets

In the recovery of impaired advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower, repossessed assets are reported in "Other assets". The Group does not hold the repossessed assets for its own use.

Repossessed assets are recorded at the lower of the amount of the related advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in profit or loss.

(k) Impairment of assets

The carrying amount of the Group's assets is reviewed at each reporting date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Group about one or more of the following loss events which has an impact on the future cash flows on the assets that can be estimated reliably:

— significant financial difficulty of the issuer or borrower;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— cash flow difficulties experienced by the borrower;

— breach of loan covenants or conditions;

— it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;

— deterioration in the value of collateral;

— disappearance of an active market for financial assets because of financial difficulties; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of assets (continued)

If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables directly and any amounts held in the allowance account relating to that borrower are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(i) Loans and receivables

Impairment losses on loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for credit losses consists of two components: individual impairment allowances, and collective impairment allowances.

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

The individual impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows, management makes judgements about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its own merits.

In assessing the need for collective loan loss allowances, management uses statistical modelling and considers historical trends of factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, the Group makes assumptions both to define the way the Group models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the impairment allowances the Group makes depends on how well the Group can estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collective impairment allowances. While this necessarily involves judgement, the Group believes that the impairment allowances on loans and advances to customers are reasonable and supportable.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of assets (continued)

(i) Loans and receivables (continued)

Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and be charged or credited to profit or loss. A reversal of impairment losses is limited to the loans and receivables' carry amount that would have been determined had no impairment loss been recognised in prior years.

When there is no reasonable prospect of recovery, the loan and the related interest receivables are written off.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remain impaired or past due.

(ii) Available-for-sale financial assets

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised in the fair value reserve is reclassified to profit and loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

For unquoted available-for-sale equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the equity securities and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Such impairment losses are not reversed.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of assets (continued)

(iii) Held-to-maturity investments

Impairment on held-to-maturity investments is considered at individual level. The individual impairment allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate, where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of impairment losses shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(iv) Other assets

Internal and external sources of information are reviewed at each reporting date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— fixed assets;

— interests in leasehold land classified as being held under an operating lease; and

— investments in subsidiaries and associate.

If any such indication exists, the asset's recoverable amount is estimated.

— **Calculation of recoverable amount**

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— **Recognition of impairment losses**

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of assets (continued)

(iv) Other assets (continued)

— **Reversals of impairment losses**

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(v) Interim financial reporting and impairment

Under the Banking (Disclosure) Rules, the Group is required to prepare an interim disclosure statement in respect of the first six months of the year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the year (see notes 2(k)(i) to (iii)).

Impairment losses recognised in an interim period in respect of available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(l) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

For the purpose 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, treasury bills and certificates of deposit.

(m) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amount of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group or the Bank has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group or the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Income tax (continued)

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income within other liabilities. Where the Bank issues a financial guarantee to its subsidiaries, the fair value of the guarantee is estimated and capitalised as the cost of investment in subsidiaries and deferred income within other liabilities.

The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(o)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Bank has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Revenue recognition

Revenue is measured at the fair value of consideration received or receivable. Provided it is probable that economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Interest income

Interest income for all interest-bearing financial instruments is recognised in the income statement on an accruals basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income 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, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) 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. Cash rebates granted in relation to residential mortgage loans are capitalised and amortised to profit or loss over three years or their expected life, whichever is shorter.

For impaired loans, the accrual of interest income based on the original terms of the loan is discontinued, but any increase in the present value of impaired loans due to the passage of time is reported as interest income.

Interest income and expenses on the financial instruments classified as trading or designated at fair value through profit or loss are presented together with all other changes in fair value arising from the portfolios as "Net gains from financial instruments at fair value through profit or loss" in the statement of comprehensive income.

(ii) Fees and commission income

Fees and commission income arises on financial services provided by the Group including securities, foreign currency dealings and agency services for insurance companies, remittance, settlement and account management services, payment and collection services and credit cards services. Fees and commission income is recognised when the corresponding service is provided, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised as income in the accounting period in which the costs or risk is incurred and is accounted for as interest income.

Origination or commitment fees received/paid by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Revenue recognition (continued)

(iii) Finance income from finance lease and hire purchase contract

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned. Commission paid to dealers for acquisition of finance lease loans or hire purchase contracts is included in the carrying value of the assets and amortised to profit or loss over the expected life of the lease as an adjustment to interest income.

(iv) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment is quoted ex-dividend.

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the reporting date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

Exchange differences relating to investments at fair value through profit or loss and derivative financial instruments are included in gains less losses from trading securities or financial instruments designated at fair value through profit or loss. All other exchange differences relating to monetary items are presented as gains less losses from dealing in foreign currencies in profit or loss. Differences arising on translation of available-for-sale equity instruments are recognised in equity in the exchange reserves.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items on statement of financial position are translated into Hong Kong dollars at the foreign exchange rates ruling at the reporting date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences related to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(r) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Related parties (continued)

(ii) the Group and the party are subject to common control;

(iii) the party is a subsidiary or an associate of the Group;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

— HKAS 1 (revised 2007), *Presentation of financial statements*

— Amendments to HKFRS 7, *Financial instruments: Disclosures — improving disclosures about financial instruments*

— Amendments to HKAS 27, *Consolidated and separate financial statements — cost of an investment in a subsidiary, jointly controlled entity or associate*

— HK(IFRIC) 13, *Customer loyalty programmes*

The impact of these developments are as follows:

— As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All non-shareholder changes (i.e. comprehensive income) are presented in the statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on the reported profit or loss, total income and expense or net assets for any period presented.

— As a result of the adoption of the amendments to HKFRS 7, the financial statements include expanded disclosures in note 6(e) about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

(Expressed in Hong Kong dollars unless otherwise stated)

3. CHANGES IN ACCOUNTING POLICIES (continued)

— The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, from 1 January 2009, all dividends receivable from subsidiaries and associate whether out of pre- or post-acquisition profits, will be recognised in the Bank's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Bank would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

— The adoption of HK(IFRIC) 13 has resulted in a change to the revenue recognition policy in one of the Group's subsidiaries (China Construction Bank (Asia) Finance Limited) for its customer privilege programmes operated for the benefit of its customers which falls within the scope of HK(IFRIC) 13. HK(IFRIC) 13 addresses how reporting entities that grant their customers loyalty award credits when buying goods or services should account for their obligation to provided free or discounted goods and services, if and when the customers redeem these credits. HK(IFRIC) 13 requires reporting entities to allocate some of the proceeds of the initial sales to the award credits and recognise these proceeds as revenue when they have fulfilled their obligations to provide goods or services. In previous years, this subsidiary has not yet become part of the Group therefore no retrospective change is needed in the Group's financial statements.

4. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2009

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2009 and which have not been adopted in these financial statements.

		Effective for accounting periods beginning on or after
HKFRS 3 (revised)	Business combinations	1 July 2009
Amendments to HKAS 27	Consolidated and separate financial statements	1 July 2009
Amendments to HKAS 39	Financial instruments: Recognition and measurement — Eligible hedged items	1 July 2009
HK(IFRIC) 17	Distributions of non-cash assets to owners	1 July 2009
Improvements to HKFRSs 2009		1 July 2009 or 1 January 2010
HKFRS 9	Financial instruments	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have an impact on the Group's results of operation and financial position except for HKFRS 9, *Financial instruments*, which may have an impact on the Group's result and financial position arising from changes in the Group's classification and measurement of financial instruments.

5. ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

(a) Impairment allowance

(i) Advances to banks and customers

Loan portfolios are reviewed periodically to assess whether impairment losses exist. The Group makes judgements as to whether there is any objective evidence that a loan portfolio is impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence for impairment is described in note 2(k). If management has determined, based on their judgement, that objective evidence of impairment exists, expected future cash flows are estimated based on historical loss experience for assets with credit risk characteristics similar to those of the Group. Historical loss experience is adjusted on the basis of the current observable data. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

(ii) Available-for-sale equity securities

The Group determines that available-for-sale equity securities are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of when a decline in fair value below cost is not recoverable within a reasonable time period is judgemental by nature, so profit and loss could be affected by differences in this judgement.

(b) Valuation of financial instruments

The Group's accounting policy on the valuation of financial instruments is included in note 2(f). The fair values of the financial instruments are mainly based on quoted market prices and are further discussed in note 6(e) "Fair value of financial assets and liabilities".

6. FINANCIAL RISK MANAGEMENT

The Group derives the majority of its revenue from managing risk from customer transactions. Explicitly assessing and managing all types of risk is central to the success of the Group. The Group has dedicated risk governance culture, structures, risk management process as well as policies and procedures for identification, measurement, control and monitoring of credit, liquidity, operational and market and capital risks. Through the established management governance structure, risk and return are evaluated with the goal of producing sustainable revenue and reducing income volatilities.

6. FINANCIAL RISK MANAGEMENT (continued)

The Board of Directors of the Bank provides effective governance over the affairs of the Group by overseeing the Group's governance framework and practices. It provides oversight through authority delegated to board committees and the senior management. The Chief Executive Officer is responsible for overseeing all lines of businesses within the Group. The board committees, namely the Executive Committee, the Operations Committee, the Asset and Liability Committee, the Information Technology Committee, the Credit Committee, together with the senior management, various steering committees and functional managers work together to establish policies and procedures to identify, analyse, manage and control credit risk, market risk, liquidity risk and operational risk by means of reliable and up-to-date management and information systems. The board committees and senior management continually modify and enhance the Group's risk management policies and systems to reflect changes in markets, products and best practice risk management processes. The internal auditors also perform risk-based audits to ensure compliance with the policies and procedures.

(a) Credit risk

Credit risk is the risk of loss arising from a borrower's or counter-party's inability to meet its obligations. Credit risk exists in the Group's loans, leases, credit cards, trade finance and treasury transactions. There is also credit risk in financial arrangements such as loan commitments, trade-related contingencies and transaction-related contingencies.

The Group has appointed the ultimate controlling party, China Construction Bank Corporation, as its credit adviser. Credit Risk Management is responsible for providing centralised credit risk management and control in the Group. It is independent of the business units, and is headed by the Chief Credit Officer who assists the Chief Executive Officer and the Credit Committee in the Group's credit risk management. The Credit Committee is a central forum for overseeing the Group's overall asset quality as well as resolving all the important credit risk related issues. It is chaired by the Chief Credit Officer, and the other members are the Group's Chief Executive Officer, Chief Financial Officer, and the various Business Heads.

Credit Risk Management's key functions include the followings:

— Establishing credit strategies, policies and procedures of the Group and issuing lending and monitoring guidelines to credit officers and business units. Credit policies and procedures are constantly monitored against portfolio development and market changes, and are adjusted whenever warranted.

— Approving credits depending on the risk, size and nature of the transactions.

— Maintaining the internal risk rating system for measurement of credit risk exposures. The Group adopts a two dimensional risk rating methodology and a judgmental risk rating system for its commercial clients, depending on the portfolio characteristics. Under the two dimensional risk rating methodology, separate risk ratings are assigned to the obligor and facility, which provide increased granularity in the rating scale and hence more refined risk differentiation for better risk and reward analysis.

— Monitoring and controlling large exposures, connected lending, product and industry concentration based on established policies and internal risk limits to ensure prudent credit decisions are made and that the Group complies with statutory requirements and supervisory guidelines.

6. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

— Monitoring criticised loans and managing recoveries of problem assets. Collection and problem asset management are separately handled by specialised teams which possess the relevant experience and expert knowledge.

— Assessing collective and individual loan impairment losses and allowances regularly to ensure the adequacy of impairment allowances.

— Managing and monitoring the Group's overall asset quality.

— Supervising the stress-testing programme to estimate potential impairment losses and assess the adequacy of regulatory capital under stressed conditions.

— Co-ordinating and driving credit related initiatives throughout the Group to ensure compliance with the regulatory requirements.

(i) Credit risk for advances

In addition to underwriting standards, the Group manages credit risks through an effective and prudent credit approval process. In making credit recommendations and decisions, only officers with appropriate banking experience and product knowledge are delegated specific approval authorities. The approval process and credit underwriting criteria for new products and activities are delineated clearly in the product papers before launching. There is an additional post-approval review process which monitors the quality of credit decisions and issues. Results of the post-approval review are used to ensure quality of the credit decisions made, to identify negative trends which need attention or actions, and to ensure adherence to existing policies and procedures.

In the approval process, the credit officers assess the ability of a particular borrower or counter-party to service a proposed level of borrowing, the purpose and structure of the loan as well as the nature of the underlying collateral. The Group categorises its loans and leases into either consumer or commercial and monitors their risks separately as discussed below:

— Consumer credits are grouped by products and other attributes for purposes of evaluating credit risk, and ongoing monitoring of asset quality. Standard credit underwriting standards are established and exceptional approvals that deviate from such standards are required and monitored.

— Commercial credits are evaluated for the default risk, taking into consideration its related credit enhancements. A comprehensive internal risk rating system is in place. Commercial credit exposures or transactions will be assigned individual risk ratings which together with the exposure amounts define the required authority for approval. These internal risk ratings are monitored regularly and updated upon any changes in the borrower's or counter-party's repayment ability and the related credit enhancements.

6. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(ii) Credit risk for treasury transactions

The credit risk of the Group's investment on debt securities and treasury hedging transactions is managed by the use of external credit ratings and credit limits set on individual counter-parties. External credit ratings, credit default swap and news on each counter-party are closely tracked and monitored.

(iii) Credit-related commitments

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore subject to the same credit approval, portfolio maintenance and collateral requirements as for customers applying for loans.

(iv) Collateral and other credit enhancements

The Group obtains collateral in respect of loans advanced to mitigate the credit risk of the transactions and has established policies and guidelines on the eligibility and valuation of collateral and other credit enhancements. However, the approval of credits is not solely dependent on collateral or other credit enhancements. The main collateral types and credit enhancements includes charges over properties, securities, deposits, account receivables, investment funds, vehicles and machinery, and guarantees.

(v) Risk concentration

The Group sets various risk limits to control exposure to countries, individual counterparties, industries, intra-group exposures and loan portfolios to avoid excessive risk concentration.

(vi) Credit review and audit

The Group's credit risk management process and portfolio quality are monitored and reviewed by the internal auditors. There is a system of regular and independent audits for assessing the credit quality of the Group on individual and portfolio basis, ensuring due compliance with established credit policies and procedures, and evaluating the effectiveness of the credit management process and control mechanism. The results of these reviews and audits are reported to the Audit Committee as well as the Board of Directors for effective oversight and monitoring.

6. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(vii) Maximum exposure

The maximum exposure to credit risk at the reporting date without taking into consideration any collateral held or other credit enhancements is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	Group		Bank	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Cash and balances with banks	**8,749,448**	10,640,774	**7,721,656**	10,630,423
Placements with banks maturing one and twelve months	**28,042**	9,283,965	**16,418**	9,283,965
Advances to banks	**4,062,650**	6,091,126	**4,062,650**	6,091,126
Advances to customers	**60,044,268**	40,325,132	**53,395,584**	38,212,963
Financial instruments measured at fair value through profit or loss	**2,175,367**	439,666	**2,175,367**	439,666
Available-for-sale financial assets	**3,398,634**	531,023	**4,160,926**	307,760
Held-to-maturity investments	**349,997**	—	**—**	—
Derivative financial instruments	**860,192**	477,951	**912,922**	604,859
Other assets	**1,354,273**	484,812	**1,324,293**	456,747
Financial guarantees and other credit related contingent liabilities	**1,252,619**	1,153,957	**1,168,349**	1,016,569
Loan commitments and other credit related commitments	**25,875,776**	4,420,930	**2,624,418**	3,963,800
	108,151,266	73,849,336	**77,562,583**	71,007,878

6. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(viii) Credit quality of gross advances to customers and banks

	Group		Bank	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Gross advances to customers				
Neither past due nor impaired	**60,088,347**	39,951,415	**53,247,553**	37,861,431
Past due but not impaired	**310,676**	397,775	**181,507**	373,366
Impaired	**264,619**	150,904	**108,012**	150,866
	60,663,642	40,500,094	**53,537,072**	38,385,663

(1) Neither past due nor impaired

The credit grading of gross advances that were neither past due nor impaired can be analysed by reference to the loan classification system as defined by the Hong Kong Monetary Authority ("HKMA") as follow:

	Group		Bank	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Gross advances to customers				
Pass	**58,532,450**	38,099,443	**51,825,767**	36,045,178
Special mention	**1,555,897**	1,851,972	**1,421,786**	1,816,253
	60,088,347	39,951,415	**53,247,553**	37,861,431
Gross advances to banks				
Pass	**4,062,650**	6,091,126	**4,062,650**	6,091,126

6. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(viii) Credit quality of gross advances to customers and banks (continued)

(2) The aging analysis of gross advances to customers which were past due but not impaired is as follows:

	Group		Bank	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Gross advances to customers				
Overdue three months or less	**310,676**	397,775	**181,507**	373,366

(3) Impaired advances

The detailed analysis on gross impaired advances to customers together with the impairment allowances provided is set out at note 20(d).

(4) Renegotiated loans

At the reporting date at 31 December 2009 and 2008, there was no advances to customers that would be past due or impaired had the terms not been renegotiated for the Group and the Bank.

(ix) Credit quality of financial assets other than advances

The following table presents an analysis of investments in debt securities by rating agency designation at the reporting date, based on Standard and Poor's Ratings Services, or their equivalents, to the respective issues of the debt securities. In the absence of such issue ratings, the ratings designated for the issuers are reported. If there are different ratings for the same securities, the securities are reported against the lower rating.

	Group		Bank	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
AA- to A-	**5,281,448**	494,658	**4,931,451**	494,658
Lower than A-	**404,842**	252,768	**404,842**	252,768
Unrated	**237,708**	223,263	**1,000,000**	—
	5,923,998	970,689	**6,336,293**	747,426
Of which classified as				
Held-to-maturity	**349,997**	—	**—**	—
Trading	**550,574**	153,081	**550,574**	153,081
Financial assets designated at fair value through profit or loss	**1,624,793**	286,585	**1,624,793**	286,585
Available-for-sale financial assets	**3,398,634**	531,023	**4,160,926**	307,760
	5,923,998	970,689	**6,336,293**	747,426

6. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(x) *Collateral and other credit enhancements held against financial assets*

At the reporting date, the lower of gross loan amount and the estimated fair value of the collateral held against financial assets is as follows:

	Group		Bank	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Nature of collateral				
Residential properties	**25,050,444**	19,338,758	**23,764,984**	18,481,774
Commercial and industrial properties	**14,314,486**	12,024,894	**13,502,455**	11,323,514
Standby letter of credit	**7,252,632**	1,309,929	**7,252,446**	1,309,929
Government guarantee	**311,197**	—	**311,197**	—
Securities	**801,165**	687,166	**799,144**	687,166
Deposits	**559,221**	658,993	**474,158**	525,056
Automobiles	**482,639**	—	**—**	—
Other assets	**45,786**	—	**—**	—
	48,817,570	34,019,740	**46,104,384**	32,327,439

(xi) *Repossession of collateral*

During the year, the Group obtained assets by taking possession of collateral with the carrying amount as follows:

	Group and Bank	
	2009	2008
	$'000	$'000
Nature of collateral		
Residential properties	**11,149**	4,256
Commercial and industrial properties	**9,516**	7,772
Other assets	**1,882**	—
	22,547	12,028

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices such as foreign currency exchange rates (currency risk) and interest rates (interest rate risk). The Group is exposed to both risks arising from its day-to-day activities associated with loans, deposits, securities held for liquidity purposes and proprietary trading positions.

The Group's trading activities are primarily related to foreign exchange and money market transactions. It manages its exposure to market risk through the establishment of various trading limits. On a day-to-day basis, the Bank reduces the market risk to which it is exposed by executing offsetting transactions with other counterparties. However, the Group may also temporarily retain an open position in an effort to generate revenue by anticipating future market conditions and customer demand, and by taking advantage of price differentials in various markets in which it operates. In addition to the overall limits, documented trading policies and procedures define acceptable boundaries within which traders can execute transactions in their assigned markets.

The Group's Asset and Liability Committee ("ALCO") has the overall responsibility for market risk management policies. Details of the Group's currency risk and interest rate risk management are described below.

(i) Currency risk

The Group's foreign currency positions arise from treasury activities and foreign exchange dealing to support the commercial and consumer banking operations. The Group has formulated a foreign exchange policy to set out the Group's risk management framework in managing the Group's foreign exchange risk. In particular, all foreign currency positions are managed within established limits. These limits include open risk position limits and foreign exchange gap limits.

In addition, the Group has also adopted Value-at-Risk ("VaR") to measure foreign exchange risk. VaR is technically defined as the potential loss that could occur on the current portfolio over a one-day time horizon. More details on VaR methodology are described under section (ii) Interest Rate Risk of Financial Risk Management. Furthermore, a stress testing programme has also been developed to assess the potential loss that the Group may incur from the foreign exchange positions. The stress testing programme incorporates sensitivity testing on changes in foreign exchange rates with various degree of severity. The methodology and assumptions of stress testing programme are properly documented, reviewed by the ALCO and updated at least once a year or when the portfolio or the environment changes significantly.

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(i) Currency risk (continued)

The Group developed the medium stress scenario based on historical records on maximum daily fluctuations of major foreign currency positions. The Group then applies the medium stress scenario to estimate the impact on the Group's profit before tax in response to the changes in the foreign exchange rates as specified in the stress testing programme and the result is as follows:

	Increase/(decrease) in Group's profit before taxation	
	2009	2008
	$'000	$'000
Increase in foreign exchange rates	**2,158**	(1,472)
Decrease in foreign exchange rates	**(2,158)**	1,472

In deriving the medium stress scenario for the year ended 31 December 2009, the historical record was extended from seven years to eight years and the following percentage changes are adopted on the significant foreign currency positions. The medium stress scenario for Chinese Renminbi was also reviewed independently this year due to the increase in the volume of transactions in 2009. It was treated as one of the minor currencies in 2008.

— 1% for United States dollars and Macau Patacas (2008: 1%),

— 2% for Chinese Renminbi (2008: 10%), and

— 4% for Euro (2008: 4%).

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(i) Currency risk (continued)

The following table indicates the currency concentration of the Group's and the Bank's assets and liabilities.

	Group						
	HKD $'000	USD $'000	MOP $'000	EUR $'000	CNY $'000	Others $'000	Total $'000
At 31 December 2009							
Assets							
Cash and balances with banks	7,665,500	511,078	85,573	26,903	309,191	151,203	8,749,448
Placements with banks maturing between one and twelve months	–	16,928	–	–	–	11,114	28,042
Advances to banks	–	4,004,459	–	58,191	–	–	4,062,650
Advances to customers	53,412,485	6,131,176	306,535	59,808	1,278	132,986	60,044,268
Financial instruments measured at fair value through profit or loss	–	1,624,794	–	223,668	187,377	139,528	2,175,367
Available-for-sale financial assets	2,915,384	344,576	237,708	–	–	–	3,497,668
Held-to-maturity investments	349,997	–	–	–	–	–	349,997
Derivative financial instruments	732,228	13,276	114,688	–	–	–	860,192
Investment in an associate	125,449	–	–	–	–	–	125,449
Deferred tax assets	89,647	–	–	–	–	–	89,647
Property and equipment	147,311	–	26,911	–	–	–	174,222
Interests in leasehold land	68,531	–	–	–	–	–	68,531
Other assets	1,173,176	164,080	1,438	9,982	1,810	4,384	1,354,870
Spot assets	66,679,708	12,810,367	772,853	378,552	499,656	439,215	81,580,351
Liabilities							
Deposits and balances of banks	2,888,291	3,008,317	–	785	–	25,749	5,923,142
Deposits from customers	38,423,636	9,601,722	246,873	567,229	504,250	3,410,014	52,753,724
Certificates of deposit issued	5,245,894	193,835	–	–	–	–	5,439,729
Derivative financial instruments	555,294	18,927	169,071	–	–	–	743,292
Current tax payable	30,236	–	3,245	–	–	–	33,481
Other liabilities	501,096	157,285	12,271	10,770	204	9,119	690,745
Spot liabilities	47,644,447	12,980,086	431,460	578,784	504,454	3,444,882	65,584,113
Forward purchases	1,968,193	47,206,536	–	1,295,083	38,401,884	6,247,167	95,118,863
Forward sales	(5,091,363)	(47,139,949)	–	(1,093,290)	(38,491,332)	(3,302,929)	(95,118,863)
Net long/(short) position	15,912,091	(103,132)	341,393	1,561	(94,246)	(61,429)	15,996,238

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(i) Currency risk (continued)

	Group						
	HKD	USD	MOP	EUR	CNY	Others	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2008							
Assets							
Cash and balances with banks	2,705,045	6,652,799	82,512	408,563	254,972	536,883	10,640,774
Placements with banks maturing between one and twelve months	—	8,242,125	—	635,254	—	406,586	9,283,965
Advances to banks	15,737	5,838,303	—	79,125	—	157,961	6,091,126
Advances to customers	37,036,390	2,833,291	284,519	36,815	2	134,115	40,325,132
Financial instruments measured at fair value through profit or loss	—	286,585	—	—	153,081	—	439,666
Available-for-sale financial assets	213,339	114,877	223,263	—	—	—	551,479
Derivative financial instruments	319,550	7,222	151,179	—	—	—	477,951
Investment in an associate	112,253	—	—	—	—	—	112,253
Current tax recoverable	23,284	—	—	—	—	—	23,284
Deferred tax assets	4,872	—	—	—	—	—	4,872
Property and equipment	165,623	—	24,271	—	—	—	189,894
Interests in leasehold land	74,869	—	—	—	—	—	74,869
Other assets	221,021	224,881	2,141	33,205	1,772	10,092	493,112
Spot assets	40,891,983	24,200,083	767,885	1,192,962	409,827	1,245,637	68,708,377
Liabilities							
Deposits and balances of banks	1,178,869	12,993,762	—	489,937	—	673,474	15,336,042
Deposits from customers	25,503,431	11,221,378	261,546	557,553	410,960	2,883,732	40,838,600
Certificates of deposit issued	2,661,870	—	—	—	—	—	2,661,870
Derivative financial instruments	177,273	30,252	284,939	—	—	—	492,464
Current tax payable	—	—	5,833	—	—	—	5,833
Other liabilities	230,858	209,785	6,861	29,667	347	17,254	494,772
Spot liabilities	29,752,301	24,455,177	559,179	1,077,157	411,307	3,574,460	59,829,581
Forward purchases	45,028	9,397,056	—	1,363,746	2,624,058	6,426,223	19,856,111
Forward sales	(2,504,302)	(8,999,995)	—	(1,465,414)	(2,632,317)	(4,254,083)	(19,856,111)
Net long/(short) position	8,680,408	141,967	208,706	14,137	(9,739)	(156,683)	8,878,796

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(i) Currency risk (continued)

	Bank						
	HKD $'000	USD $'000	MOP $'000	EUR $'000	CNY $'000	Others $'000	Total $'000
At 31 December 2009							
Assets							
Cash and balances with banks	6,815,607	463,952	–	26,034	272,139	143,924	7,721,656
Placements with banks maturing between one and twelve months	–	–	–	–	–	16,418	16,418
Advances to banks	–	4,004,459	–	58,191	–	–	4,062,650
Advances to customers	47,161,703	6,055,513	–	59,809	1,278	117,281	53,395,584
Financial instruments measured at fair value through profit or loss	–	1,624,794	–	223,668	187,377	139,528	2,175,367
Available-for-sale financial assets	3,914,441	267,644	–	–	–	–	4,182,085
Derivative financial instruments	900,855	12,067	–	–	–	–	912,922
Investment in subsidiaries	1,084,791	–	423,447	–	–	–	1,508,238
Investment in an associate	10,411	–	–	–	–	–	10,411
Deferred tax assets	5,535	–	–	–	–	–	5,535
Property and equipment	139,987	–	–	–	–	–	139,987
Interests in leasehold land	68,531	–	–	–	–	–	68,531
Other assets	1,146,332	162,502	–	9,941	1,810	4,305	1,324,890
Spot assets	61,248,193	12,590,931	423,447	377,643	462,604	421,456	75,524,274
Liabilities							
Deposits and balances of banks	3,033,654	2,278,448	34,641	10,106	–	194,335	5,551,184
Deposits from customers	35,343,177	9,084,346	–	551,553	466,680	3,231,176	48,676,932
Certificates of deposit issued	5,090,909	193,835	–	–	–	–	5,284,744
Derivative financial instruments	720,898	18,893	–	–	–	–	739,791
Current tax payable	27,607	–	–	–	–	–	27,607
Other liabilities	301,618	153,600	–	10,737	200	7,964	474,119
Spot liabilities	44,517,863	11,729,122	34,641	572,396	466,880	3,433,475	60,754,377
Forward purchases	3,526,108	47,205,698	–	1,295,035	38,401,884	6,233,740	96,662,465
Forward sales	(5,095,442)	(48,304,617)	(388,350)	(1,093,250)	(38,491,332)	(3,289,474)	(96,662,465)
Net long/(short) position	15,160,996	(237,110)	456	7,032	(93,724)	(67,753)	14,769,897

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(i) Currency risk (continued)

	Bank						
	HKD $'000	USD $'000	MOP $'000	EUR $'000	CNY $'000	Others $'000	Total $'000
At 31 December 2008							
Assets							
Cash and balances with banks	2,815,566	6,627,880	—	408,563	227,756	550,658	10,630,423
Placements with banks maturing between one and twelve months	—	8,242,125	—	635,254	—	406,586	9,283,965
Advances to banks	15,737	5,838,303	—	79,125	—	157,961	6,091,126
Advances to customers	35,362,701	2,693,097	—	36,815	2	120,348	38,212,963
Financial instruments measured at fair value through profit or loss	—	286,585	—	—	153,081	—	439,666
Available-for-sale financial assets	212,396	114,877	—	—	—	—	327,273
Derivative financial instruments	597,637	7,222	—	—	—	—	604,859
Investment in subsidiaries	506,000	—	423,447	—	—	—	929,447
Investment in an associate	10,411	—	—	—	—	—	10,411
Current tax recoverable	22,521	—	—	—	—	—	22,521
Deferred tax assets	5,293	—	—	—	—	—	5,293
Property and equipment	163,071	—	—	—	—	—	163,071
Interests in leasehold land	74,869	—	—	—	—	—	74,869
Other assets	200,290	219,889	—	33,029	1,772	10,067	465,047
Spot assets	39,986,492	24,029,978	423,447	1,192,786	382,611	1,245,620	67,260,934
Liabilities							
Deposits and balances of banks	1,380,213	13,502,856	35,376	508,542	—	839,973	16,266,960
Deposits from customers	24,275,711	10,683,084	—	538,961	383,351	2,719,013	38,600,120
Certificates of deposit issued	3,161,870	—	—	—	—	—	3,161,870
Derivative financial instruments	455,358	30,252	—	—	—	—	485,610
Current tax payable	—	—	—	—	—	—	—
Other liabilities	222,464	204,185	—	29,614	339	16,391	472,993
Spot liabilities	29,495,616	24,420,377	35,376	1,077,117	383,690	3,575,377	58,987,553
Forward purchases	433,378	9,394,529	—	1,363,198	2,624,058	6,424,019	20,239,182
Forward sales	(2,504,288)	(8,997,478)	(388,350)	(1,464,888)	(2,632,317)	(4,251,861)	(20,239,182)
Net long/(short) position	8,419,966	6,652	(279)	13,979	(9,338)	(157,599)	8,273,381

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk

The Group's interest rate exposure arises from the positions in the banking book and proprietary trading. The interest rate risk exposure in the banking book arises from its normal course of banking activities, such as lending, accepting deposits, investing in securities for liquidity purposes and issuance of debts as needed to fund assets. The governing objective in interest rate risk management is to minimise the potential significant loss as a result of changes in interest rates. The Group holds weekly interest rate setting meetings to review the latest market rate movements and the overall portfolio yield. Interest rate risk is managed on a daily basis by the Treasury Department within the limits approved by the ALCO. The instruments used to manage interest rate risk include interest rate swaps and other derivatives.

The Group is exposed to two sources of interest rate risk, namely, gap mismatches and index mismatches.

Gap mismatches result from timing differences in the repricing of assets and liabilities, and, to a much less significant extent, contingent liabilities and commitments (e.g. loan commitments). The Bank uses forward rate agreements and interest rate swaps to mitigate the interest rate movement risk. The Bank generally monitors mismatches by monthly tenors up to one year and by yearly tenors thereafter. During volatile times, shorter monitoring periods are established. The Bank has adopted two methodologies to measure and monitor its interest rate risk exposure.

One methodology is using net interest income simulation model to measure interest rate risk which gauges its repricing gap risk and performs income sensitivity analysis. The model also performs dynamic testing to assess the effect of interest rate shocks. Repricing and rate sensitivity testing are being done under two rate scenarios — Base and Forecast. In the Base case, rates are set to be constant and assets and liabilities will be replenished upon maturity. For the Forecast case, the latest rate forecasts from the leading banks or research firms are used for assessment. Time lags and leads between rate indices (e.g. Hong Kong dollar prime rate vs Hong Kong Interbank Offer rate) are taken into account in the model analysis. For interest rate risk monitoring purpose, the ALCO has established a limit on the volatility of the simulated net interest income in an Forecast case scenario, which is reviewed on a monthly basis. The extreme case scenario has been taken out this year since the market has normalised this year. However, this scenario is still taken into account in the interest rate stress testing.

The other methodology is a Value-at-Risk ("VaR") measurement, which is the same approach being used by foreign exchange risk management.

VaR is technically defined as the potential loss that could occur on the current portfolio over a one-day time horizon. This VaR methodology uses the market data of the past three years to determine the potential loss, which is compared against the limit on a daily basis. The VaR computed has a 99% chance that it represents the maximum loss given the past three years market data. As at year end 2008, the market risks reflected by the VaR figures were not considered to be significant relative to the overall trading portfolio; and therefore, the figures were not specially disclosed. However, further to the growth of our business and also the acquisition of China Construction Bank (Asia) Finance Limited in 2009, there is an increase in the VaR figures, and as at end of 2009, the VaRs for the Group are as follows:

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

	VaR 2009 $'000
Total VaR	18,155
Interest rate VaR	15,579
Currency VaR	7,240

Index mismatches relate to floating rate assets and floating rate liabilities that may be repriced simultaneously, but that are not tied to the same index. The risk arises from fluctuating spreads between various indices to which different floating rates are tied. For example, loan assets being tied to the Hong Kong dollar prime rate, and deposit liabilities tied to the Hong Kong Interbank Offer Rate ("HIBOR"). Index mismatches primarily occur for the Bank's Hong Kong dollar books. Exposure arising from index mismatches for the commercial loan assets is by and large protected by HIBOR protection clauses built into the prime rate referenced commercial loan facilities. Exposure arising from index mismatches for the consumer loan assets is partially protected by diversifying funding over a variety of tenors and sources, and by the incorporation of a spread cushion between the asset and liability indices through pricing.

The residual index mismatch risk cannot be eliminated since it reflects the decisions of many individual customers, and since market available hedging products cannot wholly protect against the specific risks embedded in retail banking products. Predictions of customer responses may also not match the actual customer behaviour. As a result, the Group accepts a certain level of remaining risk inherent in the retail banking activities. The Group only assumes minimal index mismatch exposure for foreign currency assets and liabilities.

Based on data of the statement of financial position and the net interest income simulation model,change of 100 basis points (limited to the extent between the year end interest rate and 0 basis point if the year end interest rate is below 100 basis points) in interest rates would change the Group's profit before tax as follows:

	Increase/(decrease) in Group's profit before taxation	
	2009 $'000	2008 $'000
Increase 100 basis points	15,060	3,960
Decrease 100 basis points	(57,230)	(40,130)

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate repricing gap

The table below summarises the Group's and the Bank's exposure to interest rate risks. Included in the table are the Group's and the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The carrying amounts of derivative financial instruments, which are principally used to reduce the Group's exposure to interest rate movements, are under the heading "Non-interest bearing".

	Group						
	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2009							
Assets							
Cash and balances with banks	4,563,982	–	–	–	–	4,185,466	8,749,448
Placements with banks maturing between one and twelve months	–	28,042	–	–	–	–	28,042
Advances to banks	1,996,886	1,078,120	987,644	–	–	–	4,062,650
Advances to customers	51,842,789	5,401,685	1,527,380	905,066	19,268	348,080	60,044,268
Financial instruments measured at fair value through profit or loss	139,528	223,668	116,442	1,618,203	77,526	–	2,175,367
Available-for-sale financial assets	953,096	2,375,850	31,993	37,695	–	99,034	3,497,668
Held-to-maturity investments	349,997	–	–	–	–	–	349,997
Derivative financial instruments	–	–	–	–	–	860,192	860,192
Investment in an associate	–	–	–	–	–	125,449	125,449
Deferred tax assets	–	–	–	–	–	89,647	89,647
Property and equipment	–	–	–	–	–	174,222	174,222
Interests in leasehold land	–	–	–	–	–	68,531	68,531
Other assets	927	17	–	–	–	1,353,926	1,354,870
Total assets	59,847,205	9,107,382	2,663,459	2,560,964	96,794	7,304,547	81,580,351
Liabilities							
Deposits and balances of banks	2,395,163	2,000,540	1,503,358	–	–	24,081	5,923,142
Deposits from customers	30,428,543	12,472,478	6,261,901	456,822	–	3,133,980	52,753,724
Certificates of deposit issued	3,049,865	1,688,876	696,000	–	4,988	–	5,439,729
Derivative financial instruments	–	–	–	–	–	743,292	743,292
Current tax payable	–	–	–	–	–	33,481	33,481
Other liabilities	–	–	–	–	–	690,745	690,745
Total liabilities	35,873,571	16,161,894	8,461,259	456,822	4,988	4,625,579	65,584,113
Net repricing gap	23,973,634	(7,054,512)	(5,797,800)	2,104,142	91,806		

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate repricing gap (continued)

	Group						
	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2008							
Assets							
Cash and balances with banks	7,630,427	—	—	—	—	3,010,347	10,640,774
Placements with banks maturing between one and twelve months	—	7,997,267	1,286,698	—	—	—	9,283,965
Advances to banks	3,392,430	2,418,599	280,097	—	—	—	6,091,126
Advances to customers	37,127,002	2,156,656	592,333	278,666	2,900	167,575	40,325,132
Financial instruments measured at fair value through profit or loss	—	—	127,326	246,101	66,239	—	439,666
Available-for-sale financial assets	323,257	87,616	—	20,150	—	120,456	551,479
Derivative financial instruments	—	—	—	—	—	477,951	477,951
Investment in an associate	—	—	—	—	—	112,253	112,253
Current tax recoverable	—	—	—	—	—	23,284	23,284
Deferred tax assets	—	—	—	—	—	4,872	4,872
Property and equipment	—	—	—	—	—	189,894	189,894
Interests in leasehold land	—	—	—	—	—	74,869	74,869
Other assets	492	3	17	16	—	492,584	493,112
Total assets	48,473,608	12,660,141	2,286,471	544,933	69,139	4,674,085	68,708,377
Liabilities							
Deposits and balances of banks	5,858,711	7,988,141	1,463,200	—	—	25,990	15,336,042
Deposits from customers	25,580,324	11,069,909	2,214,726	891	—	1,972,750	40,838,600
Certificates of deposit issued	1,099,870	1,562,000	—	—	—	—	2,661,870
Derivative financial instruments	—	—	—	—	—	492,464	492,464
Current tax payable	—	—	—	—	—	5,833	5,833
Other liabilities	—	—	—	—	—	494,772	494,772
Total liabilities	32,538,905	20,620,050	3,677,926	891	—	2,991,809	59,829,581
Net repricing gap	15,934,703	(7,959,909)	(1,391,455)	544,042	69,139		

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate repricing gap (continued)

	Bank						
	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2009							
Assets							
Cash and balances with banks	3,974,104	–	–	–	–	3,747,552	7,721,656
Placements with banks maturing between one and twelve months	–	16,418	–	–	–	–	16,418
Advances to banks	1,996,886	1,078,120	987,644	–	–	–	4,062,650
Advances to customers	47,670,664	4,937,178	590,032	228,113	310	(30,713)	53,395,584
Financial instruments measured at fair value through profit or loss	139,528	223,668	116,442	1,618,203	77,526	–	2,175,367
Available-for-sale financial assets	865,740	2,225,498	31,993	1,037,695	–	21,159	4,182,085
Derivative financial instruments	–	–	–	–	–	912,922	912,922
Investments in subsidiaries	–	–	–	–	–	1,508,238	1,508,238
Investment in an associate	–	–	–	–	–	10,411	10,411
Deferred tax assets	–	–	–	–	–	5,535	5,535
Property and equipment	–	–	–	–	–	139,987	139,987
Interests in leasehold land	–	–	–	–	–	68,531	68,531
Other assets	927	17	–	–	–	1,323,946	1,324,890
Total assets	54,647,849	8,480,899	1,726,111	2,884,011	77,836	7,707,568	75,524,274
Liabilities							
Deposits and balances of banks	2,706,359	2,379,548	393,096	–	–	72,181	5,551,184
Deposits from customers	28,049,043	11,714,074	5,447,950	445,418	–	3,020,447	48,676,932
Certificates of deposit issued	2,999,866	1,588,878	696,000	–	–	–	5,284,744
Derivative financial instruments	–	–	–	–	–	739,791	739,791
Other liabilities	–	–	–	–	–	501,726	501,726
Total liabilities	33,755,268	15,682,500	6,537,046	445,418	–	4,334,145	60,754,377
Net repricing gap	20,892,581	(7,201,601)	(4,810,935)	2,438,593	77,836		

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate repricing gap (continued)

	Bank						
	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2008							
Assets							
Cash and balances with banks	7,794,202	—	—	—	—	2,836,221	10,630,423
Placements with banks maturing between one and twelve months	—	7,997,267	1,286,698	—	—	—	9,283,965
Advances to banks	3,392,430	2,418,599	280,097	—	—	—	6,091,126
Advances to customers	35,253,235	2,052,999	590,687	277,276	2,900	35,866	38,212,963
Financial instruments measured at fair value through profit or loss	—	—	127,326	246,101	66,239	—	439,666
Available-for-sale financial assets	99,994	87,616	—	20,150	—	119,513	327,273
Derivative financial instruments	—	—	—	—	—	604,859	604,859
Investments in subsidiaries	—	—	—	—	—	929,447	929,447
Investment in an associate	—	—	—	—	—	10,411	10,411
Current tax recoverable	—	—	—	—	—	22,521	22,521
Deferred tax assets	—	—	—	—	—	5,293	5,293
Property and equipment	—	—	—	—	—	163,071	163,071
Interests in leasehold land	—	—	—	—	—	74,869	74,869
Other assets	492	3	17	16	—	464,519	465,047
Total assets	46,540,353	12,556,484	2,284,825	543,543	69,139	5,266,590	67,260,934
Liabilities							
Deposits and balances of banks	6,544,490	8,216,707	1,479,615	—	—	26,148	16,266,960
Deposits from customers	23,555,379	11,136,822	2,113,339	500	—	1,794,080	38,600,120
Certificates of deposit issued	1,599,870	1,562,000	—	—	—	—	3,161,870
Derivative financial instruments	—	—	—	—	—	485,610	485,610
Other liabilities	—	—	—	—	—	472,993	472,993
Total liabilities	31,699,739	20,915,529	3,592,954	500	—	2,778,831	58,987,553
Net repricing gap	14,840,614	(8,359,045)	(1,308,129)	543,043	69,139		

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate repricing gap (continued)

The table below summarises the effective interest rates for interest-bearing financial instruments not carried at fair value through profit or loss at the reporting date:

	Group	
	2009	2008
	%	%
Assets		
Cash and balances with banks	**0.26**	2.25
Placements with banks maturing between one and twelve months	**0.82**	2.79
Advances to banks	**1.08**	4.45
Advances to customers	**1.70**	2.30
Available-for-sale financial assets	**0.57**	1.73
Held-to-maturity investments	**0.02**	—
Liabilities		
Deposits and balances of banks	**0.51**	2.98
Deposits from customers	**0.49**	1.56
Certificates of deposit issued	**0.16**	2.19

(c) Liquidity risk

Liquidity risk is the possibility that the Group's cash flows may be inadequate to fund operations and meet commitments on a timely and cost-effective basis. The purpose of liquidity management is to ensure sufficient cash flows to meet all financial commitments and to capitalise on opportunities for business expansion. This includes the Group's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to comply with the statutory liquidity ratio, and to make new loans and investments as opportunities arise.

The Group is committed to maintaining adequate liquidity to meet its obligations as and when they fall due. This is achieved through the maintenance of highly liquid assets and well-diversified funding sources, governed by effective tolerance limits and ratios, monitored by appropriate systems and stress tested under different scenarios within the risk management framework. The Board of Directors has the ultimate responsibility for an effective liquidity risk framework in place and delegates the responsibility for overseeing the liquidity risk management to the ALCO.

6. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(i) Maturity analysis

One of the tools for the Group to manage liquidity risk is the maturity profile of assets and liabilities. The analysis lists out the assets and liabilities by their remaining periods to maturities into different time buckets. The gap amount for each time bucket represents the liquidity exposure after netting the assets and liabilities maturing in the same bucket. The Group maintains gap limits for each time bucket to manage liquidity risk. For some liabilities without terms such as demand deposits from customers, the liabilities are listed in the bucket of "Repayable on Demand", resulting a larger negative gap in this time bucket. The Group considers this is an inherent risk to a consumer and commercial bank that offers the demand deposit products to customers. By experience the demand deposits have stable outstandings and the negative gap does not materialise into an immediate outflow of liquidity. However to mitigate the liquidity risk, inter-bank and other borrowing facilities, as well as contingency funding plan are in place to cover withdrawals at unexpected levels of demand. Apart from the stable customer deposits, the Group has other sources to fund the earning assets, such as inter-bank borrowings,floating rate certificates of deposits issued and share capital and reserve.

6. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(i) Maturity analysis (continued)

The table below sets out the maturity profile of assets and liabilities analysed by the remaining period to repayment as at reporting date:

	Group							
	Repayable on demand $'000	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Undated $'000	Total $'000
At 31 December 2009								
Assets								
Cash and balances with banks	4,377,104	4,372,344	–	–	–	–	–	8,749,448
Placements with banks maturing between one and twelve months	–	–	28,042	–	–	–	–	28,042
Advances to banks	–	1,996,886	1,078,120	987,644	–	–	–	4,062,650
Advances to customers	1,006,098	4,251,466	2,537,428	9,482,016	17,879,982	24,814,663	72,615	60,044,268
Financial instruments measured at fair value through profit or loss	–	139,528	223,668	116,442	1,618,203	77,526	–	2,175,367
Available-for-sale financial assets	–	260,120	1,462,583	1,066,129	581,052	32,668	95,116	3,497,668
Held-to-maturity investments	–	349,997	–	–	–	–	–	349,997
Derivative financial instruments	–	169,246	42,324	635,471	13,151	–	–	860,192
Investment in an associate	–	–	–	–	–	–	125,449	125,449
Deferred tax assets	–	–	–	5,108	–	–	84,539	89,647
Property and equipment	–	–	–	–	–	–	174,222	174,222
Interests in leasehold land	–	–	–	–	–	–	68,531	68,531
Other assets	3,038	998,562	167,284	56,251	105,998	3,438	20,299	1,354,870
Total assets	5,386,240	12,538,149	5,539,449	12,349,061	20,198,386	24,928,295	640,771	81,580,351
Liabilities								
Deposits and balances of banks	24,080	2,345,195	1,699,543	1,854,324	–	–	–	5,923,142
Deposits from customers	15,983,252	17,540,506	12,501,196	6,716,992	11,778	–	–	52,753,724
Certificates of deposit issued	–	549,999	599,998	1,274,744	3,010,000	4,988	–	5,439,729
Derivative financial instruments	–	163,829	40,378	520,404	15,192	3,489	–	743,292
Current tax payable	–	–	–	33,481	–	–	–	33,481
Other liabilities	155	312,328	166,493	206,191	3,854	1,724	–	690,745
Total liabilities	16,007,487	20,911,857	15,007,608	10,606,136	3,040,824	10,201	–	65,584,113
Net (liabilities)/assets gap	(10,621,247)	(8,373,708)	(9,468,159)	1,742,925	17,157,562	24,918,094	640,771	15,996,238
Of which:								
Debt securities								
— included in trading assets	–	139,528	223,668	116,442	70,936	–	–	550,574
— included in financial assets designated at fair value through profit or loss	–	–	–	–	1,547,267	77,526	–	1,624,793
— included in available-for-sale financial assets	–	256,202	1,462,583	1,066,129	581,052	32,668	–	3,398,634
— included in held-to-maturity investments	–	349,997	–	–	–	–	–	349,997

6. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(i) Maturity analysis (continued)

	Group							
	Repayable on demand $'000	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Undated $'000	Total $'000
At 31 December 2008								
Assets								
Cash and balances with banks	3,010,347	7,630,427	—	—	—	—	—	10,640,774
Placements with banks maturing between one and twelve months	—	—	7,997,267	1,286,698	—	—	—	9,283,965
Advances to banks	152,212	3,240,217	2,418,599	280,098	—	—	—	6,091,126
Advances to customers	1,077,935	1,044,840	1,363,708	5,848,859	12,315,933	18,644,066	29,791	40,325,132
Financial instruments measured at fair value through profit or loss	—	—	—	127,326	246,101	66,239	—	439,666
Available-for-sale financial assets	—	323,257	15,371	137,491	20,150	34,754	20,456	551,479
Derivative financial instruments	—	345,634	39,599	88,982	3,736	—	—	477,951
Investment in an associate	—	—	—	—	—	—	112,253	112,253
Current tax recoverable	—	—	—	23,284	—	—	—	23,284
Deferred tax assets	—	—	—	—	—	—	4,872	4,872
Property and equipment	—	—	—	—	—	—	189,894	189,894
Interests in leasehold land	—	—	—	—	—	—	74,869	74,869
Other assets	19,923	217,379	99,629	74,662	61,808	11,411	8,300	493,112
Total assets	4,260,417	12,801,754	11,934,173	7,867,400	12,647,728	18,756,470	440,435	68,708,377
Liabilities								
Deposits and balances of banks	25,990	5,858,711	7,988,141	1,463,200	—	—	—	15,336,042
Deposits from customers	11,829,228	15,671,462	10,939,754	2,222,126	176,030	—	—	40,838,600
Certificates of deposit issued	—	500,000	1,912,000	149,870	100,000	—	—	2,661,870
Derivative financial instruments	—	369,641	15,693	83,322	17,904	5,904	—	492,464
Current tax payable	—	—	—	5,833	—	—	—	5,833
Other liabilities	4,593	236,737	150,436	93,972	5,891	3,143	—	494,772
Total liabilities	11,859,811	22,636,551	21,006,024	4,018,323	299,825	9,047	—	59,829,581
Net (liabilities)/assets gap	(7,599,394)	(9,834,797)	(9,071,851)	3,849,077	12,347,903	18,747,423	440,435	8,878,796
Of which:								
Debt securities								
— included in trading assets	—	—	—	2,537	150,544	—	—	153,081
— included in financial assets designated at fair value through profit or loss	—	—	—	124,789	95,557	66,239	—	286,585
— included in available-for-sale financial assets	—	323,257	15,371	137,491	20,150	34,754	—	531,023

6. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(i) Maturity analysis (continued)

	Bank							
	Repayable on demand $'000	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Undated $'000	Total $'000
At 31 December 2009								
Assets								
Cash and balances with banks	3,747,552	3,974,104	–	–	–	–	–	7,721,656
Placements with banks maturing between one and twelve months	–	–	16,418	–	–	–	–	16,418
Advances to banks	–	1,996,886	1,078,120	987,644	–	–	–	4,062,650
Advances to customers	900,915	1,866,648	2,194,522	8,500,902	16,406,117	23,491,497	34,983	53,395,584
Financial instruments measured at fair value through profit or loss	–	139,528	223,668	116,442	1,618,203	77,526	–	2,175,367
Available-for-sale financial assets	–	99,995	1,385,000	1,066,129	1,581,052	32,668	17,241	4,182,085
Derivative financial instruments	–	222,031	42,271	635,469	13,151	–	–	912,922
Investments in subsidiaries	–	–	–	–	–	–	1,508,238	1,508,238
Investment in an associate	–	–	–	–	–	–	10,411	10,411
Deferred tax assets	–	–	–	–	–	–	5,535	5,535
Property and equipment	–	–	–	–	–	–	139,987	139,987
Interests in leasehold land	–	–	–	–	–	–	68,531	68,531
Other assets	2,706	1,087,573	72,335	50,465	101,971	2,800	7,040	1,324,890
Total assets	4,651,173	9,386,765	5,012,334	11,357,051	19,720,494	23,604,491	1,791,966	75,524,274
Liabilities								
Deposits and balances of banks	266,030	2,690,577	2,201,481	393,096	–	–	–	5,551,184
Deposits from customers	14,788,147	16,224,551	11,762,711	5,901,523	–	–	–	48,676,932
Certificates of deposit issued	–	500,000	500,000	1,274,744	3,010,000	–	–	5,284,744
Derivative financial instruments	–	162,275	41,307	517,527	15,193	3,489	–	739,791
Current tax payable	–	–	–	27,607	–	–	–	27,607
Other liabilities	158	128,586	152,277	187,520	3,854	1,724	–	474,119
Total liabilities	15,054,335	19,705,989	14,657,776	8,302,017	3,029,047	5,213	–	60,754,377
Net (liabilities)/assets gap	(10,403,162)	(10,319,224)	(9,645,442)	3,055,034	16,691,447	23,599,278	1,791,966	14,769,897
Of which:								
Debt securities								
— included in trading assets	–	139,528	223,668	116,442	70,936	–	–	550,574
— included in financial assets designated at fair value through profit or loss	–	–	–	–	1,547,267	77,526	–	1,624,793
— included in available-for-sale financial assets	–	99,995	1,385,000	1,066,129	1,577,134	32,668	–	4,160,926

6. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(i) Maturity analysis (continued)

	Bank							
	Repayable on demand $'000	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Undated $'000	Total $'000
At 31 December 2008								
Assets								
Cash and balances with banks	2,836,221	7,794,202	—	—	—	—	—	10,630,423
Placements with banks maturing between one and twelve months	—	—	7,997,267	1,286,698	—	—	—	9,283,965
Advances to banks	152,212	3,240,217	2,418,599	280,098	—	—	—	6,091,126
Advances to customers	1,035,360	966,481	1,293,852	5,565,682	11,681,890	17,640,419	29,279	38,212,963
Financial instruments measured at fair value through profit or loss	—	—	—	127,326	246,101	66,239	—	439,666
Available-for-sale financial assets	—	99,994	15,371	137,491	20,150	34,754	19,513	327,273
Derivative financial instruments	—	472,445	39,472	89,206	3,736	—	—	604,859
Investments in subsidiaries	—	—	—	—	—	—	929,447	929,447
Investment in an associate	—	—	—	—	—	—	10,411	10,411
Current tax recoverable	—	—	—	22,521	—	—	—	22,521
Deferred tax assets	—	—	—	—	—	—	5,293	5,293
Property and equipment	—	—	—	—	—	—	163,071	163,071
Interests in leasehold land	—	—	—	—	—	—	74,869	74,869
Other assets	19,703	211,860	81,079	73,392	59,942	10,771	8,300	465,047
Total assets	4,043,496	12,785,199	11,845,640	7,582,414	12,011,819	17,752,183	1,240,183	67,260,934
Liabilities								
Deposits and balances of banks	204,600	6,366,038	8,216,707	1,479,615	—	—	—	16,266,960
Deposits from customers	10,765,290	14,532,792	11,006,274	2,120,354	175,410	—	—	38,600,120
Certificates of deposit issued	—	500,000	2,412,000	149,870	100,000	—	—	3,161,870
Derivative financial instruments	—	362,897	15,584	83,322	17,904	5,903	—	485,610
Other liabilities	3,627	237,874	131,309	92,322	5,441	2,420	—	472,993
Total liabilities	10,973,517	21,999,601	21,781,874	3,925,483	298,755	8,323	—	58,987,553
Net (liabilities)/assets gap	(6,930,021)	(9,214,402)	(9,936,234)	3,656,931	11,713,064	17,743,860	1,240,183	8,273,381
Of which:								
Debt securities								
— included in trading assets	—	—	—	2,537	150,544	—	—	153,081
— included in financial assets designated at fair value through profit or loss	—	—	—	124,789	95,557	66,239	—	286,585
— included in available-for-sale financial assets	—	99,994	15,371	137,491	20,150	34,754	—	307,760

6. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(ii) Undiscounted cash flows by contractual maturities

The following table details the remaining contractual maturities at the reporting date of the Group's and the Bank's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date to pay. Derivatives that will be settled on a net basis included $53,472,000 and net amounts are disclosed.

	Group						
	Repayable on demand $'000	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Total $'000
At 31 December 2009							
Non-derivative financial liabilities							
Deposits and balances of banks	24,080	2,345,195	1,699,543	1,854,324	–	–	5,923,142
Deposits from customers	15,983,252	17,540,506	12,501,196	6,716,992	11,778	–	52,753,724
Certificates of deposit issued	–	549,999	599,998	1,274,744	3,010,000	4,988	5,439,729
Current tax payable	–	–	–	33,481	–	–	33,481
Other liabilities	155	317,550	180,282	230,438	11,121	2,765	742,311
	16,007,487	20,753,250	14,981,019	10,109,979	3,032,899	7,753	64,892,387
Derivative cash flows settled on a net basis	–	(5,958)	(15,095)	(9,401)	(22,966)	(52)	(53,472)
Derivative cash flows settled on a gross basis							
Total inflow	–	14,961,280	8,065,484	73,369,672	153,962	–	96,550,398
Total outflow	–	(14,957,326)	(8,065,630)	(73,387,345)	(148,623)	–	(96,558,924)
	–	3,954	(146)	(17,673)	5,339	–	(8,526)

6. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(ii) Undiscounted cash flows by contractual maturities (continued)

	Group						
	Repayable on demand $'000	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Total $'000
At 31 December 2008							
Non-derivative financial liabilities							
Deposits and balances of banks	25,990	5,858,711	7,988,141	1,463,200	—	—	15,336,042
Deposits from customers	11,829,228	15,671,462	10,939,754	2,222,126	176,030	—	40,838,600
Certificates of deposit issued	—	500,000	1,912,000	149,870	100,000	—	2,661,870
Other liabilities	4,593	253,483	207,791	143,137	9,188	3,143	621,335
	11,859,811	22,283,656	21,047,686	3,978,333	285,218	3,143	59,457,847
Derivative cash flows settled on a net basis	—	(2,888)	(1,440)	(1,105)	(4,525)	(1,006)	(10,964)
Derivative cash flows settled on a gross basis							
Total outflow	—	14,157,427	1,336,896	5,025,787	4,548	—	20,524,658
Total inflow	—	(14,157,427)	(1,336,328)	(5,027,678)	(9,837)	—	(20,531,270)
	—	—	568	(1,891)	(5,289)	—	(6,612)

6. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(ii) Undiscounted cash flows by contractual maturities (continued)

	Bank						
	Repayable on demand $'000	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Total $'000
At 31 December 2009							
Non-derivative financial liabilities							
Deposits and balances of banks	266,030	2,690,577	2,201,481	393,096	–	–	5,551,184
Deposits from customers	14,788,147	16,224,551	11,762,711	5,901,523	–	–	48,676,932
Certificates of deposit issued	–	500,000	500,000	1,274,744	3,010,000	–	5,284,744
Current tax payable	–	–	–	27,607	–	–	27,607
Other liabilities	158	132,825	174,170	165,627	9,376	1,724	483,880
	15,054,335	19,547,953	14,638,362	7,762,597	3,019,376	1,724	60,024,347
Derivative cash flows settled on a net basis	–	(5,958)	(16,411)	(11,383)	(22,873)	(52)	(56,677)
Derivative cash flows settled on a gross basis							
Total inflow	–	14,778,714	8,063,517	74,928,592	153,962	–	97,924,785
Total outflow	–	(14,774,759)	(8,063,663)	(74,946,266)	(148,623)	–	(97,933,311)
	–	3,955	(146)	(17,674)	5,339	–	(8,526)

	Bank						
	Repayable on demand $'000	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Total $'000
At 31 December 2008							
Non-derivative financial liabilities							
Deposits and balances of banks	204,600	6,366,038	8,216,707	1,479,615	—	—	16,266,960
Deposits from customers	10,765,290	14,532,792	11,006,274	2,120,354	175,410	—	38,600,120
Certificates of deposit issued	—	500,000	2,412,000	149,870	100,000	—	3,161,870
Other liabilities	3,627	254,352	190,338	140,786	8,721	2,420	600,244
	10,973,517	21,653,182	21,825,319	3,890,625	284,131	2,420	58,629,194
Derivative cash flows settled on a net basis	—	(2,888)	(1,440)	(1,105)	(4,525)	(1,006)	(10,964)
Derivative cash flows settled on a gross basis							
Total outflow	—	14,105,167	1,302,058	5,414,136	4,548	—	20,825,909
Total inflow	—	(14,105,167)	(1,301,490)	(5,416,027)	(9,837)	—	(20,832,521)
	—	—	568	(1,891)	(5,289)	—	(6,612)

6. FINANCIAL RISK MANAGEMENT (continued)

(d) Capital management

Being an authorised institution incorporated in Hong Kong, the Bank is regulated by the HKMA who sets and monitors capital requirements for the Bank as well as the consolidated position for the banking subsidiaries as prescribed by the HKMA. A non-banking financial subsidiary, CCB Securities Limited, is subject to the supervision and capital requirements of the Hong Kong Securities and Futures Commission.

The HKMA has issued the Banking (Capital) Rules under Basel II, according to which the Group is required to maintain adequate regulatory capital to support credit risk, market risk and operational risk.

In addition to meeting the regulatory requirements, the Group's primary objectives when managing capital are 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, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of the capital adequacy ratio as calculated in accordance with the Banking (Capital) Rules and there have been no material changes in the Group's policy on the management of capital during the year.

The Group has formulated a policy on internal capital adequacy assessment process ("CAAP") that sets out the methodologies, assumptions and techniques that the Group adopts in allocating the capital requirements on the residual risks that are not covered by the Banking (Capital) Rules. The Group adopts the scoring approach in deriving the internal minimum capital requirement.

Throughout the year ended 31 December 2009 and 2008, the Group has complied with the capital requirements imposed by the HKMA.

6. FINANCIAL RISK MANAGEMENT (continued)

(e) Fair value of financial assets and liabilities

Financial assets and liabilities are carried at amortised costs except for available-for-sale debt and equity securities, financial instruments measured at fair value through profit and loss and derivative financial instruments which are measured at fair value.

(1) *Financial instruments measured at fair value*

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair value using the following hierarchy method:

— Level 1: fair values measured using quoted market prices (unadjusted) in active markets for identical financial instruments.

— Level 2: fair values measured using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes quoted prices in active markets for similar financial instruments, or quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

— Level 3: fair values measured using significant unobservable inputs. This category includes inputs to valuation techniques not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Where available, the most suitable measure for fair value is the quoted market price. In the absence of organised secondary markets for most of the unlisted securities and over-the-counter derivatives, direct market prices of these financial instruments may not be available. The fair values of such instruments are therefore calculated based on established valuation techniques using current market parameters or market prices provided by counterparties.

Options traded over the counter are valued using broker quotes price. For other derivative financial instruments, the Group uses estimated discounted cash flows to determine their fair value. The fair value of interest rate swaps and currency swaps are calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the reporting date.

6. FINANCIAL RISK MANAGEMENT (continued)

(e) Fair value of financial assets and liabilities (continued)

(1) Financial instruments measured at fair value (continued)

	Group				Bank			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2009								
Assets								
Held for trading:								
— certificates of deposit	–	363,196	–	363,196	–	363,196	–	363,196
— debt securities	–	187,378	–	187,378	–	187,378	–	187,378
Designated at fair value through profit or loss:								
— debt securities	634,934	989,859	–	1,624,793	634,934	989,859	–	1,624,793
Available-for-sale securities:								
— treasury bills	–	337,703	–	337,703	–	99,995	–	99,995
— certificates of deposit	–	2,726,966	–	2,726,966	–	3,726,966	–	3,726,966
— debt securities	69,689	264,276	–	333,965	69,689	264,276	–	333,965
— equity securities	–	80,850	–	80,850	–	3,918	–	3,918
Derivatives financial instruments:								
— exchange rate contracts								
— forwards	–	838,599	–	838,599	–	892,226	–	892,226
— options purchased	–	5,514	–	5,514	–	4,631	–	4,631
— currency swaps	–	742	–	742	–	742	–	742
— interest rate swaps	–	13,030	–	13,030	–	13,016	–	13,016
— equity options purchased	–	2,065	–	2,065	–	2,065	–	2,065
— equity swap	–	242	–	242	–	242	–	242
	704,623	5,810,420	–	6,515,043	704,623	6,548,510	–	7,253,133
Liabilities								
Derivatives financial instruments:								
— exchange rate contracts								
— forwards	–	713,015	–	713,015	–	713,439	–	713,439
— options written	–	5,514	–	5,514	–	4,631	–	4,631
— interest rate swaps	–	22,456	–	22,456	–	19,414	–	19,414
— equity options purchased	–	242	–	242	–	242	–	242
— equity swaps	–	2,065	–	2,065	–	2,065	–	2,065
	–	743,292	–	743,292	–	739,791	–	739,791

During the year there were no significant transfers between instruments in Level 1 and Level 2.

(2) Financial instruments not measured at fair value

The Group assessed that the differences between fair values and carrying amounts of those financial assets and liabilities not presented on the Group's statement of financial position at their fair values are minimal as most of the Group's financial assets and liabilities are either short-term or priced at floating rates.

7. NET INTEREST INCOME

	2009 $'000	2008 $'000
Interest income		
Interest income arising from financial assets that are not measured at fair value through profit or loss		
Placements and advances to banks	**132,020**	1,356,603
Advances to customers	**1,072,734**	1,190,994
Available-for-sale financial assets	**33,095**	52,149
Unlisted held-to-maturity investments	**16**	—
Others	**18**	68
	1,237,883	2,599,814
Interest expense		
Interest expense arising from financial liabilities that are not measured at fair value through profit or loss		
Deposits and balances of banks	**62,761**	994,577
Deposits from customers	**243,494**	805,195
Certificates of deposit issued	**18,252**	79,974
Others	**2,107**	1,536
	326,614	1,881,282
Interest expense on financial liabilities that are designated as cash flow/fair value hedges		
Cash flow hedges		
— Net interest expense (note 18(b))	**971**	—
Fair value hedges		
— Certificates of deposit issued	**—**	13,624
— Interest rate swaps	**—**	(5,515)
	971	8,109
	327,585	1,889,391
Net interest income	**910,298**	710,423

There were no interest income accrued on impaired financial assets and interest income on the unwinding of discount on loan impairment losses for the year ended 31 December 2009 and 2008. Interest income from available-for-sale financial assets include $2,334,000 from listed debt securities (2008: $7,604,000) and $30,761,000 from unlisted debt securities (2008: $44,545,000).

8. NET FEES AND COMMISSION INCOME

	2009 $'000	2008 $'000
Fees and commission income		
– Agency fees for securities, foreign currency dealing and insurance services	**131,161**	149,304
– Remittance, settlement and account management fees	**26,733**	27,295
– Payment and collection services fees	**29,794**	34,937
– Credit cards related	**24,159**	–
– Others	**10,633**	7,558
	222,480	219,094
Fees and commission expense		
– Credit cards related	**(4,217)**	–
– Others	**(10,301)**	(8,402)
Net fees and commission income	**207,962**	210,692

Included in the above are the fees and commission income and expense, other than amounts included in determining the effective interest rate, relating to financial assets or financial liabilities not at fair value through profit or loss of $43,743,000 (2008: $46,737,000) and $2,431,000 (2008: $2,247,000) respectively.

9. NET GAINS FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2009 $'000	2008 $'000
Net trading income		
Foreign exchange contracts	**299,461**	199,917
Interest rate contracts	**(232)**	(21,988)
Unlisted debt securities		
– interest income	**28,030**	83,389
– net realised and unrealised (losses)/gains	**(5,017)**	1,673
	322,242	262,991
Net gains from financial instruments designated at fair value through profit or loss		
Listed debt securities		
– interest income	**68,817**	19,888
– net unrealised losses	**30,526**	(15,192)
	99,343	4,696
	421,585	267,687

Included in the loss on interest rate contracts is a loss $2,000 (2008: $nil) of a subsidiary relating to the ineffectiveness of the results of cash flow hedges.

10. OTHER OPERATING INCOME

	2009 **$'000**	2008 $'000
Dividend income from available-for-sale equity financial assets		
– unlisted	**3,308**	3,582
– listed	**16**	4
Others	**751**	989
	4,075	4,575

11. OPERATING EXPENSES

	2009 **$'000**	2008 $'000
Staff costs		
– salaries and other benefits	**539,768**	404,584
– pension and provident fund costs	**30,092**	26,786
	569,860	431,370
Premises and equipment expenses excluding depreciation		
– rental of premises	**170,099**	134,988
– maintenance	**28,660**	15,574
– leasing of equipments	**13,539**	11,472
– others	**48,012**	29,874
	260,310	191,908
Auditors' remuneration	**2,386**	1,535
Depreciation	**59,925**	45,650
Amortisation of prepaid operating lease payment	**1,461**	1,801
Other operating expenses	**168,324**	112,644
	232,096	161,630
	1,062,266	784,908

12. LOAN IMPAIRMENT CHARGED AND OTHER CREDIT RISK PROVISIONS

	2009 $'000	2008 $'000
Individually assessed impairment allowances charged	(50,502)	(75,211)
Collectively assessed impairment allowances charged	(23,375)	(12,374)
Impairment allowances on loans	(73,877)	(87,585)
Other credit risk provisions (charged)/released	(379)	1,325
	(74,256)	(86,260)

Include in the above impairment allowances on loans (charged)/released:

	2009 $'000	2008 $'000
Additional charges	(98,437)	(100,131)
Releases	15,688	5,263
Recoveries	8,872	7,283
	(73,877)	(87,585)

13. GAIN ON DISPOSAL OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2009 $'000	2008 $'000
Transfer from investment revaluation reserve on disposal of available-for-sale financial assets (note 18(b))	–	1,938

14. GAIN ON ACQUISITION OF A SUBSIDIARY

On 30 October 2009, the Bank acquired the entire equity interest in AIG Finance (Hong Kong) Limited ("AIGF"), the principal business of which is credit cards and other unsecured personal loans, at a cost, including relevant legal and professional fee, of $578,791,000, satisfied in cash. The newly acquired subsidiary was renamed as China Construction Bank (Asia) Finance Limited ("CCBAF") on 2 November 2009.

The Bank has made a gain of $536,787,000 on this acquisition. Management considers that the gain was attributable to the financial stress faced by American International Group Inc. ("AIGI"). In late 2008, the management of AIGI decided to re-organise their group structure by disposing some of their consumer finance businesses which included AIGF. Due to the deteriorating market conditions and the time constraint imposed on AIGI for the disposal, the Bank successfully acquired AIGF at a purchase consideration much lower than the fair value of the identifiable net assets acquired. The gain on acquisition of a subsidiary recognised in the consolidated statement of comprehensive income reflects the recognition of the excess of the Group's interest in the fair value of AIGF's identifiable net assets over the cost of acquisition. Details of the gain on acquisition are set out below:

	Note	2009 $'000
Purchase cash consideration paid	25 & 41(d)	**578,791**
Less: Identifiable net assets acquired	41(d)	**1,115,578**
Gain on acquisition of a subsidiary		**536,787**

The fair value of the advances to customers of AIGF at the acquisition date was determined primarily through the loan impairment allowance. Management has assessed the loan impairment allowance based on both qualitative and quantitative factors, taking into account the preliminary observations and perceptions of certain fundamental differences in the customer risk profile between AIGF and the Bank, and the Bank's limited knowledge of the characteristics and behaviour of the loan portfolio. The Bank will reassess the characteristics and quality of the loan portfolio in the 12 months following the acquisition to determine whether the fair value of the advances, primarily determined through loan impairment estimation, was reasonable at the acquisition date. If, based on the re-assessment, adjustment has to be made to the impairment at the acquisition date, the adjustment will be adjusted retrospectively.

CCBAF has contributed post-acquisition profit before taxation for the year amounting to $15,118,000. If the acquisition had occurred on 1 January 2009, assuming the same cash consideration and identifiable net assets acquired, the Group's operating income and profit before taxation would have increased by approximately $411,770,000 and decreased by approximately $243,979,000 respectively for the year ended 31 December 2009.

15. DIRECTORS' EMOLUMENTS

The aggregate amounts of emoluments paid and payable to directors of the Bank during the year pursuant to Section 161 of the Hong Kong Companies Ordinance are as follows:

	2009 $'000	2008 $'000
Fees	730	770
Other emoluments	12,951	14,875
Contribution to provident fund	394	389
	14,075	16,034

16. TAXATION

(a) Taxation in the consolidated statement of comprehensive income represents:

	2009 $'000	2008 $'000
Current tax		
Provision for the year		
– Hong Kong	65,655	44,030
– Macau	3,118	5,751
– Withholding tax in the People's Republic of China ("PRC")	5,354	–
	74,127	49,781
Under provision in prior year		
– Hong Kong	4,539	2,189
– Macau	198	–
	4,737	2,189
Deferred tax		
Origination and reversal of temporary differences	4,785	(2,772)
Effect on deferred tax balance at 1 January resulting from change in tax rate	–	127
	4,785	(2,645)
	83,649	49,325

The provision of Hong Kong Profits Tax for 2009 is calculated at 16.5% (2008: 16.5%) of the estimated assessable profits for the year. Taxation for the subsidiary in Macau is calculated at the appropriate current tax rates ruling in Macau.

16. TAXATION (continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2009 $'000	2008 $'000
Profit before taxation	**971,976**	331,823
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	**159,161**	52,558
Income not subject to taxation	**(94,740)**	(4,288)
Expenses not deductible for taxation purposes	**8,504**	315
Effect on deferred tax balance at 1 January resulting from change in tax rate	**–**	127
Under provision in prior years	**4,737**	2,189
Withholding tax paid in the PRC	**5,354**	–
Others	**633**	(1,576)
Actual tax expense	**83,649**	49,325

17. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS

The consolidated profit attributable to equity shareholders of the Bank includes a profit of $276,324,000 (2008: $205,072,000) which has been dealt with in the financial statements of the Bank.

18. OTHER COMPREHENSIVE INCOME

(a) Tax effects relating to each component of other comprehensive income

	2009			2008	
	Before-tax amount $'000	Tax expenses $'000	Net-of-tax amount $'000	Before-tax amount $'000	Net-of-tax amount $'000
Available-for-sale financial assets: net movement in investment revaluation reserve	**27,449**	**–**	**27,449**	(20,933)	(20,933)
Cash flow hedge: net movement in hedging reserve	**903**	**(149)**	**754**	–	–
Other comprehensive income	**28,352**	**(149)**	**28,203**	(20,933)	(20,933)

18. OTHER COMPREHENSIVE INCOME (continued)

(b) Reclassification adjustments relating to component of other comprehensive income

	2009 $'000	2008 $'000
Available-for-sale financial assets:		
– Changes in fair value recognised during the year	**27,449**	(18,995)
– Reclassification adjustments for amounts transferred to profit or loss:		
– gains on disposal (note 13)	**–**	(1,938)
Net movement in the investment revaluation reserve during the year recognised in other comprehensive income	**27,449**	(20,933)
Cash flow hedges:		
– Effective portion of changes in fair value of hedging instruments recognised during the year	**(68)**	–
– Reclassification adjustments for amounts transferred to profit or loss:		
– interest expense (note 7)	**971**	–
– Net deferred tax charged to other comprehensive income	**(149)**	–
Net movement in the hedging reserve during the year recognised in other comprehensive income	**754**	–

19. CASH AND BALANCES WITH BANKS

	Group		Bank	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Cash in hand	**218,259**	228,430	**150,051**	176,029
Balances with banks	**4,158,846**	2,781,917	**3,597,501**	2,660,192
Money at call and short notice with banks	**4,372,343**	7,630,427	**3,974,104**	7,794,202
	8,749,448	10,640,774	**7,721,656**	10,630,423

Money at call and short notice with banks are mainly balances with the ultimate controlling party (see note 36(a)).

20. ADVANCES TO CUSTOMERS

(a) Advances to customers less impairment

	Group		Bank	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Gross advances to customers	**60,663,642**	40,500,094	**53,537,072**	38,385,663
Dealers' commission and deferred fee income	**5,627**	–	**–**	–
	60,669,269	40,500,094	**53,537,072**	38,385,663
Less: Impairment allowances				
– collectively assessed	**(558,252)**	(67,754)	**(76,476)**	(65,530)
– individually assessed	**(66,749)**	(107,208)	**(65,012)**	(107,170)
Net advances to customers	**60,044,268**	40,325,132	**53,395,584**	38,212,963

Included in advances to customers are:

	Group		Bank	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Trade bills	**13,554**	59,639	**12,172**	49,972
Less: Impairment allowances				
– collectively assessed	**(96)**	(738)	**(74)**	(674)
	13,458	58,901	**12,098**	49,298

20. ADVANCES TO CUSTOMERS (continued)

(b) Gross advances to customers by industry sectors

	Group	
	2009	2008
	$'000	$'000
Advances for use in Hong Kong		
Industrial, commercial and financial		
– Property development	**434,609**	68,119
– Property investment	**16,754,971**	14,436,969
– Financial concerns	**3,188,432**	728,060
– Stockbrokers	**119,858**	9,138
– Wholesale and retail trade	**2,980,151**	1,412,228
– Manufacturing	**2,074,326**	1,726,727
– Transport and transport equipment	**2,182,217**	1,006,790
– Recreational activities	**134,365**	18,145
– Information technology	**227,716**	152,711
– Others	**4,810,583**	1,851,000
	32,907,228	21,409,887
Individuals		
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**18,664**	18,465
– Loans for the purchase of other residential properties	**16,303,014**	11,874,328
– Credit card advances	**3,713,301**	–
– Others	**3,667,659**	3,480,292
	23,702,638	15,373,085
Trade finance	**1,412,169**	1,277,877
Advances for use outside Hong Kong	**2,641,607**	2,439,245
	4,053,776	3,717,122
Total gross advances to customers	**60,663,642**	40,500,094

20. ADVANCES TO CUSTOMERS (continued)

(b) Gross advances to customers by industry sectors (continued)

	Bank	
	2009	2008
	$'000	$'000
Advances for use in Hong Kong		
Industrial, commercial and financial		
– Property development	**434,609**	68,119
– Property investment	**16,745,071**	14,436,969
– Financial concerns	**3,188,432**	728,060
– Stockbrokers	**122,858**	12,138
– Wholesale and retail trade	**2,980,151**	1,412,228
– Manufacturing	**2,074,326**	1,726,727
– Transport and transport equipment	**1,998,283**	1,006,790
– Recreational activities	**134,365**	18,145
– Information technology	**227,716**	152,711
– Others	**4,810,583**	1,851,000
	32,716,394	21,412,887
Individuals		
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**16,470**	18,465
– Loans for the purchase of other residential properties	**16,250,305**	11,874,328
– Others	**2,957,773**	3,480,292
	19,224,548	15,373,085
Trade finance	**1,412,169**	1,277,877
Advances for use outside Hong Kong	**183,961**	321,814
	1,596,130	1,599,691
Total gross advances to customers	**53,537,072**	38,385,663

20. ADVANCES TO CUSTOMERS (continued)

(c) Movement in impairment allowances on advances to customers

	2009					
	Group			Bank		
	Collectively assessed allowances $'000	Individually assessed allowances $'000	Total $'000	Collectively assessed allowances $'000	Individually assessed allowances $'000	Total $'000
At 1 January 2009	**67,754**	**107,208**	**174,962**	**65,530**	**107,170**	**172,700**
Addition through acquisition of a subsidiary	**467,123**	**3,660**	**470,783**	**–**	**–**	**–**
Loans written off as uncollectible	**–**	**(103,493)**	**(103,493)**	**–**	**(69,129)**	**(69,129)**
Recoveries of advances written off	**–**	**8,872**	**8,872**	**–**	**4,336**	**4,336**
Impairment losses charged to profit or loss (note 12)	**29,746**	**68,691**	**98,437**	**10,946**	**36,250**	**47,196**
Impairment losses released to profit or loss (note 12)	**(6,371)**	**(18,189)**	**(24,560)**	**–**	**(13,615)**	**(13,615)**
At 31 December 2009	**558,252**	**66,749**	**625,001**	**76,476**	**65,012**	**141,488**

	2008					
	Group			Bank		
	Collectively assessed allowances $'000	Individually assessed allowances $'000	Total $'000	Collectively assessed allowances $'000	Individually assessed allowances $'000	Total $'000
At 1 January 2008	55,380	33,730	89,110	52,896	33,730	86,626
Loans written off as uncollectible	–	(9,016)	(9,016)	–	(8,911)	(8,911)
Recoveries of advances written off	–	7,283	7,283	–	7,247	7,247
Impairment losses charged to profit or loss (note 12)	12,634	87,497	100,131	12,634	87,337	99,971
Impairment losses released to profit or loss (note 12)	(260)	(12,286)	(12,546)	–	(12,233)	(12,233)
At 31 December 2008	67,754	107,208	174,962	65,530	107,170	172,700

20. ADVANCES TO CUSTOMERS (continued)

(d) Impaired advances and allowances are analysed as follows:

	Group			
	2009		2008	
	$'000	% of gross advances	$'000	% of gross advances
Gross impaired advances	**264,619**	**0.44**	150,904	0.37
Individual impairment allowances	**(66,749)**		(107,208)	
	197,870		43,696	
Gross individually assessed impaired advances	**109,749**	**0.18**	150,904	0.37
Individual impairment allowances	**(66,749)**		(107,208)	
	43,000		43,696	
Net realisable value of collateral held against the impaired advances	**37,675**		7,521	

	Bank			
	2009		2008	
	$'000	% of gross advances	$'000	% of gross advances
Gross impaired advances	**108,012**	**0.20**	150,866	0.39
Individual impairment allowances	**(65,012)**		(107,170)	
	43,000		43,696	
Gross individually assessed impaired advances	**108,012**	**0.20**	150,866	0.39
Individual impairment allowances	**(65,012)**		(107,170)	
	43,000		43,696	
Net realisable value of collateral held against the impaired advances	**30,076**		7,521	

Impaired advances are advances with objective evidence of impairment.

The above individual impairment allowances were made after taking into account the realisable value of collateral in respect of such advances.

20. ADVANCES TO CUSTOMERS (continued)

(d) Impaired advances and allowances are analysed as follows: (continued)

As at 31 December 2009, the Group's gross impaired advances of $154,870,000 (2008: $Nil) mainly comprised credit card advances and unsecured personal loans for which impairment allowances were collectively assessed.

As at 31 December 2009 and as at 31 December 2008, there were no impaired advances in respect of advances to banks.

(e) Net investment in finance leases and hire purchase contracts

	Group		Bank	
	2009 **$'000**	2008 $'000	**2009** **$'000**	2008 $'000
Total minimum lease payments	**2,060,292**	1,440,574	**1,525,697**	1,437,278
Unearned future finance income on finance leases	**(226,876)**	(194,836)	**(181,428)**	(194,434)
Present value of the minimum lease payments	**1,833,416**	1,245,738	**1,344,269**	1,242,844
Impairment allowances				
– individually assessed	**(279)**	(126)	**(279)**	(88)
– collectively assessed	**(8,967)**	(5,927)	**(6,481)**	(5,737)
Impairment allowances	**(9,246)**	(6,053)	**(6,760)**	(5,825)
Net investment	**1,824,170**	1,239,685	**1,337,509**	1,237,019

The residual maturity analysis of the minimum lease payments and present value of the minimum lease payments are analysed as follows:

	Group		Bank	
	2009 **$'000**	2008 $'000	**2009** **$'000**	2008 $'000
Total minimum lease payments				
Not later than one year	**623,156**	344,370	**340,539**	342,494
Later than one year and not later than five years	**873,815**	641,775	**622,502**	640,355
Later than five years	**563,321**	454,429	**562,656**	454,429
	2,060,292	1,440,574	**1,525,697**	1,437,278

20. ADVANCES TO CUSTOMERS (continued)

(e) Net investment in finance leases and hire purchase contracts (continued)

	Group		Bank	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Present value of the minimum lease payments				
Not later than one year	**570,194**	313,134	**316,186**	311,412
Later than one year and not later than five years	**798,552**	569,466	**564,039**	568,294
Later than five years	**464,670**	363,138	**464,044**	363,138
	1,833,416	1,245,738	**1,344,269**	1,242,844

21. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Bank	
	2009 $'000	2008 $'000
Held for trading	**550,574**	153,081
Designated at fair value through profit or loss	**1,624,793**	286,585
	2,175,367	439,666

Financial instruments measured at fair value through profit or loss analysed by type of issuer and place of listing are as follows:

	Group and Bank			
	Trading		Designated at fair value through profit or loss	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Certificates of deposit issued by banks	**363,196**	–	**–**	–
Other debt securities issued by				
– banks	**187,378**	153,081	**1,027,569**	32,631
– corporate	**–**	–	**597,224**	253,954
	550,574	153,081	**1,624,793**	286,585
Analysed by place of listing				
– listed in Hong Kong	**–**	–	**1,238,657**	67,631
– listed outside Hong Kong	**–**	–	**386,136**	218,954
– unlisted	**550,574**	153,081	**–**	–
	550,574	153,081	**1,624,793**	286,585

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Bank	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Treasury bills issued by central governments	**337,703**	423,257	**99,995**	199,994
Certificates of deposit issued by banks	**2,726,966**	–	**3,726,966**	–
Other debt securities issued by				
– banks	**32,669**	32,550	**32,669**	32,550
– public sector entities	**–**	2,204	**–**	2,204
– corporate	**301,296**	73,012	**301,296**	73,012
	3,398,634	531,023	**4,160,926**	307,760
Equity shares issued by corporate				
– listed outside Hong Kong	**80,850**	2,277	**3,918**	2,277
– unlisted	**18,184**	18,179	**17,241**	17,236
	99,034	20,456	**21,159**	19,513
	3,497,668	551,479	**4,182,085**	327,273
Analysed by place of listing				
– listed in Hong Kong	**32,668**	34,754	**32,668**	34,754
– listed outside Hong Kong	**150,539**	59,918	**73,606**	59,918
– unlisted	**3,314,461**	456,807	**4,075,811**	232,601
	3,497,668	551,479	**4,182,085**	327,273

23. HELD-TO-MATURITY INVESTMENTS

	Group	
	2009	2008
	$'000	$'000
Exchange fund bills issued by central government		
– unlisted	**349,997**	–

24. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets. The Group uses derivatives for proprietary trading and sale to customers as risk management products. These positions are actively managed through entering offsetting deals with external parties to ensure the Group's net exposures are within acceptable risk levels. No significant proprietary positions are maintained by the Group at the reporting date. The Group also uses derivatives, principally interest rate swaps, in the management of its own asset and liability portfolios and structural positions.

(a) Notional amounts of derivatives

	Group							
	2009				2008			
	Managed in conjunction with financial instruments designated at fair value through profit or loss $'000	Qualifying for hedge accounting $'000	Held for trading $'000	Total $'000	Managed in conjunction with financial instruments designated at fair value through profit or loss $'000	Qualifying for hedge accounting $'000	Held for trading $'000	Total $'000
Exchange rate contracts								
– Forwards	–	–	95,118,863	95,118,863	–	–	19,856,111	19,856,111
– Options purchased	–	–	1,271,759	1,271,759	–	–	662,839	662,839
– Options written	–	–	1,271,809	1,271,809	–	–	662,886	662,886
– Currency swaps	–	–	193,755	193,755	–	–	–	–
Interest rate swaps	1,551,020	150,000	1,243,759	2,944,779	302,250	–	272,950	575,200
Equity options purchased	–	–	204,567	204,567	–	–	–	–
Equity swaps	–	–	204,567	204,567	–	–	–	–
	1,551,020	150,000	99,509,079	101,210,099	302,250	–	21,454,786	21,757,036

	Bank							
	2009				2008			
	Managed in conjunction with financial instruments designated at fair value through profit or loss $'000	Qualifying for hedge accounting $'000	Held for trading $'000	Total $'000	Managed in conjunction with financial instruments designated at fair value through profit or loss $'000	Qualifying for hedge accounting $'000	Held for trading $'000	Total $'000
Exchange rate contracts								
– Forwards	–	–	96,662,465	96,662,465	–	–	20,239,182	20,239,182
– Options purchased	–	–	1,102,410	1,102,410	–	–	581,044	581,044
– Options written	–	–	1,102,410	1,102,410	–	–	581,044	581,044
– Currency swaps	–	–	193,755	193,755	–	–	–	–
Interest rate swaps	1,551,020	–	1,255,163	2,806,183	302,250	–	272,950	575,200
Equity options purchased	–	–	204,567	204,567	–	–	–	–
Equity swaps	–	–	204,567	204,567	–	–	–	–
	1,551,020	–	100,725,337	102,276,357	302,250	–	21,674,220	21,976,470

The notional amounts of these financial instruments indicate the volume of transactions outstanding and do not represent amounts at risk.

24. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(b) Notional amounts of derivatives by remaining maturity analysis

The following table provides an analysis of the notional amounts of derivatives of the Group and the Bank by relevant maturity grouping based on the remaining periods to settlement at the reporting date.

	Group							
	2009				2008			
	1 year or less $'000	Over 1 year to 5 years $'000	Over 5 years $'000	Total $'000	1 year or less $'000	Over 1 year to 5 years $'000	Over 5 years $'000	Total $'000
Exchange rate contracts								
– Forwards	95,103,353	15,510	–	95,118,863	19,856,111	–	–	19,856,111
– Options purchased	1,271,759	–	–	1,271,759	662,839	–	–	662,839
– Options written	1,271,809	–	–	1,271,809	662,886	–	–	662,886
– Currency swaps	193,755	–	–	193,755	–	–	–	–
Interest rate swaps	937,347	1,968,657	38,775	2,944,779	224,000	312,450	38,750	575,200
Equity options purchased	204,567	–	–	204,567	–	–	–	–
Equity swaps	204,567	–	–	204,567	–	–	–	–
	99,187,157	1,984,167	38,775	101,210,099	21,405,836	312,450	38,750	21,757,036

	Bank							
	2009				2008			
	1 year or less $'000	Over 1 year to 5 years $'000	Over 5 years $'000	Total $'000	1 year or less $'000	Over 1 year to 5 years $'000	Over 5 years $'000	Total $'000
Exchange rate contracts								
– Forwards	96,646,955	15,510	–	96,662,465	20,239,182	–	–	20,239,182
– Options purchased	1,102,410	–	–	1,102,410	581,044	–	–	581,044
– Options written	1,102,410	–	–	1,102,410	581,044	–	–	581,044
– Currency swaps	193,755	–	–	193,755	–	–	–	–
Interest rate swaps	787,347	1,980,061	38,775	2,806,183	224,000	312,450	38,750	575,200
Equity options purchased	204,567	–	–	204,567	–	–	–	–
Equity swaps	204,567	–	–	204,567	–	–	–	–
	100,242,011	1,995,571	38,775	102,276,357	21,625,270	312,450	38,750	21,976,470

24. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(c) Fair values and credit risk weighted amounts of derivatives

	Group					
	2009			2008		
	Fair value assets $'000	Fair value liabilities $'000	Credit risk weighted amount $'000	Fair value assets $'000	Fair value liabilities $'000	Credit risk weighted amount $'000
Exchange rate contracts						
– Forwards	838,599	713,015	794,274	469,996	461,495	113,114
– Options purchased	5,514	–	–	4,199	–	8,459
– Options written	–	5,514	3,542	–	4,199	–
– Currency swaps	742	–	1,340	–	–	–
Interest rate swaps	13,030	22,456	9,882	3,756	26,770	2,005
Equity options purchased	2,065	242	2,968	–	–	–
Equity swaps	242	2,065	–	–	–	–
	860,192	743,292	812,006	477,951	492,464	123,578

	Bank					
	2009			2008		
	Fair value assets $'000	Fair value liabilities $'000	Credit risk weighted amount $'000	Fair value assets $'000	Fair value liabilities $'000	Credit risk weighted amount $'000
Exchange rate contracts						
– Forwards	892,226	713,439	791,992	597,405	455,142	113,114
– Options purchased	4,631	–	–	3,698	–	8,707
– Options written	–	4,631	3,035	–	3,698	–
– Currency swaps	742	–	1,340	–	–	–
Interest rate swaps	13,016	19,414	9,911	3,756	26,770	2,005
Equity options purchased	2,065	242	2,968	–	–	–
Equity swaps	242	2,065	–	–	–	–
	912,922	739,791	809,246	604,859	485,610	123,826

At 31 December 2009 and 2008, the credit risk weighted amount was calculated in accordance with the Banking (Capital) Rules and depends on the status of the counterparty and the maturing characteristics. The risk weights used range from 20% to 100% (2008: 20% to 100%) for all derivatives.

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

24. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(d) Fair value of derivative financial instruments designated as hedging instruments

The following is a summary of the fair value of derivatives held for cash flow hedges purpose:

	Group and Bank			
	2009		2008	
	Assets	**Liabilities**	Assets	Liabilities
	$'000	**$'000**	$'000	$'000
Interest rate swaps	**–**	**3,036**	–	–

Interest rate swaps were designated as hedges of certain future cash flows from bank borrowings and certificates of deposit issued. In 2009, hedge ineffectiveness recognised in profit or loss arising from cash flow hedges was $2,000.

25. INVESTMENTS IN SUBSIDIARIES

	Bank
	$'000
Unlisted shares, at cost	
At 1 January 2008 and 31 December 2008	**929,447**
Acquisition of a subsidiary (note 14)	**578,791**
At 31 December 2009	**1,508,238**

Particulars of the subsidiaries at 31 December 2009 are as follows:

Name of company	**Place of incorporation**	**Particulars of issued shares held**	**Percentage directly held**	**Principal activities**
CCB Nominees Limited	Hong Kong	600,000 ordinary shares of HK$10 each	100%	Nominee services
China Construction Bank (Macau) Corporation Limited	Macau	5,000,000 ordinary shares of MOP100 each	100%	Banking
CCB Securities Limited	Hong Kong	500,000,000 ordinary shares of HK$1 each	100%	Securities brokerage
China Construction Bank (Asia) Finance Limited (formerly known as AIG Finance (Hong Kong) Limited)	Hong Kong	25,000,000 ordinary shares of HK$10 each	100%	Acceptance of deposits and loan advances

26. INVESTMENT IN AN ASSOCIATE

	Group		Bank	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Unlisted shares, at cost	**–**	–	**10,411**	10,411
Share of net assets	**125,449**	112,253	**–**	–
	125,449	112,253	**10,411**	10,411

Particulars of the associate at 31 December 2009 are as follows:

Name of company	Place of incorporation	Particulars of issued and paid up capital	Percentage of ownership held by the Group	Principal activities
QBE Hongkong and Shanghai Insurance Limited	Hong Kong	78,192,220 ordinary shares of HK$1 each	25.50%	Insurance

Summary financial information on the associate:

	Assets $'000	Liabilities $'000	Equity $'000	Revenue $'000	Net profit $'000
2009					
100%	**1,379,161**	**887,204**	**491,957**	**660,188**	**81,749**
Group's effective interest	**351, 686**	**226,237**	**125,449**	**168,348**	**20,846**
2008					
100%	1,256,531	816,323	440,208	659,983	30,101
Group's effective interest	320,415	208,162	112,253	168,296	7,676

27. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current tax liabilities/(recoverable) in the statement of financial position represent:

	Group		Bank	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Provision for Hong Kong Profits Tax for the year	**65,655**	44,030	**61,197**	41,617
Provisional Profits Tax paid	**(35,457)**	(67,612)	**(33,603)**	(64,411)
Balance of Profits Tax provision relating to prior years	**38**	298	**13**	273
	30,236	(23,284)	**27,607**	(22,521)
Provision for taxation in Macau	**3,245**	5,833	**–**	–
	33,481	(17,451)	**27,607**	(22,521)
Representing:				
Current tax recoverable	**–**	(23,284)	**–**	(22,521)
Current tax payable	**33,481**	5,833	**27,607**	–
	33,481	(17,451)	**27,607**	(22,521)

(b) Deferred tax assets

	Group		Bank	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Net deferred tax assets recognised on the statement of financial position	**89,647**	4,872	**5,535**	5,293

27. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred tax assets (continued)

The components of deferred tax assets recognised in the statement of financial position and the movements during the year are as follows:

	Group			
	Impairment allowances $'000	Accelerated tax depreciation $'000	Others $'000	Total $'000
At 1 January 2009	10,299	(8,108)	2,681	4,872
Addition through acquisition of a subsidiary (note 41(d))	77,075	(56)	12,690	89,709
Credited/(charged) to profit or loss	3,451	(296)	(7,940)	(4,785)
Charged to hedging reserve (note 18(a))	–	–	(149)	(149)
At 31 December 2009	90,825	(8,460)	7,282	89,647

	Group			
	Impairment allowances $'000	Accelerated tax depreciation $'000	Others $'000	Total $'000
At 1 January 2008	8,712	(7,821)	1,336	2,227
Effect on deferred tax balance at 1 January resulting from change in tax rate	(498)	447	(76)	(127)
Credited/(charged) to profit or loss	2,085	(734)	1,421	2,772
At 31 December 2008	10,299	(8,108)	2,681	4,872

27. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred tax assets (continued)

	Bank			
	Impairment allowances $'000	**Accelerated tax depreciation $'000**	**Others $'000**	**Total $'000**
At 1 January 2009	**10,299**	**(7,687)**	**2,681**	**5,293**
Credited/(charged) to profit or loss	**1,806**	**(563)**	**(1,001)**	**242**
At 31 December 2009	**12,105**	**(8,250)**	**1,680**	**5,535**

	Bank			
	Impairment allowances $'000	Accelerated tax depreciation $'000	Others $'000	Total $'000
At 1 January 2008	8,712	(7,404)	1,336	2,644
Effect on deferred tax balance at 1 January resulting from a change in tax rate	(498)	423	(76)	(151)
Credited/(charged) to profit or loss	2,085	(706)	1,421	2,800
At 31 December 2008	10,299	(7,687)	2,681	5,293

28. FIXED ASSETS

	Group				
	Freehold land $'000	Buildings $'000	Leasehold improvements $'000	Furniture and equipment $'000	Total $'000
Cost:					
At 1 January 2009	6,463	69,947	122,743	198,159	397,312
Additions					
– through acquisition of a subsidiary (note 41(d))	–	–	94	6,508	6,602
– others	–	1,491	31,777	35,578	68,846
Disposals	–	(37,030)	(5,940)	(3,310)	(46,280)
At 31 December 2009	6,463	34,408	148,674	236,935	426,480
Accumulated depreciation:					
At 1 January 2009	–	27,522	59,815	120,081	207,418
Charge for the year	–	2,168	27,507	30,250	59,925
Disposals	–	(6,287)	(5,940)	(2,858)	(15,085)
At 31 December 2009	–	23,403	81,382	147,473	252,258
Net book value:					
At 31 December 2009	6,463	11,005	67,292	89,462	174,222

	Group				
	Freehold land $'000	Buildings $'000	Leasehold improvements $'000	Furniture and equipment $'000	Total $'000
Cost:					
At 1 January 2008	6,463	69,840	77,572	172,028	325,903
Additions	–	107	46,983	37,078	84,168
Disposals	–	–	(1,812)	(10,947)	(12,759)
At 31 December 2008	6,463	69,947	122,743	198,159	397,312
Accumulated depreciation:					
At 1 January 2008	–	23,458	43,011	107,877	174,346
Charge for the year	–	4,064	18,616	22,970	45,650
Disposals	–	–	(1,812)	(10,766)	(12,578)
At 31 December 2008	–	27,522	59,815	120,081	207,418
Net book value:					
At 31 December 2008	6,463	42,425	62,928	78,078	189,894

28. FIXED ASSETS (continued)

	Bank Freehold land $'000	Buildings $'000	Leasehold improvements $'000	Furniture and equipment $'000	Total $'000
Cost:					
At 1 January 2009	–	64,470	105,099	185,549	355,118
Additions	–	1,492	24,434	34,071	59,997
Disposals	–	(37,030)	(5,940)	(2,554)	(45,524)
At 31 December 2009	–	28,932	123,593	217,066	369,591
Accumulated depreciation:					
At 1 January 2009	–	24,265	54,321	113,461	192,047
Charge for the year	–	1,803	22,883	27,525	52,211
Disposals	–	(6,286)	(5,940)	(2,428)	(14,654)
At 31 December 2009	–	19,782	71,264	138,558	229,604
Net book value:					
At 31 December 2009	–	9,150	52,329	78,508	139,987

	Bank Freehold land $'000	Buildings $'000	Leasehold improvements $'000	Furniture and equipment $'000	Total $'000
Cost:					
At 1 January 2008	–	64,363	68,443	162,315	295,121
Additions	–	107	38,468	34,181	72,756
Disposals	–	–	(1,812)	(10,947)	(12,759)
At 31 December 2008	–	64,470	105,099	185,549	355,118
Accumulated depreciation:					
At 1 January 2008	–	20,601	39,947	102,672	163,220
Charge for the year	–	3,664	16,186	21,555	41,405
Disposals	–	–	(1,812)	(10,766)	(12,578)
At 31 December 2008	–	24,265	54,321	113,461	192,047
Net book value:					
At 31 December 2008	–	40,205	50,778	72,088	163,071

28. FIXED ASSETS (continued)

The analysis of net book value of buildings is as follows:

	Group		Bank	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Held in Hong Kong:				
Leases of between 10 to 50 years	**9,150**	40,205	**9,150**	40,205
Held outside Hong Kong:				
Leases of over 50 years	**1,855**	2,220	**–**	–
	11,005	42,425	**9,150**	40,205

29. INTERESTS IN LEASEHOLD LAND

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

	Group and Bank	
	2009	2008
	$'000	$'000
Held in Hong Kong:		
Leases of between 10 to 50 years	**41,155**	47,161
Leases of over 50 years	**27,376**	27,708
	68,531	74,869
At 1 January	**74,869**	76,670
Additions	**25,921**	–
Disposals	**(30,798)**	–
Amortisation of prepaid operating lease payment	**(1,461)**	(1,801)
At 31 December	**68,531**	74,869

30. OTHER ASSETS

	Group		Bank	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Accrued interest receivable	**96,759**	192,374	**86,429**	189,157
Notes receivable	**860,996**	232	**860,996**	232
Settlement accounts	**59,890**	33,071	**111,262**	38,135
Customer liability under acceptances	**129,557**	132,188	**114,752**	114,045
Account receivables	**39,513**	12,109	**6,139**	3,991
Repossessed assets	**597**	8,300	**597**	8,300
Refundable deposits	**49,020**	38,214	**40,016**	35,964
Others	**118,538**	76,624	**104,699**	75,223
	1,354,870	493,112	**1,324,890**	465,047

31. DEPOSITS AND BALANCES OF BANKS

	Group		Bank	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Deposits and balances of banks	**5,923,142**	15,336,042	**5,551,184**	16,266,960

32. DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Demand deposits and current accounts	**3,960,625**	2,386,392	**3,782,826**	2,208,612
Saving deposits	**11,980,269**	6,209,885	**10,962,962**	5,536,537
Time and call deposits	**36,581,951**	32,161,139	**33,719,086**	30,813,475
Structured notes	**169,699**	–	**169,699**	–
Other deposits	**61,180**	81,184	**42,359**	41,496
	52,753,724	40,838,600	**48,676,932**	38,600,120

33. CERTIFICATES OF DEPOSIT ISSUED

	Group		Bank	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Issued at amortised cost	**5,439,729**	2,661,870	**5,284,744**	3,161,870

34. OTHER LIABILITIES

	Group		Bank	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Accrued interest payable	**65,338**	204,696	**56,465**	207,103
Settlement accounts	**80,225**	23,719	**112,247**	38,134
Account payables	**127,204**	65,774	**83,849**	50,017
Credit card related payables	**92,574**	–	**–**	–
Acceptances outstanding	**129,557**	132,188	**114,752**	114,045
Unearned income	**23,362**	916	**11,060**	916
Accrued salaries and welfare	**112,340**	55,037	**82,829**	53,751
Others	**60,145**	12,442	**12,917**	9,027
	690,745	494,772	**474,119**	472,993

35. CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's individual components of equity between the beginning and the end of the year are set out below:

	Share capital $'000	General reserve $'000	Investment revaluation reserve $'000	Regulatory reserve $'000	Other reserve $'000	Retained profits $'000	Total $'000
At 1 January 2009	310,131	750,956	(22,531)	296,675	15,913	6,922,237	8,273,381
Issuance of shares (note 35(b))	6,200,912	–	–	–	–	–	6,200,912
Regulatory reserve	–	–	–	130,075	–	(130,075)	–
Other comprehensive income:							
– change in fair value of available-for-sale financial assets	–	–	19,280	–	–	–	19,280
– net profit for the year	–	–	–	–	–	276,324	276,324
Total comprehensive income for the year	–	–	19,280	–	–	276,324	295,604
At 31 December 2009	6,511,043	750,956	(3,251)	426,750	15,913	7,068,486	14,769,897

	Share capital $'000	General reserve $'000	Investment revaluation reserve $'000	Regulatory reserve $'000	Other reserve $'000	Retained profits $'000	Total $'000
At 1 January 2008	310,131	750,956	(1,598)	251,000	15,913	6,762,840	8,089,242
Regulatory reserve	–	–	–	45,675	–	(45,675)	–
Other comprehensive income:							
– change in fair value of available-for-sale financial assets	–	–	(18,995)	–	–	–	(18,995)
– transfer to profit or loss on disposal of available-for-sale financial assets	–	–	(1,938)	–	–	–	(1,938)
– net profit for the year	–	–	–	–	–	205,072	205,072
Total comprehensive income for the year	–	–	(20,933)	–	–	205,072	184,139
At 31 December 2008	310,131	750,956	(22,531)	296,675	15,913	6,922,237	8,273,381

35. CAPITAL AND RESERVES (continued)

(b) Share Capital

	2009 $'000	2008 $'000
Authorised:		
167,587,600 (2008: 12,500,000) ordinary shares of $40 each	**6,703,504**	500,000

A written resolution was passed on 5 February 2009 whereby the authorised share capital of the Bank was increased from $500,000,000 of 12,500,000 ordinary shares of $40 each to $6,703,504,000 of 167,587,600 ordinary shares of $40 each.

	2009 $'000	2008 $'000
Issued and fully paid:		
162,776,068 (2008: 7,753,268) ordinary shares of $40 each	**6,511,043**	310,131

	No. of shares issued	Issued and fully paid share capital $'000
At 1 January 2009	**7,753,268**	**310,131**
Capital injection:		
– On 16 February 2009	**38,771,900**	**1,550,876**
– On 30 March 2009	**77,500,900**	**3,100,036**
– On 24 July 2009	**38,750,000**	**1,550,000**
	155,022,800	**6,200,912**
At 31 December 2009	**162,776,068**	**6,511,043**

35. CAPITAL AND RESERVES (continued)

(c) Reserves

All reserves, except for general reserve, are not available for distribution.

(a) General reserve

General reserve is appropriated from the retained profits for future use. It also includes a non-distributable regulatory reserve maintained in accordance with the banking regulations in Macau amounting to MOP97,100,000 (2008: MOP88,300,000).

(b) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the financial assets are derecognised and is dealt with in accordance with the accounting policies adopted for the measurement of the available-for-sale financial assets at fair value.

(c) Exchange reserve

Exchange reserve comprises of all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(d) Regulatory reserve

A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movements in the reserve are made directly through retained profits and in consultation with the HKMA.

(e) Hedging reserve

The hedging reserve of the Group comprises the effective portion of the cumulative net change in the fair value of interest rate swaps used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policies adopted for cash flow hedges.

(f) Other reserve

Other reserve is used to record the corresponding amount of the share options and bonus rewards granted by the former parent company to the Bank's employees. The options and rewards granted are classified as equity-settled share-based payments and the amount recognised in other reserve represents capital contribution from its former parent company and is not distributable.

(g) Retained profits

The Bank and its financial subsidiaries are required to maintain minimum capital adequacy ratios under their respective regulatory jurisdictions. The minimum capital requirements could therefore potentially restrict the amount of retained profits available for distribution to the shareholders.

36. MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Group entered into transactions with related parties in the normal course of its banking business including lending, acceptance and placement of inter-bank deposits, correspondent banking transactions, transactions related to the extend of credit and derivative transactions. The transactions were priced at the relevant market rates at the time of each transaction.

Advances to banks comprise advances to the ultimate controlling party under normal course of business and bear interest ranging from 0.6% p.a. to 2.3% p.a. (2008: 4% p.a. to 7% p.a.) with a contractual term of 1 month to 1 year in 2009 and 1 month to 3 months in 2008.

(a) The amount of material related party transactions during the year and outstanding balances at the reporting date are set out below:

	Group					
	Ultimate controlling party		Fellow subsidiaries		Associate	
	2009	2008	**2009**	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Interest income	**117,212**	1,259,115	**4,865**	5,024	**–**	–
Interest expense	**60,234**	939,725	**5,103**	10,051	**2,264**	6,493
Net gains from financial instruments at fair value through profit or loss	**3,556**	2,203	**–**	–	**–**	–
Operating expenses	**14,303**	3,255	**–**	–	**–**	–

36. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) The amount of material related party transactions during the year and outstanding balances at the reporting date are set out below: (continued)

	Group					
	Ultimate controlling party		Fellow subsidiaries		Associate	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Amounts due from:						
Cash and balances with banks	3,000,000	4,391,677	–	–	–	–
Placements with banks maturing between one and twelve months	6,288	9,283,965	–	–	–	–
Advances to banks	3,973,856	6,091,127	–	–	–	–
Advances to customers	–	–	300,000	200,000	–	–
Financial instruments measured at fair value through profit or loss	115,600	147,446	–	–	–	–
Available-for-sale financial assets	1,500,000	–	–	–	–	–
Derivative financial instruments	10,489	–	–	–	–	–
Other assets						
– notes receivable	500,000	–	–	–	–	–
– others	14,299	124,787	190	2,826	–	–
Amounts due to:						
Deposits and balances of banks	1,419,155	14,099,244	–	–	–	–
Deposits from customers	–	–	522,325	716,348	283,050	282,070
Certificates of deposit issued	3,500,000	–	–	–	–	–
Derivative financial instruments	8,247	13,017	–	–	–	–
Other liabilities	20,859	88,908	8,130	11,914	484	1,904
Contingencies and commitments:						
Trade-related contingencies	2,188	–	–	–	–	–
Forward forward deposit	–	14,600	–	–	–	–
Other commitments	–	–	149,930	–	–	–
Derivative financial instrument: (notional amount)						
Exchange rate contracts	1,163,230	–	–	–	–	–
Interest rate swaps	1,046,938	100,750	–	–	–	–

36. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) The amount of material related party transactions during the year and outstanding balances at the reporting date are set out below: (continued)

	Bank							
	Ultimate controlling party		Fellow subsidiaries		Subsidiaries		Associate	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Amounts due from:								
Cash and balances with banks	3,000,000	4,391,677	–	–	511,436	163,854	–	–
Placements with banks maturing between one and twelve months	6,288	9,283,965	–	–	10,130	–	–	–
Advances to banks	3,973,856	6,091,127	–	–	–	–	–	–
Advances to customers	–	–	300,000	200,000	3,000	3,000	–	–
Financial instruments measured at fair value through profit or loss	115,600	147,446	–	–	–	–	–	–
Available-for-sale financial assets	1,500,000	–	–	–	1,000,000	–	–	–
Derivative financial instruments	10,489	–	–	–	110,172	278,086	–	–
Other assets								
– notes receivable	500,000	–	–	–	–	–	–	–
– others	14,299	124,787	190	2,826	65,477	19,846	–	–
Amounts due to:								
Deposits and balances of banks	255,949	14,099,244	–	–	1,079,996	930,918	–	–
Deposits from customers	–	–	8,476	716,348	709,493	612,369	283,026	282,044
Certificates of deposit issued	3,500,000	–	–	–	–	500,000	–	–
Derivative financial instruments	8,247	802	–	–	59,455	159,739	–	–
Other liabilities	18,824	88,908	7,465	11,914	47,324	26,445	484	1,904
Contingencies and commitments:								
Direct credit substitutes	–	–	–	–	–	9,847	–	–
Trade-related contingencies	2,188	–	–	–	–	–	–	–
Forward forward deposit	–	14,600	–	–	–	–	–	–
Other commitments	–	–	149,930	–	4,995	4,999	–	–
Derivative financial instrument: (notional amount)								
Exchange rate contracts	1,163,230	–	–	–	3,116,410	3,965,353	–	–
Interest rate swaps	1,046,938	100,750	–	–	11,404	–	–	–

36. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Directors and key management personnel

During the year, the Group provided credit facilities to and accepted deposits from the directors and key management personnel of the Group and its holding companies and their close family members and companies controlled or significantly influenced by them. The credit facilities and deposits were provided and taken in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing, or where applicable, with other employees. These transactions did not involve more than the normal risk of collectability or present other unfavourable features.

	Group	
	2009	2008
	$'000	$'000
Loans	**4,782**	4,556
– Interest income earned	**116**	141
Deposits	**27,965**	33,268
– Interest expense paid	**150**	713
Compensation		
– Salaries and other short-term benefits	**27,290**	33,373

37. CONTINGENT LIABILITIES AND COMMITMENTS

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments to extend credit:

	Group		Bank	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Direct credit substitutes	**641,206**	612,219	**598,407**	562,630
Transaction-related contingencies	**73,670**	41,292	**70,159**	39,266
Trade-related contingencies	**537,743**	500,446	**499,783**	414,673
Forward forward deposit	**–**	14,600	**–**	14,600
Other commitments:				
– which are unconditionally cancellable or automatically cancellable due to the deterioration in the credit worthiness of the borrower	**25,392,364**	3,105,081	**2,243,359**	2,771,817
– with an original maturity				
– under one year	**483,412**	1,274,374	**381,059**	1,150,508
– one year and over	**–**	26,875	**–**	26,875
	27,128,395	5,574,887	**3,792,767**	4,980,369

37. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

The aggregate credit risk weighted amounts of the above contingent liabilities and commitments are as follows:

	Group		Bank	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Credit risk weighted amounts	**687,688**	960,219	**621,261**	868,986

Contingent liabilities and commitments are credit-related instruments which include letter of credits, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for the loans. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client defaults. As the facilities may expire without being drawn upon, the contract amounts do not represent expected future cash flows.

The risk weights used in the computation of credit risk weighted amounts range from 0% to 100% (2008: 0% to 100%).

38. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December not provided for in the financial statements are as follows:

	Group	
	2009	2008
	$'000	$'000
Expenditure contracted but not provided for	**33,755**	23,461
Expenditure authorised but not contracted for	**1,860**	9,181
	35,615	32,642

39. LEASE COMMITMENTS

At 31 December 2009, the Group and the Bank had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group		Bank	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Buildings:				
– Not later than one year	**181,240**	136,061	**150,757**	128,428
– Later than one year and not later than five years	**241,227**	239,956	**209,503**	229,988
– Later than five years	**384,480**	390,124	**384,480**	389,648
	806,947	766,141	**744,740**	748,064

The Group and the Bank lease a number of properties under operating leases. The leases typically run for an initial period of 2 to 5 years with an option to renew the lease when all terms are renegotiated, except for an operating lease with a lease term of 40 years which expires on 27 March 2032. Lease payments are usually increased every 3 years to reflect market rentals. None of the leases includes contingent rentals.

40. LOANS TO OFFICERS

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

	Group and Bank	
	2009	2008
	$'000	$'000
Aggregate amount in respect of principal and interest as at 31 December	**4,770**	4,511
The maximum aggregate amount outstanding in respect of principal and interest during the year	**5,975**	8,941

41. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash outflow from operating activities

	Group	
	2009	2008
	$'000	$'000
Operating activities		
Operating profit	**407,398**	322,209
Adjustments for:		
– Dividend income	**(3,324)**	(3,586)
– Depreciation and amortisation of prepaid operating lease payment	**61,386**	47,451
– Charges on impairment allowances	**74,256**	86,260
– Written off of loans and advance net of recoveries	**(94,621)**	(1,733)
– Loss of disposal of property and equipment	**–**	181
	445,095	450,782
Decrease/(increase) in operating assets		
Balances and placements with banks with original maturity beyond three months	**3,362,788**	14,411,408
Gross advances to banks	**2,028,476**	(5,833,719)
Gross advances to customers	**(15,425,987)**	(6,640,654)
Financial instruments measured at fair value through profit or loss with original maturity beyond three months	**(1,596,173)**	1,848,802
Derivative financial instruments	**(382,239)**	(119,330)
Other assets	**(830,533)**	606,753
	(12,843,668)	4,273,260
(Decrease)/increase in operating liabilities		
Deposits and balances of banks with original maturity beyond three months	**(12,774,401)**	(2,487,978)
Deposits from customers	**10,379,536**	6,358,239
Derivative financial instruments	**186,052**	126,170
Certificates of deposit issued	**1,522,882**	661,144
Other liabilities	**(13,872)**	(180,620)
	(699,803)	4,476,955
Net cash (outflow)/inflow from operations	**(13,098,376)**	9,200,997

41. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Cash and cash equivalents in the consolidated statement of cash flows

	Group	
	2009 $'000	2008 $'000
Cash and balances with banks	**8,749,448**	10,584,974
Placements with banks with original maturity within three months	**25,413**	5,974,348
Treasury bills and certificates of deposit held with original maturity within three months categorised as		
– measured at fair value	**139,528**	–
– held-to-maturity	**349,997**	–
– available-for-sale	**337,703**	323,257
	9,602,089	16,882,579

(c) Reconciliation with the consolidated statement of financial position

	Group	
	2009 $'000	2008 $'000
Cash and balances with banks (note 19)	**8,749,448**	10,640,774
Placements with banks maturing between one and twelve months	**28,042**	9,283,965
Treasury bills and certificates of deposit held categorised as		
– trading	**363,196**	–
– held-to-maturity	**349,997**	–
– available-for-sale	**3,064,669**	423,257
Amounts shown in consolidated statement of financial position	**12,555,352**	20,347,996
Less: Amounts with an original maturity of beyond three months		
– Cash and balances with banks	**–**	(55,800)
– Placements with banks maturing between one and twelve months	**(2,629)**	(3,309,617)
– Treasury bills and certificates of deposit held categorised as		
– trading	**(223,668)**	–
– available-for-sale	**(2,726,966)**	(100,000)
Cash and cash equivalent in the consolidated statement of cash flows	**9,602,089**	16,882,579

41. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(d) Acquisition of a subsidiary

During the year, the Bank has acquired the entire equity interest in AIGF and the net identifiable assets and liabilities acquired at the acquisition date are as follows:

	Note	2009 $'000
Assets		
Cash and balances with banks		3,019,924
Placements with banks maturing between one and twelve months		28,761
Advances to customers		4,272,405
Available-for-sale financial assets		68,614
Held-to-maturity investment		40,000
Derivative financial instruments		2
Deferred tax assets	27(b)	89,709
Fixed assets	28	6,602
Other assets		31,225
		7,557,242
Liabilities		
Deposits and balances of banks		3,361,501
Deposits from customers		1,021,739
Deposits from fellow subsidiary		513,849
Loans from immediate parent company		1,000,000
Certificates of deposit issued		254,977
Derivative financial instruments		65,680
Current taxation		14,452
Other liabilities		209,466
		6,441,664
Net identifiable assets acquired	14	1,115,578
Gains on acquisition of a subsidiary	14	(536,787)
Purchase cash consideration of a subsidiary	14	578,791
Less: cash and cash equivalent acquired		
– Cash and balances with banks		(3,019,924)
– Placements with banks maturing between one and twelve months		(28,761)
Net cash inflow		(2,469,894)

42. COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised 2007), *Presentation of financial statements*, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 3.

43. IMMEDIATE PARENT AND ULTIMATE CONTROLLING PARTY

At 31 December 2009, the directors consider the immediate parent and ultimate controlling party of the Group to be CCB Overseas Holdings Limited ("CCBOHL") and China Construction Bank Corporation ("CCB") respectively. CCBOHL is incorporated in Hong Kong and CCB is a listed bank incorporated in the PRC.

The notes to the consolidated financial statements and the following unaudited supplementary information are prepared to comply with the Banking (Disclosure) Rules.

1. OVERDUE AND RESCHEDULED ASSETS

(a) Gross advances to customers overdue for more than three months:

	2009		2008	
		% on total advances to		% on total advances to
	$'000	**customers**	$'000	customers
Six months or less but over three months	**18,678**	**0.03**	20,637	0.05
One year or less but over six months	**52,152**	**0.09**	3,617	0.01
Over one year	**11,061**	**0.02**	3,250	0.01
Total gross amount of advances overdue for more than three months	**81,891**	**0.14**	27,504	0.07
Individually assessed impairment allowances made in respect of the above overdue advances	**37,444**		24,164	
Net realisable value of collateral held against the overdue advances	**4,860**		4,380	
Covered portion of overdue advances	**2,130**		2,533	
Uncovered portion of overdue advances	**79,761**		24,971	
	81,891		27,504	

Collateral held with respect of overdue advances to customers is mainly residential, commercial and industrial properties.

As at 31 December 2009 and 31 December 2008, there were no overdue advances to banks.

(b) Rescheduled advances to customers:

	2009		2008	
		% on total advances to		% on total advances to
	$'000	**customers**	$'000	customers
Rescheduled advances to customers	**167,856**	**0.28**	22,842	0.06

Rescheduled advances are those advances which have been restructured or renegotiated because of deterioration in the financial position of the borrower, or the inability of the borrower to meet the original repayment schedule and for which the revised payment terms are non-commercial to the Bank. The rescheduled advances are stated net of any advances that have subsequently become overdue for over three months and reported as overdue advances as above.

As at 31 December 2009 and 31 December 2008, there were no rescheduled advances to banks.

1. OVERDUE AND RESCHEDULED ASSETS (continued)

(c) Other overdue and rescheduled assets

As at 31 December 2009 and 31 December 2008, there were no other overdue and rescheduled assets.

2. LIQUIDITY RATIO

	2009 %	2008 %
Solo average liquidity ratio	**41.87**	35.60
Consolidated average liquidity ratio	**38.72**	–

The solo average liquidity ratio was computed as the simple average of each calendar month's average liquidity ratio as reported on a single company basis for the period from January 2009 to November 2009 (in 2008: period from January 2008 to December 2008). The consolidated average liquidity ratio was the average liquidity ratio as reported on a consolidated basis for December 2009 only, because since December 2009, the Bank has computed the average liquidity ratio on a consolidated basis, including the Bank and its subsidiary, China Construction Bank (Asia) Finance Limited ("CCBAF") which was acquired by the Bank on 30 October 2010 (note 14), as required by the Hong Kong Monetary Authority ("HKMA") for its regulatory purposes, in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

3. CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT

(a) Capital adequacy ratio

	Group	
	2009 %	2008 %
Capital adequacy ratio as at 31 December	**30.14**	18.72
Core capital adequacy ratio as at 31 December	**29.92**	18.72

At 31 December 2009, the capital adequacy ratio was computed on a consolidated basis, including the Bank and its subsidiaries, China Construction Bank (Macau) Corporation Limited ("CCB (Macau)") and CCBAF, in accordance with the Banking (Capital) Rules. Deductions from total capital base include investments in certain subsidiaries, namely CCB Securities Limited and CCB Nominees Limited, which conduct non-banking related businesses, and their risk weighted assets have not been consolidated into the total risk weighted assets of the Group.

In calculating the risk weighted assets, the Group adopted the Standardised (Credit Risk) Approach and the Standardised (Market Risk) Approach for credit risk and market risk respectively. For operational risk, the capital requirement is calculated using the Basic Indicator Approach.

3. CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

(b) Capital base after deductions

	2009 $'000	2008 $'000
Core capital:		
Paid-up ordinary share capital	**6,511,043**	310,131
Published reserves	**7,932,550**	7,812,780
Profit and loss account	**808,942**	227,238
Deduct: Deferred tax assets	**(87,800)**	(5,293)
Total core capital before deductions	**15,164,735**	8,344,856
Less: Deductions from core capital	**(544,283)**	(557,954)
Total core capital after deductions	**14,620,452**	7,786,902
Supplementary capital:		
Reserves attributable to fair value gains/(losses) on revaluation of holding of available-for-sale equities and debt securities	**22,003**	(44)
Fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss	**15,092**	–
Regulatory reserve for general banking risks	**445,170**	314,354
Collectively assessed impairment allowances	**170,436**	67,754
Total supplementary capital before deductions	**652,701**	382,064
Less: Deductions from supplementary capital	**(544,284)**	(382,064)
Total supplementary capital after deductions	**108,417**	–
Total capital base before deductions	**15,817,436**	8,726,920
Total deductions from total capital base	**(1,088,567)**	(940,018)
Total capital base after deductions	**14,728,869**	7,786,902

3. CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

(c) Credit risk

The Group uses the following external credit assessment institutions ("ECAIs") to calculate its capital adequacy requirements under the Standardised (Credit Risk) Approach prescribed in the Banking (Capital) Rules:

– Moody's Investors Service

– Standard & Poor's Ratings Services

The process used to map ECAIs issue specific ratings in the Group's banking book is consistent with those prescribed in the Banking (Capital) rules.

The capital requirements on each class of exposures under the Standardised (Credit Risk) Approach at the reporting date are summarised as follows:

	Capital charges 2009 $'000	Capital charges 2008 $'000
Exposures on the statement of financial position		
Public sector entity	**8,544**	2,863
Bank	**712,867**	932,897
Securities firm	**1,619**	14
Corporate	**1,360,074**	1,048,895
Regulatory retail	**567,574**	290,297
Residential mortgage loans	**790,402**	636,411
Other exposures which are not past due exposures	**95,935**	84,778
Past due exposures	**22,260**	931
Total capital charge	**3,559,275**	2,997,086
Exposures not on the statement of financial position		
Direct credit substitutes	**37,217**	45,838
Transaction-related contingencies	**2,237**	1,349
Trade-related contingencies	**8,231**	7,709
Forward forward deposit	**–**	584
Other commitments	**7,365**	21,338
Exchange rate contracts	**63,932**	9,726
Interest rate contracts	**791**	160
Equity contracts	**237**	–
Total capital charge	**120,010**	86,704
Total capital charge for credit risk	**3,679,285**	3,083,790

3. CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

(d) The risk weighted assets for each class of credit risk exposures are set out as follows:

At 31 December 2009

Class of exposures	Total exposures* $'000	Exposures covered by recognised credit risk mitigation Collateral $'000	Guarantees $'000	Exposures after recognised credit risk mitigation Rated $'000	Unrated $'000	Risk weighted amount Rated $'000	Unrated $'000	Total $'000
On-balance sheet								
– Sovereign	3,853,738	–	311,597	4,165,335	–	–	–	–
– Public sector entity	–	–	533,985	–	533,985	–	106,797	106,797
– Bank	13,960,491	–	7,316,629	20,273,866	1,003,254	8,409,944	500,889	8,910,833
– Securities firm	119,518	79,037	–	–	40,481	–	20,241	20,241
– Corporate	26,125,852	710,295	7,740,678	1,277,944	16,396,935	603,996	16,396,935	17,000,931
– Cash	218,259	–	–	–	218,259	–	–	–
– Regulatory retail	9,673,418	213,857	–	–	9,459,561	–	7,094,671	7,094,671
– Residential mortgage loans	24,513,757	–	538,121	–	23,975,636	–	9,880,027	9,880,027
– Other exposures which are not past due exposures	1,356,434	157,244	–	–	1,199,190	–	1,199,190	1,199,190
– Past due exposures	189,317	–	–	–	189,317	–	278,247	278,247
Off-balance sheet								
– Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	27,133,395	210,462	–	2,188	26,920,745	219	687,899	688,118
– OTC derivative transactions	94,769,757	278,615	–	52,875,243	41,615,899	412,915	399,091	812,006
Total	201,913,936	1,649,510	16,441,010	78,594,576	121,553,262	9,427,074	36,563,987	45,991,061
Exposures deducted from capital base	1,088,567							

3. CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

(d) The risk weighted assets for each class of credit risk exposures are set out as follows: (continued)

At 31 December 2008

Class of exposures	Total exposures* $'000	Exposures covered by recognised credit risk mitigation: Collateral $'000	Exposures covered by recognised credit risk mitigation: Guarantees $'000	Exposures after recognised credit risk mitigation: Rated $'000	Exposures after recognised credit risk mitigation: Unrated $'000	Risk weighted amount: Rated $'000	Risk weighted amount: Unrated $'000	Total $'000
On-balance sheet								
– Sovereign	2,376,385	–	–	2,376,385	–	–	–	–
– Public sector entity	2,213	–	176,709	2,213	176,709	442	35,342	35,784
– Bank	23,878,824	–	1,633,943	25,510,970	1,797	11,660,130	1,086	11,661,216
– Securities firm	9,140	8,801	–	–	339	–	170	170
– Corporate	15,674,832	922,000	1,633,943	168,038	12,950,851	160,334	12,950,851	13,111,185
– Cash	228,430	–	–	–	228,430	–	–	–
– Regulatory retail	5,057,975	219,697	–	–	4,838,278	–	3,628,709	3,628,709
– Residential mortgage loans	19,062,263	176,709	–	–	18,885,554	–	7,955,136	7,955,136
– Other exposures which are not past due exposures	1,321,364	261,640	–	–	1,059,724	–	1,059,724	1,059,724
– Past due exposures	10,824	–	–	–	10,824	–	11,637	11,637
Off-balance sheet								
– Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	5,574,887	51,125	–	14,600	5,504,162	14,040	946,179	960,219
– OTC derivative transactions	13,485,754	–	–	6,640,051	6,845,703	52,329	71,249	123,578
Total	86,682,891	1,639,972	3,444,595	34,712,257	50,502,371	11,887,275	26,660,083	38,547,358
Exposures deducted from capital base	940,108							

* Total exposures represent the principal amount or credit equivalent amount, as applicable, net of individually assessed impairment allowances.

(e) Credit risk mitigation

As mentioned in note 6(a) to the financial statements on the credit risk management of the Group, the Group has established policies in managing and recognising credit risk mitigation, one of which is the taking of collateral and other credit enhancements. The principal types of collateral taken by the Group are also those of the recognised credit risk mitigation as prescribed in the Banking (Capital) Rules.

3. CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

(e) Credit risk mitigation (continued)

For regulatory capital calculation, the Group adheres to the criteria as stipulated in the Banking (Capital) Rules when assessing the eligibility of the credit risk mitigation.

Recognised collateral include both financial and physical collateral. Financial collateral include cash deposit, shares and debt securities and mutual fund, whilst physical collateral include commercial real estate and residential real estate. The exposure amount after mitigation is determined by applying the standard supervisory haircut stipulated in the Banking (Capital) Rules as an adjustment discount to the current collateral value.

Recognised guarantor is any sovereign entities, public sector entities, banks and regulated securities firms with a lower risk weight than the borrower.

On-balance sheet and off-balance sheet recognised netting is not adopted by the Group.

(f) Over-the-counter ("OTC") derivative transactions

In respect of the Group's counterparty credit risk which arises from OTC derivative transactions, the related credit risk management has set out in note 6(a) to the financial statements. In sum, the counterparty credit risk arising from OTC derivatives in the trading book is subject to the same credit risk management framework of the banking book. The Group manages and monitors the risk exposure by determining the current exposure amount of the transactions.

There were neither repo-style transactions nor credit derivative contracts entered by the Group at 31 December 2009 and 2008.

(i) Counterparty credit risk exposures

	OTC derivative transactions 2009 $'000	OTC derivative transactions 2008 $'000
Gross total positive fair value	**983,432**	477,951
Credit equivalent amount	**1,922,956**	281,723
Credit equivalent amounts or net credit exposures net of recognised collateral held	**1,644,340**	281,723
Risk weighted amounts	**812,006**	123,578

3. CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

(f) Over-the-counter ("OTC") derivative transactions (continued)

(ii) Major class of exposures by counterparty type

	2009 Contract amount $'000	2009 Credit equivalent amount $'000	2009 Risk weighted amount $'000
Banks	**52,875,245**	**1,244,474**	**412,915**
Securities Firms	**25,818**	**1,549**	**774**
Corporate	**38,076,039**	**425,986**	**378,241**
Others	**3,792,655**	**250,946**	**20,076**
	94,769,757	**1,922,955**	**812,006**

	2008 Contract amount $'000	2008 Credit equivalent amount $'000	2008 Risk weighted amount $'000
Banks	6,020,052	210,474	52,329
Corporate	2,807,965	33,456	33,456
Others	4,037,737	37,793	37,793
	12,865,754	281,723	123,578

(g) Asset securitisation

There was no asset securitisation for which the Group is an originating institution or an investing institution at 31 December 2009 and 2008.

(h) Market risk

	2009 $'000	2008 $'000
– Interest rate exposures	**58,973**	11,413
– Foreign exchange exposures (including options)	**4,449**	46,958
Capital charge for market risk	**63,422**	58,371

3. CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

(i) Operational risk

	2009 $'000	2008 $'000
Capital charge for operational risk	**197,174**	184,809

(j) Equity exposures in banking book

Investments in equity shares which are intended to be held on a continuing basis, but which do not comprise investments in associate, jointly controlled entities or subsidiaries, are classified as available-for-sale securities and are reported in the statement of financial position as "Available-for-sale financial assets". Included within this category are unquoted investments made by the Group for being members of the electronic payment systems in Hong Kong.

	2009 $'000	2008 $'000
Cumulative realised gains on disposal	**–**	–
Unrealised gains:		
– recognised in reserve but not through the income statement	**46,899**	1,564
– deducted from the supplementary capital	**21,105**	704

4. SEGMENTAL INFORMATION

(a) Gross advances to customers

(i) Gross advances to customers by industry sectors

Analysis of gross advances to customers covered by collateral is as follow:

	Group			
	2009		2008	
	Outstanding balance $'000	**% of advances covered by collateral**	Outstanding balance $'000	% of advances covered by collateral
Advances for use in Hong Kong				
Industrial, commercial and financial				
– Property development	**434,609**	**10.26**	68,119	0.00
– Property investment	**16,754,971**	**94.25**	14,436,969	94.93
– Financial concerns	**3,188,432**	**82.96**	728,060	49.41
– Stockbrokers	**119,858**	**65.91**	9,138	96.30
– Wholesale and retail trade	**2,980,151**	**88.20**	1,412,228	78.24
– Manufacturing	**2,074,326**	**52.28**	1,726,727	39.51
– Transport and transport equipment	**2,182,217**	**37.61**	1,006,790	25.02
– Recreational activities	**134,365**	**12.80**	18,145	94.04
– Information technology	**227,716**	**73.57**	152,711	60.07
– Others	**4,810,583**	**86.55**	1,851,000	83.75
	32,907,228		21,409,887	

4. SEGMENTAL INFORMATION (continued)

(a) Gross advances to customers (continued)

(i) Gross advances to customers by industry sectors (continued)

	Group			
	2009		2008	
	Outstanding balance $'000	% of advances covered by collateral	Outstanding balance $'000	% of advances covered by collateral
Individuals				
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	18,664	100.00	18,465	99.99
– Loans for the purchase of other residential properties	16,303,014	99.78	11,874,328	99.87
– Credit card advances	3,713,301	0.05	–	–
– Others	3,667,659	66.33	3,480,292	64.18
	23,702,638		15,373,085	
Trade finance	1,412,169	35.87	1,277,877	29.56
Advances for use outside Hong Kong	2,641,607	81.37	2,439,245	70.70
Total gross advances to customers	60,663,642		40,500,094	

4. SEGMENTAL INFORMATION (continued)

(a) Gross advances to customers (continued)

(i) Gross advances to customers by industry sectors (continued)

Further analysis of gross advances to customers which constitute not less than 10% of gross advances to customers are as follows:

	2009 $'000	2008 $'000
(1) Property investment		
– Impaired advances	**–**	–
– Individually assessed impairment allowances	**–**	–
– Collectively assessed impairment allowances	**14,457**	14,214
– New impairment allowances charged during the year	**243**	5,761
– Advances written-off during the year	**–**	5,127
(2) Individuals – loans for the purchase of other residential properties		
– Impaired advances	**13,086**	–
– Individually assessed impairment allowances	**–**	–
– Collectively assessed impairment allowances	**558**	179
– New impairment allowances charged during the year	**–**	–
– Advances written-off during the year	**–**	532

(ii) Gross advances to customers by geographical areas

	2009 $'000	2008 $'000
Hong Kong	**57,738,229**	37,984,604
Others	**2,925,413**	2,515,490
	60,663,642	40,500,094

(iii) Impaired advances by geographical areas

	2009		2008	
	Gross impaired advances $'000	**Individually assessed impairment allowances $'000**	Gross impaired advances $'000	Individually assessed impairment allowances $'000
Hong Kong	**264,619**	**66,749**	150,866	107,170
Macau	**–**	**–**	38	38
	264,619	**66,749**	150,904	107,208

4. SEGMENTAL INFORMATION (continued)

(a) Gross advances to customers (continued)

(iii) Impaired advances by geographical areas (continued)

More than 90% of the collective impairment allowances were allocated to Hong Kong at 31 December 2009 and 2008. The geographical analysis is based on location of the customers and has not taken account of transfer of risk.

(b) Cross-border claims

Cross-border claims are exposures recorded on the statement of financial position of counterparties based on the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate cross-border claims are shown as follows:

	Banks $'000	Others $'000	Total $'000
At 31 December 2009			
Asia Pacific excluding Hong Kong	**11,419,109**	**9,392,664**	**20,811,773**
– of which China	**10,566,955**	**7,412,841**	**17,979,796**
Europe	**877,825**	**36,072**	**913,897**

	Banks $'000	Others $'000	Total $'000
At 31 December 2008			
Asia Pacific excluding Hong Kong	20,267,500	3,558,255	23,825,755
– of which China	20,100,486	1,636,395	21,736,881
Europe	3,117,549	15,710	3,133,259

(c) Geographical information

The following table sets out information about the geographical location of the Group's revenue from external customers, profit before taxation, total assets, total liabilities, specified non-current assets, contingent liabilities and commitments. The geographical location of customers is based on the location at which the services were provided. The geographical location of the specified non-current assets which comprise fixed assets, interests in leasehold land and investment in an associate is based on the physical location of the asset, in case of fixed assets, and the location of the operation to which they are allocated, in the case of intangible assets and interests in associate.

4. SEGMENTAL INFORMATION (continued)

(c) Geographical information (continued)

	Revenues from external customers $'000	Profit before taxation $'000	Total assets $'000	Total liabilities $'000	Specified non-current assets $'000	Contingent liabilities and commitments $'000
At 31 December 2009						
Hong Kong (place of domicile)	**1,465,968**	**945,571**	**79,668,618**	**64,067,458**	**341,290**	**26,837,973**
Macau	**77,952**	**26,405**	**4,122,806**	**3,304,281**	**26,912**	**290,422**
Less: Intra-group items	**–**	**–**	**(2,211,073)**	**(1,787,626)**	**–**	**–**
	1,543,920	**971,976**	**81,580,351**	**65,584,113**	**368,202**	**27,128,395**
At 31 December 2008						
Hong Kong (place of domicile)	1,135,433	283,677	67,914,817	59,023,802	352,745	4,980,369
Macau	57,944	48,146	4,313,791	3,518,205	24,271	604,365
Less: Intra-group items	–	–	(3,520,231)	(2,712,426)	–	(9,847)
	1,193,377	331,823	68,708,377	59,829,581	377,016	5,574,887

(d) Reportable segments

The adoption of HKFRS 8, *Operating segments*, has resulted in the presentation of segment information in a manner that is more consistent with the internal reporting provided to the Group's senior management. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial information into segments based on related products and services. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to Group's senior executive management, and has resulted in additional reportable segments being identified and presented. In addition, in the segment information presented to Group's senior executive management, inter-segment charging method on inter-segment provision of funding was adopted in 2009. Corresponding amounts have been re-presented on a basis consistent with current year's segment information.

The Group manages its businesses by divisions, which are organised by products and services and customer types. In a manner consistent with the way in which information is reported internally to the Group's senior management for the purposes of resource allocation and performance assessment, the Group has presented the following 4 reportable segments. No reportable segments have been aggregated to form the following reportable segments.

4. SEGMENTAL INFORMATION (continued)

(d) Reportable segments (continued)

(1) Commercial banking

This segment represents the provision of a range of financial products and services to corporations, securities firms and small and medium sized enterprises. The products and services include commercial loans, syndicated loans, residential and commercial mortgages, trade financing, machinery and equipment leasing, stockbroker financing and deposit-taking activities.

(2) Consumer banking

This segment represents the provision of a range of financial products and services to non-China individual customers. The products and services comprise personal loans, residential mortgages, auto-financing, deposit-taking activities, wealth management, insurance and securities agency services.

(3) Commercial banking – China Enterprises

This segment represents the provision of a range of financial products and services to China related customers. The products and services comprise commercial loans, syndicated loans, residential and commercial mortgages, trade financing, refinancing loans and deposit-taking activities. This segment was previously included in the commercial banking segment but has been separated as an individual segment for better monitoring of the performance of China-related corporations.

(4) Treasury business

This segment covers the Bank's treasury operations. The Treasury Department enters into inter-bank money market transactions and invests in debt instruments. It also trades in debt instruments, derivatives and foreign currency for its own account. The treasury carries out customer driven derivatives, such as foreign currency trading. Its function also includes the management of the Group's overall liquidity position, including the issuance of certificates of deposit.

Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Non-current assets comprise fixed assets, interests in leasehold land and investment in an associate. Segment assets and liabilities are composed of placement with banks, advances to banks and customers, investment securities, derivatives financial instruments, deposits and certificates of deposit issued.

Revenue and expenses are allocated to the reportable segments with reference to interest and fee and commission income generated by those segments and the expenses incurred by these segments or which otherwise arise from the depreciation or amortisation of assets attributable to these segments.

4. SEGMENTAL INFORMATION (continued)

(d) Reportable segments (continued)

	2009				
	Commercial banking $'000	Consumer banking $'000	Commercial banking – China Enterprises $'000	Treasury business $'000	Total $'000
Net interest income	384,309	480,647	84,384	(37,542)	911,798
Revenue from external customers	450,757	719,790	219,641	117,545	1,507,733
Inter-segment revenue	(12,967)	15,080	(7,818)	–	(5,705)
Reportable segment revenue	437,790	734,870	211,823	117,545	1,502,028
Depreciation and amortisation	(2,335)	(28,339)	(4)	(745)	(31,423)
Operating profit before impairment losses	262,389	7,669	173,920	80,894	524,872
Loan impairment and other credit risk provisions	(8,543)	(45,743)	(19,970)	–	(74,256)
Operating profit after impairment losses	253,846	(38,074)	153,950	80,894	450,616
Non-operating income	–	6,945	–	–	6,945
Reportable segment profit before taxation	253,846	(31,129)	153,950	80,894	457,561
Reportable segment assets	20,606,907	31,912,679	13,795,629	13,234,158	79,549,373
Reportable segment liabilities	9,095,675	42,784,493	2,540,765	10,438,954	64,859,887

4. SEGMENTAL INFORMATION (continued)

(d) Reportable segments (continued)

	2008				
	Commercial banking $'000	Consumer banking $'000	Commercial banking – China Enterprises $'000	Treasury business $'000	Total $'000
Net interest income	171,498	246,520	137,329	67,729	623,076
Revenue from external customers	210,826	475,516	156,514	288,907	1,131,763
Inter-segment revenue	–	–	–	–	–
Reportable segment revenue	210,826	475,516	156,514	288,907	1,131,763
Depreciation and amortisation	(2,148)	(17,936)	(6)	(15)	(20,105)
Operating profit before impairment losses	73,579	(60,132)	122,633	234,816	370,896
Loan impairment and other credit risk provisions	(4,787)	6,754	(88,227)	–	(86,260)
Operating profit after impairment losses	68,792	(53,378)	34,406	234,816	284,636
Non-operating income	–	–	–	1,938	1,938
Reportable segment profit before taxation	68,792	(53,378)	34,406	236,754	286,574
Reportable segment assets	16,602,086	20,617,616	9,684,992	20,676,969	67,581,663
Reportable segment liabilities	6,145,078	31,344,151	3,524,461	18,315,286	59,328,976

4. SEGMENTAL INFORMATION (continued)

(d) Reportable segments (continued)

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2009 $'000	2008 $'000
Revenue		
Reportable segment revenue	**1,502,028**	1,131,763
Elimination of inter-segment interest income	**5,705**	–
Unallocated net interest (expenses)/income	**(7,205)**	87,347
Unallocated other operating income/(loss)	**43,392**	(25,733)
Consolidated operating income	**1,543,920**	1,193,377
Profit		
Reportable segment profit before taxation	**457,561**	286,574
Elimination of inter-segment interest income	**5,705**	–
Gain on acquisition of a subsidiary	**536,787**	–
Share of profits of an associate	**20,846**	7,676
Unallocated net interest (expenses)/income	**(7,205)**	87,347
Unallocated other operating income/(loss)	**43,392**	(25,733)
Operating expenses	**(85,110)**	(24,041)
Consolidated profit before taxation	**971,976**	331,823
Assets		
Reportable segment assets	**79,549,373**	67,581,663
Investment in an associate	**125,449**	112,253
Unallocated fixed assets	**174,222**	189,894
Interest in leasehold land	**68,531**	74,869
Other assets	**1,354,870**	493,112
Deferred tax assets	**89,647**	4,872
Cash in hand	**218,259**	228,430
Current tax recoverable	**–**	23,284
Consolidated total assets	**81,580,351**	68,708,377
Liabilities		
Reportable segment liabilities	**64,859,887**	59,328,976
Other liabilities	**690,745**	494,772
Current tax payable	**33,481**	5,833
Consolidated liabilities	**65,584,113**	59,829,581

5. NON-BANK MAINLAND EXPOSURES

Non-bank Mainland exposures are the Mainland exposures to non-bank counterparties. The categories follow the non-bank Mainland exposures submitted by the Bank to the HKMA pursuant to Section 63 of the Hong Kong Banking Ordinance.

	On-balance sheet exposure $'000	Off-balance sheet exposure $'000	Total $'000	Individually assessed impairment allowances $'000
At 31 December 2009				
Mainland entities	687,298	128,384	815,682	–
Companies and individuals outside Mainland where the credit is granted for use in the Mainland	1,591,003	483,387	2,074,390	28,462
Other counterparties the exposure to whom are considered by the Bank to be non-bank Mainland exposures	277,077	30,354	307,431	–
	2,555,378	642,125	3,197,503	28,462

	On-balance sheet exposure $'000	Off-balance sheet exposure $'000	Total $'000	Individually assessed impairment allowances $'000
At 31 December 2008				
Mainland entities	261,087	47,925	309,012	–
Companies and individuals outside Mainland where the credit is granted for use in the Mainland	1,615,417	351,765	1,967,182	46,042
Other counterparties the exposure to whom are considered by the Bank to be non-bank Mainland exposures	192,145	10,203	202,348	–
	2,068,649	409,893	2,478,542	46,042

6. CURRENCY CONCENTRATIONS

The Group had the following net foreign currency exposures which exceeded 10% of the net foreign currency exposure in all currencies:

					Of which			
	Total	**AUD**	**JPY**	**CNY**	**NZD**	**CAD**	**USD**	**MOP**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
		HKD equivalent	**HKD equivalent**	**HKD equivalent**	**HKD equivalent**	**HKD equivalent**	**HKD equivalent**	**HKD equivalent**
At 31 December 2009								
Spot assets	**14,900,643**	**178,106**	**152,826**	**499,656**	**7,686**	**3,290**	**12,810,367**	**772,853**
Spot liabilities	**(17,939,666)**	**(1,871,738)**	**(44,815)**	**(504,454)**	**(583,031)**	**(440,040)**	**(12,980,086)**	**(431,460)**
Forward purchases	**93,150,670**	**2,699,804**	**843,171**	**38,401,884**	**771,983**	**621,635**	**47,206,536**	**–**
Forward sales	**(90,027,500)**	**(990,248)**	**(985,390)**	**(38,491,332)**	**(209,939)**	**(211,772)**	**(47,139,949)**	**–**
Net long/(short) position	**84,147**	**15,924**	**(34,208)**	**(94,246)**	**(13,301)**	**(26,887)**	**(103,132)**	**341,393**
Net structural position	**423,447**	**–**	**–**	**–**	**–**	**–**	**–**	**423,447**

					Of which			
	Total	AUD	JPY	CNY	NZD	CAD	USD	MOP
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
		HKD equivalent	HKD equivalent	HKD equivalent	HKD equivalent	HKD equivalent	HKD equivalent	HKD equivalent
At 31 December 2008								
Spot assets	27,816,394	325,207	669,115	409,827	95,957	23,243	24,200,083	767,885
Spot liabilities	(30,077,280)	(1,731,823)	(604,883)	(411,307)	(423,512)	(441,086)	(24,455,177)	(559,179)
Forward purchases	19,811,083	1,647,950	1,550,771	2,624,058	748,586	641,327	9,397,056	–
Forward sales	(17,351,809)	(274,574)	(1,689,642)	(2,632,317)	(443,184)	(244,987)	(8,999,995)	–
Net long/(short) position	198,388	(33,240)	(74,639)	(9,739)	(22,153)	(21,503)	141,967	208,706
Net structural position	423,447	–	–	–	–	–	–	423,447

The structural assets of the Group in MOP include investment in a subsidiary in Macau.

The net options position is calculated using the Simplified Approach and there was no net options position as at 31 December 2009 and 31 December 2008.

7. CORPORATE GOVERNANCE

The Bank has fully complied with the requirements set out in the module on "Corporate Governance of Locally Incorporation Authorised Institutions" under the Supervisory Policy Manual issued by the HKMA in September 2001.

(a) Board of Directors

The Board of Directors of the Group has the ultimate responsibilities to the shareholders, depositors, creditors, employees and other stakeholders, banking supervisors of the Group in ensuring that the business and operational functions of the Group are managed in a prudent, professional and competent manner and in conformity with relevant laws and regulations. Key specialised committees are established to ensure that such operational functions, as well as efficient management of the main types of risk arising out of the business, are effectively carried out.

The terms of reference of the Board is set out below:

- Ensuring competency of the Group's management by appointing a competent chief executive, overseeing appointment of other senior executives, and effectively supervising senior management's performance on an on-going basis;
- Reviewing and approving the Group's business objectives, strategy and business plans, and to ensure that performance against plan is regularly reviewed, with corrective action to be taken as needed;
- Ensuring that the operations of the Group are conducted prudently and within the framework of laws and regulations by implementing and maintaining an effective control environment throughout the institution;
- Monitoring and ensuring that the Group conducts its affairs with a high degree of integrity and ethical values through the implementation of appropriate policies, guidelines and standards, and monitoring programs;
- Observing the module on "Corporate Governance of Locally Incorporation Authorised Institutions" under the Supervisory Policy Manual issued by the HKMA; and
- Any other additional responsibility that may derive from the listing obligations of the ultimate controlling party.

Members of the Board of Directors, who come from a variety of different backgrounds, have a diverse range of business, banking and professional expertise. Currently, the Board comprises three executive Directors and seven non-executive Directors. Of the seven non-executive Directors, five are independent non-executive Directors.

7. CORPORATE GOVERNANCE (continued)

(b) Executive Committee

The Executive Committee has, to the extent not specifically restricted by law or by the Bank's Articles of Association, all the powers of the Board of Directors in the management of the business and affairs of the Group during intervals between Board meetings. Specifically, the Executive Committee is responsible for:

- Reviewing that the Group performs in accordance with approved business objectives, strategies and plans, and taking appropriate actions as needed;
- Ensuring that the business and affairs of the Group are conducted prudently and within the framework of laws, regulation and established policies; and
- Ensuring that all employees are conducting the Group's affairs with a high degree of integrity and in compliance with the Group's established code of conduct and ethical values.

Membership of the Executive Committee is appointed by the Board of Directors, and the current composition consists of six members, namely the Chief Executive Officer as the Chairperson, Head of Consumer Banking, Chief Financial Officer, Head of Information Systems, Head of Commercial Banking – Hong Kong & Macau Division and Head of Commercial Banking – China Enterprises Division.

(c) Operations Committee

The Operations Committee is charged with the responsibility for:

- Formulating and approving operations policies, procedures and guidelines pertaining to all business activities of the Group to ensure ongoing operational efficiency, cost-effectiveness and adequate controls, as well as compliance with all applicable regulatory and corporate requirements and standards;
- Reviewing and approving standard service charges and fees in relation to products and services offered by the Group to ensure fairness and market competitiveness;
- Formulating and approving expense authority delegations to different levels of management staff to ensure adequate balance of operational efficiency and expense control; and
- Reviewing, analysing and approving operation losses and operational issues that are exceptions to the Group's normal business activities to ensure due compliance with all relevant regulatory and corporate guideline and standards.

Membership of the Operations Committee is appointed by the Executive Committee and ratified by the Board of Directors. Chaired by the Head of Operations Planning, Product Services & Administration, there are nine other members in the Operations Committee, namely the Head of Consumer Banking, Head of Consumer Branch Banking, Head of Information Systems, Head of Operations, Head of Planning, Marketing and Communications, Head of Finance and Accounting, Head of Compliance, Services & Operations Manager of Consumer Banking Section of CCB (Macau) and representative from Operational Risk Management.

7. CORPORATE GOVERNANCE (continued)

(d) Asset and Liability Committee

The Asset and Liability Committee ("ALCO") is charged with the overall responsibility to manage the Group's:

– Liquidity, interest rate risk, foreign exchange risk and earnings exposure;

– Funding strategy and composition of the Group's assets and liabilities, including on-balance and off-balance sheet items; and

– Establishing various limits, control ratios and guidelines in accordance with the statutory and local regulatory requirements.

Membership of the ALCO is appointed by the Executive Committee and ratified by the Board of Directors. Currently, the Committee consists of seven members, namely the Chief Financial Officer as the Chairperson, the Chief Executive Officer, Head of Treasury, Treasury Manager of China Construction Bank Corporation, Head of Consumer Banking, Head of Finance and Accounting and Head Money Trader.

(e) Information Technology Committee

The Information Technology Committee is responsible for:

– Overseeing the development of the Group's long-term and near-term information technology strategic plans, including strategy formulation, risk management and resource planning for internet banking;

– Formulating and approving major information technology policies and practices;

– Prioritising and monitoring major information technology projects and allocation of resources;

– Assessing the effectiveness of information technology budgeting, planning and resourcing processes;

– Appraising major accomplishments in the application of technology, as well as reviewing and resolving any significant systems related issues;

– Ensuring an adequate information technology control environment to be in place;

– Evaluating and ensuring the overall cost and effectiveness of information technology systems employed by the Group; and

– Providing a platform to disseminate technology related polices and practices to business units, as well as to solicit their inputs and support.

Membership of the Information Technology Committee is appointed by the Executive Committee and ratified by the Board of Directors. Currently, the Committee consists of eight members with the Head of Information Systems as the Chairperson. Other members are the Chief Executive Officer, Head of Consumer Banking, designated representative from Operations Planning, Product Services & Administration, Consumer Banking Business, Technology Risk and Internal Control, Information Systems and Planning, Marketing and Communications.

7. CORPORATE GOVERNANCE (continued)

(f) Audit Committee

The Audit Committee serves as the Board's "eyes and ears" in monitoring compliance with the Bank's policies and other internal and statutory regulations. It provides oversight of the Group's internal and external auditors and thereby assists the Board in providing independent review of the effectiveness of the financial reporting process and internal control system of the Group.

The Committee is responsible for:

– Reviewing and monitoring the effectiveness of the internal control system of the Group;

– Overseeing the workings of the internal and external auditors;

– Ensuring the objectivity, credibility and integrity of financial reporting; and

– Monitoring the compliance by the Group with the necessary legal and regulatory requirements.

The members of the Audit Committee are appointed by the Board of Directors from amongst the non-executive Directors of the Group. The Audit Committee consists of three non-executive Directors, the majority of whom are independent.

Other than the members of the Committee, the Head of Finance and Accounting, Internal Audit Manager, the Head of Risk Management and a representative of the external auditors shall normally attend the meetings. Other Board members shall also have the right of attendance.

(g) Remuneration Committee

The Remuneration Committee provides oversight of the overall remuneration matters of the Group to be consistent with its culture, strategy and control environment. It also makes recommendations to the Board on the remuneration policy for senior executives who are sitting on the Executive Committee ("Senior Executives") of the Group and based on which to approve their specific remuneration packages. The Remuneration Committee ensures that the levels of remuneration should be sufficient and appropriate to attract and retain the necessary talents in order to provide a stable and efficient operation of the Group.

The Committee is responsible for:

– Reviewing and making recommendations to the Board on the overall remuneration policy and structure;

– Reporting to the Board on any major changes and updates of overall remuneration policy and structure reviewed by the Committee;

– Determining the specific remuneration packages of Senior Executives, including benefits in kind, pension rights and compensation payments, based on the recommendation of the Chief Executive;

– Reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

7. CORPORATE GOVERNANCE (continued)

(g) Remuneration Committee (continued)

– Reviewing and approving the compensation payable to Senior Executives in connection with any termination of their office to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and appropriate;

– Reviewing and approving compensation arrangements relating to dismissal or removal of Senior Executives for misconduct or other reasons to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

– Ensuring that no Senior Executives or any of his/her associates is involved in deciding his/her own remuneration to avoid conflict of interest; and

– Considering any other topics, as defined by the Board.

The members of the Remuneration Committee are appointed by the Board of Directors from amongst the Directors of the Group. The Remuneration Committee consists of three Directors, the majority of whom are non-executive.

The Chief Executive Officer or in his absence, the Alternate Chief Executive Officer is to attend the meetings of the Committee as a regular attendee. Head of Human Resources is also to attend the meetings of the Committee as a regular attendee to provide the necessary support.

(h) Credit Committee

The Group has set up Credit Committee to act as a central forum for overseeing its asset quality and resolve all credit risk related issues. Its major responsibilities include the followings:

– Oversee overall credit quality of the Group;

– Ensure credit policies are adequate in the light of updated market conditions and economic trends, and lending activities are conducted in accordance with the Group's established policies and relevant laws and regulations;

– Review and approve credit applications;

– Monitor and control large exposures, connected lending, as well as product and industry concentration based on established policies and internal risk limits to ensure prudent credit decisions are made and that the Group complies with statutory requirements and supervisory guidelines;

– Assess the Group's vulnerability to stressed scenario through review of credit risk stress testing assumptions and results; and

– Review trends in delinquency and appropriateness of impairment allowance.

7. CORPORATE GOVERNANCE (continued)

(h) Credit Committee (continued)

The members of the Credit Committee are appointed by the Board of Directors. Current composition consists of six members with Chief Credit Officer as the Chairperson. Other members are the Chief Executive Officer, Head of Consumer Banking, Chief Financial Officer, Head of Commercial Banking – Hong Kong & Macau Division and Head of Commercial Banking – China Enterprises Division.

8. RISK MANAGEMENT

(a) Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Mitigating this risk are sound risk management systems, well defined procedures and established controls to monitor transactions and positions, documentation of transactions, regulatory compliance reviews, prudent underwriting and reconciliation standards, periodic reviews by internal control examiners and auditors, and continuous maintenance of high employee risk awareness and ethical standards. Business line management is responsible for managing operational risks specific to their business units on a day-to-day basis. In addition, the Group also maintains contingency plans and data processing back-up sites for operations support in the event of any disastrous events.

Designated unit under Risk Management drives and coordinates the development the operational risk management process in particular conducting self-assessment exercise and the setting up key risk indicators; while Operations Committee plays a role to oversee the operational risk of the Group. The internal control environment is monitored on an ongoing basis by the Group's Internal Control department while the Audit Department of the ultimate controlling party, China Construction Bank Corporation, will also conduct reviews on the Group on a regular basis. The results of their monitoring activities are reported to the senior management of the Group, the Board of Directors, as well as to the senior management of the ultimate controlling party. Their periodic reviews cover a comprehensive evaluation of all the Group's business processes and support functions.

Compliance awareness is upgraded through training, both by internal resources and through engagement of external expertise. All officers are required to actively engage in the continuous monitoring process. A Compliance Officer is designated to oversee the overall regulatory compliance matters.

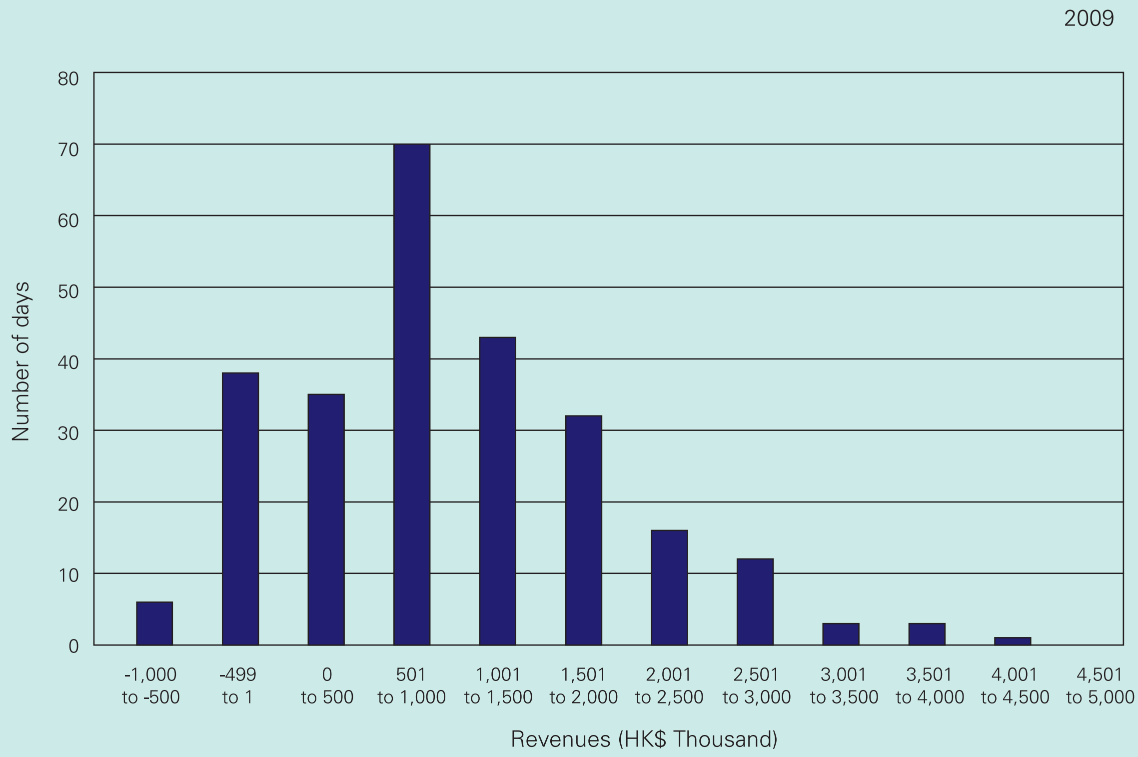
8. RISK MANAGEMENT (continued)

(b) Market risk management

The Group's market risk management is detailed in note 6(b) to the financial statements.

The Group's foreign exchange risk exposure arises from its foreign exchange trading activities. For the year ended 31 December 2009, the average daily revenue of the foreign exchange trading activities was $694,140 (2008: $517,514) and the standard deviation of this daily revenue was $937,058 (2008: $297,000). An analysis of the frequency distribution of the daily foreign exchange trading revenue is presented by the following charts.

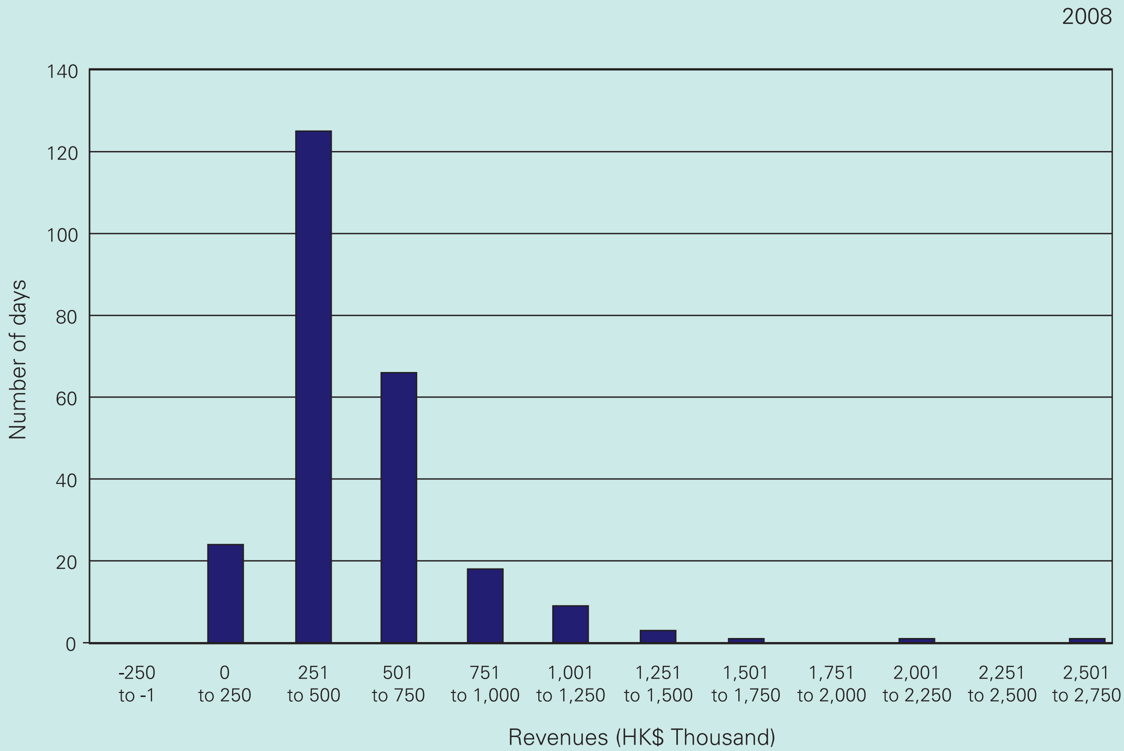
Frequency distribution of daily FX trading income



8. RISK MANAGEMENT (continued)

(b) Market risk management (continued)

Frequency distribution of daily FX trading income



OFFICES AND BRANCHES

Executive Office

16/F, York House, The Landmark, 15 Queen's Road Central, Central, Hong Kong

Administrative Offices

11/F & 17/F, Devon House, 979 King's Road, Hong Kong

Premier Select Centers in Hong Kong

Causeway Bay	22/F, AIA Plaza, 18 Hysan Avenue	Tel: 3718 3780
Central	12/F, 9 Queen's Road Central	Tel: 3718 3760
Tsimshatsui	25/F, Tower 6, The Gateway, 9 Canton Road	Tel: 3718 3737

Branches in Hong Kong

Aberdeen	170 Aberdeen Main Road	Tel: 3718 3155
Causeway Bay Jardine's Bazaar	51–53 Jardine's Bazaar	Tel: 3718 3520
Causeway Bay Plaza	G/F, Causeway Bay Plaza I, 489 Hennessy Road	Tel: 2838 2384
Central	G/F, 6 Des Voeux Road Central	Tel: 2844 7016
Central Des Voeux Road	99 Des Voeux Road Central	Tel: 2851 6611
Cheung Sha Wan	Shop 105, 1/F, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road	Tel: 3718 3600
Fo Tan	Shop 10, 1/F, Shatin Galleria	Tel: 3718 7062
Happy Valley	G/F, 37 & 39 Sing Woo Road	Tel: 2892 7488
Hunghom Ma Tau Wai Road	G/F, Chasegold Tower, 100 Ma Tau Wai Road	Tel: 3718 3580
Hunghom Whampoa	Shop A3, G/F, Yuen Wah Building, Whampoa Estates	Tel: 3718 3180
Jordan	316 Nathan Road	Tel: 3718 3999
Kwun Tong	56 Hoi Yuen Road	Tel: 3718 7082
Ma On Shan	Shop 297, Level 2, Ma On Shan Plaza	Tel: 3718 3560
Mei Foo	Shop N46, G/F, 2 Humbert Street, Mei Foo Sun Chuen	Tel: 3510 7800
Mongkok Allied Plaza	Shop G46, G/F, Allied Plaza, 760 Nathan Road	Tel: 2787 3390
Mongkok Nathan Road	788–790 Nathan Road	Tel: 3718 7128
North Point	382–384 King's Road	Tel: 3718 3500
Quarry Bay	Shop E, 1/F, Devon House, 979 King's Road	Tel: 3718 2518
Sai Wan	518 Queen's Road West	Tel: 3718 3640
Sai Ying Pun	73-78 Des Voeux Road West	Tel: 3718 3960
Shatin Plaza	Shop 5, Level 1, Shatin Plaza	Tel: 3718 3160
Shau Kei Wan	2 Po Man Street	Tel: 3718 7000
Sheung Shui	67 San Fung Avenue	Tel: 3718 3620
Sheung Wan Des Voeux Road	237 Des Voeux Road Central	Tel: 3718 7040
Tai Kok Tsui Olympian City	Shop 109, 1/F, Olympian City 2	Tel: 3718 3920
Tai Po	Shop 9B, G/F, 1 On Chee Road	Tel: 3718 7022
Tseung Kwan O	Shop 190, Level 1, Metro City 3	Tel: 3718 3120
Tsimshatsui Canton Road	Shop 3A, G/F, Hanley House, 68–80 Canton Road	Tel: 3718 3680
Tsimshatsui Humphreys Avenue	3–3A Humphreys Avenue	Tel: 3718 7166

OFFICES AND BRANCHES

Branches in Hong Kong (continued)

Tsuen Wan	282–284 Sha Tsui Road	Tel: 3718 7199
Tuen Mun	Shop 9, G/F, Tuen Mun Town Plaza 2	Tel: 3718 3118
Wanchai Great Eagle Centre	Shop 121, 1/F, Great Eagle Centre	Tel: 3718 3900
Wanchai Hennessy Road	Unit C, G/F, China Overseas Building, 139 Hennessy Road	Tel: 2511 3283
Wanchai Queen's Road East	72 Queen's Road East	Tel: 3718 3668
Yaumati	556 Nathan Road	Tel: 3718 7200
Yuen Long	68–76 Castle Peak Road	Tel: 3718 3543

Branches in Macau

Central	70–76 Avenida de Almeida Ribeiro	Tel: 8396 9611
Fai Chi Kei	G/F, Chino Plaza, 144 Rua da Bacia Sul	Tel: 8291 1050
Hak Sha Wan	111 Avenida de Venceslau de Morais	Tel: 8291 1380
Kou Si Tak	36–38A Avenida de Horta e Costa	Tel: 8981 3000
Nam Wan	359 Avenida da Praia Grande	Tel: 8291 1980
San Hau On Hot Line	Shop Q, Edificio Hot Line, 349 Alameda Dr. Carlos D'Assumpcao	Tel: 8291 1180
San Hau On Landmark	Shop 024, G/F, Macau Landmark, 555 Avenida da Amizade	Tel: 8291 1710
Taipa Flower City	Shop A, Supreme Flower City, 160 Rua de Braganca	Tel: 8895 5111

SUBSIDIARY AND ASSOCIATED COMPANIES

Subsidiary Companies

Hong Kong

China Construction Bank (Asia) Finance Limited
23/F, Dorset House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong Tel: 2597 3000

CCB Securities Limited
11/F, Devon House, 979 King's Road, Quarry Bay, Hong Kong Tel: 2903 8498

CCB Nominees Limited
11/F, Devon House, 979 King's Road, Quarry Bay, Hong Kong Tel: 3718 3388

Macau

China Construction Bank (Macau) Corporation Limited
70–76 Avenida de Almeida Ribeiro, Macau Tel: 8396 9611

Associated Company

Hong Kong

QBE Hongkong & Shanghai Insurance Limited
17/F, Warwick House, West Wing, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong Tel: 2877 8488

BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

Board of Directors

FAN Yifei *(Chairman)*
MAO Yumin *(Vice Chairman)*
Miranda Pui Fong KWOK *(President & Chief Executive Officer)*
CHAN Mo Po, MH, JP
CHAN Wing Kee, GBS, OBE, JP
James S. DICKSON LEACH
Bucky Wing Foon FONG
LIU Chak Wan
Charles Chi Man MA
ZHANG Min

Secretariat

HO Sik Ming *(Secretary to the Board & Corporate Secretary)*

Executive Management

Miranda P. F. Kwok	President & Chief Executive Officer
Huang Tao	Senior Vice President & Head of Consumer Banking Group
Vincent S. H. Ho	Senior Vice President, Treasury
Phoebe S. C. Lee	Senior Vice President, Chief Credit Officer
Peter Y. W. Hong	Senior Vice President, Commercial Banking — Hong Kong & Macau
Christine W. L. Jue	Senior Vice President & Head of Consumer Branch Banking
Ahming C. M. Lau	Senior Vice President & Head of Operations
Grace S. H. Lee	Senior Vice President & Head of Human Resources
Michael K. M. Leung	Senior Vice President & Chief Information Officer
Ma Jian	Senior Vice President, Commercial Banking — China Enterprises
Maggie M. K. Ma	First Vice President & Head of Residential Mortgage & Consumer Loan Business
Victor M. T. Ng	Senior Vice President, Banking Administration
Elle C. W. Wong	Senior Vice President & Chief Marketing Officer
Lawrence T. W. Yeung	First Vice President & Head of Operations Planning, Product Services & Administration
Kenneth W.F. Yiu	Senior Vice President & Financial Controller