

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 1. Basis of preparation and significant accounting policies

### *Basis of preparation*

The unaudited interim financial information has been prepared in accordance with HKAS 34 'Interim Financial Reporting' issued by the HKICPA.

### *Significant accounting policies*

Except as described below, the significant accounting policies adopted and methods of computation used in the preparation of the unaudited interim financial information are consistent with those adopted and used in the Group's annual financial statements for the year ended 31 December 2010 and should be read in conjunction with the Group's Annual Report for 2010.

### **Revised standards and amendments to standards that are mandatory for the first time for the financial year beginning on 1 January 2011**

- HKAS 24 (Revised), 'Related Party Disclosures'. The Group early adopted the partial exemption regarding disclosure requirements for transactions with government-related entities in its annual financial statements for the year ended 31 December 2009. The application of the remainder of the revised standard this year which amends the definition of related parties does not have significant impact on the Group.
- HKAS 34 (Amendment), 'Interim Financial Reporting'. The amendment, which is part of 'Improvements to HKFRSs in 2010', emphasises the existing disclosure principles in HKAS 34 and adds further guidance to illustrate the application of these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The adoption of this amendment will only affect the presentation of the Group's financial statements.
- Other improvements to HKFRSs 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. For amendments that are effective for the financial year beginning on 1 January 2011, no material changes to accounting policies are expected.

### **Standards and amendments issued that are relevant to the Group but not yet effective and have not been early adopted by the Group in 2011**

<b>Standard</b>	<b>Content</b>	<b>Applicable for financial year beginning on/after</b>
HKAS 27 (2011)	Separate Financial Statements	1 January 2013
HKAS 28 (2011)	Investments in Associates and Joint Ventures	1 January 2013
HKFRS 9	Financial Instruments	1 January 2013
HKFRS 10	Consolidated Financial Statements	1 January 2013
HKFRS 11	Joint Arrangements	1 January 2013
HKFRS 12	Disclosure of Interests in Other Entities	1 January 2013
HKFRS 13	Fair Value Measurement	1 January 2013

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 1. Basis of preparation and significant accounting policies (continued)

### *Significant 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 2011 (continued)**

Newly pronounced standards in the first half of 2011 that are relevant to the Group:

- HKFRS 10, 'Consolidated Financial Statements'. HKFRS 10 replaces all of the guidance on control and consolidation stipulated in HKAS 27 (Revised), 'Consolidated and Separate Financial Statements' and HK(SIC)-Int 12, 'Consolidation – Special Purpose Entities'. The remainder of HKAS 27 (Revised) is renamed HKAS 27 (2011), 'Separate Financial Statements' as a standard dealing solely with separate financial statements without changing the existing guidance for separate financial statements.
- HKFRS 11, 'Joint Arrangements'. Changes in the definitions stipulated in HKFRS 11 have reduced the 'types' of joint arrangements to two: joint operations and joint ventures. A joint operation is a joint arrangement that gives parties to the arrangement direct rights to the assets and obligations for the liabilities. The 'jointly controlled assets' classification in HKAS 31, 'Interests in Joint Ventures', has been merged into joint operations, as both types of arrangements generally result in the same accounting outcome. A joint venture, in contrast, gives the parties rights to the net assets or outcome of the arrangement. Joint ventures are accounted for using the equity method in accordance with HKAS 28, 'Investments in Associates' which is renamed as HKAS 28 (2011), 'Investments in Associates and Joint Ventures' to include the scope of joint ventures and merge with HK(SIC)-Int 13, 'Jointly Controlled Entities – Non-Monetary Contributions by Venturers'. After the application of the standard, entities can no longer account for an interest in a joint venture using the proportionate consolidation method.
- HKFRS 12, 'Disclosure of Interests in Other Entities'. The standard sets out the required disclosures for entities reporting under the two new standards, HKFRS 10 and HKFRS 11, and the revised standard HKAS 28 (2011). The existing guidance and disclosure requirements for separate financial statements stipulated in HKAS 27 (Revised) are unchanged. HKFRS 12, requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

The above HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011) and HKAS 28 (2011) issued in June 2011 are a group of five new standards that address the scope of reporting entity and will supersede HKAS 27 (Revised), HKAS 28, HKAS 31, HK(SIC)-Int 12 and HK(SIC)-Int 13. Earlier application of these standards are permitted but only when they are applied at the same time. The Group is still considering the financial impact of the above standards on consolidated financial statements.

- HKFRS 13, 'Fair Value Measurement'. The new standard which was issued in June 2011 replaces the fair value measurement guidance contained in individual HKFRSs by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied when its use is already required or permitted by other standards within HKFRSs. The Group is still considering the financial impact on the application of this standard.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 1. Basis of preparation and significant accounting policies (continued)

### *Significant accounting policies (continued)*

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

Standard	Content	Applicable for financial year beginning on/after	Currently relevant to the Group	Year of early adoption
HKAS 12 (Amendment)	Income Taxes	1 January 2012	Yes	2010

- HKAS 12 (Amendment), 'Income Taxes'. The standard which was revised in December 2010 will be effective for reporting period beginning on or after 1 January 2012. Earlier application is permitted. The Group considers that the required treatment under the revised standard better reflects the tax position of the investment properties of the Group, and have early adopted the amended standard retrospectively since the year ended 31 December 2010.

Upon early adoption, deferred tax liabilities for the revaluation of investment properties would be calculated subject to a nil tax rate retrospectively. The effect of the adoption of this amended standard on 30 June 2010 is set out below:

	At 30 June 2010 HK\$'m
<b>Items in Condensed Consolidated Balance Sheet:</b>	
Increase in deferred tax assets	3
Net increase in assets	3
Decrease in deferred tax liabilities	(1,281)
Net decrease in liabilities	(1,281)
Increase in premises revaluation reserve	102
Increase in retained earnings	1,178
Increase in non-controlling interests	4
Net increase in equity	1,284

	Half-year ended 30 June 2010 HK\$'m
<b>Item in Condensed Consolidated Income Statement:</b>	
Decrease in taxation	(2)

	Half-year ended 30 June 2010 HK\$
<b>Increase in earnings per share, basic and diluted</b>	0.0002

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

Except as described below, 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 2010.

On 15 June 2011, the Group jointly announced with thirteen other distributing banks of Lehman Brothers minibonds ("Minibonds") the final resolution of certain series of Minibonds ("Final Resolution"). As part of this Final Resolution, the distributing banks made a voluntary offer to pay ex gratia payments to eligible customers and agreed to provide further funding to the trustee of the Minibonds ("Trustee") to pay for expenses which may be incurred in connection with the recovery of the underlying collateral of the Minibonds and the Trustee's role in respect of the Minibonds. The net amount recovered by the Group from the underlying collateral of the Minibonds, after deducting the ex gratia payments and provision for trustee expenses, was credited to operating expenses in the condensed consolidated income statement for the six months period ended 30 June 2011 (Note 11).

## 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 advances and other accounts

##### (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.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit Risk (continued)

#### (A) Gross advances and other accounts (continued)

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

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

	<b>At 30 June 2011 HK\$'m</b>	At 31 December 2010 HK\$'m
Gross impaired advances to customers	<b>345</b>	455
Individually assessed loan impairment allowances made in respect of such advances	<b>249</b>	326
Current market value of collateral held against the covered portion of such advances to customers	<b>63</b>	109
Covered portion of such advances to customers	<b>51</b>	80
Uncovered portion of such advances to customers	<b>294</b>	375
Gross impaired advances to customers as a percentage of gross advances to customers	<b>0.05%</b>	0.07%

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

Classified or impaired advances to customers are analysed as follows:

	<b>At 30 June 2011 HK\$'m</b>	At 31 December 2010 HK\$'m
Gross classified or impaired advances to customers	<b>706</b>	867
Gross classified or impaired advances to customers as a percentage of gross advances to customers	<b>0.10%</b>	0.14%

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.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit Risk (continued)

#### (A) Gross advances and other accounts (continued)

##### (b) Advances overdue for more than three 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.

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

	At 30 June 2011		At 31 December 2010	
	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	63	0.01%	38	0.01%
– one year or less but over six months	28	0.01%	38	0.01%
– over one year	307	0.04%	359	0.05%
Advances overdue for over three months	398	0.06%	435	0.07%
Individually assessed loan impairment allowances made in respect of such advances	189		194	

	At 30 June 2011 HK\$'m	At 31 December 2010 HK\$'m
Current market value of collateral held against the covered portion of such advances to customers	518	558
Covered portion of such advances to customers	168	213
Uncovered portion of such advances to customers	230	222

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit Risk (continued)

#### (A) Gross advances and other accounts (continued)

##### (b) Advances overdue for more than three months (continued)

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 2011 and 31 December 2010, there were no advances to banks and other financial institutions overdue for more than three months.

##### (c) Rescheduled advances

	At 30 June 2011		At 31 December 2010	
	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 three months"	115	0.02%	228	0.04%

As at 30 June 2011 and 31 December 2010, 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. Rescheduled advances, which have been overdue for more than three months under the revised repayment terms, are included in overdue advances.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit Risk (continued)

#### (A) Gross advances and other accounts (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 2011					
	% Covered by collateral		Classified or impaired	Overdue*	Individually assessed impairment allowances	Collectively assessed impairment allowances
	Gross advances HK\$'m	or other security				
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	30,767	39.34%	3	3	–	105
– Property investment	70,522	86.63%	87	197	6	397
– Financial concerns	9,720	29.75%	–	–	–	57
– Stockbrokers	1,625	63.74%	–	–	–	7
– Wholesale and retail trade	32,296	70.05%	30	104	16	162
– Manufacturing	16,559	44.82%	54	155	16	103
– Transport and transport equipment	26,535	37.60%	70	4	1	95
– Recreational activities	593	15.50%	–	–	–	2
– Information technology	14,994	0.67%	2	5	1	51
– Others	28,201	38.54%	43	150	20	115
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	11,643	99.96%	54	321	–	10
– Loans for purchase of other residential properties	168,084	99.99%	44	961	–	109
– Credit card advances	8,595	–	20	238	–	75
– Others	14,502	64.29%	49	157	20	19
Total loans for use in Hong Kong	434,636	72.99%	456	2,295	80	1,307
Trade finance	59,840	15.35%	128	164	90	263
Loans for use outside Hong Kong	178,382	22.34%	122	166	79	651
Gross advances to customers	672,858	54.44%	706	2,625	249	2,221

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit Risk (continued)

#### (A) Gross advances and other accounts (continued)

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

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

	At 31 December 2010					
	Gross advances HK\$'m	% Covered by collateral or other security	Classified or impaired HK\$'m	Overdue* HK\$'m	Individually	Collectively
					assessed impairment allowances HK\$'m	assessed impairment allowances HK\$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	29,542	34.21%	3	3	–	93
– Property investment	67,265	88.59%	87	273	7	374
– Financial concerns	9,011	30.57%	–	4	–	50
– Stockbrokers	556	69.32%	–	–	–	2
– Wholesale and retail trade	24,300	67.23%	29	127	12	131
– Manufacturing	15,125	44.57%	70	118	22	83
– Transport and transport equipment	23,409	34.39%	80	21	2	80
– Recreational activities	521	19.00%	–	–	–	2
– Information technology	14,212	0.62%	3	3	1	44
– Others	23,006	42.85%	48	168	7	86
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	12,291	99.96%	64	377	–	10
– Loans for purchase of other residential properties	147,424	99.99%	75	1,199	–	84
– Credit card advances	8,230	–	18	217	–	75
– Others	12,195	63.44%	44	179	20	15
Total loans for use in Hong Kong	387,087	72.71%	521	2,689	71	1,129
Trade finance	53,396	16.73%	95	141	57	228
Loans for use outside Hong Kong	172,736	24.45%	251	153	198	628
Gross advances to customers	613,219	54.24%	867	2,983	326	1,985

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit Risk (continued)

#### (A) Gross advances and other accounts (continued)

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

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

The following geographical analysis of advances to customers is based on the location of the counterparties, after taking into account the transfer of risk. In general, such transfer of risk takes place if the advances to customers are guaranteed by a party in a country which is different from that of the customer.

#### Gross advances to customers

	At 30 June 2011 HK\$'m	At 31 December 2010 HK\$'m
Hong Kong	487,844	447,494
Mainland China	144,794	127,436
Others	40,220	38,289
	<b>672,858</b>	<b>613,219</b>
<b>Collectively assessed loan impairment allowances in respect of the gross advances to customers</b>		
Hong Kong	1,514	1,375
Mainland China	554	478
Others	153	132
	<b>2,221</b>	<b>1,985</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit Risk (continued)

#### (A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

#### Overdue advances

	At 30 June 2011 HK\$'m	At 31 December 2010 HK\$'m
Hong Kong	2,379	2,761
Mainland China	145	207
Others	101	15
	<b>2,625</b>	<b>2,983</b>
<b>Individually assessed loan impairment allowances in respect of the overdue advances</b>		
Hong Kong	154	137
Mainland China	42	64
Others	37	2
	<b>233</b>	<b>203</b>
<b>Collectively assessed loan impairment allowances in respect of the overdue advances</b>		
Hong Kong	61	51
Mainland China	5	5
Others	2	–
	<b>68</b>	<b>56</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit Risk (continued)

#### (A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

#### Classified or impaired advances

	At 30 June 2011 HK\$'m	At 31 December 2010 HK\$'m
Hong Kong	582	656
Mainland China	74	113
Others	50	98
	<b>706</b>	<b>867</b>
<b>Individually assessed loan impairment allowances in respect of the classified or impaired advances</b>		
Hong Kong	170	163
Mainland China	42	65
Others	37	98
	<b>249</b>	<b>326</b>
<b>Collectively assessed loan impairment allowances in respect of the classified or impaired advances</b>		
Hong Kong	20	19
Mainland China	2	2
Others	1	–
	<b>23</b>	<b>21</b>

#### (B) Repossessed assets

The estimated market value of repossessed assets held by the Group as at 30 June 2011 amounted to HK\$288 million (31 December 2010: HK\$280 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.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit Risk (continued)

#### (C) Debt securities

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

	At 30 June 2011							
					Unrated			
					Hong Kong government and government bodies	Other governments and government agencies	Others	Total
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
<b>Investment in securities</b>								
US non-agency residential mortgage-backed								
– Subprime	174	37	102	–	–	–	–	313
– Alt-A	26	21	–	94	–	–	–	141
– Prime	90	46	110	93	–	–	–	339
Fannie Mae								
– mortgage-backed securities	–	–	–	–	–	10	–	10
Freddie Mac								
– issued debt securities	79	–	–	–	–	–	–	79
– mortgage-backed securities	–	–	–	–	–	454	–	454
Other MBS/ABS	2,094	201	–	–	–	9,721	–	12,016
Other debt securities	92,470	71,737	49,801	5,462	36,736	49,133	71,405	376,744
Subtotal	94,933	72,042	50,013	5,649	36,736	59,318	71,405	390,096
<b>Financial assets at fair value through profit or loss</b>								
Other MBS/ABS	19	–	–	–	–	–	–	19
Other debt securities	3,141	6,862	17,019	1,483	11,358	15	2,791	42,669
Subtotal	3,160	6,862	17,019	1,483	11,358	15	2,791	42,688
Total	98,093	78,904	67,032	7,132	48,094	59,333	74,196	432,784

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit Risk (continued)

#### (C) Debt securities (continued)

	At 31 December 2010							
					Unrated			
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	Hong Kong government and government bodies HK\$'m	Other governments and government agencies HK\$'m	Others HK\$'m	Total HK\$'m
<b>Investment in securities</b>								
US non-agency residential mortgage-backed								
– Subprime	351	1	5	–	–	–	–	357
– Alt-A	90	112	40	–	–	–	–	242
– Prime	391	64	87	53	–	–	–	595
Fannie Mae								
– mortgage-backed securities	–	–	–	–	–	15	–	15
Freddie Mac								
– issued debt securities	79	158	–	–	–	–	–	237
– mortgage-backed securities	–	–	–	–	–	602	–	602
Other MBS/ABS	2,490	282	–	–	–	7,334	–	10,106
Other debt securities	99,456	79,249	45,852	6,885	15,989	49,260	47,812	344,503
Subtotal	102,857	79,866	45,984	6,938	15,989	57,211	47,812	356,657
<b>Financial assets at fair value through profit or loss</b>								
Other MBS/ABS	19	–	–	–	–	–	–	19
Other debt securities	1,303	7,958	17,037	1,682	33,486	–	3,306	64,772
Subtotal	1,322	7,958	17,037	1,682	33,486	–	3,306	64,791
Total	104,179	87,824	63,021	8,620	49,475	57,211	51,118	421,448

The total amount of unrated issues amounted to HK\$181,623 million (31 December 2010: HK\$157,804 million) as at 30 June 2011, of which only HK\$13,956 million (31 December 2010: HK\$6,697 million) were without issuer ratings. For details, please refer to page 57.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 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 2011					
	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	37,055	61,452	12,603	6,263	12,445	129,818
Held-to-maturity securities	431	20,517	700	100	512	22,260
Loans and receivables	–	14,089	1,292	–	–	15,381
Financial assets at fair value through profit or loss	–	11,443	1,722	–	999	14,164
<b>Total</b>	<b>37,486</b>	<b>107,501</b>	<b>16,317</b>	<b>6,363</b>	<b>13,956</b>	<b>181,623</b>

	At 31 December 2010					
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m
Available-for-sale securities	39,825	34,342	8,321	4,833	5,638	92,959
Held-to-maturity securities	668	10,910	1,119	–	–	12,697
Loans and receivables	–	11,187	4,169	–	–	15,356
Financial assets at fair value through profit or loss	–	33,581	2,152	–	1,059	36,792
<b>Total</b>	<b>40,493</b>	<b>90,020</b>	<b>15,761</b>	<b>4,833</b>	<b>6,697</b>	<b>157,804</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 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 2011						
	Carrying values						Of which accumulated impairment allowances HK\$m
	Aaa HK\$m	Aa1 to Aa3 HK\$m	A1 to A3 HK\$m	Lower than A3 HK\$m	Unrated HK\$m	Total HK\$m	
<b>Investment in securities</b>							
US non-agency residential mortgage-backed							
– Subprime	174	37	94	–	–	305	30
– Prime	–	–	16	13	–	29	3
Other debt securities	–	–	–	36	–	36	3
<b>Total</b>	<b>174</b>	<b>37</b>	<b>110</b>	<b>49</b>	<b>–</b>	<b>370</b>	<b>36</b>
Of which accumulated impairment allowances	19	5	8	4	–	36	

	At 31 December 2010						
	Carrying values						Of which accumulated impairment allowances HK\$m
	Aaa HK\$m	Aa1 to Aa3 HK\$m	A1 to A3 HK\$m	Lower than A3 HK\$m	Unrated HK\$m	Total HK\$m	
<b>Investment in securities</b>							
US non-agency residential mortgage-backed							
– Subprime	345	1	–	–	–	346	36
– Alt-A	–	36	40	–	–	76	30
– Prime	48	–	45	12	–	105	26
Other MBS/ABS	–	15	–	–	–	15	–
Other debt securities	–	–	–	271	–	271	56
<b>Total</b>	<b>393</b>	<b>52</b>	<b>85</b>	<b>283</b>	<b>–</b>	<b>813</b>	<b>148</b>
Of which accumulated impairment allowances	53	14	21	60	–	148	

As at 30 June 2011 and 31 December 2010, there were no overdue debt securities.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit Risk (continued)

#### (C) Debt securities (continued)

##### MBS/ABS

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

	At 30 June 2011		
	Carrying values		Of which accumulated impairment allowances HK\$m
	Total HK\$m	Impaired securities HK\$m	
<b>US MBS/ABS</b>			
Non-agency residential mortgage-backed			
– Subprime	313	305	30
– Alt-A	141	–	–
– Prime	339	29	3
Ginnie Mae	9,721	–	–
Fannie Mae	10	–	–
Freddie Mac	454	–	–
Others	623	–	–
	<b>11,601</b>	<b>334</b>	<b>33</b>
<b>Other countries MBS/ABS</b>			
Residential mortgage-backed	1,672	–	–
Commercial mortgage-backed	19	–	–
	<b>1,691</b>	<b>–</b>	<b>–</b>
Total MBS/ABS	<b>13,292</b>	<b>334</b>	<b>33</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit Risk (continued)

#### (C) Debt securities (continued)

MBS/ABS (continued)

	At 31 December 2010		
	Carrying values		Of which accumulated impairment allowances HK\$'m
	Total HK\$'m	Impaired securities HK\$'m	
<b>US MBS/ABS</b>			
Non-agency residential mortgage-backed			
– Subprime	357	346	36
– Alt-A	242	76	30
– Prime	595	105	26
Ginnie Mae	7,334	–	–
Fannie Mae	15	–	–
Freddie Mac	602	–	–
Others	850	–	–
	9,995	527	92
<b>Other countries MBS/ABS</b>			
Residential mortgage-backed	1,860	15	–
Commercial mortgage-backed	81	–	–
	1,941	15	–
<b>Total MBS/ABS</b>	<b>11,936</b>	<b>542</b>	<b>92</b>

	<b>At 30 June 2011 HK\$'m</b>	At 31 December 2010 HK\$'m
Increase in fair value taken to available-for-sale securities reserve on MBS/ABS for the period/year (net of reversal of impairment allowances taken to income statement excluding deferred tax impact)	<b>68</b>	53
Closing balance of available-for-sale securities reserve relating to MBS/ABS (excluding deferred tax impact)	<b>31</b>	(37)

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit Risk (continued)

#### (C) Debt securities (continued)

MBS/ABS (continued)

The tables below represent an analysis of net (reversal)/charge of impairment allowances for the period/year for MBS/ABS held as at 30 June 2011 and 31 December 2010.

	At 30 June 2011					
	Aaa HK\$m	Aa1 to Aa3 HK\$m	A1 to A3 HK\$m	Lower than A3 HK\$m	Unrated HK\$m	Total HK\$m
<b>US MBS/ABS</b>						
Non-agency residential mortgage-backed						
– Subprime	(4)	–	(1)	–	–	(5)
– Prime	–	–	(1)	(2)	–	(3)
Total MBS/ABS	(4)	–	(2)	(2)	–	(8)

	At 31 December 2010					
	Aaa HK\$m	Aa1 to Aa3 HK\$m	A1 to A3 HK\$m	Lower than A3 HK\$m	Unrated HK\$m	Total HK\$m
<b>US MBS/ABS</b>						
Non-agency residential mortgage-backed						
– Subprime	(16)	(2)	–	–	–	(18)
– Alt-A	–	(2)	(4)	–	–	(6)
– Prime	(4)	–	5	(2)	–	(1)
	(20)	(4)	1	(2)	–	(25)
<b>Other countries MBS/ABS</b>						
Residential mortgage-backed	–	(4)	–	–	–	(4)
Total MBS/ABS	(20)	(8)	1	(2)	–	(29)

Note: The net (reversal)/charge of impairment allowances for MBS/ABS disposed during the period/year is excluded.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.2 Market Risk

#### (A) VAR

VAR refers to the core indicator used in managing the Group's market risk. It is a statistical method used to measure the maximum loss of trading book positions held by the bank over a target horizon with a given level of confidence. The Group adopts a uniform VAR calculation model, using the historical simulation approach and two years' historical data, to calculate VAR of the Group and subsidiaries over a one-day holding period with a 99% confidence level, and set up VAR limit of the Group and subsidiaries.

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

	Year	At 30 June HK\$'m	Minimum for the first half of year HK\$'m	Maximum for the first half of year HK\$'m	Average for the first half of year HK\$'m
VAR for all market risk	2011	13.0	6.8	14.6	9.6
	2010	7.4	6.9	15.7	10.5
VAR for foreign exchange risk products	2011	9.6	1.9	12.8	6.3
	2010	5.6	2.3	11.2	5.2
VAR for interest rate risk products	2011	7.5	5.1	9.4	7.5
	2010	6.0	5.1	13.6	8.7
VAR for equity risk products	2011	0.1	0.0	0.4	0.1
	2010	0.0	0.0	1.7	0.3
VAR for commodity risk products	2011	0.2	0.0	0.6	0.1
	2010	0.0	0.0	0.2	0.0

In the first half of 2011, the average daily revenue<sup>2</sup> of BOCHK earned from market risk-related trading activities was HK\$7.2 million (first half of 2010: HK\$4.5 million).

Notes:

1 Structural FX positions have been excluded.

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

The predictive power of the VAR measure is monitored by back-testing, which compares the calculated VAR figure of those trading positions of each business day with the actual revenues arising on those positions on the next business day. These actual revenues exclude non-trading income, such as fee and commission. If back-testing revenues are negative and exceeding the VAR, a "back-testing exception" is noted. Generally speaking, the number of back-testing exceptions in a rolling 12-month period will not exceed four times. Back-testing results are reported to the Group's senior management, including the CE and CRO. BOCHK conducts back-testing of VAR measures on a monthly basis.

#### (B) Currency risk

The Group's assets and liabilities are denominated in major currencies, particularly the Hong Kong dollar, the US dollar and Renminbi. To ensure the currency risk exposure of the Group is kept to an acceptable level, risk limits (e.g. Position and VAR limit) are used to serve as a monitoring tool. Moreover, the Group seeks to minimise the gap between asset and liability in the same currency. Foreign exchange contracts (e.g. FX swap) are usually used to manage FX risk associated with foreign currency-denominated assets and liabilities.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.2 Market Risk (continued)

#### (B) Currency risk (continued)

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 30 June 2011 and 31 December 2010. Included in the tables are the assets and liabilities at carrying amounts in HK\$ equivalent, categorised by the original currency.

	At 30 June 2011							
	Renminbi HK\$m	US Dollars HK\$m	HK Dollars HK\$m	Euro HK\$m	Japanese Yen HK\$m	Pound Sterling HK\$m	Others HK\$m	Total HK\$m
<b>Assets</b>								
Cash and balances with banks and other financial institutions	378,135	20,430	17,168	1,139	142	1,021	1,196	419,231
Placements with banks and other financial institutions maturing between one and twelve months	71,445	14,040	3,675	30	13	150	265	89,618
Financial assets at fair value through profit or loss	1,571	13,881	32,676	129	-	-	80	48,337
Derivative financial instruments	301	2,834	24,387	10	-	-	22	27,554
Hong Kong SAR Government certificates of indebtedness	-	-	54,460	-	-	-	-	54,460
Advances and other accounts	29,774	217,736	454,658	5,997	2,137	63	9,135	719,500
Investment in securities								
- Available-for-sale securities	24,628	160,954	77,546	17,099	1,333	272	33,231	315,063
- Held-to-maturity securities	17,795	23,877	10,911	1,706	2,055	8	6,840	63,192
- Loans and receivables	-	-	4,004	1,431	-	9,688	258	15,381
Interests in associates	-	-	214	-	-	-	-	214
Investment properties	102	-	11,562	-	-	-	-	11,664
Properties, plant and equipment	436	1	35,673	-	-	-	-	36,110
Other assets (including deferred tax assets)	5,199	3,800	19,757	520	218	151	410	30,055
<b>Total assets</b>	<b>529,386</b>	<b>457,553</b>	<b>746,691</b>	<b>28,061</b>	<b>5,898</b>	<b>11,353</b>	<b>51,437</b>	<b>1,830,379</b>
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	-	-	54,460	-	-	-	-	54,460
Deposits and balances from banks and other financial institutions	272,183	70,045	35,043	578	170	34	8,851	386,904
Financial liabilities at fair value through profit or loss	28	192	4,436	-	-	-	219	4,875
Derivative financial instruments	282	3,328	19,707	485	1	-	137	23,940
Deposits from customers	218,795	208,140	608,788	15,086	1,427	15,798	35,401	1,103,435
Debt securities in issue at amortised cost	-	-	5	-	-	-	-	5
Other accounts and provisions (including current and deferred tax liabilities)	3,896	14,009	35,255	1,128	441	726	799	56,254
Insurance contract liabilities	6,181	6,646	30,218	-	-	-	-	43,045
Subordinated liabilities	-	20,399	-	7,439	-	-	-	27,838
<b>Total liabilities</b>	<b>501,365</b>	<b>322,759</b>	<b>787,912</b>	<b>24,716</b>	<b>2,039</b>	<b>16,558</b>	<b>45,407</b>	<b>1,700,756</b>
Net on-balance sheet position	28,021	134,794	(41,221)	3,345	3,859	(5,205)	6,030	129,623
Off-balance sheet net notional position*	(15,970)	(127,470)	156,177	(3,353)	(3,867)	5,245	(5,944)	4,818
Contingent liabilities and commitments	19,756	99,615	241,458	4,779	1,197	793	3,295	370,893

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.2 Market Risk (continued)

#### (B) Currency risk (continued)

	At 31 December 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
<b>Assets</b>								
Cash and balances with banks and other financial institutions	369,368	18,084	22,058	2,762	657	1,884	999	415,812
Placements with banks and other financial institutions maturing between one and twelve months	8,886	22,840	6,279	42	-	144	1,308	39,499
Financial assets at fair value through profit or loss	1,560	16,413	51,716	112	-	-	75	69,876
Derivative financial instruments	122	2,540	21,144	18	-	-	30	23,854
Hong Kong SAR Government certificates of indebtedness	-	-	46,990	-	-	-	-	46,990
Advances and other accounts	25,299	190,935	413,767	5,447	1,260	53	8,663	645,424
Investment in securities								
– Available-for-sale securities	15,279	155,583	46,438	22,876	4,421	1,767	40,080	286,444
– Held-to-maturity securities	6,577	28,811	11,567	1,743	2,028	15	7,643	58,384
– Loans and receivables	-	5,791	9,565	-	-	-	-	15,356
Interests in associates	-	-	212	-	-	-	-	212
Investment properties	96	-	10,246	-	-	-	-	10,342
Properties, plant and equipment	420	-	30,629	-	-	-	-	31,049
Other assets (including deferred tax assets)	2,200	404	14,916	77	89	40	72	17,798
<b>Total assets</b>	<b>429,807</b>	<b>441,401</b>	<b>685,527</b>	<b>33,077</b>	<b>8,455</b>	<b>3,903</b>	<b>58,870</b>	<b>1,661,040</b>
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	-	-	46,990	-	-	-	-	46,990
Deposits and balances from banks and other financial institutions	241,539	42,496	13,393	99	252	15	15,990	313,784
Financial liabilities at fair value through profit or loss	-	76	25,280	-	-	-	137	25,493
Derivative financial instruments	130	3,599	16,863	681	2	-	80	21,355
Deposits from customers	156,391	184,993	612,360	15,764	1,921	16,745	38,859	1,027,033
Other accounts and provisions (including current and deferred tax liabilities)	4,430	10,799	24,267	535	48	642	691	41,412
Insurance contract liabilities	2,761	6,963	30,083	-	-	-	-	39,807
Subordinated liabilities	-	20,029	-	6,848	-	-	-	26,877
<b>Total liabilities</b>	<b>405,251</b>	<b>268,955</b>	<b>769,236</b>	<b>23,927</b>	<b>2,223</b>	<b>17,402</b>	<b>55,757</b>	<b>1,542,751</b>
Net on-balance sheet position	24,556	172,446	(83,709)	9,150	6,232	(13,499)	3,113	118,289
Off-balance sheet net notional position*	(17,769)	(165,279)	192,604	(9,078)	(6,290)	13,368	(3,256)	4,300
Contingent liabilities and commitments	11,813	85,973	227,256	5,720	1,559	1,076	3,313	336,710

\* 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.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 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 2011 and 31 December 2010. 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 2011						
	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Non-interest bearing HK\$'m	Total HK\$'m
<b>Assets</b>							
Cash and balances with banks and other financial institutions	413,624	-	-	-	-	5,607	419,231
Placements with banks and other financial institutions maturing between one and twelve months	-	34,369	55,249	-	-	-	89,618
Financial assets at fair value through profit or loss	6,741	6,986	2,452	12,984	13,525	5,649	48,337
Derivative financial instruments	-	-	-	-	-	27,554	27,554
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	54,460	54,460
Advances and other accounts	531,932	128,908	41,466	12,418	111	4,665	719,500
Investment in securities							
– Available-for-sale securities	37,814	57,696	50,270	120,427	45,316	3,540	315,063
– Held-to-maturity securities	7,997	15,636	10,633	20,047	8,879	-	63,192
– Loans and receivables	2,856	1,206	11,319	-	-	-	15,381
Interests in associates	-	-	-	-	-	214	214
Investment properties	-	-	-	-	-	11,664	11,664
Properties, plant and equipment	-	-	-	-	-	36,110	36,110
Other assets (including deferred tax assets)	-	-	-	-	-	30,055	30,055
<b>Total assets</b>	<b>1,000,964</b>	<b>244,801</b>	<b>171,389</b>	<b>165,876</b>	<b>67,831</b>	<b>179,518</b>	<b>1,830,379</b>
<b>Liabilities</b>							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	54,460	54,460
Deposits and balances from banks and other financial institutions	357,801	11,371	2,452	-	-	15,280	386,904
Financial liabilities at fair value through profit or loss	1,392	2,562	679	221	21	-	4,875
Derivative financial instruments	-	-	-	-	-	23,940	23,940
Deposits from customers	820,643	138,094	80,202	9,544	-	54,952	1,103,435
Debt securities in issue at amortised cost	-	-	5	-	-	-	5
Other accounts and provisions (including current and deferred tax liabilities)	11,824	648	1,832	479	-	41,471	56,254
Insurance contract liabilities	-	-	-	-	-	43,045	43,045
Subordinated liabilities	-	-	7,439	-	20,399	-	27,838
<b>Total liabilities</b>	<b>1,191,660</b>	<b>152,675</b>	<b>92,609</b>	<b>10,244</b>	<b>20,420</b>	<b>233,148</b>	<b>1,700,756</b>
Interest sensitivity gap	(190,696)	92,126	78,780	155,632	47,411	(53,630)	129,623

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.2 Market Risk (continued)

#### (C) Interest rate risk (continued)

	At 31 December 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
<b>Assets</b>							
Cash and balances with banks and other financial institutions	409,210	-	-	-	-	6,602	415,812
Placements with banks and other financial institutions maturing between one and twelve months	-	19,346	20,153	-	-	-	39,499
Financial assets at fair value through profit or loss	3,439	30,225	3,638	14,214	13,275	5,085	69,876
Derivative financial instruments	-	-	-	-	-	23,854	23,854
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	46,990	46,990
Advances and other accounts	513,018	92,528	27,356	7,659	119	4,744	645,424
Investment in securities							
– Available-for-sale securities	34,227	41,732	49,471	125,084	32,403	3,527	286,444
– Held-to-maturity securities	7,142	16,570	9,808	16,132	8,732	-	58,384
– Loans and receivables	5,791	3,402	6,163	-	-	-	15,356
Interests in associates	-	-	-	-	-	212	212
Investment properties	-	-	-	-	-	10,342	10,342
Properties, plant and equipment	-	-	-	-	-	31,049	31,049
Other assets (including deferred tax assets)	-	-	-	-	-	17,798	17,798
<b>Total assets</b>	<b>972,827</b>	<b>203,803</b>	<b>116,589</b>	<b>163,089</b>	<b>54,529</b>	<b>150,203</b>	<b>1,661,040</b>
<b>Liabilities</b>							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	46,990	46,990
Deposits and balances from banks and other financial institutions	298,078	8,729	969	-	-	6,008	313,784
Financial liabilities at fair value through profit or loss	4,996	16,993	3,316	168	20	-	25,493
Derivative financial instruments	-	-	-	-	-	21,355	21,355
Deposits from customers	787,316	107,409	73,421	5,010	-	53,877	1,027,033
Other accounts and provisions (including current and deferred tax liabilities)	11,005	1,070	2,163	394	-	26,780	41,412
Insurance contract liabilities	-	-	-	-	-	39,807	39,807
Subordinated liabilities	-	-	6,848	-	20,029	-	26,877
<b>Total liabilities</b>	<b>1,101,395</b>	<b>134,201</b>	<b>86,717</b>	<b>5,572</b>	<b>20,049</b>	<b>194,817</b>	<b>1,542,751</b>
Interest sensitivity gap	(128,568)	69,602	29,872	157,517	34,480	(44,614)	118,289

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.3 Liquidity Risk

#### (A) Liquidity ratio

	Half-year ended 30 June 2011	Half-year ended 30 June 2010
Average liquidity ratio	<b>36.38%</b>	37.81%

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.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 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 2011 and 31 December 2010 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2011							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
<b>Assets</b>								
Cash and balances with banks and other financial institutions	366,804	52,427	-	-	-	-	-	419,231
Placements with banks and other financial institutions maturing between one and twelve months	-	-	34,369	55,249	-	-	-	89,618
Financial assets at fair value through profit or loss								
- debt securities held for trading								
- certificates of deposit held	-	200	1,179	-	2	-	-	1,381
- others	-	6,550	5,011	1,029	2,880	5,003	-	20,473
- debt securities designated at fair value through profit or loss								
- certificates of deposit held	-	-	430	22	1,312	490	-	2,254
- others	-	50	112	1,583	9,052	7,783	-	18,580
- fund and equity securities	-	-	-	-	-	-	5,649	5,649
Derivative financial instruments	22,709	552	471	684	1,433	1,705	-	27,554
Hong Kong SAR Government certificates of indebtedness	54,460	-	-	-	-	-	-	54,460
Advances and other accounts								
- advances to customers	55,889	13,123	49,886	116,556	249,499	184,812	623	670,388
- trade bills	33	13,629	17,848	15,316	37	-	-	46,863
- advances to banks and other financial institutions	-	1	73	1,320	855	-	-	2,249
Investment in securities								
- debt securities held for available-for-sale								
- certificates of deposit held	-	1,450	4,591	11,807	15,316	-	-	33,164
- others	-	20,496	29,473	49,139	129,676	49,515	60	278,359
- debt securities held for held-to-maturity								
- certificates of deposit held	-	444	1	804	2,675	161	-	4,085
- others	-	3,320	4,709	12,075	28,300	10,393	310	59,107
- debt securities held for loans and receivables	-	2,856	1,206	11,319	-	-	-	15,381
- equity securities	-	-	-	-	-	-	3,540	3,540
Interests in associates	-	-	-	-	-	-	214	214
Investment properties	-	-	-	-	-	-	11,664	11,664
Properties, plant and equipment	-	-	-	-	-	-	36,110	36,110
Other assets (including deferred tax assets)	6,862	17,730	28	253	4,200	888	94	30,055
<b>Total assets</b>	<b>506,757</b>	<b>132,828</b>	<b>149,387</b>	<b>277,156</b>	<b>445,237</b>	<b>260,750</b>	<b>58,264</b>	<b>1,830,379</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.3 Liquidity Risk (continued)

#### (B) Maturity analysis (continued)

	At 30 June 2011							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	54,460	-	-	-	-	-	-	54,460
Deposits and balances from banks and other financial institutions	313,144	59,937	11,371	2,452	-	-	-	386,904
Financial liabilities at fair value through profit or loss								
- certificates of deposit issued	-	-	-	-	-	-	-	-
- others	-	1,392	2,562	679	221	21	-	4,875
Derivative financial instruments	17,490	702	525	794	3,470	959	-	23,940
Deposits from customers	594,576	278,395	137,054	82,568	10,842	-	-	1,103,435
Debt securities in issue at amortised cost	-	-	-	5	-	-	-	5
Other accounts and provisions (including current and deferred tax liabilities)	28,102	16,254	778	5,247	5,873	-	-	56,254
Insurance contract liabilities	980	419	30	3,424	27,050	11,142	-	43,045
Subordinated liabilities	-	-	420	1	-	27,417	-	27,838
<b>Total liabilities</b>	<b>1,008,752</b>	<b>357,099</b>	<b>152,740</b>	<b>95,170</b>	<b>47,456</b>	<b>39,539</b>	<b>-</b>	<b>1,700,756</b>
Net liquidity gap	(501,995)	(224,271)	(3,353)	181,986	397,781	221,211	58,264	129,623

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.3 Liquidity Risk (continued)

#### (B) Maturity analysis (continued)

	At 31 December 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	
<b>Assets</b>								
Cash and balances with banks and other financial institutions	374,818	40,994	-	-	-	-	-	415,812
Placements with banks and other financial institutions maturing between one and twelve months	-	-	19,346	20,153	-	-	-	39,499
Financial assets at fair value through profit or loss								
– debt securities held for trading								
– certificates of deposit held	-	-	568	1,678	2	-	-	2,248
– others	-	3,209	27,603	2,628	3,179	5,054	-	41,673
– debt securities designated at fair value through profit or loss								
– certificates of deposit held	-	-	118	422	1,316	474	-	2,330
– others	-	63	180	722	9,964	7,611	-	18,540
– fund and equity securities	-	-	-	-	-	-	5,085	5,085
Derivative financial instruments	19,539	507	509	1,080	1,167	1,052	-	23,854
Hong Kong SAR Government certificates of indebtedness	46,990	-	-	-	-	-	-	46,990
Advances and other accounts								
– advances to customers	43,572	17,031	43,051	107,513	232,575	166,473	693	610,908
– trade bills	53	10,109	16,190	5,253	-	-	-	31,605
– advances to banks and other financial institutions	-	1	147	1,209	1,554	-	-	2,911
Investment in securities								
– debt securities held for available-for-sale								
– certificates of deposit held	-	303	501	11,577	11,248	-	-	23,629
– others	-	18,164	12,873	48,637	142,051	37,144	419	259,288
– debt securities held for held-to-maturity								
– certificates of deposit held	-	3	41	1,280	2,910	366	-	4,600
– others	-	1,054	3,743	11,637	26,645	10,311	394	53,784
– debt securities held for loans and receivables	-	5,791	3,402	6,163	-	-	-	15,356
– equity securities	-	-	-	-	-	-	3,527	3,527
Interests in associates	-	-	-	-	-	-	212	212
Investment properties	-	-	-	-	-	-	10,342	10,342
Properties, plant and equipment	-	-	-	-	-	-	31,049	31,049
Other assets (including deferred tax assets)	4,609	10,744	6	211	2,125	-	103	17,798
<b>Total assets</b>	<b>489,581</b>	<b>107,973</b>	<b>128,278</b>	<b>220,163</b>	<b>434,736</b>	<b>228,485</b>	<b>51,824</b>	<b>1,661,040</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.3 Liquidity Risk (continued)

#### (B) Maturity analysis (continued)

	At 31 December 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	
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	46,990	-	-	-	-	-	-	46,990
Deposits and balances from banks and other financial institutions	260,453	43,633	8,729	969	-	-	-	313,784
Financial liabilities at fair value through profit or loss								
- certificates of deposit issued	-	-	-	-	-	-	-	-
- others	-	4,996	16,994	3,316	167	20	-	25,493
Derivative financial instruments	14,706	1,040	495	1,287	3,082	745	-	21,355
Deposits from customers	599,586	239,253	107,982	74,014	6,198	-	-	1,027,033
Other accounts and provisions (including current and deferred tax liabilities)	22,967	8,579	1,829	3,237	4,800	-	-	41,412
Insurance contract liabilities	1,407	1,131	55	3,413	25,351	8,450	-	39,807
Subordinated liabilities	-	-	419	1	-	26,457	-	26,877
<b>Total liabilities</b>	<b>946,109</b>	<b>298,632</b>	<b>136,503</b>	<b>86,237</b>	<b>39,598</b>	<b>35,672</b>	<b>-</b>	<b>1,542,751</b>
Net liquidity gap	(456,528)	(190,659)	(8,225)	133,926	395,138	192,813	51,824	118,289

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 2011 and 31 December 2010.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 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 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 reinsurers under an excess of loss reinsurance arrangement. For some of the insurance liabilities dominated in Renminbi, the Group's insurance subsidiary has entered into another reinsurance arrangement that reinsures most of insurance risk.

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

### 3.5 Capital Management

The Group adopted the foundation internal ratings-based ("FIRB") approach to calculate credit risk and standardised (credit risk) ("STC") approach for certain credit exposures being exempted from FIRB effective from 1 January 2011. The market risk of the Group mainly sourced from BOCHK. BOCHK adopted the internal models approach ("IMM") to calculate general market risk for interest rate and exchange rate exposures effective from 1 April 2011 while the Group continued to adopt the standardised (market risk) ("STM") approach to calculate the remaining market risk. In addition, the Group continued to adopt the standardised (operational risk) ("STO") approach for operational risk. The Group's capital adequacy ratio was calculated based on the various risk measurement approaches above.

The Group adopted the STC approach and STM approach to calculate credit risk and market risk respectively as at 31 December 2010. As a result of the change in the basis used, the amounts shown below are not directly comparable.

#### (A) Capital adequacy ratio

	At 30 June 2011	At 31 December 2010
Capital adequacy ratio	17.62%	16.14%
Core capital ratio	12.87%	11.29%

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.5 Capital Management (continued)

#### (A) Capital adequacy ratio (continued)

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 122.

#### (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 2011 and 31 December 2010 and reported to the HKMA is analysed as follows:

	At 30 June 2011 HK\$'m	At 31 December 2010 HK\$'m
Core capital:		
Paid up ordinary share capital	43,043	43,043
Reserves	32,509	28,475
Profit and loss account	6,401	5,332
Non-controlling interests	1,610	1,425
	<b>83,563</b>	78,275
Deductions from core capital	<b>(791)</b>	(332)
Core capital	<b>82,772</b>	77,943
Supplementary capital:		
Fair value gains arising from holdings of available-for-sale securities	931	588
Fair value gains arising from holdings of securities designated at fair value through profit or loss	35	29
Collective loan impairment allowances	92	1,985
Regulatory reserve	247	5,076
Surplus provisions	3,232	–
Term subordinated debt	26,810	26,198
	<b>31,347</b>	33,876
Deductions from supplementary capital	<b>(791)</b>	(332)
Supplementary capital	<b>30,556</b>	33,544
Total capital base after deductions	<b>113,328</b>	111,487

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 119 to 122. 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.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 4. Net interest income

	Half-year ended 30 June 2011 HK\$'m	Half-year ended 30 June 2010 HK\$'m
<b>Interest income</b>		
Due from banks and other financial institutions	3,760	996
Advances to customers	6,306	5,419
Listed investments	2,240	1,934
Unlisted investments	2,708	2,233
Others	142	89
	<b>15,156</b>	10,671
<b>Interest expense</b>		
Due to banks and other financial institutions	(1,949)	(303)
Deposits from customers	(2,636)	(1,068)
Subordinated liabilities	(283)	(275)
Others	(83)	(61)
	<b>(4,951)</b>	(1,707)
<b>Net interest income</b>	<b>10,205</b>	8,964

Included within interest income is HK\$1 million (first half of 2010: HK\$5 million) of interest with respect to income recognised on advances classified as impaired for the first half of 2011. Interest income accrued on impaired investment in securities amounted to HK\$10 million (first half of 2010: HK\$50 million).

Included within interest income and interest expense are HK\$15,113 million (first half of 2010: HK\$10,593 million) and HK\$5,253 million (first half of 2010: HK\$1,906 million), before hedging effect, for financial assets and financial liabilities that are not recognised at fair value through profit or loss respectively.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 5. Net fee and commission income

	Half-year ended 30 June 2011 HK\$'m	Half-year ended 30 June 2010 HK\$'m
<b>Fee and commission income</b>		
Securities brokerage	1,485	1,509
Credit cards	1,189	903
Insurance	610	220
Loan commissions	588	623
Bills commissions	418	371
Payment services	303	272
Currency exchange	224	125
Funds distribution	176	67
Trust services	123	98
Safe deposit box	107	103
Others	209	190
	<b>5,432</b>	<b>4,481</b>
<b>Fee and commission expense</b>		
Credit cards	(950)	(668)
Securities brokerage	(234)	(234)
Payment services	(44)	(42)
Others	(218)	(140)
	<b>(1,446)</b>	<b>(1,084)</b>
<b>Net fee and commission income</b>	<b>3,986</b>	<b>3,397</b>
Of which arise from		
– financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	690	725
– Fee and commission expense	(1)	(4)
	<b>689</b>	<b>721</b>
– trust and other fiduciary activities		
– Fee and commission income	249	213
– Fee and commission expense	(3)	(3)
	<b>246</b>	<b>210</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 6. Net trading gain/(loss)

	Half-year ended 30 June 2011 HK\$'m	Half-year ended 30 June 2010 HK\$'m
Net gain/(loss) from:		
– foreign exchange and foreign exchange products	662	350
– interest rate instruments and items under fair value hedge	(4)	(424)
– equity instruments	32	(20)
– commodities	71	58
	<b>761</b>	<b>(36)</b>

## 7. Net gain on investment in securities

	Half-year ended 30 June 2011 HK\$'m	Half-year ended 30 June 2010 HK\$'m
Net gain from disposal of available-for-sale securities	359	404
Net gain from redemption of held-to-maturity securities	1	–
	<b>360</b>	<b>404</b>

## 8. Other operating income

	Half-year ended 30 June 2011 HK\$'m	Half-year ended 30 June 2010 HK\$'m
Dividend income from investment in securities		
– listed investments	48	41
– unlisted investments	14	13
Gross rental income from investment properties	184	164
Less: Outgoings in respect of investment properties	(41)	(30)
Others	40	61
	<b>245</b>	<b>249</b>

Included in the “Outgoings in respect of investment properties” is HK\$4 million (first half of 2010: HK\$7 million) of direct operating expenses related to investment properties that were not let during the period.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 9. Gross insurance benefits and claims

	Half-year ended 30 June 2011 HK\$'m	Half-year ended 30 June 2010 HK\$'m
Claims, benefits and surrenders paid	3,866	2,239
Movement in liabilities	3,234	1,641
	<b>7,100</b>	<b>3,880</b>

## 10. Net (charge)/reversal of impairment allowances

	Half-year ended 30 June 2011 HK\$'m	Half-year ended 30 June 2010 HK\$'m
<b>Advances to customers</b>		
Individually assessed		
– new allowances	(79)	(46)
– releases	121	102
– recoveries	204	277
Net reversal of individually assessed loan impairment allowances	246	333
Collectively assessed		
– new allowances	(357)	(265)
– releases	62	9
– recoveries	12	17
Net charge of collectively assessed loan impairment allowances	(283)	(239)
Net (charge)/reversal of loan impairment allowances	(37)	94
<b>Available-for-sale securities</b>		
Net reversal of impairment allowances on available-for-sale securities		
– Individually assessed	6	40
<b>Held-to-maturity securities</b>		
Net reversal of impairment allowances on held-to-maturity securities		
– Individually assessed	6	32
<b>Others</b>	(5)	(5)
<b>Net (charge)/reversal of impairment allowances</b>	<b>(30)</b>	<b>161</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 11. Operating expenses

	Half-year ended 30 June 2011 HK\$'m	Half-year ended 30 June 2010 HK\$'m
Staff costs (including directors' emoluments)		
– salaries and other costs	2,529	2,332
– pension cost	211	194
	<b>2,740</b>	2,526
Premises and equipment expenses (excluding depreciation)		
– rental of premises	286	249
– information technology	178	183
– others	146	142
	<b>610</b>	574
Depreciation	614	556
Auditor's remuneration		
– audit services	4	4
– non-audit services	2	6
Lehman Brothers related products*	(2,835)	77
Other operating expenses	858	791
	<b>1,993</b>	4,534

\* Including the net amount of HK\$2,854 million recovered by the Group from the underlying collateral of the Minibonds, after deducting the ex gratia payments and provision for trustee expenses (Note 2).

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

	Half-year ended 30 June 2011 HK\$'m	Half-year ended 30 June 2010 HK\$'m
Net gain on fair value adjustments on investment properties	1,486	601

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

	Half-year ended 30 June 2011 HK\$'m	Half-year ended 30 June 2010 HK\$'m
Net loss on disposal of other fixed assets	(7)	(2)
Net gain on revaluation of premises	2	1
	<b>(5)</b>	(1)

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 14. Taxation

Taxation in the condensed consolidated income statement represents:

	<b>Half-year ended 30 June 2011 HK\$'m</b>	(Restated) Half-year ended 30 June 2010 HK\$'m
Hong Kong profits tax		
Current tax		
– current period taxation	<b>2,168</b>	1,341
Deferred tax (credit)/charge	<b>(76)</b>	18
Hong Kong profits tax	<b>2,092</b>	1,359
Overseas taxation	<b>141</b>	53
	<b>2,233</b>	1,412

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2011. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2011 at the rates of taxation prevailing in the countries in which the Group operates.

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

	<b>Half-year ended 30 June 2011 HK\$'m</b>	(Restated) Half-year ended 30 June 2010 HK\$'m
Profit before taxation	<b>14,587</b>	8,767
Calculated at a taxation rate of 16.5% (2010: 16.5%)	<b>2,407</b>	1,447
Effect of different taxation rates in other countries	<b>17</b>	14
Income not subject to taxation	<b>(269)</b>	(99)
Expenses not deductible for taxation purposes	<b>108</b>	47
Tax losses not recognised	<b>2</b>	3
Utilisation of previously unrecognised tax losses	<b>(32)</b>	–
Taxation charge	<b>2,233</b>	1,412
Effective tax rate	<b>15.3%</b>	16.1%

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 15. Dividends

	Half-year ended 30 June 2011		Half-year ended 30 June 2010	
	Per share HK\$	Total HK\$m	Per share HK\$	Total HK\$m
Interim dividend	0.63	6,661	0.40	4,229

At a meeting held on 24 August 2011, the Board declared an interim dividend of HK\$0.63 per ordinary share for the first half of 2011 amounting to approximately HK\$6,661 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 2011.

## 16. 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 2011 of approximately HK\$11,993 million (first half of 2010: HK\$7,192 million) and on the ordinary shares in issue of 10,572,780,266 shares (2010: 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 2011 (first half of 2010: Nil).

## 17. 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 10 years of service, or at a scale ranging from 30% to 90% for employees who have completed between 3 to 10 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 2011 amounted to approximately HK\$161 million (first half of 2010: approximately HK\$155 million), after a deduction of forfeited contributions of approximately HK\$2.5 million (first half of 2010: approximately HK\$5.9 million). For the MPF Scheme, the Group contributed approximately HK\$25 million (first half of 2010: approximately HK\$22 million) for the first half of 2011.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 18. 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 2011 (first half of 2010: 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.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 18. Share option schemes (continued)

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

Details of the share options outstanding as at 30 June 2011 and 31 December 2010 are disclosed as follows:

	Directors	Senior management	Total number of share options	Average exercise price (HK\$ per share)
At 1 January 2011 and at 30 June 2011	<b>3,976,500</b>	<b>247,300</b>	<b>4,223,800</b>	<b>8.5</b>
Exercisable at 30 June 2011	<b>3,976,500</b>	<b>247,300</b>	<b>4,223,800</b>	<b>8.5</b>
At 1 January 2010	3,976,500	1,074,300	5,050,800	8.5
Less: Share options exercised during the year	–	(827,000)	(827,000)	8.5
At 31 December 2010	3,976,500	247,300	4,223,800	8.5
Exercisable at 31 December 2010	3,976,500	247,300	4,223,800	8.5

No share options were exercised during the period. Share options were exercised on a regular basis throughout the year of 2010 and its weighted average share price was HK\$22.73.

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.

## 19. Cash and balances with banks and other financial institutions

	At 30 June 2011 HK\$m	At 31 December 2010 HK\$m
Cash	<b>4,558</b>	4,571
Balances with central banks	<b>321,945</b>	336,923
Balances with banks and other financial institutions	<b>40,301</b>	33,324
Placements with banks and other financial institutions maturing within one month	<b>52,427</b>	40,994
	<b>419,231</b>	415,812

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 20. 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 2011 HK\$'m	At 31 December 2010 HK\$'m	At 30 June 2011 HK\$'m	At 31 December 2010 HK\$'m	At 30 June 2011 HK\$'m	At 31 December 2010 HK\$'m
At fair value						
Debt securities						
– Listed in Hong Kong	2,030	1,398	794	829	2,824	2,227
– Listed outside Hong Kong	5,185	5,188	2,897	3,253	8,082	8,441
	7,215	6,586	3,691	4,082	10,906	10,668
– Unlisted	14,639	37,335	17,143	16,788	31,782	54,123
	21,854	43,921	20,834	20,870	42,688	64,791
Fund						
– Unlisted	–	–	2,958	3,028	2,958	3,028
Equity securities						
– Listed in Hong Kong	31	38	2,329	1,810	2,360	1,848
– Listed outside Hong Kong	–	–	200	112	200	112
– Unlisted	131	97	–	–	131	97
	162	135	2,529	1,922	2,691	2,057
Total	22,016	44,056	26,321	25,820	48,337	69,876

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

	At 30 June 2011 HK\$'m	At 31 December 2010 HK\$'m
Sovereigns	14,322	35,223
Public sector entities*	281	302
Banks and other financial institutions	24,003	25,135
Corporate entities	9,731	9,216
	48,337	69,876

\* Included financial assets at fair value through profit or loss of HK\$237 million (31 December 2010: HK\$258 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

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

	At 30 June 2011 HK\$'m	At 31 December 2010 HK\$'m
Treasury bills	11,378	32,840
Certificates of deposit held	3,635	4,578
Other financial assets at fair value through profit or loss	33,324	32,458
	<b>48,337</b>	<b>69,876</b>

## 21. Derivative financial instruments

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

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

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

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

The contract/notional amounts and fair values of derivative financial instruments held by the Group are set out in the following tables. The contract/notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet dates and certain of them provide a basis for comparison with fair value instruments recognised on the 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 foreign exchange rates, market interest rates, metal prices or equity prices relative to their terms. The aggregate fair values of derivative financial instruments assets and liabilities can fluctuate significantly from time to time.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 21. Derivative financial instruments (continued)

The following tables summarise the contract/notional amounts of each significant type of derivative financial instrument as at 30 June 2011 and 31 December 2010:

	At 30 June 2011			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting* HK\$'m	Total HK\$'m
Exchange rate contracts				
Spot and forwards	333,433	–	321	333,754
Swaps	310,258	4,442	4,086	318,786
Foreign currency options				
– Options purchased	3,006	–	–	3,006
– Options written	3,227	–	–	3,227
	649,924	4,442	4,407	658,773
Interest rate contracts				
Futures	4,047	–	–	4,047
Swaps	344,942	12,313	3,432	360,687
Interest rate options				
– Swaptions purchased	1,006	–	–	1,006
– Swaptions written	506	–	–	506
	350,501	12,313	3,432	366,246
Bullion contracts	13,585	–	–	13,585
Equity contracts	112	–	–	112
Other contracts	89	–	–	89
<b>Total</b>	<b>1,014,211</b>	<b>16,755</b>	<b>7,839</b>	<b>1,038,805</b>

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 21. Derivative financial instruments (continued)

	At 31 December 2010			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts				
Spot and forwards	332,032	–	111	332,143
Swaps	310,451	4,437	2,993	317,881
Foreign currency options				
– Options purchased	1,543	–	–	1,543
– Options written	2,601	–	–	2,601
	646,627	4,437	3,104	654,168
Interest rate contracts				
Futures	7,735	–	–	7,735
Swaps	266,326	46,345	3,144	315,815
	274,061	46,345	3,144	323,550
Bullion contracts	13,761	–	–	13,761
Equity contracts	145	–	–	145
Other contracts	99	–	–	99
<b>Total</b>	<b>934,693</b>	<b>50,782</b>	<b>6,248</b>	<b>991,723</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 21. Derivative financial instruments (continued)

The following tables summarise the fair values of each class of derivative financial instrument as at 30 June 2011 and 31 December 2010:

	At 30 June 2011							
	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	22,386	–	2	22,388	(17,400)	–	(1)	(17,401)
Swaps	739	68	78	885	(960)	(72)	(79)	(1,111)
Foreign currency options								
– Options purchased	10	–	–	10	–	–	–	–
– Options written	–	–	–	–	(12)	–	–	(12)
	23,135	68	80	23,283	(18,372)	(72)	(80)	(18,524)
Interest rate contracts								
Futures	1	–	–	1	(3)	–	–	(3)
Swaps	3,227	3	1	3,231	(4,027)	(535)	(108)	(4,670)
Interest rate options								
– Swaptions purchased	10	–	–	10	–	–	–	–
– Swaptions written	–	–	–	–	(14)	–	–	(14)
	3,238	3	1	3,242	(4,044)	(535)	(108)	(4,687)
Bullion contracts	1,027	–	–	1,027	(728)	–	–	(728)
Equity contracts	2	–	–	2	(1)	–	–	(1)
Total	27,402	71	81	27,554	(23,145)	(607)	(188)	(23,940)

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 21. Derivative financial instruments (continued)

	At 31 December 2010							
	Fair value assets				Fair value liabilities			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts								
Spot and forwards	19,376	–	1	19,377	(14,673)	–	–	(14,673)
Swaps	843	56	63	962	(1,315)	(74)	(83)	(1,472)
Foreign currency options								
– Options purchased	11	–	–	11	–	–	–	–
– Options written	–	–	–	–	(12)	–	–	(12)
	20,230	56	64	20,350	(16,000)	(74)	(83)	(16,157)
Interest rate contracts								
Futures	–	–	–	–	(3)	–	–	(3)
Swaps	1,592	869	1	2,462	(2,339)	(1,842)	(114)	(4,295)
	1,592	869	1	2,462	(2,342)	(1,842)	(114)	(4,298)
Bullion contracts	1,040	–	–	1,040	(899)	–	–	(899)
Equity contracts	2	–	–	2	(1)	–	–	(1)
Total	22,864	925	65	23,854	(19,242)	(1,916)	(197)	(21,355)

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

	At 30 June 2011 HK\$'m	At 31 December 2010 HK\$'m
Exchange rate contracts		
Forwards	2,069	1,938
Swaps	975	1,365
Foreign currency options		
– Options purchased	1	–
Interest rate contracts		
Swaps	1,071	1,165
Interest rate options		
– Swaptions purchased	3	–
Bullion contracts	25	2
	4,144	4,470

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 21. 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.

The Group adopted the FIRB approach to calculate credit risk as at 30 June 2011, as opposed to the STC approach that was used as at 31 December 2010. As a result of the change in the basis used, the risk weighted amounts shown above are not directly comparable.

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

## 22. Advances and other accounts

	<b>At 30 June 2011 HK\$'m</b>	At 31 December 2010 HK\$'m
Personal loans and advances	<b>210,458</b>	187,000
Corporate loans and advances	<b>462,400</b>	426,219
Advances to customers*	<b>672,858</b>	613,219
Loan impairment allowances		
– Individually assessed	<b>(249)</b>	(326)
– Collectively assessed	<b>(2,221)</b>	(1,985)
	<b>670,388</b>	610,908
Trade bills	<b>46,863</b>	31,605
Advances to banks and other financial institutions	<b>2,249</b>	2,911
Total	<b>719,500</b>	645,424

As at 30 June 2011, advances to customers included accrued interest of HK\$1,066 million (31 December 2010: HK\$886 million).

As at 30 June 2011 and 31 December 2010, no impairment allowance was made in respect of trade bills and advances to banks and other financial institutions.

\* Included advances to customers denominated in HK dollars of HK\$453,703 million (31 December 2010: HK\$415,585 million) and US dollars equivalent to HK\$177,471 million (31 December 2010: HK\$159,766 million).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 23. Investment in securities

	At 30 June 2011 HK\$'m	At 31 December 2010 HK\$'m
<b>(a) Available-for-sale securities</b>		
Debt securities, at fair value		
– Listed in Hong Kong	10,990	10,176
– Listed outside Hong Kong	112,934	111,966
	<b>123,924</b>	122,142
– Unlisted	187,599	160,775
	<b>311,523</b>	282,917
Equity securities, at fair value		
– Listed in Hong Kong	2,909	2,971
– Unlisted	631	556
	<b>3,540</b>	3,527
	<b>315,063</b>	286,444
<b>(b) Held-to-maturity securities</b>		
Listed, at amortised cost		
– in Hong Kong	1,167	1,121
– outside Hong Kong	16,947	19,296
	<b>18,114</b>	20,417
Unlisted, at amortised cost	45,110	38,016
	<b>63,224</b>	58,433
Impairment allowances	(32)	(49)
	<b>63,192</b>	58,384
<b>(c) Loans and receivables</b>		
Unlisted, at amortised cost	15,381	15,356
<b>Total</b>	<b>393,636</b>	360,184
Market value of listed held-to-maturity securities	18,269	20,414

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 23. Investment in securities (continued)

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

	At 30 June 2011			
	Available-for-sale securities HK\$'m	Held-to-maturity securities HK\$'m	Loans and receivables HK\$'m	Total HK\$'m
Sovereigns	80,206	21,248	–	101,454
Public sector entities*	39,341	8,611	–	47,952
Banks and other financial institutions	173,926	29,155	15,381	218,462
Corporate entities	21,590	4,178	–	25,768
	<b>315,063</b>	<b>63,192</b>	<b>15,381</b>	<b>393,636</b>

  

	At 31 December 2010			
	Available-for-sale securities HK\$'m	Held-to-maturity securities HK\$'m	Loans and receivables HK\$'m	Total HK\$'m
Sovereigns	73,394	10,507	–	83,901
Public sector entities*	32,975	7,741	–	40,716
Banks and other financial institutions	165,201	34,647	15,356	215,204
Corporate entities	14,874	5,489	–	20,363
	<b>286,444</b>	<b>58,384</b>	<b>15,356</b>	<b>360,184</b>

\* Included available-for-sale securities of HK\$24,201 million (31 December 2010: HK\$15,973 million) and held-to-maturity securities of HK\$1,971 million (31 December 2010: HK\$822 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

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

	Available-for-sale securities		Held-to-maturity securities	
	At 30 June 2011 HK\$'m	At 31 December 2010 HK\$'m	At 30 June 2011 HK\$'m	At 31 December 2010 HK\$'m
Treasury bills	39,956	23,847	9,681	5,037
Certificates of deposit held	33,164	23,629	4,085	4,600
Others	241,943	238,968	49,426	48,747
	<b>315,063</b>	<b>286,444</b>	<b>63,192</b>	<b>58,384</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 24. Investment properties

	At 30 June 2011 HK\$'m	At 31 December 2010 HK\$'m
At 1 January	10,342	9,364
Additions	12	2
Disposals	(6)	(171)
Fair value gains	1,486	1,511
Reclassification to properties, plant and equipment (Note 25)	(171)	(365)
Exchange difference	1	1
At period/year end	<b>11,664</b>	<b>10,342</b>

## 25. Properties, plant and equipment

	Premises HK\$'m	Equipment, fixtures and fittings HK\$'m	Total HK\$'m
Net book value at 1 January 2011	28,581	2,468	31,049
Additions	24	231	255
Disposals	(4)	(8)	(12)
Revaluation	5,254	–	5,254
Depreciation for the period (Note 11)	(283)	(331)	(614)
Reclassification from investment properties (Note 24)	171	–	171
Exchange difference	4	3	7
Net book value at 30 June 2011	<b>33,747</b>	<b>2,363</b>	<b>36,110</b>
At 30 June 2011			
Cost or valuation	33,747	7,019	40,766
Accumulated depreciation and impairment	–	(4,656)	(4,656)
Net book value at 30 June 2011	<b>33,747</b>	<b>2,363</b>	<b>36,110</b>
Net book value at 1 January 2010	23,701	2,585	26,286
Additions	92	596	688
Disposals	(106)	(11)	(117)
Revaluation	4,946	–	4,946
Depreciation for the year	(484)	(647)	(1,131)
Reclassification from/(to) investment properties (Note 24)	378	(13)	365
Transfer	47	(47)	–
Exchange difference	7	5	12
Net book value at 31 December 2010	28,581	2,468	31,049
At 31 December 2010			
Cost or valuation	28,581	6,859	35,440
Accumulated depreciation and impairment	–	(4,391)	(4,391)
Net book value at 31 December 2010	28,581	2,468	31,049

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 25. Properties, plant and equipment (continued)

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

	Premises HK\$'m	Equipment, fixtures and fittings HK\$'m	Total HK\$'m
At 30 June 2011			
At cost	–	7,019	7,019
At valuation	33,747	–	33,747
	<b>33,747</b>	<b>7,019</b>	<b>40,766</b>
At 31 December 2010			
At cost	–	6,859	6,859
At valuation	28,581	–	28,581
	<b>28,581</b>	<b>6,859</b>	<b>35,440</b>

## 26. Other assets

	At 30 June 2011 HK\$'m	At 31 December 2010 HK\$'m
Repossessed assets	71	81
Precious metals	4,617	3,664
Reinsurance assets	4,988	2,158
Accounts receivable and prepayments	20,232	11,738
	<b>29,908</b>	<b>17,641</b>

## 27. Financial liabilities at fair value through profit or loss

	At 30 June 2011 HK\$'m	At 31 December 2010 HK\$'m
Trading liabilities		
– Short positions in Exchange Fund Bills and Notes	4,306	25,259
Financial liabilities designated at fair value through profit or loss		
– Structured deposits (Note 28)	569	234
	<b>4,875</b>	<b>25,493</b>

The carrying amount of financial liabilities designated at fair value through profit or loss as at 30 June 2011 is more than the amount that the Group would be contractually required to pay at maturity to the holders by HK\$2 million (31 December 2010: HK\$2 million). The amount of change in the fair values of financial liabilities at fair value through profit or loss, during the period and cumulatively, attributable to changes in credit risk is insignificant.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 28. Deposits from customers

	At 30 June 2011 HK\$'m	At 31 December 2010 HK\$'m
Current, savings and other deposit accounts (per condensed consolidated balance sheet)	1,103,435	1,027,033
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 27)	569	234
	<b>1,104,004</b>	<b>1,027,267</b>
Analysed by:		
Demand deposits and current accounts		
– corporate	55,726	54,660
– personal	14,893	15,793
	<b>70,619</b>	<b>70,453</b>
Savings deposits		
– corporate	168,111	158,284
– personal	354,861	369,751
	<b>522,972</b>	<b>528,035</b>
Time, call and notice deposits		
– corporate	303,714	235,283
– personal	206,699	193,496
	<b>510,413</b>	<b>428,779</b>
	<b>1,104,004</b>	<b>1,027,267</b>

## 29. Other accounts and provisions

	At 30 June 2011 HK\$'m	At 31 December 2010 HK\$'m
Other accounts payable	47,505	35,284
Provisions	337	196
	<b>47,842</b>	<b>35,480</b>

## 30. Assets pledged as security

As at 30 June 2011, liabilities of the Group amounting to HK\$5,450 million (31 December 2010: HK\$23,832 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK\$42,621 million (31 December 2010: HK\$14,071 million) 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\$48,338 million (31 December 2010: HK\$37,932 million) included in "Trading securities" and "Available-for-sale securities".

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 31. 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 2011 and the year ended 31 December 2010 which have shown the impact of the early adoption of HKAS 12 (Amendment) “Income Taxes”, are as follows:

	At 30 June 2011					
	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 2011	535	3,881	(124)	(333)	90	4,049
(Credited)/charged to condensed income statement (Note 14)	(15)	3	–	(44)	(20)	(76)
Charged to other comprehensive income	–	855	–	–	103	958
Exchange difference	–	1	–	(1)	–	–
At 30 June 2011	520	4,740	(124)	(378)	173	4,931

	At 31 December 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, as previously reported	540	4,359	(139)	(274)	(44)	4,442
Effect of early adoption of HKAS 12 (Amendment)	(11)	(1,269)	–	–	–	(1,280)
At 1 January 2010, as restated	529	3,090	(139)	(274)	(44)	3,162
Charged/(credited) to income statement	6	1	15	(57)	5	(30)
Charged to other comprehensive income	–	788	–	–	129	917
Exchange difference	–	2	–	(2)	–	–
At 31 December 2010	535	3,881	(124)	(333)	90	4,049

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 31. Deferred taxation (continued)

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

	<b>At 30 June 2011 HK\$'m</b>	At 31 December 2010 HK\$'m
Deferred tax assets	(147)	(157)
Deferred tax liabilities	5,078	4,206
	<b>4,931</b>	<b>4,049</b>

	<b>At 30 June 2011 HK\$'m</b>	At 31 December 2010 HK\$'m
Deferred tax assets to be recovered after more than twelve months	(119)	(106)
Deferred tax liabilities to be settled after more than twelve months	4,878	4,085
	<b>4,759</b>	<b>3,979</b>

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

	<b>Half-year ended 30 June 2011 HK\$'m</b>	(Restated) Half-year ended 30 June 2010 HK\$'m
Fair value changes of available-for-sale securities	103	253
Revaluation of premises	849	313
Non-controlling interests	6	–
	<b>958</b>	<b>566</b>

## 32. Insurance contract liabilities

	<b>At 30 June 2011 HK\$'m</b>	At 31 December 2010 HK\$'m
At 1 January	39,807	33,408
Benefits paid	(3,689)	(3,366)
Claims incurred and movement in liabilities	6,927	9,765
At period/year end	<b>43,045</b>	<b>39,807</b>

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK\$4,922 million (31 December 2010: HK\$2,053 million) and the associated reinsurance assets of HK\$4,988 million (31 December 2010: HK\$2,158 million) are included in "Other assets" (Note 26).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 33. Subordinated liabilities

	<b>At 30 June 2011 HK\$'m</b>	At 31 December 2010 HK\$'m
<b>Subordinated loans, at amortised cost</b> EUR 660m*	<b>7,439</b>	6,848
<b>Subordinated notes, at amortised cost with fair value hedge adjustment</b> USD2,500m**	<b>20,399</b>	20,029
<b>Total</b>	<b>27,838</b>	26,877

In 2008, BOCHK obtained floating-rate subordinated loans from BOC, the intermediate holding company of the Group. The subordinated loans are repayable prior to maturity after the first 5-year tenure at the option of the borrower. In 2010, BOCHK issued listed subordinated notes with an aggregate amount of USD2,500 million.

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 5.55% per annum payable semi-annually, due February 2020.

## 34. Share capital

	<b>At 30 June 2011 HK\$'m</b>	At 31 December 2010 HK\$'m
Authorised: 20,000,000,000 ordinary shares of HK\$5 each	<b>100,000</b>	100,000
Issued and fully paid: 10,572,780,266 ordinary shares of HK\$5 each	<b>52,864</b>	52,864

## 35. 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 41.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 36. Notes to condensed consolidated cash flow statement

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

	Half-year ended 30 June 2011 HK\$'m	Half-year ended 30 June 2010 HK\$'m
Operating profit	13,103	8,168
Depreciation	614	556
Net charge/(reversal) of impairment allowances	30	(161)
Unwind of discount on impairment allowances	(1)	(5)
Advances written off net of recoveries	118	115
Change in subordinated liabilities	1,257	729
Change in balances with banks and other financial institutions with original maturity over three months	(230)	5,726
Change in placements with banks and other financial institutions with original maturity over three months	(50,019)	21,741
Change in financial assets at fair value through profit or loss	16,782	(17,019)
Change in derivative financial instruments	(1,115)	247
Change in advances and other accounts	(74,235)	(70,191)
Change in investment in securities	(31,490)	(3,771)
Change in other assets	(12,272)	(2,438)
Change in deposits and balances from banks and other financial institutions	73,120	11,139
Change in financial liabilities at fair value through profit or loss	(20,618)	10,588
Change in deposits from customers	76,402	49,890
Change in debt securities in issue at amortised cost	5	–
Change in other accounts and provisions	12,362	4,760
Change in insurance contract liabilities	3,238	1,642
Exchange difference	115	26
Operating cash inflow before taxation	7,166	21,742
Cash flows from operating activities included:		
– Interest received	14,178	10,135
– Interest paid*	4,034	1,296
– Dividend received	62	54

\* The comparative amount has been revised to conform with the current period's presentation.

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

	At 30 June 2011 HK\$'m	At 30 June 2010 HK\$'m
Cash and balances with banks and other financial institutions with original maturity within three months	412,673	158,378
Placements with banks and other financial institutions with original maturity within three months	13,651	12,769
Treasury bills with original maturity within three months	20,177	26,629
	446,501	197,776

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 37. Contingent liabilities and commitments

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

	<b>At 30 June 2011 HK\$'m</b>	At 31 December 2010 HK\$'m
Direct credit substitutes	<b>6,377</b>	5,619
Transaction-related contingencies	<b>12,397</b>	7,262
Trade-related contingencies	<b>49,081</b>	42,691
Commitments that are unconditionally cancellable without prior notice	<b>242,833</b>	216,626
Other commitments with an original maturity of		
– up to one year	<b>12,686</b>	15,470
– over one year	<b>47,519</b>	49,042
	<b>370,893</b>	336,710
Credit risk weighted amount	<b>44,182</b>	38,282

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.

The Group adopted the FIRB approach to calculate credit risk as at 30 June 2011, as opposed to the STC approach that was used as at 31 December 2010. As a result of the change in the basis used, the risk weighted amounts shown above are not directly comparable.

## 38. Capital commitments

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

	<b>At 30 June 2011 HK\$'m</b>	At 31 December 2010 HK\$'m
Authorised and contracted for but not provided for	<b>322</b>	169
Authorised but not contracted for	<b>23</b>	12
	<b>345</b>	181

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 39. Operating lease commitments

### (a) *As lessee*

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

	<b>At 30 June 2011 HK\$'m</b>	At 31 December 2010 HK\$'m
Land and buildings		
– not later than one year	543	474
– later than one year but not later than five years	861	547
– later than five years	307	22
	<b>1,711</b>	<b>1,043</b>

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

### (b) *As lessor*

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

	<b>At 30 June 2011 HK\$'m</b>	At 31 December 2010 HK\$'m
Land and buildings		
– not later than one year	356	309
– later than one year but not later than five years	504	594
	<b>860</b>	<b>903</b>

The Group leases its investment properties (Note 24) 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.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 40. Segmental reporting

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

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

As the Group's major revenue is derived from interest and the senior management relies primarily on net interest revenue to assess the performance of the segment, the total interest income and expense for all reportable segments will be presented on a net basis.

Both Personal Banking and Corporate Banking segments provide general banking services. Personal Banking mainly serves individual customers while Corporate Banking mainly deals with non individual customers. The Treasury segment is responsible for managing the capital, liquidity, and the interest rate and foreign exchange positions of the Group in addition to proprietary trades. The Insurance segment shows business relates to the long-term life insurance products, including traditional and linked individual life insurance and group life insurance products, and the senior management relies primarily on net insurance premium income and benefits and claims to assess the performance of the segment. "Others" refers to those items related to the Group as a whole rather than directly attributable to the other four business segments, including the Group's holdings of premises, investment properties, equity investments and interests in associates.

Revenues, expenses, assets and liabilities of any business segment mainly include items directly attributable to the segment. Inter-segment funding is charged according to the internal funds transfer pricing mechanism of the Group. 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. In this period, a more detailed and comprehensive cost allocation mechanism was adopted. No change has been made to the comparative figures. However, if the same mechanism is applied for the same period last year, it is estimated that the operating expenses of Personal Banking, Corporate Banking, Treasury and Others will be decreased by HK\$469 million and increased by HK\$4 million, HK\$50 million and HK\$88 million respectively.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 40. Segmental reporting (continued)

	Personal Banking HK\$'m	Corporate Banking HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
<b>Half-year ended 30 June 2011</b>								
Net interest income/(expense)								
– external	820	3,287	5,262	847	(11)	10,205	–	10,205
– inter-segment	2,023	876	(2,869)	–	(30)	–	–	–
	2,843	4,163	2,393	847	(41)	10,205	–	10,205
Net fee and commission income	2,407	1,483	57	19	66	4,032	(46)	3,986
Net insurance premium income	–	–	–	3,397	–	3,397	(6)	3,391
Net trading gain/(loss)	301	139	352	(2)	(29)	761	–	761
Net gain on financial instruments designated at fair value through profit or loss	–	–	18	380	–	398	–	398
Net gain on investment in securities	–	–	324	–	36	360	–	360
Other operating income	12	–	1	2	663	678	(433)	245
<b>Total operating income</b>	<b>5,563</b>	<b>5,785</b>	<b>3,145</b>	<b>4,643</b>	<b>695</b>	<b>19,831</b>	<b>(485)</b>	<b>19,346</b>
Net insurance benefits and claims	–	–	–	(4,220)	–	(4,220)	–	(4,220)
<b>Net operating income before impairment allowances</b>	<b>5,563</b>	<b>5,785</b>	<b>3,145</b>	<b>423</b>	<b>695</b>	<b>15,611</b>	<b>(485)</b>	<b>15,126</b>
Net (charge)/reversal of impairment allowances	(82)	40	43	(31)	–	(30)	–	(30)
<b>Net operating income</b>	<b>5,481</b>	<b>5,825</b>	<b>3,188</b>	<b>392</b>	<b>695</b>	<b>15,581</b>	<b>(485)</b>	<b>15,096</b>
Operating expenses	(2,754)	(1,371)	(323)	(101)	2,071	(2,478)	485	(1,993)
<b>Operating profit</b>	<b>2,727</b>	<b>4,454</b>	<b>2,865</b>	<b>291</b>	<b>2,766</b>	<b>13,103</b>	<b>–</b>	<b>13,103</b>
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	1,486	1,486	–	1,486
Net loss from disposal/ revaluation of properties, plant and equipment	(4)	(1)	–	–	–	(5)	–	(5)
Share of profits less losses after tax of associates	–	–	–	–	3	3	–	3
<b>Profit before taxation</b>	<b>2,723</b>	<b>4,453</b>	<b>2,865</b>	<b>291</b>	<b>4,255</b>	<b>14,587</b>	<b>–</b>	<b>14,587</b>
<b>At 30 June 2011</b>								
<b>Assets</b>								
Segment assets	237,746	508,613	992,322	53,186	56,310	1,848,177	(18,012)	1,830,165
Interests in associates	–	–	–	–	214	214	–	214
	237,746	508,613	992,322	53,186	56,524	1,848,391	(18,012)	1,830,379
<b>Liabilities</b>								
Segment liabilities	656,172	487,944	509,338	49,850	15,464	1,718,768	(18,012)	1,700,756
<b>Half-year ended 30 June 2011</b>								
<b>Other information</b>								
Capital expenditure	6	–	–	–	261	267	–	267
Depreciation	164	75	25	2	348	614	–	614
Amortisation of securities	–	–	(23)	34	–	11	–	11

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 40. Segmental reporting (continued)

	Personal Banking HK\$'m	Corporate Banking HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
<b>Half-year ended 30 June 2010</b>								
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 insurance premium income	–	–	–	2,802	–	2,802	(4)	2,798
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
Other operating income	19	1	–	8	968	996	(747)	249
<b>Total operating income</b>	<b>5,316</b>	<b>4,459</b>	<b>2,376</b>	<b>4,085</b>	<b>989</b>	<b>17,225</b>	<b>(809)</b>	<b>16,416</b>
Net insurance benefits and claims	–	–	–	(3,875)	–	(3,875)	–	(3,875)
<b>Net operating income before impairment allowances</b>	<b>5,316</b>	<b>4,459</b>	<b>2,376</b>	<b>210</b>	<b>989</b>	<b>13,350</b>	<b>(809)</b>	<b>12,541</b>
Net (charge)/reversal of impairment allowances	(42)	131	72	–	–	161	–	161
<b>Net operating income</b>	<b>5,274</b>	<b>4,590</b>	<b>2,448</b>	<b>210</b>	<b>989</b>	<b>13,511</b>	<b>(809)</b>	<b>12,702</b>
Operating expenses	(3,044)	(1,232)	(330)	(104)	(633)	(5,343)	809	(4,534)
<b>Operating profit</b>	<b>2,230</b>	<b>3,358</b>	<b>2,118</b>	<b>106</b>	<b>356</b>	<b>8,168</b>	<b>–</b>	<b>8,168</b>
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)
<b>Profit before taxation</b>	<b>2,230</b>	<b>3,358</b>	<b>2,118</b>	<b>106</b>	<b>955</b>	<b>8,767</b>	<b>–</b>	<b>8,767</b>
<b>At 31 December 2010</b>								
<b>Assets</b>								
Segment assets	210,978	458,928	910,772	48,195	50,650	1,679,523	(18,695)	1,660,828
Interests in associates	–	–	–	–	212	212	–	212
	210,978	458,928	910,772	48,195	50,862	1,679,735	(18,695)	1,661,040
<b>Liabilities</b>								
Segment liabilities	657,605	407,328	437,174	45,149	14,190	1,561,446	(18,695)	1,542,751
<b>Half-year ended 30 June 2010</b>								
<b>Other information</b>								
Capital expenditure	1	1	–	–	162	164	–	164
Depreciation	154	78	36	2	286	556	–	556
Amortisation of securities	–	–	25	47	–	72	–	72

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 41. Significant related party transactions

The Group is subject to the control of the State Council of the PRC Government through China Investment Corporation (“CIC”), its wholly-owned subsidiary Central Huijin Investment Ltd. (“Central Huijin”), and BOC in which Central Huijin has controlling equity interests.

### (a) *Transactions with the parent companies and the other companies controlled by the parent companies*

#### **General information of the parent companies:**

The Group is controlled by BOC. Central Huijin is the controlling entity of BOC, and it is a wholly-owned subsidiary of CIC which is a wholly state-owned company engaging in foreign currency investment and management.

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

The Group enters into banking and other transactions with these companies in the normal course of business. These include loans, investment securities, money market and reinsurance transactions.

### (b) *Transactions with government authorities, agencies, affiliates and other state controlled entities*

The Group is subject to the control of the State Council of the PRC Government through CIC and Central Huijin, which also directly and indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other state controlled entities. The Group enters into banking transactions with government authorities, agencies, affiliates and other state controlled entities in the normal course of business and commercial terms.

These transactions include, but are not limited to, the following:

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 41. Significant related party transactions (continued)

### (c) Summary of transactions entered into during the ordinary course of business with associates and other related parties

The aggregate income and expenses arising from related party transactions with associates and other related parties of the Group are summarised as follows:

	Half-year ended 30 June 2011		Half-year ended 30 June 2010	
	Associates HK\$m	Other related parties HK\$m	Associates HK\$m	Other related parties HK\$m
Income statement items: Administrative services fees received/receivable	–	4	–	4

	At 30 June 2011		At 31 December 2010	
	Associates HK\$m	Other related parties HK\$m	Associates HK\$m	Other related parties HK\$m
Balance sheet items: Deposits from customers	166	–	157	–

### (d) Key management personnel

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

The key management compensation is detailed as follows:

	Half-year ended 30 June 2011 HK\$m	Half-year ended 30 June 2010 HK\$m
Salaries and other short-term employee benefits	21	23
Post-employment benefits	1	1
	<b>22</b>	<b>24</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 42. Currency concentrations

The following is a summary of the major foreign currency exposures arising from trading, non-trading and structural positions and is prepared with reference to the Completion Instructions for the prudential return “Foreign Currency Position of an Authorized Institution” issued by the HKMA. The net options position is calculated based on the basis of delta-weighted positions of all foreign exchange options contracts.

	At 30 June 2011							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	476,409	6,041	28,395	38,501	11,777	538,097	17,000	1,116,220
Spot liabilities	(341,308)	(2,181)	(24,808)	(30,859)	(16,982)	(514,418)	(18,560)	(949,116)
Forward purchases	264,114	28,875	29,491	25,919	21,609	103,611	31,189	504,808
Forward sales	(391,984)	(32,739)	(33,087)	(33,514)	(16,369)	(119,572)	(29,534)	(656,799)
Net options position	154	(1)	5	(21)	(8)	(1)	14	142
Net long/(short) position	7,385	(5)	(4)	26	27	7,717	109	15,255
Net structural position	316	–	–	–	–	5,135	–	5,451

	At 31 December 2010							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	454,733	8,486	33,414	46,818	4,366	434,077	15,517	997,411
Spot liabilities	(281,774)	(2,250)	(23,881)	(37,113)	(17,865)	(412,948)	(22,109)	(797,940)
Forward purchases	250,546	28,083	20,996	22,732	32,637	91,295	34,530	480,819
Forward sales	(417,632)	(34,375)	(30,466)	(32,549)	(19,273)	(109,072)	(27,925)	(671,292)
Net options position	262	1	3	(19)	(7)	–	15	255
Net long/(short) position	6,135	(55)	66	(131)	(142)	3,352	28	9,253
Net structural position	296	–	–	–	–	3,309	–	3,605

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 43. 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	
<b>At 30 June 2011</b>				
Asia, other than Hong Kong				
– Mainland China	233,460	337,664	110,728	681,852
– Others	53,613	7,039	29,488	90,140
	287,073	344,703	140,216	771,992
North America				
– United States	5,887	49,115	34,761	89,763
– Others	7,748	2,941	208	10,897
	13,635	52,056	34,969	100,660
Western Europe				
– United Kingdom	31,511	1,916	3,022	36,449
– Others	42,673	18,878	5,502	67,053
	74,184	20,794	8,524	103,502
Total	374,892	417,553	183,709	976,154

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 43. Cross-border claims (continued)

	Banks HK\$'m	Public sector entities* HK\$'m	Others HK\$'m	Total HK\$'m
At 31 December 2010				
Asia, other than Hong Kong				
– Mainland China	155,935	347,683	87,066	590,684
– Others	51,481	12,405	27,333	91,219
	207,416	360,088	114,399	681,903
North America				
– United States	5,653	51,303	30,968	87,924
– Others	8,761	3,438	125	12,324
	14,414	54,741	31,093	100,248
Western Europe				
– United Kingdom	29,834	2,722	1,246	33,802
– Others	56,616	14,083	4,989	75,688
	86,450	16,805	6,235	109,490
Total	308,280	431,634	151,727	891,641

\* Included United States of HK\$9,721 million (31 December 2010: HK\$7,334 million), other countries in North America of HK\$2,906 million (31 December 2010: HK\$3,405 million) and other countries in Western Europe of HK\$11,582 million (31 December 2010: HK\$5,026 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

## 44. 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 2011			
	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	207,821	59,196	267,017	30
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	34,365	15,270	49,635	18
Other non-bank Mainland China exposures	35,814	1,544	37,358	45
	278,000	76,010	354,010	93

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 44. Non-bank Mainland China exposures (continued)

	At 31 December 2010			
	On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total exposure HK\$'m	Individually assessed impairment allowances HK\$'m
Mainland China entities	185,309	48,278	233,587	59
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	25,600	11,827	37,427	18
Other non-bank Mainland China exposures	30,170	3,838	34,008	44
	241,079	63,943	305,022	121

## 45. Compliance with HKAS 34

The unaudited interim financial information for the first half of 2011 complies with HKAS 34 "Interim Financial Reporting" issued by the HKICPA.

## 46. 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 2010 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 24 March 2011.