中銀香港(控股)有限公司
BOC HONG KONG (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)

(the "Company", Stock Code: 2388)

2010 ANNUAL RESULTS ANNOUNCEMENT

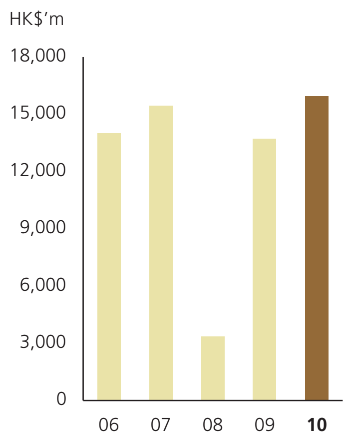
The Board of Directors of the Company (the "Board") is pleased to announce the audited results of the Company and its subsidiaries for the year ended 31 December 2010. This announcement, containing the full text of the 2010 Annual Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of annual results. Printed version of the Company's 2010 Annual Report will be delivered to the Company's shareholders who have chosen to receive printed version and will also be available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk and of the Company at www.bochk.com in mid April 2011.

FINANCIAL HIGHLIGHTS

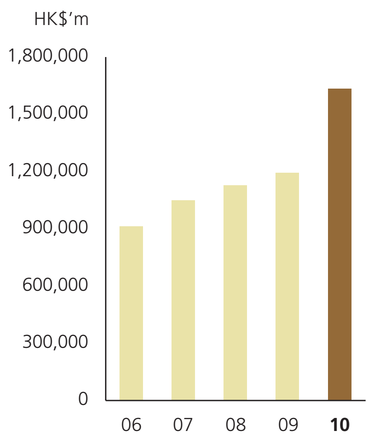
For the year	2010 HK$'m	2009[6] HK$'m	Change +/(-)%
Net operating income before impairment allowances	**27,508**	26,055	5.58
Operating profit	**18,239**	15,104	20.76
Profit before taxation	**19,742**	16,724	18.05
Profit for the year	**16,690**	14,251	17.11
Profit attributable to the equity holders of the Company	**16,196**	13,930	16.27
Per share	**HK$**	HK$	+/(-)%
Earnings per share	**1.5319**	1.3175	16.27
Dividend per share	**0.9720**	0.8550	13.68
At year-end	**HK$'m**	HK$'m	+/(-)%
Capital and reserves attributable to the equity holders of the Company	**115,181**	104,179	10.56
Issued and fully paid share capital	**52,864**	52,864	–
Total assets	**1,661,040**	1,212,794	36.96
Financial ratios	**%**	%	
Return on average total assets[1]	**1.21**	1.21	
Return on average capital and reserves attributable to the equity holders of the Company[2]	**14.77**	14.83	
Cost to income ratio	**34.84**	46.60	
Loan to deposit ratio[3]	**59.69**	60.98	
Average liquidity ratio[4]	**38.77**	40.18	
Capital adequacy ratio[5]	**16.14**	16.85	

1. Return on average total assets $= \dfrac{\text{Profit for the year}}{\text{Daily average balance of total assets}}$
2. Return on average capital and reserves attributable to the equity holders of the Company
   $= \dfrac{\text{Profit attributable to the equity holders of the Company}}{\text{Average of the beginning and ending balance of capital and reserves attributable to the equity holders of the Company}}$
3. Loan to deposit ratio is calculated as at year end. Loan represents gross advances to customers. Deposit includes structured deposits reported as "Financial liabilities at fair value through profit or loss".
4. Average liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of BOCHK for the year.
5. Capital adequacy ratio is 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.
6. Certain comparative amounts have been restated to reflect the early adoption of HKAS 12 (Amendment) "Income Taxes".

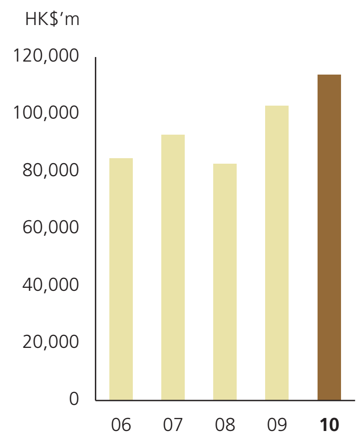
Profit attributable to the equity holders of the Company



Total assets



Capital and reserves attributable to the equity holders of the Company



FIVE-YEAR FINANCIAL SUMMARY

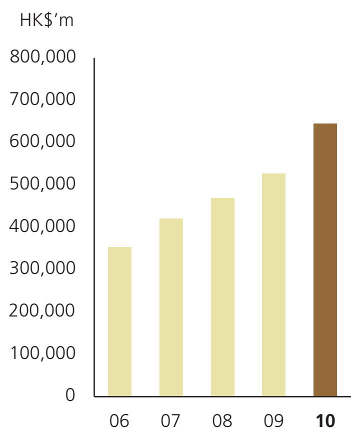
The financial information of the Group for the last five years commencing from 1 January 2006 is summarised below:

For the year	**2010** **HK$'m**	2009[2] HK$'m	2008[2] HK$'m	2007[2] HK$'m	2006[2] HK$'m
Net operating income before impairment allowances	**27,508**	26,055	25,526	27,254	21,309
Operating profit	**18,239**	15,104	4,182	18,033	16,545
Profit before taxation	**19,742**	16,724	4,078	19,126	17,139
Profit for the year	**16,690**	14,251	2,977	15,883	14,269
Profit attributable to the equity holders of the Company	**16,196**	13,930	3,313	15,512	13,992
Per share	**HK$**	HK$	HK$	HK$	HK$
Earnings per share	**1.5319**	1.3175	0.3134	1.4672	1.3234
At year-end	**HK$'m**	HK$'m	HK$'m	HK$'m	HK$'m
Advances and other accounts	**645,424**	527,135	469,493	420,234	352,858
Total assets	**1,661,040**	1,212,794	1,147,245	1,067,637	928,953
Daily average balance of total assets	**1,382,121**	1,177,294	1,099,198	1,032,577	915,900
Deposits from customers[1]	**1,027,267**	844,453	811,516	799,565	703,776
Total liabilities	**1,542,751**	1,105,879	1,061,695	971,540	841,401
Issued and fully paid share capital	**52,864**	52,864	52,864	52,864	52,864
Capital and reserves attributable to the equity holders of the Company	**115,181**	104,179	83,734	93,879	85,565
Financial ratios	**%**	%	%	%	%
Return on average total assets	**1.21**	1.21	0.27	1.54	1.56
Cost to income ratio	**34.84**	46.60	34.36	28.52	30.78
Loan to deposit ratio[1]	**59.69**	60.98	56.74	51.66	49.32

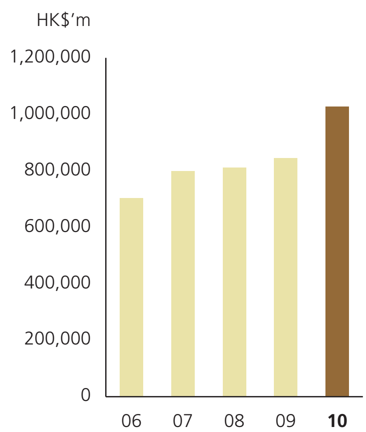
1. Deposits from customers include structured deposits reported as "Financial liabilities at fair value through profit or loss".

2. Certain comparative amounts have been restated to reflect the early adoption of HKAS 12 (Amendment) "Income Taxes".

Advances and other accounts



Deposits from customers




Sport for All!
Lead A Healthy and LOHAS Life!
Personal Customers
Business Customers
Personal Banking
Corporate Banking
BOCHK Securities Trading Service
BOCHK Precious Metal and FX Margin
Remittance Plus
BOC CUP Dual Currency Credit Card
BOCHK Premium Deposits
BOCHK "Kiddie Sky"
CNY HIBOR

OFFERING
QUALITY SERVICES
TO YOU

CHAIRMAN'S STATEMENT

I am pleased to report that the Group delivered record results in 2010, with both net operating income before impairment allowances and profit attributable to shareholders achieving new highs since our listing. The Group's net operating income before impairment allowances increased by 5.6% year-on-year to HK$27,508 million, despite pressure from low interest rates and intense competition. Operating profit before impairment allowances increased by 28.8% to HK$17,924 million. The Group's profit attributable to shareholders increased by 16.3% year-on-year to HK$16,196 million or HK$1.5319 per share. The Board has recommended a final dividend of HK$0.572 per share. Together with the interim dividend of HK$0.400 per share, this will mean a total dividend of HK$0.972 per share, representing an increase of 13.7% year-on-year. The Group's total dividend payout as a percentage of profit attributable to shareholders will be 63.5%.

The Group's total assets grew 37.0% to HK$1,661 billion, driven by core growth and rapid expansion of local RMB business in Hong Kong. Our customer deposits grew strongly, especially in RMB deposits. We continued to deliver satisfactory loan growth and manage our treasury investments proactively.

For BOCHK's performance in 2010, there were three key areas that I would like to highlight:

First, it was the effective execution of our balanced growth strategy. Notwithstanding the improvements in the economic environment, we continued to face operating challenges, especially in the competitive landscape, while interest rates stayed low. Against this backdrop, we focused on executing our proactive business strategy to balance growth, return and risks. We have remained financially sound and recorded solid growth in our core businesses. As at end 2010, our loan book grew by 19.1% with improved pricing of corporate loans. To support the growth of our business, we adopted a proactive deposit strategy. Our deposits grew 21.6%. Loan-to-deposit ratio was at 59.69% compared to 60.98% as at end 2009. Overall loan quality remained solid with classified or impaired loan ratio further improving to 0.14% from 0.34% at end 2009.

Second, we adopted a proactive approach in managing our capital and liquidity. We firmly believe that a strong capital and liquidity position is key to support business growth and to ensure our competitiveness. As at end 2010, we remained well-capitalised with consolidated capital adequacy ratio standing comfortably at 16.14% and core capital ratio at 11.29%. Our liquidity position remained sound at 38.77%. During the year, taking advantage of an improving market, we took further steps to manage our capital. We successfully completed our maiden issue of subordinated notes amounting to US$2.5 billion to global investors. The offering was very well received and underlined the market's recognition of BOCHK's strength and franchise. Our bond issue received The Asset's Triple A Best Bank Capital Bond Award. In 2010, we also implemented the internal rating systems. This will allow BOCHK to migrate to the foundation internal ratings-based ("FIRB") approach under the Basel II capital adequacy framework to quantify our credit risk in 2011. The migration to FIRB will form an important foundation for the Group's credit business and risk management. It will help ensure more efficient capital management to better position the Group for quality growth opportunities and to meet the upcoming regulatory requirements under Basel III.

Third, our efforts to solidify our leadership in the offshore RMB business delivered encouraging results. 2010 was a year which saw accelerated pace in the expansion of the offshore RMB market. RMB business is an important strategic focus of the Group and we continued to strengthen our business platform and customer relationship to capture these rising opportunities. During the year, the RMB trade settlement scheme was substantially expanded in terms of geographical coverage, both in the Mainland and globally, and the number of Mainland pilot enterprises has also increased significantly. The use of RMB in foreign direct investments into the Mainland is also allowed, subject to regulatory approval on a case-by-case basis. In addition, the scope of RMB bond issuance was extended beyond financial institutions to all corporates. In January 2011, the People's Bank of China announced the pilot scheme for the settlement of overseas direct investments in RMB, further enhancing the use of RMB globally. Capitalising on our competitive edges, we maintained leading market positions in our core RMB businesses. During the period, our RMB deposits registered robust growth, which forms an important foundation for the Group's RMB business development going forward. The volume of RMB trade settlement and exchange transactions recorded encouraging growth. We also continued to actively develop a wide spectrum of RMB products and services, including trade products, credit cards and insurance products. We also actively participated in the underwriting and distribution of the RMB bonds issued in Hong Kong. BOCHK was also appointed by the People's Bank of China as the Clearing Bank of RMB banknotes business for Taiwan. Furthermore, we continued to work closely with BOC, our parent bank, to enhance the Group's overall RMB service capability and to consolidate the Group's leading position.

Over the past years, we have worked tirelessly to strengthen our platform for the Group's long-term sustainable growth. We took significant steps to develop new business capabilities and invest in key strategic business areas. We also focused on proactively and prudently managing our capital, liquidity and risks to ensure that the Group is strongly positioned for emerging growth opportunities. And we strengthened our collaboration with BOC, our parent bank, which created more new business opportunities. These closer collaborations enabled us to optimise our customer portfolio and to extend BOCHK's presence outside Hong Kong. The overall operating landscape has changed substantially since the financial turmoil in 2008. Nonetheless, I am pleased that BOCHK has emerged stronger than ever, which reaffirmed that our determined efforts and judicious investments are paying off. These results also reflected the dedication and diligence of our management and staff. I would like to thank them for their contributions. At the same time, I also wish to thank our customers for their continuous support and the Board for their wisdom and counsel.

Embedded in our core business strategy is our commitment to sustainability. In January 2010, with the approval of the Board, the Group formulated its "Corporate Social Responsibility Policy" ("CSR"). Our CSR programmes are focused on promoting sustainable development of the economy, society and environment in every facet of our business. This is crucial to enhancing our long-term competitiveness, and will allow us to strengthen our relationship with shareholders, employees, customers, business partners, the government and the community.

With regard to 2011, we are encouraged by the continuing recovery of the global economy. However, we will stay alert to the uncertainties arising from the mounting inflationary pressures, especially in emerging markets, which may cause possible headwinds across the path to recovery. On the back of coordinated government measures, the debt crisis in Europe is expected to be well contained but there are good reasons for caution as the recovery is still fragile. As for the Chinese economy, it has been maintaining respectable growth, which in turn provides solid support to the Hong Kong economy given the ongoing integration of the two economies. In addition, it is expected that the offshore RMB market will continue to expand in an incremental and orderly manner and present significant business opportunities for the banking sector and the Group in the longer term. The Group will continue to strengthen its business platform and to pursue its proactive strategy to capture these opportunities.

With effect from 1 April 2011, Mr. Lam Yim Nam, the Group's Deputy Chief Executive, who is in charge of the Personal Banking and Product Management, Channel Management and BOC Credit Card (International) Limited, will retire after over 30 years with the Group. Mr. Yeung Jason Chi Wai, who is currently the Board Secretary and Company Secretary of the Company and the Bank, will be appointed as the Deputy Chief Executive of the Group to succeed Mr. Lam's role. Mr. Chan Chun Ying will take over Mr. Yeung's position as the Board Secretary and Company Secretary of the Company and the Bank. On behalf of the Board, I would like to take this opportunity to thank Mr. Lam for his valuable contributions to the Group and wish him a happy retirement. The Board welcomes Mr. Yeung and Mr. Chan to their new positions.

Lastly, I would like to thank our shareholders for their support and trust. My colleagues and I are committed to striving for continual improvement and creating value for our shareholders. We are proud of our franchise and have a strong capital position, which, together with our clear strategy and determination, will put us in a unique position to lead the way forward for the Group's sustainable growth in the long term.

XIAO Gang
Chairman

24 March 2011

CHIEF EXECUTIVE'S REPORT

In the year of 2010, the Group witnessed solid growth and development. Our business performed strongly with a broadly-based advancement in our financial results. We achieved record highs in our net operating income before impairment allowances, profit attributable to shareholders, earnings per share and annual dividend per share since our listing. After steady growth in the first half of the year, we benefitted from even greater growth momentum in our core businesses in the second half.

The Group's outstanding results in the past year were attributable to both external and internal factors. The overall operating environment continued to improve. Although the recovery of most Western economies was far from smooth, many Asian countries, in particular China, demonstrated strong growth, thus giving rise to more business opportunities for banks. Hong Kong also posted high GDP growth, led by robust private consumption, investments in business and property, inbound tourism as well as the export of goods and services. In addition, the further opening of the RMB banking business has created a new horizon of development opportunities for the banking industry. For the Group, by capitalising on our intrinsic strengths and competitive edge, we succeeded in expanding our core businesses, capturing new market opportunities, and penetrating various newly-developed business arenas with major breakthroughs. While exploiting growth opportunities, we also rose to meet various challenges and risks, including volatilities in the global financial market, persistently low interest rates, intensifying competition and escalating costs.

More importantly, being a forward-looking banking group aimed at delivering sustainable results, we focus not just on immediate prospects but possible scenarios in the longer term as well. Our strategy is to stay ahead of changes in market conditions, be they positive or negative, and take proactive measures on a timely basis. This has proven successful with the decisive initiatives we took in 2009 to seize the then emerging opportunities and to drive growth when the overall atmosphere was still pessimistic. Now again when the economy had staged a full recovery and market demand was unusually strong last year, we persisted in implementing a proactive yet prudent policy in managing business growth to ensure that: (a) our wide range of business streams would grow in a balanced manner; (b) profit growth would be sustainable over a longer period; (c) all the major risks would be taken into full account and properly contained in accordance with our stringent risk management principles; and (d) our capital base and liquidity position would be strong enough to support our growth and fend off any possible changes in our way ahead. Our foremost objective is to strike a balance among growth, return and risks.

The Group's performance last year can be taken as an accurate reflection of a company with visionary business philosophy.

Major Initiatives

- With proactive management, we continued to grow our lending business against the backdrop of exceptionally high loan demand in the market last year. It should be noted that we put more emphasis on the quality of growth and therefore adhered to prudent credit policy. We adjusted our lending strategy that aimed not merely at quantitative increase but higher yield and credit quality as well. Despite keen competition in the market, we enlarged our deposit base. Our loan-to-deposit ratio was closely monitored and maintained at a healthy level.

- Amid uncertainty in the global economy and financial markets, we safeguarded the strength of our capital base and the quality of our assets with proactive financial management. We were well capitalised, which is essential for supporting long-term development as well as ensuring a stable dividend policy. The Group's asset quality was excellent with the classified or impaired loan ratio making further improvement during the year and outshining the industry as a whole.

- We posted across-the-board growth in our core businesses. Corporate lending, including trade finance, grew by a substantial percentage. We remained the leader in loan syndication in the Hong Kong-Macau market. We also maintained our strong market position in residential property mortgage. Meanwhile, our credit card business saw impressive growth. As a result, there were marked increases in the Group's net interest income as well as net fee and commission income from traditional banking business.

- We solidified our market lead and achieved major milestones in RMB banking business. There was conspicuous growth in a wide spectrum of RMB business particularly in the second half of 2010. We pioneered a number of new RMB services in trade settlement, treasury and insurance products. We underwrote and distributed the majority of RMB bonds issued in Hong Kong, and took the lead in the distribution of RMB funds. The development of RMB-HKD dual currency credit cards went from strength to strength. We were also appointed by the People's Bank of China as the clearing bank for RMB banknotes business for the Taiwan region.

- By enhancing the business platforms for our newly developed business arenas, we made notable headway in broadening our income and profit base. Through closer collaboration with our parent, BOC, we have been able to offer a more comprehensive range of services. We have strengthened the linkage of our cash management platform with that of BOC and its overseas branches. Our custody services were extended to QDIIs in China. We also enlarged our range of wealth management solutions for both corporate and individual customers in the Mainland. Last but not least, we substantially enriched the scope of our life insurance business, boosted our market share and have become one of the top-ranked life insurers in Hong Kong.

Key Financial Results

In 2010, profit attributable to the Company's shareholders increased by 16.3% to HK$16,196 million, which was driven by a broad-based growth in income and profit among our core businesses. The Group's net operating income before impairment allowance was HK$27,508 million, up 5.6% year-on-year. Operating profit before impairment allowances was HK$17,924 million, up by a remarkable 28.8%. On a half-yearly basis, the above three items increased by 25.3%, 19.3% and 23.9% respectively, demonstrating an accelerating growth momentum in the second half of the year.

Return on average total assets (ROA) and return on average capital and reserves attributable to the equity holders of the Company (ROE) were 1.21% and 14.77% respectively, versus 1.21% and 14.83% for 2009.

Net interest income (NII) increased by 4.5% to HK$18,734 million with the growth in average interest-earning assets, which was up by 18.6% and reached HK$1,255,879 million by 31 December 2010. Owing to the low interest rates in the market throughout the year, the net interest margin (NIM) narrowed by 20 basis points to 1.49%. Despite the diluting effect of the local RMB business on our NIM, the growth of RMB business did make a positive contribution to our interest income. It should be noted that the growth in NII was also a reflection of our efforts in improving the pricing of new corporate loans.

Net fee and commission income grew by 8.2% to HK$7,044 million. Bills commission income rose by 19.8% while fee income from our credit card business increased by an even more impressive 32.6%. Fee income from currency exchange and payment services intensified by 55.9% and 14.7% respectively while commission income from loans and trust services also saw satisfactory growth.

The Group recorded a net trading gain of HK$1,369 million, down 7.8% year-on-year. The decrease was due to the foreign exchange (FX) loss on FX swap contracts, which were used for the Group's liquidity and funding activities.

As regards expenditure, we continued to exercise a high degree of prudence in cost management while driving business growth and equipping ourselves for future development. Total operating expenses amounted to HK$9,584 million, down 21.1% from 2009 when a major part of the Lehman Brothers-related expenses were incurred. The Group's cost-to-income ratio for 2010 was 34.84%, being one of the best in the industry.

CHIEF EXECUTIVE'S REPORT

Balance sheet growth was strong with total assets increasing by 37.0% over the prior year to HK$1,661,040 million by the end of 2010. This considerable rise was due mainly to the development of the Group's core banking business and the expansion of RMB business in our capacity as both a participating bank and the sole RMB clearing bank in Hong Kong. Under rigorous risk management, the quality of our assets remained excellent. The classified or impaired loan ratio was down 20 basis points to 0.14%, which was far below the industry average.

Last year we maintained the strong growth momentum of our lending business. After registering a double-digit increase in 2009 when the market as a whole was mute, total loans and advances to customers grew by 19.1% to HK$613,219 million as at the end of 2010. Of this, trade finance rose by 82.1%, loans for use in Hong Kong by 9.9% whereas loans for use outside Hong Kong were up 29.4%.

We succeeded in enlarging our deposit base to support business growth, in particular lending. In 2010, deposits from customers increased by 21.6% to HK$1,027,267 million. Our RMB deposit base grew tremendously by 304.0%. Loan-to-deposit ratio was kept at 59.69%, down 1.29 percentage points from a year ago.

The Group's capital and liquidity positions remained strong. By issuing USD subordinated notes in 2010 to pay off outstanding USD credit facilities provided by BOC, we broadened the Group's investor base and improved the costs of funding. Consolidated capital adequacy ratio (CAR) as at the end of 2010 was 16.14%, versus 16.85% a year ago. Tier 1 CAR was 11.29%. The average liquidity ratio stayed at a healthy level of 38.77%.

Business Review

Personal Banking

Last year, we focused our Personal Banking business on reinforcing our leading market positions in core businesses, expanding our high-potential customer base for long-term growth, collaborating with BOC to develop cross-border services and optimising our distribution channels.

Total operating income increased by 4.6% to HK$11,141 million. Net interest income was up 3.3% due to the growth in average loans and deposits. Other operating income grew by an even stronger 6.2% to HK$5,156 million, led by the solid growth of fee and commission from the distribution of funds as well as life insurance. Fee income from loans, payment services and credit cards also increased. Profit before tax was HK$4,656 million, up 3.4%.

We effectively expanded our high-potential customer base by broadening the range of products and services, and taking various initiatives for service enhancement, customer relationship building and promotion. As a result, we grew our wealth management customer base and their assets maintained with the Group by 15.9% and 14.3% respectively during the year.

The revival of the local residential property market gave rise to new demand from customers. By offering tailor-made mortgage plans for different customer segments, we reinforced our position in the residential property mortgage market and grew our mortgage loans by 15.9%. As a demonstration of the high credit quality of residential mortgages, the delinquency and rescheduled loan ratio stood at a low 0.02% by the end of the year.

On the back of a reviving economy, our credit card business registered remarkable growth in 2010. Card issuance, cardholder spending and merchant acquiring volume jumped by 17.5%, 22.7% and 41.0% respectively. With service enhancement, we maintained our market lead in the China UnionPay merchant acquiring business and cardholder spending volume, which surged by 57.3% and 115.5% respectively. Credit card advances rose by 12.0% while the credit quality of card advances stayed sound with the annualised charge-off ratio standing at 1.36%.

Total stock brokerage fee income declined by 9.9%, which occurred mainly in the first half of 2010, followed by a strong rebound of 17.7% in the second half. To pave the way for long-term growth, we continued to expand our stock trading customer base through various service enhancement initiatives. Encouraging growth was recorded in the distribution of funds last year with commission income derived from that soaring by 64.9%.

We made tangible progress in reinforcing our market lead in the RMB banking business by offering a more comprehensive range of RMB products covering deposits, credit cards, bonds, funds and insurance. We successfully grew our RMB deposits and maintained our leading position in the RMB credit card business. We introduced RMB-denominated life insurance product in Hong Kong that could be settled in RMB. Our RMB bond brokerage and fund distribution businesses prospered, coupled with the distribution of the initial RMB-denominated funds in Hong Kong.

During the year, we continued to upgrade and optimise our distribution channels. In particular, we strengthened our e-platform by launching the "Mobile Banking" service, which enables customers to manage their finance and investment using their mobile phones. Our e-banking platform was further enhanced for customers' convenience.

Corporate Banking

Our strategic focus for corporate banking in 2010 was to attain quality growth by leveraging our competitive advantages and expanding our cross-border services for the Mainland's large corporate entities undertaking global expansion. We also strived to offer a more comprehensive range of services, including RMB-related services, to customers on both sides of the border.

Impressive financial results were posted last year. Total operating income rose by 14.3% to HK$9,360 million while profit before taxation grew by an even stronger 17.7% to HK$6,961 million. Net interest income increased by 20.6% due to the healthy growth in loans and advances.

To capture the strong demand for cross-border loans and financial services in Hong Kong, we took full advantage of our unique market position and offered customised services and total solutions to our core corporate clients. Benefitting from the implementation of the Global Relationship Manager Programme and the Global Credit Facilities Agreement with BOC, we strengthened our relationship with large corporate customers in the Mainland. As a result, we grew our corporate loans by 20.6%. At the same time, we maintained our position as the top mandated arranger in the Hong Kong-Macau syndicated loan market, and expanded our IPO financing business by providing financing services to corporate and individual customers in connection with 32 IPOs in Hong Kong.

We registered a very robust growth of 82.1% in our trade finance last year. The thriving global trade as well as our enhanced relationship with corporate clients and strenuous effort in innovating cross-border trade finance products together accounted for our blooming business.

In RMB banking, we pioneered the granting of RMB invoice finance for both exports and imports, RMB working capital loans and RMB remittance service for dividend payout. We were appointed by the Hong Kong Securities Clearing Company Limited as the RMB agent bank for conducting RMB money settlement.

During the year, we continued to develop our SME business by means of service enhancement, including the cross-border usage of credit facility, and by actively assisting enterprises to secure loans under the HKSAR Government's SME Loan Guarantee Scheme and Special Loan Guarantee Scheme.

By enriching our product and service range, we made considerable progress in expanding our cash management business. We continued to strengthen the linkage of our cash management service platform with those of BOC and its overseas branches. With the extension of our network of remittance points to about 4,000 in the Mainland and Macau, we expanded the number of remittance transactions by 13.9%.

Meanwhile, our presence in the custody market was further reinforced. Working closely with BOC, we succeeded in enlarging our institutional client base and securing mandates to provide global custody services to QDIIs, including major banks, fund houses and securities companies in the Mainland. Total assets in our custody increased by 17.5% year-on-year to HK$460.1 billion.

Treasury

Treasury's main focus in 2010 was to proactively manage the Group's banking book and optimise the investment portfolio to guard against risk while maximising return. We adopted a more dynamic yet prudent approach in asset and liability management.

Operating income dropped by 7.2% to HK$5,941 million due mainly to the 13.2% reduction in net interest income caused by the decline in the net yield of debt securities. However, there was a strong increase of 25.7% in other operating income, driven largely by the rise in net trading gain from foreign exchange activities and net gain from the disposal of investment securities. Profit before taxation declined by 21.6% to HK$5,463 million. This was mainly the result of a drastic reduction of 76.4% in net release of impairment allowances versus 2009 when we actively de-risked our investment portfolio.

With regard to changes in the market, we adjusted our investment strategy from time to time. Investments were made in high-quality fixed-rate government-related bonds, financial institution and corporate bonds with robust fundamentals. To better manage interest rate risks and liquidity, attention was also paid to control the duration of our investment portfolio.

CHIEF EXECUTIVE'S REPORT

Last year our exposure to US non-agency RMBS was further reduced to HK$1.2 billion, versus HK$3.8 billion as at the end of 2009. The Group also reduced its exposure to European countries affected by the sovereign debt crisis, with exposure to debt securities issued by financial institutions in Ireland and Italy down from HK$3,217 million to HK$1,238 million.

Our traditional businesses related to foreign exchange and precious metals showed satisfactory growth. We provided offshore customers with hedging products linked to foreign exchange and interest rates to meet their needs. The trading volume of RMB-foreign exchange derivatives and interest rate swaps increased. BOCHK also introduced the first offshore RMB deliverable forwards in Hong Kong.

In October 2010, we formed a new wholly-owned subsidiary named BOCHK Asset Management Limited (AML) to tailor investment solutions for customers and enhance the Group's retail sales capability. On 31 December 2010, AML published the "BOCHK Offshore RMB Bond Index" – the first of its kind in Hong Kong.

Insurance

Strong growth was recorded in income and profit by our insurance segment in 2010. Profit before taxation soared by 71.2% to HK$505 million. Net operating income grew by 63.7% to HK$771 million, of which net interest income was up 17.3% and other operating income up 12.1%. With the improvement in our insurance product mix, gross regular premium income surged by a hefty 184.1%.

In 2010 we focused primarily on enhancing our service platform and product offerings to grow our income base and market share. We also strived to reinforce BOC Life's corporate image through marketing and promotion. A more comprehensive range of products was rolled out to cater to the market's diverse needs, including a series of RMB-denominated life insurance products, which received enthusiastic response from the market. Through product innovation, multi-channel distribution and diversified marketing, we effectively boosted our market share and raised our market ranking from No. 4 in 2009 to No.2 in 2010.

Mainland Business

The main emphasis of our Mainland business was to secure steady growth in the balance sheet. Deposits surged by 133.1% while advances to customers increased by 26.2%. As a result, there was a huge improvement in our loan-to-deposit ratio. Asset quality further improved with the classified loan ratio dropping to 0.23%.

Total operating income grew by 10.1%. We made much progress in enhancing our product service platform in the Mainland market. Our wealth management product offerings were enriched and well-received by customers. By partnering with a number of insurers, we provided a wider range of insurance products to both individual and corporate customers. NCB (China) stepped up its collaboration with BOC and the Group to offer more comprehensive financial services, including cross-border RMB trade settlement, and expanded its customer base with cross-border banking needs.

NCB (China)'s branch network in the Mainland was further expanded to comprise a total of 25 branches and sub-branches.

Outlook

Looking ahead, we expect economic growth in Hong Kong would continue to be fueled by consumption, investments, exports and the positive effects of the rapidly growing Mainland and Asian economies. We believe that under the Mainland's Twelfth Five-Year Plan, the Chinese economy will grow in a more balanced fashion, thus creating more healthy demand for credit and wealth management services. Having said that, we are fully aware of the challenges and risks in the economic environment. There is mounting uncertainty in the Middle East and North African region. The aftermath of the earthquake in Japan needs to be closely monitored. The global financial market is still subject to volatility. Meanwhile, low interest rates may continue to constrain interest spreads and escalating inflationary pressure has the most immediate impact on higher operating costs.

Taking into full account both the internal and external circumstances, we will continue to adopt a proactive management strategy to drive balanced and quality growth in

2011. We will leverage our strong foundations and capabilities to reinforce our leading positions in core businesses while focusing on the development of the offshore RMB banking business.

RMB banking business is one of our strategic priorities in the current year and beyond. We will reinforce our market lead and expand our RMB services. At the same time, we will leverage our competitive edge in the RMB business to enlarge our customer base and enhance our penetration of the market. To coincide with the development of the Mainland's RMB policies, we will develop integrated products and provide total solutions to our corporate and individual customers. Now that RMB has become a currency more widely used in the region and beyond, we have entered a new era and are taking a more global perspective in developing our RMB business. In this respect, we will collaborate more closely with our parent BOC and its overseas branches to expand our services and extend our reach.

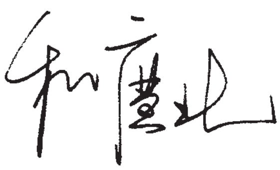
We will continue to grow our core businesses, including wealth management, corporate finance, loan syndication, residential mortgage, life insurance and credit cards. As the economy continues to revive, the demand among both individual and corporate customers for banking services and products will increase correspondingly. Capitalising on our capabilities of product innovation and service reinforcement, coupled with channel optimisation, we will enhance our service and product offerings to better serve the diverse needs of customers through an integrated service platform. As part of our continuous efforts to strengthen our customer segmentation and to tap the potential growing populations of our targeted segment, we extend our customer base to acquire high net-worth clients, including those from the Mainland that need wealth management and cross-border financial services.

With interest rates remaining compressed, we will take further proactive measures to improve our net interest margin and net interest income. More effort will be put into controlling the cost of funds and increasing return on assets, including loans and investments. In pursuit of sustainable and quality growth, we will continue to take a balanced approach in our lending business in the aim for higher risk-adjusted return.

In anticipation of mounting inflationary pressure, we will need to take an even more prudent approach in managing our costs. While driving business growth, we will continue to exercise stringent risk management and internal control, maintaining our capital strength and liquidity position. The introduction of FIRB this year will help us reinforce our capital management. To support our long-term growth and development amid fierce market competition, we will ensure sufficient investment in human resources, information technology and channels enhancement.

Last but not least, we remain committed to corporate social responsibility and will continue to play an active role in contributing to the well-being of society (for details of our efforts in this aspect, please refer to the "Corporate Social Responsibility" of the Annual Report).

2010 was a rewarding year and I wish to extend my gratitude to the Board of Directors, shareholders and customers for their guidance, trust and support. I have deep respect for all my colleagues who have given their best so that together we can deliver good results year after year. I thank each and every one of them. I firmly believe that we can continue to count on them for delivering value and performance for our shareholders, customers and the community in 2011.



HE Guangbei
Vice Chairman & Chief Executive

Hong Kong, 24 March 2011

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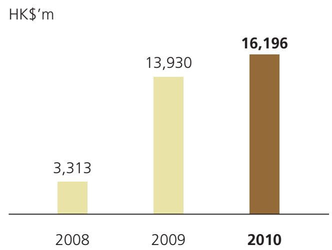
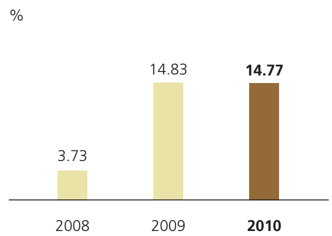
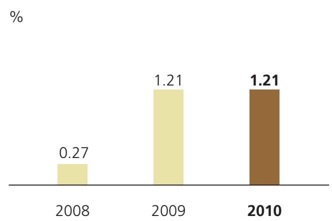
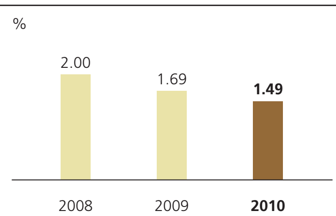
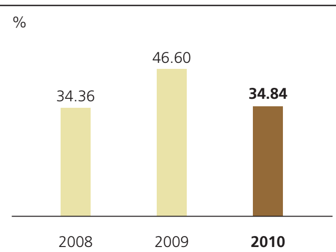
MANAGEMENT'S DISCUSSION & ANALYSIS

The following sections provide metrics and analytics of the Group's performance, financial position, and risk management in the year 2010. These should be read in conjunction with the financial statements included in this Annual Report.

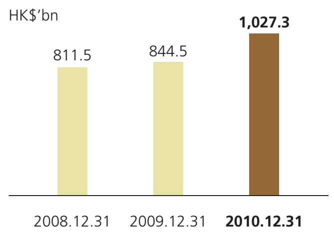
FINANCIAL PERFORMANCE AND CONDITION IN BRIEF

The following table is a summary of the Group's key financial results for the year 2010 with a comparison with the previous two financial periods.

Financial Indicators		2010 Performance
1. Profit Attributable to Shareholders		**Profit attributable to shareholders** • Profit attributable to shareholders was HK$16,196 million, up HK$2,266 million or 16.3% year-on-year and a record high since listing.
2. Return on Average Capital and Reserves Attributable to the Equity Holders of the Company ("ROE")[1]		**ROE** • ROE was 14.77%, down 0.06 percentage point as the increase in equity outpaced that of the profit. Higher equity was mainly caused by additions of retained earnings, premises revaluation reserve and reserve for fair value changes of available-for-sale securities.
3. Return on Average Total Assets ("ROA")[2]		**ROA** • ROA stayed at 1.21%. While the Group's profit rose by 17.1%, its average asset base also increased with the growth of advances to customers, securities investments and the RMB business.
4. Net Interest Margin ("NIM")		**NIM** • NIM was 1.49%, down 20 basis points year-on-year because of low market interest rates, the increase in HIBOR-based loans and the diluting effect of the local RMB business in Hong Kong. • Net interest income grew by HK$802 million or 4.5%.
5. Cost-to-Income Ratio ("CIR")		**CIR** • CIR was 34.84%, down 11.76 percentage points. Operating expenses dropped by 21.1%, largely due to the significant decline in expenses incurred for Lehman Brothers-related products. Operating income increased by 5.6%.

Financial Indicators		2010 Performance

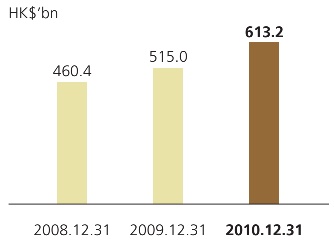
6. Deposits from Customers (including structured deposits)



Deposits from Customers

- Total deposits increased by 21.6% to HK$1,027.3 billion. The Group adopted proactive deposit strategy to support business growth. RMB deposits also grew strongly.

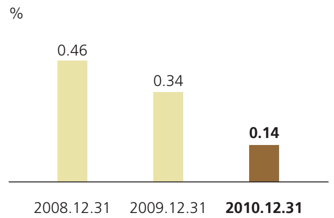
7. Advances to Customers



Advances to Customers

- The Group's advances to customers increased by 19.1% to HK$613.2 billion, which was underpinned by the growth of all major loan segments.

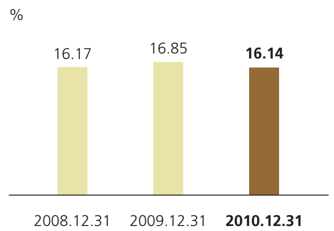
8. Classified or Impaired Loan Ratio[3]



Classified or Impaired Loan Ratio

- Classified or impaired loan ratio was 0.14%, down from 0.34% at the end of 2009.
- Formation of new classified loans remained at a low level, representing approximately 0.1% of total loans.

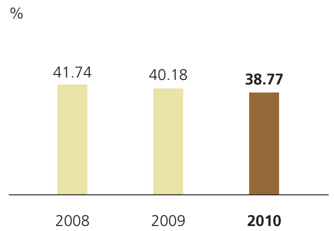
9. Capital Adequacy Ratio ("CAR")



CAR

- CAR was at a solid level of 16.14% at the end of 2010.
- Core capital ratio stood at 11.29%.

10. Average Liquidity Ratio



Average Liquidity Ratio

- Average liquidity ratio remained healthy at 38.77% in 2010.

1 Return on Average Capital and Reserves Attributable to the Equity Holders of the Company as defined in "Financial Highlights".

2 Return on Average Total Assets as defined in "Financial Highlights".

3 Classified or impaired loans represent advances which have been classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.

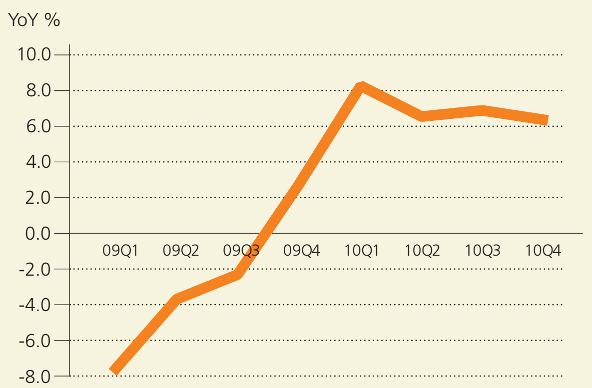
MANAGEMENT'S DISCUSSION & ANALYSIS

ECONOMIC BACKGROUND & OPERATING ENVIRONMENT

The global economy continued to recover in 2010. The pace of recovery was particularly strong in Asia. However, growth in certain major economies decelerated. As the impact of the first round of quantitative easing measures (QE I) waned, economic growth in the US slowed down and unemployment rose again after the first quarter. The US Federal Reserve launched the second round of quantitative easing measures (QE II) in November 2010 in an attempt to boost the economy and employment, and bring inflation up to normal levels.

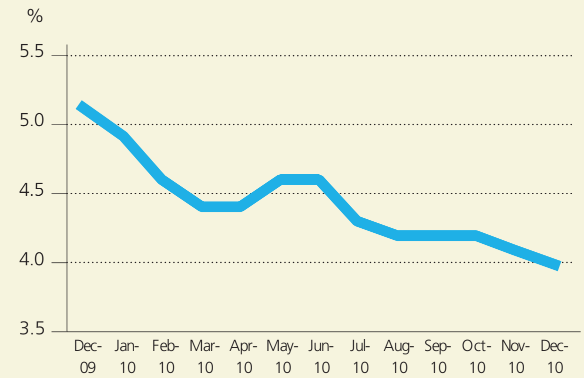
GDP growth in the Mainland China reached 10.3% in 2010. The Consumer Price Index ("CPI") in the Mainland rose by 3.3%, caused mainly by surging food prices. To curb the inflationary pressure, the Mainland raised interest rates and the reserve requirement ratio several times.

Hong Kong Real GDP



Source: Bloomberg

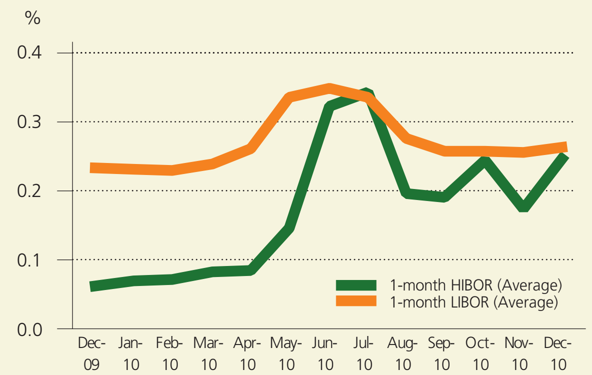
Hong Kong Unemployment Rate



Source: Bloomberg

After resuming growth in the fourth quarter of 2009, the Hong Kong economy sustained its growth momentum in 2010. GDP grew by 6.8%, supported by the rise in private consumption and the revival of world trade. Domestic demand picked up, with both consumption and fixed investment growing at a pace. At the same time, net exports also made significant contribution to the GDP growth. The unemployment rate dropped to 4.0% in the last quarter of the year. Inflationary pressure in Hong Kong was mounting amid rising food prices and rent, with the Composite CPI rising by 3.1% year-on-year in December 2010.

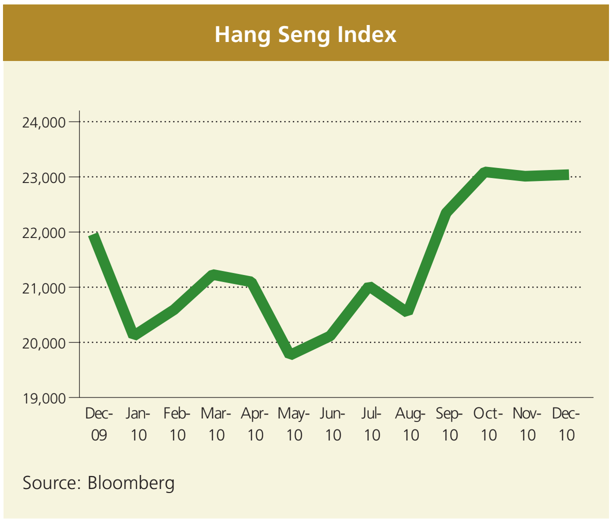
HIBOR and LIBOR



Source: Bloomberg

The US Federal Reserve maintained its target interest rate at close to zero during the year. The QE II as well as the fiscal and monetary policies adopted by central governments around the world also led to ample liquidity in the market. Despite some slight increases, market interest rates remained at a very low level throughout the year. Average 1-month HIBOR and LIBOR increased from 0.06% and 0.23% respectively in December 2009 to 0.24% and 0.26% respectively in December 2010.

MANAGEMENT'S DISCUSSION & ANALYSIS



Investors in the Hong Kong stock market turned cautious in the first half of 2010 in view of the worsening of the European debt crisis and the tightening of the Mainland's fiscal policy. In the second half, stock transactions increased with the soaring of the Mainland stock market and the release of QE II in the US. The Hang Seng Index reached 24,964 points in November, the highest since June 2008, and closed at 23,035 points at the end of 2010.

The local residential property market remained buoyant in 2010, with both the property prices and transaction volume continuing to mount. The surge in the property market prompted the government to launch several measures, including additional stamp duty and the further tightening of mortgage criteria to curb speculation. The number of sales and purchase agreements of all building units registered a 21.5% increase versus 2009, while the average price of private domestic properties showed an increase of 20.1% since of the end of 2009. Meanwhile, HIBOR-based mortgage became the norm in the market as dictated by customers' preference.

During the year, Hong Kong achieved several major breakthroughs in the RMB banking business. On 11 February 2010, the Hong Kong Monetary Authority announced the "Elucidation of Supervisory Principles and Operational Arrangements Regarding Renminbi Business in Hong Kong" ("Elucidation"), to facilitate the development of diversified RMB-denominated financial services. On 19 July 2010, the People's Bank of China ("PBOC") and BOCHK signed the revised "Settlement Agreement on the Clearing of Renminbi Businesses" ("Settlement Agreement"), which expanded the scope of offshore RMB banking business and enhanced the flexibility for Hong Kong and overseas banks to conduct such business. Both the Elucidation and the revised Settlement Agreement led to greater flexibility and offered more favourable development prospects for the RMB business. New RMB products were subsequently launched by banks and insurance companies.

As interest rates remained low and competition for both loans and deposits intensified, banks in Hong Kong continued to face a narrowing net interest margin. Greater inflationary pressure on operating costs was also affecting banks' profitability. Nevertheless, as the economy further recovered, coupled with keen demand from the Mainland, loan growth in Hong Kong was made possible. The rebound of the stock market in the second half of the year also gave rise to opportunities for banks to increase non-interest income. As asset quality improved with the economic recovery, there was less need for provisioning.

Outlook for 2011

The Group takes a cautiously optimistic view on Hong Kong's economic outlook in 2011. The Hong Kong economy recorded steady growth in 2010 with the gradual stabilisation of the global economy and financial markets. While there are potential challenges and uncertainties, including mounting inflationary pressure in emerging markets, political unrest in certain countries and fluctuations in fund flow, the Group believes that the trend of global economic recovery would continue and enable Hong Kong economy to sustain decent growth in 2011.

Given the accommodative policies adopted by central governments and the quantitative easing measures by the US and other economies, Hong Kong's banking sector encountered ample liquidity. Market interest rates are expected to remain low for some time. Intense competition on pricing will also exert pressure on banks' net interest margin.

MANAGEMENT'S DISCUSSION & ANALYSIS

While the market's general concern for the European sovereign debt issue has not dissipated, political unrest in Middle East and North Africa has fueled the rise in oil price and market volatility. The potential impact on Hong Kong's banking sector and the financial markets in case of any sovereign default cannot be ignored.

With increasing cross-border economic activities, Hong Kong's economy is increasingly linked with the Mainland. In view of mounting inflationary pressure, the PBOC had raised interest rates and the reserve requirement ratio several times in 2010. It is possible that the Central Government may introduce more controlling policies, which could create uncertainties in Hong Kong's operating environment.

Apart from market risks, banks might also face more stringent regulatory requirements on product sales and customer service, liquidity management and capital management.

Looking forward, the Group believes that the Mainland's robust economic growth will continue to support Hong Kong's long-term economic development. The expansion of the offshore RMB business and the increasing use of RMB in the global economy will also facilitate the growth of RMB banking business in Hong Kong. In addition, China's twelfth five-year plan, which focuses on accelerating the transformation of its economic development pattern, may create new business opportunities for banks in Hong Kong.

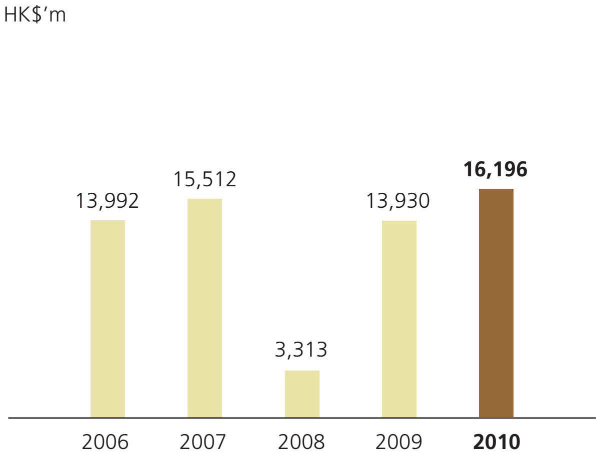
The Group's 2011 business focuses are set out in the Business Review section.

CONSOLIDATED FINANCIAL REVIEW

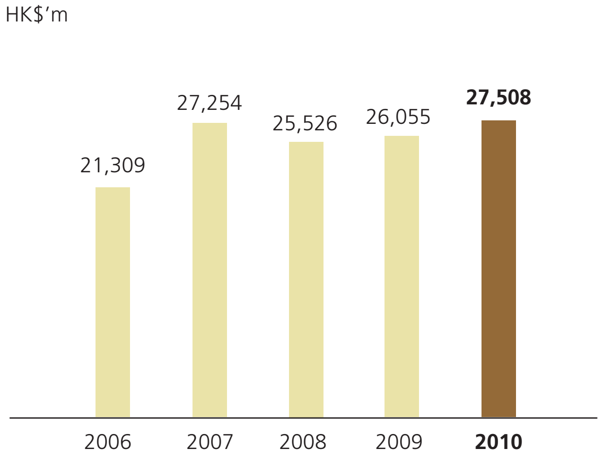
Financial Performance

In spite of the still challenging operating environment, the Group achieved encouraging results in both its financial performance and business development in 2010. By seizing opportunities arising from the reviving economy and capitalising on its core competencies, both the Group's net operating income before impairment allowances and profit attributable to shareholders reached record highs in 2010. The Group expanded its traditional businesses proactively and took key steps in growing its RMB business. As a result, the Group's asset base and RMB business in Hong Kong recorded satisfactory growth. Meanwhile, the Group continued to exercise rigorous risk management in view of the economic uncertainties arising from the debt crisis in Europe as well as the risks of overheating in the property market. The capital adequacy ratio of the banking group remained at a solid level.

Profit attributable to shareholders



Net operating income before impairment allowances



The Group's profit attributable to shareholders increased by HK$2,266 million, or 16.3%, to HK$16,196 million. Earnings per share were HK$1.5319, up from HK$1.3175 in 2009. ROA and ROE were 1.21% and 14.77% respectively.

Factors Affecting the Group's Performance in 2010

Below are the key positive factors that contributed to the Group's 2010 financial performance:

- With an improving economic environment and increasing loan demand, the Group registered a ***broad-based loan growth*** of 19.1%. The increase in corporate loans was particularly strong. The growth in trade finance was outstanding. The Group also maintained its leadership in the local residential mortgage market and the Hong Kong-Macau syndicated loan market.
- To support the Group's asset growth and business development, the Group implemented a strategic plan to attract deposits and proactively managed its funding costs. As a result, the Group's ***deposit base increased*** by 21.6%. During the year, as part of its strategy to manage capital and funding costs, the Group issued ***subordinated notes*** to repay the US Dollar subordinated loan granted by BOC.
- The Group actively promoted its ***traditional banking businesses*** and recorded a double-digit growth in the related net fee and commission income. Satisfactory growth was recorded across all major items with higher growth in currency exchange, trade settlement and payment services.
- ***The Group made encouraging progress in its RMB business in Hong Kong***. With the further expansion of the offshore RMB market, the Group actively developed and promoted its cross-border RMB business. The Group launched a number of RMB trade settlement, treasury and insurance products, and acted as the lead manager for several RMB bonds issued in Hong Kong. The business volume of RMB cross-border settlement, exchange transactions and remittance transactions recorded satisfactory growth. The issuance of dual currency China UnionPay ("CUP") credit cards continued to rise while the Group's RMB deposits saw significant growth. The growth of RMB assets also contributed to the increase in net interest income despite the diluting effect of local RMB deposits on the Group's net interest margin.
- Contribution from the Group's ***insurance business*** increased strongly. Thanks to the successful implementation of the financial planning team and "need-based selling" approach as well as the new business opportunities in the local RMB market and the recovery of the financial markets, BOC Life recorded a substantial growth in its profit. It improved its market share and market ranking in terms of total standard new business premium. At the same time, commission income from the Group's life insurance agency business doubled year-on-year.

The Group's financial performance in 2010 was also subject to the following key negative factors:

- Exceptionally low market interest rates further compressed the Group's net interest margin.
- Despite higher demand for mortgage loans, customers would generally opt for HIBOR-based lending to take advantage of the low interbank rates, which bore a lower gross yield compared to prime-based mortgages.
- Intense market competition in loan and deposit businesses resulted in pressure on loan pricing and funding costs.
- The Group's Mainland operation also faced intense competition in the loan and deposit market. It also focused on growing deposits in order to improve the loan to deposit ratio, resulting in higher funding costs. These all weighed down the profitability of the Group's Mainland operation.

MANAGEMENT'S DISCUSSION & ANALYSIS

Financial Highlights

HK$'m, except percentage amounts	2010	(Restated) 2009
Net interest income	**18,734**	17,932
Other operating income	**8,774**	8,123
Net operating income before impairment allowances	**27,508**	26,055
Operating expenses	**(9,584)**	(12,141)
Operating profit before impairment allowances	**17,924**	13,914
Net reversal of impairment allowances	**315**	1,190
Others	**1,503**	1,620
Profit before taxation	**19,742**	16,724
Profit attributable to the equity holders of the Company	**16,196**	13,930
Earnings per share (HK$)	**1.5319**	1.3175
Return on average total assets	**1.21%**	1.21%
Return on average capital and reserves attributable to the equity holders of the Company	**14.77%**	14.83%
Net interest margin	**1.49%**	1.69%
Non-interest income ratio	**31.90%**	31.18%
Cost-to-income ratio	**34.84%**	46.60%

In 2010, the Group's net operating income before impairment allowances increased by HK$1,453 million or 5.6% year-on-year to HK$27,508 million, driven by the improvement in net interest income, net fee and commission income, income from foreign exchange activities arising from customer-related activities as well as net operating income of the Group's insurance segment. Increase in net gain on investment in securities also contributed to the growth in the Group's net operating income. There was, however, a reduction in net trading gain mainly caused by a foreign exchange loss from foreign exchange swap contracts*. Operating expenses declined by 21.1% due to the significant decline in expenses incurred for Lehman Brothers-related products. The Group recorded a modest amount of net reversal of impairment allowances on securities investments and loans.

* Foreign exchange swap contracts are usually used for the Group's liquidity management and funding activities in its daily operation.

Income growth accelerated in the second half of the year, backed by the continuous recovery of the local economy, revival of the equity market and development of the RMB business in Hong Kong. Compared to the first half of the year, the Group's net operating income before impairment allowances increased by HK$2,426 million or 19.3% in the second half. Profit attributable to shareholders rose by HK$1,816 million or 25.3%.

Analyses of the Group's financial performance and business operations are set out in the following sections.

Net Interest Income and Margin

HK$'m, except percentage amounts	2010	2009
Interest income	**23,449**	21,684
Interest expense	**(4,715)**	(3,752)
Net interest income	**18,734**	17,932
Average interest-earning assets	**1,255,879**	1,058,765
Net interest spread	**1.43%**	1.64%
Net interest margin	**1.49%**	1.69%
Adjusted net interest margin* (adjusted for clearing bank function)	**1.59%**	1.74%

* The adjusted net interest margin excludes the estimated impact of RMB clearing services performed by the Group. Since December 2003, the Bank has been appointed as the clearing bank to provide RMB clearing services in Hong Kong.

Net interest income increased by HK$802 million or 4.5%, which was primarily attributable to the growth in average interest-earning assets. Net interest margin was 1.49%, down 20 basis points year-on-year. Should the estimated impact of BOCHK's RMB clearing function in Hong Kong be excluded, the adjusted net interest margin would have been 1.59%, down 15 basis points year-on-year.

Average interest-earning assets increased by HK$197,114 million or 18.6%, mainly supported by the Group's customer deposits and the increases in RMB funds from the clearing bank business.

Average yield of interest-earning assets fell by 18 basis points while the average rate of interest-bearing liabilities increased by 3 basis points. As a result, the net interest spread decreased by 21 basis points. Contribution from net free fund increased by 1 basis point.

The decline in the average yield of interest-earning assets was primarily due to three factors. The first one was the repricing of the Group's assets, namely, debt securities investments as well as loans and advances to customers, at a lower rate under the low interest rate environment. Secondly, the proportion of loans and advances with pricing based on interbank market rates (hereafter called "market rate-based loans") became larger. The last factor was the increase in local RMB deposits (including those arising from the clearing bank business and the Group's customers), the use of which was limited at the early stage of development of the offshore RMB business.

The adverse impact from the above-mentioned factors was moderated by the Group's proactive approach in managing its assets and liabilities through an increase in higher-yielding assets such as loans and advances to customers as well as debt securities investments.

The summary below shows the average balances and average interest rates of individual categories of assets and liabilities:

ASSETS	Year ended 31 December 2010 Average balance HK$'m	Year ended 31 December 2010 Average yield %	Year ended 31 December 2009 Average balance HK$'m	Year ended 31 December 2009 Average yield %
Cash, Balances and placements with banks and other financial institutions	**276,827**	**1.07**	241,931	1.21
Debt securities investments	**393,865**	**2.24**	330,196	2.46
Loans and advances to customers	**570,697**	**2.01**	473,890	2.22
Other interest-earning assets	**14,490**	**1.37**	12,748	1.14
Total interest-earning assets	**1,255,879**	**1.87**	1,058,765	2.05
Non interest-earning assets	**126,242**	**–**	118,529	–
Total assets	**1,382,121**	**1.70**	1,177,294	1.84

LIABILITIES	Year ended 31 December 2010 Average balance HK$'m	Year ended 31 December 2010 Average rate %	Year ended 31 December 2009 Average balance HK$'m	Year ended 31 December 2009 Average rate %
Deposits and balances of banks and other financial institutions	**142,969**	**0.76**	74,734	0.70
Current, savings and fixed deposits	**859,366**	**0.34**	792,744	0.28
Certificate of deposits issued	**–**	**–**	519	4.06
Subordinated liabilities*	**27,113**	**1.88**	27,092	3.40
Other interest-bearing liabilities	**53,949**	**0.33**	29,829	0.19
Total interest-bearing liabilities	**1,083,397**	**0.44**	924,918	0.41
Non interest-bearing deposits	**67,037**	**–**	56,601	–
Shareholders' funds# and non interest-bearing liabilities	**231,687**	**–**	195,775	–
Total liabilities	**1,382,121**	**0.34**	1,177,294	0.32

* Bank of China (Hong Kong) Limited ("BOCHK"), the principal operating subsidiary of the Group, secured two subordinated loans from BOC in June and December 2008 respectively. Subsequently, BOCHK issued fixed rate subordinated notes in February and April 2010 and applied the proceeds to repay the US Dollar subordinated loan secured from BOC

\# Shareholders' funds represent capital and reserves attributable to the equity holders of the Company.

Second Half Performance

Net interest income increased by HK$806 million or 9.0% compared to the first half of 2010 primarily due to the growth in average interest-earning assets. Net interest margin was 1.42%, down 16 basis points. Should the estimated impact of BOCHK's RMB clearing function in Hong Kong be excluded, the adjusted net interest margin would have been 1.55%, down by 9 basis points as compared to the first half of 2010.

Average interest-earning assets increased by HK$225,141 million, or 19.7% compared to the first half of 2010. It was mainly supported by the Group's customer deposits and the increase in RMB funds from the clearing bank business.

The average market interest rates in the second half was slightly higher than that in the first half, with average 1-month HIBOR rate rising by 10 basis points while average 1-month LIBOR rate remained at the same level. However, the increase in deposit costs, higher proportion of market rate-based loans and growth in local RMB assets continued to put pressure on the Group's net interest margin. These negative effects were partly offset by the growth in loans and advances to customers and debt securities investments, which bore higher yield.

Net Fee and Commission Income

HK$'m	**2010**	2009
Investment and life insurance fee income	**3,736**	3,886
Credit cards	**2,003**	1,511
Loan commissions	**961**	922
Bills commissions	**751**	627
Payment services	**568**	495
Currency exchange	**332**	213
Other insurance	**323**	100
Trust services	**206**	178
Safe deposit box	**200**	191
Others	**399**	413
Fee and commission income	**9,479**	8,536
Fee and commission expenses	**(2,435)**	(2,028)
Net fee and commission income	**7,044**	6,508

Net fee and commission income increased by HK$536 million, or 8.2%, to HK$7,044 million. The increase was broad-based, of which bills commissions increased by HK$124 million or 19.8% and fee income from credit card business grew by HK$492 million or 32.6%. The growth in bills commission was in line with the robust performance of Hong Kong's external trade while the increase in fee income from credit card business was driven by the rise in cardholder spending and merchant acquiring volume by 22.7% and 41.0% respectively. Fee income from currency exchange and payment services rose by HK$119 million or 55.9% and HK$73 million or 14.7% respectively. Loan commissions and trust services also recorded satisfactory growth. Investment and life insurance fee income declined by HK$150 million or 3.9%, which is discussed in the next section "Investment and Life Insurance Business". Fee and commission expenses increased by HK$407 million or 20.1%, which was mainly due to the growth of the credit card business.

Second Half Performance

Compared to the first half of 2010, net fee and commission income increased by HK$250 million or 7.4% in the second half. Total fee and commission income rose by HK$517 million or 11.5%, mainly resulting from the increases in investment and life insurance fee income, fee income from the credit card business as well as currency exchange, but this increase was partially offset by the decrease in loan commissions. Meanwhile, fee and commission expenses were also up HK$267 million, or 24.6%, mainly because of higher expenses incurred by the credit card and stock broking businesses.

Investment and Life Insurance Business

HK$'m	**2010**	2009
Investment and life insurance fee income		
Securities brokerage		
– Stockbroking	**3,279**	3,638
– Bonds	**59**	39
Funds distribution	**160**	97
Life insurance[1]	**238**	112
	3,736	3,886
Net operating income/(loss) of BOC Life[2]		
Gross earned premiums	**8,650**	7,762
Less: gross earned premiums ceded to reinsurers	**(2,166)**	(18)
Others[3]	**2,716**	342
Less: net insurance benefits and claims	**(7,988)**	(7,286)
	1,212	800
Total income from investment and life insurance business	**4,948**	4,686
Of which:		
Life insurance fee income[1]	**238**	112
Net operating income of BOC Life[2]	**1,212**	800
Total life insurance income	**1,450**	912
Investment fee income	**3,498**	3,774
Total income from investment and life insurance business	**4,948**	4,686

1 Fee income from life insurance only includes that from the Group's insurance business partner after group consolidation elimination.
2 Before commission expenses.
3 Comprises net interest income, net trading gain/(loss), net gain/(loss) on financial instruments designated at fair value through profit or loss, net gain on investment in securities, commission income and other operating income of BOC Life.

The Group's income from the investment and life insurance business increased by HK$262 million, or 5.6%, to HK$4,948 million. The increase was mainly contributed by the growth in income from the life insurance business and fee income from fund distribution.

Fee income from funds and bonds distribution went up by HK$63 million or 64.9%, and HK$20 million or 51.3% respectively. Meanwhile, fee income from stock broking declined by HK$359 million or 9.9%, as local stock investors' sentiments were negatively affected by the European debt crisis and the tightening measures taken by the Mainland government, in particular in the first half of the year.

Net operating income from BOC Life rose by HK$412 million or 51.5%, to HK$1,212 million. It was mainly attributable to improved underwriting results, the continuous optimisation of product mix and better investment performance. Gross insurance premium income rose by 11.4% with gross regular premium increasing by 185.2% year-on-year. Net insurance benefits and claims rose by HK$702 million or 9.6%. The increase was also a reflection of the movement in policy reserves caused by the drop of long-term interest rates, which was offset by a corresponding increase in net gain on financial instruments designated at fair value through profit or loss.

Second Half Performance

Compared to the first half of 2010, income from the investment and life insurance business increased by HK$732 million or 34.7% in the second half. The growth was mainly driven by the increase in fee income from stock broking by HK$267 million or 17.7%, as the stock investors' sentiments improved in the second half of 2010. Net operating income from BOC Life increased by HK$492 million or 136.7% because of the improved underwriting results and investment performance, as well as higher interest income.

Net Trading Gain/(Loss)

HK$'m	2010	2009
Foreign exchange and foreign exchange products	**999**	1,273
Interest rate instruments and items under fair value hedge	**262**	62
Equity instruments	**(8)**	26
Commodities	**116**	124
Net trading gain	**1,369**	1,485

Net trading gain was HK$1,369 million, down HK$116 million or 7.8%, which was mainly caused by the decrease of HK$274 million or 21.5% in the net trading gain from foreign exchange and related products. The decrease was primarily caused by higher foreign exchange loss on foreign exchange swap contracts*. These foreign exchange swap contracts were used for the Group's liquidity and funding activities. Should the impact of the loss on foreign exchange swap contracts be excluded, the gain from other foreign exchange activities would have increased by HK$343 million, or 26.4%. Net trading gain from interest rate instruments and items under fair value hedge also rose by HK$200 million or 322.6% as a result of the rise in mark-to-market gain of certain interest rate instruments.

* Foreign exchange swap contracts are usually used for the Group's liquidity management and funding activities. Under the foreign exchange swap contracts, the Group exchanges one currency (original currency) for another (swapped currency) at the spot exchange rate (spot transaction) and commits to reverse the spot transaction by exchanging the same currency pair at a future maturity at a predetermined rate (forward transaction). In this way, surplus funds in original currency are swapped into another currency for liquidity and funding purposes without any foreign exchange risk. The exchange difference between the spot and forward contracts is recognised as foreign exchange gain or loss (as included in "net trading gain/(loss)"), while the corresponding interest differential between the surplus funds in original currency and swapped currency is reflected in net interest income.

Second Half Performance

Compared to the net trading loss of HK$36 million in the first half of 2010, the Group registered a net trading gain of HK$1,405 million in the second half of the year. The gain was largely contributed by the mark-to-market gain on certain interest rate instruments in the second half of the year, as opposed to a loss in the first half. Net trading gain from foreign exchange and foreign exchange products also increased by HK$299 million or 85.4%.

Net Gain/(Loss) on Financial Instruments Designated at Fair Value through Profit or Loss (FVTPL)

HK$'m	2010	2009
Banking business of the Group	**44**	261
BOC Life	**698**	(939)
Net gain/(loss) on financial instruments designated at FVTPL	**742**	(678)

Compared to the net loss of HK$678 million in 2009, the Group recorded a net gain of HK$742 million on financial instruments designated at FVTPL in 2010. This was mainly due to the mark-to-market gain on certain debt securities investments of BOC Life, which was caused by the drop in market interest rates. Meanwhile, net gain on financial instruments designated at FVTPL from the banking business dropped by HK$217 million, or 83.1%, mainly due to the decline in the mark-to-market gain on certain debt securities investments.

Second Half Performance

Net gain on financial instruments designated at FVTPL in the second half of 2010 was HK$102 million, down HK$538 million or 84.1% from the first half. This was mainly caused by the mark-to-market loss of certain debt securities investments of BOC Life caused by the increase in market interest rates.

Operating Expenses

HK$'m, except percentage amounts	2010	2009
Staff costs	**5,357**	5,091
Premises and equipment expenses (excluding depreciation)	**1,201**	1,160
Depreciation on owned fixed assets	**1,131**	1,018
Other operating expenses	**1,806**	1,594
Core operating expenses	**9,495**	8,863
Expenses incurred on Lehman Brothers-related products*	**89**	3,278
Total operating expenses	**9,584**	12,141
Cost-to-income ratio	**34.84%**	46.60%
Core cost-to-income ratio	**34.52%**	34.02%

* Includes the related legal expenses.

The Group's total operating expenses decreased by HK$2,557 million or 21.1% to HK$9,584 million. This was largely due to the significant decline in expenses incurred for Lehman Brothers-related products. In 2010, the Group focused on operational efficiency and cost control while deploying relevant financial resources for business development. Additional expenses were incurred for marketing and promotion as well as business expansion in strategic focus areas such as the Mainland market and RMB business. Operating expenses also increased with the growth of transaction volume.

Staff costs increased by HK$266 million or 5.2%, primarily due to more human resources input for business growth and higher performance-related incentives. Compared to the end of 2009, headcount measured in full-time equivalents rise by 562 to 13,806 at the end of 2010.

Premises and equipment expenses increased by HK$41 million or 3.5% as a result of higher IT costs and higher rental for branches in Hong Kong and new branches in the Mainland. Depreciation on owned fixed assets rose by HK$113 million, or 11.1%, to HK$1,131 million, which was attributable to larger depreciation charge on premises following the upward revaluation. Other operating expenses increased by HK$212 million or 13.3% to HK$1,806 million, mainly due to higher marketing and promotion expenses as well as expenses connected with the increasing business volume.

Second Half Performance

Compared to the first half of 2010, total operating expenses rose by HK$516 million, or 11.4%, mainly due to the increase in staff costs, business promotion and IT expenses. Compared to 30 Jun 2010, headcount measured in full-time equivalents rose by 377.

Net Reversal/(Charge) of Loan Impairment Allowances

HK$'m	2010	2009
Net reversal/(charge) of allowances before recoveries		
– individual assessment	**149**	(241)
– collective assessment	**(528)**	(343)
Recoveries	**449**	481
Net reversal/(charge) of loan impairment allowance	**70**	(103)

The Group's loan quality remained sound in 2010. It recorded a net reversal of loan impairment allowances of HK$70 million versus a HK$103 million net charge in 2009.

A net reversal of HK$149 million of individual allowance was registered in 2010 under an improved economic environment. Higher net charge of collective allowance was primarily due to the expansion of the loan portfolio and the re-estimation of parameter values in the assessment model in the second half of the year. Meanwhile, recoveries during the year totaled HK$449 million.

Second Half Performance

The Group recorded a net charge of loan impairment allowances of HK$24 million in the second half of 2010 relative to a net reversal of HK$94 million in the first half. The net charge of loan impairment allowances was primarily caused by the higher net charge from collective assessment as a result of the expansion of the loan portfolio and the re-estimation of parameter values in the assessment model in the second half of the year.

Net Reversal/(Charge) of Impairment Allowances on Securities Investments

HK$'m	**2010**	2009
Held-to-maturity securities	**46**	690
Available-for-sale securities	**208**	612
Net reversal of impairment allowances on securities investments	**254**	1,302

Following the Group's continuing effort to reduce the overall credit risk of its investment portfolio by disposing of higher-risk securities since 2009, it recorded a net reversal of impairment allowances on securities investments of HK$254 million in 2010.

The table below illustrates the breakdown of the Group's net reversal or charge of impairment allowances against its securities investments in 2010 and 2009.

HK$'m	**2010**	2009
US non-agency residential mortgage-backed securities		
Subprime	**17**	30
Alt-A	**26**	16
Prime	**238**	1,140
	281	1,186
Other debt securities	**(27)**	116
Net reversal of impairment allowances on securities investments	**254**	1,302

For details about the composition of the Group's investment securities portfolio, and the impairment and provisioning policies on investments, please refer to Note 27, Note 2 and Note 3 to the Financial Statements.

Second Half Performance

In the second half of 2010, the Group recorded a net reversal of impairment allowances on securities investments of HK$182 million. This was primarily attributable to the Group's further disposal of US non-agency residential mortgage-backed securities ("RMBS") in the second half of the year. The reversal was partially offset by a charge of impairment allowance on European bonds of HK$56 million. For further details on the Group's exposure to European countries, please refer to the Business Review of the Treasury Segment below.

Property Revaluation

HK$'m	2010	(Restated) 2009
Net gain on fair value adjustments on investment properties	**1,511**	1,554
Net gain on revaluation of premises	**4**	15
Deferred tax charge	**(1)**	(2)
Net gain on revaluation of premises, after tax	**3**	13

The net impact of fair value adjustments on properties on the Group's profit attributable to equity holders in 2010 was a gain of HK$1,514 million, which comprised a gain of HK$1,511 million from the revaluation of investment properties and a net gain of HK$3 million from the revaluation of premises. The net gain on property revaluation was in line with the increase in property prices in 2010.

Second Half Performance

A net gain of HK$910 million from the revaluation of investment properties was recorded, up HK$309 million from the first half of 2010.

Financial Position

HK$'m, except percentage amounts	At 31 December 2010	(Restated) At 31 December 2009
Cash and balances with banks and other financial institutions	**415,812**	160,788
Placements with banks and other financial institutions maturing between one and twelve months	**39,499**	60,282
Hong Kong SAR Government certificates of indebtedness	**46,990**	38,310
Securities investments[1]	**430,060**	358,349
Advances and other accounts	**645,424**	527,135
Fixed assets and investment properties	**41,391**	35,650
Other assets[2]	**41,864**	32,280
Total assets	**1,661,040**	1,212,794
Hong Kong SAR currency notes in circulation	**46,990**	38,310
Deposits and balances of banks and other financial institutions	**313,784**	99,647
Deposits from customers	**1,027,033**	842,321
Insurance contract liabilities	**39,807**	33,408
Other accounts and provisions[3]	**88,260**	65,417
Subordinated liabilities[4]	**26,877**	26,776
Total liabilities	**1,542,751**	1,105,879
Non-controlling interests	**3,108**	2,736
Capital and reserves attributable to the equity holders of the Company	**115,181**	104,179
Total liabilities and equity	**1,661,040**	1,212,794
Loan-to-deposit ratio[5]	**59.69%**	60.98%

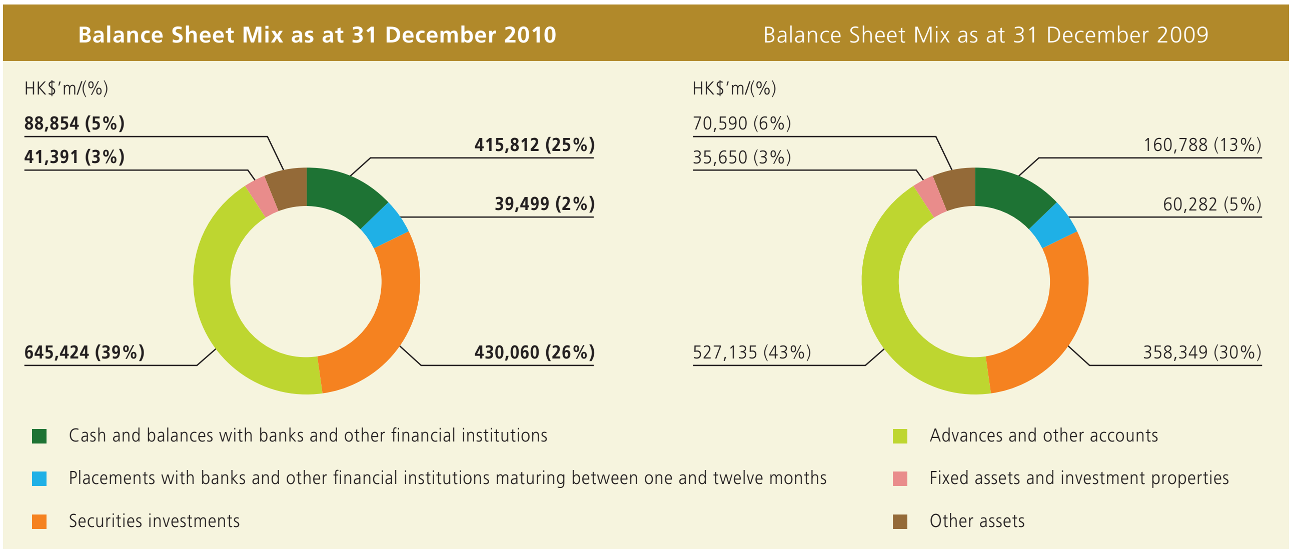
1 Securities investments comprise investment in securities and financial assets at fair value through profit or loss.

2 Interests in associates, deferred tax assets and derivative financial instruments are included in other assets.

3 Financial liabilities at fair value through profit or loss, derivative financial liabilities, current tax liabilities and deferred tax liabilities are included in other accounts and provisions.

4 Subordinated liabilities as at 31 December 2009 represented USD and EUR subordinated loans granted by BOC (the "Loans"). During the year, the Group issued USD subordinated notes (the "Notes"), the proceeds of which were applied to repay the USD Loan. Accordingly, subordinated liabilities as at 31 December 2010 comprised the Notes and the EUR Loans.

5 The deposit base also includes structured deposits reported as "Financial liabilities at fair value through profit or loss".



As at 31 December 2010, the Group's total assets amounted to HK$1,661,040 million, up HK$448,246 million or 37.0% from the end of 2009. The overall asset growth was primarily driven by the development of the Group's core banking businesses and the expansion of its RMB business in Hong Kong. Key changes include:

- Cash and balances with banks and other financial institutions rose by HK$255,024 million or 158.6% mainly due to the strong growth in RMB deposits placed with the PBOC by BOCHK's clearing business.

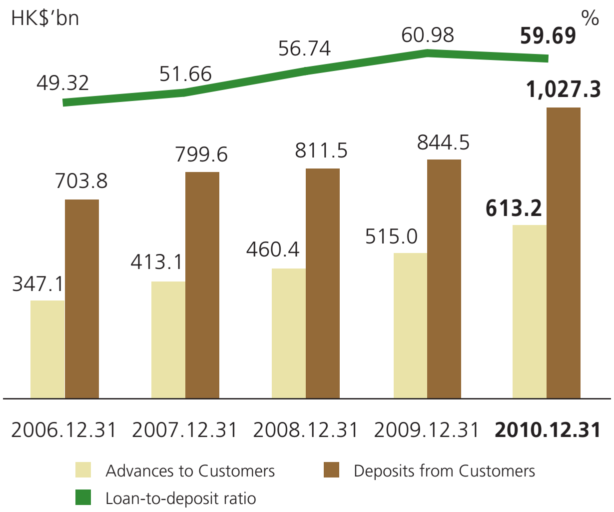
- Placements with banks and other financial institutions maturing between one and twelve months decreased by HK$20,783 million, or 34.5%, as the Group redeployed its funds for advances to customers and debt securities investments.

- Securities investments increased by HK$71,711 million or 20.0%. The Group expanded its investments in government-related and high-quality financial institution bonds and corporate bonds.

- Advances and other accounts rose by HK$118,289 million or 22.4%, which was mainly attributable to the growth in advances to customers by HK$98,247 million or 19.1% and trade bills by HK$22,505 million or 247.3%.

- Deposits and balances of banks and other financial institutions increased by HK$214,137 million or 214.9%, led by the growth in RMB deposits arising from the clearing bank business.

Advances to customers and deposits from customers*



* Deposits from customers including structured deposits

In February and April 2010, the Group successfully completed the issue of Subordinated Notes (the "Notes") of US$1,600 million and US$900 million respectively to global debt investors. The proceeds of the Notes were used to repay the USD subordinated credit facility provided by BOC in December 2008. Pursuant to the regulatory requirements of the HKMA, the Notes qualify as Tier 2 Capital. The issue of the Notes broadened the Group's investor base and established a market benchmark for the Group to tap the debt market as an alternative source of future funding for its growth and development. The bond issue received The Asset magazine's Triple A 2010 Best Bank Capital Bond Award.

Advances to Customers

HK$'m, except percentage amounts	At 31 December 2010	%	(Restated) At 31 December 2009	%
Loans for use in Hong Kong	**387,087**	**63.1**	352,210	68.4
Industrial, commercial and financial	**206,947**	**33.7**	195,520	38.0
Individuals	**180,140**	**29.4**	156,690	30.4
Trade finance	**53,396**	**8.7**	29,321	5.7
Loans for use outside Hong Kong	**172,736**	**28.2**	133,441	25.9
Total advances to customers	**613,219**	**100.0**	514,972	100.0

In view of strong market demand for loans in 2010, the Group implemented proactive business strategies to grow its loan book. It strengthened collaboration with BOC to capture new business opportunities in corporate banking and at the same time focused on enhancing the loan pricing. Advances to customers rose strongly by HK$98,247 million or 19.1% to HK$613,219 million. Growth was seen in all major sectors. Average loan pricing on corporate loans also improved year-on-year.

Loans for use in Hong Kong grew by 9.9%.

- Lending to the industrial, commercial and financial sectors increased by HK$11,427 million, or 5.8%, to HK$206,947 million, covering a wide range of industries. Loans to wholesale and retail trade, property development, financial concerns and manufacturing recorded impressive growth.
- Residential mortgage loans (excluding those under the Government-sponsored Home Ownership Scheme) were up HK$20,211 million or 15.9%, to HK$147,424 million, as a result of the Group's effective marketing effort as well as an active property market in 2010. The proportion of new drawdown in HIBOR-based residential mortgage loans showed significant increase as customers were more inclined to take advantage of low interbank rates.
- Card advances rose by HK$882 million or 12.0% to HK$8,230 million.

Trade finance recorded a strong growth of HK$24,075 million or 82.1%, thanks to the enhanced relationship between the Group and its large corporate customers as well as the increased demand for trade financing spurred by the robust growth of global trade.

Loans for use outside Hong Kong increased by HK$39,295 million or 29.4%, driven mainly by the growth in the loan business of the Group's Mainland operation, and other loans used outside Hong Kong.

Second Half Performance

The Group maintained the growth momentum of its lending business in the second half of the year and expanded its total advances to customers by HK$41,733 million or 7.3%, with notable growth in loans used outside Hong Kong, residential mortgage and trade finance.

Deposits from Customers*

HK$'m, except percentage amounts	**At 31 December 2010**	**%**	At 31 December 2009	%
Demand deposits and current accounts	**70,453**	**6.9**	65,440	7.7
Savings deposits	**528,035**	**51.4**	495,512	58.7
Time, call and notice deposits	**428,545**	**41.7**	281,369	33.3
	1,027,033	**100.0**	842,321	99.7
Structured deposits	**234**	**0.0**	2,132	0.3
Deposits from customers	**1,027,267**	**100.0**	844,453	100.0

* Includes structured deposits.

Deposits from customers increased by HK$182,814 million, or 21.6%, to HK$1,027,267 million, as the Group proactively grew its deposit base to support its lending business and other business growth. Demand deposits and current accounts increased by HK$5,013 million, or 7.7%. Savings deposits rose by HK$32,523 million, or 6.6%. Time, call and notice deposits went up significantly by HK$147,176 million, or 52.3%. Meanwhile, structured deposits dropped by HK$1,898 million, or 89.0%. The Group's loan-to-deposit ratio was down 1.29 percentage points to 59.69% at the end of 2010 as growth in deposits outpaced that in loans.

Second Half Performance

Deposits from customers increased by HK$134,530 million or 15.1% in the second half of 2010. The changes in the deposit mix were similar to the full-year changes with increments in demand deposits and current accounts by HK$3,331 million, or 5.0% and savings deposits by HK$54,543 million, or 11.5%. Time, call and notice deposits rose by HK$76,948 million or 21.9% while structured deposits declined by HK$292 million or 55.5%.

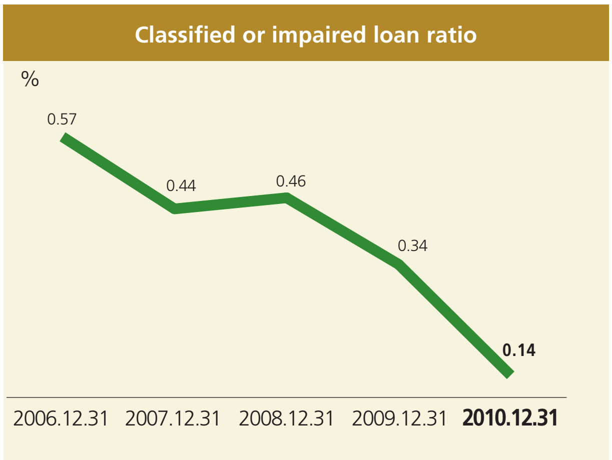
MANAGEMENT'S DISCUSSION & ANALYSIS

Loan Quality

HK$'m, except percentage amounts	**At 31 December 2010**	At 31 December 2009
Advances to customers	**613,219**	514,972
Classified or impaired loan ratio[1]	**0.14%**	0.34%
Impairment allowances	**2,311**	2,269
Regulatory reserve for general banking risks	**5,076**	4,040
Total allowances and regulatory reserve	**7,387**	6,309
Total allowances as a percentage of advances to customers	**0.38%**	0.44%
Total allowances and regulatory reserve as a percentage of advances to customers	**1.20%**	1.23%
Impairment allowances[2] on classified or impaired loan ratio	**40.02%**	39.57%
Residential mortgage loans[3] – delinquency and rescheduled loan ratio[4]	**0.02%**	0.04%
Card advances – delinquency ratio[4,5]	**0.15%**	0.23%

	2010	2009
Card advances – charge-off ratio[5,6]	**1.36%**	2.69%

1 Classified or impaired loans represent advances which have been classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.
2 Referring to impairment allowances on loans classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.
3 Residential mortgage loans exclude those under the Home Ownership Scheme and other government-sponsored home purchasing schemes.
4 Delinquency ratio is measured by a ratio of total amount of overdue loans (more than three months) to total outstanding loans.
5 Excluding Great Wall cards and computed according to the HKMA's definition.
6 Charge-off ratio is measured by a ratio of total write-offs made during the year to total card receivables as at the end of the year.



The Group's loan quality further improved with its classified or impaired loan ratio falling by 0.20 percentage point to 0.14%. Classified or impaired loans decreased by HK$902 million, or 51.0%, to HK$867 million mainly due to collections and fewer new classified loans. New classified loans in 2010 represented approximately 0.1% of total loans outstanding. Regulatory reserve for general banking risks increased by HK$1,036 million or 25.6% mainly due to loan growth.

Total impairment allowances, including both individual assessment and collective assessment, amounted to HK$2,311 million. Total impairment allowances in respect of the classified or impaired loans as a percentage of total classified or impaired loans was 40.02%.

The quality of the Group's residential mortgage loans continued to improve with the combined delinquency and rescheduled loan ratio falling by 0.02 percentage point to 0.02% at the end of 2010. The charge-off ratio of card advances dropped by 1.33 percentage point to 1.36% in 2010 mainly due to cardholders' improved debt servicing capability as economic conditions improved.

Capital and Liquidity Ratios

HK$'m, except percentage amounts	At 31 December 2010	At 31 December 2009
Core capital	**78,275**	72,465
Deductions	**(332)**	(334)
Core capital after deductions	**77,943**	72,131
Supplementary capital	**33,876**	32,638
Deductions	**(332)**	(334)
Supplementary capital after deductions	**33,544**	32,304
Total capital base after deductions	**111,487**	104,435
Risk-weighted assets		
Credit risk	**648,236**	578,374
Market risk	**18,328**	12,023
Operational risk	**47,895**	47,352
Deductions	**(23,862)**	(17,954)
Total risk-weighted assets	**690,597**	619,795
Capital adequacy ratios (consolidated basis)		
Core capital ratio	**11.29%**	11.64%
Capital adequacy ratio	**16.14%**	16.85%

	2010	2009
Average liquidity ratio	**38.77%**	40.18%

The Group adopted the Standardised Approach in calculating its capital adequacy ratio.

Consolidated capital adequacy ratio of the banking group at 31 December 2010 was 16.14%, 0.71 percentage point lower than that at the end of 2009. The Group's total capital base expanded by 6.8% to HK$111,487 million mainly due to the increase in retained earnings. Meanwhile, risk-weighted assets for credit risk increased by 12.1% to HK$648,236 million, as a result of the growth in advances to customers.

The average liquidity ratio of the Group in 2010 remained strong at 38.77%, down slightly from the end of 2009 due to the increase in deposits maturing within 1 month.

BUSINESS REVIEW

2010 Business Highlights

Business Focuses	2010 Highlights
Personal Banking • To leverage the Group's competitive advantages and reinforce its leading position in core businesses • To enlarge customer base with high potential for long-term growth • To take advantage of closer collaboration with BOC in developing cross-border service • To optimise distribution channels and enhance customers' banking experiences	• Maintained leading positions in deposits and residential mortgage. Achieved satisfactory growth in credit card business • Broadened the customer base for wealth management and Mainland business • Provided attestation, cross-border financial services, "Dual Relationship Manager" and other differentiated services by working closely with BOC • Launched mobile banking services and improved the e-banking platform
Corporate Banking • To capitalise on the Group's competitive advantage in corporate banking businesses in Hong Kong • To provide comprehensive cross-border financial services for the Mainland's large corporate entities seeking global expansion • To grow loan book with focus on good credit quality • To strengthen collaboration with BOC in providing cross-border financial services	• Registered a growth of 20.6% in corporate loans and maintained sound loan quality • Trade finance increased by 82.1% • Improved the average pricing of its corporate loans • Maintained the Group's leading position as the mandated arranger in the Hong Kong-Macau syndicated loan market • Reinforced the implementation of "Global Relationship Manager" and "Global Unified Facilities Agreement" with BOC
Treasury • To maintain proactive management of the Group's banking book and optimise the investment portfolio to guard against risks while maximising return • To adopt a dynamic yet prudent approach in asset and liability management	• Increased investment in fixed-rate government-related securities, financial institution bonds and corporate bonds with robust fundamentals • Balanced the growth of loans and deposits and optimised the asset-liability structure
Insurance • To deepen the Bancassurance platform and increase market share • To improve sales of regular-premium products to secure stable return and enlarge revenue stream • To reinforce BOC Life's corporate image and uplift the marketing forces	• In terms of new business standard premium, BOC Life uplifted its market ranking from No. 4 in 2009 to No. 2 in 2010 • Gross regular premium income rose by 184.1% over 2009 • Expanded the financial planning team in the distribution network
Mainland Business • To maintain well-balanced growth in loans and deposits for sustainable development • To enhance the business platform by further extending branch network and enriching product and service spectrum	• Registered growth in loans and deposits of 26.2% and 133.1% respectively with improved loan-to-deposit ratio • Expanded the network to 25 branches and sub-branches at end-2010 • Rolled out a series of wealth management services and received positive feedback from the market. Debit card business also saw substantial growth

Business Focuses	2010 Highlights
RMB Business in Hong Kong • To consolidate the Group's market leadership in offshore RMB business • To expand the range of RMB products and services and capture emerging opportunities in Hong Kong • To work closely with BOC to enhance the Group's overall RMB service capability globally	• Appointed by the PBOC as the RMB clearing bank of RMB banknotes business for Taiwan • Maintained leading position in RMB banking business in Hong Kong including deposits, remittance, trade settlement, credit cards, bond underwriting and insurance • Offered comprehensive products in various areas of individual RMB banking businesses such as deposits, credit cards, bonds and funds • Rolled out a series of new RMB insurance products including the first RMB insurance products with settlement being made in RMB • Introduced RMB deliverable forwards and conducted the first RMB Overseas Direct Investment (ODI) remittance into Hong Kong and the first Foreign Direct Investment (FDI) remittance into the Mainland • Underwrote and distributed the majority of RMB bonds issued in Hong Kong, and pioneered the distribution of RMB funds in Hong Kong • Published the "BOCHK Offshore RMB Bond Index", the first offshore RMB bond index of its kind in Hong Kong

2011 Business Focuses

The strengthening of traditional banking businesses and the RMB business will continue to be the Group's main business focus in the coming year.

With regard to Personal Banking, the Group will proactively target high net-worth customers and Mainland customers, in particular those with cross-border financial needs. It will strengthen its collaboration with BOC and implement the "Dual Relationship Manager" initiative to enhance customer relationship and business referrals. A wider range of products will be designed to better serve the needs of residential mortgage and stock trading customers. The Group will further consolidate its leading position in individual RMB business with innovative products and enlarge its customer base. The Group will continue to optimise the service channels, including phone, internet and mobile banking, with a view to further improving efficiency and customer experience.

For Corporate Banking, the Group will continue to speed up the development of offshore RMB trade finance products and services. It will also focus on the business opportunities arising from the various financing needs of Mainland corporate entities seeking global expansion. The Group will strengthen its cooperation with BOC and continue to implement the "Global Relationship Manager" and "Global Unified Facilities Agreement" to enhance cross-border services. It will strive to enrich its range of cash management products and expand its customer base for custody services.

In managing its banking book investments, the Group will remain proactive and vigilant in order to safeguard its asset quality while maximising return. The Group will develop new treasury products, especially RMB-denominated products, to cater for customers' needs. Through the newly-formed BOCHK Asset Management Limited ("AML"), the Group will launch RMB investment products and introduce discretionary portfolio management services to high net-worth customers.

In respect of its insurance business, the Group aims to achieve sustainable growth by implementing the "Needs-based Selling" approach and optimising its product mix. It will launch a wider range of RMB insurance products to secure its leadership in the market.

In the Mainland, the Group will focus on growing its deposit base to support lending growth and to improve the loan-to-deposit ratio of NCB (China). It will also enhance its e-banking platform to improve service quality and customer experience.

PERSONAL BANKING

HK$'m	**2010**	2009
Net interest income	**5,985**	5,795
Other operating income	**5,156**	4,853
Operating income	**11,141**	10,648
Operating expenses	**(6,369)**	(5,983)
Operating profit before impairment allowances	**4,772**	4,665
Net charge of loan impairment allowances	**(99)**	(150)
Others	**(17)**	(11)
Profit before taxation	**4,656**	4,504

	At 31 December 2010	At 31 December 2009
Segment assets	**210,978**	178,026
Segment liabilities	**657,605**	570,566

Note: For additional segmental information, see Note 48 to the Financial Statements.

Financial Results

Personal Banking recorded satisfactory results in 2010. Operating income grew by 4.6% to HK$11,141 million, driven by the increase in both net interest income and other operating income. Operating profit before impairment allowances increased by 2.3% to HK$4,772 million. Profit before taxation reached HK$4,656 million in 2010, up 3.4% year-on-year.

Net interest income increased by 3.3% mainly due to the growth in average loans and deposits. The increase was partly offset by narrower loan and deposit spread amid keen market competition.

Other operating income rose by 6.2%, driven by the growth of fee and commission income from funds distribution and life insurance. Other core businesses including loans, payment services and credit card business also posted satisfactory growth. Fee income from stock broking, however, dropped.

Operating expenses were up 6.5% mainly due to increases in business expenses and staff costs. Rental expenses for branches and computer-related expenses also increased.

Net charge of loan impairment allowances decreased year-on-year, which was mainly attributable to cardholders' better debt servicing capability as the Hong Kong economy further improved in 2010.

Advances and other accounts, including mortgage loans and card advances, increased by 21.0% to HK$196,484 million. Customer deposits rose by 15.8% to HK$628,238 million.

Business operation

The Group made good progress in developing its Personal Banking business in 2010. It effectively expanded its high-potential customer base and broadened its product and service spectrum to better serve customers' needs. By collaborating with BOC, the Group further expanded its cross-border wealth management services and provided tailor-made services to customers in the Mainland and Hong Kong. It also enhanced its e-platform and optimised its distribution channels. Meanwhile, it continued to grow its residential mortgage and credit card businesses despite intensified market competition. Stock broking business also recorded a strong rebound in the second half of 2010. In view of the surging demand for RMB banking services, the Group rolled out various new RMB-related products and services, thus solidifying its leadership in individual RMB businesses in Hong Kong.

Expanding customer base with high potential

The Group focused on acquiring, growing and retaining its high-potential customers, namely, wealth management and Mainland customers. It took a series of initiatives, such as the "Grow Your Wealth with Every Opportunity" campaign and "Wealth Management Customer Referral Programme", to expand its target customer base. It also launched the "Health & Spiritualised Well-being" campaign to strengthen its relationship with prestigious customers. Meanwhile, the Group launched the Capital Investment Entrant Scheme ("CIES") Services promotion campaign to provide a wide range of banking services to CIES customers. In view of the surging demand for cross-border investment services, the Group continued to provide quality cross-border wealth management services. A mobile service team was established during the year to enhance the collaboration with BOC branches and strengthen the business development of NCB (China). In addition, it worked with BOC's Shenzhen branch to introduce the "BOC Wealth Express Card" to acquire high net-worth customers in Hong Kong and the Mainland. The "Dual Relationship Manager" service was launched as an initiative to expand its cross-border services for customers who were served by the relationship managers of both BOC and the Group. At the end of 2010, the total number of wealth management customers and their assets maintained with the Group grew by 15.9% and 14.3% respectively from the end of 2009.

Robust growth in residential mortgages

With the revival of the local property market, the Group further grew its mortgage lending business. In response to the launch of the "Sandwich Class Housing Scheme" by the Hong Kong Housing Society and "Sale of Surplus HOS Flats Phase 6" by the Hong Kong Housing Authority, the Group offered tailor-made mortgage plans to meet customers' needs. It also strengthened its strategic partnership with major property developers and participated in joint promotions in most of the prime property development projects. These initiatives reinforced the Group's prominent position in the residential mortgage market. By the end of 2010, the Group's outstanding residential mortgage loans grew by 15.9% from the end of 2009. In recognition of its outstanding performance in the mortgage business, the Group received the "Sing Tao Excellent Services Brand Award 2010 – Mortgage Services" from Sing Tao Daily. Meanwhile, under rigorous risk assessment and control, the quality of mortgage loans remained sound.

Robust growth in credit card business

The Group's card business experienced strong growth in 2010. The total number of cards issued increased by 17.5% while cardholder spending and merchant acquiring volume rose by 22.7% and 41.0% respectively. The Group maintained its leadership in the China UnionPay ("CUP") merchant acquiring business and CUP card issuing business, with merchant acquiring and cardholder spending volume surging by 57.3% and 115.5% respectively. Meanwhile, the Shenzhen-Hong Kong Cross-Border Autopay Services were introduced to provide a reliable and convenient cross-border payment service to the holders of the CUP Dual Currency credit card. Credit card advances rose by 12.0% compared to end-2009 and the credit quality remained sound with the charge-off ratio for 2010 standing at 1.36%.

The Group's success in growing its credit card business gained extensive market recognition, as evidenced by a total of 28 awards received from VISA International, MasterCard and CUP respectively.

Maintaining the growth of investment and insurance business

In 2010, sentiments in the local stock market were adversely affected by the external environment, including the European debt crisis and the Mainland's tightening policy. This had a negative impact on the Group's stock brokerage business. Nonetheless, the Group continued to grow its customer base by enhancing its products and services and acquiring new customers. During the year, the Group launched a series of promotion and marketing campaigns, including preferential brokerage fee for selected customers, promotion on warrants and Callable Bull/Bear Contracts businesses and investment seminars. An investment product specialist team was established to provide investment information and support to the frontline staff on the sales of investment products. In addition, the launch of mobile banking service provided a convenient way for customers to manage their investment anytime, anywhere. Meanwhile, the Group embarked on a number of acquisition campaigns to attract new customers, such as the "Corporate Securities Services Promotion" targeting corporate customers. To capture business opportunities arising from the increase in the number of Mainland customers, new initiatives, including brokerage fee waiver for online securities trading, were taken during the year with positive response. The Group's stock broking business recorded a strong rebound in the second half of 2010. Encouraging growth in funds distribution business was recorded during 2010, with related commission income surging by 64.9%. The Group also distributed the first RMB-denominated fund in Hong Kong.

Regarding its Bancassurance business, the Group achieved strong sales growth by expanding its product spectrum, launching extensive marketing campaigns and implementing multi-channel distribution. The Group was the first in Hong Kong to launch RMB insurance products with settlement being made in either Hong Kong Dollars or RMB, including the "Target 8 Years Insurance Plan Series", "Target 5 Years Insurance Plan Series", "Hundred Life Insurance Plan" and "Multi-Plus Savings Insurance Plan". Meanwhile, a life insurance savings plan, the "Glorious Life Savings Insurance Plan", was launched. The Group also expanded its financial planning team and rolled out large-scale marketing campaigns. These initiatives enabled the Group to further expand its foothold in the market.

Reinforcing market leadership in RMB banking business in Hong Kong

The Group maintained its leading position in the RMB banking business in Hong Kong by offering comprehensive RMB products covering deposits, credit card, bonds, funds and insurance. In 2010, it focused on RMB integrated services, "RMB Remittance Express" and "RMB Exchange Express". At the same time, it introduced "RMB Triple Jump Time Deposit", "RMB Club Deposit" and "RMB Flexi Time Deposit" with promotional offers and successfully grew its RMB deposits. Meanwhile, the Group remained its market lead in the RMB credit card business with the number of CUP Dual Currency Credit Card issued by the Group growing by 73.2%. In addition, the Group introduced RMB life insurance product in Hong Kong with settlement being made in RMB, which was well-received by customers. RMB bond brokerage and funds distribution businesses also flourished. The Group underwrote and distributed the majority of RMB bonds issued in Hong Kong during the year, and pioneered the distribution of RMB funds in Hong Kong, thus consolidating its leading position in the RMB market. It also made significant progress in the RMB corporate banking business. For details, please refer to Corporate Banking section below.

Optimising distribution channels and strengthening e-platform and services

The Group continued to optimise its distribution channels. At the end of 2010, the Group's service network in Hong Kong comprised 268 branches. Customers can obtain specialised investment advice as well as comprehensive traditional banking services at designated branches.

The Group strengthened its e-platform by launching "Mobile Banking", which allows customers to gain access to the latest market information and manage their finance and investment using their mobile phones. The quality of services delivered by the e-banking platform was further enhanced. New features include the 24-hour scheduled electronic transfer, 24-hour automated securities trading channel and enhanced capacity of automated stock trading services. The number of Internet Banking customers increased by 12.3%, while stock trading transactions through e-channels accounted for 76.8% of total transactions. The Group also enhanced the quality of telephone banking services by consolidating its services into four specialised hotline numbers with the aim of providing one-stop and more user-friendly phone banking services to customers. It also opened a call centre in Shenzhen to provide cross-border service support for Hong Kong as well as Mainland customers. As an initiative to optimise its automated banking facilities, the Group added new ATMs and extended the coverage of the dual currency cash withdrawal services in its ATM network for providing convenient RMB cash withdrawal services.

In recognition of its excellence in customer service, the Group won the gold prize in the "Award for Excellence in Training and Development 2010" organised by Hong Kong Management Association, and was awarded the "Best Internet Wealth Management Award 2010" by Capital Weekly, a local finance magazine. Moreover, the Group was granted a total of 13 awards by the Hong Kong Call Centre Association in 2010, including the "Inbound Contact Centre of the Year (Under 50 Seats) – Gold Award".

CORPORATE BANKING

HK$'m	2010	2009
Net interest income	**6,634**	5,502
Other operating income	**2,726**	2,685
Operating income	**9,360**	8,187
Operating expenses	**(2,568)**	(2,321)
Operating profit before impairment allowances	**6,792**	5,866
Net reversal of loan impairment allowances	**169**	47
Others	**–**	2
Profit before taxation	**6,961**	5,915

	At 31 December 2010	At 31 December 2009
Segment assets	**458,928**	372,443
Segment liabilities	**407,328**	304,882

Note: For additional segmental information, see Note 48 to the Financial Statements.

Financial Results

Corporate Banking registered strong growth in 2010. Profit before taxation grew by 17.7% to HK$6,961 million. The increase was mainly attributable to higher net interest income and the increase in net reversal of loan impairment allowances.

Net interest income increased by 20.6% as a result of the growth in loans and advances. The loan and deposit spread continued to narrow in the low interest rate environment. However, the Group focused on yield enhancement and managed to increase the pricing of new corporate loan facilities.

Other operating income increased by 1.5%, primarily due to the growth in bills commission income and fee income from trust services.

Operating expenses increased by 10.6%, mainly because of higher staff costs and rental expenses.

Net reversal of loan impairment allowances for 2010 was higher, mainly as a result of the higher net reversal of individual allowance as the economic environment improved. This was partly offset by the increase in net charge of collective allowance due to the expansion of the loan portfolio and the re-estimation of parameter values in the assessment model during the year.

Advances and other accounts increased by 23.2% to HK$456,511 million. Customer deposits grew by 33.2% to HK$401,384 million.

Business operation

In 2010, the Group provided comprehensive cross-border financial services to large corporate entities in the Mainland seeking overseas expansion. With the gradual recovery of the global economy, the Group's corporate loan business recorded strong growth. The growth of trade finance outpaced the market as a whole while the syndicated loan business maintained its leadership in the Hong Kong-Macau market. The Group continued to actively support the local SMEs and was honoured the "SME's Best Partner Award" for the third consecutive year. In 2010, the Group achieved various milestones in the RMB banking business and consolidated its leadership in Hong Kong.

Solid growth in corporate loans

Against the backdrop of an improving economic environment and the credit tightening policy in the Mainland, there was a strong demand for cross-border financial services and lending in Hong Kong. The Group offered customised services and "Total Solution" to its core corporate clients. The "Global Relationship Manager Programme" and "Global Unified Facilities Agreement" were expanded to better serve the Group's major Hong Kong and Mainland corporate customers. Through closer collaboration with BOC, the Group strengthened its long-term relationship with corporate customers in the Mainland. It continued to offer "Consolidated Group Credit Facilities", which allows its clients to manage credit facilities with greater flexibility. As a result, the Group's corporate loans grew strongly by 20.6% while asset quality remained sound. As regards the syndicated loan business, the Group maintained its position as the top mandated arranger in the Hong Kong-Macau syndicated loan market. During the year, the Group also expanded its IPO financing business, providing financing to corporate and retail customers in connection with the IPO of 32 companies in Hong Kong.

Strong growth in trade finance

The Group's trade finance business registered solid growth in 2010, benefiting from the rapid recovery in global trade. The Group's enhanced relationship with large corporate customers and closer business cooperation with BOC were also instrumental to the growth. Various innovative cross-border products were introduced during the year, such as the "Outward Documentary Bill and Non-Deliverable Forward", "Overseas Loan under Domestic Guarantee" and "Overseas Loan Guaranteed by Non-Resident Account Deposit". The outstanding balance of trade finance surged by 82.1%. During the year, BOCHK received "The Asian Banker Achievement Award for Trade Finance in Hong Kong" from The Asian Banker magazine in recognition of its outstanding performance and contribution in trade finance.

Breakthroughs in offshore RMB business

Leveraging its unique position and competitive advantages, the Group achieved a number of milestones in its RMB business. Following the announcement of the "Elucidation of Supervisory Principles and Operational Arrangements Regarding Renminbi Business in Hong Kong" by the Hong Kong Monetary Authority on 11 February, the Group pioneered a number of transactions in RMB business in Hong Kong, such as the granting of the first RMB export invoice finance, the first RMB import invoice finance, the first RMB working capital loan and the first RMB remittance service for dividend payout. It also underwrote the first RMB corporate bond in Hong Kong as the sole bookrunner and lead manager. In addition, the Group secured a mandate to provide custody, trustee and fund administration services to the first offshore RMB-denominated public bond fund raised in Hong Kong from retail investors.

In respect of its clearing business, the PBOC and BOCHK signed the revised "Settlement Agreement on the Clearing of Renminbi Businesses" in July, which expanded the scope of offshore RMB business and enhanced the banking flexibility in conducting offshore RMB business. In September, the Group was appointed as the RMB Agent Bank of the Hong Kong Securities Clearing Company Limited for the purposes of conducting RMB money settlement operations relating to the Central Clearing and Settlement System. Under the "Agreement on Provision of Clearing Service for RMB Banknotes Business for Taiwan" signed by the PBOC and BOCHK, the Group has provided RMB Banknotes Clearing Service to two Taiwanese banks since October 2010.

Steady development of SME business

The Group's SME business developed steadily in 2010, which was to some extent facilitated by enhanced cooperation with major industry associations to explore new targeted customers. Further support was given to local enterprises under the "SME Loan Guarantee Scheme" and "Special Loan Guarantee Scheme" launched by the Hong Kong Government. The Group launched the "Cross-boundary Usage of Credit Limit" during the year, allowing SME customers to use the same credit facilities in both the Mainland and Hong Kong. The Group signed "The Mutual Cooperation Memorandum of SME" with the SME Bureau of Guangdong Province in order to promote the development of SMEs in both the Mainland and Hong Kong. In recognition of its quality services and contribution to the SME business, the Group was honoured with the "2010 SME's Best Partner Award" for the third consecutive year by the Hong Kong Chamber of Small and Medium Business Limited.

Cash management making solid progress

The Group made solid progress in its cash management business in 2010. It enriched its products by launching a remittance service via credit card, which enables customers to send remittance overseas with their BOCHK Credit Cards and was the first of its kind in the market. A new Premium Savings Account product was also launched during the year which, by providing competitive product features to corporate customers, helped attract new savings deposits. In view of soaring demand for cross-border transactions, the Group launched the Shenzhen-Hong Kong cross-border autopay service, thus allowing customers to pay Mainland suppliers with their HKD accounts in Hong Kong. During the year, it also conducted the first RMB Overseas Direct Investment (ODI) remittance into Hong Kong and the first Foreign Direct Investment (FDI) remittance into the Mainland. Meanwhile, the Group continued to strengthen the linkage of its cash management service platform with those of BOC and its overseas branches. It expanded the remittance points of BOC Remittance Plus to about 4,000 in the Mainland and Macau. With effective marketing, the number of remittance transactions increased by 13.9% year-on-year, while the number of CBS Online customers increased by 24.4% in 2010.

Expanding foothold in custody services

Riding on its growth momentum in 2009, the Group's custody business continued to flourish in 2010. The Group successfully expanded its institutional client base and secured mandates to provide global custody services to various Qualified Domestic Institutional Investors, including major banks, fund houses and securities companies in the Mainland. The Group also promoted escrow services to personal and corporate customers. As one of the key custodians of Exchange Traded Fund ("ETF") in Hong Kong, it provided custody services for several ETFs managed by fund houses of Mainland origin. With continuous communication and sales effort, coupled with an outstanding service track record, the Group's strengths and capabilities in the global custody area became increasingly well-known among Mainland institutions seeking overseas expansion. The Group also continued to work closely with BOC to expand its customer base. At the end of 2010, total assets under the Group's custody increased by 17.5% to HK$460.1 billion versus end-2009.

Proactive measures in risk management

The Group remained highly vigilant in risk management and regarded the safeguarding of asset quality as its top priority. It closely monitored the business performance of corporate customers which were adversely affected by rising production costs in the Mainland, RMB appreciation, recent upsurge in commodity prices, emerging sovereign risks in the Euro area, etc. The forward-looking credit control system enabled the Group to exercise stringent credit control in those segments with higher risks.

MAINLAND BUSINESS

Satisfactory growth of loan and deposit businesses

The Group's Mainland business recorded satisfactory growth in 2010. Total operating income rose by 10.1% while operating expenses increased by 18.0% upon further investment in the Mainland. Total customer deposits leaped by 133.1% during 2010 while advances to customers grew by 26.2%, resulting in further improvement in the loan-to-deposit ratio. Asset quality in the Mainland remained sound, with the classified loan ratio dropping to 0.23%. During the year, a steering committee led by a Deputy Chief Executive of the Group was established to monitor the implementation of the Group's strategies for its Mainland business.

Enhancement of product spectrum and service platform in the Mainland

The Group continued to enrich its investment and wealth management product offerings in the Mainland. It partnered with a number of insurance companies to provide a comprehensive range of insurance products to personal and corporate customers. It also launched various wealth management products such as the "Floating Yield Product with Flexible Maturity", "Yi An Investment-Supported Products" and "Structured Deposits Linked with Exchange Rate", which received positive feedback. The card business also saw satisfactory development, with solid growth in the number of debit card issued since the launch of the debit card service at the end of 2009. NCB (China) further strengthened its collaboration with BOC and the Group. It proactively followed up with BOC's customers and business referrals and developed linkage with BOC's and the Group's service platforms. It also promoted different cross-border financial services, such as cross-border RMB trade settlement and financing guarantee for overseas investments, to acquire new customers with cross-border banking needs.

Further expansion of Mainland branch network

The Group further expanded its branch network in the Mainland. During the year, the Wuxi branch and Shanghai Hongqiao sub-branch of NCB (China) commenced business, bringing the Group's total number of branches and sub-branches in the Mainland to 25. Besides, with the approval of the China Banking Regulatory Commission ("CBRC"), the Group is actively preparing for the opening of the Beijing Zhongguancun sub-branch.

TREASURY

HK$'m	**2010**	2009
Net interest income	**4,707**	5,422
Other operating income	**1,234**	982
Operating income	**5,941**	6,404
Operating expenses	**(785)**	(742)
Operating profit before impairment allowances	**5,156**	5,662
Net reversal of impairment allowances on securities investments	**307**	1,302
Profit before taxation	**5,463**	6,964

	At 31 December 2010	At 31 December 2009
Segment assets	**910,772**	593,807
Segment liabilities	**437,174**	195,956

Note: For additional segmental information, see Note 48 to the Financial Statements.

Financial Results

Treasury segment recorded a profit before taxation of HK$5,463 million, down 21.6% year-on-year. Operating profit before impairment allowances decreased by 8.9% mainly due to the 13.2% decline in net interest income despite the increase of 25.7% in other operating income.

Net interest income fell by 13.2%, which was mainly caused by the decline in net yield of debt securities following their repricing at lower interest rates. The decrease in the segment's average balance of residual funds also led to drop in interest income as funds were redeployed to advances to customers under the Group's other segments.

Other operating income increased by 25.7%, primarily driven by the increase in net trading gain from foreign exchange activities arising from customer-related activities as well as the net gain on disposals of investment in securities. This was partially offset by the foreign exchange loss on foreign exchange swap contracts and the decline in the mark-to-market gain on certain debt securities investments.

Operating expenses went up by 5.8% as a result of higher rental costs and promotional expenses related to investment products.

Net reversal of impairment allowances on securities investment decreased by 76.4% to HK$307 million. This was because in 2009, the Group focused on reducing the overall credit risk of its investment portfolio by disposing of higher-risk securities, which led to a substantially higher reversal of impairment allowances than in 2010. Besides, improved market sentiments in 2010 also led to fewer newly-impaired securities and lower charge of impairment allowances.

Business Operation

Pursuing proactive investment strategy

The Group continued with a proactive approach in managing its banking book investments and adopted a dynamic yet prudent approach in asset and liability management. During the year, global market environment remained challenging. Market sentiments weakened and credit spread widened as a result of the European sovereignty debt crisis. In this environment, the Group's investment strategy remained focused on maintaining safety while maximising return. Taking into account the trend of market interest rates and credit spreads, investments were made in high-quality fixed-rate government-related bonds, financial institution and corporate bonds with robust fundamentals. It also controlled the overall duration of its investment portfolio to manage interest rate risks and liquidity.

As at the end of 2010, the carrying value of the Group's exposure to US non-agency RMBS was HK$1.2 billion (2009: HK$3.8 billion). In respect of the exposure to the European countries which were affected by the debt crisis, namely Portugal, Ireland, Italy, Greece and Spain, the Group only had exposure to debt securities issued by financial institutions of Ireland and Italy amounting to a total of HK$1,238 million as at the end of 2010 (2009: HK$3,217 million), and made impairment allowances of HK$56 million on those debt securities in 2010.

Focusing on traditional businesses and grasping new RMB-related business opportunities

In response to changes in the operating environment, the Group adopted a proactive approach in growing its traditional businesses related to foreign exchange and precious metals respectively and achieved satisfactory results in both areas. Meanwhile, the Group provided offshore customers with hedging products linked to foreign exchange and interest rate to meet their hedging needs. The trading volumes of RMB foreign exchange derivatives and interest rate swaps registered promising growth. To further capture RMB opportunities, the Group introduced the first offshore RMB deliverable forwards in Hong Kong.

Establishment of an asset management company

In October 2010, the Group formed BOCHK Asset Management Limited ("AML"), a wholly owned subsidiary of BOC Hong Kong (Holdings) Limited, with the aim to provide tailor-made investment solutions to customers and enhance the Group's retail sales capability. On 31 December 2010, the Group published the "BOCHK Offshore RMB Bond Index" set up by AML. This is the first offshore RMB bond index of its kind in Hong Kong that provides a reference for the performance of the offshore RMB bond market.

INSURANCE

HK$'m	2010	2009
Net interest income	**1,491**	1,271
Other operating income	**7,268**	6,486
Operating income	**8,759**	7,757
Net insurance benefits and claims	**(7,988)**	(7,286)
Net operating income	**771**	471
Operating expenses	**(213)**	(176)
Operating profit before impairment allowances	**558**	295
Net charge of impairment allowances on securities investment	**(53)**	–
Profit before taxation	**505**	295

	At 31 December 2010	At 31 December 2009
Segment assets	**48,195**	37,963
Segment liabilities	**45,149**	35,355

Note: For additional segmental information, see Note 48 to the Financial Statements.

Financial Results

The Group's Insurance segment recorded strong financial results in 2010. Profit before taxation grew by 71.2% to HK$505 million. Operating profit before impairment allowances increased by 89.2% to HK$558 million, which was mainly attributable to improved underwriting results, continued optimisation of product mix and better investment performance.

Net interest income rose by 17.3%, the bulk of which was contributed by the growth of securities investments made for the new premiums received. Other operating income grew by 12.1%, which was mainly attributable to the gain from the investment portfolio. Meanwhile, the Group's insurance product mix continued to improve with gross regular premium income increasing by 184.1% year-on-year.

Net insurance benefits and claims increased by 9.6%. The increase was mainly due to the decline in market interest rates, which also led to a corresponding increase of the mark-to-market gain of debt securities as reflected in other operating income.

A net charge of impairment allowances on securities investment of HK$53 million was made for BOC Life's debt securities investments in Ireland.

Operating expenses grew by 21.0% mainly because of the increase in staff costs, IT cost and promotional expenses.

Assets in the insurance segment grew by 27.0% with the increase in securities investments. Liabilities rose by 27.7% with the increase in insurance contractual liabilities.

Business Operation

Maintaining growth in market share and stepping up marketing effort

In 2010, the Group succeeded in maintaining the growth momentum of its insurance business and achieving good results in business development. Following the introduction of the "Need-based Selling" approach in 2009, the Group further expanded its financial planning team and enhanced its multi-channel distribution strategy. It continued with product innovation and product mix optimisation, leading to the substantial increase in gross regular premium income. In order to reinforce its corporate image, the Group launched extensive marketing initiatives, including large-scale marketing campaigns, to promote its customer-oriented services, the response to which was encouraging. The satisfactory performance of the Group's insurance business was reflected in the growth of market share and ranking. In terms of new business standard premium, BOC Life uplifted its market ranking from No. 4 in 2009 to No. 2 in 2010.

Introducing new RMB insurance products

The Group continued to offer a comprehensive range of insurance products to meet customers' diverse needs. In view of the soaring demand for RMB insurance products, the Group introduced RMB life insurance products with settlement being made in RMB, such as the "Target 8 Years Insurance Plan Series" and "Target 5 Years Insurance Plan Series". The response to these products was encouraging. Besides, a new endowment product with high flexibility, the "Multi-Plus Savings Insurance Plan", was introduced to help customers better meet their financial goals. In addition, the "Hundred Life Insurance Plan" was launched to provide comprehensive life protection coverage.

In recognition of its outstanding standard of service quality management, BOC Life was given the Silver Award under the Hong Kong Management Association's Quality Award scheme during the year.

REGULATORY DEVELOPMENT

Basel II Capital Accord

In 2007, the Group adopted the Basel II Standardised Approach to calculate statutory minimum capital requirement under Pillar One. Following the official approval by HKMA at the end of 2010, the Group has adopted the Foundation Internal Ratings-Based ("FIRB") approach to calculate its credit risk exposures from 2011 onwards. The Group's FIRB approach consists of the FIRB approach to calculate corporate and financial institutions ("FI") credit exposures as well as the Retail Internal Ratings-Based ("RIRB") approach to calculate retail credit exposures which include the Retail Small and Medium-sized ("SME") business. Both are more risk-sensitive approaches for calculating the regulatory capital requirements. During the past three years, the Group completed the implementation of the internal rating systems for all its significant credit exposures, and successfully integrated them into the Group's credit business process and credit risk management practices. The estimates of risk components generated by the two-dimensional internal rating system, i.e., the Probability of Default ("PD") and the Loss Given Default ("LGD") and hence the Expected Loss ("EL"), are playing a major role in credit approval, credit monitoring and credit reporting to the Group's management. The Group plans to develop the AIRB approach for its corporate and FI credit exposures in 2011 and gradually upgrade its current FIRB approach to the AIRB approach in its risk management system in 2012 and the subsequent years. Going forward, these internal rating-based systems will serve as key inputs to the calculation of regulatory capital for credit risk and form the key foundation for decision-making, monitoring and reporting on credit, thereby further advancing the Group's risk management practices.

Under Pillar Two of the Basel II Capital Accord, the Group has implemented and reviewed its internal capital adequacy assessment process ("ICAAP") to better align the Group's business strategies with regulatory requirements. While the scope of risk measurement was widened and calculation methodologies were refined, forward looking factors were also incorporated to provide a more comprehensive and precise assessment of risk profile to reflect the Group's risk appetite and capital needs in the future.

To comply with Pillar Three on the disclosure requirements prescribed by the Banking (Disclosure) Rules ("Disclosure Rules"), the Group has formulated its Financial Disclosure Policy, and the relevant disclosures made in 2010 were in compliance with the requirements set out in the Disclosure Rules.

With the issuance of Basel III rules by the Basel Committee on Banking Supervision, the Group has established a task force for complying with the new Basel III requirements.

HUMAN RESOURCES, TECHNOLOGY AND OPERATIONS

Human Resources

The Group values human resources as its most important assets. It consistently enforces a well-structured human resources system in order to achieve long-term business growth and realise its strategic goals. During the year, the Group focused on the all-round talent management strategy, namely, "Selection, Deployment, Development and Retention". It put forward various measures to enhance the Group's overall staff quality. The Group also continued to refine its staff performance measurement system to enhance its performance-driven corporate culture. At the same time, the Group put forward its mid-term human resources strategies for 2010-2014 which will form the blueprint for human resources development to improve manpower structure, staff quality, efficiency and productivity.

In 2010, the Group performed an in-depth review on its remuneration and incentive mechanism, which covers variable remuneration mechanism, performance management mechanism and incentive schemes. A steering committee led by the Chief Executive of the Group was established to monitor the revamp of the remuneration and incentive mechanism. This review helped reinforce the Group's risk management by integrating risk factors into the remuneration and incentive mechanism. The Group continued to provide comprehensive training programmes for all levels of staff. Executive development programmes conducted jointly with reputable universities were organised for the senior management and selected staff to enhance their leadership skills and strategic mindset. Major training activities included a series of workshops and seminars covering risk management, legal and compliance topics, corporate governance, corporate culture, sales and services, skills development and leadership development. At the same time, the Group continued to optimise the training and development framework for the frontline staff to upgrade their sales techniques and capability to comply with new selling regulatory requirements. An e-learning platform is available as a supplementary channel for staff training.

Technology and operations

In 2010, the Group continued to strengthen its information technology infrastructure to support business growth and enhance risk management. Several major projects were completed during the year. With the launch of "Mobile Banking", a new electronic service platform is made available to facilitate fund transfer, bill payment and investment transactions. The Sales Management Platform was launched to automate the sales process for investment products, enable the mitigation of operational risk via reduced human errors, and provide stringent control over the sales process for meeting compliance requirements. The Cash Management platform was further strengthened with enhanced corporate deposit products, liquidity management and RMB services. With the implementation of the Basel II Capital Accord, the analytical capability and the application level for the performance rating model was enhanced, and the functionalities of the Capital Adequacy Ratio calculation engine were also optimised. The brand new automated underwriting system also helped BOC Life improve risk assessment and uplift operation efficiency. The Group also participated in various projects to enhance synergies within the BOC Group, such as the "BOC Wealth Express Card".

CREDIT RATINGS

As at 31 December 2010	Long-term	Short-term
Fitch	A	F1
Moody's	Aa3	P-1
Standard & Poor's	A-	A-2

As at 31 December 2010, BOCHK's long-term and short-term foreign currency issuer default ratings assigned by Fitch Ratings were A and F1 respectively while the support rating was upgraded to '1' from '2' on May 5, 2010.

In respect of the ratings assigned by Moody's Investors Service, BOCHK's long-term and short-term local and foreign currency bank deposit ratings remained Aa3 and P-1 respectively. The Bank Financial Strength Rating was C+.

BOCHK's long-term and short-term counterparty credit ratings assigned by Standard & Poor's were A- and A-2 respectively. The Bank Fundamental Strength Rating was B.

RISK MANAGEMENT

Banking Group

Overview

The Group believes that sound risk management is crucial to the success of any organisation. In its daily operation, the Group attaches a high degree of importance to risk management and emphasises that a balance must be struck between risk control and business growth and development. The principal types of risks inherent in the Group's businesses are credit risk, interest rate risk, market risk, liquidity risk, operational risk, reputation risk, legal and compliance risk, and strategic risk. The Group's risk management objective is to enhance shareholder value by maintaining risk exposures within acceptable limits.

Risk Management Governance Structure

The Group's risk management governance structure is designed to cover all business processes and ensure various risks are properly managed and controlled in the course of conducting business. The Group has a robust risk management organisational structure with a comprehensive set of policies and procedures to identify, measure, monitor and control various risks that may arise. These risk management policies and procedures are regularly reviewed and modified to reflect changes in markets and business strategies. Various groups of risk takers assume their respective responsibilities for risk management.

The Board of Directors, representing the interests of shareholders, is the highest decision making authority of the Group and has the ultimate responsibility for risk management. The Board, with the assistance of its committees, has the primary responsibility for the formulation of risk management strategies and for ensuring that the Group has an effective risk management system to implement these strategies. The Risk Committee ("RC"), a standing committee established by the Board of Directors, is responsible for overseeing the Group's various types of risks, reviewing and approving high-level risk-related policies and overseeing their implementation, reviewing significant or high risk exposures or transactions and exercising its power of veto if it considers that any transaction should not proceed. The Audit Committee assists the Board in fulfilling its role in overseeing the internal control system.

The Chief Executive ("CE") is responsible for managing the Group's various types of risks, approving detailed risk management policies, and approving material risk exposures or transactions within his authority delegated by the Board of Directors. The Chief Risk Officer ("CRO") assists the CE in fulfilling his responsibilities for the day-to-day management of risks. The CRO is responsible for initiating new risk management strategies, projects and measures that will enable the Group to better monitor and manage new risk issues or areas that may arise from time to time from new businesses, products and changes in the operating environment. He may also take appropriate initiatives in response to regulatory changes. The CRO is also responsible for reviewing material risk exposures or transactions within his delegated authority and exercising his power of veto if he believes that any transaction should not proceed.

Various units of the Group have their respective risk management responsibilities. Business units act as the first line of defence while risk management units, which are independent from the business units, are responsible for the day-to-day management of different kinds of risks. Risk management units have the primary responsibilities for drafting, reviewing and updating various risk management policies and procedures.

The Group's principal banking subsidiaries, Nanyang, NCB (China) and Chiyu, are subject to risk policies that are consistent with those of the Group. These subsidiaries execute their risk management strategies independently and report to the Group's management on a regular basis.

Credit Risk Management

Credit risk is the risk that a customer or counterparty will be unable to or unwilling to meet their obligations under a contract. It arises principally from lending, trade finance and treasury businesses, and covers inter-bank transactions, foreign exchange and derivative transactions as well as investments in bonds and securities. For details of the Group's Credit Risk Management, please refer to Note 4.1 to the Financial Statements in this Annual Report.

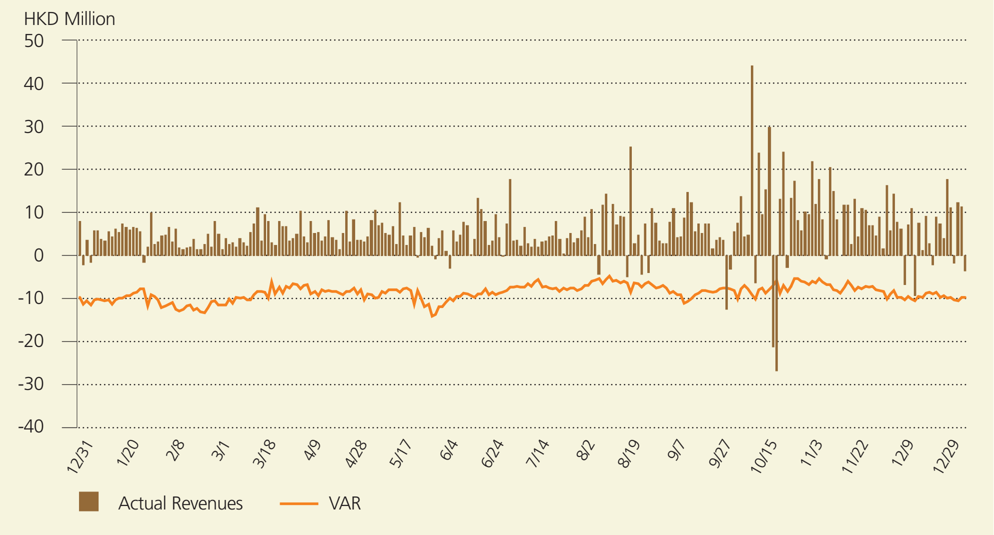
Market Risk Management

Market risk refers to the risk of losses arising from adverse movements in the value of foreign exchange and commodity positions and the trading book interest rate and equity positions held by the Group due to the volatility of financial market price (debt security price/interest rate, foreign exchange rate, equity price, commodity price). The Group adopts robust market risk appetite to achieve balance between risk and return.

The Group uses the 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. The Group adopts a uniform VAR calculation model, using historical simulation approach and 2-year historical data, to calculate VAR of the Group and subsidiaries over 1-day holding period with 99% confidence level, and set up VAR limit of the Group and subsidiaries.

The predictive power of the VAR measure is monitored by back-testing, which compares the calculated VAR figure of those trading positions of each business day with the actual revenues arising on those positions on the next business day. Generally speaking, the number of back-testing exceptions in a rolling 12-month period will not exceed four times, given a 99% confidence level. BOCHK conducts back-testing on a monthly basis and the graph below shows the back-testing result of the trading VAR of BOCHK.

Daily Backtesting in 2010



There are 3 actual losses exceeding the VAR estimate for BOCHK in 2010. The exceptions of the back-testing mainly resulted from intra-day trading loss of RMB spot position.

For details of the Group's Market Risk Management, please refer to Note 4.2 to the Financial Statements in this Annual Report.

Interest Rate Risk Management

Interest rate risk is the risk to a bank's earnings and economic value arising from adverse movements in interest rate and term structures of the bank's asset and liability positions. The Group's interest rate risk exposures are mainly structural. The major types of interest rate risk from structural positions are re-pricing risk, basis risk, yield curve risk and option risk. For details of the Group's Interest Rate Risk Management, please refer to Note 4.2 to the Financial Statements in this Annual Report.

Liquidity Risk Management

Liquidity risk is the risk that banks fail to provide sufficient funds to grow assets or pay the due obligations, and need to bear an unacceptable loss. The Group follows the sound liquidity risk appetite to provide stable, reliable and adequate sources of cash to meet liquidity needs under both normal circumstances and stressed scenarios; and survive with net positive cumulative cash flow in extreme scenarios, without requesting HKMA to act as the lender of last resort. For details about Liquidity Risk Management, please refer to the Note 4.3 to the Financial Statements in this Annual Report.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The risk is inherent in every aspect of business operations and confronted by the Bank in its day to day operational activities.

The Group has put in place an effective internal control process which requires the establishment of policies and control procedures for all the key activities. Proper segregation of duties and authorisation is the fundamental principle followed by the Group. Corporate-level policy and procedure on operational risk management are formulated by Operational Risk & Compliance Department ("OR&CD") and approved by RC.

The Group has adopted the "Three Lines of Defence" model for its operational risk management governance structure: all departments as the first line of defence are the owner of operational risk and are responsible for carrying out the duties and functions of self risk control in the process of business operation through self assessment, self checking and self correction. OR&CD together with certain specialist functional units in relation to operational risk management within the Group are the second line of defence, which is responsible for assessing and monitoring the operational risk condition of the first line of defence, and providing them with guidance. In addition to formulating the operational risk management policy and procedure, OR&CD, being independent from business units, is the central management unit of the Group's operational risk management and also responsible for designing the operational risk assessment methodologies, tools and the reporting mechanism (including the capturing of data on operational risk events loss), monitoring the implementation status of policies and operational procedures in the departments of the first line of defence through operational risk management tools, and assessing and reporting the overall operational risk position to Management and RC. Certain specialist functional units, including the Human Resources Department, Information Technology Department, Corporate Services Department, OR&CD, Financial Management Department and General Accounting & Accounting Policy Department, are required to carry out their managerial duties of the second line of defence with respect to some specific aspects of operational risk. Besides taking charge of operational risk management in their own units, these units are also required to provide other units with professional advice/training in respect of certain operational risk categories and to lead the corporate-level operational risk management. Audit Department is the third line of defence which provides independent assessment with respect to the operational risk management framework and is required to conduct periodic audit of the operational risk management activities of various departments/business units within the Group regarding their compliance and effectiveness and to put forward recommendations for corrective actions.

The Group adopts the tools or methodologies such as key risk indicators, self-assessment, operational risk events reporting and review to identify, assess, monitor and control the risks inherent in business activities and products, as well as takes out insurance to mitigate unforeseeable operational risks. Business continuity plans are in place to support business operations in the event of an emergency or disaster. Adequate backup facilities are maintained and periodic drills are conducted.

Reputation Risk Management

Reputation risk is the risk that negative publicity regarding the Group's business practices, whether genuine or not, will cause a potential decline in the customer base or lead to costly litigation or revenue erosion. Reputation risk is inherent in every aspect of business operation and covers a wide spectrum of issues.

In order to mitigate reputation risk, the Group has formulated and duly followed its Reputation Risk Management Policy. The policy aims to prevent and manage reputation risk proactively at an early stage when an incident occurs. The system entails continuous monitoring of external reputation risk incidents and published failures of risk incidents in the financial industry.

Legal and Compliance Risk Management

Legal risk is the risk that unenforceable contracts, lawsuits or adverse judgments may disrupt or otherwise negatively affect the operation or financial condition of the Group. Compliance risk is the risk of legal or regulatory sanctions, financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with all applicable laws and regulations. Legal and compliance risks are managed by OR&CD headed by a General Manager who reports to CRO.

Strategic Risk Management

Strategic risk generally refers to the risks that may induce immediate or future negative impact on the financial and market positions of the Group because of poor strategic decisions, improper implementation of strategies and lack of response to the market. The Board of Directors reviews and approves the policy for the management of strategic risks. Key strategic issues have to be fully evaluated and properly endorsed by the senior management and the Board.

The Group will regularly review its business strategies to cope with the latest market situation and developments.

Capital Management

The major objective of the Group's capital management is to maximise total shareholders' return while maintaining a capital adequacy position in relation to the Group's overall risk profile. The Group periodically reviews its capital structure and adjusts the capital mix where appropriate. ALCO monitors the Group's capital adequacy. The Group has complied with all the statutory capital standards for the reported periods.

To comply with HKMA's requirements as stated in the Supervisory Policy Manual "Supervisory Review Process", the Group has established the Internal Capital Adequacy Assessment Process (ICAAP) and reviews it annually. Using the statutory minimum CAR, 8%, as a starting point, extra capital (capital add-on) needed to cover the risks not captured under Pillar I is assessed. A Scorecard approach based on HKMA's compliance guidance on Pillar II has been used to evaluate the Group's risk profile in order to assess the add-on capital in Pillar II to the minimum regulatory capital calculated under Pillar I to determine the minimum CAR. An Operating CAR Range has also been established which incorporates the need for future business growth and efficiency of capital utilisation. In view of the envisaged adoption of Foundation Internal Ratings-Based approach ("FIRB"), the minimum CAR and the Operating CAR Range for 2010 are determined based on both Standardised approach and FIRB approach with the consideration of the possible impact of Basel III.

Taking advantage of market conditions, the Group had successfully issued subordinated notes in 2010 to repay the US Dollar Subordinated Credit Facility granted by Bank of China.

Stress Testing

The Group supplements the analysis of various types of risks with stress testing. Stress testing is a risk management tool for estimating the Group's risk exposures under stressed conditions arising from extreme but plausible market or macroeconomic movements. These tests are conducted on a regular basis by various risk management units and the ALCO monitors the results against limits approved by RC. The Financial Management Department reports the combined stress test results to the Board and RC regularly.

BOC Life Insurance

BOC Life's principal business activity is the underwriting of long-term insurance business in life and annuity, unit-linked long-term business and retirement scheme management in Hong Kong. Major types of risk arising from the BOC Life's insurance business are insurance risk, interest rate risk, liquidity risk and credit risk. BOC Life closely monitors these risks and reports to its RC on a regular basis. The key risks of its insurance business and related risk control process are as follows:

Insurance Risk Management

BOC Life is in the business of insuring against the risk of mortality, morbidity, disability, critical illness, accidents and related risks. BOC Life 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 to the underlying exposure of the risks underwritten. Screening processes, such as the review of health condition and family medical history, are also included in BOC Life's underwriting procedures.

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon BOC Life'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 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, BOC Life has a retention limit on any single life insured. BOC Life 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, BOC Life 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.

Interest Rate Risk Management

An increase in interest rates may result in the depreciation of the value of the bond portfolio. It may also result in customers accelerating surrenders. A decrease in interest rates may result in an inability to adequately match guarantees or lower returns leading to customer dissatisfaction. BOC Life manages the asset liability matching of its portfolios within an asset liability management (ALM) framework that has been developed to achieve investment returns that match its obligations under insurance contracts.

Liquidity Risk Management

Liquidity risk is the risk of not being able to fund increases in assets or meet obligations as they fall due without incurring unacceptable loss. BOC Life's asset liability matching framework includes cash flow management to preserve liquidity to match policy payout from time to time. In the normal course of BOC Life's business, new business premiums generate constant cash inflows and as a result, the portfolios also grow gradually to meet future liquidity requirement.

Credit Risk Management

BOC Life has exposure to credit risk, which is the risk that a customer or counterparty will be unable to or unwilling to meet a commitment that they have entered into. Key areas to which BOC Life's insurance business is exposed include:

– Default risk of bond issuers or the counterparties of structured products
– Credit spread widening as a result of credit migration (downgrade)
– Re-insurers' share of insurance unpaid liabilities
– Amounts due from re-insurers in respect of claims already paid
– Amount due from insurance contract holders
– Amount due from insurance intermediaries

BOC Life manages credit risk by placing limits on its exposure to each investment counterparty or group of counterparties. Such limits are subject to annual or more frequent review by the Management.

In order to enhance the credit risk management, BOC Life has strengthened its communication with the Investment Management of the Group and closely monitors and updates the established Disposal and Watch Lists to ensure consistency with the Group's credit risk management and investment strategy.


加元 CAD
1.08%
70
Currency
AUD
CAD
CHF
RMB
DKK
EUR
GBP
USD-BN
USD-SN
IDR
JPY-BN
JPY-SN
KRW
MOP

OFFERING
PROFESSIONAL SERVICES
TO YOU

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman
XIAO Gang#

Vice Chairmen
LI Lihui#
HE Guangbei

Directors
LI Zaohang#
ZHOU Zaiqun#
ZHANG Yanling#
GAO Yingxin
FUNG Victor Kwok King*
KOH Beng Seng*
SHAN Weijian*
TUNG Chee Chen*
TUNG Savio Wai-Hok*
YANG Linda Tsao* (retired from 21 May 2010)

Non-executive Directors
* Independent Non-executive Directors

SENIOR MANAGEMENT

Chief Executive
HE Guangbei

Deputy Chief Executive
LAM Yim Nam (retirement effective from 1 April 2011)
YEUNG Jason Chi Wai (appointment effective from 1 April 2011)

Deputy Chief Executive
GAO Yingxin

Chief Financial Officer
ZHUO Chengwen

Deputy Chief Executive
WONG David See Hong

Chief Risk Officer
LI Jiuzhong (appointment effective from 1 March 2010)
CHEUNG Yau Shing (term of office ceased from 1 March 2010)

Chief Operating Officer
LEE Alex Wing Kwai

Assistant Chief Executive
ZHU Yan Lai

COMPANY SECRETARY

YEUNG Jason Chi Wai
(cease to act with effect from 1 April 2011)
CHAN Chun Ying
(appointment effective from 1 April 2011)

REGISTERED OFFICE

52nd Floor
Bank of China Tower
1 Garden Road
Hong Kong

AUDITOR

PricewaterhouseCoopers

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

ADS DEPOSITARY BANK

Citibank, N.A.
388 Greenwich Street
14th Floor
New York, NY 10013
United States of America

WEBSITE

www.bochk.com

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Mr. XIAO Gang

Mr. LI Lihui

Mr. HE Guangbei

Mr. LI Zaohang

Mr. ZHOU Zaiqun

Directors

Mr. XIAO Gang
Chairman

Aged 52, is the Chairman of the Board of Directors of the Company and BOCHK. He is also a director of BOC (BVI) and BOCHKG. Mr. XIAO was Chairman and President of BOC from March 2003 to August 2004 and has been Chairman of BOC since its restructuring in August 2004. Prior to joining BOC, Mr. XIAO joined People's Bank of China ("PBOC") in 1981 and has served various positions in PBOC, including Director of the Research Bureau, Head of the China Foreign Exchange Trading Center, Director of the Planning and Treasury Department, Assistant Governor and Director of the Monetary Policy Department, Assistant Governor and President of Guangdong Branch of PBOC and Director of the Guangdong Branch of the State Administration of Foreign Exchange. Mr. XIAO served as Deputy Governor of PBOC from 1998 to 2003. He was also Chairman of China Association of Banks from June 2003 to December 2004. Mr. XIAO graduated from Renmin University of China with a Master's Degree in Law.

Mr. LI Lihui
Vice Chairman

Aged 58, is the Vice Chairman of the Board of Directors and the Chairman of the Nomination and Remuneration Committee of the Company and BOCHK. He is currently the Vice Chairman and the President of BOC and a Director of BOC (BVI) and BOCHKG. Prior to joining BOC in August 2004, Mr. LI served as the Deputy Governor of Hainan Province from September 2002 to August 2004. Mr. LI was an Executive Vice President of Industrial and Commercial Bank of China ("ICBC") from July 1994 to September 2002 and served in a number of positions at ICBC from January 1989 to July 1994, including the Deputy General Manager of the Fujian Branch, the Chief Representative of the Singapore Representative Office and the General Manager of the International Business Department. Mr. LI has been serving as the Chairman of BOCI and Bohai Industry Investment Management Limited since June 2005 and December 2006 respectively. Mr. LI graduated from the Economics Department of Xiamen University in 1977 and obtained a Doctorate in Economics from the Guanghua School of Management of Peking University in 1999.

Mr. HE Guangbei
Vice Chairman and Chief Executive

Aged 56, is the Vice Chairman and the Chief Executive with overall responsibility for the business and operations of BOCHK and a member of the Strategy and Budget Committee of the Company and BOCHK. He is also Chairman of NCB (China), Chiyu and BOC Life, Vice Chairman of Hong Kong General Chamber of Commerce, and Director of Hong Kong Interbank Clearing Limited, HKICL Services Limited and Hong Kong Note Printing Limited. He is the designated representative of BOCHK to the Hong Kong Association of Banks where he serves as the presiding Chairman in 2011. He holds various public positions which include member of the HKMA Exchange Fund Advisory Committee, Banking Advisory Committee and Hong Kong Government Commission on Strategic Development, Honorary President of the Hong Kong Chinese Enterprises Association, general committee member of the Hong Kong General Chamber of Commerce and member of Hong Kong/Japan Business Co-operation Committee. Mr. HE joined BOC in 1980 and since then, he has assumed various positions at BOC and was posted to its New York Branch and Paris Branch. He was Managing Director of BOC from 1999 to 2004 and Executive Vice President from 2000 to 2003. Mr. HE graduated from the Beijing Second Foreign Languages Institute in 1979 with a Bachelor's Degree and obtained a Master's Degree in International Management Studies from the University of Texas at Dallas in 1985.

Mr. LI Zaohang
Non-executive Director

Aged 55, is a Non-executive Director and a member of the Risk Committee and the Nomination and Remuneration Committee of the Company and BOCHK. He joined China Construction Bank ("CCB") in 1980 and had held various positions including Manager, Branch Manager, General Managers of various departments at CCB's Head Office and Executive Vice President. In 2000, Mr. LI joined BOC as Executive Vice President and has served as Managing Director and Executive Director successively. Mr. LI graduated from Nanjing University of Information Science and Technology.

Mr. ZHOU Zaiqun
Non-executive Director

Aged 58, is a Non-executive Director, the Chairman of the Strategy and Budget Committee and a member of the Audit Committee of the Company and BOCHK. He is also Chairman of Nanyang and a Vice Chairman of NCB (China). Mr. ZHOU is currently an Executive Director and Executive Vice President of BOC. He was a Managing Director of BOC from 2000 to 2004. He has over 20 years' experience in the banking industry. He was General Manager of ICBC, Beijing Branch from 1999 to 2000 and General Manager of the Planning and Financial Department of ICBC from 1997 to 1999. Mr. ZHOU obtained a Master's Degree from Dongbei University of Finance and Economics in 1997.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT


Mdm. ZHANG Yanling


Mr. GAO Yingxin


Dr. FUNG Victor Kwok King

Directors

Mdm. ZHANG Yanling

Non-executive Director

Aged 59, is a Non-executive Director and a member of the Risk Committee and the Strategy and Budget Committee of the Company and BOCHK. She is also Chairman of BOC Aviation Pte. Ltd. Mdm. ZHANG has been Vice Chairman of ICC Commission on Banking Technique and Practice since 2003 and is a member of the Board of Directors representing the PRC in Asian-Pacific Bankers Council. Mdm. ZHANG joined BOC in 1977. She was Executive Vice President of BOC from 2003 to 2010, Managing Director of BOC from 2000 to 2004 and Executive Assistant President of BOC from 2000 to 2002. Mdm. ZHANG was General Manager of BOC, Milan Branch from 2000 to 2001 and General Manager of the Legal Department of BOC from 2001 to 2002. She was Deputy General Manager of the Training Department of BOC from 1992 to 1997 and General Manager of the Banking Department from 1997 to 2000. She was also Chairman of Bank of China (UK) Limited till July 2010. Mdm. ZHANG graduated from Liaoning University in 1977 with a Bachelor's Degree and obtained a Master's Degree from Wuhan University in 1999.

Mr. GAO Yingxin

Executive Director and
Deputy Chief Executive

Aged 48, is an Executive Director of the Company and BOCHK as well as the Deputy Chief Executive in charge of Corporate Banking and Financial Institutions. He is also Vice Chairman of NCB (China) and Director of Nanyang and BOC Insurance. Before joining BOCHK, he was President and Chief Operating Officer of BOCI. Mr. GAO joined the BOC Group in 1986 where he began working on financing projects for various industries at BOC's Head Office in Beijing. In 1999, he became General Manager of Corporate Banking at BOC Head Office where he was responsible for managing and building BOC Group's customer relationships with and global financing for multinational corporations and premium domestic clients in the Mainland China. He was also in charge of BOC's major financing projects. From 1995 to 1996, he worked for the Finance Department of Northern Telecom (Nortel) Head Office in Canada. Mr. GAO graduated from the East China University of Science and Technology in Shanghai with a Master's Degree in Engineering in 1986.

Dr. FUNG Victor Kwok King

Independent Non-executive Director

Aged 65, is an Independent Non-executive Director and a member of the Audit Committee and the Nomination and Remuneration Committee of the Company and BOCHK. Dr. FUNG holds Bachelor's and Master's Degrees in Electrical Engineering from the Massachusetts Institute of Technology and a Doctorate in Business Economics from Harvard University. He is Group Chairman of Li & Fung group of companies, including publicly listed Li & Fung Limited, Trinity Limited, Convenience Retail Asia Limited and Integrated Distribution Services Group Limited (which was privatised in October 2010). He is also an Independent Non-executive Director of Baosteel Group Corporation in PRC. He retired as Independent Non-executive Director of Orient Overseas (International) Limited and CapitaLand Limited in April 2009 and April 2010 respectively, and Non-executive Director of Hup Soon Global Corporation Limited in April 2009. In public service, Dr. FUNG is Honorary Chairman of International Chamber of Commerce. He is a member of the Chinese People's Political Consultative Conference and a vice chairman of China Centre for International Economic Exchanges. He is a member of the Commission on Strategic Development of the Hong Kong Government. Dr. FUNG is also Chairman of the Greater Pearl River Delta Business Council. From 1991 to 2000, he was Chairman of the Hong Kong Trade Development Council and from 1996 to 2003, he was the Hong Kong representative on the APEC Business Advisory Council. He was also Chairman of the Hong Kong Airport Authority from June 1999 to May 2008, Chairman of the Council of The University of Hong Kong from September 2001 to November 2009, Chairman of the International Chamber of Commerce from July 2008 to June 2010 and Chairman of the Hong Kong-Japan Business Co-operation Committee from September 2004 to September 2010. The Hong Kong Government awarded Dr. FUNG the Gold Bauhinia Star and Grand Bauhinia Medal in 2003 and 2010 respectively for his distinguished services to the community.


Mr. KOH Beng Seng


Mr. SHAN Weijian


Mr. TUNG Chee Chen


Mr. TUNG Savio Wai-Hok

Directors

Mr. KOH Beng Seng

Independent Non-executive Director

Aged 60, is an Independent Non-executive Director, Chairman of the Risk Committee and a member of the Audit Committee of the Company and BOCHK. Mr. KOH is currently the Chief Executive Officer of Octagon Advisors Pte Ltd, a business and management consulting company based in Singapore. He is also an Independent Non-executive Director of three Singaporean listed companies, namely, Singapore Technologies Engineering Ltd, Fraser and Neave Limited and Great Eastern Holdings Limited, Director of Sing Han International Financial Services Limited and Japan Wealth Management Securities Company Limited. Mr. KOH was Deputy President of United Overseas Bank ("UOB") and a member of UOB's Executive Committee from 2000 to 2004. During this period, he was in charge of UOB's operations, delivery channels, information technology, corporate services, and risk management and compliance functions and played a key role in driving the successful integration of Overseas Union Bank and UOB in 2001. Prior to that, Mr. KOH has spent over 24 years at the Monetary Authority of Singapore where he made significant contributions to the development and supervision of the Singapore financial sector in his capacity as Deputy Managing Director, Banking & Financial Institutions Group. He has also served as a Director of Chartered Semiconductor Manufacturing and as a part-time adviser to the International Monetary Fund. Mr. KOH holds a Bachelor's Degree in Commerce from Nanyang University in Singapore and a Master's Degree in Business Administration from Columbia University in the United States.

Mr. SHAN Weijian

Independent Non-executive Director

Aged 57, is an Independent Non-executive Director, the Chairman of the Audit Committee and a member of the Nomination and Remuneration Committee of the Company and BOCHK. Mr. SHAN is the Chairman and Chief Executive Officer of PAG, an investment firm. He is director of a number of companies, including TCC International Holdings Limited, Changhwa Commercial Bank, Ltd., Taiwan Cement Corporation and Taishin Financial Holdings Co., Ltd. He was Senior Partner of TPG, Co-Managing Partner of Newbridge Capital, Managing Director of JP Morgan, an assistant professor at the Wharton School of the University of Pennsylvania and an Investment Officer at the World Bank in Washington DC. Mr. SHAN graduated from the Beijing Institute of Foreign Trade with a major in English in 1979. He obtained a Master's Degree in Business Administration from the University of San Francisco in 1981, and received a Master of Arts Degree in Economics and a PhD Degree in Business Administration from the University of California at Berkeley in 1984 and 1987 respectively.

Mr. TUNG Chee Chen

Independent Non-executive Director

Aged 68, is an Independent Non-executive Director and a member of the Audit Committee and the Nomination and Remuneration Committee of the Company and BOCHK. Mr. TUNG is also the Chairman and Chief Executive Officer of Orient Overseas (International) Limited. He is an Independent Non-executive Director of a number of listed companies, including Zhejiang Expressway Company Limited, PetroChina Company Limited, Wing Hang Bank Limited, U-Ming Marine Transport Corp., Sing Tao News Corporation Limited and Cathay Pacific Airways Limited. Mr. TUNG was educated at the University of Liverpool, United Kingdom, where he obtained a Bachelor's Degree in Science in 1964. He later obtained a Master's Degree in Mechanical Engineering from the Massachusetts Institute of Technology in 1966.

Mr. TUNG Savio Wai-Hok

Independent Non-executive Director

Aged 59, is an Independent Non-executive Director and a member of the Audit Committee, the Risk Committee and the Strategy and Budget Committee of the Company and BOCHK. Mr. TUNG was appointed a Director and a member of the Audit Committee of Tech Data Corporation, a company listed on NASDAQ, in June 2010. Mr. TUNG is one of the founding partners of Investcorp, where he was a Managing Director and Head of the Technology Investment Group until February 2009. He remains an advisor and Chairman of the Technology Investment Committee. Before joining Investcorp in 1984, he worked for Chase Manhattan Bank for about 11 years, holding various positions in its front, middle and back offices and served in its offices in New York, Bahrain, Abu Dhabi and London. Mr. TUNG has served on the boards of many of Investcorp portfolio companies, including Club Car, Circle K, Saks Fifth Avenue, Simmons Mattresses, Star Market, and Stratus Computer. He is also a board member and treasurer of the Aaron Diamond AIDS Research Center, an affiliate of Rockefeller University and a board member of the Committee of 100, a Chinese-American organisation in the U.S. He ceased to be the Chairman of Wireless Telecom Group in May 2010. Mr. TUNG holds a BSc in Chemical Engineering from Columbia University of New York. He is a trustee of Columbia University. He is also on the board of the Columbia Investment Management Company and chairs the Finance Committee of Columbia University and is a member of the Columbia University Medical Center Committee.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Mr. LAM Yim Nam

Mr. ZHUO Chengwen

Mr. WONG David See Hong

Mr. YEUNG Jason Chi Wai

Senior Management

Mr. LAM Yim Nam

Deputy Chief Executive (retirement effective from 1 April 2011)

Aged 58, is the Deputy Chief Executive in charge of Personal Banking and Product Management, Channel Management and BOC-CC. He is also a Director of BOC-CC and BOC Life. Mr. LAM has over 30 years' experience in the banking industry. From 1989 to 1998, he was Deputy General Manager of the Kwangtung Provincial Bank, Hong Kong Branch. Mr. LAM was Deputy General Manager of BOC, Hong Kong Branch from 1998 to 1999, and Acting General Manager of the National Commercial Bank, Hong Kong Branch from 2000 to 2001. Mr. LAM graduated from the Chinese University of Hong Kong with a Bachelor's Degree and a Master's Degree in Business Administration.

Mr. ZHUO Chengwen

Chief Financial Officer

Aged 40, is the Chief Financial Officer of the Group. He is also a Director of Nanyang and NCB (China). Prior to joining the Group, Mr. ZHUO was a Deputy General Manager in the Financial Management Department of BOC responsible for various financial management functions of BOC Group including financial planning, accounting policy, financial compliance, management reporting and financial disclosure. Mr. ZHUO has assumed a financial management role for over 15 years with BOC Group in Beijing and New York and has extensive knowledge and experience in financial management. Mr. ZHUO graduated from the Peking University with a Bachelor's Degree in Economics in 1992 and a Master's Degree in Economics in 1995 and was awarded a MBA Degree by the City University of New York in 2005. Mr. ZHUO has been a member of the Chinese Institute of Certified Public Accountants, the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants since 1995, 2005 and 2009 respectively.

Mr. WONG David See Hong

Deputy Chief Executive

Aged 57, is the Deputy Chief Executive of the Group with the overall responsibility for the financial market businesses which include Global Markets, Global Transaction Banking, Investment Management, Insurance and Asset Management, and other capital market-related businesses. He is also a Director of BOC Life. Prior to joining the Group, Mr. WONG was Corporate Executive Vice President and Country Executive of ABN AMRO Bank ("ABN") and was responsible for ABN's operations in South East Asia. He joined ABN in 1995 and has held various senior positions within ABN, including Regional Head of Financial Markets, Country Executive in Singapore, and Managing Director of the Hong Kong Branch. Mr. WONG has spent over 25 years in the banking sector and has extensive knowledge and experience in treasury and financial products. Mr. WONG served as a board member of Energy Market Authority till 31 March 2009. He continues to serve as board member of Civil Service College in Singapore and Customer Advisory Board Member of Thomson Reuters in Hong Kong from August 2009. Mr. WONG graduated from the University of Singapore with a Bachelor's Degree in Business Administration and was awarded a Master's Degree in Science in Investment Management by the Hong Kong University of Science and Technology. He was awarded the Financial Industry Certified Professional from the Institute of Banking and Finance, Singapore. He has also received the Distinguished Award for his contribution to the financial industry in Singapore.

Mr. YEUNG Jason Chi Wai

Deputy Chief Executive (appointment effective from 1 April 2011)
Company Secretary (cease to act with effect from 1 April 2011)

Aged 56, is the Board Secretary and Company Secretary of the Company and BOCHK since 2001 and a Deputy Chief Executive of the Group effective from 1 April 2011. Mr. YEUNG has been the General Manager of the Board Secretariat Department and the Head of Investor Relations Division of the Company and BOCHK. He also acted as the Board and Company Secretary of BOC from November 2005 to April 2008. Prior to joining the Group, Mr. YEUNG was General Counsel and Director of China Everbright Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited, and before that, a partner of Woo, Kwan, Lee & Lo with over 10 years' experience practising corporate and commercial law. He had also served at the Securities and Futures Commission in Hong Kong. Mr. YEUNG was educated at the University of Hong Kong where he obtained a Bachelor's Degree in Social Sciences. Mr. YEUNG later graduated from The College of Law, United Kingdom and further obtained a Bachelor's Degree in Law from the University of Western Ontario, Canada and a Master's Degree in Business Administration from the Richard Ivey School of Business of the University of Western Ontario, Canada.

Mr. LI Jiuzhong

Mr. LEE Alex Wing Kwai

Mdm. ZHU Yanlai

Senior Management

Mr. LI Jiuzhong
Chief Risk Officer

Aged 48, is the Chief Risk Officer of the Group in charge of the Group's overall risk management function, overseeing BOCHK's Risk Management Department and Operational Risk and Compliance Department. He is also a Director of Nanyang, NCB (China), BOC-CC and BOC Life. Mr. LI has over 27 years' experience in the banking industry. Mr. LI joined BOC in 1983 and, since then, he has assumed various positions at BOC Head Office and overseas branch. He was Assistant General Manager and Deputy General Manager of BOC London Branch, respectively, from 1996 to 2002; and Deputy General Manager of Corporate Banking Department of BOC Head Office from 2002 to 2004; and then General Managers of Corporate Banking Department, Risk Management Department, and Global Markets Department of BOC Head Office, respectively, from 2004 to 2009. Mr. LI graduated from Daqing Petroleum Institute in 1983 with a Bachelor's Degree in Science in Oilfield Development and Management and obtained a Master's Degree in Science in International Banking and Financial Studies from Heriot-Watt University (UK) in 1993.

Mr. LEE Alex Wing Kwai
Chief Operating Officer

Aged 52, is the Chief Operating Officer of the Group. He is also a Director of BOC-CC. Prior to joining the Group, Mr. LEE was the Managing Director responsible for the operations and technology of the entire business of Citigroup in Hong Kong. Mr. LEE has held various leadership roles within Citigroup. He has strong experience in operation and technology with a major financial institution for over 26 years. Mr. LEE graduated from the Arizona State University with a Bachelor's Degree in General Business Administration in 1981 and a MBA Degree specialised in Accounting in 1983. Mr. LEE passed the uniform examination of the American Institute of Certified Public Accountants in 1984. He has been an Associate Member of the Institute of Internal Auditor and a Chartered Bank Auditor of the Bank Administration Institute of the United States of America since 1986.

Mdm. ZHU Yanlai
Assistant Chief Executive

Aged 56, is an Assistant Chief Executive of the Group in charge of overall leadership for the planning and implementation of the Group's strategy, business direction, market positioning and sustainable development. Mdm. ZHU has been the General Manager of Economics and Strategic Planning Department of BOCHK since the merger of the Group in October 2001. She is currently a Director of Nanyang and NCB (China). Mdm. ZHU joined BOC in 1997 and was the Head of Business Development of BOC (Canada), and Assistant General Manager of Hong Kong and Macau Regional Office of BOC. Prior to joining BOC, Mdm. ZHU worked for Royal Bank of Canada and Nesbitt Burns, Bank of Montreal Group. She was previously the visiting scholar of York University in Canada and the lecturer in Renmin University of China. Mdm. ZHU obtained a Master's Degree in Sociology from the University of Regina, Sask, Canada, and graduated from Renmin University of China with Bachelor's and Master's Degrees in Philosophy.

REPORT OF THE DIRECTORS

The Directors are pleased to present their report together with the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2010.

Principal Activities

The principal activities of the Group are the provision of banking and related financial services. An analysis of the Group's performance for the year by business segments is set out in Note 48 to the financial statements.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 106.

The Board has recommended a final dividend of HK$0.572 per share, amounting to approximately HK$6,048 million, subject to the approval of shareholders at the forthcoming annual general meeting to be held on Wednesday, 25 May 2011. If approved, the final dividend will be paid on Wednesday, 1 June 2011 to shareholders whose names appear on the Register of Members of the Company on Wednesday, 25 May 2011. Together with the interim dividend of HK$0.40 per share declared in August 2010, the total dividend payout for 2010 would be HK$0.972 per share.

Closure of Register of Members

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to the final dividend, from Friday, 20 May 2011 to Wednesday, 25 May 2011 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the final dividend, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Thursday, 19 May 2011. Shares of the Company will be traded ex-dividend as from Wednesday, 18 May 2011.

Reserves

Details of movements in the reserves of the Group are set out in the consolidated statement of changes in equity on page 111.

Donations

Charitable and other donations made by the Group during the year amounted to approximately HK$8 million.

Note: These donations do not include the donations and sponsorships made by BOCHK Charitable Foundation ("the Foundation". For details, please refer to the "Corporate Social Responsibility" section of this Annual Report). The Foundation is a charitable organisation established in Hong Kong and is operated independently of BOCHK.

Properties, Plant and Equipment

Details of movements in properties, plant and equipment of the Group are set out in Note 31 to the financial statements.

Share Capital

Details of the share capital of the Company are set out in Note 41 to the financial statements.

As at the latest practicable date prior to the issue of this Annual Report and based on publicly available information, the public float of the Company was approximately 34%. The Directors consider that there is sufficient public float in the shares of the Company.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2010, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to approximately HK$9,355 million.

Five-year Financial Summary

A summary of the results, assets and liabilities of the Group for the last five years is set out on page 3.

Directors

The present Directors of the Company are set out on page 56. The biographical details of the Directors and senior management are set out on pages 57 to 61 of this Annual Report. The term of office for each Non-executive Director is approximately three years.

Madam YANG Linda Tsao has retired from the office of the Independent Non-executive Director of the Company since 21 May 2010.

In accordance with Article 98 of the Company's Articles of Association, at each annual general meeting, one-third of the Directors or the number nearest to but not less than one-third of the Directors shall retire from office by rotation and be eligible for re-election. Accordingly, Mr. HE Guangbei, Mr. LI Zaohang, Dr. FUNG Victor Kwok King and Mr. SHAN Weijian will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The term of office of the retiring Independent Non-executive Directors, namely, Dr. FUNG Victor Kwok King and Mr. SHAN Weijian who were both appointed in 2002, will be more than 9 years if they are re-elected at the forthcoming annual general meeting. Based on the information available to the Board, and by reference to the Listing Rules and the "Policy on Independence of Directors" adopted by the Board which sets out certain criteria on independence of the Independent Non-executive Directors, the Board considers that Dr. FUNG and Mr. SHAN are independent. Further, in view of their extensive knowledge and experience, the Board believes that their re-election is in the best interests of the Company and the shareholders as a whole.

Directors' Service Contracts

No Director offering for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation other than the normal statutory compensation.

Directors' Interests in Contracts of Significance

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

Directors' Interests in Competing Business

Messrs. XIAO Gang, LI Lihui, LI Zaohang and ZHOU Zaiqun are Executive Directors of BOC. Mdm. ZHANG Yanling is a member of the senior management of BOC.

BOC is a joint stock limited liability commercial bank in the Mainland of China providing a full range of commercial banking and other financial services through its associates throughout the world. Certain of the Group's operations overlap with and/or are complementary to those of BOC and its associates. To the extent that BOC or its associates compete with the Group, the Directors believe that the Group's interests are adequately protected by good corporate governance practices and the involvement of the Independent Non-executive Directors.

Further, the Board's mandate also expressly provides that unless permissible under applicable laws or regulations, if a substantial shareholder or a Director has a conflict of interest in the matter to be considered by the Board, the matter shall not be dealt with by way of written resolutions, but a Board meeting attended by Independent Non-executive Directors who have no material interest in the matter shall be held to deliberate on the same.

Save as disclosed above, none of the Directors is interested in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

Directors' Rights to Acquire Shares

On 5 July 2002, the following Directors 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) existing issued shares of the Company at a price of HK$8.50 per share. These options have a vesting period of four years from 25 July 2002 with a valid exercise period of ten years.

Particulars of the outstanding options granted to the Directors under the Pre-Listing Share Option Scheme as at 31 December 2010 are set out below:

				Number of share options					
Name of Director	Date of grant	Exercise price (HK$)	Exercisable period	Granted on 5 July 2002	Balances as at 1 January 2010	Exercised during the year	Surrendered during the year	Lapsed during the year	Balances as at 31 December 2010
LI Zaohang	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	–	–	–	1,446,000
ZHOU Zaiqun	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,084,500	–	–	–	1,084,500
ZHANG Yanling	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	–	–	–	1,446,000
Total				4,338,000	3,976,500	–	–	–	3,976,500

Save as disclosed above, at no time during the year was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' and Chief Executive's Interests in Shares, Underlying Shares and Debentures

As at 31 December 2010, the Directors, the Chief Executive and their respective associates had the following interests in the shares and underlying shares of the Company, as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers:

	Number of shares/underlying shares held					
Name of Director	Personal interests	Family interests	Corporate interests	Other interests	Total	% of the issued share capital
HE Guangbei	100,000	–	–	–	100,000	0.001%
LI Zaohang	1,446,000 Note	–	–	–	1,446,000	0.014%
ZHOU Zaiqun	1,084,500 Note	–	–	–	1,084,500	0.010%
ZHANG Yanling	1,446,000 Note	–	–	–	1,446,000	0.014%
Total	4,076,500	–	–	–	4,076,500	0.039%

Note: Such interests represented the respective Directors' interests in underlying shares in respect of the share options granted to him/her pursuant to the Pre-Listing Share Option Scheme, details of which are set out in the section titled "Directors' Rights to Acquire Shares" above.

Save as disclosed above, as at 31 December 2010, none of the Directors or the Chief Executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Substantial Interests in Share Capital

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 31 December 2010, the following parties had the following interests (as defined in the SFO) in the Company set opposite their respective names:

Name of Corporation	No. of shares of HK$5.00 each in the Company (% of total issued shares)	
Central Huijin	6,984,274,213	(66.06%)
BOC	6,984,274,213	(66.06%)
BOCHKG	6,984,175,056	(66.06%)
BOC (BVI)	6,984,175,056	(66.06%)

Notes:

1. Following the reorganisation of BOC in August 2004, Central Huijin holds the controlling equity capital of BOC on behalf of the State. Accordingly, for the purpose of the SFO, Central Huijin is deemed to have the same interests in the Company as BOC.
2. BOC holds the entire issued share capital of BOCHKG, which in turn holds the entire issued share capital of BOC (BVI). Accordingly, BOC and BOCHKG are deemed to have the same interests in the Company as BOC (BVI) for the purpose of the SFO. BOC (BVI) beneficially held 6,984,175,056 shares of the Company.
3. BOC holds the entire issued share capital of BOCI, which in turn holds the entire issued share capital of BOCI Asia Limited and BOCI Financial Products Limited. Accordingly, BOC is deemed to have the same interests in the Company as BOCI Asia Limited and BOCI Financial Products Limited for the purpose of the SFO. BOCI Asia Limited had an interest in 24,479 shares of the Company and an interest in 72,000 shares held under physically settled equity derivatives while BOCI Financial Products Limited had an interest in 2,678 shares of the Company.

All the interests stated above represented long positions. Save as disclosed above, as at 31 December 2010, BOCI Financial Products Limited had an interest in 143,522 shares which represented short positions. BOC and Central Huijin are deemed to be interested in such amount of shares for the purpose of the SFO. Save as disclosed, no other interests or short positions were recorded in the register maintained by the Company under section 336 of the SFO as at 31 December 2010.

Management Contracts

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

Share Options

Pursuant to written resolutions of all the Company's shareholders passed on 10 July 2002, the Company has approved and adopted two share option schemes, namely, the Share Option Scheme and the Sharesave Plan. No options have been granted by the Company pursuant to the Share Option Scheme or the Sharesave Plan during the year.

The following is a summary of the Share Option Scheme and the Sharesave Plan disclosed in accordance with the Listing Rules:

	Share Option Scheme	Sharesave Plan
Purpose	To provide the participants with the opportunity to acquire proprietary interests in the Company, to attract and retain the best available personnel, to encourage and motivate the participants to work towards enhancing the value of the Company and its shares, to allow the participants to participate in the growth of the Company and to align the interests of the Company's shareholders with those of the participants.	To encourage broad-based employee ownership of the Company's shares, to increase employee awareness and participation in the Company's share price performance, to provide employees with an additional vehicle for asset accumulation and to align the interests of all employees with those of the Company's shareholders.
Participants	Subject to compliance with applicable laws, any full-time or part-time employee, executive or officer of the Group, executive or non-executive director of the Group, or full-time or part-time employee, executive, officer or director of BOC or any of its subsidiaries serving as a member of any committee of the Group.	Any employee, executive, officer or director of the Group, having such qualifying period of service (if any) as the Board may determine from time to time and not having been granted any options under the Share Option Scheme.
Total number of shares available for issue and percentage of issued share capital as at 31 December 2010	The maximum number of shares in respect of which options may be granted under the Share Option Scheme, the Sharesave Plan and any other share option schemes and savings-based share option plans of any company in the Group (the "Other Schemes and Plans") shall not in aggregate exceed 10% of the shares in issue on 10 July 2002, that is, 1,057,278,026 shares.	Same as Share Option Scheme.

	Share Option Scheme	Sharesave Plan
Maximum entitlement of each participant	The total number of shares issued and to be issued upon the exercise of the options granted and to be granted to any one participant under the Share Option Scheme and the Other Schemes and Plans (including exercised, cancelled and outstanding options) in any twelve-month period up to and including the date of grant shall not exceed 1% of the shares in issue from time to time.	The maximum number of shares (rounded down to the next whole number) which can be paid for at the exercise price with monies equal to the aggregate of the savings contributions the participant has undertaken to make by the Maturity Date (defined as below) and interest which may be accrued thereon. Provided that the total number of shares issued and to be issued upon the exercise of the options granted and to be granted to any one participant under the Sharesave Plan and the Other Schemes and Plans (including exercised, cancelled and outstanding options) in any twelve-month period up to and including the date of grant shall not exceed 1% of the shares in issue from time to time. The amount of the monthly contribution to be made by a participant shall not be less than 1% and not more than 10% of the participant's monthly salary or such other maximum or minimum amounts as permitted by the Board.
Period within which the shares must be taken up under an option	Such period as shall be prescribed by the Board and specified in the letter of offer.	The thirty-day period (excluding the anniversary days) immediately after the first and second anniversary days from the date of grant or such other date as determined by the Board, or the thirty-day period immediately after the third anniversary of the date of grant or such other date as determined by the Board (the "Maturity Date"), or such other period(s) as may be determined by the Board.
Minimum period for which an option must be held before it can be exercised	Such minimum period as shall be prescribed by the Board and specified in the letter of offer.	One year.
(a) Amount payable on acceptance of the option	(a) HK$1.00	(a) HK$1.00
(b) Period within which payments or calls must or may be made	(b) Payment or an undertaking to make payment on demand of the Company must be received by the Company within the period open for acceptance as set out in the letter of offer which shall not be less than 7 days after the offer date.	(b) Payment or an undertaking to make payment on demand of the Company must be received by the Company not later than the date specified in the letter of invitation as the directors may determine.

	Share Option Scheme	Sharesave Plan
(c) The period within which loans for such purposes must be repaid	(c) Not applicable.	(c) Not applicable.
Basis of determining the exercise price	The exercise price is determined on the date of grant by the Board and shall not be less than the highest of: (a) the nominal value of the Company's shares; (b) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and (c) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.	Same as Share Option Scheme.
Remaining life	The Share Option Scheme shall remain in force for a period of ten years commencing on the first day of dealings in the Company's shares on the Stock Exchange which was 25 July 2002.	The Sharesave Plan shall remain in force for a period of ten years after the date of approval and adoption of the Sharesave Plan by the Company's shareholders which was 10 July 2002.

Please refer to the section "Directors' Rights to Acquire Shares" for details of the options granted by BOC (BVI) over shares of the Company pursuant to the Pre-Listing Share Option Scheme.

Purchase, Sale or Redemption of the Company's Shares

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

Compliance with "Code on Corporate Governance Practices"

The Company is committed to embrace and enhance good corporate governance principles and practices. The Company has been in full compliance with all the code provisions of the "Code on Corporate Governance Practices" contained in Appendix 14 of the Listing Rules (the "CG Code") save as disclosed in the paragraph headed "Directors' Securities Transactions" in the section titled "Corporate Governance" contained in this Annual Report, and it has also complied with nearly all the recommended best practices set out in the CG Code throughout the year. For further details, please refer to the section titled "Corporate Governance" contained in this Annual Report.

Major Customers

During the year, the five largest customers of the group accounted for less than 30% of the total of interest income and other operating income of the Group.

Connected Transactions

The Independent Non-executive Directors have reviewed the transactions which the Company disclosed in a public announcement on 2 January 2008 and confirmed that these transactions were:

(i) entered into in the ordinary and usual course of business of the Group;

(ii) conducted either on normal commercial terms or, if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, were on terms that were fair and reasonable so far as the Company's shareholders are concerned;

(iii) entered into either in accordance with the terms of the agreements governing such transactions or (where there were no such agreements) on terms no less favourable than those available to or from independent third parties, as applicable; and

(iv) in each case where an annual cap had been set, that such cap was not exceeded.

In accordance with paragraph 14A.38 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Board of Directors engaged the auditor of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the above continuing connected transactions. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

Budgetary Discipline and Reporting

The annual budget of the Group is reviewed and approved by the Board of Directors prior to its implementation by the Management. Financial and business targets are allocated to business units and subsidiaries. There are defined procedures for the appraisal, review and approval of major capital and recurring expenditures. Proposed significant expenditures outside the approved budget will be referred to the Board or the relevant Board committee for decision. Financial performance against targets is reported to the Board regularly. Should significant changes in relation to the operations arise, a revised financial forecast will be submitted to the Board for review and approval in a timely manner.

Compliance with the Banking (Disclosure) Rules and the Listing Rules

The financial statements for the year ended 31 December 2010 comply with the requirements set out in the Banking (Disclosure) Rules under the Banking Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Auditor

The financial statements for the year 2010 have been audited by PricewaterhouseCoopers. A resolution for their re-appointment as auditor for the ensuing year will be proposed at the forthcoming annual general meeting.

On behalf of the Board

XIAO Gang
Chairman

Hong Kong, 24 March 2011

CORPORATE GOVERNANCE

The Company is **committed to maintaining and upholding good corporate governance** in order to protect the interests of shareholders, customers and staff. The Company abides strictly by the laws and regulations of the jurisdiction where it operates, and observes the guidelines and rules issued by regulatory authorities such as the Hong Kong Monetary Authority, the Hong Kong Securities and Futures Commission and The Stock Exchange of Hong Kong. The Company also keeps its corporate governance system under constant review to ensure that it is in line with international and local best practices.

The Company is **in full compliance with all the provisions of the Code on Corporate Governance Practices** (the "Code") as appended to the Listing Rules of Hong Kong. It also **complies with nearly all the recommended best practices** set out in the Code. In particular, the Company **publishes quarterly financial and business reviews** so that shareholders can be better updated of the performance, financial position and prospects of the Company. BOCHK, the Company's wholly-owned and principal operating subsidiary, is in full compliance with the guideline in the Supervisory Policy Manual module CG-1 issued by the Hong Kong Monetary Authority and entitled "Corporate Governance of Locally Incorporated Authorised Institutions".

Corporate Governance Framework

The **Board is at the core of the Company's corporate governance framework**, and there is **clear division of responsibilities between the Board and the Management**. The Board is responsible for providing high-level guidance and effective oversight of the Management. Generally, the Board is responsible for:

- formulating the Group's mid and long-term strategy and monitoring the implementation thereof;
- reviewing and approving the annual business plan and financial budget;
- approving the annual, interim and quarterly reports;
- reviewing and monitoring risk management and internal control;
- ensuring good corporate governance and effective compliance; and
- monitoring the performance of the Management.

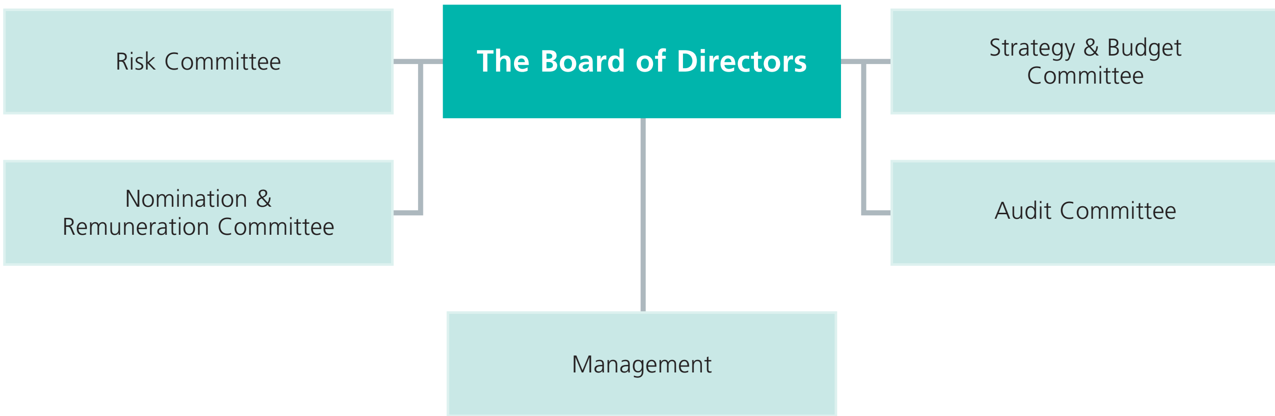
The Board authorises the Management to execute strategies that have been approved. The Management reports to the Board and is responsible for the day-to-day operation of the Group. **The Board has formulated clear written guidelines, which stipulate the circumstances under which the Management should report to and obtain prior approval from the Board** before making decisions or entering into any commitments on behalf of the Group. The Board will regularly review these guidelines.

To avoid the concentration of power in any single individual, the **positions of the Chairman and the Chief Executive are held by two different individuals. Their roles are distinct and are clearly established and stipulated in the Board's Mandate**. In short, the Chairman is responsible for ensuring that the Board properly discharges its responsibilities and conforms to good corporate governance practices and procedures. As the Chairman of the Board, he is also responsible for making sure that all Directors are properly briefed on issues arising at the board meetings, and that all Directors receive accurate, timely and clear information. The Chief Executive is responsible for providing leadership for the whole Management and implementing the important policies and development strategies approved by the Board.

Taking into consideration market practices and international best practices in corporate governance, **the Board has established four standing Board Committees** to assist it in carrying out its responsibilities. They are the Audit Committee, Nomination and Remuneration Committee, Risk Committee, and Strategy and Budget Committee. Should the need arise, the Board will authorise an independent board committee comprising all the independent non-executive Directors to review, approve and monitor connected transactions (including the continuing connected transactions) that should be approved by the Board.

Each of the Board Committees has a well-defined mandate. They make recommendations to the Board on relevant matters within their terms of reference, or make decisions under appropriate circumstances in accordance with the power delegated by the Board. **A secretarial department is assigned to provide support services to each Board Committee so that it can discharge its responsibilities properly and effectively**. The Board and Board Committees will participate in the annual performance appraisal of the secretarial departments to ensure the support services provided by these departments are adequate and of good quality. According to their mandates, **the Board and the Board Committees will review and evaluate their respective work process and effectiveness annually, with a view to identifying areas for improvement**.

The following chart sets out the Company's corporate governance framework.



The Company's corporate website (www.bochk.com) contains detailed information on the Company's corporate governance principles and framework, the compositions of the Board and Board Committees and a summary of their respective terms of reference, shareholders' rights and the Company's Fair Disclosure Policy.

Board of Directors

Non-executive Directors and independent non-executive Directors form the majority of the Board. This structure ensures the independence and objectivity of the Board's decision-making process as well as the thoroughness and impartiality of the Board's oversight of the Management. The Board acts honestly and in good faith in order to maximise long-term shareholder value and fulfill its corporate responsibility to other stakeholders of the Group. Its decisions are made objectively and in the best interests of the Group.

The Board currently has 12 members, comprising five independent non-executive Directors, five Non-executive Directors and two Executive Directors. Mdm. Yang Linda Tsao retired as an independent non-executive Director of the Company with effect from 21 May 2010. Save as disclosed above, there was no other change to the composition of the Board in 2010 and up to the date of this report.

All Directors possess extensive experience in banking and management, and over one third of them are independent non-executive Directors, of whom several are experts in financial and/or risk management. The Board has adopted the "Policy on Independence of Directors" (the "Independence Policy") which stipulates the criteria on independence of independent non-executive Directors. The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence by reference to the Independence Policy. In particular, two of the independent non-executive Directors, namely, Dr. Fung Victor Kwok King and Mr. Shan Weijian, who were appointed in 2002, will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election pursuant to the Articles of Association. Their term of office will be more than 9 years if they are re-elected at the forthcoming annual general meeting for a further term of approximately 3 years. On the basis of the information available to it, the Company considers all of the Independent Non-executive Directors to be independent. Biographical details of the Directors are set out in the "Board of Directors and Senior Management" section of this Annual Report and the Company's website at www.bochk.com.

All the existing **Non-executive Directors and independent non-executive Directors** of the Company have been **appointed for a fixed term, with formal letters of appointment** setting out the key terms and conditions of their appointment. Pursuant to the Articles of Association, all Directors, including the Chairman, Vice Chairmen and Chief Executive, shall retire by rotation at least once every three years at annual general meetings and be eligible for re-election. Accordingly, Mr. He Guangbei, Mr Li Zaohang, Dr. Fung Victor Kwok King and Mr. Shan Weijian will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. Further details regarding proposed re-election of Directors are set out in the section headed "Report of the Directors" of this Annual Report. The Nomination and Remuneration Committee has also established a **written and formal process for the appointment of independent**

non-executive Directors to ensure that the appointment procedures are standardised, thorough and transparent.

There is **no relationship (including financial, business, family or other material/relevant relationship(s)) among the Board members**. Messrs. Xiao Gang, Li Lihui, Li Zaohang and Zhou Zaiqun are Executive directors of BOC. Mdm. Zhang Yanling is a former executive vice-president of BOC (she ceased to be an executive vice-president of BOC on 23 July 2010). It is expressly provided in the Board's Mandate that, unless permissible under applicable laws or regulations, if a substantial shareholder or Director has a conflict of interest in the matter to be considered by the Board, a Board meeting attended by independent non-executive Directors who have no material interest in the matter shall be held to deliberate on the same.

The Company has arranged for **appropriate Directors' Liability Insurance Policy to indemnify the Directors for liabilities arising out of corporate activities**. The coverage and the sum insured under the policy are reviewed annually.

To ensure that newly appointed Directors have adequate understanding of the Company's business and operation, and to enable current Directors to constantly update their skills and knowledge so that they can continue to offer informed advice and contribute to the Board, the Board enforces a **formal system for the initial induction and ongoing professional development of the Directors**. In 2010, the Board invited Mr. Koh Beng Seng, the Chairman of the Risk Committee of the Company with extensive experiences in supervision of financial sector, to share with members of the Board and senior management the risk appetite setting of the banks.

Seven Board meetings were held during the year with an average attendance rate of 95%. The meeting schedule was prepared and approved by the Board in the preceding year. In general, Board agenda and meeting materials are despatched to all Board members for review at least seven days before the meetings. Board agenda is approved by the Chairman following consultation with other Board members and the Management. As a general practice, the Chairman will meet all Non-executive Directors (including independent non-executive Directors) in the absence of Executive Directors and the Management at the beginning of each Board meeting, in order to facilitate an open and frank discussion among the Non-executive Directors. This practice has been incorporated in the Working Rules of the Board. Individual attendance records of the Directors in 2010 are set out as follows:

Director	Number of Board meetings attended	Attendance rate
Non-executive Directors		
Mr. XIAO Gang *(Chairman)*	6 out of 7	86%
Mr. LI Lihui *(Vice Chairman)*	7 out of 7	100%
Mr. LI Zaohang	6 out of 7	86%
Mr. ZHOU Zaiqun	7 out of 7	100%
Mdm. ZHANG Yanling	7 out of 7	100%
Independent Non-executive Directors		
Dr. FUNG Victor Kwok King	6 out of 7	86%
Mr. KOH Beng Seng	7 out of 7	100%
Mr. SHAN Weijian	7 out of 7	100%
Mr. TUNG Chee Chen	6 out of 7	86%
Mr. TUNG Savio Wai-Hok	7 out of 7	100%
Mdm. YANG Linda Tsao *(Note)*	4 out of 4	100%
Executive Directors		
Mr. HE Guangbei *(Vice Chairman and Chief Executive)*	7 out of 7	100%
Mr. GAO Yingxin	6 out of 7	86%

Note: Mdm. Yang Linda Tsao retired as an Independent Non-executive Director with effect from 21 May 2010.

Apart from formal Board meetings and general meetings, there are opportunities for the Board and the Management to interact and communicate on relatively less formal occasions. For example, **Board members have been invited to give a talk to the Company's middle to senior management on diverse subjects leveraging on their respective background and expertise.** Further, **off-site events have been held to enhance communication among Board members, and between the Board and the Management.**

Audit Committee

The Audit Committee currently has six members (with Mdm. Yang Linda Tsao retired in May 2010), comprising one Non-executive Director and all the five independent non-executive Directors. Independent non-executive Directors make up 83% of the Committee members. The Committee is chaired by Mr. Shan Weijian, an independent non-executive Director.

The Committee assists the Board in fulfilling its oversight role over the Company and its subsidiaries in, among others, the following areas:

- integrity of financial statements and financial reporting process;
- internal control systems;
- effectiveness of internal audit function and performance appraisal of the Head of Internal Audit;
- appointment of external auditor and assessment of their qualifications, independence and performance and, with authorisation of the Board, determination of their remuneration;
- periodic review and annual audit of the Company's and the Group's financial statements, and financial and business review;
- compliance with applicable accounting standards as well as legal and regulatory requirements on financial disclosures; and
- corporate governance framework of the Group and implementation thereof.

The work performed by the Audit Committee in 2010 included the review and, where applicable, approval of:

- the Company's Directors' Report and financial statements for the year ended 31 December 2009 and the annual results announcement that were recommended to the Board for approval;
- the Company's interim financial statements for the six months ended 30 June 2010 and the interim results announcement that were recommended to the Board for approval;
- the Company's announcement on quarterly financial and business review for the period ended 31 March 2010 and 30 September 2010 that were recommended to the Board for approval;
- the audit reports and report on internal control recommendations submitted by the external auditor, and the on-site examination reports issued by regulators;
- the re-appointment of external auditor, the fees payable to external auditor for the annual audit, interim review and other non-audit services;
- the Group's internal audit plan for 2010 and key issues identified;
- the deployment of human resources and pay level of the Internal Audit, and the department's budget for 2010; and
- the 2010 key performance indicators for and 2009 performance appraisal of the Head of Internal Audit and the Internal Audit Department.

The "Policy on Staff Reporting of Irregularities" adopted by the Board has proved to be effective. Last year, reports on a number of cases were received and handled satisfactorily through the channels and procedures set out in the said Policy.

Pursuant to paragraph C.2 of the Code, the Audit Committee conducted an annual review of the effectiveness of the internal control systems of the Group in 2010. This review covered all material controls, including financial, operational and compliance controls as well as risk management. The review also considers the adequacy of resources, staff qualifications and experience and training of the Group's accounting and financial reporting functions. For detailed information on this topic, please refer to the "Internal Control" section below.

Six Audit Committee meetings were held during the year with an average attendance rate of 90%. Individual attendance records of the relevant Directors are set out as follows:

Director	Number of committee meetings attended	Attendance rate
Mr. SHAN Weijian *(Chairman)*	6 out of 6	100%
Mr. ZHOU Zaiqun	5 out of 6	83%
Dr. FUNG Victor Kwok King	5 out of 6	83%
Mr. KOH Beng Seng	5 out of 6	83%
Mr. TUNG Chee Chen	5 out of 6	83%
Mr. TUNG Savio Wai-Hok	6 out of 6	100%
Mdm. YANG Linda Tsao *(Note)*	4 out of 4	100%

Note: Mdm. Yang Linda Tsao retired and resigned as an Independent Non-executive Director and a member of the Audit Committee with effect from 21 May 2010. The Independent Non-executive Directors nevertheless make up the majority of the Committee members, and the independence of the Committee is not affected by the relevant change.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee currently has five members (with Mdm. Yang Linda Tsao retired in May 2010) comprising two Non-executive Directors and three independent non-executive Directors. The independent non-executive Directors represent 60% of the Committee members. The Committee is chaired by Mr. Li Lihui, Vice-chairman of the Board.

The Committee assists the Board in fulfilling its oversight role over the Company and its subsidiaries in, among others, the following areas:

- overall human resources, remuneration strategy and incentive framework of the Group;
- selection and nomination of Directors, Board Committee members and certain senior executives as designated by the Board from time to time;
- structure, size and composition (including skills, experience and knowledge) of Directors and Board Committee members;
- remuneration of Directors, Board Committee members, designated senior management and key personnel, and
- effectiveness of the Board and Board Committees.

The work performed by the Committee in 2010 included the review and where applicable, approval of:

- performance appraisal of the Executive Director and designated senior executives for year 2009;
- proposal on staff bonus for year 2009 and salary adjustment for year 2010 for the Group, including the designated senior executives;
- key performance indicators of the Group and the designated senior executives for year 2010;
- proposal on human resources budget of the Group for year 2011;
- reform proposals related to the implementation of HKMA's "Guideline on a Sound Remuneration System";
- implementation progress of the Group's medium-term human resources strategies and other major human resources policies;
- reports on self-evaluation of the Board and Board Committees, which were analysed by the Committee. The Committee also made recommendations to the Board regarding the results of the self-evaluation, with a view to further enhancing the role and effectiveness of the Board and Board Committees;
- formulation, review and amendment on major HR and compensation policies; and
- matters relating to the appointment of directors to the boards of certain major subsidiaries of the Group.

Pursuant to the "**Policy on Directors' Remuneration**" adopted by the Company, in recommending the remuneration of Directors, the Committee makes reference to companies of comparable business type or scale, and the nature and quantity of work at both Board and Board Committee levels (including frequency of meetings and nature of agenda items) in order to compensate

Directors reasonably for their time and efforts spent. **No individual Director is allowed to participate in the procedures for deciding his/her individual remuneration package**. Information relating to the remuneration of each Director for 2010 is set out in Note 21 of the financial statement of the 2010 Annual Report. The present scale of Director's fees, including additional fees for membership of Board Committees, is given below:

Board of Directors:	
All Directors	HK$200,000 p.a.
Board Committees:	
Chairman	HK$100,000 p.a.
Other Committee members	HK$50,000 p.a.

Note: For the year ended 31 December 2010, all five Non-executive Directors waived their Director's fee mentioned above.

The **Nomination and Remuneration Committee** also has the delegated responsibility to **determine the specific remuneration packages of the Executive Directors and designated senior executives and review the remuneration and incentive mechanism of the Group**. Please refer to the section headed "Remuneration and Incentive Mechanism" in this Corporate Governance Report for further details.

Six Nomination and Remuneration Committee meetings were held during the year with an average attendance rate of 86%. Individual attendance records of the relevant Directors are set out as follows:

Director	Number of committee meetings attended	Attendance rate
Mr. LI Lihui *(Chairman)*	6 out of 6	100%
Mr. LI Zaohang	5 out of 6	83%
Dr. FUNG Victor Kwok King	4 out of 6	67%
Mr. SHAN Weijian	5 out of 6	83%
Mr. TUNG Chee Chen	5 out of 6	83%
Mdm. YANG Linda Tsao *(Note)*	3 out of 3	100%

Note: Mdm. Yang Linda Tsao retired as a member of Nomination and Remuneration Committee with effect from 21 May 2010.

Risk Committee

The Risk Committee has four members in 2010. Two of them are independent non-executive Directors and two are Non-executive Directors. The Committee is chaired by Mr. Koh Beng Seng, an independent non-executive Director.

The Committee assists the Board in fulfilling its oversight role over the Company and its subsidiaries in, among others, the following areas:

- formulation of the risk appetite and risk management strategy of the Group, and determination of the Group's risk profile;
- identification, assessment and management of material risks faced by the various business units of the Group;
- review and assessment of the adequacy of the Group's risk management policies, system and internal control;
- review and monitoring of the Group's capital management;
- review of the Group's target balance sheet;
- review and monitoring of the Group's compliance with the risk management policies, system and internal control, including the Group's compliance with prudential, legal and regulatory requirements governing the business of the Group;
- review and approval of high-level risk-related policies of the Group;

- review of significant or high risk exposures and transactions; and
- review of key reports, including risk exposure reports, model development and validation reports, and credit risk model performance reports.

The work performed by the Committee in 2010 included the following:

- review/approval of policies, including the "Group's Operating Principles", the "Risk Management Policy Statement", the "Requirements Relating to the Approval, Formulation, Review and Revision of Risk Management Policies and Procedures", the "Capital Management Policy of BOCHK", the "Staff Code of Conduct", the "Policy for Validating Internal Rating Systems", the "Connected Transactions Management Policy", and a range of risk management policies covering strategic risk, credit risk, market risk, interest rate risk, operational risk, legal, compliance and reputation risk and stress testing;
- review/approval of the risk adjustment method for group bonus funding mechanics;
- review of the Group's operating plan, including the Group's target balance sheet, the Bank's banking book investment plan and portfolio key risk indicators, as well as risk management limits;
- review and monitoring of Basel II implementation, including approval of FIRB models, review of model validation reports, receiving the implementation progress reports of FIRB, IMA and ICAAP, as well as the status reports of the allocation of risk-weighted assets;
- review of various periodic risk management reports; and
- review of significant high risk exposures and transactions.

Seven Risk Committee meetings were held during the year with an average attendance rate of 96%. Individual attendance records of the relevant Directors are set out as follows:

Director	Number of committee meetings attended	Attendance rate
Mr. KOH Beng Seng *(Chairman)*	7 out of 7	100%
Mr. TUNG Savio Wai-Hok	7 out of 7	100%
Mdm. ZHANG Yanling	7 out of 7	100%
Mr. LI Zaohang	6 out of 7	86%

Strategy and Budget Committee

The Strategy and Budget Committee currently comprised four members: one independent non-executive Director, two Non-executive Directors, and the Chief Executive, who is an Executive Director. The Committee was chaired by Mdm. Yang Linda Tsao, an independent non-executive Director who retired with effect from 21 May 2010. Thereafter the number of members of the Strategy and Budget Committee was reduced from five to four and the Committee is then chaired by Mr. Zhou Zaiqun, a Non-executive Director.

The Committee assists the Board in fulfilling its oversight role over the Company and its subsidiaries in, among others, the following areas:

- draft, review, motion, and monitor the Group's medium to long-term strategy;
- draft and review the process for formulating the Group's medium to long-term strategy to ensure that they are sufficiently robust to take into account a range of alternatives;
- monitor implementation of the Group's medium to long-term strategy through pre-determined metrics and provide guidance to Management;
- review and monitor the Group's regular/periodic (including annual) business plan and financial budget; and
- make recommendations to the Board on major capital expenditures, merger & acquisition and strategic commitments of the Group and monitor implementation of the same.

During the year, the Strategy and Budget Committee guided and monitored the Management's implementation of the Group's annual business strategy. The Committee also played a prominent role in driving the formulation and implementation of the Group's key business strategies, including those for the development of China business, RMB business, etc. In particular, the Committee guided the Management to consummate the medium to long-term rolling strategic plan of the Group as it faced new opportunities and threats arising from the new operating environment. Furthermore, the Committee monitored the implementation of the Group's budget and business plan for 2010. In planning for 2011, the Committee reviewed and endorsed the Group's financial budget and business plan, and recommended to the Board for approval.

Seven Strategy and Budget Committee meetings were held during the year with an average attendance rate of 100%. Individual attendance records of the relevant Directors are set out as follows:

Director	Number of committee meetings attended	Attendance rate
Mdm. YANG Linda Tsao *(Former Chairlady) (Note 1)*	4 out of 4	100%
Mr. ZHOU Zaiqun *(Chairman) (Note 2)*	7 out of 7	100%
Mr. HE Guangbei	7 out of 7	100%
Mdm. ZHANG Yanling	7 out of 7	100%
Mr. TUNG Savio Wai-Hok	7 out of 7	100%

Note 1: Mdm. Yang Linda Tsao retired as Chairlady of Strategy and Budget Committee with effect from 21 May 2010
Note 2: Mr. Zhou Zaiqun was appointed as Chairman of Strategy and Budget Committee with effect from 21 May 2010

Ad Hoc Committee

The Board established ad hoc Independent Board Committee during the year with details as follow:

Independent Board Committee

An Independent Board Committee was set up in January 2010 to review and approve the terms and conditions of the appointment of BOCI, an associate of BOC, as one of the joint lead managers in relation to issue of subordinated notes by BOCHK in February and April 2010 to qualified institutional buyers in reliance on certain exemption from the registration requirements of the U.S. Securities Act of 1933. The Committee comprised all the independent non-executive Directors of the Company at the material time and was chaired by Mr. Tung Chee Chen. The appointment was exempted from compliance with relevant requirements under the Listing Rules but the Independent Board Committee was still set up for good corporate governance. As the terms and conditions for BOCI's appointment are consistent with those for the appointment of other two joint lead managers who are independent third parties, the Independent Board Committee considered that the appointment was fair and reasonable, on normal commercial terms and was in the interests of the Company and its shareholders taken as a whole.

An Independent Board Committee was set up in May 2010 to review and approve the continuing connected transactions between the Group on the one hand and BOC and its associates on the other hand, for the three financial years ending 31 December 2013. The Committee comprised all the independent non-executive Directors and was chaired by Mr. Tung Chee Chen. The Committee has engaged KBC Bank N.V. as the independent financial adviser for the purpose of reviewing the continuing connected transactions. On the basis of KBC Bank N.V.'s advice, the Committee has been satisfied that the continuing connected transactions were conducted in the ordinary and usual course of business of the Group and the continuing connected transactions and the annual caps imposed on such transactions for the three years 2011-2013 are in the interests of the Company and its shareholders as a whole and are fair and reasonable so far as the independent shareholders are concerned. As the annual caps for certain categories of continuing connected transactions represent more than 5% of the applicable percentage ratios as defined in the Listing Rules, such transactions are subject to the approval of the independent shareholders of the Company. For such purpose, an extraordinary general meeting is scheduled to be held immediately after the annual general meeting of the Company on 25 May 2011. Shareholders please refer to the circular issued by the Company dated 20 January 2011 and notice of the extraordinary general meeting issued by the Company in April 2011 for details on the continuing connected transactions and the extraordinary general meeting. Shareholders can also view and download the aforesaid documents from the Company's website at www.bochk.com.

Directors' Securities Transactions

The Company has adopted the "Code for Securities Transactions by Directors" to govern securities transactions by Directors. The terms of the said Code are more stringent than the mandatory standards set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" contained in Appendix 10 of the Listing Rules. Apart from the securities of the Company, the

Code applies equally to the Director's dealings in the securities of BOC which was listed on the Stock Exchange of Hong Kong in June 2006. In this connection, the Company had made specific enquiry of all Directors, who confirmed that they had complied with the standards set out in both the Company's Code and the said Model Code throughout year 2010, with the following exception. On 25 June 2010, without the knowledge of Mr. Zhou Zaiqun who was on a business trip, or any prior consultation with him, his wife caused 500 shares in the Company held by him in an account jointly controlled by him and her to be sold. The number of shares sold represented only 0.05% of his interests in shares/underlying shares of the Company and only 0.000005% of the issued share capital of the Company. The sale did not take place during the "black out" period for Directors' dealing in securities in the Company. At the time Mr. Zhou did not have any material non-public price-sensitive information relating to securities in the Company. As Mr. Zhou was unaware of the sale of the 500 shares, he could not, and did not, seek any approval for the sale and did not disclose it pursuant to the requirements set out in the Company's Code (and the Model Code). Mr. Zhou only learnt for the first time about the sale of the shares on 26 July 2010, whereupon he immediately brought the matter to the attention of the Management of the Company.

Remuneration and Incentive Mechanism

The Remuneration and Incentive Mechanism of the Group is based on the principles of "effective motivation" and "sound remuneration management". It links remuneration, performance and risk management tightly, and encourages staff to enhance their performance and at the same time strengthen their mindset of risk management so as to achieve sound remuneration management.

- **The Determination of the Remuneration Policy**
  To fulfill the above-mentioned principles and to facilitate effective risk management within the framework of the Remuneration Policy of the Group, the Remuneration Policy of the Group is initiated by Human Resources Department with consultation of the risk control units including Risk Management, Financial Management and Compliance in order to balance the needs for staff motivations, sound remuneration and prudent risk management. After the proposed Remuneration Policy is cleared with the Management Committee, it will be submitted to the Nomination and Remuneration Committee for review and thereafter to the Board of Directors for approval. Nomination and Remuneration Committee and the Board of Directors will seek opinions of other Board committees (e.g. Risk Committee, Audit Committee, etc.) where they consider necessary under the circumstances.

- **The Key Features of the Remuneration and Incentive Mechanism**

1. *Performance Management Mechanism*
   To reflect the corporate culture of "Achieving Performance and Effectiveness", the Group has put in place a performance management mechanism to formalise the performance management at the levels of the Group, units and individuals. The annual targets of the Group will be cascaded down under the framework of balanced scorecard whereby the performance of the senior management and different units (including business units, risk control units and other units) would be assessed from the perspectives of financial, customer, building block/key tasks, human capital, risk management and compliance. As to the performance management of individual staff at different levels, the annual targets of the Group will be tied to the job requirements of different posts at different levels through the model of level-based performance management. Performance of individuals will be appraised with reference to their accomplishment of work targets, contribution towards overall performance of their corresponding units and compliance of risk management and internal control policies. Under this mechanism, not only the target accomplishment has been taken into account, the risk exposure involved during the course of work of a staff member could also be evaluated and managed so as to provide safeguards to the Group against the risk and ensure normal operations. The mechanism is also coupled with the assessment on system of values, thereby facilitating the attainment of the core values of the Group.

2. *Risk Modification of Remuneration*
   To implement the principle of aligning the performance and remuneration with the risk, the Group has introduced "The Risk Adjustment Method" under which the key risk modifiers of the bank have been incorporated into the performance management mechanism of the Group and the size of the Variable Remuneration Pool of the Group, which is the total amount to be paid to the staff as variable compensation, would be determined on the basis of the risk-adjusted performance results. This method enables the Group to fix the Group's Variable Remuneration Pool after considering risk exposures and changes and to maintain effective risk management through the remuneration mechanism.

3. *Performance-based Remuneration Management*
   The remuneration of staff is composed of "fixed remuneration" and "variable remuneration", the proportion of one to the other for individual staff members depends on job grades, roles, responsibilities and functions of the staff with the prerequisite that balance has to be struck between the fixed and variable portion. Generally speaking, the higher the job grades and/or the greater the responsibilities, the higher will be the proportion

of variable remuneration so as to encourage the staff to follow the philosophy of prudent risk management and sound long-term financial stability.

Every year, the Group will conduct periodic review on the fixed remuneration of the staff with reference to various factors like remuneration strategy, market pay trend and staff salary level; and to determine the remuneration based on the affordability of the Group as well as the performance of the Group, units and individuals. As mentioned above, performance assessment criteria include quantitative and qualitative factors, as well as financial and non-financial indicators.

The size of the Variable Remuneration Pool of the Group is determined by the Board on the basis of the financial performance of the Group and the achievement of non-financial strategic business targets under the long-term development of the Group. Thorough consideration is also made to the risk factors in the determination process. The size of the Pool is reached based on formulaic calculations but the Board can make discretionary adjustment to it if deemed appropriate under prevailing circumstances. As far as individual units and individual staff are concerned, allocation of the variable remuneration is closely linked to the performance of the units, and that of each individual staff as well as the unit he/she is attaching to, the assessment of which should include risk modifiers. Within the acceptable risk level of the Group, the better the performance of the unit and the individual staff, the higher will be the variable remuneration for the individual staff.

4. *Linking the payout of the variable remuneration with the time horizon of the risk to reflect the long-term value creation of the Group*
   To work out the principle of aligning remuneration with the risk and to ensure that sufficient time is allowed to ascertain the associated risk and its impact before the actual payout, payout of the variable remuneration of staff is required to be deferred if such amount reaches certain prescribed threshold. The Group adopts a progressive approach towards deferral. The longer the time horizon of risk in the activities conducted by the staff, the higher the job grade or the higher amount of the variable remuneration, the higher will be the proportion of deferral. Deferral lasts for 3 years.

   The vesting of the deferred variable remuneration is linked with the long term value creation of the Group. The vesting conditions are linked to the yearly performance (financial and non-financial) of the Group in the next 3 years to the effect that the variable remuneration could only be vested to such extent as set for the relevant year in that 3-year period subject to the condition that the Group's performance has met the threshold requirement in the corresponding year. In case of material revision of the original estimates of the performance of the Group or individual units, or if a staff is found to commit fraud, or found to be of malfeasance or in violation of internal control policies, the unvested portion of the deferred variable remuneration of the relevant staff will be clawed back.

External Auditor

Pursuant to the "Policy on External Auditors" adopted by the Board, the **Audit Committee** reviewed and monitored and **was satisfied with the independence and objectivity of PricewaterhouseCoopers**, the Group's external auditor, **and the effectiveness of their audit procedures**, based on the principles and standards set out in the policy that were in line with international best practices. Upon the recommendation of the Audit Committee, the Board will propose that PricewaterhouseCoopers be re-appointed as auditor of the Group at the Company's 2011 annual general meeting. Subject to authorisation by the shareholders, the Board will authorise the Audit Committee to determine the remuneration of PricewaterhouseCoopers. For 2010, the fee charged by PricewaterhouseCoopers was HK$39 million, of which HK$31 million was for audit services and HK$8 million related to other services. Among the said HK$8 million, HK$4 million of which was the fee charged by PricewaterhouseCoopers in relation to issue of subordinated notes by the Bank. For 2009, the fee charged by PricewaterhouseCoopers was HK$35 million, of which HK$29 million was for audit services and HK$6 million related to other services.

The Audit Committee was satisfied that the non-audit services did not affect the independence of PricewaterhouseCoopers. The amount paid to PricewaterhouseCoopers for non-audit services in 2010 comprised mainly the tax-related services fee of HK$2 million, the fee incurred incidental to the issue of subordinated notes by the Bank of HK$4 million and miscellaneous non-audit services fee of HK$2 million.

Internal Control

The Board has the responsibility to ensure that the Group maintains sound and effective internal controls to safeguard the Group's assets. According to the Board's delegation, the Management is responsible for the day-to-day operations and risk management.

The internal control system is designed to provide appropriate assurance against material misstatement or loss; to manage the risk of system failure; and to assist in the achievement of the Group's objectives. In addition to safeguarding the Group's assets, it also ensures the maintenance of proper accounting records and compliance with relevant laws and regulations.

The Group conducts an annual review of the effectiveness of its internal control systems covering all material controls, including financial, operational and compliance controls as well as risk management. The review is conducted by making reference to the guidelines and definitions given by the regulatory and professional bodies for the purpose of assessing five different internal control elements, namely, the control environment, risk assessment, control activities, information and communication, and monitoring. The assessment covers all the major internal controls and measures, including financial, operational and compliance controls as well as risk management functions. The review also considers the adequacy of resources, staff qualifications and experience and training of the Group's accounting and financial reporting functions. The annual review is coordinated by the Group's Internal Audit which, after the Management and various business departments have performed their self-assessment, then carries out an independent examination and other post-assessment work on the review process and results. The results of the 2010 review have been reported to the Audit Committee and the Board.

The key procedures that the Group has essentially established and implemented to provide internal controls are summarised as follows:

- with a Management that functions under a rational organisational structure and whose authority, responsibility and accountability are clearly delineated, the Group has formulated policies and procedures to ensure reasonable checks and balances for all the operating units, reasonable safeguard for the Group's assets, the implementation of internal controls and adherence to relevant laws and regulations and risk management in its operations;
- the Management draws up and continuously monitors the implementation of the Group's strategies, business plans and financial budgets. The accounting and management systems that are in place provide the basis for evaluating financial and operational performance;
- the Group has various risk management and human resources policies. There are specific units and personnel that are responsible for identifying, assessing and managing all the major risks. These include reputation, strategic, legal, compliance, credit, market, operational, liquidity and interest rate risks (The Group's risk management governance structure is given on page 49 to page 53 in this Annual Report);
- the Group has established an information technology governance structure that produces a range of reports on information systems and management, including information on the monitoring of various business units, financial information and operating performance. Such information facilitates the Management, business units and the regulatory bodies in assessing and monitoring the Group's operation and performance. Proper communication channels and reporting mechanisms are in place at various business units and levels to facilitate exchange of information;
- pursuant to a risk-based approach and in accordance with the internal audit plan approved by the Audit Committee, the Group's Internal Audit conducts independent reviews on such aspects as financial activities, various business areas, various kinds of risks, operations and activities. Audit reports are submitted directly to the Audit Committee. Internal Audit closely follows up on the items that require attention in a systematic way and reports to the Audit Committee and the Management in a timely manner; and
- the Audit Committee reviews the reports submitted by external auditor to the Group's Management in connection with the annual audit as well as the recommendations made by regulatory bodies on internal control. Internal Audit follows up on the same to ensure timely implementation of the recommendations, and also periodically reports the status of the implementation to the Management and the Audit Committee.

The Group is committed to maintaining and upholding good corporate governance practices and internal control system of all subsidiaries are reviewed regularly. During the year of 2010, continuous improvement on the organisation structure and segregation of duty, the risk management policy and procedure, and the enhancement of disclosure transparency have been undertaken. In response to the volatility in global financial markets and unstable momentum of economic recovery, the Group has implemented a series of measures and undertaken an on-going review on the effectiveness of the internal control mechanism. In 2010, areas for improvement have been identified and appropriate measures have been implemented.

Communication with Shareholders and Shareholders' Rights

The Board attaches a high degree of importance to continuous communication with shareholders, especially direct dialogue with them at the Company's annual general meetings. Shareholders are therefore encouraged to actively participate at such meetings.

The Chairman of the Board, the Chairmen and members of Board Committees, and representatives of PricewaterhouseCoopers were present at the Company's 2010 annual general meeting held on 20 May 2010 at the Grand Ballroom, Lower Lobby, Conrad Hong Kong, Pacific Place to respond to questions and comments raised by shareholders. Resolutions passed at the Company's 2010 annual general meeting included: adoption of the

Company's and the Group's 2009 financial statements, re-election of Directors, re-appointment of auditor and grant of general mandates to the Board to issue and repurchase shares of the Company.

As disclosed in the Annual Report for 2009 of the Company, in view of the investors' concern regarding the potential dilution of the shareholders' value arising from the exercise of power pursuant to the grant of a general mandate to issue shares to the Board, the Board has voluntarily reduced the general mandate to issue shares of up to 5% of the issued share capital as compared to the 20% limit permitted under the Listing Rules in the event that the issue of shares is for cash and not related to any acquisition of assets for approval by the shareholders at the 2010 annual general meeting. The Board would also recommend the said 5% threshold at the forthcoming 2011 annual general meeting for approval by shareholders. Further, given its commitment to high standards of corporate governance, the Board also adopted certain **internal policies for the exercise of the powers granted to the Board under the general mandates to issue shares solely for cash and repurchase shares**. Those policies are summarised as follows:

- the Board will not exercise the mandate at a discount that will result in significant dilution of shareholders' value. In the exercise of such power to issue shares for cash, the Board will have regard to factors such as the Group's capital adequacy ratio, and in particular, its Tier 1 capital, cost and benefit of raising Tier 2 capital, need for cash for the Group's business development, the principle that shareholders should be treated equally and the alternative of conducting a rights issue; and

- the Board has set the triggering events for the exercise of the power to repurchase shares, which include: market price of the Company's shares is lower than the fair value of the shares; the Group has surplus funds which is in excess of its short to mid term development requirements; and the Board considers it proper and appropriate to exercise the general mandate for enhancing the return on equity or net assets or earnings per share of the Company. In general, such purchases will be made on the Stock Exchange. However, if it is expected that the size of the purchases may lead to a disorderly market for the Company's shares, then the Board will consider making the purchases through a general offer, i.e. offer to all existing shareholders in proportion to their respective shareholdings. The price at which shares are repurchased will not be higher than the fair value of the shares of the Company.

All the resolutions proposed at the Company's 2011 annual general meeting will be voted on by poll. The Company has engaged Computershare Hong Kong Investor Services Limited, the Company's Share Registrar, to act as the scrutineer for such purpose. The results of the poll voting will be posted on the Company's website at www.bochk.com and the Stock Exchange's website at www.hkexnews.hk as soon as practicable following conclusion of the vote-counting.

In order that shareholders can have a better understanding of the agenda items to be discussed at the 2011 annual general meeting and to encourage their active participation so that exchange of views and communication can be further enhanced, **the Company has provided detailed information on the 2011 annual general meeting in a circular** which is despatched together with this Annual Report to the shareholders. This includes background information to the proposed resolutions, information on the retiring Directors and information on voting and other issues relating to the 2011 annual general meeting in the form of "Frequently Asked Questions" (including how to convene an extraordinary general meeting and how to put forward a proposal for consideration by shareholders at a general meeting).

Further shareholder information is set out in the "Investor Relations" section of this Annual Report. Shareholders who wish to raise any queries with the Board may write to the Company Secretary at 52nd Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong.

Directors' Responsibility Statement in relation to Financial Statements

The following statement should be read in conjunction with the auditor's statement of their responsibilities as set out in the auditor's report contained in this Annual Report. The statement is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditor in relation to the financial statements.

The Directors are required by the Hong Kong Companies Ordinance to prepare financial statements, which give a true and fair view of the state of affairs of the Company. The financial statements should be prepared on a going concern basis unless it is not appropriate to do so. The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the requirements of the Hong Kong Companies Ordinance. The Directors also have general responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors consider that in preparing the financial statements contained in this Annual Report, the Company has adopted appropriate accounting policies which have been consistently applied and supported by reasonable judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

INVESTOR RELATIONS

Investor Relations Policy and Guidelines

The Company is committed to maintaining effective two-way communication with our shareholders and potential investors. We strive to provide clear and timely information that is reasonably required to make a fair investment decision with regard to the Company's equity and debt securities. We also highly value investor feedback and comments which are important for the formulation of the Company's growth strategies to enhance shareholder values.

Investor Relations Programmes

The Company recognises the fundamental importance of transparency and accountability. Management believes that shareholder value can best be enhanced by articulating the corporate strategies, business strengths and weaknesses, growth opportunities and threats, and future prospects through a continuous and active dialogue with the investment community, the media and the public.

The Investor Relations Committee, which is chaired by the Company's Chief Executive and comprising other senior executives, formulates the Company's investor relation strategies and oversees the investor relations programmes. The Investor Relations Division of the Board Secretariat, which reports directly to the Board, implements these strategies and acts as an intermediary between the Company and its investors and the investment community. Both the Board and the Committee evaluate the effectiveness of the investor relations programmes on a regular basis.

Through various channels, the Company aims to provide timely and effective communication with the investment community to enhance their knowledge and understanding of the Company's development and strategies. The Company continues to enhance its profile among international investors by conducting investor relations activities on a global basis. The Company's senior management is highly supportive and actively involved in these activities.

Multi-communication channels

- Annual General Meeting
- Results briefings

- Corporate website
- Investor emails or inquiries
- Email alert service

- Global roadshows
- Investor conferences
- Company visits

- Investor/analyst workshops
- Feedback surveys

Disclosure Policy

To attain a high standard of investor relations practice, the Company adopts the Fair Disclosure Policy, which is available on the Company's website for public reference. The policy contains clear guidelines to ensure that:

1. The Listing Rules and other regulatory requirements in relation to the disclosure of price-sensitive information are complied with.
2. All communications with the public, including the investment community and the media, are fair.
3. Material non-public information is not disseminated on a selective basis.

Access to Corporate Information

The Investor Relations section of the Company's website (http://www.bochk.com/ir) provides investors with an access to important and relevant corporate information about the Company's latest development on a fair and timely basis. These include presentations, reports and press releases in relation to the interim and annual results, quarterly financial and business review statements as well as other announcements describing the Company's key developments. The Company publishes all important announcements through the Stock Exchange of Hong Kong and will post them on the Company's website immediately after the release.

The website also includes a corporate calendar that provides the dates of announcements of interim and annual results as well as quarterly financial and business reviews, and other significant events.

To enhance social awareness and help promote environmental protection, our shareholders and investors are encouraged to view the Company's corporate communication materials online. The Investor Relations website also includes an e-mail alert service which allows interested parties to register for corporate updates via e-mail.

Overview of Investor Relations Activities in 2010

In 2010, the Company continued its efforts to provide effective channels for proactive communication with investors.

Annual General Meeting

At the AGM held in May 2010, the Chairmen of the Board, the Nomination and Remuneration Committee, the Risk Committee, and the Strategy and Budget Committee respectively, members of the Audit Committee as well as the Company's external auditors were present to respond to questions and comments from shareholders. A total of 730 registered shareholders and their authorised proxies and 67 authorised corporate representatives holding an aggregate of 10,356,537,733 shares, representing 97.9547% of the total issued share capital of the Company were present at the 2010 AGM. Minutes of the AGM were available to shareholders on the Company's website.

Results Announcement

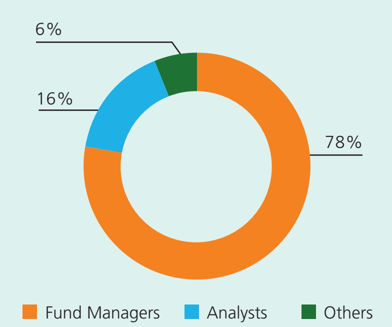
At the Company's 2009 annual results announcement and 2010 interim results announcement, the senior management led by the Chief Executive conducted briefings with analysts and the press to apprise them of the Company's operating results, business strategies and outlook. The presentation materials, announcements and webcasts were all available to the public on the Company's website.

In addition to the interim and annual results announcements, the Company also published quarterly financial and business reviews to keep shareholders updated of the Company's latest performance and financial position.

Communication with Investors

In 2010, the Company had 250 meetings with investors and analysts across the world with total attendances of 640. These meetings were held during global road-shows, international investor conferences and company visits. Proactive discussions were conducted to enable investors better understand the Company's new business initiatives. The Company is widely covered by more than 20 securities research institutions.

Investor Meetings by Category



Through investor emails, continuous dialogue with investors and investor feedback, the Company continued to promote two-way communication. The responses received from these initiatives enabled the Company to better understand the investors' views which help formulate its investor relations plan and continually improving the investor relations practices.

Going Forward

Under the principles of timeliness, fairness and transparency, the Company will continue to pursue proactive and effective investor communication programmes to keep the investors adequately informed of the Company's present and future development. The Company will also continue to improve and benchmark its programmes against best practices to deliver quality services to the investors.

Investor Relations Contact

Enquiries can be directed to:

Investor Relations Division
BOC Hong Kong (Holdings) Limited
52nd Floor
Bank of China Tower
1 Garden Road
Hong Kong
Telephone: (852) 2903 6602 / 2826 6314
Facsimile: (852) 2810 5830
E-mail: investor_relations@bochk.com

INVESTOR RELATIONS

Shareholder Information

Financial Calendar 2011

Major Events	Dates
Announcement of 2010 annual results	24 March (Thursday)
Last day in Hong Kong of dealings in the Company's shares with entitlement to final dividend	17 May (Tuesday)
Ex-dividend date	18 May (Wednesday)
Latest time in Hong Kong for lodging transfers for entitlement to final dividend	19 May (Thursday) 4:30 p.m.
Book closure period (both days inclusive)	20 May (Friday) to 25 May (Wednesday)
Latest time for lodging proxy forms for 2011 Annual General Meeting	23 May (Monday) 2:00 p.m.
Record date for final dividend	25 May (Wednesday)
2011 Annual General Meeting	25 May (Wednesday) 2:00 p.m.
Final dividend payment date	1 June (Wednesday)
Announcement of 2011 interim results	Mid to late August

Annual General Meeting

The 2011 Annual General Meeting will be held at 2:00 p.m. on Wednesday, 25 May 2011 at Grand Ballroom, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong.

Share Information

Listing and Stock Codes

Ordinary Shares		Level 1 ADR Programme	
The Company's ordinary shares are listed and traded on The Stock Exchange of Hong Kong Limited (HKEX).		The Company maintains a Level 1 ADR facility for its ADSs. Each ADS represents 20 ordinary shares of the Company.	
Stock codes		***Stock codes***	
HKEX	2388	CUSIP No.:	096813209
Reuters	2388.HK	OTC Symbol:	BHKLY
Bloomberg	2388 HK		

Market Capitalisation and Index Recognition

As at 31 December 2010, the Company's market capitalisation was HK$280 billion, among the top 20 leading stocks on the Main Board of Hong Kong Stock Exchange in terms of market capitalisation. Given the Company's sizable market capitalisation and high liquidity, its shares are a constituent of the Hang Seng Index, MSCI Index and FTSE Index series.

During the year, in recognition of its performance with regard to corporate sustainability issues, the Company has been included as a constituent of the Hang Seng Corporate Sustainability Index and Hang Seng (Mainland and HK) Corporate Sustainability Index respectively. These indices were launched on 26 July 2010.

Debt Securities

Subordinated Notes		
Issuer	:	Bank of China (Hong Kong) Limited, a wholly owned and principal subsidiary of the Company
Nominal value	:	US$2,500 million
Description	:	Bank of China (Hong Kong) Limited 5.55% Subordinated Notes 2020
Listing	:	The Notes are listed and traded on The Stock Exchange of Hong Kong Limited (HKEX)
Stock codes	:	HKEX 4316 ISIN USY1391CAJ00 Bloomberg EI1388897

Share Price and Trading Information

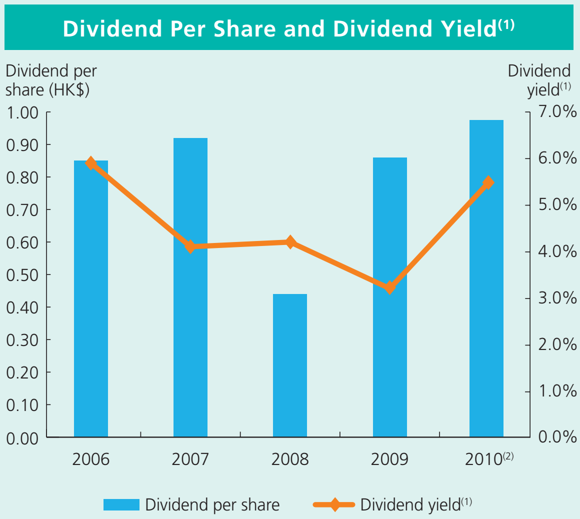
Share price (HK$)	2010	2009	2008
Closing price at year end	26.45	17.60	8.78
Highest trading price during the year	29.40	19.88	24.10
Lowest trading price during the year	15.92	6.30	7.33
Average trading volume/trading day (m shares)	17.20	27.51	23.47
Number of ordinary shares issued (shares)	10,572,780,266		
Public float	Approximately 34%		
Nominal value per share	HK$5.00		

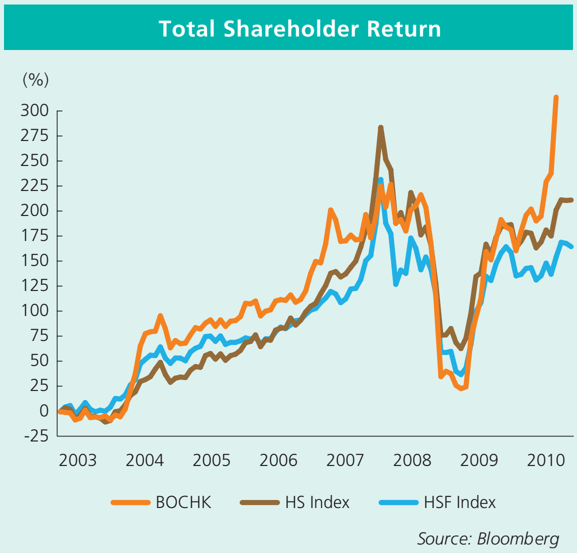
The Company's shares closed at HK$26.45 as at 31 December 2010, representing an increase of 50.3%, outperforming both Hang Seng Index and Hang Seng Finance Index which increased by 5.3% and decreased by 1.1% respectively.

INVESTOR RELATIONS

Dividends

The Directors has recommended a final dividend of HK$0.572 per share, which is subject to the approval of shareholders at the 2011 Annual General Meeting. With the interim dividend per share of HK$0.400 paid during 2010, the total dividend per share will be amounted to HK$0.972 for the whole year.





(1) Annual dividend yield is calculated based on actual dividends paid to shareholder during that year (final dividend of previous year and interim dividend of the year) and closing share price of previous year-end.

(2) 2010 final dividend will be subject to shareholders' approval at the Company's forthcoming Annual General Meeting.

Total shareholder return is measured by share price appreciation and reinvested dividends.

Credit Ratings (long-term)

Standard & Poor's:	A-
Moody's Investors Service:	Aa3
Fitch Ratings:	A

Shareholding Structure and Shareholder Base

As at 31 December 2010, the Company had 10,572,780,266 shares in issue of which approximately 34% was held by the public and 0.3% was held in the form of ADSs. The Company's 88,616 registered shareholders were distributed in various parts of the world, including Asia, Europe and North America. Apart from BOC, the Company is not aware of any major shareholders with a shareholding of more than 5% which has to be reported under the SFO.

During the year, our shareholder structure remained stable. The following table shows the distribution of ownership according to the register of members which includes registered shareholders and shareholders recorded in the participant shareholding report generated from the Central Clearing and Settlement System as at 31 December 2010:

Category	Number of registered shareholders	% of shareholders	Number of shares held by registered shareholders	% of total issued share capital
Individuals	88,488	99.86	206,730,976	1.96
Institutions, corporates and nominees	127	0.14	3,424,724,234[1]	32.39
Bank of China Group	1	0.00	6,941,325,056[1]	65.65
Total	88,616	100.00	10,572,780,266	100.00
Note 1:				
Bank of China Group	1	0.00	6,984,274,213	66.06

As recorded in the register maintained by the Company pursuant to section 336 of the SFO, the total shares held by Bank of China Group was 6,984,274,213 shares or represented 66.06% of total issued share capital as at 31 December 2010. This figure included certain numbers of shares held for Bank of China Group in the securities account opened with BOCI Securities Limited, a participant of Central Clearing and Settlement System. Accordingly, these shares are included under the category of 'Institutions, corporates and nominees'.

Shareholder Enquiries

Any matters relating to your shareholding, e.g. transfer of shares, change of name or address, lost share certificates and dividend warrants, should be sent in writing to:

Hong Kong	Computershare Hong Kong Investor Services Limited 17M Floor, Hopewell Centre 183 Queen's Road East, Wan Chai, Hong Kong Telephone: (852) 2862 8555 Facsimile: (852) 2865 0990 E-mail: hkinfo@computershare.com.hk
USA	Citibank Shareholder Services 250 Royall Street Canton, MA 02021, USA Telephone: 1-877-248-4237 (toll free) 1-781-575-4555 (outside USA) E-mail: Citibank@shareholders-online.com

Other Information

This Annual Report is available in both English and Chinese. A copy prepared in the language different from that in which you have received is available by writing to the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or email to bochk.ecom@computershare.com.hk. This Annual Report is also available (in both English and Chinese) on the Company's website at www.bochk.com and the Stock Exchange's website at www.hkex.com.hk. You are encouraged to access the corporate communications of the Company through these websites in lieu of receiving printed copies to help protect the environment. We believe that it is also the most efficient and convenient method of communication with our shareholders.

If you have any queries about how to obtain copies of this Annual Report or how to access those documents on the Company's website, please call the Company's hotline at (852) 2846 2700.

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The signing of the Revised "Settlement Agreement on the Clearing of RMB Business" by The People's Bank of China and Bank of China (Hong Kong) in July 2010 further fostered the development of RMB business

After the launch of China UnionPay (CUP) cross-border (Shenzhen and Hong Kong) payment service, BOC CUP Dual Currency credit cardholders can enjoy a secure and convenient bill autopay service

As a leading listed banking group in Hong Kong, the Group attaches great importance to Corporate Social Responsibility ("CSR"). We are committed to undertaking CSR by strengthening our relationship with shareholders, employees, customers, business partners, the government and the community, with a view to contributing to the sustainable development of society.

In January 2010, we formulated a CSR policy approved by the Board of Directors. This policy guides the Group in fulfilling our commitment to CSR and in contributing to the sustainable development of the economy, society and environment. The Group has set up the CSR Committee chaired by the Chief Executive which comprises senior management as members. The Committee is responsible for making decisions on the Group's CSR strategies and policies and overseeing their execution. To ensure effective implementation of eco-friendly principles in our business operations, the Group formulated the "Environmental Policy for Sustainable Development", "Procurement Policy for Sustainable Development" and "Code of Conduct for Suppliers".

Our outstanding performance with regard to corporate sustainability issues has earned us wide recognition. BOC Hong Kong (Holdings) Limited became a constituent of the Hang Seng Corporate Sustainability Index and Hang Seng (Mainland and HK) Corporate Sustainability Index respectively in July 2010. In addition, we have been named a *Caring Company* by the Hong Kong Council of Social Service ("HKCSS") for eight consecutive years.

BOCHK was appointed the sole Bookrunner and Lead Manager in the issuance of the first corporate bonds in Hong Kong

Customer-centric through Innovation and Service

To better serve our customers and embrace customer service values, we endeavour to offer innovative products and services, enhance our service platforms and strengthen customer relationship management.

Innovative Product and Service Offerings

The Group capitalises on the opportunities in the development of RMB market in Hong Kong by launching different brand new products and services which have helped expanding the scope of its businesses in cross-border trade settlement, remittance, bonds issuance and deposit. In this way, we are able to maintain our market leadership in the related areas.

In 2010, we led the market by underwriting twelve RMB bonds for nine issuers, including the first RMB bonds issued by a corporate, a supranational and a mainland corporate, as well as the second issuance of RMB sovereign bonds in Hong Kong. The issuances represented different milestones in the development of the RMB bonds market in Hong Kong.

The new RMB strategic exchange service helps corporate customers in settling both trade and non-trade foreign exchange transactions. The first-ever trade and non-trade RMB deliverable forward transactions launched in the Hong Kong market can fully meet customer demand in hedging risks related to RMB exchange. As for the deposit business, we rolled out the RMB principal-protected structured deposit to corporate customers and Target Rate Deposit to personal customers.

To help corporate customers maximise efficiency in collecting payments, we introduced an array of new RMB products, including the pioneering remittance via credit card account, payment collection via ATM, sub-account collection, express electronic transfer and outsourcing of cashier orders. Our innovative and diversified RMB products provide added convenience for customers who frequently travel between Hong Kong and the Mainland of China, as well as around the world.

In view of the growing demand for RMB investment products, BOC Life became the first in Hong Kong to launch RMB-denominated insurance policies settled in HKD in the first half of 2010. Following the signing of the Revised "Settlement Agreement on the Clearing of RMB Businesses", BOC Life further broadened its product range by taking the lead in introducing RMB-denominated policies, namely "Target 8 Years Insurance Plan Series", "Target 5 Years Insurance Plan Series", "Hundred Life Insurance Plan" and "MultiPlus Savings Insurance Plan", that could be settled in RMB.

BOC-CC and CUP jointly issued the "BOC CUP Dual Currency Credit Card" in 2008. The new "CUP Cross-Border Autopay Service" was introduced in the year to facilitate automatic and regular bill payments such as management fees and utilities bills for those cardholders who travel frequently across the border. In addition, the brand new "CUP Dual Currency Debit Card" offers cardholders comprehensive HKD and RMB cash withdrawal and direct debit payment services. Its unique dual currency settlement also allows cardholders to enjoy savings on currency conversion costs.

CORPORATE SOCIAL RESPONSIBILITY

The launch ceremony of the second issuance of RMB Sovereign Bonds by the Central Government in Hong Kong was held at 70/F of the Bank of China Tower

During the year, BOCHK partnered with another asset management company to launch the first RMB public fund in Hong Kong. We provide full-fledged supporting services for fund distribution, from custody to fund administration.

As a pioneer in RMB business in Hong Kong, BOCHK launched the "CNY HIBOR" pricing system in order to provide an established reference rate for RMB trade settlement and commercial loans in Hong Kong. Furthermore, BOCHK introduced the "Bank of China (Hong Kong) Offshore RMB Bond Index", the first of its kind offshore RMB bond index in Hong Kong. The index aims to provide a reference of the performance of the offshore RMB bonds market, so that investors can better gauge market performance.

BOCHK has successfully become the RMB agent bank of the Stock Exchange of Hong Kong for CCASS settlement, in preparation for the trading of RMB-denominated securities in the future.

As the Clearing Bank of RMB business in Hong Kong, BOCHK is dedicated to providing RMB trade settlement services for local and overseas peers. As of December 2010, a total of 156 banks opened clearing accounts with BOCHK. On 13 July, BOCHK was authorised as the Clearing Bank of RMB banknotes business for Taiwan. The provision of RMB banknotes clearing service to the designated RMB banknotes business banks in Taiwan region further facilitates the development of RMB offshore market and business in Hong Kong.

At the same time, we assist our parent in offering RMB business in its overseas branches. By leveraging on BOC's extensive network and strong support services, the Group works closely with BOC and its overseas branches in providing corporate customers in the Mainland and overseas with quality and innovative RMB financial services.

Capitalising on our strong cross-border servicing capability and the close collaboration with our parent and NCB (China), we launched a number of cross-border trade finance products, and "Credit facilities secured by standby letter of credit issued by banks in the PRC" and "Short-term trade finance for bank business". The process of industrial upgrading in the Mainland is the impetus for our offering the "Cross-boundary usage of credit limit" service on a pilot basis for small and medium-sized enterprises ("SMEs"). The programme achieved fruitful results and enhanced our capabilities in serving cross-border SMEs.

In addition, NCB (China) formed a strategic alliance with several insurance companies in order to expand insurance agency business in the Mainland. An array of general insurance and life insurance products, as well as wealth management products were launched, contributing to a remarkable growth in its business.

Supporting Local Enterprises

The stable development of SMEs is an important pillar of the Hong Kong economy. The Group has lent tremendous support to SME clients which have prudent operations. We continued to fully support the "SME Loan Guarantee Scheme" and "Special Loan Guarantee Scheme" of the HKSAR Government. As at the end of 2010, the Group approved over 6,600 loan applications amounting to HK$20.3 billion under the two schemes.

To demonstrate our continual support of the development of quality SMEs in Hong Kong, BOCHK joined the "SME Financing Guarantee Scheme" launched by the Hong Kong Mortgage Corporation with the formal signing of the related agreement in December. BOCHK also actively participates in the "Plan to support local SMEs in entering the Mainland Domestic Market" initiated by the Hong Kong Productivity Council ("HKPC"), helping them to enter the thriving domestic market in the Mainland.

According to the "Commercial Banking and Finance Monitor" survey conducted by Nielsen in April 2010, BOCHK continued to dominate the SME market

CORPORATE SOCIAL RESPONSIBILITY

We organise a diverse range of customer activities to meet their different needs

in terms of overall bank usage and is the main banker for local SMEs. This demonstrates that our SME service is widely recognised in the community.

Enhancing Service Platforms

With the most extensive branch network in Hong Kong, the Group has 268 branches across Hong Kong, Kowloon and the New Territories. In line with our CSR policy, we promote the use of electronic transaction and banking channels. Our around-the-clock self-service banking centres are located in major transport interchanges, shopping malls and housing estates in Hong Kong. We invested significant resources in upgrading our automated banking facilities. As at the end of 2010, more than 920 automated banking machines for cash withdrawals and deposits, and cheque deposits were installed. Educational workshops were organised to teach the elderly how to use ATMs. In June, all of the Group's ATMs displayed protruding symbols which improved the accessibility of ATM services for the visually impaired.

We continually enhance our e-Banking capability. The new online corporate action services allow customers to submit corporate action instructions, such as rights subscription, open offer, share offer, preferential subscription, and scrip dividend and offer, more efficiently. Online subscription of RMB bonds and browsing of customers' life and general insurance policies are also available. The enhancement of Corporate Banking Services Online ("CBS Online") bundled with preferential pricing for online transactions provided impetus for corporate customers to switch to the internet platform.

The mobile banking services launched this year offer customers a total banking solution, including securities trading, fund transfer, currency exchange, bill payment, precious metal trading and forex trading. Furthermore, the new one-stop phone banking hotline enables customers to manage their various banking, credit card and investment accounts by calling a dedicated hotline.

The Group is establishing a systematic financial platform for objectively analysing the protection and financial needs of customers. We provide various products and attractive offers tailor made for different customer needs.

With the vision of "We Care", the Group has been employing different methods to gather information on customer satisfaction and strives to improve our service. We conducted customer satisfaction surveys, organised seminars and visited our corporate customers to gain a better understanding of our customer needs. In recognition of their excellence in customer service and provision of a reliable service platform, the Group's call centre and BOC-CC were granted 15 awards by the Hong Kong Call Centre Association in 2010, including the *Gold Award* in the corporate categories of *Inbound Contact Centre of the Year (Under 50 Seats)* for the call centre and the *Gold Mystery Caller Assessment Award* for both the call centre and BOC-CC. BOC-CC has received the ISO 10002 certification through Hong Kong Quality Assurance Agency since 2008, signifying our compliance to the international standard of customer complaint management.

CORPORATE SOCIAL RESPONSIBILITY

Hong Kong Geopark Photo Competition was well-received with nearly 1,900 entries from the public

We sponsored the first Hong Kong Corporate Citizenship Programme organised by the Hong Kong Productivity Council to promote sustainability of society

Conservation of Resources for Environmental Protection

BOCHK encourages our staff, customers and business partners to be environmentally friendly, and helps promote the awareness of environmental protection to various sectors of society, contributing to the development of a low carbon city.

Building a Green Bank

In accordance with the "Environmental Policy for Sustainable Development", the Group put into practice a number of environmental protection and energy-saving measures. During the year, we completed an energy-cum-carbon audit in respect of Bank of China Tower ("BOC Tower"), Bank of China Building ("BOC Building"), Bank of China Centre ("BOC Centre") and the Group's IT Centre in Fo Tan, Shatin. The scope of the audit covered waste control, providing a foundation to further strengthen our monitoring of greenhouse gas emissions, wastage and energy conservation.

We have also modified lighting systems at the Group's properties. Traditional T8 fluorescent tubes were replaced with more energy-efficient T5 fluorescent tubes, and LED tubes were installed for advertising and exit light boards at branches. By replacing VAV A/C boxes on certain floors of BOC Tower with computerised ones and adjusting chilled water supply, we optimise the air temperature and air flow to achieve a higher level of energy efficiency. Through the implementation of various measures in 2010, BOCHK's electricity consumption was reduced by about 1.4 million kWh, resulting in the reduction of carbon dioxide emissions by 780 tons and a saving of HK$1.6 million in energy costs.

Through installation of water conserving devices such as water tap sensors, auto-flushing sensors, dual-flush water saving toilets, as well as an alarm system to detect water pipe bursts on our premises, we achieved an annual saving of water of 18,800 cubic metres. We continue our efforts to reduce consumption of natural resources and encourage the use of recycled or environmentally friendly materials whenever and wherever possible. We have an in-house recycling system for waste paper, aluminium, plastic, used batteries, bulbs, fluorescent tubes and toner cartridges. More than 75,000 kg of recycled paper was collected during the year. In partnership with Hong Kong Caritas, a social welfare organisation, we carried out a Computer Recycling Project on our premises and donated refurbished computers to those in need. Source separation has been implemented to ensure proper disposal of waste which cannot be recycled. For fire safety equipment, we have gradually replaced BTM extinguishing agent with more environmentally friendly "FM-200" to avoid creating harmful effects on the earth's atmosphere.

Our sound environmental practices to reduce energy and water consumption in 2010 have earned us recognition and environmental accreditations from a number of professional organisations for many years. BOC Tower and BOC Centre continued to attain the *ISO 14001 certifications* granted by Det Norske Veritas and the *Certificate of the Quality Water Recognition Scheme for Building* from the Water Supplies Department of the HKSAR Government; and obtained the *Indoor Air Quality Certificates (Excellent Class)* from the Environmental Protection Department. On top of the above *ISO* and quality water certificates, BOC Building received the *Carbon Reduction Label* awarded by the Hong Kong Quality Assurance Agency in 2010.

As part of our commitment to building a sustainable environment, we incorporated green elements in renovating our premises. In 2010, green engineering was employed to transform the platform on the 4th Floor of our Cheung Sha Wan Building into a green space. We also installed an air-conditioning system with grade 1 energy label at our staff quarters to achieve further savings on electricity.

To align our business practices with nature conservation, we have taken steps to reduce our impact on the environment by developing an environmentally friendly business model and streamlining procedures in our business operations.

In line with our "Procurement Policy for Sustainable Development" and "Code of Conduct for Suppliers", when selecting suppliers and contractors, we consider whether the content and packaging of their products can be recycled and whether environmental certification has been obtained. Our brochures, promotional leaflets and Lunar New Year cards and posters have been printed on paper with environmental certification by the Forest Stewardship Council. We have also put into place clear procurement policies requesting suppliers to provide environmentally friendlier materials and services which are in compliance with the best practices. The environmentally friendlier materials include eco-friendly toners as well as energy-saving or energy-efficient equipment for use in the office. Instead of procuring single-purpose office appliances, we purchase multi-purpose ones such as photocopiers with two-sided copying, printing, scanning as well as fax functions. Photocopy paper we use is made with 100% use of biofuel from human cultivated trees. Company vehicles are also economy models.

With the use of advanced technology, we encourage our customers to manage their finances via Internet Banking and switch to e-Statement services. Working towards a paperless office, we promote the use of electronic documents or correspondence, while training materials are available on the electronic learning platform. As a listed company with a large shareholder base, the Group encourages our shareholders to view annual reports online or choose to receive summary financial reports to reduce paper use. The number of 2010 annual report printed is thus reduced tremendously by 77%. In addition, our annual reports are printed on environmentally friendlier paper using eco-friendly printing techniques.

Since 2009, we have participated in the global environmental initiative "Earth Hour" organised by WWF to raise public awareness of the global climate change through the act of switching off lights. We also signed the first "Dim It" Charter, making an open commitment to conserving energy and reducing carbon dioxide emissions, light pollution and light nuisance. At corporate banquets, shark's fin, endangered reef species and black mosses are no longer served in order to comply with the guidelines set out by WWF Hong Kong.

In addition, BOCHK supports the Green Day of the Hong Kong Community Chest ("the Chest") to encourage staff to take greener forms of transportation to work and reduce their carbon footprint in the workplace and at home.

Promoting Green Credit Services

In 2010, we reviewed our "Credit Risk Policy" with a view to further promoting our *Green Credit* services in various ways including risk management. We offer a *Green Equipment Financing Scheme* through collaboration with the HKPC. The scheme encourages corporate customers to purchase environmentally friendlier equipment to increase their productivity and operating efficiency while reducing environmental pollution. BOCHK donates HK$1 for every HK$2,000 loan amount to designated green groups via the HKPC to support environmental protection initiatives. We also jointly launched the *Energy Efficiency Loan Scheme* with the two electricity companies in Hong Kong to provide loans to commercial and industrial customers for the implementation of energy-saving initiatives and encourage them to switch to energy-efficient electrical appliances and equipment.

In Support of Bio-environmentalism

Environmental education is another key focus of our corporate responsibility work. Following the establishment of Hong Kong National Geopark in eight geo-sites by the Ministry of Land and Resources, China, in 2009 BOCHK spearheaded the *Hong Kong Geopark Charity Green Walk*, which brought together the important elements of environmental protection and charity. In 2010, 48 eco-tours were organised for more than 4,000 customers, citizens, staff members and their companions to learn more about Hong Kong's geological and geomorphologic features. With BOCHK sponsoring the relevant costs, the enrolment fees paid by the participants have been donated to Polar Museum Foundation for educational and conservation purposes. We also organised the *Hong Kong Geopark Photo Competition* to reinforce the theme of environmental conservation and received an overwhelming response with nearly 1,900 entries from the public.

The Group also sponsored *Power Plant*, a large-scale international outdoor sound and light exhibition presented for 21 days by the 39th Hong Kong Arts Festival in the Kowloon Walled City Park. Renowned British installation artists transformed the park, a picturesque Chinese garden with unique historical background, into a wonderland of glittering sounds and glowing lights. To complement the natural setting of the park, a wide

Hong Kong National Geopark – Prehistoric Story Room will be established at the Bank of China Tower in August 2011. This will help the gorgeous geopark reach out to the city centre

CORPORATE SOCIAL RESPONSIBILITY

The first-ever collaboration between two prominent brands of BOCHK and Salvatore Ferragamo brought together art, creativity, excellence and charity under one roof, promoting cross-industry cooperation in fulfilling corporate social responsibility

range of environmentally friendly materials were used in art installations, inspiring the public to explore the inter-dependent relationships between humanity and nature and promoting the significance of environmental protection. The exhibition is well-received by the public and media.

Embracing LOHAS ("Lifestyles for Health and Sustainability") can help reduce the carbon footprint in our daily life and improve the well-being of communities across the globe. In 2010, we sponsored *LOHAS@BOCHK* organised by Tai Po Environmental Association and fully supported by Kadoorie Farm & Botanic Garden. Under this programme, the LOHAS Atelier has been set up and serves as an educational base to showcase a green and sustainable way of living from diet and home to transportation and clothing, through inspiring exhibitions and demonstration sessions.

Caring for Community We Serve

Rooted in Hong Kong, BOCHK has been serving Hong Kong with a dedication to developing harmonious relationships with different sectors of the city. Working closely with the BOCHK Charitable Foundation ("The Foundation"), an independently operating charity organisation registered in Hong Kong, we actively participate in a diverse range of charitable activities, covering education and culture, sports and health, environmental protection and social welfare and assistance to the needy in Hong Kong and the Mainland of China, to share our success with the communities we serve.

Fostering a Culture of Sport for All

The excellent performance of Hong Kong athletes and their "can-do" spirit demonstrated in the 16th Asian Games has ignited enthusiasm for and raised public interest in sports. In recognition of the Hong Kong athletes for their achievements at large-scale sport games, we have been supporting the *Bank of China Hong Kong Sports Stars Awards* for five years in a row and set up the *Best of the Best Hong Kong Sports Stars Award*. In the online public voting of the *Hong Kong Sports Stars Awards 2009* held in 2010, we recorded a total of over 90,000 votes, representing a year-on-year increase of 63%, from nearly 33,000 voters.

Participation in sports not only promotes good health, but also helps one develop a positive attitude towards life. We advocate the "Sport for All" message in the community through sponsorship of the *Festival of Sport* from 2007 for five consecutive years. In 2010, more than 400,000 people participated in over 80 sports competitions, demonstrations and fun days throughout 18 districts in Hong Kong organised by the *Bank of China (Hong Kong) 53th Festival of Sport*. In this year's festival, new elements were added to increase the diversity and attractiveness of sports events. These included the *Open Dancesport Competition, "LOHAS" Sport for All Fitness Carnival* and *Soccer Fun Day* held respectively in Tsuen Wan, Eastern District and Kwun Tong.

Badminton is the key sports initiative of the Foundation. A total of more than HK$11 million was allocated for the development of the sport of badminton in the past 12 years, benefiting over 800,000 participants. The *Badminton Development & Training Scheme* encompasses a variety of activities such as *Badminton Doubles League cum Family Fun Day*, in which over 1,600 people participated. Meanwhile, *Badminton Fun Day* has been extended to various districts on both Hong Kong Island and Kowloon. The *Hong Kong Open and Youth Badminton Championships* were also held recording over 4,100 participants. All of these tournaments and fun days succeeded in promoting badminton to different areas and sectors of the community, making badminton the most popular sport among Hong Kong citizens.

The Community Chest's West Meets East: Food Carnival for Charity held at the Bank of China Tower attracted 600 donors to join

For nine consecutive years, the Foundation has sponsored the *Hong Kong Island & Kowloon Regional Inter-school Sports Competition* – the largest school sports competition of its kind in Hong Kong with also the longest history. The competition's top-honour is the *BOCHK Bauhinia Bowls Award*. In 2010, the *BOCHK Rising Star Award*, a new award was set up to further foster the talents of young athletes. We recorded a total of 78,000 athlete enrolments from 272 schools, which participated in more than 8,400 matches of this competition.

Building a Harmonious Community

In 2009/2010, BOCHK donated HK$25 million of the net proceeds generated by the sale of the Beijing 2008 Olympic Games HKD Commemorative Banknote to the Chest. Together with the HK$25 million generated from the sale and donated to the Chest in the previous year, the Group made a total donation of HK$50 million which was channelled to assist the social welfare agencies supported by the Chest. In 2010, BOCHK was presented the Chest's *Magnificent Award* for two consecutive years and *Top Donor of the Year Award* in recognition of our generosity. BOCHK also encouraged staff participation in the CARE Scheme by matching staff donations. In June 2010, nearly 600 donors who have given generous support to the Chest were invited to participate in the *West Meets East: Food Carnival for Charity* sponsored by the Foundation and held in the BOC Tower. A total of HK$800,000 was raised and donated to the Chest.

In 2009 we designated HK$90 million of the net proceeds from the sale of the Olympic Commemorative Banknote to set up the BOCHK's *Caring Hong Kong – A Heart Warming Campaign* ("The Campaign"), with the objectives to mitigate the impact of the economic turmoil on those affected, to support Hong Kong's economy and to build a harmonious community. Over 300 member social welfare agencies of the Chest and HKCSS were eligible to apply for funding from the two-phased Campaign. As at December 2010, an aggregate of HK$45 million was allocated to subvent 41 projects.

In celebration of the 20th anniversary of the BOC Tower, BOCHK together with Salvatore Ferragamo, the most prestigious fashion brand in the world, held a four-week *Living Art* Exhibition, a glamorous Autumn Winter 2010 ladies' and men's fashion show followed by a *Charity Gala Dinner* in the iconic Tower between May and June 2010. *Living Art* exhibited the replicas of the historical shoes and Ferragamo bags in the Salvatore Ferragamo museum in Florence. This first-ever collaboration between these two prominent brands brought together their art, creativity and excellence, as well as promoting cross-industry cooperation in fulfilling corporate social responsibility. The proceeds from the *Charity Gala Dinner* of HK$1 million were donated to the Chest to support those in need.

With social responsibility being recognised as a key element for sustainable development of Hong Kong, BOCHK sponsored the *Hong Kong Corporate Citizenship Programme* launched by the HKPC in 2010. Through a series of competitions, seminars and presentation of the *Hong Kong Outstanding Corporate*

CORPORATE SOCIAL RESPONSIBILITY

Various large scale staff sports activities are organised regularly, showing our dynamism and team spirit

Citizen Award, the programme aims to assist enterprises in adopting social responsibility principles in their business strategies and promoting the concept to their employees, family members, customers, students and the public.

Spreading the Message of Caring

The Group established a Staff Volunteer Team in 2006. The team proactively spreads the message of caring by participating in various community and volunteer activities, including helping to clean elderly homes, organising a food event for underprivileged families and teaching their children to do art work. Our staff also represented the Bank as volunteers at the East Asian Games, LOHAS Atelier, *Junior Achievement (JA) Primary Programme 2010, Hong Kong Geopark Charity Green Walk* and the *Power Plant* presented by Hong Kong Arts Festival. All of these volunteer activities were well-received by the Group's staff and their families with over 1,500 participants.

BOCHK was presented the *Gold Award for Volunteer Service* by the Social Welfare Department of the HKSAR Government in recognition of our staff's enthusiasm in performing community service in 2010. In addition, two of our staff members were presented the *Gold Award* and *Silver Award* respectively for their dedicated service in the East Asian Games. With the shared values of caring and serving others, our staff form a closely knit team to spread the message of caring in the community.

In order to provide support to patients suffering from cognitive impairment, about 400 BOCHK's staff members and 100 customers participated in the *Walk with Professor Kao CUHK Walkathon* in March 2010 to raise funds for an online training programme for family caregivers of the patients and the Charles K. Kao Scholarship Endowment Fund. We also launched a *Kids and Kiss – Pay Love Forward* jointly with the Boys' & Girls' Clubs Association of Hong Kong to show that we care children from low-income or foster care families through a series of interactive games and activities.

Caring has no boundaries. Ours has been spread far and wide to the Mainland of China. Following our staff participation in the *512 Charity Walk for Education* and *Charity Expedition for Education* organised by Sowers Action in 2009, BOCHK supported a team of 9 staff and their family members, known as Team One, to take part in the *Charity Walk 2010* and complete a 60-km route in the Gansu Province in 4 days. In addition to raising over HK$110,000 at the event, our staff showed their love and care to local children by giving them encouragement at a creative handwork class at a local school.

Through our extensive branch network, we help collect donations to support rescue work and reconstruction of the areas afflicted by natural disasters. A massive earthquake jolted Haiti on 12 January 2010. We immediately set up a designated account to collect donations, and a total of HK$450,000 was raised from staff, customers and the general public and given to the afflicted areas through the Hong Kong Red Cross. On 14 April the Qinghai Province in the Mainland of China was also hit by an earthquake. The Foundation became the first institution to make a donation of RMB1 million (equivalent to HK$1.1 million) to Qinghai earthquake victims through the Red Cross Society of China. The aggregate sum of donations collected from customers and the public stood at HK$2.06 million to assist the local reconstruction work.

CORPORATE SOCIAL RESPONSIBILITY

We have been supporting the Bank of China Hong Kong Sports Stars Award for five consecutive years, in recognition of the excellent performance of local athletes

Capitalising on the large customer base of the Group, the Foundation helped 10 charitable organisations to send out 3.38 million appeal inserts with bank statements in 2010.

As the wholly-owned subsidiary of BOCHK Group in the Mainland of China, NCB (China) has been committed to undertaking social responsibility in the Mainland communities it serves. In 2010, the Bank supported a local school called Yangpeng School with donations and launched the *Caring Deposits Programme* jointly with the Red Cross Society of China. Through the programme, the Bank donated a book collection for the children stricken by disaster or living in poverty-stricken areas. In recognition of the Bank's efforts, it was presented the *Most Socially Responsible Company Award – 2010* by the renowned *CFO* magazine in the Mainland.

Nurturing Future Talent

We spare no effort in nurturing our younger generation to build a better society. Since 1990, the Foundation has awarded HK$13.38 million scholarships and bursaries to nine universities in Hong Kong, benefiting a total of 1,415 students. We organised the sixth *Internship Programme for Financial Professionals in the Mainland of China*, together with the *Summer Internship Programme for Tertiary Institution Students* in recent years. University and tertiary institution students are able to deepen their understanding of economic and financial developments in our motherland by undertaking an internship at the branches of BOC in the Mainland. BOCHK also joined the *Internship Programme for University Graduates* launched by the HKSAR Government by offering six-month internship opportunities either in Hong Kong or the Mainland for university graduates.

The Group is also actively promoting community learning ranging from financial literacy to environmental protection. In 2010, the Group sponsored the Department of Child Education and Community Services of Hong Kong Institute of Vocational Education to set up the *"Kiddie Sky" Green Kids Banking Programme* and *Kids Garden* on their new premises in Shatin. Through a series of innovative games and role-play activities, children can gain a general understanding of the basic operation of banks in a relaxed atmosphere. The Group also sponsored the *Junior Achievement (JA) Primary Programme 2010* to give 1,000 primary school children the basic knowledge about our society through innovative classes, and to foster a positive working attitude.

Promoting Art and Culture

Art and culture enrich our life and enhance creativity. In celebration of the 200th anniversary of the birth of world-renowned composer and virtuoso pianist Chopin, we sponsored the *Yundi Li & the HKPO* concert. Besides, about 100 of BOCHK's customers, staff members and their companions attended *Yundi's Piano Masterclass*. During the year, we also supported the *Great Performers: BOCHK Charitable Foundation proudly sponsors – The Pride of China* presented by Hong Kong Philharmonic Orchestra and the Chinese star pianist Lang Lang. A total of 2,000 audience enjoyed the marvellous performance of Lang Lang.

Serving Our Shareholders with a Solid Foundation

The Group is committed to maximising shareholder value and safeguarding shareholders' interests by enhancing corporate governance and ensuring a higher degree of transparency. We implemented the Basel II Accord with revised capital requirements, while reinforcing our internal control system. For details, please refer to "Corporate Governance", "Investor Relations" and "Management's Discussion and Analysis".

Caring
Reinforcing

We advocate good work-life balance for staff and organise different recreational activities for our people and their family members

With prudent operations and solid foundation, the Group continues to enhance our core competences amid an ever-changing economic environment. We also keep abreast of the times and seize every opportunity to grow our business and maximise our shareholder value.

People-oriented with Team Spirit

People are our most important asset. We are dedicated to creating development opportunities for our staff in a congenial working environment and fostering promising careers so that they can grow along with the Group.

Professional Staff Training and Development

The Group boasts a team of talented professionals from different backgrounds with versatile experience and expertise. As at the end of 2010, the number of staff reached over 13,000. The Group has been creating job opportunities for all echelons of society, under the auspices of CSR. We recruited well-qualified management and business professionals in Hong Kong, as well as university graduates to develop a new way of thinking and inject fresh ideas.

We advocate equal opportunity and adopt the principle of justice and fairness in our human resources management and recruitment practices. The anti-discrimination ordinance, in relation to gender, disability, marital status and ethnicity, is clearly outlined in our staff handbook.

Nurturing talented professionals is one of our top priorities. We invest heavily in staff training and development every year. As at December 2010, the Group organised 5,000 courses for 235,000 participants, in conjunction with our strategic objectives for business expansion in Hong Kong and the Mainland in the medium term and our human resources development plan. The programmes include a series of courses and workshops related to risk management, legal and compliance, corporate governance, corporate culture, sales and service, and management skills and leadership development.

To enhance the professionalism of the Group's staff, we rolled out special training for branch managers, operation managers, tellers, customer services representatives and relationship managers. Sales staff learn about new product features and sales compliance requirements through e-learning courses. The new *Continuous Professional Development Programmes* increase compliance and business knowledge of intermediaries and Executive Officers. We also arrange e-learning for all staff in relation to prevention of money laundering, risk management and compliance.

We work with reputable institutions such as Columbia University, Oxford University and Richard Ivey School of Business, to provide world-class training for our senior management. Such training aims to enhance their leadership and strategic thinking capabilities. In addition, we offer intensive training and exposure to university graduates through the *Management Trainee Programme, Officer Trainee Programme* and *Summer Internship Programme* with the objective of grooming those who demonstrate high potential. Our comprehensive training and development programme has earned us recognition. BOCHK received the *Gold Prize of the Award for Excellence*

Our Staff Volunteer Team participates in various community and charitable activities, proactively spreading the message of caring for society

In Training and Development organised by the Hong Kong Management Association and *Manpower Developer 1st* held by the Employees Retraining Board.

Competitive Incentive Schemes

BOCHK is committed to providing our staff with competitive remuneration packages. We continue to review and refine our remuneration and benefits policy in line with market practices. Our staff are rewarded according to a performance-linked annual bonus scheme in relation to the performance of the Group, its respective business units as well as individual staff. We also have sales incentive schemes linked to business performance.

Appreciation and recognition are important to motivate staff. We therefore identify outstanding performance and distinguished staff while special newsletters are published to honour their extraordinary achievements.

Culture of Corporate Excellence

Our corporate culture is built on our core values of Social Responsibility, Performance, Innovation, Respect, Integrity and Teamwork, which form an acronym of "SPIRIT".

To strengthen compliance awareness and fulfil our obligations to our staff, we launched a series of educational activities, for instance the *Caring for Staff, Reinforcing Compliance* seminars, implementing a bank-wide charter on the establishment of a compliance culture, as well as disseminating compliance guidelines and updates.

We support a culture of fair and reasonable treatment for staff. A number of communication channels, including a dedicated staff hotline, are provided to gather staff feedback and opinions. We will set up a cross-departmental task force to handle staff opinions objectively and fairly.

We protect the health and safety of our staff by providing a safe and congenial workplace. In addition, a wide range of employee engagement activities, such as multi-level sharing sessions, psychological consultations, visits, seminars and team-building activities are organised to facilitate two-way communication and strengthen staff relationships. Maintaining a good work-life balance helps employees reduce stress. In the year, we recorded a total of 2,211 staff and their family members taking part in recreational activities of different organisations. Different communication channels are employed, including display boards and e-notice boards to facilitate better information exchange. Our web content, in relation to staff training and development, remuneration and benefits, and recreational activities, is kept up-to-date.

Provision of free body check-ups to staff exemplifies our caring attitude. Our staff benefit from a subsidised canteen which offers breakfast, lunch and dinner in both Chinese and western styles at BOC Tower. We also promote a reading culture by organising various book fairs in BOC Tower and BOC Centre. Over the years, we worked with Hong Kong Red Cross to organise blood donation events, with an overwhelming response from hundreds of staff members.

Corporate social responsibility has a positive impact on staff morale and creates long-term value for the Group. It is a priority for the Group in the year ahead. We will therefore continue to uphold our corporate social responsibility in order to build a harmonious society and contribute to the sustainable development of society.

AWARDS AND RECOGNITION

Customer-centric

- Best Domestic Bank Award – Hong Kong (Asiamoney)
- The Asian Banker Achievement Award for Trade Finance in Hong Kong (The Asian Banker)
- Global Chinese Business 1000 – Hong Kong Top 20 (Yazhou Zhoukan)
- SME's Best Partner Award (The Hong Kong Chamber of Small and Medium Business Limited)
- Lipper Fund Awards – Best Mixed Assets Fund Group (Hong Kong Economic Journal)
- Sing Tao Excellent Services Brand Award – Mortgage Services (Sing Tao Daily)
- Hong Kong Call Centre Association Awards:
  Gold Award: Inbound Contact Centre of the Year (Under 50 Seats)
  Gold Award: Mystery Caller Assessment Award
  Gold Award: Outbound Contact Centre Team Leader of the Year
- "Make-a-Difference" Service of Customer Service Ambassadors: Gold Prize of the Award for Excellence in Training and Development 2010 (Hong Kong Management Association)
- Manpower Developer 1st in the ERB Manpower Developer Award Scheme (Employees Retraining Board)
- Capital Weekly Service Awards – Internet Banking (Capital Weekly)
- BOCHK Mobile Banking Service: "Your Choice @ Focus – Hong Kong White Collars' Most Favourite Brand Awards 2010" (Focus Media Hong Kong)

Awards presented to BOC-CC by various organisations:

- ***China UnionPay:***
  Largest Card Number (Credit Card) – Gold Award – Hong Kong
  Highest Card Volume (Credit Card) – Gold Award – Hong Kong
  Highest Acquiring Volume – Gold Award – Hong Kong
  Innovative Award – Cross-Border (Shenzhen & Hong Kong) Bill Payment Service – Hong Kong and Macau
  Bank of the Year Award – Hong Kong and Macau

- ***Visa International:***
  Largest Merchant Sales Volume Growth – Silver Prize – Hong Kong
  Highest Merchant Sales Volume – Bronze Prize – Hong Kong
  Largest Card Issuer – Macau
  Highest Retail Sales Volume – Macau

- ***MasterCard Worldwide:***
  The Highest Market Share: Number of Open Cards in Macau – Champion
  The Highest Market Share: Cardholder Spending in Macau – Champion
  The Highest Market Share: Number of Open Cards In Hong Kong – 1st Runner Up
  The Highest Market Share: Merchant Purchase Volume in Hong Kong – 2nd Runner Up

- The World's First BOC CUP Dual Currency Credit Card "Two Currencies, One Card": Certificate of Merit of HKMA/TVB Awards for Marketing Excellence
- Complaints Handling System Certificate of ISO 10002 (Hong Kong Quality Assurance Agency)

AWARDS AND RECOGNITION

Environmental Protection

BOC Tower & BOC Centre

- Management System Certificate of ISO 14001 (Det Norske Veritas)
- Indoor Air Quality Certificate – Excellent Class (Environmental Protection Department of HKSAR Government)
- The Quality Water Recognition Scheme for Buildings Certificate (Water Supplies Department of HKSAR Government)
- Hygiene Control Management Systems Certificate (SGS Hong Kong)

BOC Building

- Management System Certificate of ISO 14001 (Det Norske Veritas)
- HKQAA Carbon Reduction Label (Hong Kong Quality Assurance Agency)
- The Quality Water Recognition Scheme for Buildings Certificate (Water Supplies Department of HKSAR Government)

Awards presented to BOC Life by various organisations:

- One of Top Three of the 14th Asia Insurance Industry Award – Life Insurance Company of the Year (Asia Insurance Review, Singapore and The Review Worldwide Reinsurance Magazine, UK)
- Silver Award: The HKMA Quality Award (Hong Kong Management Association)
- "Endless Love" – Rebranding BOC Life: "Excellence Award" and "Citation for Outstanding TV Campaign" of HKMA/TVB Awards for Marketing Excellence
- "Endless Love" TV Commercial: The Annual Most Popular TV Commercial Awards (Asia Television)
- Best Practice Awards – Best Practices in Customer Engagement (Best Practice Management Group)

Awards presented to NCB (China) by various organisations:

- The Most Socially Responsible Company Award in the China CFO Most Trusted Bank Contest (CFO)
- Debit Card with the Fastest Growth Rate Award in the Most Respected Bank and Best Retail Bank Contest in China (Financial Weekly)
- World Expo Ambassador Programme: Bronze Award of The Most Innovative Marketing Award – the 17th China International Advertising Festival
- Most Popular Foreign-invested Bank for Business Elites (Companion)

Social Responsibility

- Included as a constituent of the Hang Seng Corporate Sustainability Index and Hang Seng (Mainland and HK) Corporate Sustainability Index respectively
- Magnificent Award and The Community Chest Top Donor of the Year Award (The Community Chest)
- Caring Company for eight consecutive years (The Hong Kong Council of Social Service)
- Gold Award for Volunteer Service (Social Welfare Department of HKSAR Government)
- Gold Award and Silver Award for Volunteer Service in the East Asian Games (Social Welfare Department of HKSAR Government)
- Jade Award for Web Care Award 2010 (Internet Professional Association)

Innovation and Creativity

- International ARC Awards
  Annual Report 2009 of BOC Hong Kong (Holdings) Limited: Gold Award for "Interior Design: Bank Holding Company", Silver Award for "Financial Data: Bank Holding Company"
- Astrid Awards
  BOCHK Cross-border RMB Trade Settlement Service: Gold Award for "Campaigns – Multi-Media", Bronze Award for "Campaigns: New Product Launch"
  SIBOS 2009: Gold Award for "Special Projects: Integrated Campaign", Honors for "Graphic Design"
  Desk Top Calendar 2010: Gold Award for "Calendars: Corporate"
  Launch of RMB Sovereign Bonds in Hong Kong: Silver Award for "Advertisements – Print: Campaign"
- The Ninth China Golden Awards for Excellence in Public Relations
  Launch of RMB Sovereign Bonds in Hong Kong: Gold Award for "Public Relations in Finance and Economics"
- Mercury Awards
  Launch of RMB Sovereign Bonds in Hong Kong: Gold Award for "Publicity: Client Product Launch"
  BOCHK Cross-border RMB Trade Settlement Service: Honors for "Publicity: New Product Development"
- iNOVA Awards
  2009 Christmas and 2010 Lunar New Year E-Cards: Silver Award for "Brand Management: E-Cards"
- Questar Awards
  "Because of love, plan for other's future" – BOC Life Corporate Advertisement: Gold Award for "Advertisement/Commercials: Banks/Credit Cards"
- Best Annual Reports Awards 2010 by Hong Kong Management Association
  Annual Report 2009 of BOC Hong Kong (Holdings) Limited: Bronze Award for the "General" category

INDEPENDENT AUDITOR'S REPORT

To the shareholders of BOC Hong Kong (Holdings) Limited
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of BOC Hong Kong (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 106 to 253, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated and company statements of comprehensive income, the consolidated and company statements of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 24 March 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December	Notes	2010 HK$'m	(Restated) 2009 HK$'m
Interest income		**23,449**	21,684
Interest expense		**(4,715)**	(3,752)
Net interest income	5	**18,734**	17,932
Fee and commission income		**9,479**	8,536
Fee and commission expense		**(2,435)**	(2,028)
Net fee and commission income	6	**7,044**	6,508
Gross earned premiums		**8,650**	7,762
Gross earned premiums ceded to reinsurers		**(2,166)**	(18)
Net insurance premium income		**6,484**	7,744
Net trading gain	7	**1,369**	1,485
Net gain/(loss) on financial instruments designated at fair value through profit or loss		**742**	(678)
Net gain/(loss) on investment in securities	8	**656**	(132)
Other operating income	9	**467**	482
Total operating income		**35,496**	33,341
Gross insurance benefits and claims	10	**(10,053)**	(7,294)
Reinsurers' share of benefits and claims		**2,065**	8
Net insurance benefits and claims		**(7,988)**	(7,286)
Net operating income before impairment allowances		**27,508**	26,055
Net reversal of impairment allowances	11	**315**	1,190
Net operating income		**27,823**	27,245
Operating expenses	12	**(9,584)**	(12,141)
Operating profit		**18,239**	15,104
Net gain from disposal of/fair value adjustments on investment properties	13	**1,511**	1,563
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	14	**(6)**	50
Share of profits less losses after tax of associates	29	**(2)**	7
Profit before taxation		**19,742**	16,724
Taxation	15	**(3,052)**	(2,473)
Profit for the year		**16,690**	14,251
Profit attributable to:			
Equity holders of the Company		**16,196**	13,930
Non-controlling interests		**494**	321
		16,690	14,251
Dividends	17	**10,277**	9,040
		HK$	HK$
Earnings per share for profit attributable to the equity holders of the Company	18	**1.5319**	1.3175

The notes on pages 114 to 253 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Notes	2010 HK$'m	(Restated) 2009 HK$'m
Profit for the year		**16,690**	14,251
Change in fair value of available-for-sale securities		**1,774**	7,600
Revaluation of premises		**4,942**	4,232
Currency translation difference		**223**	(1)
Change in fair value of hedging instruments under net investment hedges		**(30)**	–
Net deferred tax effect	38	**(917)**	(1,515)
Reclassification adjustments			
Release upon disposal of available-for-sale securities		**(675)**	(51)
Net reversal of impairment allowances on available-for-sale securities transferred to income statement	11	**(208)**	(612)
Amortisation with respect to available-for-sale securities transferred to held-to-maturity securities		**(41)**	(64)
Other comprehensive income for the year, net of tax		**5,068**	9,589
Total comprehensive income for the year		**21,758**	23,840
Total comprehensive income attributable to:			
Equity holders of the Company		**21,258**	23,458
Non-controlling interests		**500**	382
		21,758	23,840

The notes on pages 114 to 253 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Notes	**2010 HK$'m**	2009 HK$'m
Profit for the year	16	**9,584**	10,293
Change in fair value of available-for-sale securities		**145**	1,374
Other comprehensive income for the year, net of tax		**145**	1,374
Total comprehensive income for the year		**9,729**	11,667

The notes on pages 114 to 253 are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

	Notes	At 31 December 2010 HK$'m	(Restated) At 31 December 2009 HK$'m	(Restated) At 1 January 2009 HK$'m
ASSETS				
Cash and balances with banks and other financial institutions	22	**415,812**	160,788	153,269
Placements with banks and other financial institutions maturing between one and twelve months		**39,499**	60,282	89,718
Financial assets at fair value through profit or loss	23	**69,876**	44,594	43,812
Derivative financial instruments	24	**23,854**	17,584	19,628
Hong Kong SAR Government certificates of indebtedness		**46,990**	38,310	34,200
Advances and other accounts	25	**645,424**	527,135	469,493
Investment in securities	27	**360,184**	313,755	291,681
Interests in associates	29	**212**	217	88
Investment properties	30	**10,342**	9,364	7,727
Properties, plant and equipment	31	**31,049**	26,286	22,795
Deferred tax assets	38	**157**	152	155
Other assets	32	**17,641**	14,327	14,679
Total assets		**1,661,040**	1,212,794	1,147,245
LIABILITIES				
Hong Kong SAR currency notes in circulation	33	**46,990**	38,310	34,200
Deposits and balances of banks and other financial institutions		**313,784**	99,647	88,779
Financial liabilities at fair value through profit or loss	34	**25,493**	16,288	21,938
Derivative financial instruments	24	**21,355**	13,967	20,450
Deposits from customers	35	**1,027,033**	842,321	802,577
Debt securities in issue at amortised cost		**–**	–	1,042
Other accounts and provisions	36	**35,480**	29,930	34,873
Current tax liabilities		**1,726**	1,918	441
Deferred tax liabilities	38	**4,206**	3,314	1,782
Insurance contract liabilities	39	**39,807**	33,408	28,274
Subordinated liabilities	40	**26,877**	26,776	27,339
Total liabilities		**1,542,751**	1,105,879	1,061,695
EQUITY				
Share capital	41	**52,864**	52,864	52,864
Reserves	42	**62,317**	51,315	30,870
Capital and reserves attributable to the equity holders of the Company		**115,181**	104,179	83,734
Non-controlling interests		**3,108**	2,736	1,816
Total equity		**118,289**	106,915	85,550
Total liabilities and equity		**1,661,040**	1,212,794	1,147,245

The notes on pages 114 to 253 are an integral part of these financial statements.

Approved by the Board of Directors on 24 March 2011 and signed on behalf of the Board by:

XIAO Gang
Director

HE Guangbei
Director

BALANCE SHEET

As at 31 December	Notes	**2010 HK$'m**	2009 HK$'m
ASSETS			
Bank balances		**424**	51
Investment in securities	27	**2,775**	2,630
Investment in subsidiaries	28	**54,814**	54,784
Other assets		**5,728**	6,802
Total assets		**63,741**	64,267
LIABILITIES			
Other accounts and provisions		**3**	2
EQUITY			
Share capital	41	**52,864**	52,864
Reserves	42	**10,874**	11,401
Total equity		**63,738**	64,265
Total liabilities and equity		**63,741**	64,267

The notes on pages 114 to 253 are an integral part of these financial statements.

Approved by the Board of Directors on 24 March 2011 and signed on behalf of the Board by:

XIAO Gang
Director

HE Guangbei
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the equity holders of the Company								
	Share capital HK$'m	Premises revaluation reserve HK$'m	Reserve for fair value changes of available-for-sale securities HK$'m	Regulatory reserve* HK$'m	Translation reserve HK$'m	Retained earnings HK$'m	Total HK$'m	Non-controlling interests HK$'m	Total equity HK$'m
At 1 January 2009, as previously reported	52,864	8,214	(4,125)	4,503	226	21,037	82,719	1,813	84,532
Effect of early adoption of HKAS 12 (Amendment)	–	44	–	–	–	971	1,015	3	1,018
At 1 January 2009, as restated	52,864	8,258	(4,125)	4,503	226	22,008	83,734	1,816	85,550
Comprehensive income	–	3,587	6,005	–	(1)	13,867	23,458	382	23,840
Release upon disposal of premises	–	(185)	–	–	–	185	–	–	–
Transfer to retained earnings	–	–	–	(463)	–	463	–	–	–
Dividend paid	–	–	–	–	–	(3,013)	(3,013)	(197)	(3,210)
Increase in non-controlling interests arising from capital issuance of a subsidiary	–	–	–	–	–	–	–	735	735
At 31 December 2009	52,864	11,660	1,880	4,040	225	33,510	104,179	2,736	106,915
Company and subsidiaries	52,864	11,660	1,880	4,040	225	33,455	104,124		
Associates	–	–	–	–	–	55	55		
	52,864	11,660	1,880	4,040	225	33,510	104,179		
At 1 January 2010, as previously reported	**52,864**	**11,559**	**1,880**	**4,040**	**225**	**32,334**	**102,902**	**2,733**	**105,635**
Effect of early adoption of HKAS 12 (Amendment)	**–**	**101**	**–**	**–**	**–**	**1,176**	**1,277**	**3**	**1,280**
At 1 January 2010, as restated	**52,864**	**11,660**	**1,880**	**4,040**	**225**	**33,510**	**104,179**	**2,736**	**106,915**
Comprehensive income	**–**	**4,125**	**749**	**–**	**228**	**16,156**	**21,258**	**500**	**21,758**
Release upon disposal of premises	**–**	**(35)**	**–**	**–**	**–**	**35**	**–**	**–**	**–**
Transfer from retained earnings	**–**	**–**	**–**	**1,036**	**–**	**(1,036)**	**–**	**–**	**–**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**(10,256)**	**(10,256)**	**(128)**	**(10,384)**
At 31 December 2010	**52,864**	**15,750**	**2,629**	**5,076**	**453**	**38,409**	**115,181**	**3,108**	**118,289**
Company and subsidiaries	**52,864**	**15,750**	**2,629**	**5,076**	**453**	**38,359**	**115,131**		
Associates	**–**	**–**	**–**	**–**	**–**	**50**	**50**		
	52,864	**15,750**	**2,629**	**5,076**	**453**	**38,409**	**115,181**		
Representing:									
2010 final dividend proposed (Note 17)						**6,048**			
Others						**32,361**			
Retained earnings as at 31 December 2010						**38,409**			

* In accordance with the requirements of the HKMA, the amounts are set aside for general banking risks, including future losses or other unforeseeable risks, in addition to the loan impairment allowances recognised under HKAS 39.

The notes on pages 114 to 253 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Share capital HK$'m	Reserve for fair value changes of available-for-sale securities HK$'m	Retained earnings HK$'m	Total equity HK$'m
At 1 January 2009	52,864	–	2,747	55,611
Comprehensive income	–	1,374	10,293	11,667
Dividend paid	–	–	(3,013)	(3,013)
At 31 December 2009	52,864	1,374	10,027	64,265
At 1 January 2010	**52,864**	**1,374**	**10,027**	**64,265**
Comprehensive income	**–**	**145**	**9,584**	**9,729**
Dividend paid	**–**	**–**	**(10,256)**	**(10,256)**
At 31 December 2010	**52,864**	**1,519**	**9,355**	**63,738**

The notes on pages 114 to 253 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December	Notes	**2010 HK$'m**	2009 HK$'m
Cash flows from operating activities			
Operating cash inflow before taxation	43(a)	**278,851**	13,321
Hong Kong profits tax paid		**(3,188)**	(866)
Overseas profits tax paid		**(86)**	(110)
Net cash inflow from operating activities		**275,577**	12,345
Cash flows from investing activities			
Purchase of properties, plant and equipment	31	**(688)**	(574)
Purchase of investment properties	30	**(2)**	–
Acquisition of an associate	29	**–**	(129)
Proceeds from disposal of properties, plant and equipment		**107**	187
Proceeds from disposal of investment properties		**171**	86
Proceeds from disposal of an associate		**–**	3
Dividend received from associates	29	**3**	4
Net cash outflow from investing activities		**(409)**	(423)
Cash flows from financing activities			
Dividend paid to the equity holders of the Company		**(10,256)**	(3,013)
Dividend paid to non-controlling interests		**(128)**	(197)
Proceeds from capital issuance of a subsidiary		**–**	735
Proceeds from issuance of subordinated notes		**19,261**	–
Repayment of subordinated loans		**(19,418)**	(735)
Interest paid for subordinated liabilities		**(656)**	(930)
Net cash outflow from financing activities		**(11,197)**	(4,140)
Increase in cash and cash equivalents		**263,971**	7,782
Cash and cash equivalents at 1 January		**182,708**	174,926
Cash and cash equivalents at 31 December	43(b)	**446,679**	182,708

The notes on pages 114 to 253 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Principal activities

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of banking and related financial services in Hong Kong.

The Company is a limited liability company incorporated and listed in Hong Kong. The address of its registered office is 52/F, Bank of China Tower, 1 Garden Road, Hong Kong.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs is a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA and the requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, investment properties which are carried at fair value and premises which are carried at fair value or revalued amount less accumulated depreciation and accumulated impairment losses.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standards, amendments and interpretations already mandatorily effective for accounting periods beginning on 1 January 2010

Standard/ Interpretation	Content	Applicable for financial years beginning on/after	Currently relevant to the Group
HKAS 1 (Amendment)	Presentation of Financial Statements	1 January 2010	No
HKAS 17 (Amendment)	Leases	1 January 2010	Yes
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	1 July 2009	Yes
HKAS 36 (Amendment)	Impairment of Assets	1 January 2010	No
HKAS 38 (Amendment)	Intangible Assets	1 January 2010	No
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Eligible Hedged Items	1 July 2009	Yes
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting	1 January 2010	Yes
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Treating Loan Prepayment Penalties as Closely Related Derivatives	1 January 2010	Yes
HKFRS 1 (Revised)	First-time Adoption of HKFRS	1 July 2009	No
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions	1 January 2010	No
HKFRS 3 (Revised)	Business Combinations	1 July 2009	Yes
HKFRS 5 (Amendment)	Non-current Assets Held for Sale and Discontinued Operations	1 January 2010	Yes
HK(IFRIC)-Int 9 (Revised)	Reassessment of Embedded Derivatives	1 July 2009	No
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation	1 July 2009	Yes
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners	1 July 2009	No
HK(IFRIC)-Int 18	Transfers of Assets from Customers	1 July 2009	No
HK-Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	29 November 2010	No

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standards, amendments and interpretations already mandatorily effective for accounting periods beginning on 1 January 2010 (continued)

- HKAS 17 (Amendment), 'Leases'. The amendment, which is part of an improvement to HKFRSs in 2009, has been made to delete a specific guidance stating that a lease of land with an indefinite economic life normally is classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. The amendment requires the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

  As the transaction values in the Hong Kong property market have typically incorporated the market's general sentiment that the lease term specified in the Hong Kong Government land leases will be extended for a nominal amount, the risks and rewards of leasehold land would have already been substantially transferred to the lessee. Therefore the splitting between the land and buildings elements is no longer necessary as both are finance leases. The adoption of this amendment does not have an impact on the Group as the Group has not separately accounted for its land and buildings in the financial statements for the reason set out below.

  Pursuant to the Bank of China (Hong Kong) Limited (Merger) Ordinance ("Merger Ordinance") 2001, all assets and liabilities of the designated branches and subsidiaries, and the shares of certain entities of the legacy Bank of China Group in Hong Kong were effectively transferred to BOCHK, which was immediately owned by the then newly formed BOC Hong Kong (Holdings) Limited ("the Merger"). This was a significant event and the Group has therefore adopted the valuation at the date of the Merger as the deemed cost for its leasehold properties to reflect the circumstances at the time of the Merger.

  On adoption of the deemed cost at the date of Merger, the Group made reference to the independent property valuation conducted as at 31 August 2001 for the purpose of the Merger. Any means of subsequent allocation of the valuation of the leasehold properties at the date of Merger between the land and buildings elements would be notional and therefore would not represent reliable information. It was then determined that the values of the land and buildings elements of the Group's leasehold properties cannot be reliably split and the leasehold properties are treated as finance leases.

- HKAS 27 (Revised), 'Consolidated and Separate Financial Statements'. The revised standard requires changes in a parent's ownership interest in a subsidiary that do not result in the loss of control to be accounted for within other comprehensive income and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting treatment when control is lost, any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in income statement. The Group has adopted the revised standard prospectively to transactions with non-controlling interests that occur on or after 1 January 2010. There has been no impact of HKAS 27 (Revised) on the current year as there have been no transactions with non-controlling interests during the year.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standards, amendments and interpretations already mandatorily effective for accounting periods beginning on 1 January 2010 (continued)

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

- HKAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting'. The amendment clarifies when to recognise gains or losses on hedging instruments as a reclassification adjustment in a cash flow hedge of a forecast transaction that results subsequently in the recognition of a financial instrument. The amendment clarifies that gains or losses should be reclassified from equity to profit or loss in the period in which the hedged forecast cash flow affects profit or loss. There is no material impact to the financial statements of the Group as a result of this amendment.

- HKAS 39 (Amendment), 'Financial Instruments: Treating Loan Prepayment Penalties as Closely Related Derivatives'. This amendment clarifies that loan prepayment penalties are only treated as closely related embedded derivatives, if the penalties are payments that compensate the lender for loss of interest by reducing the economic loss from reinvestment risk. There is no material impact to the financial statements of the Group as a result of this amendment.

- HKFRS 3 (Revised), 'Business Combinations' and consequential amendments to HKAS 27, 'Consolidated and Separate Financial Statements', HKAS 28, 'Investments in Associates', and HKAS 31, 'Interests in Joint Ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The adoption of HKFRS 3 (Revised) and consequential amendments to HKAS 27, HKAS 28 and HKAS 31 do not have an impact on the financial statements of the Group as there is no business combination conducted during the year.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standards, amendments and interpretations already mandatorily effective for accounting periods beginning on 1 January 2010 (continued)

- HKFRS 5 (Amendment), 'Non-current Assets Held for Sale and Discontinued Operations'. The amendment clarifies that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. There is no material impact to the financial statements of the Group as a result of this amendment.

- HK(IFRIC)-Int 16, 'Hedges of a Net Investment in a Foreign Operation'. This interpretation states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within a group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of HKAS 39 that relate to a net investment hedge are satisfied. In particular, a group should clearly document its hedging strategy because of the possibility of different designations at different levels of a group.

  The Group has applied such hedges for its net investments in the Mainland. As a result, part of the resulting exchange differences recognised in the translation reserve on consolidation are offset against the exchange differences attributable to the effective portion of the hedging instruments in the consolidated financial statements. The impact on the consolidated financial statements after the application of net investment hedges is not significant in 2010.

(b) Standards, amendments and interpretations issued that are not yet mandatorily effective and have not been early adopted by the Group in 2010

The following standards, amendments and interpretations have been issued and are mandatory for accounting periods beginning on or after 1 February 2010:

Standard/ Interpretation	Content	Applicable for financial years beginning on/after	Currently relevant to the Group
HKAS 32 (Amendment)	Classification of Rights Issues	1 February 2010	No
HKFRS 7 (Amendment)	Financial Instruments: Disclosures	1 July 2011	No
HKFRS 9	Financial Instruments	1 January 2013	Yes
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	No

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations issued that are not yet mandatorily effective and have not been early adopted by the Group in 2010 (continued)

- HKFRS 9, 'Financial Instruments'. The first part of HKFRS 9 was issued in November 2009 and will replace those parts of HKAS 39 relating to the classification and measurement of financial assets. In November 2010, a further pronouncement was published to address financial liabilities and derecognition. Key features are as follows:

  (i) Classification and Measurement

  Financial assets are required to be classified into one of the following measurement categories: (1) those to be measured subsequently at fair value or (2) those to be measured subsequently at amortised cost. Classification is to be made on transition, and subsequently on initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  A financial instrument is subsequently measured at amortised cost only if it is a debt instrument, and the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only unleveraged payments of principal and interest. All other debt instruments are to be measured at fair value through profit or loss.

  All equity instruments are to be measured subsequently at fair value. Equity instrument that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than income statement. Once elected to be recognised through other comprehensive income, there will be no reclassification of fair value gains and losses to income statement. Dividends are to be presented in income statement as long as they represent a return on investment.

  (ii) Financial Liabilities and Derecognition

  Except for the two substantial changes described below, the classification and measurement requirements of financial liabilities have been basically carried forward with little amendments from HKAS 39. For the derecognition principles, they are consistent with that of HKAS 39.

  The requirements related to the fair value option for financial liabilities were changed to address own credit risk. It requires the amount of change in fair value attributable to changes in the credit risk of the liability be presented in other comprehensive income. The remaining amount of the total gain or loss is included in income statement. If this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in income statement. The determination of whether there will be a mismatch will need to be made at initial recognition of individual liabilities and will not be re-assessed. Amounts presented in other comprehensive income are not subsequently reclassified to income statement but may be transferred within equity.

  The standard eliminates the exception from fair value measurement contained in HKAS 39 for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument.

  While adoption of HKFRS 9 is mandatorily from 1 January 2013, earlier adoption is permitted. The Group is considering the financial impact of the standard and the timing of its application.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(c) Improvements to HKFRS

'Improvements to HKFRS' contains numerous amendments to HKFRS which the HKICPA consider non-urgent but necessary. It comprises amendments that result in accounting changes for presentation, recognition or measurement purpose as well as terminology or editorial amendments related to a variety of individual HKFRS. Most of the amendments are effective for annual periods beginning on or after 1 July 2009. For amendments that are effective for the financial year beginning on 1 January 2010, there have had no impact on the financial statements of the Group.

(d) Amendment issued that is not yet mandatorily effective but has been early adopted by the Group

Standard/ Interpretation	Content	Applicable for financial years beginning on/after	Currently relevant to the Group	Year of early adoption
HKAS 12 (Amendment)	Income Taxes	1 January 2012	Yes	2010
HKAS 24 (Revised)	Related Party Disclosures	1 January 2011	Yes	2009

- HKAS 12 (Amendment), 'Income Taxes'. The amended standard will be effective for reporting period beginning on or after 1 January 2012. Earlier application is permitted. The amendment provides a practical solution to the issue in relation to the determination of whether the carrying value of investment property measured in fair value will be recovered through use or through sale by introducing a rebuttable presumption that recovery of the carrying amount will normally be through sale. As a result, this amendment supersedes HK(SIC)-Int 21 'Income Taxes – Recovery of Revalued Non-Depreciable Assets'.

  Under the current Hong Kong tax legislation, capital gains on revaluation of investment properties held for long term investment purpose are not subjected to tax in Hong Kong. In prior year, deferred tax was provided against revaluation gain on investment properties on the assumption that the fair value will be recovered through use. The Group considers that the required treatment under the revised standard better reflects the tax position of the investment properties of the Group, and have early adopted the amended standard retrospectively.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(d) Amendment issued that is not yet mandatorily effective but has been early adopted by the Group (continued)

Upon early adoption, deferred tax liabilities for the revaluation of investment properties would be calculated subject to a nil tax rate retrospectively. The effect of the adoption of this amended standard is set out below:

	At 31 December 2010 HK$'m	At 31 December 2009 HK$'m	At 1 January 2009 HK$'m
Items in Consolidated Balance Sheet:			
Increase in deferred tax assets	**3**	3	1
Net increase in assets	**3**	3	1
Decrease in deferred tax liabilities	**(1,446)**	(1,277)	(1,017)
Net decrease in liabilities	**(1,446)**	(1,277)	(1,017)
Increase in premises revaluation reserve	**116**	101	44
Increase in retained earnings	**1,329**	1,176	971
Increase in non-controlling interests	**4**	3	3
Net increase in equity	**1,449**	1,280	1,018

	2010 HK$'m	2009 HK$'m
Items in Consolidated Income Statement:		
Decrease in taxation	**(153)**	(205)
Increase in earnings per share (in HK$)	**0.0144**	0.0194

- HKAS 24 (Revised), 'Related Party Disclosures'. The Group early adopted the partial exemption regarding disclosure requirements for transactions with government-related entities in its annual financial statements for the year ended 31 December 2009. The application of the remainder of the revised standard which amends the definition of related parties will not have significant impact on the Group.

2. Summary of significant accounting policies (continued)

2.2 Consolidation

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

(1) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group controls the composition of the Board of Directors, controls more than half of the voting power, holds more than half of the issued capital or by any other means that entitle the Group to govern the financial and operating policies of the entities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

(i) Business combinations not under common control

From 1 January 2009 to 31 December 2009

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of such an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values as at the acquisition date, irrespective of the extent of any non-controlling interest.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Amortisation of goodwill is prohibited, instead impairment testing is required annually. If the cost of acquisition is less than the fair value of the Group's share of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Non-controlling interest represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

From 1 January 2010 onwards

Acquisitions of businesses not under common control are accounted for using the acquisition method. The consideration transferred in a business combination is the fair values at the acquisition date of the assets transferred, the liabilities incurred (including contingent consideration arrangement) and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are expensed in the income statement as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held interest in the acquiree (if any), the excess is recognised immediately in income statement as a bargain purchase gain. Subsequently, goodwill is subject to impairment testing.

2. Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(1) Subsidiaries (continued)

(i) Business combinations not under common control (continued)

From 1 January 2010 onwards (continued)

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at fair value at the acquisition date and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

(ii) Business combinations under common control

For combination with a company under common control, the merger accounting method will be applied. The principle of merger accounting is a way to combine companies under common control as though the business of the acquiree had always been carried out by the acquirer. The Group's consolidated financial statements represent the consolidated results, consolidated cash flows and consolidated financial position of the Group as if any such combination had occurred from the date when the Company and the acquiree first came under common control (i.e. no fair value adjustment on the date of combination is required). The difference between the consideration and carrying amount at the time of combination is recognised in other comprehensive income. The effects of all transactions between the Group and the acquiree, whether occurring before or after the combination, are eliminated in preparing the consolidated financial statements of the Group. Comparative amounts are presented as if the acquiree had been combined at the end of the previous reporting period. The transaction costs for the combination will be expensed in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2. Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(2) Transactions with non-controlling interests

The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence from 1 January 2010 when revised HKAS 27 'Consolidated and Separate Financial Statements' became effective. The revision to HKAS 27 contained consequential amendments to HKAS 28 'Investments in Associates' and HKAS 31 'Interests in Joint Ventures'.

From 1 January 2009 to 31 December 2009

Previously transactions with non-controlling interests were treated as transactions with parties external to the Group. Purchases from non-controlling interests were treated in the same manner as the acquisition of subsidiaries, with goodwill or bargain purchase gain being recognised where appropriate. For disposals to non-controlling interests, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between: (a) the proceeds of the sale and, (b) the Group's share of its net assets including goodwill on acquisition net of any accumulated impairment loss and any related accumulated foreign currency translation difference was recognised as disposal gain or loss in income statement.

From 1 January 2010 onwards

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

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

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

2. Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(3) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill, net of accumulated impairment loss and any related accumulated foreign currency translation difference.

The Group's share of the post-acquisition profits or losses of associates is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The accumulated post-acquisition movements are adjusted against the cost of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses unless the Group has incurred obligations or made payments on behalf of the associates.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

2.3 Segmental reporting

The operating result of segments are reported in a manner consistent with the internal reporting provided to the Management Committee, which is the chief operating decision maker of the Group, that allocates resources and assesses the performance of operating segments. Income and expenses directly associated with each segment are included in determining business segment performance.

2.4 Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions using the exchange rates prevailing at the dates of the transactions and monetary assets and liabilities denominated in foreign currencies translated at the rate of exchange at the end of the reporting period are recognised directly in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the securities and other changes in the carrying amount of the securities. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in other comprehensive income.

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

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.4 Foreign currency translation (continued)

The results and financial position of all the Group entities that have a functional currency different from Hong Kong dollars are translated into Hong Kong dollars as follows:

- assets and liabilities are translated at the closing rate at the end of the reporting period;
- income and expenses are translated at average exchange rates; and
- all resulting exchange differences are recognised in the currency translation reserve in equity through other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments are taken to other comprehensive income. When a foreign entity is sold, such exchange differences are recognised in the income statement, as part of the gain or loss on sale.

2.5 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and through the use of valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received).

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

Derivatives are categorised as held for trading and changes in their fair value are recognised immediately in the income statement unless they are designated as hedges and are effective hedging instruments, then they are subject to measurement under the hedge accounting requirements.

For derivative instruments designated as hedging instrument and are effectively hedged, the method of recognising the resulting fair value gain or loss depends on the nature of the item being hedged. The Group designates certain derivatives as either:

(a) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or

(b) hedges of a particular risk associated with a highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecasted transaction (cash flow hedge).

Hedge accounting is used for derivatives designated in this way.

2. Summary of significant accounting policies (continued)

2.5 Derivative financial instruments and hedge accounting (continued)

The Group documents at inception the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. These criteria should be met before a hedge can be qualified to be accounted for under hedge accounting.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as effective fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

When fair value hedge accounting is applied to fixed rate financial liabilities, the carrying values of the financial liabilities are adjusted for changes in fair value that are attributable to the interest rate risk being hedged with the derivative instruments rather than carried at amortised cost, such carrying value adjustment is recognised in the income statement together with the changes in fair value of the hedging derivatives.

If the hedge relationship no longer meets the criteria for hedge accounting or is terminated for reasons other than derecognition e.g. due to repayment of the hedged item, the unamortised carrying value adjustment (the difference between the carrying value of the hedged item at the time of termination and the value at which it would have been carried had the hedge never existed) to the hedged item is amortised to the income statement over the remaining life of the hedged item by effective interest method. If the hedged item is derecognised, the unamortised carrying value adjustment is recognised immediately in the income statement.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amount accumulated in equity is reclassified in the income statement in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any accumulated gain or loss existing in the equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the accumulated gain or loss that was reported in equity is immediately transferred to the income statement.

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. A gain or loss on the effective portion of the hedging instrument is recognised in other comprehensive income; a gain or loss on the ineffective portion is recognised immediately in the income statement. Accumulated gains and losses previously recognised in other comprehensive income are reclassified to income statement upon disposal of the foreign operation.

2. Summary of significant accounting policies (continued)

2.6 Offsetting financial instruments

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

2.7 Interest income and expense and fee and commission income and expense

Interest income and expense are recognised in the income statement for all financial assets and financial liabilities using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (e.g. prepayment options or incentives relating to residential mortgage loans) but does not consider future credit losses. The calculation includes fees, premiums or discounts and basis points paid or received between parties to the contract, and directly attributable origination fees and costs which represent an integral part of the effective yield are amortised as interest income or expense over the expected life of the financial instrument.

For all hedge transactions where interest rate is the hedged risk, interest income or interest expense from hedged instruments such as fixed rate debt securities or fixed rate subordinated notes are disclosed on a net basis together with net interest income/expense arising from the hedging instrument such as interest rate swap.

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

Fees and commissions that are not an integral part of the effective yield are recognised on an accrual basis ratably over the period when the related service has been provided, such as administrative fee, asset management fee and custody services fee. Loan syndication fees are recognised as revenue when the related syndication arrangement has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as that of other participants.

2. Summary of significant accounting policies (continued)

2.8 Financial assets

The Group classifies its financial assets into the following four categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Management determines the classification of investments at initial recognition. The classification depends on the purpose for which the financial assets were held. All financial assets are recognised initially at fair value. Except for financial assets carried at fair value through profit or loss, all transaction costs of financial assets are included in their amortised costs.

(1) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset which has been acquired or incurred principally for the purpose of selling in the short term or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking is classified as held-for-trading. Derivatives are also classified as held for trading unless they are designated as effective hedges.

A financial asset, other than one held for trading, will be designated as a financial asset at fair value through profit or loss, if it meets the criteria set out below, and is so designated by management:

- eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring the financial assets or recognising the gains and losses on them on different bases; or

- applies to a group of financial assets, financial liabilities or both that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management; or

- relates to financial assets containing one or more embedded derivative that significantly modifies the cash flow resulting from those financial assets.

These assets are recognised initially at fair value, with transaction costs taken directly to the income statement, and are subsequently re-measured at fair value.

Gains and losses from changes in the fair value of such assets (excluding the interest component) are reported in net trading gain/loss or net gain/loss on financial instruments designated at fair value through profit or loss. The interest component is reported as part of interest income. Dividends on equity instruments of this category are also recognised in net trading gain/loss when the Group's right to receive payment is established.

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, including placements with and advances to banks and other financial institutions, investment debt securities without an active market and loans and advances to customers. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method less allowances for impairment losses.

2. Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

(3) Held-to-maturity

Financial assets classified as held-to-maturity are those traded in active markets, with fixed or determinable payments and fixed maturities that the Group's management has both the positive intention and the ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale. They are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method less allowances for impairment losses.

(4) Available-for-sale

Financial assets classified as available-for-sale are those that are either designated as such or are not classified in any of the other categories. They are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at fair value. Unrealised gains and losses arising from changes in the fair value of investments are recognised directly in other comprehensive income, until the financial asset is disposed of or impaired at which time the accumulated gain or loss previously recognised in equity should be transferred to the income statement. However, interest which includes the amortisation of premium and discount is calculated using the effective interest method and is recognised in the income statement. Dividends on equity instruments classified as available-for-sale are recognised in other operating income when the Group's right to receive payment is established.

2.9 Financial liabilities

The Group classifies its financial liabilities under the following categories: trading liabilities, financial liabilities designated at fair value through profit or loss, deposits, debt securities in issue, subordinated liabilities, and other liabilities. All financial liabilities are classified at inception and recognised initially at fair value.

(1) Trading liabilities

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the short term. Derivatives are also classified as held for trading unless they are designated as effective hedges. It is measured at fair value and any gains and losses from changes in fair value are recognised in the income statement.

(2) Financial liabilities designated at fair value through profit or loss

A financial liability can be designated at fair value through profit or loss if it is so designated at inception. Financial liabilities so designated include certain certificates of deposit issued and certain deposits received from customers that are embedded with derivatives. A financial liability is typically so designated if it meets the following criteria:

- eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring the financial liabilities or recognising the gains and losses on them on different bases; or

2. Summary of significant accounting policies (continued)

2.9 Financial liabilities (continued)

(2) Financial liabilities designated at fair value through profit or loss (continued)

- applies to a group of financial assets, financial liabilities or both that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management; or

- relates to financial liabilities containing one or more embedded derivative that significantly modifies the cash flow resulting from those financial liabilities.

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

(3) Deposits, debt securities in issue, subordinated liabilities and other liabilities

Deposits and debt securities in issue other than those classified as trading liabilities or designated at fair value through profit or loss, together with subordinated liabilities and other liabilities are carried at amortised cost. Any difference (if available) between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period using the effective interest method.

2.10 Recognition and de-recognition of financial instruments

Purchases and sales of financial assets at fair value through profit or loss, available-for-sale and held-to-maturity investments are recognised on the trade date, the date on which the Group purchases or sells the assets. Loans and receivables (except investment securities without an active market) are recognised when cash is advanced to the borrowers. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Trading liabilities, financial liabilities designated at fair value through profit or loss and debt securities in issue are recognised on the trade date. Deposits that are not trading liabilities are recognised when money is received from customers, other liabilities are recognised when such obligations arise. Financial liabilities are de-recognised from the balance sheet when and only when the obligation specified in the contract is discharged, cancelled or expired. If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of a liability and the consideration paid is included in net trading gain/loss.

Securities and bills sold to a counter-party with an obligation to repurchase at a pre-determined price on a specified future date under a repurchase agreement are referred to as Repos. Securities and bills purchased from a counter-party with an obligation to re-sell to the counter-party at a pre-determined price on a specified future date under a resale agreement are referred to as Reverse repos.

Repos or securities lending are initially recorded as due to banks, placements from banks and other financial institutions, as appropriate, at the actual amount of cash received from the counter-party. The financial assets used to collateralise repurchase agreements are recorded as investment securities or financial assets at fair value through profit or loss. Reverse repos or securities borrowing are initially recorded in the balance sheet as cash and due from banks or placements with banks and other financial institutions, as appropriate, at the actual amount of cash paid to the counter-party. The financial assets received as collateral under reverse repurchase agreements are not recorded on the balance sheet. The difference between sale and repurchase price is recognised as interest income or interest expense over the life of the agreements using the effective interest method.

2. Summary of significant accounting policies (continued)

2.11 Determination of fair value of financial instruments

The fair values of financial assets and financial liabilities that are quoted in active markets are based on current bid prices and current ask prices respectively. If the market for financial assets and financial liabilities is not active (such as unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

2.12 Precious metals

Precious metals comprise gold, silver and other precious metals. Precious metals are initially recognised at fair value and subsequently re-measured at their respective market prices as at the end of the reporting period. Mark-to-market gains or losses on precious metals are included in net trading gain/loss.

2.13 Impairment of financial assets

The Group assesses as at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets 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 after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets may be impaired includes observable data that comes to the attention of the Group about the following probable loss events:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payment;

(iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(iv) it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

(v) the disappearance of an active market or downgrading below investment grade level for that financial asset because of financial difficulties; or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

2. Summary of significant accounting policies (continued)

2.13 Impairment of financial assets (continued)

(1) Assets carried at amortised cost

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

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar and relevant credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

When a loan is uncollectible, it is written off against the related allowance for impairment losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses in the income statement.

If, in a subsequent period, the amount of allowance for impairment losses decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Loans whose terms have been renegotiated with substantial difference in the terms are no longer considered to be past due but are treated as new loans.

2. Summary of significant accounting policies (continued)

2.13 Impairment of financial assets (continued)

(2) Assets classified as available-for-sale

If evidence of impairment exists for available-for-sale financial assets, the accumulated losses, measured as the difference between the acquisition cost or amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement, is removed from equity and recognised in the income statement. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. With respect to equity instruments, further fair value changes are recognised in the reserve for fair value change of available-for-sale securities through other comprehensive income, impairment losses are not reversed through the income statement.

2.14 Impairment of investment in subsidiaries and associates and non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation, but are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.15 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a contract between the holder and the debtor.

Financial guarantees are initially recognised as financial liabilities and reported under "Other accounts and provisions" in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and (ii) the amount initially recognised less, where appropriate, accumulated amortisation recognised over the life of the guarantee on a straight-line basis. Any changes in the liability relating to financial guarantees are taken to the income statement.

2. Summary of significant accounting policies (continued)

2.16 Premises, equipment, fixtures and fittings

Premises comprise primarily branches and offices. Premises are shown at fair value based on periodic, but at least annually, valuations by external independent valuers less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. In the intervening periods, the directors review the carrying amount of premises, by reference to the open market value of similar properties, and adjustments are made when there has been a material change. All equipment, fixtures and fittings are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition and installation of the items.

Subsequent costs are included in an asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The item is stated at cost less impairment until it begins to generate economic benefits, then the item is subsequently measured according to the measurement basis of its respective assets class. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of premises are credited to the premises revaluation reserve through other comprehensive income. Decreases that offset previous increases of the same individual asset are charged against premises revaluation reserve through other comprehensive income; all other decreases are expensed in the income statement. Any subsequent increases are credited to the income statement up to the amount previously debited, and then to the premises revaluation reserve. Upon disposal of premises, the relevant portion of the premises revaluation reserve realised in respect of previous valuations is released and transferred from the premises revaluation reserve to retained earnings.

Depreciation is calculated on the straight-line method to write down the cost or revalued amount of such assets over their estimated useful lives as follows:

- Premises — Over the remaining period of lease
- Equipment, fixtures and fittings — 3-15 years

The useful lives of assets are reviewed, and adjusted if appropriate, as at the end of each reporting period.

At the end of each reporting period, both internal and external sources of information are considered to determine whether there is any indication that premises, equipment, fixtures and fittings are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment loss is recognised in the income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Impairment loss is reversed through the premises revaluation reserve or income statement as appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amount, relevant taxes and expenses. These are recognised in the income statement.

2. Summary of significant accounting policies (continued)

2.17 Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the companies in the Group, are classified as investment properties. Properties leased out within Group companies are classified as investment properties in individual companies' financial statements and as premises in consolidated financial statements. Land held under operating lease is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it is a finance lease.

Investment properties are recognised initially at cost, including related transaction costs. After initial recognition, investment properties are measured at fair value assessed by professional valuers on the basis of open market value. If this information is not available, alternative valuation methods are used such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The item is stated at cost less impairment and is included in the carrying amount of investment properties. Once the item begins to generate economic benefits, it is then measured at fair value. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Any changes in fair value are reported directly in the income statement.

If an investment property becomes owner-occupied, it is reclassified as premises, and its fair value at the date of reclassification becomes its cost for accounting purposes. If an item of premises becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in other comprehensive income as a revaluation of premises under HKAS 16 "Property, Plant and Equipment". However, if a fair value gain reverses a previous revaluation loss or impairment loss, the gain is recognised in the income statement up to the amount previously debited.

2.18 Leases

(1) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The total payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place. Rental income from operating leases is recognised on a straight-line basis over the lease term.

2. Summary of significant accounting policies (continued)

2.18 Leases (continued)

(2) Finance leases

Leases of assets where the lessee has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other liabilities. Investment properties acquired under finance leases are carried at their fair value.

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. Lease income is recognised over the term of the lease using net investment method, which reflects a constant periodic rate of return.

2.19 Insurance contracts

(1) Insurance contracts classification, recognition and measurement

The Group's insurance subsidiary follows the local regulatory requirements to measure its insurance contract liabilities.

The Group's insurance subsidiary issues insurance contracts, which are contracts that transfer significant insurance risk. As a general guideline, the Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefit payable if the insured event did not occur. The Group's insurance subsidiary issues long term business insurance contracts, which insure events associated with human life (for example death, survival, or total permanent disability) over a long duration. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised.

For linked long term insurance contracts with embedded derivatives (which are closely related to the host insurance contracts) linking payments on the contract to units of an investment fund set up by the Group with the consideration received from the contract holders, the liability is adjusted for all changes in the fair value of underlying assets, and includes a liability for contractual benefits that are expected to be incurred in the future which is recorded when the premiums are recognised.

Retirement scheme management category III insurance contracts, as defined in the Insurance Companies Ordinance, insure events associated with the cessation of employment by termination of death. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised. The portion of the premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability, which is included in insurance liabilities.

Premiums are recognised as revenue when they become payable by the contract holders before the deduction of commissions. Benefits and claims are recorded as an expense when they are incurred.

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

2. Summary of significant accounting policies (continued)

2.19 Insurance contracts (continued)

(1) Insurance contracts classification, recognition and measurement (continued)

Contracts entered into by the Group's insurance subsidiary with reinsurers under which the Group's insurance subsidiary is compensated for losses on one or more contracts issued by the Group's insurance subsidiary and that meet the classification requirement for insurance contracts as noted above are classified as reinsurance contracts held.

The benefits to which the Group's insurance subsidiary is entitled under its reinsurance contracts held are recognised as reinsurance assets. These reinsurance assets consist of short-term balances due from reinsurers as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

(2) Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the consolidated income statement, with a provision established for losses arising from the liability adequacy test.

2.20 Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise balances with original maturity less than three months from the date of acquisition, including cash, balances with banks and other financial institutions, short-term bills and notes classified as investment securities and certificates of deposit.

2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.22 Employee benefits

(1) Retirement benefit costs

The Group contributes to defined contribution retirement schemes under either recognised ORSO schemes or MPF schemes that are available to the Group's employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries for the ORSO schemes and in accordance with the MPF rules for MPF schemes. The retirement benefit scheme costs are charged to the income statement as incurred and represent contributions payable by the Group to the schemes. Contributions made by the Group that are forfeited by those employees who leave the ORSO scheme prior to the full vesting of their entitlement to the contributions are used by the Group to reduce the existing level of contributions or to meet its expenses under the trust deed of the ORSO schemes.

The assets of the schemes are held in independently-administered funds separate from those of the Group.

2. Summary of significant accounting policies (continued)

2.22 Employee benefits (continued)

(2) Leave entitlements

Employee entitlements to annual leave and sick leave are recognised when they accrue to employees. A provision is made for the estimated liability for unused annual leave and the amount of sick leave expected to be paid as a result of services rendered by employees up to the end of the reporting period.

Compensated absences other than sick leave and special approved annual leaves are non-accumulating; they lapse if the current period's entitlement is not used in full. Except for unexpired annual leaves, they do not entitle employees to a cash payment for unused entitlement on leaving the Group. Such compensated absences are recognised when the absences occur.

(3) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans that are expected to be settled longer than twelve months will be recognised using discounted cash flow method if the amounts are significant.

2.23 Current and deferred income taxes

Tax expenses for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income. In this case, the tax is also recognised in other comprehensive income within the corresponding item.

Income tax payable on profits, based on the applicable tax law enacted or substantially enacted at the end of the reporting period in each jurisdiction where the Company and the subsidiaries and associates operate and generate taxable income, is recognised as a current income tax expense in the period in which profits arise.

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

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

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

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

2. Summary of significant accounting policies (continued)

2.23 Current and deferred income taxes (continued)

Upon early adoption of "Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets" retrospectively, deferred tax liability or deferred tax asset arising from investment property is determined based on the presumption that the carrying amount of such investment property will be recovered through sale with the corresponding tax rate applied. In prior years, it was assumed that the carrying amounts were recovered entirely through use.

2.24 Repossessed assets

Repossessed assets are initially recognised at the lower of their fair value less costs to sell and the amortised cost of the related outstanding loans on the date of repossession, and the related loans and advances together with the related impairment allowances are derecognised from the balance sheet. Subsequently, repossessed assets are measured at the lower of their cost and fair values less costs to sell and are reported as 'non-current assets held for sale' included in 'Other assets'.

2.25 Fiduciary activities

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are excluded from these financial statements, as they are not assets of the Group.

2.26 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised as a provision but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When the inflow is virtually certain, it will be recognised as an asset.

2.27 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if the Group has the ability, directly and indirectly through one or more intermediaries, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control. Related parties may be individuals or entities.

3. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to changes in essential estimates and judgements, which affect the carrying amount of assets and liabilities, are set out below. The effect of changes to either the key assumptions or other estimation uncertainties will be presented below if it is practicable to determine. It is possible that actual results may require material adjustments to the estimates referred to below.

3.1 Impairment allowances on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and advances before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly.

3.2 Impairment of held-to-maturity and available-for-sale investments

The Group reviews its held-to-maturity and available-for-sale investment portfolios to assess impairment at least on a quarterly basis. In determining whether any of these investments is impaired, risk characteristics and performance such as external credit rating, market price etc will be assessed. The Group makes estimates on the default rate and loss severity of each investment with reference to market performance of the portfolios, current payment status of the issuers or performance of the underlying assets, or economic conditions that correlate with defaults on the collateralised assets.

For asset/mortgage backed securities ("ABS/MBS"), the Group adopts a comprehensive methodology in determining whether a particular security is impaired. Under the methodology, the Group will take into consideration not only the mark-to-market (MTM) price of the issue and its external credit rating, but also additional factors such as FICO score, vintage, location, adjustable rate mortgage ("ARM") status, delinquencies, level of collateral protection, loan to value ratio and prepayment speed of the underlying assets. Furthermore, having considered these factors, the ABS/MBS issue has to further pass the required credit enhancement coverage ratio set by the Group. This ratio is determined by applying assumptions regarding the default rates based on the available delinquency, foreclosure and real estate owned ("REO") data of the ABS/MBS issue.

The methodology and assumptions used for the assessments are reviewed regularly. In evaluating impairment of ABS/MBS during the year, the Group continued to consider a significant decline in market prices of ABS/MBS to be one of the key indicators of impairment. In addition, due to reduced market liquidity and wider dispersion in indicative prices of certain ABS/MBS held by the Group, the Group also ensured that there was additional objective evidence of credit impairment by considering whether there has been a significant adverse change in the credit enhancement coverage ratio, taking into account the reported delinquencies and credit losses incurred in the underlying mortgage portfolio for each security held by the Group.

3. Critical accounting estimates and judgements in applying accounting policies (continued)

3.2 Impairment of held-to-maturity and available-for-sale investments (continued)

Many of the ABS/MBS held by the Group are complex, and involve cashflows over many years. These future cashflows depend on economic factors such as US residential real estate prices and the performance of the US economy. The recoverable amounts of the securities therefore cannot be predicted with certainty at the end of the current reporting period, and additional impairment charges – or releases of impairment charges – may be required in future accounting periods.

3.3 Fair values of derivatives financial instruments

The fair values of derivatives financial instruments that are not quoted in active markets are determined by using valuation techniques. Valuation techniques used include discounted cash flows analysis and models with built-in functions available in externally acquired financial analysis or risk management systems widely used by the industry such as option pricing models. To the extent practical, the models use only observable data.

3.4 Held-to-maturity investments

The Group follows the guidance of HKAS 39 in classifying certain non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to hold these investments to maturity other than for specific circumstances defined in HKAS 39, such as selling an insignificant amount close to maturity, it will be required to reclassify the entire portfolio of assets as available-for-sale. The investments would then be measured at fair value and not amortised cost.

3.5 Estimate of future benefit payments and premiums arising from long term insurance contracts

In determining the Group's long term business fund liabilities under insurance contracts, the Group follows the Insurance Companies (Determination of Long Term Liabilities) Regulation under the Insurance Companies Ordinance and makes prudent assumptions which include appropriate margins for adverse deviation of the relevant factors. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on Hong Kong Assured Lives Mortality Table HKA01 that reflect recent historical mortality experience, adjusted where appropriate to reflect the Group's own experience. For contracts that insure the risk of longevity, appropriate prudent allowances are made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS, SARS, avian flu and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Group has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.

Were the number of deaths in future years to differ by 10% from management's estimate, the long term business fund liability would increase by approximately HK$52 million (2009: approximately HK$43 million), which accounts for 0.14% (2009: 0.14%) of the liability.

For linked long term insurance contracts with a life cover component, it is assumed that the Group will be able to increase mortality risk charges in future years in line with emerging mortality experience.

3. Critical accounting estimates and judgements in applying accounting policies (continued)

3.5 Estimate of future benefit payments and premiums arising from long term insurance contracts (continued)

Estimates are also made as to future investment income arising from the assets backing long term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. Were the average future investment returns to decrease by 50 basis points from management's estimates, the long term business fund liability would increase by approximately HK$763 million (2009: approximately HK$637 million).

The Group has also assessed whether a provision for expense is necessary in accordance with the Insurance Companies Ordinance. A provision for expense is the amount required to meet the total net cost that would likely be incurred in fulfilling contracts if the Group were to cease to transact new business 12 months after the valuation date. In the calculation of expense reserve, the Group has assumed it will carry on selling new business rather than ceases in 12 months period.

A resilience reserve was set up and included in long term business fund liabilities in accordance with the Insurance Companies (Determination of Long Term Liabilities) Regulation to provide a prudent provision against the effects of possible future changes to the value of the assets to meet the liabilities. The resilience reserve was set up based on the appointed actuary advice of a 29 basis points (2009: 35 basis points) change in market yield of the underlying assets and valuation interest rates. The amount of resilience reserve to be set up depends on the degree of change in interest rate assumed.

3.6 Amount recoverable from assets repurchased

On 22 July 2009, the Group agreed with the Securities and Futures Commission, the HKMA and thirteen other distributing banks to make an offer to eligible customers to repurchase their holdings in all outstanding Lehman Brothers minibonds ("Minibonds") subscribed through the Group ("the Repurchase Scheme").

At the time when determining the Group's charge to the income statement in 2009 in respect of the Minibonds, the Group took into account the estimated aggregate amount paid and payable under the Repurchase Scheme and the voluntary offer, the provision made prior to the date of the Repurchase Scheme and the amount recoverable from the Minibonds.

The amount recoverable from the Minibonds is uncertain and dependent on a number of factors including resolution of certain legal matters, which may result in a wide range of recovery outcomes. The Group has made an assessment of the amount recoverable under such uncertainties. The final amount recovered by the Group could be different from the assessment and may result in a considerable credit being recognised in the income statement in the period when it is realised.

4. 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 risk and interest rate risk) and liquidity risk. This note summarises the Group's exposures to these risks, as well as its objectives, policies and processes for managing and the methods used to measure these risks.

Financial risk management framework

The Group's management governance structure is designed to cover all business processes and ensure various risks are properly managed and controlled in the course of conducting business. The Group has a robust risk management organisational structure with a comprehensive set of policies and procedures to identify, measure, monitor and control various risks that may arise. These risk management policies and procedures are regularly reviewed and modified to reflect changes in markets and business strategies. Various groups of risk takers assume their respective responsibilities for risk management.

The Board of Directors, representing the interests of shareholders, is the highest decision making authority of the Group and has the ultimate responsibility for risk management. The Board, with the assistance of the Risk Committee ("RC"), has the primary responsibility for the formulation of risk management strategies and for ensuring that the Group has an effective risk management system to implement these strategies.

The RC, a standing committee established by the Board of Directors, is responsible for overseeing the Group's various types of risks, reviewing and approving high-level risk-related policies and overseeing their implementation, reviewing significant or high risk exposures or transactions and exercising its power of veto if it considers that any transaction should not proceed.

The Chief Executive ("CE") is responsible for managing the Group's various types of risks, approving detailed risk management policies, and approving material risk exposures or transactions within his authority delegated by the Board of Directors. The Chief Risk Officer ("CRO") assists the CE in fulfilling his responsibilities for the day-to-day management of risks. The CRO is responsible for initiating new risk management strategies, projects and measures that will enable the Group to better monitor and manage new risk issues or areas that may arise from time to time from new businesses, products and changes in the operating environment. He may also take appropriate initiatives in response to regulatory changes. The CRO is also responsible for reviewing material risk exposures or transactions within his delegated authority and exercising his power of veto if he considers that any transaction should not proceed.

Various units of the Group have their respective risk management responsibilities. Business units act as the first line of defence while risk management units, which are independent from the business units, are responsible for the day-to-day management of different kinds of risks. Risk management units have the primary responsibilities for drafting, reviewing and updating various risk management policies and procedures.

The Group's principal banking subsidiaries, Nanyang, NCB (China), and Chiyu, are subject to risk policies that are consistent with those of the Group. These subsidiaries execute their risk management strategies independently and report to the Group's management on a regular basis.

The Group has put in place appropriate internal control systems, including establishment of an organisation structure that sets adequately clear lines of authority and responsibility for monitoring compliance with policies, procedures and limits. Proper reporting lines also provide sufficient independence of the control functions from the business areas, as well as adequate segregation of duties throughout the organisation which helps to promote an appropriate internal control environment.

4. Financial risk management (continued)

Product development

To ensure effective risk assessment and monitoring, the Group developed a comprehensive product development and management framework which clearly defines the roles and responsibilities of all related units, and the proper risk assessment procedures for the product development process.

In accordance with the strategic objectives set by the Management, the respective product management units are responsible for formulating business and product development plans, and the department of strategic development shall ensure the plans are aligned with the Group's overall strategies. Departments that are responsible for risk management, legal, compliance and finance etc. are accountable for risk assessment and review.

Apart from product development, the respective business units shall work closely with relevant risk evaluating departments to identify and assess all the related risks. Based on the consideration of segregation of duties, risk evaluating departments shall conduct independent review on risk management procedures and assessment results. Products can only be launched after the risk management procedures are fulfilled and endorsed by all risk evaluating departments.

In order to be prudent in offering treasury products to our clients, all treasury products, regardless brand new or modified, require approval from a special committee before launching.

4.1 Credit Risk

Credit risk is the risk that a customer or counterparty will be unable to or unwilling to meet its obligations under a contract. It arises principally from lending, trade finance and treasury businesses, and covers inter-bank transactions, foreign exchange and derivative transactions as well as investments in bonds and securities.

Credit risk management framework

The Group has formulated a comprehensive set of credit risk management policies and procedures, and appropriate credit risk limits to manage and control credit risk that may arise. These policies, procedures and credit risk limits are regularly reviewed to cope with changes in market conditions and business strategies.

The Group's organisation structure establishes a clear set of authority and responsibility for monitoring compliance with policies, procedures and limits.

The Chief Credit Officer ("CCO") reports directly to the CRO and is responsible for the management of credit risk and for the formulation of all credit policies and procedures. The Chief Analytics Officer who reports directly to the CRO is responsible for the development and maintenance of Basel IRB-Compliant internal credit rating models and rating criteria. Various units of the Group have their respective credit risk management responsibilities. Business units act as the first line of defense while risk management units, which are independent from the business units, are responsible for the day-to-day management of credit risks. The Risk Management Department ("RMD") has the primary responsibility for drafting, reviewing and updating credit risk management policies and procedures. In accordance with Group's operating principle, the Group's principal banking subsidiaries, Nanyang, NCB (China), and Chiyu, have also formulated their own credit risk policies that are consistent with those of the Group. These subsidiaries execute their risk management strategies independently and report to the Group's management on a regular basis.

The Board of Directors delegates credit approval authority to the CE. The CE can further delegate to the subordinates within his limit authorised by the Board of Directors. The Group sets the limits of credit approval authority according to the business nature, rating, the level of transaction risk, and the extent of the credit exposure.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.1 Credit Risk (continued)

Credit risk measurement and control

In view of the rapidly changing market conditions, the Group has been continuously revisiting its lending strategies and conducting rigorous reviews on the concerned portfolios.

Loans and advances

Different credit approval and control procedures are adopted according to the level of risk associated with the customer, counterparty or transaction. The Credit Risk Assessment Committee comprising experts from the Group's credit and other functions is responsible for making an independent assessment of all credit facilities which require the approval of Deputy Chief Executives or above. Corporate and financial institution credit applications are independently reviewed and objectively assessed by risk management units. Obligor ratings and facility grades are assigned to these portfolios. Retail internal rating systems are deployed in risk assessment of retail credit transactions, including small business retail exposures, residential mortgage loans, personal loans and credit cards. Obligor ratings as well as loss estimates (if applicable) are used to support credit approval.

The Group uses loan grades, obligor ratings and loss estimates (if applicable) to support credit monitoring, analysis and reporting. For corporate and financial institution, more frequent rating review and closer monitoring are required for riskier customers. For retail exposures, monthly updated ratings and loss estimates are used for credit monitoring on a portfolio basis. More comprehensive review is required for obligors being identified under high-risk pools.

The Group has established credit master scale for internal rating purpose, which is in compliance with the Banking (Capital) Rules on rating structure, and can be mapped to S&P external ratings.

In addition to obligor ratings, the Group adopts a facility rating system to assess the risk in the facility structure during credit approval. This two-dimensional approach to evaluate credit risk is complied with the HKMA's requirement on IRB.

RMD provides regular credit management information reports and ad hoc reports to the Management Committee ("MC"), RC and Board of Directors to facilitate their continuous monitoring of credit risk.

The Group identifies credit concentration risk by industry, geography, customer and counterparty risk. The Group monitors changes to counterparties credit risk, quality of the credit portfolio and risk concentrations, and reports regularly to the Group's management.

As of 31 December 2010, the Group continues to adopt loan grading criteria which divide credit assets into 5 categories with reference to HKMA's guidelines, as below:

"Pass" represents loans where the borrower is current in meeting its repayment obligations and full repayment of interest and principal is not in doubt.

"Special Mention" represents loans where the borrower is experiencing difficulties which may threaten the Group's position. Ultimate loss is not expected at this stage but could occur if adverse conditions persist.

"Substandard" represents loans where the borrower displays a definable weakness that is likely to jeopardise repayment.

"Doubtful" represents loans where collection in full is improbable and the Group expects to sustain a loss of principal and/or interest, taking into account the net realisable value of the collateral.

4. Financial risk management (continued)

4.1 Credit Risk (continued)

Credit risk measurement and control (continued)

Loans and advances (continued)

"Loss" represents loans which are considered uncollectible after all collection options (such as the realisation of collateral or the institution of legal proceedings) have been exhausted.

Public disclosure on credit performance by loan classification will be further enhanced with internal ratings during 2011 reporting period since the Group has been accredited IRB status as of 1 January 2011.

Debt securities and derivatives

For investments in debt securities and securitisation assets, the obligor ratings or external credit ratings, credit assessment of the underlying assets and credit limits setting on customer/security issuer basis are used for managing credit risk associated with the investment. For derivatives, the Group sets customer limits to manage the credit risk involved and follows the same approval and control processes as loans and advances. On-going monitoring procedures are established.

The Group adopts a comprehensive methodology in determining whether a particular asset/mortgage backed security ("ABS/MBS") is impaired. Under the methodology, the Group will take into consideration not only the mark-to-market (MTM) price of the issue and its external credit rating, but also additional factors such as the FICO score, vintage, location, adjustable rate mortgage ("ARM") status, delinquencies, level of collateral protection, loan to value ratio and prepayment speed of the underlying assets. Furthermore, having considered these factors, the ABS/MBS issue has to further pass the required credit enhancement coverage ratio set by the Group. This ratio is determined by applying assumptions regarding the default rates based on the available delinquency, foreclosure and real estate owned ("REO") data of the ABS/MBS issue.

Settlement risk arises mainly from foreign exchange transactions with counterparties and also from derivatives in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty or customer to cover all settlement risk arising from the Group's market transactions on any single day.

Collateral held as security and other credit enhancements

The valuation and management of collateral have been documented in the policy covering acceptance criteria, validity of collateral, loan-to-value ratio, haircut ratio, valuation and insurance, etc. The collateral is revalued on a regular basis, though the frequency and the method used varies with the type of collateral involved and the nature and the risk of the underlying credit. The Group has established a mechanism to update the value of its main type of collateral, real estate properties, with the use of public indices on a portfolio basis. Collateral is insured with the Group as the beneficiary. In the personal sector, the main types of collateral are real estate properties, cash deposits, securities and investment funds. In the commercial and industrial sector, the main types of collateral are real estate properties, securities, receivables, cash deposits and machinery.

For loans guaranteed by a third party guarantor, the Group will assess the guarantor's financial condition, credit history and ability to meet obligations.

As at 31 December 2010 and 2009, the Group did not hold any collateral that it was permitted to sell or re-pledge in the absence of default by the borrower.

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(A) Credit exposures

Maximum exposures to credit risk before collateral held or other credit enhancements are summarised as follows:

	2010 **HK$'m**	2009 HK$'m
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with banks and other financial institutions	**411,241**	157,379
Placements with banks and other financial institutions maturing between one and twelve months	**39,499**	60,282
Financial assets at fair value through profit or loss – debt securities	**64,791**	40,328
Derivative financial instruments	**23,854**	17,584
Hong Kong SAR Government certificates of indebtedness	**46,990**	38,310
Advances and other accounts	**645,424**	527,135
Investment in securities		
– debt securities		
– available-for-sale	**282,917**	225,356
– held-to-maturity	**58,384**	72,439
– loans and receivables	**15,356**	12,703
Other assets	**13,896**	11,895
Credit risk exposures relating to off-balance sheet items are as follows:		
Letters of guarantee issued	**10,329**	10,990
Loan commitment and other credit related liabilities	**326,381**	265,434
	1,939,062	1,439,835

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2010 and 2009, without taking account of any collateral held, master netting agreements or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts. For letters of guarantee issued, the maximum exposure to credit risk is the maximum amount that the Group could be required to pay if the guarantees are called upon. For loan commitment and other credit related liabilities that are unconditionally cancellable or irrevocable over the life of the respective facilities or revocable in the event of a significant adverse change, the maximum exposure to credit risk is disclosed as the full amount of the committed facilities.

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances

Gross loans and advances before loan impairment allowances are summarised by product type as follows:

	2010 **HK$'m**	2009 HK$'m
Advances to customers		
Personal		
– Mortgages	**163,027**	140,940
– Credit cards	**8,229**	7,229
– Others	**15,744**	13,270
Corporate		
– Commercial loans	**372,823**	324,212
– Trade finance	**53,396**	29,321
	613,219	514,972
Trade bills	**31,605**	9,100
Advances to banks and other financial institutions	**2,911**	5,332
Total	**647,735**	529,404

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.

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.

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

– Significant financial difficulty incurred by the borrower;

– A breach of contract, such as a default or delinquency in interest or principal payment;

– For economic or legal reasons related to the borrower's financial difficulty, the Group has granted to the borrower a concession that it would not otherwise consider;

– Probable that the borrower will become bankrupt or undergo other financial reorganisation; or

– Other observable data indicating that there is a measurable decrease in the estimated future cash flows from such loans and advances.

(a) Advances neither overdue nor impaired

Advances that were neither overdue nor impaired are analysed by internal credit grades as follows:

	2010			
	Pass HK$'m	**Special mention HK$'m**	**Substandard or below HK$'m**	**Total HK$'m**
Advances to customers				
Personal				
– Mortgages	**161,218**	**131**	**73**	**161,422**
– Credit cards	**8,012**	**–**	**–**	**8,012**
– Others	**15,442**	**30**	**15**	**15,487**
Corporate				
– Commercial loans	**370,876**	**930**	**133**	**371,939**
– Trade finance	**52,983**	**240**	**6**	**53,229**
	608,531	**1,331**	**227**	**610,089**
Trade bills	**31,605**	**–**	**–**	**31,605**
Advances to banks and other financial institutions	**2,294**	**617**	**–**	**2,911**
Total	**642,430**	**1,948**	**227**	**644,605**

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(a) Advances neither overdue nor impaired (continued)

	2009			
	Pass HK$'m	Special mention HK$'m	Substandard or below HK$'m	Total HK$'m
Advances to customers				
Personal				
– Mortgages	138,876	128	85	139,089
– Credit cards	7,050	–	–	7,050
– Others	12,876	78	19	12,973
Corporate				
– Commercial loans	321,318	1,073	226	322,617
– Trade finance	28,669	392	4	29,065
	508,789	1,671	334	510,794
Trade bills	9,080	20	–	9,100
Advances to banks and other financial institutions	4,719	613	–	5,332
Total	522,588	2,304	334	525,226

The occurrence of loss event(s) may not necessarily result in impairment loss where the loans are fully collateralised. While such loans are of "substandard" or lower grades, they are regarded as not being impaired and have been included in the above tables.

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(b) Advances overdue but not impaired

The gross amount of advances overdue but not impaired is analysed as follows:

	2010					
	Overdue for 3 months or less HK$'m	Overdue for 6 months or less but over 3 months HK$'m	Overdue for 1 year or less but over 6 months HK$'m	Overdue for over 1 year HK$'m	Total HK$'m	Market value of collateral HK$'m
Advances to customers						
Personal						
– Mortgages	1,558	7	7	26	1,598	4,345
– Credit cards	199	–	–	–	199	–
– Others	203	1	–	13	217	457
Corporate						
– Commercial loans	493	2	3	79	577	1,282
– Trade finance	79	–	–	5	84	35
Total	2,532	10	10	123	2,675	6,119

	2009					
	Overdue for 3 months or less HK$'m	Overdue for 6 months or less but over 3 months HK$'m	Overdue for 1 year or less but over 6 months HK$'m	Overdue for over 1 year HK$'m	Total HK$'m	Market value of collateral HK$'m
Advances to customers						
Personal						
– Mortgages	1,765	34	12	26	1,837	4,567
– Credit cards	152	–	–	–	152	–
– Others	218	2	10	13	243	513
Corporate						
– Commercial loans	664	5	10	196	875	1,831
– Trade finance	38	–	1	9	48	153
Total	2,837	41	33	244	3,155	7,064

	2010 HK$'m	2009 HK$'m
Current market value of collateral held against the covered portion of advances to customers	6,119	7,064
Covered portion of advances to customers	2,218	2,856
Uncovered portion of advances to customers	457	299

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(c) Impaired advances

Advances individually identified to be impaired are analysed by product type as follows:

	2010		2009	
	Gross advances HK$'m	**Market value of collateral HK$'m**	Gross advances HK$'m	Market value of collateral HK$'m
Advances to customers				
Personal				
– Mortgages	**7**	**5**	14	15
– Credit cards	**18**	**–**	27	–
– Others	**40**	**22**	54	21
Corporate				
– Commercial loans	**307**	**71**	720	163
– Trade finance	**83**	**11**	208	28
Total	**455**	**109**	1,023	227
Loan impairment allowances made in respect of such advances	**344**		696	

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

	2010 HK$'m	2009 HK$'m
Current market value of collateral held against the covered portion of advances to customers	**109**	227
Covered portion of advances to customers	**80**	192
Uncovered portion of advances to customers	**375**	831

Classified or impaired advances to customers are analysed as follows:

	2010 HK$'m	2009 HK$'m
Gross classified or impaired advances to customers	**867**	1,769
Gross classified or impaired advances to customers as a percentage of gross advances to customers	**0.14%**	0.34%
Individually assessed loan impairment allowances made in respect of such advances	**326**	671

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(c) Impaired advances (continued)

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.

(d) Advances overdue for more than 3 months

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

	2010		2009	
	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	**38**	**0.01%**	103	0.02%
– one year or less but over six months	**38**	**0.01%**	154	0.03%
– over one year	**359**	**0.05%**	569	0.11%
Advances overdue for over three months	**435**	**0.07%**	826	0.16%
Individually assessed loan impairment allowances made in respect of such advances	**194**		393	

	2010 HK$'m	2009 HK$'m
Current market value of collateral held against the covered portion of advances to customers	**558**	977
Covered portion of advances to customers	**213**	459
Uncovered portion of advances to customers	**222**	367

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 31 December 2010 and 2009, there were no advances to banks and other financial institutions overdue for more than three months.

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(e) Rescheduled advances

	2010		2009	
	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	**228**	**0.04%**	573	0.11%

As at 31 December 2010, the total rescheduled advances to customers that were rescheduled during the year amounted to HK$5 million (2009: HK$515 million).

As at 31 December 2010 and 2009, 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.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(f) 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:

	2010					
	Gross advances HK$'m	% Covered by collateral or other security	Classified or impaired HK$'m	Overdue* HK$'m	Individually assessed impairment allowances HK$'m	Collectively assessed impairment allowances HK$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	29,542	34.21%	3	3	–	93
– Property investment	67,265	88.59%	87	273	7	374
– Financial concerns	9,011	30.57%	–	4	–	50
– Stockbrokers	556	69.32%	–	–	–	2
– Wholesale and retail trade	24,300	67.23%	29	127	12	131
– Manufacturing	15,125	44.57%	70	118	22	83
– Transport and transport equipment	23,409	34.39%	80	21	2	80
– Recreational activities	521	19.00%	–	–	–	2
– Information technology	14,212	0.62%	3	3	1	44
– Others	23,006	42.85%	48	168	7	86
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	12,291	99.96%	64	377	–	10
– Loans for purchase of other residential properties	147,424	99.99%	75	1,199	–	84
– Credit card advances	8,230	–	18	217	–	75
– Others	12,195	63.44%	44	179	20	15
Total loans for use in Hong Kong	387,087	72.71%	521	2,689	71	1,129
Trade finance	53,396	16.73%	95	141	57	228
Loans for use outside Hong Kong	172,736	24.45%	251	153	198	628
Gross advances to customers	613,219	54.24%	867	2,983	326	1,985

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(f) Concentration of advances to customers (continued)

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

	2009**					
	Gross advances HK$'m	% Covered by collateral or other security	Classified or impaired HK$'m	Overdue* HK$'m	Individually assessed impairment allowances HK$'m	Collectively assessed impairment allowances HK$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	22,903	36.71%	3	5	1	67
– Property investment	72,285	84.70%	206	498	10	361
– Financial concerns	4,518	37.23%	–	5	–	31
– Stockbrokers	301	32.90%	–	–	–	2
– Wholesale and retail trade	14,819	77.08%	160	222	61	83
– Manufacturing	13,159	55.16%	111	156	47	79
– Transport and transport equipment	28,179	16.94%	91	12	3	86
– Recreational activities	363	25.72%	–	3	–	1
– Information technology	16,102	0.80%	–	1	–	45
– Others	22,891	41.69%	62	206	15	78
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	11,932	99.94%	77	457	1	10
– Loans for purchase of other residential properties	127,213	99.99%	125	1,368	1	68
– Credit card advances	7,348	–	27	183	–	76
– Others	10,197	72.37%	68	172	36	17
Total loans for use in Hong Kong	352,210	71.30%	930	3,288	175	1,004
Trade finance	29,321	23.03%	237	224	175	128
Loans for use outside Hong Kong	133,441	20.15%	602	240	321	466
Gross advances to customers	514,972	55.30%	1,769	3,752	671	1,598

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

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(f) Concentration of advances to customers (continued)

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

The amount of new impairment allowances charged to the income statement, and classified or impaired loans written off during the year are shown below:

	2010		2009**	
	New impairment allowances HK$'m	Classified or impaired loans written off HK$'m	New impairment allowances HK$'m	Classified or impaired loans written off HK$'m
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	**22**	**–**	6	–
– Property investment	**56**	**1**	38	37
– Financial concerns	**13**	**–**	3	–
– Stockbrokers	**–**	**–**	–	–
– Wholesale and retail trade	**54**	**45**	44	28
– Manufacturing	**27**	**14**	33	101
– Transport and transport equipment	**19**	**2**	10	1
– Recreational activities	**1**	**–**	–	–
– Information technology	**12**	**–**	7	–
– Others	**19**	**7**	17	12
Individuals				
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**1**	**–**	1	1
– Loans for purchase of other residential properties	**15**	**–**	1	–
– Credit card advances	**118**	**118**	194	189
– Others	**33**	**43**	65	66
Total loans for use in Hong Kong	**390**	**230**	419	435
Trade finance	**76**	**111**	82	158
Loans for use outside Hong Kong	**132**	**–**	248	6
Gross advances to customers	**598**	**341**	749	599

** During the year, the basis of the above analyses has been refined and the comparative amounts have been reclassified accordingly.

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(f) 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

	2010 **HK$'m**	2009 HK$'m
Hong Kong	**447,494**	409,564
Mainland China	**127,436**	72,556
Others	**38,289**	32,852
	613,219	514,972
Collectively assessed loan impairment allowances in respect of the gross advances to customers		
Hong Kong	**1,375**	1,205
Mainland China	**478**	290
Others	**132**	103
	1,985	1,598

Overdue advances

	2010 **HK$'m**	2009 HK$'m
Hong Kong	**2,761**	3,470
Mainland China	**207**	253
Others	**15**	29
	2,983	3,752
Individually assessed loan impairment allowances in respect of the overdue advances		
Hong Kong	**137**	297
Mainland China	**64**	154
Others	**2**	6
	203	457
Collectively assessed loan impairment allowances in respect of the overdue advances		
Hong Kong	**51**	57
Mainland China	**5**	9
	56	66

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(f) Concentration of advances to customers (continued)

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

Classified or impaired advances

	2010 HK$'m	2009 HK$'m
Hong Kong	**656**	1,153
Mainland China	**113**	260
Others	**98**	356
	867	1,769
Individually assessed loan impairment allowances in respect of the classified or impaired advances		
Hong Kong	**163**	316
Mainland China	**65**	191
Others	**98**	164
	326	671
Collectively assessed loan impairment allowances in respect of the classified or impaired advances		
Hong Kong	**19**	23
Mainland China	**2**	6
	21	29

(C) Repossessed assets

During the year, the Group obtained assets by taking possession of collateral held as security. The nature and carrying value of such assets are summarised as follows:

	2010 HK$'m	2009 HK$'m
Commercial properties	**–**	18
Industrial properties	**2**	6
Residential properties	**79**	71
	81	95

The estimated market value of repossessed assets held by the Group as at 31 December 2010 amounted to HK$280 million (2009: HK$137 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.

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(C) Repossessed assets (continued)

When the repossessed assets are not readily convertible into cash, the Group may consider the following alternatives:

– adjusting the selling prices

– selling the loans together with the assets

– arranging loan restructuring

(D) Balances and placements with banks and other financial institutions

The following tables present an analysis of balances and placements with banks and other financial institutions that are neither overdue nor impaired as at 31 December by rating agency designation, based on Moody's ratings or their equivalent.

	2010			
	Aaa to A3 HK$'m	**Lower than A3 HK$'m**	**Unrated HK$'m**	**Total HK$'m**
Central banks	**336,923**	**–**	**–**	**336,923**
Banks and other financial institutions	**90,428**	**11,584**	**11,805**	**113,817**
	427,351	**11,584**	**11,805**	**450,740**

	2009			
	Aaa to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m
Central banks	81,790	–	–	81,790
Banks and other financial institutions	126,468	445	8,958	135,871
	208,258	445	8,958	217,661

As at 31 December 2010 and 2009, there were no overdue or impaired balances and placements with banks and other financial institutions.

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities

The tables below represent 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.

	2010							
					Unrated			
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Hong Kong government and government bodies HK$'m	Other governments and government agencies HK$'m	Other HK$'m	Total HK$'m
Investment in securities								
US non-agency residential mortgage-backed								
– Subprime	351	1	5	–	–	–	–	357
– Alt-A	90	112	40	–	–	–	–	242
– Prime	391	64	87	53	–	–	–	595
Fannie Mae								
– mortgage-backed securities	–	–	–	–	–	15	–	15
Freddie Mac								
– issued debt securities	79	158	–	–	–	–	–	237
– mortgage-backed securities	–	–	–	–	–	602	–	602
Other MBS/ABS	2,490	282	–	–	–	7,334	–	10,106
Other debt securities	99,456	79,249	45,852	6,885	15,989	49,260	47,812	344,503
Subtotal	102,857	79,866	45,984	6,938	15,989	57,211	47,812	356,657
Financial assets at fair value through profit or loss								
Other MBS/ABS	19	–	–	–	–	–	–	19
Other debt securities	1,303	7,958	17,037	1,682	33,486	–	3,306	64,772
Subtotal	1,322	7,958	17,037	1,682	33,486	–	3,306	64,791
Total	104,179	87,824	63,021	8,620	49,475	57,211	51,118	421,448

4. Financial risk management (continued)

4.1 *Credit Risk (continued)*

(E) Debt securities (continued)

	2009							
					Unrated			
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Hong Kong government and government bodies HK$'m	Other governments and government agencies HK$'m	Other HK$'m	Total HK$'m
Investment in securities								
US non-agency residential mortgage-backed								
– Subprime	504	31	12	–	–	–	–	547
– Alt-A	138	191	44	11	–	–	–	384
– Prime	635	242	632	1,344	–	–	–	2,853
Fannie Mae								
– issued debt securities	1,348	–	–	–	–	–	–	1,348
– mortgage-backed securities	–	–	–	–	–	51	–	51
Freddie Mac								
– issued debt securities	79	160	–	–	–	–	–	239
– mortgage-backed securities	–	–	–	–	–	1,164	–	1,164
Other MBS/ABS	3,481	416	25	–	–	2,695	–	6,617
Other debt securities	84,843	71,964	39,499	6,824	9,609	39,437	45,119	297,295
Subtotal	91,028	73,004	40,212	8,179	9,609	43,347	45,119	310,498
Financial assets at fair value through profit or loss								
Fannie Mae								
– issued debt securities	260	–	–	–	–	–	–	260
Other MBS/ABS	25	–	–	–	–	–	–	25
Other debt securities	1,039	7,941	14,630	1,639	13,902	290	602	40,043
Subtotal	1,324	7,941	14,630	1,639	13,902	290	602	40,328
Total	92,352	80,945	54,842	9,818	23,511	43,637	45,721	350,826

The total amount of unrated issues amounted to HK$157,804 million (2009: HK$112,869 million) as at 31 December 2010, of which only HK$6,697 million (2009: HK$3,868 million) were without issuer ratings. For details, please refer to page 164.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities (continued)

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

	2010					
	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	**39,825**	**34,342**	**8,321**	**4,833**	**5,638**	**92,959**
Held-to-maturity securities	**668**	**10,910**	**1,119**	**–**	**–**	**12,697**
Loans and receivables	**–**	**11,187**	**4,169**	**–**	**–**	**15,356**
Financial assets at fair value through profit or loss	**–**	**33,581**	**2,152**	**–**	**1,059**	**36,792**
Total	**40,493**	**90,020**	**15,761**	**4,833**	**6,697**	**157,804**

	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	30,333	28,233	6,683	3,089	2,468	70,806
Held-to-maturity securities	697	9,687	3,039	155	988	14,566
Loans and receivables	–	9,768	2,935	–	–	12,703
Financial assets at fair value through profit or loss	156	13,903	323	–	412	14,794
Total	31,186	61,591	12,980	3,244	3,868	112,869

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities (continued)

The following tables present an analysis of debt securities neither overdue nor impaired as at 31 December by rating agency designation, based on Moody's ratings or their equivalent to the respective issues of the debt securities.

	2010					
	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	**82,128**	**66,585**	**36,226**	**4,600**	**92,959**	**282,498**
Held-to-maturity securities	**20,336**	**13,229**	**9,673**	**2,055**	**12,697**	**57,990**
Loans and receivables	**–**	**–**	**–**	**–**	**15,356**	**15,356**
Financial assets at fair value through profit or loss	**1,322**	**7,958**	**17,037**	**1,682**	**36,792**	**64,791**
Total	**103,786**	**87,772**	**62,936**	**8,337**	**157,804**	**420,635**

	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	79,180	44,254	24,626	5,135	70,806	224,001
Held-to-maturity securities	11,331	28,396	15,267	2,194	14,566	71,754
Loans and receivables	–	–	–	–	12,703	12,703
Financial assets at fair value through profit or loss	1,324	7,941	14,630	1,639	14,794	40,328
Total	91,835	80,591	54,523	8,968	112,869	348,786

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities (continued)

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

	2010						
	Carrying values						Of which accumulated impairment allowances
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m	HK$'m
Available-for-sale securities	90	–	85	244	–	419	99
Held-to-maturity securities	303	52	–	39	–	394	49
Total	393	52	85	283	–	813	148
Of which accumulated impairment allowances	53	14	21	60	–	148	

	2009						
	Carrying values						Of which accumulated impairment allowances
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m	HK$'m
Available-for-sale securities	106	279	275	695	–	1,355	676
Held-to-maturity securities	411	75	44	155	–	685	112
Total	517	354	319	850	–	2,040	788
Of which accumulated impairment allowances	74	117	130	186	281	788	

As at 31 December 2010 and 2009, there were no overdue debt securities.

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities (continued)

MBS/ABS

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

	2010		
	Carrying values		Of which accumulated impairment allowances
	Total HK$'m	Impaired securities HK$'m	HK$'m
US MBS/ABS			
Non-agency residential mortgage-backed			
– Subprime	357	346	36
– Alt-A	242	76	30
– Prime	595	105	26
Ginnie Mae	7,334	–	–
Fannie Mae	15	–	–
Freddie Mac	602	–	–
Others	850	–	–
	9,995	527	92
Other countries MBS/ABS			
Residential mortgage-backed	1,860	15	–
Commercial mortgage-backed	81	–	–
	1,941	15	–
Total MBS/ABS	11,936	542	92

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities (continued)

MBS/ABS (continued)

	2009		
	Carrying values		Of which accumulated impairment allowances
	Total HK$'m	Impaired securities HK$'m	HK$'m
US MBS/ABS			
Non-agency residential mortgage-backed			
– Subprime	547	479	55
– Alt-A	384	146	66
– Prime	2,853	1,308	348
Ginnie Mae	2,695	–	–
Fannie Mae	51	–	–
Freddie Mac	1,164	–	–
Others	1,534	–	–
	9,228	1,933	469
Other countries MBS/ABS			
Residential mortgage-backed	2,253	75	38
Commercial mortgage-backed	160	–	–
	2,413	75	38
Total MBS/ABS	11,641	2,008	507

	2010 HK$'m	2009 HK$'m
Increase in fair value taken to available-for-sale securities reserve on MBS/ABS for the year (net of reversal of impairment allowances taken to income statement excluding deferred tax impact)	**53**	1,617
Closing balance of available-for-sale securities reserve relating to MBS/ABS (excluding deferred tax impact)	**(37)**	(90)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities (continued)

MBS/ABS (continued)

The impaired MBS/ABS by credit rating are analysed as follows:

	2010						
	Carrying values						Of which accumulated impairment allowances
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m	HK$'m
US MBS/ABS							
Non-agency residential mortgage-backed							
– Subprime	345	1	–	–	–	346	36
– Alt-A	–	36	40	–	–	76	30
– Prime	48	–	45	12	–	105	26
	393	37	85	12	–	527	92
Other countries MBS/ABS							
Residential mortgage-backed	–	15	–	–	–	15	–
Total MBS/ABS	393	52	85	12	–	542	92
Of which accumulated impairment allowances	53	14	21	4	–	92	

	2009						
	Carrying values						Of which accumulated impairment allowances
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m	HK$'m
US MBS/ABS							
Non-agency residential mortgage-backed							
– Subprime	467	–	12	–	–	479	55
– Alt-A	–	91	44	11	–	146	66
– Prime	50	188	231	839	–	1,308	348
	517	279	287	850	–	1,933	469
Other countries MBS/ABS							
Residential mortgage-backed	–	75	–	–	–	75	38
Total MBS/ABS	517	354	287	850	–	2,008	507
Of which accumulated impairment allowances	74	117	130	186	–	507	

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities (continued)

MBS/ABS (continued)

The tables below represent an analysis of net (reversal)/charge of impairment allowances for the year for MBS/ABS held as at 31 December.

	2010					
	Aaa HK$'m	**Aa1 to Aa3 HK$'m**	**A1 to A3 HK$'m**	**Lower than A3 HK$'m**	**Unrated HK$'m**	**Total HK$'m**
US MBS/ABS						
Non-agency residential mortgage-backed						
– Subprime	**(16)**	**(2)**	**–**	**–**	**–**	**(18)**
– Alt-A	**–**	**(2)**	**(4)**	**–**	**–**	**(6)**
– Prime	**(4)**	**–**	**5**	**(2)**	**–**	**(1)**
	(20)	**(4)**	**1**	**(2)**	**–**	**(25)**
Other countries MBS/ABS						
Residential mortgage-backed	**–**	**(4)**	**–**	**–**	**–**	**(4)**
Total MBS/ABS	**(20)**	**(8)**	**1**	**(2)**	**–**	**(29)**

	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
US MBS/ABS						
Non-agency residential mortgage-backed						
– Subprime	(15)	–	(3)	–	–	(18)
– Alt-A	–	10	20	(3)	–	27
– Prime	22	15	(2)	139	–	174
	7	25	15	136	–	183
Other countries MBS/ABS						
Residential mortgage-backed	–	8	–	–	–	8
Total MBS/ABS	7	33	15	136	–	191

Note: The net (reversal)/charge of impairment allowances for MBS/ABS disposed during the year is excluded.

4. Financial risk management (continued)

4.2 Market Risk

Market risk refers to the risk of losses arising from adverse movements in the value of foreign exchange and commodity positions and the trading book interest rate and equity positions held by the Group due to the volatility of financial market price (debt security price/interest rate, foreign exchange rate, equity price, commodity price). The Group adopts robust market risk appetite to achieve balance between risk and return. The Group's objective in managing market risk is to secure healthy growth of treasury business, by effective management of potential market risk in the Group's business, according to the Group's overall risk appetite and strategy of treasury business and based on well established risk management regime and measures.

According to corporate governance in risk management, the Board and Risk Committee, senior management and functional departments/units perform their duties and responsibilities to manage the Group's market risk. Risk Management Department (Market Risk Management) is mainly responsible for managing market risk, assisting senior management to perform their day-to-day duties, independently monitoring the market risk profile and compliance of management policies and limits of the Group and BOCHK, ensuring the aggregate and individual market risk are within acceptable level.

The Group's market risk management covers the Group and its subsidiaries. The Group establishes uniform market risk management policies to regulate the Group's and subsidiaries' market risk management work; meanwhile, the Group sets up Group VAR limit, which is allocated and monitored across the Group, according to subsidiaries' business requirements and risk tolerance level. In line with the requirements set in the Group policy, subsidiaries may formulate detailed regulations (subject to prior consent by BOCHK) and must bear the responsibility to manage daily market risk of the institution. Subsidiaries set up independent risk monitoring team to monitor daily market risk and limit compliance, and submit management information and reports to BOCHK on a regular basis.

The Group sets up market risk indicators and limits to identify, measure, monitor and control market risk. Major risk indicators and limits include but are not limited to VAR, Stop Loss, Open Position, Stress Testing and Sensitivity Analysis (Basis Point Value, Greeks), etc. To meet management requirements, major risk indicators and limits are classified into three levels, and approved by Risk Committee, Management Committee or CRO and Deputy Chief Executive (DCE) in charge of treasury business respectively. Treasury business units of BOCHK and other subsidiaries (as for Group Limit) are required to conduct their business within approved market risk indicators and limits.

4. Financial risk management (continued)

4.2 Market Risk (continued)

(A) VAR

VAR refers to the core indicator used in managing the Group's market risk. It is a statistical method used to measure the maximum loss of trading book positions held by the bank over a target horizon with a given level of confidence. The Group adopts a uniform VAR calculation model, using historical simulation approach and 2-year historical data, to calculate VAR of the Group and subsidiaries over 1-day holding period with 99% confidence level, and set up VAR limit of the Group and subsidiaries.

The following table sets out the VAR for all trading market risk exposure[1] of BOCHK.

	Year	At 31 December HK$'m	Minimum for the year HK$'m	Maximum for the year HK$'m	Average for the year HK$'m
VAR for all market risk	2010	9.8	5.7	15.7	9.5
	2009	9.8	9.0	16.3	12.6
VAR for foreign exchange risk products	2010	1.3	1.3	11.2	5.3
	2009	7.7	7.4	15.8	11.3
VAR for interest rate risk products	2010	10.4	3.6	13.6	7.9
	2009	6.4	2.1	12.8	5.7
VAR for equity risk products	2010	0.0	0.0	1.7	0.2
	2009	0.1	0.1	2.5	0.3
VAR for commodity risk products	2010	0.0	0.0	0.2	0.0
	2009	0.0	0.0	0.1	0.0

In 2010, the average daily revenue[2] of BOCHK earned from market risk-related trading activities was HK$5.75 million (2009: HK$3.88 million).

Notes:

1 Structural FX positions have been excluded.

2 Revenues from structural FX positions and back-to-back transactions have been excluded.

The predictive power of the VAR measure is monitored by back-testing, which compares the calculated VAR figure of those trading positions of each business day with the actual revenues arising on those positions on the next business day. These actual revenues exclude non-trading income, such as fee and commission. If back-testing revenues are negative and exceeding the VAR, a "back-testing exception" is noted. Generally speaking, the number of back-testing exceptions in a rolling 12-month period will not exceed four times. Back-testing results are reported to the Group's senior management, including CE and CRO. BOCHK conducts back-testing of VAR measures on a monthly basis. There are 3 actual losses exceeding the VAR estimate for BOCHK in 2010.

4. Financial risk management (continued)

4.2 Market Risk (continued)

(A) VAR (continued)

Although a valuable guide to risk, VAR should always be viewed in the context of its limitations. For example:

– the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;

– the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;

– the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and

– VAR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

The Group recognises these limitations by formulating stress test indicators and limits to assess and manage the market risk uncovered by VAR. The stress testing programme of the trading book includes sensitivity testing on changes in risk factors with various degrees of severity, as well as scenario analysis on historical events including the 1987 Equity Market Crash, 1994 Bond Market Crash, the 1997 Asian Financial Crisis, 2001 9-11 event and 2008 Financial Tsunami, etc.

(B) Currency risk

The Group's assets and liabilities are denominated in major currencies, particularly the Hong Kong dollar and the US dollar. To ensure the currency risk exposure of the Group is kept to an acceptable level, risk limits (e.g. Position and VAR limit) are used to serve as a monitoring tool. Moreover, the Group seeks to minimise the gap between asset and liability in the same currency. Foreign exchange contracts (e.g. FX swap) are usually used to manage FX risk associated with foreign currency-denominated assets and liabilities.

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4. Financial risk management (continued)

4.2 Market Risk (continued)

(B) Currency risk (continued)

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

	2010							
	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
Assets								
Cash and balances with banks and other financial institutions	369,368	18,084	22,058	2,762	657	1,884	999	415,812
Placements with banks and other financial institutions maturing between one and twelve months	8,886	22,840	6,279	42	–	144	1,308	39,499
Financial assets at fair value through profit or loss	1,560	16,413	51,716	112	–	–	75	69,876
Derivative financial instruments	122	2,540	21,144	18	–	–	30	23,854
Hong Kong SAR Government certificates of indebtedness	–	–	46,990	–	–	–	–	46,990
Advances and other accounts	25,299	190,935	413,767	5,447	1,260	53	8,663	645,424
Investment in securities								
– Available-for-sale securities	15,279	155,583	46,438	22,876	4,421	1,767	40,080	286,444
– Held-to-maturity securities	6,577	28,811	11,567	1,743	2,028	15	7,643	58,384
– Loans and receivables	–	5,791	9,565	–	–	–	–	15,356
Interests in associates	–	–	212	–	–	–	–	212
Investment properties	96	–	10,246	–	–	–	–	10,342
Properties, plant and equipment	420	–	30,629	–	–	–	–	31,049
Other assets (including deferred tax assets)	2,200	404	14,916	77	89	40	72	17,798
Total assets	429,807	441,401	685,527	33,077	8,455	3,903	58,870	1,661,040
Liabilities								
Hong Kong SAR currency notes in circulation	–	–	46,990	–	–	–	–	46,990
Deposits and balances of banks and other financial institutions	241,539	42,496	13,393	99	252	15	15,990	313,784
Financial liabilities at fair value through profit or loss	–	76	25,280	–	–	–	137	25,493
Derivative financial instruments	130	3,599	16,863	681	2	–	80	21,355
Deposits from customers	156,391	184,993	612,360	15,764	1,921	16,745	38,859	1,027,033
Other accounts and provisions (including current and deferred tax liabilities)	4,430	10,799	24,267	535	48	642	691	41,412
Insurance contract liabilities	2,761	6,963	30,083	–	–	–	–	39,807
Subordinated liabilities	–	20,029	–	6,848	–	–	–	26,877
Total liabilities	405,251	268,955	769,236	23,927	2,223	17,402	55,757	1,542,751
Net on-balance sheet position	24,556	172,446	(83,709)	9,150	6,232	(13,499)	3,113	118,289
Off-balance sheet net notional position*	(17,769)	(165,279)	192,604	(9,078)	(6,290)	13,368	(3,256)	4,300
Contingent liabilities and commitments	11,813	85,973	227,256	5,720	1,559	1,076	3,313	336,710

4. Financial risk management (continued)

4.2 Market Risk (continued)

(B) Currency risk (continued)

	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
Assets								
Cash and balances with banks and other financial institutions	59,001	45,058	51,024	2,066	317	623	2,699	160,788
Placements with banks and other financial institutions maturing between one and twelve months	1,782	34,514	19,365	3,083	43	125	1,370	60,282
Financial assets at fair value through profit or loss	700	10,884	32,948	–	–	–	62	44,594
Derivative financial instruments	5	1,201	16,238	48	–	–	92	17,584
Hong Kong SAR Government certificates of indebtedness	–	–	38,310	–	–	–	–	38,310
Advances and other accounts	15,810	112,386	386,259	3,352	1,170	46	8,112	527,135
Investment in securities								
– Available-for-sale securities	2,414	115,645	36,176	24,365	13,261	1,882	34,870	228,613
– Held-to-maturity securities	1,761	26,623	25,291	6,749	2,725	362	8,928	72,439
– Loans and receivables	–	5,873	6,661	–	–	–	169	12,703
Interests in associates	–	–	217	–	–	–	–	217
Investment properties	59	–	9,305	–	–	–	–	9,364
Properties, plant and equipment	350	–	25,936	–	–	–	–	26,286
Other assets (including deferred tax assets)	128	614	13,497	11	110	54	65	14,479
Total assets	82,010	352,798	661,227	39,674	17,626	3,092	56,367	1,212,794
Liabilities								
Hong Kong SAR currency notes in circulation	–	–	38,310	–	–	–	–	38,310
Deposits and balances of banks and other financial institutions	38,104	24,930	35,539	18	28	13	1,015	99,647
Financial liabilities at fair value through profit or loss	–	599	15,229	–	–	–	460	16,288
Derivative financial instruments	7	2,056	10,921	869	3	–	111	13,967
Deposits from customers	38,714	158,094	564,319	15,517	2,199	14,645	48,833	842,321
Other accounts and provisions (including current and deferred tax liabilities)	1,194	8,304	22,952	617	56	528	1,511	35,162
Insurance contract liabilities	1	6,202	27,205	–	–	–	–	33,408
Subordinated liabilities	–	19,399	–	7,377	–	–	–	26,776
Total liabilities	78,020	219,584	714,475	24,398	2,286	15,186	51,930	1,105,879
Net on-balance sheet position	3,990	133,214	(53,248)	15,276	15,340	(12,094)	4,437	106,915
Off-balance sheet net notional position*	462	(120,753)	149,934	(15,284)	(15,284)	11,849	(4,728)	6,196
Contingent liabilities and commitments	5,940	61,833	197,945	4,341	569	835	4,961	276,424

* 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.

4. Financial risk management (continued)

4.2 Market Risk (continued)

(C) Interest rate risk

Interest rate risk means the risks to a bank's earnings and economic value arising from adverse movements in interest rate and term structures of the bank's asset and liability positions. The Group's interest rate risk exposures are mainly structural. The major types of interest rate risk from structural positions are:

– Repricing risk – mismatches in the maturity or repricing periods of assets and liabilities that may affect net interest income;

– Basis risk – different pricing basis for different transactions so that the yield on assets and cost of liabilities may change by different amounts within the same repricing period;

– Yield curve risk – non-parallel shifts in the yield curve that may have an adverse impact on net interest income or economic value;

– Option risk – exercise of the options embedded in assets, liabilities or off-balance sheet items that can cause a change in the cashflows of assets and liabilities.

The Group's risk management framework applies also to interest rate risk management. The Assets and Liabilities Management Committee ("ALCO") exercises its oversight of interest rate risk in accordance with "BOCHK Group Interest Rate Risk Management Policy" as approved by the RC. Risk Management Department ("RMD") (Market Risk Management) is the unit responsible for interest rate risk management. With the cooperation of Financial Management Department (Asset & Liability Management) and Investment Management, RMD assists the ALCO to manage day-to day interest rate risk positions. Its roles include, but are not limited to, formulation of management policies, selection of methodologies, setting risk indicators and limits, assessment of target balance sheet, monitoring the compliance with policies and limits, and submission of interest rate risk management reports to the RC and senior management, etc.

The Group set out interest rate risk indicators and limits to identify, measure, monitor and control interest rate risk. The indicators and limits include, but are not limited to, re-pricing gap limits, basis risk, duration, price value of a basis point (PVBP), Greeks, net interest income sensitivity ratio, economic value sensitivity ratio (including sub-limit for AFS securities), etc. The indicators and limits are classified into two levels, which are approved by the RC and ALCO respectively. Risk-taking business units are required to conduct their business within the boundary of the interest rate risk limits. Before launching a new product or business in the banking book, relevant departments are required to go through a risk assessment process, which includes assessment of underlying interest rate risk and consideration of the adequacy of current risk monitoring mechanism. Any material impact on interest rate risk noted during the risk assessment process will be reported to both the CFO and CRO and submitted to the RC for approval.

4. Financial risk management (continued)

4.2 Market Risk (continued)

(C) Interest rate risk (continued)

Net interest income sensitivity ratio (NII) and economic value sensitivity ratio (EV) assess the impact of interest rate movement on the Group's net interest income and capital base. They are the Group's key interest rate risk indicators. The former assesses the impact of interest rate movement on net interest income as a percentage to projected net interest income for the year. The latter assesses the impact of interest rate movement on economic value (i.e. the present value of cash-flows of assets, liabilities and off-balance-sheet items discounted using market interest rate) as a percentage to the latest capital base. Limits are set by RC on these two indicators to monitor and control the Group's banking book interest rate risk. Any of these limits cannot be breached. Apart from the above hypothetical parallel shift scenario, business-as-usual ("BAU") scenario has been established to assess the impact of interest rate movements on these two indicators.

The Group uses scenario analysis and stress test to assess the banking book interest rate risk the Group would face under adverse circumstances. For example, a stress scenario of 200 basis points parallel shift of yield curve is used to assess the impact on the Group's net interest income and economic value. Scenario analysis and stress test are also devised to assess the impact on net interest income and economic value as well as capital base arising from the optionality of demand and savings deposits, the prepayment of mortgage loans and the prepayment of ABS/MBS due to extension/contraction of weighted average life.

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4. Financial risk management (continued)

4.2 Market Risk (continued)

(C) Interest rate risk (continued)

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

	2010						
	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
Assets							
Cash and balances with banks and other financial institutions	409,210	–	–	–	–	6,602	415,812
Placements with banks and other financial institutions maturing between one and twelve months	–	19,346	20,153	–	–	–	39,499
Financial assets at fair value through profit or loss	3,439	30,225	3,638	14,214	13,275	5,085	69,876
Derivative financial instruments	–	–	–	–	–	23,854	23,854
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	46,990	46,990
Advances and other accounts	513,018	92,528	27,356	7,659	119	4,744	645,424
Investment in securities							
– Available-for-sale securities	34,227	41,732	49,471	125,084	32,403	3,527	286,444
– Held-to-maturity securities	7,142	16,570	9,808	16,132	8,732	–	58,384
– Loans and receivables	5,791	3,402	6,163	–	–	–	15,356
Interests in associates	–	–	–	–	–	212	212
Investment properties	–	–	–	–	–	10,342	10,342
Properties, plant and equipment	–	–	–	–	–	31,049	31,049
Other assets (including deferred tax assets)	–	–	–	–	–	17,798	17,798
Total assets	972,827	203,803	116,589	163,089	54,529	150,203	1,661,040
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	46,990	46,990
Deposits and balances of banks and other financial institutions	298,078	8,729	969	–	–	6,008	313,784
Financial liabilities at fair value through profit or loss	4,996	16,993	3,316	168	20	–	25,493
Derivative financial instruments	–	–	–	–	–	21,355	21,355
Deposits from customers	787,316	107,409	73,421	5,010	–	53,877	1,027,033
Other accounts and provisions (including current and deferred tax liabilities)	11,005	1,070	2,163	394	–	26,780	41,412
Insurance contract liabilities	–	–	–	–	–	39,807	39,807
Subordinated liabilities	–	–	6,848	–	20,029	–	26,877
Total liabilities	1,101,395	134,201	86,717	5,572	20,049	194,817	1,542,751
Interest sensitivity gap	(128,568)	69,602	29,872	157,517	34,480	(44,614)	118,289

4. Financial risk management (continued)

4.2 Market Risk (continued)

(C) Interest rate risk (continued)

	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
Assets							
Cash and balances with banks and other financial institutions	132,002	–	–	–	–	28,786	160,788
Placements with banks and other financial institutions maturing between one and twelve months	–	26,170	34,112	–	–	–	60,282
Financial assets at fair value through profit or loss	10,862	2,567	2,223	11,269	13,407	4,266	44,594
Derivative financial instruments	–	–	–	–	–	17,584	17,584
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	38,310	38,310
Advances and other accounts	437,386	66,229	17,878	1,491	164	3,987	527,135
Investment in securities							
– Available-for-sale securities	24,086	42,303	15,488	119,124	24,355	3,257	228,613
– Held-to-maturity securities	16,968	28,856	11,241	10,920	4,454	–	72,439
– Loans and receivables	169	1,774	10,760	–	–	–	12,703
Interests in associates	–	–	–	–	–	217	217
Investment properties	–	–	–	–	–	9,364	9,364
Properties, plant and equipment	–	–	–	–	–	26,286	26,286
Other assets (including deferred tax assets)	–	–	–	–	–	14,479	14,479
Total assets	621,473	167,899	91,702	142,804	42,380	146,536	1,212,794
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	38,310	38,310
Deposits and balances of banks and other financial institutions	78,388	1,751	3,475	–	–	16,033	99,647
Financial liabilities at fair value through profit or loss	13,375	1,974	846	93	–	–	16,288
Derivative financial instruments	–	–	–	–	–	13,967	13,967
Deposits from customers	681,049	76,187	36,107	1,073	–	47,905	842,321
Other accounts and provisions (including current and deferred tax liabilities)	9,685	265	274	305	–	24,633	35,162
Insurance contract liabilities	–	–	–	–	–	33,408	33,408
Subordinated liabilities	–	–	26,776	–	–	–	26,776
Total liabilities	782,497	80,177	67,478	1,471	–	174,256	1,105,879
Interest sensitivity gap	(161,024)	87,722	24,224	141,333	42,380	(27,720)	106,915

4. Financial risk management (continued)

4.2 Market Risk (continued)

(C) Interest rate risk (continued)

The Group is principally exposed to HKD and USD in terms of interest rate risk. The following example illustrates how the Group's stress test is performed. As at 31 December 2010, if HKD and USD market interest rates had been 100 basis points higher with other variables held constant, the impacts on net interest income over the next twelve months and on reserves would have been as follows:

	Impact on net interest income over the next twelve months at 31 December		**Impact on reserves at 31 December**	
Scenario	**2010 HK$'m**	2009 HK$'m	**2010 HK$'m**	2009 HK$'m
Up 100 basis points parallel shift in HK dollar yield curves	**905**	394	**(257)**	(287)
Up 100 basis points parallel shift in US dollar yield curves	**(1,414)**	(571)	**(3,698)**	(2,804)

The overall negative impact (HKD and USD combined) on net interest income increased compared with 2009 mainly because the short term negative gaps are widened in relevant currencies. Reserves would have been reduced because of the expected reduction in valuation of available-for-sale portfolio due to the above simulated market rates movement. The reduction of reserves is larger compared with 2009 because the size and duration of available-for-sale portfolio is increased.

The Group uses more severe assumptions when conducting stress test, including a change in the correlation between HK dollar and US dollar interest rates, parallel movement of interest rates for the banking book positions of all repricing or maturity dates, and that in the absence of actions that would be taken to mitigate the impact of interest rates shock, all positions are assumed to run to maturity and reprice or mature simultaneously within a given time band. As the risk is complicated by having optionality embedded in certain products, behavioural assumptions are made to reflect more accurately the interest rate risk exposures.

4. Financial risk management (continued)

4.3 Liquidity Risk

Liquidity risk is the risk that banks fail to provide sufficient funds to grow assets or pay the due obligations, and need to bear an unacceptable loss. The Group follows the sound liquidity risk appetite, to provide stable, reliable and adequate sources of cash to meet liquidity needs under normal circumstances or stressed scenarios; and survive with net positive cumulative cash flow in extreme scenarios, without requesting HKMA to act as a lender of last resort.

The Group's liquidity risk management objective is to effectively manage the liquidity of on-balance sheet and off-balance sheet items with reasonable cost based on the liquidity risk appetite to achieve sound operation and sustainable profitability. Customer deposits are our primary source of funds. To ensure stable and sufficient source of funds are in place, the Group actively attracts new deposits, keeps the core deposit and obtains supplementary funding from interbank market or by issuing bills in the capital market. According to different term maturities and the results of funding needs estimated from stressed scenarios, the Group adjusts its asset structure (including loans, bonds investment, interbank placement, etc.) to maintain sufficient liquid assets in support of normal business needs and ensure its ability to raise enough funds at a reasonable cost to serve external claims in case of emergency. The Group is committed to diversify the source of funds and the use of funds to avoid excessive concentration of assets and liabilities and prevent triggering liquidity risk due to the break of funding strand when problem occurred in one concentrated funding source. The Group also pays attention to manage liquidity risk created by off-balance sheet activities, such as loan commitments, derivatives, options and other complex structured products. The Group has overall liquidity risk management strategy to cover the liquidity management of foreign currency assets and liabilities, intra-day liquidity, intra-group liquidity, the liquidity risk arising from others risk, etc., and has formulated corresponding funding contingency plan.

The Risk Committee ("RC"), a standing committee established by the Board of Directors, is the decision making authority of liquidity risk management, and assumes the ultimate responsibility of liquidity risk management. As authorised by the RC, the Assets and Liabilities Management Committee ("ALCO") exercises its oversight of liquidity risk and ensures the daily operations of the Group are conducted on the basis of the risk appetite and policies as set by the RC. Risk Management Department (Market Risk Management) is the unit responsible for overseeing the Group's liquidity risk. It cooperates with Financial Management Department (Assets and Liabilities Management), Investment Management, etc. to assist ALCO to perform liquidity management functions according to their specific responsibilities.

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

The Group established liquidity risk management indicators and limits to identify, measure, monitor and control liquidity risk. Such indicators and limits include (but are not limited to) liquidity ratio, deposit stability ratio, loan-to-deposit ratio, maturity mismatch ratio, Maximum Cumulative Outflow ("MCO") and liquidity buffer asset portfolio. The Group applies cash flow analysis (under normal and stress conditions) and liquidity stress test (including institution specific and world wide crisis) to assess the Group's capability to withstand various severe liquidity crises. Also, Assets and Liabilities Management System ("ALM") is developed to provide data support for facilitating the liquidity risk management duties.

The Group's liquidity risk management also covers new product or business development. Before launching a new product or business, the relevant departments are required to go through a risk assessment process, which includes the assessment of underlying liquidity risk and consideration of the adequacy of the current risk management mechanism. Any material impact on liquidity risk noted during the risk assessment process will be reported to RC for approval.

The Group has established a set of uniform liquidity risk management policies which serve as standards and guidance to all the Group's members for liquidity risk management. On the basis of the Group's uniform policy, each of the subsidiaries develops its own liquidity management policies according to its own characteristics (subject to approval by BOCHK), and assumes its own liquidity risk management responsibility. Subsidiaries are required to report their respective liquidity positions on a regular basis to Risk Management Department (Market Risk Management) of BOCHK which consolidates such information and monitors group-wide liquidity risk.

(A) Liquidity ratio

	2010	2009
Average liquidity ratio	**38.77%**	40.18%

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

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.

4. Financial risk management (continued)

4.3 *Liquidity Risk (continued)*

(B) Analysis of undiscounted cash flows by contractual maturities

(a) Non-derivative cash flows

The tables below summarise the cash flows of the Group as at 31 December for non-derivative financial liabilities by remaining contractual maturities.

	2010					
	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$'m	Total HK$'m
Financial liabilities						
Hong Kong SAR currency notes in circulation	46,990	–	–	–	–	46,990
Deposits and balances of banks and other financial institutions	304,106	8,804	1,013	–	–	313,923
Financial liabilities at fair value through profit or loss	4,997	17,001	3,320	179	23	25,520
Deposits from customers	838,895	108,138	74,604	6,641	–	1,028,278
Subordinated liabilities	–	539	682	4,973	31,579	37,773
Other financial liabilities	25,977	1,192	2,302	269	–	29,740
Total financial liabilities	1,220,965	135,674	81,921	12,062	31,602	1,482,224

	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$'m	Total HK$'m
Financial liabilities						
Hong Kong SAR currency notes in circulation	38,310	–	–	–	–	38,310
Deposits and balances of banks and other financial institutions	94,461	1,774	3,505	–	–	99,740
Financial liabilities at fair value through profit or loss	13,168	868	2,160	111	–	16,307
Deposits from customers	728,951	74,999	37,589	1,184	–	842,723
Subordinated liabilities	–	–	607	2,629	29,640	32,876
Other financial liabilities	22,242	501	358	309	–	23,410
Total financial liabilities	897,132	78,142	44,219	4,233	29,640	1,053,366

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(B) Analysis of undiscounted cash flows by contractual maturities (continued)

(b) Derivative cash flows

(i) Derivatives settled on a net basis

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

- Foreign exchange contracts: non-deliverable OTC currency options, currency futures, non-deliverable currency forwards;
- Interest rate contracts: interest rate swaps;
- Bullion contracts: bullion margin contracts; and
- Equity contracts: exchange traded equity options.

The tables below analyse the Group's derivative financial instruments as at 31 December that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the tables are the net contractual undiscounted cash flows of derivatives with net negative fair value.

	2010					
	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$'m**	**Total HK$'m**
Foreign exchange contracts	**(13,838)**	**(148)**	**(296)**	**129**	**–**	**(14,153)**
Interest rate contracts	**(192)**	**(417)**	**(2,003)**	**(4,150)**	**(605)**	**(7,367)**
Bullion contracts	**(899)**	**–**	**–**	**–**	**–**	**(899)**
	(14,929)	**(565)**	**(2,299)**	**(4,021)**	**(605)**	**(22,419)**

	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$'m	Total HK$'m
Foreign exchange contracts	(9,015)	(10)	(417)	1	–	(9,441)
Interest rate contracts	(97)	(292)	(1,463)	(3,344)	(328)	(5,524)
Bullion contracts	(373)	–	–	–	–	(373)
	(9,485)	(302)	(1,880)	(3,343)	(328)	(15,338)

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(B) Analysis of undiscounted cash flows by contractual maturities (continued)

(b) Derivative cash flows (continued)

(ii) Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include OTC currency options, currency forwards, cross currency interest rate swaps, bullion swaps, OTC equity options and equity linked swaps.

The tables below analyse the Group's derivative financial instruments as at 31 December that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the tables are the gross contractual undiscounted cash flows for all derivatives that are settled on a gross basis.

	2010					
	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$'m	Total HK$'m
Foreign exchange contracts:						
– Outflow	(195,060)	(82,467)	(53,436)	(10,163)	(1,017)	(342,143)
– Inflow	194,521	82,463	53,436	10,070	1,013	341,503
Bullion contracts:						
– Outflow	(3,021)	(867)	–	–	–	(3,888)
– Inflow	–	–	–	–	–	–
Equity contracts:						
– Outflow	(2)	–	–	–	–	(2)
– Inflow	19	13	–	–	–	32
Total outflow	(198,083)	(83,334)	(53,436)	(10,163)	(1,017)	(346,033)
Total inflow	194,540	82,476	53,436	10,070	1,013	341,535

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(B) Analysis of undiscounted cash flows by contractual maturities (continued)

(b) Derivative cash flows (continued)

(ii) Derivatives settled on a gross basis (continued)

	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$'m	Total HK$'m
Foreign exchange contracts:						
– Outflow	(130,176)	(76,053)	(72,673)	(1,373)	–	(280,275)
– Inflow	130,225	76,997	73,048	1,355	–	281,625
Bullion contracts:						
– Outflow	(22)	–	–	–	–	(22)
– Inflow	–	–	–	–	–	–
Equity contracts:						
– Outflow	(1)	–	–	–	–	(1)
– Inflow	16	5	–	–	–	21
Total outflow	(130,199)	(76,053)	(72,673)	(1,373)	–	(280,298)
Total inflow	130,241	77,002	73,048	1,355	–	281,646

(c) Off-balance sheet items

Loan commitments

The contractual amounts of the Group's off-balance sheet financial instruments as at 31 December 2010 that the Group commits to extend credit to customers and other facilities amounting to HK$281,138 million (2009: HK$233,844 million). Those loan commitments can be drawn within 1 year.

Financial guarantees and other financial facilities

Financial guarantees and other financial facilities of the Group as at 31 December 2010 amounting to HK$55,572 million (2009: HK$42,580 million) are maturing no later than 1 year.

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(C) Maturity analysis

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

	2010							
	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
Assets								
Cash and balances with banks and other financial institutions	374,818	40,994	–	–	–	–	–	415,812
Placements with banks and other financial institutions maturing between one and twelve months	–	–	19,346	20,153	–	–	–	39,499
Financial assets at fair value through profit or loss								
– debt securities held for trading								
– certificates of deposit held	–	–	568	1,678	2	–	–	2,248
– others	–	3,209	27,603	2,628	3,179	5,054	–	41,673
– debt securities designated at fair value through profit or loss								
– certificates of deposit held	–	–	118	422	1,316	474	–	2,330
– others	–	63	180	722	9,964	7,611	–	18,540
– fund and equity securities	–	–	–	–	–	–	5,085	5,085
Derivative financial instruments	19,539	507	509	1,080	1,167	1,052	–	23,854
Hong Kong SAR Government certificates of indebtedness	46,990	–	–	–	–	–	–	46,990
Advances and other accounts								
– advances to customers	43,572	17,031	43,051	107,513	232,575	166,473	693	610,908
– trade bills	53	10,109	16,190	5,253	–	–	–	31,605
– advances to banks and other financial institutions	–	1	147	1,209	1,554	–	–	2,911
Investment in securities								
– debt securities held for available-for-sale								
– certificates of deposit held	–	303	501	11,577	11,248	–	–	23,629
– others	–	18,164	12,873	48,637	142,051	37,144	419	259,288
– debt securities held for held-to-maturity								
– certificates of deposit held	–	3	41	1,280	2,910	366	–	4,600
– others	–	1,054	3,743	11,637	26,645	10,311	394	53,784
– debt securities held for loans and receivables	–	5,791	3,402	6,163	–	–	–	15,356
– equity securities	–	–	–	–	–	–	3,527	3,527
Interests in associates	–	–	–	–	–	–	212	212
Investment properties	–	–	–	–	–	–	10,342	10,342
Properties, plant and equipment	–	–	–	–	–	–	31,049	31,049
Other assets (including deferred tax assets)	4,609	10,744	6	211	2,125	–	103	17,798
Total assets	489,581	107,973	128,278	220,163	434,736	228,485	51,824	1,661,040
Liabilities								
Hong Kong SAR currency notes in circulation	46,990	–	–	–	–	–	–	46,990
Deposits and balances of banks and other financial institutions	260,453	43,633	8,729	969	–	–	–	313,784
Financial liabilities at fair value through profit or loss								
– certificates of deposit issued	–	–	–	–	–	–	–	–
– others	–	4,996	16,994	3,316	167	20	–	25,493
Derivative financial instruments	14,706	1,040	495	1,287	3,082	745	–	21,355
Deposits from customers	599,586	239,253	107,982	74,014	6,198	–	–	1,027,033
Other accounts and provisions (including current and deferred tax liabilities)	22,967	8,579	1,829	3,237	4,800	–	–	41,412
Insurance contract liabilities	1,407	1,131	55	3,413	25,351	8,450	–	39,807
Subordinated liabilities	–	–	419	1	–	26,457	–	26,877
Total liabilities	946,109	298,632	136,503	86,237	39,598	35,672	–	1,542,751
Net liquidity gap	(456,528)	(190,659)	(8,225)	133,926	395,138	192,813	51,824	118,289

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(C) Maturity analysis (continued)

	2009							
	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
Assets								
Cash and balances with banks and other financial institutions	91,290	69,498	–	–	–	–	–	160,788
Placements with banks and other financial institutions maturing between one and twelve months	–	–	26,170	34,112	–	–	–	60,282
Financial assets at fair value through profit or loss								
– debt securities held for trading								
– certificates of deposit held	–	–	–	–	–	–	–	–
– others	–	10,793	2,051	2,018	1,266	2,467	–	18,595
– debt securities designated at fair value through profit or loss								
– certificates of deposit held	–	–	–	53	1,845	687	–	2,585
– others	–	69	80	228	8,493	10,278	–	19,148
– fund and equity securities	–	–	–	–	–	–	4,266	4,266
Derivative financial instruments	13,825	606	1,082	845	995	231	–	17,584
Hong Kong SAR Government certificates of indebtedness	38,310	–	–	–	–	–	–	38,310
Advances and other accounts								
– advances to customers	28,490	10,667	31,118	76,503	216,468	148,265	1,192	512,703
– trade bills	–	3,820	5,130	150	–	–	–	9,100
– advances to banks and other financial institutions	10	–	–	3,044	2,278	–	–	5,332
Investment in securities								
– debt securities held for available-for-sale								
– certificates of deposit held	–	3,250	1,247	4,588	10,023	–	–	19,108
– others	–	7,625	15,721	16,775	134,620	30,152	1,355	206,248
– debt securities held for held-to-maturity								
– certificates of deposit held	–	1,679	922	2,695	3,924	613	–	9,833
– others	–	2,433	2,942	23,351	26,331	6,864	685	62,606
– debt securities held for loans and receivables	–	169	1,774	10,760	–	–	–	12,703
– equity securities	–	–	–	–	–	–	3,257	3,257
Interests in associates	–	–	–	–	–	–	217	217
Investment properties	–	–	–	–	–	–	9,364	9,364
Properties, plant and equipment	–	–	–	–	–	–	26,286	26,286
Other assets (including deferred tax assets)	2,917	11,187	4	75	165	–	131	14,479
Total assets	174,842	121,796	88,241	175,197	406,408	199,557	46,753	1,212,794
Liabilities								
Hong Kong SAR currency notes in circulation	38,310	–	–	–	–	–	–	38,310
Deposits and balances of banks and other financial institutions	76,858	17,563	1,751	3,475	–	–	–	99,647
Financial liabilities at fair value through profit or loss								
– certificates of deposit issued	–	–	–	–	–	–	–	–
– others	–	13,166	864	2,159	99	–	–	16,288
Derivative financial instruments	9,389	570	152	536	2,514	806	–	13,967
Deposits from customers	564,595	164,327	74,942	37,384	1,073	–	–	842,321
Other accounts and provisions (including current and deferred tax liabilities)	15,657	12,653	901	2,353	3,598	–	–	35,162
Insurance contract liabilities	1,704	663	13	1,321	23,012	6,695	–	33,408
Subordinated liabilities	–	–	–	13	–	26,763	–	26,776
Total liabilities	706,513	208,942	78,623	47,241	30,296	34,264	–	1,105,879
Net liquidity gap	(531,671)	(87,146)	9,618	127,956	376,112	165,293	46,753	106,915

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(C) Maturity analysis (continued)

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 31 December.

4.4 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 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. For some of the insurance liabilities dominated in Renminbi, the Group's insurance subsidiary has entered into another reinsurance arrangement that reinsures most of insurance risk.

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.

4. Financial risk management (continued)

4.5 Capital Management

The major objective of the Group's capital management is to maximise total shareholders' return while maintaining a capital adequacy position in relation to the Group's overall risk profile. The Group periodically reviews its capital structure and adjusts the capital mix where appropriate to achieve the required rate of return on capital.

The Group has developed and maintained a sound framework of policies and controls on capital management to support the development of the Group's business and to meet the statutory capital adequacy ratio. ALCO monitors the Group's capital adequacy. The Group has complied with all the statutory capital standards for the reported periods.

For the implementation of Basel II in 2007, the Group has adopted the standardised approach under Pillar I to calculate the capital charge on credit risk, market risk and operational risk in compliance with the Banking (Capital) Rules. The current regulatory capital framework aligns regulatory capital requirements more closely with the inherent risks. In December 2010, the Basel Committee has announced the Basel III regulations. The Group has analysed the possible impact of the new capital requirements to ensure that the bank is being well prepared for the implementation of the new regulations.

The Group established an Internal Capital Adequacy Assessment Process (ICAAP). Through this process, each material risk from the Group's main activities is assessed by pre-defined scorecard methods, and a comprehensive judgment of the overall risk profile is decided subsequently by taking into account the Group's governance structure, risk management quality, internal control environment and capital strength. Finally, the minimum CAR is derived through the procedures to relate the Group's overall risk profile to its capital adequacy. The minimum CAR aims to cover the various material risks undertaken by the Group. The Group considers this ICAAP process as an on-going process for capital management and periodically reviews and adjusts its capital structure in relation to the overall risk profile.

In addition, the annual capital plans of the Group are drawn up and discussed by the ALCO and submitted to the board for approval. The plan is built up by assessing the implications of various factors upon capital adequacy such as the business strategies, return on equity, risk appetite, credit rating, as well as regulatory requirements. Based on this study, our future capital demand and the way to obtain the capital sources are derived. The plan is to ensure the Group's capital adequacy and achieve optimal capital structure in order to align with its business development needs and risk profile.

(A) Capital adequacy ratio

	2010	2009
Capital adequacy ratio	**16.14%**	16.85%
Core capital ratio	**11.29%**	11.64%

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 261.

4. Financial risk management (continued)

4.5 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 31 December and reported to the HKMA is analysed as follows:

	2010 **HK$'m**	2009 HK$'m
Core capital:		
Paid up ordinary share capital	**43,043**	43,043
Reserves	**28,475**	26,154
Profit and loss account	**5,332**	2,039
Minority interests	**1,425**	1,229
	78,275	72,465
Deductions from core capital	**(332)**	(334)
Core capital	**77,943**	72,131
Supplementary capital:		
Fair value gains arising from holdings of available-for-sale securities	**588**	237
Fair value gains arising from holdings of securities designated at fair value through profit or loss	**29**	–
Collective loan impairment allowances	**1,985**	1,598
Regulatory reserve	**5,076**	4,040
Term subordinated debt	**26,198**	26,763
	33,876	32,638
Deductions from supplementary capital	**(332)**	(334)
Supplementary capital	**33,544**	32,304
Total capital base after deductions	**111,487**	104,435

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 258 to 261. Investment costs in such subsidiaries are deducted from the capital base.

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

4. Financial risk management (continued)

4.5 Capital Management (continued)

(C) Capital charge for credit, market and operational risks

The capital adequacy ratios shown above are calculated on the consolidation basis for regulatory purposes in accordance with the Banking (Capital) Rules. The table below summarises the capital requirements and capital charge calculated by applying 8% on the risk-weighted amounts, computed on the same consolidation basis for credit, market, and operational risks.

	2010 HK$'m	2009 HK$'m
Credit risk	**51,859**	46,270
Market risk	**1,466**	962
Operational risk	**3,832**	3,788
	57,157	51,020

(i) Capital requirements for credit risk

	2010					
	Total exposures HK$'m	Exposures after CRM* Rated HK$'m	Exposures after CRM* Unrated HK$'m	Risk-weighted amount Rated HK$'m	Risk-weighted amount Unrated HK$'m	Capital requirement** HK$'m
On-balance sheet exposures						
Sovereign	418,944	431,867	–	1,483	–	118
Public sector entity	18,731	35,726	–	3,995	–	320
Multilateral development bank	29,849	29,849	–	–	–	–
Bank	307,558	303,090	28,248	97,518	10,233	8,620
Securities firm	517	–	420	–	210	17
Corporate	445,600	90,389	309,145	48,713	309,145	28,628
Cash items	54,262	–	54,262	–	–	–
Regulatory retail	33,379	–	29,369	–	22,027	1,762
Residential mortgage loans	182,567	–	165,334	–	65,164	5,213
Other exposures which are not past due	46,407	–	45,571	–	45,571	3,646
Past due exposures	449	–	449	–	560	45
Total for on-balance sheet exposures	1,538,263	890,921	632,798	151,709	452,910	48,369
Off-balance sheet exposures						
Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	41,920	7,552	34,368	4,477	33,809	3,063
OTC derivative transactions	9,910	7,619	2,291	2,345	2,104	356
Total for off-balance sheet exposures	51,830	15,171	36,659	6,822	35,913	3,419
Total for non-securitisation exposures	1,590,093	906,092	669,457	158,531	488,823	51,788
Securitisation exposures	3,715	3,715	–	882	–	71
	1,593,808	909,807	669,457	159,413	488,823	51,859

4. Financial risk management (continued)

4.5 Capital Management (continued)

(C) Capital charge for credit, market and operational risks (continued)

(i) Capital requirements for credit risk (continued)

	2009					
	Total exposures HK$'m	Exposures after CRM* Rated HK$'m	Exposures after CRM* Unrated HK$'m	Risk-weighted amount Rated HK$'m	Risk-weighted amount Unrated HK$'m	Capital requirement** HK$'m
On-balance sheet exposures						
Sovereign	140,906	153,328	–	672	–	54
Public sector entity	7,558	23,213	–	4,055	–	324
Multilateral development bank	24,491	24,491	–	–	–	–
Bank	302,210	293,289	17,512	99,877	6,518	8,512
Securities firm	230	–	132	–	66	5
Corporate	371,929	80,871	266,387	40,203	266,386	24,527
Cash items	43,557	–	43,557	–	–	–
Regulatory retail	31,025	–	27,542	–	20,657	1,653
Residential mortgage loans	161,044	–	145,155	–	57,565	4,605
Other exposures which are not past due	39,243	–	38,755	–	38,755	3,100
Past due exposures	939	–	939	–	1,148	92
Total for on-balance sheet exposures	1,123,132	575,192	539,979	144,807	391,095	42,872
Off-balance sheet exposures						
Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	39,923	9,007	30,916	4,724	30,508	2,818
OTC derivative transactions	7,732	6,845	887	2,329	718	244
Total for off-balance sheet exposures	47,655	15,852	31,803	7,053	31,226	3,062
Total for non-securitisation exposures	1,170,787	591,044	571,782	151,860	422,321	45,934
Securitisation exposures	7,413	7,413	–	4,193	–	336
	1,178,200	598,457	571,782	156,053	422,321	46,270

* Recognised credit risk mitigation satisfying the requirements and conditions set out in the Banking (Capital) Rules.

** For disclosure purposes, capital requirement is calculated by applying 8% on the risk-weighted amount, which may differ from the Group's actual regulatory capital.

As at 31 December 2010, credit exposures deducted from the capital base amounted to HK$38 million (2009: HK$32 million).

The Group used the STC approach for calculation of credit risk.

4. Financial risk management (continued)

4.5 Capital Management (continued)

(C) Capital charge for credit, market and operational risks (continued)

(i) Capital requirements for credit risk (continued)

The ECAIs recognised by the Group includes Standard & Poor's, Moody's and Fitch. The Group adopted external rating based approach to determine the risk weight of the following classes of exposures, including those of securitisation exposures:

– Sovereign

– Public sector entity

– Multilateral development bank

– Bank

– Securities firm

– Corporate

The process the Group used to map ECAI issuer ratings to exposures booked in the banking book is a process prescribed in Part 4 of the Banking (Capital) Rules.

From year 2011, the Group will adopt Foundation IRB approach to determine the risk weight of most of the classes of non-retail exposures mentioned above, and Retail IRB approach to determine the risk weight of the retail portfolio. For those exposures not covered by either Foundation IRB approach or Retail IRB approach, the current treatment still apply.

Counterparty credit risk exposures

The Group's counterparty credit risk arising from over-the-counter ("OTC") derivative transactions, repo-style transactions both in trading and banking book is subject to the same risk management framework as above mentioned. The Group established credit limit through formal credit approval procedures to control the pre-settlement credit risk arising from derivatives transactions and settlement limit to control the settlement risk arising from foreign exchange-related transactions in both the trading book and banking book. The Group monitors the risk exposure due to fluctuations in the market value by determining the current exposure value of the transactions. Exceptions or excesses are timely and closely identified and monitored by credit risk management units.

Currently, the Group used the Current Exposure Method to measure and monitor the counterparty credit exposures, which is comprised of current exposures and potential future exposures.

The Group established prudent eligibility criteria and haircut policy of debt securities being pledged as collateral for repo-style transactions.

The Group formulated policy for classification of credit assets according to the probability of default of individual counterparty and the period of overdue. If there is objective evidence that an impairment loss has been incurred, impairment allowance will be provided according to HKFRS and regulatory requirements.

4. Financial risk management (continued)

4.5 Capital Management (continued)

(C) Capital charge for credit, market and operational risks (continued)

(i) Capital requirements for credit risk (continued)

Counterparty credit risk exposures (continued)

The following table summarises the Group's exposures to counterparty credit risk arising from OTC derivative and repo-style transactions:

	2010		2009	
	OTC derivative HK$'m	**Repo-style HK$'m**	OTC derivative HK$'m	Repo-style HK$'m
Gross total positive fair value	**3,715**	**–**	3,382	–
Credit equivalent amount	**9,910**	**–**	7,732	–
Net credit exposures	**–**	**1,650**	–	–
Less: recognised collateral	**–**	**–**	–	–
Credit equivalent amount/ net credit exposures net of recognised collateral	**9,910**	**1,650**	7,732	–
Credit equivalent amount/ net credit exposures net of recognised collateral analysed by type of issuer:				
Sovereign	**–**	**–**	–	–
Bank	**7,992**	**1,650**	7,184	–
Corporate	**1,917**	**–**	548	–
Others	**1**	**–**	–	–
	9,910	**1,650**	7,732	–
Risk weighted amount analysed by type of issuer:				
Sovereign	**–**	**–**	–	–
Bank	**2,531**	**825**	2,499	–
Corporate	**1,917**	**–**	548	–
Others	**1**	**–**	–	–
	4,449	**825**	3,047	–
Notional amount of recognised credit derivative contracts which provide credit protection	**–**	**–**	–	–

There is no effect of valid bilateral netting agreement on the credit equivalent amounts of the derivative transactions as at 31 December 2010 (2009: Nil).

There are no outstanding credit derivative contracts as at 31 December 2010 and 2009.

4. Financial risk management (continued)

4.5 Capital Management (continued)

(C) Capital charge for credit, market and operational risks (continued)

(i) Capital requirements for credit risk (continued)

Credit risk mitigation

For those collaterals recognised under capital management, the Group has well-defined policies and procedures for collateral valuation and management which is compliant with the operational requirements for recognised collateral for credit risk mitigation stated in the Banking (Capital) Rules.

The main types of recognised collaterals include cash deposit, gold bullion, debt securities, equities and funds for non past-due exposures. In addition, real property collateral is also recognised for past due exposures. Those collaterals taken by the Group are compliant with the comprehensive approach in its treatment of recognised collateral for credit risk mitigation in capital calculation as mentioned in the Banking (Capital) Rules.

According to the Banking (Capital) Rules, the recognised guarantees for credit risk mitigation under STC approach includes the guarantee given by sovereign, public sector entity, multilateral development bank, bank, securities firm with a lower risk weights than the counterparty; or corporate with external credit rating A- or above.

The credit and market risk concentrations within the credit risk mitigants (recognised collateral and guarantees for capital calculation) used by the Group are under a minimal level.

Up to the date of report, the Group has not used any recognised credit derivative contracts, on- or off-balance sheet recognised netting for credit risk mitigation yet.

Exposures, other than those arising from OTC derivative transactions and repo-style transactions, covered by recognised credit risk mitigation are analysed as follows:

	2010		2009	
	Covered by recognised collateral HK$'m	**Covered by recognised guarantees HK$'m**	Covered by recognised collateral HK$'m	Covered by recognised guarantees HK$'m
On-balance sheet exposures				
Public sector entity	**–**	**190**	–	184
Bank	**–**	**–**	–	103
Securities firm	**146**	**–**	99	–
Corporate	**12,222**	**47,713**	6,134	34,190
Regulatory retail	**1,290**	**2,683**	1,189	2,251
Residential mortgage loans	**49**	**17,184**	51	15,838
Other exposures which are not past due	**835**	**–**	488	–
Past due exposures	**162**	**25**	471	25
Off-balance sheet exposures	**7,062**	**8,537**	7,736	12,095
	21,766	**76,332**	16,168	64,686

4. Financial risk management (continued)

4.5 Capital Management (continued)

(C) Capital charge for credit, market and operational risks (continued)

(i) Capital requirements for credit risk (continued)

Asset securitisation

The Group has not acted as an originating institution in respect of securitisation transactions during the year. Securitisation exposures arising from the Group's investing activities are analysed as follows:

	2010			
	Total exposures HK$'m	**Risk weighted amounts HK$'m**	**Capital requirement HK$'m**	**Exposures deducted from capital base HK$'m**
Traditional securitisations				
Residential mortgages	**2,783**	**696**	**56**	**–**
Commercial mortgages	**82**	**16**	**1**	**–**
Student loans	**850**	**170**	**14**	**–**
	3,715	**882**	**71**	**–**

	2009			
	Total exposures HK$'m	Risk weighted amounts HK$'m	Capital requirement HK$'m	Exposures deducted from capital base HK$'m
Traditional securitisations				
Residential mortgages	5,719	3,847	308	–
Commercial mortgages	160	32	3	–
Student loans	1,374	275	22	–
Auto loans	160	39	3	–
	7,413	4,193	336	–

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.5 Capital Management (continued)

(C) Capital charge for credit, market and operational risks (continued)

(ii) Capital charge for market risk

	2010 HK$'m	2009 HK$'m
Interest rate exposures	**994**	785
Equity exposures	**22**	24
Foreign exchange exposures	**445**	148
Commodity exposures	**5**	5
	1,466	962

The Group used the STM approach for calculation of market risk.

The Group's positions covered by the STM approach are as follows:

	2010		2009	
	Long HK$'m	**Short HK$'m**	Long HK$'m	Short HK$'m
Interest rate exposures	**693,842**	**673,228**	434,435	431,856
Equity exposures	**133**	**36**	144	37
Foreign exchange exposures (Net)	**5,422**	**–**	1,620	–
Commodities exposures	**52**	**32**	32	4
	699,449	**673,296**	436,231	431,897

(iii) Capital charge for operational risk

	2010 HK$'m	2009 HK$'m
Capital charge for operational risk	**3,832**	3,788

The Group used the STO approach for calculation of operational risk.

4. Financial risk management (continued)

4.5 Capital Management (continued)

(D) Equity exposures in banking book

Equity holdings in other entities are accounted for in accordance with the underlying intentions of holdings, at the outset of the acquisition of the respective equity exposures. Bookings for the equity holdings taken for relationship and strategic reasons will be separated from the bookings for equity holdings taken for other reasons (including the reason of capital appreciation). Investments in equity shares which are intended to be held on a continuing basis, but which do not comprise investments in associates, jointly controlled entities or subsidiaries, are classified as available-for-sale securities and are reported in the balance sheet as investments in securities.

The Group applies the same accounting treatments and valuation methodologies as detailed in the notes to the financial statements for all available-for-sale financial assets, including equity exposures booked in banking book.

Gains or losses related to equity exposures are summarised below:

	2010 HK$'m	2009 HK$'m
Realised gains from sales	**2**	–
Unrealised gains on revaluation recognised in reserves but not through profit or loss	**322**	275
Unrealised gains included in supplementary capital	**145**	237

4.6 Fair values of financial assets and liabilities

(A) Financial instruments not measured at fair value

Fair value estimates are made at a specific point in time based on relevant market information and information about various financial instruments. The following methods and assumptions have been used to estimate the fair value of each class of financial instrument as far as practicable.

Balances with banks and other financial institutions and Trade bills

The maturities of these financial assets and liabilities are within one year and the carrying value approximates fair value.

Advances to customers, banks and other financial institutions

Substantially all the advances to customers, banks and other financial institutions are on floating rate terms, bear interest at prevailing market interest rates and their carrying value approximates fair value.

Held-to-maturity securities

Fair value for held-to-maturity securities is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics. The carrying value and fair value as at 31 December 2010 amounted to HK$58,384 million (2009: HK$72,439 million) and HK$58,463 million (2009: HK$72,249 million) respectively.

4. Financial risk management (continued)

4.6 Fair values of financial assets and liabilities (continued)

(A) Financial instruments not measured at fair value (continued)

Loans and receivables

A discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity and their carrying value approximates fair value.

Deposits from customers

Substantially all the deposits from customers mature within one year from the balance sheet date and their carrying value approximates fair value.

Subordinated liabilities

The subordinated loans are on floating rate terms, bear interest at prevailing market interest rates and their carrying value approximates fair value. Fair value for subordinated notes is based on market prices or broker/dealer price quotations. The carrying value and fair value of subordinated notes as at 31 December 2010 amounted to HK$20,029 million (2009: Nil) and HK$20,834 million (2009: Nil) respectively.

(B) Financial instruments measured at fair value

Financial instruments measured at fair value are classified into following three levels:

– Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities, including listed equity securities on exchange, debt instruments issued by certain governments and certain foreign exchange derivative contracts.

– Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the OTC derivative contracts, debt securities with quote from pricing services providers and issued structured deposits.

– Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investment and debt instruments with significant unobservable components.

The Group use valuation techniques or broker/dealer quotations to determine the fair value of financial instruments when unable to obtain the open market quotation in active markets.

The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, counterparty credit spreads and others, which are all observable and obtainable from open market.

For certain illiquid debt securities and unlisted private equity held by the Group, management obtains valuation quotations from counterparties. The fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore, these instruments have been classified by the Group as level 3. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

4. Financial risk management (continued)

4.6 Fair values of financial assets and liabilities (continued)

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

There have been no significant transfers between level 1 and 2 during the year 2010 and 2009.

For level 3 items, the impact from change on reasonably possible alternative assumptions is not significant.

(i) Fair value hierarchy

	2010			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Financial assets				
Financial assets at fair value through profit or loss				
– Trading securities				
– Debt securities	–	43,821	100	43,921
– Equity securities	38	97	–	135
– Financial assets designated at fair value through profit or loss				
– Debt securities	–	20,607	263	20,870
– Fund	3,028	–	–	3,028
– Equity securities	1,922	–	–	1,922
Derivative financial instruments	19,527	4,327	–	23,854
Available-for-sale securities				
– Debt securities	39,048	237,914	5,955	282,917
– Equity securities	2,971	390	166	3,527
Financial liabilities				
Financial liabilities at fair value through profit or loss				
– Trading liabilities	–	25,259	–	25,259
– Financial liabilities designated at fair value through profit or loss	–	234	–	234
Derivative financial instruments	14,705	6,650	–	21,355

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.6 Fair values of financial assets and liabilities (continued)

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

(i) Fair value hierarchy (continued)

	2009			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Financial assets				
Financial assets at fair value through profit or loss				
– Trading securities				
– Debt securities	155	18,440	–	18,595
– Equity securities	37	111	–	148
– Financial assets designated at fair value through profit or loss				
– Debt securities	–	21,597	136	21,733
– Fund	2,757	–	–	2,757
– Equity securities	1,361	–	–	1,361
Derivative financial instruments	13,813	3,771	–	17,584
Available-for-sale securities				
– Debt securities	42,028	179,035	4,293	225,356
– Equity securities	2,630	484	143	3,257
Financial liabilities				
Financial liabilities at fair value through profit or loss				
– Trading liabilities	–	14,156	–	14,156
– Financial liabilities designated at fair value through profit or loss	–	2,132	–	2,132
Derivative financial instruments	9,387	4,580	–	13,967

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.6 Fair values of financial assets and liabilities (continued)

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

(ii) Reconciliation of level 3 items

	2010			
	Financial assets			
	Trading securities	Financial assets designated at fair value through profit or loss	Available-for-sale securities	
	Debt securities HK$'m	Debt securities HK$'m	Debt securities HK$'m	Equity securities HK$'m
At 1 January 2010	–	136	4,293	143
(Losses)/gains				
– Profit or loss	–	(7)	29	–
– Other comprehensive income	–	–	23	23
Purchases	100	141	3,492	–
Sales	–	(7)	(3,697)	–
Transfers into level 3	–	–	1,815	–
At 31 December 2010	100	263	5,955	166
Total losses for the year included in profit or loss for assets held as at 31 December 2010	–	(7)	–	–

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.6 Fair values of financial assets and liabilities (continued)

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

(ii) Reconciliation of level 3 items (continued)

	2009		
	Financial assets		
	Financial assets designated at fair value through profit or loss	Available-for-sale securities	
	Debt securities HK$'m	Debt securities HK$'m	Equity securities HK$'m
At 1 January 2009	2,284	5,131	141
(Losses)/gains			
– Profit or loss	(173)	345	–
– Other comprehensive income	–	102	2
Purchases	–	3,412	–
Sales	(916)	(4,641)	–
Transfers out of level 3	(1,059)	(56)	–
At 31 December 2009	136	4,293	143
Total losses for the year included in profit or loss for assets held as at 31 December 2009	(55)	(21)	–

(Losses)/gains included in profit or loss for the year as well as losses relating to assets held as at 31 December 2010 and 2009 are presented in "Net trading gain", "Net gain/(loss) on financial instruments designated at fair value through profit or loss" or "Net reversal of impairment allowances" depending on the nature or the category of the related financial instruments.

5. Net interest income

	2010 HK$'m	2009 HK$'m
Interest income		
Cash and due from banks and other financial institutions	**2,972**	2,931
Advances to customers	**11,466**	10,499
Listed investments	**4,181**	2,992
Unlisted investments	**4,631**	5,117
Others	**199**	145
	23,449	21,684
Interest expense		
Due to banks, customers and other financial institutions	**(4,024)**	(2,753)
Subordinated liabilities	**(510)**	(922)
Others	**(181)**	(77)
	(4,715)	(3,752)
Net interest income	**18,734**	17,932

Included within interest income is HK$6 million (2009: HK$17 million) of interest with respect to income recognised on advances classified as impaired for the year ended 31 December 2010. Interest income accrued on impaired investment in securities amounted to HK$88 million (2009: HK$484 million).

Included within interest income and interest expense are HK$23,272 million (2009: HK$21,233 million) and HK$5,169 million (2009: HK$3,688 million), before hedging effect, for financial assets and financial liabilities that are not recognised at fair value through profit or loss respectively.

NOTES TO THE FINANCIAL STATEMENTS

6. Net fee and commission income

	2010 HK$'m	2009 HK$'m
Fee and commission income		
Securities brokerage		
– Stockbroking	**3,279**	3,638
– Bonds	**59**	39
Credit cards	**2,003**	1,511
Loan commissions	**961**	922
Bills commissions	**751**	627
Payment services	**568**	495
Insurance	**561**	212
Currency exchange	**332**	213
Trust services	**206**	178
Safe deposit box	**200**	191
Funds distribution	**160**	97
Others	**399**	413
	9,479	8,536
Fee and commission expense		
Credit cards	**(1,542)**	(1,100)
Securities brokerage	**(504)**	(563)
Payment services	**(87)**	(83)
Others	**(302)**	(282)
	(2,435)	(2,028)
Net fee and commission income	**7,044**	6,508
Of which arise from		
– financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	**1,149**	1,062
– Fee and commission expense	**(7)**	(3)
	1,142	1,059
– trust and other fiduciary activities		
– Fee and commission income	**438**	410
– Fee and commission expense	**(6)**	(6)
	432	404

7. Net trading gain

	2010 HK$'m	2009 HK$'m
Net gain/(loss) from:		
– foreign exchange and foreign exchange products	999	1,273
– interest rate instruments and items under fair value hedge	262	62
– equity instruments	(8)	26
– commodities	116	124
	1,369	1,485

8. Net gain/(loss) on investment in securities

	2010 HK$'m	2009 HK$'m
Net gain from disposal of available-for-sale securities	665	51
Net loss from redemption/disposal of held-to-maturity securities	(9)	(183)
	656	(132)

9. Other operating income

	2010 HK$'m	2009 HK$'m
Dividend income from investment in securities		
– listed investments	73	25
– unlisted investments	24	22
Gross rental income from investment properties	339	356
Less: Outgoings in respect of investment properties	(69)	(55)
Others	100	134
	467	482

Included in the "Outgoings in respect of investment properties" is HK$12 million (2009: HK$8 million) of direct operating expenses related to investment properties that were not let during the year.

NOTES TO THE FINANCIAL STATEMENTS

10. Gross insurance benefits and claims

	2010 HK$'m	2009 HK$'m
Claims, benefits and surrenders paid	**3,650**	2,537
Movement in liabilities	**6,403**	4,757
Gross claims, benefits and surrenders paid and movement in liabilities	**10,053**	7,294

11. Net reversal of impairment allowances

	2010 HK$'m	2009 HK$'m
Advances to customers		
Individually assessed		
– new allowances	**(70)**	(391)
– releases	**219**	150
– recoveries	**416**	446
Net reversal of individually assessed loan impairment allowances (Note 26)	**565**	205
Collectively assessed		
– new allowances	**(528)**	(358)
– releases	**–**	15
– recoveries	**33**	35
Net charge of collectively assessed loan impairment allowances (Note 26)	**(495)**	(308)
Net reversal/(charge) of loan impairment allowances	**70**	(103)
Available-for-sale securities		
Net reversal of impairment allowances on available-for-sale securities – Individually assessed	**208**	612
Held-to-maturity securities		
Net reversal of impairment allowances on held-to-maturity securities – Individually assessed (Note 27)	**46**	690
Others	**(9)**	(9)
Net reversal of impairment allowances	**315**	1,190

12. Operating expenses

	2010 HK$'m	2009 HK$'m
Staff costs (including directors' emoluments)		
– salaries and other costs	**4,939**	4,659
– termination benefit	**27**	43
– pension cost	**391**	389
	5,357	5,091
Premises and equipment expenses (excluding depreciation)		
– rental of premises	**506**	491
– information technology	**400**	381
– others	**295**	288
	1,201	1,160
Depreciation (Note 31)	**1,131**	1,018
Auditor's remuneration		
– audit services	**31**	29
– non-audit services	**4**	6
Lehman Brothers related products*	**89**	3,278
Other operating expenses	**1,771**	1,559
	9,584	12,141

* Expenses incurred on Lehman Brothers related products were primarily in relation to the Lehman Brothers minibonds ("Minibonds") repurchase arrangements announced on 22 July 2009.

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

	2010 HK$'m	2009 HK$'m
Net gain on disposal of investment properties	**–**	9
Net gain on fair value adjustments on investment properties (Note 30)	**1,511**	1,554
	1,511	1,563

14. Net (loss)/gain from disposal/revaluation of properties, plant and equipment

	2010 HK$'m	2009 HK$'m
Net gain on disposal of premises	**–**	45
Net loss on disposal of other fixed assets	**(10)**	(10)
Net gain on revaluation of premises (Note 31)	**4**	15
	(6)	50

15. Taxation

Taxation in the income statement represents:

	2010 HK$'m	(Restated) 2009 HK$'m
Hong Kong profits tax		
Current tax		
– current year taxation	**2,930**	2,339
– under/(over)-provision in prior years	**8**	(4)
	2,938	2,335
Deferred tax (credit)/charge (Note 38)	**(30)**	20
Hong Kong profits tax	**2,908**	2,355
Overseas taxation	**144**	118
	3,052	2,473

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

15. Taxation (continued)

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:

	2010 HK$'m	(Restated) 2009 HK$'m
Profit before taxation	**19,742**	16,724
Calculated at a taxation rate of 16.5% (2009: 16.5%)	**3,257**	2,759
Effect of different taxation rates in other countries	**23**	8
Income not subject to taxation	**(300)**	(344)
Expenses not deductible for taxation purposes	**108**	58
Tax losses not recognised	**1**	1
Utilisation of previously unrecognised tax losses	**(45)**	(5)
Under/(over)-provision in prior years	**8**	(4)
Taxation charge	**3,052**	2,473
Effective tax rate	**15.5%**	14.8%

16. Profit attributable to the equity holders of the Company

The profit of the Company for the year ended 31 December 2010 attributable to the equity holders of the Company and dealt with in the financial statements of the Company amounted to HK$9,584 million (2009: HK$10,293 million).

17. Dividends

	2010		2009	
	Per share HK$	Total HK$'m	Per share HK$	Total HK$'m
Interim dividend paid	**0.400**	**4,229**	0.285	3,013
Proposed final dividend	**0.572**	**6,048**	0.570	6,027
	0.972	**10,277**	0.855	9,040

At a meeting held on 26 August 2010, the Board declared an interim dividend of HK$0.4 per ordinary share for the first half of 2010 amounting to approximately HK$4,229 million.

At a meeting held on 24 March 2011, the Board proposed to declare a final dividend of HK$0.572 per ordinary share for the year ended 31 December 2010 amounting to approximately HK$6,048 million. This declared final dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2011.

18. 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 year ended 31 December 2010 of approximately HK$16,196 million (2009: HK$13,930 million) and on the ordinary shares in issue of 10,572,780,266 shares (2009: 10,572,780,266 ordinary shares).

There was no dilution of earnings per share as no potential ordinary shares were in issue for the year ended 31 December 2010 (2009: Nil).

19. 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 year ended 31 December 2010 amounted to approximately HK$308 million (2009: approximately HK$317 million), after a deduction of forfeited contributions of approximately HK$13 million (2009: approximately HK$7 million). For the MPF Scheme, the Group contributed approximately HK$44 million (2009: approximately HK$36 million) for the year ended 31 December 2010.

20. 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.

20. Share option schemes (continued)

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

No options were granted pursuant to the Share Option Scheme or the Sharesave Plan during the year 2010 (2009: Nil).

(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 31 December 2010 and 2009 are disclosed as follows:

	Directors	Senior management	Others*	Total number of share options	Average exercise price (HK$ per share)
At 1 January 2010	**3,976,500**	**1,074,300**	**–**	**5,050,800**	**8.5**
Less: Share options exercised during the year	**–**	**(827,000)**	**–**	**(827,000)**	**8.5**
At 31 December 2010	**3,976,500**	**247,300**	**–**	**4,223,800**	**8.5**
Exercisable at 31 December 2010	**3,976,500**	**247,300**	**–**	**4,223,800**	**8.5**
At 1 January 2009	6,290,100	1,361,200	–	7,651,300	8.5
Transfer	(1,590,600)	–	1,590,600	–	8.5
Less: Share options exercised during the year	(723,000)	(286,900)	(1,590,600)	(2,600,500)	8.5
At 31 December 2009	3,976,500	1,074,300	–	5,050,800	8.5
Exercisable at 31 December 2009	3,976,500	1,074,300	–	5,050,800	8.5

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

Share options were exercised on a regular basis throughout the year, the weighted average share price during the year was HK$22.73 (2009: HK$16.83).

20. Share option schemes (continued)

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

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.

21. Directors' and senior management's emoluments

(a) Directors' emoluments

Details of the emoluments paid to or receivable by the directors of the Company in respect of their services rendered for the Company and managing the subsidiaries within the Group during the year are as follows:

For the year 2010	Directors' fee HK$'000	Basic salaries, allowances and benefits in kind HK$'000	Contributions to pension schemes HK$'000	Bonus HK$'000	Total HK$'000
Executive Directors					
He Guangbei	100	6,614	–	3,419	10,133
Gao Yingxin	100	4,742	–	2,465	7,307
	200	11,356	–	5,884	17,440
Non-executive Directors					
Xiao Gang	–	–	–	–	–
Li Lihui	–	–	–	–	–
Li Zaohang	–	–	–	–	–
Zhou Zaiqun	–	–	–	–	–
Zhang Yanling	–	–	–	–	–
Fung Victor Kwok King*	300	–	–	–	300
Koh Beng Seng*	350	–	–	–	350
Shan Weijian*	350	–	–	–	350
Tung Chee Chen*	300	–	–	–	300
Tung Savio Wai-Hok*	350	–	–	–	350
Yang Linda Tsao*	155	–	–	–	155
	1,805	–	–	–	1,805
	2,005	11,356	–	5,884	19,245

Madam Yang Linda Tsao has retired from the office of the Independent Non-executive Director of the Company since 21 May 2010.

21. Directors' and senior management's emoluments (continued)

(a) Directors' emoluments (continued)

For the year 2009	Directors' fee HK$'000	Basic salaries, allowances and benefits in kind HK$'000	Contributions to pension schemes HK$'000	Bonus HK$'000	Total HK$'000
Executive Directors					
He Guangbei	100	6,210	–	2,777	9,087
Lee Raymond Wing Hung	137	2,617	93	–	2,847
Gao Yingxin	100	4,485	–	1,677	6,262
	337	13,312	93	4,454	18,196
Non-executive Directors					
Xiao Gang	–	–	–	–	–
Li Lihui	154	–	–	–	154
Sun Changji	146	–	–	–	146
Li Zaohang	253	–	–	–	253
Zhou Zaiqun	420	–	–	–	420
Zhang Yanling	253	–	–	–	253
Fung Victor Kwok King*	300	–	–	–	300
Koh Beng Seng*	350	–	–	–	350
Shan Weijian*	350	–	–	–	350
Tung Chee Chen*	300	–	–	–	300
Tung Savio Wai-Hok*	350	–	–	–	350
Yang Linda Tsao*	400	–	–	–	400
	3,276	–	–	–	3,276
	3,613	13,312	93	4,454	21,472

Note:

* Independent Non-executive Directors

In July 2002, options were granted to several directors of the Company by the immediate holding company, BOC (BVI), under the Pre-Listing Share Option Scheme as set out in Note 20(b). Full details of the scheme are stated in Note 20. During the year, certain options were exercised, but no benefits arising from the granting of these share options were included in the directors' emoluments disclosed above or recognised in the income statement.

For the year ended 31 December 2010, five (2009: one) of the directors waived emoluments of HK$1,728,000 (2009: HK$200,000).

NOTES TO THE FINANCIAL STATEMENTS

21. Directors' and senior management's emoluments (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2009: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2009: three) individuals during the year are as follows:

	2010 HK$'m	2009 HK$'m
Basic salaries and allowances	**16**	18
Bonus	**5**	3
Contributions to pension schemes	**1**	1
Directors' fee from subsidiaries	**–**	1
Amount paid as an inducement to join the Group	**2**	–
	24	23

Emoluments of individuals were within the following bands:

	Number of individuals	
	2010	2009
HK$5,500,001 – HK$6,000,000	**–**	1
HK$6,000,001 – HK$6,500,000	**2**	1
HK$10,500,001 – HK$11,000,000	**–**	1
HK$11,000,001 – HK$11,500,000	**1**	–

21. Directors' and senior management's emoluments (continued)

(c) Remuneration for the senior management and key personnel

Pursuant to CG-5 Guideline on a Sound Remuneration System issued by the HKMA, details of the remuneration for the senior management and key personnel of the Group during the year are as follows:

	2010	2009
Number of beneficiaries	**29**	27

	2010 HK$'m	2009 HK$'m
Fixed remuneration	**87**	78
Variable remuneration		
Cash	**36**	26
Deferred remuneration		
Vested	**–**	–
Unvested	**4**	–
	4	–
At 1 January	**–**	–
Awarded	**4**	–
Paid out	**–**	–
Reduced through performance adjustments	**–**	–
At 31 December	**4**	–

For detailed information on the decision-making process used to determine the remuneration policy and the key design characteristics of the remuneration system, please refer to the section "Corporate Governance" in this Annual Report.

NOTES TO THE FINANCIAL STATEMENTS

22. Cash and balances with banks and other financial institutions

	2010 HK$'m	2009 HK$'m
Cash	**4,571**	3,409
Balances with central banks	**336,923**	81,790
Balances with banks and other financial institutions	**33,324**	6,091
Placements with banks and other financial institutions maturing within one month	**40,994**	69,498
	415,812	160,788

23. Financial assets at fair value through profit or loss

	Trading securities		Financial assets designated at fair value through profit or loss		Total	
	2010 HK$'m	2009 HK$'m	**2010 HK$'m**	2009 HK$'m	**2010 HK$'m**	2009 HK$'m
At fair value						
Debt securities						
– Listed in Hong Kong	**1,398**	333	**829**	1,063	**2,227**	1,396
– Listed outside Hong Kong	**5,188**	2,408	**3,253**	3,264	**8,441**	5,672
	6,586	2,741	**4,082**	4,327	**10,668**	7,068
– Unlisted	**37,335**	15,854	**16,788**	17,406	**54,123**	33,260
	43,921	18,595	**20,870**	21,733	**64,791**	40,328
Fund						
– Unlisted	**–**	–	**3,028**	2,757	**3,028**	2,757
Equity securities						
– Listed in Hong Kong	**38**	37	**1,810**	1,361	**1,848**	1,398
– Listed outside Hong Kong	**–**	–	**112**	–	**112**	–
– Unlisted	**97**	111	**–**	–	**97**	111
	135	148	**1,922**	1,361	**2,057**	1,509
Total	**44,056**	18,743	**25,820**	25,851	**69,876**	44,594

23. 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:

	2010 HK$'m	2009 HK$'m
Sovereigns	**35,223**	15,970
Public sector entities*	**302**	1,496
Banks and other financial institutions	**25,135**	21,853
Corporate entities	**9,216**	5,275
	69,876	44,594

* Included financial assets at fair value through profit or loss of HK$258 million (2009: HK$614 million) which are eligible as public sector entities under the Banking (Capital) Rules.

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

	2010 HK$'m	2009 HK$'m
Treasury bills	**32,840**	14,419
Certificates of deposit held	**4,578**	2,585
Other financial assets at fair value through profit or loss	**32,458**	27,590
	69,876	44,594

24. Derivative financial instruments and hedge accounting

The Group enters into the following foreign exchange, interest rate, precious metal and equity related derivative financial instrument contracts 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 (for example, cross-currency interest rate swaps). Except for certain currency swap contracts, no exchange of principal takes place.

Foreign currency, interest rate, precious metal and equity 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 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 foreign exchange rates, market interest rates or metal and equity prices relative to their terms. The aggregate fair values of derivative financial instruments assets and liabilities can fluctuate significantly from time to time.

24. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments

The Group trades derivative products (both exchange-traded or OTC) mainly for customer business. The Group strictly follows risk management policies in providing derivative products to our customers and in trading of derivative products in the interbank market.

Derivatives are also used to manage the interest rate risk of the banking book. A derivative instrument must be included in the approved product list before any transactions for that instrument can be made. There are limits to control the notional amount of exposure arising from derivative transactions, and the maximum tenor of the deal and management alert limit (MAL) in profit and loss is set. Every derivative transaction must be input into the relevant system for settlement, mark to market revaluation, reporting and control.

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

	2010			
	Trading HK$'m	Hedging HK$'m	Not qualified for hedge accounting* HK$'m	Total HK$'m
Exchange rate contracts				
Spot and forwards	332,032	–	111	332,143
Swaps	310,451	4,437	2,993	317,881
Foreign currency option contracts				
– Options purchased	1,543	–	–	1,543
– Options written	2,601	–	–	2,601
	646,627	4,437	3,104	654,168
Interest rate contracts				
Futures	7,735	–	–	7,735
Swaps	266,326	46,345	3,144	315,815
	274,061	46,345	3,144	323,550
Bullion contracts	13,761	–	–	13,761
Equity contracts	145	–	–	145
Other contracts	99	–	–	99
Total	934,693	50,782	6,248	991,723

* 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.

24. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

	2009			
	Trading HK$'m	Hedging HK$'m	Not qualified for hedge accounting HK$'m	Total HK$'m
Exchange rate contracts				
Spot and forwards	264,014	–	3,718	267,732
Swaps	269,978	1,112	68	271,158
Foreign currency option contracts				
– Options purchased	1,387	–	–	1,387
– Options written	1,603	–	–	1,603
	536,982	1,112	3,786	541,880
Interest rate contracts				
Futures	655	–	–	655
Swaps	140,088	32,471	23,665	196,224
Interest rate option contracts				
– Bond options written	853	–	–	853
	141,596	32,471	23,665	197,732
Bullion contracts	8,290	–	–	8,290
Equity contracts	209	–	–	209
Other contracts	117	–	–	117
Total	687,194	33,583	27,451	748,228

24. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

The following tables summarise the fair values of each class of derivative financial instrument as at 31 December:

	2010							
	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	19,376	–	1	19,377	(14,673)	–	–	(14,673)
Swaps	843	56	63	962	(1,315)	(74)	(83)	(1,472)
Foreign currency option contracts								
– Options purchased	11	–	–	11	–	–	–	–
– Options written	–	–	–	–	(12)	–	–	(12)
	20,230	56	64	20,350	(16,000)	(74)	(83)	(16,157)
Interest rate contracts								
Futures	–	–	–	–	(3)	–	–	(3)
Swaps	1,592	869	1	2,462	(2,339)	(1,842)	(114)	(4,295)
	1,592	869	1	2,462	(2,342)	(1,842)	(114)	(4,298)
Bullion contracts	1,040	–	–	1,040	(899)	–	–	(899)
Equity contracts	2	–	–	2	(1)	–	–	(1)
Total	22,864	925	65	23,854	(19,242)	(1,916)	(197)	(21,355)

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24. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

	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	13,472	–	–	13,472	(9,268)	–	(3)	(9,271)
Swaps	2,083	17	5	2,105	(741)	(20)	(6)	(767)
Foreign currency option contracts								
– Options purchased	10	–	–	10	–	–	–	–
– Options written	–	–	–	–	(9)	–	–	(9)
	15,565	17	5	15,587	(10,018)	(20)	(9)	(10,047)
Interest rate contracts								
Futures	2	–	–	2	–	–	–	–
Swaps	1,255	92	15	1,362	(2,246)	(1,203)	(92)	(3,541)
Interest rate option contracts								
– Bond options written	–	–	–	–	(4)	–	–	(4)
	1,257	92	15	1,364	(2,250)	(1,203)	(92)	(3,545)
Bullion contracts	631	–	–	631	(374)	–	–	(374)
Equity contracts	2	–	–	2	(1)	–	–	(1)
Total	17,455	109	20	17,584	(12,643)	(1,223)	(101)	(13,967)

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

	2010 HK$'m	2009 HK$'m
Exchange rate contracts		
Forwards	**1,938**	580
Swaps	**1,365**	1,728
Foreign currency option contracts		
– Options purchased	**–**	1
Interest rate contracts		
Swaps	**1,165**	737
Bullion contracts	**2**	1
	4,470	3,047

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.

24. Derivative financial instruments and hedge accounting (continued)

(b) Hedge accounting

The fair values of derivative financial instruments designated as hedging instruments as at 31 December are as follows:

	2010		2009	
	Assets HK$'m	**Liabilities HK$'m**	Assets HK$'m	Liabilities HK$'m
Fair value hedges	**869**	**(1,842)**	92	(1,203)
Cash flow hedges	**56**	**(74)**	17	(20)
	925	**(1,916)**	109	(1,223)

(i) Fair value hedges

The Group uses interest rate swaps to hedge against change in fair value of financial assets and liabilities arising from movements in market interest rates.

Gains or losses on fair value hedges reflected in net trading gain for the year are as follows:

	2010		2009	
	Hedged assets HK$'m	**Hedged liabilities HK$'m**	Hedged assets HK$'m	Hedged liabilities HK$'m
Net (loss)/gain on				
– hedging instruments	**(504)**	**348**	707	–
– hedged items	**474**	**(395)**	(699)	–
	(30)	**(47)**	8	–

(ii) Cash flow hedges

The Group hedges a portion of foreign exchange risks that it expects to assume as a result of cash flows from certain fixed income securities using cross-currency interest rate swaps.

There are no gains or losses on ineffective portion recognised in the income statement during the year (2009: Nil).

24. Derivative financial instruments and hedge accounting (continued)

(b) Hedge accounting (continued)

(iii) Hedges of net investments in foreign operations

As at 31 December 2010, a proportion of the Group's RMB-denominated deposits from customers of HK$2,525 million (2009: Nil) are designated as a hedging instrument to hedge against the net investments in foreign operations. No net investment hedge was applied in 2009.

There are no gains or losses on ineffective portion recognised in the income statement during the year (2009: Nil).

25. Advances and other accounts

	2010 HK$'m	2009 HK$'m
Personal loans and advances	**187,000**	161,439
Corporate loans and advances	**426,219**	353,533
Advances to customers	**613,219**	514,972
Loan impairment allowances		
– Individually assessed	**(326)**	(671)
– Collectively assessed	**(1,985)**	(1,598)
	610,908	512,703
Trade bills	**31,605**	9,100
Advances to banks and other financial institutions	**2,911**	5,332
Total	**645,424**	527,135

As at 31 December 2010, advances to customers included accrued interest on gross advances of HK$886 million (2009: HK$619 million).

As at 31 December 2010 and 2009, no impairment allowance was made in respect of trade bills and advances to banks and other financial institutions.

26. Loan impairment allowances

	2010		
	Individual assessment		
	Personal HK$'m	Corporate HK$'m	Total HK$'m
At 1 January 2010	40	631	671
Credited to income statement (Note 11)	(21)	(544)	(565)
Loans written off during the year as uncollectible	(14)	(179)	(193)
Recoveries	18	398	416
Unwind of discount on impairment allowances	–	(6)	(6)
Exchange difference	–	3	3
At 31 December 2010	23	303	326

	2010		
	Collective assessment		
	Personal HK$'m	Corporate HK$'m	Total HK$'m
At 1 January 2010	170	1,428	1,598
Charged to income statement (Note 11)	130	365	495
Loans written off during the year as uncollectible	(147)	(1)	(148)
Recoveries	33	–	33
Exchange difference	–	7	7
At 31 December 2010	186	1,799	1,985

26. Loan impairment allowances (continued)

	2009		
	Individual assessment		
	Personal HK$'m	Corporate HK$'m	Total HK$'m
At 1 January 2009	71	729	800
Credited to income statement (Note 11)	(48)	(157)	(205)
Loans written off during the year as uncollectible	(10)	(343)	(353)
Recoveries	28	418	446
Unwind of discount on impairment allowances	(1)	(16)	(17)
At 31 December 2009	40	631	671

	2009		
	Collective assessment		
	Personal HK$'m	Corporate HK$'m	Total HK$'m
At 1 January 2009	179	1,322	1,501
Charged to income statement (Note 11)	198	110	308
Loans written off during the year as uncollectible	(242)	(4)	(246)
Recoveries	35	–	35
At 31 December 2009	170	1,428	1,598

27. Investment in securities

	2010 HK$'m	2009 HK$'m
The Group		
(a) Available-for-sale securities		
Debt securities, at fair value		
– Listed in Hong Kong	**10,176**	8,439
– Listed outside Hong Kong	**111,966**	84,389
	122,142	92,828
– Unlisted	**160,775**	132,528
	282,917	225,356
Equity securities, at fair value		
– Listed in Hong Kong	**2,971**	2,630
– Unlisted	**556**	627
	3,527	3,257
	286,444	228,613
(b) Held-to-maturity securities		
Listed, at amortised cost		
– in Hong Kong	**1,121**	1,693
– outside Hong Kong	**19,296**	21,167
	20,417	22,860
Unlisted, at amortised cost	**38,016**	49,691
	58,433	72,551
Impairment allowances	**(49)**	(112)
	58,384	72,439
(c) Loans and receivables		
Unlisted, at amortised cost	**15,356**	12,703
Total	**360,184**	313,755
Market value of listed held-to-maturity securities	**20,414**	22,711

	2010 HK$'m	2009 HK$'m
The Company		
Available-for-sale securities		
Equity securities, at fair value		
– Listed in Hong Kong	**2,775**	2,630

NOTES TO THE FINANCIAL STATEMENTS

27. Investment in securities (continued)

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

	2010			
	Available-for-sale securities HK$'m	Held-to-maturity securities HK$'m	Loans and receivables HK$'m	Total HK$'m
The Group				
Sovereigns	**73,394**	**10,507**	**–**	**83,901**
Public sector entities*	**32,975**	**7,741**	**–**	**40,716**
Banks and other financial institutions	**165,201**	**34,647**	**15,356**	**215,204**
Corporate entities	**14,874**	**5,489**	**–**	**20,363**
	286,444	**58,384**	**15,356**	**360,184**

	2009			
	Available-for-sale securities HK$'m	Held-to-maturity securities HK$'m	Loans and receivables HK$'m	Total HK$'m
The Group				
Sovereigns	57,583	3,271	–	60,854
Public sector entities*	27,902	5,131	–	33,033
Banks and other financial institutions	129,629	56,806	12,703	199,138
Corporate entities	13,499	7,231	–	20,730
	228,613	72,439	12,703	313,755

* Included available-for-sale securities of HK$15,973 million (2009: HK$3,150 million) and held-to-maturity securities of HK$822 million (2009: HK$1,787 million) which are eligible as public sector entities under the Banking (Capital) Rules.

As at 31 December 2010 and 2009, all of the available-for-sale securities held by the Company are issued by banks and other financial institutions.

27. Investment in securities (continued)

The movements in investment in securities are summarised as follows:

	2010		
	Available-for-sale securities HK$'m	**Held-to-maturity securities HK$'m**	**Loans and receivables HK$'m**
The Group			
At 1 January 2010	**228,613**	**72,439**	**12,703**
Additions	**347,376**	**36,909**	**16,530**
Disposals, redemptions and maturity	**(295,366)**	**(51,623)**	**(14,025)**
Amortisation	**66**	**(20)**	**134**
Change in fair value	**2,248**	**–**	**–**
Net reversal of impairment allowances (Note 11)	**–**	**46**	**–**
Exchange difference	**3,507**	**633**	**14**
At 31 December 2010	**286,444**	**58,384**	**15,356**

	2009		
	Available-for-sale securities HK$'m	Held-to-maturity securities HK$'m	Loans and receivables HK$'m
The Group			
At 1 January 2009	172,621	106,465	12,595
Additions	304,167	22,855	37,609
Disposals, redemptions and maturity	(258,913)	(58,303)	(37,909)
Amortisation	555	(519)	239
Change in fair value	6,901	–	–
Net reversal of impairment allowances (Note 11)	–	690	–
Exchange difference	3,282	1,251	169
At 31 December 2009	228,613	72,439	12,703

NOTES TO THE FINANCIAL STATEMENTS

27. Investment in securities (continued)

	Available-for-sale securities	
	2010 **HK$'m**	2009 HK$'m
The Company		
At 1 January	**2,630**	1,256
Change in fair value	**145**	1,374
At 31 December	**2,775**	2,630

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

	Available-for-sale securities		Held-to-maturity securities	
	2010 **HK$'m**	2009 HK$'m	**2010** **HK$'m**	2009 HK$'m
The Group				
Treasury bills	**23,847**	22,955	**5,037**	1,041
Certificates of deposit held	**23,629**	19,108	**4,600**	9,833
Others	**238,968**	186,550	**48,747**	61,565
	286,444	228,613	**58,384**	72,439

The movements in impairment allowances on held-to-maturity securities are summarised as follows:

	2010 **HK$'m**	2009 HK$'m
The Group		
At 1 January	**112**	4,440
Credited to income statement (Note 11)	**(46)**	(690)
Disposals	**(17)**	(3,638)
At 31 December	**49**	112

28. Investment in subsidiaries

	2010 HK$'m	2009 HK$'m
Unlisted shares, at cost	**54,814**	54,784

The particulars of all direct and indirect subsidiaries of the Company are set out in the Appendix of the Annual Report, "Subsidiaries of the Company". The following is a list of principal subsidiaries as at 31 December 2010:

Name	Place of incorporation and operation	Particulars of issued share capital	Interest held	Principal activities
Bank of China (Hong Kong) Limited	Hong Kong	43,042,840,858 ordinary shares of HK$1 each	*100%	Banking business
BOC Group Life Assurance Company Limited	Hong Kong	286,800,000 ordinary shares of HK$10 each	*51%	Life insurance business
Nanyang Commercial Bank, Limited	Hong Kong	7,000,000 ordinary shares of HK$100 each	100%	Banking business
Chiyu Banking Corporation Limited	Hong Kong	3,000,000 ordinary shares of HK$100 each	70.49%	Banking business
BOC Credit Card (International) Limited	Hong Kong	4,800,000 ordinary shares of HK$100 each	100%	Credit card services
Po Sang Futures Limited	Hong Kong	250,000 ordinary shares of HK$100 each	100%	Commodities brokerage
Nanyang Commercial Bank (China), Limited	PRC	Registered capital RMB4,100,000,000	100%	Banking business

* Shares held directly by the Company

29. Interests in associates

	2010 HK$'m	2009 HK$'m
At 1 January	217	88
Investment cost addition	–	129
Share of result	–	10
Share of tax	(2)	(3)
Dividend received	(3)	(4)
Disposal of an associate	–	(3)
At 31 December	212	217

The Group's interests in its associates, all of which are unlisted, are as follows:

Name	Joint Electronic Teller Services Limited		BOC Services Company Limited		BOC Expresspay Company Limited	
Place of incorporation	Hong Kong		PRC		PRC	
Particulars of issued share capital/registered capital	100,238 ordinary shares of HK$100 each		Registered capital RMB50,000,000		Registered capital RMB450,000,000	
Principal activities	Operation of a private inter-bank message switching network in respect of ATM services		Credit card back-end service support		Prepay debit card services	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Assets	362,078	418,652	318,851	162,324	1,569,615	514,906
Liabilities	77,299	131,861	234,424	90,559	1,073,916	4,967
Revenues	66,044	70,243	562,586	270,602	4,959	–
Profit/(loss) after taxation	28,823	31,864	9,285	8,757	(33,788)	(317)
	2010	2009	2010	2009	2010	2009
Interest held	19.96%	19.96%	45.00%	45.00%	25.33%	25.33%

30. Investment properties

	2010 HK$'m	2009 HK$'m
At 1 January	**9,364**	7,727
Additions	**2**	–
Disposals	**(171)**	(77)
Fair value gains (Note 13)	**1,511**	1,554
Reclassification (to)/from properties, plant and equipment (Note 31)	**(365)**	160
Exchange difference	**1**	–
At 31 December	**10,342**	9,364

As at 31 December 2010, investment properties are included in the consolidated balance sheet at valuation carried out at 31 December 2010 on the basis of their fair value by an independent firm of chartered surveyors, Savills Valuation and Professional Services Limited. The fair value represents the estimated amount at which the asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	2010 HK$'m	2009 HK$'m
Held in Hong Kong		
On long-term lease (over 50 years)	**1,738**	1,474
On medium-term lease (10 – 50 years)	**8,398**	7,683
On short-term lease (less than 10 years)	**–**	23
Held outside Hong Kong		
On long-term lease (over 50 years)	**6**	1
On medium-term lease (10 – 50 years)	**200**	183
	10,342	9,364

31. Properties, plant and equipment

	Premises HK$'m	Equipment, fixtures and fittings HK$'m	Total HK$'m
Net book value at 1 January 2010	**23,701**	**2,585**	**26,286**
Additions	**92**	**596**	**688**
Disposals	**(106)**	**(11)**	**(117)**
Revaluation	**4,946**	**–**	**4,946**
Depreciation for the year (Note 12)	**(484)**	**(647)**	**(1,131)**
Reclassification from/(to) investment properties (Note 30)	**378**	**(13)**	**365**
Transfer	**47**	**(47)**	**–**
Exchange difference	**7**	**5**	**12**
Net book value at 31 December 2010	**28,581**	**2,468**	**31,049**
At 31 December 2010			
Cost or valuation	**28,581**	**6,859**	**35,440**
Accumulated depreciation and impairment	**–**	**(4,391)**	**(4,391)**
Net book value at 31 December 2010	**28,581**	**2,468**	**31,049**
Net book value at 1 January 2009	20,105	2,690	22,795
Additions	1	573	574
Disposals	(140)	(12)	(152)
Revaluation	4,247	–	4,247
Depreciation for the year (Note 12)	(386)	(632)	(1,018)
Reclassification to investment properties (Note 30)	(157)	(3)	(160)
Transfer	31	(31)	–
Net book value at 31 December 2009	23,701	2,585	26,286
At 31 December 2009			
Cost or valuation	23,701	6,531	30,232
Accumulated depreciation and impairment	–	(3,946)	(3,946)
Net book value at 31 December 2009	23,701	2,585	26,286
The analysis of cost or valuation of the above assets is as follows:			
At 31 December 2010			
At cost	**–**	**6,859**	**6,859**
At valuation	**28,581**	**–**	**28,581**
	28,581	**6,859**	**35,440**
At 31 December 2009			
At cost	–	6,531	6,531
At valuation	23,701	–	23,701
	23,701	6,531	30,232

31. Properties, plant and equipment (continued)

The carrying value of premises is analysed based on the remaining terms of the leases as follows:

	2010 HK$'m	2009 HK$'m
Held in Hong Kong		
On long-term lease (over 50 years)	**9,869**	8,618
On medium-term lease (10 – 50 years)	**18,288**	14,691
Held outside Hong Kong		
On long-term lease (over 50 years)	**94**	69
On medium-term lease (10 – 50 years)	**299**	276
On short-term lease (less than 10 years)	**31**	47
	28,581	23,701

As at 31 December 2010, premises are included in the consolidated balance sheet at valuation carried out at 31 December 2010 on the basis of their fair value by an independent firm of chartered surveyors, Savills Valuation and Professional Services Limited. The fair value represents the estimated amount at which the asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

As a result of the above-mentioned revaluations, changes in value of the Group's premises were recognised in the Group's premises revaluation reserve, the income statement and non-controlling interests respectively as follows:

	2010 HK$'m	2009 HK$'m
Increase in valuation credited to premises revaluation reserve	**4,905**	4,208
Increase in valuation credited to income statement (Note 14)	**4**	15
Increase in valuation credited to non-controlling interests	**37**	24
	4,946	4,247

As at 31 December 2010, the net book value of premises that would have been included in the Group's consolidated balance sheet had the assets been carried at cost less accumulated depreciation and impairment losses was HK$6,663 million (2009: HK$6,257 million).

32. Other assets

	2010 **HK$'m**	2009 HK$'m
Repossessed assets	**81**	95
Precious metals	**3,664**	2,432
Reinsurance assets	**2,158**	6
Accounts receivable and prepayments	**11,738**	11,794
	17,641	14,327

33. Hong Kong SAR currency notes in circulation

The Hong Kong SAR currency notes in circulation are secured by deposit of funds in respect of which the Hong Kong SAR Government certificates of indebtedness are held.

34. Financial liabilities at fair value through profit or loss

	2010 **HK$'m**	2009 HK$'m
Trading liabilities		
– Short positions in Exchange Fund Bills and Notes	**25,259**	14,156
Financial liabilities designated at fair value through profit or loss		
– Structured deposits (Note 35)	**234**	2,132
	25,493	16,288

The carrying amount of financial liabilities designated at fair value through profit or loss as at 31 December 2010 is more than the amount that the Group would be contractually required to pay at maturity to the holders by HK$2 million, and it was less than the amount that the Group would be contractually required to pay at maturity to the holders by HK$1 million as at 31 December 2009. The amount of change in the fair values of financial liabilities at fair value through profit or loss, during the year and cumulatively, attributable to changes in credit risk is insignificant.

35. Deposits from customers

	2010 HK$'m	2009 HK$'m
Current, savings and other deposit accounts (per consolidated balance sheet)	1,027,033	842,321
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 34)	234	2,132
	1,027,267	844,453
Analysed by:		
Demand deposits and current accounts		
– corporate customers	54,660	51,043
– individual customers	15,793	14,397
	70,453	65,440
Savings deposits		
– corporate customers	158,284	141,560
– individual customers	369,751	353,952
	528,035	495,512
Time, call and notice deposits		
– corporate customers	235,283	110,941
– individual customers	193,496	172,560
	428,779	283,501
	1,027,267	844,453

36. Other accounts and provisions

	2010 HK$'m	2009 HK$'m
Other accounts payable	35,284	29,592
Provisions	196	338
	35,480	29,930

37. Assets pledged as security

As at 31 December 2010, liabilities of the Group amounting to HK$23,832 million (2009: HK$13,330 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK$14,071 million (2009: 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$37,932 million (2009: HK$13,407 million) included in "Trading securities" and "Available-for-sale securities".

38. 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 the financial statements in accordance with HKAS 12 "Income Taxes".

The major components of deferred tax (assets)/liabilities recorded in the consolidated balance sheet, and the movements during the year showing the impact of the early adoption of HKAS 12 (Amendment) "Income Taxes", are as follows:

	2010					
	Accelerated tax depreciation HK$'m	**Property revaluation HK$'m**	**Losses HK$'m**	**Impairment allowance HK$'m**	**Other temporary differences HK$'m**	**Total HK$'m**
At 1 January 2010, as previously reported	**540**	**4,359**	**(139)**	**(274)**	**(44)**	**4,442**
Effect of early adoption of HKAS 12 (Amendment)	**(11)**	**(1,269)**	**–**	**–**	**–**	**(1,280)**
At 1 January 2010, as restated	**529**	**3,090**	**(139)**	**(274)**	**(44)**	**3,162**
Charged/(credited) to income statement (Note 15)	**6**	**1**	**15**	**(57)**	**5**	**(30)**
Charged to other comprehensive income	**–**	**788**	**–**	**–**	**129**	**917**
Exchange difference	**–**	**2**	**–**	**(2)**	**–**	**–**
At 31 December 2010	**535**	**3,881**	**(124)**	**(333)**	**90**	**4,049**

	2009					
	Accelerated tax depreciation HK$'m	Property revaluation HK$'m	Losses HK$'m	Impairment allowance HK$'m	Other temporary differences HK$'m	Total HK$'m
At 1 January 2009, as previously reported	545	3,464	(126)	(254)	(984)	2,645
Effect of early adoption of HKAS 12 (Amendment)	(13)	(1,005)	–	–	–	(1,018)
At 1 January 2009, as restated	532	2,459	(126)	(254)	(984)	1,627
(Credited)/charged to income statement (Note 15)	(3)	7	(13)	(20)	49	20
Charged to other comprehensive income	–	624	–	–	891	1,515
At 31 December 2009	529	3,090	(139)	(274)	(44)	3,162

38. 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 consolidated balance sheet:

	At 31 December 2010 HK$'m	(Restated) At 31 December 2009 HK$'m	(Restated) At 1 January 2009 HK$'m
Deferred tax assets	**(157)**	(152)	(155)
Deferred tax liabilities	**4,206**	3,314	1,782
	4,049	3,162	1,627

	At 31 December 2010 HK$'m	(Restated) At 31 December 2009 HK$'m	(Restated) At 1 January 2009 HK$'m
Deferred tax assets to be recovered after more than twelve months	**(106)**	(140)	(155)
Deferred tax liabilities to be settled after more than twelve months	**4,085**	3,356	2,745
	3,979	3,216	2,590

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

	2010 HK$'m	(Restated) 2009 HK$'m
Fair value changes of available-for-sale securities	**136**	884
Revaluation of premises	**783**	621
Non-controlling interests	**(2)**	10
	917	1,515

39. Insurance contract liabilities

	2010 HK$'m	2009 HK$'m
At 1 January	**33,408**	28,274
Benefits paid	**(3,366)**	(2,012)
Claims incurred and movement in liabilities	**9,765**	7,146
At 31 December	**39,807**	33,408

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK$2,053 million (2009: Nil) and the associated reinsurance assets are included in "Other assets" (Note 32).

40. Subordinated liabilities

	2010 HK$'m	2009 HK$'m
Subordinated loans, at amortised cost		
EUR 660m*	**6,848**	7,377
USD 2,500m**	**–**	19,399
	6,848	26,776
Subordinated notes, at amortised cost with fair value hedge adjustment		
USD 2,500m***	**20,029**	–
Total	**26,877**	26,776

BOCHK obtained floating-rate subordinated loans from BOC, the intermediate holding company in 2008. The subordinated loans are repayable prior to maturity after the first 5-year tenure at the option of the borrower.

During the year, BOCHK issued listed subordinated notes with an aggregate amount of USD 2,500 million and applied the proceeds to repay the USD subordinated loan provided by BOC in December 2008. HKMA has approved such early repayment of the USD subordinated loan provided by BOC. BOC and BOCHK entered into an agreement to provide for the same.

Amounts qualified as supplementary capital for regulatory purposes are shown in Note 4.5(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. It has been fully repaid during the year by the proceeds from the offering of subordinated notes.

*** Interest rate at 5.55% per annum payable semi-annually, due February 2020.

41. Share capital

	2010 HK$'m	2009 HK$'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

42. Reserves

The Group's and the Company's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity and statement of changes in equity respectively on pages 111 to 112 of the financial statements.

43. Notes to consolidated cash flow statement

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

	2010 HK$'m	2009 HK$'m
Operating profit	**18,239**	15,104
Depreciation	**1,131**	1,018
Net reversal of impairment allowances	**(315)**	(1,190)
Unwind of discount on impairment allowances	**(6)**	(17)
Advances written off net of recoveries	**108**	(118)
Change in subordinated liabilities	**914**	922
Change in cash and balances with banks and other financial institutions with original maturity over three months	**10,574**	8,363
Change in placements with banks and other financial institutions with original maturity over three months	**18,982**	21,178
Change in financial assets at fair value through profit or loss	**(22,892)**	67
Change in derivative financial instruments	**1,118**	(4,439)
Change in advances and other accounts	**(118,331)**	(57,611)
Change in investment in securities	**(47,541)**	(14,590)
Change in other assets	**(3,323)**	343
Change in deposits and balances of banks and other financial institutions	**214,137**	10,868
Change in financial liabilities at fair value through profit or loss	**9,205**	(5,650)
Change in deposits from customers	**184,712**	39,744
Change in debt securities in issue at amortised cost	**–**	(1,042)
Change in other accounts and provisions	**5,550**	(4,943)
Change in insurance contract liabilities	**6,399**	5,134
Exchange difference	**190**	180
Operating cash inflow before taxation	**278,851**	13,321
Cash flows from operating activities included:		
– Interest received	**22,635**	25,451
– Interest paid	**1,339**	6,764
– Dividend received	**97**	47

43. Notes to consolidated cash flow statement (continued)

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

	2010 **HK$'m**	2009 HK$'m
Cash and balances with banks and other financial institutions with original maturity within three months	**409,484**	143,886
Placements with banks and other financial institutions with original maturity within three months	**13,551**	15,352
Treasury bills with original maturity within three months	**23,644**	19,147
Certificates of deposit held with original maturity within three months	**–**	4,323
	446,679	182,708

44. 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:

	2010 **HK$'m**	2009 HK$'m
Direct credit substitutes	**5,619**	2,065
Transaction-related contingencies	**7,262**	9,055
Trade-related contingencies	**42,691**	31,460
Commitments that are unconditionally cancellable without prior notice	**216,626**	165,829
Other commitments with an original maturity of		
– up to one year	**15,470**	15,842
– over one year	**49,042**	52,173
	336,710	276,424
Credit risk weighted amount	**38,282**	35,229

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.

45. Capital commitments

The Group has the following outstanding capital commitments not provided for in the financial statements:

	2010 HK$'m	2009 HK$'m
Authorised and contracted for but not provided for	**169**	96
Authorised but not contracted for	**12**	9
	181	105

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

46. 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:

	2010 HK$'m	2009 HK$'m
Land and buildings		
– not later than one year	**474**	435
– later than one year but not later than five years	**547**	450
– later than five years	**22**	13
	1,043	898

Certain non-cancellable operating leases included in the table 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:

	2010 HK$'m	2009 HK$'m
Land and buildings		
– not later than one year	**309**	275
– later than one year but not later than five years	**594**	193
	903	468

The Group leases its investment properties (Note 30) 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 includes contingent rentals.

47. Litigation

The Group is currently being served a number of claims and counterclaims by various independent parties. These claims and counterclaims are in relation to the normal commercial activities of the Group.

No material provision was made against these claims and counterclaims because the directors believe that the Group has meritorious defences against the claimants or the amounts involved in these claims are not expected to be material.

48. Segmental reporting

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 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.

As the Group's major revenue is derived from interest and the senior management relies primarily on net interest revenue to assess the performance of the segment, the total interest income and expense for all reportable segments will be presented on a net basis.

In this year, customer segment of small business and social organisations was reclassified from Corporate Banking to Personal Banking to align with the corresponding change in the management of customer segment. No change has been made to the comparative figures.

Both Personal Banking and Corporate Banking segments provide general banking services. Personal Banking mainly serves individual customers while Corporate Banking mainly 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 long-term life insurance products, including traditional and linked individual life insurance and group life insurance products, and the senior management relies primarily on net insurance premium income and benefits and claims to assess the performance of the segment. "Others" refers to those items related to the Group as a whole rather than directly attributable to 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.

48. Segmental reporting (continued)

	2010							
	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/(expense)								
– external	2,377	6,738	8,130	1,491	(2)	18,734	–	18,734
– inter-segment	3,608	(104)	(3,423)	–	(81)	–	–	–
	5,985	6,634	4,707	1,491	(83)	18,734	–	18,734
Net fee and commission income/(expense)	4,626	2,568	46	(227)	143	7,156	(112)	7,044
Net insurance premium income	–	–	–	6,490	–	6,490	(6)	6,484
Net trading gain/(loss)	495	163	611	171	(70)	1,370	(1)	1,369
Net gain on financial instruments designated at fair value through profit or loss	–	–	44	698	–	742	–	742
Net gain on investment in securities	–	–	533	123	–	656	–	656
Other operating income/(expenses)	35	(5)	–	13	1,956	1,999	(1,532)	467
Total operating income	11,141	9,360	5,941	8,759	1,946	37,147	(1,651)	35,496
Net insurance benefits and claims	–	–	–	(7,988)	–	(7,988)	–	(7,988)
Net operating income before impairment allowances	11,141	9,360	5,941	771	1,946	29,159	(1,651)	27,508
Net (charge)/reversal of impairment allowances	(108)	169	307	(53)	–	315	–	315
Net operating income	11,033	9,529	6,248	718	1,946	29,474	(1,651)	27,823
Operating expenses	(6,369)	(2,568)	(785)	(213)	(1,300)	(11,235)	1,651	(9,584)
Operating profit	4,664	6,961	5,463	505	646	18,239	–	18,239
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	1,511	1,511	–	1,511
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	(8)	–	–	–	2	(6)	–	(6)
Share of profits less losses after tax of associates	–	–	–	–	(2)	(2)	–	(2)
Profit before taxation	4,656	6,961	5,463	505	2,157	19,742	–	19,742
Assets								
Segment assets	210,978	458,928	910,772	48,195	50,650	1,679,523	(18,695)	1,660,828
Interests in associates	–	–	–	–	212	212	–	212
	210,978	458,928	910,772	48,195	50,862	1,679,735	(18,695)	1,661,040
Liabilities								
Segment liabilities	657,605	407,328	437,174	45,149	14,190	1,561,446	(18,695)	1,542,751
Other information								
Capital expenditure	11	4	–	7	668	690	–	690
Depreciation	298	149	85	4	595	1,131	–	1,131
Amortisation of securities	–	–	106	74	–	180	–	180

48. Segmental reporting (continued)

	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/(expense)								
– external	2,452	6,120	8,091	1,271	(2)	17,932	–	17,932
– inter-segment	3,343	(618)	(2,669)	–	(56)	–	–	–
	5,795	5,502	5,422	1,271	(58)	17,932	–	17,932
Net fee and commission income/ (expense)	4,329	2,487	24	(342)	66	6,564	(56)	6,508
Net insurance premium income	–	–	–	7,757	–	7,757	(13)	7,744
Net trading gain/(loss)	497	164	827	(1)	(3)	1,484	1	1,485
Net gain/(loss) on financial instruments designated at fair value through profit or loss	–	–	261	(939)	–	(678)	–	(678)
Net loss on investment in securities	–	–	(132)	–	–	(132)	–	(132)
Other operating income	27	34	2	11	1,803	1,877	(1,395)	482
Total operating income	10,648	8,187	6,404	7,757	1,808	34,804	(1,463)	33,341
Net insurance benefits and claims	–	–	–	(7,286)	–	(7,286)	–	(7,286)
Net operating income before impairment allowances	10,648	8,187	6,404	471	1,808	27,518	(1,463)	26,055
Net (charge)/reversal of impairment allowances	(161)	49	1,302	–	–	1,190	–	1,190
Net operating income	10,487	8,236	7,706	471	1,808	28,708	(1,463)	27,245
Operating expenses	(5,983)	(2,321)	(742)	(176)	(4,382)	(13,604)	1,463	(12,141)
Operating profit/(loss)	4,504	5,915	6,964	295	(2,574)	15,104	–	15,104
Net gain from disposal of/ fair value adjustments on investment properties	–	–	–	–	1,563	1,563	–	1,563
Net gain from disposal/revaluation of properties, plant and equipment	–	–	–	–	50	50	–	50
Share of profits less losses after tax of associates	–	–	–	–	7	7	–	7
Profit/(loss) before taxation	4,504	5,915	6,964	295	(954)	16,724	–	16,724
Assets								
Segment assets*	178,026	372,443	593,807	37,963	45,010	1,227,249	(14,672)	1,212,577
Interests in associates	–	–	–	–	217	217	–	217
	178,026	372,443	593,807	37,963	45,227	1,227,466	(14,672)	1,212,794
Liabilities								
Segment liabilities*	570,566	304,882	195,956	35,355	13,792	1,120,551	(14,672)	1,105,879
Other information								
Capital expenditure	23	2	–	10	539	574	–	574
Depreciation	293	143	88	2	492	1,018	–	1,018
Amortisation of securities	–	–	136	139	–	275	–	275

* Segment assets and liabilities of small business and social organisations amounted to HK$9,624 million and HK$39,677 million respectively as at 31 December 2009.

49. Loans to directors and officers

Particulars of advances made to directors and officers of the Company pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	2010 HK$'m	2009 HK$'m
Aggregate amount of relevant loans outstanding at year end	**3,492**	3,476
Maximum aggregate amount of relevant loans outstanding during the year	**3,878**	3,576

50. Significant related party transactions

Related parties are those parties that have the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individual 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.

(a) Transactions with the parent companies and the other companies controlled by the parent companies

General information of the parent companies:

The Group is controlled by BOC. Central Huijin is the controlling entity of BOC, and it is a wholly-owned subsidiary of CIC which is a wholly state-owned company engaging in foreign currency investment and management.

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

The Group enters into banking and other transactions with these companies in the normal course of business. These include loans, investment securities, money market and reinsurance transactions.

(b) Transactions with government authorities, agencies, affiliates and other state controlled entities

The Group is subject to the control of the State Council of the PRC Government through CIC and Central Huijin, which also directly and indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other state controlled entities. The Group enters into banking transactions with government authorities, agencies, affiliates and other state controlled entities in the normal course of business and commercial terms.

These transactions include, but are not limited to, the following:

– lending, provision of credits and guarantees, and deposit taking;

– inter-bank balance taking and placing;

– sales, 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 postage services.

50. Significant related party transactions (continued)

(c) Summary of transactions entered into during the ordinary course of business with associates and other related parties

The aggregate income and expenses arising from related party transactions with associates and other related parties of the Group are summarised as follows:

	2010		2009	
	Associates HK$'m	**Other related parties HK$'m**	Associates HK$'m	Other related parties HK$'m
Income statement items:				
Insurance premium paid	**–**	**–**	(1)	–
Administrative services fees received/receivable	**–**	**8**	–	8
Balance sheet items:				
Deposits from customers	**157**	**–**	51	–

(d) 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 years, 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 year ended 31 December is detailed as follows:

	2010 HK$'m	2009 HK$'m
Salaries and other short-term employee benefits	**59**	60
Post-employment benefits	**1**	1
	60	61

51. 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.

	2010							
	Equivalent in million of HK$							
	US Dollars	**Japanese Yen**	**Euro**	**Australian Dollars**	**Pound Sterling**	**Renminbi**	**Others**	**Total**
Spot assets	**454,733**	**8,486**	**33,414**	**46,818**	**4,366**	**434,077**	**15,517**	**997,411**
Spot liabilities	**(281,774)**	**(2,250)**	**(23,881)**	**(37,113)**	**(17,865)**	**(412,948)**	**(22,109)**	**(797,940)**
Forward purchases	**250,546**	**28,083**	**20,996**	**22,732**	**32,637**	**91,295**	**34,530**	**480,819**
Forward sales	**(417,632)**	**(34,375)**	**(30,466)**	**(32,549)**	**(19,273)**	**(109,072)**	**(27,925)**	**(671,292)**
Net options position	**262**	**1**	**3**	**(19)**	**(7)**	**–**	**15**	**255**
Net long/(short) position	**6,135**	**(55)**	**66**	**(131)**	**(142)**	**3,352**	**28**	**9,253**
Net structural position	**296**	**–**	**–**	**–**	**–**	**3,309**	**–**	**3,605**

	2009							
	Equivalent in million of HK$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi	Others	Total
Spot assets	368,346	17,647	40,265	43,780	3,486	80,453	14,894	568,871
Spot liabilities	(234,622)	(2,304)	(24,465)	(30,795)	(15,579)	(79,443)	(23,456)	(410,664)
Forward purchases*	205,288	18,473	20,338	22,899	30,326	41,743	34,217	373,284
Forward sales*	(327,465)	(33,757)	(36,134)	(36,149)	(18,478)	(41,284)	(25,658)	(518,925)
Net options position	233	(2)	(5)	(7)	1	–	7	227
Net long/(short) position	11,780	57	(1)	(272)	(244)	1,469	4	12,793
Net structural position	295	–	–	–	–	2,958	–	3,253

* Certain comparative amounts have been revised to conform with the current year's presentation.

NOTES TO THE FINANCIAL STATEMENTS

52. 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:

	Banks HK$'m	**Public sector entities HK$'m**	**Others HK$'m**	**Total HK$'m**
At 31 December 2010				
Asia, other than Hong Kong				
– Mainland China	**155,935**	**347,683**	**87,066**	**590,684**
– Others	**51,481**	**12,405**	**27,333**	**91,219**
	207,416	**360,088**	**114,399**	**681,903**
North America				
– United States	**5,653**	**51,303**	**30,968**	**87,924**
– Others	**8,761**	**3,438**	**125**	**12,324**
	14,414	**54,741**	**31,093**	**100,248**
Western Europe				
– United Kingdom	**29,834**	**2,722**	**1,246**	**33,802**
– Others	**56,616**	**14,083**	**4,989**	**75,688**
	86,450	**16,805**	**6,235**	**109,490**
Total	**308,280**	**431,634**	**151,727**	**891,641**

	Banks HK$'m	Public sector entities HK$'m	Others HK$'m	Total HK$'m
At 31 December 2009				
Asia, other than Hong Kong				
– Mainland China	90,168	58,893	46,813	195,874
– Others	62,519	17,048	24,187	103,754
	152,687	75,941	71,000	299,628
North America				
– United States	7,231	39,587	32,240	79,058
– Others	12,493	1,754	1,425	15,672
	19,724	41,341	33,665	94,730
Western Europe				
– United Kingdom	40,345	912	1,474	42,731
– Others	94,822	10,952	5,613	111,387
	135,167	11,864	7,087	154,118
Total	307,578	129,146	111,752	548,476

53. 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 at 31 December are summarised as follows:

	2010			
	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	**185,309**	**48,278**	**233,587**	**59**
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	**25,600**	**11,827**	**37,427**	**18**
Other non-bank Mainland China exposures	**30,170**	**3,838**	**34,008**	**44**
	241,079	**63,943**	**305,022**	**121**

	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	120,696	38,584	159,280	68
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	19,929	10,590	30,519	81
Other non-bank Mainland China exposures	18,726	2,404	21,130	47
	159,351	51,578	210,929	196

* Certain comparative amounts have been revised to conform with the current year's presentation.

54. Ultimate holding company

The Group is subject to the control of the State Council of the PRC Government through China Investment Corporation, its wholly-owned subsidiary Central Huijin Investment Ltd. ("Central Huijin"), and BOC in which Central Huijin has controlling equity interests.

55. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 24 March 2011.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

1. Connected transactions

In 2010, BOCHK, a wholly owned subsidiary of the Company, and its subsidiaries engaged on a regular basis in the usual course of their business in numerous transactions with BOC and its Associates. As BOC is the Company's controlling shareholder and therefore a connected person of the Company, all such transactions constituted connected transactions for the purposes of the Listing Rules. 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. Central Huijin is the ultimate controlling shareholder of the Company. Central Huijin has accepted PRC Government's authorisation in carrying out equity investment in core financial enterprises. For the purposes of this report, therefore, Central Huijin and its associates has not been treated as connected persons to the Company.

The transactions fell into the following two categories:

1. exempted transactions entered into in the usual course of business and under normal commercial terms. Such transactions were exempted from disclosure and independent shareholder approval by virtue of Rules 14A.31, 14A.33 and 14A.65 of the Listing Rules;

2. certain regular banking transactions entered into on a continual basis which are subject to the announcement requirement throughout the year. On 2 January 2008 the Company made an announcement (the "Announcement") in accordance with Rule 14A.47 of the Listing Rules, and has got the approval from the independent shareholders on 20 May 2008. The Announcement listed those continuing connected transactions that exceeded the de minimus threshold and set out caps in respect of such transactions for the three years 2008-2010. These transactions were conducted in the ordinary course of its business and on normal commercial terms. Details of these continuing connected transactions are set out below and are described in the announcements which may be viewed at the Company's website.

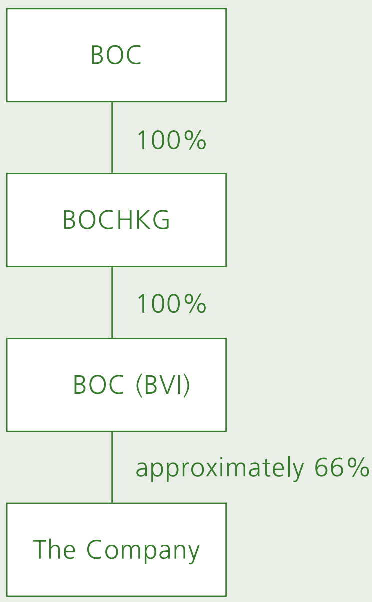
Type of Transaction	2010 Cap (HK$'m)	2010 Actual Amount (HK$'m)
Information Technology Services	1,100	48
Property Transactions	1,100	104
Bank-note Delivery	1,100	89
Provision of Insurance Cover	1,100	102
Credit Card Services	1,100	47
Securities Transactions	6,000	386
Fund Distribution Transactions	6,000	47
Insurance Agency	6,000	512
Foreign Exchange Transactions	6,000	26
Trading of Financial Assets	110,000	19,331
Inter-bank Capital Markets	110,000	2,686

2. Reconciliation between HKFRSs vs IFRS/CAS

The Company understands that BOC, an intermediate holding company as well as controlling shareholder of the Company, will prepare and disclose consolidated financial information in accordance with IFRS and CAS for which the Company and its subsidiaries will form part of the consolidated financial statements. CAS is the new set of PRC accounting standards that has been effective for annual periods beginning on or after 1 January 2007 for companies publicly listed in PRC. The requirements of CAS have substantially converged with IFRS and HKFRSs.

The consolidated financial information of "BOC Hong Kong Group" for the periods disclosed by BOC in its consolidated financial statements is not the same as the consolidated financial information of the Group for the periods published by the Company pursuant to applicable laws and regulations in Hong Kong. There are two reasons for this.

First, the definitions of "BOC Hong Kong Group" (as adopted by BOC for the purpose of its own financial disclosure) and "Group" (as adopted by the Company in preparing and presenting its consolidated financial information) are different: "BOC Hong Kong Group" refers to BOCHKG and its subsidiaries, whereas "Group" refers to the Company and its subsidiaries (see the below organisation chart). Though there is difference in definitions between "BOC Hong Kong Group" and "Group", their financial results for the periods presented are substantially the same. This is because BOCHKG and BOC (BVI) are holding companies only and have no substantive operations of their own.



Second, the Group has prepared its consolidated financial statements in accordance with HK GAAP prior to 1 January 2005 and as from 1 January 2005 onwards in accordance with HKFRSs; whereas the consolidated financial information reported to BOC is prepared in accordance with IFRS and CAS respectively. Despite the fact that HKFRSs have converged with IFRS, there is a timing difference in the initial adoption of HKFRSs and IFRS by the Group and by BOC respectively.

2. Reconciliation between HKFRSs vs IFRS/CAS (continued)

The Board considers that the best way to ensure that shareholders and the investing public understand the material differences between the consolidated financial information of the Group published by the Company on the one hand, and the consolidated financial information of BOC Hong Kong Group disclosed by BOC in its financial statements on the other hand, is to present reconciliations of the profit after tax/net assets of the Group prepared under HKFRSs to the profit after tax/net assets of the Group prepared under IFRS and CAS respectively for the periods presented.

The major differences between HKFRSs and IFRS/CAS, which arise from the difference in measurement basis in IFRS or CAS and the timing difference in the initial adoption of HKFRSs and IFRS relate to the following:

– re-measurement of carrying value of treasury products;
– restatement of carrying value of bank premises;
– deferred taxation impact arising from the above different measurement basis; and
– early adoption of the amendment to HKAS 12.

(a) Re-measurement of carrying value of treasury products

Due to the difference in the timing of first adoption of HKFRSs and IFRS, classification and measurement of certain investment securities under HKFRSs and IFRS were different. Therefore, investment securities were reclassified and re-measured to align with the accounting policies of BOC for the relevant periods. Classification and measurement under IFRS and CAS is basically the same.

(b) Restatement of carrying value of bank premises

The Company has elected for a revaluation basis rather than cost basis to account for bank premises and investment properties under HKFRSs. On the contrary, BOC has elected for the cost convention for bank premises and revaluation basis for investment properties under IFRS and CAS. Therefore, adjustments have been made to the carrying value of bank premises as well as to re-calculate the depreciation charge and disposal gain/loss under IFRS and CAS.

(c) Deferred tax adjustments

These represent the deferred tax effect of the aforesaid adjustments.

(d) Early adoption of the amendment to HKAS 12

The Company has early adopted the amendment to HKAS 12 while BOC has not elected to early adopt the amendment under IFRS and CAS. Therefore, adjustments have been made to remove the effects from the early adoption of the amendment to HKAS 12.

2. Reconciliation between HKFRSs vs IFRS/CAS (continued)

Profit after tax/net assets reconciliation

HKFRSs vs IFRS/CAS

	Profit after tax		Net assets	
	2010 HK$'m	2009 HK$'m	**2010 HK$'m**	2009 HK$'m
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs	**16,690**	14,251	**118,289**	106,915
Add: IFRS/CAS adjustments				
Re-measurement of carrying value of treasury products	**(35)**	(108)	**(3)**	(10)
Restatement of carrying value of bank premises	**323**	246	**(17,726)**	(13,218)
Deferred tax adjustments	**(44)**	7	**2,931**	2,186
Effect of early adoption of HKAS 12 (Amendment)	**(153)**	(205)	**(1,449)**	(1,280)
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRS/CAS	**16,781**	14,191	**102,042**	94,593

APPENDIX

Subsidiaries of the Company

The particulars of our subsidiaries are as follows:

Name of company	Country/place and date of incorporation/ operation	Issued and fully paid up share capital/registered capital	Percentage of attributable equity interest	Principal activities
Directly held:				
Bank of China (Hong Kong) Limited	Hong Kong 16 October 1964	Ordinary shares HK$43,042,840,858	100.00%	Banking business
BOC Group Life Assurance Company Limited*	Hong Kong 12 March 1997	Ordinary shares HK$2,868,000,000	51.00%	Life insurance business
BOCHK Asset Management (Cayman) Limited*	Cayman Islands 7 October 2010	Ordinary shares HK$30,000,000	100.00%	Investment holding
Indirectly held:				
Nanyang Commercial Bank, Limited	Hong Kong 2 February 1948	Ordinary shares HK$700,000,000	100.00%	Banking business
Chiyu Banking Corporation Limited	Hong Kong 24 April 1947	Ordinary shares HK$300,000,000	70.49%	Banking business
BOC Credit Card (International) Limited	Hong Kong 9 September 1980	Ordinary shares HK$480,000,000	100.00%	Credit card services
Bank of China (Hong Kong) Nominees Limited*	Hong Kong 1 October 1985	Ordinary shares HK$2	100.00%	Nominee services
Bank of China (Hong Kong) Trustees Limited*	Hong Kong 6 November 1987	Ordinary shares HK$3,000,000	100.00%	Trustee and agency services
BOC Group Trustee Company Limited*	Hong Kong 1 December 1997	Ordinary shares HK$200,000,000	64.20%	Trustee services
BOC Travel Services Limited*	Hong Kong 24 August 1982	Ordinary shares HK$2,000,000	100.00%	Travel services
BOCHK Asset Management Limited*	Hong Kong 28 October 2010	Ordinary shares HK$29,500,000	100.00%	Asset management
BOCHK Financial Products (Cayman) Limited	Cayman Islands 10 November 2006	Ordinary shares US$50,000	100.00%	Note issuing
BOCHK Information Technology (Shenzhen) Co., Ltd.*	PRC 16 April 1990	Registered capital HK$70,000,000	100.00%	Property holding and investment
BOCHK Information Technology Services (Shenzhen) Ltd.*	PRC 26 May 1993	Registered capital HK$40,000,000	100.00%	Information technology services
BOCI-Prudential Trustee Limited*	Hong Kong 11 October 1999	Ordinary shares HK$300,000,000	41.10%	Trustee services
Che Hsing (Nominees) Limited*	Hong Kong 23 April 1980	Ordinary shares HK$10,000	100.00%	Nominee services

Subsidiaries of the Company (continued)

Name of company	Country/place and date of incorporation/ operation	Issued and fully paid up share capital/registered capital	Percentage of attributable equity interest	Principal activities
Chiyu Banking Corporation (Nominees) Limited*	Hong Kong 3 November 1981	Ordinary shares HK$100,000	70.49%	Investment holding
Chung Chiat Company Limited	Hong Kong 9 April 1980	Ordinary shares HK$200	100.00%	Property holding and investment
Dwell Bay Limited	Hong Kong 19 December 1980	Ordinary shares HK$100,000	100.00%	Property holding and investment
Glister Company Limited*	Hong Kong 26 March 2001	Ordinary shares HK$2	70.49%	Investment holding
Glory Cardinal Limited*	Hong Kong 4 May 2001	Ordinary shares HK$2	70.49%	Investment holding
Grace Charter Limited*	Hong Kong 4 May 2001	Ordinary shares HK$2	70.49%	Investment holding
G.Z.Y. Microfilm Technology (Shenzhen) Co., Ltd.*	PRC 24 September 1993	Registered capital HK$40,000,000	100.00%	Property holding and investment
Kincheng Finance (H.K.) Limited	Hong Kong 30 March 1979	Ordinary shares HK$100	100.00%	Loan financing
Kincheng Investments & Developments (H.K.) Limited	Hong Kong 15 May 1981	Ordinary shares HK$6,000	100.00%	Property holding and investment
Kincheng (Nominees) Limited*	Hong Kong 12 December 1980	Ordinary shares HK$100,000	100.00%	Nominee services
Kiu Nam Investment Corporation Limited	Hong Kong 9 November 1963	Ordinary shares HK$2,000,000	100.00%	Property holding and investment
Kwong Li Nam Investment Agency Limited*	Hong Kong 25 May 1984	Ordinary shares HK$3,050,000	100.00%	Investment agency
Nan Song Company, Limited*	Hong Kong 13 April 1965	Ordinary shares HK$1,000,000	100.00%	Property investment and investment holding
Nanyang Commercial Bank (China), Limited	PRC 14 December 2007	Registered capital RMB4,100,000,000	100.00%	Banking business
Nanyang Commercial Bank (Nominees) Limited*	Hong Kong 22 August 1980	Ordinary shares HK$50,000	100.00%	Nominee services
Nanyang Commercial Bank Trustee Limited*	Hong Kong 22 October 1976	Ordinary shares HK$3,000,000	100.00%	Trustee services
Nanyang Finance Company Limited	Hong Kong 16 March 1979	Ordinary shares HK$50,000,000	100.00%	Financial services

APPENDIX

Subsidiaries of the Company (continued)

Name of company	Country/place and date of incorporation/ operation	Issued and fully paid up share capital/registered capital	Percentage of attributable equity interest	Principal activities
Pacific Trend Profits Corporation*	British Virgin Islands 20 April 2001	Registered shares US$1	70.49%	Investment holding
Patson (HK) Limited*	Hong Kong 18 August 1970	Ordinary shares HK$1,000,000	100.00%	Property investment
Perento Limited	Hong Kong 27 September 1983	Ordinary shares HK$10,000	100.00%	Property holding and investment
Po Hay Enterprises Limited	Hong Kong 2 October 1979	Ordinary shares HK$100,000	100.00%	Property holding and investment
Po Sang Financial Investment Services Company Limited*	Hong Kong 23 September 1980	Ordinary shares HK$25,000,000	100.00%	Gold trading and investment holding
Po Sang Futures Limited*	Hong Kong 19 October 1993	Ordinary shares HK$25,000,000	100.00%	Commodities brokerage
Seng Sun Development Company, Limited*	Hong Kong 11 December 1961	Ordinary shares HK$2,800,000	70.49%	Investment holding
Shenstone Limited	Hong Kong 4 September 1979	Ordinary shares HK$2	100.00%	Property holding and investment
Sin Chiao Enterprises Corporation, Limited*	Hong Kong 13 September 1961	Ordinary shares HK$3,000,000	100.00%	Property holding and investment
Sin Hua Trustee Limited*	Hong Kong 27 October 1978	Ordinary shares HK$3,000,000	100.00%	Trustee services
Sin Mei (Nominee) Limited*	Hong Kong 27 April 1982	Ordinary shares HK$100,000	100.00%	Nominee services
Sin Yeh Shing Company Limited	Hong Kong 28 November 1980	Ordinary shares HK$100,000	100.00%	Property holding and investment
Sino Information Services Company Limited*	Hong Kong 11 February 1993	Ordinary shares HK$7,000,000	100.00%	Information services
The China-South Sea (Nominees) Services Limited*	Hong Kong 13 February 1981	Ordinary shares HK$100,000	100.00%	Nominee services
Track Link Investment Limited	Hong Kong 8 February 1994	Ordinary shares HK$2	100.00%	Property holding and investment

Subsidiaries of the Company (continued)

Arene Trading Limited, Rams City (Nominees) Limited, Yien Yieh (Nominee) Limited and The China State Trustee Limited had been dissolved on 13 April 2010.

Sanicon Investment Limited, Hua Chiao Commercial (Nominees) Limited and The China State (Nominees) Limited had been dissolved on 14 June 2010.

Glory Cardinal Limited has been deregistered on 7 January 2011.

Remarks:
Name of subsidiaries which are not included in the consolidation group for regulatory purposes in respect of capital adequacy is marked with * in the above table. BOCHK and its subsidiaries specified by the HKMA form the basis of consolidation for its regulatory purposes in accordance with the Banking (Capital) Rules. For accounting purposes, subsidiaries are consolidated in accordance with the accounting standards issued by the HKICPA pursuant to section 18A of the Professional Accountants Ordinance.

DEFINITIONS

In this Annual Report, unless the context otherwise requires, the following terms shall have the meanings set out below:

Terms	Meanings
"ABS"	Asset-backed securities
"ADR"	American Depositary Receipt
"ADS(s)"	American Depositary Share(s)
"ALCO"	the Asset and Liability Management Committee
"ATM"	Automated Teller Machine
"Associates"	has the meaning ascribed to "associates" in the Listing Rules
"Board" or "Board of Directors"	the Board of Directors of the Company
"BOC"	Bank of China Limited, a joint stock commercial bank with limited liability established under the laws of the PRC, the H shares and A shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively
"BOC (BVI)"	BOC Hong Kong (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and a wholly owned subsidiary of BOCHKG
"BOC Insurance"	Bank of China Group Insurance Company Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC
"BOC Life"	BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOC Insurance hold equity interests of 51% and 49% respectively
"BOC-CC"	BOC Credit Card (International) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOCHK
"BOCHK" or "the Bank"	Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of the Company
"BOCHK Charitable Foundation"	Bank of China (Hong Kong) Limited Charitable Foundation (formerly known as the "Bank of China Group Charitable Foundation"), a charitable foundation being established in July 1994
"BOCHKG"	BOC Hong Kong (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC
"BOCI"	BOC International Holdings Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC
"BOCI-Prudential Manager"	BOCI-Prudential Asset Management Limited, a company incorporated under the laws of Hong Kong, in which BOCI Asset Management Limited, a wholly owned subsidiary of BOC International Holdings Limited, and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOCI-Prudential Trustee"	BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong, in which BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"CAR"	Capital Adequacy Ratio, 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

DEFINITIONS

Terms	Meanings
"CAS"	China Accounting Standards
"CBRC"	China Banking Regulatory Commission
"CBS"	Corporate Banking Services
"CCO"	Chief Credit Officer
"CE"	Chief Executive
"CFO"	Chief Financial Officer
"CIC"	China Investment Corporation
"CRM"	Credit Risk Mitigation
"CRO"	Chief Risk Officer
"Central Huijin"	Central Huijin Investment Ltd. (formerly known as "Central SAFE Investments Limited")
"Chiyu"	Chiyu Banking Corporation Limited, a company incorporated under the laws of Hong Kong, in which BOCHK holds an equity interest of 70.49%
"the Company"	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong
"DCE"	Deputy Chief Executive
"ECAI(s)"	External Credit Assessment Institution(s)
"EURIBOR"	Euro Interbank Offered Rate
"FIRB"	Foundation Internal Ratings-Based
"Fitch"	Fitch Ratings
"GDP"	Gross Domestic Product
"the Group"	the Company and its subsidiaries collectively referred as the Group
"HIBOR"	Hong Kong Interbank Offered Rate
"HK GAAP"	Generally Accepted Accounting Principles in Hong Kong
"HKAS(s)"	Hong Kong Accounting Standard(s)
"HKFRS(s)"	Hong Kong Financial Reporting Standard(s)
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HK(IFRIC)-Int"	Hong Kong (IFRIC) Interpretation
"HK-Int"	Hong Kong Interpretation
"HKMA"	Hong Kong Monetary Authority
"Hong Kong" or "Hong Kong SAR"	Hong Kong Special Administrative Region
"IFRS"	International Financial Reporting Standards
"IPO"	Initial Public Offering
"IT"	Information Technology
"LIBOR"	London Interbank Offered Rate
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

DEFINITIONS

Terms	Meanings
"Mainland" or "Mainland China"	the mainland of the PRC
"MBS"	Mortgage-backed securities
"MC"	the Management Committee
"MPF"	Mandatory Provident Fund
"MPF Schemes Ordinance"	the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong, as amended
"MSCI Index"	Morgan Stanley Capital International Index
"Moody's"	Moody's Investors Service
"Nanyang"	Nanyang Commercial Bank, Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOCHK
"NCB (China)"	Nanyang Commercial Bank (China), Limited, a company incorporated under the laws of the PRC and a wholly owned subsidiary of Nanyang
"OR&CD"	the Operational Risk & Compliance Department
"ORSO schemes"	the Occupational Retirement Schemes under Occupational Retirement Schemes Ordinance, Chapter 426 of the Laws of Hong Kong
"PRC"	the People's Republic of China
"QDIIs"	Qualified Domestic Institutional Investors
"RC"	the Risk Committee
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"RMBS"	Residential mortgage-backed securities
"RMD"	the Risk Management Department
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"SME(s)"	Small and medium-sized enterprise(s)
"STC approach"	Standardised (Credit Risk) Approach
"STM approach"	Standardised (Market Risk) Approach
"STO approach"	Standardised (Operational Risk) Approach
"Share Option Scheme"	the Share Option Scheme conditionally approved and adopted by the shareholders of the Company on 10 July 2002
"Sharesave Plan"	the Sharesave Plan conditionally approved and adopted by the shareholders of the Company on 10 July 2002
"Standard & Poor's"	Standard & Poor's Ratings Services
"Stock Exchange" or "Hong Kong Stock Exchange" or "Stock Exchange of Hong Kong"	The Stock Exchange of Hong Kong Limited
"UK"	United Kingdom
"US" or "U.S." or "USA"	the United States of America
"VAR"	Value at Risk

BRANCH NETWORK & CORPORATE BANKING CENTRES

Bank of China (Hong Kong) – Branch Network

Hong Kong Island

Branch	Address	Telephone
Central & Western District		
Bank of China Tower Branch	1 Garden Road, Hong Kong	2826 6888
Sheung Wan Branch	252 Des Voeux Road Central, Hong Kong	2541 1601
Queen's Road West (Sheung Wan) Branch	2-12 Queen's Road West, Sheung Wan, Hong Kong	2815 6888
Connaught Road Central Branch	13-14 Connaught Road Central, Hong Kong	2841 0410
Central District Branch	2A Des Voeux Road Central, Hong Kong	2160 8888
Central District (Wing On House) Branch	71 Des Voeux Road Central, Hong Kong	2843 6111
Shek Tong Tsui Branch	534 Queen's Road West, Shek Tong Tsui, Hong Kong	2819 7277
Western District Branch	386-388 Des Voeux Road West, Hong Kong	2549 9828
Shun Tak Centre Branch	Shop 225, 2/F, Shun Tak Centre, 200 Connaught Road Central, Hong Kong	2291 6081
Queen's Road Central Branch	81-83 Queen's Road Central, Hong Kong	2588 1288
Bonham Road Branch	63 Bonham Road, Hong Kong	2517 7066
Kennedy Town Branch	Harbour View Garden, 2-2F Catchick Street, Kennedy Town, Hong Kong	2818 6162
Caine Road Branch	57 Caine Road, Hong Kong	2521 3318
First Street Branch	55A First Street, Sai Ying Pun, Hong Kong	2517 3399
United Centre Branch	Shop 1021, United Centre, 95 Queensway, Hong Kong	2861 1889
Wyndham Street Branch	1-3 Wyndham Street, Central, Hong Kong	2843 2888
Des Voeux Road West Branch	111-119 Des Voeux Road West, Hong Kong	2546 1134
Gilman Street Branch	136 Des Voeux Road Central, Hong Kong	2135 1123
Wan Chai District		
409 Hennessy Road Branch	409-415 Hennessy Road, Wan Chai, Hong Kong	2835 6118
Johnston Road Branch	152-158 Johnston Road, Wan Chai, Hong Kong	2574 8257
Harbour Road Branch	Shop 4, G/F, Causeway Centre, 28 Harbour Road, Wan Chai, Hong Kong	2827 8407
Jardine's Bazaar Branch	G/F, Siki Centre, No.23 Jardine's Bazaar, Causeway Bay, Hong Kong	2882 1383
Happy Valley Branch	11 King Kwong Street, Happy Valley, Hong Kong	2838 6668
Causeway Bay Branch	18 Percival Street, Causeway Bay, Hong Kong	2572 4273
Wan Chai (China Overseas Building) Branch	139 Hennessy Road, Wan Chai, Hong Kong	2529 0866
Wan Chai (Wu Chung House) Branch	213 Queen's Road East, Wan Chai, Hong Kong	2892 0909
Hennessy Road (Wan Chai) Branch	310-312 Hennessy Road, Wan Chai, Hong Kong	2923 5628
Eastern District		
Siu Sai Wan Branch	Shop 19, Cheerful Garden, Siu Sai Wan, Hong Kong	2505 2399
Taikoo Shing Branch	Shop P1025-1026, Chi Sing Mansion, Taikoo Shing, Hong Kong	2967 9128
Taikoo Shing Branch Safe Box Service Centre	Shop G1006, Hoi Shing Mansion, Taikoo Shing, Hong Kong	2885 4582
North Point Branch	Roca Centre, 464 King's Road, North Point, Hong Kong	2811 8880
North Point (King's Centre) Branch	193-209 King's Road, North Point, Hong Kong	2286 2000
North Point (Hang Ying Building) Branch	Shop B1, 318-328 King's Road, North Point, Hong Kong	2887 1199
North Point (Kiu Fai Mansion) Branch	413-415 King's Road, North Point, Hong Kong	2562 6108
Sai Wan Ho Branch	142-146 Shau Kei Wan Road, Sai Wan Ho, Hong Kong	2886 3344
Lee Chung Street Branch	29-31 Lee Chung Street, Chai Wan, Hong Kong	2557 3283
Heng Fa Chuen Branch	Shop 205-208, East Wing Shopping Centre, Heng Fa Chuen, Chai Wan, Hong Kong	2897 1131
Kam Wa Street Branch	3 Kam Wa Street, Shau Kei Wan, Hong Kong	2885 9311
City Garden Branch	233 Electric Road, North Point, Hong Kong	2571 2878
King's Road Branch	131-133 King's Road, North Point, Hong Kong	2887 0282
Chai Wan Branch	Block B, Walton Estate, 341-343 Chai Wan Road, Chai Wan, Hong Kong	2558 6433
Chai Wan Branch Safe Box Service Centre	27 Gold Mine Building, 345 Chai Wan Road, Chai Wan, Hong Kong	2557 0248
Healthy Village Branch	Shop 1&2, Healthy Village Phase II, 668 King's Road, North Point, Hong Kong	2563 2278
Sheung On Street Branch	77 Sheung On Street, Chai Wan, Hong Kong	2897 0923
Aldrich Garden Branch	Shop 58, Aldrich Garden, Shau Kei Wan, Hong Kong	3196 4956
Shau Kei Wan (Po Man Building) Branch	260-262 Shau Kei Wan Road, Shau Kei Wan, Hong Kong	2568 5211
Quarry Bay Branch	Parkvale, 1060 King's Road, Quarry Bay, Hong Kong	2564 0333

Branch	Address	Telephone
Southern District		
Tin Wan Branch	2-12 Ka Wo Street, Tin Wan, Hong Kong	2553 0135
Stanley Branch	Shop 401, Shopping Centre, Stanley Plaza, Hong Kong	2813 2290
Aberdeen Branch	25 Wu Pak Street, Aberdeen, Hong Kong	2553 4165
South Horizons Branch	G38, West Centre Marina Square, South Horizons, Ap Lei Chau, Hong Kong	2580 0345
South Horizons Branch Safe Box Service Centre	Shop 118, Marina Square East Centre, Ap Lei Chau, Hong Kong	2555 7477
Wah Kwai Estate Branch	Shop 17, Shopping Centre, Wah Kwai Estate, Hong Kong	2550 2298
Chi Fu Landmark Branch	Shop 510, Chi Fu Landmark, Pok Fu Lam, Hong Kong	2551 2282
Ap Lei Chau Branch	13-15 Wai Fung Street, Ap Lei Chau, Hong Kong	2554 6487

Kowloon

Branch	Address	Telephone
Kowloon City District		
Prince Edward Road (Kowloon City) Branch	382-384 Prince Edward Road, Kowloon City, Kowloon	2926 6038
To Kwa Wan Branch	80N To Kwa Wan Road, To Kwa Wan, Kowloon	2364 4344
Pak Tai Street Branch	4-6 Pak Tai Street, To Kwa Wan, Kowloon	2760 7773
Hung Hom Wealth Management Centre	37-39 Ma Tau Wai Road, Hung Hom, Kowloon	2170 0888
Hung Hom (Eldex Industrial Building) Branch	21 Ma Tau Wai Road, Hung Hom, Kowloon	2764 8363
OUHK Branch	The Open University of Hong Kong, 30 Good Shepherd Street, Ho Man Tin, Kowloon	2760 9099
Ma Tau Kok Road Branch	39-45 Ma Tau Kok Road, To Kwa Wan, Kowloon	2714 9118
Ma Tau Wai Road Branch	47-49 Ma Tau Wai Road, Hung Hom, Kowloon	2926 5123
Site 11 Whampoa Garden Branch	Shop G6, Site 11 Whampoa Garden, Hung Hom, Kowloon	2363 3982
Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom, Kowloon	2764 7233
Nga Tsin Wai Road Branch	25 Nga Tsin Wai Road, Kowloon City, Kowloon	2383 2316
Waterloo Road Branch	Shop A2, Man Kee Mansion, 86 Waterloo Road, Kowloon	2363 9231
Wong Tai Sin District		
Tai Yau Street Branch	35 Tai Yau Street, San Po Kong, Kowloon	2328 0087
Chuk Yuen Estate Branch	Shop S1, Chuk Yuen Shopping Centre, Chuk Yuen South Estate, Kowloon	2325 5261
Choi Hung Branch	19 Clear Water Bay Road, Ngau Chi Wan, Kowloon	2327 0271
Choi Hung Road Branch	58-68 Choi Hung Road, San Po Kong, Kowloon	2927 6111
Choi Wan Estate Branch	A3-18 Commercial Complex, Choi Wan Estate, Kowloon	2754 5911
Wong Tai Sin Branch	Shop G13, Wong Tai Sin Plaza, Wong Tai Sin, Kowloon	2327 8147
San Po Kong (Wing Lok Building) Branch	28-34 Tseuk Luk Street, San Po Kong, Kowloon	2328 7915
Yuk Wah Street Branch	46-48 Yuk Wah Street, Tsz Wan Shan, Kowloon	2927 6655
Lok Fu Branch	Shop 2, Lok Fu Plaza II, Lok Fu, Kowloon	2337 0271
Tseuk Luk Street Wealth Management Centre	86 Tseuk Luk Street, San Po Kong, Kowloon	2326 2883
Diamond Hill Branch	G107 Plaza Hollywood, Diamond Hill, Kowloon	2955 5088
Kwun Tong District		
169 Ngau Tau Kok Road Branch	169 Ngau Tau Kok Road, Ngau Tau Kok, Kowloon	2750 7311
177 Ngau Tau Kok Road Branch	177 Ngau Tau Kok Road, Ngau Tau Kok, Kowloon	2927 4321
Wang Kwun Road Branch	Unit G1, Nan Fung Commercial Centre, Wang Kwun Road, Kowloon Bay, Kowloon	2755 0268
Sau Mau Ping Branch	Shop 214, Sau Mau Ping Shopping Centre, Sau Mau Ping, Kowloon	2772 0028
Hip Wo Street Branch	195-197 Hip Wo Street, Kwun Tong, Kowloon	2345 0102
Yau Tong Branch	Shop G1-G27, Ka Fu Arcade, Yau Tong Centre, Kowloon	2349 9191
Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong, Kowloon	2763 2127
Tsui Ping Estate Branch	Shop 116, 1/F Shopping Circuit, Tsui Ping Estate, Kwun Tong, Kowloon	2345 3238
26 Fu Yan Street Branch	26-32 Fu Yan Street, Kwun Tong, Kowloon	2342 5262

BRANCH NETWORK & CORPORATE BANKING CENTRES

Bank of China (Hong Kong) – Branch Network (continued)

Branch	Address	Telephone
Telford Gardens Wealth Management Centre	Shop P8A, Telford Gardens, Kowloon Bay, Kowloon	2758 3987
Telford Gardens Branch	Shop P2, Telford Gardens, Kowloon Bay, Kowloon	2796 1551
Lam Tin Branch	Shop 12, 49 Kai Tin Road, Lam Tin, Kowloon	2347 1456
Kwun Tong Branch	20-24 Yue Man Square, Kwun Tong, Kowloon	2344 4116
Ngau Tau Kok Road (Kwun Tong) Branch	327 Ngau Tau Kok Road, Kwun Tong, Kowloon	2389 3301
Kwun Tong Plaza Branch	G1 Kwun Tong Plaza, 68 Hoi Yuen Road, Kwun Tong, Kowloon	2342 4295
Kowloon Bay Branch	Shop 2, Telford House, 16 Wang Hoi Road, Kowloon Bay, Kowloon	2759 9339
Yau Tsim Mong District		
Tai Kok Tsui Branch	73-77 Tai Kok Tsui Road, Tai Kok Tsui, Kowloon	2395 3269
Shan Tung Street Branch	42-48 Shan Tung Street, Mong Kok, Kowloon	2332 5461
China Hong Kong City Branch	Shop 28, UG/F, China Hong Kong City, 33 Canton Road, Tsim Sha Tsui, Kowloon	2367 6164
Shanghai Street (Prince Edward) Branch	689-693 Shanghai Street, Mong Kok, Kowloon	2391 0502
Prince Edward Branch	774 Nathan Road, Kowloon	2399 3000
Tsim Sha Tsui Branch	24-28 Carnarvon Road, Tsim Sha Tsui, Kowloon	2721 6242
Tsim Sha Tsui East Branch	Shop G02-03, Inter-Continental Plaza, 94 Granville Road, Tsim Sha Tsui, Kowloon	2739 0308
Jordan Branch	328-330 Nathan Road, Kowloon	2928 6111
Jordan Road Branch	1/F, Sino Cheer Plaza, 23-29 Jordan Road, Kowloon	2730 0883
Shanghai Street (Mong Kok) Branch	611-617 Shanghai Street, Mong Kok, Kowloon	2394 4181
Mong Kok Branch	589 Nathan Road, Mong Kok, Kowloon	2332 0111
Prince Edward Road West (Mong Kok) Branch	116-118 Prince Edward Road West, Mong Kok, Kowloon	2928 4138
Mong Kok Road Branch	50-52 Mong Kok Road, Mong Kok, Kowloon	2395 3263
Mong Kok (Silvercorp Int'l Tower) Branch	Shop B, 707-713 Nathan Road, Mong Kok, Kowloon	2391 6677
Mong Kok (President Commercial Centre) Branch	608 Nathan Road, Mong Kok, Kowloon	2384 7191
Yau Ma Tei Branch	471 Nathan Road, Yau Ma Tei, Kowloon	2780 2307
Kimberley Road Branch	37 Kimberley Road, Tsim Sha Tsui, Kowloon	2739 1886
Cameron Road Wealth Management Centre	30 Cameron Road, Tsim Sha Tsui, Kowloon	2312 0010
Humphrey's Avenue Branch	4-4A Humphrey's Avenue, Tsim Sha Tsui, Kowloon	2311 3822
Olympian City Branch	Shop 133, 1/F, Olympian City 2, 18 Hoi Ting Road, Kowloon	2749 2110
Fuk Tsun Street Branch	32-40 Fuk Tsun Street, Tai Kok Tsui, Kowloon	2391 8468
Canton Road Branch	60 Canton Road, Tsim Sha Tsui, Kowloon	2730 0688
Sham Shui Po District		
Kowloon Plaza Branch	Unit 1, Kowloon Plaza, 485 Castle Peak Road, Kowloon	2370 8928
Festival Walk Branch	Unit LG256, Festival Walk, Kowloon Tong, Kowloon	2265 7288
Yu Chau Street Branch	42-46 Yu Chau Street, Sham Shui Po, Kowloon	2397 1123
Dragon Centre Branch	Shop 206A, Dragon Centre, 37K Yen Chow Street, Sham Shui Po, Kowloon	2788 3238
Lei Cheng Uk Estate Branch	Shop 108, Lei Cheng Uk Commercial Centre, Lei Cheng Uk Estate, Kowloon	2729 8251
Castle Peak Road (Cheung Sha Wan) Branch	365-371 Castle Peak Road, Cheung Sha Wan, Kowloon	2728 3311
108 Cheung Sha Wan Road Branch	108 Cheung Sha Wan Road, Sham Shui Po, Kowloon	2779 0157
194 Cheung Sha Wan Road Branch	194-196 Cheung Sha Wan Road, Sham Shui Po, Kowloon	2728 9389
Cheung Sha Wan Plaza Branch	Shop G08, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road, Kowloon	2745 7088
223 Nam Cheong Street Branch	223 Nam Cheong Street, Sham Shui Po, Kowloon	2928 2088
Stage 2 Mei Foo Sun Chuen Branch	19 Glee Path, Mei Foo Sun Chuen, Kowloon	2370 8382
Mei Foo VIP Centre	Shop N47-49, Mount Sterling Mall, Mei Foo Sun Chuen, Kowloon	2742 8003
Mei Foo Mount Sterling Mall Branch	17-B Mount Sterling Mall, Mei Foo Sun Chuen, Kowloon	2742 6611
Sham Shui Po Branch	207-211 Nam Cheong Street, Sham Shui Po, Kowloon	2777 0171
Sham Shui Po (On Ning Building) Branch	147-149 Castle Peak Road, Sham Shui Po, Kowloon	2708 3678

New Territories & Outlying Islands

Branch	Address	Telephone
Sha Tin District		
41 Tai Wai Road Branch	41-45 Tai Wai Road, Sha Tin, New Territories	2929 4288
74 Tai Wai Road Branch	74-76 Tai Wai Road, Sha Tin, New Territories	2699 9523
Fo Tan Branch	No 2, 1/F Shatin Galleria, 18-24 Shan Mei Street, Fo Tan, New Territories	2691 7193
Lucky Plaza Branch	Lucky Plaza, Wang Pok Street, Sha Tin, New Territories	2605 6556
Sha Tin VIP Centre	Shop 18, L1, Shatin Plaza, Sha Tin, New Territories	2688 7668
Sha Kok Estate Branch	Shop 39, Sha Kok Shopping Centre, Sha Kok Estate, Sha Tin, New Territories	2648 0302
Heng On Estate Branch	Shop 203, Commercial Centre, Heng On Estate, Ma On Shan, New Territories	2642 0111
Ma On Shan Plaza Branch	Shop 2103, Level 2, Ma On Shan Plaza, Sai Sha Road, Ma On Shan, New Territories	2631 0063
Lung Hang Estate Branch	103 Lung Hang Commercial Centre, Sha Tin, New Territories	2605 8618
New Town Plaza Branch	Shop 608, Level 6 Phase One, New Town Plaza, Sha Tin, New Territories	2606 6163
Lek Yuen Branch	No 1, Fook Hoi House, Lek Yuen Estate, Sha Tin, New Territories	2605 3021
City One Sha Tin Branch	Shop Nos. 24-25, Ngan Shing Commercial Centre, City One, Sha Tin, New Territories	2648 8083
Tai Po District		
Tai Po Branch	68-70 Po Heung Street, Tai Po Market, New Territories	2657 2121
Tai Po Plaza Branch	Unit 4, Level 1 Tai Po Plaza, 1 On Tai Road, Tai Po, New Territories	2665 5890
On Chee Road Branch	Shop 10-11, Jade Plaza, 3 On Chee Road, Tai Po, New Territories	2665 1966
Fu Heng Estate Branch	Shop 1-2, Fu Heng Shopping Centre, Tai Po, New Territories	2661 6278
Fu Shin Estate Branch	Shop G11, Fu Shin Shopping Centre, Tai Po, New Territories	2663 2788
Kwong Fuk Road Branch	40-50 Kwong Fuk Road, Tai Po Market, New Territories	2658 2268
Sai Kung District		
Sai Kung Branch	7-11 Wan King Path, Sai Kung, New Territories	2792 1465
East Point City Branch	Shop 101, East Point City, Tseung Kwan O, New Territories	2628 7238
HKUST Branch	The Hong Kong University of Science & Technology, Clear Water Bay Road, New Territories	2358 2345
Tseung Kwan O Plaza Branch	Shop 112-125, Level 1, Tseung Kwan O Plaza, Tseung Kwan O, New Territories	2702 0282
Metro City Branch	Shop 209, Level 2, Metro City Phase 1, Tseung Kwan O, New Territories	2701 4962
Hau Tak Estate Branch Securities Services Centre	Shop 15, Hau Tak Shopping Centre, Tseung Kwan O, New Territories	2703 5749
Tsuen Wan District		
Clague Garden Branch	Shop 1-3, Commercial Complex, Clague Garden Estate, 24 Hoi Shing Road, Tsuen Wan, New Territories	2412 2202
Citywalk Branch	Shop 65, G/F, Citywalk, 1 Yeung Uk Road, Tsuen Wan, New Territories	2920 3211
Tsuen Wan Branch	297-299 & 313 Sha Tsui Road, Tsuen Wan, New Territories	2411 1321
Castle Peak Road (Tsuen Wan) Wealth Management Centre	167 Castle Peak Road, Tsuen Wan, New Territories	2406 9932
Castle Peak Road (Tsuen Wan) Branch	201-207 Castle Peak Road, Tsuen Wan, New Territories	2416 6577
Sham Tseng Branch	Shop G1 & G2, Rhine Garden, Sham Tseng, New Territories	2491 0038
Texaco Road Branch	Shop A112, East Asia Gardens, 36 Texaco Road, Tsuen Wan, New Territories	2414 4287
Kwai Tsing District		
Ha Kwai Chung Branch	192-194 Hing Fong Road, Kwai Chung, New Territories	2424 9823
Sheung Kwai Chung Branch	7-11 Shek Yi Road, Sheung Kwai Chung, New Territories	2480 6161
Cheung Hong Estate Branch	201-202 Commercial Centre No 2, Cheung Hong Estate, Tsing Yi Island, New Territories	2497 7718

BRANCH NETWORK & CORPORATE BANKING CENTRES

Bank of China (Hong Kong) – Branch Network (continued)

Branch	Address	Telephone
Cheung Fat Estate Branch	Shop 317, Cheung Fat Shopping Centre, Tsing Yi Island, New Territories	2433 1689
Cheung Hong Estate Commercial Centre Branch	2 G/F, Commercial Centre, Cheung Hong Estate, Tsing Yi Island, New Territories	2497 0325
Maritime Square Branch	Shop 115, Maritime Square, Tsing Yi Island, New Territories	2436 9298
Lei Muk Shue Branch	Shop 22, Lei Muk Shue Shopping Centre, Kwai Chung, New Territories	2428 5731
Metroplaza Branch	Shop 260-265, Metroplaza, 223 Hing Fong Road, Kwai Chung, New Territories	2420 2686
Kwai Cheong Road Branch	40 Kwai Cheong Road, Kwai Chung, New Territories	2480 3311
Kwai Chung Road Branch	1009 Kwai Chung Road, Kwai Chung, New Territories	2424 3021
Kwai Chung Plaza Branch	A18-20, G/F Kwai Chung Plaza, 7-11 Kwai Foo Road, Kwai Chung, New Territories	2920 2468
Tuen Mun District		
Tuen Mun Wealth Management Centre	Shop 5, Level 1, North Wing, Trend Plaza, Tuen Mun, New Territories	2404 9777
Tuen Mun Town Plaza Branch	Shop 2, Tuen Mun Town Plaza phase II, Tuen Mun, New Territories	2450 8877
Tuen Mun Fa Yuen Branch	Shop G & H, 6 Tsing Hoi Circuit, Tuen Mun, New Territories	2458 1033
Tuen Mun San Hui Branch	G13-G14 Eldo Court, Heung Sze Wui Road, Tuen Mun, New Territories	2457 3501
Siu Hong Court Branch	226 Commercial Centre, Siu Hong Court, Tuen Mun, New Territories	2466 6703
Leung King Estate Branch	Shop 211, Leung King Shopping Centre, Tuen Mun, New Territories	2463 3855
Kin Wing Street Branch	24-30 Kin Wing Street, Tuen Mun, New Territories	2465 2212
Venice Gardens Branch	Shop13-15, G/F Venice Gardens, Leung Tak Street, Tuen Mun, New Territories	2455 1288
Butterfly Estate Branch	Shop 123-130, Tip Ling House, Butterfly Estate, Tuen Mun, New Territories	2920 5188
Yuen Long District		
Tai Tong Road Branch	Shop A135, 1/F Hop Yick Plaza, 23 Tai Tong Road, Yuen Long, New Territories	2479 2113
Yuen Long Branch	102-108 Castle Peak Road, Yuen Long, New Territories	2474 2211
Castle Peak Road (Yuen Long) Branch	162 Castle Peak Road, Yuen Long, New Territories	2476 2193
Yuen Long (Hang Fat Mansion) Branch	8-18 Castle Peak Road, Yuen Long, New Territories	2475 3777
Tin Shui Estate Branch	Shop 108-109, Tin Shui Shopping Centre, Tin Shui Wai, New Territories	2445 8728
Kau Yuk Road Branch	18-24 Kau Yuk Road, Yuen Long, New Territories	2473 2833
Kingswood Villas Branch	A189 Kingswood Richly Plaza, Tin Shui Wai, New Territories	2448 3313
Kingswood Ginza Branch	Shop G64, Phase 1 Kingswood Ginza, Tin Shui Wai, New Territories	2616 4233
North District		
Sheung Shui Centre Branch	Shop 1007-1009, Level 1, Sheung Shui Centre, Sheung Shui, New Territories	2670 3131
Sheung Shui Branch	61 San Fung Avenue, Sheung Shui, New Territories	2671 0155
Sha Tau Kok Branch	Block 16-18, Sha Tau Kok Chuen, Sha Tau Kok, New Territories	2674 4011
Flora Plaza Branch	Shop 28, Flora Plaza, 88 Pak Wo Road, Fanling, New Territories	2675 6683
Fanling Centre Branch	Shop 2D-E & H, Fanling Centre, Fanling, New Territories	2669 7899
Choi Yuen Estate Branch	Shop 3, 3/F, Choi Yuen Shopping Centre, Choi Yuen Estate, Sheung Shui, New Territories	2671 6783
Luen Wo Market Branch	17-19 Wo Fung Street, Luen Wo Market, Fanling, New Territories	2675 5113
Luen Wo Market Branch Safe Box Service Centre	Shop B, 10-16 Luen Wo Market, Fanling, New Territories	2683 1662
Sheung Shui Branch Securities Services Centre	136 San Fung Avenue, Sheung Shui, New Territories	2672 3738
Outlying Island District		
Cheung Chau Branch	53-55 Tai Sun Street, Cheung Chau, New Territories	2981 0021
Hong Kong International Airport Branch	Unit 7T075, Passenger Terminal Building, Hong Kong International Airport	2326 1883

Corporate Banking Centres & SME Centres

Network & Centres	Address	Telephone
Corporate Finance	10/F, Bank of China Tower, 1 Garden Road, Hong Kong	3419 7078
Corporate Business	10/F, Bank of China Tower, 1 Garden Road, Hong Kong	2826 6889
Commercial Business I	9/F, Bank of China Tower, 1 Garden Road, Hong Kong	3419 3509
Commercial Business II	9/F, Bank of China Tower, 1 Garden Road, Hong Kong	3419 3555
Commercial Business III	Unit 701-706, The Gateway Tower 3 (Prudential Tower), 21 Canton Road, Tsim Sha Tsui, Kowloon	2247 8888
Financial Institutions	33/F, Bank of China Tower, 1 Garden Road, Hong Kong	2903 6666
Hong Kong Central and West Commercial Centre Hong Kong Central and West SME Centre	24/F, Bank of China Tower, 1 Garden Road, Hong Kong	3419 3513
Central District Commercial Centre Central District SME Centre	1/F, Wing On House, 71 Des Voeux Road Central, Hong Kong	2109 5888
Hong Kong East Commercial Centre Hong Kong East SME Centre	13/F, Cambridge House, Taikoo Place, 981 King's Road, Hong Kong	2910 9393
Causeway Bay Commercial Centre Causeway Bay SME Centre	2/F, BOC Wan Chai Commercial Centre, 409-415 Hennessy Road, Wan Chai, Hong Kong	2833 8790
Kowloon East Commercial Centre Kowloon East SME Centre	Room 607-610, 6/F, Telford House, 16 Wang Hoi Road, Kowloon Bay, Kowloon	3406 7300
San Po Kong Commercial Centre San Po Kong SME Centre	Room 601, 6/F, Stelux House, 698 Prince Edward Road East, San Po Kong, Kowloon	2263 4900
Hung Hom Commercial Centre Hung Hom SME Centre	Room 506-507, 5/F, Tower A, Hung Hom Commercial Centre, 37-39 Ma Tau Wai Road, Hung Hom, Kowloon	2197 0188
Kowloon West Commercial Centre Kowloon West SME Centre	9/F, BOC Mongkok Commercial Centre, 589 Nathan Road, Mongkok, Kowloon	3412 1688
Tsim Sha Tsui Commercial Centre Tsim Sha Tsui SME Centre	Shop UG 01, Inter-Continental Plaza, 94 Granville Road, Tsim Sha Tsui, Kowloon	2301 9788
New Territories East Commercial Centre New Territories East SME Centre	3/F, 68-70 Po Heung Street, Tai Po Market, New Territories	2654 3222
Fo Tan Commercial Centre Fo Tan SME Centre	Room 1408, 14/F, Shatin Galleria, 18-24 Shan Mei Street, Fo Tan, Shatin, New Territories	2687 5665
New Territories West Commercial Centre New Territories West SME Centre	Unit 1316-1325, Level 13, Metroplaza Tower 1, 223 Hing Fong Road, Kwai Chung, New Territories	3412 7288
Trade Product	5/F, Bank of China Centre, Olympian City, 11 Hoi Fai Road, West Kowloon	2332 3328
Shun Tak Centre Commercial Services Centre	Shop 225, 2/F, Shun Tak Centre, 200 Connaught Road Central, Sheung Wan, Hong Kong	2108 9662
Cheung Sha Wan Commercial Services Centre	Unit 1, Kowloon Plaza, 485 Castle Peak Road, Kowloon	2370 8928

Nanyang Commercial Bank – Branch Network

Branch	Address	Telephone
Head Office	151 Des Voeux Road, Central, Hong Kong	2852 0888
Hong Kong Island		
Western Branch	1/F & 2/F, 359-361 Queen's Road Central, Hong Kong	2851 1100
Causeway Bay Branch	472 Hennessy Road, Causeway Bay, Hong Kong	2832 9888
Happy Valley Branch	29 Wong Nei Chung Road, Happy Valley, Hong Kong	2893 3383
Kennedy Town Branch	86 Belcher's Street, Kennedy Town, Hong Kong	2817 1946
Quarry Bay Branch	1014 King's Road, Quarry Bay, Hong Kong	2563 2286
Des Voeux Road West Branch	334 Des Voeux Road West, Hong Kong	2540 4532
Aberdeen Branch	Shop A, 171 Aberdeen Main Road, Aberdeen, Hong Kong	2553 4115
North Point Branch	351 King's Road, North Point, Hong Kong	2566 8116
Sai Wan Ho Branch	63 Shaukeiwan Road, Sai Wan Ho, Hong Kong	2567 0315
Wanchai Branch	123 Johnston Road, Wanchai, Hong Kong	2574 8118
Causeway Centre Branch	Shop Nos 9-10, Ground Floor, Causeway Centre, 28 Harbour Road, Wanchai, Hong Kong	2827 6338
Central District Branch	2/F Century Square, 1-13 D'Aguilar Street, Central, Hong Kong	2522 5011
Sunning Road Branch	8 Sunning Road, Causeway Bay, Hong Kong	2882 7668

BRANCH NETWORK & CORPORATE BANKING CENTRES

Nanyang Commercial Bank – Branch Network (continued)

Branch	Address	Telephone
Kowloon		
Mongkok Branch	727 Nathan Road, Mongkok, Kowloon	2394 8206
Yaumati Branch	309 Nathan Road, Yaumati, Kowloon	2782 9888
Ferry Point Branch	Offices B-D, 10/F and Shops D-F, G/F, Best-O-Best Commercial Centre, 32-36 Ferry Street, Yaumati, Kowloon	2332 0738
Homantin Branch	G/F-2/F, 67B Waterloo Road, Homantin, Kowloon	2715 7518
Nathan Road Branch	570 Nathan Road, Mongkok, Kowloon	2780 0166
Laichikok Road Branch	236 Laichikok Road, Shamshuipo, Kowloon	2396 4164
Jordan Road Branch	20 Jordan Road, Yaumati, Kowloon	2735 3301
Tokwawan Branch	62 Tokwawan Road, Kowloon	2764 6666
Kwun Tong Branch	G/F Shop 1, 1/F Shop 2, 410 Kwun Tong Road, Kowloon	2389 6266
Tsimshatsui Branch	Shop A, 1/F, Hong Kong Pacific Centre, 28 Hankow Road, Tsimshatsui, Kowloon	2376 3988
Hunghom Branch	69A Wuhu Street, Hunghom, Kowloon	2362 2301
Shamshuipo Branch	198-200 Tai Po Road, Shamshuipo, Kowloon	2777 0147
Yee On Street Branch	Shops 4-6, G/F, Yee On Centre, 45 Hong Ning Road, Kowloon	2790 6688
Peninsula Centre Branch	Shop G48 Peninsula Centre, 67 Mody Road, Tsimshatsui, Kowloon	2722 0823
San Po Kong Branch	41-45, Yin Hing Street, San Po Kong, Kowloon	2328 5555
Kowloon City Branch	86 Nga Tsin Wai Road, Kowloon City, Kowloon	2716 6033
Laguna City Branch	Shop No. 26, Phase 1 Laguna City, Cha Kwo Ling Road, Kowloon	2772 3336
New Territories		
Kwai Chung Branch	100 Lei Muk Road, Kwai Chung, New Territories	2480 1118
Tai Po Branch	Shop No. 11, G/F, Treasure Garden, 1 On Chee Road, Tai Po, New Territories	2656 5201
Yuen Long Branch	G/F, Tung Yik Building Tai Tong Road, Yuen Long, New Territories	2479 0231
Ha Kwai Chung Branch	180 Hing Fong Road, Kwai Chung, New Territories	2429 4242
Tsuen Wan Branch	78 Chung On Street, Tsuen Wan, New Territories	2492 0243
Sheung Shui Branch	31 Fu Hing Street, Sheung Shui, New Territories	2679 4333
NCB MTR Sheung Shui Station Service Centre	MTR Station Shop SHS 13, Sheung Shui Station, New Territories	2679 3622
Tuen Mun Branch	Forward Mansion, Yan Ching Circuit, Tuen Mun, New Territories	2459 8181
Shatin Branch	Shop 7-8, Lucky Plaza, Shatin, New Territories	2605 9188
Fou Wah Centre Branch	Shop A, 2/F, Fou Wah Centre, 210 Castle Peak Road, Tsuen Wan, New Territories	2498 4411
Sai Kung Branch	Shop 11-12 Sai Kung Garden, Man Nin Street, New Territories	2791 1122
Offshore		
Shanghai Branch	Yong Da International Building, Unit 4, 8/F, 2277, Long Yang Road, Pudong New District, Shanghai, China	(86-21) 3892 9962
San Francisco Branch	31/F, 50 California Street, San Francisco, CA94111, USA	(1-415) 398 8866

Chiyu Banking Corporation – Branch Network

Branch	Address	Telephone
Hong Kong Island		
Central Branch	78, Des Voeux Road Central, Hong Kong	2843 0187
North Point Branch	390-394 King's Road, North Point, Hong Kong	2570 6381
Wanchai Branch	325 Hennessy Road, Wanchai, Hong Kong	2572 2823
Sheung Wan Branch	Shop 3, G/F, Lee Fung Building, 315-319 Queen's Road Central, Hong Kong	2544 1678
Western Branch	443 Queen's Road West, Hong Kong	2548 2298
Quarry Bay Branch	967-967A, King's Road, Quarry Bay, Hong Kong	2811 3131
Aberdeen Branch	G/F, 138-140, Aberdeen Main Road, Aberdeen, Hong Kong	2553 0603
Kowloon		
Hung Hom Branch	23-25 Gillies Avenue, Hung Hom, Kowloon	2362 0051
Kwun Tong Branch	42-44 Mut Wah Street, Kwun Tong, Kowloon	2343 4174
Sham Shui Po Branch	235-237 Laichikok Road, Kowloon	2789 8668
San Po Kong Branch	61-63 Hong Keung Street, San Po Kong, Kowloon	2328 5691
Yau Ma Tei Branch	117-119 Shanghai Street, Yaumatei, Kowloon	2332 2533
Castle Peak Road Branch	226-228 Castle Peak Road, Kowloon	2720 5187
Kowloon Bay Branch	Shop10, G/F, Kai Lok House, Kai Yip Estate, Kowloon Bay, Kowloon	2796 8968
Tokwawan Branch	G/F, Shop11-13, 78 Tokwawan Road, Kowloon	2765 6118

Branch	Address	Telephone
Tsz Wan Shan Branch	Shop 703A, 7/F, Tsz Wan Shan Shopping Centre, 23 Yuk Wah Street, Tsz Wan Shan, Kowloon	2322 3313
New Territories		
Yau Oi Estate Branch	Shop 103-104, G/F, Restaurant Block , Yau Oi Estate, Tuen Mun, New Territories	2452 3666
Kwai Hing Estate Branch	Shop 1, G/F, Hing Yat House, Kwai Hing Estate, Kwai Chung, New Territories	2487 3332
Tai Wo Estate Branch	Shop 112-114, G/F, On Wo House, Tai Wo Estate, Tai Po, New Territories	2656 3386
Belvedere Garden Branch	Shop 5A, G/F, Belvedere Square, Tsuen Wan, New Territories	2411 6789
Tsuen Wan Branch	Shop 1 & 1d, Level 2, Discovery Park Commercial Centre, Tsuen Wan, New Territories	2413 8111
Sui Wo Court Branch	Shop F7, Commercial Centre, Sui Wo Court, Shatin, New Territories	2601 5888
Ma On Shan Branch	Shop 313, Level 3, Ma On Shan Plaza, Bayshore Tower, Ma On Shan, New Territories	2640 0733
Sheung Tak Estate Branch	Shop 238, Sheung Tak Shopping Centre, Sheung Tak Estate, Tseung Kwan O, New Territories	2178 2278
The Mainland of China		
Xiamen Branch	1/F, Unit 111-113, No 861 Xiahe Road, Xiamen, Fujian Province, China	(86-592) 5857 690
Fuzhou Branch	1/F, International Building, 210 Wusi Road, Fuzhou, Fujian Province, China	(86-591) 8781 0078
Xiamen Jimei Sub-branch	No.88 Jiyuan Road, Jimei, Xiamen, China	(86-592) 6193 302

Nanyang Commercial Bank (China) – Branch Network

Branch	Address	Telephone
The Mainland of China		
Head Office	22-23/F, Mirae Asset Tower, 166 Lujiazui Ring Road, Pudong, Shanghai, China	(86-21) 3856 6666
Shenzhen Branch	G/F, Block C, Nanyang Mansion, 2002 Jian She Road, Luohu District, Shenzhen, China	(86-755) 2515 6333
Shenzhen Shekou Sub-Branch	G/F, Finance Centre, No.22, Taizi Road, Shekou, Nanshan District, Shenzhen, China	(86-755) 2682 8788
Shenzhen Luohu Sub-Branch	G/F, The Kwangtung Provincial Bank Building, 1013 Ren Min Nan Road, Luohu District, Shenzhen, China	(86-755) 8233 0230
Shenzhen Baoan Sub-Branch	Unit 108 Xushida Garden, Xin An Si Road, Baoan District 34-2, Shenzhen, China	(86-755) 2785 3302
Shenzhen Futian Sub-Branch	1/F, Shen Ye Garden Club House, Caitian Road, Futian District, Shenzhen, China	(86-755) 8294 2929
Haikou Branch	1/F, Time Square, No.2, Guomao Road, Haikou, Hainan, China	(86-898) 6650 0038
Guangzhou Branch	Room 402 & R03-04, Skygalleria CITIC Plaza, 233 Tianhe North Road, Guangzhou, China	(86-20) 3891 2668
Guangzhou Panyu Sub-branch	C001-C008, No. 2, Fuhua West Road, Shiqiao, Panyu, Guangzhou, China	(86-20) 3451 0228
Dalian Branch	1/F, Anho Building, No.87 Renmin Road, Dalian, China	(86-411) 3984 8888
Beijing Branch	G/F, Business No. 2, Fortune Time Plaza, No.11 Fenghui Garden, Xicheng District, Beijing, China	(86-10) 5839 0888
Beijing Jianguomen Sub-Branch	Level 1A, No. 8B, Jianguomen Wai Dajie, Chaoyang District, Beijing, China	(86-10) 6568 4728
Beijing Hongqiao Sub-Branch	Ground Floor, No.105 & 106, 8 Haidian North Second Street, Haidian District, Beijing, China	(86-10) 5971 8565
Shanghai Branch	Room A105-A107, Tomorrow Square, 389 Nanjing West Road, Shanghai, China	(86-21) 6375 5858
Shanghai Xuhui Sub-branch	Huafucheng Mansion, No.2, Lane 498 Tian Yao Qiao Road, Shanghai, China	(86-21) 6468 1999
Shanghai Lujiazui Sub-branch	Unit 103, No. 166, Lujiazui Ring Road, Pudong New Aera, Shanghai, China	(86-21) 3856 6566
Hangzhou Branch	1/F, Guo Mao Da Sha, 195-1 Qingchun Road, Hangzhou, Zhejiang, China	(86-571) 8703 8080
Nanning Branch	1/F, Kings Wealth CBD Modern Town, No.63, Jinhu Road, Nanning, Guangxi, China	(86-771) 555 8333
Shantou Branch	G/F, 3 Yingbin Road, Shantou, China	(86-754) 8826 8266
Qingdao Branch	G/F, 2nd Building, 41 West Donghai Road, Qingdao, China	(86-532) 6670 7676
Chengdu Branch	M& 1/F, Dong Du INTL., 70 Section 2, Mid Renmin Road, Chengdu, China	(86-28) 8628 2777
Wuxi Branch	Changjiang Road, Wuxi New District No.28 Vanke homes, Wuxi, China	(86-510) 8119 1666

REVIEW OF ANNUAL RESULTS

The 2010 annual results have been reviewed by the Audit Committee of the Company.

By Order of the Board
Jason C.W. YEUNG
Company Secretary

Hong Kong, 24 March 2011

As at the date of this announcement, the Board comprises Mr. XIAO Gang (Chairman), Mr. LI Lihui* (Vice-chairman), Mr. HE Guangbei (Vice-chairman and Chief Executive), Mr. LI Zaohang*, Mr. ZHOU Zaiqun*, Mdm. ZHANG Yanling*, Mr. GAO Yingxin, Dr. FUNG Victor Kwok King**, Mr. KOH Beng Seng**, Mr. SHAN Weijian**, Mr. TUNG Chee Chen** and Mr. TUNG Savio Wai-Hok**.*

* *Non-executive Directors*

** *Independent Non-executive Directors*