

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. Basis of preparation and accounting policies

Basis of preparation

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

Accounting policies

Except as described below, the accounting policies and methods of computation used in the preparation of the unaudited interim report are consistent with those used in the Group’s financial statements for the year ended 31 December 2009 and should be read in conjunction with the Group’s Annual Report for 2009.

Financial liabilities issued at amortised cost with fair value hedge adjustment

The Group issued fixed rate subordinated notes in the first half of 2010 which are measured at amortised cost. The Group uses interest rate swaps to hedge the fixed rate subordinated notes, which change their interest rate repricing characteristics into those of floating rate financial liabilities. The hedge of fixed rate subordinated notes with interest rate swaps are designated as fair value hedge when the criteria for hedge accounting are fulfilled at the inception of the hedge and the hedge relationship last while the criteria are continued to be fulfilled on an on-going basis.

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

If the hedge relationship is terminated for reasons other than the derecognition, e.g. due to repayment of the hedged item, the unamortised carrying value adjustment (the difference between the carrying value of the hedged item at the time of termination and the value at which it would have been carried had the hedge never existed) is amortised to the income statement over the remaining life of the hedged item. If the hedged item is derecognised, the unamortised carrying value adjustment is recognised immediately in the income statement.

Revised standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2010

- HKFRS 3 (Revised), ‘Business combinations’ and consequential amendments to HKAS 27, ‘Consolidated and separate financial statements’, HKAS 28, ‘Investments in associates’, and HKAS 31, ‘Interests in joint ventures’, are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs should be expensed. The adoption of HKFRS 3 (Revised) and consequential amendments to HKAS 27, HKAS 28 and HKAS 31 do not have an impact on the financial statements of the Group as there is no business combination conducted in the first half of 2010.

1. Basis of preparation and accounting policies (continued)

Accounting policies (continued)

Revised standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2010 (continued)

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

As the transaction values in the Hong Kong property market have typically demonstrated that the market believes the lease term specified in land leases will be capable of extension for a nominal amount, risks and rewards of leaseholds land have already been substantially transferred to the lessee. Split of the land and buildings elements is no longer necessary as both of them are finance lease. The adoption of this amendment does not have an impact on the Group as the Group has not separately accounted for its land and buildings in the financial statements for the reason given in Note 2.18 shown in the Group's Annual Report for 2009.

- HKAS 27 (Revised), 'Consolidated and separate financial statements'. The revised standard requires changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within other comprehensive income and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting 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. There has been no impact of HKAS 27 (Revised) on the current period as there have been no transactions with non-controlling interests.
- Other improvements to HKFRSs made in 2009 contain numerous amendments to HKFRSs 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 2010, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

Standards and amendments issued that are relevant to the Group but not yet effective and have not been early adopted by the Group in 2010

Standard	Content	Applicable for financial years beginning on/after
HKAS 24 (Revised)	Related Party Disclosures	1 January 2011
HKFRS 9	Financial Instruments Part 1: Classification and Measurement	1 January 2013

1. Basis of preparation and accounting policies (continued)

Accounting policies (continued)

Standards and amendments issued that are relevant to the Group but not yet effective and have not been early adopted by the Group in 2010 (continued)

- HKAS 24, 'Related Party Disclosures (Revised)'. The Group early adopted the partial exemption regarding disclosure requirements for transactions with government-related entities in its annual financial statements for the year ended 31 December 2009. The application of the remainder of the revised standard which amending the definition of related parties will not have significant impact on the Group.
- HKFRS 9, 'Financial Instruments Part 1: Classification and Measurement'. The application of HKFRS 9 is expected to have an effect on the classification and measurement of financial assets of the Group and a related impact on the Group's financial statements.
- Annual Improvements 2010 were issued in May 2010. This annual improvements process provides a vehicle for making non-urgent but necessary amendments to HKFRSs. Most of the amendments are effective for annual periods beginning on or after 1 January 2011, no material changes to accounting policies are expected as a result of these improvements.

2. Critical accounting estimates and judgements in applying accounting policies

The nature and assumptions related to the Group's accounting estimates are consistent with those used in the Group's financial statements for the year ended 31 December 2009.

As disclosed in the Group's financial statements for the year ended 31 December 2009, the Group entered into an agreement dated 22 July 2009 among the Securities and Futures Commission, the HKMA and 13 other distributing banks, pursuant to which the Group has repurchased from eligible customers their holdings in outstanding Lehman Brothers minibonds ("Minibonds"). The amount recoverable by the Group from the Minibonds remains uncertain and is dependent on a number of factors including resolution of certain legal matters, which may result in a wide range of recovery outcomes.

The final amount recovered by the Group could be different from the assessment made for the purposes of the Group's financial statements, and may result in a considerable credit being recognised in the income statement in the period when it is realised.

3. Financial risk management

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

3.1 Credit Risk

A. Gross loans and advances

(a) Impaired advances

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

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

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Gross impaired advances to customers	699	1,023
Individually assessed loan impairment allowances made in respect of such advances	512	671
Current market value of collateral held against the covered portion of advances to customers	150	227
Covered portion of advances to customers	145	192
Uncovered portion of advances to customers	554	831
Gross impaired advances to customers as a percentage of gross advances to customers	0.12%	0.20%

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

3. Financial risk management (continued)

3.1 Credit Risk (continued)

A. Gross loans and advances (continued)

(a) Impaired advances (continued)

Classified or impaired advances to customers are analysed as follows:

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Gross classified or impaired advances to customers	1,317	1,769
Gross classified or impaired advances to customers as a percentage of gross advances to customers	0.23%	0.34%

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

(b) Advances overdue for more than 3 months

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

3. Financial risk management (continued)

3.1 Credit Risk (continued)

A. Gross loans and advances (continued)

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

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

	At 30 June 2010		At 31 December 2009	
	Amount HK\$'m	% of gross advances to customers	Amount HK\$'m	% of gross advances to customers
Gross advances to customers which have been overdue for:				
– six months or less but over three months	75	0.01%	103	0.02%
– one year or less but over six months	89	0.02%	154	0.03%
– over one year	558	0.10%	569	0.11%
Advances overdue for over three months	722	0.13%	826	0.16%
Individually assessed loan impairment allowances made in respect of such advances	310		393	

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Current market value of collateral held against the covered portion of advances to customers	968	977
Covered portion of advances to customers	424	459
Uncovered portion of advances to customers	298	367

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

As at 30 June 2010 and 31 December 2009, there were no advances to banks and other financial institutions overdue for more than three months.

3. Financial risk management (continued)

3.1 Credit Risk (continued)

A. Gross loans and advances (continued)

(c) Rescheduled advances

	At 30 June 2010		At 31 December 2009	
	Amount HK\$m	% of gross advances to customers	Amount HK\$m	% of gross advances to customers
Rescheduled advances to customers net of amounts included in advances overdue for more than 3 months	392	0.07%	573	0.11%

As at 30 June 2010 and 31 December 2009, there were no rescheduled advances to banks and other financial institutions.

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

3. Financial risk management (continued)

3.1 Credit Risk (continued)

A. Gross loans and advances (continued)

(d) Concentration of advances to customers

(i) Sectoral analysis of gross advances to customers

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

	At 30 June 2010					
	% Covered by collateral			Overdue*	Individually assessed	Collectively assessed
	Gross Advances HK\$'m	or other security	Classified or impaired HK\$'m		impairment allowances HK\$'m	impairment allowances HK\$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	31,588	29.54%	3	5	–	93
– Property investment	69,525	89.45%	142	284	12	373
– Financial concerns	19,754	7.68%	–	1	–	73
– Stockbrokers	1,291	86.33%	–	–	–	6
– Wholesale and retail trade	27,309	41.68%	110	160	44	129
– Manufacturing	27,833	38.54%	94	277	42	134
– Transport and transport equipment	26,519	22.59%	89	88	5	82
– Recreational activities	429	9.63%	–	–	–	1
– Information technology	15,140	0.82%	–	–	–	43
– Others	37,001	28.97%	61	266	11	118
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	11,572	99.95%	69	395	1	9
– Loans for purchase of other residential properties	131,491	99.97%	112	1,149	–	62
– Credit card advances	7,143	–	21	178	–	73
– Others	10,586	69.06%	61	239	33	17
Total loans for use in Hong Kong	417,181	63.15%	762	3,042	148	1,213
Trade finance	39,285	20.75%	141	161	84	165
Loans for use outside Hong Kong	115,020	31.98%	414	174	280	399
Gross advances to customers	571,486	53.96%	1,317	3,377	512	1,777

3. Financial risk management (continued)

3.1 Credit Risk (continued)

A. Gross loans and advances (continued)

(d) Concentration of advances to customers (continued)

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

	At 31 December 2009					
	Gross advances HK\$m	% Covered by collateral or other security	Classified or impaired HK\$m	Overdue* HK\$m	Individually assessed impairment allowances	Collectively assessed impairment allowances
		HK\$m			HK\$m	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

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

3. Financial risk management (continued)

3.1 Credit Risk (continued)

A. Gross loans and advances (continued)

(d) Concentration of advances to customers (continued)

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

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

Gross advances to customers

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Hong Kong	433,779	409,564
Mainland China	102,387	72,556
Others	35,320	32,852
	571,486	514,972
Collectively assessed loan impairment allowances in respect of the gross advances to customers		
Hong Kong	1,293	1,205
Mainland China	375	290
Others	109	103
	1,777	1,598

3. Financial risk management (continued)

3.1 Credit Risk (continued)

A. Gross loans and advances (continued)

(d) Concentration of advances to customers (continued)

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

Overdue advances

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Hong Kong	3,144	3,470
Mainland China	216	253
Others	17	29
	3,377	3,752
Individually assessed loan impairment allowances in respect of the overdue advances		
Hong Kong	229	297
Mainland China	83	154
Others	6	6
	318	457
Collectively assessed loan impairment allowances in respect of the overdue advances		
Hong Kong	54	57
Mainland China	8	9
	62	66

3. Financial risk management (continued)

3.1 Credit Risk (continued)

A. Gross loans and advances (continued)

(d) Concentration of advances to customers (continued)

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

Classified or impaired advances

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Hong Kong	916	1,153
Mainland China	188	260
Others	213	356
	1,317	1,769
Individually assessed loan impairment allowances in respect of the classified or impaired advances		
Hong Kong	264	316
Mainland China	86	191
Others	162	164
	512	671
Collectively assessed loan impairment allowances in respect of the classified or impaired advances		
Hong Kong	18	23
Mainland China	6	6
	24	29

B. Repossessed assets

The estimated market value of repossessed assets held by the Group as at 30 June 2010 amounted to HK\$88 million (31 December 2009: HK\$137 million). They comprise properties in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the borrowers concerned) for release in full or in part of the obligations of the borrowers.

3. Financial risk management (continued)

3.1 Credit Risk (continued)

C. Debt securities

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

	At 30 June 2010							
					Unrated			
					Hong Kong	Other		
					government	government		
				and	and			
				Lower	government	government		
				than A3	bodies	agencies	Other	Total
				HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Investment in securities								
US non-agency residential mortgage-backed								
– Subprime	420	19	-	-	-	-	-	439
– Alt-A	102	127	41	48	-	-	-	318
– Prime	463	92	257	1,400	-	-	-	2,212
Fannie Mae								
– mortgage-backed securities	-	-	-	-	-	28	-	28
Freddie Mac								
– issued debt securities	79	160	-	-	-	-	-	239
– mortgage-backed securities	-	-	-	-	-	823	-	823
Other MBS/ABS	2,789	372	-	-	-	3,680	-	6,841
Other debt securities	100,236	71,241	46,887	5,220	8,252	30,674	36,779	299,289
Subtotal	104,089	72,011	47,185	6,668	8,252	35,205	36,779	310,189
Financial assets at fair value through profit or loss								
Other MBS/ABS	22	-	-	-	-	-	-	22
Other debt securities	978	10,941	17,369	1,309	32,032	157	2,282	65,068
Subtotal	1,000	10,941	17,369	1,309	32,032	157	2,282	65,090
Total	105,089	82,952	64,554	7,977	40,284	35,362	39,061	375,279

3. Financial risk management (continued)
3.1 Credit Risk (continued)
C. Debt securities (continued)

	At 31 December 2009							
					Unrated			
	Aaa	Aa1 to Aa3	A1 to A3	Lower	Hong Kong	Other		Total
HK\$m	HK\$m	HK\$m	than A3	government	government	Other	HK\$m	
			HK\$m	bodies	and	agencies		HK\$m
					and			
					government	government		
Investment in securities								
US non-agency residential mortgage-backed								
– Subprime	504	31	12	–	–	–	–	547
– Alt-A	138	191	44	11	–	–	–	384
– Prime	635	242	632	1,344	–	–	–	2,853
Fannie Mae								
– issued debt securities	1,348	–	–	–	–	–	–	1,348
– mortgage-backed securities	–	–	–	–	–	51	–	51
Freddie Mac								
– issued debt securities	79	160	–	–	–	–	–	239
– mortgage-backed securities	–	–	–	–	–	1,164	–	1,164
Other MBS/ABS	3,481	416	25	–	–	2,695	–	6,617
Other debt securities	84,843	71,964	39,499	6,824	9,609	39,437	45,119	297,295
Subtotal	91,028	73,004	40,212	8,179	9,609	43,347	45,119	310,498
Financial assets at fair value through profit or loss								
Fannie Mae								
– issued debt securities	260	–	–	–	–	–	–	260
Other MBS/ABS	25	–	–	–	–	–	–	25
Other debt securities	1,039	7,941	14,630	1,639	13,902	290	602	40,043
Subtotal	1,324	7,941	14,630	1,639	13,902	290	602	40,328
Total	92,352	80,945	54,842	9,818	23,511	43,637	45,721	350,826

The total amount of unrated issues amounted to HK\$114,707 million (31 December 2009: HK\$112,869 million) as at 30 June 2010, of which only HK\$3,950 million (31 December 2009: HK\$3,868 million) were without issuer ratings. For details, please refer to page 63.

3. Financial risk management (continued)

3.1 Credit Risk (continued)

C. Debt securities (continued)

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

	At 30 June 2010					
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m
Available-for-sale securities	35,156	9,861	8,056	3,909	2,561	59,543
Held-to-maturity securities	680	6,435	1,683	–	200	8,998
Loans and receivables	–	8,865	2,830	–	–	11,695
Financial assets at fair value through profit or loss	157	32,032	1,093	–	1,189	34,471
Total	35,993	57,193	13,662	3,909	3,950	114,707

	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
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

3. Financial risk management (continued)

3.1 Credit Risk (continued)

C. Debt securities (continued)

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

	At 30 June 2010						
	Carrying values						Of which accumulated impairment allowances HK\$m
	Aaa	Aa1 to Aa3	A1 to A3	Lower than A3	Unrated	Total	
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	
Investment in securities							
US non-agency residential mortgage-backed							
– Subprime	401	5	–	–	–	406	45
– Alt-A	–	38	41	48	–	127	57
– Prime	48	–	198	1,300	–	1,546	292
Other MBS/ABS	–	79	–	–	–	79	9
Other debt securities	–	–	–	–	–	–	281
Total	449	122	239	1,348	–	2,158	684
Of which accumulated impairment allowances	64	25	97	217	281	684	

	At 31 December 2009						
	Carrying values						Of which accumulated impairment allowances HK\$m
	Aaa	Aa1 to Aa3	A1 to A3	Lower than A3	Unrated	Total	
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	
Investment in securities							
US 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
Other MBS/ABS	–	75	–	–	–	75	38
Other debt securities	–	–	32	–	–	32	281
Total	517	354	319	850	–	2,040	788
Of which accumulated impairment allowances	74	117	130	186	281	788	

As at 30 June 2010 and 31 December 2009, there were no debt securities overdue for more than 3 months.

3. Financial risk management (continued)

3.1 Credit Risk (continued)

C. Debt securities (continued)

MBS/ABS

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

	At 30 June 2010		
	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	439	406	45
– Alt-A	318	127	57
– Prime	2,212	1,546	292
Ginnie Mae	3,680	–	–
Fannie Mae	28	–	–
Freddie Mac	823	–	–
Others	1,115	–	–
	8,615	2,079	394
Other countries MBS/ABS			
Residential mortgage-backed	1,922	79	9
Commercial mortgage-backed	146	–	–
	2,068	79	9
Total MBS/ABS	10,683	2,158	403

3. Financial risk management (continued)
3.1 Credit Risk (continued)
C. Debt securities (continued)
MBS/ABS (continued)

	At 31 December 2009		
	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	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

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Increase in fair value taken to available-for-sale securities reserve on MBS/ABS for the period/year (net of impairment releases taken to income statement excluding deferred tax impact)	182	1,617
Closing balance of available-for-sale securities reserve relating to MBS/ABS (excluding deferred tax impact)	92	(90)

3. Financial risk management (continued)

3.1 Credit Risk (continued)

C. Debt securities (continued)

MBS/ABS (continued)

The table below represents an analysis of impairment charges/(releases) for the period/year for MBS/ABS held as at 30 June 2010 and 31 December 2009.

	At 30 June 2010					
	Aaa	Aa1 to Aa3	A1 to A3	Lower than A3	Unrated	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
US MBS/ABS						
Non-agency residential mortgage-backed						
– Subprime	(8)	(1)	–	–	–	(9)
– Alt-A	–	(1)	(2)	(2)	–	(5)
– Prime	(2)	–	(6)	27	–	19
	(10)	(2)	(8)	25	–	5
Other countries MBS/ABS						
Residential mortgage-backed	–	(27)	–	–	–	(27)
Total MBS/ABS	(10)	(29)	(8)	25	–	(22)

	At 31 December 2009					
	Aaa	Aa1 to Aa3	A1 to A3	Lower than A3	Unrated	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
US MBS/ABS						
Non-agency residential mortgage-backed						
– Subprime	(15)	–	(3)	–	–	(18)
– Alt-A	–	10	20	(3)	–	27
– Prime	22	15	(2)	139	–	174
	7	25	15	136	–	183
Other countries MBS/ABS						
Residential mortgage-backed	–	8	–	–	–	8
Total MBS/ABS	7	33	15	136	–	191

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

3. Financial risk management (continued)

3.2 Market Risk

A. VAR

The Group uses VAR technique to measure potential losses and market risks of its trading book for reporting to the senior management and RC 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 and interest rate positions in major currencies, uses VAR technique to monitor and control market risk on a daily basis.

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

The following table sets out the VAR for all trading market risk exposure¹ of BOCHK.

HK\$m		Minimum for Maximum for Average for the first half the first half the first half of year of year of year			
		At 30 June			
VAR for all market risk	- 2010	7.4	6.9	15.7	10.5
	- 2009	11.6	9.0	16.3	12.3
VAR for foreign exchange risk products	- 2010	5.6	2.3	11.2	5.2
	- 2009	12.3	9.2	15.8	12.5
VAR for interest rate risk products	- 2010	6.0	5.1	13.6	8.7
	- 2009	4.2	2.1	5.4	3.3
VAR for equity risk products	- 2010	0.0	0.0	1.7	0.3
	- 2009	0.1	0.1	2.5	0.3
VAR for commodity risk products	- 2010	0.0	0.0	0.2	0.0
	- 2009	0.0	0.0	0.0	0.0

In the first half of 2010, the average daily revenue² of BOCHK earned from market risk-related trading activities was HK\$4.5 million (first half of 2009: HK\$3.9 million).

The Group uses backtesting to monitor the predictive power of the VAR measure. Backtesting compares the calculated VAR figure of those trading positions of each business day with the actual revenues arising on those positions on the next business day. These actual revenues exclude non-trading income, such as fee and commission. If backtesting revenues are negative and exceeding the VAR, a "backtesting exception" is noted. The Group will assess the magnitude of the backtesting exceptions, and revise its VAR model (including the parameters and assumptions) accordingly. Backtesting results are reported to the Group's senior management, including CE and CRO.

¹ Structural FX positions have been excluded.

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

3. Financial risk management (continued)

3.2 Market Risk (continued)

B. Currency risk

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 30 June 2010 and 31 December 2009. Included in the tables are the assets and liabilities at carrying amounts in HK\$ equivalent, categorised by the original currency.

	At 30 June 2010							
	Renminbi HK\$'m	US Dollars HK\$'m	HK Dollars HK\$'m	Euro HK\$'m	Japanese Yen HK\$'m	Pound Sterling HK\$'m	Others HK\$'m	Total HK\$'m
Assets								
Cash and balances with banks and other financial institutions	95,506	33,067	33,643	1,663	301	356	5,018	169,554
Placements with banks and other financial institutions maturing between one and twelve months	3,697	19,237	11,868	8	-	647	501	35,958
Financial assets at fair value through profit or loss	573	14,956	54,693	89	-	-	61	70,372
Derivative financial instruments	69	2,827	16,205	20	-	-	19	19,140
Hong Kong SAR Government certificates of indebtedness	-	-	41,950	-	-	-	-	41,950
Advances and other accounts	21,406	158,163	404,262	4,616	1,274	45	7,540	597,306
Investment in securities								
– Available-for-sale securities	2,616	138,678	31,507	21,808	1,689	1,790	39,836	237,924
– Held-to-maturity securities	1,779	27,505	22,152	2,796	1,864	36	7,486	63,618
– Loans and receivables	-	8,837	2,858	-	-	-	-	11,695
Interests in associates	-	-	213	-	-	-	-	213
Investment properties	58	-	9,265	-	-	-	-	9,323
Properties, plant and equipment	350	-	27,885	-	-	-	-	28,235
Other assets (including deferred tax assets)	337	860	14,967	254	335	64	71	16,888
Total assets	126,391	404,130	671,468	31,254	5,463	2,938	60,532	1,302,176
Liabilities								
Hong Kong SAR currency notes in circulation	-	-	41,950	-	-	-	-	41,950
Deposits and balances of banks and other financial institutions	59,638	30,029	16,582	397	438	375	3,327	110,786
Financial liabilities at fair value through profit or loss	-	177	26,443	-	-	-	256	26,876
Derivative financial instruments	73	3,325	11,492	758	2	-	121	15,771
Deposits from customers	57,117	181,970	570,464	14,588	1,763	15,667	50,642	892,211
Other accounts and provisions (including current and deferred tax liabilities)	3,782	10,714	25,530	662	49	510	1,556	42,803
Insurance contract liabilities	185	6,408	28,457	-	-	-	-	35,050
Subordinated liabilities	-	20,915	-	6,277	-	-	-	27,192
Total liabilities	120,795	253,538	720,918	22,682	2,252	16,552	55,902	1,192,639
Net on-balance sheet position	5,596	150,592	(49,450)	8,572	3,211	(13,614)	4,630	109,537
Off-balance sheet net notional position*	544	(142,101)	148,944	(8,735)	(3,169)	13,698	(4,560)	4,621
Contingent liabilities and commitments	9,167	90,268	209,478	4,363	430	927	3,273	317,906

3. Financial risk management (continued)

3.2 Market Risk (continued)

B. Currency risk (continued)

	At 31 December 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

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

3. Financial risk management (continued)

3.2 Market Risk (continued)

C. Interest rate risk

The tables below summarise the Group's exposure to interest rate risk as at 30 June 2010 and 31 December 2009. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	At 30 June 2010						
	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Non-interest bearing HK\$'m	Total HK\$'m
Assets							
Cash and balances with banks and other financial institutions	159,565	-	-	-	-	9,989	169,554
Placements with banks and other financial institutions maturing between one and twelve months	-	18,653	17,305	-	-	-	35,958
Financial assets at fair value through profit or loss	12,490	21,349	4,272	12,573	14,406	5,282	70,372
Derivative financial instruments	-	-	-	-	-	19,140	19,140
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	41,950	41,950
Advances and other accounts	466,575	90,265	35,376	1,164	122	3,804	597,306
Investment in securities							
– Available-for-sale securities	24,283	31,702	25,435	124,919	28,537	3,048	237,924
– Held-to-maturity securities	11,351	19,887	8,697	15,669	8,014	-	63,618
– Loans and receivables	1,190	1,077	9,428	-	-	-	11,695
Interests in associates	-	-	-	-	-	213	213
Investment properties	-	-	-	-	-	9,323	9,323
Properties, plant and equipment	-	-	-	-	-	28,235	28,235
Other assets (including deferred tax assets)	-	-	-	-	-	16,888	16,888
Total assets	675,454	182,933	100,513	154,325	51,079	137,872	1,302,176
Liabilities							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	41,950	41,950
Deposits and balances of banks and other financial institutions	93,137	3,958	1,975	-	-	11,716	110,786
Financial liabilities at fair value through profit or loss	8,168	15,375	3,212	121	-	-	26,876
Derivative financial instruments	-	-	-	-	-	15,771	15,771
Deposits from customers	693,177	88,169	60,026	1,262	-	49,577	892,211
Other accounts and provisions (including current and deferred tax liabilities)	10,393	575	2,288	303	-	29,244	42,803
Insurance contract liabilities	-	-	-	-	-	35,050	35,050
Subordinated liabilities	-	-	6,277	-	20,915	-	27,192
Total liabilities	804,875	108,077	73,778	1,686	20,915	183,308	1,192,639
Interest sensitivity gap	(129,421)	74,856	26,735	152,639	30,164	(45,436)	109,537

3. Financial risk management (continued)
3.2 Market Risk (continued)
C. Interest rate risk (continued)

	At 31 December 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

3. Financial risk management (continued)

3.3 Liquidity Risk

A. Liquidity ratio

	Half-year ended 30 June 2010	Half-year ended 30 June 2009
Average liquidity ratio	37.81%	39.70%

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

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

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

B. Maturity analysis

Tables below analyse assets and liabilities of the Group as at 30 June 2010 and 31 December 2009 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2010							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 Months HK\$'m	3-12 Months HK\$'m	1-5 years HK\$'m	Over 5 Years HK\$'m	Indefinite HK\$'m	
Assets								
Cash and balances with banks and other financial institutions	97,748	71,806	-	-	-	-	-	169,554
Placements with banks and other financial institutions maturing between one and twelve months	-	-	18,653	17,305	-	-	-	35,958
Financial assets at fair value through profit or loss								
- debt securities held for trading								
- certificates of deposit held	-	-	-	782	200	-	-	982
- others	-	12,289	20,228	3,407	2,195	4,937	-	43,056
- debt securities designated at fair value through profit or loss								
- certificates of deposit held	-	-	-	155	1,769	730	-	2,654
- others	-	-	58	630	8,949	8,761	-	18,398
- fund and equity securities	-	-	-	-	-	-	5,282	5,282
Derivative financial instruments	14,013	541	591	1,119	1,219	1,657	-	19,140
Hong Kong SAR Government certificates of indebtedness	41,950	-	-	-	-	-	-	41,950
Advances and other accounts								
- advances to customers	34,925	14,177	32,302	106,516	225,339	155,054	884	569,197
- trade bills	1	8,487	8,348	7,821	6	-	-	24,663
- advances to banks and other financial institutions	15	213	167	1,425	1,626	-	-	3,446
Investment in securities								
- debt securities held for available-for-sale								
- certificates of deposit held	-	1,189	1,655	3,122	11,658	-	-	17,624
- others	-	7,795	4,960	27,782	141,319	33,746	1,650	217,252
- debt securities held for held-to-maturity								
- certificates of deposit held	-	58	-	1,798	2,838	377	-	5,071
- others	-	1,260	4,116	15,431	27,309	9,923	508	58,547
- debt securities held for loans and receivables	-	1,190	1,077	9,428	-	-	-	11,695
- equity securities	-	-	-	-	-	-	3,048	3,048
Interests in associates	-	-	-	-	-	-	213	213
Investment properties	-	-	-	-	-	-	9,323	9,323
Properties, plant and equipment	-	-	-	-	-	-	28,235	28,235
Other assets (including deferred tax assets)	3,650	12,672	30	219	151	-	166	16,888
Total assets	192,302	131,677	92,185	196,940	424,578	215,185	49,309	1,302,176

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

B. Maturity analysis (continued)

	At 30 June 2010							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
	Liabilities							
Hong Kong SAR currency notes in circulation	41,950	-	-	-	-	-	-	41,950
Deposits and balances of banks and other financial institutions	85,049	19,804	3,958	1,975	-	-	-	110,786
Financial liabilities at fair value through profit or loss								
- certificates of deposit issued	-	-	-	-	-	-	-	-
- others	-	8,168	15,375	3,212	121	-	-	26,876
Derivative financial instruments	9,299	417	360	1,368	3,117	1,210	-	15,771
Deposits from customers	542,176	200,574	88,169	59,684	1,608	-	-	892,211
Other accounts and provisions (including current and deferred tax liabilities)	19,640	11,264	746	5,913	5,240	-	-	42,803
Insurance contract liabilities	1,511	177	3	3,121	22,508	7,730	-	35,050
Subordinated liabilities	-	-	347	1	-	26,844	-	27,192
Total liabilities	699,625	240,404	108,958	75,274	32,594	35,784	-	1,192,639
Net liquidity gap	(507,323)	(108,727)	(16,773)	121,666	391,984	179,401	49,309	109,537

3. Financial risk management (continued)
3.3 Liquidity Risk (continued)
B. Maturity analysis (continued)

	At 31 December 2009							Total HK\$m
	On demand HK\$m	Up to 1 month HK\$m	1-3 months HK\$m	3-12 months HK\$m	1-5 years HK\$m	Over 5 years HK\$m	Indefinite HK\$m	
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

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

B. Maturity analysis (continued)

	At 31 December 2009							Total HK\$m
	On demand HK\$m	Up to 1 month HK\$m	1-3 months HK\$m	3-12 months HK\$m	1-5 years HK\$m	Over 5 years HK\$m	Indefinite HK\$m	
	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

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

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

The above analysis in respect of insurance contract liabilities represents the estimated timing of net cash outflows resulting from recognised insurance contract liabilities on the balance sheet as at 30 June 2010 and 31 December 2009.

3. Financial risk management (continued)

3.4 Insurance Risk

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

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

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

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

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

3.5 Capital Management

(a) Capital adequacy ratio

	At 30 June 2010	At 31 December 2009
Capital adequacy ratio	16.17%	16.85%
Core capital ratio	11.33%	11.64%

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

The differences between the basis of consolidation for accounting and regulatory purposes are described in "Appendix – Subsidiaries of the Company" on page 131.

3. Financial risk management (continued)

3.5 Capital Management (continued)

(b) Components of capital base after deductions

The consolidated capital base after deductions used in the calculation of the above capital adequacy ratio as at 30 June 2010 and 31 December 2009 and reported to the HKMA is analysed as follows:

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Core capital:		
Paid up ordinary share capital	43,043	43,043
Reserves	27,639	26,154
Profit and loss account	4,036	2,039
Minority interests	1,294	1,229
	76,012	72,465
Deductions from core capital	(715)	(334)
Core capital	75,297	72,131
Supplementary capital:		
Fair value gains arising from holdings of available-for-sale securities	889	237
Fair value gains arising from holdings of securities designated at fair value through profit or loss	15	–
Collective loan impairment allowances	1,777	1,598
Regulatory reserve	4,611	4,040
Term subordinated debt	25,652	26,763
	32,944	32,638
Deductions from supplementary capital	(715)	(334)
Supplementary capital	32,229	32,304
Total capital base after deductions	107,526	104,435

Subsidiaries which are not included in the consolidation group for the calculation of capital adequacy ratios are denoted in "Appendix – Subsidiaries of the Company" on pages 128 to 131. Investment costs in such subsidiaries are deducted from the capital base.

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

4. Net interest income

	Half-year ended 30 June 2010 HK\$'m	Half-year ended 30 June 2009 HK\$'m
Interest income		
Cash and due from banks and other financial institutions	996	1,772
Advances to customers	5,419	5,316
Listed investments	1,934	1,320
Unlisted investments	2,233	2,862
Others	89	61
	10,671	11,331
Interest expense		
Due to banks, customers and other financial institutions	(1,371)	(1,722)
Debt securities in issue	–	(19)
Subordinated liabilities	(275)	(546)
Others	(61)	(30)
	(1,707)	(2,317)
Net interest income	8,964	9,014

Included within interest income is HK\$5 million (first half of 2009: HK\$8 million) of interest with respect to income recognised on advances classified as impaired for the first half of 2010. Interest income accrued on impaired investment in securities amounted to HK\$50 million (first half of 2009: HK\$315 million).

Included within interest income and interest expense are HK\$10,593 million (first half of 2009: HK\$10,951 million) and HK\$1,906 million (first half of 2009: HK\$2,270 million) for financial assets and financial liabilities that are not recognised at fair value through profit or loss respectively.

Interest income and expense for interest rate derivatives held for trading have been reclassified from “Net interest income” to “Net trading (loss)/gain”. The comparative figures have been reclassified to conform with the current period’s presentation.

5. Net fee and commission income

	Half-year ended 30 June 2010 HK\$'m	Half-year ended 30 June 2009 HK\$'m
Fee and commission income		
Securities brokerage		
– Stockbroking	1,506	1,625
– Bonds	3	4
Credit cards	903	705
Loan commissions	623	398
Bills commissions	371	310
Payment services	272	227
Insurance	220	122
Currency exchange	125	87
Safe deposit box	103	98
Trust services	98	82
Funds distribution	67	38
Others	190	188
	4,481	3,884
Fee and commission expense		
Credit cards	(668)	(500)
Securities brokerage	(234)	(255)
Payment services	(42)	(39)
Others	(140)	(143)
	(1,084)	(937)
Net fee and commission income	3,397	2,947
Of which arise from		
– financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	725	452
– Fee and commission expense	(4)	(11)
	721	441
– trust and other fiduciary activities		
– Fee and commission income	213	201
– Fee and commission expense	(3)	(4)
	210	197

6. Net trading (loss)/gain

	Half-year ended 30 June 2010 HK\$'m	Half-year ended 30 June 2009 HK\$'m
Net (loss)/gain from:		
– foreign exchange and foreign exchange products	350	790
– interest rate instruments and items under fair value hedge	(424)	(57)
– equity instruments	(20)	17
– commodities	58	54
	(36)	804

Interest income and expense for interest rate derivatives held for trading have been reclassified from “Net interest income” to “Net trading (loss)/gain”. The comparative figures have been reclassified to conform with the current period’s presentation.

7. Net gain on investment in securities

	Half-year ended 30 June 2010 HK\$'m	Half-year ended 30 June 2009 HK\$'m
Net gain from disposal of available-for-sale securities	404	64
Net gain from redemption of held-to-maturity securities	–	3
	404	67

8. Net insurance premium income

	Half-year ended 30 June 2010 HK\$'m	Half-year ended 30 June 2009 HK\$'m
Gross earned premiums	2,809	2,266
Less: Gross written premiums ceded to reinsurers	(11)	(5)
Net insurance premium income	2,798	2,261

9. Other operating income

	Half-year ended 30 June 2010 HK\$'m	Half-year ended 30 June 2009 HK\$'m
Dividend income from investment in securities		
– listed investments	41	2
– unlisted investments	13	11
Gross rental income from investment properties	164	179
Less: Outgoings in respect of investment properties	(30)	(23)
Others	61	80
	249	249

Included in the "Outgoings in respect of investment properties" is HK\$7 million (first half of 2009: HK\$3 million) of direct operating expenses related to investment properties that were not let during the period.

10. Net insurance benefits and claims

	Half-year ended 30 June 2010 HK\$'m	Half-year ended 30 June 2009 HK\$'m
Claims, benefits and surrenders paid	2,239	1,682
Movement in liabilities	1,641	(762)
Gross claims, benefits and surrenders paid and movement in liabilities	3,880	920
Less: Reinsurers' share of claims, benefits and surrenders paid and movement in liabilities	(5)	(1)
Net insurance claims, benefits and surrenders paid and movement in liabilities	3,875	919

11. Net reversal/(charge) of impairment allowances

	Half-year ended 30 June 2010 HK\$'m	Half-year ended 30 June 2009 HK\$'m
Advances to customers		
Individually assessed		
– new allowances	(46)	(163)
– releases	102	87
– recoveries	277	142
Net reversal of individually assessed loan impairment allowances	333	66
Collectively assessed		
– new allowances	(265)	(198)
– releases	9	174
– recoveries	17	18
Net charge of collectively assessed loan impairment allowances	(239)	(6)
Net reversal of loan impairment allowances	94	60
Available-for-sale securities		
Net reversal/(charge) of impairment losses on available-for-sale securities		
– Individually assessed	40	(729)
Held-to-maturity securities		
Net reversal/(charge) of impairment allowances on held-to-maturity securities		
– Individually assessed	32	(439)
Others	(5)	(7)
Net reversal/(charge) of impairment allowances	161	(1,115)

12. Operating expenses

	Half-year ended 30 June 2010 HK\$'m	Half-year ended 30 June 2009 HK\$'m
Staff costs (including directors' emoluments)		
– salaries and other costs	2,332	2,057
– termination benefit	–	5
– pension cost	194	194
	2,526	2,256
Premises and equipment expenses (excluding depreciation)		
– rental of premises	249	241
– information technology	183	161
– others	142	136
	574	538
Depreciation	556	496
Auditor's remuneration		
– audit services	4	4
– non-audit services	6	2
Other operating expenses	868	898
	4,534	4,194

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

	Half-year ended 30 June 2010 HK\$'m	Half-year ended 30 June 2009 HK\$'m
Net loss on disposal of investment properties	–	(2)
Net gain on fair value adjustments on investment properties	601	527
	601	525

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

	Half-year ended 30 June 2010 HK\$'m	Half-year ended 30 June 2009 HK\$'m
Net loss on disposal of other fixed assets	(2)	(5)
Net gain on revaluation of premises	1	4
	(1)	(1)

15. Taxation

Taxation in the condensed consolidated income statement represents:

	Half-year ended 30 June 2010 HK\$'m	Half-year ended 30 June 2009 HK\$'m
Hong Kong profits tax		
– current period taxation	1,341	1,169
Deferred tax charge	20	127
Hong Kong profits tax	1,361	1,296
Overseas taxation	53	73
	1,414	1,369

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2010. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2010 at the rates of taxation prevailing in the countries in which the Group operates.

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

	Half-year ended 30 June 2010 HK\$'m	Half-year ended 30 June 2009 HK\$'m
Profit before taxation	8,767	8,244
Calculated at a taxation rate of 16.5% (2009: 16.5%)	1,447	1,360
Effect of different taxation rates in other countries	14	3
Income not subject to taxation	(97)	(39)
Expenses not deductible for taxation purposes	47	43
Tax losses not recognised	3	2
Taxation charge	1,414	1,369
Effective tax rate	16.1%	16.6%

16. Dividends

	Half-year ended 30 June 2010		Half-year ended 30 June 2009	
	Per share HK\$	Total HK\$m	Per share HK\$	Total HK\$m
Interim dividend	0.400	4,229	0.285	3,013

At a meeting held on 26 August 2010, the Board declared an interim dividend of HK\$0.4 per ordinary share for the first half of 2010 amounting to approximately HK\$4,229 million. This declared dividend is not reflected as a dividend payable in this interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2010.

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

The calculation of basic earnings per share is based on the consolidated profit attributable to the equity holders of the Company for the first half of 2010 of approximately HK\$7,190 million (first half of 2009: HK\$6,691 million) and on the ordinary shares in issue of 10,572,780,266 shares (2009: 10,572,780,266 ordinary shares).

There was no dilution of earnings per share as no potential ordinary shares were in issue for the first half of 2010 (first half of 2009: Nil).

18. Retirement benefit costs

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

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

The Group's total contributions made to the ORSO schemes for the first half of 2010 amounted to approximately HK\$155 million (first half of 2009: approximately HK\$161 million), after a deduction of forfeited contributions of approximately HK\$5.9 million (first half of 2009: approximately HK\$2.3 million). For the MPF Scheme, the Group contributed approximately HK\$22 million (first half of 2009: approximately HK\$18 million) for the first half of 2010.

19. Share option schemes**(a) Share Option Scheme and Sharesave Plan**

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

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

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

No options were granted pursuant to the Share Option Scheme or the Sharesave Plan during the first half of 2010 (first half of 2009: Nil).

(b) Pre-Listing Share Option Scheme

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

19. Share option schemes (continued)**(b) Pre-Listing Share Option Scheme (continued)**

Details of the share options outstanding as at 30 June 2010 and 31 December 2009 are disclosed as follows:

				Total number of share options	Average exercise price (HK\$ per share)
	Directors	Senior management	Others*		
At 1 January 2010	3,976,500	1,074,300	–	5,050,800	8.5
Less: Share options exercised during the period	–	(437,000)	–	(437,000)	8.5
At 30 June 2010	3,976,500	637,300	–	4,613,800	8.5
Exercisable at 30 June 2010	3,976,500	637,300	–	4,613,800	8.5
At 1 January 2009	6,290,100	1,361,200	–	7,651,300	8.5
Transfer	(1,590,600)	–	1,590,600	–	8.5
Less: Share options exercised during the year	(723,000)	(286,900)	(1,590,600)	(2,600,500)	8.5
At 31 December 2009	3,976,500	1,074,300	–	5,050,800	8.5
Exercisable at 31 December 2009	3,976,500	1,074,300	–	5,050,800	8.5

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

Share options were exercised on a regular basis throughout the period, the weighted average share price during the period was HK\$18.34 (31 December 2009: HK\$16.83).

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

20. Cash and balances with banks and other financial institutions

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Cash	3,754	3,409
Balances with central banks	85,926	81,790
Balances with banks and other financial institutions	8,068	6,091
Placements with banks and other financial institutions maturing within one month	71,806	69,498
	169,554	160,788

21. Financial assets at fair value through profit or loss

	Trading securities		Financial assets designated at fair value through profit or loss		Total	
	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
	At fair value					
Debt securities						
– Listed in Hong Kong	656	333	839	1,063	1,495	1,396
– Listed outside Hong Kong	5,146	2,408	3,080	3,264	8,226	5,672
	5,802	2,741	3,919	4,327	9,721	7,068
– Unlisted	38,236	15,854	17,133	17,406	55,369	33,260
	44,038	18,595	21,052	21,733	65,090	40,328
Fund						
– Unlisted	–	–	3,555	2,757	3,555	2,757
Equity securities						
– Listed in Hong Kong	19	37	1,532	1,361	1,551	1,398
– Listed outside Hong Kong	–	–	89	–	89	–
– Unlisted	87	111	–	–	87	111
	106	148	1,621	1,361	1,727	1,509
Total	44,144	18,743	26,228	25,851	70,372	44,594

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

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

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Sovereigns	37,326	15,970
Public sector entities	1,377	1,496
Banks and other financial institutions	24,390	21,853
Corporate entities	7,279	5,275
	70,372	44,594

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

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Treasury bills	35,534	14,419
Certificates of deposit held	3,636	2,585
Other financial assets at fair value through profit or loss	31,202	27,590
	70,372	44,594

22. Derivative financial instruments

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

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

Currency, interest rate and precious metal swaps are commitments to exchange one set of cash flows or commodity for another. Swaps result in an exchange of currencies, interest rates (for example, fixed rate for floating rate), or precious metals (for example, silver swaps) or a combination of all these (for example, 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).

22. Derivative financial instruments (continued)

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

The following tables summarise the contract/notional amounts of each significant type of derivative financial instrument as at 30 June 2010 and 31 December 2009:

	At 30 June 2010			
	Trading HK\$m	Hedging HK\$m	Not qualified for hedge accounting* HK\$m	Total HK\$m
Exchange rate contracts				
Spot and forwards	329,577	–	2,270	331,847
Swaps	254,584	1,716	–	256,300
Foreign currency option contracts				
– Options purchased	1,463	–	–	1,463
– Options written	1,747	–	–	1,747
	587,371	1,716	2,270	591,357
Interest rate contracts				
Futures	5,334	–	–	5,334
Swaps	211,445	49,445	15,485	276,375
Interest rate option contracts				
– Swaptions written	156	–	–	156
– Bond options written	2,647	–	–	2,647
	219,582	49,445	15,485	284,512
Bullion contracts	10,859	–	–	10,859
Equity contracts	92	–	–	92
Other contracts	107	–	–	107
Total	818,011	51,161	17,755	886,927

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

22. Derivative financial instruments (continued)

	At 31 December 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

22. Derivative financial instruments (continued)

The following tables summarise the fair values of each class of derivative financial instrument as at 30 June 2010 and 31 December 2009:

	At 30 June 2010							
	Fair value assets				Fair value liabilities			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts								
Spot and forwards	13,899	-	1	13,900	(9,377)	-	(6)	(9,383)
Swaps	1,210	-	-	1,210	(933)	(12)	-	(945)
Foreign currency option contracts								
- Options purchased	13	-	-	13	-	-	-	-
- Options written	-	-	-	-	(10)	-	-	(10)
	15,122	-	1	15,123	(10,320)	(12)	(6)	(10,338)
Interest rate contracts								
Futures	2	-	-	2	(2)	-	-	(2)
Swaps	1,704	1,352	13	3,069	(2,431)	(2,129)	(129)	(4,689)
Interest rate option contracts								
- Swaptions written	-	-	-	-	(4)	-	-	(4)
- Bond options written	-	-	-	-	(116)	-	-	(116)
	1,706	1,352	13	3,071	(2,553)	(2,129)	(129)	(4,811)
Bullion contracts	944	-	-	944	(622)	-	-	(622)
Equity contracts	2	-	-	2	-	-	-	-
Total	17,774	1,352	14	19,140	(13,495)	(2,141)	(135)	(15,771)

22. Derivative financial instruments (continued)

	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)

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

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Exchange rate contracts		
Forwards	1,090	580
Swaps	1,354	1,728
Foreign currency option contracts		
– Options purchased	2	1
Interest rate contracts		
Swaps	1,262	737
Bullion contracts	2	1
	3,710	3,047

22. Derivative financial instruments (continued)

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.

23. Advances and other accounts

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Personal loans and advances	167,447	161,439
Corporate loans and advances	404,039	353,533
Advances to customers	571,486	514,972
Loan impairment allowances		
– Individually assessed	(512)	(671)
– Collectively assessed	(1,777)	(1,598)
	569,197	512,703
Trade bills	24,663	9,100
Advances to banks and other financial institutions	3,446	5,332
Total	597,306	527,135

As at 30 June 2010, advances to customers included accrued interest on gross advances of HK\$759 million (31 December 2009: HK\$619 million).

As at 30 June 2010 and 31 December 2009, no impairment allowance was made in respect of trade bills and advances to banks and other financial institutions.

24. Investment in securities

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
(a) Available-for-sale securities		
Debt securities, at fair value		
– Listed in Hong Kong	10,488	8,439
– Listed outside Hong Kong	100,129	84,389
	110,617	92,828
– Unlisted	124,259	132,528
	234,876	225,356
Equity securities, at fair value		
– Listed in Hong Kong	2,494	2,630
– Unlisted	554	627
	3,048	3,257
	237,924	228,613
(b) Held-to-maturity securities		
Listed, at amortised cost		
– in Hong Kong	1,122	1,693
– outside Hong Kong	20,313	21,167
	21,435	22,860
Unlisted, at amortised cost	42,252	49,691
	63,687	72,551
Impairment allowances	(69)	(112)
	63,618	72,439
(c) Loans and receivables		
Unlisted, at amortised cost	11,695	12,703
Total	313,237	313,755
Market value of listed held-to-maturity securities	21,422	22,711

24. Investment in securities (continued)

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

	At 30 June 2010			
	Available-for-sale securities	Held-to-maturity securities	Loans and receivables	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Sovereigns	51,650	4,581	–	56,231
Public sector entities	29,737	6,625	–	36,362
Banks and other financial institutions	142,657	46,734	11,695	201,086
Corporate entities	13,880	5,678	–	19,558
	237,924	63,618	11,695	313,237

	At 31 December 2009			
	Available-for-sale securities	Held-to-maturity securities	Loans and receivables	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
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

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

	Available-for-sale securities		Held-to-maturity securities	
	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Treasury bills	7,404	22,955	700	1,041
Certificates of deposit held	17,624	19,108	5,071	9,833
Others	212,896	186,550	57,847	61,565
	237,924	228,613	63,618	72,439

25. Investment properties

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
At 1 January	9,364	7,727
Additions	2	–
Disposals	(163)	(77)
Fair value gains	601	1,554
Reclassification (to)/from properties, plant and equipment (Note 26)	(481)	160
At period/year end	9,323	9,364

26. Properties, plant and equipment

	Premises HK\$'m	Equipment, fixtures and fittings HK\$'m	Total HK\$'m
Net book value at 1 January 2010	23,701	2,585	26,286
Additions	15	147	162
Disposals	(92)	(3)	(95)
Revaluation	1,954	–	1,954
Depreciation for the period (Note 12)	(234)	(322)	(556)
Reclassification from/(to) investment properties (Note 25)	494	(13)	481
Transfer	47	(47)	–
Exchange difference	2	1	3
Net book value at 30 June 2010	25,887	2,348	28,235
At 30 June 2010			
Cost or valuation	25,887	6,514	32,401
Accumulated depreciation and impairment	–	(4,166)	(4,166)
Net book value at 30 June 2010	25,887	2,348	28,235

26. Properties, plant and equipment (continued)

	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	(386)	(632)	(1,018)
Reclassification to investment properties (Note 25)	(157)	(3)	(160)
Transfer	31	(31)	–
Net book value at 31 December 2009	23,701	2,585	26,286
At 31 December 2009			
Cost or valuation	23,701	6,531	30,232
Accumulated depreciation and impairment	–	(3,946)	(3,946)
Net book value at 31 December 2009	23,701	2,585	26,286

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

	Premises HK\$'m	Equipment, fixtures and fittings HK\$'m	Total HK\$'m
At 30 June 2010			
At cost	–	6,514	6,514
At valuation	25,887	–	25,887
	25,887	6,514	32,401
At 31 December 2009			
At cost	–	6,531	6,531
At valuation	23,701	–	23,701
	23,701	6,531	30,232

27. Other assets

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Repossessed assets	41	95
Precious metals	2,418	2,432
Accounts receivable and prepayments	14,301	11,800
	16,760	14,327

28. Financial liabilities at fair value through profit or loss

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Trading liabilities		
– Short positions in Exchange Fund Bills	26,350	14,156
Financial liabilities designated at fair value through profit or loss		
– Structured deposits (Note 29)	526	2,132
	26,876	16,288

The carrying amount of financial liabilities designated at fair value through profit or loss as at 30 June 2010 is more than the amount that the Group would be contractually required to pay at maturity to the holders by HK\$2 million, and it was less than the amount that the Group would be contractually required to pay at maturity to the holders by HK\$1 million as at 31 December 2009. The amount of change in the fair values of financial liabilities at fair value through profit or loss, during the period and cumulatively, attributable to changes in credit risk is insignificant.

29. Deposits from customers

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Current, savings and other deposit accounts (per condensed consolidated balance sheet)	892,211	842,321
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 28)	526	2,132
	892,737	844,453
Analysed by:		
Demand deposits and current accounts		
– corporate customers	52,541	51,043
– individual customers	14,581	14,397
	67,122	65,440
Savings deposits		
– corporate customers	133,195	141,560
– individual customers	340,297	353,952
	473,492	495,512
Time, call and notice deposits		
– corporate customers	166,910	110,941
– individual customers	185,213	172,560
	352,123	283,501
	892,737	844,453

30. Other accounts and provisions

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Other accounts payable	34,418	29,592
Provisions	272	338
	34,690	29,930

31. Assets pledged as security

As at 30 June 2010, liabilities of the Group amounting to HK\$26,041 million (31 December 2009: HK\$13,330 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK\$10,598 million (31 December 2009: Nil) were secured by debt securities related to sale and repurchase arrangements. The amount of assets pledged by the Group to secure these liabilities was HK\$40,557 million (31 December 2009: HK\$13,407 million) included in "Trading securities" and "Available-for-sale securities".

32. Deferred taxation

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

The major components of deferred tax (assets)/liabilities recorded in the condensed consolidated balance sheet, and the movements during the first half of 2010 and the year ended 31 December 2009 are as follows:

	At 30 June 2010					
	Accelerated tax depreciation	Property revaluation	Losses	Impairment allowance	Other temporary differences	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1 January 2010	540	4,359	(139)	(274)	(44)	4,442
(Credited)/charged to condensed income statement (Note 15)	(14)	26	24	(28)	12	20
Charged to other comprehensive income	–	316	–	–	252	568
At 30 June 2010	526	4,701	(115)	(302)	220	5,030

	At 31 December 2009					
	Accelerated tax depreciation	Property revaluation	Losses	Impairment allowance	Other temporary differences	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1 January 2009	545	3,464	(126)	(254)	(984)	2,645
(Credited)/charged to income statement	(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

32. Deferred taxation (continued)

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

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Deferred tax assets	(128)	(149)
Deferred tax liabilities	5,158	4,591
	5,030	4,442

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Deferred tax assets to be recovered after more than twelve months	(112)	(137)
Deferred tax liabilities to be settled after more than twelve months	4,934	4,633
	4,822	4,496

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

	Half-year ended 30 June 2010 HK\$'m	Half-year ended 30 June 2009 HK\$'m
Fair value changes of available-for-sale securities	253	552
Revaluation of premises	314	195
Non-controlling interests	1	–
	568	747

33. Insurance contract liabilities

	At 30 June 2010		
	Gross HK\$'m	Reinsurance HK\$'m	Net HK\$'m
At 1 January 2010	33,408	–	33,408
Benefits paid	(2,119)	–	(2,119)
Claims incurred and movement in liabilities	3,761	(2)	3,759
At 30 June 2010	35,050	(2)	35,048

	At 31 December 2009		
	Gross HK\$'m	Reinsurance HK\$'m	Net HK\$'m
At 1 January 2009	28,274	–	28,274
Benefits paid	(2,012)	–	(2,012)
Claims incurred and movement in liabilities	7,146	–	7,146
At 31 December 2009	33,408	–	33,408

Amounts recoverable from reinsurance of insurance contract liabilities are included in the condensed consolidated balance sheet in "Other assets".

34. Subordinated liabilities

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Subordinated loans, at amortised cost		
EUR 660m*	6,277	7,377
USD2,500m**	–	19,399
	6,277	26,776
Subordinated notes, at amortised cost with fair value hedge adjustment		
USD2,500m***	20,915	–
Total	27,192	26,776

BOCHK obtained floating-rate subordinated loans from BOC, the intermediate holding company in 2008. The subordinated loans are repayable prior to maturity after the first 5-year tenure at the option of the borrower.

During the period, BOCHK issued listed subordinated notes with an aggregate amount of US\$2,500 million and applied the proceeds to repay the USD subordinated loan provided by BOC in December 2008. HKMA has approved such early repayment of the USD subordinated loan provided by BOC. BOC and BOCHK entered into an agreement to provide for the same.

Amounts qualified as supplementary capital for regulatory purposes are shown in Note 3.5(b).

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

** Interest rate at 6-month LIBOR plus 2.00% for the first 5 years, 6-month LIBOR plus 2.50% for the remaining tenure payable semi-annually, due December 2018. It has been fully repaid during the period by the proceeds from the offering of subordinated notes.

*** Interest rate at 5.55% per annum payable semi-annually, due February 2020.

35. Share capital

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Authorised:		
20,000,000,000 ordinary shares of HK\$5 each	100,000	100,000
Issued and fully paid:		
10,572,780,266 ordinary shares of HK\$5 each	52,864	52,864

36. Reserves

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

37. Notes to condensed consolidated cash flow statement

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

	Half-year ended 30 June 2010 HK\$'m	Half-year ended 30 June 2009 HK\$'m
Operating profit	8,168	7,719
Depreciation	556	496
Net (reversal)/charge of impairment allowances	(161)	1,115
Unwind of discount on impairment	(5)	(8)
Advances written off net of recoveries	115	(213)
Interest expense on subordinated liabilities	489	546
Change in subordinated liabilities	240	–
Change in cash and balances with banks and other financial institutions with original maturity over three months	5,726	13,201
Change in placements with banks and other financial institutions with original maturity over three months	21,741	(18,391)
Change in financial assets at fair value through profit or loss	(17,019)	6,001
Change in derivative financial instruments	247	(5,318)
Change in advances and other accounts	(70,191)	(15,582)
Change in investment in securities	(3,771)	193
Change in other assets	(2,438)	(5,961)
Change in deposits and balances of banks and other financial institutions	11,139	(11,663)
Change in financial liabilities at fair value through profit or loss	10,588	(11,076)
Change in deposits from customers	49,890	18,400
Change in debt securities in issue at amortised cost	–	(906)
Change in other accounts and provisions	4,760	(3,328)
Change in insurance contract liabilities	1,642	(579)
Exchange difference	26	–
Operating cash inflow/(outflow) before taxation	21,742	(25,354)
Cash flows from operating activities included:		
– Interest received	10,135	13,466
– Interest paid	873	4,109
– Dividend received	54	13

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

	At 30 June 2010 HK\$'m	At 30 June 2009 HK\$'m
Cash and balances with banks and other financial institutions with original maturity within three months	158,378	100,968
Placements with banks and other financial institutions with original maturity within three months	12,769	27,156
Treasury bills with original maturity within three months	26,629	19,412
Certificates of deposit held with original maturity within three months	–	1,000
	197,776	148,536

38. Contingent liabilities and commitments

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

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Direct credit substitutes	4,218	2,065
Transaction-related contingencies	6,544	9,055
Trade-related contingencies	33,401	31,460
Note issuance and revolving underwriting facilities	1,148	–
Commitments that are unconditionally cancellable without prior notice	193,457	165,829
Other commitments with an original maturity of		
– up to one year	25,494	15,842
– over one year	53,644	52,173
	317,906	276,424
Credit risk weighted amount	37,950	35,229

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

39. Capital commitments

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

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Authorised and contracted for but not provided for	187	96
Authorised but not contracted for	28	9
	215	105

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

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

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

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Land and buildings		
– not later than one year	408	435
– later than one year but not later than five years	390	450
– later than five years	20	13
	818	898

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

(b) The Group as lessor

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

	At 30 June 2010 HK\$'m	At 31 December 2009 HK\$'m
Land and buildings		
– not later than one year	280	275
– later than one year but not later than five years	224	193
	504	468

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

41. Segmental reporting

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

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

In this period, customer segment of small business and social organisations was reclassified from Corporate Banking to Personal Banking to align with the corresponding change in the management of customer segment. No change has been made to the comparative figures.

Both Personal Banking and Corporate Banking segments provide general banking services. Personal Banking mainly serves individual customers while Corporate Banking mainly deals with non individual customers. The Treasury segment is responsible for managing the capital, liquidity, and the interest rate and foreign exchange positions of the Group in addition to proprietary trades. The Insurance segment shows business relates to the long-term life insurance products, including traditional and linked individual life insurance and group life insurance products. "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.

41. Segmental reporting (continued)

	Personal HK\$'m	Corporate HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
Half-year ended 30 June 2010								
Net interest income/(expense)								
– external	1,358	3,235	3,647	724	–	8,964	–	8,964
– inter-segment	1,574	(240)	(1,306)	–	(28)	–	–	–
	2,932	2,995	2,341	724	(28)	8,964	–	8,964
Net fee and commission income/(expense)	2,160	1,382	(4)	(154)	67	3,451	(54)	3,397
Net trading gain/(loss)	205	81	(296)	(4)	(18)	(32)	(4)	(36)
Net gain on financial instruments designated at fair value through profit or loss	–	–	49	591	–	640	–	640
Net gain on investment in securities	–	–	286	118	–	404	–	404
Net insurance premium income	–	–	–	2,802	–	2,802	(4)	2,798
Other operating income	19	1	–	8	968	996	(747)	249
Total operating income	5,316	4,459	2,376	4,085	989	17,225	(809)	16,416
Net insurance benefits and claims	–	–	–	(3,875)	–	(3,875)	–	(3,875)
Net operating income before impairment allowances	5,316	4,459	2,376	210	989	13,350	(809)	12,541
Net (charge)/reversal of impairment allowances	(42)	131	72	–	–	161	–	161
Net operating income	5,274	4,590	2,448	210	989	13,511	(809)	12,702
Operating expenses	(3,044)	(1,232)	(330)	(104)	(633)	(5,343)	809	(4,534)
Operating profit	2,230	3,358	2,118	106	356	8,168	–	8,168
Net gain from disposal of/ fair value adjustments on investment properties	–	–	–	–	601	601	–	601
Net loss from disposal/ revaluation of properties, plant and equipment	–	–	–	–	(1)	(1)	–	(1)
Share of profits less losses after tax of associates	–	–	–	–	(1)	(1)	–	(1)
Profit before taxation	2,230	3,358	2,118	106	955	8,767	–	8,767
At 30 June 2010								
Assets								
Segment assets	191,760	427,618	608,925	40,153	44,727	1,313,183	(11,220)	1,301,963
Interests in associates	–	–	–	–	213	213	–	213
	191,760	427,618	608,925	40,153	44,940	1,313,396	(11,220)	1,302,176
Liabilities								
Segment liabilities	612,200	313,592	227,112	37,459	13,496	1,203,859	(11,220)	1,192,639
Half-year ended 30 June 2010								
Other information								
Capital expenditure	1	1	–	–	162	164	–	164
Depreciation	154	78	36	2	286	556	–	556
Amortisation of securities	–	–	25	47	–	72	–	72

41. Segmental reporting (continued)

	Personal HK\$'m	Corporate HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
Half-year ended 30 June 2009								
Net interest income/(expense)								
– external	902	3,027	4,525	562	(2)	9,014	–	9,014
– inter-segment	1,947	(383)	(1,526)	–	(38)	–	–	–
	2,849	2,644	2,999	562	(40)	9,014	–	9,014
Net fee and commission income/(expense)	1,970	1,100	(4)	(124)	50	2,992	(45)	2,947
Net trading gain/(loss)	236	67	502	–	(1)	804	–	804
Net gain/(loss) on financial instruments designated at fair value through profit or loss	–	–	180	(1,575)	–	(1,395)	–	(1,395)
Net gain on investment in securities	–	–	67	–	–	67	–	67
Net insurance premium income	–	–	–	2,267	–	2,267	(6)	2,261
Other operating income	12	30	2	5	880	929	(680)	249
Total operating income	5,067	3,841	3,746	1,135	889	14,678	(731)	13,947
Net insurance benefits and claims	–	–	–	(919)	–	(919)	–	(919)
Net operating income before impairment allowances	5,067	3,841	3,746	216	889	13,759	(731)	13,028
Net (charge)/reversal of impairment allowances	(80)	133	(1,168)	–	–	(1,115)	–	(1,115)
Net operating income	4,987	3,974	2,578	216	889	12,644	(731)	11,913
Operating expenses	(2,771)	(1,039)	(394)	(61)	(660)	(4,925)	731	(4,194)
Operating profit	2,216	2,935	2,184	155	229	7,719	–	7,719
Net gain from disposal of/ fair value adjustments on investment properties	–	–	–	–	525	525	–	525
Net loss from disposal/ revaluation of properties, plant and equipment	–	–	–	–	(1)	(1)	–	(1)
Share of profits less losses after tax of associates	–	–	–	–	1	1	–	1
Profit before taxation	2,216	2,935	2,184	155	754	8,244	–	8,244
At 31 December 2009								
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
Half-year ended 30 June 2009								
Other information								
Capital expenditure	5	–	–	1	143	149	–	149
Depreciation	141	71	52	1	231	496	–	496
Amortisation of securities	–	–	(310)	111	–	(199)	–	(199)

* Segment assets and liabilities of small business and social organisations amounted to HK\$9,624 million and HK\$39,677 million respectively as at 31 December 2009.

42. 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.

42. 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:

	Half-year ended 30 June 2010	
	Associates HK\$'m	Other related parties HK\$'m
Income statement items:		
Administrative services fees received/receivable	–	4

	At 30 June 2010	
	Associates HK\$'m	Other related parties HK\$'m
Balance sheet items:		
Deposits from customers	164	–

	Half-year ended 30 June 2009	
	Associates HK\$'m	Other related parties HK\$'m
Income statement items:		
Administrative services fees received/receivable	–	4

	At 31 December 2009	
	Associates HK\$'m	Other related parties HK\$'m
Balance sheet items:		
Deposits from customers	51	–

42. Significant related party transactions (continued)**(c) Key management personnel**

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

The key management compensation for the six months ended 30 June 2010 and 2009 is detailed as follows:

	Half-year ended 30 June 2010 HK\$'m	Half-year ended 30 June 2009 HK\$'m
Salaries and other short-term employee benefits	23	22
Post-employment benefits	1	1
	24	23

43. Currency concentrations

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

	At 30 June 2010							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi	Others	Total
Spot assets	417,272	5,427	31,529	50,098	3,265	125,175	12,726	645,492
Spot liabilities	(266,155)	(2,214)	(22,447)	(36,236)	(16,879)	(122,910)	(21,898)	(488,739)
Forward purchases	433,536	28,051	24,041	24,741	33,757	119,941	33,469	697,536
Forward sales	(577,768)	(31,222)	(33,297)	(38,578)	(20,061)	(119,401)	(24,294)	(844,621)
Net options position	36	1	-	(47)	(1)	-	(3)	(14)
Net long/(short) position	6,921	43	(174)	(22)	81	2,805	-	9,654
Net structural position	296	-	-	-	-	3,223	-	3,519

	At 31 December 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

44. 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:

	Public sector			Total HK\$'m
	Banks HK\$'m	entities HK\$'m	Others HK\$'m	
At 30 June 2010				
Asia, other than Hong Kong				
– Mainland China	124,327	86,495	68,269	279,091
– Others	55,981	9,403	26,146	91,530
	180,308	95,898	94,415	370,621
North America				
– United States	5,951	42,362	34,937	83,250
– Others	13,530	1,974	1,504	17,008
	19,481	44,336	36,441	100,258
Western Europe				
– United Kingdom	32,900	2,514	678	36,092
– Others	64,888	13,268	5,794	83,950
	97,788	15,782	6,472	120,042
Total	297,577	156,016	137,328	590,921

44. Cross-border claims (continued)

	Banks	Public sector	Others	Total
	HK\$'m	entities HK\$'m	HK\$'m	HK\$'m
At 31 December 2009				
Asia, other than Hong Kong				
– Mainland China	90,168	58,893	46,813	195,874
– Others	62,519	17,048	24,187	103,754
	152,687	75,941	71,000	299,628
North America				
– United States	7,231	39,587	32,240	79,058
– Others	12,493	1,754	1,425	15,672
	19,724	41,341	33,665	94,730
Western Europe				
– United Kingdom	40,345	912	1,474	42,731
– Others	94,822	10,952	5,613	111,387
	135,167	11,864	7,087	154,118
Total	307,578	129,146	111,752	548,476

45. Non-bank Mainland China exposures

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

	At 30 June 2010			
	On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total exposure HK\$'m	Individually assessed impairment allowances HK\$'m
Mainland China entities	118,694	55,997	174,691	74
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	31,350	16,203	47,553	25
Other non-bank Mainland China exposures	26,449	10,083	36,532	42
	176,493	82,283	258,776	141

45. Non-bank Mainland China exposures (continued)

	At 31 December 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

46. Compliance with HKAS 34

The interim report for the first half of 2010 complies with HKAS 34 "Interim Financial Reporting" issued by the HKICPA.

47. Statutory accounts

The information in this interim report is unaudited and does not constitute statutory accounts. The statutory accounts for the year ended 31 December 2009 have been delivered to the Registrar of Companies and the HKMA. The auditor expressed an unqualified opinion on those statutory accounts in their report dated 23 March 2010.