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

Annual Report 2011

Delivering Cross-border Service Edges

Bank History

CHINA CONSTRUCTION BANK (ASIA)

China Construction Bank (Asia) “CCB (Asia)” has a long history of 100 years since 1912 and is one of the “Century-old” corporations in Hong Kong. In the past century, we witnessed the economic development of Hong Kong, at times during both booming and declining economy. For details of our history, the story shall be traced back to 1912 when the Bank of Canton was established in Hong Kong.

In February 1912, Chinese businessmen from San Francisco, United States, founded The Bank of Canton Limited which was the first Chinese-owned bank in Hong Kong. Our growth paralleled Hong Kong’s development. The Great Depression in the 1930s and the Second World War in the 1940s seriously disrupted the bank’s operations. When Hong Kong was liberated after the war in 1945, our former staff rebuilt the bank and soon it was back in business.

Following the acquisition by Security Pacific National Bank in 1988, The Bank of Canton Limited was renamed Security Pacific Asian Bank Limited. Upon the merger of Bank of America Corporation “BOA Corporation” and Security Pacific Corporation in 1992, we changed our name again to Bank of America (Asia) Limited in 1993. In 1998, BOA Corporation merged with NationsBank Corporation to form the new Bank of America. And in 2001, our Chinese name was changed again to align with the English name.

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 and we were officially renamed China Construction Bank (Asia) Corporation Limited on December 30 in the same year.

Since 2007, we have made significant progress and developments in customers acquisition, launch of comprehensive product suite, expansion of branch network, optimization of operation flow, reinforcement of risk management and advancement in information technology. Our branch network spans all over Hong Kong and Macau from 17 branches in 2007 to 50 branches now, including one CCB Private Banking center; the number of staff has increased approximately 3 times to over 2,000; the accumulative increase of our loans and deposits was the highest among the industry in the past 5 years.

To complete our wealth management function to provide better services for customers in Hong Kong and Macau, we acquired AIG Finance (Hong Kong) Limited in October 2009 and the company was renamed China Construction Bank (Asia) Finance Limited, and the move has made us one of the largest credit card issuing institutions in Hong Kong. In May 2011, we successfully completed the integration of China Construction Bank (Asia) Finance Limited, pursuing to maximize the synergistic benefit for our bank’s overall operation.

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.

CHINA CONSTRUCTION BANK

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 13,581 branches and sub-branches in Mainland China, and maintained 9 overseas branches located respectively in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York, Ho Chi Minh City and Sydney, as well as 2 representative offices in Moscow and Taipei as of December 31, 2011. The bank has a number of subsidiaries, including China Construction Bank (Asia) Corporation Limited, CCB International (Holdings) Limited, China Construction Bank (London) Limited, CCB Financial Leasing Corporation Limited, CCB Trust Co., Limited, Sino-German Bausparkasse Co., Ltd., CCB Principal Asset Management Co., Ltd. and CCB Life Insurance Company Limited. The bank has nearly 330,000 staff, and provides comprehensive banking services to 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, 2011, the market capitalization of CCB reached approximately USD175 billion, ranking 2nd among listed banks in the world.

This annual report is printed on environmentally friendly paper.

Our Corporate Culture

Vision

To become a first-class medium to large commercial bank in Hong Kong and Macau

Mission

- Provide better service to our customers
- Create higher value to our shareholders
- Build up broader career path for our associates
- Assume full responsibilities as a corporate citizen

Core Values

Integrity, Trustworthy, Prudence, Innovation

Contents

To Customers and Shareholders

In 2011, the global economy was unstable and the financial industry faced increasing pressure and challenges. With strong support from our parent bank, China Construction Bank, and the continued efforts of our management and staff, our business accomplished stable growth despite the highly competitive environment.

Our net profit after tax reached HKD610 million for the year ended December 31, 2011, an increase of 8.9% as compared to 2010.

In 2011, our net interest income increased by 5.9% to HKD1,684 million as compared to 2010. The increase was mainly contributed by the increase in interest income resulting from the increase in advances to customers, trade bills and advances to banks, but partly offset by the increase in interest expense due to the growth of customer deposits and the rising of deposit interest rate. The net interest margin decreased to 1.47% in 2011 from 1.85% in 2010.

Net fees and commission income increased to HKD334 million, representing an increase of 12.7% as compared with 2010.

Net trading income increased by HKD85 million to HKD315 million, or an increase of 36.7% as compared to 2010. The increase was mainly due to increase in foreign exchange contracts income amounted to HKD41 million and the decrease in losses on revaluation of interest rate contracts amounted to HKD47 million.

Conversely, net gains from financial instruments designated at fair value through profit or loss decreased to HKD54 million, a decrease of HKD50 million or 48.3%, as compared to 2010. This was mainly caused by decrease in our respective interest income and the unrealized gains in 2010 turning to unrealized losses in 2011 on revaluation of these instruments.

Total operating expenses were 6.4% higher than prior year, mostly attributable to business growth and branch network expansion.

Operating profit before impairment losses in 2011 rose by 11.8% to HKD753 million, which was HKD80 million higher than 2010.

Loan impairment charge in 2011 increased by 118.7% to HKD66 million, mainly due to decrease in release of impairment and increase in collectively assessed impairment charge resulting from the loan portfolio growth.

Operating profit after impairment losses for 2011 increased to HKD687 million, an increase of HKD44 million, or 6.8%, over the prior year. Total profit for the year grew to HKD610 million, which was 8.9% higher than prior year.

Our total consolidated assets stood at HKD134,871 million at the end of 2011, a significant increase of 31.3% over the HKD102,728 million at the end of 2010. Gross advances to customers and trade bills increased by 25.5% to HKD91,346 million. Deposits from customers grew by 30.9% to HKD93,112 million when compared to prior year end position. Certificates of deposit issued stood at HKD16,731 million, an increase of 112.4% when compared to the position at the end of 2010.

Assets quality continued to maintain at a very satisfactory level. The gross impaired advances to gross advances to customers was only 0.27% at the end of 2011, a decrease of 9 basis points when compared to the position at the end of 2010.

As of December 31, 2011, our core capital adequacy ratio stood at 20.2%, while the total capital adequacy ratio was 21%, compared to 24.3% and 25% respectively, at the end of 2010. The average liquidity ratio was 43.7% in 2011, slightly lower than the 47% in prior year.

In terms of business development, to cope with our growth strategies and better resources allocation, we set up two new consumer branches in Hong Kong and reorganized the branch network in Hong Kong and Macau within the year. As of December 31, 2011, we have 41 consumer branches and 1 Private Banking center in Hong Kong, 8 consumer branches in Macau and over 2,000 employees.

To Customers and Shareholders

Leveraging on the edge of China Construction Bank Group in the financial industry, its nationwide branch network and professional financial services, we are strategically promoting value-added cross-border wealth management advantages with specialized and diversified RMB services to customers. In February and August of 2011, we received approval to invest in the interbank bond market of Mainland China by People's Bank of China, and were appointed as the Joint Lead Manager and Bookrunner for the RMB-denominated sovereign bonds by the Ministry of Finance. We also participated in the first RMB-denominated IPO in Hong Kong, being one of the first local banks providing RMB securities trading service for personal customers. Moreover, in response to the increasing demand for off-shore RMB products and services, we launched a galore of innovative RMB services in 2011 including RMB Cashier's Order, RMB Autopay, RMB Remittance Express, Mainland Account Witnessing and more. In September 2011, we were awarded "CAPITAL Merit of RMB Services Achievements in Banking and Finance 2011" by CAPITAL magazine, recognizing our efforts and competency in RMB services in the industry.

For credit card business, we have completed the integration of China Construction Bank (Asia) Finance Limited into CCB (Asia) in middle of year, offering customers one-stop wealth management convenience and comprehensive financial services while achieving maximum synergistic benefit for our operation. Within the year, we introduced CCB (Asia) UnionPay Dual Currency Credit Card and CCB (Asia) Pui Ching UnionPay Dual Currency Credit Card for Pui Ching School, providing unbeatable discounts and convenience for customers' cross-border spending. Number of new credit card accounts reached 70,000 in 2011, and the total billings reached approximately HKD12 billion.

In addition, we have opened three CCB (Asia) Personal Loan Centers within the period to provide rapid and convenient loan services to individuals, offering customers professional advisory service and speedy loan approval. What's more, to keep abreast of today's IT trend, we successfully launched CCB (Asia) Mobile Application to stay in line with customers' pace of life and advancement of modern communication.

Alongside our endeavor in business development, we have been devotedly contributing to the society, fulfilling our corporate social responsibility in 2011 through teaming up with a number of charity organizations and participating in an array of charity sponsorship activities, community development projects, volunteer services and staff caring events.

For 2012, with the anticipation that the European debt crisis is still lingering and the economy of the U.S. is yet to recover, it is believed that worldwide economies will continue to face instability. As such, we will continue our prudent risk management strategy. Gratified to the overall positive economic outlook of China, we will continue to work closely with our parent bank to strengthen our cross-border business, develop more new products and services to comprehensively satisfy the financial and wealth management needs of our customers.

We would like to take this opportunity to thank our parent bank, China Construction Bank, and our board of directors for their generous support and guidance in providing valuable advices. We also wish to express our sincere gratitude to our valued customers for their ample trust, offering us the driving force to consistently move forward. Last but not least, special thanks to our staff for working whole-heartedly for the bank. They adhered to our strategic vision conscientiously, leading to our outstanding business performance. We would also like to reiterate our pledge of providing professional and heartfelt attitude to serve our customers in China, Hong Kong and Macau, and to realize our goal of "today we build and tomorrow we yield".

Du Yajun
Chairman

Miranda Kwok
President & Chief Executive Officer

Hong Kong, March 28, 2012

Corporate Social Responsibility

Over 200 staff of CCB (Asia) and their family members participated in "Lifeline Express CCB (Asia) Charity Run/Walk 2011" as volunteers, runners and walkers, joining hands to bring hope of eyesight for the underprivileged cataract patients in the Mainland.

Dedicated to fulfill our responsibility as a corporate citizen, we at China Construction Bank (Asia) "CCB (Asia)" implemented and participated actively in as many as 20 charity and staff-caring activities in 2011, helping the needed in the society while promoting healthy development of our staff.

SPONSORING AND CO-ORGANIZING LARGE-SCALE CHARITY EVENTS

To help the underprivileged cataract patients in remote regions of Mainland China, CCB (Asia) provided full support to the fund-raising for Lifeline Express. In 2011, the "Lifeline Express CCB (Asia) Charity Run/Walk 2011" title-sponsored by CCB (Asia), raised a record-breaking donation of over HKD2.5 million by more than 2,000 athletes on October 29, 2011, to fund the Lifeline Express Eye-hospital Train in providing free eyesight surgeries to the underprivileged cataract patients in the Mainland. Besides, the bank has also participated in the charity sponsorships in various scale and nature for beneficiary organizations which include The Salvation Army, Hospice Care, Wu Zhi Qiao (Bridge to China) Charitable Foundation, Breakthrough, Caritas, Against Child Abuse, The Hong Kong Golf Club Charitable Foundation, and Macau Daily News Readers' Charity Fund, helping them in fund-raising.

DEVELOPING GOOD CONDUCT OF YOUTH AND CHILDREN

What's more, the bank devoted also to foster a healthy intellectual development of the younger generation. In 2011, CCB (Asia) and the Boys' & Girls' Clubs Association of Hong Kong ("BGCA") kicked off a yearlong "Bringing Our Children a Brighter Future – 'Our Joyful Era' Affiliated Youth Development Program 2011" to guide the youth to understand and learn happiness, pass on the joy and create a delightful childhood through innovative conduct developing activities and volunteer services, promoting the message of "Our Faith and Joy through Give and Take".

To let the children and youth participate in the program and put into practice the skills and knowledge they acquired through the interest classes, a grand variety show of "Bringing Our Children a Brighter Future – 'Our Joyful Era' Affiliated Youth Development Program 2011" was organized towards the end of the summer holidays in the same year to conclude the entire program. Together with more than 200 children and teenagers from the Jockey Club Sheung Wan Children & Youth Integrated Services Centre, CCB (Asia) corporate volunteers performed at the grand variety show, demonstrating their diversified talents and contributing to the society.

1. Over 2,000 athletes ran for bringing eyesight to the underprivileged cataract patients in the Mainland.
2. CCB (Asia) corporate volunteers participated in the grand variety show of "Bringing Our Children a Brighter Future – 'Our Joyful Era' Affiliated Youth Development Program 2011".

Corporate Social Responsibility

PARTICIPATING IN VOLUNTEER SERVICES AND CHARITY FUND-RAISING ACTIVITIES

The bank actively participated in volunteer services and charity fund-raising activities in 2011, aiming to help people with different backgrounds in the society. CCB (Asia) corporate volunteer team has devoted a total of nearly 900 hours in volunteer services, including fund-raising walkathon, elderly people visit, charity bazaar, flag-selling, gift donation, grand entertainment show performance, Christmas Carol Singing Festival and more, benefiting approximately 7,300 people, and accomplishing our commitment as a good corporate citizen.

CARING FOR STAFF AND PROMOTING HARMONIC FAMILY LIFE

To promote harmonic family life and let the employees experience the importance of work-life balance, the bank has prepared heartfelt gifts, art-jamming and pâtisserie baking classes for staff, encouraging them to spend quality time with families and enhance parent-children relationship during festivals. On Mother's Day 2011, the bank prepared fresh carnations for our staff to let them celebrate Mother's Day with their family members. For the Mid-Autumn Festival of the same year, we presented tea gift sets for employees to savor at family and friends gatherings. At Chinese New Year, CCB (Asia) staff were presented movie gift cards to enjoy festive blockbusters with family members. What's more, in October 2011, a "Work-Life Balance Week" was organized to offer daily treats for 5 consecutive days which included fruits and food, live band music, professional massage, workplace carnival, and more to our staff to build a harmonic and joyful workplace. Followed closely was the launch of "Wellness Corner", an online platform which supplied body care and stress relief tips, smart eating recipes, and the latest news on health, diet and more.

In 2012, the bank will continue to devote resources to support and participate in a variety of charity and volunteer activities, contributing to the sustainable development and advancement of our community. In the meantime, we will introduce innovative staff-caring activities to address their needs and to uphold work-life balance.

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1. Over 200 staff of CCB (Macau) and their family members participated in "The 28th Walk For A Million" Macau in December 2011, letting them exercise for health and raising funds for charity.
2. CCB (Asia) corporate volunteers took part in the "Amazing Charity Walkathon 2011" organized by BGCA to raise funds for the children-and-youth services. The activity also let the staff relax their body and mind through sports.
3. In December 2011, 25 staff of CCB (Asia) and their family members participated in Christmas carol singing to raise funds for Child Development Matching Fund.
4. To celebrate Mother's Day, CCB (Asia) offered fresh carnations, art-jamming and fun pâtisserie baking classes for staff, encouraging them to express love to mother and celebrating the festive season with family members. CCB (Asia) President and Chief Executive Officer Miranda Kwok presented fresh carnations to a frontline staff who also plays the important role of mother at home.
5. CCB (Asia) sole-sponsored and jointly organized the "Lifeline Express Save for Sight" Campaign with Lifeline Express, more than 2,000 students from kindergartens and primary schools in Hong Kong signed up to raise fund for the Lifeline Express Eye-hospital Train.

Awards and Honors

In 2011, our consistent efforts and outstanding performance in business innovation, staff caring and taking full responsibilities as a corporate citizen were well recognized by the society and the industry, in which we were honored a host of awards in business, services and corporate social responsibility.

MARCH 2011

Caring Company

The Hong Kong Council of Social Services

MARCH 2011

Outstanding Corporate Volunteer Team Award 2010 - 2011

The Boys' and Girls' Clubs Association of Hong Kong

JULY 2011

Prime Awards for Banking & Finance Corporations 2011 - Best Corporate Insights

MetroBOX Magazine

SEPTEMBER 2011

CAPITAL Merit of RMB Services Achievements

CAPITAL Magazine

NOVEMBER 2011

Inbound Contact Centre of the Year Bronze Award

HK Call Centre Association

NOVEMBER 2011

Best Contact Center in Quality Assurance Bronze Award

HK Call Centre Association

Report of the Directors

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended December 31, 2011.

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 22 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the financial year ended December 31, 2011 and the state of the Bank's and the Group's affairs as at that date are set out in the financial statements on pages 12 to 108.

TRANSFER TO RESERVES

Profit attributable to shareholders of HK$610,138,000 (2010: HK$560,351,000) 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 December 31, 2011 (2010: HK$ Nil).

FIXED ASSETS

Details of movements in fixed assets of the Group and the Bank during the year are set out in note 25 to the financial statements.

SHARE CAPITAL

Details of share capital of the Bank are set out in note 31 to the financial statements.

Report of the Directors

DIRECTORS

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

Du, Yajun *(Chairman)*	
Mao, Yumin *(Vice Chairman)*	(resigned on August 18, 2011)
Chan, Mo Po, MH, JP	
Chan, Wing Kee, GBS, OBE, JP	
Dickson Leach, James S.	
Fong, Bucky Wing Foon	
Kwok, Miranda Pui Fong	
Ma, Charles Chi Man	(resigned on November 1, 2011)
Zhang, Min	(resigned on February 11, 2011)
Liu, Chak Wan	(resigned on March 29, 2011)
Ying, Chengkang	(appointed on July 29, 2011)
Li, Yunze	(appointed on July 29, 2011)
Jiang, Jianhua	(appointed on July 29, 2011)
Huang, Tao	(appointed on July 18, 2011 and resigned on March 28, 2012)
Xu, Yunqing	(appointed on August 8, 2011)

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 associate 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$100,000 (2010: HK$50,000).

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 December 31, 2011 comply with the applicable disclosure provisions of the Banking (Disclosure) Rules.

AUDITORS

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

On behalf of the board

Du Yajun
Chairman

Hong Kong, March 28, 2012

Independent Auditor's Report

To the shareholders of China Construction Bank (Asia) Corporation Limited
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Construction Bank (Asia) Corporation Limited (the "Bank") and its subsidiaries (together, the "Group") set out on pages 12 to 108, which comprise the consolidated and the Bank statements of financial position as at December 31, 2011, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at December 31, 2011, 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 28, 2012

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2011
(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

	Note	2011	2010
Interest income		**2,709,785**	2,008,313
Interest expense		**(1,025,960)**	(417,587)
Net interest income	6	**1,683,825**	1,590,726
Net fees and commission income	7	**334,373**	296,760
Net trading income	8	**314,793**	230,235
Net gains from financial instruments designated at fair value through profit or loss	9	**54,030**	104,583
Net gains from disposal of available-for-sale financial instruments		**15,999**	–
Other operating income	10	**3,904**	4,828
Total operating income		**2,406,924**	2,227,132
Operating expenses	11	**(1,654,188)**	(1,553,960)
Operating profit before impairment losses		**752,736**	673,172
Loan impairment charge and other credit risk provisions	12	**(65,597)**	(29,998)
Operating profit		**687,139**	643,174
Gain/(loss) on disposal of fixed assets		**45**	(117)
Share of profits of an associate	23	**28,513**	24,053
Profit before taxation		**715,697**	667,110
Taxation	14	**(105,559)**	(106,759)
Profit for the year		**610,138**	560,351
Other comprehensive income for the year net of tax			
Net movement in investment revaluation	16	**(3,124)**	(2,132)
Net movement in hedging reserve	16	**–**	(754)
Total comprehensive income for the year		**607,014**	557,465

The accompanying notes are the integral part to these financial statements.

Consolidated Statement of Financial Position

As at December 31, 2011
(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

	Note	2011	2010
ASSETS			
Cash and balances with banks and central banks	17	**18,035,166**	14,801,165
Placements with banks maturing between one and twelve months		**2,776,930**	9,943
Advances to banks		**9,697,857**	7,253,040
Advances to customers and trade bills	18	**90,819,918**	72,226,525
Financial instruments measured at fair value through profit or loss	19	**1,451,931**	1,725,092
Available-for-sale financial assets	20	**10,365,137**	4,561,740
Derivative financial instruments	21	**487,596**	519,734
Investment in an associate	23	**152,515**	149,502
Current tax recoverable	24	**1,885**	3,300
Deferred tax assets	24	**77,420**	78,915
Fixed assets	25	**224,013**	250,587
Other assets	26	**780,880**	1,148,542
Total assets		**134,871,248**	102,728,085
LIABILITIES			
Deposits and balances of banks	27	**6,118,455**	5,662,593
Deposits from customers	28	**93,111,676**	71,153,154
Certificates of deposit issued	29	**16,731,102**	7,876,452
Derivative financial instruments	21	**640,203**	511,358
Current tax payable	24	**55,378**	55,081
Other liabilities	30	**1,053,717**	915,744
Total liabilities		**117,710,531**	86,174,382
EQUITY			
Share capital	31	**6,511,043**	6,511,043
Reserves		**10,649,674**	10,042,660
Total equity		**17,160,717**	16,553,703
Total equity and liabilities		**134,871,248**	102,728,085

Approved and authorised for issue by the board of directors on March 28, 2012.

Du Yajun	**Kwok Pui Fong, Miranda**	**Ying Chengkang**	**Cheng Pui Ling, Cathy**
Chairman	*Director*	*Director*	*Secretary*

The accompanying notes are the integral part to these financial statements.

Statement of Financial Position

As at December 31, 2011
(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

	Note	2011	2010
ASSETS			
Cash and balances with banks and central banks	17	**17,442,877**	14,012,237
Placements with banks maturing between one and twelve months		**3,583,664**	769,289
Advances to banks		**9,697,857**	6,323,048
Advances to customers and trade bills	18	**87,001,051**	64,296,079
Financial instruments measured at fair value through profit or loss	19	**1,451,931**	1,725,092
Available-for-sale financial assets	20	**10,136,180**	5,794,604
Derivative financial instruments	21	**492,085**	563,344
Investments in subsidiaries	22	**1,508,238**	1,508,238
Investment in an associate	23	**10,411**	10,411
Deferred tax assets	24	**77,504**	18,054
Fixed assets	25	**201,942**	214,239
Other assets	26	**709,258**	1,092,361
Total assets		**132,312,998**	96,326,996
LIABILITIES			
Deposits and balances of banks	27	**8,296,002**	4,917,069
Deposits from customers	28	**90,353,595**	67,352,288
Certificates of deposit issued	29	**16,731,102**	7,871,463
Derivative financial instruments	21	**639,861**	511,233
Current tax payable	24	**50,756**	36,199
Other liabilities	30	**987,472**	552,479
Total liabilities		**117,058,788**	81,240,731
EQUITY			
Share capital	31	**6,511,043**	6,511,043
Reserves	31	**8,743,167**	8,575,222
Total equity		**15,254,210**	15,086,265
Total equity and liabilities		**132,312,998**	96,326,996

Approved and authorised for issue by the board of directors on March 28, 2012.

Du Yajun	**Kwok Pui Fong, Miranda**	**Ying Chengkang**	**Cheng Pui Ling, Cathy**
Chairman	*Director*	*Director*	*Secretary*

The accompanying notes are the integral part to these financial statements.

Consolidated Statement of Changes in Equity

For the year ended December 31, 2011
(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

	Note	Share capital	General reserve (restated)	Investment revaluation reserve	Hedging reserve	Exchange reserve	Regulatory reserve (restated)	Other reserve	Retained profits	Total
Balance at January 1, 2010		6,511,043	750,956	4,918	754	(146)	539,442	15,913	8,173,358	15,996,238
Changes in equity for 2010:										
Profit for the year		–	–	–	–	–	–	–	560,351	560,351
Other comprehensive income		–	–	(2,132)	(754)	–	–	–	–	(2,886)
Total comprehensive income	16	–	–	(2,132)	(754)	–	–	–	560,351	557,465
Regulatory reserve		–	–	–	–	–	107,254	–	(107,254)	–
Balance at December 31, 2010 and January 1, 2011		**6,511,043**	**750,956**	**2,786**	**–**	**(146)**	**646,696**	**15,913**	**8,626,455**	**16,553,703**
Changes in equity for 2011:										
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**610,138**	**610,138**
Other comprehensive income		**–**	**–**	**(3,124)**	**–**	**–**	**–**	**–**	**–**	**(3,124)**
Total comprehensive income	16	**–**	**–**	**(3,124)**	**–**	**–**	**–**	**–**	**610,138**	**607,014**
Regulatory reserve		**–**	**–**	**–**	**–**	**–**	**(119,944)**	**–**	**119,944**	**–**
Balance at December 31, 2011		**6,511,043**	**750,956**	**(338)**	**–**	**(146)**	**526,752**	**15,913**	**9,356,537**	**17,160,717**

The Macau regulatory reserve in 2010 has been reclassified from general reserve to regulatory reserve to conform to the current year's presentation.

The accompanying notes are the integral part to these financial statements.

Consolidated Statement of Cash Flows

For the year ended December 31, 2011
(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

	Note	2011	2010
Net cash inflow from operations	37(a)	**11,932,357**	6,771,345
Hong Kong Profits Tax paid		**(98,549)**	(74,056)
Macau profits tax paid		**(3,803)**	(3,268)
China withholding tax paid		**–**	(560)
US withholding tax paid		**–**	(337)
Net cash inflow from operating activities		**11,830,005**	6,693,124
Investing activities			
Purchase of available-for-sale financial assets		**(7,166,326)**	(3,156,216)
Proceeds received from redemption and disposal of available-for-sale financial assets		**2,888,580**	2,551,204
Purchase of property and equipment		**(51,019)**	(85,336)
Proceeds from disposal of property and equipment		**209**	1,184
Dividend received from an associate		**25,500**	–
Dividends received from listed and unlisted investments		**2,814**	3,954
Net cash outflow from investing activities		**(4,300,242)**	(685,210)
Increase in cash and cash equivalents		**7,529,763**	6,007,914
Cash and cash equivalents at January 1		**15,610,003**	9,602,089
Cash and cash equivalents at December 31	37(b)	**23,139,766**	15,610,003
Cash flows from operating activities include:			
Interest received		**2,516,232**	1,865,455
Interest paid		**826,165**	360,247

The accompanying notes are the integral part to these financial statements.

1 GENERAL INFORMATION

The consolidated financial statements for the year ended December 31, 2011 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. The consolidated financial statements have been approved by the Board of Directors on March 28, 2012.

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 and the Bank 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 4.

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.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transaction, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in the income statement. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associate (note 2(d)).

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, adjusted for any excess of the Group's share of the acquisition-date fair values of the associate's identifiable net assets over the cost of the investment (if any). Therefore, the investment is adjusted 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)). Any acquisition-date excess over cost, 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 income statement.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Associate (continued)

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 the income statement.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with a resulting gain or loss being recognised in the income statement. Any interest retained in that former associate at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associate.

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

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in the income statement as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(k)).

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 and other financial liabilities.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(i) Initial recognition (continued)

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) Classification

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.

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 the income statement 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 the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(ii) Classification (continued)

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)).

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 two 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 the income statement.

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 the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(ii) Classification (continued)

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 offer prices.

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.

Financial instruments are measured initially at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Transaction costs for financial instruments at fair value through profit or loss are expensed immediately.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(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 the income statement.

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

(g) Derivative financial instrument and hedging activities

Derivative financial instruments ("derivative") are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value with changes therein recognised in the income statement. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Hedge accounting recognises the offsetting effects on the income statement 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.

(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 the income statement.

The hedging instrument is measured at fair value, with fair value changes recognised in the income statement. 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 the income statement 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 the income statement as part of the recalculated effective interest rate of the item over its remaining life.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Derivative financial instrument and hedging activities (continued)

(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 other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in the income statement.

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 the income statement 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 the income statement 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 the income statement immediately.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Derivative financial instrument and hedging activities (continued)

(iii) Hedge effectiveness testing (continued)

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 the income statement 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
–	Leasehold land classified as held under finance leases	the unexpired term of lease
–	Buildings (over interests in leasehold land classified as held under finance lease)	period of lease term
–	Buildings (over freehold land)	50 years
–	Leasehold improvements	shorter of lease term or their estimated useful lives
–	Furniture and 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.

(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 the income statement 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.

(iii) Operating leases

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement 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 the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 repossession, and the related loans and advances together with the related impairment allowances are derecognised from the statement of financial position. They are not depreciated or amortised.

(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.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of assets (continued)

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 the income statement.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of assets (continued)

(i) Loans and receivables (continued)

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.

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 the income statement. A reversal of impairment losses is limited to the loans and receivables' carrying 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 the income statement. The amount of the cumulative loss that is recognised in the income statement 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 the income statement.

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 the income statement in respect of available-for-sale equity securities are not reversed through the income statement. 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 the income statement.

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 the income statement. 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 the income statement 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 the income statement in the year in which the reversals are recognised.

(l) Cash and cash equivalents

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 that are readily including cash and balances with banks, placements with banks, treasury bills and certificate of deposits convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

(m) Employee benefits

The Group contributes to defined contribution retirement schemes under either recognised ORSO scheme or MPF schemes that are available to the Group's employee.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or contractive obligations to pay further contributions if the funds does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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.

(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 the income statement 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Income tax (continued)

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

The principal temporary differences arise from asset impairment provisions, depreciation of premises and equipment, revaluation of certain assets including available-for-sale securities and premises and tax losses carried forward. However, the deferred income tax is not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax liabilities are provided in full on all taxable temporary differences and deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is charged or credited in the income statement except for deferred income tax relating to fair value re-measurement of available-for-sale investments and revaluation of premises which are charged or credited to other comprehensive income, in which case the deferred income tax is also credited or charged to other comprehensive income and is subsequently recognised in the income statement together with the realisation of the deferred gain and loss.

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
- 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 the income statement 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 the income statement as follows:

(i) Interest income

Interest income for all interest-bearing financial instruments is recognised in the income statement on an accrual 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 the income statement 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 profits or loss" in the income statement.

(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 cost 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 the income statement 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 the income statement.

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 the income statement. 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 the 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 the income statement when the profit or loss on disposal is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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;

(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 AND DISCLOSURES

(a) New and amended standards adopted by the Group

The following amendments to standards are mandatory for the first time for the financial year beginning January 1, 2011 which have no material impact on the consolidated financial statements.

– HKAS 24 (Revised), "Related Party Disclosures" is effective for annual periods beginning on or after January 1, 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:

  The name of the government and the nature of their relationship;
  The nature and amount of any individually significant transactions; and
  The extent of any collectively-significant transactions qualitatively or quantitatively.

  It also clarifies and simplifies the definition of a related party. Upon the adoption of HKAS 24 (Revised), there is no material impact to the Group's relevant disclosure. Further information in respect of the details of the transactions and the outstanding balances with the related parties is disclosed in Note 32.

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) New and amended standards adopted by the Group (continued)

– During the year, the Group adopted the following amendment to HKFRSs:

The improvements to HKFRS 7 which the Group adopted and applied retrospectively with a particular focus on the interaction between quantitative and qualitative disclosures, and the nature and extents of risks associated with financial instruments. The new disclosures have been included in note 5(a)(vii) under "Financial risk management".

(b) New and amended standards have been issued but are not effective for the financial year beginning January 1, 2011 and have not been early adopted

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

– HKFRS 9, 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

– Amendments to HKFRS 9 Financial Instruments were issued in December 2011 and the mandatory effective date of HKFRS 9 is deferred from January 1, 2013 to January 1, 2015 with earlier adoption still permitted. The deferral will make it possible to have the same mandatory effective date for the entire standard. New transitional disclosures are required instead of comparative restatement. The Group is considering the financial impact of the standard and the timing of its application.

– HKFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after January 1, 2013.

– HKFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS12 no later than the accounting period beginning on or after January 1, 2013.

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) New and amended standards have been issued but are not effective for the financial year beginning January 1, 2011 and have not been early adopted (continued)

– HKFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The Group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after January 1, 2013.

– There are no other HKFRSs or HK (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

4 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) Income taxes

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

(b) 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.

4 ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

(b) Impairment allowance (continued)

(ii) Available-for-sale financial assets

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.

The Group recognises an impairment loss for an available-for-sale debt instrument when there is objective evidence that the debt instrument is impaired. Objective evidence of an impairment for a debt instrument exists when one or more events have occurred after the initial recognition of the debt instrument (that is, a credit related event). Apart from taking into consideration the mark-to-market price of the issue and its external credit rating, the Group also makes estimates on the default rate and loss ratio of each investment.

(c) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in active markets are determined by using valuation techniques including discounted cash flows analysis and models based on current market parameters. All models are validated before they are used, and models are calibrated to ensure that output reflects actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit spread and corrections require management to make estimates. Change in assumptions about these factors could affect reported fair value of financial instruments.

5 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.

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.

5 FINANCIAL RISK MANAGEMENT (continued)

The Group has established policies and procedures to govern the launch of new products and services. A working committee, Risk Assessment Forum, is delegated by the Executive Committee to review and approve new product and services. Composed of senior management members from key functional areas, the working committee convenes meetings to assess and discuss product proposals of the Group. This aims to ensure that risks are properly identified and effective control measures are in place to mitigate any risks involved prior to the roll-out of any new product or service.

(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 off-balance sheet financial arrangements such as loan commitments, trade-related contingencies and transaction-related contingencies.

The Group has appointed the intermediate holding company, China Construction Bank Corporation ("CCBC"), 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, the 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 revisited and update whenever warranted to accommodate portfolio development and market changes.

– 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 for a certain part of the commercial portfolio, for which risk ratings are assigned to the obligor and facility separately. This system provides 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.

– 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.

5 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

– 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 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. 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 purpose and structure of the loan, the ability of a particular borrower or counter-party to service the proposed facilities, as well as the nature of the underlying collateral where applicable. The Group categorizes 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 criteria are established and exceptional approvals for deviations from such criteria are required and monitored.

Commercial credits are evaluated for the default risk, taking into consideration the 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.

(ii) Credit risk for treasury transactions

The credit risk of the Group's investment in 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.

5 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(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 include 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 at individual counterparty and portfolio levels, 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.

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(vii) Maximum exposure

	Group		Bank	
	2011	2010	**2011**	2010
Credit risk exposures relating to on-balance sheet assets by class are as follows:				
Cash and balances with banks	**18,035,166**	14,801,165	**17,442,877**	14,012,237
Placements with banks maturing one and twelve months	**2,776,930**	9,943	**3,583,664**	769,289
Advances to banks	**9,697,857**	7,253,040	**9,697,857**	6,323,048
Advances to customers and trade bills	**90,819,918**	72,226,525	**87,001,051**	64,296,079
Financial instruments measured at fair value through profit or loss	**1,451,931**	1,725,092	**1,451,931**	1,725,092
Available-for-sale financial assets	**10,341,492**	4,472,565	**10,113,478**	5,773,641
Derivative financial instruments	**487,596**	519,734	**492,085**	563,344
Other assets	**750,871**	1,058,170	**679,794**	1,015,762
Credit risk exposures relating to off-balance sheet items are as follows:				
Financial guarantees and other credit related contingent liabilities	**1,195,718**	1,219,389	**1,099,364**	1,074,265
Loan commitments and other credit related commitments	**33,570,006**	30,115,363	**33,169,051**	3,495,981
	169,127,485	133,400,986	**164,731,152**	99,048,738

The above table represents a worst case scenario of credit risk exposure to the Group at December 31, 2011 and 2010, without taking account of any collateral held, master netting agreements or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts. For letters of guarantee issued, the maximum exposure to credit risk is the maximum amount that the Group could be required to pay if the guarantees are called upon. For loan commitments and other credit related liabilities that are irrevocable over the life of the respective facilities or revocable in the event of a significant adverse change, the maximum exposure to credit risk is disclosed as the full amount of the committed facilities sought on these balances.

5 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(vii) Maximum exposure (continued)

Credit risk mitigation, collateral and other credit enhancements

The Group uses a variety of techniques to reduce the credit risk arising from its lending activities. Enforceable legal documentation establishes the Group's direct, irrevocable and unconditional recourse to any collateral, security or other credit enhancements provided. The table below describes the nature of collateral held and their financial effect by class of financial asset:

Balances and placements with banks and other financial institutions	These exposures are generally considered to be low risk due to the nature of the counterparties. Collateral is generally not sought on these balances.
Derivative financial instruments	Master netting agreements are typically used to enable the effects of derivative assets and liabilities with the same counterparty to be offset.
Financial instruments measured at fair value through profit or loss – debt securities	These exposures are carried at fair value which reflects the credit risk. No collateral is sought directly from the issuer or the counterparty; however this may be implicit in the terms of the instrument.
Available-for-sale investment securities – debt securities	No collateral is sought directly from the issuer or the counterparty. The fair values of these securities have reflected the credit risk.
Securities lending	Under the policy of the Group, collateral coverage ratio under securities lending is 100%. When the collateral coverage ratio drops below the coverage requirement, margin call would be performed.
Loans and advances and trade bills	These exposures are secured, partially secured or unsecured depending on the type of customers and the products offered to them. Types of collaterals include residential properties, other properties, Standby LC acceptable to the Group and bank deposits, etc. Other credit enhancements mainly represent recognised guarantee. As at December 31, 2011, the collateral coverage of advances to customers is 82% (2010: 79%).
Contingent liabilities and commitments	The components and nature of contingent liabilities and commitments is disclosed in note 33. Regarding the commitments that are unconditionally cancellable without prior notice, the Group would assess the necessity to withdraw the credit line in case where the credit quality of a borrower deteriorates. Accordingly, these commitments do not expose the Group to significant credit risk. The exposure on commitments that are not unconditionally cancellable including letter of credit, letter of guarantee issued and other loan commitments and credit related liabilities are secured, partially secured or unsecured depending on the type of customers and the products offer to them.

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

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

	Group		Bank	
	2011	2010	**2011**	2010
Gross advances to customers				
Neither past due nor impaired	**82,801,320**	67,747,327	**79,008,711**	59,712,261
Past due but not impaired	**422,432**	311,815	**385,906**	184,017
Impaired	**221,535**	244,538	**221,535**	99,018
	83,445,287	68,303,680	**79,616,152**	59,995,296
Trade bills				
Neither past due nor impaired	**7,858,605**	4,471,758	**7,857,551**	4,470,900
Past due but not impaired	**260**	–	**260**	–
	7,858,865	4,471,758	**7,857,811**	4,470,900

(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 follows:

	Group		Bank	
	2011	2010	**2011**	2010
Gross advances to customers				
Pass	**80,972,727**	66,138,986	**77,461,467**	58,229,313
Special mention	**1,828,593**	1,608,341	**1,547,244**	1,482,948
	82,801,320	67,747,327	**79,008,711**	59,712,261

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

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

(1) Neither past due nor impaired (continued)

	Group		Bank	
	2011	2010	**2011**	2010
Trade bills				
Pass	**7,858,321**	4,470,919	**7,857,267**	4,470,061
Special mention	**284**	839	**284**	839
	7,858,605	4,471,758	**7,857,551**	4,470,900
Gross advances to banks				
Pass	**9,697,857**	7,253,040	**9,697,857**	6,323,048

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

	Group		Bank	
	2011	2010	**2011**	2010
Gross advances to customers				
Overdue three months or less	**422,432**	311,815	**385,906**	184,017

(3) Impaired advances

Classified or impaired advances to customers follow the definition set out in the Banking (Disclosure) Rules and represent advances which are either classified as "substandard" or below under the Group's classification of loan quality, or individually assessed to be impaired. Details are shown in note 18(e) and (f).

(4) Renegotiated loans

At the reporting date at December 31, 2011 and 2010, there were no advances to customers and to banks that would be past due or impaired had the terms not been renegotiated for the Group and the Bank.

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(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	
	2011	2010	**2011**	2010
AAA	**3,499,248**	–	**3,499,248**	–
AA+ to A–	**6,346,479**	5,349,015	**6,346,479**	5,349,015
Lower than A–	**1,719,682**	649,718	**1,719,682**	649,718
Unrated	**228,014**	198,924	**–**	1,500,000
	11,793,423	6,197,657	**11,565,409**	7,498,733
Of which classified as				
Trading	**54,672**	77,705	**54,672**	77,705
Financial assets designated at fair value through profit or loss	**1,397,259**	1,647,387	**1,397,259**	1,647,387
Available-for-sale financial assets	**10,341,492**	4,472,565	**10,113,478**	5,773,641
	11,793,423	6,197,657	**11,565,409**	7,498,733

(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	
	2011	2010	**2011**	2010
Nature of collateral				
Residential properties	**28,792,162**	27,283,495	**25,536,572**	25,005,336
Commercial and industrial properties	**14,812,071**	13,143,322	**14,771,703**	12,876,968
Standby letter of credit	**21,108,234**	11,818,014	**21,029,784**	11,818,015
Government guarantee	**195,943**	264,472	**195,943**	264,472
Securities	**20,055**	256,483	**20,055**	238,417
Deposits	**1,570,249**	578,713	**1,470,971**	508,913
Automobiles	**132,866**	177,263	**131,918**	177,263
Other assets	**15,350**	25,939	**15,350**	–
	66,646,930	53,547,701	**63,172,296**	50,889,384

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(xi) Repossession of collateral

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

	2011	2010
Nature of collateral		
Residential properties	**4,909**	10,961
Commercial and industrial properties	**–**	2,542
Other assets	**2,100**	1,139
	7,009	14,642

(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 Asset and Liability Committee ("ALCO") is responsible for overseeing the market risk of the Group. The Group's market risk framework comprises market risk management policies and control procedures with appropriate delegation of market risk limits.

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. In addition to the overall limits, documented trading policies and procedures define acceptable boundaries within which traders can execute transactions in their assigned markets.

Value-at-Risk ("VaR")

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.

The table below shows the VaR for the Group.

	2011	2010
Total VaR	**3,508**	28,351
VaR for interest rate risk	**4,236**	27,606
VaR for foreign exchange risk	**1,456**	2,051

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(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 in managing the Group's foreign exchange risk. In particular, all foreign currency positions are managed within established limits. Including open risk position limits.

In addition to adopting VaR to measure foreign exchange risk, a stress testing programme was developed to access the potential loss that the Group may incur from the foreign exchange positions. The stress testing programme incorporates sensitivity analysis 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.

The Group also developed the medium stress scenario based on historical records on maximum daily fluctuations of major foreign currency positions. The result of the medium stress scenario are used 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	
	2011	2010
Increase in foreign exchange rates	**4,861**	1,673
Decrease in foreign exchange rates	**(4,861)**	(1,673)

The following percentage changes are adopted on the significant foreign currency positions in stress testing (for medium stress scenario):

– 1% for United States dollars and Macau Patacas (2010: 1%),

– 2% for Chinese Renminbi (2010: 2%),

– 4% for Euro (2010: 4%), and

– 8% for Australian dollars (2010: 8%).

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 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	USD	MOP	EUR	CNY	Others	Total
At December 31, 2011							
Assets							
Cash and balances with banks	6,568,058	6,815,423	106,918	5,919	4,429,849	108,999	18,035,166
Placements with banks maturing between one and twelve months	2,000,000	776,930	–	–	–	–	2,776,930
Advances to banks	–	4,059,150	–	79,409	5,559,298	–	9,697,857
Advances to customers and trade bills	63,666,517	24,819,253	366,331	101,351	1,729,132	137,334	90,819,918
Financial instruments measured at fair value through profit or loss	269	1,397,259	–	–	54,403	–	1,451,931
Available-for-sale financial assets	8,705,952	896,160	228,014	–	535,011	–	10,365,137
Derivative financial instruments	57,053	54,320	–	170	259,704	116,349	487,596
Investment in an associate	152,515	–	–	–	–	–	152,515
Current tax recoverable	1,885	–	–	–	–	–	1,885
Deferred tax assets	77,420	–	–	–	–	–	77,420
Fixed assets	202,452	–	21,561	–	–	–	224,013
Other assets	305,565	392,993	3,998	8,610	58,894	10,820	780,880
Spot assets	81,737,686	39,211,488	726,822	195,459	12,626,291	373,502	134,871,248
Liabilities							
Deposits and balances of banks	3,252,639	876,183	–	1,768,616	194,102	26,915	6,118,455
Deposits from customers	60,618,023	17,923,384	269,602	425,915	10,422,836	3,451,916	93,111,676
Certificates of deposit issued	8,099,812	7,249,940	–	–	1,381,350	–	16,731,102
Derivative financial instruments	35,759	361,129	–	144,562	35,014	63,739	640,203
Current tax payable	50,850	–	4,528	–	–	–	55,378
Other liabilities	755,502	206,803	6,870	41,701	24,725	18,116	1,053,717
Spot liabilities	72,812,585	26,617,439	281,000	2,380,794	12,058,027	3,560,686	117,710,531
Forward purchases	10,048,600	37,169,661	–	2,721,248	31,816,267	6,543,128	88,298,904
Forward sales	(2,360,093)	(49,962,451)	–	(561,330)	(32,087,006)	(3,328,024)	(88,298,904)
Net long/(short) position	16,613,608	(198,741)	445,822	(25,417)	297,525	27,920	17,160,717

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(i) Currency risk (continued)

	Group						
	HKD	USD	MOP	EUR	CNY	Others	Total
At December 31, 2010							
Assets							
Cash and balances with banks	9,848,422	622,242	114,580	18,560	4,017,157	180,204	14,801,165
Placements with banks maturing between one and twelve months	–	857	–	–	–	9,086	9,943
Advances to banks	458,107	6,794,933	–	–	–	–	7,253,040
Advances to customers and trade bills	55,419,229	11,881,182	344,643	8,155	4,409,780	163,536	72,226,525
Financial instruments measured at fair value through profit or loss	–	1,647,387	–	–	77,705	–	1,725,092
Available-for-sale financial assets	2,996,282	1,041,697	198,925	–	152,914	171,922	4,561,740
Derivative financial instruments	18,732	50,027	–	13,754	223,988	213,233	519,734
Investment in an associate	149,502	–	–	–	–	–	149,502
Current tax recoverable	3,300	–	–	–	–	–	3,300
Deferred tax assets	78,915	–	–	–	–	–	78,915
Fixed assets	225,706	–	24,881	–	–	–	250,587
Other assets	794,536	322,439	2,672	3,244	16,004	9,647	1,148,542
Spot assets	69,992,731	22,360,764	685,701	43,713	8,897,548	747,628	102,728,085
Liabilities							
Deposits and balances of banks	2,920,577	2,689,687	–	–	–	52,329	5,662,593
Deposits from customers	51,016,789	12,287,281	246,291	479,797	4,181,469	2,941,527	71,153,154
Certificates of deposit issued	5,328,366	2,548,086	–	–	–	–	7,876,452
Derivative financial instruments	41,393	388,054	–	26,646	14,286	40,979	511,358
Current tax payable	50,921	–	4,160	–	–	–	55,081
Other liabilities	657,049	224,745	14,291	4,279	2,042	13,338	915,744
Spot liabilities	60,015,095	18,137,853	264,742	510,722	4,197,797	3,048,173	86,174,382
Forward purchases	13,795,957	35,745,141	–	998,497	20,487,051	6,310,897	77,337,543
Forward sales	(7,582,010)	(40,247,478)	(589)	(563,200)	(24,976,774)	(3,967,492)	(77,337,543)
Net long/(short) position	16,191,583	(279,426)	420,370	(31,712)	210,028	42,860	16,553,703

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(i) Currency risk (continued)

	Bank						
	HKD	USD	MOP	EUR	CNY	Others	Total
At December 31, 2011							
Assets							
Cash and balances with banks	6,097,481	6,806,772	–	5,915	4,356,474	176,235	17,442,877
Placements with banks maturing between one and twelve months	2,805,000	776,930	–	–	–	1,734	3,583,664
Advances to banks	–	4,059,150	–	79,409	5,559,298	–	9,697,857
Advances to customers and trade bills	60,287,691	24,814,405	–	101,351	1,729,132	68,472	87,001,051
Financial instruments measured at fair value through profit or loss	269	1,397,259	–	–	54,403	–	1,451,931
Available-for-sale financial assets	8,705,009	896,160	–	–	535,011	–	10,136,180
Derivative financial instruments	56,984	54,894	–	1,344	259,704	119,159	492,085
Investment in subsidiaries	1,084,791	–	423,447	–	–	–	1,508,238
Investment in an associate	10,411	–	–	–	–	–	10,411
Deferred tax assets	77,504	–	–	–	–	–	77,504
Fixed assets	201,942	–	–	–	–	–	201,942
Other assets	244,704	392,571	–	8,365	58,894	4,724	709,258
Spot assets	79,571,786	39,198,141	423,447	196,384	12,552,916	370,324	132,312,998
Liabilities							
Deposits and balances of banks	4,634,231	1,465,342	38,114	1,782,091	194,103	182,121	8,296,002
Deposits from customers	58,964,907	17,328,425	–	412,422	10,349,618	3,298,223	90,353,595
Certificates of deposit issued	8,099,812	7,249,940	–	–	1,381,350	–	16,731,102
Derivative financial instruments	35,539	361,175	–	144,453	35,014	63,680	639,861
Current tax payable	50,756	–	–	–	–	–	50,756
Other liabilities	705,452	205,323	–	41,443	24,651	10,603	987,472
Spot liabilities	72,490,697	26,610,205	38,114	2,380,409	11,984,736	3,554,627	117,058,788
Forward purchases	10,436,683	37,172,459	–	2,721,706	31,816,267	6,548,466	88,695,581
Forward sales	(2,359,836)	(49,968,504)	(388,350)	(561,332)	(32,087,006)	(3,330,553)	(88,695,581)
Net long/(short) position	15,157,936	(208,109)	(3,017)	(23,651)	297,441	33,610	15,254,210

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(i) Currency risk (continued)

				Bank			
	HKD	USD	MOP	EUR	CNY	Others	Total
At December 31, 2010							
Assets							
Cash and balances with banks	9,254,300	594,559	–	18,521	3,944,540	200,317	14,012,237
Placements with banks maturing between one and twelve months	440,000	310,932	–	–	–	18,357	769,289
Advances to banks	433,934	5,889,114	–	–	–	–	6,323,048
Advances to customers and trade bills	47,921,065	11,830,392	–	8,156	4,409,780	126,686	64,296,079
Financial instruments measured at fair value through profit or loss	–	1,647,387	–	–	77,705	–	1,725,092
Available-for-sale financial assets	4,495,339	974,429	–	–	152,914	171,922	5,794,604
Derivative financial instruments	27,542	62,866	–	22,563	223,987	226,386	563,344
Investment in subsidiaries	1,084,791	–	423,447	–	–	–	1,508,238
Investment in an associate	10,411	–	–	–	–	–	10,411
Deferred tax assets	18,054	–	–	–	–	–	18,054
Fixed assets	214,239	–	–	–	–	–	214,239
Other assets	760,912	303,922	–	1,944	16,004	9,579	1,092,361
Spot assets	64,660,587	21,613,601	423,447	51,184	8,824,930	753,247	96,326,996
Liabilities							
Deposits and balances of banks	1,704,166	2,990,083	36,235	14,549	–	172,036	4,917,069
Deposits from customers	48,022,189	11,941,140	–	465,329	4,108,197	2,815,433	67,352,288
Certificates of deposit issued	5,323,377	2,548,086	–	–	–	–	7,871,463
Derivative financial instruments	41,490	387,871	–	26,632	14,338	40,902	511,233
Current tax payable	36,199	–	–	–	–	–	36,199
Other liabilities	315,310	220,113	–	2,981	2,003	12,072	552,479
Spot liabilities	55,442,731	18,087,293	36,235	509,491	4,124,538	3,040,443	81,240,731
Forward purchases	14,235,011	36,410,334	–	999,308	20,486,462	6,332,650	78,463,765
Forward sales	(8,235,284)	(40,320,074)	(388,350)	(563,607)	(24,976,773)	(3,979,677)	(78,463,765)
Net long/(short) position	15,217,583	(383,432)	(1,138)	(22,606)	210,081	65,777	15,086,265

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 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 Group uses forward rate agreements and interest rate swaps to mitigate the interest rate movement risk. The Group generally monitors mismatches by monthly tenors up to one year and by yearly tenors thereafter.

The Group has adopted two methodologies to measure and monitor its interest rate risk exposure. One methodology is VaR measurement. Another methodology is using 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. In 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 reviewed the simulated net interest income on a monthly basis.

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	
	2011	2010
Increase by 100 basis points	**25,620**	2,770
Decrease by 100 basis points	**(25,350)**	(43,200)

5 FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

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 has established stress testing programme to access the potential erosion of net interest income that the Group may incur from index mismatch risk.

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".

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate repricing gap (continued)

	Group						
	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Non-interest bearing	Total
At December 31, 2011							
Assets							
Cash and balances with banks	8,088,556	–	–	–	–	9,946,610	18,035,166
Placements with banks maturing between one and twelve months	–	2,776,930	–	–	–	–	2,776,930
Advances to banks	2,138,805	3,435,130	4,123,922	–	–	–	9,697,857
Advances to customers and trade bills	61,911,934	19,325,109	6,017,621	2,645,482	93,099	826,673	90,819,918
Financial instruments measured at fair value through profit or loss	269	–	93,592	1,319,224	38,846	–	1,451,931
Available-for-sale financial assets	2,241,025	4,634,089	3,443,806	22,572	–	23,645	10,365,137
Derivative financial instruments	–	–	–	–	–	487,596	487,596
Investment in an associate	–	–	–	–	–	152,515	152,515
Current tax recoverable	–	–	–	–	–	1,885	1,885
Deferred tax assets	–	–	–	–	–	77,420	77,420
Fixed assets	–	–	–	–	–	224,013	224,013
Other assets	–	–	–	–	–	780,880	780,880
Total assets	74,380,589	30,171,258	13,678,941	3,987,278	131,945	12,521,237	134,871,248
Liabilities							
Deposits and balances of banks	919,584	3,091,187	–	–	–	2,107,684	6,118,455
Deposits from customers	45,916,876	33,319,293	9,735,930	142,678	–	3,996,899	93,111,676
Certificates of deposit issued	5,879,598	4,683,976	5,291,102	876,426	–	–	16,731,102
Derivative financial instruments	–	–	–	–	–	640,203	640,203
Current tax payable	–	–	–	–	–	55,378	55,378
Other liabilities	–	–	–	–	–	1,053,717	1,053,717
Total liabilities	52,716,058	41,094,456	15,027,032	1,019,104	–	7,853,881	117,710,531
Net repricing gap	21,664,531	(10,923,198)	(1,348,091)	2,968,174	131,945		

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate repricing gap (continued)

	Group						
	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Non-interest bearing	Total
At December 31, 2010							
Assets							
Cash and balances with banks	4,207,103	–	–	–	–	10,594,062	14,801,165
Placements with banks maturing between one and twelve months	–	9,943	–	–	–	–	9,943
Advances to banks	691,687	1,470,253	5,091,100	–	–	–	7,253,040
Advances to customers and trade bills	53,340,036	9,927,860	6,592,298	1,391,494	13,884	960,953	72,226,525
Financial instruments measured at fair value through profit or loss	–	297,623	1,311	1,386,551	39,607	–	1,725,092
Available-for-sale financial assets	1,987,320	2,412,350	39,263	33,633	–	89,174	4,561,740
Derivative financial instruments	–	–	–	–	–	519,734	519,734
Investment in an associate	–	–	–	–	–	149,502	149,502
Current tax recoverable	–	–	–	–	–	3,300	3,300
Deferred tax assets	–	–	–	–	–	78,915	78,915
Fixed assets	–	–	–	–	–	250,587	250,587
Other assets	–	–	–	–	–	1,148,542	1,148,542
Total assets	60,226,146	14,118,029	11,723,972	2,811,678	53,491	13,794,769	102,728,085
Liabilities							
Deposits and balances of banks	183,493	1,878,403	3,538,745	–	–	61,952	5,662,593
Deposits from customers	40,217,849	18,478,917	7,563,456	743,315	–	4,149,617	71,153,154
Certificates of deposit issued	3,886,821	2,977,536	302,106	705,000	4,989	–	7,876,452
Derivative financial instruments	–	–	–	–	–	511,358	511,358
Current tax payable	–	–	–	–	–	55,081	55,081
Other liabilities	–	–	–	–	–	915,744	915,744
Total liabilities	44,288,163	23,334,856	11,404,307	1,448,315	4,989	5,693,752	86,174,382
Net repricing gap	15,937,983	(9,216,827)	319,665	1,363,363	48,502		

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate repricing gap (continued)

	Bank						
	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Non-interest bearing	Total
At December 31, 2011							
Assets							
Cash and balances with banks	7,805,439	–	–	–	–	9,637,438	17,442,877
Placements with banks maturing between one and twelve months	–	2,778,664	805,000	–	–	–	3,583,664
Advances to banks	2,138,805	3,435,130	4,123,922	–	–	–	9,697,857
Advances to customers and trade bills	58,442,222	19,085,525	5,929,551	2,641,068	69,538	833,147	87,001,051
Financial instruments measured at fair value through profit or loss	269	–	93,592	1,319,224	38,846	–	1,451,931
Available-for-sale financial assets	2,071,193	4,575,907	3,443,806	22,572	–	22,702	10,136,180
Derivative financial instruments	–	–	–	–	–	492,085	492,085
Investments in subsidiaries	–	–	–	–	–	1,508,238	1,508,238
Investment in an associate	–	–	–	–	–	10,411	10,411
Deferred tax assets	–	–	–	–	–	77,504	77,504
Fixed assets	–	–	–	–	–	201,942	201,942
Other assets	–	–	–	–	–	709,258	709,258
Total assets	70,457,928	29,875,226	14,395,871	3,982,864	108,384	13,492,725	132,312,998
Liabilities							
Deposits and balances of banks	1,492,232	4,301,834	393,884	–	–	2,108,052	8,296,002
Deposits from customers	44,266,556	32,852,964	9,250,198	142,464	–	3,841,413	90,353,595
Certificates of deposit issued	5,879,598	4,683,976	5,291,102	876,426	–	–	16,731,102
Derivative financial instruments	–	–	–	–	–	639,861	639,861
Current tax payable	–	–	–	–	–	50,756	50,756
Other liabilities	–	–	–	–	–	987,472	987,472
Total liabilities	51,638,386	41,838,774	14,935,184	1,018,890	–	7,627,554	117,058,788
Net repricing gap	18,819,542	(11,963,548)	(539,313)	2,963,974	108,384		

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate repricing gap (continued)

	Bank						
	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Non-interest bearing	Total
At December 31,2010							
Assets							
Cash and balances with banks	3,978,164	–	–	–	–	10,034,073	14,012,237
Placements with banks maturing between one and twelve months	–	769,289	–	–	–	–	769,289
Advances to banks	691,686	1,470,253	4,161,109	–	–	–	6,323,048
Advances to customers and trade bills	48,917,714	9,174,409	5,596,947	651,719	440	(45,150)	64,296,079
Financial instruments measured at fair value through profit or loss	–	297,623	1,311	1,386,551	39,607	–	1,725,092
Available-for-sale financial assets	1,846,581	2,854,165	1,039,263	33,633	–	20,962	5,794,604
Derivative financial instruments	–	–	–	–	–	563,344	563,344
Investments in subsidiaries	–	–	–	–	–	1,508,238	1,508,238
Investment in an associate	–	–	–	–	–	10,411	10,411
Deferred tax assets	–	–	–	–	–	18,054	18,054
Fixed assets	–	–	–	–	–	214,239	214,239
Other assets	–	–	–	–	–	1,092,361	1,092,361
Total assets	55,434,145	14,565,739	10,798,630	2,071,903	40,047	13,416,532	96,326,996
Liabilities							
Deposits and balances of banks	642,448	1,911,002	2,268,744	–	–	94,875	4,917,069
Deposits from customers	37,727,836	18,013,319	6,930,960	743,315	–	3,936,858	67,352,288
Certificates of deposit issued	3,886,820	2,977,537	302,106	705,000	–	–	7,871,463
Derivative financial instruments	–	–	–	–	–	511,233	511,233
Current tax payable	–	–	–	–	–	36,199	36,199
Other liabilities	–	–	–	–	–	552,479	552,479
Total liabilities	42,257,104	22,901,858	9,501,810	1,448,315	–	5,131,644	81,240,731
Net repricing gap	13,177,041	(8,336,119)	1,296,820	623,588	40,047		

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 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 at the reporting date:

	Group	
	2011	2010
	%	%
Assets		
Cash and balances with banks	**0.86**	0.62
Placements with banks maturing between one and twelve months	**1.50**	1.46
Advances to banks	**2.84**	2.55
Advances to customers and trade bills	**2.81**	2.91
Available-for-sale financial assets	**0.85**	0.97
Liabilities		
Deposits and balances of banks	**2.08**	0.80
Deposits from customers (excluded structured notes)	**1.41**	0.75
Certificates of deposit issued	**1.14**	0.22

Structured notes were excluded as the interest rate repricing were subject to the change in value of underlying assets.

(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.

5 FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

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, the access to a range of diversified and stable funding sources, governed by effective tolerance limits and ratios on liquidity metrics and management tools including stress testing under different scenarios within the risk management framework. The Board of Directors has the ultimate responsibility for an effective liquidity risk framework in place. The Risk Management Committee assists the Board in articulating the Group's risk appetite and the ALCO is a specialized committee delegates by the Board to oversee the liquidity risk management.

(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.

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 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 the reporting date:

	Group							
	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
At December 31, 2011								
Assets								
Cash and balances with banks	10,096,883	7,938,283	–	–	–	–	–	18,035,166
Placements with banks maturing between one and twelve months	–	–	2,776,930	–	–	–	–	2,776,930
Advances to banks	–	2,138,805	3,435,130	4,123,922	–	–	–	9,697,857
Advances to customers and trade bills	1,692,150	4,873,875	10,995,827	21,333,994	23,646,399	28,277,673	–	90,819,918
Financial instruments measured at fair value through profit or loss	–	–	–	93,592	1,319,493	38,846	–	1,451,931
Available-for-sale financial assets	–	1,569,663	3,366,487	4,215,633	1,189,709	–	23,645	10,365,137
Derivative financial instruments	–	182,676	185,377	90,971	28,572	–	–	487,596
Investment in an associate	–	–	–	–	–	–	152,515	152,515
Current tax recoverable	–	–	–	1,885	–	–	–	1,885
Deferred tax assets	–	–	–	–	77,420	–	–	77,420
Fixed assets	–	–	–	–	–	–	224,013	224,013
Other assets	15,601	292,395	287,438	116,847	56,659	71	11,869	780,880
Total assets	11,804,634	16,995,697	21,047,189	29,976,844	26,318,252	28,316,590	412,042	134,871,248
Liabilities								
Deposits and balances of banks	2,107,684	919,584	3,091,187	–	–	–	–	6,118,455
Deposits from customers	20,371,668	29,408,171	33,024,043	10,026,631	281,163	–	–	93,111,676
Certificates of deposit issued	–	2,256,543	2,520,450	7,391,230	4,562,879	–	–	16,731,102
Derivative financial instruments	–	200,165	289,947	85,452	64,639	–	–	640,203
Current tax payable	–	–	–	55,378	–	–	–	55,378
Other liabilities	67	521,177	275,901	243,399	13,173	–	–	1,053,717
Total liabilities	22,479,419	33,305,640	39,201,528	17,802,090	4,921,854	–	–	117,710,531
Net assets/(liabilities) gap	(10,674,785)	(16,309,943)	(18,154,339)	12,174,754	21,396,398	28,316,590	412,042	17,160,717
Of which:								
Debt securities								
included in trading assets	–	–	–	54,354	318	–	–	54,672
included in financial assets designated at fair value through profit or loss	–	–	–	39,238	1,319,175	38,846	–	1,397,259
included in available-for-sale financial assets	–	1,569,663	3,366,487	4,215,633	1,189,709	–	–	10,341,492

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(i) Maturity analysis (continued)

	Group							
	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
At December 31, 2010								
Assets								
Cash and balances with banks	10,840,143	3,961,022	–	–	–	–	–	14,801,165
Placements with banks maturing between one and twelve months	–	–	9,943	–	–	–	–	9,943
Advances to banks	–	691,687	1,470,252	5,091,101	–	–	–	7,253,040
Advances to customers and trade bills	1,149,303	5,055,456	3,918,945	14,924,261	21,889,072	25,289,488	–	72,226,525
Financial instruments measured at fair value through profit or loss	–	–	273,880	25,054	1,386,551	39,607	–	1,725,092
Available-for-sale financial assets	–	792,217	1,291,338	1,003,996	1,346,533	38,482	89,174	4,561,740
Derivative financial instruments	–	254,495	113,456	146,137	5,646	–	–	519,734
Investment in an associate	–	–	–	–	–	–	149,502	149,502
Current tax recoverable	–	–	–	3,300	–	–	–	3,300
Deferred tax assets	–	–	–	78,915	–	–	–	78,915
Fixed assets	–	–	–	–	–	–	250,587	250,587
Other assets	2,135	746,443	212,491	140,140	25,654	1,309	20,370	1,148,542
Total assets	11,991,581	11,501,320	7,290,305	21,412,904	24,653,456	25,368,886	509,633	102,728,085
Liabilities								
Deposits and balances of banks	61,953	–	4,442,174	1,158,466	–	–	–	5,662,593
Deposits from customers	18,130,228	26,367,877	18,339,975	7,970,949	344,125	–	–	71,153,154
Certificates of deposit issued	–	860,000	810,932	4,238,120	1,962,411	4,989	–	7,876,452
Derivative financial instruments	–	241,862	66,408	140,182	62,906	–	–	511,358
Current tax payable	–	–	–	55,081	–	–	–	55,081
Other liabilities	74	588,406	124,727	201,986	551	–	–	915,744
Total liabilities	18,192,255	28,058,145	23,784,216	13,764,784	2,369,993	4,989	–	86,174,382
Net assets/(liabilities) gap	(6,200,674)	(16,556,825)	(16,493,911)	7,648,120	22,283,463	25,363,897	509,633	16,553,703
Of which:								
Debt securities								
included in trading assets	–	–	–	25,054	52,651	–	–	77,705
included in financial assets designated at fair value through profit or loss	–	–	273,880	–	1,333,900	39,607	–	1,647,387
included in available-for-sale financial assets	–	792,217	1,291,338	1,003,996	1,346,532	38,482	–	4,472,565

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(i) Maturity analysis (continued)

	Bank							
	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
At December 31, 2011								
Assets								
Cash and balances with banks	9,637,438	7,805,439	–	–	–	–	–	17,442,877
Placements with banks maturing between one and twelve months	–	–	2,778,664	805,000	–	–	–	3,583,664
Advances to banks	–	2,138,805	3,435,130	4,123,922	–	–	–	9,697,857
Advances to customers and trade bills	1,629,563	4,766,980	10,912,121	21,022,419	22,302,052	26,367,916	–	87,001,051
Financial instruments measured at fair value through profit or loss	–	–	–	93,592	1,319,493	38,846	–	1,451,931
Available-for-sale financial assets	–	1,399,846	3,308,291	4,215,632	1,189,709	–	22,702	10,136,180
Derivative financial instruments	–	195,975	176,567	90,986	28,557	–	–	492,085
Investments in subsidiaries	–	–	–	–	–	–	1,508,238	1,508,238
Investment in an associate	–	–	–	–	–	–	10,411	10,411
Deferred tax assets	–	–	–	–	77,504	–	–	77,504
Fixed assets	–	–	–	–	–	–	201,942	201,942
Other assets	15,595	252,409	272,950	104,886	53,744	55	9,619	709,258
Total assets	11,282,596	16,559,454	20,883,723	30,456,437	24,971,059	26,406,817	1,752,912	132,312,998
Liabilities								
Deposits and balances of banks	2,419,745	1,180,539	3,100,927	1,594,791	–	–	–	8,296,002
Deposits from customers	19,283,212	28,691,275	32,557,562	9,540,652	280,894	–	–	90,353,595
Certificates of deposit issued	–	2,256,543	2,520,450	7,391,230	4,562,879	–	–	16,731,102
Derivative financial instruments	–	206,090	283,680	85,452	64,639	–	–	639,861
Current tax payable	–	–	–	50,756	–	–	–	50,756
Other liabilities	70	482,664	262,800	228,765	13,173	–	–	987,472
Total liabilities	21,703,027	32,817,111	38,725,419	18,891,646	4,921,585	–	–	117,058,788
Net assets/(liabilities) gap	(10,420,431)	(16,257,657)	(17,841,696)	11,564,791	20,049,474	26,406,817	1,752,912	15,254,210
Of which:								
Debt securities								
included in trading assets	–	–	–	54,354	318	–	–	54,672
included in financial assets designated at fair value through profit or loss	–	–	–	39,238	1,319,175	38,846	–	1,397,259
included in available-for-sale financial assets	–	1,399,846	3,308,291	4,215,632	1,189,709	–	–	10,113,478

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(i) Maturity analysis (continued)

	Bank							
	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
At December 31, 2010								
Assets								
Cash and balances with banks	10,034,073	3,978,164	–	–	–	–	–	14,012,237
Placements with banks maturing between one and twelve months	–	–	18,357	750,932	–	–	–	769,289
Advances to banks	–	691,687	1,470,253	4,161,108	–	–	–	6,323,048
Advances to customers and trade bills	1,008,199	2,199,575	3,286,848	13,884,204	20,178,765	23,738,488	–	64,296,079
Financial instruments measured at fair value through profit or loss	–	–	273,880	25,054	1,386,551	39,607	–	1,725,092
Available-for-sale financial assets	–	651,478	1,233,152	2,503,996	1,346,533	38,482	20,963	5,794,604
Derivative financial instruments	–	287,371	113,469	156,858	5,646	–	–	563,344
Investments in subsidiaries	–	–	–	–	–	–	1,508,238	1,508,238
Investment in an associate	–	–	–	–	–	–	10,411	10,411
Deferred tax assets	–	–	–	18,054	–	–	–	18,054
Fixed assets	–	–	–	–	–	–	214,239	214,239
Other assets	2,036	742,417	203,009	113,388	22,767	915	7,829	1,092,361
Total assets	11,044,308	8,550,692	6,598,968	21,613,594	22,940,262	23,817,492	1,761,680	96,326,996
Liabilities								
Deposits and balances of banks	309,737	427,586	1,911,002	2,268,744	–	–	–	4,917,069
Deposits from customers	17,921,185	23,855,215	17,894,302	7,337,679	343,907	–	–	67,352,288
Certificates of deposit issued	–	860,000	810,932	4,238,120	1,962,411	–	–	7,871,463
Derivative financial instruments	–	241,630	66,515	140,182	62,906	–	–	511,233
Current tax payable	–	–	–	36,199	–	–	–	36,199
Other liabilities	74	272,861	116,853	162,140	551	–	–	552,479
Total liabilities	18,230,996	25,657,292	20,799,604	14,183,064	2,369,775	–	–	81,240,731
Net assets/(liabilities) gap	(7,186,688)	(17,106,600)	(14,200,636)	7,430,530	20,570,487	23,817,492	1,761,680	15,086,265
Of which:								
Debt securities								
included in trading assets	–	–	–	25,054	52,651	–	–	77,705
included in financial assets designated at fair value through profit or loss	–	–	273,880	–	1,333,900	39,607	–	1,647,387
included in available-for-sale financial assets	–	651,478	1,233,152	2,503,996	1,346,533	38,482	–	5,773,641

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 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 $15,962 and net amounts are disclosed.

	Group						
	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Total
At December 31, 2011							
Non-derivative financial liabilities							
Deposits and balances of banks	2,107,684	919,584	3,091,187	–	–	–	6,118,455
Deposits from customers	20,371,668	29,408,171	33,024,043	10,026,631	281,163	–	93,111,676
Certificates of deposit issued	–	2,256,543	2,520,450	7,391,230	4,562,879	–	16,731,102
Current tax payable	–	–	–	55,378	–	–	55,378
Other liabilities	67	544,483	389,307	359,103	26,848	–	1,319,808
	22,479,419	33,128,781	39,024,987	17,832,342	4,870,890	–	117,336,419
Derivative cash flows settled on a net basis	–	(6,713)	(12,004)	9,436	(6,681)	–	(15,962)
Derivative cash flows settled on a gross basis							
Total inflow	–	26,104,719	34,814,703	29,357,564	375,585	–	90,652,571
Total outflow	–	(26,106,997)	(34,825,791)	(29,361,976)	(408,343)	–	(90,703,107)
	–	(2,278)	(11,088)	(4,412)	(32,758)	–	(50,536)

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

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

	Group						
	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Total
At December 31, 2010							
Non-derivative financial liabilities							
Deposits and balances of banks	61,953	–	4,442,174	1,158,466	–	–	5,662,593
Deposits from customers	18,130,228	26,367,877	18,339,975	7,970,949	344,125	–	71,153,154
Certificates of deposit issued	–	860,000	810,932	4,238,120	1,962,411	4,989	7,876,452
Current tax payable	–	–	–	55,081	–	–	55,081
Other liabilities	194	597,559	154,204	271,278	23,953	788	1,047,976
	18,192,375	27,825,436	23,747,285	13,693,894	2,330,489	5,777	85,795,256
Derivative cash flows settled on a net basis	–	(4,242)	(7,967)	(118)	(11,313)	–	(23,640)
Derivative cash flows settled on a gross basis							
Total inflow	–	33,567,297	16,151,214	29,178,381	96,269	–	78,993,161
Total outflow	–	(33,562,507)	(16,150,048)	(29,194,006)	(111,777)	–	(79,018,338)
	–	4,790	1,166	(15,625)	(15,508)	–	(25,177)

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

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

	Bank						
	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Total
At December 31, 2011							
Non-derivative financial liabilities							
Deposits and balances of banks	2,419,745	1,180,539	3,100,927	1,594,791	–	–	8,296,002
Deposits from customers	19,283,212	28,691,275	32,557,562	9,540,652	280,894	–	90,353,595
Certificates of deposit issued	–	2,256,543	2,520,450	7,391,230	4,562,879	–	16,731,102
Current tax payable	–	–	–	50,756	–	–	50,756
Other liabilities	70	505,634	376,377	342,670	26,844	–	1,251,595
	21,703,027	32,633,991	38,555,316	18,920,099	4,870,617	–	116,683,050
Derivative cash flows settled on a net basis	–	(6,713)	(12,004)	9,437	(6,681)	–	(15,961)
Derivative cash flows settled on a gross basis							
Total inflow	–	27,406,601	33,473,608	29,734,407	352,265	–	90,966,881
Total outflow	–	(27,408,879)	(33,484,696)	(29,738,819)	(385,023)	–	(91,017,417)
	–	(2,278)	(11,088)	(4,412)	(32,758)	–	(50,536)

	Bank						
	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Total
At December 31, 2010							
Non-derivative financial liabilities							
Deposits and balances of banks	309,737	427,586	1,911,002	2,268,744	–	–	4,917,069
Deposits from customers	17,921,185	23,855,215	17,894,302	7,337,679	343,907	–	67,352,288
Certificates of deposit issued	–	860,000	810,932	4,238,120	1,962,411	–	7,871,463
Current tax payable	–	–	–	36,199	–	–	36,199
Other liabilities	194	281,674	144,902	209,564	22,903	–	659,237
	18,231,116	25,424,475	20,761,138	14,090,306	2,329,221	–	80,836,256
Derivative cash flows settled on a net basis	–	(4,242)	(7,967)	(118)	(11,313)	–	(23,640)
Derivative cash flows settled on a gross basis							
Total inflow	–	33,587,263	16,205,864	30,212,905	96,269	–	80,102,301
Total outflow	–	(33,582,472)	(16,204,697)	(30,228,530)	(111,777)	–	(80,127,476)
	–	4,791	1,167	(15,625)	(15,508)	–	(25,175)

5 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 locally incorporated banking subsidiary in Macau, China Construction Bank (Macau) Corporation Limited, is subject to the supervision of Autoridade Monetária de Macau, who sets and monitors its capital requirements. 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 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 December 31, 2011 and 2010, the Group has complied with the capital requirements imposed by the HKMA.

5 FINANCIAL RISK MANAGEMENT (continued)

(e) Fair value of financial assets and liabilities

(i) Financial assets and liabilities 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.

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 FINANCIAL RISK MANAGEMENT (continued)

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

(i) Financial assets and liabilities measured at fair value (continued)

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised:

	Group				Bank			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
2011								
Assets								
Held for trading:								
debt securities	–	54,672	–	54,672	–	54,672	–	54,672
Designated at fair value through profit or loss:								
debt securities	1,254,482	142,777	–	1,397,259	1,254,482	142,777	–	1,397,259
Available-for-sale securities:								
treasury bills	–	4,096,967	–	4,096,967	–	3,868,953	–	3,868,953
certificates of deposit	–	5,580,637	–	5,580,637	–	5,580,637	–	5,580,637
debt securities	–	663,888	–	663,888	–	663,888	–	663,888
equity securities	–	5,449	18,196	23,645	–	5,449	17,253	22,702
Derivatives financial instruments:								
exchange rate contracts								
forwards	–	426,268	–	426,268	–	431,099	–	431,099
options purchased	–	6,933	–	6,933	–	6,591	–	6,591
currency swaps	–	–	–	–	–	–	–	–
interest rate swaps	–	23,048	–	23,048	–	23,048	–	23,048
equity options purchased	–	31,186	–	31,186	–	31,186	–	31,186
equity swap	–	161	–	161	–	161	–	161
	1,254,482	11,031,986	18,196	12,304,664	1,254,482	10,808,461	17,253	12,080,196
Liabilities								
Derivatives financial instruments:								
exchange rate contracts								
forwards	–	538,734	–	538,734	–	538,734	–	538,734
options written	–	6,933	–	6,933	–	6,591	–	6,591
interest rate swaps	–	63,189	–	63,189	–	63,189	–	63,189
equity options purchased	–	161	–	161	–	161	–	161
equity swaps	–	31,186	–	31,186	–	31,186	–	31,186
	–	640,203	–	640,203	–	639,861	–	639,861

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 FINANCIAL RISK MANAGEMENT (continued)

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

(i) Financial assets and liabilities measured at fair value (continued)

	Group				Bank			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
2010								
Assets								
Held for trading:								
debt securities	–	77,705	–	77,705	–	77,705	–	77,705
Designated at fair value through profit or loss:								
debt securities	291,221	1,356,166	–	1,647,387	291,221	1,356,166	–	1,647,387
Available-for-sale securities:								
treasury bills	599,971	198,924	–	798,895	599,971	–	–	599,971
certificates of deposit	–	2,775,950	–	2,775,950	–	4,275,950	–	4,275,950
debt securities	187,408	710,312	–	897,720	187,408	710,312	–	897,720
equity securities	37,868	33,107	18,200	89,175	3,706	–	17,257	20,963
Derivatives financial instruments:								
exchange rate contracts								
forwards	–	489,558	–	489,558	–	524,511	–	524,511
options purchased	–	7,121	–	7,121	–	7,012	–	7,012
currency swaps	–	118	–	118	–	118	–	118
interest rate swaps	–	13,463	–	13,463	–	22,229	–	22,229
equity options purchased	–	9,395	–	9,395	–	9,395	–	9,395
equity swap	–	79	–	79	–	79	–	79
	1,116,468	5,671,898	18,200	6,806,566	1,082,306	6,983,477	17,257	8,083,040
Liabilities								
Derivatives financial instruments:								
exchange rate contracts								
forwards	–	424,903	–	424,903	–	424,888	–	424,888
options written	–	7,121	–	7,121	–	7,012	–	7,012
interest rate swaps	–	69,860	–	69,860	–	69,859	–	69,859
equity options purchased	–	79	–	79	–	79	–	79
equity swaps	–	9,395	–	9,395	–	9,395	–	9,395
	–	511,358	–	511,358	–	511,233	–	511,233

There were no significant transfers between instruments in Level 1, Level 2 and no significant changes in Level 3 financial instruments for the year ended December 31, 2011 and 2010.

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

5 FINANCIAL RISK MANAGEMENT (continued)

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

(ii) Financial assets and liabilities not measured at fair value

Financial assets and liabilities that are presented not at their fair value on the statement of financial position mainly represent cash and balances with banks, placements with and advances to banks, and advances to customers and trade bills. These financial assets are measured at amortised cost less impairment. Financial liabilities not presented at their fair value on the statement of financial position mainly represent deposits and balances of banks, deposits from customers, and certificates of deposit issued. These financial liabilities are measured at amortised cost.

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.

6 NET INTEREST INCOME

	2011	2010
Interest income		
Interest income arising from financial assets that are not measured at fair value through profit or loss		
Placements and advances to banks	**334,896**	157,116
Advances to customers and trade bills	**2,325,809**	1,819,740
Available-for-sale financial assets	**49,036**	31,207
Unlisted held-to-maturity investments	**44**	250
	2,709,785	2,008,313
Interest expense		
Interest expense arising from financial liabilities that are not measured at fair value through profit or loss		
Deposits and balances of banks	**133,020**	59,656
Deposits from customers	**780,890**	313,877
Certificates of deposit issued	**112,050**	42,650
	1,025,960	416,183
Interest expense on financial liabilities that are designated as cash flow hedges		
Net interest expense (note 16(b))	**–**	1,404
	1,025,960	417,587
Net interest income	**1,683,825**	1,590,726

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 December 31, 2011 and 2010. Interest income from available-for-sale financial assets include $21,359 from listed debt securities (2010: $8,368) and $27,677 from unlisted debt securities (2010: $22,839).

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

7 NET FEES AND COMMISSION INCOME

	2011	2010
Fees and commission income		
Agency fees for securities, foreign currency dealing and insurance services	**200,475**	164,300
Remittance, settlement and account management fees	**29,311**	29,697
Payment and collection services fees	**33,094**	30,499
Credit cards related	**129,857**	106,229
Others	**12,561**	12,258
	405,298	342,983
Fees and commission expense		
Credit cards related	**(46,035)**	(34,998)
Others	**(24,890)**	(11,225)
Net fees and commission income	**334,373**	296,760

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 $47,071 (2010: $45,881) and $2,762 (2010: $1,863) respectively.

8 NET TRADING INCOME

	2011	2010
Foreign exchange contracts	**346,637**	305,213
Interest rate contracts	**(33,384)**	(80,382)
Unlisted debt securities		
interest income	**2,110**	4,234
net realised and unrealised (losses)/gains	**(570)**	1,170
	314,793	230,235

"Foreign exchange" net trading income includes gains and losses from spot and forward contracts, options, futures and translated foreign currency assets and liabilities, which are not designated as qualifying hedging relationship. "Interest rate instruments" includes the results of making markets in instruments in government securities, corporate debt securities, money market instruments, interest rate and currency swaps, options and other derivatives. Net gains/(losses) on derivative held for trading, which are managed in conjunction with financial assets or financial liabilities designated as fair value, is included in the line item "Net gains from financial instruments designated at fair value through profit or loss".

Included in the loss on interest rate contracts is a gain of Nil (2010: gain of $46) relating to the ineffectiveness of the results of cash flow hedges of a subsidiary.

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

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

	2011	2010
Listed debt securities		
interest income	**70,000**	85,716
net unrealised (losses)/gains	**(15,970)**	18,867
	54,030	104,583

10 OTHER OPERATING INCOME

	2011	2010
Dividend income from available-for-sale equity financial assets		
unlisted	**2,589**	3,453
listed	**225**	501
Others	**1,090**	874
	3,904	4,828

11 OPERATING EXPENSES

	2011	2010
Staff costs		
salaries and other benefits	**821,059**	719,056
pension and provident fund costs	**52,127**	43,360
	873,186	762,416
Premises and equipment expenses excluding depreciation		
rental of premises	**221,521**	215,684
impairment loss on fixed assets	**–**	919
maintenance	**81,824**	79,610
leasing of equipments	**20,188**	19,286
others	**52,715**	54,743
	376,248	370,242
Auditors' remuneration	**3,000**	4,298
Depreciation	**77,429**	75,282
Other operating expenses	**324,325**	341,722
	404,754	421,302
	1,654,188	1,553,960

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

12 LOAN IMPAIRMENT CHARGE AND OTHER CREDIT RISK PROVISIONS

	2011	2010 (restated)
Gross advances to customers		
Individually assessed impairment allowances released/(charged) (note 18(d))	**173**	(17,720)
Collectively assessed impairment allowances charged (note 18(d))	**(68,169)**	(9,605)
Impairment allowances on loans	**(67,996)**	(27,325)
Other credit risk provisions released	**–**	379
	(67,996)	(26,946)
Trade bills		
Collectively assessed impairment allowances released/(charged)	**2,399**	(3,052)
	(65,597)	(29,998)

The individually assessed impairment allowances of 2010 have been reclassified to collectively assessed impairment allowances to conform to the current year's presentation.

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

	2011	2010
Advances to customers		
New and additional charges	**(104,610)**	(170,315)
Releases	**5,547**	114,652
Recoveries	**31,067**	28,338
	(67,996)	(27,325)
Trade bills		
New and additional charges (note 18(e))	**–**	(3,052)
Releases (note 18(e))	**2,399**	–
	2,399	(3,052)
Total	**(65,597)**	(30,377)

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

13 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:

	2011	2010
Fees	**763**	770
Other emoluments	**15,687**	19,216
Contribution to provident fund	**676**	424
	17,126	20,410

14 TAXATION

(a) Taxation in the consolidated income statement represents:

	2011	2010
Current tax – Hong Kong Profits Tax		
Provision for the year	**106,729**	91,440
Over-provision in respect of prior year	**(6,847)**	–
	99,882	91,440
Current tax – Overseas		
Provision for the year – Macau Complementary Tax	**3,982**	3,849
Under-provision of Macau Complementary Tax in respect of prior year	**189**	335
Withholding tax in the People's Republic of China	**–**	560
Withholding tax in the United States of America	**11**	337
	4,182	5,081
Deferred tax		
Origination and reversal of temporary differences	**1,495**	10,238
	105,559	106,759

The provision of Hong Kong Profits Tax for 2011 is calculated at 16.5% (2010: 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.

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

14 TAXATION (continued)

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

	2011	2010
Profit before taxation	**715,697**	667,110
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	**122,398**	108,663
Income not subject to taxation	**(15,208)**	(6,659)
Expenses not deductible for taxation purposes	**5,016**	1,890
(Over)/under provision in prior years	**(6,658)**	335
Foreign withholding tax paid	**11**	897
Others	**–**	1,633
Actual tax expense	**105,559**	106,759

15 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS

The consolidated profit attributable to equity shareholders of the Group includes a profit of $172,390 (2010: $308,898) which has been dealt with in the financial statements of the Bank.

16 OTHER COMPREHENSIVE INCOME

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

	2011			2010		
	Before-tax amount	Tax expense	Net-of-tax amount	Before-tax amount	Tax expense	Net-of-tax amount
Available-for-sale financial assets: net movement in investment revaluation reserve	**(3,124)**	**–**	**(3,124)**	(2,132)	–	(2,132)
Cash flow hedge: net movement in hedging reserve	**–**	**–**	**–**	(260)	(494)	(754)
Other comprehensive income	**(3,124)**	**–**	**(3,124)**	(2,392)	(494)	(2,886)

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

16 OTHER COMPREHENSIVE INCOME (continued)

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

	2011	2010
Available-for-sale financial assets:		
Changes in fair value recognised during the year	**(3,124)**	(2,132)
Net movement in the investment revaluation reserve during the year recognised in other comprehensive income	**(3,124)**	(2,132)
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	–	(658)
Reclassification adjustments for amounts transferred to profit or loss:		
interest expense (note 6)	–	1,404
Net trading profit	–	(1,006)
Net deferred tax charged to other comprehensive income	–	(494)
Net movement in the hedging reserve during the year recognised in other comprehensive income	–	(754)

17 CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	Group		Bank	
	2011	2010	2011	2010
Cash in hand	**274,933**	265,722	**193,620**	184,202
Balances with banks	**4,393,673**	4,415,101	**4,015,540**	3,751,776
Balances with central banks	**5,428,277**	6,159,320	**5,428,277**	6,098,095
Money at call and short notice with banks	**7,938,283**	3,961,022	**7,805,440**	3,978,164
	18,035,166	14,801,165	**17,442,877**	14,012,237

Money at call and short notice with banks are mainly balances with the intermediate holding company of $3,698,098 (2010: $3,004,989).

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

18 ADVANCES TO CUSTOMERS AND TRADE BILLS

(a) Advances to customers less impairment

	Group		Bank	
	2011	2010 (restated)	**2011**	2010
Gross advances to customers	**83,445,287**	68,303,680	**79,616,152**	59,995,296
Dealers' commission and deferred fee income	**41,961**	(4,739)	**50,408**	–
	83,487,248	68,298,941	**79,666,560**	59,995,296
Less: Impairment allowances				
collectively assessed	**(435,068)**	(454,544)	**(432,193)**	(80,498)
individually assessed	**(90,378)**	(86,482)	**(90,378)**	(86,471)
Net advances to customers	**82,961,802**	67,757,915	**79,143,989**	59,828,327

The individually assessed impairment allowances of $1,512 as at December 31, 2010 of a subsidiary have been reclassified to collectively assessed impairment allowances to conform to the current year's presentation. The corresponding changes have also been restated in notes 12, 18(a), 18(d) and 18(f).

(b) Trade bills less impairment

	Group		Bank	
	2011	2010	**2011**	2010
Trade bills	**7,858,865**	4,471,758	**7,857,811**	4,470,900
Less: Impairment allowances				
collectively assessed	**(749)**	(3,148)	**(749)**	(3,148)
	7,858,116	4,468,610	**7,857,062**	4,467,752

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

18 ADVANCES TO CUSTOMERS AND TRADE BILLS (continued)

(c) Gross advances to customers by industry sectors

	Group	
	2011	2010
Advances for use in Hong Kong		
Industrial, commercial and financial		
Property development	**739,070**	594,601
Property investment	**22,847,777**	19,103,770
Financial concerns	**2,461,423**	1,693,714
Stockbrokers	**11,928**	85,100
Wholesale and retail trade	**3,660,078**	5,328,394
Manufacturing	**2,893,972**	1,582,917
Transport and transport equipment	**5,765,850**	2,797,319
Recreational activities	**240,531**	14,971
Information technology	**209,047**	800,963
Others	**12,680,960**	7,727,661
Sub-total	**51,510,636**	39,729,410
Individuals		
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**12,746**	14,774
Loans for the purchase of other residential properties	**12,556,014**	14,086,008
Credit card advances	**4,992,670**	4,860,826
Others	**4,058,273**	3,361,284
Sub-total	**21,619,703**	22,322,892
Total advances for use in Hong Kong	**73,130,339**	62,052,302
Trade finance	**2,104,322**	1,630,270
Advances for use outside Hong Kong	**8,210,626**	4,621,108
Gross advances to customers	**83,445,287**	68,303,680

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

18 ADVANCES TO CUSTOMERS AND TRADE BILLS (continued)

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

	Bank	
	2011	2010
Advances for use in Hong Kong		
Industrial, commercial and financial		
Property development	**739,070**	594,601
Property investment	**22,847,777**	19,103,770
Financial concerns	**2,461,423**	1,693,714
Stockbrokers	**11,928**	85,100
Wholesale and retail trade	**3,660,078**	5,328,394
Manufacturing	**2,893,972**	1,582,917
Transport and transport equipment	**5,765,850**	2,797,319
Recreational activities	**240,531**	14,971
Information technology	**209,047**	800,963
Others	**12,680,960**	7,727,661
Sub-total	**51,510,636**	39,729,410
Individuals		
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**12,746**	14,774
Loans for the purchase of other residential properties	**12,556,014**	14,086,008
Credit card advances	**4,992,670**	64
Others	**4,058,273**	3,075,082
Sub-total	**21,619,703**	17,175,928
Total advances for use in Hong Kong	**73,130,339**	56,905,338
Trade finance	**2,104,322**	1,630,270
Advances for use outside Hong Kong	**4,381,491**	1,459,688
Gross advances to customers	**79,616,152**	59,995,296

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

18 ADVANCES TO CUSTOMERS AND TRADE BILLS (continued)

(d) Movement in impairment allowances on advances to customers

	2011					
	Group			Bank		
	Collectively assessed allowances	Individually assessed allowances	Total	Collectively assessed allowances	Individually assessed allowances	Total
At January 1, 2011	454,544	86,482	541,026	80,498	86,471	166,969
Loans written off as uncollectible	(113,567)	(1,076)	(114,643)	(59,034)	(1,076)	(60,110)
Recoveries of advances written off	25,922	5,145	31,067	8,400	5,129	13,529
Impairment losses charged/(released) to the income statement (note 12)	68,169	(173)	67,996	402,329	(146)	402,183
At December 31, 2011	435,068	90,378	525,446	432,193	90,378	522,571

	2010					
	Group			Bank		
	Collectively assessed allowances (restated)	Individually assessed allowances (restated)	Total	Collectively assessed allowances	Individually assessed allowances	Total
At January 1, 2010	559,893	65,012	624,905	76,402	65,012	141,414
Transfer in	–	–	–	463	–	463
Loans written off as uncollectible	(138,062)	(1,480)	(139,542)	–	(1,480)	(1,480)
Recoveries of advances written off	23,108	5,230	28,338	–	5,199	5,199
Impairment losses charged to the income statement (note 12)	9,605	17,720	27,325	3,633	17,740	21,373
At December 31, 2010	454,544	86,482	541,026	80,498	86,471	166,969

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

18 ADVANCES TO CUSTOMERS AND TRADE BILLS (continued)

(e) Movement in impairment allowances on trade bills

	Group		Bank	
	2011 Collectively assessed allowances	2010 Collectively assessed allowances	**2011 Collectively assessed allowances**	2010 Collectively assessed allowances
At January 1	**3,148**	96	**3,148**	74
Impairment losses (released)/charged to the income statement (note 12)	**(2,399)**	3,052	**(2,399)**	3,074
At December 31	**749**	3,148	**749**	3,148

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

	Group			
	2011	**% of gross advances**	2010	% of gross advances (restated)
Gross impaired advances	**221,535**	**0.27**	244,538	0.36
Individual impairment allowances	**(90,378)**		(86,482)	
	131,157		158,056	
Gross individually assessed impaired advances	**90,702**	**0.11**	87,994	0.13
Individual impairment allowances	**(90,378)**		(86,482)	
	324		1,512	
Net realisable value of collateral held against the impaired advances	**29,795**		30,478	

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

18 ADVANCES TO CUSTOMERS AND TRADE BILLS (continued)

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

	Bank			
	2011	**% of gross advances**	2010	% of gross advances
Gross impaired advances	**221,535**	**0.28**	99,018	0.17
Individual impairment allowances	**(90,378)**		(86,471)	
	131,157		12,547	
Gross individually assessed impaired advances	**90,702**	**0.11**	86,474	0.14
Individual impairment allowances	**(90,378)**		(86,471)	
	324		3	
Net realisable value of collateral held against the impaired advances	**29,795**		30,478	

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.

As at December 31, 2011, the Group's gross impaired advances included $130,833 (2010: $156,544) advances mainly comprised of credit card advances and unsecured personal loans for which impairment allowances were collectively assessed.

As at December 31, 2011 and 2010, there were no impaired trade bills and advances to banks.

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

18 ADVANCES TO CUSTOMERS AND TRADE BILLS (continued)

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

	Group		Bank	
	2011	2010	**2011**	2010
Total minimum lease payments	**4,154,476**	2,443,647	**4,153,407**	2,441,917
Unearned future finance income on finance leases	**(511,018)**	(238,601)	**(510,896)**	(238,376)
Present value of the minimum lease payments	**3,643,458**	2,205,046	**3,642,511**	2,203,541
Impairment allowances				
individually assessed	**(2,404)**	(86)	**(2,404)**	(75)
collectively assessed	**(12,851)**	(8,324)	**(12,842)**	(8,309)
Impairment allowances	**(15,255)**	(8,410)	**(15,246)**	(8,384)
Net investment	**3,628,203**	2,196,636	**3,627,265**	2,195,157

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

	Group		Bank	
	2011	2010	**2011**	2010
Total minimum lease payments				
Not later than one year	**997,764**	694,358	**997,285**	693,640
Later than one year and not later than five years	**1,803,570**	1,106,227	**1,802,979**	1,105,215
Later than five years	**1,353,142**	643,062	**1,353,143**	643,062
	4,154,476	2,443,647	**4,153,407**	2,441,917

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

18 ADVANCES TO CUSTOMERS AND TRADE BILLS (continued)

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

	Group		Bank	
	2011	2010	**2011**	2010
Present value of the minimum lease payments				
Not later than one year	**918,622**	648,168	**918,193**	647,537
Later than one year and not later than five years	**1,607,043**	1,005,471	**1,606,525**	1,004,597
Later than five years	**1,117,793**	551,407	**1,117,793**	551,407
	3,643,458	2,205,046	**3,642,511**	2,203,541

19 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Bank	
	2011	2010
Held for trading	**54,672**	77,705
Designated at fair value through profit or loss	**1,397,259**	1,647,387
	1,451,931	1,725,092

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	
	2011	2010	**2011**	2010
Other debt securities issued by				
government	**281**	–	**–**	–
banks	**54,391**	77,705	**1,052,305**	1,056,411
corporate	**–**	–	**344,954**	590,976
	54,672	77,705	**1,397,259**	1,647,387
Analysed by place of listing				
listed in Hong Kong	**269**	–	**1,255,538**	1,542,298
listed outside Hong Kong	**–**	–	**141,721**	105,089
unlisted	**54,403**	77,705	**–**	–
	54,672	77,705	**1,397,259**	1,647,387

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

20 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Bank	
	2011	2010	**2011**	2010
Treasury bills issued by central governments	**4,096,967**	798,895	**3,868,953**	599,971
Certificates of deposit issued by banks	**5,580,637**	2,775,950	**5,580,637**	4,275,950
Other debt securities issued by				
banks	**165,037**	363,318	**165,037**	363,318
corporate	**498,851**	534,402	**498,851**	534,402
	10,341,492	4,472,565	**10,113,478**	5,773,641
Equity shares issued by corporate				
listed outside Hong Kong	**5,449**	70,975	**5,449**	3,706
unlisted	**18,196**	18,200	**17,253**	17,257
	23,645	89,175	**22,702**	20,963
	10,365,137	4,561,740	**10,136,180**	5,794,604
Analysed by place of listing				
listed in Hong Kong	**–**	38,482	**–**	38,482
listed outside Hong Kong	**773,100**	546,260	**773,100**	478,992
unlisted	**9,592,037**	3,976,998	**9,363,080**	5,277,130
	10,365,137	4,561,740	**10,136,180**	5,794,604

21 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 these derivatives in the management of its own asset and liability portfolios and structural positions.

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

21 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(a) Notional amounts of derivatives

	Group					
	2011			2010		
	Managed in conjunction with financial instruments designated at fair value through profit or loss	Held for trading	Total	Managed in conjunction with financial instruments designated at fair value through profit or loss	Held for trading	Total
Exchange rate contracts						
Forwards	–	88,298,904	88,298,904	–	77,337,543	77,337,543
Options purchased	–	2,121,436	2,121,436	–	1,498,487	1,498,487
Options written	–	2,121,395	2,121,395	–	1,498,507	1,498,507
Currency swaps	–	–	–	–	155,350	155,350
Interest rate swaps	1,320,781	8,986,802	10,307,583	1,554,660	8,972,768	10,527,428
Equity options purchased	–	168,924	168,924	–	276,335	276,335
Equity swaps	–	168,924	168,924	–	276,335	276,335
	1,320,781	101,866,385	103,187,166	1,554,660	90,015,325	91,569,985

	Bank					
	2011			2010		
	Managed in conjunction with financial instruments designated at fair value through profit or loss	Held for trading	Total	Managed in conjunction with financial instruments designated at fair value through profit or loss	Held for trading	Total
Exchange rate contracts						
Forwards	–	88,695,581	88,695,581	–	78,463,765	78,463,765
Options purchased	–	2,039,068	2,039,068	–	1,481,403	1,481,403
Options written	–	2,039,068	2,039,068	–	1,481,403	1,481,403
Currency swaps	–	–	–	–	155,350	155,350
Interest rate swaps	1,320,781	8,986,802	10,307,583	1,554,660	10,472,768	12,027,428
Equity options purchased	–	168,924	168,924	–	276,335	276,335
Equity swaps	–	168,924	168,924	–	276,335	276,335
	1,320,781	102,098,367	103,419,148	1,554,660	92,607,359	94,162,019

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

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

21 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					
	2011			2010		
	1 year or less	Over 1 year to 5 years	Total	1 year or less	Over 1 year to 5 years	Total
Exchange rate contracts						
Forwards	**88,048,267**	**250,637**	**88,298,904**	77,337,543	–	77,337,543
Options purchased	**2,121,436**	**–**	**2,121,436**	1,498,487	–	1,498,487
Options written	**2,121,395**	**–**	**2,121,395**	1,498,507	–	1,498,507
Currency swaps	**–**	**–**	**–**	155,350	–	155,350
Interest rate swaps	**4,891,543**	**5,416,040**	**10,307,583**	8,139,604	2,387,824	10,527,428
Equity options purchased	**151,924**	**17,000**	**168,924**	255,835	20,500	276,335
Equity swaps	**151,924**	**17,000**	**168,924**	255,835	20,500	276,335
	97,486,489	**5,700,677**	**103,187,166**	89,141,161	2,428,824	91,569,985

	Bank					
	2011			2010		
	1 year or less	Over 1 year to 5 years	Total	1 year or less	Over 1 year to 5 years	Total
Exchange rate contracts						
Forwards	**88,444,944**	**250,637**	**88,695,581**	78,463,765	–	78,463,765
Options purchased	**2,039,068**	**–**	**2,039,068**	1,481,403	–	1,481,403
Options written	**2,039,068**	**–**	**2,039,068**	1,481,403	–	1,481,403
Currency swaps	**–**	**–**	**–**	155,350	–	155,350
Interest rate swaps	**4,891,543**	**5,416,040**	**10,307,583**	9,039,604	2,987,824	12,027,428
Equity options purchased	**151,924**	**17,000**	**168,924**	255,835	20,500	276,335
Equity swaps	**151,924**	**17,000**	**168,924**	255,835	20,500	276,335
	97,718,471	**5,700,677**	**103,419,148**	91,133,195	3,028,824	94,162,019

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

21 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	Group					
	2011			2010		
	Fair value assets	Fair value liabilities	Credit risk weighted amount	Fair value assets	Fair value liabilities	Credit risk weighted amount
Exchange rate contracts						
Forwards	**426,268**	**538,734**	**584,099**	489,558	424,903	511,157
Options purchased	**6,933**	**–**	**–**	7,121	–	–
Options written	**–**	**6,933**	**6,986**	–	7,121	6,770
Currency swaps	**–**	**–**	**–**	118	–	334
Interest rate swaps	**23,048**	**63,189**	**16,015**	13,463	69,860	6,713
Equity options purchased	**31,186**	**161**	**–**	9,395	79	–
Equity swaps	**161**	**31,186**	**5,026**	79	9,395	4,269
	487,596	**640,203**	**612,126**	519,734	511,358	529,243

	Bank					
	2011			2010		
	Fair value assets	Fair value liabilities	Credit risk weighted amount	Fair value assets	Fair value liabilities	Credit risk weighted amount
Exchange rate contracts						
Forwards	**431,099**	**538,734**	**585,254**	524,511	424,888	511,901
Options purchased	**6,591**	**–**	**–**	7,012	–	–
Options written	**–**	**6,591**	**6,754**	–	7,012	6,714
Currency swaps	**–**	**–**	**–**	118	–	334
Interest rate swaps	**23,048**	**63,189**	**16,015**	22,229	69,859	12,596
Equity options purchased	**31,186**	**161**	**–**	9,395	79	–
Equity swaps	**161**	**31,186**	**5,026**	79	9,395	4,269
	492,085	**639,861**	**613,049**	563,344	511,233	535,814

At December 31, 2011 and 2010, 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% (2010: 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.

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

21 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

Interest rate swaps were designated as hedges of certain future cash flows from bank borrowings and certificate of deposit issued. In 2011, there was no hedge ineffectiveness gain/loss (2010: gain of $46) recognised in the income statement arising from cash flow hedges.

No derivatives were held for cash flow hedges as at December 31, 2011. (2010: Nil)

22 INVESTMENTS IN SUBSIDIARIES

	Bank	
	2011	2010
Unlisted shares, at cost		
At January 1 and December 31	**1,508,238**	1,508,238

Particulars of the subsidiaries at December 31, 2011 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	Hong Kong	25,000,000 ordinary shares of HK$10 each	100%	Unsecured loans and advances

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

23 INVESTMENT IN AN ASSOCIATE

	Group		Bank	
	2011	2010	**2011**	2010
Unlisted shares, at cost	**–**	–	**10,411**	10,411
Share of net assets	**152,515**	149,502	**–**	–
	152,515	149,502	**10,411**	10,411

Particulars of the associate at December 31, 2011 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

The movement of the investments in the associate is as follow:

	Group	
	2011	2010
At January 1	**149,502**	125,449
Share of profits	**28,513**	24,053
Dividend distribution	**(25,500)**	–
At December 31	**152,515**	149,502

Summary financial information on the associate:

	Assets	Liabilities	Equity	Revenue	Net profit
2011					
100%	**1,744,568**	**1,146,470**	**598,098**	**811,165**	**111,816**
Group's effective interest	**444,865**	**292,350**	**152,515**	**206,847**	**28,513**
2010					
100%	1,661,277	1,074,992	586,285	738,623	94,327
Group's effective interest	423,625	274,123	149,502	188,349	24,053

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

24 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

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

	Group		Bank	
	2011	2010	**2011**	2010
Provision for Hong Kong Profits Tax for the year	**106,729**	91,440	**93,747**	76,699
Provisional Profits Tax paid	**(77,227)**	(46,934)	**(61,395)**	(43,590)
Balance of Profits Tax provision relating to prior years	**19,452**	3,115	**18,393**	3,090
	48,954	47,621	**50,745**	36,199
Provision for taxation in Macau	**4,528**	4,160	**–**	–
Provision for withholding tax in the United States of America	**11**	–	**11**	–
	53,493	51,781	**50,756**	36,199
Representing:				
Current tax recoverable	**(1,885)**	(3,300)	**–**	–
Current tax payable	**55,378**	55,081	**50,756**	36,199
	53,493	51,781	**50,756**	36,199

(b) Deferred tax assets

	Group		Bank	
	2011	2010	**2011**	2010
Net deferred tax assets recognised on the statement of financial position	**77,420**	78,915	**77,504**	18,054

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

24 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	Accelerated tax depreciation	Provision for staff bonus	Others	Total
At January 1, 2011	**73,970**	**(8,262)**	**12,285**	**922**	**78,915**
(Charged)/credited to the income statement	**(3,125)**	**2,898**	**(1,075)**	**(193)**	**(1,495)**
At December 31, 2011	**70,845**	**(5,364)**	**11,210**	**729**	**77,420**

	Group				
	Impairment allowances	Accelerated tax depreciation	Provision for staff bonus	Others	Total
At January 1, 2010	90,825	(8,460)	–	7,282	89,647
(Charged)/credited to the income statement	(16,855)	198	12,285	(5,866)	(10,238)
Charged to hedging reserve (note 16)	–	–	–	(494)	(494)
At December 31, 2010	73,970	(8,262)	12,285	922	78,915

	Bank				
	Impairment allowances	Accelerated tax depreciation	Provision for staff bonus	Others	Total
At January 1, 2011	**13,211**	**(7,289)**	**11,210**	**922**	**18,054**
Credited/(charged) to the income statement	**57,633**	**2,010**	**–**	**(193)**	**59,450**
At December 31, 2011	**70,844**	**(5,279)**	**11,210**	**729**	**77,504**

	Bank				
	Impairment allowances	Accelerated tax depreciation	Provision for staff bonus	Others	Total
At January 1, 2010	12,105	(8,250)	–	1,680	5,535
Credited/(charged) to the income statement	1,106	961	11,210	(758)	12,519
At December 31, 2010	13,211	(7,289)	11,210	922	18,054

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

25 FIXED ASSETS

	Group					
	Leasehold land	Freehold land	Buildings	Leasehold improvements	Furniture and equipment	Total
Cost:						
At January 1, 2011	**87,110**	**6,463**	**40,757**	**165,049**	**281,789**	**581,168**
Additions	**–**	**–**	**1,160**	**10,219**	**39,640**	**51,019**
Disposals	**–**	**–**	**(659)**	**(5,311)**	**(1,948)**	**(7,918)**
At December 31, 2011	**87,110**	**6,463**	**41,258**	**169,957**	**319,481**	**624,269**
Accumulated depreciation:						
At January 1, 2011	**20,040**	**–**	**21,640**	**106,151**	**181,831**	**329,662**
Charge for the year	**1,463**	**–**	**2,783**	**28,719**	**44,464**	**77,429**
Disposals	**–**	**–**	**(659)**	**(5,283)**	**(1,812)**	**(7,754)**
At December 31, 2011	**21,503**	**–**	**23,764**	**129,587**	**224,483**	**399,337**
Allowances for impairment losses:						
At January 1, 2011	**–**	**–**	**–**	**74**	**845**	**919**
At December 31, 2011	**–**	**–**	**–**	**74**	**845**	**919**
Net book value:						
At December 31, 2011	**65,607**	**6,463**	**17,494**	**40,296**	**94,153**	**224,013**

	Group					
	Leasehold land	Freehold land	Buildings	Leasehold improvements	Furniture and equipment	Total
Cost:						
At January 1, 2010	87,110	6,463	34,408	148,674	236,935	513,590
Additions	–	–	10,205	25,586	49,545	85,336
Disposals	–	–	(3,856)	(9,211)	(4,691)	(17,758)
At December 31, 2010	87,110	6,463	40,757	165,049	281,789	581,168
Accumulated depreciation:						
At January 1, 2010	18,579	–	23,403	81,382	147,473	270,837
Charge for the year	1,461	–	2,093	33,000	38,728	75,282
Disposals	–	–	(3,856)	(8,231)	(4,370)	(16,457)
At December 31, 2010	20,040	–	21,640	106,151	181,831	329,662
Allowances for impairment losses:						
At January 1, 2010	–	–	–	–	–	–
Charge for the year	–	–	–	74	845	919
At December 31, 2010	–	–	–	74	845	919
Net book value:						
At December 31, 2010	67,070	6,463	19,117	58,824	99,113	250,587

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

25 FIXED ASSETS (continued)

	Bank					
	Leasehold land	Freehold land	Buildings	Leasehold improvements	Furniture and equipment	Total
Cost:						
At January 1, 2011	87,110	–	35,281	136,014	249,138	507,543
Additions	–	–	1,160	7,023	47,413	55,596
Disposals	–	–	(659)	(1,489)	(1,689)	(3,837)
At December 31, 2011	87,110	–	35,782	141,548	294,862	559,302
Accumulated depreciation:						
At January 1, 2011	20,040	–	17,654	89,866	165,744	293,304
Charge for the year	1,463	–	2,524	23,303	40,532	67,822
Disposals	–		(659)	(1,461)	(1,646)	(3,766)
At December 31, 2011	21,503	–	19,519	111,708	204,630	357,360
Net book value:						
At December 31, 2011	65,607	–	16,263	29,840	90,232	201,942

	Bank					
	Leasehold land	Freehold land	Buildings	Leasehold improvements	Furniture and equipment	Total
Cost:						
At January 1, 2010	87,110	–	28,932	123,593	217,066	456,701
Additions	–	–	10,205	21,632	36,585	68,422
Disposals	–	–	(3,856)	(9,211)	(4,513)	(17,580)
At December 31, 2010	87,110	–	35,281	136,014	249,138	507,543
Accumulated depreciation:						
At January 1, 2010	18,579	–	19,782	71,264	138,558	248,183
Charge for the year	1,461	–	1,727	26,833	31,504	61,525
Disposals	–	–	(3,855)	(8,231)	(4,318)	(16,404)
At December 31, 2010	20,040	–	17,654	89,866	165,744	293,304
Net book value:						
At December 31, 2010	67,070	–	17,627	46,148	83,394	214,239

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

25 FIXED ASSETS (continued)

The analysis of net book value of buildings and leasehold land are as follows:

	Group		Bank	
	2011	2010	2011	2010
Building				
Held in Hong Kong:				
Leases of between 10 to 50 years	**16,262**	17,627	**16,263**	17,627
Held outside Hong Kong:				
Leases of over 50 years	**1,232**	1,490	**–**	–
	17,494	19,117	**16,263**	17,627

	Group and Bank	
	2011	2010
Leasehold land		
Held in Hong Kong:		
Leases of between 10 to 50 years	**38,894**	40,026
Leases of over 50 years	**26,713**	27,044
	65,607	67,070

26 OTHER ASSETS

	Group		Bank	
	2011	2010	2011	2010
Accrued interest receivable	**433,166**	239,613	**429,908**	219,680
Notes receivable	**–**	500,000	**–**	500,000
Settlement accounts	**48,793**	23,527	**48,793**	16,818
Customer liability under acceptances	**155,865**	175,686	**108,014**	170,296
Account receivables	**26,844**	34,028	**12,085**	44,127
Repossessed assets	**4,131**	63	**4,131**	63
Refundable Deposits	**53,931**	52,804	**51,029**	43,467
Others	**58,150**	122,821	**55,298**	97,910
	780,880	1,148,542	**709,258**	1,092,361

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

27 DEPOSITS AND BALANCES OF BANKS

	Group		Bank	
	2011	2010	**2011**	2010
Deposits and balances of banks	**6,118,455**	5,662,593	**8,296,002**	4,917,069

28 DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2011	2010	**2011**	2010
Demand deposits and current accounts	**5,303,818**	5,386,942	**5,112,357**	5,115,684
Savings deposits	**15,067,849**	13,972,812	**14,170,854**	12,805,501
Time and call deposits	**72,465,638**	51,463,355	**70,798,899**	49,110,048
Structured notes	**164,424**	274,312	**164,424**	274,312
Other deposits	**109,947**	55,733	**107,061**	46,743
	93,111,676	71,153,154	**90,353,595**	67,352,288

29 CERTIFICATES OF DEPOSIT ISSUED

	Group		Bank	
	2011	2010	**2011**	2010
Issued at amortised cost	**16,731,102**	7,876,452	**16,731,102**	7,871,463

30 OTHER LIABILITIES

	Group		Bank	
	2011	2010	**2011**	2010
Accrued interest payable	**322,472**	122,677	**319,769**	113,653
Settlement accounts	**12,725**	23,527	**10,935**	16,818
Account payables	**356,817**	374,626	**345,085**	129,016
Acceptances outstanding	**155,865**	175,686	**108,014**	170,296
Accrued salaries and welfare	**108,925**	115,277	**108,165**	98,470
Others	**96,913**	103,951	**95,504**	24,226
	1,053,717	915,744	**987,472**	552,479

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

31 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	General reserve	Investment revaluation reserve	Regulatory reserve	Other reserve	Retained profits	Total
At January 1, 2011	**6,511,043**	**750,956**	**4,219**	**522,337**	**15,913**	**7,281,797**	**15,086,265**
Net profit for the year	**–**	**–**	**–**	**–**	**–**	**172,390**	**172,390**
Other comprehensive income:							
change in fair value of available-for-sale financial assets	**–**	**–**	**(4,445)**	**–**	**–**	**–**	**(4,445)**
Total comprehensive income for the year	**–**	**–**	**(4,445)**	**–**	**–**	**172,390**	**167,945**
Regulatory reserve	**–**	**–**	**–**	**(132,985)**	**–**	**132,985**	**–**
At December 31, 2011	**6,511,043**	**750,956**	**(226)**	**389,352**	**15,913**	**7,587,172**	**15,254,210**

	Share capital	General reserve	Investment revaluation reserve	Regulatory reserve	Other reserve	Retained profits	Total
At January 1, 2010	6,511,043	750,956	(3,251)	426,750	15,913	7,068,486	14,769,897
Net profit for the year	–	–	–	–	–	308,898	308,898
Other comprehensive income:							
change in fair value of available-for-sale financial assets	–	–	7,470	–	–	–	7,470
Total comprehensive income for the year	–	–	7,470	–	–	308,898	316,368
Regulatory reserve	–	–	–	95,587	–	(95,587)	–
At December 31, 2010	6,511,043	750,956	4,219	522,337	15,913	7,281,797	15,086,265

(b) Share capital

	2011	2010
Authorised:		
167,587,600 (2010: 167,587,600) ordinary shares of $40 each	**6,703,504**	6,703,504
Issued and fully paid:		
162,776,068 (2010: 162,776,068) ordinary shares of $40 each	**6,511,043**	6,511,043

31 CAPITAL AND RESERVES (continued)

(c) Reserves

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

(i) General reserve

General reserve is appropriated from the retained profits for future use.

(ii) 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.

(iii) 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.

(iv) Exchange reserve

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

(v) Regulatory reserve

Regulatory reserve comprises reserves maintained in accordance with Hong Kong and Macau Banking regulations. It includes a regulatory reserve of $389,352 (2010: $522,337) to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movement in this reserve is made directly through retained profits and in consultation with Hong Kong Monetary Authority ("HKMA"). In addition, there is also a regulatory reserve maintained in accordance with the banking regulations in Macau ("Macau regulatory reserve") amounting to MOP107,400 (2010: MOP101,900). These regulatory reserves are non-distributable.

(vi) 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.

(vii) 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.

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

32 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, securities brokerage 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 intermediate holding company under normal course of business and bear interest ranging from 0.575% p.a. to 5.5% p.a. (2010: 1.71% p.a. to 3.9% p.a.) with a contractual term of 1 month to 1 year in both 2011 and 2010.

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

	Group					
	Intermediate holding company		Fellow subsidiaries		Associate	
	2011	2010	2011	2010	2011	2010
Interest income	**458,360**	148,579	**5,012**	2,594	**–**	–
Interest expense	**70,344**	19,784	**8,927**	4,281	**1,781**	1,254
Fee and commission expenses	**–**	–	**7,561**	7,649	**–**	–
Net losses from financial instruments at fair value through profit or loss	**37,309**	66,861	**–**	–	**–**	–
Operating income	**–**	150	**–**	–	**–**	–
Operating expenses	**7,971**	17,155	**–**	–	**–**	–
Amounts due from:						
Cash and balances with banks	**3,799,451**	3,283,709	**–**	–	**–**	–
Placements with banks maturing between one and twelve months	**–**	6,690	**–**	–	**–**	–
Advance to banks	**9,599,116**	7,253,040	**–**	–	**–**	–
Advance to customers and trade bills	**6,733,673**	4,217,534	**200,000**	–	**–**	–
Available-for-sale financial assets	**–**	1,000,000	**–**	–	**–**	–
Derivative financial instruments	**6,464**	–	**–**	–	**–**	–
Other assets	**244,893**	112,583	**235**	6,709	**–**	–
Amounts due to:						
Deposits and balances of banks	**3,876,268**	2,002,246	**–**	–	**–**	–
Deposits from customers	**–**	–	**967,153**	527,270	**345,391**	341,980
Certificates of deposit issued	**4,112,725**	–	**–**	–	**–**	–
Derivative financial instruments	**55,893**	41,738	**–**	–	**–**	–
Other liabilities	**50,479**	24,013	**24,339**	27,259	**457**	753
Contingencies and commitments:						
Trade-related contingencies	**6,893**	–	**–**	–	**–**	–
Other commitments	**–**	–	**190,000**	390,000	**–**	–
Derivative financial instrument: (notional amount)						
Exchange rate contracts	**1,459,914**	–	**–**	–	**–**	–
Interest rate swaps	**1,048,856**	1,049,396	**–**	–	**–**	–

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

32 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							
	Intermediate holding company		Fellow subsidiaries		Subsidiaries		Associate	
	2011	2010	2011	2010	2011	2010	2011	2010
Amounts due from:								
Cash and balances with banks	**3,799,451**	3,283,709	**–**	–	**67,442**	27,335	**–**	–
Placements with banks maturing between one and twelve months	**–**	6,690	**–**	–	**806,735**	762,599	**–**	–
Advances to banks	**9,599,116**	6,323,048	**–**	–	**–**	–	**–**	–
Advances to customers and trade bills	**6,733,673**	4,217,534	**200,000**	–	**–**	–	**–**	–
Available-for-sale financial assets	**–**	1,000,000	**–**	–	**–**	1,500,000	**–**	–
Derivative financial instruments	**6,464**	–	**–**	–	**8,057**	77,991	**–**	–
Other assets	**244,893**	95,493	**235**	–	**1,100**	44,046	**–**	–
Amounts due to:								
Deposits and balances of banks	**3,876,267**	682,495	**–**	–	**2,177,546**	574,227	**–**	–
Deposits from customers	**–**	–	**967,153**	11,500	**143,966**	171,703	**345,372**	341,961
Certificates of deposit issued	**4,112,725**	–	**–**	–	**–**	–	**–**	–
Derivative financial instruments	**55,893**	41,738	**–**	–	**3,215**	34,579	**–**	–
Other liabilities	**50,479**	19,921	**22,549**	24,235	**3,060**	788	**457**	753
Contingencies and commitments:								
Trade-related contingencies	**6,893**	–	**–**	–	**–**	–	**–**	–
Other commitments	**–**	–	**190,000**	390,000	**7,000**	–	**–**	–
Derivative financial instrument: (notional amount)								
Exchange rate contracts	**1,459,914**	–	**–**	–	**596,651**	1,883,137	**–**	–
Interest rate swaps	**1,048,856**	1,049,396	**–**	–	**–**	1,500,000	**–**	–

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

32 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)

The Group may enter into transactions with entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations ("state-owned entities") in the normal course of business. These transactions are entered on terms similar to those that would have been entered into with non-state-owned entities. These transactions include but are not limited to

- lending and deposit taking;
- inter-bank balances taking and placing;
- insurance and securities agency;
- custody services;
- sale, purchase, underwriting and redemption of bonds;
- purchase, sale and leases of property and other assets; and
- rendering and receiving of utilities and other services.

The Group's pricing and approval processes for major products and services do not depend on whether the customers or counterparties are state-owned entities. Having due regard to the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(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	
	2011	2010
Loans	**9,755**	9,528
Interest income earned	**177**	112
Deposits	**20,755**	29,024
Interest expense paid	**368**	217
Compensation		
Salaries and other short-term benefits	**29,286**	35,740

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

33 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	
	2011	2010	**2011**	2010
Direct credit substitutes	**646,452**	488,566	**591,352**	422,407
Transaction-related contingencies	**111,868**	87,260	**102,964**	83,791
Trade-related contingencies	**437,398**	643,563	**405,048**	568,067
Other commitments:				
which are unconditionally cancellable or automatically cancellable due to the deterioration in the credit worthiness of the borrower	**32,257,230**	28,946,208	**32,108,054**	2,367,954
with an original maturity under one year	**266,494**	453,214	**264,994**	453,214
with an original maturity over one year	**1,046,282**	715,941	**796,003**	674,813
	34,765,724	31,334,752	**34,268,415**	4,570,246

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

	Group		Bank	
	2011	2010	**2011**	2010
Credit risk weighted amounts	**1,240,952**	840,723	**1,047,653**	759,283

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% (2010: 0% to 100%).

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

34 CAPITAL COMMITMENTS

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

	Group	
	2011	2010
Expenditure contracted but not provided for	**12,684**	9,558
Expenditure authorised but not contracted for	**20,407**	10,765
	33,091	20,323

35 LEASE COMMITMENTS

At December 31, 2011, the Group and the Bank had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group		Bank	
	2011	2010	**2011**	2010
Buildings:				
Not later than one year	**189,188**	182,838	**176,926**	156,667
Later than one year and not later than five years	**178,541**	237,595	**163,821**	217,441
Later than five years	**–**	205	**–**	–
	367,729	420,638	**340,747**	374,108

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 March 27, 2032 and will be reviewed after March 27, 2013. Lease payments are usually increased every 3 years to reflect market rentals. None of the leases includes contingent rentals.

36 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	
	2011	2010
Aggregate amount in respect of principal and interest as at December 31	**9,755**	9,528
The maximum aggregate amount outstanding in respect of principal and interest during the year	**11,245**	14,847

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

37 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Group	
	2011	2010
Operating activities		
Operating profit	**687,139**	643,174
Adjustments for:		
Dividend income	**(2,814)**	(3,954)
Depreciation	**77,429**	75,282
Charges on impairment allowances	**65,597**	29,998
Written off of loans and advance net of recoveries	**(83,576)**	(111,204)
Impairment loss on fixed assets	**–**	919
	743,775	634,215
Increase in operating assets		
Balances and placements with banks with original maturity beyond three months	**–**	2,629
Gross advances to banks	**(2,444,817)**	(3,190,390)
Gross advances to customers and trade bills	**(18,575,414)**	(12,101,430)
Financial instruments measured at fair value through profit or loss with original maturity beyond three months	**273,161**	310,747
Derivative financial instruments	**32,138**	340,458
Other assets	**367,662**	206,328
	(20,347,270)	(14,431,658)
Increase in operating liabilities		
Deposits and balances of banks with original maturity beyond three months	**455,862**	(260,549)
Deposits from customers	**21,958,522**	18,399,430
Derivative financial instruments	**128,845**	(232,194)
Certificates of deposit issued	**8,854,650**	2,436,723
Other liabilities	**137,973**	225,378
	31,535,852	20,568,788
Net cash inflow from operations	**11,932,357**	6,771,345

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

37 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

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

	Group	
	2011	2010
Cash and balances with banks	**18,035,166**	14,801,165
Placements with banks with original maturity within three months	**2,776,930**	9,943
Treasury bills and certificate of deposits held with original maturity within three months categorised as available-for-sale	**2,327,670**	798,895
	23,139,766	15,610,003

(c) Reconciliation with the consolidated statement of financial position

	Group	
	2011	2010
Cash and balances with banks (note 17)	**18,035,166**	14,801,165
Placements with banks maturing between one and twelve months	**2,776,930**	9,943
Financial Instrument held categorised as		
– trading	**1,451,931**	1,725,092
– available-for-sale	**10,365,137**	4,561,740
Amounts shown in consolidated statement of financial position	**32,629,164**	21,097,940
Less: Amounts with an original maturity of beyond three months		
Financial instrument held categorised as		
– trading	**(1,451,931)**	(1,725,092)
– available-for-sale	**(8,037,467)**	(3,762,845)
Cash and cash equivalent in the consolidated statement of cash flows	**23,139,766**	15,610,003

38 IMMEDIATE PARENT AND ULTIMATE CONTROLLING PARTY

At December 31, 2011, the Bank's immediate parent is CCB Overseas Holdings Limited ("CCBOHL"), a company incorporated in Hong Kong. CCBOHL is controlled by China Construction Bank Corporation ("CCBC"). Central Huijin Investment Ltd. is the controlling party of CCBC, and is a wholly-owned subsidiary of China Investment Corporation which is a wholly state-owned investment and management company. The Group's intermediate parent, CCBC, which is a listed bank incorporated in the People's Republic of China, produces financial statements available for public use.

39 COMPARATIVE FIGURES

Certain comparative figures have been restated to conform to the current year's presentation.

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

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:

	2011	**% on total advances to customers**	2010	% on total advances to customers
Six months or less but over three months	**10,119**	**0.01**	10,167	0.01
One year or less but over six months	**–**	**–**	974	–
Over one year	**61,606**	**0.07**	63,935	0.09
Total gross amount of advances overdue for more than three months	**71,725**	**0.08**	75,076	0.10
Individually assessed impairment allowances made in respect of the above overdue advances	**61,953**		63,933	
Net realisable value of collateral held against the overdue advances	**4,397**		7,251	
Covered portion of overdue advances	**1,901**		2,876	
Uncovered portion of overdue advances	**69,824**		72,200	
	71,725		75,076	

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

As at December 31, 2011 and 2010, there were no overdue advances to banks and trade bills.

(b) Rescheduled advances to customers:

	2011	**% on total advances to customers**	2010	% on total advances to customers
Rescheduled advances to customers	**142,634**	**0.17**	166,986	0.24

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 December 31, 2011 and 2010, there were no rescheduled trade bills and advances to banks.

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

1 OVERDUE AND RESCHEDULED ASSETS (continued)

(c) Other overdue and rescheduled assets

As at December 31, 2011 and 2010, there were no other overdue and rescheduled assets.

2 LIQUIDITY RATIO

	2011	2010
	%	%
Consolidated average liquidity ratio	**43.7**	47.0

The consolidated average liquidity ratio for the year is calculated as the simple average of each calendar month's average liquidity ratio including for the Bank and its subsidiary, China Construction Bank (Asia) Finance Limited ("CCBAF") as required by the Hong Kong Monetary Authority ("HKMA") for its regulatory purposes, in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance.

3 CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT

(a) Capital adequacy ratio

	Group	
	2011	2010
	%	%
Capital adequacy ratio as at December 31	**21.0**	25.0
Core capital adequacy ratio as at December 31	**20.2**	24.3

At December 31, 2011, 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.

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

3 CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

(b) Capital base after deductions

	2011	2010
Core capital:		
Paid-up ordinary share capital	**6,511,043**	6,511,043
Published reserves	**9,235,390**	8,681,248
Profit and loss account	**590,947**	498,150
Deduct: Deferred tax assets	**(77,504)**	(78,915)
Total core capital before deductions	**16,259,876**	15,611,526
Less: Deductions from core capital	**(365,087)**	(367,830)
Total core capital after deductions	**15,894,789**	15,243,696
Supplementary capital:		
Reserves attributable to fair value gains on revaluation of holding of available-for-sale equities and debt securities	**6,432**	2,647
Fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss	**829**	15,792
Regulatory reserve for general banking risks	**526,753**	547,764
Collectively assessed impairment allowances	**435,817**	239,450
Total supplementary capital before deductions	**969,831**	805,653
Less: Deductions from supplementary capital	**(365,087)**	(367,831)
Total supplementary capital after deductions	**604,744**	437,822
Total capital base before deductions	**17,229,707**	16,417,179
Total deductions from total capital base	**(730,174)**	(735,661)
Total capital base after deductions	**16,499,533**	15,681,518

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

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 2011	Capital charges 2010
Exposures on the statement of financial position		
Public sector entity	**4,448**	6,371
Bank	**1,951,021**	1,335,483
Securities firm	**117**	2,004
Corporate	**2,100,992**	1,680,705
Regulatory retail	**755,162**	677,824
Residential mortgage loans	**726,232**	740,173
Other exposures which are not past due exposures	**173,569**	107,457
Past due exposures	**15,867**	18,465
Total capital charge	**5,727,408**	4,568,482
Exposures not on the statement of financial position		
Direct credit substitutes	**48,594**	35,819
Transaction-related contingencies	**3,793**	3,061
Trade-related contingencies	**6,742**	9,706
Other commitments	**40,146**	18,671
Exchange rate contracts	**47,287**	41,461
Interest rate contracts	**1,281**	537
Equity contracts	**402**	342
Total capital charge	**148,245**	109,597
Total capital charge for credit risk	**5,875,653**	4,678,079

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

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 December 31, 2011

Class of exposures	Total Exposures*	Exposures covered by recognised credit risk mitigation		Exposures after recognised credit risk mitigation		Risk weighted amount		
		Collateral	Guarantees	Rated	Unrated	Rated	Unrated	Total
On-balance sheet								
Sovereign	11,385,867	–	180,035	11,565,902	–	–	–	–
Public sector entity	–	–	278,012	–	278,012	–	55,602	55,602
Bank	37,867,455	–	20,816,830	58,549,859	134,426	24,327,702	60,064	24,387,766
Securities firm	5,924	3,003	–	–	2,921	–	1,461	1,461
Corporate	48,160,573	291,412	(20,918,457)	2,136,166	24,814,540	1,178,715	25,083,685	26,262,400
Cash	274,933	–	–	–	274,933	–	–	–
Regulatory retail	12,781,531	195,139	(358)	–	12,586,034	–	9,439,526	9,439,526
Residential mortgage loans	21,409,825	–	(356,062)	–	21,053,763	–	9,077,895	9,077,895
Other exposures which are not past due exposures	2,297,451	127,843	–	–	2,169,608	–	2,169,608	2,169,608
Past due exposures	136,505	–	–	–	136,505	–	198,341	198,341
Off-balance sheet								
Off-balance sheet exposures other then OTC derivative transactions or credit derivative contracts	1,366,307	44,500	–	177,531	1,144,276	104,041	1,136,911	1,240,952
OTC derivative transactions	1,423,048	203,960	–	1,195,269	23,819	588,307	23,819	612,126
Total	137,109,419	865,857	–	73,624,727	62,618,837	26,198,765	47,246,912	73,445,677
Exposures deducted from capital base	730,174							

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

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

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 December 31, 2010

		Exposures covered by recognised credit risk mitigation		Exposures after recognised credit risk mitigation		Risk weighted amount		
Class of exposures	Total Exposures*	Collateral	Guarantees	Rated	Unrated	Rated	Unrated	Total
On-balance sheet								
Sovereign	6,958,216	–	266,072	6,958,216	266,072	–	–	–
Public sector entity	–	–	398,194	–	398,194	–	79,639	79,639
Bank	24,765,570	–	11,862,682	36,550,509	77,743	16,653,525	40,007	16,693,532
Securities firm	85,106	35,003	–	–	50,103	–	25,052	25,052
Corporate	34,390,032	270,911	(12,127,108)	2,298,153	19,693,860	2,429,497	18,579,315	21,008,812
Cash	265,722	–	–	–	265,722	–	–	–
Regulatory retail	11,501,045	203,979	–	–	11,297,066	–	8,472,799	8,472,799
Residential mortgage loans	22,420,106	–	(399,840)	–	22,020,266	–	9,252,169	9,252,169
Other exposures which are not past due exposures	1,594,059	250,847	–	–	1,343,212	–	1,343,212	1,343,212
Past due exposures	158,136	–	–	–	158,136	–	230,812	230,812
Off-balance sheet								
Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	894,738	38,864	–	54,680	801,194	393,363	447,360	840,723
OTC derivative transactions	1,338,482	289,960	–	730,783	317,739	211,565	317,678	529,243
Total	104,371,212	1,089,564	–	46,592,341	56,689,307	19,687,950	38,788,043	58,475,993
Exposures deducted from capital base	735,661							

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

3 CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

(e) Credit risk mitigation

As mentioned in note 5(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.

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 5(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 December 31, 2011 and 2010.

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

3 CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

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

(i) Counterparty credit risk exposures

	OTC derivative transactions 2011	OTC derivative transactions 2010
Gross total positive fair value	**550,861**	642,017
Credit equivalent amount	**1,423,048**	1,338,482
Credit equivalent amounts or net credit exposures net of recognised collateral held	**1,219,088**	1,048,522
Risk weighted amounts	**612,125**	529,243

(ii) Major class of exposures by counterparty type

		2011	
	Contract Amount	**Credit equivalent amount**	**Risk weighted amount**
Banks	**79,466,802**	**930,594**	**323,782**
Securities Firms	**5,000**	**300**	**150**
Corporate	**10,714,907**	**263,891**	**263,890**
Others	**2,750,298**	**228,263**	**24,304**
	92,937,007	**1,423,048**	**612,126**

		2010	
	Contract amount	Credit equivalent amount	Risk weighted amount
Banks	59,385,126	730,474	211,258
Securities Firms	2,035	122	61
Corporate	14,778,831	307,454	289,308
Others	3,391,795	300,432	28,616
	77,557,787	1,338,482	529,243

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

3 CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

(g) Asset securitisation

There was no asset securitisation for which the Group is an originating institution or an investing institution at December 31, 2011 and 2010.

(h) Market risk

	2011	2010
Interest rate exposures	**84,003**	102,548
Foreign exchange exposures (including options)	**26,149**	12,200
Capital charge for market risk	**110,152**	114,748

(i) Operational risk

	2011	2010
Capital charge for operational risk	**308,963**	245,465

(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.

	2011	2010
Cumulative realised gains on disposal	**–**	–
Unrealised gains:		
– recognised in reserve but not through the income statement	**14,293**	5,882
– deducted from the supplementary capital	**6,432**	2,647

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

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			
	2011		2010	
	Outstanding balance	**% of advances covered by collateral**	Outstanding balance	% of advances covered by collateral
Advances for use in Hong Kong				
Industrial, commercial and financial				
Property development	**739,070**	**23.08**	594,601	7.50
Property investment	**22,847,777**	**92.86**	19,103,770	93.55
Financial concerns	**2,461,423**	**65.11**	1,693,714	79.95
Stockbrokers	**11,928**	**37.79**	85,100	41.13
Wholesale and retail trade	**3,660,078**	**86.73**	5,328,394	93.25
Manufacturing	**2,893,972**	**76.87**	1,582,917	48.85
Transport and transport equipment	**5,765,850**	**54.64**	2,797,319	37.60
Recreational activities	**240,531**	**99.70**	14,971	98.88
Information technology	**209,047**	**93.00**	800,963	93.03
Others	**12,680,960**	**85.89**	7,727,661	87.13
	51,510,636		39,729,410	

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

4 SEGMENTAL INFORMATION (continued)

(a) Gross advances to customers (continued)

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

	Group			
	2011		2010	
	Outstanding balance	**% of advances covered by collateral**	Outstanding balance	% 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	**12,746**	**100.00**	14,774	100.00
Loans for the purchase of other residential properties	**12,556,014**	**99.72**	14,086,008	99.75
Credit card advances	**4,992,670**	**0.00**	4,860,826	0.00
Others	**4,058,273**	**53.30**	3,361,284	60.64
	21,619,703		22,322,892	
Trade finance	**2,104,322**	**35.63**	1,630,270	50.27
Advances for use outside Hong Kong	**8,210,626**	**71.79**	4,621,108	61.79
Gross advances to customers	**83,445,287**		68,303,680	

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

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:

	2011	2010
(1) Property investment		
Impaired advances	**–**	–
Overdue advances	**–**	–
Individually assessed impairment allowances	**–**	–
Collectively assessed impairment allowances	**12,985**	11,367
Impairment allowances charged/(released) during the year	**1,618**	(3,090)
Advances written-off during the year	**–**	–
(2) Individuals – loans for the purchase of other residential properties		
Impaired advances	**8,725**	5,624
Overdue advances	**–**	974
Individually assessed impairment allowances	**–**	–
Collectively assessed impairment allowances	**191**	139
Impairment allowances charged/(released) during the year	**52**	(419)
Advances written-off during the year	**–**	–
(3) Others		
Impaired advances	**–**	–
Overdue advances	**–**	–
Individually assessed impairment allowances	**–**	–
Collectively assessed impairment allowances	**4,664**	9,613
Impairment allowances (released)/charged during the year	**(4,949)**	411
Advances written-off during the year	**–**	–

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

4 SEGMENTAL INFORMATION (continued)

(a) Gross advances to customers (continued)

(ii) Gross advances to customers by geographical areas

	2011	2010
Hong Kong	**74,534,790**	65,035,516
China	**4,315,028**	78,998
Macau	**3,235,686**	2,839,419
Others	**1,359,783**	349,747
	83,445,287	68,303,680

(iii) Impaired advances by geographical areas

	2011		2010	
	Gross impaired advances	**Individually assessed impairment allowances**	Gross impaired advances	Individually assessed impairment allowances
Hong Kong	**221,535**	**90,378**	244,530	87,983
China	**–**	**–**	–	–
Macau	**–**	**–**	8	11
	221,535	**90,378**	244,538	87,994

More than 90% of the collective impairment allowances were allocated to Hong Kong at December 31, 2011 and 2010. The geographical analysis is based on location of the customers and has taken account of transfer of risk.

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

4 SEGMENTAL INFORMATION (continued)

(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	Others	Total
At December 31, 2011			
Asia Pacific excluding Hong Kong	**36,320,196**	**25,210,914**	**61,531,110**
– of which China	**36,279,207**	**22,297,419**	**58,576,626**

	Banks	Others	Total
At December 31, 2010			
Asia Pacific excluding Hong Kong	22,194,624	14,503,324	36,697,948
– of which China	22,147,040	11,932,560	34,079,600

(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.

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

4 SEGMENTAL INFORMATION (continued)

(c) Geographical information (continued)

	Revenues from external customers	Profit before taxation	Total assets	Total liabilities	Specified non-current assets	Contingent liabilities and commitments
At December 31, 2011						
Hong Kong (place of domicile)	**2,293,923**	**682,295**	**130,530,413**	**114,737,321**	**354,967**	**34,268,987**
Macau	**113,001**	**33,402**	**5,234,074**	**4,359,489**	**21,561**	**503,630**
Less: Intra-group items	**–**	**–**	**(893,239)**	**(1,386,279)**	**–**	**(6,893)**
	2,406,924	**715,697**	**134,871,248**	**117,710,531**	**376,528**	**34,765,724**

	Revenues from external customers	Profit before taxation	Total assets	Total liabilities	Specified non-current assets	Contingent liabilities and commitments
At December 31, 2010						
Hong Kong (place of domicile)	2,139,689	636,354	99,054,156	83,382,546	375,208	31,008,043
Macau	87,440	30,756	5,156,305	4,311,164	24,881	345,339
Less: Intra-group items	–	–	(1,482,376)	(1,519,328)	–	(18,630)
	2,227,129	667,110	102,728,085	86,174,382	400,089	31,334,752

(d) Reportable segments

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.

(i) 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.

(ii) 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.

4 SEGMENTAL INFORMATION (continued)

(d) Reportable segments (continued)

(iii) 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.

(iv) 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 certificate 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.

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

4 SEGMENTAL INFORMATION (continued)

(d) Reportable segments (continued)

	2011				
	Commercial banking	Consumer banking	Commercial banking-China Enterprises	Treasury business	Total
Net interest income	**333,711**	**925,555**	**545,420**	**13,286**	**1,817,972**
Revenue from external customers	**425,839**	**1,214,745**	**592,082**	**147,625**	**2,380,291**
Inter-segment revenue	**–**	**81,302**	**–**	**–**	**81,302**
Reportable segment revenue	**425,839**	**1,296,047**	**592,082**	**147,625**	**2,461,593**
Depreciation and amortisation	**(1,522)**	**(42,336)**	**(4)**	**(2,798)**	**(46,660)**
Operating profit before impairment losses	**220,508**	**80,839**	**504,699**	**97,638**	**903,684**
Loan impairment and other credit risk provisions	**(3,017)**	**(54,824)**	**(7,756)**	**–**	**(65,597)**
Reportable segment profit before taxation	**217,491**	**26,015**	**496,943**	**97,638**	**838,087**
Reportable segment assets	**31,316,042**	**30,010,502**	**40,004,442**	**32,028,616**	**133,359,602**
Reportable segment liabilities	**18,174,537**	**70,284,022**	**6,673,518**	**21,469,359**	**116,601,436**

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

4 SEGMENTAL INFORMATION (continued)

(d) Reportable segments (continued)

			2010		
	Commercial banking	Consumer banking	Commercial banking-China Enterprises	Treasury business	Total
Net interest income	431,778	942,630	269,025	(76,511)	1,566,922
Revenue from external customers	520,506	1,205,209	374,964	112,365	2,213,044
Inter-segment revenue	(12,906)	40,275	(12,415)	(21,534)	(6,580)
Reportable segment revenue	507,600	1,245,484	362,549	90,831	2,206,464
Depreciation and amortisation	(2,851)	(37,407)	(4)	(2,036)	(42,298)
Operating profit before impairment losses	304,189	114,175	303,132	48,890	770,386
Loan impairment and other credit risk provisions	(11,232)	7,525	(25,827)	–	(29,534)
Reportable segment profit before taxation	292,957	121,700	277,305	48,890	740,852
Reportable segment assets	25,597,468	29,157,770	25,797,846	20,278,433	100,831,517
Reportable segment liabilities	13,824,294	54,485,169	4,229,246	12,664,848	85,203,557

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

4 SEGMENTAL INFORMATION (continued)

(d) Reportable segments (continued)

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

	2011	2010
Revenue		
Reportable segment revenue	**2,461,593**	2,206,464
Elimination of inter-segment interest income	**(81,302)**	6,580
Unallocated net interest income	**27,387**	17,221
Unallocated other operating expenses	**(754)**	(3,133)
Consolidated operating income	**2,406,924**	2,227,132
Profit		
Reportable segment profit before taxation	**838,087**	740,852
Elimination of inter-segment interest income	**(81,302)**	6,580
Share of profits of an associate	**28,513**	24,053
Unallocated net interest income	**27,387**	17,221
Unallocated other operating expenses	**(754)**	(3,136)
Operating expenses	**(96,234)**	(118,460)
Consolidated profit before taxation	**715,697**	667,110
Assets		
Reportable segment assets	**133,359,602**	100,831,517
Investment in an associate	**274,933**	149,502
Unallocated fixed assets	**152,515**	250,587
Current tax recoverable	**1,885**	3,300
Other assets	**77,420**	1,148,542
Deferred tax assets	**224,013**	78,915
Cash in hand	**780,880**	265,722
Consolidated assets	**134,871,248**	102,728,085
Liabilities		
Reportable segment liabilities	**116,601,436**	85,203,557
Other liabilities	**1,053,717**	915,744
Current tax payable	**55,378**	55,081
Consolidated liabilities	**117,710,531**	86,174,382

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

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	Off-balance sheet exposure	Total	Individually assessed impairment allowances
At December 31, 2011				
Mainland entities	**5,661,473**	**45,666**	**5,707,139**	**–**
Companies and individuals outside Mainland where the credit is granted for use in the Mainland	**2,975,613**	**267,361**	**3,242,974**	**52,274**
Other counterparties the exposure to whom are considered by the Bank to be non-bank Mainland exposures	**1,237,098**	**14,513**	**1,251,611**	**–**
	9,874,184	**327,540**	**10,201,724**	**52,274**

	On-balance sheet exposure	Off-balance sheet exposure	Total	Individually assessed impairment allowances
At December 31, 2010				
Mainland entities	1,535,743	7,514	1,543,257	–
Companies and individuals outside Mainland where the credit is granted for use in the Mainland	2,218,385	345,979	2,564,364	53,200
Other counterparties the exposure to whom are considered by the Bank to be non-bank Mainland exposures	432,697	22,100	454,797	–
	4,186,825	375,593	4,562,418	53,200

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

6 CURRENCY CONCENTRATIONS

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

	Total	Of which AUD HKD equivalent	JPY HKD equivalent	CNY HKD equivalent	MOP HKD equivalent	EUR HKD equivalent
At December 31, 2011						
Spot assets	**53,133,562**	**54,831**	**211,346**	**12,626,291**	**726,822**	**195,459**
Spot liabilities	**(44,897,946)**	**(1,787,504)**	**(59,827)**	**(12,058,027)**	**(281,000)**	**(2,380,794)**
Forward purchases	**78,250,304**	**2,892,624**	**763,914**	**31,816,267**	**–**	**2,721,248**
Forward sales	**(85,938,811)**	**(1,130,174)**	**(925,374)**	**(32,087,006)**	**–**	**(561,330)**
Net (short)/long position	**547,109**	**29,777**	**(9,941)**	**297,525**	**445,822**	**(25,417)**
Net structural position	**423,447**	**–**	**–**	**–**	**423,447**	**–**

	Total	Of which AUD HKD equivalent	JPY HKD equivalent	CNY HKD equivalent	MOP HKD equivalent	EUR HKD equivalent
At December 31, 2010						
Spot assets	32,735,354	134,705	250,537	8,897,548	685,701	43,713
Spot liabilities	(26,159,287)	(1,384,360)	(51,094)	(4,197,797)	(264,742)	(510,722)
Forward purchases	63,541,586	2,251,601	1,076,128	20,487,051	–	998,497
Forward sales	(69,755,533)	(948,316)	(1,281,837)	(24,976,774)	(589)	(563,200)
Net (short)/long position	362,120	53,630	(6,266)	210,028	420,370	(31,712)
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 December 31, 2011 and 2010.

7 CORPORATE GOVERNANCE

The Bank has fully complied with the requirements set out in the module on "Corporate Governance of Locally Incorporated 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 Incorporated 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 intermediate holding company.

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 eight non-executive Directors. Of the eight non-executive Directors, four 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 five members, namely the Chief Executive Officer as the Chairperson, Head of Consumer Banking Group, Chief Financial Officer, Head of Information Systems Group 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. The Operations Committee is chaired by Head of Operations Planning, Product Services; there are nine other members, namely Head of Consumer Branch Banking, Head of Operations – Credit Card & Personal Loan Operations, Head of Information Systems Group, Head of Operations, Head of Communications & Media Relations, Head of Financial Control, Head of Compliance & Internal Control, Head of Services Management & Sales Support and Risk Management representative.

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 assets and liabilities, which include the following:

– Managing liquidity risk, interest rate risk, foreign exchange risk and earnings exposure;

– Determining funding strategy and composition of the Group's assets and liabilities, including on-balance sheet 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 nine 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 Group, Head of Commercial Banking & Trade Solutions, Head of Commercial Banking – China Enterprises Division, Head of Financial Control 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 policies 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 eleven members with the Head of Information Systems Group as the Chairperson. Other members are the Chief Executive Officer, Head of Consumer Banking Group, Head of Financial Control, Head of Operations, Head of eBusiness, Head of Operations – Credit Card & Personal Loan Operations, Enterprise Risk Management representative, Sales Management & Support Services (Consumer Banking) representative, Compliance & Internal Control representative and Information Systems Group representative.

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.

(g) Disclosure on remuneration for CG-5 Guideline on a Sound Remuneration System issued by the HKMA

The Board has delegated power to the Remuneration Committee to oversee the design and operation of the Bank's remuneration system.

The Remuneration Committee consists of not less than three members, majority of whom should be independent non-executive Directors.

The major responsibilities of the Committee include:

– Determining remuneration packages of the Chief Executive Officer, the Senior Management and the Key Personnel,

– Making recommendations to the Board on the Bank's remuneration structure, annual salary adjustment, annual performance bonus and long term incentive, if applicable, and

– Conducting regular review of the Bank's remuneration system and its operation.

The Committee takes into account of the Bank's risk tolerance, risk management framework and long term financial soundness in determining the Bank's remuneration policy. The policy advocates pay-for-performance philosophy and internal equity to encourage achievement of results and desirable behaviors in support of the Bank's long term goals and strategies.

The Remuneration Committee held three meetings in 2011. At the Remuneration Committee meeting held in February 2011, the Committee reviewed the Bank's remuneration policy to ensure compliance with the regulatory requirements.

7 CORPORATE GOVERNANCE (continued)

(g) Disclosure on remuneration for CG-5 Guideline on a Sound Remuneration System issued by the HKMA (continued)

Remuneration Structure

The remuneration packages of employees focus on "total cash remuneration" comprising of fixed salary and variable remuneration. Following the total reward principle and prevailing market practices, payments of variable remuneration are required to follow the policy guidelines to maintain an appropriate balance that the fixed portion is sufficient to attract and retain employees with relevant skills and the variable portion will not effectively become "non-discretionary" or induce excessive risk taking. The proportion of variable remuneration shall vary according to roles and responsibilities, and is usually higher for employees who are higher in seniority.

Fixed remuneration refers to base salary, fixed allowances and year-end guaranteed pay (if applicable). Variable remuneration, comprising mainly cash bonus payments, sales incentives and/or long-term incentives (if applicable), is awarded based on overall performance of the Bank, the relevant business units and the employee, taking into account the full range of current and potential short-term and longer-term risks connected with the activities of employees which may affect the performance of the Bank.

Performance Management and Allocation of Variable Remuneration

Performance of individual employees will be assessed against a number of pre-defined and measurable performance goals. The goals are determined according to the job responsibilities, areas of contribution covering both financial and non-financial factors, and the full adherence to the code of conduct, internal control policy, compliance standard and risk management requirements. The overall and balanced quality of an employee's performance is therefore measured and determined by not only financial achievement, but also non-financial indicators as an integral part of the performance management system. For employees within risk control functions, they have to achieve their specific divisional and individual key performance indicators independent of the performance of the business areas which they oversee. Employees who fail to achieve satisfactory performance results as described above will be subject to reduction or elimination of variable remuneration.

In assessing the remuneration packages of the Chief Executive Officer, Senior Management and Key Personnel of the Bank, the Remuneration Committee has the delegated responsibility to determine the total remuneration inclusive of the variable components in alignment with the performance management system described above.

7 CORPORATE GOVERNANCE (continued)

(g) Disclosure on remuneration for CG-5 Guideline on a Sound Remuneration System issued by the HKMA (continued)

Payout and Deferral of Variable Remuneration

The award of variable remuneration is subject to deferment in accordance with the remuneration policy as approved by the Remuneration Committee and the Board of the Bank. In general, the proportion of variable remuneration, which is subject to deferment, will increase in line with seniority, scope of responsibilities and in proportionate with the amount of bonus as compared to the fixed remuneration.

The award of deferred remuneration is subject to a minimum vesting period and pre-defined vesting conditions in accordance with the remuneration policy. The vesting period shall be up to three years on a gradual manner depending on the amount of the variable remuneration, and aligned to the nature and risks of business, activities undertaken by employees and the time horizon of the risks from the activities. Payout of deferral may be subject to forfeiture in case of significant performance deterioration at the Bank, business unit or individual level, as appropriate. Early payment of deferral amount is normally not allowed and the unvested payment will be forfeited if the employee tenders resignation from the Bank or is terminated by the Bank before the normal payout date. Any exception to the rules is subject to approval by the Board, Remuneration Committee or Chief Executive Officer as defined in the remuneration policy.

Unvested deferred remuneration shall be subject to “claw-back” if it is later established that any performance measurement was based on data which is subsequently proven to have been manifestly misstated, or it is later established that there has been fraud or other malfeasance on the part of the employee or violation of the Bank’s internal control policies/procedures. Exception to claw-back shall be subject to approval by the Board, Remuneration Committee or Chief Executive Officer as defined in the remuneration policy.

On-going Monitoring of the Remuneration System

A multi-level monitoring mechanism shall be in place to ensure the Policy is well respected and followed appropriately.

The Board and the Remuneration Committee shall provide oversight of the overall remuneration matters of the Bank to be consistent with its culture, strategy, risk tolerance and control environment. The Internal Control function of the Bank shall conduct regular review (at least annually), independent of management, on the adequacy and effectiveness of the remuneration policy as well as compliance of the operations of the Bank’s remuneration system. Necessary assistance from external auditors will be sought as determined by the Remuneration Committee. Results of the review together with any material weaknesses identified shall be submitted to the Remuneration Committee. Involvement and inputs from risk control, compliance, internal control, finance and human resources shall be solicited as appropriate in the design and implementation of the remuneration policy and systems, with specific regard to risk considerations at various levels of the Bank.

(Expressed in thousands of Hong Kong Dollars, unless otherwise stated)

7 CORPORATE GOVERNANCE (continued)

(g) Disclosure on remuneration for CG-5 Guideline on a Sound Remuneration System issued by the HKMA (continued)

Remuneration for Senior Management (note (i)) and Key Personnel (note (ii))

Breakdown of remuneration (note (iii))	2011
Number of Senior Management	6
Number of Key Personnel	3

	2011
Fixed remuneration (Note (iv))	
Cash	15,938
Variable remuneration	
Cash	11,087

Breakdown of deferred remuneration	2011
Outstanding and vested	–
Outstanding and unvested	7,243
Awarded in 2011	4,458
Paid out in 2011	971
Reduced through performance adjustments	–
Reductions in 2011 due to ex post explicit adjustment	–
Reductions in 2011 due to ex post implicit adjustments	–

No Senior Management and Key Personnel has been awarded guaranteed bonus, sign-on or severance payment in 2011.

Notes:

(i) Senior management refers to those executives responsible for oversight of the Bank's strategy or activities or material business lines.

(ii) Key Personnel refers to those executives whose duties or activities involve the assumption of material risks or taking on of material exposures on behalf of the Bank.

(iii) Breakdown of remuneration refers to the fixed remuneration and variable remuneration awarded to the employees during the period from January 1, 2011 and December 31, 2011.

(iv) The fixed remuneration included employer contributions to pension scheme.

7 CORPORATE GOVERNANCE (continued)

(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:

– Overseeing overall credit quality of the Group;

– Ensuring 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;

– Reviewing and approving credit applications;

– Monitoring and controlling 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;

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

– Reviewing trends in delinquency and appropriateness of impairment allowance.

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

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 and audit, 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.

A designated unit under Risk Management drives and coordinates the development of operational risk management process, in particular conducting self-assessment exercises and the setting up of key risk indicators; In addition, the Operations Committee plays a role to oversee the operational risk of the Group. The internal control environment is assessed and reviewed by the Group's Internal Control unit on an on going basis while the Audit Department of the intermediate holding company, 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 intermediate holding company. Their periodic reviews cover a comprehensive evaluation of all the Group's business processes and support functions.

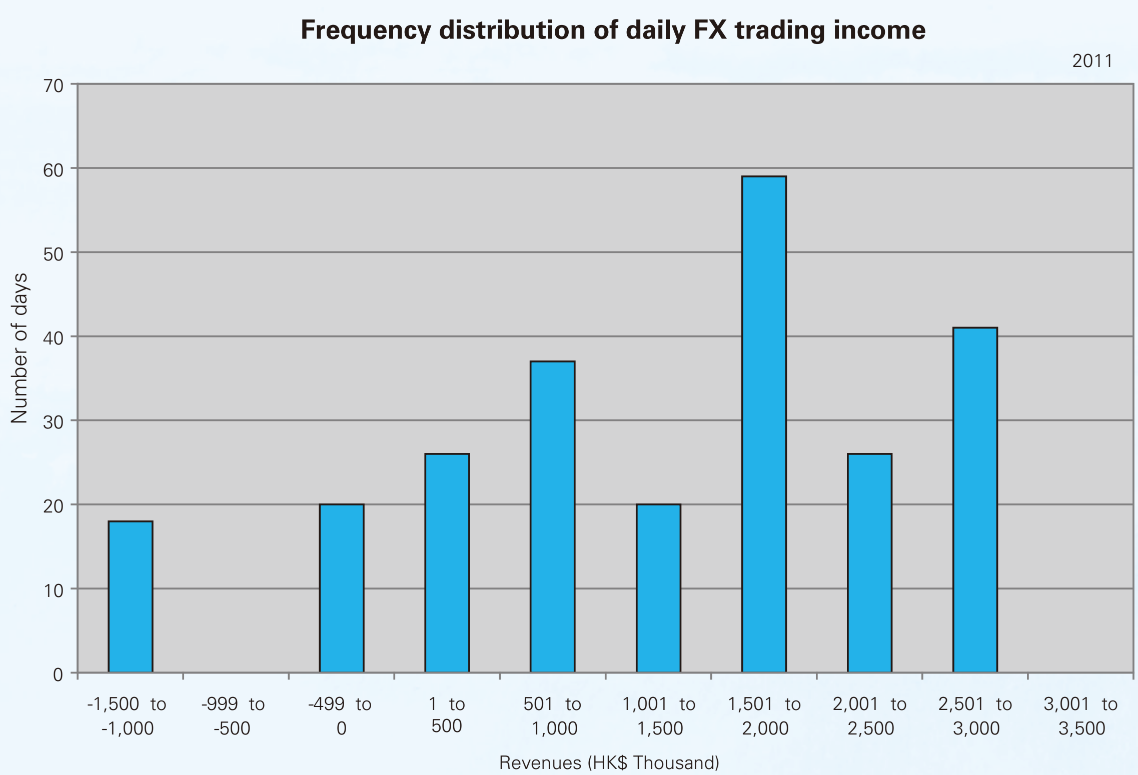
Compliance awareness is enhanced through training, regular compliance circulars and issuance of compliance policies and procedures. All officers are required to actively engage in the continuous monitoring process. A Compliance Officer is designated to oversee the overall regulatory compliance matters.

8 RISK MANAGEMENT (continued)

(b) Market risk management

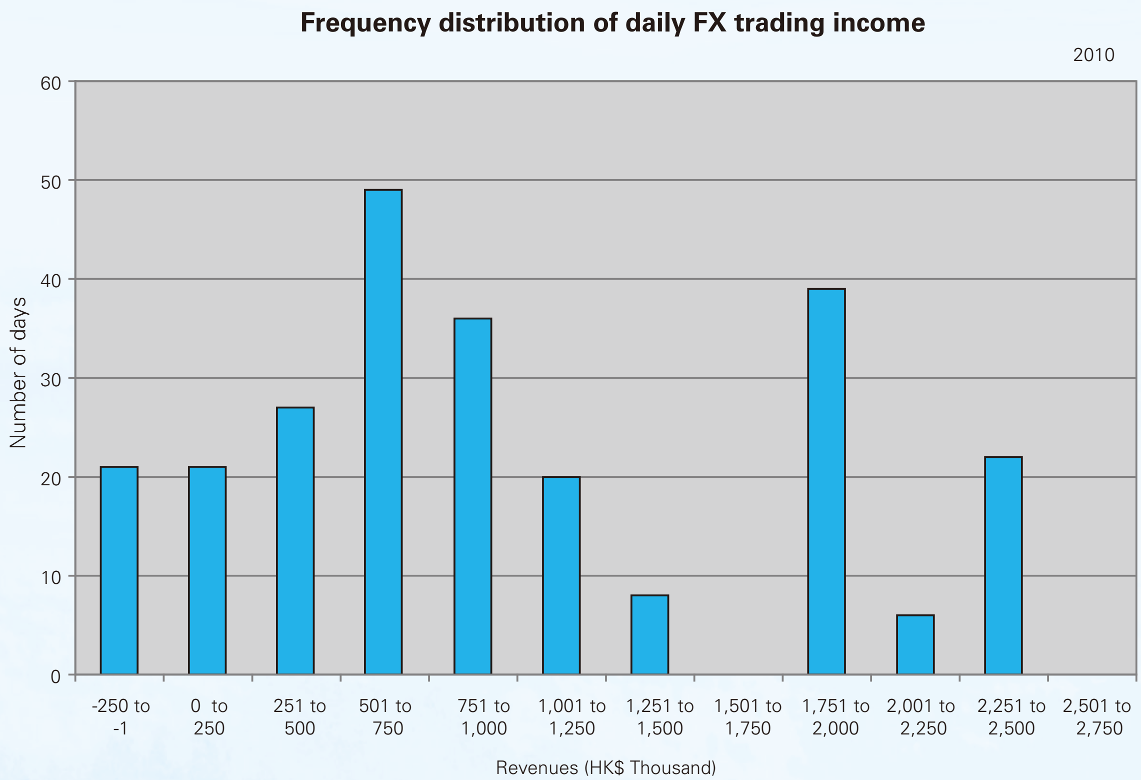
The Group's market risk management is detailed in note 5(b) to the financial statements.

The Group's foreign exchange risk exposure arises from its foreign exchange trading activities. For the year ended December 31, 2011, the average daily revenue of the foreign exchange trading activities was $858 (2010: $616) and the standard deviation of this daily revenue was $1,140 (2010: $783). An analysis of the frequency distribution of the daily foreign exchange trading revenue is presented by the following charts.



8 RISK MANAGEMENT (continued)

(b) Market risk management (continued)



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

PRIVATE BANKING

Central	12/F, 9 Queen's Road Central	Tel: 3718 3779

BRANCHES IN HONG KONG

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
Chai Wan	Shop 301, Level 3, New Jade Shopping Arcade	Tel: 3718 7678
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
Kowloon Bay Amoy Gardens	Shop 181, G/F Phase II A, Amoy Gardens	Tel: 3718 7366
Kwun Tong Hoi Yuen Road	56 Hoi Yuen Road	Tel: 3718 7082
Kwun Tong Hip Wo Street	191 Hip Wo Street	Tel: 3718 7333
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 Lucky Plaza	Shop 194, Level 3, Shatin Lucky Plaza	Tel: 3718 7650
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

BRANCHES IN HONG KONG (continued)

Tai Kok Tsui Olympian City	Shop 109, 1/F, Olympian City 2	Tel: 3718 3920
Tai Koo Shing	Shop 001, G/F, Cityplaza II	Tel: 3718 7380
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 Hankow Road	17 Hankow Road	Tel: 3718 3680
Tsimshatsui Humphreys Avenue	3–3A Humphreys Avenue	Tel: 3718 7166
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: 3718 7233
Wanchai Johnston Road	150 Johnston Road	Tel: 3718 7300
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 Landmark	Shop 024, G/F, Macau Landmark, 555 Avenida da Amizade	Tel: 8291 1710
San Kiu Lin Seng	83 Estrada de Coelho do Amaral	Tel: 8291 1580
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

DU Yajun	Chairman
Miranda KWOK Pui Fong	President & Chief Executive Officer
Bucky FONG Wing Foon	
DICKSON LEACH James S.	
CHAN Wing Kee, GBS, OBE, JP	
CHAN Mo Po, MH, JP	
YING Chengkang	
LI Yunze	
XU Yunqing	
JIANG Jianhua	

SECRETARIAT

Cathy CHENG Pui Ling	Corporate Secretary

EXECUTIVE MANAGEMENT

Miranda KWOK Pui Fong	President & Chief Executive Officer
Michael LEUNG Kin Man	Chief Information Officer
YANG Hao	Head of Commercial Banking – China Enterprise
MA Chan Chi	Chief Financial Officer
Vincent HO Siu Hung	Head of Treasury
Chris JUE Wai Ling	Deputy Head of Consumer Banking Group
David KAM Cheuk Fai	Head of Commercial Banking & Trade Solutions
Ahming LAU Chun Ming	Head of Operations
Grace LEE Shuk Ha	Head of Human Resources
Phoebe LEE Suet Ching	Chief Credit Officer
Sylvia NG Sau Wai	Chief Marketing Officer
Janette YU Pui Man	Head of Compliance & Internal Control