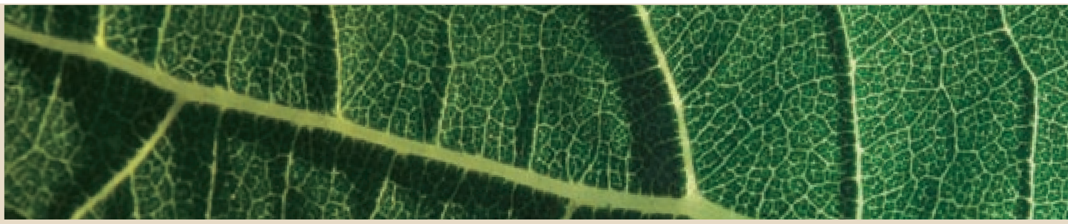
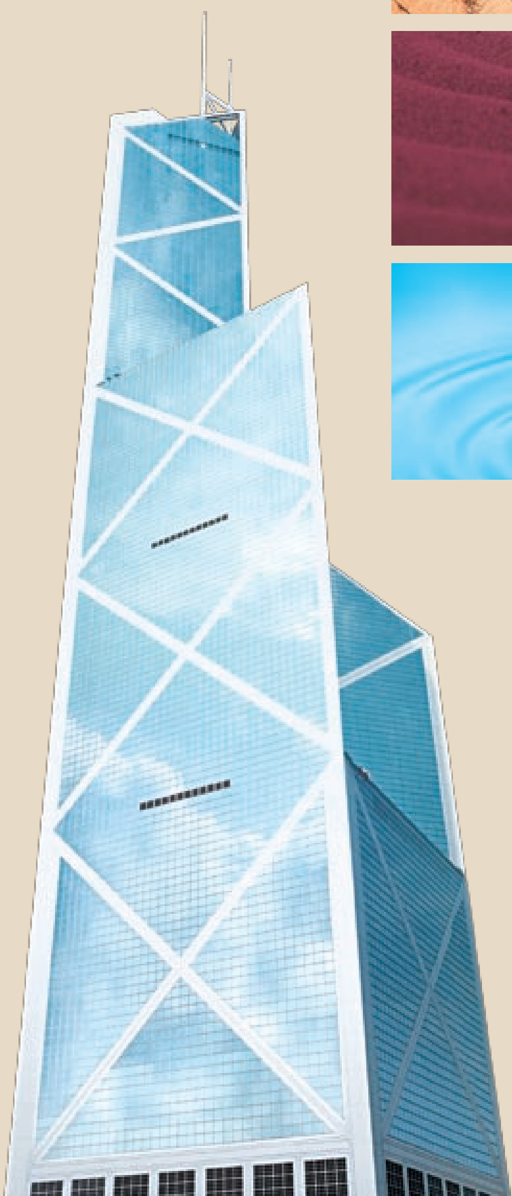
中銀香港(控股)有限公司
BOC HONG KONG (HOLDINGS) LIMITED

Stock Code: 2388





Solid FOUNDATIONS for SUSTAINABLE GROWTH

Annual Report 2009

The printed version of the 2009 Annual Report of the Company will replace this version in mid April 2010

Theme

Hong Kong's modern cityscape is complemented by its wealth of natural resources. The formation of these world-class rock and geological features takes hundred million of years. Hong Kong Geopark helps ensure that our future generations will be able to enjoy the legacy of these beautiful natural wonders.

The Group takes great pleasure in pioneering the "Hong Kong Geopark Charity Green Walk", a key focus of our Corporate Social Responsibility (CSR) programme in the year ahead. Our commitment to CSR is at the heart of our long-term competitiveness, enabling younger generations to enjoy the natural environment we are endowed with, and contributing to the sustainable development of the economy, society and environment as a whole.

By embracing CSR, we reinforce our vision of becoming the premier bank of choice and creating greater value for our customers, shareholders and employees.

OUR VISION

TO BE YOUR PREMIER BANK

OUR MISSION

Build
customer satisfaction and provide quality and professional service

Offer
rewarding career opportunities and cultivate staff commitment

Create
values and deliver superior returns to shareholders

Combining the initials of mission and core values, we have

BOC SPIRIT

OUR CORE VALUES

Social Responsibility
We care for and contribute to our communities

Performance
We measure results and reward achievement

Integrity
We uphold trustworthiness and business ethics

Respect
We cherish every individual

Innovation
We encourage creativity

Teamwork
We work together to succeed

Be environmentally friendly for our better future: As a good corporate citizen, we do not use lamination as normally adopted by the industry in our Annual Report 2009. Instead, we use varnishing, an environmentally friendly technique. The whole report is also printed on recyclable and elemental chlorine-free paper. This demonstrates our efforts in working for the betterment of our future generations.

CONTENTS

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

BOC Hong Kong (Holdings) Limited ("the Company") was incorporated in Hong Kong on 12 September 2001 to hold the entire equity interest in Bank of China (Hong Kong) Limited ("BOCHK"), its principal operating subsidiary. Bank of China Limited holds a substantial part of its interests in the shares of the Company through BOC Hong Kong (BVI) Limited, an indirect wholly owned subsidiary of Bank of China Limited.

BOCHK is a leading commercial banking group in Hong Kong. With over 270 branches and 480 ATMs and other delivery channels in Hong Kong, BOCHK and its subsidiaries offer a comprehensive range of financial products and services to individual and corporate customers. BOCHK is one of the three note issuing banks in Hong Kong. In addition, the BOCHK Group (comprising BOCHK, Nanyang Commercial Bank and Chiyu Banking Corporation) and its subsidiaries have 23 branches and sub-branches in the Mainland of China to provide cross-border banking services to customers in Hong Kong and the Mainland. BOCHK is appointed by the People's Bank of China as the Clearing Bank for Renminbi (RMB) business in Hong Kong.

The Company began trading on the main board of the Stock Exchange of Hong Kong on 25 July 2002, with stock code "2388", ADR OTC Symbol: "BHKLY".

FINANCIAL HIGHLIGHTS

For the year	**2009 HK$'m**	2008 HK$'m	Change +/(-)%
Net operating income before impairment allowances	**26,055**	25,526	2.07
Operating profit	**15,104**	4,182	261.17
Profit before taxation	**16,724**	4,078	310.10
Profit for the year	**14,046**	3,007	367.11
Profit attributable to the equity holders of the Company	**13,725**	3,343	310.56
Per share	**HK$**	HK$	+/(-)%
Earnings per share	**1.2981**	0.3162	310.56
Dividend per share	**0.8550**	0.4380	95.21
At year-end	**HK$'m**	HK$'m	+/(-)%
Capital and reserves attributable to the equity holders of the Company	**102,902**	82,719	24.40
Issued and fully paid share capital	**52,864**	52,864	–
Total assets	**1,212,791**	1,147,244	5.71
Financial ratios	**%**	%	
Return on average total assets[1]	**1.19**	0.27	
Return on average capital and reserves attributable to the equity holders of the Company[2]	**14.79**	3.81	
Cost to income ratio	**46.60**	34.36	
Loan to deposit ratio[3]	**60.98**	56.74	
Average liquidity ratio[4]	**40.18**	41.74	
Capital adequacy ratio[5]	**16.85**	16.17	

1. Return on average total assets = $\frac{\text{Profit for the year}}{\text{Daily average balance of total assets}}$

2. Return on average capital and reserves attributable to the equity holders of the Company

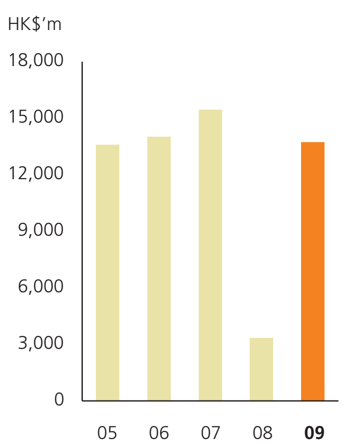
   $= \frac{\text{Profit attributable to the equity holders of the Company}}{\text{Average of the beginning and ending balance of capital and reserves attributable to the equity holders of the Company}}$

3. Loan to deposit ratio is calculated as at year end. Loan represents gross advances to customers. Deposit also includes structured deposits reported as "Financial liabilities at fair value through profit or loss".

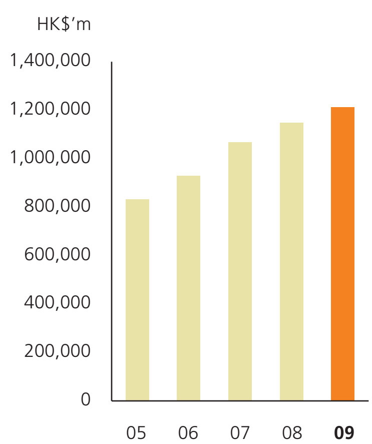
4. Average liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of BOCHK for the year.

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.

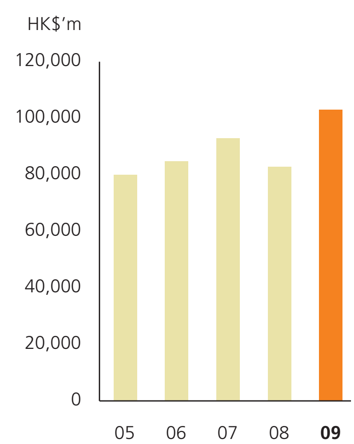
Profit attributable to the equity holders of the Company



Total assets



Capital and reserves attributable to the equity holders of the Company



FIVE-YEAR FINANCIAL SUMMARY

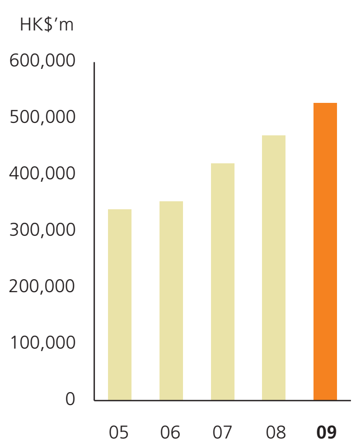
The financial information of the Group for the last five years commencing from 1 January 2005 is summarised below:

For the year	**2009 HK$'m**	2008 HK$'m	2007 HK$'m	2006 HK$'m	2005[2] HK$'m
Net operating income before impairment allowances	**26,055**	25,526	27,254	21,309	18,158
Operating profit	**15,104**	4,182	18,033	16,545	15,052
Profit before taxation	**16,724**	4,078	19,126	17,139	16,502
Profit for the year	**14,046**	3,007	15,817	14,284	13,856
Profit attributable to the equity holders of the Company	**13,725**	3,343	15,446	14,007	13,596
Per share	**HK$**	HK$	HK$	HK$	HK$
Earnings per share	**1.2981**	0.3162	1.4609	1.3248	1.2859
At year-end	**HK$'m**	HK$'m	HK$'m	HK$'m	HK$'m
Advances and other accounts	**527,135**	469,493	420,234	352,858	338,403
Total assets	**1,212,791**	1,147,244	1,067,637	928,953	831,002
Daily average balance of total assets	**1,178,513**	1,099,198	1,032,577	915,900	831,789
Deposits from customers[1]	**844,453**	811,516	799,565	703,776	639,031
Total liabilities	**1,107,156**	1,062,712	972,579	842,313	749,289
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	**102,902**	82,719	92,842	84,655	79,935
Financial ratios	**%**	%	%	%	%
Return on average total assets	**1.19**	0.27	1.53	1.56	1.67
Cost to income ratio	**46.60**	34.36	28.52	30.78	31.75
Loan to deposit ratio[1]	**60.98**	56.74	51.66	49.32	52.27

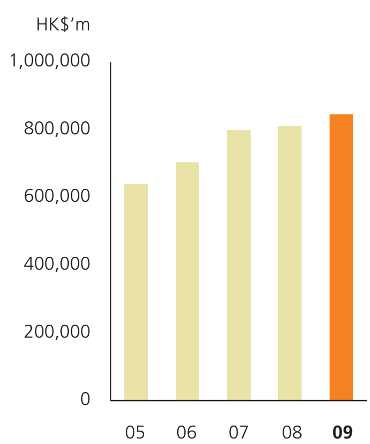
1. Deposits from customers also include structured deposits reported as "Financial liabilities at fair value through profit or loss".

2. In June 2006, the Company acquired a 51% shareholding of an under common control entity, BOC Life. The financial statements have been prepared in accordance with the principles of merger accounting as set out in Accounting Guideline 5 "Merger accounting for common control combinations" issued by the HKICPA. The comparative amounts for the year 2005 have been restated in accordance with the principles for merger accounting to present the result and assets of the Group as if such combination had occurred from the date when the Company and BOC Life first came under common control.

Advances and other accounts



Deposits from customers



The launch ceremony of RMB 6 billion Sovereign Bonds by the Central Government in Hong Kong was held at 70/F of Bank of China Tower.

矗立

OUTSTANDING

CHAIRMAN'S STATEMENT

An uncertain economic environment made 2009 a challenging year for the entire banking industry but the opportunities we captured were greater than ever. During the financial turmoil, we took proactive and effective measures to safeguard our financial strengths, focusing on the management of our capital, liquidity and risks. Our solid fundamentals enabled us to capture business opportunities and to grow our franchise in a tough market during 2009. On the back of the Group's financial strengths and proactive business strategies, we managed to respond to the changing market environment with speed and success.

Despite the weak market demand and pressure from low interest rates, the Group reported a mild increase in net operating income before impairment allowances to HK$26,055 million. Operating profit before impairment allowances declined by 17.0% to HK$13,914 million, due to the expenses mainly in relation to the Lehman minibonds issue. If excluding the related expenses, operating profit before impairment allowances would be down modestly by 1.9%. The Group's profit attributable to shareholders increased by 310.6% year-on-year to HK$13,725 million or HK$1.2981 per share. The substantial increase in our profit was also helped by the improvement in the securities investment provision. The Board recommends a final dividend of HK$0.57 per share for 2009. Together with the interim dividend of HK$0.285 per share, this will mean a total dividend of HK$0.855 per share for 2009.

The Group maintained a strong financial position, which provided us the flexibility to grasp the business opportunities in tough times. As at end December 2009, our consolidated capital adequacy ratio stood comfortably at 16.85% and core capital ratio of 11.64%. Our liquidity position remained solid at 40.18%. Total assets amounted to HK$1,212.8 billion. Our loan quality remained strong with classified or impaired loan ratio further improving to 0.34% from 0.46% at end 2008. We continued to manage our treasury investments proactively and optimised our investment mix in response to the market changes.

Despite the turbulences arising from the financial crisis, we have not lost focus and remain committed to our long-term vision "to be a top-quality financial services group with an extensive base in Hong Kong, a solid presence in China and a strategic foothold in the region". I am pleased with the continued progress we made in the past year in enhancing our franchise and business capabilities in key strategic areas. We have further strengthened our competitive position in our core businesses and deepened our relationship with customers. Our long-term growth strategy is working, as demonstrated in our 2009 performance. As at end 2009, we grew our loans by 11.8% despite the muted market demand. We expanded our market share in corporate loans and maintained our leadership in residential mortgage as well as Hong Kong-Macau loan syndication. Our net fees and commission income also grew 25.7%, driven by the strong performance in stock brokerage business and loan commissions income. When I reported our 2009 interim results, I have talked about the new sales model of our life insurance business launched in April 2009. I am pleased to share with you the remarkable progress we have achieved with substantial sales growth and enhancement in our market share.

During the year, we continued to deepen our business collaboration with our parent bank, Bank of China Limited ("BOC") with solid results, demonstrating the strength of our combined efforts. Through the Asia Pacific Syndicated Loan Centre, we enhanced our penetration in the region and related income contribution while BOC Group's ranking in the Asia Pacific loan syndication business in 2009 was enhanced to No.1. We also continued to enhance the Global Relationship Manager pilot scheme which was launched in April 2009 to provide one-stop services to cater to the global needs of our leading corporate customers. We will continue to capitalise on our fundamental strengths and foster closer collaboration with BOC to capture the emerging business opportunities in China and the Asia Pacific region for mutual gain.

2009 also marked a key milestone for the development of the offshore RMB business with the launch of the Pilot RMB Trade Settlement Scheme in July. We have launched a wide spectrum of RMB trade settlement and finance services for our corporate customers. With the increasing significance of RMB in the global economy, we believe that

there will be increasing demand for RMB as the settlement currency for cross-border trade transactions. The newly introduced RMB trade service will broaden the scope of our offshore RMB services, not just in Hong Kong but also in the Asia Pacific region. We will further strengthen our cooperation with commercial banks in ASEAN and other related countries to promote our clearing services and other banking business.

Looking forward, while there are signs of gradual economic recovery, we need to stay alert to the possible headwinds arising from the credit tightening measures by global governments. As economic conditions remain fragile, we will maintain our prudent approach and adjust our strategies in response to the economic uncertainties and the changes in the regulatory environment. In particular, it is expected that capital requirements on banks will be tightened. While I am confident in the Group's capital strength, we need to stay vigilant about the evolving development of the new capital requirements. We will maintain our proactive capital management to ensure our competitiveness and resilience. In February 2010, as part of the Group's proactive measures to manage its capital, we have successfully completed our maiden issue of subordinated notes of US$1.6 billion to global debt investors. The proceeds were used to partly repay the subordinated credit facility provided by BOC in December 2008. The offering received very positive market response, reflecting the strong market recognition of BOCHK's strength and franchise. It also broadened our investor base and established a market benchmark to enable the Group to tap the debt market as an alternative source of future funding for its growth and development.

During the year, the Group tried its utmost to address issues arising from the Lehman Brothers minibonds incident which was largely resolved through the repurchase agreement for the eligible customers reached among the regulatory authorities and distributing banks. We are refining our strategy and business model in wealth management in response to the changing customer expectation and regulatory environment. Going forward, in developing our wealth management business, we will focus on addressing customer needs, enhancing our sales culture and strengthening our internal control mechanism.

We will also work closely together with the regulators to reinforce public confidence in the banking, financial and regulatory systems in Hong Kong.

While growing our business, we are also committed to making a positive difference to the communities we serve. Last year, we have intensified our efforts to promote the sustainable development of the economy where we operate. To ensure the long-term development of the Group, we also focus on maintaining a strong management team. On behalf of the Board, I would like to take this opportunity to welcome Mr. Li Jiuzhong who was appointed as the Group's Chief Risk Officer with effect from 1 March 2010. As we always believe, our people are the Company's greatest asset. I am very proud of our more than 13,000 employees, who contributed wholeheartedly to fortifying the solid foundation of our Company and establishing a sustainable and vibrant growth platform. I would also like to thank my fellow Board members and our management team for their efforts and commitment to ensuring the effectiveness of our strategy and maintaining our strong corporate governance structure. Lastly, I would like to express my appreciation to our shareholders and customers for their continuous support and trust, which enable us to realise our potential to deliver greater value to them.

XIAO Gang
Chairman

23 March 2010

CHIEF EXECUTIVE'S REPORT

The year of 2009 was a fruitful year for the Group amid an unusually challenging environment. Despite persistent uncertainty and volatility in the global financial market, we achieved very strong business growth and outperformed the industry in our core business segments. This is a reflection of our solid foundations and unique competitiveness which enabled us to capture new opportunities and sustain growth throughout the year.

Hong Kong's operating environment began to stabilise in the second quarter of 2009 as witnessed by the revival of the financial and property markets as well as domestic demand and inbound tourism. Although external trade was still sluggish, domestic consumption recovered with an improved labour market.

Riding on the growth momentum regained by us in the first half, we took full advantage of the reviving economy to drive business and earnings growth. We maintained our leading positions and enlarged our market shares in various core businesses. Through closer collaboration with our parent BOC, we established a stronger presence in the Mainland market. We further expanded our service scope and extended our reach to markets in the Asia-Pacific region.

In response to changes in the operating and regulatory environment, we took decisive steps to maintain capital strength and liquidity, fortify risk management and safeguard asset quality. At the same time, a comprehensive policy has been formulated for us to fulfil corporate social responsibility in a more cohesive manner.

Business Highlights

The following is a summary of the Group's major business initiatives and achievements in 2009:

- Our profit attributable to shareholders grew more than three times.
- The performance of our lending business was particularly impressive. We achieved double-digit growth in total loans to customers while the market as a whole was muted over the year.
- We grew our market shares and maintained our leading market positions in corporate lending, loan syndication, residential mortgage, stock brokerage and RMB-related services.
- We pioneered cross-border RMB trade settlement and finance in Hong Kong with the advancement of a comprehensive range of RMB services. Since then we have extended our RMB trade settlement services to ASEAN countries with very positive response.
- The Group acted as the joint lead manager, bookrunner and placing bank for the first RMB sovereign bond issued in Hong Kong. The success of the issuance, as reflected by the overwhelming response from the market, laid a solid foundation for the Group in the development of RMB bond business in Hong Kong.
- We achieved important breakthroughs in our collaboration with our parent BOC for mutual gains, thus expanding our business in such areas as loan syndication, wealth management, cash management and custody while extending our foothold to the Asia-Pacific region.

- The Group's stock brokerage service saw exceptionally robust growth in related fee income and market share. This was supported by our enhanced service platform, especially the efficient e-channel.
- BOC Life, our life insurance subsidiary, secured a conspicuous turnaround in business by increasing both its income and profit substantially. It also advanced its market share and ranking.
- We improved our investment portfolio and reduced our credit risk exposure while gaining better returns. Meanwhile, on account of improved sentiment in the capital market, we registered a net write-back of impairment allowances on securities investment.
- The Group's loan quality was excellent. We led the industry by maintaining our classified or impaired loan ratio at an extremely low level.
- Our capital base remained strong for sustaining our growth and development.

Financial Performance

Benefiting from the robust performance of the Group's core businesses in a reviving market, we achieved spectacular financial results in 2009.

The Group's net operating income before impairment allowances increased by 2.1% year-on-year to HK$26,055 million as a result of higher net fees and commission income and net operating income recorded by the Group's insurance segment. Profit attributable to the Company's shareholders surged strongly by 310.6% to HK$13,725 million. Return on average total assets (ROA) and return on average capital and reserves attributable to the equity holders (ROE) were 1.19% and 14.79% respectively, improving significantly from 0.27% and 3.81% respectively for 2008.

Net interest income decreased by 11.0% to HK$17,932 million. As interest rates remained exceptionally low throughout the year, net interest margin narrowed by 31 basis points to 1.69%. However, there was a growth of 5.4% in the Group's average interest-earning assets, which reached HK$1,060,961 million by end-2009.

Net fees and commission income grew substantially by 25.7% to HK$6,508 million. A main driver of this growth was our stock brokerage business which generated a fee income of HK$3,638 million, up 52.9%. Another main driver is the lending business which contributed HK$922 million in loan commissions, representing an even more striking growth of 79.7%. Our credit card business experienced healthy growth with fee income rising by 6.6% to HK$1,511 million.

Net trading income dropped by 22.4% to HK$1,485 million with lower net trading income from foreign exchange and related products. This was mainly due to a reduction in business volume of structured deposits and the decline in RMB-related foreign exchange transactions as the market's expectation for RMB appreciation cooled down. However, there was an increase in income from interest rate instruments due to the mark-to-market gain from interest rate swap contracts, versus a mark-to-market loss in 2008.

We remained highly prudent over expenditure and took initiatives to contain expenses where possible. But, to ensure that we would be in a better position to capture business opportunities in the recovering economy, we continued to invest in product development, human resources, brand building and marketing. In 2009, total operating expenses increased by 38.4% to HK$12,141 million, of which HK$3,278 million was mainly incurred for the Lehman Brothers minibonds ("Minibonds") repurchase scheme. In July 2009, we worked together with the regulatory authorities and other banks to implement a comprehensive repurchase of the Minibonds. Over 99% of the Group's customers eligible for the repurchase have responded positively by the end of the year. If not for the Minibonds-related expenses, total operating expenses would have increased by 10.8%. The Group's cost-to-income ratio stood at 46.60%, versus 34.36% a year ago. Excluding the Minibonds expenses, the cost-to-income ratio would have been 34.02%.

By proactively disposing of higher-risk securities, the Group recorded a net write-back of HK$1,302 million in impairment allowances on its investment in securities. Meanwhile, the stabilisation of the credit environment led to a significant drop of 84.4% in the net charge of loan impairment allowances to HK$103 million.

At end-2009, our total assets were valued at HK$1,212,791 million, representing an increase of 5.7% versus end-2008. Our asset structure continued to improve with a greater proportion of assets bearing higher yield. Total advances to customers grew strongly by 11.8% to HK$514,972 million. Total deposits from customers increased by a total of 4.1% to HK$844,453 million and the deposit mix also improved. The loan-to-deposit ratio at the end of 2009 was 60.98%, versus 56.74% at end-2008.

The Group's loan quality improved further. Our classified or impaired loan ratio dropped by 0.12 percentage point to 0.34%, which was far below the industry average of 1.35% (for classified loans) in 2009.

We maintained a sound financial position in 2009. The Group's consolidated capital adequacy ratio rose by 0.68 percentage point to 16.85% at end-2009 as its total capital base expanded by 10.2% to HK$104,435 million. Core capital ratio stayed solid at 11.64%. The average liquidity ratio for 2009 was at 40.18%.

In early February 2010, BOCHK successfully completed the issue of US$1,600 million 10-year Subordinated Notes ("the Notes"), which is the largest ever single-tranche bank capital deal in Asia except Japan (in any currency) and the only global bond transaction by a Hong Kong-based bank. The proceeds from the issue were used to partly repay the Subordinated Credit Facility provided by BOC in December 2008. The creation of a new type of listed securities has broadened our investor base and provided an alternative for investing in our securities. As the Notes were offered to institutional investors globally, it has established a market benchmark, diversified our future funding channels for development, and enhanced our international profile.

Business Review

Personal Banking

Our main focus for Personal Banking was on driving business growth, maintaining our market leadership in core areas, adjusting to changes in the operating and regulatory environment, expanding our customer base and establishing a distinctive position for offshore RMB service. Total operating income was stable at HK$10,648 million whereas profit before tax was HK$4,504 million, down 7.9%.

The local property market turned active again after the first quarter. Through an aggressive business strategy, we led the market in the underwriting of new residential mortgages and grew our mortgage loans by 9.4% year-on-year. The credit quality of residential mortgages remained solid with the delinquency and rescheduled loan ratio dropping further to 0.04%.

We expanded our investment and insurance business by a large extent in 2009. Our stock brokerage volume and fee income surged by 45.0% and 52.9% respectively. We enlarged our market share and reinforced our position in the retail stock market. In the same vein, by acting as the receiving bank for 22 IPOs in Hong Kong, we grew our IPO-related business and consolidated our leading position in the market. As for the Bancassurance business, we made much headway in upgrading our service and broadening our product range.

Our customer segmentation strategy enabled us to broaden our high net-worth customer base and strengthen our relationship with customers by tailoring wealth management solutions for their diverse needs. We also expanded our cross-border wealth management services. As a result, our wealth management customer base and assets under our management grew by 11.9% and 31.2% respectively.

Our credit card business flourished with the improvement in consumer sentiment and domestic spending. There was very encouraging growth in card advances, card issuance, cardholder spending and merchant acquiring volume. We maintained our lead in the merchant acquiring business of China UnionPay Card and remained the market leader in RMB-HKD dual currency credit cards.

In 2009, we solidified our leading position in RMB business in Hong Kong and further expanded our scope of service. We were mandated by the Ministry of Finance of the Central Government as the joint lead manager, bookrunner and placing bank for the first RMB sovereign bond issued in Hong Kong. We acted in the same capacity for the majority of RMB bonds issued in Hong Kong during the year. By working closely with BOC, we started conducting RMB-related business with some of the BOC branches in the Asia-Pacific region and kick-started a number of other projects, such as the "Asia-Pacific Personal Finance Product Centre", "Overseas Banking Card Business" and "Customer Hotline Centre". In other words, we have covered considerable mileage toward the goal of becoming the BOC Group's major production platform and servicing support centre in the Asia-Pacific region.

Our efforts in maximising the use of e-platform by customers paid off. The number of Internet Banking customers increased by 10.1%. Stock trading transactions through e-channels accounted for 76.2% of total transactions.

Corporate Banking

Corporate Banking's strategic focus in 2009 was to drive growth and develop comprehensive customer relationships by offering a full range of products and services. We also aimed at ensuring the Group's outstanding position in offshore RMB banking through closer cooperation with BOC and the enhancement of system connectivity. Profit before tax increased by 7.1% to HK$5,915 million.

By focusing on the financing needs of both local and Mainland enterprises, we outperformed the market as a whole by growing corporate loans by 14.5%. We also succeeded in capturing a larger market share and maintaining our position of top mandated arranger in the Hong Kong-Macau syndicated loan market for the fifth consecutive year. In our role as BOC's Asia-Pacific Syndicated Loan Centre, we expanded our business in the region and contributed to BOC's advancement to the region's top mandated arranger in 2009. At the same time, we further enhanced our services for SMEs and grew our SME loans by actively assisting enterprises to secure loans under the HKSAR Government's SME Loan Guarantee Scheme and Special Loan Guarantee Scheme.

In 2009 we made major breakthroughs in the trade settlement and finance business. We initiated the first cross-border trade settlement in RMB in July, which was followed by a comprehensive range of related services. We extended our RMB trade settlement service to ASEAN countries with very positive response. We also outperformed the market by growing our trade finance by 19.4% against the backdrop of an overall decline in Hong Kong's external trade and trade finance.

During the year, we deepened our collaboration with our parent BOC for service enhancement and business growth. The Group's cash management service platform was linked up with those of BOC and its overseas branches to facilitate customers in transferring funds between Hong Kong, the Mainland and a number of countries in the region. We also strengthened our capability in serving large corporate clients around the world through the launching of the Global Relationship Manager Programme and the Global Unified Facilities Arrangement, introduced by BOC in conjunction with the Group as a partner.

The Group's custody business made notable progress last year. We extended our custody service to various Central Government entities and state-owned banks while penetrating the Taiwan market. Our custody business now covers MPF assets. In cooperation with BOC, we opened accounts in Hong Kong for a considerable number of high net-worth Mainland customers for providing escrow services. At end-2009, total assets in our custody were valued at HK$392 billion, up 95.9% from a year ago.

Mainland Business

Our Mainland operation witnessed healthy growth in loans and greater improvement in loan quality. Total advances to customers increased by 14.9% year-on-year. RMB loans were up by 5.1%. Customer deposits increased by 48.8%, of which RMB deposits were up 58.7%. There was a rise in net fees and commission as well as other operating income whereas net interest income dropped. Loan quality was sound.

We continued to drive the development of cross-border services for both corporate and individual customers in the Mainland. With a focus on establishing NCB (China) as the main brand, we progressively expanded our branch network which now comprises a total of 23 branches and sub-branches. For developing personal banking in the Mainland, we devoted more resources for product and service innovation and rolled out a wide range of products in deposits, wealth management, mortgage and debit card business.

Treasury

During the year under review, Treasury's main focus was to manage the Group's banking book more prudently, de-risk the Group's investment portfolio and secure better returns. With a substantial net release of impairment allowances on securities investment, we achieved a profit before tax of HK$6,964 million in 2009.

In view of volatility in the market, we adopted a proactive yet prudent approach in managing banking book investments and made timely adjustments to our portfolio in response to market changes. We reduced our exposure to credit and interest rate risks and secured stable and higher returns. We invested more in high-quality government-related/guaranteed fixed-rate debt securities with slightly longer duration. Through selective disposal, we reduced the exposure of our investment portfolio to US non-agency RMBS substantially by 80.4% to HK$3.8 billion.

Our main focus in business development was on traditional products related to foreign exchange and precious metals to individual customers. Hedging and investment products linked to foreign exchange and interest rates were offered to corporate customers with good response. The trading volume of RMB non-deliverable forward contracts conducted with corporate customers reached a record high.

Insurance

BOC Life achieved significant turnaround in its business and financial results. We followed a need-based approach, enriched our product range and started offering professional financial planning service. We also intensified our effort in selling regular premium products to improve our product mix. These strategies enabled us to establish a stronger presence in the local insurance market.

Net operating income grew sturdily by 143.5% to HK$471 million. Net interest income increased by 13.3% while other operating income grew by 17.9%. During the year, we introduced a total of 23 new products, primarily focused on the retirement and wealth management needs of our customers. Premium income from regular-premium products jumped up by 141.8% year-on-year.

Outlook

While the global financial market is gradually stabilising, we cannot afford to ignore the volatility and potential risks that still exist in individual markets. We therefore remain cautious as to the economic outlook for 2010 especially with regard to the possible effects of the "Exit Policy" to be taken by major economies. For Hong Kong, we should be heartened by the upward trend of GDP growth since the last quarter of 2009. The Hong Kong economy is likely to recover further this year by deepening its economic integration with the Mainland which, given its strong fundamentals and momentum, should remain one of the major growth engines for the Asia-Pacific and global economies.

For the Group, we consider 2010 to be an important year for accelerating our growth momentum and consolidating our leadership in core areas.

We will capitalise on our core competencies and competitive advantages to grow our major businesses, diversify our sources of income, and build a more balanced and sustainable revenue platform. Through service enhancement and product innovation, coupled with better use of our distribution network, we will further consolidate our leading position and capture bigger market shares specifically in our traditionally strong business areas, including corporate lending, residential mortgage, RMB business and stock brokerage. Meanwhile, we will boost the growth of promising areas like wealth management, life insurance, cash management and custody. We will enhance our efforts to offer a "Total Solution" to meet the demand of our customers through an integrated service platform and reinforced service capabilities.

In light of the further development of offshore RMB business, we will continue to leverage our unique advantage as the sole RMB clearing bank in Hong

Kong. We will fortify our market leadership in RMB deposits, exchange, remittance, dual-currency cards, trade settlement and finance as well as bond issuance and distribution by diversifying our RMB products and services for both individual and corporate customers. We will also broaden the scope of our RMB trade settlement service and explore the development of other new products, and seek to expand our RMB business in the region.

The Mainland being a main driver for the regional and global economies, we will grow our Mainland business through closer collaboration with our parent BOC on the one hand and reinforcing the role played by NCB (China) on the other. BOC's extensive network and strong franchise in the Mainland have allowed us to increase our presence there so that we can better serve our customers, maximise cross-selling efforts and expand our product range. At the same time, we will continue to build up the brand and branch network of NCB (China), an integral part of the BOC Group, to grow its business in the Mainland and expand its cross-border services.

Together with BOC, we can capture emerging business opportunities not only in the Mainland but also in the Asia-Pacific region for mutual benefits. We will continue to play our prominent role as BOC's Asia-Pacific Syndicated Loan Centre. It is expected that we can be further benefited to a greater extent from the implementation of the Global Relationship Manager Programme. The interconnection between the Group's cash management service platform and that of BOC and its overseas branches will give us an added advantage in serving major corporate clients around the world. We will exploit our expertise and experience to support BOC in developing wealth management products for the Mainland market and for penetrating the regional market. All these will enable us to establish a stronger strategic foothold in the Asia-Pacific region and ensure our unique function in the BOC Group's global strategy.

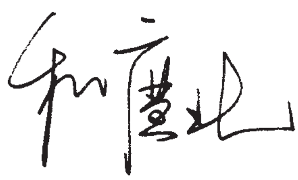
While focusing on business growth, it is important that we continue to safeguard our capital strength and asset quality. Rigorous risk management and internal control measures will also be adopted to avoid any potential pitfalls.

Corporate Social Responsibility

As a leading banking group in Hong Kong with a long history, we are committed to playing an increasingly active role as good corporate citizens and contributing to the community's well-being and development. To integrate this fine tradition into our long-term development strategy for creating greater value for the Group, we formulated a comprehensive corporate social responsibility (CSR) policy which was approved by the Board earlier this year. This policy is applicable to the Group as a whole and guides us in fulfiling our commitment to CSR and in contributing to the sustainable development of the economy, society and environment.

The scope of the CSR policy encompasses the Group's responsibility toward society, shareholders, customers, employees, and the environment respectively. For the purpose of implementation, the Group has set up the CSR Committee chaired by me and comprising our senior management as members. The Committee will decide on the Group's CSR strategies and policies and oversee their execution. Details of the Group's CSR-related work accomplished last year are covered in a separate section in this annual report.

In concluding, I am very grateful to the Board of Directors, shareholders and customers for their continued trust and support. Of equal importance is of course the indispensable contribution of all my colleagues through their talent, devotion and hard work. We have once again demonstrated our ability to grow and rise to challenges through different phases of the economic cycle. Going forward, I am confident that we are able to implement our development strategy in a proactive and sustainable manner.



HE Guangbei
Vice Chairman & Chief Executive

23 March 2010

HK$90 million of the net proceeds generated from "Beijing 2008 Olympic Games Hong Kong Dollar Commemorative Banknote" was designated for the "Caring Hong Kong – A Heart Warming Campaign" by BOCHK to provide timely support to those in need.

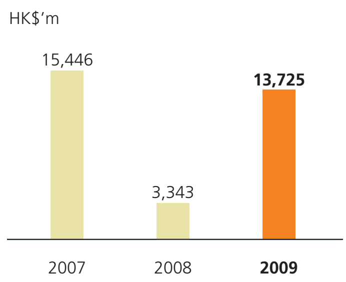
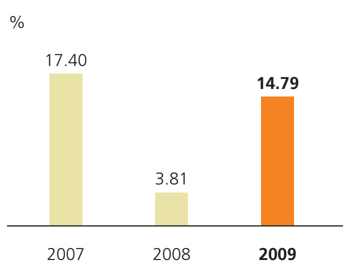
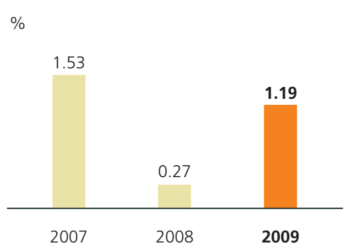
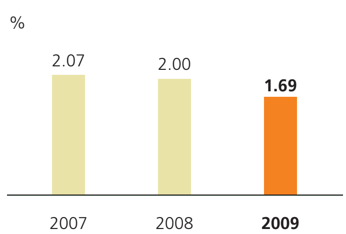
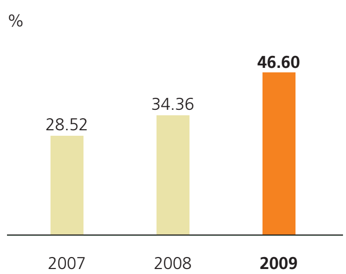
連繫

CONNECTED

The following sections provide metrics and analytics of the Group’s performance, financial position, and risk management in the year 2009. These should be read in conjunction with the financial statements included in this Annual Report.

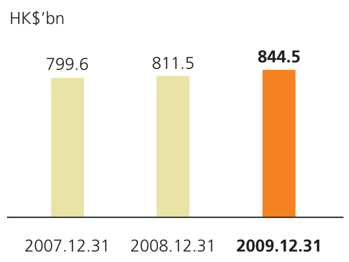
FINANCIAL PERFORMANCE AND CONDITION IN BRIEF

The following table is a summary of the Group’s key financial results for the year 2009 with a comparison with the previous two financial periods.

Financial Indicators		2009 Performance
1. Profit Attributable to Shareholders		**Profit attributable to shareholders** • Profit attributable to shareholders was HK$13,725 million, up strongly from 2008. This demonstrated the Group’s strengths in core banking businesses amid the challenging operating environment
2. Return on Average Capital and Reserves Attributable to the Equity Holders of the Company (“ROE”)[1]		**ROE** • ROE was 14.79%, up 10.98 percentage points year-on-year, representing a strong rebound from 2008
3. Return on Average Total Assets (“ROA”)[2]		**ROA** • ROA was 1.19%, up 0.92 percentage point year-on-year
4. Net Interest Margin (“NIM”)		**NIM** • NIM was 1.69%, down 31 basis points year-on-year due to lower market interest rates in 2009
5. Cost-to-Income Ratio (“CIR”)[3]		**CIR** • CIR was 46.60%, up 12.24 percentage points year-on-year as operating expenses increased by 38.4% due largely to the expenses incurred on Lehman Brothers related products[3]. Operating income increased by 2.1%

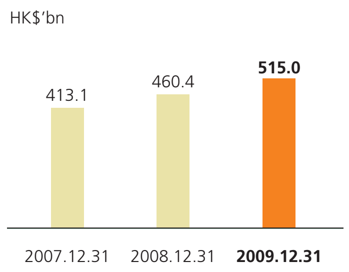
Financial Indicators		2009 Performance

6. Deposits from Customers (including structured deposits)



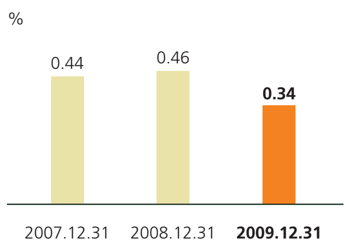
Deposits from Customers
- Total deposits increased by 4.1% from the end of 2008 to HK$844.5 billion, with continuous improvement in deposit mix

7. Advances to Customers



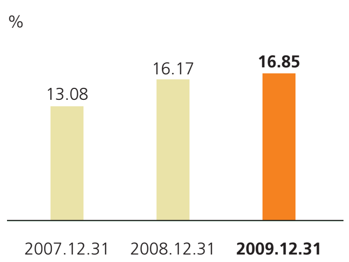
Advances to Customers
- The Group's advances to customers increased strongly by 11.8% year-on-year to HK$515.0 billion, outperforming the local loans market where loan growth remained lackluster in 2009

8. Classified or Impaired Loan Ratio[4]



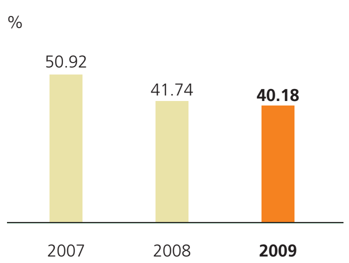
Classified or Impaired Loan Ratio
- Classified or impaired loan ratio was 0.34%, down from 0.46% at the end of 2008
- Formation of new classified loans remained at a low level, representing approximately 0.3% of total loans

9. Capital Adequacy Ratio ("CAR")



CAR
- CAR maintained at a high level of 16.85% at the end of 2009
- Core capital ratio stood at 11.64%

10. Average Liquidity Ratio



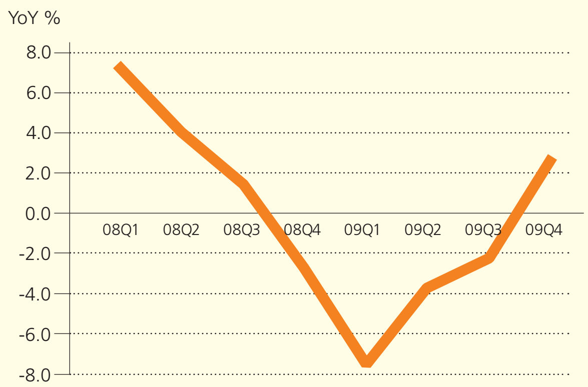
Average Liquidity Ratio
- Average liquidity ratio remained healthy at 40.18% in 2009

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 Expenses incurred on Lehman Brothers related products were primarily in relation to the Lehman Brothers minibonds ("Minibonds") repurchase arrangements announced on 22 July 2009. Excluding expenses incurred on Lehman Brothers related products, core cost-to-income ratio in 2009 and 2008 would have been 34.02% and 31.35% respectively.
4 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.

ECONOMIC BACKGROUND & OPERATING ENVIRONMENT

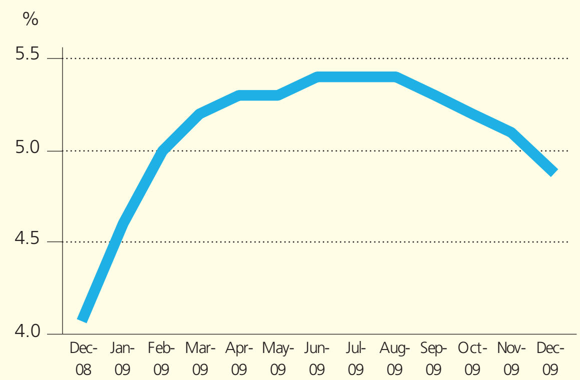
The global economic environment remained highly challenging in 2009 as the severe impact of the financial crisis from 2008 was still keenly felt. In the first half of the year, the global economy was undergoing a downturn. Most governments and central banks around the world had to resort to drastic measures to boost demand and stabilise the economy. The US Federal Reserve maintained its target interest rate at close to zero while other central banks also kept their benchmark rates low. In the second half of the year, these extraordinary fiscal and monetary policies were beginning to bear fruit. Some major economies, including the US and the Eurozone, showed signs of recovery. The momentum of economic recovery was stronger in Asia. The Mainland economy, in particular, resumed much faster growth that was spurred by public investment in infrastructure and a revival of the real estate sector. Other Asian economies also recovered, though to a lesser extent, driven by fiscal stimulus, rising confidence and the wealth effect of a rebound in the equity market.

Hong Kong Real GDP



Source: Bloomberg

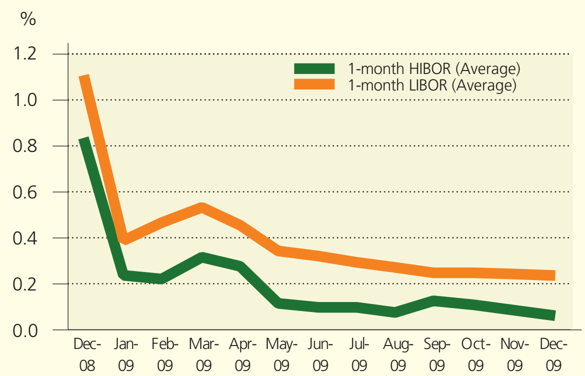
Hong Kong Unemployment Rate



Source: Bloomberg

The Hong Kong economy showed clearer signs of improvement in the fourth quarter of the year with the real GDP recording a year-on-year growth of 2.6%. This was mainly led by the rise in domestic demand and business investment. Consumer sentiments revived with the improvement in the labour market in the second half of the year when the unemployment rate fell to 5.3% in the third quarter before edging further down to 4.9% at the end of 2009. There was therefore a rebound in private consumption expenditure. At the same time, overall investment spending increased, which was largely attributable to public sector construction work. The property market recovered and investment in the stock market also rose strongly as the financial markets stablised. Inflationary pressure in Hong Kong remained largely subdued with the composite consumer price index recording a modest year-on-year growth of 1.3% by the end of 2009.

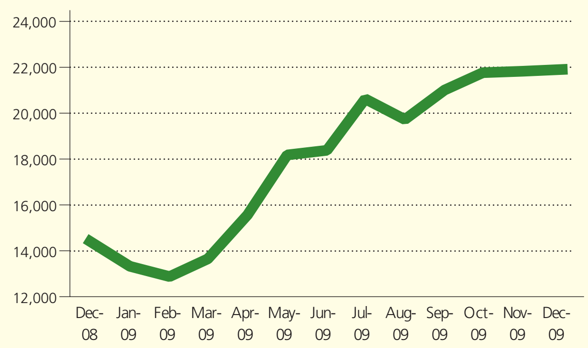
HIBOR and LIBOR



Source: Bloomberg

In the local money market, the Hong Kong Monetary Authority ("HKMA") introduced various accommodative measures in response to the global financial crisis. Interbank interest rates for the Hong Kong Dollar generally stayed at low levels in the first quarter and dropped further during the year with USD interest rates. Average 1-month HIBOR and LIBOR decreased from 0.23% and 0.38% respectively at the beginning of the year to 0.06% and 0.23% in December.

Hang Seng Index



Source: Bloomberg

With the improvement in market sentiments and inflow of funds, the local stock market rebounded and remained buoyant since the second quarter of the year. The Hang Seng Index ("HSI") closed at 21,873 points at the end of 2009, representing an increase of more than 50% versus 14,387 points at the end of 2008. IPO activities revived since September 2009 and recorded a total of HK$243.9 billion raised in 2009, up 269.6% year-on-year.

The local residential property market turned buoyant with both prices and transaction volume returning to the pre-crisis level. Property transaction regained its growth momentum from the second quarter onward when signs of economic recovery became more apparent. It cooled down somewhat in the last quarter with the anticipation of a possible rise of interest rates. Transaction volume, in terms of the number of sale and purchase agreements of all building units, in 2009 increased by 18.2% compared to 2008. Prices of private domestic properties in 2009 recorded a cumulative increase of 27.6% versus 2008.

While 2009 remained challenging for the local banking sector as competition remained acute and interest rates were low, the gradual stabilisation of the financial markets and improvement in investor and consumer sentiments helped improve the profitability of banks. Although interest income was further depleted by persistently low interest rates and intense price competition, buoyancy in the stock market generated higher non-interest income. Improvement in asset quality also led to lower provisions for loans and investment portfolios.

Outlook for 2010

Before reviewing the Group's 2009 financial performance in detail, here are certain factors that may affect the Group's financial outlook in 2010:

- Economic fundamentals remain fragile as the impetus for recovery primarily comes from fiscal and monetary easing policies adopted by individual governments. Governmental measures to stimulate the economy may result in inflationary and therefore asset bubbles. Faced with such a dilemma, major central banks might be forced to tighten the monetary policies. The subsequent withdrawal of liquidity could dampen economic activities.

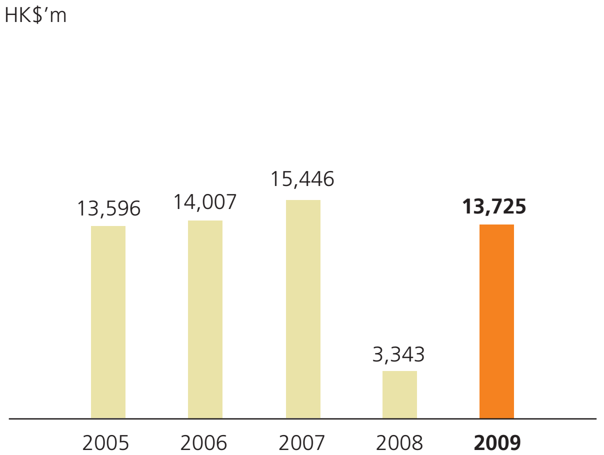
- In Hong Kong, a possible reversal of the trend of capital inflow might trigger changes in interest rates and asset values, thus resulting in uncertainties that may hinder the pace of the economic recovery.

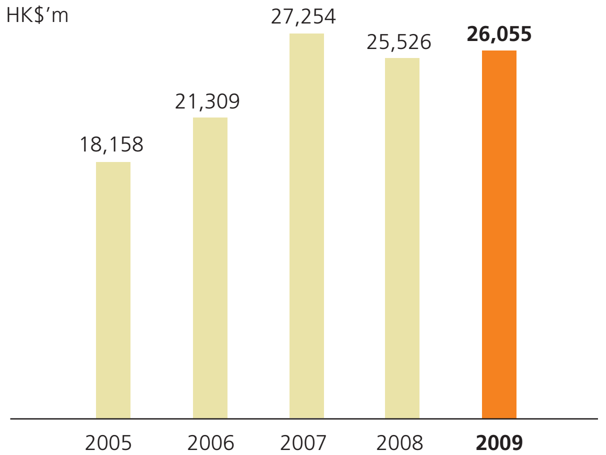
- Banks are faced with increasing regulatory pressure as regards the selling of products, customer service, liquidity and capital management, etc. Corresponding steps have to be taken to cope with the changes in regulatory requirements.

CONSOLIDATED FINANCIAL REVIEW

Financial Performance

Despite the challenging economic environment in 2009, the Group achieved encouraging financial results. By capitalising on its strengths in core businesses and seizing opportunities arising from the recovering economy, the Group quickly resumed growth in its earnings. It expanded its service scope in various business areas and captured bigger market shares. It also continued to strengthen its financial position and risk management in the uncertain market conditions.





In 2009, the Group's net operating income before impairment allowances increased by HK$529 million, or 2.1%, to HK$26,055 million, led by the improvement in net fees and commission income and the net operating income recorded by the Group's insurance segment. There was, however, a reduction in net interest income. Operating expenses increased mainly due to the expenses incurred on Lehman Brothers related products. The Group recorded a net write-back in impairment allowances on securities investments versus a net charge in 2008 while the net charge of impairment allowances on loans significantly decreased. Meanwhile, the Group's properties registered a revaluation gain versus a loss last year.

The Group's profit attributable to shareholders increased strongly by HK$10,382 million, or 310.6%, to HK$13,725 million. Earnings per share were HK$1.2981, up from HK$0.3162 in 2008. ROA was 1.19% while ROE was 14.79%.

Factors Affecting the Group's Performance in 2009

Amid uncertainties in the market resulting from the global financial crisis, the Group continued to enhance its franchise and strengthen its business capabilities. It refined its business strategies to drive the growth of its traditional core businesses and successfully captured new business opportunities.

- With ample liquidity and improved sentiments in the market, the local stock market rebounded strongly. The Group captured this business opportunity with its enhanced and reliable stock trading platform. It recorded a robust growth of 52.9% in stock broking fee income, outperforming the market. The fee income from core businesses also surged in the second half of the year.
- By reinforcing its services for local and Mainland enterprises as well as playing an active role as the BOC's "Asia-Pacific Syndicated Loan Centre", the Group grew its loan balance and remarkably expanded its market share. Loan commissions also rose strongly.
- With an enhanced service platform and the stabilisation of the capital markets, the Group's insurance segment improved its financial performance considerably with notable growth in its net operating income as well as market share.
- The Group proactively managed its US non-agency residential mortgage-backed securities ("RMBS") portfolio. As investment sentiments and market liquidity improved, the Group acted promptly by reducing to a large extent its exposure to US non-agency RMBS, thus generating a substantial write-back of impairment allowances.

The Group's financial performance in 2009 was also subject to the following negative factors:

- Exceptionally low interest rates coupled with the full-year impact of the two subordinated loans secured in 2008 adversely affected the Group's net interest income.
- Substantial expenses incurred on Lehman Brothers related products were recorded in 2009 (For details, please refer to Note 13 to the Financial Statements).

Financial Highlights

HK$'m, except percentage amounts	2009	2008
Net interest income	**17,932**	20,157
Other operating income	**8,123**	5,369
Operating income	**26,055**	25,526
Operating expenses	**(12,141)**	(8,771)
Operating profit before impairment allowances	**13,914**	16,755
Net reversal/(charge) of impairment allowances	**1,190**	(12,573)
Others	**1,620**	(104)
Profit before taxation	**16,724**	4,078
Profit attributable to the equity holders of the Company	**13,725**	3,343
Earnings per share (HK$)	**1.2981**	0.3162
Return on average total assets	**1.19%**	0.27%
Return on average capital and reserves attributable to the equity holders of the company	**14.79%**	3.81%
Net interest margin (NIM)	**1.69%**	2.00%
Non-interest income ratio	**31.18%**	21.03%
Cost-to-income ratio	**46.60%**	34.36%

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	2009	2008
Interest income	**21,684**	35,281
Interest expense	**(3,752)**	(15,124)
Net interest income	**17,932**	20,157
Average interest-earning assets	**1,060,961**	1,006,440
Net interest spread	**1.62%**	1.78%
Net interest margin	**1.69%**	2.00%

With sizable capital inflows and ample liquidity in the interbank market, Hong Kong's short-term market interest rates in 2009 declined further and remained at an exceptionally low level. Average one-month HIBOR in 2009 fell by 185 basis points to 0.15% while average one-month LIBOR fell by 235 basis points to 0.33% compared to 2008. The Group's average HKD Prime rate decreased by 40 basis points to 5.00%, thus widening the HKD Prime-to-one-month HIBOR spread (hereafter called "Prime-HIBOR spread") by 145 basis points to 4.85%. Meanwhile, the yield curve steepened, as evidenced by the broader average interest spread of 164 basis points in 2009 between 2-year Exchange Fund notes and its 10-year counterparts, versus 111 basis points in 2008.

The Group's net interest income decreased by HK$2,225 million, or 11.0%, to HK$17,932 million in 2009. The decrease was mainly attributable to the drop in net interest margin, which was partially offset by the growth in average interest-earning assets. Net interest margin fell by 31 basis points to 1.69% as both net interest spread and contribution from net free fund declined by 16 basis points and 15 basis points respectively. Average interest-earning assets grew by HK$54,521 million, or 5.4%, to HK$1,060,961 million.

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

	Year ended 31 December 2009		Year ended 31 December 2008**	
ASSETS	**Average balance HK$'m**	**Average yield %**	Average balance HK$'m	Average yield %
Loans to banks	**241,683**	**1.21**	228,901	2.41
Debt securities investments	**332,865**	**2.44**	306,807	4.27
Loans and advances to customers	**473,888**	**2.22**	456,946	3.56
Other interest-earning assets	**12,525**	**1.16**	13,786	2.92
Total interest-earning assets	**1,060,961**	**2.04**	1,006,440	3.51
Non interest-earning assets	**117,552**	**–**	92,758	–
Total assets	**1,178,513**	**1.84**	1,099,198	3.21

	Year ended 31 December 2009		Year ended 31 December 2008**	
LIABILITIES	**Average balance HK$'m**	**Average rate %**	Average balance HK$'m	Average rate %
Deposits and balances of banks and other financial institutions	**100,284**	**1.44**	79,969	1.91
Of which: subordinated loans	**27,092**	**3.40**	4,442	5.61
Current, savings and fixed deposits	**777,529**	**0.29**	767,006	1.65
Certificate of deposits issued	**519**	**4.06**	1,474	3.73
Other interest-bearing liabilities	**21,940**	**0.25**	27,597	3.08
Total interest-bearing liabilities	**900,272**	**0.42**	876,046	1.73
Non interest-bearing deposits	**73,376**	**–**	37,053	–
Shareholders' funds* and non interest-bearing liabilities	**204,865**	**–**	186,099	–
Total liabilities	**1,178,513**	**0.32**	1,099,198	1.38

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

** During the year, the Company has made certain enhancements on the compilation basis and the 2008 comparative figures of certain items have been adjusted.

Compared to 2008, the average yield of total interest-earning assets declined by 1.47 percentage points in 2009 while the average rate of total interest-bearing liabilities fell by 1.31 percentage points, thus narrowing the net interest spread by 16 basis points. The contribution from net free fund declined as a result of the decrease in market interest rates.

The average yield of total interest-earning assets dropped following their re-pricing at lower interest rates. The average rate of total interest-bearing liabilities fell by a lesser extent largely due to the full-year impact of the two subordinated loans* secured in June and December 2008 respectively as their costs were fully reflected in 2009. Further reduction in deposits costs was also limited as they were already at a very low level.

* 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. Subsequent to the balance sheet date, BOCHK issued fixed rate subordinated notes with the aggregate principal amount of US$1,600 million on 11 February 2010. BOCHK applied the proceeds from the issue of the subordinated notes to partly repay the subordinated loan secured from BOC in December 2008 (For details of this issue, please refer to Note 56 to the Financial Statements).

Nevertheless, the Group's deposit mix continued to improve with an increase in the proportion of average demand deposits and current accounts as well as savings deposits in average total deposits. This helped alleviate the negative impact of the above factors. Higher-yielding assets such as loans and advances to customers and securities investments also registered growth.

Second Half Performance

Compared to the first half of 2009, short-term market interest rates further decreased. Average one-month HIBOR dropped by 12 basis points while average one-month LIBOR dropped by 17 basis points. The Group's net interest income increased by HK$74 million, or 0.8%. Average interest-earning assets grew by HK$74,405 million, or 7.3%. Net interest margin and net interest spread fell by 13 basis points and 11 basis points respectively.

The increase in net interest income was mainly attributable to the increase in average interest-earning assets, which was mostly offset by the drop in net interest margin. Net interest spread narrowed as the decline in average yield of total interest-earning assets outpaced that of deposit costs which were already close to zero and further reduction was limited. The positive impact of the increase in the proportion of loans to customers in the average interest-earning assets as well as the improvement in deposit mix partially offset the decline in net interest spread.

Net Fees and Commission Income

HK$'m	**2009**	2008
Investment and insurance fee income	**3,886**	2,964
Securities brokerage		
– Stockbroking	**3,638**	2,380
– Bonds	**39**	259
Funds distribution	**97**	218
Life insurance*	**112**	107
Credit cards	**1,511**	1,417
Loan commissions	**922**	513
Bills commissions	**627**	683
Payment services	**495**	486
Account services	**276**	261
Currency exchange	**213**	204
Trust services	**178**	173
General insurance	**100**	102
Correspondent banking	**45**	44
Custody	**36**	45
IPO-related business	**41**	30
Others	**206**	292
Fees and commission income	**8,536**	7,214
Fees and commission expenses	**(2,028)**	(2,035)
Net fees and commission income	**6,508**	5,179

* Fee income from life insurance only included that from the Group's insurance business partner after group consolidation elimination.

Net fees and commission income increased by HK$1,329 million, or 25.7%, to HK$6,508 million, mainly driven by the strong growth in fee income from stock broking of HK$1,258 million, or 52.9%, which is discussed in the next section "Investment and Insurance Business". Loan commissions also recorded a significant growth of HK$409 million or 79.7% as a result of the expansion of the Group's loan portfolio and the increase in contribution from its role as the BOC Group's "Asia-Pacific Syndicated Loan Centre". Fees from the credit card business grew by HK$94 million or 6.6% with the increase in cardholder spending and merchant acquiring volume by 9.4% and 11.4% respectively. Fees income from IPO-related business increased by 36.7% as the Group successfully captured business opportunities arising from the upsurge of IPO activities since September 2009. Fees income from the Group's other traditional banking businesses such as payment services, account services and currency exchange also recorded a steady growth. However, bills commissions decreased by HK$56 million or 8.2%, which was in line with the drop in Hong Kong's external trade during the year. Meanwhile, fees and commission expenses decreased by HK$7 million or 0.3%.

Second Half Performance

Compared to the first half of 2009, net fees and commission income increased by HK$614 million, or 20.8%, in the second half largely because of the increase in fee income from stock broking by HK$388 million, or 23.9%. Loan commissions and fees from the credit card business went up by HK$126 million or 31.7% and HK$101 million or 14.3% respectively. IPO activities flourished since September 2009, driving up the Group's related fee income by HK$39 million. Meanwhile, fees and commission income from payment services, currency exchange, trust services, corresponding banking and custody in general registered double-digit growth over the first half of the year. Fees and commission expenses were up 16.4%, mainly because of higher credit card and stock broking business expenses.

Investment and Insurance Business

HK$'m	**2009**	2008
Investment and insurance fee income		
Securities brokerage		
– Stockbroking	**3,638**	2,380
– Bonds	**39**	259
Funds distribution	**97**	218
Life insurance*	**112**	107
	3,886	2,964
Net operating income/(loss) of BOC Life#		
Net insurance premium income	**7,744**	5,891
Interest income	**1,271**	1,122
Net loss on financial instruments designated at fair value through profit or loss	**(939)**	(136)
Others	**10**	17
Gross operating income of BOC Life#	**8,086**	6,894
Less: net insurance benefits and claims	**(7,286)**	(7,709)
	800	(815)
Total investment and insurance income	**4,686**	2,149
Of which: Life insurance fee income*	**112**	107
Net operating income/(loss) of BOC Life#	**800**	(815)
Total life insurance income/(loss)	**912**	(708)
Investment fee income	**3,774**	2,857
Total investment and insurance income	**4,686**	2,149

* Fee income from life insurance only included that from the Group's insurance business partner after group consolidation elimination.

Before commission expenses.

With the continuous influx of capital and the return of investors' confidence, the capital market began to stabilise and the local stock market turned buoyant since the second quarter of the year. Against this backdrop, the Group's total investment and insurance income increased strongly by HK$2,537 million, or 118.1%, to HK$4,686 million, driven by the increase in fee income from stock broking and the income from BOC Life. The Group continued to enhance its trading platform and seized opportunities arising from increased stock transactions, growing its stock broking income significantly by HK$1,258 million or 52.9%. As for BOC Life, it recorded a net operating income of HK$800 million, versus the loss of HK$815 million in 2008. The significant improvement in BOC Life's performance was mainly attributable to the improved underwriting results. Net insurance premium income increased significantly by HK$1,853 million, or 31.5%, as sales improved following the successful implementation of new product and distribution strategies. During the year, a financial planning team was established to provide professional insurance services for customers by means of in-depth analysis of their specific financial needs. The product mix continued to improve and contributed to the substantial increase of 142.4% in net insurance premium income from regular premium products.

As the demand for structured products and funds remained weak, the Group's fee income from the sales of bonds dropped by HK$220 million, or 84.9%. Commission from funds distribution decreased by HK$121 million, or 55.5%.

Second Half Performance

Compared to the first half of 2009, total investment and insurance income increased by HK$536 million, or 25.8%. Investment and insurance fee income grew by HK$404 million, or 23.2%, as market demand increased with the improvement of market sentiments in the second half of the year. Fee income from stock broking rose by HK$388 million or 23.9%. Benefiting from the Group's role as the joint lead manager and bookrunner as well as placing Bank for a number of RMB bond issues, fee income from the distribution of bonds increased. Fee income from the distribution of funds also rose, driven by the sales of open-ended funds. The net operating income of BOC Life increased by HK$132 million, or 39.5%. The increase was mainly attributable to the strong growth of net insurance premium income following the establishment of the financial planning team in April 2009 and the mark-to-market gain of certain debt securities caused by the narrowing of credit spread during the period.

Net Trading Income

HK$'m	**2009**	2008
Foreign exchange and foreign exchange products	**1,273**	1,809
Interest rate instruments	**62**	(127)
Equity instruments	**26**	119
Commodities	**124**	113
Net trading income	**1,485**	1,914

Net trading income was HK$1,485 million, down HK$429 million or 22.4% year-on-year, mainly due to the decrease of HK$536 million, or 29.6%, in the net trading income from foreign exchange and related products, but this was partially counterbalanced by the increase of HK$189 million in net trading income from interest rate instruments. The decrease in foreign exchange income was mainly attributable to the decline in RMB-related foreign currency transactions as the market's anticipation of the RMB's appreciation cooled off and the business volume of structured deposits also saw a reduction. Net trading income from interest rate instruments rose as a result of the mark-to-market gain of interest rate swap contracts versus the mark-to-market loss in 2008. Net trading income from equity instruments decreased by HK$93 million or 78.2% mainly as a result of the decline in income from equity-linked products as market demand for related products was weak.

Second Half Performance

Compared to the first half of 2009, net trading income declined by HK$293 million or 33.0% in the second half of the year. The decrease was mainly attributable to the loss from foreign exchange swap contracts*, compared to a gain recorded in the first half. Should the drop in income from foreign exchange swap contracts be excluded, the net trading income from foreign exchange and foreign exchange products would have increased by 10.5%.

* 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 income"), while the corresponding interest differential between the surplus funds in original currency and swapped currency is reflected in net interest income.

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

HK$'m	**2009**	2008
Banking business of the Group	**261**	(316)
BOC Life	**(939)**	(136)
Total net loss on financial instruments designated at FVTPL	**(678)**	(452)

Net loss on financial instruments designated at FVTPL increased by HK$226 million or 50.0%, mainly due to the mark-to-market loss of debt securities of BOC Life in 2009 caused by the rebound of long-term market interest rates from exceptional low level at the end of 2008. The loss was more than offset by the corresponding decrease in policy reserves, as reflected in the decrease in net insurance benefits and claims, attributable to market interest rate movement.

Second Half Performance

Compared to the net loss of HK$1,395 million recorded in the first half of 2009, the Group recorded a net gain of HK$717 million on financial instruments designated at FVTPL in the second half of 2009. This was mainly attributable to the mark-to-market gain of certain debt securities investments of BOC Life in the second half of 2009 caused by the rapid narrowing of credit spread versus a mark-to-market loss in the first half.

Operating Expenses

HK$'m, except percentage amounts	**2009**	2008
Staff costs	**5,091**	4,554
Premises and equipment expenses (excluding depreciation)	**1,160**	1,076
Depreciation on owned fixed assets	**1,018**	992
Other operating expenses	**1,594**	1,380
Core operating expenses	**8,863**	8,002
Expenses incurred on Lehman Brothers related products#	**3,278**	769
Total operating expenses	**12,141**	8,771
Cost-to-income ratio	**46.60%**	34.36%
Core cost-to-income ratio	**34.02%**	31.35%

\# including the related legal expenses

The Group's total operating expenses increased by HK$3,370 million, or 38.4%, to 12,141 million which included expenses incurred on Lehman Brothers related products totalling HK$3,278 million. An amount of HK$769 million was recorded in 2008 relating to the Lehman Brothers related products. Should such expenses be excluded for both 2009 and 2008, the Group's core operating expenses would have increased by HK$861 million or 10.8% while the core cost-to-income ratio would have risen by 2.67 percentage points to 34.02% in 2009.

The Group continued to streamline its costs in 2009 by implementing a number of cost containment measures. As the market environment showed clearer signs of improvement in the second half of the year, the Group invested and incurred additional business-related expenses, such as promotion and marketing, so that the Group would be in a better position to capture emerging business opportunities and drive business growth from the economic recovery.

Staff costs increased by HK$537 million, or 11.8%, primarily due to higher performance-related remuneration and more human resources inputs to its Mainland operation. Compared to the end of 2008, headcount measured in full-time equivalents fell by 219 to 13,244 at the end of 2009.

Premises and equipment expenses increased by HK$84 million or 7.8% mainly because of higher rental for branches in Hong Kong and new branches in the Mainland.

Depreciation on owned fixed assets rose by HK$26 million, or 2.6%, to HK$1,018 million due to the increase in computer equipment as the Group continued its infrastructure improvement.

Other operating expenses increased by HK$214 million or 15.5% to HK$1,594 million.

Second Half Performance

Compared to the first half of 2009, total operating expenses rose by HK$3,753 million, or 89.5%, primarily due to expenses incurred on Lehman Brothers related products. Should these expenses be excluded, operating expenses would have increased by HK$919 million or 23.1% due to higher staff costs and promotional expenses.

Net Charge of Loan Impairment Allowances

HK$'m	**2009**	2008
Net (charge)/reversal of loan impairment allowances		
Individual assessment		
– new allowances	**(391)**	(813)
– releases	**150**	83
– recoveries	**446**	722
Collective assessment		
– new allowances	**(358)**	(691)
– releases	**15**	10
– recoveries	**35**	28
Net charge to Income Statement	**(103)**	(661)

In 2009, the Group's loan quality continued to improve. The net charge of loan impairment allowances dropped significantly by HK$558 million or 84.4% to HK$103 million. New allowances from both individual and collective assessment declined but were partially offset by the decrease in loan recoveries.

New individual impairment allowances was HK$391 million, down HK$422 million from HK$813 million recorded in 2008.

New collective impairment allowances was HK$358 million, down HK$333 million from HK$691 million registered in 2008. The overall asset quality of loans and advances improved in 2009.

Recoveries in individual assessment amounted to HK$446 million, down HK$276 million from 2008.

Second Half Performance

The Group recorded a net charge of loan impairment allowances of HK$163 million in the second half of 2009 relative to a net reversal of HK$60 million in the first half of the year. Net charge of loan impairment allowances from collective assessment increased as a result of the expansion of the loan portfolio and refinement of the assessment methodology in the second half of the year. Meanwhile, higher net charge of loan impairment allowances from individual assessment was recorded in the second half of the year due to certain new impaired loans.

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

HK$'m	**2009**	2008
Held-to-maturity securities	**690**	(4,061)
Available-for-sale securities	**612**	(7,839)
Net reversal/(charge) of impairment allowances on securities investments	**1,302**	(11,900)

The stabilisation of the capital markets since the second quarter of 2009 had a favourable impact on the Group's securities investments and hence the related provisions. The Group took active steps to reduce the overall credit risk of its investment portfolio by disposing of higher-risk securities, including impaired US non-agency RMBS, resulting in the write-back of impairment allowances. Meanwhile, an improved investing climate also led to fewer newly impaired securities and hence lower charge of impairment allowances. As a result, the Group recorded a net reversal of impairment allowances on securities investments of HK$1,302 million in 2009 versus a net charge of HK$11,900 million in 2008. The Group's total net charge of impairment allowances in 2008 included a charge of HK$2,730 million against its investments in Bank of East Asia, Limited ("BEA") for the depreciation of its share price. The share price of BEA rose subsequently and was higher at the end of 2009 relative to the end of 2008. However, according to accounting policies, the favourable change in fair value has been made through the reserve for fair value changes of available-for-sale securities within equity. The table below illustrates the breakdown of the Group's net reversal/(charge) of impairment allowances against its securities investments in 2009 and 2008.

HK$'m	2009	2008
US non-agency residential mortgage-backed securities		
Subprime	**30**	522
Alt-A	**16**	(1,734)
Prime	**1,140**	(7,041)
	1,186	(8,253)
Other debt securities	**116**	(917)
Sub-total	**1,302**	(9,170)
Investments in Bank of East Asia, Limited	**–**	(2,730)
Total net reversal/(charge) of impairment allowances on securities investments	**1,302**	(11,900)

For details about the composition of the Group's investment securities portfolio, and the impairment and provisioning policies on investments, please refer to Note 28, Note 2 and Note 3 to the Financial Statements.

Second Half Performance

In the second half of 2009, the Group recorded a net reversal of impairment allowances of HK$2,470 million versus a net charge of HK$1,168 million in the first half of the year. This was primarily attributable to the Group's disposal of US non-agency RMBS in the second half of the year as market sentiments improved.

Property Revaluation

HK$'m	2009	2008
Net gain/(loss) on fair value adjustments on investment properties	**1,554**	(132)
Deferred tax (charge)/credit	**(237)**	93
Net gain/(loss) on fair value adjustments on investment properties, after tax	**1,317**	(39)
Net gain/(loss) on revaluation of premises	**15**	(24)
Deferred tax (charge)/credit	**(2)**	4
Net gain/(loss) on revaluation of premises, after tax	**13**	(20)

The aggregate impact of property revaluation before tax on the income statement in 2009 was a gain of HK$1,569 million, which comprised a net gain of HK$1,554 million from the revaluation of investment properties and a net gain of HK$15 million from the revaluation of premises. The related deferred tax charge on revaluation of investment properties amounted to HK$237 million. As a result, the net impact of fair value adjustments on investment properties on the Group's profit attributable to the equity holders in 2009 was a gain of HK$1,317 million. The net gain on property revaluation was in line with the rebound of property prices in 2009.

Second Half Performance

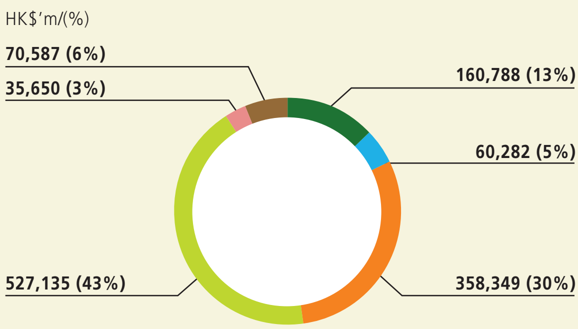
A net gain of HK$872 million from the revaluation of investment properties after tax was recorded, up HK$427 million from the first half of 2009.

Financial Position

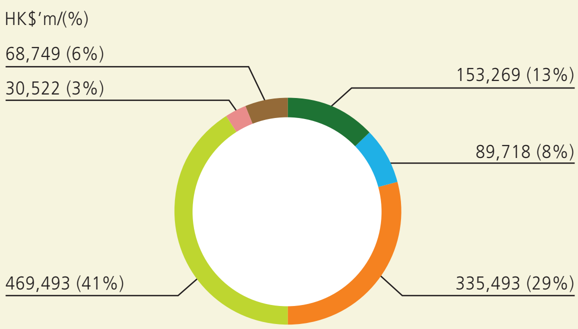
HK$'m, except percentage amounts	**At 31 December 2009**	At 31 December 2008
Cash and balances with banks and other financial institutions	**160,788**	153,269
Placements with banks and other financial institutions maturing between one and twelve months	**60,282**	89,718
Hong Kong SAR Government certificates of indebtedness	**38,310**	34,200
Securities investments[1]	**358,349**	335,493
Advances and other accounts	**527,135**	469,493
Fixed assets and investment properties	**35,650**	30,522
Other assets[2]	**32,277**	34,549
Total assets	**1,212,791**	1,147,244
Hong Kong SAR currency notes in circulation	**38,310**	34,200
Deposits and balances of banks and other financial institutions	**99,647**	88,779
Deposits from customers	**842,321**	802,577
Debt securities in issue at amortised cost[3]	**–**	1,042
Insurance contract liabilities	**33,408**	28,274
Other accounts and provisions[4]	**66,694**	80,501
Subordinated liabilities[5]	**26,776**	27,339
Total liabilities	**1,107,156**	1,062,712
Minority interests	**2,733**	1,813
Capital and reserves attributable to the equity holders of the Company	**102,902**	82,719
Total liabilities and equity	**1,212,791**	1,147,244
Loan-to-deposit ratio[6]	**60.98%**	56.74%

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 Debt securities in issue at amortised cost represents the notes issued under the Group's notes programme.
4 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.
5 Subordinated liabilities represent the subordinated loans granted by the Group's parent bank, Bank of China Limited.
6 Of which deposits from customers also include structured deposits reported as "Financial liabilities at fair value through profit or loss".

Balance Sheet Mix as at 31 December 2009



Balance Sheet Mix as at 31 December 2008



- Cash and balances with banks and other financial institutions
- Placements with banks and other financial institutions maturing between one and twelve months
- Securities investments
- Advances and other accounts
- Fixed assets and investment properties
- Other assets

The Group's total assets were HK$1,212,791 million as at 31 December 2009, up HK$65,547 million or 5.7% from the end of 2008. The overall assets structure of the Group further improved with growth in higher-yielding assets such as advances to customers as well as securities investments. Key changes include:

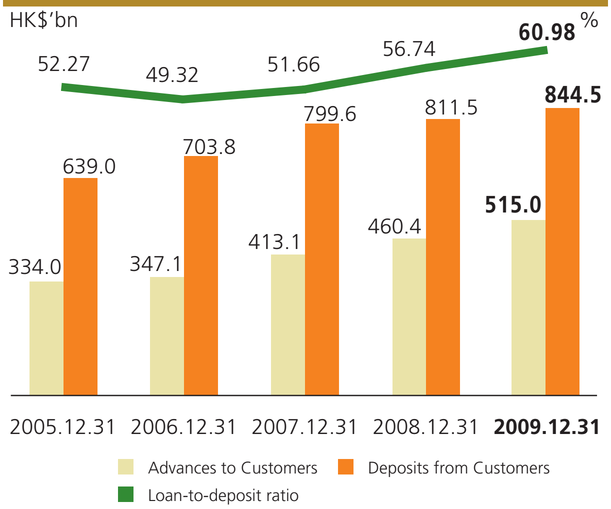
- Cash and balances with banks and other financial institutions increased by HK$7,519 million or 4.9% mainly due to the increase in balances with central banks including RMB deposits from participating banks placed with the PBOC.

- Placements with banks and other financial institutions maturing between one and twelve months decreased by HK$29,436 million, or 32.8%, as the Group redeployed its funds to advances to customers and debt securities investments.

- Advances and other accounts increased by HK$57,642 million, or 12.3%, mainly due to the growth of advances to customers by HK$54,525 million or 11.8%.

- Securities investments increased by HK$22,856 million or 6.8%. The Group actively disposed of higher-risk securities and expanded its investments in government-related and government-guaranteed securities. As at 31 December 2009, the carrying value of the Group's total exposure to US non-agency RMBS dropped significantly by 80.4% to HK$3.8 billion from HK$19.3 billion as at the end of 2008. The reduction in exposure was mainly attributable to active disposal and consistent repayment.

Advances to customers and deposits from customers*



* Deposits from customers including structured deposits

Advances to Customers

HK$'m, except percentage amounts	At 31 December 2009	%	At 31 December 2008	%
Loans for use in Hong Kong	**381,394**	**74.1**	336,597	73.1
Industrial, commercial and financial	**224,261**	**43.6**	188,774	41.0
Individuals	**157,133**	**30.5**	147,823	32.1
Trade finance	**29,321**	**5.7**	24,555	5.3
Loans for use outside Hong Kong	**104,257**	**20.2**	99,295	21.6
Total advances to customers	**514,972**	**100.0**	460,447	100.0

Notwithstanding a general sluggishness in loan demand in the Hong Kong market, the Group's total advances to customers rose strongly by HK$54,525 million or 11.8% to HK$514,972 million. This was attributable to the Group's proactive business strategies, effective marketing activities as well as the Bank's vital role as the "Asia-Pacific Syndicated Loan Centre" of the BOC Group.

Loans for use in Hong Kong grew by 13.3%.

- Lending to the industrial, commercial and financial sectors increased by HK$35,487 million, or 18.8%, to HK$224,261 million, covering a wide range of industries.
- Residential mortgage loans (excluding those under the Government-sponsored Home Ownership Scheme) were up HK$10,905 million, or 9.4%, to HK$127,208 million. This was the result of the Group's effective marketing efforts as well as greater demand in the property market in the second half of 2009.
- Card advances increased by HK$795 million, or 12.1%, to HK$7,348 million, which was in line with the increase in cardholder spending.

Trade finance recorded a robust growth of 19.4% or HK$4,766 million despite the decline in Hong Kong's merchandised trade in 2009. This outstanding performance was mainly attributable to the Group's enhanced service platform as well as the strong demand for commodities from the Mainland.

Loans for use outside Hong Kong increased by HK$4,962 million or 5.0% due mainly to the growth in the loan business of the Group's Mainland operation.

Second Half Performance

Compared to the first half of the year, the growth momentum of the Group's lending business was further strengthened in the second half of the year. By capturing the opportunities arising from the economic recovery, the Group's total advances to customers rose strongly by HK$39,408 million, or 8.3 %, in the second half of the year.

Deposits from Customers*

HK$'m, except percentage amounts	**At 31 December 2009**	**%**	At 31 December 2008	%
Demand deposits and current accounts	**65,440**	**7.7**	46,042	5.7
Savings deposits	**495,512**	**58.7**	377,273	46.5
Time, call and notice deposits	**281,369**	**33.3**	379,262	46.7
	842,321	**99.7**	802,577	98.9
Structured deposits	**2,132**	**0.3**	8,939	1.1
Deposits from customers	**844,453**	**100.0**	811,516	100.0

* including structured deposits

Deposits from customers increased by HK$32,937 million, or 4.1%, to HK$844,453 million, with an improved deposit mix. Demand deposits and current accounts increased significantly by HK$19,398 million, or 42.1%. Savings deposits rose by HK$118,239 million, or 31.3%. Time, call and notice deposits were down HK$97,893 million, or 25.8% as customers switched their funds to more liquid savings deposits as well as demand deposits and current accounts under the low interest rate environment. Structured deposits, a hybrid of retail deposit and derivatives offering a higher nominal interest rate, dropped by HK$6,807 million, or 76.1%. The Group's loan-to-deposit ratio was up 4.24 percentage points to 60.98% at the end of 2009 as total loan growth outpaced deposit growth.

Second Half Performance

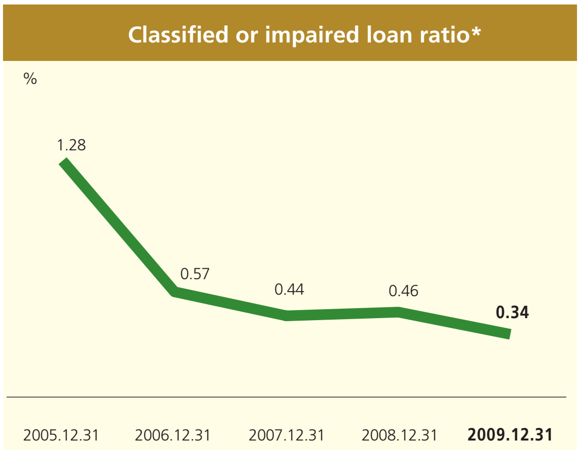
Deposits from customers increased by HK$19,709 million, or 2.4% in the second half of 2009. The changes in the deposit mix were consistent with the full-year changes with increments in demand deposits and current accounts as well as savings deposits which increased by HK$5,920 million, or 9.9% and HK$45,452 million, or 10.1% respectively. Time, call and notice deposits decreased by HK$30,028 million, or 9.6% while structured deposits declined by HK$1,635 million, or 43.4% in the low interest rate environment.

Loan Quality

HK$'m, except percentage amounts	At 31 December 2009	At 31 December 2008
Advances to customers	**514,972**	460,447
Classified or impaired loan ratio[1]	**0.34%**	0.46%
Impairment allowances	**2,269**	2,301
Regulatory reserve for general banking risks	**4,040**	4,503
Total allowances and regulatory reserve	**6,309**	6,804
Total allowances as a percentage of advances to customers	**0.44%**	0.50%
Total allowances and regulatory reserve as a percentage of advances to customers	**1.23%**	1.48%
Impairment allowances on classified or impaired loan ratio[2]	**39.57%**	38.96%
Residential mortgage loans[3] – delinquency and rescheduled loan ratio[4]	**0.04%**	0.05%
Card advances – delinquency ratio[4,5]	**0.23%**	0.29%

	2009	2008
Card advances – charge-off ratio[5,6]	**2.69%**	2.22%

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 Including 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.



* Ratio as of 2005.12.31 being the classified loan ratio

The Group's loan quality further improved with its classified or impaired loan ratio falling by 0.12 percentage point to 0.34%. Classified or impaired loans decreased by approximately HK$369 million, or 17.3%, to HK$1,769 million mainly due to write-offs and collections. New classified loans in 2009 represented approximately 0.3% of total loans outstanding.

Total impairment allowances, including both individual assessment and collective assessment, amounted to HK$2,269 million. Total impairment allowances in respect of the classified or impaired loans as a percentage of total classified or impaired loans was 39.57%.

The quality of the Group's residential mortgage loans continued to improve with the combined delinquency and rescheduled loan ratio falling by 0.01 percentage point to 0.04% at the end of 2009. The charge-off ratio of card advances rose by 0.47 percentage point to 2.69% in 2009 mainly due to the general deterioration of cardholders' debt servicing capability in the overall economic downturn in the first half of the year.

Capital and Liquidity Ratios

HK$'m, except percentage amounts	**At 31 December 2009**	At 31 December 2008
Core capital	**72,465**	65,172
Deductions	**(334)**	(1,536)
Core capital after deductions	**72,131**	63,636
Supplementary capital	**32,638**	32,675
Deductions	**(334)**	(1,536)
Supplementary capital after deductions	**32,304**	31,139
Total capital base after deductions	**104,435**	94,775
Risk-weighted assets		
Credit risk	**578,374**	545,107
Market risk	**12,023**	9,097
Operational risk	**47,352**	44,144
Deductions	**(17,954)**	(12,273)
Total risk-weighted assets	**619,795**	586,075
Capital adequacy ratios (consolidated basis)		
Core capital ratio	**11.64%**	10.86%
Capital adequacy ratio	**16.85%**	16.17%

	2009	2008
Average liquidity ratio	**40.18%**	41.74%

The Group adopted the Standardised Approach in calculating capital adequacy ratios.

Consolidated capital adequacy ratio of the banking group at 31 December 2009 was 16.85%, up 0.68 percentage point from the end of 2008. Total capital base expanded by 10.2% to HK$104,435 million following the increase in retained earnings and decrease in the deficit value of reserve for fair value changes of available-for-sale securities. The increase in capital base was also attributable to the decrease in deductions as a result of the Group's active disposal of US non-agency RMBS during the year. Meanwhile, risk-weighted assets for credit risk increased by 6.1% to HK$578,374 million with the growth in advances to customers. Risk-weighted assets for market risk increased by 32.2% mainly due to increase in volume of the trading book business.

The average liquidity ratio in 2009 remained strong at 40.18%.

BUSINESS REVIEW

2009 Business Highlights

<table>
<tr><th>Business Focuses</th><th>2009 Highlights</th></tr>
<tr><td>Personal Banking
• To grow on the Group's core strengths and fortify leading position in retail banking business
• To review and adjust the Group's wealth management business strategy in response to the changing operating and regulatory environment
• To extend wealth management and cross-border services to Mainland customers
• To foster closer cooperation with BOC
• To grow individual RMB businesses in Hong Kong by capitalising on the Group's market leadership</td><td>• Maintained leading position in residential mortgage with 9.4% growth in outstanding mortgage loans
• Stock brokerage business grew strongly by 45.0% in transaction volume versus a decline registered in the market
• Revamped wealth management model and sales culture, focusing on client needs and offering tailor-made wealth management products and professional financial planning services
• Worked closely with BOC in providing Mainland customers with cross-border wealth management services and comprehensive banking services
• Kick started various projects with BOC: "Asia-Pacific Personal Finance Product Centre"; "Overseas Banking Card Business" and "Customer Hotline Centre"
• Led the Hong Kong market in issuing RMB and HKD dual currency credit cards with total reaching around 400,000
• Being the joint lead manager, bookrunner and placing bank for the issue of the first RMB sovereign bonds as well as the majority of other RMB bonds in Hong Kong</td></tr>
<tr><td>Corporate Banking
• To deepen customer relationship and develop businesses with major enterprises and SMEs while exercising prudent risk management
• To develop closer collaboration with BOC to better serve customers and extend the Group's presence outside Hong Kong
• To enhance business capabilities to provide "Total Solution" services
• To seize new opportunities from the expanding scope of the offshore RMB business</td><td>• A strong growth of 14.5% in corporate loans over the end of 2008, significantly outperforming the market
• Actively promoted SME business and participated in the HKSAR Government's "Loan Guarantee Schemes"
• Consolidated its top position in the Hong Kong-Macau syndicated loan market
• Strengthened cash management service platform through expansion of direct network connection with BOC's platform
• Being the "Asia-Pacific Syndicated Loan Centre" for BOC, the Group achieved significant business penetration in the Asia-Pacific region and contributed to the top position of BOC in the Asia-Pacific syndicated loan market
• Provided one-stop services to BOC Group's major customers through "Global Relationship Manager Programme" and "Global Unified Facilities Arrangement"
• Pioneered the first cross-border RMB trade settlement in Hong Kong, expanded the Group's service scope and product offerings and extended RMB trade settlement services to ASEAN countries</td></tr>
</table>

Business Focuses	2009 Highlights
Treasury • To maintain proactive management of the banking book and adjust the investment mix in response to market changes • To optimise risk-adjusted return in accordance with market trends • To focus on traditional investment products for personal customers and cross-border investments for corporate customers for hedging and investment purposes	• Increased investment in fixed-rate government-related securities with longer duration for yield enhancement • Selectively disposed of higher-risk US non-agency RMBS and credit securities. Significantly reduced exposure to US non-agency RMBS by 80.4% from the end of 2008 • Achieved promising results from offering traditional products in foreign exchange and precious metals to retail customers. Trading volume of RMB non-deliverable forward contracts from corporate customers reached a record high
Insurance • To implement a new life insurance business model with a greater focus on "need-based selling", serving customers' needs in different life stages, to be complemented by new product lines • To significantly improve sales of regular-premium products to secure stable return and enlarge revenue stream • To revise the risk management strategy with emphasis on risk diversification and proactive asset and liability management	• Implemented and expanded a new financial planning model with promising results • Net insurance premium income of regular premium products rose by 141.8 % over 2008 • Remarkable improvement in market share and market ranking in terms of total standard new business premium • Established the target solvency framework and refined the solvency at risk governance in accordance with the regulatory solvency margin requirement
Mainland Business • To ensure smooth integration of the Group's branches in the Mainland, establish NCB (China) as the primary brand and enlarge its business operation • To enhance the Group's business platform and expand product and service offerings to both corporate and personal customers	• Completed the restructuring of BOCHK's branches and sub-branches in the Mainland under NCB (China) • Expanded the network with 5 new branches and sub-branches • Accelerated personal banking development through enrichment of product range in debit cards, deposits, mortgages, wealth management services and cross-border attestation service • Total advances to customers recorded an encouraging growth

2010 Business Focuses

The Group will continue to safeguard its financial strength and upgrade its core competences in key business segments. In Personal Banking, the Group will continue to capitalise on its strong franchise and provide a wider range of mortgage products to solidify its market leadership. As for wealth management, the Group will continue to grow its stock broking business and revamp its business model for wealth management products to focus on customers' needs. The Group will also work closely with BOC to extend its banking services to Mainland customers.

For Corporate Banking, the Group will deepen its relationship with corporate customers to create more cross-selling opportunities. While further strengthening its leading position in the local corporate loans market, the Group will strive to grow its corporate lending prominently in the Mainland and the Asia-Pacific area through closer collaboration with BOC. It will further strengthen the "Global Relationship Manager" platform and maintain its market leadership in the syndicated loan business by consolidating its strategic position as BOC's "Asia-Pacific Syndicated Loan Centre". To capture opportunities arising from the expanding scope of offshore RMB business, the Group will focus on developing more featured and comprehensive RMB products and services in RMB trade settlement and financing services.

The Group will continue to adopt a prudent approach in managing its banking book investments. At the same time, it will establish a customer-oriented model in developing treasury products to cater for customers' needs. It will facilitate BOC in extending its treasury business to the Asia-Pacific region and overseas.

In respect of its insurance business, the Group aims to capture growth opportunities from its Bancassurance model. It will improve its product mix to meet the needs of customers and the new financial planning teams will operate at more branches.

In the Mainland, the Group will continue to expand its corporate banking business by acquiring deposits and placing advances. At the same time, it will continue to accelerate its retail banking business development by focusing on cross-border and local customers. It will actively promote its cross-border wealth management business and reinforce its marketing efforts in major cities.

The following section provides a review of the Group's business lines together with their respective financial results in 2009.

PERSONAL BANKING

HK$'m, except percentage amounts	**2009**	2008	Increase/ (decrease)
Net interest income	**5,795**	6,511	-11.0%
Other operating income	**4,853**	4,179	+16.1%
Operating income	**10,648**	10,690	-0.4%
Operating expenses	**(5,983)**	(5,669)	+5.5%
Operating profit before impairment allowances	**4,665**	5,021	-7.1%
Net charge of loan impairment allowances	**(150)**	(120)	+25.0%
Others	**(11)**	(9)	+22.2%
Profit before taxation	**4,504**	4,892	-7.9%

	At 31 December 2009	At 31 December 2008	Increase/ (decrease)
Segment assets	**178,026**	165,148	+7.8%
Segment liabilities	**570,566**	523,682	+9.0%

Note: For additional segmental information, see Note 49 to the Financial Statements.

Financial Results

Personal Banking recorded a profit before taxation of HK$4,504 million in 2009. Despite the downward pressure on net interest income, operating income was maintained at the same level as the previous year as there was a strong growth in other operating income in 2009. Operating profit before impairment allowances declined by 7.1% to HK$4,665 million due to the increase in operating costs.

Net interest income decreased by 11.0% to HK$5,795 million, mainly due to narrower deposits spread in the low interest rate environment. Other operating income increased by 16.1% to HK$4,853 million, primarily driven by the strong growth in fee income from stock broking. This increase was partially offset by the decline in fee income from the distribution of funds and sales of bonds as well as the decrease in net trading income from foreign exchange activities as related business volumes were affected by weak demand.

Operating expenses were up 5.5% to HK$5,983 million, mainly due to increase in staff costs. Rental expenses for branches also increased.

Net charge of loan impairment allowances rose by 25.0% to HK$150 million, mainly due to the growth of credit card receivables and the general deterioration of cardholders' debt servicing capability in the overall economic downturn in the first half of the year.

Advances and other accounts, including mortgage loans and cards advances, increased by 6.7% to HK$162,422 million. Customer deposits rose by 8.4% to HK$542,652 million.

Business Operation

Personal Banking made good progress in business development and attained solid growth in the stock broking, residential property mortgage, credit card and RMB banking businesses in 2009. Despite very keen competition in the mortgage business, the Group grew its mortgage lending and maintained its leading market position. It also achieved impressive results in both stock broking and IPO activities. Not only did it maintain its leading position in the RMB banking business in Hong Kong, it also expanded its RMB-related business in the Asia-Pacific region by working closely with BOC.

Regaining growth momentum in residential property mortgage

With the revival of the local property market since the second quarter of 2009, the Group succeeded in capturing new business opportunities and achieving an increase in the underwriting of new residential mortgage loans through effective marketing and the offering of a wide array of mortgage products. During the year, the Group launched the "Fixed-Rate Mortgage Schemes" to meet the different financial needs of customers. In addition, the Group refined the HIBOR-based mortgage scheme by allowing customers to follow more closely movements in market interest rates. In response to the government's offer of unsold and returned Home Ownership Scheme ("HOS") flats in the last quarter of 2009, the Group tailored promotion plans with on-site sales promotion and advertising campaigns which were supported by various attractive offers. The Group also strengthened its co-operative relationship with major property developers by actively participating in the newly launched properties campaigns, and achieved satisfactory results in prime property development projects through joint promotions. Meanwhile, the Group enhanced its online service platform in the second half of 2009 by launching a number of new functions. These initiatives helped sustain the Group's leading position in the underwriting of new mortgages. By the end of 2009, the Group's outstanding residential mortgage loans grew by 9.4% year-on-year. During the year, the Group maintained its rigorous risk assessment and control over its mortgage business. The credit quality of residential mortgages remained sound with the delinquency and rescheduled loan ratio for 2009 falling further to 0.04% from 0.05% in 2008.

Robust expansion of investment and insurance business

Supported by its strong distribution network and trading platform as well as effective marketing strategies, the Group was able to capture business opportunities arising from the rebound of the local stock market. During the year, the Group launched a series of promotion and marketing campaigns including radio programme sponsorships and investment seminars. Various promotion programmes were offered to attract different targeted segments of stock-trading customers. The Group also bundled promotional offers with "Wealth Management" and "i-Free Integrated Account Service" to acquire new stock-trading customers. At the same time, the Group implemented the "Share Margin e-Approval Flow System" which helped shorten account opening time by simplifying the overall approval flow. As a result, the volume of the Group's stock broking business in 2009 surged by 45.0% with an encouraging increase in market share. In 2009, the Group also successfully acted as the major receiving bank for 22 IPOs in Hong Kong.

Regarding its Bancassurance business, the Group continued with a customer-oriented approach by upgrading its services and broadening its product spectrum by introducing core products with guaranteed value and protection element for customers. These products included the "5-Year Joyful Life Insurance Plan", "Target 5 Year Insurance Plan" and "Long Life and Harvest Year Plan". The Group also launched a new medical protection product, "BOC Medical Comprehensive Protection Plan". Meanwhile, the Group refined the "Universal Travel Insurance" plan by offering customers with better protection and pricing. The Group enhanced its brand image and market awareness by rolling out a series of marketing campaigns and rewarding customers with incentives, the response to which was overwhelming.

Expanding high net-worth customer base and entrenching service foothold in the Mainland

The Group continued with its customer segmentation strategy and further expanded its high net-worth customer base. During the year, the Group introduced the "New Customer Engagement Programme" and launched a series of "Wealth Management Acquisition Campaigns" to acquire new customers. At the same time, the Group developed an "Anti-attrition Model" for customer retention and provided tailor-made wealth management solutions to strengthen long-term customer relationship. In the Mainland, the Group worked closely with BOC in providing cross-border wealth management services. It expanded its high net-worth customer base in the Mainland by providing Mainland customers with professional service for better deployment and management of their assets across the border. In addition, the Group enhanced the operating procedures of the "Cross Border Attestation Service" with 187 BOC branches in 17 Mainland cities to raise the overall efficiency. The Group also seized rising opportunities by working closely with branches of BOC in providing comprehensive banking services to Mainland customers under the BOC Global Wealth Management Service and the Capital Investment Entrant Scheme launched by the HKSAR government. Meanwhile, a series of wealth management seminars were organised in 2009 to provide customers with the latest investment market information. By the end of 2009, the total number of wealth management customers* and their assets maintained with the Group grew by 11.9% and 31.2% respectively versus the end of 2008.

* Including Wealth Management VIP and Wealth Management Prime customers

Solid growth in credit card business

Despite the negative impact of the global financial crisis and the outburst of Influenza A (H1N1) in the first half of the year, the Group's credit card business sustained its growth momentum throughout 2009. Card advances and the total number of cards issued grew by 12.1% and 12.7% respectively while cardholder spending rose by 9.4%. The Group maintained its leadership in the acquiring business of the China UnionPay ("CUP") card, with merchant acquiring volume surging by 53.1%, which contributed significantly to the increase of 11.4% in total merchant acquiring volume. Meanwhile, the launch of the "BOC CUP Dual Currency Credit Card" in December 2008 received overwhelming response from customers and the number of new cards issued reached around 400,000 at the end of 2009. Riding on its strong competitive edge in the credit card market, the Group continued to extend appealing merchant offer programmes to customers through its comprehensive merchant network sprawling Hong Kong, Macau and the Mainland. At the same time, the Group introduced the "CUP-Secure Internet Payment Service" to allow merchants to offer secure Internet payment services to their customers particularly in the Mainland. In August 2009, the "CUP Instalment Payment Service" was launched for merchants targeting CUP cards issued in the Mainland. The credit quality of the Group's card advances remained sound with the charge-off ratio standing at 2.69% in 2009.

The Group's success in developing its credit card business in 2009 was widely recognised in the industry, as evidenced by a total of 28 awards received from VISA International, MasterCard and China UnionPay.

Consolidated leadership in providing comprehensive RMB banking business in Hong Kong

The Group remained the market leader in RMB banking business in Hong Kong. During 2009, the Group focused on two RMB integrated services – "RMB Remittance Express" and "RMB Exchange Express" – and launched promotional offers to further boost its RMB deposits. As a result, RMB deposits increased by 16.9% versus 2008. The launch of "BOC CUP Dual Currency Credit Card" in December 2008 to cater for the needs of Hong Kong-Mainland cross-border travelers was well received by customers. During the year, the Group was mandated by the Ministry of Finance of the People's Republic of China ("PRC") as the joint lead manager and bookrunner for its maiden issue of RMB sovereign bonds outside the Mainland. The Group also acted as the joint lead manager, bookrunner and placing bank for the majority of RMB bonds issued in Hong Kong. These achievements reinforced the Group's leading position in the RMB bonds market in Hong Kong.

Meanwhile, the Group continued to work closely with its parent, BOC, to extend its RMB-related business and began conducting RMB business with some BOC branches in the Asia-Pacific region. With BOC's support, the Group kick-started various projects, including the "Asia-Pacific Personal Finance Product Centre"; "Overseas Banking Card Business"; and "Customer Hotline Centre". The Group also set up a framework to deepen its cooperation with BOC in product development and expertise transfer, with the aim of establishing the Group's position as the BOC Group's major production platform and servicing support centre in the Asia-Pacific region.

Channel rationalisation and e-channel development

The optimisation of distribution channels continued to be a strategic focus for the Group in 2009. In response to the changing economic environment and new business opportunities, the Group revamped its branch network to meet the needs of different customer segments. At the end of 2009, the Group's service network in Hong Kong comprised of 272 branches.

To encourage more customers to use the e-platform for transactions and services, the Group launched a large-scale marketing campaign which effectively propelled the growth in Internet banking accounts and transactions. In 2009, the number of Internet banking customers increased by 10.1%. With the support of its efficient platform, stock trading transactions carried out through the e-channels accounted for 76.2% of total transactions. The Group also improved its phone banking services which helped to boost the subscription of the first RMB sovereign bonds in Hong Kong.

The Group continued to enhance its automated banking facilities by installing new ATMs at non-branch locations, as well as increasing the number of cheque deposit machines and cash deposit machines. It also launched the payment collection feature at its cheque deposit machines, which was the first of its kind in the market.

In response to regulatory requirements involving product sales and customer services, the Group enhanced its sale process and had undergone intensive reinforcement courses to its sales staff to ensure their knowledge adequacy and adherence to regulatory requirements. In the meantime, the Group strengthened its customer service training programmes for customer service staff with the aim of enhancing overall service quality and customer experience.

In recognition for its service excellence, the Group was awarded the "Best Internet Banking Award 2009" by Capital, a local financial magazine. The Group's call centre also won a number of awards in The 10th Anniversary of Hong Kong Call Centre Awards 2009 organised by Hong Kong Call Centre Association. These awards included the "Best Contact Centre in Corporate Social Responsibility" and "Outbound Contact Centre of the Year (Under 50 Seats)" gold awards, as well as six other individual awards.

CORPORATE BANKING

HK$'m, except percentage amounts	**2009**	2008	Increase/ (decrease)
Net interest income	**5,502**	5,949	-7.5%
Other operating income	**2,685**	2,262	+18.7%
Operating income	**8,187**	8,211	-0.3%
Operating expenses	**(2,321)**	(2,143)	+8.3%
Operating profit before impairment allowances	**5,866**	6,068	-3.3%
Net release/(charge) of loan impairment allowances	**47**	(541)	+108.7%
Others	**2**	(3)	+166.7%
Profit before taxation	**5,915**	5,524	+7.1%

	At 31 December 2009	At 31 December 2008	Increase/ (decrease)
Segment assets	**372,443**	324,606	+14.7%
Segment liabilities	**304,882**	309,254	-1.4%

Note: For additional segmental information, see Note 49 to the Financial Statements.

Financial Results

Corporate Banking recorded satisfactory financial results in 2009. Profit before taxation grew by 7.1% to HK$5,915 million. The increase was mainly driven by higher other operating income and a decrease in new impairment allowances, though there was a reduction in net interest income and an increase in operating costs.

The decline of 7.5% in net interest income resulted mainly from narrower deposits spread in the low interest rate environment despite an increase in the average balance of loans and advances and improved pricing of new corporate loan facilities under the tightened credit environment. Other operating income rose strongly by 18.7% primarily due to the growth in fee income from the lending business.

Operating expenses increased by 8.3% to HK$2,321 million mainly due to increase in staff costs as well as expenses in relation to the expansion of the branch network in the Mainland.

Net release of loan impairment allowances was HK$47 million in 2009, compared to a net charge of HK$541 million in 2008. The net release in 2009 reflected the improved asset quality of the segment as new impairment allowances significantly declined. The net charge in 2008 was primarily due to the need to cover certain impaired loans amid the economic downturn.

Advances and other accounts increased by 14.6% to HK$370,523 million. Customer deposits fell by 1.4% to HK$301,363 million.

Business Operation

In 2009, Corporate Banking achieved strong business growth despite sluggish market demand. Loans to the industrial, commercial and financial sector in Hong Kong registered a remarkable growth over 2008. Apart from securing several large financing projects, it also grew its SME business by allocating additional resources to help its SMEs customers weather the adverse impact of the global financial crisis. As BOC's "Asia-Pacific Syndicated Loan Centre", it registered strong growth in syndicated loans. It pioneered the first cross-border RMB trade settlement in Hong Kong in early July, and made satisfactory progress in expanding its cash management and custody businesses. While focusing on business growth, the Group also exercised a high degree of prudence in risk management throughout the year to ensure sound asset quality.

Growth in corporate loans surpassing the market

The global economy exhibited the first signs of recovery in 2009 but overall loan demand began to pick up only towards the end of the year. With its strong capital strength and close collaboration made with BOC, the Group adjusted its business strategy to focus more on the financing needs of local and Mainland enterprises. This strategy was highly effective in driving loan growth. Overall corporate loans grew strongly by 14.5% over 2008, outperforming the market as a whole.

The Group not only remained the top mandated arranger in the Hong Kong-Macau syndicated loan market, but also captured a significantly larger market share. Being the "Asia-Pacific Syndicated Loan Centre" for BOC, the Group expanded its business penetration in the Asia-Pacific region and contributed to BOC's elevation to the position of top mandated arranger in the region in 2009. After the successful launch of the first phase in 2008, the second phase of the "Loan Syndication Information Management System" proceeded well in 2009. This new system links up similar networks of the BOC Group's major branches in the Asia-Pacific region, thus strengthening information management and enhancing overall operational efficiency in the region.

Market recognition of SME business

The Group devoted additional resources to promote the "SME Loan Guarantee Scheme" and "Special Loan Guarantee Scheme" launched by the HKSAR Government, helping enterprises to secure loans to weather the impact of the financial crisis. In May 2009, the Group launched the "BOC Octopus Merchant Services", providing merchants with a one-stop cash management solution for customer payment and transaction settlement. The new services were well received, with over 1,000 merchants already enrolled by the end of 2009. In recognition of its quality services and contribution to the SME business, the Group was awarded the "SME's Best Partner Award" for the second consecutive year by the Hong Kong Chamber of Small and Medium Business Limited.

Breakthrough in cross-border trade settlement and finance business

Following the announcement of the "Pilot Scheme for Settlement of Cross-Border Trade in RMB" by the PRC government, the Group pioneered the first of such transactions in Hong Kong through the clearing channel on 6 July 2009. Its expertise in trade services and trade finance in both Mainland and Hong Kong as well as its unique position as the sole RMB clearing bank in Hong Kong provided the Group with a distinctive edge in its launch of comprehensive services in cross-border RMB trade settlement. By the end of 2009, the Group opened over 5,000 RMB trade settlement accounts with corporate customers. The Group also launched RMB trade settlement services for the ASEAN countries during the year, signifying that the Group's RMB banking services are now extended beyond Hong Kong. The Group also launched a number of innovative RMB trade products and services with flexible pricing and business flows to complement its business strategy.

Despite the lacklustre external trade environment, the Group managed to grow its trade finance portfolio. The outstanding balance went up strongly by 19.4% versus 2008, again outperforming the market. During the year, the Group introduced several new trade products with cross-boundary features. Through the revamped Corporate Banking Services Online ("CBS Online") system, the Group provided more online trade services and enhanced credit card account management.

Significant progress in cash management

The Group made significant progress in its cash management business. During the year, the Group's e-banking platform was successfully connected with that of its parent, BOC, as well as its overseas branches so that customers can now conduct account balance enquiry and fund transfers between their accounts in Hong Kong, the Mainland and some countries in the Asia-Pacific region. At the same time, the Group enriched its product offering by introducing new account receivable, account payable and corporate deposit products. It also pioneered the bill payment feature of its Cheque Deposit Machines. In March 2009, the Group was designated as the USD settlement bank in Hong Kong for the Real Time Gross Settlement System linkage between Hong Kong and the Mainland. At the end of 2009, the remittance points of BOC Remittance Plus reached over 3,000 in the Mainland while the service has been extended to some countries in the Asia-Pacific region. The Group also enhanced its investment functions of the Internet banking platform for corporate customers. The number of CBS Online customers surged by 43.4%.

Expanding foothold in custody services

In the first half of the year, the Group actively strengthened its customer relationship and product diversifications to prepare for the economic recovery. With market sentiments becoming more positive in the second half, the Group's custodian business made successful breakthroughs in a number of areas. Firstly, it successfully secured custody business from various PRC Government entities and state-owned banks by processing their overseas investments. Secondly, it became the custodian for a securities broker of Taiwan origin, thus paving the way for more business opportunities from Taiwan. Thirdly, the Group has been accepted as the MPF scheme custodian by a MPF trustee company, only pending formality with the regulatory authority. This means that the Group's custody services now cover MPF assets as well. Lastly, in collaboration with BOC's Shanghai Branch, the Group achieved account opening in Hong Kong for a considerable number of high net-worth individual customers from the Mainland for providing escrow services. Based on the experience gained, this unique service model is likely to be replicated in other cities of the Mainland going forward. At the end of 2009, total assets under the Group's custody were valued at HK$392 billion, representing an increase of 95.9% from the end of 2008.

Closer business collaboration with Bank of China

The Group continued to strengthen the collaboration with its parent, BOC. With the latter's support, the Group implemented the "Global Relationship Manager Programme" and "Global Unified Facilities Arrangement". These schemes enable the Group to consolidate global credit facilities and enhance overall service capability for serving its high-end corporate customers. During the year, a number of enterprises have been selected as trial customers for promoting various trade products. In addition, a mechanism has been built up for enhancing the cooperation with BOC in product development and expertise transfer.

Greater efficiency in managing corporate credit and customer relationship

The Group continued to streamline the credit approval process during 2009 by setting up the "Corporate Credit Management Centre" to enhance the overall efficiency in credit vetting. Through the launch of "Total Solution" services, the Group aims to strengthen relationship with its key corporate customers on the one hand, and improve overall return from selling packaged products on the other. In addition, the Group provided tailor-made marketing strategies to targeted customers and successfully expanded the wealth management and payroll accounts, mortgage, investment and credit card businesses that cater to corporate customers.

Implementation of proactive measures in risk management throughout the credit cycle

In spite of improved market sentiments, the Group continued to exercise stringent risk management. The Group closely monitored corporate customers in various business segments, especially those severely affected by the global economic downturn. The Group strengthened the information sharing mechanism among the three sister banks to enhance overall risk monitoring capabilities. Coupled with enhanced management of credit risks before and after credit approval, the Group could formulate risk mitigation measures at an early stage. Marketing units also stepped up due diligence on potential customers, and enhanced product compliance and risk management.

MAINLAND BUSINESS

Integration and expansion of Mainland business operation

Having obtained the approval of China Banking Regulatory Commission ("CBRC") on 4 May 2009, BOCHK's Mainland branches and sub-branches were restructured under the brand of NCB (China), while the Shanghai Branch was renamed as Nanyang Commercial Bank, Limited's Shanghai Branch for conducting foreign currency wholesale banking business. This restructuring, which came into effect on 1 August 2009, not only enables the Group to fully explore the potential of its Mainland business and capitalise on the Group's unique strengths, but also signifies a major move by NCB (China) to expand its business network.

In 2009, the Group continued to expand its cross-border financial services to serve both personal and corporate customers. With the opening of NCB (China)'s branches and sub-branches in Shanghai Xuhui, Shanghai Lujiazui, Beijing Jianguomen and Chengdu respectively together with the opening of Xiamen Jimen Sub-branch of Chiyu Banking Corporation Limited, the Group's total number of branches and sub-branches in the Mainland reached 23 by the end of 2009. Of these, 18 have been approved to conduct the full range of RMB businesses, 4 can conduct RMB businesses for non-Mainland residents, and the remaining one operates foreign exchange businesses only. With the approval of the CBRC, the Group is in the process of establishing NCB (China)'s Wuxi Branch.

Development of retail banking business gaining momentum

The Group has established business cooperation with a number of insurance companies for cross-selling various general and life insurance products to customers. NCB (China) launched its debit card business in the last quarter of 2009 and by sharing the ATM network of China UnionPay, it has been able to expand its selling channels to retail customers. At the same time, NCB (China) launched a range of deposits products such as "club deposits", "premium product" and "non-standardised fixed deposits". NCB (China) also promoted diversified mortgage products, such as the "All-You-Want Mortgage Scheme", and "overseas studies loans" for retail customers as well as hypothecated loans for export tax rebate for corporate customers. Meanwhile, several newly-launched guaranteed wealth management products were well received by both corporate and retail customers.

Satisfactory growth of customer deposits and advances to customers

In terms of business performance, customer deposits grew by 48.8%, of which RMB deposits increased by 58.7% during 2009. Total advances to customers rose by 14.9%, reversing the decline recorded in the first half of the year, and RMB loans were up 5.1%. Total operating income dropped by 2.8% as improvements in net fees and commission income and other operating income were outweighed by the decline in net interest income. Loan quality remained solid, with the classified loan ratio at 0.44%, down significantly from 0.88% at the end of 2008.

TREASURY

HK$'m, except percentage amounts	**2009**	2008	Increase/ (decrease)
Net interest income	**5,422**	7,178	-24.5%
Other operating income	**982**	879	+11.7%
Operating income	**6,404**	8,057	-20.5%
Operating expenses	**(742)**	(831)	-10.7%
Operating profit before impairment allowances	**5,662**	7,226	-21.6%
Net release/(charge) of impairment allowances on securities investments	**1,302**	(9,170)	+114.2%
Profit/(Loss) before taxation	**6,964**	(1,944)	+458.2%

	At 31 December 2009	At 31 December 2008	Increase/ (decrease)
Segment assets	**593,807**	603,965	-1.7%
Segment liabilities	**195,956**	203,481	-3.7%

Note: For additional segmental information, see Note 49 to the Financial Statements.

Financial Results

Treasury's profit before taxation amounted to HK$6,964 million, compared to a loss of HK$1,944 million in 2008. This turnaround was mainly driven by the net release of impairment allowances on securities investments in 2009 versus the substantial net charge in 2008. Operating profit before impairment allowances decreased by 21.6% to HK$5,662 million as a result of the decline in net interest income.

Net interest income fell by 24.5% to HK$5,422 million with the reduction in the contribution of net free fund under the low interest rate environment.

Other operating income increased by 11.7%, primarily attributable to the mark-to-market gain on certain debt securities. This gain was partially offset by the mark-to-market loss on foreign exchange swap contracts and decrease in income from structured deposits.

Operating expenses decreased by 10.7% to HK$742 million because of a decrease in both computer-related expenses and the depreciation charge on computer equipment.

Net release of impairment allowances on securities investment was HK$1,302 million in 2009, versus the net charge of HK$9,170 million in 2008. The net release was mainly due to the write-back of impairment allowances from the disposal of US non-agency RMBS as the Group took advantage of improved market sentiments in 2009 to dispose of higher-risk securities. Meanwhile, improved market sentiments also led to fewer newly impaired securities and hence lower charge of impairment allowances.

Business Operation

Maintaining proactive investment strategy and prudently securing risk-adjusted return

In view of the uncertainty of market conditions and prospects, the Group adopted a more prudent approach in asset and liability management and proactively managed its banking book investments. Taking advantage of the steepening yield curve, the Group expanded its investments in high-quality fixed rate debt securities of government-related and government-guaranteed securities, leading to a stable return amid the low interest rates environment while bearing relatively lower credit and interest rate risk. Meanwhile, as market sentiments improved after the US Government's Public-Private Investment Plan came on stream, the Group reduced the overall credit risk of its investment portfolio by disposing of higher-risk US non-agency RMBS and credit securities. The carrying value of the Group's exposure to US non-agency RMBS dropped drastically by HK$15.5 billion, or 80.4% from the end of 2008 to HK$3.8 billion at the end of 2009. The reduction in exposure was mainly attributable to active disposal and consistent repayment. (Further analysis of the Group's US non-agency RMBS is available in Note 4.1 to the Financial Statements). In addition, the Group increased investments in short-term government securities so as to minimise the credit risk of residual funds and enhance liquidity against contingencies.

From late 2009, the credit crisis in certain European countries resulted in growing concerns over debt securities issued by Portugal, Ireland, Italy, Greece and Spain. Among these countries, the Group only had exposure to debt securities issued by financial institutions of Ireland and Italy amounting to a total of HK$3,217 million as at 31 December 2009. There were no signs of impairment on these debt securities. The Group will continue to monitor the developments of the issues.

More focus on traditional businesses and internal control

While the currency, precious metal and stock markets remained volatile, customers' confidence returned as market sentiments improved, especially in the second half of 2009. Against this backdrop, the Group's strategy of promoting traditional products related to foreign exchange and precious metals received promising results. The Group focused on providing its corporate customers with hedging products linked to foreign exchange and interest rate amid the low interest rate environment. Through BOC, the Group offered its self-developed gold-linked investment products for selling to customers in the Mainland. With the credit support of BOC, the Group provided offshore hedging products to corporate customers with Mainland background. As a result, the trading volume of RMB non-deliverable forward contracts reached a record high during the year. Meanwhile, the Group thoroughly reviewed and updated the relevant internal regulations, selling process and risk disclosure policies for structured treasury products to better safeguard investors' interests. The Treasury Product Committee (the "Committee"), which was set up at the end of 2008, started its operation in 2009. The Committee is responsible for overseeing and strengthening the management of all treasury products offered by the Group. During the year, a series of business strategies and product management guidelines were discussed and approved by the Committee to ensure the Group's business development would be in line with the latest supervisory requirements, best market practices and customer expectation.

INSURANCE

HK$'m, except percentage amounts	**2009**	2008	Increase/ (decrease)
Net interest income	**1,271**	1,122	+13.3%
Other operating income	**6,486**	5,503	+17.9%
Operating income	**7,757**	6,625	+17.1%
Net insurance benefits and claims	**(7,286)**	(7,709)	-5.5%
Net operating income	**471**	(1,084)	+143.5%
Operating expenses	**(176)**	(147)	+19.7%
Profit/(Loss) before taxation	**295**	(1,231)	+124.0%

	At 31 December 2009	At 31 December 2008	Increase/ (decrease)
Segment assets	**37,963**	31,703	+19.7%
Segment liabilities	**35,355**	30,977	+14.1%

Note: For additional segmental information, see Note 49 to the Financial Statements.

Financial Results

The Group's Insurance segment recorded a major turnaround in 2009 with a profit before taxation of HK$295 million, versus a loss of HK$1,231 million in 2008. The recovery of the financial markets together with BOC Life's success in service platform enhancement, product development and distribution led to the substantial improvement in BOC Life's business performance in 2009. Net operating income grew strongly to HK$471 million.

Net interest income rose by 13.3%, which was largely driven by the growth of securities investments. Other operating income increased by 17.9% to HK$6,486 million primarily due to the growth of net insurance premium income by 31.5%. Majority of the sales were achieved in the second half of the year following the launch of the financial planning model in April 2009. Rise in long-term market interest rates had an overall positive impact on the profit of the segment. Net loss on financial instruments designated at fair value through profit or loss increased as the market values of debt securities reduced, caused by the rebound of long-term market interest rates from exceptional low level at end of 2008. Nevertheless, the increase in market interest rates has given rise in a corresponding decrease in policy reserve, and hence a decline in net insurance benefits and claims which has offset the negative impact of the market price movement of debt securities.

Operating expenses increased by 19.7%. The increase was due to higher staff costs for the establishment of the financial planning team and higher rental expenses.

Assets in the Insurance segment grew by 19.7% because of the increase in both debt and equity securities which was made possible by the strong growth in premium income. Liabilities rose by 14.1% with the increase in insurance contract liabilities.

Business Operation

Enlargement of product range and significant sales improvement of regular-premium products

In 2009, the Group continued to expand its range of insurance products and services to meet the diverse needs of customers. During the year, a total of 23 new products were launched, primarily focused on retirement and wealth management needs of clients. The continuous product rationalisation reinforced the emphasis on sales of regular-premium products. Net insurance premium income from regular premium products was up 141.8% year-on-year.

Implementation of new Life Insurance business model to focus on "need-based selling"

Following the pilot launch of the new financial planning model at selected branches in April 2009, the Group extended this new model across all branches in different districts, thus enhancing the penetration of the life insurance business among bank customers. While developing the new financial planning model, the Group continued to strengthen its telemarketing sales. A more diversified product portfolio was developed to meet the different needs of various customer segments. All these initiatives contributed to the hefty growth of 31.5 % in premium income.

Improvement of market image and ranking

With the aim of further reinforcing the Group's corporate image in the market, the Group launched large-scale advertising and promotional campaigns with the theme of "Endless Caring" in the second half of 2009 which resulted in overwhelming market response. The TV advertisements played an important part in enhancing the brand awareness of the Group in the insurance segment. The successful performance of the Group in 2009 was reflected in the remarkable improvement in market share and market ranking in terms of standard new business premium.

Capital injection into BOC Life

In July 2009, BOC Hong Kong (Holdings) Limited ("the Company") injected a capital of HK$765 million into BOC Life. The previous capital injection involving HK$255 million was made in June 2008. Both capital injections were financed by the Company's internal resources and paid in cash. After the capital injections, BOC Life remains 51% held by the Company and 49% by Bank of China Group Insurance Co. Ltd.. The strengthened capital base will support BOC Life future growth and development.

REGULATORY DEVELOPMENT

Basel II Capital Accord

Since the introduction of Basel II regulatory framework for compliance by Hong Kong banks in 2007, the Group has adopted the Standardised Approach to calculate statutory minimum capital requirement on credit risk, market risk and operational risk under Pillar One. The Group intends to gradually upgrade to the Foundation Internal Ratings-Based approach to calculate non-retail credit exposures and Advanced Internal Ratings-Based approach to calculate retail credit exposures. Both are more risk-sensitive approaches for the calculation of the regulatory capital requirements. During 2009, the Group completed the development of most of the Internal Ratings-Based ("IRB") regulatory requirement and the implementation of IRB approach with regard to its credit businesses. The Group now adopts a two-dimensional internal rating system with 27 obligor rating grades (consisting of 26 performing grades and 1 default grade) and 21 facility rating grades for its corporate and bank customers. The rating system has been integrated in the Group's credit process in credit approval, credit monitoring and credit reporting to the Management and future public disclosure. Going forward, these internal rating-based systems will serve as key input in the calculation of regulatory capital for credit risk and form the key foundation for decision-making 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") and continued to make improvements to better align the Group's business strategies with regulatory requirements. While the widening of the risk coverage as well as improvement of risk measuring methodologies have been made, forward looking factors have been 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 2009 were in compliance with the requirements set out in the Disclosure Rules.

HUMAN RESOURCES, TECHNOLOGY AND OPERATIONS

Human Resources

The Group values human resources development as a crucial factor for long-term business growth and the realisation of its strategic goals. The Group introduced a corporate culture programme – "Corporate Culture Starts with Me" – to boost staff morale and enhance their sense of belonging. The Group has been implementing the mid-term human resources strategies for 2008-2012 since 2008 and made further progress in enhancing corporate culture, improving manpower structure and staff quality as well as optimising the human resources mechanism in 2009. Meanwhile, refinement to the staff performance management system continued with the inclusion of "core values" as one of the performance measurement parameters.

In 2009, the Group continued to provide comprehensive training programmes for all levels of staff. A total of some 2,900 courses were organised with over 210,000 attendees. Executive development programmes conducted jointly with reputable universities were organised for the senior management and selected staff. 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. They were offered to both frontline and back-office staff to equip them with the knowledge needed to face the economic turmoil, to meet and comply with new selling regulatory requirements as well as to enhance self development. An e-learning platform is available as a supplementary channel for staff training.

Technology and operations

In 2009, the Group continued to strengthen its information technology infrastructure under its 5-year IT development strategy. Several major projects were completed during the year. With the rollout of the new teller platform, frontline branches are better equipped to meet customers' needs. The Fixed Deposit System was revamped to facilitate the launch of new products. A new feature was introduced to enable the setting of securities margin limit based on asset value of wealth management customers while the workflow process for setting securities margin was streamlined. In late 2009, the Group kicked off the project on "Mobile Banking", which provides banking services via mobile phones, aiming to enrich its service capability via e-channels and broaden its customer base from the Mainland as well as overseas. The cash management platform was enhanced to ensure higher operational efficiency and better service quality. With the implementation of the Basel II Capital Accord, the establishment of the capital adequacy ratio calculation engine was completed. It serves to strengthen the Group's credit risk management capability and facilitate better utilisation of the Group's capital. At the same time, the Group continued to streamline and centralise workflows to improve overall operational efficiency. These included physical and geographical relocation of job duties and operations from frontline to back-office units as well as from Hong Kong to the Mainland. The Group also participated in various projects with BOC in order to enhance synergies within the BOC Group. These included the "Continuous Linked Settlement System" which enhances liquidity and risk management for foreign exchange transactions; "China Link", a foreign currency real-time gross settlement system between Hong Kong and the Mainland; and "Cash Management System Linkage" which links up the Group's cash management service platform with that of BOC to provide cross-border cash management services to customers.

As part of the Group's long-term IT strategy, the Group initiated the Financial Risk Management System ("FRMS") in 2006 to enhance the existing computer systems for different finance functions, including financial accounting, management reporting, multi-dimension profitability analysis, capital management, and asset and liability management. Subsequent to the launch of the Asset Liability Management System in 2007, the General Ledger and the Fund Transfer Pricing systems in the fourth quarter of 2008, both the Accounts Payable System and the Fixed Asset Module were implemented in November 2009. The Profitability Analysis project and Capital Management Module were also kicked off during the year.

CREDIT RATINGS

As at 31 December 2009	Long-term	Short-term
Fitch	A	F1
Moody's	Aa3	P-1
Standard & Poor's	A-	A-2

There has been no change in BOCHK's credit ratings since the end of 2007.

As at 31 December 2009, 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 2.

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. 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 the whole process of all businesses and ensure various risks are properly managed and controlled in the course of conducting business. The Group has a sound risk management organisational structure. It implements 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 formulating risk management strategies and 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 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. For details of the Group's Credit Risk Management, please refer to Note 4 to the Financial Statements in this Annual Report.

Interest Rate Risk Management

The Group's interest rate risk exposures are mainly structural. The major types of interest rate risk from structural positions are repricing risk, basis risk, yield curve risk and option risk. For details of the Group's Interest Rate Risk Management, please refer to Note 4 to the Financial Statements in this Annual Report.

Market Risk Management

Market risk is the risk of loss that results from movements in market rates and prices of both the trading book and banking book. The Group's market risk in the trading book arises from customer-related business and proprietary trading. Trading positions are subject to daily mark-to-market valuation. The risk includes potential losses arising from a change in foreign exchange and interest rates as well as the prices of equities and commodities. Banking book positions are subject to interest rate risk and liquidity risk. In particular, the Group's bond investment portfolio is exposed to the potential losses arising from changes in market price of the debt securities as these positions are subject to monthly mark-to-market valuation.

Market risk management framework
Market risk is managed within various major risk limits approved by the RC, including risk positions and/or risk factor sensitivities. Since April 2007, BOCHK has also formally applied Value-at-Risk (VAR) limit as a daily risk management tool. These overall risk limits are divided into sub-limits by reference to different risk products, including interest rates, foreign exchange rates, commodities and equities. Transactions are classified into different risk product categories according to the prominent type of risk inherent in the transactions.

For BOCHK, banking book market risk is managed within various risk limits such as sensitivity limits like Present Value per Basis Point (PVBP) limits and Greek limits, and the AFS Economic Value Impact limit (which is aimed at controlling the price risk impact of the available-for-sale debt securities portfolio on the Bank's capital base). In addition, Profit-and-loss Management Alert Limit (P/L MAL) is set up to control the earnings impact arising from the banking book's financial instruments. These limits are approved by the Asset and Liability Management Committee ("ALCO") and the results are reported to ALCO on a monthly basis.

As aforesaid, the Group's risk management objective is to enhance shareholder value by maintaining risk exposures within acceptable limits. The Group's market risk management framework comprises three levels. The Board of Directors is the ultimate decision-making authority. The formulation of risk management procedures and the implementation mechanism as well as the monitoring of compliance are mainly the responsibility of the Group's senior management (including CE and CRO). The Risk Management Department (RMD) is responsible for overseeing the Group's market risk to ensure that overall and individual market risks are within the Group's risk tolerance. Risk exposures are monitored on a day-to-day basis to ensure that they are within the established risk limits and are regularly reported to the senior management. Nanyang, NCB (China), Chiyu and BOC Life have their own independent risk monitoring units to monitor limit compliance on a daily basis.

The Group controls market risk by restricting individual operations to trade only a list of permissible instruments authorised by the senior management and within various market risk limits approved by RC. The individual operations are also required to enforce rigorous new product approval procedures to ensure that all risks that may arise are thoroughly identified, properly measured and adequately controlled.

The Group also 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. VAR is a statistical technique to estimate the potential losses that could occur on risk positions taken over a specified time horizon within a given level of confidence. BOCHK, being the banking entity within the Group with the major trading positions, which are mainly foreign currency positions in major currencies, uses VAR technique to monitor and control market risk on a daily basis.

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

VAR

The following table sets out the VAR for all trading market risk exposure[1] of BOCHK.

HK$'m		At 31 December	Minimum for the year	Maximum for the year	Average for the year
VAR for all market risk	– 2009	9.8	9.0	16.3	12.6
	– 2008	12.6	3.0	13.5	6.5
VAR for foreign exchange risk products	– 2009	7.7	7.4	15.8	11.3
	– 2008	13.1	2.5	14.2	6.0
VAR for interest rate risk products	– 2009	6.4	2.1	12.8	5.7
	– 2008	4.2	1.0	5.9	2.9
VAR for equity risk products	– 2009	0.1	0.1	2.5	0.3
	– 2008	0.2	0.1	2.8	0.5
VAR for commodity risk products	– 2009	0.0	0.0	0.1	0.0
	– 2008	0.0	0.0	0.5	0.0

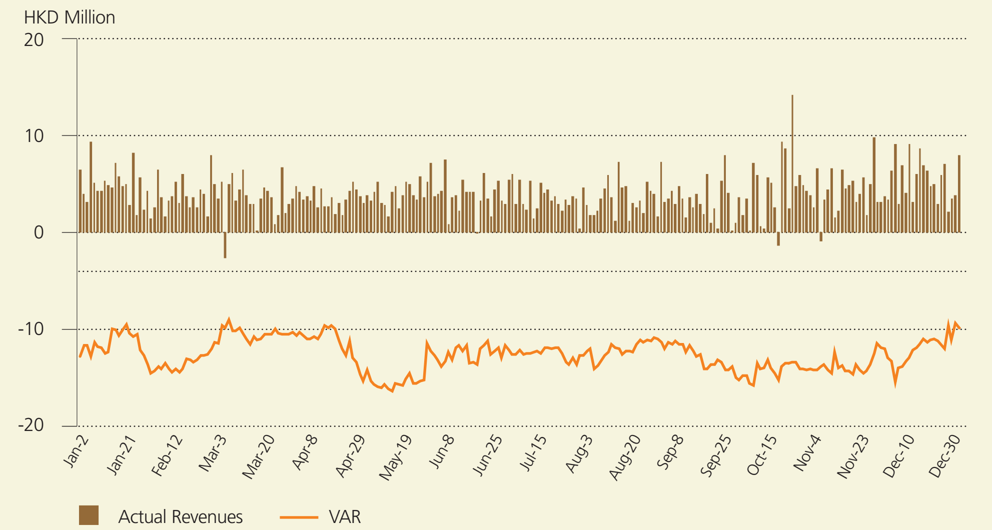
In 2009, the average daily revenue[2] of BOCHK earned from market risk-related trading activities was HK$3.88 million (2008: HK$5.35 million).

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, including fees and commissions. If back-testing revenues are negative and exceeding the VAR, a "back-testing exception" is noted. Back-testing results are reported to the Group's senior management, including CE and CRO.

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 2009



There is no actual loss exceeding the VAR estimate for BOCHK in 2009.

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 augmenting its VAR limits with other position and sensitivity limit structures. Additionally, the Group applies a wide range of stress testing, both on individual portfolios and on the Group's consolidated positions. 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 and the 11 September event in the United States in 2001. The Group has been constantly reassessing the stress testing programme to ensure its adequacy after the global financial crisis in 2008. The Group's stress-testing regime provides the senior management with an assessment of the financial impact of identified extreme events on the market risk exposures of the Group.

Liquidity Risk Management

The aim of liquidity management is to enable the Group to meet, even under adverse market conditions, all its maturing repayment obligations on time, and to fund all its asset growth and strategic opportunities with reasonable costs.

Liquidity management is carried out at both the Group and subsidiary level. BOCHK and its subsidiaries are required to maintain a strong daily liquidity position and a healthy cash flow aligning risk-taking incentives with liquidity exposures and to make sure that all funding obligations are met when due. The subsidiaries are required to report their respective liquidity positions to BOCHK on a regular basis. In 2009, the Group conducted more stress testing under different stress conditions to ensure that risks were managed within the Group's tolerance level.

The risk measurement and monitoring process is set in accordance with the requirements and guidelines issued by the regulatory authorities and is stated in the policies and procedures endorsed by RC and ALCO. The primary objective of the Group's asset and liability management strategy is to achieve optimal returns while ensuring adequate levels of liquidity and capital within an effective risk control framework. ALCO is responsible for establishing these policy directives (including the liquidity contingency plan), and RC sanctions the liquidity management policies. The Asset and Liability Management Department ("ALMD") manages the liquidity risk according to the established policies and reports to ALCO regularly. RMD reviews the policies, guidelines and limits proposed by ALMD. Liquidity risk measurements include cash flow analysis (under normal and stress conditions respectively), deposits maturity structure, concentration risk, mismatch ratios, loan-to-deposit ratio and liquidity profile of the investment portfolio.

The Group funds its operations principally by accepting deposits from retail and corporate depositors. In addition, the Group may issue certificates of deposit to secure long-term funds. Funding may also be secured through adjusting the asset mix in the Group's investment portfolio. The Group uses the majority of funds raised to extend loans, to purchase debt securities or to conduct interbank placements.

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 detailed 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 the 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 framework. All departments and business units are the first line of defence, responsible for managing and reporting operational risks specific to their business/functional areas by applying the respective tools such as key risk indicators, self assessment and operational risk events reporting mechanism to identify, assess and control the risks inherent in their business/functional processes, activities and products. OR&CD together with certain operational risk-related functional departments within the Group are the second line of defence. In addition to formulating the operational risk management policy and procedure, OR&CD is also responsible for developing and introducing operational risk management tools, monitoring the performance and result of operational risk management in various units, assessing operational risk profile, recording operational risk data and reporting operational risk events to RC and the senior management in order to assist the overall management of the Group's operational risk. Certain functional departments, including Human Resources Department, Information Technology Department, Corporate Services Department, Financial Management Department, General Accounting & Accounting Policy Department and OR&CD, are required to carry out the corporate-level operational risk management for the risk areas that are under their functional responsibilities and to provide other units with professional advice/training in respect of certain operational risk categories. The Audit Department is the third line of defence, responsible for conducting independent audit of the operational risk management activities to evaluate their compliance and effectiveness.

The Group also 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.

In the Lehman Brothers minibonds incident, the Group has handled customer complaints in accordance with regulatory guidelines to minimise the reputation risk and repurchased most of the outstanding Minibonds under the Repurchase Scheme and its complaint handling process.

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 capital management is to maximise shareholders' total return while maintaining a capital adequacy position commensurate with the Group's overall risk profile. The Group periodically reviews its capital structure and adjusts its capital mix where appropriate. ALCO monitors the Group's capital adequacy position. The Group has complied with all the statutory capital standards for all the periods in 2009.

To comply with HKMA's requirements as stated in the Supervisory Policy Manual "Supervisory Review Process", the Group has implemented its internal capital adequacy assessment process (ICAAP). Using the statutory minimum capital adequacy ratio (CAR), 8%, as a starting point, extra capital (capital add-on) needed to cover the risks not captured under Pillar I is assessed. Scorecard methodology has been used to evaluate the Group's risk profile in order to assess the capital add-on and 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.

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 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

The principal activity of BOC Life's business 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 it has 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.

The first BOC HKCEA Dual Currency Credit Card provides various promotion offers and is well received by the members of Hong Kong Chinese Enterprises Association in Hong Kong.

遠見

VISIONARY

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman
XIAO Gang#

Vice Chairmen
LI Lihui# (appointed on 26 June 2009)
SUN Changji# (retired and resigned on 26 June 2009)
HE Guangbei

Directors
LI Zaohang#
ZHOU Zaiqun#
ZHANG Yanling#
LEE Raymond Wing Hung
(retired and resigned on 1 June 2009)
GAO Yingxin
FUNG Victor Kwok King*
KOH Beng Seng*
SHAN Weijian*
TUNG Chee Chen*
TUNG Savio Wai-Hok*
YANG Linda Tsao*

Non-executive Directors
* Independent Non-executive Directors

SENIOR MANAGEMENT

Chief Executive
HE Guangbei

Deputy Chief Executive
LAM Yim Nam

Deputy Chief Executive
GAO Yingxin

Chief Financial Officer
ZHUO Chengwen (appointed on 1 June 2009)
LEE Raymond Wing Hung
(retired and resigned on 1 June 2009)

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

Deputy Chief Executive
WONG David See Hong

Chief Operating Officer
LEE Alex Wing Kwai (appointed on 2 July 2009)

Company Secretary
YEUNG Jason Chi Wai

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
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 51, 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 57, 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 55, 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 Nanyang, 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 served as the presiding Chairman in 2008. He holds various public positions which include member of the HKMA Exchange Fund Advisory Committee and Banking Advisory Committee, member of the Hong Kong Government Commission on Strategic Development, Board member of Hong Kong Airport Authority, Honorary President of the Hong Kong Chinese Enterprises Association and general committee member of the Hong Kong General Chamber of Commerce. 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 54, 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 held various positions, including Manager, Branch Manager, General Manager 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 57, is a Non-executive Director and a member of the Audit Committee and the Strategy and Budget Committee of the Company and BOCHK. He is also Chairman of BOC-CC. 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.

Mdm. ZHANG Yanling

Mr. GAO Yingxin

Dr. FUNG Victor Kwok King

Directors

Mdm. ZHANG Yanling

Non-executive Director

Aged 58, 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 Executive Vice President of BOC, Chairman of Bank of China (UK) Limited and BOC Aviation Pte. Ltd., and Vice Chairman of BOCI. Mdm. Zhang has been Vice Chairman of ICC Commission on Banking Technique and Practice since 2003. Mdm. Zhang joined BOC in 1977. She was 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, General Manager of the Banking Department from 1997 to 2000 and Managing Director of BOC from 2000 to 2004. She 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 47, is an Executive Director of the Company and the Bank 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 64, 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, Integrated Distribution Services Group Limited, Convenience Retail Asia Limited and Trinity Limited. He is also an Independent Non-executive Director of CapitaLand Limited in Singapore and Baosteel Group Corporation in the PRC. He retired as Independent Non-executive Director of Orient Overseas (International) Limited, and Non-executive Director of Hup Soon Global Corporation Limited both in April 2009. In public service, Dr. Fung is Chairman of International Chamber of Commerce. He is a member of the Chinese People's Political Consultative Conference and became Vice Chairman of China Centre for International Economic Exchanges since March 2009. 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 and the Hong Kong – Japan Business Cooperation Committee. 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, and Chairman of the Council of The University of Hong Kong from September 2001 to November 2009. In 2003, the Government awarded Dr. Fung the Gold Bauhinia Star for 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 59, 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 Director of 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 Singaporean 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 advisor 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 56, 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 currently a Partner of TPG Capital and Director of a number of companies, including Shenzhen Development Bank Co., Ltd., TCC International Holdings Limited, Changhwa Commercial Bank, Ltd., Taiwan Cement Corporation and Taishin Financial Holdings Co., Ltd. He was a Managing Director of JP Morgan, a Director of Korea First Bank, 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 67, 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 58, 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 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 currently the Chairman of Wireless Telecom Group. 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. 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 ("Health Science") Committee.

Mdm. YANG Linda Tsao

Mr. LAM Yim Nam

Mr. ZHUO Chengwen

Mr. LI Jiuzhong

Directors

Mdm. YANG Linda Tsao

Independent Non-executive Director

Aged 83, is an Independent Non-executive Director of the Company and BOCHK. She is the Chairlady of the Strategy and Budget Committee and a member of the Audit Committee and the Nomination and Remuneration Committee of the Company and BOCHK. Since 2000, Mdm. Yang has chaired the Asian Corporate Governance Association ("ACGA"), a non-profit, member supported organisation based in Hong Kong. ACGA is committed to promoting sound corporate governance practices among Asian business enterprises through education, research, and advocacy. She serves on the board of "The Committee of 100", a Chinese-American organisation in the U.S., the Advisory Board of The Pacific Pension Institute and trustee of The Asia Foundation in San Francisco. The foundation has 17 field offices in Asia. Appointed by President Clinton as Ambassador and Executive Director to the Asian Development Bank in 1993, Mdm. Yang was the first Asian and first woman appointed by the U.S. Government to serve on the board of multilateral financial institution. At her retirement in December 1999, the then U.S. Secretary of the Treasury Dr. Larry Summers presented her with the Distinguished Service Award of the Treasury Department for her contribution in playing a key role in shaping assistance programme to affected countries during the Asian Financial Crisis 1997 – 1998 and to improving governance and accountability in the banks' operation and to strengthening the banks' private sector development strategy. Before that, she was California's Savings and Loan Commissioner and Vice President of the Board of Administration of the Public Employees' Retirement System of the State of California and Vice Chairman of its Investment Committee. Mdm. Yang graduated from St. John's University in Shanghai and earned her Master of Philosophy degree (Economics) from Columbia University in New York.

Senior Management

Mr. LAM Yim Nam

Deputy Chief Executive

Aged 57, 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 29 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 39, 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 the BOC Group, including financial planning, accounting policy, financial compliance, management reporting and financial disclosure. Mr. Zhuo has assumed a financial management role for over 10 years with BOC Group in Beijing and New York and has extensive knowledge and experience in financial management. Mr. Zhuo graduated from 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. LI Jiuzhong

Chief Risk Officer

Aged 47, 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, BOC-CC and BOC Life. Mr. Li has over 26 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. WONG David See Hong

Mr. LEE Alex Wing Kwai

Mr. YEUNG Jason Chi Wai

Senior Management

Mr. WONG David See Hong

Deputy Chief Executive

Aged 56, 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 and Insurance, 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 the last 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 the Civil Service College in Singapore and Customer Advisory Board Members 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. LEE Alex Wing Kwai

Chief Operating Officer

Aged 51, 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 leading financial institution for over 25 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.

Mr. YEUNG Jason Chi Wai

Company Secretary

Aged 55, is the Board Secretary and Company Secretary of the Company and BOCHK. Mr. Yeung has over 10 years' experience practising corporate and commercial law. Prior to joining the BOC Group in 2001, Mr. Yeung was General Counsel and director of China Everbright Limited and a partner of Woo, Kwan, Lee & Lo. He has 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.

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 2009.

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 49 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$0.57 per share, amounting to approximately HK$6,027 million, subject to the approval of shareholders at the forthcoming annual general meeting to be held on Thursday, 20 May 2010. If approved, the final dividend will be paid on Thursday, 27 May 2010 to shareholders whose names appear on the Register of Members of the Company on Thursday, 20 May 2010. Together with the interim dividend of HK$0.285 per share declared in August 2009, the total dividend payout for 2009 would be HK$0.855 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 Thursday, 13 May 2010 to Thursday, 20 May 2010 (both days inclusive), during which period no transfer of shares will be registered. In order to rank 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, Hong Kong, not later than 4:30 p.m. on Wednesday, 12 May 2010. Shares of the Company will be traded ex-dividend as from Tuesday, 11 May 2010.

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$0.4million.

Properties, Plant and Equipment

Details of movements in properties, plant and equipment of the Group are set out in Note 32 to the financial statements.

Share Capital

Details of the share capital of the Company are set out in Note 42 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 2009, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to approximately HK$10,027 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 58. The biographical details of the Directors and senior management are set out on pages 59 to 63 of this Annual Report. The term of office for each Non-executive Director is approximately three years.

Mr. Lee Raymond Wing Hung retired and resigned as an Executive Director and the Chief Financial Officer of the Company with effect from 1 June 2009. Mr. Sun Changji retired and resigned as a Vice-chairman and a Non-executive Director of the Company with effect from 26 June 2009. Mr. Li Lihui was appointed as a Vice-chairman and a Non-executive Director of the Company on 26 June 2009.

Article 103 of the Company's Articles of Association provides that any Director appointed by the Board shall hold office only until the next annual general meeting of the Company, but shall be eligible for re-election at such meeting. Accordingly, Mr. Li Lihui being a Director so appointed, shall retire at the forthcoming annual general meeting and, being eligible, offer himself for election.

In accordance with Article 98 of the Company's Articles of Association, at each annual general meeting, one-third of the Directors or the nearest number to but not less than one-third of the Directors shall retire from office by rotation and be eligible for re-election. Accordingly, Mdm. Zhang Yanling, Mr. Gao Yingxin, Mr. Tung Chee Chen and Mdm. Yang Linda Tsao will retire by rotation at the forthcoming annual general meeting. Mdm. Zhang Yanling, Mr. Gao Yingxin and Mr. Tung Chee Chen offer themselves for re-election. Mdm. Yang Linda Tsao has indicated to the Board that she wishes to retire from the Group and hence will not stand for re-election at the forthcoming annual general meeting.

The term of office of the retiring Independent Non-executive Director, namely, Mr. Tung Chee Chen who was appointed in 2002, will be more than 9 years if he is re-elected at the forthcoming annual general meeting for a further term of approximately 3 years. Other than the annual confirmation of independence given by him to the Company, he has also given a confirmation of independence in view of his term of office of more than 9 years if re-elected at the forthcoming annual general meeting. Based on such confirmations and the information available to the Board, and by reference to the "Policy on Independence of Directors" adopted by the Board which sets out more stringent independence criteria than those contained in the Listing Rules, the Board considers that Mr. Tung is independent. Further, in view of Mr. Tung's extensive knowledge and experience, the Board believes that his 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 2009 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 2009	Exercised during the year	Surrendered during the year	Lapsed during the year	Balances as at 31 December 2009
HE Guangbei	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	723,000	723,000	–	–	–
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				5,784,000	4,699,500	723,000	–	–	3,976,500

Note: On 26 June 2009, Mr. Sun Changji retired and resigned from the post of Vice Chairman and Non-executive Director of the Company. According to the terms of the Pre-Listing Share Option Scheme, the options of 1,590,600 granted to Mr. Sun Changji on 5 July 2002 could be exercised within three months after his retirement and resignation.

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 2009, 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[1]	–	–	–	1,446,000	0.014%
ZHOU Zaiqun	1,085,000[2]	–	–	–	1,085,000	0.010%
ZHANG Yanling	1,446,000[1]	–	–	–	1,446,000	0.014%
Total	4,077,000	–	–	–	4,077,000	0.039%

Notes:

1. 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.
2. Such interests included Mr. Zhou's interests in 500 shares and interests in 1,084,500 underlying shares in respect of the share options granted to him 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 2009, 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 2009, 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 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 2009, 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 2009.

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 2009	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 directors 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.

	Share Option Scheme	Sharesave Plan
Minimum period for which an option must be held before it can be exercised	Such minimum period as shall be prescribed by the directors 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.
(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 directors 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 in full compliance with all the code provisions set out in the "Code on Corporate Governance Practices" contained in Appendix 14 of the Listing Rules and also complies with nearly all the recommended best practices set out in the said Code. For further details, please refer to the "Corporate Governance Report" 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 perform certain factual finding procedures on the above continuing connected transactions on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported its factual findings on the selected samples based on the agreed procedures to the Board of Directors.

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 2009 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 2009 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, 23 March 2010

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 Authorized 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.

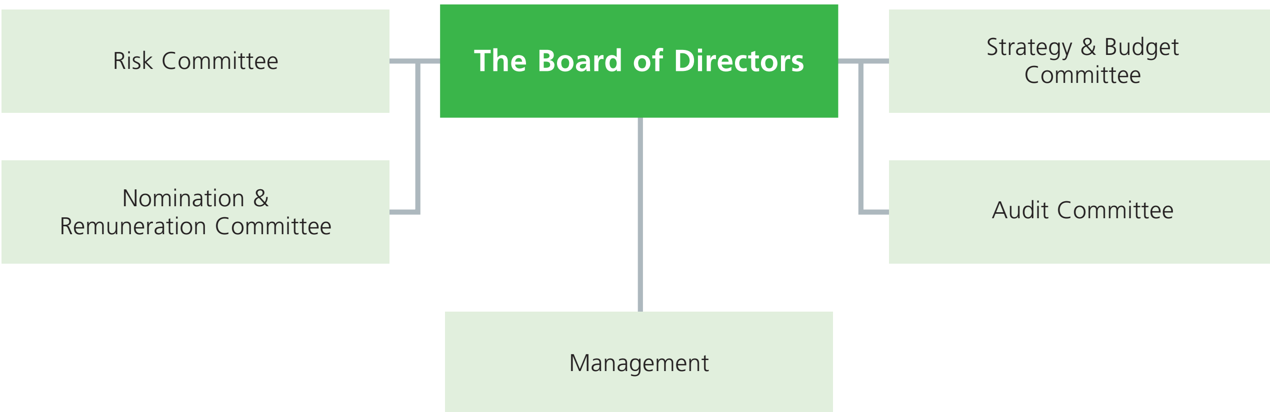
The Board authorises the Management to execute strategies that have been approved. The Management reports to the Board and is responsible for the day-to-day operation of the Group. **The Board has formulated clear written guidelines, which stipulate the circumstances under which the Management should 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 Bard 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 13 members, comprising six independent non-executive Directors, five non-executive Directors and two executive Directors. The changes to the composition of the Board during the year include the following: Mr. Lee Raymond Wing Hung retired and resigned as an Executive Director of the Company with effect from 1 June 2009; Mr. Sun Changji retired and resigned as a Vice-chairman and a Non-executive Director of the Company on 26 June 2009; Mr. Li Lihui was appointed as a Vice-chairman and a Non-executive Director of the Company on 26 June 2009. Save as disclosed above, there were no other changes to the composition of the Board in 2009 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"), some provisions of which are even more stringent than Rule 3.13 of the Listing Rules. 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, an independent non-executive Director, namely, Mr. Tung Chee Chen, who was appointed in 2002, will retire by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election pursuant to the Articles of Association. His term of office will be more than 9 years if he is re-elected at the forthcoming annual general meeting for a further term of approximately 3 years. Other than the annual confirmation of independence given by him to the Company as mentioned above, Mr. Tung has also given a confirmation of independence in view of his term of office of more than 9 years if re-elected at the forthcoming annual general meeting by reference to the Independence Policy. On the basis of these confirmations and 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, Mdm. Zhang Yanling, Mr. Gao Yingxin, Mr. Tung Chee Chen and Mdm. Yang Linda Tsao will retire by rotation at the forthcoming annual general meeting. Mdm. Zhang Yanling, Mr. Gao Yingxin and Mr. Tung Chee Chen offer themselves for re-election. Mdm. Yang Linda Tsao has indicated to the Board that she wishes to retire from the Group and hence will not stand for re-election at the forthcoming annual general meeting.Further, in accordance with the Articles of Association, all Directors appointed by the Board are subject to election by shareholders at the first general meeting following their appointment. Accordingly, Mr. Li Lihui being a Director so appointed, shall retire at the forthcoming annual general meeting and, being eligible, offers himself for 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 member of the senior management of BOC. 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 2009, 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 regulatory requirements and role and responsibilities of the board of directors under Basel II.

Nine 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 2009 are set out as follows:

Director	Number of Board meetings attended	Attendance rate
Non-executive Directors		
Mr. XIAO Gang *(Chairman)*	8 out of 9	89%
Mr. SUN Changji *(Note 1)*	5 out of 5	100%
Mr. LI Lihui *(Vice Chairman) (Note 2)*	4 out of 4	100%
Mr. LI Zaohang	9 out of 9	100%
Mr. ZHOU Zaiqun	9 out of 9	100%
Mdm. ZHANG Yanling	9 out of 9	100%
Independent Non-executive Directors		
Dr. FUNG Victor Kwok King	7 out of 9	78%
Mr. KOH Beng Seng	9 out of 9	100%
Mr. SHAN Weijian	8 out of 9	89%
Mr. TUNG Chee Chen	8 out of 9	89%
Mr. TUNG Savio Wai-Hok	9 out of 9	100%
Mdm. YANG Linda Tsao	9 out of 9	100%
Executive Directors		
Mr. HE Guangbei *(Vice Chairman and Chief Executive)*	9 out of 9	100%
Mr. LEE Raymond Wing Hung *(Note 3)*	4 out of 5	80%
Mr. GAO Yingxin	9 out of 9	100%

Notes:
Note 1: Mr. Sun Changji retired and resigned as a Vice-chairman and a Non-executive Director with effect from 26 June 2009.
Note 2: Mr. Li Lihui was appointed as a Vice-chairman and a Non-executive Director on 26 June 2009.
Note 3: Mr. Lee Raymond Wing Hung retired and resigned as an Executive Director with effect from 1 June 2009.

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 seven members comprising one non-executive Director and all the six independent non-executive Directors. Independent non-executive Directors make up 86% 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 2009 included the review and, where applicable, approval of:

- the Company's Directors' Report and financial statements for the year ended 31 December 2008 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 2009 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 2009 and 30 September 2009 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 2009 and key issues identified;
- the deployment of human resources and pay level of the Internal Audit, and the department's budget for 2009; and
- the 2009 key performance indicators for and 2008 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 2009. 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.

Eight Audit Committee meetings were held during the year with an average attendance rate of 89%. Individual attendance records of the relevant Directors are set out as follows:

Director	Number of committee meetings attended	Attendance rate
Mr. SHAN Weijian *(Chairman)*	8 out of 8	100%
Mr. ZHOU Zaiqun	7 out of 8	88%
Dr. FUNG Victor Kwok King	6 out of 8	75%
Mr. KOH Beng Seng	7 out of 8	88%
Mr. TUNG Chee Chen	6 out of 8	75%
Mr. TUNG Savio Wai-Hok	8 out of 8	100%
Mdm. YANG Linda Tsao	8 out of 8	100%

Nomination and Remuneration Committee

The Nomination and Remuneration Committee currently has six members comprising two non-executive Directors and four independent non-executive Directors. The independent non-executive Directors represent two-thirds 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 and remuneration strategies 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 and designated senior management, and
- effectiveness of the Board and Board Committees.

The work performed by the Committee in 2009 included the review and where applicable, approval of:

- performance appraisal of the executive Directors and designated senior executives for year 2008;
- proposal on staff incentive for year 2008 for the Group including the designated senior executives;
- key performance indicators of the Group and the designated senior executives for years 2009 and 2010;
- proposal on human resources budget of the Group for years 2009 and 2010;
- 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;
- recruitment of the Group's designated senior executives;
- 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 2009 is set out in Note 22 of this 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.

The **Nomination and Remuneration Committee** also has the delegated responsibility to **determine the specific remuneration packages of the executive Directors and designated senior executives,** including share options, benefits in kind, pension rights, etc. Currently the principal components of the Company's remuneration packages for the executive Directors and designated senior executives include basic salary, discretionary bonus and other benefits in kind. A significant portion of the executive Directors' or designated senior executives' discretionary bonus is based on the Group's and the individual's performance during the year. The Committee reviews and recommends to the Board the annual performance targets for the executive Directors and designated senior executives by reference to the corporate goals and objectives approved by the Board from time to time. The Committee also reviews the performance of the executive Directors and designated senior executives against the targets set on an ongoing basis, and reviews and approves their specific performance-based remuneration.

Seven Nomination and Remuneration Committee meetings were held during the year with an average attendance rate of 88%. Individual attendance records of the relevant Directors are set out as follows:

Director	Number of committee meetings attended	Attendance rate
Mr. SUN Changji *(Former Chairman) (Note 1)*	4 out of 4	100%
Mr. LI Lihui *(Chairman) (Note 2)*	3 out of 3	100%
Mr. LI Zaohang	7 out of 7	100%
Dr. FUNG Victor Kwok King	5 out of 7	71%
Mr. SHAN Weijian	4 out of 7	57%
Mr. TUNG Chee Chen	7 out of 7	100%
Mdm. YANG Linda Tsao	7 out of 7	100%

Notes:
Note 1: Mr. Sun Changji retired and resigned as Chairman of Nomination and Remuneration Committee with effect from 26 June 2009.
Note 2: Mr. Li Lihui was appointed as Chairman of Nomination and Remuneration Committee with effect from 26 June 2009.

Risk Committee

The Risk Committee has four members in 2009. Two of them are independent non-executive Directors and the remaining two are non-executive Directors. Among those four members, Mr. Li Zaohang, a non-executive Director was appointed as the member of the Risk Committee on 9 December 2009. The Committee is chaired by Mr. Koh Beng Seng, an independent non-executive Director. Mdm. Yang Linda Tsao, an independent non-executive director and the Chairlady of the Strategy and Budget Committee, attends the Risk Committee meetings from time to time as an observer.

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 and effectiveness 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 polices, 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; and
- review of significant or high risk exposures and transactions.

The work performed by the Committee in 2009 included the following:

- review and 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" and a range of risk management policies covering strategic risk, reputation risk, credit risk, market risk, interest rate risk, liquidity risk, operational risk, legal and compliance risk and stress testing;
- review of the Group's operating plan, including the Group's target balance sheet, the Bank's banking book investment plan and risk management limits;
- review and monitoring of Basel II implementation, including approval of FIRB models, review of model validation reports, as well as receiving the implementation progress report of FIRB and ICAAP;
- 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 100%. 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%
Mdm. ZHANG Yanling	7 out of 7	100%
Mr. TUNG Savio Wai-Hok	7 out of 7	100%

Note: Mr. Li Zaohang was appointed as a member of the Risk Committee on 9 December 2009 and no meeting of the Risk Committee was held after his appointment and up to the end of the year.

Strategy and Budget Committee

The Strategy and Budget Committee comprises five members: two independent non-executive directors, two non-executive directors, and the Chief Executive, an executive Director. The Committee is chaired by Mdm. Yang Linda Tsao, an independent non-executive Director. Among those five members, Mdm. Zhang Yanling, a non-executive Director was appointed as the member of the Strategy and Budget Committee on 9 December 2009.

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 strategic focus in response to the profound impact on the banking landscape from the financial crisis. 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, cooperation with the parent bank (BOC), life insurance and capital management. In particular, the Committee guided the Management on formulating 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 2009. In planning for 2010, the Committee reviewed and endorsed the Group's 2010 financial budget and business plan, and recommended the same to the Board for approval.

Six 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 *(Chairlady)*	6 out of 6	100%
Mr. HE Guangbei	6 out of 6	100%
Mr. ZHOU Zaiqun	6 out of 6	100%
Mr. TUNG Savio Wai-Hok	6 out of 6	100%

Note: Mdm. Zhang Yanling was appointed as a member of the Strategy and Budget Committee on 9 December 2009 and no meeting of the Strategy and Budget Committee was held after her appointment and up to the end of the year.

Ad Hoc Committees

The Board established an ad hoc Search Committee and an ad hoc Independent Board Committee during the year.

Search Committee

As disclosed in the Annual Report for 2008 of the Company, the Search Committee was convened in February 2009 to conduct an open and global recruitment to search for a suitably qualified candidate to fill the position of the Chief Financial Officer of the Group in view of the retirement of Mr. Lee Raymond Wing Hung, the then Chief Financial Officer of the Group in June 2009. The Committee was chaired by Dr. Fung Victor Kwok King, an independent non-executive Director. Its members included executive Directors Mr. Sun Changji and Mr. He Guangbei, non-executive Director, Mr. Li Zaohang and independent non-executive Directors Mr. Koh Beng Seng, Mr. Shan Weijian, Mr. Tung Chee Chen, Mr. Tung Savio Wai-Hok and Mdm. Yang Linda Tsao. The Committee has engaged an independent professional search firm to assist the Committee in conducting a global and open recruitment. After several rounds of selection and with the recommendation of the Nomination and Remuneration Committee, the Board resolved to appoint Mr. Zhuo Chengwen as the Chief Financial Officer of the Group with effect from 1 June 2009.

As also disclosed in the Annual Report for 2008 of the Company, the Board resolved in August 2008 to recruit a Chief Operating Officer of the Group. With the assistance of a professional search firm, the Committee, comprising all the above-mentioned members, was convened and recruitment work had been conducted in early 2009. After several rounds of selection and with the recommendation of the Nomination and Remuneration Committee, the Board resolved to appoint Mr. Lee Alex Wing Kwai as the Chief Operating Officer of the Group with effect from 2 July 2009 to provide overall leadership and oversight to the Group's IT, bank-wide operations, business optimisation and corporate services.

In March 2009, the Committee, comprising all the above-mentioned members was also convened for the purpose of recruiting a Deputy Chief Risk Officer to succeed Mr. Cheung Yau Shing, the then Chief Risk Officer of the Group to oversee the risk management of the Group. After several rounds of selection and with the recommendation of the Nomination and Remuneration Committee, the Board resolved to appoint Mr. Li Jiuzhong as the Deputy Chief Risk Officer of the Group with effect from 15 June 2009. Mr. Li has later taken up the post of the Chief Risk Officer of the Group since 1 March 2010 after Mr. Cheung Yau Shing had relinquished his position as the Chief Risk Officer of the Group as his term of office comes to an end.

Independent Board Committee

An Independent Board Committee was set up in May 2009 to review and approve the capital injections by the Company into BOC Group Life Assurance Company Limited ("BOC Life"). BOC Life is owned as to 51% and 49% respectively by the Company and Bank of China Group Insurance Company Limited ("BOC Insurance"). BOC Insurance is a wholly-owned subsidiary of BOC and BOC Life is thus a connected person of the Company by reason of it being an associate of BOC. The Committee comprised all the independent non-executive Directors of the Company and was chaired by Mr. Tung Chee Chen. The capital injections, which were made on pro rata basis among the Company and BOC Insurance, aimed to further strengthen the capital base of BOC Life to cater for its future development and business growth. The funding from the capital injections also allowed BOC Life to meet the relevant legal and regulatory requirements in relation to capital adequacy owing to the then market volatility. The capital injections are subject to the reporting and announcement requirements under the Listing Rules but are exempted from the independent shareholders' approval. On the basis of the review by the Committee by reference to the terms and conditions of the capital injections as well as the reason for and benefits of the capital injections, the Committee is satisfied that the terms of the capital injections are fair and reasonable, on normal commercial terms and arm's length basis, and are in the interests of the Company and its shareholders taken as a whole.

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 2009. The Code has been revised in January and March 2009 to reflect changes made to the Model Code, including the extended "black out" period for Directors' dealing in the Company's securities.

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 2010 annual general meeting. Subject to authorisation by the shareholders, the Board will authorise the Audit Committee to determine the remuneration of PricewaterhouseCoopers. 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. For 2008, the fee charged by PricewaterhouseCoopers was HK$38 million, of which HK$33 million was for audit services and HK$5 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 2009 comprised mainly the tax-related services fee of HK$3 million, Cut-off Date Audit and Capital Injection Verification for NCB (China) of HK$2 million and miscellaneous non-audit services fee of HK$1 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 maximise 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 2009 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 55 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, internal control system of all subsidiaries and foreign operations are reviewed regularly. During the year of 2009, 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 2009, 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 2009 annual general meeting held on 21 May 2009 at the Hong Kong Convention and Exhibition Centre to respond to questions and comments raised by shareholders. Resolutions passed at the Company's 2009 annual general meeting included: adoption of the Company's and the Group's 2008 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 2008 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 to 5% of the issued share capital as compared to the 20% 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 2009 annual general meeting. The Board would also recommend the 5% threshold at the forthcoming 2010 annual general meeting for approval by shareholders. Further, given its commitment to high standards of corporate governance, the Board announced at the 2009 annual general meeting 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** 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;

- 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.

The Board has resolved to adopt the above policies if it is granted by the shareholders the general mandates to issue and repurchase shares at the forthcoming 2010 annual general meeting.

All the resolutions proposed at the Company's 2010 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 2010 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 2010 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 2010 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 with the support of reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

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 Investor Relations Division of the Board Secretariat, which reports directly to the Board, acts as an intermediary between the Company and its investors and the financial community. 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. Both the Board and the Committee evaluate the effectiveness of the investor relations programmes on a regular basis.

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 Company's senior management is highly supportive to and actively involved in the IR programmes.

The Company's IR programmes aim to provide timely and effective communication with the investment community to enhance their knowledge and understanding of the Company. The Company's investor relations activities are conducted on a global basis and through various channels to enhance its profile among international investors.

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 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.

The Fair Disclosure Policy is available on the Company's website for public reference.

Access to Corporate Information

To ensure investors to have access to important corporate information on a fair and timely basis, the Investor Relations section of the Company's website (http://www.bochk.com/ir) contains all relevant information to keep investors informed of its latest development. In support of the Company's commitment in enhancing social awareness on environmental issues, the Company encourages shareholders and investors to receive corporate communication materials electronically.

For each financial year, the regular communication of the Company will be in the form of one interim report, one annual report and two quarterly 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 also post them on the Company's website immediately after the release. The IR website also includes an e-mail alert service and interested parties could sign up for corporate updates. The Company's investor relations website is awarded Bronze of 2009 iNOVA Awards for "Investor/Shareholder Relations".

Overview of Investor Relations Activities in 2009

In 2009, the Company continued its efforts in moving forward with its investor relations programmes to provide effective channels for proactive communication with investors.

Annual General Meeting

At the AGM held in May 2009, 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.

Results Announcement

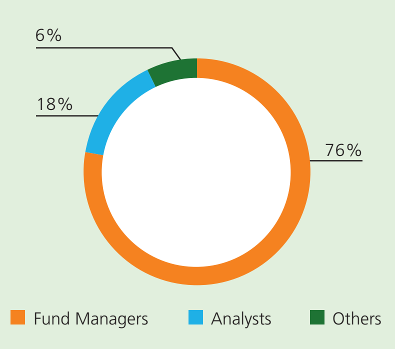
At the Company's 2008 annual results announcement and 2009 interim results announcement, the senior management led by the Chief Executive conducted briefings with analysts and the press to apprise them of the Company's operating results, business strategies and outlook. The presentation materials, announcements 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

During the year, the Company had over 230 meetings with investors and analysts across the world with total attendances of over 720. These meetings were held during global road-shows, international investor conferences, workshops and company visits. To enhance understanding of the Company's new business initiatives, proactive discussions were conducted between business unit heads and the investment community. 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 surveys, the Company continued to promote two-way communication. The responses received from these initiatives enabled the Company to better understand the market's focuses which help formulate the Company's investor relations plan going forward and continually improve 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 about the Company's present and future development, facilitating the share price to fully reflect the long-term value of the Company.

Investor Relations Contact

Enquiries may be directed to:

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

Shareholder Information

Financial Calendar 2010

Major Events	Dates
Announcement of 2009 annual results	23 March (Tuesday)
Last day in Hong Kong of dealings in the Company's shares with entitlement to final dividend	10 May (Monday)
Ex-dividend date	11 May (Tuesday)
Latest time in Hong Kong for lodging transfers for entitlement to final dividend	12 May (Wednesday) 4:30 p.m
Book closure period (both days inclusive)	13 May (Thursday) to 20 May (Thursday)
Latest time for lodging proxy forms for 2010 Annual General Meeting	18 May (Tuesday) 3:00 p.m.
Record date for final dividend	20 May (Thursday)
2010 Annual General Meeting	20 May (Thursday) 3:00 p.m.
Final dividend payment date	27 May (Thursday)
Announcement of 2010 interim results	Mid to late August

Annual General Meeting

The 2010 Annual General Meeting will be held at 3:00 p.m. on Thursday, 20 May 2010 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 2009, the Company's market capitalisation was HK$186 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.

Debt Securities

Subordinated Notes	
Bank of China (Hong Kong) Limited, a wholly owned and principal subsidiary of the Company, issued US$1,600 million 5.55% Subordinated Notes ("Notes") due 2020 which qualify as Tier 2 Capital of BOCHK. 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

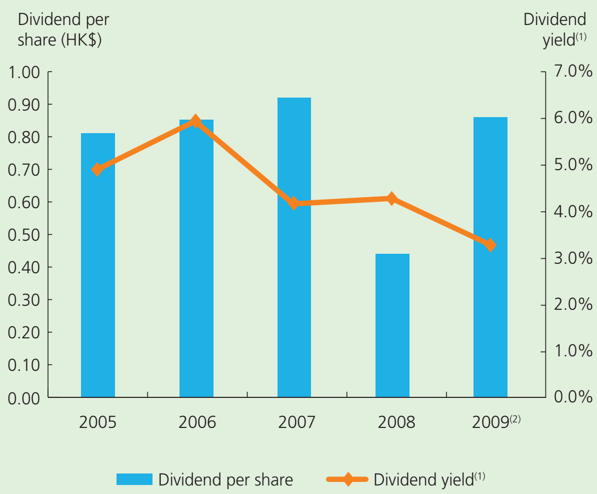
Share price (HK$)	2009	2008	2007
Highest trading price during the year	19.88	24.10	22.70
Lowest trading price during the year	6.30	7.33	16.78
Closing price at year end	17.60	8.78	21.85
Average trading volume/trading day (m shares)	27.51	23.47	26.20
Number of ordinary shares issued (shares)	10,572,780,266		
Public float	Approximately 34%		
Nominal value per share	HK$5.0		

The Company's shares closed at HK$17.60 as at 31 December 2009, representing an increase of 100.5%, outperforming both Hang Seng Index and Hang Seng Finance Index which increased by 52.0% and 56.8% respectively.

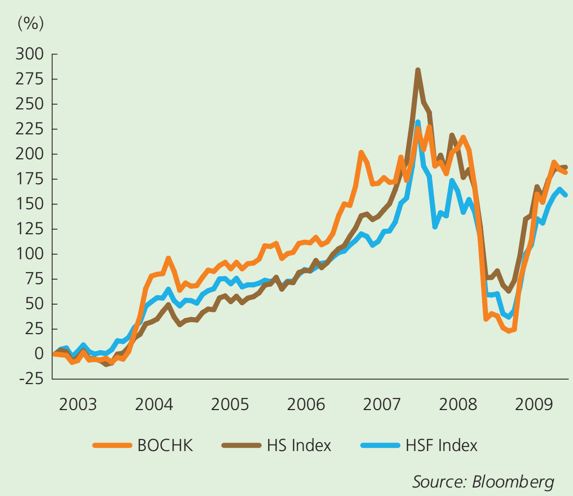
Dividends

The Directors has recommended a final dividend of HK$0.57 per share, which is subject to the approval of shareholders at the 2010 Annual General Meeting. With the interim dividend per share of HK$0.285 paid during 2009, the total dividend per share amounted to HK$0.855 for the whole year.

Dividend Per Share and Dividend Yield(1)



Total Shareholder Return



(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) 2009 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 2009, 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 93,135 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 Securities and Futures Ordinance of Hong Kong.

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 2009:

Category	Number of registered shareholders	% of shareholders	Number of shareholders shares	% of total issued share capital
Individuals	93,004	99.86	215,496,891	2.04
Institutions, corporates and nominees	130	0.14	3,415,131,319[1]	32.30
Bank of China Group	1	0.0	6,942,152,056[1]	65.66[1]
Total	93,135	100.0	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 Securities and Futures Ordinance, the total shares held by Bank of China Group were 6,984,274,213 shares or represented 66.06% of total issued share capital as at 31 December 2009. 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, 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, Hong Kong or email to hkinfo@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.hkexnews.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.

About 1,200 BOCHK staff, their family members and our customers, as well as over 30,000 participants from other organisations joined forces to support "The Community Chest New Territories Walk – Stonecutters Bridge". A total of HK$12 million was raised, a new record for the Community Chest New Territories Walks.

傳承

SUSTAINABLE

CORPORATE SOCIAL RESPONSIBILITY

We have the most extensive branch network in Hong Kong. The above shows BOCHK's Citywalk Branch and its specially designed self-service banking area, showcasing our innovative services.

With our commitment to delivering comprehensive, professional and quality banking services to the general public as well as the business sector, the Group attaches great importance to Corporate Social Responsibility ("CSR"). We undertake CSR with a view to contribute to the sustainable development of the economy, society and environment. This is crucial to our long-term core competitiveness, and enables us to strengthen our relationship with shareholders, employees, customers, business partners, the government and the community. In January 2010, with the approval of the Board, the Group formulated the "Corporate Social Responsibility Policy".

To ensure the fulfilment of the policy, the Group set up a CSR Committee chaired by the Chief Executive and comprising the senior management and chief executives of subsidiaries as members. The Committee is responsible for formulating the overall strategies and policies of our CSR and overseeing its execution.

Customer-centric through Innovation and Service

To better serve various customer groups and deliver diversified financial services, we endeavour to enhance our product and service offerings. We strive to improve our services and strengthen customer relationships with better quality services. In doing so, we contribute to sustainable economic development while at the same time growing the Group's business.

Enhancing Service Platforms

With the most extensive branch network in Hong Kong, the Group has over 270 branches across Hong Kong, Kowloon and the New Territories as at the end of 2009. We have 24-hour self-service banking centres in major transport interchanges and public housing estates in Hong Kong. We are the first banking group in Hong Kong to offer both HKD and RMB cash withdrawal services along all MTR routes. For its unique and user-friendly design, BOCHK's self-service banking centre at Mongkok East Station (East Rail Line) was awarded "Annual Best Shop Image 2009" by MTR.

We care about elderly customers and offer convenient ATM services. The Group has launched the "BOC Fast Cash Card" and organised workshops to teach our elderly customers how to use ATM services. We are a pioneer in the market, having extended the functions of its cheque deposit machine to bill payments. Our customers can then easily and conveniently make bill payments to designated merchants at over 170 service outlets in Hong Kong.

To enhance our service efficiency, we strive to offer a stable and reliable services platform. We have invested significant resources in advanced technology to enhance the functions of our e-Banking service. We also expanded the capacity of our online securities trading platform to cope with the ever-increasing transactions volume while offering flexible, reliable

We help operationally sound SME clients weather difficulties during financial crises.

In early July 2009, BOCHK successfully launched the first cross-border RMB trade settlement and finance in Hong Kong.

and secured services to our customers. During the year, BOCHK launched the online subscription service for the RMB sovereign bond to meet the growing market demand. We have been duly recognised for our efforts in the market. In 2009, BOCHK was awarded "Best Internet Banking Award 2009" by "Capital Weekly".

With continuous upgrade of the service quality of our phone banking centres, we won the Gold Awards of "Best Contact Centre in Corporate Social Responsibility" and "Outbound Contact Centre of the Year (Under 50 Seats)" granted by Hong Kong Call Centre Association.

We joined hands with China UnionPay to pioneer the global launch of the first "BOC CUP Dual Currency Credit Card", bringing convenience to frequent travelers between Hong Kong and the Mainland of China.

NCB (China) is our key business platform and brand in the Mainland of China, offering full banking services to our customers.

Supporting Economic Growth

Since its establishment over 90 years ago, the Group has grown and prospered along with Hong Kong. With solid operations and continuous development, we serve millions of customers while contributing to the prosperity and stability of Hong Kong's financial industry and the economy as a whole. As the Mainland economy continues to open up, we remain playing an important role in strengthening the economic integration between Hong Kong and the Mainland of China.

The stable development of small and medium-sized enterprises ("SME") is an important pillar of the Hong Kong economy. The Group has lent great support to SME clients which have prudent operations. We proactively supported the "SME Loan Guarantee Scheme" and "Special Loan Guarantee Scheme" launched by the Hong Kong SAR Government. As at the end of 2009, we have approved credit amounting to HKD16 billion under the two schemes.

The Group brings convenience to frequent travelers between Hong Kong and the Mainland of China. At the end of 2008, BOC Credit Card and China UnionPay jointly issued the first "BOC CUP Dual Currency Credit Card" in Hong Kong. This new credit card enables customers to settle payments in either HKD or RMB. For purchases made in the Mainland of China, cardholders can settle in RMB and save on exchange expenses. Those purchases made in Hong Kong and overseas can be settled in HKD. Charges for overseas purchases are waived. Furthermore, BOC Card and Octopus Card jointly launched "BOC Octopus Merchant Services", a one-stop cash management solution for receiving customer payments and transaction settlement enables retail merchants to enhance operation efficiency.

Riding on the advantage of our parent, BOC, in the Mainland and our leading position in RMB services in Hong Kong, BOCHK offers an expanding range of cross-border banking and RMB services to Mainland enterprises wishing to expand in overseas markets. As the sole clearing bank for RMB services in Hong Kong, BOCHK was well positioned to launch the first cross-border RMB trade settlement service in Hong Kong on 6 July 2009. NCB (China), the Group's key business platform and brand in the Mainland of China, was among the first batch of foreign banks in China to offer cross-border RMB trade settlement services.

We have strengthened our collaboration with BOC to offer innovative cross-border banking services and enhanced global financial services to clients of both banks. For example, we have extended the "BOC Remittance Plus" service to 3,000 remittance points including Macau and spanning across 24 provinces in the Mainland of China. The network is the largest among all Hong Kong banks that provide same-day remittance services. We also tailor cross-border trade finance products,

We assisted BOC to become the sole lead arranger of the project finance for the "Hong Kong-Zhuhai-Macau Bridge".

BOC Life launched a series of diversified products which have been well-received by customers. It has become a strong player in the market, having doubled its market share.

including "Supply Chain Financing", "China-Hong Kong Trade Finance" and "Quadrilateral Agreement", to the needs of our corporate clients. In conjunction with our parent, BOC, we launched "Global Relationship Manager Programme" and "Global Unified Facilities Arrangement", which allow both parties to flexibly extend credit lines to corporate clients and enhance client management model. We also conduct real-time cash management across the globe via the online banking systems of BOCHK and that of BOC in the Mainland and selected branches in the Asia-Pacific region. As the USD agent bank in Hong Kong, BOCHK provides the Hong Kong interbank market with new fund transfer channel through the real-time settlement system of BOC, the sole USD settlement bank in the Mainland of China. During the year, BOC, China UnionPay and BOC Credit Card jointly established the "BOC Expresspay Company Ltd." to expand their prepaid card business.

In 2009, BOCHK joined hands with the Macau and Guangdong branches of BOC, to assist our parent, BOC, to become the sole lead arranger of the project financing for the "Hong Kong-Zhuhai-Macau Bridge". We are proud to play a key role in this landmark cross-border infrastructure project.

Conservation of Resources for Environmental Protection

BOCHK is committed to reducing any negative impact on our ecological environment from our business operation. We encourage our staff, customers and business partners to be environmentally friendly, and help promote the awareness of environmental protection to various sectors of society.

Creating a Green Office

To promote the important message of a green office, the Group put into practice an environmental management system by formulating a policy for environmental protection to reduce carbon dioxide emissions. In 2009, the centrifugal chillers of the air conditioning system at Bank of China Tower ("BOC Tower") were replaced by more efficient chillers using eco-friendly refrigerants, while the air-cooled chillers at Bank of China Building ("BOC Building") were replaced by water-cooled chillers. Other measures adopted to make our office greener include installing energy-saving light bulbs and tubes, and ballasts and time switches in the lighting system; installing time zone control in the lift system or temporary suspension of lift service during non-peak hours; and a dual-speed system in the escalators of BOC Tower to reduce energy

We spare no effort in promoting environmental protection. BOC Tower and BOC Centre have been granted numerous environmental awards.

consumption and heat production. With these measures, BOCHK's annual electricity consumption was reduced by about 2.85 million kWh, resulting in the reduction of carbon dioxide emissions by 1,700 tons and a saving of HK$4.3 million in energy costs per year.

Water conserving devices such as water tap sensors, auto-flushing sensors and dual-flush water saving toilets were installed in our premises, resulting in an annual saving of water of 70,000 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, newspapers and magazines, aluminium, plastic and used batteries. More than 280,000 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 in our premises and donated refurbished computers to those in need. A warehouse was established during the year for the collection and redeployment of reusable furniture and equipment to minimise waste disposal.

Our sound environmental practices to reduce energy and water consumption have earned us recognition and environmental accreditations from a number of professional organisations. Both BOC Tower and Bank of China Centre ("BOC Centre") attained the *ISO 14001 certifications* granted by Det Norske Veritas in 2009; BOC Building received the *Carbon Reduction Label* awarded by the Hong Kong Quality Assurance Agency; and BOC Tower and BOC Centre obtained the *Indoor Air Quality Certificates (Excellent Class)* from the Environmental Protection Department in 2009. All our three major premises – BOC Tower, BOC Building and BOC Centre, received Certificates of the "Quality Water Recognition Scheme for Building" from the Water Supplies Department.

We have put into place clear procurement policies requesting suppliers to provide environmentally friendlier materials and services which are in compliance with the requirements. We also purchase eco-friendly toners as well as energy-saving or energy efficient appliances and equipment for use in the office. When selecting suppliers and

The "Hong Kong Geopark Charity Green Walk", spearheaded by BOCHK, promotes conservation of resources. The campaign received overwhelming response from the public, customers and staff.

contractors, we consider whether they conform to environmental management standards. 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 June 2009, we participated in the "Dim It – Lights Out Event" organised by Friends of the Earth and signed the first "Dim It" Charter, making an open commitment to conserving energy and reducing carbon dioxide emissions, light pollution and light nuisance.

Our customers are encouraged to manage their finances via Internet Banking and switch to e-Statement services. We are working towards a paperless office by promoting 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. In addition, our annual reports are printed on environmentally friendlier papers using eco-friendly printing techniques.

Launch of Green Credit Services

BOCHK has spared no effort in spreading the green message and incorporating it in business operations. We actively promote "green credit" services through collaboration with Hong Kong Productivity Council ("HKPC") in offering the "Green Equipment Financing Scheme". 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 per HK$2,000 loan amount to designated green groups via the HKPC for supporting 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 implementation of energy saving initiatives and encourage them to switch to energy efficient electrical appliances and equipments.

We advocate the "Sport for All" message in the community through sponsorship of the *Festival of Sport*, which is in its fourth consecutive year.

To support sports development in Hong Kong, BOCHK donated HK$10 million to the Sports Federation and the Olympic Committee of Hong Kong, China and its affiliated "Hong Kong Athletes Career and Education Programme".

In Support of Bio-environmentalism

Natural resources are fundamental to the survival of mankind and their conservation is crucial to sustainable development. Following the establishment of Hong Kong National Geopark in eight geo-sites in Northeast New Territories and Sai Kung by the Ministry of Land and Resources, China, BOCHK introduced the "Hong Kong Geopark Charity Green Walk", which brought together the important elements of environmental protection and charity. From the end of 2009 to the first four months of 2010, a number of eco-tours were organised for the general public to learn more about Hong Kong's geological and geomorphologic features in the Sai Kung Volcanic Rock Region and Northeast New Territories Sedimentary Rock Region. With BOCHK Charitable Foundation ("The Foundation") sponsoring the relevant costs, the enrolment fees paid by the participants have been donated to Polar Museum Foundation for educational and conservation purposes. The HKSAR Government is prepared to apply for the listing of Hong Kong Geopark as a world-class geopark, and we will continue to organise such activities from April to December 2010 to support conservation of the eco-environment of the Geopark.

Caring for Community We Serve

With the understanding that the fulfilment of corporate social responsibility is crucial to the long-term development of a corporation, the Group reciprocates support to the community through a wide spectrum of activities. Our dedication to charitable causes has earned us the recognition of being a Caring Company by the Hong Kong Council of Social Service ("HKCSS") for seven successive years. Through cooperation with the Foundation, we participate in a diverse range of charitable activities, covering education and culture, sports and health, environmental protection, social welfare and assistance to the needy in Hong Kong, Macau and the Mainland of China.

Fostering Sports Development

The best-ever performance of Hong Kong athletes in the 5th East Asian Games has ignited enthusiasm for and raised public interest in sports. Participation in sports not only promotes good health, but also helps one develop a positive attitude towards life. We were delighted to become one of the first few Diamond Partners of the East Asian Games and proactively involved in the promotion of the relevant activities. We advocate the "Sport for All" message in the community through sponsorship of the *Festival of Sport* from 2007 for four consecutive years. In 2009, more than 155,000 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) 52nd Festival of Sport*.

In recognition of the Hong Kong athletes for their excellent performance at large-scale sport games and for inspiring the public with their perseverance, we have been supporting the *Bank of China Hong Kong Sports Stars Awards* for four 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 2008* held in 2009, we recorded a total of 55,000 votes from nearly 27,000 voters.

Badminton is the key sports initiative of the Foundation. A total of more than HK$10.75 million was allocated for development of the sport of badminton

In celebration of the 60th anniversary of the founding of the People's Republic of China, BOCHK donated 60 sets of specially-selected banknotes to six local charitable organisations.

BOCHK volunteers visited the afflicted areas of Sichuan earthquake, organised by the Hong Kong Red Cross.

in the past 11 years, benefiting over 800,000 participants. The Badminton Development & Training Scheme encompasses a variety of activities such as tournaments, systematic training programmes for the general public and school students as well as family fun days. We also continue our sponsorship of 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, and the competition's top-honour award – *the BOCHK Bauhinia Bowls Award* for eight consecutive years. In 2009, we recorded a total of 75,000 athlete enrolments from 272 schools which participated in 8,400 matches of this competition.

Building a Harmonious Community

To commemorate the 2008 Olympic Games, BOCHK issued the "Beijing 2008 Olympic Games Hong Kong Dollar Commemorative Banknote", from which the net proceeds of HK$313 million generated were donated to charitable causes. Among the net proceeds, a total of HK$153 million was donated to the Foundation, which lends its support to numerous charitable activities in Hong Kong. Another HK$50 million was donated to the Community Chest of Hong Kong ("The Chest") to assist the beneficiaries of its member agencies. BOCHK was presented with the "Magnificent Award" and "The Community Chest 40th Anniversary Benefactor of the Year Award" in recognition of its generosity.

In view of the adverse impact of global financial crisis on the local economy and community, we designated HK$90 million of the net proceeds to set up the BOCHK's "*Caring Hong Kong – A Heart Warming Campaign*" ("The Campaign") administered and monitored by a "Special Allocation Committee" formed by the Chest. Over 300 member social welfare agencies of the Chest and HKCSS were eligible to apply for funding from the Campaign. An aggregate of around HK$27 million was allocated to subvent 25 projects for the first phase of 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.

Our volunteer team actively participates in a wide range of charity events in Hong Kong and the Mainland of China.

BOCHK sponsored the "Be a Star" Charity Christmas Lunch organised by The Community Chest.

In celebration of the 200th anniversary of the birth of Chopin, BOCHK presented the "Yundi Li & the HKPO" concert.

To mark the significance of the issuance of the Olympic Banknote, BOCHK donated HK$10 million to the Sports Federation and the Olympic Committee of Hong Kong, China and its affiliated "Hong Kong Athletes Career and Education Programme". What is more, as an expression of the wishes of Hong Kong people to continuously support Sichuan people in rebuilding their home, BOCHK made a donation of HK$10 million for post-Sichuan earthquake reconstruction and rehabilitation projects on the eve of the first anniversary of the Sichuan Wenchuan earthquake.

In celebration of the 60th anniversary of the founding of the People's Republic of China, BOCHK donated 60 sets of specially-selected banknotes to six local charitable organisations, namely The Chest, Tung Wah Group of Hospitals, Po Leung Kuk, Pok Oi Hospital, Yan Chai Hospital and Hong Kong Red Cross, hoping to raise funds to help those in need.

We fully supported *The Community Chest New Territories Walk 2009* held at the soon-to-be-opened Stonecutters Bridge at that time. About 1,200 BOCHK staff, their family members and the Bank's customers, as well as over 30,000 participants from some 200 walking teams formed by different businesses, organisations, government departments and social welfare agencies joined forces to raise funds for the underprivileged.

Our staff proactively spread the message of "Caring for Society" by participating in various community and volunteer activities, including visiting elderly and low-income families, organising a Mid-Autumn charity sale, sending condolences to those affected by Sichuan Earthquake through a visit arranged by the Hong Kong Red Cross, and serving as eco-ambassadors of the *Hong Kong Geopark Charity Green Walk*.

We attach great importance to staff training and encourage continuous learning for self enhancement.

We organised an award presentation ceremony to recognise the excellent performance of our staff and boost morale.

Capitalising on the large customer base of the Group, the Foundation helped 11 charitable organisations to send out 3.78 million appeal inserts with bank statements in 2009, representing an increase of 35% compared with the previous year.

Nurturing Future Talent

We spare no effort in nurturing our younger generation to build a better society. Since 1990, the Foundation has awarded HK$12.33 million scholarships and bursaries to nine universities in Hong Kong, benefiting a total of 1,303 students.

We organised the fifth *Internship Programme for Financial Professionals in the Mainland of China*, together with *the Summer Internship Programme for Tertiary Institution Students* for the second year. 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.

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. Also, about 100 BOCHK customers, staff members and their companions attended "Yundi's Piano Masterclass" to explore new horizons in the musical world. During the year, we supported the premiere performance of the Asian Youth Orchestra in Hong Kong offering exchange opportunities for 100 of Asia's most promising musicians.

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".

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

The Group treasures our staff and believes they are our most valuable assets. We are dedicated to provide our people with a congenial working environment and promising careers so that they can develop with the Group.

Care for Our People

The Group boasts a team of multi-talented professionals from different backgrounds, with depth of experience and diverse expertise. To meet our growing business needs, we recruit well-qualified management and business professionals in Hong Kong, the Mainland of China and overseas. We advocate equal opportunity and adopt the principle of justice and fairness in our human resources management and recruitment practices. We strongly support the anti-discrimination ordinance, which is clearly outlined in relation to gender, disability, marital status and ethnicity in our staff handbook.

The global financial crisis in September 2008 had a significant impact on the banking sector. As one of the largest employers in Hong Kong, the Group endeavoured to retain staff through the implementation of stringent cost controls and expense reduction measures in our business operations. These had helped maintain a stable workforce amid a difficult environment.

About 500 BOCHK staff participated in the "Walk with Professor Kao" CUHK Walkathon to raise funds for patients suffering from cognitive impairment.

BOCHK staff teams were champions in both the 50km and 25km categories of "Green Power Hike - Bank Cup"

In order to increase employee loyalty and boost staff morale, we organised various team building activities. The Group's senior management members frequently visit branches to show that management cares. We hold Distinguished Staff Awards to recognise the excellent staff performance. We also have a support hotline for front-line staff and organise different workshops throughout the year on stress management, customer relationship, EQ management and teamwork skills in order to help staff relieve their stress.

A wide range of employee relations and communications activities, such as sharing sessions, branch visits, internal newsletters and team-building events, have been organised to facilitate two-way communication and strengthen staff relationships. We listen to feedback from our staff. Extensive employee engagement research has been conducted to better understand their needs and promote amicable employee relationship. Different communication channels are utilised, including e-notice boards and internal promotion to facilitate better information exchange.

Last year, Hong Kong was threatened by the outbreak of influenza A (H1N1). The Group adopted various measures to protect staff against H1N1, including dispatch of health kits and injections of H1N1 vaccine. We also provide free body check-ups for our members. To ensure a healthy working environment, we maintain clean and tidy offices. Furthermore, our front-line staff summer uniform is made of winkle-resisting and sweat-evaporating materials which are designed for comfort yet are environmentally friendly.

At the BOC Tower office, staff benefit from a subsidised canteen which offers breakfast, lunch and dinner in both Chinese and western styles.

We encourage work-life balance by organising a series of family activities, such as fun fairs, orienteering, BBQ, competitions in badminton, table-tennis and other sports and games, as well as leisure interest classes. Our strong team spirit is reflected in our winning of top awards in numerous open competitions, in basketball, athletics, dragon-boating, mountaineering, etc.

Professional Staff Training and Development

Cultivating talented professionals is one of our top priorities. We invest a huge amount of resources in staff training and development every year with the objectives to meet the needs of our business development and strengthen the Group's human resources. We have formulated a forward looking development strategy in order to enhance the overall quality of our professionals.

The Group designs different and multi-faceted training systems to cater the needs of various positions and levels. We work with reputable institutions such as Harvard Business School and Oxford University, to provide world-class training for our senior management. Such training aims to enhance their management skills and strategic thinking. For our middle management, we offer an effective management skills training programme. We also provide continuing education and training programmes to enable our staff to cope effectively in the ever-changing business environment. These include market and business environment updates, enhancement of business skills and integrated management capabilities, and strengthening of risk and compliance awareness.

The Group's training programmes offer flexibility to encourage staff participation. In addition to face-to-face lectures, we also provide online education, part-time learning, tutorials/ mentor scheme and on-the-job training. To encourage continuous learning and self development, we offer education subsidies and awards for staff to attain professional qualifications. In 2009, we organised 2,890 training courses for 207,400 participants.

Mainland business is one of the items on our agenda of the Group's business development strategy. Our staff have the opportunity to participate injoint projects or training courses held by BOC in the Mainland, allowing them to gain knowledge about the Mainland market and broaden their horizons. Our internal recruitment policy encourages staff to explore different opportunities and realise their career goals.

A wide range of activities promoting good health and sports are organised for our staff.

Competitive Incentive Schemes

The Group is committed to providing our staff with reasonable, incentive and competitive remuneration packages. We aim to retain, attract and motivate the best talents. We continue to 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 performances of the Group, respective business units as well as individual staff. We also have sales incentive schemes linked to the performance of the businesses. We believe such policy encourages staff to outperform against the market.

Appreciation and recognition are important to our people. The Group organises annual distinguished team and staff award presentation in recognition of staff's excellent performance to promote team spirit.

Culture of Corporate Excellence

Our core values are: Respect, Teamwork, Performance, Innovation, Integrity and Social Responsibility. These values help to promote service quality awareness. During the year, we strengthened our corporate culture based on the theme of "Corporate Culture Starts with Me". This inspired greater staff involvement in building our corporate culture and helped promote a harmonious atmosphere, leading to sustainable corporate development.

We also promote a reading culture in conjunction with Hong Kong Commercial Press. We have organised various book fairs in BOC Tower and BOC Centre. Over the year, we have been working with Hong Kong Red Cross to organise blood donation events, with an overwhelming response from hundreds of people every year.

Corporate social responsibility brings us positive and long-term value. It is a priority for the Group in the year ahead. We will continue to uphold our corporate social responsibility in order to build a harmonious society and contribute to the sustainable development of society as a whole.

Customer-centric

- One of "Top 100 Banking Brands" (The Banker)
- SME's Best Partner Award 2009 (The Hong Kong Chamber of Small and Medium Business Limited)
- Hong Kong Call Centre Association Awards 2009
  Gold Award: Best Contact Centre in Corporate Social Responsibility
  Gold Award: Outbound Contact Centre of the Year (Under 50 Seats)
  Gold Award: Contact Centre Technical Support Professional of the Year
  Silver Award: Inbound Contact Centre Manager of the Year
  Silver Award: Inbound Contact Centre Agent of the Year
  Silver Award: Outbound Contact Centre Agent of the Year
  Bronze Award: Inbound Contact Centre Supervisor of the Year
  Bronze Award: Inbound Contact Centre Agent of the Year
- BOCHK Automatic Banking Centre at Mongkok East MTR Station: Annual Best Shop Image 2009 (MTR Corporation)
- Lipper Fund Awards 2009 – Best Mixed Assets Fund Group (Hong Kong Economic Journal and Metro Finance)
- The Global Chinese Business 1000 – Hong Kong Top 20 (Yazhou Zhoukan)
- Sing Tao Excellent Services Brand Award 2009 – Mortgage Services (Sing Tao Daily)
- The Best for Home – Banking Services (Take Me Home)
- Capital Weekly Service Awards 2009 – Internet Banking (Capital Weekly)
- Awards presented to BOC Credit Card (International) Limited by various organisations:

China UnionPay:

Highest Card Volume (Credit Card) – Gold Award – Hong Kong
Largest Card Number (Credit Card) Award – Hong Kong
Highest Acquiring Volume Growth – Gold Award – Hong Kong
Bank of the Year Award – Hong Kong & Macau

Visa International:

Largest Retail 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 In 2009: Number of Open Cards in Hong Kong – 1st Runner Up
The Highest Market Share In 2009: Premium Cards Spending in Hong Kong – 2nd Runner Up
The Highest Market Share In 2009: Merchant Purchase Volume in Hong Kong – 2nd Runner Up
The Highest Market Share In 2009: Number of Open Cards in Macau – Champion

Social Responsibility

- Magnificent Award & The Community Chest 40th Anniversary Benefactor of the Year Award (The Community Chest)
- Web Care Award – Silver Award (Internet Professional Association)
- Caring Company for seven consecutive years (The Hong Kong Council of Social Service)

Environmental Protection

- Merit Green Enterprise of the 1st "CAPITAL Entrepreneur Green Enterprise Awards 2010"

BOC Tower, BOC Centre

- Management System Certificate of ISO 14001 (Det Norske Veritas)
- Indoor Air Quality Certificate – Excellent Class (Environment Protection Department of HKSAR)
- The Quality Water Recognition Scheme for Buildings Certificate (Water Supplies Department of HKSAR)

BOC Building

- HKQAA – Carbon Reduction Label (Hong Kong Quality Assurance Agency)
- The Quality Water Recognition Scheme for Buildings Certificate (Water Supplies Department of HKSAR)

Innovation and Creativity

- ***International ARC Awards***

  Annual Report 2008 of BOC Hong Kong (Holdings) Limited: Silver Prize in the category of Chairman's Letter: Bank Holding Company, Honors in the categories of Written Text: Bank Holding Company (Eastern Hemisphere) and Cover Photo/Design: Bank Holding Company

- ***Astrid Awards***

  Annual Report 2007 of BOC Hong Kong (Holdings) Limited:
  Gold Award in the category of "Annual Report – Photography"

- ***iNOVA Awards***

  Investor relations website of BOC Hong Kong (Holdings) Limited:
  Bronze Award for "Investor/Shareholder Relations"

- ***Mercury Awards***

  Launch of RMB Sovereign Bonds in Hong Kong:
  Gold Award in the category of "Publicity: Client Product Launch"
  SIBOS 2009:
  Silver Award in the category of "Special Events: Exhibition & Gala Dinner"
  Annual Report 2008 of BOC Hong Kong (Holdings) Limited:
  Honors in the category of "Annual Reports – Overall Presentation: Banks"
  Cross-border RMB Trade Settlement Service:
  Honors in the category of "Promotion/ Marketing: New Product Development"

- ***Galaxy Awards***

  Beijing 2008 Olympic Games Hong Kong Dollar Commemorative Banknote:
  Gold Award for "Design: Packaging"
  BOCHK Website:
  Honors for "Web Sites: Banks"

- ***International Film & Video Festival***

  BOCHK's Olympic Games TV Commercial:
  Certificate for Creative Excellence (Corporate: Sports)

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 239, which comprise the consolidated and company balance sheets as at 31 December 2009, 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 notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these 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 as to whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 23 March 2010

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December	Notes	2009 HK$'m	2008 HK$'m
Interest income		**21,684**	35,281
Interest expense		**(3,752)**	(15,124)
Net interest income	5	**17,932**	20,157
Fees and commission income		**8,536**	7,214
Fees and commission expenses		**(2,028)**	(2,035)
Net fees and commission income	6	**6,508**	5,179
Net trading income	7	**1,485**	1,914
Net loss on financial instruments designated at fair value through profit or loss		**(678)**	(452)
Net loss on investment in securities	8	**(132)**	(15)
Net insurance premium income	9	**7,744**	5,891
Other operating income	10	**482**	561
Total operating income		**33,341**	33,235
Net insurance benefits and claims	11	**(7,286)**	(7,709)
Net operating income before impairment allowances		**26,055**	25,526
Net reversal/(charge) of impairment allowances	12	**1,190**	(12,573)
Net operating income		**27,245**	12,953
Operating expenses	13	**(12,141)**	(8,771)
Operating profit		**15,104**	4,182
Net gain/(loss) from disposal of/fair value adjustments on investment properties	14	**1,563**	(118)
Net gain from disposal/revaluation of properties, plant and equipment	15	**50**	7
Share of profits less losses after tax of associates	30	**7**	7
Profit before taxation		**16,724**	4,078
Taxation	16	**(2,678)**	(1,071)
Profit for the year		**14,046**	3,007
Profit attributable to:			
Equity holders of the Company		**13,725**	3,343
Non-controlling interests		**321**	(336)
		14,046	3,007
Dividends	18	**9,040**	4,631
		HK$	HK$
Earnings per share for profit attributable to the equity holders of the Company	19	**1.2981**	0.3162

The notes on pages 114 to 239 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Notes	2009 HK$'m	2008 HK$'m
Profit for the year		**14,046**	3,007
Change in fair value of available-for-sale securities		**7,600**	(12,247)
Revaluation of premises		**4,232**	(241)
Currency translation difference		**(1)**	212
Net deferred tax on items taken directly to equity	39	**(1,572)**	835
Reclassification adjustments			
Release upon disposal of available-for-sale securities		**(51)**	15
Net impairment (releases)/charges on available-for-sale securities transferred to income statement	12	**(612)**	7,839
Amortisation with respect to available-for-sale securities transferred to held-to-maturity securities		**(64)**	(87)
Other comprehensive income for the year, net of tax		**9,532**	(3,674)
Total comprehensive income for the year		**23,578**	(667)
Total comprehensive income attributable to:			
Equity holders of the Company		**23,196**	(343)
Non-controlling interests		**382**	(324)
		23,578	(667)

The notes on pages 114 to 239 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Notes	2009 HK$'m	2008 HK$'m
Profit for the year	17	**10,293**	1,372
Change in fair value of available-for-sale securities		**1,374**	(2,879)
Reclassification adjustment			
Net impairment charges on available-for-sale securities transferred to income statement		**–**	2,730
Other comprehensive income for the year, net of tax		**1,374**	(149)
Total comprehensive income for the year		**11,667**	1,223

The notes on pages 114 to 239 are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December	Notes	**2009 HK$'m**	2008 HK$'m
ASSETS			
Cash and balances with banks and other financial institutions	23	**160,788**	153,269
Placements with banks and other financial institutions maturing between one and twelve months		**60,282**	89,718
Financial assets at fair value through profit or loss	24	**44,594**	43,812
Derivative financial instruments	25	**17,584**	19,628
Hong Kong SAR Government certificates of indebtedness		**38,310**	34,200
Advances and other accounts	26	**527,135**	469,493
Investment in securities	28	**313,755**	291,681
Interests in associates	30	**217**	88
Investment properties	31	**9,364**	7,727
Properties, plant and equipment	32	**26,286**	22,795
Deferred tax assets	39	**149**	154
Other assets	33	**14,327**	14,679
Total assets		**1,212,791**	1,147,244
LIABILITIES			
Hong Kong SAR currency notes in circulation	34	**38,310**	34,200
Deposits and balances of banks and other financial institutions		**99,647**	88,779
Financial liabilities at fair value through profit or loss	35	**16,288**	21,938
Derivative financial instruments	25	**13,967**	20,450
Deposits from customers	36	**842,321**	802,577
Debt securities in issue at amortised cost		**–**	1,042
Other accounts and provisions	37	**29,930**	34,873
Current tax liabilities		**1,918**	441
Deferred tax liabilities	39	**4,591**	2,799
Insurance contract liabilities	40	**33,408**	28,274
Subordinated liabilities	41	**26,776**	27,339
Total liabilities		**1,107,156**	1,062,712
EQUITY			
Share capital	42	**52,864**	52,864
Reserves	43	**50,038**	29,855
Capital and reserves attributable to the equity holders of the Company		**102,902**	82,719
Non-controlling interests		**2,733**	1,813
Total equity		**105,635**	84,532
Total liabilities and equity		**1,212,791**	1,147,244

The notes on pages 114 to 239 are an integral part of these financial statements.

Approved by the Board of Directors on 23 March 2010 and signed on behalf of the Board by:

XIAO Gang
Director

HE Guangbei
Director

BALANCE SHEET

As at 31 December	Notes	**2009** **HK$'m**	2008 HK$'m
ASSETS			
Bank balances		**51**	337
Investment in securities	28	**2,630**	1,256
Investment in subsidiaries	29	**54,784**	54,019
Other assets		**6,802**	–
		64,267	55,612
LIABILITIES			
Other accounts and provisions		**2**	1
EQUITY			
Share capital	42	**52,864**	52,864
Reserves	43	**11,401**	2,747
Capital and reserve attributable to the equity holders of the Company		**64,265**	55,611
Total liabilities and equity		**64,267**	55,612

The notes on pages 114 to 239 are an integral part of these financial statements.

Approved by the Board of Directors on 23 March 2010 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 2008	52,864	8,451	(456)	4,130	14	27,839	92,842	2,216	95,058
Comprehensive income	–	(141)	(3,669)	–	212	3,255	(343)	(324)	(667)
Release upon disposal of premises	–	(96)	–	–	–	96	–	–	–
Transfer from retained earnings	–	–	–	373	–	(373)	–	–	–
Dividends paid	–	–	–	–	–	(9,780)	(9,780)	(324)	(10,104)
Increase in non-controlling interests arising from capital issuance of a subsidiary	–	–	–	–	–	–	–	245	245
At 31 December 2008	52,864	8,214	(4,125)	4,503	226	21,037	82,719	1,813	84,532
Company and subsidiaries	52,864	8,214	(4,125)	4,503	226	20,987	82,669		
Associates	–	–	–	–	–	50	50		
	52,864	8,214	(4,125)	4,503	226	21,037	82,719		
At 1 January 2009	**52,864**	**8,214**	**(4,125)**	**4,503**	**226**	**21,037**	**82,719**	**1,813**	**84,532**
Comprehensive income	**–**	**3,530**	**6,005**	**–**	**(1)**	**13,662**	**23,196**	**382**	**23,578**
Release upon disposal of premises	**–**	**(185)**	**–**	**–**	**–**	**185**	**–**	**–**	**–**
Transfer to retained earnings	**–**	**–**	**–**	**(463)**	**–**	**463**	**–**	**–**	**–**
Dividends 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**	**11,559**	**1,880**	**4,040**	**225**	**32,334**	**102,902**	**2,733**	**105,635**
Company and subsidiaries	**52,864**	**11,559**	**1,880**	**4,040**	**225**	**32,279**	**102,847**		
Associates	**–**	**–**	**–**	**–**	**–**	**55**	**55**		
	52,864	**11,559**	**1,880**	**4,040**	**225**	**32,334**	**102,902**		
Representing:									
2009 final dividend proposed (Note 18)						**6,027**			
Others						**26,307**			
Retained earnings as at 31 December 2009						**32,334**			

* 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 239 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Attributable to the equity holders of the Company			
	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 2008	52,864	149	11,155	64,168
Comprehensive income	–	(149)	1,372	1,223
Dividends paid	–	–	(9,780)	(9,780)
At 31 December 2008	52,864	–	2,747	55,611
At 1 January 2009	**52,864**	**–**	**2,747**	**55,611**
Comprehensive income	**–**	**1,374**	**10,293**	**11,667**
Dividends paid	**–**	**–**	**(3,013)**	**(3,013)**
At 31 December 2009	**52,864**	**1,374**	**10,027**	**64,265**

The notes on pages 114 to 239 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December	Notes	2009 HK$'m	2008 HK$'m
Cash flows from operating activities			
Operating cash inflow before taxation	44(a)	**13,321**	7,503
Hong Kong profits tax paid		**(866)**	(2,173)
Overseas profits tax paid		**(110)**	(131)
Net cash inflow from operating activities		**12,345**	5,199
Cash flows from investing activities			
Purchase of properties, plant and equipment	32	**(574)**	(818)
Acquisition of an associate	30	**(129)**	–
Proceeds from disposal of properties, plant and equipment		**187**	104
Proceeds from disposal of investment properties		**86**	200
Proceeds from disposal of an associate		**3**	–
Dividends received from associates	30	**4**	2
Net cash outflow from investing activities		**(423)**	(512)
Cash flows from financing activities			
Dividends paid to the equity holders of the Company		**(3,013)**	(9,780)
Dividends paid to non-controlling interests		**(197)**	(324)
Proceeds from capital issuance of a subsidiary		**735**	245
Proceeds from subordinated liabilities		**–**	28,254
Interest paid for subordinated loans		**(930)**	(226)
Repayment of subordinated loans		**(735)**	–
Net cash (outflow)/inflow from financing activities		**(4,140)**	18,169
Increase in cash and cash equivalents		**7,782**	22,856
Cash and cash equivalents at 1 January		**174,926**	152,070
Cash and cash equivalents at 31 December	44(b)	**182,708**	174,926

The notes on pages 114 to 239 are an integral part of these 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.

(a) Standards, amendments and interpretations already effective for accounting periods beginning on 1 January 2009

Standard/ Interpretation	Content	Applicable for financial years beginning on/after	Relevant to the Group
HKAS 1 (Revised)	Presentation of Financial Statements	1 January 2009	Yes
HKAS 23 (Revised)	Borrowing Costs	1 January 2009	No
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009	No
HKFRS 1 and HKAS 27 (Amendments)	Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009	No
HKFRS 2 (Amendment)	Share based payments – Vesting Conditions and Cancellations	1 January 2009	No
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments	1 January 2009	Yes
HKFRS 8	Operating Segments	1 January 2009	Yes
HK(IFRIC)-Int 13	Customer Loyalty Programmes	1 July 2008	Yes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate	1 January 2009	No
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008	No

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standards, amendments and interpretations already effective for accounting periods beginning on 1 January 2009 (continued)

- *HKAS 1 Presentation of Financial Statements (Revised)*

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

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

- *HKFRS 7 Financial Instruments: Disclosures (Amendment)*

  The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures and requires some specific quantitative disclosures for financial instruments on the lowest level in the hierarchy. It is not required to provide comparative disclosures in the first year of application. The adoption of the amendment does not have an impact on the financial position or the comprehensive income of the Group.

- *HKFRS 8 Operating Segments*

  HKFRS 8 replaces HKAS 14 Segment Reporting. It requires a 'management approach' under which segment information, that reflects the operating result of segments reviewed regularly by the management for operation decisions making, resources allocation and performance assessment, is presented on the same basis and in the same manner as that used for internal reporting to the management. The adoption of HKFRS 8 makes no change in the number of reportable segments presented. However, there is a change in inter-segment funding, details of which are disclosed in Note 49. As the impact is not significant, no restatement of prior year figure has been made.

- *HK(IFRIC)-Int 13 Customer Loyalty Programmes*

  HK(IFRIC)-Int 13 clarifies that when an entity provides customers with incentives to buy goods or services under a customer loyalty programme (for example, customers accumulate loyalty points to redeem free or discounted products or service), the fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale or service. As the interpretation does not have a significant impact on the Group's results of operations and financial position, no restatement of prior year figure has been made.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations issued that are not yet effective and have not been early adopted by the Group in 2009

The following standards, amendments and interpretations have been issued and are mandatory for accounting periods beginning on or after 1 July 2009:

Standard/ Interpretation	Content	Applicable for financial years beginning on/after	Relevant to the Group
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	1 July 2009	Yes
HKAS 32 (Amendment)	Classification of Rights Issues	1 February 2010	No
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Eligible Hedged Items	1 July 2009	No
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 9	Financial Instruments Part 1: Classification and Measurement	1 January 2013	Yes
HK(IFRIC)-Int 9 (Revised)	Reassessment of embedded derivatives	30 June 2009	No
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(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	No

- *HKAS 27 Consolidated and Separate Financial Statements (Revised)*

  The revised standard requires changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within other comprehensive income. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in income statement. The Group will apply HKAS 27 (Revised) prospectively from 1 January 2010.

- *HKFRS 3 Business Combinations (Revised)*

  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. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations (other than common control combination) acquired on or after 1 January 2010.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations issued that are not yet effective and have not been early adopted by the Group in 2009 (continued)

- *HKFRS 9 Financial Instruments Part 1: Classification and Measurement*

  HKFRS 9 was issued in November 2009 and replaces those parts of HKAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

  Financial assets are required to be classified into one of the below two measurement categories: those to be measured subsequently at fair value or 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 recycling 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.

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

(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 January 2009 or 1 January 2010 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(d) Standard issued that is not yet effective but has been early adopted by the Group in 2009

The following revised standard has been early partially adopted by the Group retrospectively.

Standard/ Interpretation	Content	Applicable for financial years beginning on/after	Relevant to the Group
HKAS 24 (Revised)	Related Party Disclosures	1 January 2011	Yes

- *HKAS 24 Related Party Disclosures (Revised)*

  The revised standard was issued in November 2009. In 2009, the Group partially adopted the revised HKAS 24 – Related Party Disclosures as permitted in its transition provisions. The Group applied the partial exemption in HKAS 24 (Revised) regarding disclosure requirements for government-related entities. According to the previous version of HKAS 24, the Group was required to disclose transactions with the government and other government related-entities. The amendment introduces an exemption from certain disclosure requirements of HKAS 24 for transactions between government-related entities and the government, and all other government-related entities. The Group has early adopted the partial exemption and has applied this retrospectively. The early application does not have any effect on the Group's operating results, financial position or comprehensive income but has an impact on disclosure. The related party disclosures have been changed accordingly.

  The remainder of the revised standard amending the definition of related parties will be applied in the annual period beginning 1 January 2011 and will not have significant impact on the Group.

Except for the early partial adoption of HKAS 24 (Revised), the Group has not early adopted other new or amended accounting standards or interpretations in 2009.

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.

For acquisition of 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 acquired company 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 acquired company 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 treated as a merger reserve in equity. The effects of all transactions between the Group and the acquired company, whether occurring before or after the combination, are eliminated in preparing the consolidated financial statements of the Group. The transaction costs for the combination will be expensed in the income statement.

2. Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(1) Subsidiaries (continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group not under common control. The cost of such an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed as at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets (including intangible 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. 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.

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.

The gain or loss on the disposal of a subsidiary represents 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.

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

(2) 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 cumulative 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. Summary of significant accounting policies (continued)

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 balance sheet date 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.

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 balance sheet date;
- 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, such as the conversion option in a convertible bond, 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.

2. Summary of significant accounting policies (continued)

2.5 Derivative financial instruments and hedge accounting (continued)

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.

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.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity.

(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 recycled 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 cumulative 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 cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

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. Summary of significant accounting policies (continued)

2.7 Interest income and expense and fees 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, interest income or interest expense from hedged instruments such as fixed rate debt securities 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.

2.8 Financial assets

The Group classifies its financial assets into the following 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.

2. Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

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

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 consolidated 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 income 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 recognised in the consolidated income statement 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.

(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.

2. Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

(4) Available-for-sale (continued)

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 cumulative gain or loss previously recognised in equity should be transferred to the consolidated income statement. However, interest which includes the amortisation of premium and discount is calculated using the effective interest method and is recognised in the consolidated income statement. Dividends on equity instruments classified as available-for-sale are recognised in the consolidated income statement 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

- 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 or at 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. Summary of significant accounting policies (continued)

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 other than 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 income.

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.

2.11 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 balance sheet date. Mark-to-market gains or losses on precious metals are included in net trading income.

2.13 Impairment of financial assets

The Group assesses as at each balance sheet date 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;

2. Summary of significant accounting policies (continued)

2.13 Impairment of financial assets (continued)

(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.

(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.

2. Summary of significant accounting policies (continued)

2.13 Impairment of financial assets (continued)

(1) Assets carried at amortised cost (continued)

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) Assets classified as available-for-sale

If evidence of impairment exists for available-for-sale financial assets, the cumulative 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.

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, cumulative 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 in equity; 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 each balance sheet date.

At each balance sheet date, 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 included 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. Deferred income tax is provided on revaluation surpluses of investment properties in accordance with HK(SIC)-Int 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" on HKAS 12 "Income Taxes".

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) which include land use rights with payments that are separately identifiable at inception of the lease 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.

Where the Group is a lessor, the land and buildings subject to the operating lease are accounted for as investment properties. 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 on properties

Where the land and buildings elements of leasehold properties held for own use can be split reliably at inception of the lease, leasehold land and land use rights are recognised as operating leases if they have indefinite economic lives. The up-front prepayments made or other costs incurred for acquiring the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease. Where there is impairment of the up-front prepayments, the impairment is expensed in the income statement immediately. Where the land and buildings cannot be split reliably at inception of the lease, the land and buildings elements will continue to be treated as finance leases and measured at fair value.

Separate measurements of the land and buildings elements are not required when the Group's interest in both land and buildings is classified as investment properties as if they are finance leases and are measured at fair value.

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, which did not split the values of the leasehold properties between the land and buildings elements. 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 is 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. The Group has also adopted the revaluation model under HKAS 16 "Property, Plant and Equipment" by which premises held for own use arising under these finance leases are measured at fair value less any accumulated depreciation and impairment losses.

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 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.

2. Summary of significant accounting policies (continued)

2.19 Insurance contracts (continued)

(1) Insurance contracts classification, recognition and measurement (continued)

Retirement scheme management category III insurance contracts, as defined in the Insurance Companies Ordinance, insure events associated with human life under retirement schemes. 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 balance sheet date is reported as the unearned premium liability.

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) Liability adequacy test

At each balance sheet date, 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 balance sheet date.

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 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 are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

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 balance sheet date 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 balance sheet date 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 property and equipment, revaluation of certain assets including available-for-sale securities and properties, 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)

2.24 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 to reduce any differences between loss estimates and actual loss experience.

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 not only take into consideration the mark-to-market (MTM) price of the issue and its external credit rating, but also other factors including 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. 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.

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 current balance sheet date, and additional impairment charges – or releases of impairment charges – may be required in future accounting periods.

3. Critical accounting estimates and judgements in applying accounting policies (continued)

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. To the extent practical, the models use only observable data.

3.4 Fair value of structured investment vehicle

One of the Group's non-banking subsidiaries has invested in a structured investment vehicle managed by a third party portfolio manager, which is included in the Group's investment portfolio classified as financial assets at fair value through profit or loss. As there is no active market for this investment, management has assessed the fair value with reference to valuation received from the third party portfolio manager. As at 31 December 2009, the net carrying amount of this investment in the structured investment vehicle was approximately HK$4 million (2008: approximately HK$57 million).

3.5 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.

3.6 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 standard industry and 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$43 million (2008: HK$106 million), which accounts for 0.14% (2008: 0.39%) of the liability. In this case, it is assumed there is no relief arising from reinsurance contracts held.

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)

3.6 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$637 million (2008: approximately HK$998 million). In this case, there is no relief arising from reinsurance contracts held.

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 35 basis points (2008: 15 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.

3.7 Provisions

The Group uses judgement to assess whether the Group has a present legal or constructive obligation as a result of past events at each balance sheet date, and judgement is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation.

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").

In determining the Group's charge to the income statement 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 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.

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 internal 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.

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.

<u>Loans and advances</u>

Different credit approval and control procedures are adopted according to the level of risk associated with the customer, counterparty or transaction. Corporate and financial institution credit applications are independently reviewed, objectively assessed and monitored by risk management units and credit rating models/scorecards are used in the process of credit approval whenever they are applicable. A credit scoring system is used to process retail credit transactions, including residential mortgage loans, personal loans and credit cards. 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.

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.

The Group's internal loan grading system divides credit assets into 5 categories with reference to HKMA's guidelines.

"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.

"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.

4. Financial risk management (continued)

4.1 Credit Risk (continued)

Credit risk measurement and control (continued)

Debt securities and derivatives

For investments in debt securities and securitisation assets, the external credit rating and assessment on credit quality of the underlying assets are used for managing the credit risk involved. Credit limits are established on a customer and security issuer basis. 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 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 properties, cash deposits, securities and investment funds. In the commercial and industrial sector, the main types of collateral are real 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 2009 and 2008, 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:

	2009 HK$'m	2008 HK$'m
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with banks and other financial institutions	**157,379**	153,269
Placements with banks and other financial institutions maturing between 1 and 12 months	**60,282**	89,718
Financial assets at fair value through profit or loss – debt securities	**40,328**	41,438
Derivative financial instruments	**17,584**	19,628
Hong Kong SAR Government certificates of indebtedness	**38,310**	34,200
Advances and other accounts	**527,135**	469,493
Investment in securities		
– debt securities – available-for-sale	**225,356**	170,935
– debt securities – held-to-maturity	**72,439**	106,465
– debt securities – loans and receivables	**12,703**	12,595
Other assets	**11,895**	13,332
Credit risk exposures relating to off-balance sheet items are as follows:		
Letters of guarantee issued	**10,990**	11,838
Loan commitment and other credit related liabilities	**265,434**	241,551
	1,439,835	1,364,462

The above tables represent a worst case scenario of credit risk exposure to the Group at 31 December 2009 and 2008, 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 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:

	2009 HK$'m	2008 HK$'m
Advances to customers		
Personal		
– Mortgages	**140,940**	130,980
– Credit cards	**7,229**	6,445
– Others	**13,270**	14,359
Corporate		
– Commercial loans	**324,212**	284,108
– Trade finance	**29,321**	24,555
	514,972	460,447
Trade bills	**9,100**	7,609
Advances to banks and other financial institutions	**5,332**	3,738
Total	**529,404**	471,794

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.

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.

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(a) Advances neither overdue nor impaired

Advances that were neither overdue nor impaired are analysed by internal credit grades as follows:

	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**

	2008			
	Pass HK$'m	Special mention HK$'m	Substandard or below HK$'m	Total HK$'m
Advances to customers				
Personal				
– Mortgages	128,545	155	88	128,788
– Credit cards	6,179	–	–	6,179
– Others	13,839	75	10	13,924
Corporate				
– Commercial loans	275,844	6,349	274	282,467
– Trade finance	23,381	538	5	23,924
	447,788	7,117	377	455,282
Trade bills	7,084	523	2	7,609
Advances to banks and other financial institutions	3,738	–	–	3,738
Total	458,610	7,640	379	466,629

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 table.

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:

	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**

	2008					
	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	2,065	34	12	30	2,141	4,870
– Credit cards	237	–	–	–	237	–
– Others	318	3	3	32	356	731
Corporate						
– Commercial loans	832	8	9	156	1,005	2,437
– Trade finance	81	4	–	15	100	178
Total	3,533	49	24	233	3,839	8,216

	2009 HK$'m	2008 HK$'m
Current market value of collateral held against the covered portion of advances to customers	**7,064**	8,216
Covered portion of advances to customers	**2,856**	3,341
Uncovered portion of advances to customers	**299**	498

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:

	2009		2008	
	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	**14**	**15**	51	50
– Credit cards	**27**	**–**	29	–
– Others	**54**	**21**	79	21
Corporate				
– Commercial loans	**720**	**163**	636	434
– Trade finance	**208**	**28**	531	205
Total	**1,023**	**227**	1,326	710
Loan impairment allowances made in respect of such advances	**696**		829	

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

	2009 HK$'m	2008 HK$'m
Current market value of collateral held against the covered portion of advances to customers	**227**	710
Covered portion of advances to customers	**192**	628
Uncovered portion of advances to customers	**831**	698

Classified or impaired advances to customers are analysed as follows:

	2009 HK$'m	2008 HK$'m
Gross classified or impaired advances to customers	**1,769**	2,138
Gross classified or impaired advances to customers as a percentage of gross advances to customers	**0.34%**	0.46%
Individually assessed loan impairment allowances made in respect of such advances	**671**	800

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:

	2009		2008	
	Amount HK$'m	**% of gross advances to customers**	Amount HK$'m	% of gross advances to customers
Gross advances to customers which have been overdue for:				
– six months or less but over three months	**103**	**0.02%**	339	0.07%
– one year or less but over six months	**154**	**0.03%**	66	0.02%
– over one year	**569**	**0.11%**	571	0.12%
Advances overdue for over three months	**826**	**0.16%**	976	0.21%
Individually assessed loan impairment allowances made in respect of such advances	**393**		439	

	2009 HK$'m	2008 HK$'m
Current market value of collateral held against the covered portion of advances to customers	**977**	1,436
Covered portion of advances to customers	**459**	604
Uncovered portion of advances to customers	**367**	372

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

As at 31 December 2009 and 2008, 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

	2009		2008	
	Amount HK$'m	**% of gross advances to customers**	Amount HK$'m	% of gross advances to customers
Rescheduled advances to customers net of amounts included in advances overdue for more than 3 months	**573**	**0.11%**	127	0.03%

As at 31 December 2009, the total rescheduled advances to customers that were rescheduled during the year amounted to HK$515 million (2008: HK$54 million).

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

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

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:

	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	23,002	38.08%	3	5	1	68
– Property investment	72,686	86.03%	206	475	10	359
– Financial concerns	11,596	8.02%	–	5	–	53
– Stockbrokers	301	32.90%	–	–	–	2
– Wholesale and retail trade	19,231	53.38%	154	225	61	96
– Manufacturing	21,388	46.46%	117	178	47	108
– Transport and transport equipment	26,951	16.39%	91	14	3	80
– Recreational activities	309	14.41%	–	–	–	1
– Information technology	15,581	0.79%	–	1	–	45
– Others	33,216	22.10%	62	203	15	106
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	127,208	99.99%	125	1,368	1	68
– Credit card advances	7,348	–	27	183	–	76
– Others	10,645	73.48%	68	174	36	18
Total loans for use in Hong Kong	381,394	65.91%	930	3,288	175	1,090
Trade finance	29,321	23.03%	237	224	175	128
Loans for use outside Hong Kong	104,257	25.54%	602	240	321	380
Gross advances to customers	514,972	55.30%	1,769	3,752	671	1,598

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)

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

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

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:

	2009		2008	
	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	**6**	**–**	28	–
– Property investment	**32**	**37**	139	5
– Financial concerns	**4**	**–**	24	–
– Stockbrokers	**2**	**–**	–	–
– Wholesale and retail trade	**44**	**28**	120	103
– Manufacturing	**34**	**101**	249	125
– Transport and transport equipment	**10**	**1**	34	–
– Recreational activities	**1**	**–**	–	–
– Information technology	**7**	**–**	9	–
– Others	**19**	**12**	34	8
Individuals				
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**1**	**1**	1	1
– Loans for purchase of other residential properties	**1**	**–**	8	–
– Credit card advances	**194**	**189**	157	141
– Others	**66**	**66**	61	47
Total loans for use in Hong Kong	**421**	**435**	864	430
Trade finance	**82**	**158**	374	26
Loans for use outside Hong Kong	**246**	**6**	266	19
Gross advances to customers	**749**	**599**	1,504	475

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

	2009 HK$'m	2008 HK$'m
Hong Kong	**409,564**	374,506
Mainland China	**72,556**	55,318
Others	**32,852**	30,623
	514,972	460,447
Collectively assessed loan impairment allowances in respect of the gross advances to customers		
Hong Kong	**1,205**	1,172
Mainland China	**290**	221
Others	**103**	108
	1,598	1,501

Overdue advances

	2009 HK$'m	2008 HK$'m
Hong Kong	**3,470**	4,622
Mainland China	**253**	266
Others	**29**	29
	3,752	4,917
Individually assessed loan impairment allowances in respect of the overdue advances		
Hong Kong	**297**	554
Mainland China	**154**	99
Others	**6**	21
	457	674
Collectively assessed loan impairment allowances in respect of the overdue advances		
Hong Kong	**57**	50
Mainland China	**9**	6
	66	56

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

	2009 HK$'m	2008 HK$'m
Hong Kong	**1,153**	1,792
Mainland China	**260**	323
Others	**356**	23
	1,769	2,138
Individually assessed loan impairment allowances in respect of the classified or impaired advances		
Hong Kong	**316**	677
Mainland China	**191**	100
Others	**164**	23
	671	800
Collectively assessed loan impairment allowances in respect of the classified or impaired advances		
Hong Kong	**23**	26
Mainland China	**6**	7
	29	33

(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:

	2009 HK$'m	2008 HK$'m
Commercial properties	**18**	18
Industrial properties	**6**	–
Residential properties	**71**	85
	95	103

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(C) Repossessed assets (continued)

The estimated market value of repossessed assets held by the Group as at 31 December 2009 amounted to HK$137 million (2008: HK$173 million). They comprise properties in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the borrowers concerned) for release in full or in part of the obligations of the borrowers.

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 table presents 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.

	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**

	2008			
	Aaa to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m
Central banks	66,158	–	–	66,158
Banks and other financial institutions	168,456	586	3,555	172,597
	234,614	586	3,555	238,755

As at 31 December 2009 and 2008, 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 table below represents an analysis of the carrying value of debt securities by credit rating and credit risk characteristic, based on Moody's ratings or their equivalent to the respective issues of the debt securities.

	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

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities (continued)

	2008							
					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	913	–	30	104	–	–	–	1,047
– Alt-A	1,245	383	274	432	–	–	–	2,334
– Prime	9,549	1,558	2,878	1,950	–	–	–	15,935
Fannie Mae								
– issued debt securities	1,504	–	–	–	–	–	–	1,504
– mortgage-backed securities	–	–	–	–	–	88	–	88
Freddie Mac								
– issued debt securities	864	162	–	–	–	–	–	1,026
– mortgage-backed securities	–	–	–	–	–	1,633	–	1,633
Other MBS/ABS	6,874	24	63	–	–	3,807	–	10,768
Other debt securities	40,537	83,827	27,509	4,371	12,175	51,368	35,873	255,660
Subtotal	61,486	85,954	30,754	6,857	12,175	56,896	35,873	289,995
Financial assets at fair value through profit or loss								
Fannie Mae								
– issued debt securities	287	–	–	–	–	–	–	287
Other MBS/ABS	27	–	–	–	–	–	–	27
Other debt securities	2,304	15,417	10,233	1,457	11,358	–	355	41,124
Subtotal	2,618	15,417	10,233	1,457	11,358	–	355	41,438
Total	64,104	101,371	40,987	8,314	23,533	56,896	36,228	331,433

The total amount of unrated issues amounted to HK$112,869 million (2008: HK$116,657 million) as at 31 December 2009, of which only HK$3,868 million (2008: HK$8,975 million) were without issuer ratings. For details, please refer to page 156.

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:

	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

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

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities (continued)

The following table presents 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.

	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**

	2008					
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m
Available-for-sale securities	32,231	41,722	12,752	1,839	76,362	164,906
Held-to-maturity securities	22,667	42,554	16,201	2,067	15,952	99,441
Loans and receivables	–	–	–	–	12,595	12,595
Financial assets at fair value through profit or loss	2,618	15,417	10,233	1,457	11,709	41,434
Total	57,516	99,693	39,186	5,363	116,618	318,376

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:

	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**	

	2008						
	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	3,451	814	542	1,187	35	6,029	4,561
Held-to-maturity securities	3,137	864	1,259	1,764	–	7,024	4,440
Total	6,588	1,678	1,801	2,951	35	13,053	9,001
Of which accumulated impairment allowances	4,195	1,400	976	2,078	352	9,001	

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities (continued)

Debt securities overdue but not impaired are analysed as follows:

	Overdue for 6 months or less but over 3 months	
	2009 HK$'m	2008 HK$'m
Financial assets at fair value through profit or loss	**–**	4

Note: Impairment is not measured for financial assets at fair value through profit or loss as assets are managed according to movements in fair value, and the fair value movement is taken directly to the income statement. Consequently, such overdue debt securities are reported under "overdue but not impaired".

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

	Overdue for 6 months or less but over 3 months	
	2009 HK$'m	2008 HK$'m
Available-for-sale securities	**–**	35
Financial assets at fair value through profit or loss	**–**	4
	–	39

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities (continued)

MBS/ABS

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

	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

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities (continued)

MBS/ABS (continued)

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

	2009 HK$'m	2008 HK$'m
Increase/(decrease) in fair value taken to available-for-sale securities reserve on MBS/ABS for the year (net of impairment charges taken to income statement excluding deferred tax impact)	**1,617**	(1,340)
Closing balance of available-for-sale securities reserve relating to MBS/ABS (excluding deferred tax impact)	**(90)**	(1,707)

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:

	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	

	2008						
	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	695	–	30	104	–	829	339
– Alt-A	662	383	274	431	–	1,750	1,302
– Prime	5,162	1,295	1,312	1,825	–	9,594	6,479
	6,519	1,678	1,616	2,360	–	12,173	8,120
Other countries MBS/ABS							
Residential mortgage-backed	69	–	–	–	–	69	27
Total MBS/ABS	6,588	1,678	1,616	2,360	–	12,242	8,147
Of which accumulated impairment allowances	4,195	1,400	938	1,614	–	8,147	

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities (continued)

MBS/ABS (continued)

The table below represents an analysis of impairment charges/(releases) for the year for MBS/ABS held as at 31 December.

	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**

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

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

4. Financial risk management (continued)

4.2 Market Risk

Market risk is the risk of loss that results from movements in market rates and prices. The Group's market risk in trading book arises from trading positions taken from customer-related business and proprietary trading. These positions are subject to daily mark-to-market valuation. The risk includes potential losses arising from changes in foreign exchange and interest rates as well as equities and commodities prices. On the other hand, banking book positions are subject to interest rate risk and liquidity risk. In particular, the Group's bond investment portfolio is exposed to the potential losses arising from changes in market price of the debt securities as these positions are subject to monthly mark-to-market valuation. The Group manages market risk in its trading book separately from its banking book.

Market risk management framework

The Group's risk management objective is to enhance shareholder value by maintaining risk exposures within acceptable limits. Market risk management framework of the Group comprises three levels. The Board of Directors is the ultimate decision making authority. Formulation of the risk management procedures and implementation mechanism, and monitoring of the compliance are mainly responsible by senior management (including CE and CRO). RMD is responsible for the oversight of the Group's market risk to ensure that overall and individual market risks are within the Group's risk tolerance. Risk exposures are monitored on a day-to-day basis to ensure that they are within established risk limits and are regularly reported to the senior management. Nanyang, NCB (China), Chiyu and BOC Life have their own independent risk monitoring units to monitor limit compliance on a daily basis.

The Group's control of market risk is based on restricting individual operations to trading within various market risk limits approved by the RC, and a list of permissible instruments authorised by senior management, as well as enforcing rigorous new product approval procedures to ensure all risks arising are thoroughly identified, properly measured and adequately controlled.

Market risk arising from the trading book is managed within various major risk limits approved by the RC, including risk positions and/or risk factor sensitivities. Since April 2007 BOCHK has also formally applied Value-at-Risk (VAR) limit as a daily risk management tool. These overall risk limits are divided into sub-limits by reference to different risk products, including interest rate, foreign exchange rate, commodity price and equity products. Transactions are classified into different risk product categories according to the prominent type of risk inherent in the transactions.

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

4. Financial risk management (continued)

4.2 Market Risk (continued)

Market risk management framework (continued)

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

(a) VAR

The following table sets out the VAR for all trading market risk exposure[1] of BOCHK.

HK$'m		At 31 December	Minimum for the year	Maximum for the year	Average for the year
VAR for all market risk	– 2009	9.8	9.0	16.3	12.6
	– 2008	12.6	3.0	13.5	6.5
VAR for foreign exchange	– 2009	7.7	7.4	15.8	11.3
risk products	– 2008	13.1	2.5	14.2	6.0
VAR for interest rate risk products	– 2009	6.4	2.1	12.8	5.7
	– 2008	4.2	1.0	5.9	2.9
VAR for equity risk products	– 2009	0.1	0.1	2.5	0.3
	– 2008	0.2	0.1	2.8	0.5
VAR for commodity risk products	– 2009	0.0	0.0	0.1	0.0
	– 2008	0.0	0.0	0.5	0.0

In 2009, the average daily revenue[2] of BOCHK earned from market risk-related trading activities was HK$3.88 million (2008: HK$5.35 million).

1 Structural FX positions have been excluded.

2 Revenues from structural FX positions and back to back transactions have been excluded.

Predictive power of the VAR measure is monitored by backtesting, 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 including fees and commissions. If backtesting revenues are negative and exceed the VAR, a "backtesting exception" is noted. Backtesting results are reported to the Group's senior management, including CE and CRO.

4. Financial risk management (continued)

4.2 Market Risk (continued)

(a) VAR (continued)

Although it is 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 augmenting its VAR limits with other position and sensitivity limit structures.

Additionally, the Group applies a certain range of stress testing, both on individual portfolios and on the Group's consolidated positions. 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 Crisis and the 11 September Event in 2001. The Group also reassessed the stress testing programme to ensure its rigour and robustness in view of the financial crisis in 2008. The Group's stress-testing regime provides senior management with an assessment of the financial impact of identified extreme events on the market risk exposures of the Group.

For BOCHK, banking book market risk is managed within various risk limits such as sensitivity limits like PVBP (Price Value per Basis Point) limits and Greek limits, and the AFS Economic Value at Risk limit, which is aimed at controlling the price risk impact of the available-for-sale debt securities portfolio on the Bank's capital base. In addition, Profit-and-loss Management Alert Limit (P/L MAL) is set up to control the earnings impact arising from the banking book's financial instruments. These limits are approved by ALCO and the results are reported to ALCO on a monthly basis.

4. Financial risk management (continued)

4.2 Market Risk (continued)

(b) Currency risk

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.

	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)	125	614	13,497	11	110	54	65	14,476
Total assets	82,007	352,798	661,227	39,674	17,626	3,092	56,367	1,212,791
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	24,229	617	56	528	1,511	36,439
Insurance contract liabilities	1	6,202	27,205	–	–	–	–	33,408
Subordinated liabilities	–	19,399	–	7,377	–	–	–	26,776
Total liabilities	78,020	219,584	715,752	24,398	2,286	15,186	51,930	1,107,156
Net on-balance sheet position	3,987	133,214	(54,525)	15,276	15,340	(12,094)	4,437	105,635
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

4. Financial risk management (continued)

4.2 Market Risk (continued)

(b) Currency risk (continued)

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

* 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

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

– 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, e.g. steepening or flattening of 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

BOCHK has formulated "Interest Rate Risk Management Policies" which set out the framework and methodologies to identify, measure, monitor and control interest rate risk.

The Group's ALCO exercises its oversight of interest rate risk and RC sanctions the interest rate risk management policies formulated by ALCO. The interest rate risk is identified and measured on a daily basis. Asset and Liability Management Department ("ALMD") manages the interest rate risk according to the established policies and the results are reported to ALCO regularly. RMD reviews the policies, guidelines and limits proposed by the ALMD.

Gap analysis is one of the tools used to measure the Group's exposure to repricing risk. This provides the Group with a static view of the maturity and repricing characteristics of its balance sheet positions. The Group uses interest rate derivatives to hedge its interest rate exposures and in most cases, plain vanilla interest rate swaps are used.

4. Financial risk management (continued)

4.2 Market Risk (continued)

(c) Interest rate risk (continued)

Sensitivities of earnings and economic value to interest rate changes (Earnings at Risk and Economic Value at Risk) are assessed through a hypothetical interest rate shock of 200 basis points across the yield curve on both sides. Earnings at Risk and Economic Value at Risk are controlled respectively within an approved percentage of the projected net interest income for the year and the latest capital base as sanctioned by RC. The results are reported to ALCO and RC on a regular basis. Apart from the hypothetical scenario, business-as-usual ("BAU") scenario has been established based on a simpler and more reasonable principle. It generates results of the impact on earnings and economic value under interest rate change assuming constant strategic business development and customer behaviour.

The Group implemented PVBP and Option Greeks limits as daily monitoring measures to monitor price risk caused by interest rate movement and option risk of investment portfolio.

The impact of basis risk is gauged by the projected change in net interest income under scenarios of imperfect correlation in the adjustment of the rates earned and paid on different instruments. Ratios of assets to liabilities with similar pricing basis are established to monitor such risk.

Stress test on yield curve risk is performed to assess the impact on earnings and economic value due to the steepening or flattening of the yield curve. The impact of optionality of demand and savings deposits and prepayment of mortgage loans is also assessed under different stress test scenarios. The prepayment risk of ABS/MBS is assessed by the impact on earnings and economic value using the sensitivity of extended/contracted weighted average life.

The interest rate risk exposures in BOCHK are controlled through the use of limits:

1. Earnings at Risk limit

2. Economic Value at Risk limit

3. Interest Rate Mismatch Gap limits

Before launching a new product or business, the 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 management mechanism. Any material impact on interest rate risk noted during the risk assessment process will be reported to both the Chief Financial Officer ("CFO") and CRO.

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.

	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)	–	–	–	–	–	14,476	14,476
Total assets	621,473	167,899	91,702	142,804	42,380	146,533	1,212,791
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	–	25,910	36,439
Insurance contract liabilities	–	–	–	–	–	33,408	33,408
Subordinated liabilities	–	–	26,776	–	–	–	26,776
Total liabilities	782,497	80,177	67,478	1,471	–	175,533	1,107,156
Interest sensitivity gap	(161,024)	87,722	24,224	141,333	42,380	(29,000)	105,635

4. Financial risk management (continued)

4.2 Market Risk (continued)

(c) Interest rate risk (continued)

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

4. Financial risk management (continued)

4.2 Market Risk (continued)

(c) Interest rate risk (continued)

Sensitivity analysis to market risk exposure of banking book of the Group

The Group is principally exposed to HKD and USD in terms of interest rate risk. At 31 December 2009, if HKD and USD market interest rates had been 100 basis point higher with other variables held constant, profit after tax for the year would have been reduced by HK$148 million (2008: HK$89 million). The negative impact is increased compared with 2008 because the short term negative interest sensitivity gaps are widened. Reserves would have been reduced by HK$3,091 million (2008: HK$1,390 million) because of the expected reduction in valuation of available-for-sale portfolio due to the above simulated market rates movement. The negative impact is increased compared with 2008 because the size of available-for-sale portfolio is increased. The sensitivity analysis set out above is illustrative only.

Interest rate exposures in banking book

The following is a summary of possible effects of market interest rates shocks on the Group's interest rate exposure for major currencies in its banking book:

	Impact on positions at 31 December	
Earnings perspective Scenarios	**2009 HK$'m**	2008 HK$'m
Down 100 basis points parallel shift in HK dollar yield curves	**(394)**	(257)
Up 100 basis points parallel shift in US dollar yield curves	**(571)**	(364)

The stress tests set out above are illustrative only. The projections illustrate that stressful changes in market interest rates in response to exceptional but plausible events would have adverse effects on earnings over the next twelve months. The stress tests measure the possible effect of interest rates shock on the budgeted earnings which is assessed by changes in net interest income. To construct stressful scenarios, severe assumptions are made, 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. 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.

4.3 Liquidity Risk

Liquidity risk is the risk that the Group may not be able to fund increases in assets, meet obligations as they fall due or take strategic opportunity without incurring unacceptable losses.

Liquidity risk management framework

The liquidity risk management framework of the Group comprises three levels. The Board of Directors and the Risk Committee are the ultimate decision making authority and are responsible for approving the liquidity management policy and assure the compliance with regulatory requirements. The senior management (including CE, CFO, CRO) and ALCO are responsible for the formulation of the liquidity management policy and procedures and monitoring of their implementation. The Asset and Liability Management Department, assisted by other functional departments, including the Investment Management, RMD as well as General Accounting and Accounting Policy Department, is responsible for daily management of liquidity to monitor the liquidity risk and provides regular reports to the Management and local regulatory bodies.

The liquidity management process is carried out both at the Group and subsidiary level. The principal subsidiaries execute their daily risk management processes independently, subject to risk policies that are consistent with those of the Group, and report to the Group's management on a regular basis.

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

Liquidity risk management framework (continued)

The Group has developed a robust liquidity risk management mechanism, by maintaining an appropriate size of highly-liquefiable assets and proper liability structure, enabling the Group to meet, even under adverse market conditions, the obligations as they fall due, and to fund the asset growth and strategic opportunities without forced liquidation of its assets at short notice.

At present, the Group has set up three Key Risk Indicators, which are 1-month liquidity ratio, 1-month mismatch ratio and loan-to-deposit ratio. The indicators mentioned are used as the major tools in the identification, measurement, monitoring and control of the liquidity risk on regular basis by setting limits, assessing and monitoring the ratios. Besides, the Group also monitors deposit stability, concentration of deposits from large depositors and liquidity profile of the investment portfolio.

The related risk management process includes:

– Perform cash-flow projections under normal and stressed scenarios, using the net mismatch gap between assets and liabilities to estimate the prospective net funding requirements;

– Set limits on mismatch ratios to control the size of the cumulative net mismatch positions;

– Maintain liquidity ratios to comply with both internal and external regulatory requirements;

– Maintain a diversified liability base to ensure sufficient funding sources;

– Maintain a proper level of highly liquid assets to serve as a liquidity buffer for emergency needs;

– Monitor the structure and stability of the deposit portfolio;

– Assess the ability to borrow from the inter-bank money market to avoid over-reliance on the money market funding;

– Maintain a proper contingency plan, which includes setting early warning signals (including internal indicators and market indicators) with timely monitoring procedures and establishing a management reporting system and contingency procedures.

Before launching a new product or business, relevant departments are required to go through a risk assessment process, which includes 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 both to the CRO and the CFO.

(A) Liquidity ratio

	2009	2008
Average liquidity ratio	**40.18%**	41.74%

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 table below presents the cash flows of the Group as at 31 December for non-derivative financial liabilities by remaining contractual maturities.

	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

	2008					
	Up to 1 month HK$'m	1-3 months HK$'m	3-12 months HK$'m	1-5 years HK$'m	Over 5 years HK$'m	Total HK$'m
Financial liabilities						
Hong Kong SAR currency notes in circulation	34,200	–	–	–	–	34,200
Deposits and balances of banks and other financial institutions	74,864	10,696	3,291	–	–	88,851
Financial liabilities at fair value through profit or loss	6,114	6,404	9,077	253	294	22,142
Deposits from customers	667,726	101,097	33,052	1,392	–	803,267
Debt securities in issue at amortised cost	459	148	436	–	–	1,043
Subordinated liabilities	–	7	1,051	4,978	32,233	38,269
Other financial liabilities	27,329	198	1,836	4	238	29,605
Total financial liabilities	810,692	118,550	48,743	6,627	32,765	1,017,377

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 derivatives: non-deliverable OTC currency options, currency futures, non-deliverable currency forwards;

– Interest rate derivatives: interest rate swaps;

– Equity derivatives: exchange traded equity options; and

– Bullion derivatives: bullion margin contracts.

The table below analyses 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 table are the net contractual undiscounted cash flows of derivatives with net negative fair value.

	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 derivatives	**(9,015)**	**(10)**	**(417)**	**1**	**–**	**(9,441)**
Interest rate derivatives	**(97)**	**(292)**	**(1,463)**	**(3,344)**	**(328)**	**(5,524)**
Bullion derivatives	**(373)**	**–**	**–**	**–**	**–**	**(373)**
	(9,485)	**(302)**	**(1,880)**	**(3,343)**	**(328)**	**(15,338)**

	2008					
	Up to 1 month HK$'m	1-3 months HK$'m	3-12 months HK$'m	1-5 years HK$'m	Over 5 years HK$'m	Total HK$'m
Foreign exchange derivatives	(10,465)	(99)	(235)	–	–	(10,799)
Interest rate derivatives	–	(178)	(884)	(3,023)	(724)	(4,809)
Bullion derivatives	(91)	–	–	–	–	(91)
	(10,556)	(277)	(1,119)	(3,023)	(724)	(15,699)

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 and cross currency interest rate swaps, OTC equity options, equity linked swaps and bullion swaps.

The table below analyses 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 table are the gross contractual undiscounted cash flows for all derivatives that are settled on a gross basis.

	2009				
	Up to 1 month HK$'m	1-3 months HK$'m	3-12 months HK$'m	1-5 years HK$'m	Total HK$'m
Foreign exchange derivatives:					
– Outflow	(130,176)	(76,053)	(72,673)	(1,373)	(280,275)
– Inflow	130,225	76,997	73,048	1,355	281,625
Interest rate derivatives:					
– Outflow	–	–	–	–	–
– Inflow	–	–	–	–	–
Equity derivatives:					
– Outflow	(1)	–	–	–	(1)
– Inflow	16	5	–	–	21
Bullion derivatives:					
– Outflow	(22)	–	–	–	(22)
– Inflow	–	–	–	–	–
Total outflow	(130,199)	(76,053)	(72,673)	(1,373)	(280,298)
Total inflow	130,241	77,002	73,048	1,355	281,646

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)

	2008				
	Up to 1 month HK$'m	1-3 months HK$'m	3-12 months HK$'m	1-5 years HK$'m	Total HK$'m
Foreign exchange derivatives:					
– Outflow	(146,872)	(69,270)	(62,608)	(1,722)	(280,472)
– Inflow	145,552	68,892	62,246	1,709	278,399
Interest rate derivatives:					
– Outflow	–	–	–	–	–
– Inflow	316	–	–	–	316
Equity derivatives:					
– Outflow	(444)	(236)	(1,659)	–	(2,339)
– Inflow	462	237	1,659	–	2,358
Bullion derivatives:					
– Outflow	(226)	(131)	–	–	(357)
– Inflow	–	–	–	–	–
Total outflow	(147,542)	(69,637)	(64,267)	(1,722)	(283,168)
Total inflow	146,330	69,129	63,905	1,709	281,073

(c) Off-balance sheet items

Loan commitments

The contractual amounts of the Group's off-balance sheet financial instruments as at 31 December 2009 that the Group commits to extend credit to customers and other facilities amounting to HK$233,844 million (2008: HK$219,336 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 2009 amounting to HK$42,580 million (2008: HK$34,053 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.

	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	162	–	131	14,476
Total assets	174,842	121,796	88,241	175,197	406,405	199,557	46,753	1,212,791
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	4,875	–	–	36,439
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	31,573	34,264	–	1,107,156
Net liquidity gap	(531,671)	(87,146)	9,618	127,956	374,832	165,293	46,753	105,635

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(C) Maturity analysis (continued)

	2008							
	On demand HK$'m	Up to 1 month HK$'m	1-3 months HK$'m	3-12 months HK$'m	1-5 years HK$'m	Over 5 years HK$'m	Indefinite HK$'m	Total HK$'m
Assets								
Cash and balances with banks and other financial institutions	77,935	75,334	–	–	–	–	–	153,269
Placements with banks and other financial institutions maturing between one and twelve months	–	–	38,622	51,096	–	–	–	89,718
Financial assets at fair value through profit or loss								
– debt securities held for trading								
– certificates of deposit held	–	–	–	–	–	–	–	–
– others	–	4,628	6,685	1,927	685	6	–	13,931
– debt securities designated at fair value through profit or loss								
– certificates of deposit held	–	25	–	–	2,008	1,536	–	3,569
– others	–	226	426	384	7,058	15,840	4	23,938
– fund and equity securities	–	–	–	–	–	–	2,374	2,374
Derivative financial instruments	14,844	756	1,253	1,439	1,216	120	–	19,628
Hong Kong SAR Government certificates of indebtedness	34,200	–	–	–	–	–	–	34,200
Advances and other accounts								
– advances to customers	21,980	17,656	31,084	51,336	197,399	137,684	1,007	458,146
– trade bills	–	2,910	4,022	677	–	–	–	7,609
– advances to banks and other financial institutions	27	–	–	885	2,826	–	–	3,738
Investment in securities								
– debt securities held for available-for-sale								
– certificates of deposit held	–	–	23	5,236	2,096	–	–	7,355
– others	–	19,849	13,349	40,054	58,135	26,164	6,029	163,580
– debt securities held for held-to-maturity								
– certificates of deposit held	–	2,040	2,173	2,162	6,073	–	–	12,448
– others	–	2,115	4,933	14,560	49,480	15,905	7,024	94,017
– debt securities held for loans and receivables	–	1,755	2,675	8,165	–	–	–	12,595
– equity securities	–	–	–	–	–	–	1,686	1,686
Interests in associates	–	–	–	–	–	–	88	88
Investment properties	–	–	–	–	–	–	7,727	7,727
Properties, plant and equipment	–	–	–	–	–	–	22,795	22,795
Other assets (including deferred tax assets)	2,185	12,027	11	126	157	–	327	14,833
Total assets	151,171	139,321	105,256	178,047	327,133	197,255	49,061	1,147,244
Liabilities								
Hong Kong SAR currency notes in circulation	34,200	–	–	–	–	–	–	34,200
Deposits and balances of banks and other financial institutions	61,206	13,646	10,655	3,272	–	–	–	88,779
Financial liabilities at fair value through profit or loss								
– certificates of deposit issued	–	–	–	858	–	–	–	858
– others	–	6,111	6,363	8,170	166	270	–	21,080
Derivative financial instruments	10,556	2,137	1,689	1,967	2,822	1,279	–	20,450
Deposits from customers	428,849	238,769	100,891	32,696	1,372	–	–	802,577
Debt securities in issue at amortised cost	–	459	148	435	–	–	–	1,042
Other accounts and provisions (including current and deferred tax liabilities)	16,328	16,003	204	2,341	2,857	232	148	38,113
Insurance contract liabilities	1,406	792	2	16	18,033	8,025	–	28,274
Subordinated liabilities	–	–	–	21	735	26,583	–	27,339
Total liabilities	552,545	277,917	119,952	49,776	25,985	36,389	148	1,062,712
Net liquidity gap	(401,374)	(138,596)	(14,696)	128,271	301,148	160,866	48,913	84,532

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.

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 one to calculate the capital charge on credit risk, market risk and operational risk in compliance with the Banking (Capital) Rules. This new regulatory capital framework aligns regulatory capital requirements more closely with the inherent risks.

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 assessment models, 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

	2009	2008
Capital adequacy ratio	**16.85%**	16.17%
Core capital ratio	**11.64%**	10.86%

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

The differences between the basis of consolidation for accounting and regulatory purposes are described in "Appendix – Subsidiaries of the Company" on page 245.

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:

	2009 **HK$'m**	2008 HK$'m
Core capital:		
Paid up ordinary share capital	**43,043**	43,043
Reserves	**26,154**	18,049
Profit and loss account	**2,039**	2,956
Minority interests	**1,229**	1,124
	72,465	65,172
Deductions from core capital	**(334)**	(1,536)
Core capital	**72,131**	63,636
Supplementary capital:		
Fair value gains arising from holdings of available-for-sale securities	**237**	87
Collective loan impairment allowances	**1,598**	1,502
Regulatory reserve	**4,040**	4,503
Term subordinated debt	**26,763**	26,583
	32,638	32,675
Deductions from supplementary capital	**(334)**	(1,536)
Supplementary capital	**32,304**	31,139
Total capital base after deductions	**104,435**	94,775

Subsidiaries which are not included in the consolidation group for the calculation of capital adequacy ratios are denoted in "Appendix – Subsidiaries of the Company" on pages 243 to 245. Investment costs in such subsidiaries are deducted from the capital base.

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

4. 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 summaries 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.

	2009 HK$'m	2008 HK$'m
Credit risk	**46,270**	43,609
Market risk	**962**	728
Operational risk	**3,788**	3,531
	51,020	47,868

(i) Capital requirements for credit risk

	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

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)

	2008					
	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	137,693	142,513	–	602	–	48
Public sector entity	5,289	21,507	–	4,301	–	344
Multilateral development bank	5,887	5,887	–	–	–	–
Bank	321,992	318,872	12,807	96,789	5,909	8,216
Securities firm	12	–	–	–	–	–
Corporate	321,192	67,091	234,426	34,821	234,426	21,540
Cash items	39,451	–	39,451	–	–	–
Regulatory retail	31,919	–	30,312	–	22,734	1,819
Residential mortgage loans	149,084	–	132,716	–	53,708	4,296
Other exposures which are not past due	34,896	–	34,313	–	34,313	2,745
Past due exposures	800	–	800	–	871	70
Total for on-balance sheet exposures	1,048,215	555,870	484,825	136,513	351,961	39,078
Off-balance sheet exposures						
Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	46,045	11,156	34,889	6,144	34,113	3,221
OTC derivative transactions	6,243	5,750	493	1,871	448	186
Total for off-balance sheet exposures	52,288	16,906	35,382	8,015	34,561	3,407
Total for non-securitisation exposures	1,100,503	572,776	520,207	144,528	386,522	42,485
Securitisation exposures	24,144	24,144	–	14,057	–	1,124
	1,124,647	596,920	520,207	158,585	386,522	43,609

* 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 2009, credit exposures deducted from the capital base amounted to HK$32 million (2008: HK$2,571 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.

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.

As the Group has not implemented capital allocation policy, there is no internal capital assigned for counterparty credit 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 transactions:

	2009 HK$'m	2008 HK$'m
Gross total positive fair value	**3,382**	3,120
Credit equivalent amount	**7,732**	6,243
Less: recognised collateral	**–**	–
Net credit equivalent amount	**7,732**	6,243
Net credit equivalent amount analysed by type of issuer:		
Sovereign	**–**	4
Bank	**7,184**	5,830
Corporate	**548**	406
Others	**–**	3
	7,732	6,243
Risk weighted amount analysed by type of issuer:		
Sovereign	**–**	4
Bank	**2,499**	1,908
Corporate	**548**	405
Others	**–**	3
	3,047	2,320
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 2009 (2008: Nil).

There are no outstanding repo-style transactions or credit derivative contracts as at 31 December 2009 and 2008.

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 concentration risk management for collaterals is embedded in the collateral management policy, including stress testing. To cope with the requirement under Pillar two, we have adopted a scorecard methodology to assess our credit concentration risk and consider whether add-on capital charge is needed to cover this risk.

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:

	2009		2008	
	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	**–**	**184**	–	70
Bank	**–**	**103**	–	–
Securities firm	**99**	**–**	12	–
Corporate	**6,134**	**34,190**	5,266	23,915
Regulatory retail	**1,189**	**2,251**	1,575	40
Residential mortgage loans	**51**	**15,838**	84	16,283
Other exposures which are not past due	**488**	**–**	583	–
Past due exposures	**471**	**25**	688	34
Off-balance sheet exposures	**7,736**	**12,095**	11,145	8,161
	16,168	**64,686**	19,353	48,503

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:

	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**	**–**

	2008			
	Total exposures HK$'m	Risk weighted amounts HK$'m	Capital requirement HK$'m	Exposures deducted from capital base HK$'m
Traditional securitisations				
Residential mortgages	19,830	13,175	1,054	1,769
Commercial mortgages	1,382	277	22	–
Student loans	1,953	390	31	–
Auto loans	785	176	14	–
Credit card receivables	194	39	3	–
	24,144	14,057	1,124	1,769

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

	2009 HK$'m	2008 HK$'m
Interest rate exposures	**785**	569
Equity exposures	**24**	14
Foreign exchange exposures	**148**	142
Commodity exposures	**5**	3
	962	728

The Group used the STM approach for calculation of market risk.

The Group's positions covered by the STM approach are as follows:

	2009		2008	
	Long HK$'m	Short HK$'m	Long HK$'m	Short HK$'m
Interest rate exposures	**434,435**	**431,856**	383,286	382,934
Equity exposures	**144**	**37**	82	22
Foreign exchange exposures (Net)	**1,620**	**–**	1,463	–
Commodities exposures	**32**	**4**	11	15
	436,231	**431,897**	384,842	382,971

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).

Gains or losses related to equity exposures are summarised below:

	2009 HK$'m	2008 HK$'m
Realised gains from sales	**–**	97
Unrealised gains on revaluation recognised in reserves but not through profit or loss	**275**	163
Unrealised gains included in supplementary capital	**237**	87

4. Financial risk management (continued)

4.5 Capital Management (continued)

(c) Capital charge for credit, market and operational risks (continued)

(iii) Capital charge for operational risk

	2009 HK$'m	2008 HK$'m
Capital charge for operational risk	**3,788**	3,531

The Group used the STO approach for calculation of operational risk.

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 2009 amounted to HK$72,439 million (2008: HK$106,465 million) and HK$72,249 million (2008: HK$103,220 million) respectively.

Loans and receivables, Certificates of deposit issued and Debt securities in issue

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

All the subordinated liabilities are on floating rate terms, bear interest at prevailing market interest rates and their carrying value approximates fair value.

4. Financial risk management (continued)

4.6 Fair values of financial assets and liabilities (continued)

(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.

There have been no significant transfers between level 1 and 2 during the year 2009.

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

	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)

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

	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 2009 are presented in "Net trading income", "Net loss on financial instruments designated at fair value through profit or loss" or "Net reversal/(charge) of impairment allowances" depending on the nature or the category of the related financial instruments.

5. Net interest income

	2009 HK$'m	2008 HK$'m
Interest income		
Cash and due from banks and other financial institutions	**2,931**	5,523
Advances to customers	**10,499**	16,246
Listed investments	**2,992**	3,042
Unlisted investments	**5,117**	10,067
Others	**145**	403
	21,684	35,281
Interest expense		
Due to banks, customers and other financial institutions	**(2,753)**	(13,968)
Debt securities in issue	**(20)**	(130)
Subordinated liabilities	**(922)**	(250)
Others	**(57)**	(776)
	(3,752)	(15,124)
Net interest income	**17,932**	20,157

Included within interest income is HK$17 million (2008: HK$20 million) of interest with respect to income recognised on advances classified as impaired for the year ended 31 December 2009. Interest accrued on impaired investment in securities amounted to HK$484 million (2008: HK$362 million).

Included within interest income and interest expense are HK$21,233 million (2008: HK$33,664 million) and HK$3,688 million (2008: HK$14,338 million) for financial assets and financial liabilities that are not recognised at fair value through profit or loss respectively.

With effect from 1 January 2009, interest income and expense for interest rate derivatives held for trading have been reclassified from "Net interest income" to "Net trading income". The impact on the respective line items is not material in either 2009 or 2008 and as such comparative figures have not been restated.

6. Net fees and commission income

	2009 HK$'m	2008 HK$'m
Fees and commission income		
Securities brokerage		
– Stockbroking	**3,638**	2,380
– Bonds	**39**	259
Credit cards	**1,511**	1,417
Loan commissions	**922**	513
Bills commissions	**627**	683
Payment services	**495**	486
Currency exchange	**213**	204
Insurance	**212**	209
Safe deposit box	**191**	188
Trust services	**178**	173
Funds distribution	**97**	218
Others	**413**	484
	8,536	7,214
Fees and commission expenses		
Credit cards	**(1,100)**	(912)
Securities brokerage	**(563)**	(369)
Payment services	**(83)**	(79)
Others	**(282)**	(675)
	(2,028)	(2,035)
Net fees and commission income	**6,508**	5,179
Of which arise from		
– financial assets or financial liabilities not at fair value through profit or loss		
– Fees and commission income	**1,062**	680
– Fees and commission expenses	**(3)**	(42)
	1,059	638
– trust and other fiduciary activities		
– Fees and commission income	**410**	296
– Fees and commission expenses	**(6)**	(6)
	404	290

7. Net trading income

	2009 HK$'m	2008 HK$'m
Net gain/(loss) from:		
– foreign exchange and foreign exchange products	1,273	1,809
– interest rate instruments	62	(127)
– equity instruments	26	119
– commodities	124	113
	1,485	1,914

8. Net loss on investment in securities

	2009 HK$'m	2008 HK$'m
Net gain/(loss) from disposal of available-for-sale securities	51	(14)
Net loss from disposal/redemption of held-to-maturity securities	(183)	–
Net loss from disposal of loans and receivables	–	(1)
	(132)	(15)

9. Net insurance premium income

	2009 HK$'m	2008 HK$'m
Gross earned premiums	7,762	5,921
Less: Gross written premiums ceded to reinsurers	(18)	(30)
Net insurance premium income	7,744	5,891

10. Other operating income

	2009 HK$'m	2008 HK$'m
Dividend income from investment in securities		
– listed investments	25	109
– unlisted investments	22	17
Gross rental income from investment properties	356	320
Less: Outgoings in respect of investment properties	(55)	(52)
Others	134	167
	482	561

Included in the "Outgoings in respect of investment properties" is HK$8 million (2008: HK$2 million) of direct operating expenses related to investment properties that were not let during the year.

11. Net insurance benefits and claims

	2009 HK$'m	2008 HK$'m
Claims, benefits and surrenders paid	**2,537**	1,297
Movement in liabilities	**4,757**	6,419
Gross claims, benefits and surrenders paid and movement in liabilities	**7,294**	7,716
Less: Reinsurers' share of claims, benefits and surrenders paid and movement in liabilities	**(8)**	(7)
Net insurance claims, benefits and surrenders paid and movement in liabilities	**7,286**	7,709

12. Net reversal/(charge) of impairment allowances

	2009 HK$'m	2008 HK$'m
Advances to customers		
Individually assessed		
– new allowances	**(391)**	(813)
– releases	**150**	83
– recoveries	**446**	722
Net reversal/(charge) of individually assessed loan impairment allowances (Note 27)	**205**	(8)
Collectively assessed		
– new allowances	**(358)**	(691)
– releases	**15**	10
– recoveries	**35**	28
Net charge of collectively assessed loan impairment allowances (Note 27)	**(308)**	(653)
Net charge of loan impairment allowances	**(103)**	(661)
Available-for-sale securities		
Net reversal/(charge) of impairment losses on available-for-sale securities – Individually assessed	**612**	(7,839)
Held-to-maturity securities		
Net reversal/(charge) of impairment allowances on held-to-maturity securities – Individually assessed (Note 28)	**690**	(4,061)
Others	**(9)**	(12)
Net reversal/(charge) of impairment allowances	**1,190**	(12,573)

13. Operating expenses

	2009 HK$'m	2008 HK$'m
Staff costs (including directors' emoluments)		
– salaries and other costs	**4,659**	4,128
– termination benefit	**43**	55
– pension cost	**389**	371
	5,091	4,554
Premises and equipment expenses (excluding depreciation)		
– rental of premises	**491**	408
– information technology	**381**	411
– others	**288**	257
	1,160	1,076
Depreciation (Note 32)	**1,018**	992
Auditor's remuneration		
– audit services	**29**	33
– non-audit services	**6**	5
Lehman Brothers related products*	**3,278**	769
Other operating expenses	**1,559**	1,342
	12,141	8,771

* Expenses incurred on Lehman Brothers related products were primarily in relation to the Lehman Brothers minibonds ("Minibonds") repurchase arrangements announced on 22 July 2009 as summarised below.

Under the Repurchase Scheme (details are disclosed in note 3.7), the Group has, without admission of liability, made an offer to repurchase at a price equivalent to 60% of the nominal value of the principal invested for eligible customers below the age of 65 as at 1 July 2009 or at 70% of the nominal value of the principal invested for eligible customers aged 65 or above as at 1 July 2009. If any recovery is made from the Minibonds, the Group will make further payments to eligible customers who have accepted the Repurchase Scheme according to the terms set out in the scheme. The Group has also made a voluntary offer to pay an ex gratia amount to customers who would have qualified as eligible customers but for their previous settlements with the Group, to bring them in line with the Repurchase Scheme offer. The Group has further made available an amount equivalent to the total commission income received as a Minibonds distributor of approximately HK$160 million to the trustee of the Minibonds to fund the trustee's expenses in realising the value of the underlying collateral in respect of the outstanding Minibonds.

14. Net gain/(loss) from disposal of/fair value adjustments on investment properties

	2009 HK$'m	2008 HK$'m
Net gain on disposal of investment properties	**9**	14
Net gain/(loss) on fair value adjustments on investment properties (Note 31)	**1,554**	(132)
	1,563	(118)

15. Net gain from disposal/revaluation of properties, plant and equipment

	2009 **HK$'m**	2008 HK$'m
Net gain on disposal of premises	**45**	35
Net loss on disposal of other fixed assets	**(10)**	(4)
Net gain/(loss) on revaluation of premises (Note 32)	**15**	(24)
	50	7

16. Taxation

Taxation in the income statement represents:

	2009 **HK$'m**	2008 HK$'m
Hong Kong profits tax		
Current tax		
– current year taxation	**2,339**	1,326
– over-provision in prior years	**(4)**	(13)
	2,335	1,313
Deferred tax charge/(credit) (Note 39)		
– origination/(reversal) of temporary differences	**225**	(341)
– impact of change of Hong Kong tax rate	**–**	(123)
	225	(464)
Hong Kong profits tax	**2,560**	849
Overseas taxation	**118**	222
	2,678	1,071

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong 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.

16. 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:

	2009 HK$'m	2008 HK$'m
Profit before taxation	**16,724**	4,078
Calculated at a taxation rate of 16.5% (2008: 16.5%)	**2,759**	673
Effect of different taxation rates in other countries	**8**	64
Income not subject to taxation	**(139)**	(295)
Expenses not deductible for taxation purposes	**58**	522
Tax losses not recognised	**1**	137
Utilisation of previously unrecognised tax losses	**(5)**	(17)
Over-provision in prior years	**(4)**	(13)
Taxation charge	**2,678**	1,071
Effective tax rate	**16.0%**	26.3%

17. Profit attributable to the equity holders of the Company

The profit of the Company for the year ended 31 December 2009 attributable to the equity holders of the Company and dealt with in the financial statements of the Company amounted to HK$10,293 million (2008: HK$1,372 million).

18. Dividends

	2009		2008	
	Per share HK$	Total HK$'m	Per share HK$	Total HK$'m
Interim dividend paid	**0.285**	**3,013**	0.438	4,631
Proposed final dividend	**0.570**	**6,027**	–	–
	0.855	**9,040**	0.438	4,631

At a meeting held on 27 August 2009, the Board declared an interim dividend of HK$0.285 per ordinary share for the first half of 2009 amounting to approximately HK$3,013 million.

At a meeting held on 23 March 2010, the Board proposed to declare a final dividend of HK$0.57 per ordinary share for the year ended 31 December 2009 amounting to approximately HK$6,027 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 2010.

19. 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 2009 of approximately HK$13,725 million (2008: HK$3,343 million) and on the ordinary shares in issue of 10,572,780,266 shares (2008: 10,572,780,266 ordinary shares).

There was no dilution of earnings per share as no potential ordinary shares were in issue for the year ended 31 December 2009 (2008: Nil).

20. 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 2009 amounted to approximately HK$317 million (2008: approximately HK$312 million), after a deduction of forfeited contributions of approximately HK$7 million (2008: approximately HK$10 million). For the MPF Scheme, the Group contributed approximately HK$36 million (2008: approximately HK$38 million) for the year ended 31 December 2009.

21. Share option schemes

(a) Share Option Scheme and Sharesave Plan

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

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

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

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

21. Share option schemes (continued)

(b) Pre-Listing Share Option Scheme

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

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

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

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

Share options were exercised on a regular basis throughout the year, the weighted average share price during the year was HK$16.83 (2008: HK$18.65).

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

22. 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 2009	Directors' fees 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

During the year, Mr. Li Lihui was appointed as non-executive director on 26 June 2009. Mr. Lee Raymond Wing Hung and Mr. Sun Changji resigned as executive director on 1 June 2009 and non-executive director on 26 June 2009 respectively.

22. Directors' and senior management's emoluments (continued)

(a) Directors' emoluments (continued)

For the year 2008	Directors' fees 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	6,013	–	–	6,113
Lee Raymond Wing Hung	414	6,979	247	–	7,640
Gao Yingxin	100	4,308	–	–	4,408
	614	17,300	247	–	18,161
Non-executive Directors					
Xiao Gang	–	–	–	–	–
Sun Changji	300	–	–	–	300
Li Zaohang	250	–	–	–	250
Zhou Zaiqun	365	–	–	–	365
Zhang Yanling	250	–	–	–	250
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
	3,215	–	–	–	3,215
	3,829	17,300	247	–	21,376

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 21(b). Full details of the scheme are stated in Note 21. 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 2009, one of the directors waived emoluments of HK$200,000 (2008: HK$200,000).

22. 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 2 (2008: 2) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 3 (2008: 3) individuals during the year are as follows:

	2009 HK$'m	2008 HK$'m
Basic salaries and allowances	**18**	13
Bonuses	**3**	–
Contributions to pension schemes	**1**	1
Directors' fee from subsidiaries	**1**	1
	23	15

Emoluments of individuals were within the following bands:

	Number of individuals	
	2009	2008
HK$4,000,001 – HK$4,500,000	**–**	1
HK$4,500,001 – HK$5,000,000	**–**	1
HK$5,500,001 – HK$6,000,000	**1**	1
HK$6,000,001 – HK$6,500,000	**1**	–
HK$10,500,001 – HK$11,000,000	**1**	–

23. Cash and balances with banks and other financial institutions

	2009 HK$'m	2008 HK$'m
Cash	**3,409**	4,232
Balances with central banks	**81,790**	66,158
Balances with banks and other financial institutions	**6,091**	7,545
Placements with banks and other financial institutions maturing within one month	**69,498**	75,334
	160,788	153,269

24. Financial assets at fair value through profit or loss

	Trading securities		Financial assets designated at fair value through profit or loss		Total	
	2009 HK$'m	2008 HK$'m	**2009 HK$'m**	2008 HK$'m	**2009 HK$'m**	2008 HK$'m
At fair value						
Debt securities						
– Listed in Hong Kong	**333**	412	**1,063**	557	**1,396**	969
– Listed outside Hong Kong	**2,408**	35	**3,264**	3,095	**5,672**	3,130
	2,741	447	**4,327**	3,652	**7,068**	4,099
– Unlisted	**15,854**	13,484	**17,406**	23,855	**33,260**	37,339
	18,595	13,931	**21,733**	27,507	**40,328**	41,438
Fund						
– Unlisted	**–**	–	**2,757**	2,168	**2,757**	2,168
Equity securities						
– Listed in Hong Kong	**37**	20	**1,361**	124	**1,398**	144
– Unlisted	**111**	62	**–**	–	**111**	62
	148	82	**1,361**	124	**1,509**	206
Total	**18,743**	14,013	**25,851**	29,799	**44,594**	43,812

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

	2009 HK$'m	2008 HK$'m
Sovereigns	**15,970**	13,082
Public sector entities	**1,496**	1,791
Banks and other financial institutions	**21,853**	25,668
Corporate entities	**5,275**	3,271
	44,594	43,812

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

	2009 HK$'m	2008 HK$'m
Treasury bills	**14,419**	12,458
Certificates of deposit held	**2,585**	3,569
Other financial assets at fair value through profit or loss	**27,590**	27,785
	44,594	43,812

25. Derivative financial instruments and hedge accounting

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

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

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

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

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

(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.

25. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

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

	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

* 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.

25. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

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

25. 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:

	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)

25. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

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

25. Derivative financial instruments and hedge accounting (continued)

(a) *Derivative financial instruments (continued)*

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

	2009 **HK$'m**	2008 HK$'m
Exchange rate contracts		
Forwards	**580**	318
Swaps	**1,728**	1,377
Foreign currency option contracts		
– Options purchased	**1**	4
Interest rate contracts		
Futures	**–**	2
Swaps	**737**	577
Bullion contracts	**1**	5
Equity contracts	**–**	37
	3,047	2,320

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

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

(b) *Hedge accounting*

The fair values of derivative financial instruments designated as hedging instruments are as follows:

	2009		2008	
	Assets HK$'m	**Liabilities HK$'m**	Assets HK$'m	Liabilities HK$'m
Fair value hedges	**92**	**(1,203)**	–	(1,769)
Cash flow hedges	**17**	**(20)**	–	–
	109	**(1,223)**	–	(1,769)

25. Derivative financial instruments and hedge accounting (continued)

(b) Hedge accounting (continued)

(i) Fair value hedges

The Group uses interest rate swaps to hedge against change in fair value of financial assets arising from movements in market interest rates.

Gains or losses on fair value hedges for the year are as follows:

	2009 HK$'m	2008 HK$'m
Net gain/(loss) on		
– hedging instruments	**707**	(1,656)
– hedged items	**(699)**	1,677
	8	21

(ii) Cash flow hedges

The Group uses cross-currency interest rate swaps to hedge against variability in future cash flows.

There are no ineffective cash flow hedges during the year 2009 (2008: Nil).

26. Advances and other accounts

	2009 HK$'m	2008 HK$'m
Personal loans and advances	**161,439**	151,784
Corporate loans and advances	**353,533**	308,663
Advances to customers	**514,972**	460,447
Loan impairment allowances		
– Individually assessed	**(671)**	(800)
– Collectively assessed	**(1,598)**	(1,501)
	512,703	458,146
Trade bills	**9,100**	7,609
Advances to banks and other financial institutions	**5,332**	3,738
Total	**527,135**	469,493

As at 31 December 2009, advances to customers included accrued interest on gross advances of HK$619 million (2008: HK$1,293 million).

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

27. Loan impairment allowances

	2009		
	Individual assessment		
	Personal HK$'m	Corporate HK$'m	Total HK$'m
At 1 January 2009	71	729	800
Credited to income statement (Note 12)	(48)	(157)	(205)
Loans written off during the year as uncollectible	(10)	(343)	(353)
Recoveries	28	418	446
Unwind of discount on allowance	(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 12)	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. Loan impairment allowances (continued)

	2008		
	Individual assessment		
	Personal HK$'m	Corporate HK$'m	Total HK$'m
At 1 January 2008	82	299	381
(Credited)/charged to income statement (Note 12)	(30)	38	8
Loans written off during the year as uncollectible	(13)	(286)	(299)
Recoveries	33	689	722
Unwind of discount on allowance	(1)	(11)	(12)
At 31 December 2008	71	729	800

	2008		
	Collective assessment		
	Personal HK$'m	Corporate HK$'m	Total HK$'m
At 1 January 2008	173	831	1,004
Charged to income statement (Note 12)	156	497	653
Loans written off during the year as uncollectible	(175)	(1)	(176)
Recoveries	28	–	28
Unwind of discount on allowance	(3)	(5)	(8)
At 31 December 2008	179	1,322	1,501

28. Investment in securities

	2009 HK$'m	2008 HK$'m
The Group		
(a) Available-for-sale securities		
Debt securities, at fair value		
– Listed in Hong Kong	**8,439**	4,588
– Listed outside Hong Kong	**84,389**	44,692
	92,828	49,280
– Unlisted	**132,528**	121,655
	225,356	170,935
Equity securities, at fair value		
– Listed in Hong Kong	**2,630**	1,256
– Unlisted	**627**	430
	3,257	1,686
	228,613	172,621
(b) Held-to-maturity securities		
Listed, at amortised cost		
– in Hong Kong	**1,693**	4,082
– outside Hong Kong	**21,167**	21,302
	22,860	25,384
Unlisted, at amortised cost	**49,691**	85,521
	72,551	110,905
Impairment allowances	**(112)**	(4,440)
	72,439	106,465
(c) Loans and receivables		
Unlisted, at amortised cost	**12,703**	12,595
Total	**313,755**	291,681
Market value of listed held-to-maturity securities	**22,711**	24,354

	2009 HK$'m	2008 HK$'m
The Company		
Available-for-sale securities		
Equity securities, at fair value		
– Listed in Hong Kong	**2,630**	1,256

28. Investment in securities (continued)

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

	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**

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

As at 31 December 2009 and 2008, all of the available-for-sale securities held by the Company are issued by banks and other financial institutions.

The movements in investment in securities are summarised as follows:

	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**	**–**	**–**
Impairment reversal (Note 12)	**–**	**690**	**–**
Exchange differences	**3,282**	**1,251**	**169**
At 31 December 2009	**228,613**	**72,439**	**12,703**

28. Investment in securities (continued)

	2008		
	Available-for-sale securities HK$'m	Held-to-maturity securities HK$'m	Loans and receivables HK$'m
The Group			
At 1 January 2008	104,653	165,428	31,102
Additions	182,457	57,186	33,918
Disposals, redemptions and maturity	(101,229)	(106,014)	(52,627)
Amortisation	544	(1,035)	640
Change in fair value	(10,570)	–	–
Impairment losses (Note 12)	–	(4,061)	–
Exchange differences	(3,234)	(5,039)	(438)
At 31 December 2008	172,621	106,465	12,595

	Available-for-sale securities	
	2009 HK$'m	2008 HK$'m
The Company		
At 1 January	**1,256**	4,135
Change in fair value	**1,374**	(2,879)
At 31 December	**2,630**	1,256

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

	Available-for-sale securities		**Held-to-maturity securities**	
	2009 HK$'m	2008 HK$'m	**2009 HK$'m**	2008 HK$'m
The Group				
Treasury bills	**22,955**	60,980	**1,041**	100
Certificates of deposit held	**19,108**	7,355	**9,833**	12,448
Others	**186,550**	104,286	**61,565**	93,917
	228,613	172,621	**72,439**	106,465

28. Investment in securities (continued)

The movements in impairment allowances on held-to-maturity securities are summarised as follows:

	2009 HK$'m	2008 HK$'m
The Group		
At 1 January	**4,440**	1,682
(Credited)/charged to income statement (Note 12)	**(690)**	4,061
Disposals	**(3,638)**	(1,303)
At 31 December	**112**	4,440

29. Investment in subsidiaries

	2009 HK$'m	2008 HK$'m
Unlisted shares, at cost	**54,784**	54,019

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 2009:

Name	Country of incorporation & place of 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

30. Interests in associates

	2009 HK$'m	2008 HK$'m
At 1 January	88	83
Investment cost addition	129	–
Share of result	10	9
Share of tax	(3)	(2)
Dividends received	(4)	(2)
Disposal of an associate	(3)	–
At 31 December	217	88

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	2009 and 2008 Hong Kong		2009 and 2008 PRC		2009 PRC	
Particulars of issued share capital/registered capital	100,238 ordinary shares of HK$100 each		Registered capital RMB50,000,000		Registered capital RMB450,000,000	
Principal activities	Operation of a private inter-bank message switching network in respect of ATM services		Credit card back-end service support		Prepay debit card services	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Assets	418,652	371,144	162,324	108,145	514,906	–
Liabilities	131,861	86,283	90,559	45,250	4,967	–
Revenues	70,243	75,297	270,602	118,274	–	–
Profit/(loss) after taxation	31,864	34,752	8,757	5,166	(317)	–
	2009	2008	2009	2008	2009	2008
Interest held	19.96%	19.96%	45.00%	45.00%	25.33%	–

On 1 December 2009, the Group disposed its entire interest in CJM Insurance Brokers Limited.

BOC Expresspay Company Limited was incorporated in China on 16 August 2009.

31. Investment properties

	2009 HK$'m	2008 HK$'m
At 1 January	**7,727**	8,058
Disposals	**(77)**	(186)
Fair value gains/(losses) (Note 14)	**1,554**	(132)
Reclassification from/(to) properties, plant and equipment (Note 32)	**160**	(13)
At 31 December	**9,364**	7,727

As at 31 December 2009, investment properties are included in the consolidated balance sheet at valuation carried out at 31 December 2009 on the basis of their fair value by an independent firm of chartered surveyors, Savills Valuation and Professional Services Limited.

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	2009 HK$'m	2008 HK$'m
Held in Hong Kong		
On long-term lease (over 50 years)	**1,474**	7,040
On medium-term lease (10 – 50 years)	**7,683**	505
On short-term lease (less than 10 years)	**23**	–
Held outside Hong Kong		
On long-term lease (over 50 years)	**1**	1
On medium-term lease (10 – 50 years)	**183**	177
On short-term lease (less than 10 years)	**–**	4
	9,364	7,727

32. Properties, plant and equipment

	Premises HK$'m	Equipment, fixtures and fittings HK$'m	Total HK$'m
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 13)	**(386)**	**(632)**	**(1,018)**
Reclassification to investment properties (Note 31)	**(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**
Net book value at 1 January 2008	20,783	2,510	23,293
Additions	42	776	818
Disposals	(68)	(5)	(73)
Revaluation	(265)	–	(265)
Depreciation for the year (Note 13)	(400)	(592)	(992)
Reclassification from investment properties (Note 31)	13	–	13
Exchange difference	–	1	1
Net book value at 31 December 2008	20,105	2,690	22,795
At 31 December 2008			
Cost or valuation	20,105	6,239	26,344
Accumulated depreciation and impairment	–	(3,549)	(3,549)
Net book value at 31 December 2008	20,105	2,690	22,795
The analysis of cost or valuation of the above assets is as follows:			
At 31 December 2009			
At cost	**–**	**6,531**	**6,531**
At valuation	**23,701**	**–**	**23,701**
	23,701	**6,531**	**30,232**
At 31 December 2008			
At cost	–	6,239	6,239
At valuation	20,105	–	20,105
	20,105	6,239	26,344

32. Properties, plant and equipment (continued)

The carrying value of premises is analysed based on the remaining terms of the leases as follows:

	2009 HK$'m	2008 HK$'m
Held in Hong Kong		
On long-term lease (over 50 years)	**8,618**	12,825
On medium-term lease (10 – 50 years)	**14,691**	6,873
Held outside Hong Kong		
On long-term lease (over 50 years)	**69**	75
On medium-term lease (10 – 50 years)	**276**	306
On short-term lease (less than 10 years)	**47**	26
	23,701	20,105

As at 31 December 2009, premises are included in the consolidated balance sheet at valuation carried out at 31 December 2009 on the basis of their fair value by an independent firm of chartered surveyors, Savills Valuation and Professional Services Limited.

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:

	2009 HK$'m	2008 HK$'m
Increase/(decrease) in valuation credited/(charged) to premises revaluation reserve	**4,208**	(250)
Increase/(decrease) in valuation credited/(charged) to income statement (Note 15)	**15**	(24)
Increase in valuation credited to non-controlling interests	**24**	9
	4,247	(265)

As at 31 December 2009, 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$6,257 million (2008: HK$6,123 million).

33. Other assets

	2009 HK$'m	2008 HK$'m
Repossessed assets	**95**	124
Precious metals	**2,432**	1,347
Accounts receivable and prepayments	**11,800**	13,208
	14,327	14,679

34. 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.

35. Financial liabilities at fair value through profit or loss

	2009 HK$'m	2008 HK$'m
Trading liabilities		
– Short positions in Exchange Fund Bills	**14,156**	12,141
Financial liabilities designated at fair value through profit or loss		
– Structured deposits (Note 36)	**2,132**	8,939
– Certificates of deposit issued	**–**	858
	2,132	9,797
	16,288	21,938

The carrying amount of financial liabilities designated at fair value through profit or loss as at 31 December 2009 is less than the amount that the Group would be contractually required to pay at maturity to the holders by HK$1 million, and it was more than the amount that the Group would be contractually required to pay at maturity to the holders by HK$5 million as at 31 December 2008. 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.

36. Deposits from customers

	2009 HK$'m	2008 HK$'m
Current, savings and other deposit accounts (per consolidated balance sheet)	**842,321**	802,577
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 35)	**2,132**	8,939
	844,453	811,516
Analysed by:		
Demand deposits and current accounts		
– corporate customers	**51,043**	35,867
– individual customers	**14,397**	10,175
	65,440	46,042
Savings deposits		
– corporate customers	**141,560**	115,918
– individual customers	**353,952**	261,355
	495,512	377,273
Time, call and notice deposits		
– corporate customers	**110,941**	150,526
– individual customers	**172,560**	237,675
	283,501	388,201
	844,453	811,516

37. Other accounts and provisions

	2009 HK$'m	2008 HK$'m
Other accounts payable	**29,592**	34,297
Provisions	**338**	576
	29,930	34,873

	2009 HK$'m	2008 HK$'m
Movements of provisions		
At 1 January	**576**	9
Allowance for the year, net	**3,301**	742
Utilised during the year	**(3,539)**	(175)
At 31 December	**338**	576

The provisions were primarily in relation to the Lehman Brothers related products.

38. Assets pledged as security

As at 31 December 2009, liabilities of the Group amounting to HK$13,330 million (2008: HK$12,141 million) were secured by assets deposited with central depositories to facilitate settlement operations. The amount of assets pledged by the Group to secure these liabilities was HK$13,407 million (2008: HK$12,243 million) included in "Trading securities" and "Available-for-sale securities".

39. 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 are as follows:

	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	545	3,464	(126)	(254)	(984)	2,645
(Credited)/charged to income statement (Note 16)	(5)	214	(13)	(20)	49	225
Charged to other comprehensive income	–	681	–	–	891	1,572
At 31 December 2009	540	4,359	(139)	(274)	(44)	4,442

39. Deferred taxation (continued)

	2008					
	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 2008	533	3,777	(15)	(169)	(182)	3,944
Charged/(credited) to income statement (Note 16)	12	(205)	(111)	(85)	(75)	(464)
Credited to other comprehensive income	–	(108)	–	–	(727)	(835)
At 31 December 2008	545	3,464	(126)	(254)	(984)	2,645

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:

	2009 HK$'m	2008 HK$'m
Deferred tax assets	**(149)**	(154)
Deferred tax liabilities	**4,591**	2,799
	4,442	2,645

	2009 HK$'m	2008 HK$'m
Deferred tax assets to be recovered after more than twelve months	**(137)**	(154)
Deferred tax liabilities to be settled after more than twelve months	**4,633**	3,762
	4,496	3,608

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

	2009 HK$'m	2008 HK$'m
Fair value changes of available-for-sale securities	**884**	(727)
Revaluation of premises	**678**	(109)
Non-controlling interests	**10**	1
	1,572	(835)

40. Insurance contract liabilities

	2009 HK$'m	2008 HK$'m
Gross and net		
At 1 January	**28,274**	22,497
Benefits paid	**(2,012)**	(1,359)
Claims incurred and movement in liabilities	**7,146**	7,136
At 31 December	**33,408**	28,274

41. Subordinated liabilities

	2009 HK$'m	2008 HK$'m
Subordinated loans		
EUR 660m*	**7,377**	7,210
USD 2,500m**	**19,399**	19,394
HKD 735m***	**–**	735
	26,776	27,339

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

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

42. Share capital

	2009 HK$'m	2008 HK$'m
Authorised: 20,000,000,000 ordinary shares of HK$5 each	**100,000**	100,000
Issued and fully paid: 10,572,780,266 ordinary shares of HK$5 each	**52,864**	52,864

43. 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.

44. Notes to consolidated cash flow statement

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

	2009 HK$'m	2008 HK$'m
Operating profit	**15,104**	4,182
Depreciation	**1,018**	992
Net (reversal)/charge of impairment allowances	**(1,190)**	12,573
Unwind of discount on impairment	**(17)**	(20)
Advances written off net of recoveries	**(118)**	275
Interest expense on subordinated liabilities	**922**	250
Change in cash and balances with banks and other financial institutions with original maturity over three months	**8,363**	7,781
Change in placements with banks and other financial institutions with original maturity over three months	**21,178**	(26,893)
Change in financial assets at fair value through profit or loss	**67**	(1,096)
Change in derivative financial instruments	**(4,439)**	4,207
Change in advances and other accounts	**(57,611)**	(50,175)
Change in investment in securities	**(14,590)**	(3,954)
Change in other assets	**343**	6,166
Change in deposits and balances of banks and other financial institutions	**10,868**	28,180
Change in financial liabilities at fair value through profit or loss	**(5,650)**	10,533
Change in deposits from customers	**39,744**	8,971
Change in debt securities in issue at amortised cost	**(1,042)**	(1,047)
Change in other accounts and provisions	**(4,943)**	1,529
Change in insurance contract liabilities	**5,134**	5,777
Exchange difference	**180**	(728)
Operating cash inflow before taxation	**13,321**	7,503
Cash flows from operating activities included:		
– Interest received	**25,451**	36,379
– Interest paid	**6,764**	15,206
– Dividend received	**47**	126

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

	2009 HK$'m	2008 HK$'m
Cash and balances with banks and other financial institutions with original maturity within three months	**143,886**	128,004
Placements with banks and other financial institutions with original maturity within three months	**15,352**	23,610
Treasury bills with original maturity within three months	**19,147**	22,277
Certificates of deposit held with original maturity within three months	**4,323**	1,035
	182,708	174,926

45. 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:

	2009 HK$'m	2008 HK$'m
Direct credit substitutes	**2,065**	1,419
Transaction-related contingencies	**9,055**	10,153
Trade-related contingencies	**31,460**	22,481
Commitments that are unconditionally cancellable without prior notice	**165,829**	103,684
Other commitments with an original maturity of		
– up to one year	**15,842**	63,252
– over one year	**52,173**	52,400
	276,424	253,389
Credit risk weighted amount	**35,229**	40,251

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

46. Capital commitments

The Group has the following outstanding capital commitments not provided for in the financial statements:

	2009 HK$'m	2008 HK$'m
Authorised and contracted for but not provided for	**96**	121
Authorised but not contracted for	**9**	15
	105	136

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

47. 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:

	2009 HK$'m	2008 HK$'m
Land and buildings		
– not later than one year	**435**	427
– later than one year but not later than five years	**450**	531
– later than five years	**13**	14
	898	972

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

47. Operating lease commitments (continued)

(b) The Group as lessor

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

	2009 HK$'m	2008 HK$'m
Land and buildings		
– not later than one year	**275**	270
– later than one year but not later than five years	**193**	234
	468	504

The Group leases its investment properties (Note 31) 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.

48. 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.

49. Segmental reporting

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

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

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

Both Personal Banking and Corporate Banking segments provide general banking services. Personal Banking serves individual customers while Corporate Banking deals with non individual customers. The Treasury segment is responsible for managing the capital, liquidity, and the interest rate and foreign exchange positions of the Group in addition to proprietary trades. The Insurance segment shows business relates to the Group's long-term life insurance products, including traditional and linked individual life insurance and group life insurance products. "Others" refers to those items related to the Group as a whole 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.

49. 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/(expenses)								
– 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 fees and commission income/ (expenses)	4,329	2,487	24	(342)	66	6,564	(56)	6,508
Net trading income/(expenses)	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)
Net insurance premium income	–	–	–	7,757	–	7,757	(13)	7,744
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 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	45,007	1,227,246	(14,672)	1,212,574
Interests in associates	–	–	–	–	217	217	–	217
	178,026	372,443	593,807	37,963	45,224	1,227,463	(14,672)	1,212,791
Liabilities								
Segment liabilities	570,566	304,882	195,956	35,355	15,069	1,121,828	(14,672)	1,107,156
Other information								
Additions of properties, plant and equipment	23	2	–	10	539	574	–	574
Depreciation	293	143	88	2	492	1,018	–	1,018
Amortisation of securities	–	–	136	139	–	275	–	275

49. Segmental reporting (continued)

	2008							
	Personal HK$'m	Corporate HK$'m	Treasury HK$'m	Insurance HK$'m	Others HK$'m	Subtotal HK$'m	Eliminations HK$'m	Consolidated HK$'m
Net interest (expenses)/income								
– external	(3,241)	6,924	15,322	1,122	30	20,157	–	20,157
– inter-segment	9,752	(975)	(8,144)	–	(633)	–	–	–
	6,511	5,949	7,178	1,122	(603)	20,157	–	20,157
Net fees and commission income/(expenses)	3,597	2,032	(95)	(277)	35	5,292	(113)	5,179
Net trading income/(expenses)	548	186	1,298	–	(119)	1,913	1	1,914
Net loss on financial instruments designated at fair value through profit or loss	–	–	(316)	(136)	–	(452)	–	(452)
Net loss on investment in securities	–	–	(15)	–	–	(15)	–	(15)
Net insurance premium income	–	–	–	5,899	–	5,899	(8)	5,891
Other operating income	34	44	7	17	1,829	1,931	(1,370)	561
Total operating income	10,690	8,211	8,057	6,625	1,142	34,725	(1,490)	33,235
Net insurance benefits and claims	–	–	–	(7,709)	–	(7,709)	–	(7,709)
Net operating income/(expense) before impairment allowances	10,690	8,211	8,057	(1,084)	1,142	27,016	(1,490)	25,526
Net charge of impairment allowances	(129)	(544)	(9,170)	–	(2,730)	(12,573)	–	(12,573)
Net operating income/(expense)	10,561	7,667	(1,113)	(1,084)	(1,588)	14,443	(1,490)	12,953
Operating expenses	(5,669)	(2,143)	(831)	(147)	(1,471)*	(10,261)	1,490	(8,771)
Operating profit/(loss)	4,892	5,524	(1,944)	(1,231)	(3,059)	4,182	–	4,182
Net loss from disposal of/fair value adjustments on investment properties	–	–	–	–	(118)	(118)	–	(118)
Net gain from disposal/revaluation of properties, plant and equipment	–	–	–	–	7	7	–	7
Share of profits less losses of associates	–	–	–	–	7	7	–	7
Profit/(loss) before taxation	4,892	5,524	(1,944)	(1,231)	(3,163)	4,078	–	4,078
Assets								
Segment assets	165,148	324,606	603,965	31,703	32,578	1,158,000	(10,844)	1,147,156
Interests in associates	–	–	–	–	88	88	–	88
	165,148	324,606	603,965	31,703	32,666	1,158,088	(10,844)	1,147,244
Liabilities								
Segment liabilities	523,682	309,254	203,481	30,977	6,162	1,073,556	(10,844)	1,062,712
Other information								
Additions of properties, plant and equipment	12	5	–	5	796	818	–	818
Depreciation	271	132	108	3	478	992	–	992
Amortisation of securities	–	–	149	–	–	149	–	149

* Including the expenses incurred on Lehman Brothers related products (Note 13).

50. 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:

	2009 HK$'m	2008 HK$'m
Aggregate amount of relevant loans outstanding at year end	**3,476**	655
Maximum aggregate amount of relevant loans outstanding during the year	**3,576**	667

51. 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

(i) 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 transactions with these companies in the normal course of business. These include loans, investment securities and money market transactions.

(ii) 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 and affiliates and other state controlled entities in the normal course of business and commercial terms.

These transactions may 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.

51. Significant related party transactions (continued)

(b) 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:

	2009	
	Associates HK$'m	**Other related parties HK$'m**
Income statement items:		
Interest expense	**–**	**–**
Insurance premium paid	**(1)**	**–**
Administrative services fees received/receivable	**–**	**8**
Balance sheet items:		
Deposits from customers	**51**	**–**

	2008	
	Associates HK$'m	Other related parties HK$'m
Income statement items:		
Interest expense	(1)	–
Insurance premium paid	–	–
Administrative services fees received/receivable	–	8
Balance sheet items:		
Deposits from customers	46	–

(c) Key management personnel

Key management are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and senior management. The Group accepts deposits from and grants loans and credit facilities to key management personnel in the ordinary course of business. During both the current and prior 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 2009 and 2008 is detailed as follows:

	2009 HK$'m	2008 HK$'m
Salaries and other short-term employee benefits	**60**	53
Post-employment benefits	**1**	1
	61	54

52. 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.

	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	**419,917**	**19,012**	**21,741**	**23,307**	**31,121**	**71,103**	**34,469**	**620,670**
Forward sales	**(542,094)**	**(34,296)**	**(37,537)**	**(36,557)**	**(19,273)**	**(70,644)**	**(25,910)**	**(766,311)**
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**

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

53. 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 2009				
Asia, other than Hong Kong				
– Mainland China	**90,168**	**58,893**	**46,813**	**195,874**
– Japan	**15,961**	**16,374**	**1,511**	**33,846**
– Others	**46,558**	**674**	**22,676**	**69,908**
	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				
– Germany	**35,335**	**3,387**	**574**	**39,296**
– Others	**99,832**	**8,477**	**6,513**	**114,822**
	135,167	**11,864**	**7,087**	**154,118**
Total	**307,578**	**129,146**	**111,752**	**548,476**

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

54. 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:

	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	**101,935**	**44,217**	**146,152**	**73**
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	**26,176**	**18,260**	**44,436**	**81**
Other non-bank Mainland China exposures	**22,203**	**7,605**	**29,808**	**42**
	150,314	**70,082**	**220,396**	**196**

	2008			
	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	78,600	66,102	144,702	53
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	25,979	13,701	39,680	119
Other non-bank Mainland China exposures	14,095	7,824	21,919	56
	118,674	87,627	206,301	228

55. 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.

56. Events after the balance sheet date

On 11 February 2010, BOCHK issued Subordinated Notes with aggregate principal amount of US$1,600 million. The offering price of the Subordinated Notes was 99.591% of the principal amount of the Subordinated Notes. The Subordinated Notes are denominated in US dollars, have a maturity of 10 years due in 2020, and bear a fixed interest rate of 5.55% per annum during its term with interest payable semi-annually in arrears.

The Subordinated Notes qualify as Tier 2 Capital of BOCHK pursuant to the regulatory requirements of the HKMA.

BOCHK applied the proceeds from the issue of the Subordinated Notes to partly repay the Subordinated Credit Facility provided by BOC to BOCHK in December 2008. HKMA has approved such early repayment of the Subordinated Credit Facility, and BOC and BOCHK entered into an agreement to provide for the same.

57. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 23 March 2010.

1. Connected transactions

In 2009, 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 three 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 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	2009 Cap (HK$'m)	2009 Actual Amount (HK$'m)
Information Technology Services	1,100	40
Property Transactions	1,100	94
Bank-note Delivery	1,100	76
Provision of Insurance Cover	1,100	103
Credit Card Services	1,100	57
Securities Transactions	4,000	441
Fund Distribution Transactions	4,000	47
Insurance Agency	4,000	393
Foreign Exchange Transactions	4,000	41
Trading of Financial Assets	75,000	12,177
Inter-bank Capital Markets	75,000	5,183

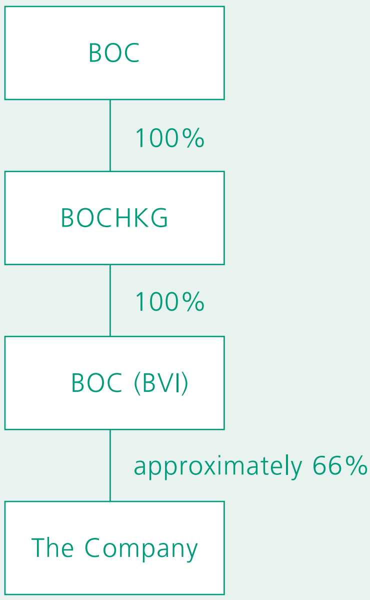
3. The Company announced a capital injection of HK$765,000,000 into BOC Life which is an associate of BOC on 3 July 2009. BOC Life will remain to be held as to 51% by the Company and 49% by BOC Insurance as the injection is on a pro rata basis. Through the capital injection, BOC Life can further strengthen its capital base to cater for future development and business growth. The directors (including the independent non-executive directors) are of the view that the terms of the capital injection is fair and reasonable, on normal commercial terms and in the interest of the Company and its shareholders as a whole. Details of this connected transaction are described in the announcement which may be viewed at the Company's website.

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.

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.

2. Reconciliation between HKFRSs vs IFRS/CAS (continued)

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; and
- deferred taxation impact arising from the above different measurement basis.

(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.

Going forward, the differences relating to the restatement of carrying value of bank premises as a result of the election of the different measurement basis allowed under HKFRSs, IFRS and CAS will be recurring in the future, while the timing difference related to the measurement of investment securities will be reversed gradually and eliminated in future years.

Profit after tax/Net assets reconciliation

HKFRSs Vs IFRS/CAS

	Profit after tax		**Net assets**	
	2009 HK$'m	2008 HK$'m	**2009 HK$'m**	2008 HK$'m
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs	**14,046**	3,007	**105,635**	84,532
Add: IFRS/CAS adjustments				
Re-measurement of carrying value of treasury products	**(108)**	(54)	**(10)**	35
Restatement of carrying value of bank premises	**246**	280	**(13,218)**	(9,445)
Deferred tax adjustments	**7**	(51)	**2,186**	1,534
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRS/CAS	**14,191**	3,182	**94,593**	76,656

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
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
Arene Trading Limited	Hong Kong 22 August 1978	Ordinary shares HK$500,000	100.00%	Property holding and investment
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 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
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

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
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
Hua Chiao Commercial (Nominees) Limited*	Hong Kong 28 October 1986	Ordinary shares HK$10,000	100.00%	Nominee services
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
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

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
Po Sang Futures Limited*	Hong Kong 19 October 1993	Ordinary shares HK$25,000,000	100.00%	Commodities brokerage
Rams City (Nominees) Limited*	Hong Kong 2 May 1986	Ordinary shares HK$2,000,000	100.00%	Nominee services
Sanicon Investment Limited	Hong Kong 24 January 2000	Ordinary shares HK$2	100.00%	Property holding and investment
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
The China State (Nominees) Limited*	Hong Kong 14 May 1982	Ordinary shares HK$100,000	100.00%	Nominee services
The China State Trustee Limited*	Hong Kong 17 July 1981	Ordinary shares HK$3,000,000	100.00%	Trustee services
Track Link Investment Limited	Hong Kong 8 February 1994	Ordinary shares HK$2	100.00%	Property holding and investment
Yien Yieh (Nominee) Limited*	Hong Kong 26 June 2001	Ordinary shares HK$2,000	100.00%	Nominee services

Arene Trading Limited, Rams City (Nominees) Limited, Yien Yieh (Nominee) Limited and The China State Trustee Limited will dissolve on 13 April 2010.

Sanicon Investment Limited commenced member's voluntary winding up on 11 September 2009.

Hua Chiao Commercial (Nominees) Limited and The China State (Nominees) Limited commenced member's voluntary winding up on 17 December 2009.

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
"Associate(s)"	has the meaning ascribed to "associate(s)" 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

Terms	Meanings
"CAS"	China Accounting Standards
"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
"ECAI(s)"	External Credit Assessment Institution(s)
"EURIBOR"	Euro Interbank Offered Rate
"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
"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
"Mainland" or "Mainland China"	the mainland of the PRC
"MBS"	Mortgage-backed securities
"MPF"	Mandatory Provident Fund

Terms	Meanings
"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
"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
"RC"	the Risk Committee
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"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 "Stock Exchange of Hong Kong"	The Stock Exchange of Hong Kong Limited
"Subordinated Credit Facility"	the US$2,500 million subordinated credit facility extended by BOC to BOCHK pursuant to a subordinated credit facility agreement dated 16 December 2008 as disclosed in the announcement of the Company dated 12 December 2008
"Subordinated Notes"	the subordinated notes due in 2020 proposed to be issued and offered by BOCHK to professional and institutional investors which are denominated in US dollars and having a maturity of 10 years
"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
IFC Wealth Management Centre	Shop 3001, Level 3, IFC Mall, 1 Harbour View Street, Central, Hong Kong	2523 8180
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

Branch	Address	Telephone
Quarry Bay Branch	Parkvale, 1060 King's Road, Quarry Bay, Hong Kong	2564 0333
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 Shopping Centre, 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		
Kowloon Bay Wealth Management Centre	Shop 2, Telford House, 16 Wang Hoi Road, Kowloon Bay, Kowloon	2759 9339
Kowloon Bay Branch	17 Wang Hoi Road, Kowloon Bay, Kowloon	2331 3783
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

Bank of China (Hong Kong) – Branch Network (continued)

Branch	Address	Telephone
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
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
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		
Jat Min Chuen Branch	Shop 1, G/F Ming Yiu Lau, Jat Min Chuen, Sha Tin, New Territories	2647 8784
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
City One Sha Tin Branch	Shop A, 16-20 Ngan Shing Commercial Centre, City One, Sha Tin, New Territories	2648 8083
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
Sunshine City Branch	Shop 16, Blocks C & D, Sunshine City, Ma On Shan, New Territories	2631 1011
Lek Yuen Branch	No 1, Fook Hoi House, Lek Yuen Estate, Sha Tin, New Territories	2605 3021
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
Hau Tak Estate Branch	Shop 15, Hau Tak Shopping Centre, Tseung Kwan O, New Territories	2703 5203
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
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
Fuk Loi Estate Branch	129-135 Sha Tsui Road, Tsuen Wan, New Territories	2499 0755
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
Cheung Fat Estate Branch	Shop 317, Cheung Fat Shopping Centre, Tsing Yi Island, New Territories	2433 1689

Bank of China (Hong Kong) – Branch Network (continued)

Branch	Address	Telephone
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
Sheung Shui VIP Centre	33 San Fung Avenue, Sheung Shui, New Territories	2639 9233
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
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 Business	10/F, Bank of China Tower, 1 Garden Road, Hong Kong	2826 6889
Corporate Finance	10/F, Bank of China Tower, 1 Garden Road, Hong Kong	2826 6491
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, Island East, Hong Kong	2910 9393
Causeway Bay Commercial Centre Causeway Bay SME Centre	2/F, BOC Wan Chai Commerical 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	Room 1720-1724 & 1716B-1719, Nan Fung Centre, 264-298 Castle Peak Road, Tsuen Wan, New Territories	3412 7044
Yuen Long Commercial Centre Yuen Long SME Centre	4/F, BOC Yuen Long Commercial Centre, 102-108 Castle Peak Road, Yuen Long, New Territories	2442 8788
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	128 Bonham Strand East, Sheung Wan, 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

Nanyang Commercial Bank – Branch Network (continued)

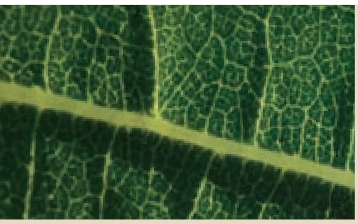
Branch	Address	Telephone
North Point Branch	351 King's Road, North Point, Hong Kong	2566 8116
Sai Wan Ho Branch	63 Shaukeiwan Road, Sai Wan Ho, Hong Kong	2567 0315
Wanchai Branch	123 Johnston Road, Wanchai, Hong Kong	2574 8118
Causeway Centre Branch	Shop Nos 9-10, Ground Floor, Causeway Centre, 28 Harbour 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
Kowloon		
Mongkok Branch	727 Nathan Road, Mongkok, Kowloon	2394 8206
Yaumati Branch	309 Nathan Road, Yaumati, Kowloon	2782 9888
Ferry Point Branch	Shops D-F, G/F, Best-O-Best Commercial Centre, 32-36 Ferry Street, Yaumati, Kowloon	2332 0738
Homantin Branch	71A 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
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, 8th, 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

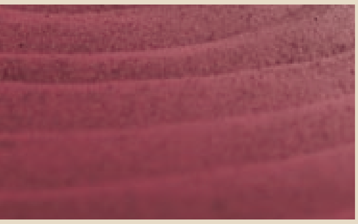
Nanyang Commercial Bank (China) – Branch Network

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	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, Shenzhen, China	(86-755) 2682 8788
Shenzhen Luohu Sub-Branch	G/F, The Kwangtung Provincial Bank Building, 1013 Ren Min Nan Road, 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	1st Floor, Time Square, No.2, Guomao Road, Haikou, Hainan, China	(86-898) 6650 0038
Guangzhou Branch	Room 402, Skygalleria CITIC Plaza, 233 Tianhe North Road, Guangzhou, China	(86-20) 3891 2668
Guangzhou Panyu Sub-branch	C001-C008 & C101-C106, No. 2, Fuhua West Road, Shiqiao, Panyu, Guangzhou, China	(86-20) 3451 0228
Dalian Branch	B1/F,1/F,2/F,3/F,5/F Anho Building, No.87 Renmin Road, Dalian, China	(86-411) 3984 8888
Beijing Branch	Ground Floor, 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
Shanghai Branch	Room A103-A107, Tomorrow Square, 389 Nanjing West Road, Shanghai, China	(86-21) 6375 5858
Shanghai Xuhui Sub-branch	1-2/F, Huafu City, No.1, Lane 500, Tian Yao Qiao Road, Xuhui District, 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	1-2/F, International Business Building, 195-1 Qingchun Road, Hangzhou, Zhejiang, China	(86-571) 8703 8080
Nanning Branch	1/F-2/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

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
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) 5851 691
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	(86-592) 6193 302






中銀香港(控股)有限公司
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