

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 1. Basis of preparation and accounting policies

### *Basis of preparation*

The unaudited interim report has been prepared in accordance with HKAS 34 “Interim Financial Reporting” issued by the HKICPA.

### *Accounting policies*

Except as described below, the accounting policies and methods of computation used in the preparation of the unaudited interim report are consistent with those used in the Group’s financial statements for the year ended 31 December 2008 and should be read in conjunction with the Group’s Annual Report for 2008.

The following new standard, revised standard, amendment to standard, and interpretation are mandatory for the first time for the financial year beginning 1 January 2009.

- HKAS 1 (Revised), ‘Presentation of financial statements’. The revised standard prohibits the presentation of items of income and expenses (that is ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from owner changes in equity. All ‘non-owner changes in equity’ are required to be shown in a performance statement.

The Group has elected to present the performance in two separate statements: an income statement and a statement of comprehensive income. The interim financial information has been prepared under the revised disclosure requirements. The adoption of this revised standard affects the presentation of the Group’s financial statements.

- HKFRS 7 (Amendment), ‘Financial instruments: disclosures’. The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures and requires some specific quantitative disclosures for financial instruments on the lowest level in the hierarchy. It also requires entities to provide additional disclosures about the relative reliability of fair value measurements. These disclosures will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. The Group will make additional relevant disclosures in its financial statements ending 31 December 2009. It is not required to provide comparative disclosures in the first year of application.
- HKFRS 8, ‘Operating Segments’. HKFRS 8 replaces HKAS 14 ‘Segment Reporting’. It requires a ‘management approach’ under which segment information, that reflects the operating result of segments reviewed regularly by the management for operation decisions making and performance assessment, is presented on the same basis and in the same manner as that used for internal reporting to the management. The adoption of HKFRS 8 has no change in the number of reportable segments presented. However, there is a change in inter-segment funding, details of which are disclosed in note 41. As the impact is not significant, no restatement of prior year figure has been made.
- HK(IFRIC)-Int 13, ‘Customer Loyalty Programmes’. HK(IFRIC)-Int 13 clarifies that when an entity provides customers with incentives to buy goods or services under a customer loyalty programme (for example, customers accumulate loyalty points to redeem free or discounted products or service), the fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale or service. The interpretation does not have significant impact on the Group’s results of operations and financial position.

## 2. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that are consistent with those used in the Group's financial statements for the year ended 31 December 2008.

## 3. Financial risk management

The Group is exposed to financial risks as a result of engaging in a variety of business activities. The principal financial risks are credit risk, market risk (including currency and interest rate risk) and liquidity risk. This note summarises the Group's exposures to these risks.

### 3.1 Credit risk

#### A. Gross loans and advances

##### (a) Impaired advances

A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred and that loss event(s) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If there is objective evidence that an impairment loss on loans has been incurred, the amount of loss is measured as the difference between the carrying amount and the present value of estimated future cash flows generated by the financial asset. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the holder of the asset about the loss events.

	<b>At 30 June 2009 HK\$'m</b>	At 31 December 2008 HK\$'m
Gross impaired advances to customers	<b>1,020</b>	1,326
Individually assessed loan impairment allowances made in respect of such advances	<b>632</b>	800
Current market value of collateral held against the covered portion of advances to customers	<b>554</b>	710
Covered portion of advances to customers	<b>478</b>	628
Uncovered portion of advances to customers	<b>542</b>	698
Gross impaired advances to customers as a percentage of gross advances to customers	<b>0.21%</b>	0.29%

The loan impairment allowances were made after taking into account the value of collateral in respect of impaired advances.

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### A. Gross loans and advances (continued)

###### (a) Impaired advances (continued)

Classified or impaired advances to customers are analysed as follows:

	<b>At 30 June 2009 HK\$'m</b>	At 31 December 2008 HK\$'m
Gross classified or impaired advances to customers	<b>1,774</b>	2,138
Gross classified or impaired advances to customers as a percentage of gross advances to customers	<b>0.37%</b>	0.46%

Classified or impaired advances to customers follow the definitions set out in the Banking (Disclosure) Rules and represent advances which are either classified as “substandard”, “doubtful” or “loss” under the Group’s classification of loan quality, or individually assessed to be impaired.

###### (b) Advances overdue for more than 3 months

Advances with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid. Advances repayable by regular instalments are classified as overdue when an instalment payment is past due and remains unpaid. Advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction or when the advances have remained continuously outside the approved limit that was advised to the borrower.

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### A. Gross loans and advances (continued)

(b) *Advances overdue for more than 3 months (continued)*

The gross amount of advances overdue for more than 3 months is analysed as follows:

	At 30 June 2009		At 31 December 2008	
	Amount HK\$'m	% of gross advances to customers	Amount HK\$'m	% of gross advances to customers
Gross advances to customers which have been overdue for:				
– six months or less but over three months	315	0.07%	339	0.07%
– one year or less but over six months	361	0.07%	66	0.02%
– over one year	553	0.12%	571	0.12%
Advances overdue for over three months	<b>1,229</b>	<b>0.26%</b>	976	0.21%
Individually assessed loan impairment allowances made in respect of such advances	<b>547</b>		439	

	At 30 June 2009 HK\$'m	At 31 December 2008 HK\$'m
Current market value of collateral held against the covered portion of advances to customers	<b>1,416</b>	1,436
Covered portion of advances to customers	<b>759</b>	604
Uncovered portion of advances to customers	<b>470</b>	372

Collateral held against overdue or impaired loans is principally represented by charges over business assets such as commercial and residential premises for corporate loans and mortgages over residential properties for personal loans.

As at 30 June 2009 and 31 December 2008, there were no advances to banks and other financial institutions that were overdue for more than three months.

**3. Financial risk management (continued)**

**3.1 Credit risk (continued)**

**A. Gross loans and advances (continued)**

(c) *Rescheduled advances*

	At 30 June 2009		At 31 December 2008	
	Amount HK\$'m	% of gross advances to customers	Amount HK\$'m	% of gross advances to customers
Rescheduled advances to customers net of amounts included in advances overdue for more than 3 months	255	0.05%	127	0.03%

As at 30 June 2009 and 31 December 2008, there were no rescheduled advances to banks and other financial institutions.

Rescheduled advances are those advances that have been restructured or renegotiated because of deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms, either of interest or of repayment period, are non-commercial. Rescheduled advances, which have been overdue for more than three months under the revised repayment terms, are included in overdue advances.

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### A. Gross loans and advances (continued)

###### (d) Concentration of advances to customers

###### (i) Sectoral analysis of gross advances to customers

The information concerning gross advances to customers has been analysed into loans used inside or outside Hong Kong by industry sectors of the borrowers as follows:

	At 30 June 2009					
	% Covered by		Classified or impaired	Overdue*	Individually	Collectively
	Gross advances	collateral or other security			impairment allowances	assessed impairment allowances
HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	22,961	34.36%	2	4	1	52
– Property investment	72,782	85.35%	274	515	25	332
– Financial concerns	12,443	6.47%	–	9	–	41
– Stockbrokers	3,449	96.26%	–	–	–	24
– Wholesale and retail trade	20,471	49.91%	211	288	90	87
– Manufacturing	19,044	55.95%	179	288	83	109
– Transport and transport equipment	25,152	14.77%	107	9	3	64
– Recreational activities	247	18.52%	–	–	–	1
– Information technology	4,138	3.26%	–	1	–	11
– Others	32,699	24.93%	53	284	16	82
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	12,788	99.91%	84	488	2	8
– Loans for purchase of other residential properties	118,167	99.89%	152	1,506	3	47
– Credit card advances	6,492	–	34	213	–	73
– Others	10,439	76.38%	111	323	59	17
Total loans for use in Hong Kong	361,272	68.05%	1,207	3,928	282	948
Trade finance	25,052	26.40%	368	500	241	109
Loans for use outside Hong Kong	89,240	24.41%	199	242	109	331
Gross advances to customers	475,564	57.67%	1,774	4,670	632	1,388

**3. Financial risk management (continued)**
**3.1 Credit risk (continued)**
**A. Gross loans and advances (continued)**

(d) Concentration of advances to customers (continued)

(i) Sectoral analysis of gross advances to customers (continued)

	At 31 December 2008					
	Gross advances HK\$m	% Covered by collateral or other security	Classified or impaired HK\$m	Overdue* HK\$m	Individually	Collectively
					assessed impairment allowances HK\$m	assessed impairment allowances HK\$m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	19,856	40.49%	2	14	1	66
– Property investment	71,374	88.00%	294	585	30	312
– Financial concerns	11,547	8.63%	–	–	1	56
– Stockbrokers	124	10.33%	–	–	–	–
– Wholesale and retail trade	18,156	52.85%	218	300	71	98
– Manufacturing	16,410	53.67%	234	298	138	80
– Transport and transport equipment	21,590	13.82%	2	9	1	81
– Recreational activities	139	46.87%	–	–	–	–
– Information technology	6,049	2.21%	–	3	–	19
– Others	23,529	26.91%	68	213	13	83
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	13,477	99.91%	98	510	4	12
– Loans for purchase of other residential properties	116,303	99.97%	153	1,650	7	74
– Credit card advances	6,553	–	30	273	–	71
– Others	11,490	77.92%	107	333	57	20
Total loans for use in Hong Kong	336,597	70.84%	1,206	4,188	323	972
Trade finance	24,555	30.36%	560	494	355	108
Loans for use outside Hong Kong	99,295	22.38%	372	235	122	421
Gross advances to customers	460,447	58.23%	2,138	4,917	800	1,501

\* Advances with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid.

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### A. Gross loans and advances (continued)

###### (d) Concentration of advances to customers (continued)

###### (ii) Geographical analysis of gross advances to customers and overdue advances

The following geographical analysis of gross advances to customers and overdue advances is based on the location of the counterparties, after taking into account the transfer of risk in respect of such advances where appropriate.

##### Gross advances to customers

	<b>At 30 June 2009 HK\$'m</b>	At 31 December 2008 HK\$'m
Hong Kong	<b>400,046</b>	374,506
Mainland China	<b>49,940</b>	55,318
Others	<b>25,578</b>	30,623
	<b>475,564</b>	460,447
<b>Collectively assessed loan impairment allowances in respect of the gross advances to customers</b>		
Hong Kong	<b>1,104</b>	1,172
Mainland China	<b>215</b>	221
Others	<b>69</b>	108
	<b>1,388</b>	1,501

**3. Financial risk management (continued)**

**3.1 Credit risk (continued)**

**A. Gross loans and advances (continued)**

(d) *Concentration of advances to customers (continued)*

(ii) Geographical analysis of gross advances to customers and overdue advances (continued)

**Overdue advances**

	<b>At 30 June 2009 HK\$'m</b>	At 31 December 2008 HK\$'m
Hong Kong	4,404	4,622
Mainland China	221	266
Others	45	29
	<b>4,670</b>	<b>4,917</b>
<b>Individually assessed loan impairment allowances in respect of the overdue advances</b>		
Hong Kong	471	554
Mainland China	115	99
Others	–	21
	<b>586</b>	<b>674</b>
<b>Collectively assessed loan impairment allowances in respect of the overdue advances</b>		
Hong Kong	73	50
Mainland China	6	6
Others	2	–
	<b>81</b>	<b>56</b>

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### A. Gross loans and advances (continued)

(d) Concentration of advances to customers (continued)

(ii) Geographical analysis of gross advances to customers and overdue advances (continued)

##### Classified or impaired advances

	At 30 June 2009 HK\$'m	At 31 December 2008 HK\$'m
Hong Kong	1,629	1,792
Mainland China	144	323
Others	1	23
	<b>1,774</b>	<b>2,138</b>
<b>Individually assessed loan impairment allowances in respect of the classified or impaired advances</b>		
Hong Kong	519	677
Mainland China	112	100
Others	1	23
	<b>632</b>	<b>800</b>
<b>Collectively assessed loan impairment allowances in respect of the classified or impaired advances</b>		
Hong Kong	40	26
Mainland China	3	7
	<b>43</b>	<b>33</b>

##### Reposessed assets

The estimated market value of reposessed assets held by the Group as at 30 June 2009 amounted to HK\$142 million (31 December 2008: HK\$173 million). They comprise properties in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the borrowers concerned) for release in full or in part of the obligations of the borrowers.

**3. Financial risk management (continued)**
**3.1 Credit risk (continued)**
**B. Debt securities**

The table below represents an analysis of the carrying value of debt securities by credit rating and credit risk characteristic, based on Moody's ratings or their equivalent to the respective issues of the debt securities.

	At 30 June 2009							
					Unrated			Total HK\$m
					Hong Kong government and Lower government than A3	Other governments and government agencies	Other HK\$m	
	Aaa HK\$m	Aa1 to Aa3 HK\$m	A1 to A3 HK\$m	than A3 HK\$m	bodies HK\$m	HK\$m		
<b>Investment in securities</b>								
US non-agency residential mortgage-backed								
– Subprime	640	18	19	135	–	–	–	812
– Alt-A	312	237	38	1,122	–	–	–	1,709
– Prime	2,499	310	783	8,747	–	–	–	12,339
Fannie Mae								
– issued debt securities	1,348	–	–	–	–	–	–	1,348
– mortgage-backed securities	–	–	–	–	–	70	–	70
Freddie Mac								
– issued debt securities	865	161	–	–	–	–	–	1,026
– mortgage-backed securities	–	–	–	–	–	1,388	–	1,388
Other MBS/ABS	5,638	263	42	–	–	3,076	–	9,019
Other debt securities	52,329	72,014	38,010	6,365	6,635	49,803	42,266	267,422
Subtotal	63,631	73,003	38,892	16,369	6,635	54,337	42,266	295,133
<b>Financial assets at fair value through profit or loss</b>								
Fannie Mae								
– issued debt securities	265	–	–	–	–	–	–	265
Other MBS/ABS	24	–	–	–	–	–	–	24
Other debt securities	1,176	7,334	13,653	836	5,801	–	174	28,974
Subtotal	1,465	7,334	13,653	836	5,801	–	174	29,263
Total	65,096	80,337	52,545	17,205	12,436	54,337	42,440	324,396

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### B. Debt securities (continued)

	At 31 December 2008							
					Unrated			
					Hong Kong	Other		
	Aaa	Aa1 to Aa3	A1 to A3	Lower	government	government	Other	Total
HK\$m	HK\$m	HK\$m	than A3	and	and	HK\$m	HK\$m	
			HK\$m	government	government			
				bodies	agencies			
				HK\$m	HK\$m	HK\$m	HK\$m	
<b>Investment in securities</b>								
US non-agency residential mortgage-backed								
– Subprime	913	–	30	104	–	–	–	1,047
– Alt-A	1,245	383	274	432	–	–	–	2,334
– Prime	9,549	1,558	2,878	1,950	–	–	–	15,935
Fannie Mae								
– issued debt securities	1,504	–	–	–	–	–	–	1,504
– mortgage-backed securities	–	–	–	–	–	88	–	88
Freddie Mac								
– issued debt securities	864	162	–	–	–	–	–	1,026
– mortgage-backed securities	–	–	–	–	–	1,633	–	1,633
Other MBS/ABS	6,874	24	63	–	–	3,807	–	10,768
Other debt securities	40,537	83,827	27,509	4,371	12,175	51,368	35,873	255,660
Subtotal	61,486	85,954	30,754	6,857	12,175	56,896	35,873	289,995
<b>Financial assets at fair value through profit or loss</b>								
Fannie Mae								
– issued debt securities	287	–	–	–	–	–	–	287
Other MBS/ABS	27	–	–	–	–	–	–	27
Other debt securities	2,304	15,417	10,233	1,457	11,358	–	355	41,124
Subtotal	2,618	15,417	10,233	1,457	11,358	–	355	41,438
Total	64,104	101,371	40,987	8,314	23,533	56,896	36,228	331,433

The total amount of unrated issues amounted to HK\$109,213 million (31 December 2008: HK\$116,657 million) as at 30 June 2009, of which only HK\$5,575 million (31 December 2008: HK\$8,975 million) were without issuer ratings. For details, please refer to page 62.

**3. Financial risk management (continued)**
**3.1 Credit risk (continued)**
**B. Debt securities (continued)**

For the above debt securities with no issue rating, their issuer ratings are analysed as follows:

	At 30 June 2009					
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m
Available-for-sale securities	13,205	49,002	4,720	400	4,256	71,583
Held-to-maturity securities	706	7,627	2,897	155	1,290	12,675
Loans and receivables	2,349	14,820	1,811	–	–	18,980
Financial assets at fair value through profit or loss	–	5,803	143	–	29	5,975
<b>Total</b>	<b>16,260</b>	<b>77,252</b>	<b>9,571</b>	<b>555</b>	<b>5,575</b>	<b>109,213</b>

	At 31 December 2008					
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m
Available-for-sale securities	18,180	49,408	3,293	35	5,481	76,397
Held-to-maturity securities	624	10,140	2,037	–	3,151	15,952
Loans and receivables	3,386	8,768	397	–	44	12,595
Financial assets at fair value through profit or loss	1	11,413	–	–	299	11,713
<b>Total</b>	<b>22,191</b>	<b>79,729</b>	<b>5,727</b>	<b>35</b>	<b>8,975</b>	<b>116,657</b>

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### B. Debt securities (continued)

The impaired debt securities by credit rating are analysed as follows:

	At 30 June 2009						
	Carrying values						Of which accumulated impairment allowances
	Aaa	Aa1 to Aa3	A1 to A3	Lower than A3	Unrated	Total	
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
<b>Investment in securities</b>							
US non-agency residential mortgage-backed							
– Subprime	514	–	19	135	–	668	362
– Alt-A	49	134	38	1,122	–	1,343	1,355
– Prime	1,338	169	334	7,816	–	9,657	6,214
Other MBS/ABS	82	–	–	–	–	82	64
Other debt securities	–	–	87	553	53	693	729
<b>Total</b>	<b>1,983</b>	<b>303</b>	<b>478</b>	<b>9,626</b>	<b>53</b>	<b>12,443</b>	<b>8,724</b>
Of which accumulated impairment allowances	<b>883</b>	<b>221</b>	<b>252</b>	<b>6,968</b>	<b>400</b>	<b>8,724</b>	

	At 31 December 2008						
	Carrying values						Of which accumulated impairment allowances
	Aaa	Aa1 to Aa3	A1 to A3	Lower than A3	Unrated	Total	
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
<b>Investment in securities</b>							
US non-agency residential mortgage-backed							
– Subprime	695	–	30	104	–	829	339
– Alt-A	662	383	274	431	–	1,750	1,302
– Prime	5,162	1,295	1,312	1,825	–	9,594	6,479
Other MBS/ABS	69	–	–	–	–	69	27
Other debt securities	–	–	185	591	35	811	854
<b>Total</b>	<b>6,588</b>	<b>1,678</b>	<b>1,801</b>	<b>2,951</b>	<b>35</b>	<b>13,053</b>	<b>9,001</b>
Of which accumulated impairment allowances	<b>4,195</b>	<b>1,400</b>	<b>976</b>	<b>2,078</b>	<b>352</b>	<b>9,001</b>	

**3. Financial risk management (continued)**

**3.1 Credit risk (continued)**

**B. Debt securities (continued)**

Debt securities overdue for more than 3 months are analysed as follows:

	At 30 June 2009		
	Available-for-sale securities	Financial assets at fair value through profit or loss	Total
	HK\$'m	HK\$'m	HK\$'m
Overdue for 1 year or less but over 6 months	72	–	72

	At 31 December 2008		
	Available-for-sale securities	Financial assets at fair value through profit or loss	Total
	HK\$'m	HK\$'m	HK\$'m
Overdue for 6 months or less but over 3 months	35	4	39

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### B. Debt securities (continued)

###### MBS/ABS

The table below represents an analysis of the Group's exposure to MBS/ABS by geographical location.

	At 30 June 2009		
	Carrying values		Of which accumulated impairment allowances HK\$'m
	Total HK\$'m	Impaired securities HK\$'m	
<b>US MBS/ABS</b>			
Non-agency residential mortgage-backed			
– Subprime	812	668	362
– Alt-A	1,709	1,343	1,355
– Prime	12,339	9,657	6,214
Ginnie Mae	3,076	–	–
Fannie Mae	70	–	–
Freddie Mac	1,388	–	–
Commercial mortgage-backed	915	–	–
Others	1,995	–	–
	<b>22,304</b>	<b>11,668</b>	<b>7,931</b>
<b>Other countries MBS/ABS</b>			
Residential mortgage-backed	2,451	82	64
Commercial mortgage-backed	505	–	–
Others	101	–	–
	<b>3,057</b>	<b>82</b>	<b>64</b>
Total MBS/ABS	<b>25,361</b>	<b>11,750</b>	<b>7,995</b>

**3. Financial risk management (continued)**
**3.1 Credit risk (continued)**
**B. Debt securities (continued)**
*MBS/ABS (continued)*

	At 31 December 2008		
	Carrying values		Of which accumulated impairment allowances HK\$'m
	Total HK\$'m	Impaired securities HK\$'m	
<b>US MBS/ABS</b>			
Non-agency residential mortgage-backed			
– Subprime	1,047	829	339
– Alt-A	2,334	1,750	1,302
– Prime	15,935	9,594	6,479
Ginnie Mae	3,807	–	–
Fannie Mae	88	–	–
Freddie Mac	1,633	–	–
Commercial mortgage-backed	929	–	–
Others	2,806	–	–
	28,579	12,173	8,120
<b>Other countries MBS/ABS</b>			
Residential mortgage-backed	2,649	69	27
Commercial mortgage-backed	454	–	–
Others	150	–	–
	3,253	69	27
<b>Total MBS/ABS</b>	<b>31,832</b>	<b>12,242</b>	<b>8,147</b>

	<b>At 30 June 2009 HK\$'m</b>	At 31 December 2008 HK\$'m
Increase/(decrease) in fair value taken to available-for-sale securities reserve on MBS/ABS for the period/year (net of impairment charges taken to income statement excluding deferred tax impact)	<b>1,443</b>	(1,340)
Closing balance of available-for-sale securities reserve relating to MBS/ABS (excluding deferred tax impact)	<b>(264)</b>	(1,707)

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### B. Debt securities (continued)

MBS/ABS (continued)

The table below represents an analysis of impairment charges for the period/year for MBS/ABS held as at 30 June 2009 and 31 December 2008.

	At 30 June 2009					
	Aaa	Aa1	A1	Lower	Unrated	Total
	HK\$'m	to Aa3 HK\$'m	to A3 HK\$'m	than A3 HK\$'m	HK\$'m	HK\$'m
<b>US MBS/ABS</b>						
Non-agency residential mortgage-backed						
– Subprime	(10)	–	(1)	34	–	23
– Alt-A	6	4	22	145	–	177
– Prime	246	(4)	98	898	–	1,238
	242	–	119	1,077	–	1,438
<b>Other countries MBS/ABS</b>						
Residential mortgage-backed	30	–	–	–	–	30
Total MBS/ABS	272	–	119	1,077	–	1,468

	At 31 December 2008					
	Aaa	Aa1	A1	Lower	Unrated	Total
	HK\$'m	to Aa3 HK\$'m	to A3 HK\$'m	than A3 HK\$'m	HK\$'m	HK\$'m
<b>US MBS/ABS</b>						
Non-agency residential mortgage-backed						
– Subprime	(90)	–	27	27	–	(36)
– Alt-A	394	299	157	359	–	1,209
– Prime	3,725	1,055	658	1,094	–	6,532
	4,029	1,354	842	1,480	–	7,705
<b>Other countries MBS/ABS</b>						
Residential mortgage-backed	27	–	–	–	–	27
Total MBS/ABS	4,056	1,354	842	1,480	–	7,732

Note: The impairment charges for MBS/ABS disposed during the period/year are excluded.

### 3. Financial risk management (continued)

#### 3.2 Market risk

##### A. VAR

The Group uses VAR technique to measure potential losses and market risks of its trading book for reporting to the RC and senior management on a periodic basis. VAR is a statistical technique which estimates the potential losses that could occur on risk positions taken over a specified time horizon within a given level of confidence. BOCHK, being the banking entity within the Group with the major trading positions, which are mainly foreign currency positions in major currencies, uses VAR technique to monitor and control market risk on a daily basis.

The Group uses a historical simulation approach, a 99% confidence level and a 1-day holding period to calculate portfolio and individual VAR. Historical movements in market prices are calculated by reference to market data from the last two years.

The following table sets out the VAR for all trading market risk exposure<sup>1</sup> of BOCHK.

HK\$m		At 30 June	Minimum for the first half of year	Maximum for the first half of year	Average for the first half of year
VAR for all market risk	– 2009	11.6	9.0	16.3	12.3
	– 2008	6.3	3.0	7.8	5.2
VAR for foreign exchange risk products	– 2009	12.3	9.2	15.8	12.5
	– 2008	5.7	2.8	7.3	4.6
VAR for interest rate risk products	– 2009	4.2	2.1	5.4	3.3
	– 2008	3.3	1.0	3.8	2.1
VAR for equity risk products	– 2009	0.1	0.1	2.5	0.3
	– 2008	0.2	0.2	2.8	0.6
VAR for commodity risk products	– 2009	0.0	0.0	0.0	0.0
	– 2008	0.0	0.0	0.5	0.1

In the first half of 2009, the average daily revenue<sup>2</sup> of BOCHK earned from market risk-related trading activities was HK\$3.9 million (first half of 2008: HK\$6.0 million).

<sup>1</sup> Structural FX positions have been excluded.

<sup>2</sup> Revenues from structural FX positions and back to back transactions have been excluded.

### 3. Financial risk management (continued)

#### 3.2 Market risk (continued)

##### B. Currency risk

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 30 June 2009 and 31 December 2008. Included in the tables are the Group's assets and liabilities at carrying amounts in HK\$ equivalent, categorised by the original currency.

	At 30 June 2009							
	Renminbi HK\$m	US Dollars HK\$m	HK Dollars HK\$m	Euro HK\$m	Japanese Yen HK\$m	Pound Sterling HK\$m	Others HK\$m	Total HK\$m
<b>Assets</b>								
Cash and balances with banks and other financial institutions	51,170	19,949	35,403	3,822	223	557	1,908	113,032
Placements with banks and other financial institutions maturing between one and twelve months	527	59,557	39,840	4,522	-	2,280	4,929	111,655
Financial assets at fair value through profit or loss	1,184	7,673	22,766	-	-	-	55	31,678
Derivative financial instruments	-	773	16,377	68	1	-	44	17,263
Hong Kong SAR Government certificates of indebtedness	-	-	36,570	-	-	-	-	36,570
Advances and other accounts	12,946	93,933	367,487	4,592	1,191	40	5,167	485,356
Investment in securities								
– Available-for-sale securities	885	77,168	28,235	20,976	41,615	1,694	18,680	189,253
– Held-to-maturity securities	2,161	38,578	31,427	6,396	3,160	384	7,291	89,397
– Loans and receivables	-	2,045	15,222	870	-	-	843	18,980
Interests in associates	-	-	86	-	-	-	-	86
Investment properties	58	-	8,256	-	-	-	-	8,314
Properties, plant and equipment	166	-	23,607	-	-	-	-	23,773
Other assets (including deferred tax assets)	130	692	19,604	59	162	31	115	20,793
<b>Total assets</b>	<b>69,227</b>	<b>300,368</b>	<b>644,880</b>	<b>41,305</b>	<b>46,352</b>	<b>4,986</b>	<b>39,032</b>	<b>1,146,150</b>
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	-	-	36,570	-	-	-	-	36,570
Deposits and balances of banks and other financial institutions	33,457	26,431	10,848	2,364	2,068	396	1,552	77,116
Financial liabilities at fair value through profit or loss	-	1,448	8,856	-	-	-	558	10,862
Derivative financial instruments	-	1,964	9,929	790	3	-	81	12,767
Deposits from customers	31,271	164,746	548,022	14,224	2,323	14,366	46,025	820,977
Debt securities in issue at amortised cost	-	78	58	-	-	-	-	136
Other accounts and provisions (including current and deferred tax liabilities)	867	10,778	22,929	401	40	385	1,322	36,722
Insurance contract liabilities	-	4,731	22,964	-	-	-	-	27,695
Subordinated liabilities	-	19,389	735	7,215	-	-	-	27,339
<b>Total liabilities</b>	<b>65,595</b>	<b>229,565</b>	<b>660,911</b>	<b>24,994</b>	<b>4,434</b>	<b>15,147</b>	<b>49,538</b>	<b>1,050,184</b>
Net on-balance sheet position	3,632	70,803	(16,031)	16,311	41,918	(10,161)	(10,506)	95,966
Off-balance sheet net notional position*	171	(56,520)	101,009	(16,853)	(41,841)	10,097	10,159	6,222
Contingent liabilities and commitments	8,852	53,555	163,902	4,218	500	773	2,019	233,819

\* Off-balance sheet net notional position represents the net notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Group's exposure to currency movements.

**3. Financial risk management (continued)**
**3.2 Market risk (continued)**
**B. Currency risk (continued)**

	At 31 December 2008							Total HK\$'m
	Renminbi HK\$'m	US Dollars HK\$'m	HK Dollars HK\$'m	Euro HK\$'m	Japanese Yen HK\$'m	Pound Sterling HK\$'m	Others HK\$'m	
<b>Assets</b>								
Cash and balances with banks and other financial institutions	53,381	36,592	53,720	2,662	1,425	3,163	2,326	153,269
Placements with banks and other financial institutions maturing between one and twelve months	504	31,441	38,728	5,924	-	6,487	6,634	89,718
Financial assets at fair value through profit or loss	1,274	7,670	34,817	-	-	-	51	43,812
Derivative financial instruments	-	485	19,032	99	1	-	11	19,628
Hong Kong SAR Government certificates of indebtedness	-	-	34,200	-	-	-	-	34,200
Advances and other accounts	15,056	97,002	347,249	2,915	1,622	1,002	4,647	469,493
Investment in securities								
- Available-for-sale securities	828	71,883	25,396	21,160	40,652	1,651	11,051	172,621
- Held-to-maturity securities	2,165	52,352	33,652	6,132	1,823	791	9,550	106,465
- Loans and receivables	-	2,243	9,039	108	-	110	1,095	12,595
Interests in associates	-	-	88	-	-	-	-	88
Investment properties	63	-	7,664	-	-	-	-	7,727
Properties, plant and equipment	98	-	22,697	-	-	-	-	22,795
Other assets (including deferred tax assets)	121	244	13,545	596	220	19	88	14,833
<b>Total assets</b>	<b>73,490</b>	<b>299,912</b>	<b>639,827</b>	<b>39,596</b>	<b>45,743</b>	<b>13,223</b>	<b>35,453</b>	<b>1,147,244</b>
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	-	-	34,200	-	-	-	-	34,200
Deposits and balances of banks and other financial institutions	38,131	24,191	18,558	2,251	693	2,494	2,461	88,779
Financial liabilities at fair value through profit or loss	-	1,852	19,890	-	-	-	196	21,938
Derivative financial instruments	-	513	19,622	297	1	-	17	20,450
Deposits from customers	30,518	193,952	502,199	15,584	2,135	13,445	44,744	802,577
Debt securities in issue at amortised cost	-	148	845	-	-	-	49	1,042
Other accounts and provisions (including current and deferred tax liabilities)	1,331	9,682	17,874	325	7,907	348	646	38,113
Insurance contract liabilities	-	4,447	23,827	-	-	-	-	28,274
Subordinated liabilities	-	19,394	735	7,210	-	-	-	27,339
<b>Total liabilities</b>	<b>69,980</b>	<b>254,179</b>	<b>637,750</b>	<b>25,667</b>	<b>10,736</b>	<b>16,287</b>	<b>48,113</b>	<b>1,062,712</b>
Net on-balance sheet position	3,510	45,733	2,077	13,929	35,007	(3,064)	(12,660)	84,532
Off-balance sheet net notional position	(4)	(33,929)	68,465	(13,826)	(34,817)	3,043	12,542	1,474
Contingent liabilities and commitments	9,132	62,401	176,092	3,032	551	303	1,878	253,389

### 3. Financial risk management (continued)

#### 3.2 Market risk (continued)

##### C. Interest rate risk

The tables below summarise the Group's exposure to interest rate risk as at 30 June 2009 and 31 December 2008. Included in the tables are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	At 30 June 2009						
	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Non-interest bearing HK\$'m	Total HK\$'m
<b>Assets</b>							
Cash and balances with banks and other financial institutions	108,373	-	-	-	-	4,659	113,032
Placements with banks and other financial institutions maturing between one and twelve months	-	54,895	56,760	-	-	-	111,655
Financial assets at fair value through profit or loss	3,358	3,214	1,067	9,251	12,373	2,415	31,678
Derivative financial instruments	-	-	-	-	-	17,263	17,263
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	36,570	36,570
Advances and other accounts	380,398	83,539	16,681	1,295	202	3,241	485,356
Investment in securities							
– Available-for-sale securities	38,798	26,758	28,761	69,737	22,702	2,497	189,253
– Held-to-maturity securities	22,476	35,061	10,943	11,462	9,455	-	89,397
– Loans and receivables	4,162	5,953	8,865	-	-	-	18,980
Interests in associates	-	-	-	-	-	86	86
Investment properties	-	-	-	-	-	8,314	8,314
Properties, plant and equipment	-	-	-	-	-	23,773	23,773
Other assets (including deferred tax assets)	-	-	-	-	-	20,793	20,793
<b>Total assets</b>	<b>557,565</b>	<b>209,420</b>	<b>123,077</b>	<b>91,745</b>	<b>44,732</b>	<b>119,611</b>	<b>1,146,150</b>
<b>Liabilities</b>							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	36,570	36,570
Deposits and balances of banks and other financial institutions	70,271	2,971	1,995	-	-	1,879	77,116
Financial liabilities at fair value through profit or loss	5,310	3,931	1,621	-	-	-	10,862
Derivative financial instruments	-	-	-	-	-	12,767	12,767
Deposits from customers	637,682	98,753	34,859	432	-	49,251	820,977
Debt securities in issue at amortised cost	58	78	-	-	-	-	136
Other accounts and provisions (including current and deferred tax liabilities)	8,812	4	295	136	-	27,475	36,722
Insurance contract liabilities	-	-	-	-	-	27,695	27,695
Subordinated liabilities	735	-	26,604	-	-	-	27,339
<b>Total liabilities</b>	<b>722,868</b>	<b>105,737</b>	<b>65,374</b>	<b>568</b>	<b>-</b>	<b>155,637</b>	<b>1,050,184</b>
Interest sensitivity gap	(165,303)	103,683	57,703	91,177	44,732	(36,026)	95,966

3. Financial risk management (continued)

3.2 Market risk (continued)

C. Interest rate risk (continued)

	At 31 December 2008						
	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Non-interest bearing HK\$'m	Total HK\$'m
<b>Assets</b>							
Cash and balances with banks and other financial institutions	134,723	-	-	-	-	18,546	153,269
Placements with banks and other financial institutions maturing between one and twelve months	-	38,622	51,096	-	-	-	89,718
Financial assets at fair value through profit or loss	5,103	7,473	2,311	9,415	17,136	2,374	43,812
Derivative financial instruments	-	-	-	-	-	19,628	19,628
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	34,200	34,200
Advances and other accounts	366,619	76,378	20,873	1,258	159	4,206	469,493
Investment in securities							
– Available-for-sale securities	31,282	28,066	42,437	47,155	21,995	1,686	172,621
– Held-to-maturity securities	24,837	38,406	12,514	17,371	13,337	-	106,465
– Loans and receivables	1,755	2,675	8,165	-	-	-	12,595
Interests in associates	-	-	-	-	-	88	88
Investment properties	-	-	-	-	-	7,727	7,727
Properties, plant and equipment	-	-	-	-	-	22,795	22,795
Other assets (including deferred tax assets)	-	-	-	-	-	14,833	14,833
<b>Total assets</b>	<b>564,319</b>	<b>191,620</b>	<b>137,396</b>	<b>75,199</b>	<b>52,627</b>	<b>126,083</b>	<b>1,147,244</b>
<b>Liabilities</b>							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	34,200	34,200
Deposits and balances of banks and other financial institutions	55,274	10,655	3,272	-	-	19,578	88,779
Financial liabilities at fair value through profit or loss	6,769	13,412	1,749	8	-	-	21,938
Derivative financial instruments	-	-	-	-	-	20,450	20,450
Deposits from customers	629,855	102,169	32,532	253	-	37,768	802,577
Debt securities in issue at amortised cost	459	148	435	-	-	-	1,042
Other accounts and provisions (including current and deferred tax liabilities)	8,036	116	493	136	-	29,332	38,113
Insurance contract liabilities	-	-	-	-	-	28,274	28,274
Subordinated liabilities	-	735	26,604	-	-	-	27,339
<b>Total liabilities</b>	<b>700,393</b>	<b>127,235</b>	<b>65,085</b>	<b>397</b>	<b>-</b>	<b>169,602</b>	<b>1,062,712</b>
Interest sensitivity gap	(136,074)	64,385	72,311	74,802	52,627	(43,519)	84,532

### 3. Financial risk management (continued)

#### 3.3 Liquidity risk

Tables below analyse assets and liabilities of the Group as at 30 June 2009 and 31 December 2008 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2009							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
<b>Assets</b>								
Cash and balances with banks and other financial institutions	60,294	52,738	-	-	-	-	-	113,032
Placements with banks and other financial institutions maturing between one and twelve months	-	-	54,895	56,760	-	-	-	111,655
Financial assets at fair value through profit or loss								
- debt securities held for trading								
- certificates of deposit held	-	-	-	-	-	-	-	-
- others	-	2,966	2,634	915	912	413	-	7,840
- debt securities designated at fair value through profit or loss								
- certificates of deposit held	-	-	-	-	1,790	811	-	2,601
- others	-	392	186	224	6,846	11,174	-	18,822
- fund and equity securities	-	-	-	-	-	-	2,415	2,415
Derivative financial instruments	11,074	1,404	1,724	1,985	951	125	-	17,263
Hong Kong SAR Government certificates of indebtedness	36,570	-	-	-	-	-	-	36,570
Advances and other accounts								
- advances to customers	32,954	14,562	29,548	53,649	206,466	135,345	1,020	473,544
- trade bills	225	3,341	3,844	317	-	-	-	7,727
- advances to banks and other financial institutions	28	-	-	963	3,094	-	-	4,085
Investment in securities								
- debt securities held for available-for-sale								
- certificates of deposit held	-	1,103	515	7,604	3,249	-	-	12,471
- others	-	25,571	9,783	26,290	81,087	24,959	6,595	174,285
- debt securities held for held-to-maturity								
- certificates of deposit held	-	-	725	3,114	4,420	619	-	8,878
- others	-	4,242	6,001	16,992	37,356	10,080	5,848	80,519
- debt securities held for loans and receivables	-	4,162	5,953	8,865	-	-	-	18,980
- equity securities	-	-	-	-	-	-	2,497	2,497
Interests in associates	-	-	-	-	-	-	86	86
Investment properties	-	-	-	-	-	-	8,314	8,314
Properties, plant and equipment	-	-	-	-	-	-	23,773	23,773
Other assets (including deferred tax assets)	2,865	16,955	52	287	135	-	499	20,793
<b>Total assets</b>	<b>144,010</b>	<b>127,436</b>	<b>115,860</b>	<b>177,965</b>	<b>346,306</b>	<b>183,526</b>	<b>51,047</b>	<b>1,146,150</b>

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

	At 30 June 2009							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	36,570	-	-	-	-	-	-	36,570
Deposits and balances of banks and other financial institutions	46,831	25,309	2,980	1,996	-	-	-	77,116
Financial liabilities at fair value through profit or loss								
– certificates of deposit issued	-	-	840	-	-	-	-	840
– others	-	5,245	1,492	3,240	-	45	-	10,022
Derivative financial instruments	6,849	1,518	694	516	2,349	841	-	12,767
Deposits from customers	514,573	172,306	97,689	35,977	432	-	-	820,977
Debt securities in issue at amortised cost	1	57	78	-	-	-	-	136
Other accounts and provisions (including current and deferred tax liabilities)	17,217	12,642	549	2,044	3,703	556	11	36,722
Insurance contract liabilities	1,510	3	2	1,511	18,328	6,341	-	27,695
Subordinated liabilities	-	735	-	15	-	26,589	-	27,339
<b>Total liabilities</b>	<b>623,551</b>	<b>217,815</b>	<b>104,324</b>	<b>45,299</b>	<b>24,812</b>	<b>34,372</b>	<b>11</b>	<b>1,050,184</b>
Net liquidity gap	(479,541)	(90,379)	11,536	132,666	321,494	149,154	51,036	95,966

### 3. Financial risk management (continued)

#### 3.3 Liquidity risk (continued)

	At 31 December 2008							
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	Total HK\$'m
<b>Assets</b>								
Cash and balances with banks and other financial institutions	77,935	75,334	-	-	-	-	-	153,269
Placements with banks and other financial institutions maturing between one and twelve months	-	-	38,622	51,096	-	-	-	89,718
Financial assets at fair value through profit or loss								
– debt securities held for trading	-	-	-	-	-	-	-	-
– certificates of deposit held	-	4,628	6,685	1,927	685	6	-	13,931
– debt securities designated at fair value through profit or loss								
– certificates of deposit held	-	25	-	-	2,008	1,536	-	3,569
– others	-	226	426	384	7,058	15,840	4	23,938
– fund and equity securities	-	-	-	-	-	-	2,374	2,374
Derivative financial instruments	14,844	756	1,253	1,439	1,216	120	-	19,628
Hong Kong SAR Government certificates of indebtedness	34,200	-	-	-	-	-	-	34,200
Advances and other accounts								
– advances to customers	21,980	17,656	31,084	51,336	197,399	137,684	1,007	458,146
– trade bills	-	2,910	4,022	677	-	-	-	7,609
– advances to banks and other financial institutions	27	-	-	885	2,826	-	-	3,738
Investment in securities								
– debt securities held for available-for-sale								
– certificates of deposit held	-	-	23	5,236	2,096	-	-	7,355
– others	-	19,849	13,349	40,054	58,135	26,164	6,029	163,580
– debt securities held for held-to-maturity								
– certificates of deposit held	-	2,040	2,173	2,162	6,073	-	-	12,448
– others	-	2,115	4,933	14,560	49,480	15,905	7,024	94,017
– debt securities held for loans and receivables	-	1,755	2,675	8,165	-	-	-	12,595
– equity securities	-	-	-	-	-	-	1,686	1,686
Interests in associates	-	-	-	-	-	-	88	88
Investment properties	-	-	-	-	-	-	7,727	7,727
Properties, plant and equipment	-	-	-	-	-	-	22,795	22,795
Other assets (including deferred tax assets)	2,185	12,027	11	126	157	-	327	14,833
<b>Total assets</b>	<b>151,171</b>	<b>139,321</b>	<b>105,256</b>	<b>178,047</b>	<b>327,133</b>	<b>197,255</b>	<b>49,061</b>	<b>1,147,244</b>

**3. Financial risk management (continued)**
**3.3 Liquidity risk (continued)**

	At 31 December 2008							
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	Total HK\$'m
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	34,200	-	-	-	-	-	-	34,200
Deposits and balances of banks and other financial institutions	61,206	13,646	10,655	3,272	-	-	-	88,779
Financial liabilities at fair value through profit or loss								
– certificates of deposit issued	-	-	-	858	-	-	-	858
– others	-	6,111	6,363	8,170	166	270	-	21,080
Derivative financial instruments	10,556	2,137	1,689	1,967	2,822	1,279	-	20,450
Deposits from customers	428,849	238,769	100,891	32,696	1,372	-	-	802,577
Debt securities in issue at amortised cost	-	459	148	435	-	-	-	1,042
Other accounts and provisions (including current and deferred tax liabilities)	16,328	16,003	204	2,341	2,857	232	148	38,113
Insurance contract liabilities	1,406	792	2	16	18,033	8,025	-	28,274
Subordinated liabilities	-	-	-	21	735	26,583	-	27,339
<b>Total liabilities</b>	<b>552,545</b>	<b>277,917</b>	<b>119,952</b>	<b>49,776</b>	<b>25,985</b>	<b>36,389</b>	<b>148</b>	<b>1,062,712</b>
Net liquidity gap	(401,374)	(138,596)	(14,696)	128,271	301,148	160,866	48,913	84,532

The above maturity classifications have been prepared in accordance with relevant provisions under the Banking (Disclosure) Rules. The Group has reported assets such as advances and debt securities which have been overdue for not more than one month as “Repayable on demand”. In the case of an asset that is repayable by different payments or instalments, only that portion of the asset that is actually overdue is reported as overdue. Any part of the asset that is not due is reported according to the residual maturity unless the repayment of the asset is in doubt in which case the amount is reported as “Indefinite”. The above assets are stated after deduction of provisions, if any.

The analysis of debt securities by remaining period to maturity is disclosed in order to comply with relevant provisions under the Banking (Disclosure) Rules. The disclosure does not imply that the securities will be held to maturity.

The above analysis in respect of insurance contract liabilities represents the estimated timing of net cash outflows resulting from recognised insurance contract liabilities on the balance sheet as at 30 June 2009 and 31 December 2008.

### 3. Financial risk management (continued)

#### 3.4 Insurance risk

The Group is in the business of insuring against the risk of mortality, morbidity, disability, critical illness, accidents and related risks. The Group manages these risks through the application of its underwriting policies and reinsurance arrangement.

The underwriting strategy is intended to set premium pricing at an appropriate level that corresponds with the underlying exposure of the risks underwritten. Screening processes, such as the review of health condition and family medical history, are also included in the Group's underwriting procedures.

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

For the in-force insurance contracts, most of the underlying insurance liabilities are related to endowment and unit-linked insurance products. For most of the insurance policies issued, the Group has a retention limit on any single life insured. The Group cedes the excess of the insured benefit over the limit for standard risks (from a medical point of view) to reinsurer under an excess of loss reinsurance arrangement.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and persistency. In order to assess the uncertainty due to the mortality assumption and lapse assumption, the Group conducts mortality study and lapse study in order to determine the appropriate assumptions. In these studies, consistent results are reflected in both assumptions with appropriate margins.

#### 3.5 Capital management

##### (a) Capital adequacy ratio

	<b>At 30 June 2009</b>	At 31 December 2008
Capital adequacy ratio	<b>16.10%</b>	16.17%
Core capital ratio	<b>11.24%</b>	10.86%

The capital ratios are computed on the consolidated basis that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA for its regulatory purposes and in accordance with the Banking (Capital) Rules.

The differences between the basis of consolidation for accounting and regulatory purposes are described in "Appendix – Subsidiaries of the Company" on page 134.

### 3. Financial risk management (continued)

#### 3.5 Capital management (continued)

##### (b) Components of capital base after deductions

The consolidated capital base after deductions used in the calculation of the above capital adequacy ratio as at 30 June 2009 and 31 December 2008 and reported to the HKMA is analysed as follows:

	At 30 June 2009 HK\$'m	At 31 December 2008 HK\$'m
Core capital:		
Paid up ordinary share capital	43,043	43,043
Reserves	23,808	18,049
Profit and loss account	2,844	2,956
Minority interests	1,210	1,124
	<b>70,905</b>	65,172
Deductions from core capital	<b>(3,664)</b>	(1,536)
Core capital	<b>67,241</b>	63,636
Supplementary capital:		
Fair value gains arising from holdings of available-for-sale securities	113	87
Collective loan impairment allowances	1,390	1,502
Regulatory reserve	4,618	4,503
Term subordinated debt	26,589	26,583
	<b>32,710</b>	32,675
Deductions from supplementary capital	<b>(3,664)</b>	(1,536)
Supplementary capital	<b>29,046</b>	31,139
Total capital base after deductions	<b>96,287</b>	94,775

Subsidiaries which are not included in the consolidation group for the calculation of capital adequacy ratios are denoted in "Appendix – Subsidiaries of the Company" on pages 131 to 134. Investment costs in such subsidiaries are deducted from the capital base.

Term subordinated debt represents subordinated loans qualified as Tier 2 Capital of BOCHK pursuant to the regulatory requirements of the HKMA.

#### 4. Net interest income

	Half-year ended 30 June 2009 HK\$'m	Half-year ended 30 June 2008 HK\$'m
<b>Interest income</b>		
Cash and due from banks and other financial institutions	1,733	2,694
Advances to customers	5,355	8,197
Listed investments	1,247	1,369
Unlisted investments	2,676	5,626
Others	982	219
	<b>11,993</b>	18,105
<b>Interest expense</b>		
Due to banks, customers and other financial institutions	(1,722)	(7,710)
Debt securities in issue	(16)	(58)
Subordinated liabilities	(546)	(6)
Others	(780)	(302)
	<b>(3,064)</b>	(8,076)
<b>Net interest income</b>	<b>8,929</b>	10,029

Included within interest income is HK\$8 million (first half of 2008: HK\$21 million) of interest with respect to income recognised on advances classified as impaired for the first half of 2009. Interest accrued on impaired investment in securities amounted to HK\$315 million (first half of 2008: HK\$13 million).

Included within interest income and interest expense are HK\$10,951 million (first half of 2008: HK\$17,416 million) and HK\$2,270 million (first half of 2008: HK\$7,670 million) for financial assets and financial liabilities that are not recognised at fair value through profit or loss respectively.

**5. Net fees and commission income**

	Half-year ended 30 June 2009 HK\$'m	Half-year ended 30 June 2008 HK\$'m
<b>Fees and commission income</b>		
Securities brokerage		
– Stockbroking	1,625	1,289
– Bonds	4	220
Credit cards	705	663
Loan commissions	398	263
Bills commissions	310	329
Payment services	227	239
Insurance	122	132
Safe deposit box	98	96
Currency exchange	87	108
Trust services	82	87
Funds distribution	38	157
Others	188	262
	<b>3,884</b>	3,845
<b>Fees and commission expenses</b>		
Credit cards	(500)	(419)
Securities brokerage	(255)	(217)
Payment services	(39)	(38)
Others	(143)	(272)
	<b>(937)</b>	(946)
<b>Net fees and commission income</b>	<b>2,947</b>	2,899
Of which arise from		
– financial assets or financial liabilities not at fair value through profit or loss		
– Fees and commission income	452	288
– Fees and commission expenses	(11)	(14)
	<b>441</b>	274
– trust and other fiduciary activities		
– Fees and commission income	201	169
– Fees and commission expenses	(4)	(3)
	<b>197</b>	166

**6. Net trading income**

	<b>Half-year ended 30 June 2009 HK\$'m</b>	Half-year ended 30 June 2008 HK\$'m
Net gain from:		
– foreign exchange and foreign exchange products	790	875
– interest rate instruments	28	206
– equity instruments	17	135
– commodities	54	21
	<b>889</b>	<b>1,237</b>

**7. Net gain on investment in securities**

	<b>Half-year ended 30 June 2009 HK\$'m</b>	Half-year ended 30 June 2008 HK\$'m
Net gain from disposal of available-for-sale securities	64	129
Net gain/(loss) from redemption of held-to-maturity securities	3	(1)
	<b>67</b>	<b>128</b>

**8. Net insurance premium income**

	<b>Half-year ended 30 June 2009 HK\$'m</b>	Half-year ended 30 June 2008 HK\$'m
Gross earned premiums	2,266	4,511
Less: Gross written premiums ceded to reinsurers	(5)	(10)
Net insurance premium income	<b>2,261</b>	<b>4,501</b>

**9. Other operating income**

	<b>Half-year ended 30 June 2009 HK\$'m</b>	Half-year ended 30 June 2008 HK\$'m
Dividend income from investment in securities		
– listed investments	2	91
– unlisted investments	11	9
Gross rental income from investment properties	179	151
Less: Outgoings in respect of investment properties	(23)	(24)
Others	80	104
	<b>249</b>	<b>331</b>

Included in the "Outgoings in respect of investment properties" is HK\$3 million (first half of 2008: HK\$1 million) of direct operating expenses related to investment properties that were not let during the period.

**10. Net insurance benefits and claims**

	<b>Half-year ended 30 June 2009 HK\$'m</b>	Half-year ended 30 June 2008 HK\$'m
Claims, benefits and surrenders paid	<b>1,682</b>	741
Movement in liabilities	<b>(762)</b>	2,862
Gross claims, benefits and surrenders paid and movement in liabilities	<b>920</b>	3,603
Less: Reinsurers' share of claims, benefits and surrenders paid and movement in liabilities	<b>(1)</b>	(1)
Net insurance claims, benefits and surrenders paid and movement in liabilities	<b>919</b>	3,602

**11. Net charge of impairment allowances**

	<b>Half-year ended 30 June 2009 HK\$'m</b>	Half-year ended 30 June 2008 HK\$'m
<b>Advances to customers</b>		
Individually assessed		
– new allowances	<b>163</b>	142
– releases	<b>(87)</b>	(62)
– recoveries	<b>(142)</b>	(187)
Net reversal of individually assessed loan impairment allowances	<b>(66)</b>	(107)
Collectively assessed		
– new allowances	<b>198</b>	199
– releases	<b>(174)</b>	(7)
– recoveries	<b>(18)</b>	(14)
Net charge of collectively assessed loan impairment allowances	<b>6</b>	178
Net (reversal)/charge of loan impairment allowances	<b>(60)</b>	71
<b>Available-for-sale securities</b>		
Net charge of impairment losses on available-for-sale securities		
– Individually assessed	<b>729</b>	1,187
<b>Held-to-maturity securities</b>		
Net charge of impairment allowances on held-to-maturity securities		
– Individually assessed	<b>439</b>	962
<b>Others</b>	<b>7</b>	7
<b>Net charge of impairment allowances</b>	<b>1,115</b>	2,227

**12. Operating expenses**

	<b>Half-year ended 30 June 2009 HK\$'m</b>	Half-year ended 30 June 2008 HK\$'m
Staff costs (including directors' emoluments)		
– salaries and other costs	<b>2,057</b>	2,302
– termination benefit	<b>5</b>	2
– pension cost	<b>194</b>	178
	<b>2,256</b>	2,482
Premises and equipment expenses (excluding depreciation)		
– rental of premises	<b>241</b>	193
– information technology	<b>161</b>	184
– others	<b>136</b>	118
	<b>538</b>	495
Depreciation	<b>496</b>	480
Auditors' remuneration		
– audit services	<b>4</b>	5
– non-audit services	<b>2</b>	1
Other operating expenses	<b>898</b>	625
	<b>4,194</b>	4,088

**13. Net gain from disposal of/fair value adjustments on investment properties**

	<b>Half-year ended 30 June 2009 HK\$'m</b>	Half-year ended 30 June 2008 HK\$'m
Net (loss)/gain on disposal of investment properties	<b>(2)</b>	9
Net gain on fair value adjustments on investment properties	<b>527</b>	701
	<b>525</b>	710

**14. Net loss from disposal/revaluation of properties, plant and equipment**

	<b>Half-year ended 30 June 2009 HK\$'m</b>	Half-year ended 30 June 2008 HK\$'m
Net loss on disposal of other fixed assets	<b>(5)</b>	–
Net gain/(loss) on revaluation of premises	<b>4</b>	(8)
	<b>(1)</b>	(8)

**15. Taxation**

Taxation in the condensed consolidated income statement represents:

	<b>Half-year ended 30 June 2009 HK\$'m</b>	Half-year ended 30 June 2008 HK\$'m
Hong Kong profits tax		
– current period taxation	<b>1,169</b>	1,286
Deferred tax charge/(credit)	<b>127</b>	(111)
Hong Kong profits tax	<b>1,296</b>	1,175
Overseas taxation	<b>73</b>	78
	<b>1,369</b>	1,253

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2009. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2009 at the rates of taxation prevailing in the countries in which the Group operates.

The taxation on the Group's profit before taxation that differs from the theoretical amount that would arise using the taxation rate of Hong Kong is as follows:

	<b>Half-year ended 30 June 2009 HK\$'m</b>	Half-year ended 30 June 2008 HK\$'m
Profit before taxation	<b>8,244</b>	8,434
Calculated at a taxation rate of 16.5% (2008: 16.5%)	<b>1,360</b>	1,392
Effect of different taxation rates in other countries	<b>3</b>	32
Income not subject to taxation	<b>(39)</b>	(225)
Expenses not deductible for taxation purposes	<b>43</b>	54
Tax losses not recognised	<b>2</b>	–
Taxation charge	<b>1,369</b>	1,253
Effective tax rate	<b>16.6%</b>	14.9%

**16. Dividends**

	Half-year ended 30 June 2009		Half-year ended 30 June 2008	
	Per share HK\$	Total HK\$m	Per share HK\$	Total HK\$m
Interim dividend	0.285	3,013	0.438	4,631

At a meeting held on 27 August 2009, the Board declared an interim dividend of HK\$0.285 per ordinary share for the first half of 2009 amounting to approximately HK\$3,013 million. This declared dividend is not reflected as a dividend payable in this interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2009.

**17. Earnings per share for profit attributable to the equity holders of the Company**

The calculation of basic earnings per share is based on the consolidated profit attributable to the equity holders of the Company for the first half of 2009 of approximately HK\$6,691 million (first half of 2008: HK\$7,088 million) and on the ordinary shares in issue of 10,572,780,266 shares (2008: 10,572,780,266 ordinary shares).

There was no dilution of earnings per share as no potential ordinary shares were in issue for the first half of 2009 (first half of 2008: Nil).

**18. Retirement benefit costs**

The principal defined contribution schemes for the Group's employees are ORSO schemes exempted under the MPF Schemes Ordinance and the BOC-Prudential Easy Choice MPF Scheme. Under the ORSO schemes, employees make monthly contributions to the ORSO schemes equal to 5% of their basic salaries, while the employer makes monthly contributions equal to 5% to 15% of the employees' monthly basic salaries, depending on years of service. The employees are entitled to receive 100% of the employer's contributions upon termination of employment after completing 20 years of service, or at a scale ranging from 20% to 95% for employees who have completed between 3 to 20 years of service, on conditions of retirement, early retirement, permanent incapacity and ill-health or termination of employment other than summary dismissal.

With the implementation of the MPF Schemes Ordinance on 1 December 2000, the Group also participates in the BOC-Prudential Easy Choice MPF Scheme, of which the trustee is BOCI-Prudential Trustee and the investment manager is BOCI-Prudential Manager, which are related parties of the Company.

The Group's total contributions made to the ORSO schemes for the first half of 2009 amounted to approximately HK\$161 million (first half of 2008: approximately HK\$149 million), after a deduction of forfeited contributions of approximately HK\$2.3 million (first half of 2008: approximately HK\$7 million). For the MPF Scheme, the Group contributed approximately HK\$18 million (first half of 2008: approximately HK\$19 million) for the first half of 2009.

**19. Share option schemes**

**(a) *Share Option Scheme and Sharesave Plan***

The principal terms of the Share Option Scheme and the Sharesave Plan were approved and adopted by written resolutions of all the shareholders of the Company dated 10 July 2002.

The purpose of the Share Option Scheme is to provide the participants with the opportunity to acquire proprietary interests in the Company. The Board may, in its absolute discretion, offer to grant options under the Share Option Scheme to any person as the Board may select. The subscription price for the shares shall be determined on the date of grant by the Board as an amount per share calculated on the basis of established rules. An option may be exercised in whole or in part at any time after the date prescribed by the Board and from time to time as specified in the offer and on or before the termination date prescribed by the Board.

The purpose of the Sharesave Plan is to encourage broad-based employee ownership of the shares of the Company. The amount of the monthly contribution under the savings contract to be made in connection with an option shall be the amount which the relevant eligible employee is willing to contribute, which amount shall not be less than 1% and not more than 10% of the eligible employee's monthly salary as at the date of application or such other maximum or minimum amounts as permitted by the Board. When an option is exercised during an exercise period, it may be exercised in whole or in part.

No options were granted pursuant to the Share Option Scheme or the Sharesave Plan during the first half of 2009 (first half of 2008: Nil).

## 19. Share option schemes (continued)

### (b) Pre-Listing Share Option Scheme

On 5 July 2002, several directors together with approximately 60 senior management personnel of the Group and employees of BOC were granted options by BOC (BVI), the immediate holding company of the Company, pursuant to a Pre-Listing Share Option Scheme to purchase from BOC (BVI) an aggregate of 31,132,600 existing issued shares of the Company. The Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to all options granted to employees on or before 7 November 2002.

Details of the share options outstanding as at 30 June 2009 and 31 December 2008 are disclosed as follows:

	Senior management			Total number of share options	Average exercise price (HK\$ per share)
	Directors		Others*		
At 1 January 2009	6,290,100	1,361,200	–	7,651,300	8.5
Transfer	(1,590,600)	–	1,590,600	–	8.5
At 30 June 2009	4,699,500	1,361,200	1,590,600	7,651,300	8.5
Exercisable at 30 June 2009	4,699,500	1,361,200	1,590,600	7,651,300	8.5
At 1 January 2008	6,651,600	2,253,100	1,446,000	10,350,700	8.5
Less: Share options exercised during the year	(361,500)	(891,900)	(1,446,000)	(2,699,400)	8.5
At 31 December 2008	6,290,100	1,361,200	–	7,651,300	8.5
Exercisable at 31 December 2008	6,290,100	1,361,200	–	7,651,300	8.5

\* Represented share options held by ex-directors of the Group.

No share option was exercised during the period. The weighted average share price during the year of 2008 was HK\$18.65.

The options granted under this scheme can be exercised at HK\$8.50 per share in respect of the option price of HK\$1.00. These options have a vesting period of four years from the date on which dealings in the shares commenced on the Stock Exchange with a valid exercise period of ten years. No offer to grant any options under the Pre-Listing Share Option Scheme will be made on or after the date on which dealings in the shares commenced on the Stock Exchange.

**20. Cash and balances with banks and other financial institutions**

	<b>At 30 June 2009 HK\$'m</b>	At 31 December 2008 HK\$'m
Cash	<b>3,886</b>	4,232
Balances with central banks	<b>50,633</b>	66,158
Balances with banks and other financial institutions	<b>5,775</b>	7,545
Placements with banks and other financial institutions maturing within one month	<b>52,738</b>	75,334
	<b>113,032</b>	153,269

**21. Financial assets at fair value through profit or loss**

	Trading securities		Financial assets designated at fair value through profit or loss		Total	
	<b>At 30 June 2009 HK\$'m</b>	At 31 December 2008 HK\$'m	<b>At 30 June 2009 HK\$'m</b>	At 31 December 2008 HK\$'m	<b>At 30 June 2009 HK\$'m</b>	At 31 December 2008 HK\$'m
At fair value						
Debt securities						
– Listed in Hong Kong	<b>186</b>	412	<b>564</b>	557	<b>750</b>	969
– Listed outside Hong Kong	<b>714</b>	35	<b>2,993</b>	3,095	<b>3,707</b>	3,130
	<b>900</b>	447	<b>3,557</b>	3,652	<b>4,457</b>	4,099
– Unlisted	<b>6,940</b>	13,484	<b>17,866</b>	23,855	<b>24,806</b>	37,339
	<b>7,840</b>	13,931	<b>21,423</b>	27,507	<b>29,263</b>	41,438
Fund						
– Unlisted	–	–	<b>2,154</b>	2,168	<b>2,154</b>	2,168
Equity securities						
– Listed in Hong Kong	<b>25</b>	20	<b>164</b>	124	<b>189</b>	144
– Unlisted	<b>72</b>	62	–	–	<b>72</b>	62
	<b>97</b>	82	<b>164</b>	124	<b>261</b>	206
Total	<b>7,937</b>	14,013	<b>23,741</b>	29,799	<b>31,678</b>	43,812

**21. Financial assets at fair value through profit or loss (continued)**

Financial assets at fair value through profit or loss are analysed by type of issuer as follows:

	<b>At 30 June 2009 HK\$'m</b>	At 31 December 2008 HK\$'m
Sovereigns	<b>6,828</b>	13,082
Public sector entities	<b>1,568</b>	1,791
Banks and other financial institutions	<b>21,244</b>	25,668
Corporate entities	<b>2,038</b>	3,271
	<b>31,678</b>	43,812

Financial assets at fair value through profit or loss are analysed as follows:

	<b>At 30 June 2009 HK\$'m</b>	At 31 December 2008 HK\$'m
Treasury bills	<b>5,799</b>	12,458
Certificates of deposit held	<b>2,601</b>	3,569
Other financial assets at fair value through profit or loss	<b>23,278</b>	27,785
	<b>31,678</b>	43,812

## 22. Derivative financial instruments

The Group enters into the following equity, foreign exchange, interest rate and precious metal related derivative financial instruments for trading and risk management purposes:

Currency forwards represent commitments to purchase and sell foreign currency on a future date. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates or buy or sell interest rate financial instruments on a future date at an agreed price in the financial market under the administration of the stock exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency, interest rate and precious metal swaps are commitments to exchange one set of cash flows or commodity for another. Swaps result in an exchange of currencies, interest rates (for example, fixed rate for floating rate), or precious metals (for example, silver swaps) or a combination of all these (i.e. cross-currency interest rate swaps). Except for certain currency swap contracts, no exchange of principal takes place.

Foreign currency, interest rate, equity and precious metal options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of the financial instrument at a predetermined price. In consideration for the assumption of foreign exchange and interest rate risk, the seller receives a premium from the purchaser. Options are negotiated over-the-counter ("OTC") between the Group and its counterparty or traded through the stock exchange (for example, exchange-traded stock option).

The contract/notional amounts and fair values of derivative financial instruments held by the Group are set out in the following tables. The contract/notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet dates and certain of them provide a basis for comparison with fair value instruments recognised on the condensed consolidated balance sheet. However, they do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or equity and metal prices relative to their terms. The aggregate fair values of derivative financial instruments assets and liabilities can fluctuate significantly from time to time.

**22. Derivative financial instruments (continued)**

The following tables summarise the contract/notional amounts of each significant type of derivative financial instrument as at 30 June 2009 and 31 December 2008:

	At 30 June 2009			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting* HK\$'m	Total HK\$'m
Exchange rate contracts				
Spot and forwards	208,956	–	659	209,615
Swaps	256,189	–	68	256,257
Foreign currency option contracts				
– Options purchased	1,606	–	–	1,606
– Options written	1,839	–	–	1,839
	<b>468,590</b>	<b>–</b>	<b>727</b>	<b>469,317</b>
Interest rate contracts				
Futures	833	–	–	833
Swaps	97,863	17,801	10,569	126,233
Interest rate option contracts				
– Swaptions written	155	–	–	155
– Bond options written	3,797	–	–	3,797
	<b>102,648</b>	<b>17,801</b>	<b>10,569</b>	<b>131,018</b>
Bullion contracts	4,682	–	–	4,682
Equity contracts	1,571	–	–	1,571
Other contracts	131	–	–	131
<b>Total</b>	<b>577,622</b>	<b>17,801</b>	<b>11,296</b>	<b>606,719</b>

\* Derivative transactions which do not qualify as hedges for accounting purposes but are managed in conjunction with the financial instruments designated at fair value through profit or loss are separately disclosed in compliance with the requirements set out in the Banking (Disclosure) Rules.

22. Derivative financial instruments (continued)

	At 31 December 2008			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts				
Spot and forwards	182,624	–	–	182,624
Swaps	248,956	–	68	249,024
Foreign currency option contracts				
– Options purchased	2,518	–	–	2,518
– Options written	2,754	–	–	2,754
	436,852	–	68	436,920
Interest rate contracts				
Futures	4,290	–	–	4,290
Swaps	68,392	19,931	10,045	98,368
Interest rate option contracts				
– Bond options written	775	–	–	775
	73,457	19,931	10,045	103,433
Bullion contracts	3,880	–	–	3,880
Equity contracts	5,070	–	–	5,070
Other contracts	144	–	–	144
Total	519,403	19,931	10,113	549,447

## 22. Derivative financial instruments (continued)

The following tables summarise the fair values of each class of derivative financial instrument as at 30 June 2009 and 31 December 2008:

	At 30 June 2009							
	Fair value assets				Fair value liabilities			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts								
Spot and forwards	11,048	-	-	11,048	(6,953)	-	-	(6,953)
Swaps	4,578	-	-	4,578	(2,138)	-	(2)	(2,140)
Foreign currency option contracts								
– Options purchased	6	-	-	6	-	-	-	-
– Options written	-	-	-	-	(6)	-	-	(6)
	15,632	-	-	15,632	(9,097)	-	(2)	(9,099)
Interest rate contracts								
Futures	-	-	-	-	(3)	-	-	(3)
Swaps	1,159	30	11	1,200	(2,374)	(904)	(96)	(3,374)
Interest rate option contracts								
– Swaptions written	-	-	-	-	(3)	-	-	(3)
– Bond options written	-	-	-	-	(38)	-	-	(38)
	1,159	30	11	1,200	(2,418)	(904)	(96)	(3,418)
Bullion contracts	299	-	-	299	(119)	-	-	(119)
Equity contracts	132	-	-	132	(131)	-	-	(131)
Total	17,222	30	11	17,263	(11,765)	(904)	(98)	(12,767)

**22. Derivative financial instruments (continued)**

	At 31 December 2008							
	Fair value assets				Fair value liabilities			
	Trading HK\$m	Hedging HK\$m	Not qualified for hedge accounting HK\$m	Total HK\$m	Trading HK\$m	Hedging HK\$m	Not qualified for hedge accounting HK\$m	Total HK\$m
Exchange rate contracts								
Spot and forwards	15,152	-	-	15,152	(10,962)	-	-	(10,962)
Swaps	1,624	-	1	1,625	(3,933)	-	(3)	(3,936)
Foreign currency option contracts								
- Options purchased	21	-	-	21	-	-	-	-
- Options written	-	-	-	-	(24)	-	-	(24)
	16,797	-	1	16,798	(14,919)	-	(3)	(14,922)
Interest rate contracts								
Futures	2	-	-	2	(6)	-	-	(6)
Swaps	1,420	-	18	1,438	(2,329)	(1,769)	(166)	(4,264)
Interest rate option contracts								
- Bond options written	-	-	-	-	(25)	-	-	(25)
	1,422	-	18	1,440	(2,360)	(1,769)	(166)	(4,295)
Bullion contracts	248	-	-	248	(91)	-	-	(91)
Equity contracts	1,142	-	-	1,142	(1,142)	-	-	(1,142)
Total	19,609	-	19	19,628	(18,512)	(1,769)	(169)	(20,450)

**22. Derivative financial instruments (continued)**

The credit risk weighted amounts of the above derivative financial instruments are as follows:

	<b>At 30 June 2009 HK\$'m</b>	At 31 December 2008 HK\$'m
Exchange rate contracts		
Forwards	<b>240</b>	318
Swaps	<b>2,341</b>	1,377
Foreign currency option contracts		
– Options purchased	<b>1</b>	4
Interest rate contracts		
Futures	–	2
Swaps	<b>584</b>	577
Bullion contracts	<b>1</b>	5
Equity contracts	<b>10</b>	37
	<b>3,177</b>	2,320

The credit risk weighted amounts are calculated in accordance with the Banking (Capital) Rules. The amounts are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

There is no effect of valid bilateral netting agreement on the fair values or the credit risk-weighted amounts of the derivative financial instruments.

Approximately 69% (31 December 2008: 69%) of the Group's transactions in derivative contracts are conducted with other financial institutions.

**23. Advances and other accounts**

	<b>At 30 June 2009 HK\$m</b>	At 31 December 2008 HK\$m
Personal loans and advances	<b>153,117</b>	151,784
Corporate loans and advances	<b>322,447</b>	308,663
Advances to customers	<b>475,564</b>	460,447
Loan impairment allowances		
– Individually assessed	<b>(632)</b>	(800)
– Collectively assessed	<b>(1,388)</b>	(1,501)
	<b>473,544</b>	458,146
Trade bills	<b>7,727</b>	7,609
Advances to banks and other financial institutions	<b>4,085</b>	3,738
Total	<b>485,356</b>	469,493

As at 30 June 2009, advances to customers included accrued interest on gross advances of HK\$723 million (31 December 2008: HK\$1,293 million).

As at 30 June 2009 and 31 December 2008, no impairment allowance was made in respect of trade bills and advances to banks and other financial institutions.

## 24. Investment in securities

	At 30 June 2009 HK\$'m	At 31 December 2008 HK\$'m
<b>(a) Available-for-sale securities</b>		
Debt securities, at fair value		
– Listed in Hong Kong	7,212	4,588
– Listed outside Hong Kong	57,294	44,692
	64,506	49,280
– Unlisted	122,250	121,655
	186,756	170,935
Equity securities, at fair value		
– Listed in Hong Kong	2,016	1,256
– Unlisted	481	430
	2,497	1,686
	189,253	172,621
<b>(b) Held-to-maturity securities</b>		
Listed, at amortised cost		
– in Hong Kong	3,810	4,082
– outside Hong Kong	22,268	21,302
	26,078	25,384
Unlisted, at amortised cost	67,339	85,521
	93,417	110,905
Impairment allowances	(4,020)	(4,440)
	89,397	106,465
<b>(c) Loans and receivables</b>		
Unlisted, at amortised cost	18,980	12,595
<b>Total</b>	<b>297,630</b>	<b>291,681</b>
Market value of listed held-to-maturity securities	25,351	24,354

**24. Investment in securities (continued)**

Investment in securities is analysed by type of issuer as follows:

	At 30 June 2009			
	Available-for-sale securities	Held-to-maturity securities	Loans and receivables	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Sovereigns	63,443	2,786	–	66,229
Public sector entities	14,964	6,754	–	21,718
Banks and other financial institutions	92,508	64,737	18,980	176,225
Corporate entities	18,338	15,120	–	33,458
	<b>189,253</b>	<b>89,397</b>	<b>18,980</b>	<b>297,630</b>

	At 31 December 2008			
	Available-for-sale securities	Held-to-maturity securities	Loans and receivables	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Sovereigns	70,274	1,079	–	71,353
Public sector entities	9,202	12,481	–	21,683
Banks and other financial institutions	71,832	72,498	12,595	156,925
Corporate entities	21,313	20,407	–	41,720
	<b>172,621</b>	<b>106,465</b>	<b>12,595</b>	<b>291,681</b>

Available-for-sale and held-to-maturity securities are analysed as follows:

	Available-for-sale securities		Held-to-maturity securities	
	At 30 June 2009	At 31 December 2008	At 30 June 2009	At 31 December 2008
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Treasury bills	47,356	60,980	1,398	100
Certificates of deposit held	12,471	7,355	8,878	12,448
Others	129,426	104,286	79,121	93,917
	<b>189,253</b>	<b>172,621</b>	<b>89,397</b>	<b>106,465</b>

**25. Investment properties**

	<b>At 30 June 2009 HK\$'m</b>	At 31 December 2008 HK\$'m
At 1 January	<b>7,727</b>	8,058
Disposals	<b>(25)</b>	(186)
Fair value gains/(losses) (Note 13)	<b>527</b>	(132)
Reclassification from/(to) properties, plant and equipment (Note 26)	<b>85</b>	(13)
At period/year end	<b>8,314</b>	7,727

**26. Properties, plant and equipment**

	<b>Premises HK\$'m</b>	<b>Equipment, fixtures and fittings HK\$'m</b>	<b>Total HK\$'m</b>
Net book value at 1 January 2009	<b>20,105</b>	<b>2,690</b>	<b>22,795</b>
Additions	–	<b>149</b>	<b>149</b>
Disposals	<b>(3)</b>	<b>(6)</b>	<b>(9)</b>
Revaluation	<b>1,419</b>	–	<b>1,419</b>
Depreciation for the period (Note 12)	<b>(187)</b>	<b>(309)</b>	<b>(496)</b>
Reclassification to investment properties (Note 25)	<b>(83)</b>	<b>(2)</b>	<b>(85)</b>
Net book value at 30 June 2009	<b>21,251</b>	<b>2,522</b>	<b>23,773</b>
At 30 June 2009			
Cost or valuation	<b>21,251</b>	<b>6,304</b>	<b>27,555</b>
Accumulated depreciation and impairment	–	<b>(3,782)</b>	<b>(3,782)</b>
Net book value at 30 June 2009	<b>21,251</b>	<b>2,522</b>	<b>23,773</b>
Net book value at 1 January 2008	20,783	2,510	23,293
Additions	42	776	818
Disposals	(68)	(5)	(73)
Revaluation	(265)	–	(265)
Depreciation for the year	(400)	(592)	(992)
Reclassification from investment properties (Note 25)	13	–	13
Exchange difference	–	1	1
Net book value at 31 December 2008	20,105	2,690	22,795
At 31 December 2008			
Cost or valuation	20,105	6,239	26,344
Accumulated depreciation and impairment	–	(3,549)	(3,549)
Net book value at 31 December 2008	20,105	2,690	22,795

**26. Properties, plant and equipment (continued)**

The analysis of cost or valuation of the above assets is as follows:

	Premises HK\$'m	Equipment, fixtures and fittings HK\$'m	Total HK\$'m
At 30 June 2009			
At cost	–	6,304	6,304
At valuation	21,251	–	21,251
	<b>21,251</b>	<b>6,304</b>	<b>27,555</b>
At 31 December 2008			
At cost	–	6,239	6,239
At valuation	20,105	–	20,105
	20,105	6,239	26,344

**27. Other assets**

	At 30 June 2009 HK\$'m	At 31 December 2008 HK\$'m
Reposessed assets	90	124
Precious metals	2,014	1,347
Accounts receivable and prepayments	18,529	13,208
	<b>20,633</b>	<b>14,679</b>

**28. Financial liabilities at fair value through profit or loss**

	At 30 June 2009 HK\$'m	At 31 December 2008 HK\$'m
Trading liabilities		
– Short positions in Exchange Fund Bills	6,255	12,141
Financial liabilities designated at fair value through profit or loss		
– Structured deposits (Note 29)	3,767	8,939
– Certificates of deposit issued	840	858
	<b>4,607</b>	<b>9,797</b>
	<b>10,862</b>	<b>21,938</b>

**28. Financial liabilities at fair value through profit or loss (continued)**

The carrying amount of financial liabilities designated at fair value through profit or loss as at 30 June 2009 is more than the amount that the Group would be contractually required to pay at maturity to the holders by HK\$7 million (31 December 2008: HK\$5 million). The amount of change in the fair values of financial liabilities at fair value through profit or loss, during the period and cumulatively, attributable to changes in credit risk is insignificant.

**29. Deposits from customers**

	<b>At 30 June 2009 HK\$'m</b>	At 31 December 2008 HK\$'m
Current, savings and other deposit accounts (per condensed consolidated balance sheet)	<b>820,977</b>	802,577
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 28)	<b>3,767</b>	8,939
	<b>824,744</b>	811,516
Analysed by:		
Demand deposits and current accounts		
– corporate customers	<b>46,576</b>	35,867
– individual customers	<b>12,944</b>	10,175
	<b>59,520</b>	46,042
Savings deposits		
– corporate customers	<b>128,131</b>	115,918
– individual customers	<b>321,929</b>	261,355
	<b>450,060</b>	377,273
Time, call and notice deposits		
– corporate customers	<b>116,348</b>	150,526
– individual customers	<b>198,816</b>	237,675
	<b>315,164</b>	388,201
	<b>824,744</b>	811,516

**30. Other accounts and provisions**

	<b>At 30 June 2009 HK\$'m</b>	At 31 December 2008 HK\$'m
Other accounts payable	<b>31,135</b>	34,297
Provisions	<b>410</b>	576
	<b>31,545</b>	34,873

### 31. Assets pledged as security

As at 30 June 2009, liabilities of the Group amounting to HK\$6,145 million (31 December 2008: HK\$12,141 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK\$4,875 million (31 December 2008: Nil) were secured by debt securities related to sale and repurchase arrangements. The amount of assets pledged by the Group to secure these liabilities was HK\$11,427 million (31 December 2008: HK\$12,243 million) included in "Trading securities" and "Available-for-sale securities".

### 32. Deferred taxation

Deferred tax is recognised in respect of the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in this interim financial information in accordance with HKAS 12 "Income Taxes".

The major components of deferred tax assets and liabilities recorded in the condensed consolidated balance sheet, and the movements during the first half of 2009 and the year ended 31 December 2008 are as follows:

	At 30 June 2009					
	Accelerated tax depreciation	Property revaluation	Losses	Impairment allowance	Other temporary differences	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1 January 2009	545	3,464	(126)	(254)	(984)	2,645
(Credited)/charged to condensed income statement (Note 15)	(19)	98	3	7	38	127
Charged to equity and minority interests	–	195	–	–	552	747
At 30 June 2009	526	3,757	(123)	(247)	(394)	3,519

	At 31 December 2008					
	Accelerated tax depreciation	Property revaluation	Losses	Impairment allowance	Other temporary differences	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1 January 2008	533	3,777	(15)	(169)	(182)	3,944
Charged/(credited) to income statement	12	(205)	(111)	(85)	(75)	(464)
Credited to equity and minority interests	–	(108)	–	–	(727)	(835)
At 31 December 2008	545	3,464	(126)	(254)	(984)	2,645

**32. Deferred taxation (continued)**

Deferred tax assets and liabilities are offset on an individual entity basis when there is a legal right to set off current tax assets against current tax liabilities and when the deferred taxation relates to the same authority. The following amounts, determined after appropriate offsetting, are shown in the condensed consolidated balance sheet:

	<b>At 30 June 2009 HK\$'m</b>	At 31 December 2008 HK\$'m
Deferred tax assets	(160)	(154)
Deferred tax liabilities	3,679	2,799
	<b>3,519</b>	<b>2,645</b>

	<b>At 30 June 2009 HK\$'m</b>	At 31 December 2008 HK\$'m
Deferred tax assets to be recovered after more than twelve months	(145)	(154)
Deferred tax liabilities to be settled after more than twelve months	4,062	3,762
	<b>3,917</b>	<b>3,608</b>

The deferred tax charged/(credited) for each component of other comprehensive income during the period is as follows:

	<b>Half-year ended 30 June 2009 HK\$'m</b>	Half-year ended 30 June 2008 HK\$'m
Fair value changes of available-for-sale securities	552	(235)
Revaluation of premises	195	262
	<b>747</b>	<b>27</b>

**33. Insurance contract liabilities**

	<b>At 30 June 2009 HK\$'m</b>	At 31 December 2008 HK\$'m
Gross and net		
At 1 January	28,274	22,497
Benefits paid	(1,458)	(1,359)
Claims incurred and movement in liabilities	879	7,136
At period/year end	<b>27,695</b>	<b>28,274</b>

**34. Subordinated liabilities**

	Carrying amount	
	At 30 June 2009 HK\$'m	At 31 December 2008 HK\$'m
<b>Principal amount</b>		
<b>Subordinated loans</b>		
EUR 660m*	7,215	7,210
USD 2,500m**	19,389	19,394
HKD 735m***	735	735
	<b>27,339</b>	<b>27,339</b>

The Group obtained floating-rate subordinated loans from BOC, the intermediate holding company. The EUR 660 million and USD 2,500 million subordinated loans are repayable prior to maturity after the first 5-year tenure at the option of the borrower. Amounts qualified as supplementary capital for regulatory purposes are shown in Note 3.5(b).

\* Interest rate at 6-month EURIBOR plus 0.85% for the first 5 years, 6-month EURIBOR plus 1.35% for the remaining tenure payable semi-annually, due June 2018.

\*\* Interest rate at 6-month LIBOR plus 2.00% for the first 5 years, 6-month LIBOR plus 2.50% for the remaining tenure payable semi-annually, due December 2018.

\*\*\* Interest rate at applicable HIBOR plus 3.00%, fully repaid in July 2009.

**35. Share capital**

	At 30 June 2009 HK\$'m	At 31 December 2008 HK\$'m
Authorised: 20,000,000,000 ordinary shares of HK\$5 each	100,000	100,000
Issued and fully paid: 10,572,780,266 ordinary shares of HK\$5 each	52,864	52,864

**36. Reserves**

The Group's reserves and the movements therein for the current and prior periods are presented in the condensed consolidated statement of changes in equity on pages 47 to 48.

## 37. Notes to condensed consolidated cash flow statement

## (a) Reconciliation of operating profit to operating cash (outflow)/inflow before taxation

	Half-year ended 30 June 2009 HK\$'m	Half-year ended 30 June 2008 HK\$'m
Operating profit	7,719	7,724
Depreciation	496	480
Net charge of impairment allowances	1,115	2,227
Unwind of discount on impairment	(8)	(21)
Advances written off net of recoveries	(213)	86
Interest expense on subordinated liabilities	546	6
Change in cash and balances with banks and other financial institutions with original maturity over three months	13,201	17,866
Change in placements with banks and other financial institutions with original maturity over three months	(18,391)	(627)
Change in financial assets at fair value through profit or loss	6,001	565
Change in derivative financial instruments	(5,318)	(307)
Change in advances and other accounts	(15,582)	(66,914)
Change in investment in securities	193	33,400
Change in other assets	(5,961)	7,689
Change in deposits and balances of banks and other financial institutions	(11,663)	21,026
Change in financial liabilities at fair value through profit or loss	(11,076)	708
Change in deposits from customers	18,400	25,504
Change in debt securities in issue at amortised cost	(906)	667
Change in other accounts and provisions	(3,328)	(8,471)
Change in insurance contract liabilities	(579)	2,573
Exchange difference	–	199
Operating cash (outflow)/inflow before taxation	<b>(25,354)</b>	44,380
Cash flows from operating activities included:		
– Interest received	13,466	19,220
– Interest paid	4,109	7,254
– Dividend received	13	100

## (b) Analysis of the balances of cash and cash equivalents

	At 30 June 2009 HK\$'m	At 30 June 2008 HK\$'m
Cash and balances with banks and other financial institutions with original maturity within three months	100,968	173,272
Placements with banks and other financial institutions with original maturity within three months	27,156	10,847
Treasury bills with original maturity within three months	19,412	12,820
Certificates of deposit held with original maturity within three months	1,000	1,816
	<b>148,536</b>	198,755

**38. Contingent liabilities and commitments**

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment and the corresponding aggregate credit risk weighted amount:

	<b>At 30 June 2009 HK\$'m</b>	At 31 December 2008 HK\$'m
Direct credit substitutes	1,745	1,419
Transaction-related contingencies	7,522	10,153
Trade-related contingencies	26,020	22,481
Commitments that are unconditionally cancellable without prior notice	127,688	103,684
Other commitments with an original maturity of		
– up to one year	25,761	63,252
– over one year	45,083	52,400
	<b>233,819</b>	253,389
Credit risk weighted amount	<b>31,290</b>	40,251

The credit risk weighted amount is calculated in accordance with the Banking (Capital) Rules. The amount is dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

**39. Capital commitments**

The Group has the following outstanding capital commitments not provided for in this interim financial information:

	<b>At 30 June 2009 HK\$'m</b>	At 31 December 2008 HK\$'m
Authorised and contracted for but not provided for	148	121
Authorised but not contracted for	6	15
	<b>154</b>	136

The above capital commitments mainly relate to commitments to purchase computer equipment and software, and to renovate the Group's premises.

**40. Operating lease commitments****(a) The Group as lessee**

The Group has commitments to make the following future minimum lease payments under non-cancellable operating leases:

	<b>At 30 June 2009 HK\$'m</b>	At 31 December 2008 HK\$'m
Land and buildings		
– not later than one year	<b>407</b>	427
– later than one year but not later than five years	<b>479</b>	531
– later than five years	<b>6</b>	14
	<b>892</b>	972

Certain non-cancellable operating leases included in the tables above were subject to renegotiation and rent adjustment with reference to market rates prevailing at specified agreed dates.

**(b) The Group as lessor**

The Group has contracted with tenants for the following future minimum lease receivables under non-cancellable operating leases:

	<b>At 30 June 2009 HK\$'m</b>	At 31 December 2008 HK\$'m
Land and buildings		
– not later than one year	<b>317</b>	270
– later than one year but not later than five years	<b>292</b>	234
	<b>609</b>	504

The Group leases its investment properties under operating lease arrangements, with leases typically for a period from one to three years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions. None of the leases include contingent rentals.

#### 41. Segmental reporting

The Group has adopted the new HKFRS 8 “Operating Segments” effective this year. After assessing the internal financial reporting process, it was concluded that the original segments classification has already complied with the new standard. However, consistent with internal management reporting, the charge on inter-segment funding has changed from the corresponding money market rates to money market rates adjusted with pre-determined margins. These margins reflect differentiation based on product features. Since the impact of this change on prior year figures is immaterial, no restatement has been made.

The Group engages in many businesses in several regions. For segmental reporting purposes, information is solely provided in respect of business segments. Geographical segment information is not presented because over 90% of the Group’s revenues, profits before tax and assets are derived from Hong Kong.

Information about the four business segments is provided in segmental reporting. They are Personal Banking, Corporate Banking, Treasury and Insurance. The classification of the Group’s operating segments is based on customer segment and product type, which is aligned with the RPC (relationship, product and channel) management model of the Group.

Both Personal Banking and Corporate Banking segments provide general banking services. Personal Banking serves individual customers while Corporate Banking deals with non individual customers. The Treasury segment is responsible for managing the capital, liquidity, and the interest rate and foreign exchange positions of the Group in addition to proprietary trades. The Insurance segment shows business relates to the Group’s long-term life insurance products, including traditional and linked individual life insurance and group life insurance products. “Others” refers to those items related to the Group as a whole but independent of the other four business segments, including the Group’s holdings of premises, investment properties, equity investments and interests in associates.

Revenues, expenses, assets and liabilities of any business segment mainly include items directly attributable to the segment. In relation to occupation of the Group’s premises, rentals are internally charged on market rates according to the areas occupied. For management overheads, allocations are made on reasonable bases. Inter-segment funding is charged according to the internal funds transfer pricing mechanism of the Group.

## 41. Segmental reporting (continued)

	Half-year ended 30 June 2009							
	Personal HK\$'m	Corporate HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
Net interest income/(expenses)								
– external	902	3,027	4,440	562	(2)	8,929	–	8,929
– inter-segment	1,947	(383)	(1,526)	–	(38)	–	–	–
	2,849	2,644	2,914	562	(40)	8,929	–	8,929
Net fees and commission income/ (expenses)	1,970	1,100	(4)	(124)	50	2,992	(45)	2,947
Net trading income/(expenses)	236	67	587	–	(1)	889	–	889
Net gain/(loss) on financial instruments designated at fair value through profit or loss	–	–	180	(1,575)	–	(1,395)	–	(1,395)
Net gain on investment in securities	–	–	67	–	–	67	–	67
Net insurance premium income	–	–	–	2,267	–	2,267	(6)	2,261
Other operating income	12	30	2	5	880	929	(680)	249
<b>Total operating income</b>	<b>5,067</b>	<b>3,841</b>	<b>3,746</b>	<b>1,135</b>	<b>889</b>	<b>14,678</b>	<b>(731)</b>	<b>13,947</b>
Net insurance benefits and claims	–	–	–	(919)	–	(919)	–	(919)
<b>Net operating income before impairment allowances</b>	<b>5,067</b>	<b>3,841</b>	<b>3,746</b>	<b>216</b>	<b>889</b>	<b>13,759</b>	<b>(731)</b>	<b>13,028</b>
Net (charge)/reversal of impairment allowances	(80)	133	(1,168)	–	–	(1,115)	–	(1,115)
<b>Net operating income</b>	<b>4,987</b>	<b>3,974</b>	<b>2,578</b>	<b>216</b>	<b>889</b>	<b>12,644</b>	<b>(731)</b>	<b>11,913</b>
Operating expenses	(2,771)	(1,039)	(394)	(61)	(660)	(4,925)	731	(4,194)
<b>Operating profit</b>	<b>2,216</b>	<b>2,935</b>	<b>2,184</b>	<b>155</b>	<b>229</b>	<b>7,719</b>	<b>–</b>	<b>7,719</b>
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	525	525	–	525
Net loss from disposal/revaluation of properties, plant and equipment	–	–	–	–	(1)	(1)	–	(1)
Share of profits less losses of associates	–	–	–	–	1	1	–	1
<b>Profit before taxation</b>	<b>2,216</b>	<b>2,935</b>	<b>2,184</b>	<b>155</b>	<b>754</b>	<b>8,244</b>	<b>–</b>	<b>8,244</b>
<b>At 30 June 2009</b>								
<b>Assets</b>								
Segment assets	169,513	338,687	581,630	31,802	38,056	1,159,688	(13,624)	1,146,064
Interests in associates	–	–	–	–	86	86	–	86
	169,513	338,687	581,630	31,802	38,142	1,159,774	(13,624)	1,146,150
<b>Liabilities</b>								
Segment liabilities	558,739	293,447	169,588	30,932	11,102	1,063,808	(13,624)	1,050,184
<b>Half-year ended 30 June 2009</b>								
<b>Other information</b>								
Additions of properties, plant and equipment	5	–	–	1	143	149	–	149
Depreciation	141	71	52	1	231	496	–	496
Amortisation of securities	–	–	(310)	111	–	(199)	–	(199)

## 41. Segmental reporting (continued)

	Half-year ended 30 June 2008							
	Personal HK\$'m	Corporate HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
Net interest (expenses)/income								
– external	(1,950)	3,092	8,319	538	30	10,029	–	10,029
– inter-segment	5,280	(120)	(4,863)	–	(297)	–	–	–
	3,330	2,972	3,456	538	(267)	10,029	–	10,029
Net fees and commission income/ (expenses)	2,141	1,012	(2)	(164)	(22)	2,965	(66)	2,899
Net trading income/(expenses)	370	90	898	–	(121)	1,237	–	1,237
Net loss on financial instruments designated at fair value through profit or loss	–	–	(92)	(1,392)	–	(1,484)	–	(1,484)
Net gain on investment in securities	–	–	128	–	–	128	–	128
Net insurance premium income	–	–	–	4,503	–	4,503	(2)	4,501
Other operating income	21	30	1	8	977	1,037	(706)	331
<b>Total operating income</b>	5,862	4,104	4,389	3,493	567	18,415	(774)	17,641
Net insurance benefits and claims	–	–	–	(3,602)	–	(3,602)	–	(3,602)
<b>Net operating income/(expenses) before impairment allowances</b>	5,862	4,104	4,389	(109)	567	14,813	(774)	14,039
Net charge of impairment allowances	(18)	(60)	(2,149)	–	–	(2,227)	–	(2,227)
<b>Net operating income/(expenses)</b>	5,844	4,044	2,240	(109)	567	12,586	(774)	11,812
Operating expenses	(2,879)	(1,081)	(431)	(69)	(402)	(4,862)	774	(4,088)
<b>Operating profit/(loss)</b>	2,965	2,963	1,809	(178)	165	7,724	–	7,724
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	710	710	–	710
Net loss from disposal/revaluation of properties, plant and equipment	–	–	–	–	(8)	(8)	–	(8)
Share of profits less losses of associates	–	–	–	–	8	8	–	8
<b>Profit/(loss) before taxation</b>	2,965	2,963	1,809	(178)	875	8,434	–	8,434
<b>At 31 December 2008</b>								
<b>Assets</b>								
Segment assets	165,148	324,606	603,965	31,703	32,578	1,158,000	(10,844)	1,147,156
Interests in associates	–	–	–	–	88	88	–	88
	165,148	324,606	603,965	31,703	32,666	1,158,088	(10,844)	1,147,244
<b>Liabilities</b>								
Segment liabilities	523,682	309,254	203,481	30,977	6,162	1,073,556	(10,844)	1,062,712
<b>Half-year ended 30 June 2008</b>								
<b>Other information</b>								
Additions of properties, plant and equipment	4	1	–	1	211	217	–	217
Depreciation	133	65	52	2	228	480	–	480
Amortisation of securities	–	–	(73)	–	–	(73)	–	(73)

## 42. Significant related party transactions

Related parties are those parties that have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or other entities. The Group is subject to the control of the State Council of the PRC Government through China Investment Corporation (“CIC”), its wholly-owned subsidiary Central Huijin Investment Ltd. (“Central Huijin”), and BOC in which Central Huijin has controlling equity interests.

The Group provides loans and credit facilities to related parties in the normal course of business. Such transactions are conducted with terms that are no more favourable than those contracted with third party customers of the Group.

Transactions with related parties, which the Group entered into during the period are summarised as follows:

### (a) Advances to third parties guaranteed by BOC group companies

As at 30 June 2009, BOC, the intermediate holding company, provided guarantees for loans in favour of the Group amounting to HK\$8,241 million (31 December 2008: HK\$6,980 million) to certain third parties. BOC held equity interests of not more than 20% in these third parties.

### (b) Summary of transactions entered into during the ordinary course of business with BOC group companies

The aggregate income and expenses arising from related party transactions with the immediate holding company, the intermediate holding companies, associates of the Company as well as subsidiaries and associates of BOC are summarised as follows:

	Notes	Half-year ended 30 June 2009		
		Immediate and intermediate holding companies HK\$'m	Associates HK\$'m	Other related parties HK\$'m
Income statement items:				
Interest income	(i)	188	–	56
Interest expense	(ii)	(615)	–	(24)
Insurance premium paid (net)	(iii)	–	–	(39)
Administrative services fees received/receivable	(iv)	14	–	9
Rental fees received/receivable	(iv)	2	–	33
Credit card commission paid/payable (net)	(v)	(23)	–	(2)
Securities brokerage commission paid/payable (net)	(v)	–	–	(195)
Rental, property management and letting agency fees paid/payable	(v)	–	–	(50)
Funds selling commission received	(vi)	–	–	20
Correspondent banking fee received	(vii)	2	–	–
Net insurance premium income	(iii)	–	–	2
Loans services fees received		–	–	1
Net trading (losses)/gains		(8)	–	15

**42. Significant related party transactions (continued)****(b) Summary of transactions entered into during the ordinary course of business with BOC group companies (continued)**

	Notes	Half-year ended 30 June 2008		
		Immediate and intermediate holding companies HK\$'m	Associates HK\$'m	Other related parties HK\$'m
Income statement items:				
Interest income	(i)	574	–	7
Interest expense	(ii)	(235)	(1)	(63)
Insurance premium paid (net)	(iii)	–	–	(14)
Administrative services fees received/receivable	(iv)	15	–	12
Rental fees received/receivable	(iv)	1	–	27
Credit card commission paid/payable (net)	(v)	(43)	–	(1)
Securities brokerage commission paid/payable (net)	(v)	–	–	(188)
Rental, property management and letting agency fees paid/payable	(v)	–	–	(48)
Funds selling commission received	(vi)	–	–	40
Correspondent banking fee received	(vii)	7	–	–
Net trading losses		(7)	–	(76)

## 42. Significant related party transactions (continued)

## (b) Summary of transactions entered into during the ordinary course of business with BOC group companies (continued)

		At 30 June 2009		
		Immediate and intermediate holding companies HK\$'m	Associates HK\$'m	Other related parties HK\$'m
	Notes			
Balance sheet items:				
Cash and balances with banks and other financial institutions	(i)	18,765	–	43
Placements with banks and other financial institutions maturing between one and twelve months	(i)	38,051	–	–
Financial assets at fair value through profit or loss		546	–	1,661
Derivative financial instruments assets	(viii)	81	–	1
Advances and other accounts	(i)	391	–	1,653
Investment in securities	(i)	1,216	–	–
Other assets	(ix)	61	–	3,833
Deposits and balances of banks and other financial institutions	(ii)	19,702	–	306
Deposits from customers	(ii)	100	43	14,535
Derivative financial instruments liabilities	(viii)	73	–	6
Other accounts and provisions	(ix)	62	–	3,074
Subordinated liabilities	(x)	27,339	–	–
Off-balance sheet items:				
Contingent liabilities and commitments	(xi)	657	–	3,422

## 42. Significant related party transactions (continued)

## (b) Summary of transactions entered into during the ordinary course of business with BOC group companies (continued)

	Notes	At 31 December 2008		
		Immediate and intermediate holding companies HK\$'m	Associates HK\$'m	Other related parties HK\$'m
Balance sheet items:				
Cash and balances with banks and other financial institutions	(i)	25,614	–	26
Placements with banks and other financial institutions maturing between one and twelve months	(i)	8,489	–	–
Financial assets at fair value through profit or loss		618	–	2,087
Derivative financial instruments assets	(viii)	782	–	4
Advances and other accounts	(i)	1	–	854
Investment in securities	(i)	1,280	–	–
Other assets	(ix)	55	–	2,050
Deposits and balances of banks and other financial institutions	(ii)	31,497	–	463
Deposits from customers	(ii)	97	46	8,019
Derivative financial instruments liabilities	(viii)	68	–	161
Other accounts and provisions	(ix)	99	–	2,210
Subordinated liabilities	(x)	27,339	–	–
Off-balance sheet items:				
Contingent liabilities and commitments	(xi)	9,037	–	4,222

**42. Significant related party transactions (continued)****(b) Summary of transactions entered into during the ordinary course of business with BOC group companies (continued)**

Notes:

**(i) Interest income**

In the ordinary course of business, the Group enters into various transactions with BOC group companies including deposit of cash and balances with banks and other financial institutions, placement of interbank deposits, investment in securities and provision of loans and credit facilities. The transactions were conducted at prices and terms that are no more favourable than those charged to and contracted with other third party customers of the Group.

**(ii) Interest expense**

In the ordinary course of business, the Group accepts interbank deposits and current, fixed, savings and other deposits from BOC group companies at the relevant market rates at the time of the transactions. Interest on subordinated loans is charged at the contracted rate as denoted in Note 34.

**(iii) Insurance premium paid/insurance commission received (net) and net insurance premium income**

In the ordinary course of business, the Group renders insurance policies and agency services to and purchases general insurance policies from BOC group companies at the relevant market rates at the time of the transactions.

**(iv) Administrative services fees and rental fees received/receivable**

In the ordinary course of business, the Group receives administrative services fees for the provision of various administrative services including internal audit, technology, human resources support and training to BOC group companies mainly on the basis of cost plus a margin of 5%, and receives office premises rental fees from BOC group companies at the relevant market rates at the time of the transactions.

**(v) Commission, rental, property management and letting agency fees paid/payable**

In the ordinary course of business, the Group pays commission fees for credit card administrative and promotional services, securities brokerage services, property management and letting agency fees to BOC group companies. The Group also pays rental fees to BOC group companies. These transactions have been entered into in the ordinary course of business and were priced at the relevant market rates at the time of the transactions.

**(vi) Funds selling commission received**

In the ordinary course of business, the Group receives commission for engaging in promotion and sale of fund products of a BOC group company to customers of the Group at the relevant market rates at the time of the transactions.

**(vii) Correspondent banking fee received**

In the ordinary course of business, BOC provides services to the Group's customers including remittance services and advising on and collecting letters of credit issued by the Group. The Group shares the fees paid by its customers with BOC on the basis agreed between the parties from time to time.

**42. Significant related party transactions (continued)**

**(b) Summary of transactions entered into during the ordinary course of business with BOC group companies (continued)**

Notes: (continued)

**(viii) Derivative financial instruments assets/liabilities**

In the ordinary course of business, the Group enters into foreign exchange contracts and interest rate contracts with BOC group companies. As at 30 June 2009 the aggregate notional amount of such derivative transactions amounted to HK\$12,136 million (31 December 2008: HK\$25,236 million) whilst the corresponding derivative financial instruments assets and liabilities amounted to HK\$82 million (31 December 2008: HK\$786 million) and HK\$79 million (31 December 2008: HK\$229 million) respectively. These transactions are executed at the relevant market rates at the time of the transactions.

**(ix) Other assets and other accounts and provisions**

Included within "Other assets" and "Other accounts and provisions" are receivables from and payables to BOC group companies. The amounts mainly represent the account receivables from and payables to a subsidiary of BOC in relation to dealing in securities trading transactions on behalf of the Group's customers. The receivables and payables arose from transactions carried out in the normal course of business.

**(x) Subordinated liabilities**

The Group entered into subordinated credit facility agreements with BOC for the purposes of capital management. Major commercial terms of the loans are stated in Note 34.

**(xi) Contingent liabilities and commitments**

In the ordinary course of business, the Group provides loan facilities and trade finance services to, and guarantees for the obligations of BOC and its subsidiaries and associates on normal commercial terms.

**(c) Key management personnel**

Key management are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and senior management. The Group accepts deposits from and grants loans and credit facilities to key management personnel in the ordinary course of business. During both the current and prior periods, no material transaction was conducted with key management personnel of BOCHK, its holding companies and parties related to them.

The key management compensation for the six months ended 30 June 2009 and 2008 is detailed as follows:

	<b>Half-year ended 30 June 2009 HK\$'m</b>	Half-year ended 30 June 2008 HK\$'m
Salaries and other short-term employee benefits	<b>22</b>	31
Post-employment benefits	<b>1</b>	1
	<b>23</b>	32

**42. Significant related party transactions (continued)****(d) Transactions with the parent companies other than BOC ("other parent companies") and other companies controlled by Central Huijin**

Central Huijin is the controlling entity of BOC. It is a wholly-owned subsidiary of CIC which is a wholly state-owned company engaging in foreign currency investment and management. Central Huijin is approved by the State Council of the PRC Government to assume the rights and obligations of the equity owner on behalf of the State.

Central Huijin has controlling equity interests in certain other entities in the PRC.

The Group enters into banking transactions with these companies in the normal course of business. These include loans, investment securities and money market transactions. The outstanding balances at the period/year end, and the related income and expenses for the period are as follows:

	2009		2008	
	Interest income/ (expense) for the six months ended 30 June HK\$'m	Outstanding balance at 30 June HK\$'m	Interest income/ (expense) for the six months ended 30 June HK\$'m	Outstanding balance at 31 December HK\$'m
Investment in securities	49	6,286	50	5,479
Financial assets at fair value through profit or loss	–	18	9	20
Due from banks and other financial institutions	46	3,491	28	3,780
Due to banks and other financial institutions	(1)	1,597	(16)	1,214

The Group also entered into banking transactions with the other parent companies during the six month period ended 30 June 2009 in the normal course of its business.

**42. Significant related party transactions (continued)****(e) Transactions with Ministry of Finance and The People's Bank of China and other state-controlled entities**

The Group enters into banking transactions with Ministry of Finance and The People's Bank of China in the normal course of business. These include purchases and redemption of treasury bonds and money market transactions.

The state-controlled entities are those, other than BOC (the intermediate holding company and its subsidiaries), CIC, Central Huijin and its controlled companies over which the PRC Government directly or indirectly holds over 50% of the outstanding shares or voting rights, and has the ability to control or the power to govern their financial or operational policies through its government authorities, agencies and affiliates. The Group has extensive transactions with other state controlled entities. These transactions, conducted in the ordinary course of business, may include, but are not limited to, the following:

- lending, provision of credits and guarantees and deposit taking;
- inter-bank balance taking and placing;
- sale, purchase, underwriting and redemption of bonds issued by other state-controlled entities;
- rendering of foreign exchange, remittance and investment related services;
- provision of fiduciary activities; and
- purchase of utilities, transport, telecommunication and postal services.

**43. Liquidity ratio**

	<b>Half-year ended 30 June 2009</b>	Half-year ended 30 June 2008
Average liquidity ratio	<b>39.70%</b>	42.47%

The average liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of BOCHK for the period.

The liquidity ratio is computed on the solo basis (the Hong Kong offices only) and is in accordance with the Fourth Schedule to the Banking Ordinance.

**44. Currency concentrations**

The following is a summary of the major foreign currency exposures arising from trading, non-trading and structural positions. The net options position is calculated based on the basis of delta-weighted positions of all foreign exchange options contracts.

	At 30 June 2009							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Australian Euro	Australian Dollars	Pound Sterling	Renminbi	Others	Total
Spot assets	324,249	46,334	41,630	31,018	5,272	70,988	10,066	529,557
Spot liabilities	(251,914)	(4,419)	(24,794)	(28,573)	(15,441)	(68,444)	(23,055)	(416,640)
Forward purchases	355,234	19,643	26,741	25,445	28,480	26,995	38,187	520,725
Forward sales	(412,831)	(61,484)	(44,127)	(28,223)	(18,366)	(26,824)	(25,189)	(617,044)
Net options position	254	-	(1)	(13)	(1)	-	2	241
Net long/(short) position	14,992	74	(551)	(346)	(56)	2,715	11	16,839
Net structural position	166	-	-	-	-	1,530	-	1,696

  

	At 31 December 2008							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Australian Euro	Australian Dollars	Pound Sterling	Renminbi	Others	Total
Spot assets	329,063	45,677	39,953	26,578	13,662	69,588	11,006	535,527
Spot liabilities	(282,888)	(10,671)	(26,033)	(28,009)	(16,730)	(68,161)	(22,252)	(454,744)
Forward purchases	328,459	28,024	31,497	17,948	18,249	22,282	39,376	485,835
Forward sales	(364,547)	(62,847)	(45,720)	(16,688)	(15,190)	(22,273)	(28,126)	(555,391)
Net options position	131	2	7	8	(9)	-	3	142
Net long/(short) position	10,218	185	(296)	(163)	(18)	1,436	7	11,369
Net structural position	158	-	-	-	-	1,719	-	1,877

**45. Cross-border claims**

The information on cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country, which is different from that of the counterparty, or if the claims are on an overseas branch of a bank whose head office is located in another country. Only regions constituting 10% or more of the aggregate cross-border claims are analysed by geographical areas and disclosed as follows:

	<b>Banks</b> HK\$'m	<b>Public sector</b> <b>entities</b> HK\$'m	<b>Others</b> HK\$'m	<b>Total</b> HK\$'m
<b>At 30 June 2009</b>				
Asia, other than Hong Kong				
– Mainland China	94,385	51,503	46,298	192,186
– Japan	17,208	43,756	1,591	62,555
– Others	45,861	–	16,460	62,321
	<b>157,454</b>	<b>95,259</b>	<b>64,349</b>	<b>317,062</b>
North America				
– United States	5,318	21,457	52,241	79,016
– Others	16,274	935	289	17,498
	<b>21,592</b>	<b>22,392</b>	<b>52,530</b>	<b>96,514</b>
Western Europe				
– Germany	36,342	1,006	728	38,076
– Others	120,288	2,064	6,765	129,117
	<b>156,630</b>	<b>3,070</b>	<b>7,493</b>	<b>167,193</b>
Total	<b>335,676</b>	<b>120,721</b>	<b>124,372</b>	<b>580,769</b>

**45. Cross-border claims (continued)**

	Banks HK\$'m	Public sector entities HK\$'m	Others HK\$'m	Total HK\$'m
At 31 December 2008				
Asia, other than Hong Kong				
– Mainland China	62,948	52,228	47,650	162,826
– Japan	19,475	39,462	1,522	60,459
– Others	46,292	54	16,293	62,639
	128,715	91,744	65,465	285,924
North America				
– United States	8,235	29,065	62,240	99,540
– Others	20,380	686	150	21,216
	28,615	29,751	62,390	120,756
Western Europe				
– Germany	37,262	664	1,252	39,178
– Others	135,312	353	6,992	142,657
	172,574	1,017	8,244	181,835
Total	329,904	122,512	136,099	588,515

**46. Non-bank Mainland China exposures**

Non-bank counterparties are identified in accordance with the definitions set out in the prudential return “Quarterly Analysis of Loans and Advances and Provisions” issued by the HKMA. Exposures in Mainland China arising from non-bank counterparties are summarised as follows:

	At 30 June 2009			
	On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total exposure HK\$'m	Individually assessed impairment allowances HK\$'m
Mainland China entities	80,991	38,678	119,669	37
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	22,472	16,480	38,952	66
Other non-bank Mainland China exposures	16,341	6,814	23,155	39
	119,804	61,972	181,776	142

**46. Non-bank Mainland China exposures (continued)**

	At 31 December 2008			
	On-balance sheet exposure	Off-balance sheet exposure	Total exposure	Individually assessed impairment allowances
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Mainland China entities	78,600	66,102	144,702	53
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	25,979	13,701	39,680	119
Other non-bank Mainland China exposures	14,095	7,824	21,919	56
	118,674	87,627	206,301	228

**47. Events after the balance sheet date**

On 22 July 2009, the Group agreed with the Securities and Futures Commission, the Hong Kong Monetary Authority and thirteen other distributing banks to make an offer to eligible customers to repurchase their holdings in all outstanding Lehman Brothers Minibonds subscribed through the Group ("the Repurchase Scheme"). Details of the Repurchase Scheme, including the definition of eligible customers and outstanding Lehman Brothers Minibonds, have been set out in the Company's announcement dated 22 July 2009 (the "Announcement").

As set out in the Announcement, under the Repurchase Scheme, the Group has, without admission of liability, made an offer to repurchase at a price equivalent to 60% of the nominal value of the principal invested for eligible customers below the age of 65 as at 1 July 2009 or at 70% of the nominal value of the principal invested for eligible customers aged 65 or above as at 1 July 2009. If any recovery is made from the enforcement of the collateral held in respect of a series, the Group will make further payments to eligible customers who have accepted the Repurchase Scheme. The Group will also make a voluntary offer to pay an ex gratia amount to customers who would have qualified as eligible customers but for their previous settlements with the Group, to bring them in line with the Repurchase Scheme offer. The Group will further make available an amount equivalent to the total commission income received as a Lehman Brothers Minibonds distributor of approximately HK\$160 million to the trustee of the Lehman Brothers Minibonds to fund the trustee's expenses in realising the value of the underlying collateral in respect of the outstanding Lehman Brothers Minibonds. The aforesaid amount to the trustee is expected to be provided for in the second half of the year.

The Group will need to make provisions in the second half of the year for the above Repurchase Scheme and voluntary offer in accordance with its accounting policies taking into account the estimated aggregate amount paid and payable of HK\$3,626 million, the provision already made of HK\$867 million as at 30 June 2009 and the net amount which is recoverable from the Lehman Brothers Minibonds. At present, the additional provision cannot be estimated reliably as the net amount which is recoverable from the Lehman Brothers Minibonds is uncertain.

**48. Compliance with HKAS 34**

The interim report for the first half of 2009 complies with HKAS 34 "Interim Financial Reporting" issued by the HKICPA.

**49. Statutory accounts**

The information in this interim report is unaudited and does not constitute statutory accounts. The statutory accounts for the year ended 31 December 2008 have been delivered to the Registrar of Companies and the HKMA. The auditors expressed an unqualified opinion on those statutory accounts in their report dated 24 March 2009.