Driving Service Innovation

Annual Report 2010

中国建设银行(亞洲)
China Construction Bank (Asia)

BANK HISTORY

Driving Service Innovation

Renamed China Construction Bank (Asia) Corporation Limited ("CCB (Asia)") on December 30 2006, we originated from one of the longest-established banks in Hong Kong with a locally-incorporated history of nearly 100 years.

Our story started in 1912 when our bank was founded by prominent Chinese businessmen as The Bank of Canton, Limited – the first Chinese-owned bank in Hong Kong. Its growth paralleled Hong Kong's development. We thrived until the Great Depression in the 1930s and the Second World War in the 1940s seriously disrupted our operations. Former staff rebuilt the bank when Hong Kong was liberated in 1945, and soon we were back in business.

Over the next four decades, we continued to expand – increasing our product offerings, establishing a network of branches and building a stable customer base.

Following the acquisition by Security Pacific National Bank in 1988, The Bank of Canton, Limited was renamed Security Pacific Asian Bank Limited. In 1992, we became part of Bank of America upon Security Pacific Corporation's merger with Bank of America Corporation ("BOA Corporation"), and changed our name to Bank of America (Asia) Limited in 1993. In 1998, BOA Corporation merged with NationsBank Corporation to form the new Bank of America. In 2001, we changed our Chinese name to make it more closely aligned with the parent company at that time.

In August 2006, an acquisition agreement was made between China Construction Bank Corporation ("CCB Corporation") and BOA Corporation. As a result, Bank of America (Asia) Limited became a wholly-owned subsidiary of CCB Corporation. We are now renamed China Construction Bank (Asia) Corporation Limited.

In August 2009, we entered into an agreement with American International Group, Inc. to acquire AIG Finance (Hong Kong) Limited. After the completion of transaction in October 2009, AIG Finance (Hong Kong) Limited became our wholly-owned subsidiary and was renamed China Construction Bank (Asia) Finance Limited on November 2, 2009.

Our affiliated company, QBE Hongkong & Shanghai Insurance Limited, continues to work with us in offering a comprehensive range of personal and commercial insurance services to ensure our customers peace of mind.

We have 49 branches in Hong Kong and Macau, offering a wide array of consumer, retail and commercial banking products and services to customers through these branches. In addition, there is CCB Private Banking designed specially for high net worth customers.

For Consumer Banking, we offer conventional transactional, foreign exchange and cash services, as well as deposits, loans, investments, consolidated banking, insurance, RMB services, credit card and electronic banking services. For Retail and Commercial Banking, we provide a variety of financial products and services in trade financing, working capital and term lending, foreign exchange, leasing, insurance, investment and electronic banking services.

CCB Corporation, our parent company, has a long history of operation in China. Its history dates back to 1954 when the People's Construction Bank of China was founded. This entity was renamed China Construction Bank in 1996. CCB Corporation was formed in September 2004 when it separated from its predecessor, China Construction Bank, and assumed its commercial banking business and related assets and liabilities. Headquartered in Beijing, CCB Corporation had a network of nearly 13,415 branches and sub-branches in Mainland China, and maintained overseas branches in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York, Ho Chi Minh City and Sydney, as well as representative office in Moscow as of December 31, 2010. The bank has a number of subsidiaries, including China Construction Bank (Asia) Corporation Limited, CCB Financial Leasing Corporation Ltd., CCB International (Holdings) Co., Ltd., CCB Trust Co. Limited, Sino-German Bausparkasse Co. Ltd., CCB (London) Limited and CCB Principal Asset Management Co., Ltd. The bank has a total of approximately 310,000 staff, and provides comprehensive financial services to its customers.

The bank was listed on the Stock Exchange of Hong Kong Limited (Stock Code: 939) in October 2005 and was listed on the Shanghai Stock Exchange (SSE Code: 601939) in September 2007. As of December 31, 2010, the market capitalization of CCB reached approximately USD220 billion, ranking 2nd among listed banks in the world.

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TO CUSTOMERS AND SHAREHOLDERS

In 2010, the world economy showed positive signs of recovery from the financial crisis. Riding on the improving economic sentiment, and coupling with the unwavering support from our parent company, China Construction Bank ("CCB") and guidance from our Board of Directors, we continued to achieve outstanding growth during the year.

Our consolidated net profit after tax reached HKD560 million for the year ended December 31, 2010, an increase of 59% as compared to 2009 if the gain from the acquisition of AIG Finance (Hong Kong) Limited in that year was excluded. If this one-off gain is to be included, the 2010 net profit after tax was 37% lower than prior year.

In 2010, our net interest income increased by 75% to HKD1,591 million as compared to 2009, partly attributable to the loan growth during the year and partly due to the full-year contribution from our subsidiary China Construction Bank (Asia) Finance Limited ("CCB (Asia) Finance"), formerly known as AIG Finance (Hong Kong) Limited, which was acquired in the fourth quarter of 2009. Total net fees and commission income increased by HKD89 million or 43%, to HKD297 million. Conversely, net gains from financial instruments at fair value through profit or loss decreased by HKD87 million or 21%, to HKD335 million, mainly resulted from the revaluation on interest rate swap contracts for hedging purposes.

Total operating expenses were 46% higher than prior year, mostly attributable to business growth and branch network expansion, and the full-year impact on consolidating the operating expenses of CCB (Asia) Finance.

Our total consolidated assets stood at HKD102,728 million at the end of 2010, an increase of 26% over the HKD81,580 million at the end of 2009. Advances to customers and trade bills increased by 20% to HKD72,227 million. Deposits from customers grew by 35% to HKD71,153 million when compared with the prior year position.

Under our prudent risk management policy, assets quality continued to be maintained at a very satisfactory level. The ratio of total advances overdue for more than three months to total loans was only 0.10%, which was better than the industry average of 0.44%. The classified loan (gross) ratio as at 2010 year-end was 0.36% which compared favorably to the industry average of 0.77%. The charge for individual impairment allowances for 2010 was HKD132 million, increased by HKD82 million as compared with prior year, which was however partially offset by the release of HKD102 million for collective impairment allowances due to improved credit quality. As a result, the total individual and collective impairment allowances made in 2010 was HKD30 million.

In terms of business development, closely following the successful acquisition of AIG Finance (Hong Kong) Limited and the launch of a series of CCB (Asia) branded credit cards in 2009, we achieved another milestone by introducing "CCB Private Banking" in 2010 to serve a whole new customer segment in the market. Leveraging on the strength of CCB in Mainland China and our expertise in wealth management, this new service is designed to meet the increasing need for premium cross-border wealth management and investment services. We provide tailor-made solutions and services to help achieve the customers' objectives in wealth preservation, investment growth and returns.

For credit card business, we have added to our already comprehensive suite of credit card products the CCB (Asia) AIA Credit Card and the CCB (Asia) Titanium Mastercard in 2010. Credit card acquisition within the year was satisfactory with the overall number of CCB (Asia) Credit Cards in force increased by more than 10% to over 550,000 cards at the end of year 2010. The increase was expected to improve further following the launch of our China UnionPay Dual Currency Credit Card in the first quarter of 2011.

TO CUSTOMERS AND SHAREHOLDERS

During the year, we pioneered the launch of a galore of innovative banking products and services to meet the various financial needs of the customers, from the RMB investment services, RMB insurance plans to high-interest deposit services and more. In 2010, we were the first in the local market to launch RMB Structured Equity-linked Notes and RMB Callable Deposits. Several other popular new RMB-denominated products were introduced during the year, such as 123 Easy Grow RMB Savings Insurance Plan, Guaranteed Interest Saver and RMB FX-Linked Deposit. For deposit services, we introduced Step Up Time Deposit and Fixed Rate Target Savings. At the same time, we also introduced a series of Web site revamp and online banking service enhancements to further enhance the service quality, variety and convenience.

For branch network expansion, we set up 4 new branches in Hong Kong and opened 1 branch in Macau during the year. As of December 31, 2010, we have 40 branches and 1 Private Banking Center in Hong Kong, and 9 branches in Macau. Our total number of employees has increased by 300 from 1,700 in 2009 to around 2,000 in 2010.

The bank continues to achieve outstanding growth in these few years. Our total consolidated asset, deposits and loans as well as number of branches almost tripled in the four-year period since the time when the bank was renamed China Construction Bank (Asia) at the end of 2006. We would like to express our gratitude to parent bank, China Construction Bank and our Board of Directors for their support and guidance, as well as the dedication and hard work of our staff, all making these achievements possible.

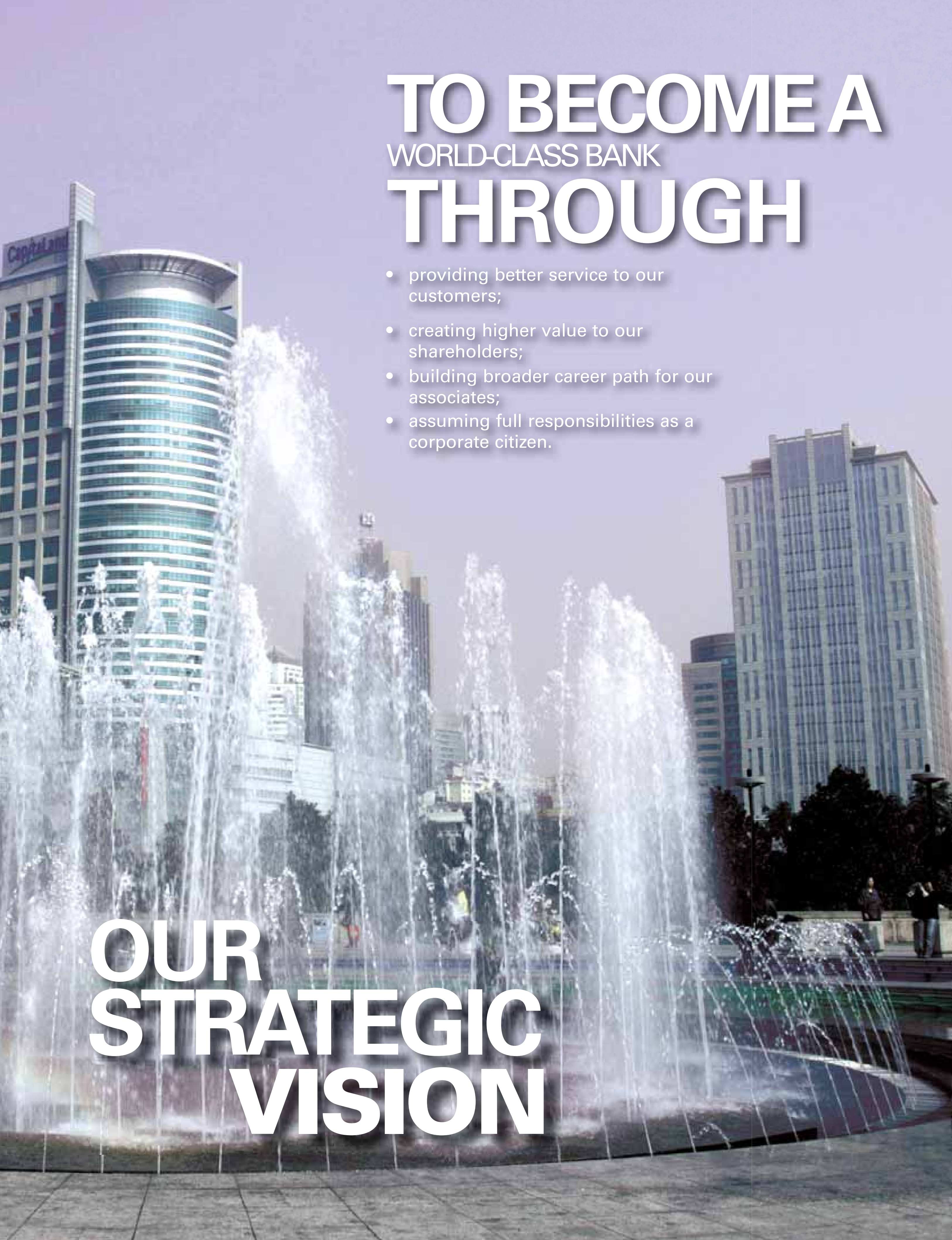
In our way forward, we've clearly mapped our strategic direction for 2011. Efforts will be devoted to continue improving our products and services especially in RMB-related ones. Leveraging on the strength and support of our parent bank, we'll keep on introducing interactive cross-border financial services, and constantly enhancing our existing product suite to meet the various needs of our customers. Moreover, we target to complete the integration of CCB (Asia) Finance within the year to achieve the maximum synergistic benefit. We'll also be implementing a number of corporate social responsibility projects to demonstrate our strong commitment to the society and determination in promoting work-life balance among our employees.

We would like to take this opportunity to thank our valued customers for your continuous support. We are committed to providing you with the best banking products and value-added services as always. May we also express our gratitude to our Board of Directors for their leadership and invaluable advice given to the management throughout the year.

Du Yajun
Chairman

Miranda Kwok
President & Chief Executive Officer

Hong Kong, March 29, 2011



OUR STRATEGIC VISION

TO BECOME A WORLD-CLASS BANK THROUGH

- providing better service to our customers;
- creating higher value to our shareholders;
- building broader career path for our associates;
- assuming full responsibilities as a corporate citizen.

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2010.

PRINCIPAL PLACE OF BUSINESS

China Construction Bank (Asia) Corporation Limited ("the Bank") is a licensed bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 16/F, York House, The Landmark, 15 Queen's Road, Central, Hong Kong and at 11/F, Devon House, 979 King's Road, Hong Kong respectively.

PRINCIPAL ACTIVITIES

The principal activities of the Bank and its subsidiaries (collectively referred to as "the Group") are the provision of a range of banking and related financial services through the Bank's branches and subsidiaries. Other particulars of the Bank's subsidiaries are set out in note 24 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the financial year ended 31 December 2010 and the state of the Bank's and the Group's affairs as at that date are set out in the financial statement on pages 10 to 105.

TRANSFER TO RESERVES

Profit attributable to shareholders of HK$560,351,000 (2009: HK$888,327,000) has been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

DIVIDENDS

The directors do not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: HK$ nil).

FIXED ASSETS

Details of movements in fixed assets of the Group and the Bank during the year are set out in note 27 to the financial statements.

SHARE CAPITAL

Details of share capital of the Bank are set out in note 33 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Bank during the year and up to the date of the report were:

Du, Yajun *(Chairman)* (appointed on 26 October 2010)
Fan, Yifei (resigned on 25 October 2010)
Mao, Yumin *(Vice Chairman)*
Chan, Mo Po MH, JP
Chan, Wing Kee, GBS, OBE, JP
Dickson Leach, James S.
Fong, Bucky Wing Foon
Kwok, Miranda Pui Fong
Ma, Charles Chi Man (re-designated as non-executive director with effect from 1 April 2010)
Zhang, Min (resigned on 11 February 2011)
Liu, Chak Wan (resigned on 29 March 2011)

There being no provision in the Bank's articles of association for retirement by rotation, all directors continue in office.

DIRECTORS' INTERESTS IN SHARES

At no time during the year was the Bank, or any of its holding companies, subsidiaries, fellow subsidiaries or associate a party to any arrangement to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

CHARITABLE DONATIONS

During the year, charitable donations made by the Group amounted to HK$50,000 (2009: HK$180,000).

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Bank, or any of its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a director of the Bank had a material interest, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

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

REPORT OF THE DIRECTORS

STATEMENT OF COMPLIANCE

The financial statements for the year ended 31 December 2010 comply with the applicable disclosure provisions of the Banking (Disclosure) Rules.

AUDITORS

The financial statements have been audited by KPMG who will retire and PricewaterhouseCoopers will be appointed as auditors of the Group for the financial year ending 31 December 2011 at the forthcoming Annual General Meeting.

On behalf of the board

Du Yajun
Chairman

Hong Kong, 29 March 2011

INDEPENDENT AUDITOR'S REPORT

To the shareholders of
CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Construction Bank (Asia) Corporation Limited ("the Bank") and its subsidiaries (together "the Group") set out on pages 10 to 105 which comprise the consolidated and Bank statements of financial position as at 31 December 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

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

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

29 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Interest income		**2,008,313**	1,237,883
Interest expense		**(417,587)**	(327,585)
Net interest income	7	**1,590,726**	910,298
Net fees and commission income	8	**296,760**	207,962
Net gains from financial instruments at fair value through profit or loss	9	**334,818**	421,585
Other operating income	10	**4,828**	4,075
Total operating income		**2,227,132**	1,543,920
Operating expenses	11	**(1,553,960)**	(1,062,266)
Operating profit before impairment losses		**673,172**	481,654
Loan impairment charged and other credit risk provisions	12	**(29,998)**	(74,256)
Operating profit		**643,174**	407,398
(Loss)/gain on disposal of fixed assets		**(117)**	6,945
Gain on acquisition of a subsidiary	13	**–**	536,787
Share of profits of an associate	25	**24,053**	20,846
Profit before taxation		**667,110**	971,976
Taxation	15	**(106,759)**	(83,649)
Profit for the year		**560,351**	888,327
Other comprehensive income for the year net of tax	17		
Net movement in investment revaluation		**(2,132)**	27,449
Net movement in hedging reserve		**(754)**	754
Total comprehensive income for the year		**557,465**	916,530

The notes on pages 15 to 105 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Assets			
Cash and balances with banks and central banks	18	14,801,165	8,749,448
Placements with banks maturing between one and twelve months		9,943	28,042
Advances to banks		7,253,040	4,062,650
Advances to customers and trade bills	19	72,226,525	60,044,268
Financial instruments measured at fair value through profit or loss	20	1,725,092	2,175,367
Available-for-sale financial assets	21	4,561,740	3,497,668
Held-to-maturity investments	22	–	349,997
Derivative financial instruments	23	519,734	860,192
Investment in an associate	25	149,502	125,449
Current tax recoverable	26	3,300	–
Deferred tax assets	26	78,915	89,647
Fixed assets	27	250,587	242,753
Other assets	28	1,148,542	1,354,870
Total assets		102,728,085	81,580,351
Liabilities			
Deposits and balances of banks	29	5,662,593	5,923,142
Deposits from customers	30	71,153,154	52,753,724
Certificates of deposit issued	31	7,876,452	5,439,729
Derivative financial instruments	23	511,358	743,292
Current tax payable	26	55,081	33,481
Other liabilities	32	915,744	690,745
Total liabilities		86,174,382	65,584,113
Equity			
Share capital	33	6,511,043	6,511,043
Reserves		10,042,660	9,485,195
Total equity		16,553,703	15,996,238
Total equity and liabilities		102,728,085	81,580,351

Approved and authorised for issue by the board of directors on 29 March 2011

Du Yajun
Chairman

Miranda Pui Fong Kwok
Director

Mao Yumin
Director

Cathy Pui Ling Cheng
Secretary

The notes on pages 15 to 105 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION OF THE BANK

At 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Assets			
Cash and balances with banks and central banks	18	**14,012,237**	7,721,656
Placements with banks maturing between one and twelve months		**769,289**	16,418
Advances to banks		**6,323,048**	4,062,650
Advances to customers and trade bills	19	**64,296,079**	53,395,584
Financial instruments measured at fair value through profit or loss	20	**1,725,092**	2,175,367
Available-for-sale financial assets	21	**5,794,604**	4,182,085
Derivative financial instruments	23	**563,344**	912,922
Investments in subsidiaries	24	**1,508,238**	1,508,238
Investment in an associate	25	**10,411**	10,411
Deferred tax assets	26	**18,054**	5,535
Fixed assets	27	**214,239**	208,518
Other assets	28	**1,092,361**	1,324,890
Total assets		**96,326,996**	75,524,274
Liabilities			
Deposits and balances of banks	29	**4,917,069**	5,551,184
Deposits from customers	30	**67,352,288**	48,676,932
Certificates of deposit issued	31	**7,871,463**	5,284,744
Derivative financial instruments	23	**511,233**	739,791
Current tax payable	26	**36,199**	27,607
Other liabilities	32	**552,479**	474,119
Total liabilities		**81,240,731**	60,754,377
Equity			
Share capital	33	**6,511,043**	6,511,043
Reserves	33	**8,575,222**	8,258,854
Total equity		**15,086,265**	14,769,897
Total equity and liabilities		**96,326,996**	75,524,274

Approved and authorised for issue by the board of directors on 29 March 2011

Du Yajun
Chairman

Miranda Pui Fong Kwok
Director

Mao Yumin
Director

Cathy Pui Ling Cheng
Secretary

The notes on pages 15 to 105 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Note	Share capital $'000	General reserve $'000	Investment revaluation reserve $'000	Hedging reserve $'000	Exchange reserve $'000	Regulatory reserve $'000	Other reserve $'000	Retained profits $'000	Total $'000
Balance at 1 January 2009		310,131	836,684	(22,531)	–	(146)	314,354	15,913	7,424,391	8,878,796
Changes in equity for 2009:										
Profit for the year		–	–	–	–	–	–	–	888,327	888,327
Other comprehensive income		–	–	27,449	754	–	–	–	–	28,203
Total comprehensive income	17	–	–	27,449	754	–	–	–	888,327	916,530
Transfer from retained profits		–	8,544	–	–	–	–	–	(8,544)	–
Regulatory reserve		–	–	–	–	–	130,816	–	(130,816)	–
Issuance of shares	33	6,200,912	–	–	–	–	–	–	–	6,200,912
Balance at 31 December 2009 and 1 January 2010		**6,511,043**	**845,228**	**4,918**	**754**	**(146)**	**445,170**	**15,913**	**8,173,358**	**15,996,238**
Changes in equity for 2010:										
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**560,351**	**560,351**
Other comprehensive income		**–**	**–**	**(2,132)**	**(754)**	**–**	**–**	**–**	**–**	**(2,886)**
Total comprehensive income	17	**–**	**–**	**(2,132)**	**(754)**	**–**	**–**	**–**	**560,351**	**557,465**
Transfer from retained earning		**–**	**4,660**	**–**	**–**	**–**	**–**	**–**	**(4,660)**	**–**
Regulatory reserve		**–**	**–**	**–**	**–**	**–**	**102,594**	**–**	**(102,594)**	**–**
Balance at 31 December 2010		**6,511,043**	**849,888**	**2,786**	**–**	**(146)**	**547,764**	**15,913**	**8,626,455**	**16,553,703**

The notes on pages 15 to 105 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Note	2010 $'000	2009 $'000
Net cash inflow/(outflow) from operations	39(a)	**6,771,345**	(13,098,376)
Hong Kong Profits Tax paid		**(74,056)**	(31,126)
Macau profits tax paid		**(3,268)**	(5,904)
China withholding tax paid		**(560)**	(5,354)
US withholding tax paid		**(337)**	–
Net cash inflow/(outflow) from operating activities		**6,693,124**	(13,140,760)
Investing activities			
Net cash inflow from the acquisition of a subsidiary		**–**	2,469,894
Payments for acquisition of available-for-sale financial assets		**(3,156,216)**	(4,605,094)
Proceeds received from redemption and disposal of available-for-sale financial assets		**2,551,204**	1,769,413
Proceeds received from redemption of held-to-maturity financial assets		**–**	40,000
Payment for purchase of property and equipment		**(85,336)**	(94,767)
Proceeds from disposal of property and equipment		**1,184**	68,938
Dividend received from an associate		**–**	7,650
Dividends received from listed and unlisted investments		**3,954**	3,324
Net cash outflow from investing activities		**(685,210)**	(340,642)
Financing activities			
Issuance of shares	33(b)	**–**	6,200,912
Net cash inflow from financing activities		**–**	6,200,912
Increase/(decrease) in cash and cash equivalents		**6,007,914**	(7,280,490)
Cash and cash equivalents at 1 January		**9,602,089**	16,882,579
Cash and cash equivalents at 31 December	39(b)	**15,610,003**	9,602,089
Cash flows from operating activities include:			
Interest received		**1,865,455**	1,333,498
Interest paid		**360,247**	466,943

The notes on pages 15 to 105 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

1. GENERAL INFORMATION

The consolidated financial statements for the year ended 31 December 2010 comprise China Construction Bank (Asia) Corporation Limited ("the Bank") and its subsidiaries (together referred to as "the Group") and the Group's interest in an associate.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collectively include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Bank. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation

The measurement basis used in the preparation of the financial statements is the historical cost basis except for financial instruments classified as trading, designated at fair value through profit or loss and available-for-sale (see note 2(f)) which are stated at fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect in the financial statements and major sources of estimation uncertainty are discussed in note 5.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Subsidiaries (continued)

Subsidiaries are consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transaction, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associate (note 2(d)).

In the Bank's statement of financial position, its investments in subsidiaries are stated at cost less impairment losses, if any (note 2(k)).

(d) Associate

An associate is an entity in which the Group or the Bank has significant influence, but not control, or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the associate's identifiable net assets over the cost of the investment (if any). Therefore, the investment is adjusted for the post acquisition change in the Group's share of the associate's net assets and any impairment loss relating to the investment (note 2(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition post-tax results of the associate and any impairment losses for the year are recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For these purposes, the Group's interest in the associate is the carrying amount of the investment under equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Associate (continued)

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former associate at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associate.

In the Bank's statement of financial position, its investment in an associate is stated at cost less impairment losses, if any (note 2(k)).

(e) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(k)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Financial instruments

(i) Initial recognition

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables, available-for-sale financial assets, held-to-maturity investments and other financial liabilities.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets and financial liabilities at fair value through profit or loss is recognised using trade date accounting. Other financial assets and financial liabilities are recognised using settlement date accounting. From these dates, any gains and losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss are recorded.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(ii) Categorisation

Fair value through profit or loss

This category comprises financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition, but excludes those investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives that do not qualify for hedge accounting (note 2(g)) are accounted for as trading instruments.

Financial instruments are designated at fair value through profit or loss upon initial recognition when:

– the assets or liabilities are managed, evaluated and reported internally on a fair value basis;

– the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;

– the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract and the separation of the embedded derivative(s) from the financial instrument is not prohibited.

Financial assets and financial liabilities under this category are carried at fair value. Changes in the fair value are included in profit or loss in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise advances to customers and banks, and placements with banks.

Securities classified as loans and receivables typically comprise of securities which are issued by the same customers with whom the Group has a lending relationship and are not quoted in an active market. Investment decisions for credit substitute securities are subject to the same credit approval processes as loans, and the Group bears the same customer risk as it does for loans extended to those customers. Additionally the yield and maturity terms are generally directly negotiated by the Group with the issuer. These securities include commercial paper, short term debentures and preference shares issued by the borrower.

Loans and receivables and securities classified as loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (note 2(k)).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(ii) Categorisation (continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity which the Group has the positive intention and ability to hold to maturity, other than (a) those that the Group, upon initial recognition, measures as at fair value through profit or loss or as available-for-sale; and (b) those that meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortised cost using the effective interest method less impairment losses, if any (note 2(k)).

If, as a result of change of intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, it shall be reclassified as available-for-sale and remeasured at fair value.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three categories above. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised directly in other comprehensive income and accumulated separately in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in profit or loss.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be measured reliably, and derivatives that are linked to and must be settled by delivery of such unquoted equity securities are carried at cost less impairment losses, if any (see note 2(k)).

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which are previously recognised in other comprehensive income shall be reclassified from equity to profit or loss.

Other financial liabilities

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

(iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the reporting date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(iii) Fair value measurement principles (continued)

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments, or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the reporting date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the reporting date.

(iv) Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

(v) Offsetting

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

(vi) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss.

When the embedded derivative is separated, the host contract is accounted for in accordance with note 2(f)(ii).

(g) Hedging

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. The Group assesses and documents whether the financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risks both at hedge inception and on an ongoing basis. The Group discontinues prospectively hedge accounting when (a) the hedging instrument expires or is sold, terminated or exercised; (b) the hedge no longer meets the criteria for hedge accounting; or (c) the Group revokes the designation.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Hedging (continued)

(i) Fair value hedge

A fair value hedge seeks to offset risks of changes in the fair value of recognised asset or liability that will give rise to a gain or loss being recognised in profit or loss.

The hedging instrument is measured at fair value, with fair value changes recognised in profit or loss. The carrying amount of the hedged item is adjusted by the amount of the changes in fair value of the hedging instrument attributable to the risk being hedged. This adjustment is recognised in profit or loss to offset the effect of the gain or loss on the hedging instrument.

When a hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting, or the Group revokes designation of the hedge relationship, any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Cash flow hedge

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, or the foreign currency risk of a committed future transaction, the effective part of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised in statement of comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If the hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity and to be included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Hedging (continued)

(iii) Hedge effectiveness testing

In order to qualify for hedge accounting, the Group carries out prospective effectiveness testing to demonstrate that it expects the hedge to be highly effective at the inception of the hedge and throughout its life. Actual effectiveness (retrospective effectiveness) is also demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method which the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For fair value hedge relationships, the Group utilises the cumulative dollar offset method as effectiveness testing methodologies. For cash flow hedge relationships, the Group utilises the cumulative dollar offset method.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent for the hedge to be deemed effective.

(h) Fixed assets

Fixed assets are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(k)).

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of fixed assets, less their estimated residual value, if any, using the straight line method over the estimated useful lives as follows:

–	Freehold land	indefinite
–	Leasehold land classified as held under finance leases	the unexpired term of lease
–	Buildings (over interests in leasehold land classified as held under finance lease)	period of lease term
–	Buildings (over freehold land)	50 years
–	Buildings (others)	7–8 years
–	Leasehold improvements	shorter of lease term or their estimated useful lives
–	Furniture and equipment	2–8 years

Freehold land is not depreciated.

Where parts of an item of fixed assets have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases and hire purchase contracts

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification

Leases which transfer substantially all the risks and rewards of ownership to the lessee are classified as finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the lessee are classified as operating leases.

(ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the statement of financial position as loans and advances to customers. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(k).

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased assets, or, if lower, the present values of the minimum lease payments of such assets, are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant leases or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(k). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

(iii) Operating leases

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(j) Repossessed assets

In the recovery of impaired advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower, repossessed assets are reported in "Other assets". The Group does not hold the repossessed assets for its own use.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Repossessed assets (continued)

Repossessed assets are recorded at the lower of the amount of the related advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in profit or loss.

(k) Impairment of assets

The carrying amount of the Group's assets is reviewed at each reporting date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Group about one or more of the following loss events which has an impact on the future cash flows on the assets that can be estimated reliably:

– significant financial difficulty of the issuer or borrower;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– cash flow difficulties experienced by the borrower;

– breach of loan covenants or conditions;

– it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;

– deterioration in the value of collateral;

– disappearance of an active market for financial assets because of financial difficulties; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables directly and any amounts held in the allowance account relating to that borrower are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of assets (continued)

(i) Loans and receivables

Impairment losses on loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for credit losses consists of two components: individual impairment allowances, and collective impairment allowances.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The individual impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows, management makes judgements about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its own merits.

In assessing the need for collective loan loss allowances, management uses statistical modelling and considers historical trends of factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, the Group makes assumptions both to define the way the Group models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the impairment allowances the Group makes depends on how well the Group can estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collective impairment allowances. While this necessarily involves judgement, the Group believes that the impairment allowances on loans and advances to customers are reasonable and supportable.

Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and be charged or credited to profit or loss. A reversal of impairment losses is limited to the loans and receivables' carry amount that would have been determined had no impairment loss been recognised in prior years.

When there is no reasonable prospect of recovery, the loan and the related interest receivables are written off.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of assets (continued)

(i) Loans and receivables (continued)

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remain impaired or past due.

(ii) Available-for-sale financial assets

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised in the fair value reserve is reclassified to profit and loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

For unquoted available-for-sale equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the equity securities and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Such impairment losses are not reversed.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

(iii) Held-to-maturity investments

Impairment on held-to-maturity investments is considered at individual level. The individual impairment allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate, where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of impairment losses shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of assets (continued)

(iv) Other assets

Internal and external sources of information are reviewed at each reporting date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– fixed assets;

– interests in leasehold land classified as being held under an operating lease; and

– investments in subsidiaries and associate.

If any such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(v) Interim financial reporting and impairment

Under the Banking (Disclosure) Rules, the Group is required to prepare an interim disclosure statement in respect of the first six months of the year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the year (see notes 2(k)(i) to (iii)).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of assets (continued)

(v) Interim financial reporting and impairment (continued)

Impairment losses recognised in an interim period in respect of available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(l) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash, balances with banks, treasury bills and certificates of deposit.

(m) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amount of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Income tax (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group or the Bank has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group or the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income within other liabilities. Where the Bank issues a financial guarantee to its subsidiaries, the fair value of the guarantee is estimated and capitalised as the cost of investment in subsidiaries and deferred income within other liabilities.

The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(o)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Bank has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Revenue recognition

Revenue is measured at the fair value of consideration received or receivable. Provided it is probable that economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Interest income

Interest income for all interest-bearing financial instruments is recognised in the statement of comprehensive income on an accruals basis using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Revenue recognition (continued)

(i) Interest income (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Cash rebates granted in relation to residential mortgage loans are capitalised and amortised to profit or loss over three years or their expected life, whichever is shorter.

For impaired loans, the accrual of interest income based on the original terms of the loan is discontinued, but any increase in the present value of impaired loans due to the passage of time is reported as interest income.

Interest income and expenses on the financial instruments classified as trading or designated at fair value through profit or loss are presented together with all other changes in fair value arising from the portfolios as "Net gains from financial instruments at fair value through profits or loss" in the statement of comprehensive income.

(ii) Fees and commission income

Fees and commission income arises on financial services provided by the Group including securities, foreign currency dealings and agency services for insurance companies, remittance, settlement and account management services, payment and collection services and credit cards services. Fees and commission income is recognised when the corresponding service is provided, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised as income in the accounting period in which the costs or risk is incurred and is accounted for as interest income.

Origination or commitment fees received/paid by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

(iii) Finance income from finance lease and hire purchase contract

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned. Commission paid to dealers for acquisition of finance lease loans or hire purchase contracts is included in the carrying value of the assets and amortised to profit or loss over the expected life of the lease as an adjustment to interest income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Revenue recognition (continued)

(iv) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment is quoted ex-dividend.

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the reporting date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

Exchange differences relating to investments at fair value through profit or loss and derivative financial instruments are included in gains less losses from trading securities or financial instruments designated at fair value through profit or loss. All other exchange differences relating to monetary items are presented as gains less losses from dealing in foreign currencies in profit or loss. Differences arising on translation of available-for-sale equity instruments are recognised in equity in the exchange reserves.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items on statement of financial position are translated into Hong Kong dollars at the foreign exchange rates ruling at the reporting date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences related to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(r) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is a subsidiary or an associate of the Group;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Related parties (continued)

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3. CHANGES IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued two new HKFRSs, a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

– HKFRS 3 (revised 2008), *Business combinations*

– Amendments to HKAS 27, *Consolidated and separate financial statements*

– Amendments to HKFRS 5, *Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary*

– Amendments to HKAS 39, *Financial instruments: Recognition and measurement – eligible hedged items*

– Improvements to HKFRSs (2009)

– HK(IFRIC) 17, *Distributions of non-cash assets to owners*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The amendments to HKAS 39 have no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

– The impact of the majority of the revisions to HKFRS 3, HKAS 27, HKFRS 5 and HK(IFRIC) 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction and there is no requirement to restate the amounts recorded in respect of previous such transactions.

– The amendment introduced by the *Improvements to HKFRSs (2009)* omnibus standard in respect of HKAS 17, *Leases*, resulted in a change of classification of certain of the Group's leasehold land interests located in the Hong Kong Special Administrative Region, but this had no material impact on the amounts recognised in respect of these leases as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

3. CHANGES IN ACCOUNTING POLICIES (continued)

The following primary statement lines have been impacted by the adoption of HKAS 17:

(i) For the Group

	As reported $'000	Adjustment $'000	Restated $'000
Year ended 31 December 2009			
Depreciation	59,925	1,461	61,386
Amortisation of prepaid operating lease payment	1,461	(1,461)	–
As at 31 December 2009			
Fixed assets	174,222	68,531	242,753
Interest in leasehold land	68,531	(68,531)	–
As at 31 December 2008			
Fixed assets	189,894	74,869	264,763
Interest in leasehold land	74,869	(74,869)	–

(ii) For the Bank

	As reported $'000	Adjustment $'000	Restated $'000
As at 31 December 2009			
Fixed assets	139,987	68,531	208,518
Interest in leasehold land	68,531	(68,531)	–
As at 31 December 2008			
Fixed assets	163,071	74,869	237,940
Interest in leasehold land	74,869	(74,869)	–

4. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Revised HKAS 24, *Related party disclosures*	1 January 2011
HKFRS 9, *Financial instruments*	1 January 2013
Improvements to HKFRSs 2010	1 July 2010 or 1 January 2011
Amendments to HKAS 12, *Income taxes*	1 January 2012

4. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operation and financial position except for HKFRS 9, *Financial instruments*, which may have an impact on the Group's result and financial position arising from changes in the Group's classification and measurement of financial instruments.

5. ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment allowance

(i) Advances to banks and customers

Loan portfolios are reviewed periodically to assess whether impairment losses exist. The Group makes judgements as to whether there is any objective evidence that a loan portfolio is impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence for impairment is described in note 2(k). If management has determined, based on their judgement, that objective evidence of impairment exists, expected future cash flows are estimated based on historical loss experience for assets with credit risk characteristics similar to those of the Group. Historical loss experience is adjusted on the basis of the current observable data. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

(ii) Available-for-sale equity securities

The Group determines that available-for-sale equity securities are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of when a decline in fair value below cost is not recoverable within a reasonable time period is judgemental by nature, so profit and loss could be affected by differences in this judgement.

(b) Valuation of financial instruments

The Group's accounting policy on the valuation of financial instruments is included in note 2(f). The fair values of the financial instruments are mainly based on quoted market prices and are further discussed in note 6(e) "Fair value of financial assets and liabilities".

6. FINANCIAL RISK MANAGEMENT

The Group derives the majority of its revenue from managing risk from customer transactions. Explicitly assessing and managing all types of risk is central to the success of the Group. The Group has dedicated risk governance culture, structures, risk management process as well as policies and procedures for identification, measurement, control and monitoring of credit, liquidity, operational and market and capital risks. Through the established management governance structure, risk and return are evaluated with the goal of producing sustainable revenue and reducing income volatilities.

The Board of Directors of the Bank provides effective governance over the affairs of the Group by overseeing the Group's governance framework and practices. It provides oversight through authority delegated to board committees and the senior management. The Chief Executive Officer is responsible for overseeing all lines of businesses within the Group. The board committees, namely the Executive Committee, the Operations Committee, the Asset and Liability Committee, the Information Technology Committee, the Credit Committee, together with the senior management, various steering committees and functional managers work together to establish policies and procedures to identify, analyse, manage and control credit risk, market risk, liquidity risk and operational risk by means of reliable and up-to-date management and information systems. The board committees and senior management continually modify and enhance the Group's risk management policies and systems to reflect changes in markets, products and best practice risk management processes. The internal auditors also perform risk-based audits to ensure compliance with the policies and procedures.

The Group has established policies and procedures to govern the launch of new products and services. A working committee, Risk Assessment Forum, is delegated by the Executive Committee to review and approve new product and services. Composed of senior management members from key functional areas, the working committee convenes meetings to assess and discuss product proposals of the Group. This aims to ensure that risks are properly identified and effective control measures are in place to mitigate any risks involved prior to the roll-out of any new product or service.

(a) Credit risk

Credit risk is the risk of loss arising from a borrower's or counter-party's inability to meet its obligations. Credit risk exists in the Group's loans, leases, credit cards, trade finance and treasury transactions. There is also credit risk in off-balance sheet financial arrangements such as loan commitments, trade-related contingencies and transaction-related contingencies.

The Group has appointed the intermediate holding company, China Construction Bank Corporation ("CCBC"), as its credit adviser. Credit Risk Management is responsible for providing centralised credit risk management and control in the Group. It is independent of the business units, and is headed by the Chief Credit Officer who assists the Chief Executive Officer and the Credit Committee in the Group's credit risk management. The Credit Committee is a central forum for overseeing the Group's overall asset quality as well as resolving all the important credit risk related issues. It is chaired by the Chief Credit Officer, and the other members are the Group's Chief Executive Officer, the Chief Financial Officer, and the various Business Heads.

6. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Credit Risk Management's key functions include the followings:

- Establishing credit strategies, policies and procedures of the Group and issuing lending and monitoring guidelines to credit officers and business units. Credit policies and procedures are constantly revisited and update whenever warranted to accommodate portfolio development and market changes.
- Approving credits depending on the risk, size and nature of the transactions.
- Maintaining the internal risk rating system for measurement of credit risk exposures. The Group adopts a two dimensional risk rating methodology for a certain part of the commercial portfolio, for which risk ratings are assigned to the obligor and facility separately. This system provides granularity in the rating scale and hence more refined risk differentiation for better risk and reward analysis.
- Monitoring and controlling large exposures, connected lending, product and industry concentration based on established policies and internal risk limits to ensure prudent credit decisions are made and that the Group complies with statutory requirements and supervisory guidelines.
- Monitoring criticised loans and managing recoveries of problem assets. Collection and problem asset management are separately handled by specialised teams which possess the relevant experience and expert knowledge.
- Assessing collective and individual loan impairment losses and allowances regularly to ensure the adequacy of impairment allowances.
- Managing and monitoring the Group's overall asset quality.
- Supervising the stress-testing programme to estimate potential impairment losses and assess the adequacy of regulatory capital under stressed conditions.
- Co-ordinating and driving credit related initiatives throughout the Group to ensure compliance with regulatory requirements.

(i) Credit risk for advances

In addition to underwriting standards, the Group manages credit risks through an effective and prudent credit approval process. In making credit recommendations and decisions, only officers with appropriate banking experience and product knowledge are delegated specific approval authorities. There is an additional post-approval review process which monitors the quality of credit decisions and issues. Results of the post-approval review are used to ensure quality of the credit decisions made, to identify negative trends which need attention or actions, and to ensure adherence to existing policies and procedures.

6. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(i) Credit risk for advances (continued)

In the approval process, the credit officers assess the purpose and structure of the loan, the ability of a particular borrower or counter-party to service the proposed facilities, as well as the nature of the underlying collateral where applicable. The Group categorizes its loans and leases into either consumer or commercial and monitors their risks separately as discussed below:

– Consumer credits are grouped by products and other attributes for purposes of evaluating credit risk, and ongoing monitoring of asset quality. Standard credit underwriting criteria are established and exceptional approvals for deviations from such criteria are required and monitored.

– Commercial credits are evaluated for the default risk, taking into consideration the related credit enhancements. A comprehensive internal risk rating system is in place. Commercial credit exposures or transactions will be assigned individual risk ratings which together with the exposure amounts define the required authority for approval. These internal risk ratings are monitored regularly and updated upon any changes in the borrower's or counter-party's repayment ability and the related credit enhancements.

(ii) Credit risk for treasury transactions

The credit risk of the Group's investment in debt securities and treasury hedging transactions is managed by the use of external credit ratings and credit limits set on individual counter-parties. External credit ratings, credit default swap and news on each counter-party are closely tracked and monitored.

(iii) Credit-related commitments

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore subject to the same credit approval, portfolio maintenance and collateral requirements as for customers applying for loans.

(iv) Collateral and other credit enhancements

The Group obtains collateral in respect of loans advanced to mitigate the credit risk of the transactions and has established policies and guidelines on the eligibility and valuation of collateral and other credit enhancements. However, the approval of credits is not solely dependent on collateral or other credit enhancements. The main collateral types and credit enhancements include charges over properties, securities, deposits, account receivables, investment funds, vehicles and machinery, and guarantees.

(v) Risk concentration

The Group sets various risk limits to control exposure to countries, individual counterparties, industries, intra-group exposures and loan portfolios to avoid excessive risk concentration.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(vi) Credit review and audit

The Group's credit risk management process and portfolio quality are monitored and reviewed by the internal auditors. There is a system of regular and independent audits for assessing the credit quality of the Group at individual counterparty and portfolio levels, ensuring due compliance with established credit policies and procedures, and evaluating the effectiveness of the credit management process and control mechanism. The results of these reviews and audits are reported to the Audit Committee as well as the Board of Directors for effective oversight and monitoring.

(vii) Maximum exposure

The maximum exposure to credit risk at the reporting date without taking into consideration any collateral held or other credit enhancements is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	Group		Bank	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Cash and balances with banks	**14,801,165**	8,749,448	**14,012,237**	7,721,656
Placements with banks maturing one and twelve months	**9,943**	28,042	**769,289**	16,418
Advances to banks	**7,253,040**	4,062,650	**6,323,048**	4,062,650
Advances to customers and trade bills	**72,226,525**	60,044,268	**64,296,079**	53,395,584
Financial instruments measured at fair value through profit or loss	**1,725,092**	2,175,367	**1,725,092**	2,175,367
Available-for-sale financial assets	**4,472,565**	3,398,634	**5,773,641**	4,160,926
Held-to-maturity investments	**–**	349,997	**–**	–
Derivative financial instruments	**519,734**	860,192	**563,344**	912,922
Other assets	**1,148,479**	1,354,273	**1,092,298**	1,324,293
Financial guarantees and other credit related contingent liabilities	**1,219,389**	1,252,619	**1,074,265**	1,168,349
Loan commitments and other credit related commitments	**30,115,363**	25,875,776	**3,495,981**	2,624,418
	133,491,295	108,151,266	**99,125,274**	77,562,583

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(viii) Credit quality of gross advances to customers and banks

	Group		Bank	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
		(restated)		(restated)
Gross advances to customers				
Neither past due nor impaired	**67,747,327**	60,074,793	**59,712,261**	53,235,381
Past due but not impaired	**311,815**	310,676	**184,017**	181,507
Impaired	**244,538**	264,619	**99,018**	108,012
	68,303,680	60,650,088	**59,995,296**	53,524,900
Trade bills				
Neither past due nor impaired	**4,471,758**	13,554	**4,470,900**	12,172

(1) *Neither past due nor impaired*

The credit grading of gross advances that were neither past due nor impaired can be analysed by reference to the loan classification system as defined by the Hong Kong Monetary Authority ("HKMA") as follows:

	Group		Bank	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
		(restated)		(restated)
Gross advances to customers				
Pass	**66,138,986**	58,518,896	**58,229,313**	51,813,595
Special mention	**1,608,341**	1,555,897	**1,482,948**	1,421,786
	67,747,327	60,074,793	**59,712,261**	53,235,381

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(viii) Credit quality of gross advances to customers and banks (continued)

(1) Neither past due nor impaired (continued)

	Group		Bank	
	2010 $'000	2009 $'000 (restated)	**2010 $'000**	2009 $'000 (restated)
Trade bills				
Pass	**4,470,919**	13,554	**4,470,061**	12,172
Special mention	**839**	–	**839**	–
	4,471,758	13,554	**4,470,900**	12,172
Gross advances to banks				
Pass	**7,253,040**	4,062,650	**6,323,048**	4,062,650

(2) The aging analysis of gross advances to customers which were past due but not impaired is as follows:

	Group		Bank	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Gross advances to customers				
Overdue three months or less	**311,815**	310,676	**184,017**	181,507

(3) Impaired advances

The detailed analysis on gross impaired advances to customers together with the impairment allowances provided is set out at note 19(f).

(4) Renegotiated loans

At the reporting date at 31 December 2010 and 2009, there was no advances to customers that would be past due or impaired had the terms not been renegotiated for the Group and the Bank.

6. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(ix) Credit quality of financial assets other than advances

The following table presents an analysis of investments in debt securities by rating agency designation at the reporting date, based on Standard and Poor's Ratings Services, or their equivalents, to the respective issues of the debt securities. In the absence of such issue ratings, the ratings designated for the issuers are reported. If there are different ratings for the same securities, the securities are reported against the lower rating.

	Group		Bank	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
AA- to A-	**5,349,015**	5,281,448	**5,349,015**	4,931,451
Lower than A-	**649,718**	404,842	**649,718**	404,842
Unrated	**198,924**	237,708	**1,500,000**	1,000,000
	6,197,657	5,923,998	**7,498,733**	6,336,293
Of which classified as				
Held-to-Maturity	**–**	349,997	**–**	–
Trading	**77,705**	550,574	**77,705**	550,574
Financial assets designated at fair value through profit or loss	**1,647,387**	1,624,793	**1,647,387**	1,624,793
Available-for-sale financial assets	**4,472,565**	3,398,634	**5,773,641**	4,160,926
	6,197,657	5,923,998	**7,498,733**	6,336,293

(x) Collateral and other credit enhancements held against financial assets

At the reporting date, the lower of gross loan amount and the estimated fair value of the collateral held against financial assets is as follows:

	Group		Bank	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Nature of collateral				
Residential properties	**27,283,495**	25,050,444	**25,005,336**	23,764,984
Commercial and industrial properties	**13,143,322**	14,314,486	**12,876,968**	13,502,455
Standby letter of credit	**11,818,014**	7,252,632	**11,818,015**	7,252,446
Government guarantee	**264,472**	311,197	**264,472**	311,197
Securities	**256,483**	801,165	**238,417**	799,144
Deposits	**578,713**	559,221	**508,913**	474,158
Automobiles	**177,263**	482,639	**177,263**	–
Other assets	**25,939**	45,786	**–**	–
	53,547,701	48,817,570	**50,889,384**	46,104,384

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(xi) Repossession of collateral

During the year, the Group obtained assets by taking possession of collateral with the carrying amount as follows:

	2010 $'000	2009 $'000
Nature of collateral		
Residential properties	10,961	11,149
Commercial and industrial properties	2,542	9,516
Other assets	1,139	1,882
	14,642	22,547

(b) Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices such as foreign currency exchange rates (currency risk) and interest rates (interest rate risk). The Group is exposed to both risks arising from its day-to-day activities associated with loans, deposits, securities held for liquidity purposes and proprietary trading positions.

The Group's trading activities are primarily related to foreign exchange and money market transactions. It manages its exposure to market risk through the establishment of various trading limits. On a day-to-day basis, the Bank reduces the market risk to which it is exposed by executing offsetting transactions with other counterparties. However, the Group may also temporarily retain an open position in an effort to generate revenue by anticipating future market conditions and customer demand, and by taking advantage of price differentials in various markets in which it operates. In addition to the overall limits, documented trading policies and procedures define acceptable boundaries within which traders can execute transactions in their assigned markets.

The Group's Asset and Liability Committee ("ALCO") has the overall responsibility for market risk management policies. Details of the Group's currency risk and interest rate risk management are described below.

(i) Currency risk

The Group's foreign currency positions arise from treasury activities and foreign exchange dealing to support the commercial and consumer banking operations. The Group has formulated a foreign exchange policy to set out the Group's risk management framework in managing the Group's foreign exchange risk. In particular, all foreign currency positions are managed within established limits. These limits include open risk position limits and foreign exchange gap limits.

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(i) Currency risk (continued)

In addition, the Group has also adopted Value-at-Risk ("VaR") to measure foreign exchange risk. VaR is technically defined as the potential loss that could occur on the current portfolio over a one-day time horizon. More details on VaR methodology are described under section (ii) Interest Rate Risk of Financial Risk Management. Furthermore, a stress testing programme has also been developed to assess the potential loss that the Group may incur from the foreign exchange positions. The stress testing programme incorporates sensitivity testing on changes in foreign exchange rates with various degree of severity. The methodology and assumptions of stress testing programme are properly documented, reviewed by the ALCO and updated at least once a year or when the portfolio or the environment changes significantly.

The Group developed the medium stress scenario based on historical records on maximum daily fluctuations of major foreign currency positions. The Group then applies the medium stress scenario to estimate the impact on the Group's profit before tax in response to the changes in the foreign exchange rates as specified in the stress testing programme and the result is as follows:

	Increase/(decrease) in Group's profit before taxation	
	2010	2009
	$'000	$'000
Increase in foreign exchange rates	**1,673**	2,158
Decrease in foreign exchange rates	**(1,673)**	(2,158)

In deriving the medium stress scenario for the year ended 31 December 2010, the historical record was extended from seven years to eight years and the following percentage changes are adopted on the significant foreign currency positions. The medium stress scenario for Chinese Renminbi was also reviewed independently this year due to the increase in the volume of transactions in 2010.

– 1% for United States dollars and Macau Patacas (2009: 1%);

– 2% for Chinese Renminbi (2009: 2%); and

– 4% for Euro (2009: 4%).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(i) Currency risk (continued)

The following table indicates the currency concentration of the Group's and the Bank's assets and liabilities.

	Group						
	HKD $'000	USD $'000	MOP $'000	EUR $'000	CNY $'000	Others $'000	Total $'000
At 31 December 2010							
Assets							
Cash and balances with banks	9,848,422	622,242	114,580	18,560	4,017,157	180,204	14,801,165
Placements with banks maturing between one and twelve months	–	857	–	–	–	9,086	9,943
Advances to banks	458,107	6,794,933	–	–	–	–	7,253,040
Advances to customers and trade bills	55,419,229	11,881,182	344,643	8,155	4,409,780	163,536	72,226,525
Financial instruments measured at fair value through profit or loss	–	1,647,387	–	–	77,705	–	1,725,092
Available-for-sale financial assets	2,996,282	1,041,697	198,925	–	152,914	171,922	4,561,740
Derivative financial instruments	442,659	8,762	68,313	–	–	–	519,734
Investment in an associate	149,502	–	–	–	–	–	149,502
Current tax recoverable	3,300	–	–	–	–	–	3,300
Deferred tax assets	78,915	–	–	–	–	–	78,915
Fixed assets	225,706	–	24,881	–	–	–	250,587
Other assets	794,536	322,439	2,672	3,244	16,004	9,647	1,148,542
Spot assets	70,416,658	22,319,499	754,014	29,959	8,673,560	534,395	102,728,085
Liabilities							
Deposits and balances of banks	2,920,577	2,689,687	–	–	–	52,329	5,662,593
Deposits from customers	51,016,789	12,287,281	246,291	479,797	4,181,469	2,941,527	71,153,154
Certificates of deposit issued	5,328,366	2,548,086	–	–	–	–	7,876,452
Derivative financial instruments	347,944	53,945	103,272	–	6,197	–	511,358
Current tax payable	50,921	–	4,160	–	–	–	55,081
Other liabilities	657,049	224,745	14,291	4,279	2,042	13,338	915,744
Spot liabilities	60,321,646	17,803,744	368,014	484,076	4,189,708	3,007,194	86,174,382
Forward purchases	13,795,957	35,745,141	–	998,497	20,487,051	6,310,897	77,337,543
Forward sales	(7,582,010)	(40,247,478)	(589)	(563,200)	(24,976,774)	(3,967,492)	(77,337,543)
Net (short)/long position	16,308,959	13,418	385,411	(18,820)	(5,871)	(129,394)	16,553,703

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(i) Currency risk (continued)

	Group						
	HKD	USD	MOP	EUR	CNY	Others	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2009							
Assets							
Cash and balances with banks	7,665,500	511,078	85,573	26,903	309,191	151,203	8,749,448
Placements with banks maturing between one and twelve months	–	16,928	–	–	–	11,114	28,042
Advances to banks	–	4,004,459	–	58,191	–	–	4,062,650
Advances to customers and trade bills	53,412,485	6,131,176	306,535	59,808	1,278	132,986	60,044,268
Financial instruments measured at fair value through profit or loss	–	1,624,794	–	223,668	187,377	139,528	2,175,367
Available-for-sale financial assets	2,915,384	344,576	237,708	–	–	–	3,497,668
Held-to-maturity investments	349,997	–	–	–	–	–	349,997
Derivative financial instruments	732,228	13,276	114,688	–	–	–	860,192
Investment in an associate	125,449	–	–	–	–	–	125,449
Deferred tax assets	89,647	–	–	–	–	–	89,647
Fixed assets	215,842	–	26,911	–	–	–	242,753
Other assets	1,173,176	164,080	1,438	9,982	1,810	4,384	1,354,870
Spot assets	66,679,708	12,810,367	772,853	378,552	499,656	439,215	81,580,351
Liabilities							
Deposits and balances of banks	2,888,291	3,008,317	–	785	–	25,749	5,923,142
Deposits from customers	38,423,636	9,601,722	246,873	567,229	504,250	3,410,014	52,753,724
Certificates of deposit issued	5,245,894	193,835	–	–	–	–	5,439,729
Derivative financial instruments	555,294	18,927	169,071	–	–	–	743,292
Current tax payable	30,236	–	3,245	–	–	–	33,481
Other liabilities	501,096	157,285	12,271	10,770	204	9,119	690,745
Spot liabilities	47,644,447	12,980,086	431,460	578,784	504,454	3,444,882	65,584,113
Forward purchases	1,968,193	47,206,536	–	1,295,083	38,401,884	6,247,167	95,118,863
Forward sales	(5,091,363)	(47,139,949)	–	(1,093,290)	(38,491,332)	(3,302,929)	(95,118,863)
Net long/(short) position	15,912,091	(103,132)	341,393	1,561	(94,246)	(61,429)	15,996,238

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(i) Currency risk (continued)

	Bank						
	HKD	USD	MOP	EUR	CNY	Others	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2010							
Assets							
Cash and balances with banks	9,254,300	594,559	–	18,521	3,944,540	200,317	14,012,237
Placements with banks maturing between one and twelve months	440,000	310,932	–	–	–	18,357	769,289
Advances to banks	433,934	5,889,114	–	–	–	–	6,323,048
Advances to customers and trade bills	47,921,065	11,830,392	–	8,156	4,409,780	126,686	64,296,079
Financial instruments measured at fair value through profit or loss	–	1,647,387	–	–	77,705	–	1,725,092
Available-for-sale financial assets	4,495,339	974,429	–	–	152,914	171,922	5,794,604
Derivative financial instruments	554,582	8,762	–	–	–	–	563,344
Investment in subsidiaries	1,084,791	–	423,447	–	–	–	1,508,238
Investment in an associate	10,411	–	–	–	–	–	10,411
Deferred tax assets	18,054	–	–	–	–	–	18,054
Fixed assets	214,239	–	–	–	–	–	214,239
Other assets	760,912	303,922	–	1,944	16,004	9,579	1,092,361
Spot assets	65,187,627	21,559,497	423,447	28,621	8,600,943	526,861	96,326,996
Liabilities							
Deposits and balances of banks	1,704,166	2,990,083	36,235	14,549	–	172,036	4,917,069
Deposits from customers	48,022,189	11,941,140	–	465,329	4,108,197	2,815,433	67,352,288
Certificates of deposit issued	5,323,377	2,548,086	–	–	–	–	7,871,463
Derivative financial instruments	451,091	53,945	–	–	6,197	–	511,233
Current tax payable	36,199	–	–	–	–	–	36,199
Other liabilities	315,310	220,113	–	2,981	2,003	12,072	552,479
Spot liabilities	55,852,332	17,753,367	36,235	482,859	4,116,397	2,999,541	81,240,731
Forward purchases	14,235,011	36,410,334	–	999,308	20,486,462	6,332,650	78,463,765
Forward sales	(8,235,284)	(40,320,074)	(388,350)	(563,607)	(24,976,773)	(3,979,677)	(78,463,765)
Net (short)/long position	15,335,022	(103,610)	(1,138)	(18,537)	(5,765)	(119,707)	15,086,265

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(i) Currency risk (continued)

	Bank						
	HKD	USD	MOP	EUR	CNY	Others	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2009							
Assets							
Cash and balances with banks	6,815,607	463,952	–	26,034	272,139	143,924	7,721,656
Placements with banks maturing between one and twelve months	–	–	–	–	–	16,418	16,418
Advances to banks	–	4,004,459	–	58,191	–	–	4,062,650
Advances to customers and trade bills	47,161,703	6,055,513	–	59,809	1,278	117,281	53,395,584
Financial instruments measured at fair value through profit or loss	–	1,624,794	–	223,668	187,377	139,528	2,175,367
Available-for-sale financial assets	3,914,441	267,644	–	–	–	–	4,182,085
Derivative financial instruments	900,855	12,067	–	–	–	–	912,922
Investment in subsidiaries	1,084,791	–	423,447	–	–	–	1,508,238
Investment in an associate	10,411	–	–	–	–	–	10,411
Deferred tax assets	5,535	–	–	–	–	–	5,535
Fixed assets	208,518	–	–	–	–	–	208,518
Other assets	1,146,332	162,502	–	9,941	1,810	4,305	1,324,890
Spot assets	61,248,193	12,590,931	423,447	377,643	462,604	421,456	75,524,274
Liabilities							
Deposits and balances of banks	3,033,654	2,278,448	34,641	10,106	–	194,335	5,551,184
Deposits from customers	35,343,177	9,084,346	–	551,553	466,680	3,231,176	48,676,932
Certificates of deposit issued	5,090,909	193,835	–	–	–	–	5,284,744
Derivative financial instruments	720,898	18,893	–	–	–	–	739,791
Current tax payable	27,607	–	–	–	–	–	27,607
Other liabilities	301,618	153,600	–	10,737	200	7,964	474,119
Spot liabilities	44,517,863	11,729,122	34,641	572,396	466,880	3,433,475	60,754,377
Forward purchases	3,526,108	47,205,698	–	1,295,035	38,401,884	6,233,740	96,662,465
Forward sales	(5,095,442)	(48,304,617)	(388,350)	(1,093,250)	(38,491,332)	(3,289,474)	(96,662,465)
Net long/(short) position	15,160,996	(237,110)	456	7,032	(93,724)	(67,753)	14,769,897

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk

The Group's interest rate exposure arises from the positions in the banking book and proprietary trading. The interest rate risk exposure in the banking book arises from its normal course of banking activities, such as lending, accepting deposits, investing in securities for liquidity purposes and issuance of debts as needed to fund assets. The governing objective in interest rate risk management is to minimise the potential significant loss as a result of changes in interest rates. The Group holds weekly interest rate setting meetings to review the latest market rate movements and the overall portfolio yield. Interest rate risk is managed on a daily basis by the Treasury Department within the limits approved by the ALCO. The instruments used to manage interest rate risk include interest rate swaps and other derivatives.

The Group is exposed to two sources of interest rate risk, namely, gap mismatches and index mismatches.

Gap mismatches result from timing differences in the repricing of assets and liabilities, and, to a much less significant extent, contingent liabilities and commitments (e.g. loan commitments). The Group uses forward rate agreements and interest rate swaps to mitigate the interest rate movement risk. The Group generally monitors mismatches by monthly tenors up to one year and by yearly tenors thereafter. During volatile times, shorter monitoring periods are established. The Group has adopted two methodologies to measure and monitor its interest rate risk exposure.

One methodology is using net interest income simulation model to measure interest rate risk which gauges its repricing gap risk and performs income sensitivity analysis. The model also performs dynamic testing to assess the effect of interest rate shocks. Repricing and rate sensitivity testing are being done under two rate scenarios – Base and Forecast. In the Base case, rates are set to be constant and assets and liabilities will be replenished upon maturity. In the Forecast case, the latest rate forecasts from the leading banks or research firms are used for assessment. Time lags and leads between rate indices (e.g. Hong Kong dollar prime rate vs Hong Kong Interbank Offer rate) are taken into account in the model analysis. For interest rate risk monitoring purpose, the ALCO has established a limit on the volatility of the simulated net interest income in an Forecast case scenario, which is reviewed on a monthly basis. The extreme case scenario has been taken out this year since the market has normalised this year. However, this scenario is still taken into account in the interest rate stress testing.

The other methodology is a Value-at-Risk ("VaR") measurement, which is the same approach being used by foreign exchange risk management.

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

VaR is technically defined as the potential loss that could occur on the current portfolio over a one-day time horizon. This VaR methodology uses the market data of the past three years to determine the potential loss, which is compared against the limit on a daily basis. The VaR computed has a 99% chance that it represents the maximum loss given the past three years market data. The VaRs for the Group were as follows:

	VaR 2010 $'000	VaR 2009 $'000
Total VaR	28,351	18,155
Interest rate VaR	27,606	15,579
Currency VaR	2,051	7,240

Index mismatches relate to floating rate assets and floating rate liabilities that may be repriced simultaneously, but that are not tied to the same index. The risk arises from fluctuating spreads between various indices to which different floating rates are tied. For example, loan assets being tied to the Hong Kong dollar prime rate, and deposit liabilities tied to the Hong Kong Interbank Offer Rate ("HIBOR"). Index mismatches primarily occur for the Bank's Hong Kong dollar books. Exposure arising from index mismatches for the commercial loan assets is by and large protected by HIBOR protection clauses built into the prime rate referenced commercial loan facilities. Exposure arising from index mismatches for the consumer loan assets is partially protected by diversifying funding over a variety of tenors and sources, and by the incorporation of a spread cushion between the asset and liability indices through pricing.

The residual index mismatch risk cannot be eliminated since it reflects the decisions of many individual customers, and since market available hedging products cannot wholly protect against the specific risks embedded in retail banking products. Predictions of customer responses may also not match the actual customer behaviour. As a result, the Group accepts a certain level of remaining risk inherent in the retail banking activities. The Group only assumes minimal index mismatch exposure for foreign currency assets and liabilities.

Based on data of the statement of financial position and the net interest income simulation model, change of 100 basis points (limited to the extent between the year end interest rate and 0 basis point if the year end interest rate is below 100 basis points) in interest rates would change the Group's profit before tax as follows:

	Increase/(decrease) in Group's profit before taxation	
	2010 $'000	2009 $'000
Increase by 100 basis points	2,770	15,060
Decrease by 100 basis points	(43,200)	(57,230)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate repricing gap

The table below summarises the Group's and the Bank's exposure to interest rate risks. Included in the table are the Group's and the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The carrying amounts of derivative financial instruments, which are principally used to reduce the Group's exposure to interest rate movements, are under the heading "Non-interest bearing".

	Group						
	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2010							
Assets							
Cash and balances with banks	4,207,103	–	–	–	–	10,594,062	14,801,165
Placements with banks maturing between one and twelve months	–	9,943	–	–	–	–	9,943
Advances to banks	691,687	1,470,253	5,091,100	–	–	–	7,253,040
Advances to customers and trade bills	53,340,036	9,927,860	6,592,298	1,391,494	13,884	960,953	72,226,525
Financial instruments measured at fair value through profit or loss	–	297,623	1,311	1,386,551	39,607	–	1,725,092
Available-for-sale financial assets	1,987,320	2,412,350	39,263	33,633	–	89,174	4,561,740
Derivative financial instruments	–	–	–	–	–	519,734	519,734
Investment in an associate	–	–	–	–	–	149,502	149,502
Current tax recoverable	–	–	–	–	–	3,300	3,300
Deferred tax assets	–	–	–	–	–	78,915	78,915
Fixed assets	–	–	–	–	–	250,587	250,587
Other assets	–	–	–	–	–	1,148,542	1,148,542
Total assets	60,226,146	14,118,029	11,723,972	2,811,678	53,491	13,794,769	102,728,085
Liabilities							
Deposits and balances of banks	183,493	1,878,403	3,538,745	–	–	61,952	5,662,593
Deposits from customers	40,217,849	18,478,917	7,563,456	743,315	–	4,149,617	71,153,154
Certificates of deposit issued	3,886,821	2,977,536	302,106	705,000	4,989	–	7,876,452
Derivative financial instruments	–	–	–	–	–	511,358	511,358
Current tax payable	–	–	–	–	–	55,081	55,081
Other liabilities	–	–	–	–	–	915,744	915,744
Total liabilities	44,288,163	23,334,856	11,404,307	1,448,315	4,989	5,693,752	86,174,382
Net repricing gap	15,937,983	(9,216,827)	319,665	1,363,363	48,502		

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate repricing gap (continued)

	Group						
	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2009							
Assets							
Cash and balances with banks	4,563,982	–	–	–	–	4,185,466	8,749,448
Placements with banks maturing between one and twelve months	–	28,042	–	–	–	–	28,042
Advances to banks	1,996,886	1,078,120	987,644	–	–	–	4,062,650
Advances to customers and trade bills	51,842,789	5,401,685	1,527,380	905,066	19,268	348,080	60,044,268
Financial instruments measured at fair value through profit or loss	139,528	223,668	116,442	1,618,203	77,526	–	2,175,367
Available-for-sale financial assets	953,096	2,375,850	31,993	37,695	–	99,034	3,497,668
Held-to-maturity investments	349,997	–	–	–	–	–	349,997
Derivative financial instruments	–	–	–	–	–	860,192	860,192
Investment in an associate	–	–	–	–	–	125,449	125,449
Deferred tax assets	–	–	–	–	–	89,647	89,647
Fixed assets	–	–	–	–	–	242,753	242,753
Other assets	927	17	–	–	–	1,353,926	1,354,870
Total assets	59,847,205	9,107,382	2,663,459	2,560,964	96,794	7,304,547	81,580,351
Liabilities							
Deposits and balances of banks	2,395,163	2,000,540	1,503,358	–	–	24,081	5,923,142
Deposits from customers	30,428,543	12,472,478	6,261,901	456,822	–	3,133,980	52,753,724
Certificates of deposit issued	3,049,865	1,688,876	696,000	–	4,988	–	5,439,729
Derivative financial instruments	–	–	–	–	–	743,292	743,292
Current tax payable	–	–	–	–	–	33,481	33,481
Other liabilities	–	–	–	–	–	690,745	690,745
Total liabilities	35,873,571	16,161,894	8,461,259	456,822	4,988	4,625,579	65,584,113
Net repricing gap	23,973,634	(7,054,512)	(5,797,800)	2,104,142	91,806		

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate repricing gap (continued)

	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	Bank 5 years or less but over 1 year $'000	After 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2010							
Assets							
Cash and balances with banks	3,978,164	–	–	–	–	10,034,073	14,012,237
Placements with banks maturing between one and twelve months	–	769,289	–	–	–	–	769,289
Advances to banks	691,686	1,470,253	4,161,109	–	–	–	6,323,048
Advances to customers and trade bills	48,917,714	9,174,409	5,596,947	651,719	440	(45,150)	64,296,079
Financial instruments measured at fair value through profit or loss	–	297,623	1,311	1,386,551	39,607	–	1,725,092
Available-for-sale financial assets	1,846,581	2,854,165	1,039,263	33,633	–	20,962	5,794,604
Derivative financial instruments	–	–	–	–	–	563,344	563,344
Investments in subsidiaries	–	–	–	–	–	1,508,238	1,508,238
Investment in an associate	–	–	–	–	–	10,411	10,411
Deferred tax assets	–	–	–	–	–	18,054	18,054
Fixed assets	–	–	–	–	–	214,239	214,239
Other assets	–	–	–	–	–	1,092,361	1,092,361
Total assets	55,434,145	14,565,739	10,798,630	2,071,903	40,047	13,416,532	96,326,996
Liabilities							
Deposits and balances of banks	642,448	1,911,002	2,268,744	–	–	94,875	4,917,069
Deposits from customers	37,727,836	18,013,319	6,930,960	743,315	–	3,936,858	67,352,288
Certificates of deposit issued	3,886,820	2,977,537	302,106	705,000	–	–	7,871,463
Derivative financial instruments	–	–	–	–	–	511,233	511,233
Current tax payable	–	–	–	–	–	36,199	36,199
Other liabilities	–	–	–	–	–	552,479	552,479
Total liabilities	42,257,104	22,901,858	9,501,810	1,448,315	–	5,131,644	81,240,731
Net repricing gap	13,177,041	(8,336,119)	1,296,820	623,588	40,047		

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate repricing gap (continued)

	Bank						
	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Non-interest bearing $'000	Total $'000
At 31 December 2009							
Assets							
Cash and balances with banks	3,974,104	–	–	–	–	3,747,552	7,721,656
Placements with banks maturing between one and twelve months	–	16,418	–	–	–	–	16,418
Advances to banks	1,996,886	1,078,120	987,644	–	–	–	4,062,650
Advances to customers and trade bills	47,670,664	4,937,178	590,032	228,113	310	(30,713)	53,395,584
Financial instruments measured at fair value through profit or loss	139,528	223,668	116,442	1,618,203	77,526	–	2,175,367
Available-for-sale financial assets	865,740	2,225,498	31,993	1,037,695	–	21,159	4,182,085
Derivative financial instruments	–	–	–	–	–	912,922	912,922
Investments in subsidiaries	–	–	–	–	–	1,508,238	1,508,238
Investment in an associate	–	–	–	–	–	10,411	10,411
Deferred tax assets	–	–	–	–	–	5,535	5,535
Fixed assets	–	–	–	–	–	208,518	208,518
Other assets	927	17	–	–	–	1,323,946	1,324,890
Total assets	54,674,849	8,480,899	1,726,111	2,884,011	77,836	7,707,568	75,524,274
Liabilities							
Deposits and balances of banks	2,706,359	2,379,548	393,096	–	–	72,181	5,551,184
Deposits from customers	28,049,043	11,714,074	5,447,950	445,418	–	3,020,447	48,676,932
Certificates of deposit issued	2,999,866	1,588,878	696,000	–	–	–	5,284,744
Derivative financial instruments	–	–	–	–	–	739,791	739,791
Current tax payable	–	–	–	–	–	27,607	27,607
Other liabilities	–	–	–	–	–	474,119	474,119
Total liabilities	33,755,268	15,682,500	6,537,046	445,418	–	4,334,145	60,754,377
Net repricing gap	20,919,581	(7,201,601)	(4,810,935)	2,438,593	77,836		

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate repricing gap (continued)

The table below summarises the effective interest rates for interest-bearing financial instruments not carried at fair value through profit or loss at the reporting date:

	Group	
	2010	2009
	%	%
Assets		
Cash and balances with banks	**0.62**	0.26
Placements with banks maturing between one and twelve months	**1.46**	0.82
Advances to banks	**2.55**	1.08
Advances to customers and trade bills	**2.91**	1.70
Available-for-sale financial assets	**0.97**	0.57
Held-to-maturity investments	**–**	0.02
Liabilities		
Deposits and balances of banks	**0.80**	0.51
Deposits from customers	**0.75**	0.49
Certificates of deposit issued	**0.22**	0.16

(c) Liquidity risk

Liquidity risk is the possibility that the Group's cash flows may be inadequate to fund operations and meet commitments on a timely and cost-effective basis. The purpose of liquidity management is to ensure sufficient cash flows to meet all financial commitments and to capitalise on opportunities for business expansion. This includes the Group's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to comply with the statutory liquidity ratio, and to make new loans and investments as opportunities arise.

The Group is committed to maintaining adequate liquidity to meet its obligations as and when they fall due. This is achieved through the maintenance of highly liquid assets and well-diversified funding sources, governed by effective tolerance limits and ratios, monitored by appropriate systems and stress tested under different scenarios within the risk management framework. The Board of Directors has the ultimate responsibility for an effective liquidity risk framework in place and delegates the responsibility for overseeing the liquidity risk management to the ALCO.

(i) Maturity analysis

One of the tools for the Group to manage liquidity risk is the maturity profile of assets and liabilities. The analysis lists out the assets and liabilities by their remaining periods to maturities into different time buckets. The gap amount for each time bucket represents the liquidity exposure after netting the assets and liabilities maturing in the same bucket. The Group maintains gap limits for each time bucket to manage liquidity risk. For some liabilities without terms such as demand deposits from customers, the liabilities are listed in the bucket of "Repayable on Demand", resulting a larger negative gap in this time bucket. The Group considers this is an inherent risk to a consumer and commercial bank that offers the demand deposit products to customers. By experience the demand deposits have stable outstandings and the negative gap does not materialise into an immediate outflow of liquidity. However to mitigate the liquidity risk, inter-bank and other borrowing facilities, as well as contingency funding plan are in place to cover withdrawals at unexpected levels of demand. Apart from the stable customer deposits, the Group has other sources to fund the earning assets, such as inter-bank borrowings, floating rate certificates of deposits issued and share capital and reserve.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(i) Maturity analysis (continued)

The table below sets out the maturity profile of assets and liabilities analysed by the remaining period to repayment as at reporting date:

	Group							
	Repayable on demand $'000	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Undated $'000	Total $'000
At 31 December 2010								
Assets								
Cash and balances with banks	10,840,143	3,961,022	–	–	–	–	–	14,801,165
Placements with banks maturing between one and twelve months	–	–	9,943	–	–	–	–	9,943
Advances to banks	–	691,687	1,470,252	5,091,101	–	–	–	7,253,040
Advances to customers and trade bills	1,149,303	5,055,456	3,918,945	14,924,261	21,889,072	25,289,488	–	72,226,525
Financial instruments measured at fair value through profit or loss	–	–	273,880	25,054	1,386,551	39,607	–	1,725,092
Available-for-sale financial assets	–	792,217	1,291,338	1,003,996	1,346,533	38,482	89,174	4,561,740
Derivative financial instruments	–	254,495	113,456	146,137	5,646	–	–	519,734
Investment in an associate	–	–	–	–	–	–	149,502	149,502
Current tax recoverable	–	–	–	3,300	–	–	–	3,300
Deferred tax assets	–	–	–	78,915	–	–	–	78,915
Fixed assets	–	–	–	–	–	–	250,587	250,587
Other assets	2,135	746,443	212,491	140,140	25,654	1,309	20,370	1,148,542
Total assets	11,991,581	11,501,320	7,290,305	21,412,904	24,653,456	25,368,886	509,633	102,728,085
Liabilities								
Deposits and balances of banks	61,953	–	4,442,174	1,158,466	–	–	–	5,662,593
Deposits from customers and trade bills	18,130,228	26,367,877	18,339,975	7,970,949	344,125	–	–	71,153,154
Certificates of deposit issued	–	860,000	810,932	4,238,120	1,962,411	4,989	–	7,876,452
Derivative financial instruments	–	241,862	66,408	140,182	62,906	–	–	511,358
Current tax payable	–	–	–	55,081	–	–	–	55,081
Other liabilities	74	588,406	124,727	201,986	551	–	–	915,744
Total liabilities	18,192,255	28,058,145	23,784,216	13,764,784	2,369,993	4,989	–	86,174,382
Net assets/(liabilities) gap	(6,200,674)	(16,556,825)	(16,493,911)	7,648,120	22,283,463	25,363,897	509,633	16,553,703
Of which:								
Debt securities								
– included in trading assets	–	–	–	25,054	52,651	–	–	77,705
– included in financial assets designated at fair value through profit or loss	–	–	273,880	–	1,333,900	39,607	–	1,647,387
– included in available-for-sale financial assets	–	792,217	1,291,338	1,003,996	1,346,533	38,482	–	4,472,566
– included in held-to-maturity investments	–	–	–	–	–	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(i) Maturity analysis (continued)

	Group							
	Repayable on demand $'000	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Undated $'000	Total $'000
At 31 December 2009								
Assets								
Cash and balances with banks	4,377,104	4,372,344	–	–	–	–	–	8,749,448
Placements with banks maturing between one and twelve months	–	–	28,042	–	–	–	–	28,042
Advances to banks	–	1,996,886	1,078,120	987,644	–	–	–	4,062,650
Advances to customers and trade bills	1,006,098	4,251,466	2,537,428	9,482,016	17,879,982	24,814,663	72,615	60,044,268
Financial instruments measured at fair value through profit or loss	–	139,528	223,668	116,442	1,618,203	77,526	–	2,175,367
Available-for-sale financial assets	–	260,120	1,462,583	1,066,129	581,052	32,668	95,116	3,497,668
Held-to-maturity investments	–	349,997	–	–	–	–	–	349,997
Derivative financial instruments	–	169,246	42,324	635,471	13,151	–	–	860,192
Investment in an associate	–	–	–	–	–	–	125,449	125,449
Deferred tax assets	–	–	–	5,108	–	–	84,539	89,647
Fixed assets	–	–	–	–	–	–	242,753	242,753
Other assets	3,038	998,562	167,284	56,251	105,998	3,438	20,299	1,354,870
Total assets	5,386,240	12,538,149	5,539,449	12,349,061	20,198,386	24,928,295	640,771	81,580,351
Liabilities								
Deposits and balances of banks	24,080	2,345,195	1,699,543	1,854,324	–	–	–	5,923,142
Deposits from customers	15,983,252	17,540,506	12,501,196	6,716,992	11,778	–	–	52,753,724
Certificates of deposit issued	–	549,999	599,998	1,274,744	3,010,000	4,988	–	5,439,729
Derivative financial instruments	–	163,829	40,378	520,404	15,192	3,489	–	743,292
Current tax payable	–	–	–	33,481	–	–	–	33,481
Other liabilities	155	312,328	166,493	206,191	3,854	1,724	–	690,745
Total liabilities	16,007,487	20,911,857	15,007,608	10,606,136	3,040,824	10,201	–	65,584,113
Net (liabilities)/assets gap	(10,621,247)	(8,373,708)	(9,468,159)	1,742,925	17,157,562	24,918,094	640,771	15,996,238
Of which:								
Debt securities								
– included in trading assets	–	139,528	223,668	116,442	70,936	–	–	550,574
– included in financial assets designated at fair value through profit or loss	–	–	–	–	1,547,267	77,526	–	1,624,793
– included in available-for-sale financial assets	–	256,202	1,462,583	1,066,129	581,052	32,668	–	3,398,634
– included in held-to-maturity investments	–	349,997	–	–	–	–	–	349,997

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(i) Maturity analysis (continued)

	Bank							
	Repayable on demand $'000	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Undated $'000	Total $'000
At 31 December 2010								
Assets								
Cash and balances with banks	10,034,073	3,978,164	–	–	–	–	–	14,012,237
Placements with banks maturing between one and twelve months	–	–	18,357	750,932	–	–	–	769,289
Advances to banks	–	691,687	1,470,253	4,161,108	–	–	–	6,323,048
Advances to customers and trade bills	1,008,199	2,199,575	3,286,848	13,884,204	20,178,765	23,738,488	–	64,296,079
Financial instruments measured at fair value through profit or loss	–	–	273,880	25,054	1,386,551	39,607	–	1,725,092
Available-for-sale financial assets	–	651,478	1,233,152	2,503,996	1,346,533	38,482	20,963	5,794,604
Derivative financial instruments	–	287,371	113,469	156,858	5,646	–	–	563,344
Investments in subsidiaries	–	–	–	–	–	–	1,508,238	1,508,238
Investment in an associate	–	–	–	–	–	–	10,411	10,411
Deferred tax assets	–	–	–	18,054	–	–	–	18,054
Fixed assets	–	–	–	–	–	–	214,239	214,239
Other assets	2,036	742,417	203,009	113,388	22,767	915	7,829	1,092,361
Total assets	11,044,308	8,550,692	6,598,968	21,613,594	22,940,262	23,817,492	1,761,680	96,326,996
Liabilities								
Deposits and balances of banks	309,737	427,586	1,911,002	2,268,744	–	–	–	4,917,069
Deposits from customers	17,921,185	23,855,215	17,894,302	7,337,679	343,907	–	–	67,352,288
Certificates of deposit issued	–	860,000	810,932	4,238,120	1,962,411	–	–	7,871,463
Derivative financial instruments	–	241,630	66,515	140,182	62,906	–	–	511,233
Current tax payable	–	–	–	36,199	–	–	–	36,199
Other liabilities	74	272,861	116,853	162,140	551	–	–	552,479
Total liabilities	18,230,996	25,657,292	20,799,604	14,183,064	2,369,775	–	–	81,240,731
Net assets/(liabilities) gap	(7,186,688)	(17,106,600)	(14,200,636)	7,430,530	20,570,487	23,817,492	1,761,680	15,086,265
Of which:								
Debt securities								
– included in trading assets	–	–	–	25,054	52,651	–	–	77,705
– included in financial assets designated at fair value through profit or loss	–	–	273,880	–	1,333,900	39,607	–	1,647,387
– included in available-for-sale financial assets	–	651,478	1,233,152	2,503,996	1,346,533	38,482	–	5,773,641

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(i) Maturity analysis (continued)

	Bank							
	Repayable on demand $'000	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Undated $'000	Total $'000
At 31 December 2009								
Assets								
Cash and balances with banks	3,747,552	3,974,104	–	–	–	–	–	7,721,656
Placements with banks maturing between one and twelve months	–	–	16,418	–	–	–	–	16,418
Advances to banks	–	1,996,886	1,078,120	987,644	–	–	–	4,062,650
Advances to customers and trade bills	900,915	1,866,648	2,194,522	8,500,902	16,406,117	23,491,497	34,983	53,395,584
Financial instruments measured at fair value through profit or loss	–	139,528	223,668	116,442	1,618,203	77,526	–	2,175,367
Available-for-sale financial assets	–	99,995	1,385,000	1,066,129	1,581,052	32,668	17,241	4,182,085
Derivative financial instruments	–	222,031	42,271	635,469	13,151	–	–	912,922
Investments in subsidiaries	–	–	–	–	–	–	1,508,238	1,508,238
Investment in an associate	–	–	–	–	–	–	10,411	10,411
Deferred tax assets	–	–	–	–	–	–	5,535	5,535
Fixed assets	–	–	–	–	–	–	208,518	208,518
Other assets	2,706	1,087,573	72,335	50,465	101,971	2,800	7,040	1,324,890
Total assets	4,651,173	9,386,765	5,012,334	11,357,051	19,720,494	23,604,491	1,791,966	75,524,274
Liabilities								
Deposits and balances of banks	266,030	2,690,577	2,201,481	393,096	–	–	–	5,551,184
Deposits from customers	14,788,147	16,224,551	11,762,711	5,901,523	–	–	–	48,676,932
Certificates of deposit issued	–	500,000	500,000	1,274,744	3,010,000	–	–	5,284,744
Derivative financial instruments	–	162,275	41,307	517,527	15,193	3,489	–	739,791
Current tax payable	–	–	–	27,607	–	–	–	27,607
Other liabilities	158	128,586	152,277	187,520	3,854	1,724	–	474,119
Total liabilities	15,054,335	19,705,989	14,657,776	8,302,017	3,029,047	5,213	–	60,754,377
Net (liabilities)/assets gap	(10,403,162)	(10,319,224)	(9,645,442)	3,055,034	16,691,447	23,599,278	1,791,966	14,769,897
Of which:								
Debt securities								
– included in trading assets	–	139,528	223,668	116,442	70,936	–	–	550,574
– included in financial assets designated at fair value through profit or loss	–	–	–	–	1,547,267	77,526	–	1,624,793
– included in available-for-sale financial assets	–	99,995	1,385,000	1,066,129	1,577,134	32,668	–	4,160,926

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(ii) Undiscounted cash flows by contractual maturities

The following table details the remaining contractual maturities at the reporting date of the Group's and the Bank's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date to pay. Derivatives that will be settled on a net basis included $53,472,000 and net amounts are disclosed.

				Group			
	Repayable on demand $'000	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Total $'000
At 31 December 2010							
Non-derivative financial liabilities							
Deposits and balances of banks	61,953	–	4,442,174	1,158,466	–	–	5,662,593
Deposits from customers	18,130,228	26,367,877	18,339,975	7,970,949	344,125	–	71,153,154
Certificates of deposit issued	–	860,000	810,932	4,238,120	1,962,411	4,989	7,876,452
Current tax payable	–	–	–	55,081	–	–	55,081
Other liabilities	194	597,559	154,204	271,278	23,953	788	1,047,976
	18,192,375	27,825,436	23,747,285	13,693,894	2,330,489	5,777	85,795,256
Derivative cash flows settled on a net basis	–	(4,242)	(7,967)	(118)	(11,313)	–	(23,640)
Derivative cash flows settled on a gross basis							
Total inflow	–	33,567,297	16,151,214	29,178,381	96,269	–	78,993,161
Total outflow	–	(33,562,507)	(16,150,048)	(29,194,006)	(111,777)	–	(79,018,338)
	–	4,790	1,166	(15,625)	(15,508)	–	(25,177)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(ii) Undiscounted cash flows by contractual maturities (continued)

	Group						
	Repayable on demand $'000	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Total $'000
At 31 December 2009							
Non-derivative financial liabilities							
Deposits and balances of banks	24,080	2,345,195	1,699,543	1,854,324	–	–	5,923,142
Deposits from customers	15,983,252	17,540,506	12,501,196	6,716,992	11,778	–	52,753,724
Certificates of deposit issued	–	549,999	599,998	1,274,744	3,010,000	4,988	5,439,729
Current tax payable	–	–	–	33,481	–	–	33,481
Other liabilities	155	317,550	180,282	230,438	11,121	2,765	742,311
	16,007,487	20,753,250	14,981,019	10,109,979	3,032,899	7,753	64,892,387
Derivative cash flows settled on a net basis	–	(5,958)	(15,095)	(9,401)	(22,966)	(52)	(53,472)
Derivative cash flows settled on a gross basis							
Total inflow	–	14,961,280	8,065,484	73,369,672	153,962	–	96,550,398
Total outflow	–	(14,957,326)	(8,065,630)	(73,387,345)	(148,623)	–	(96,558,924)
	–	3,954	(146)	(17,673)	5,339	–	(8,526)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(ii) Undiscounted cash flows by contractual maturities (continued)

	Bank						
	Repayable on demand $'000	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Total $'000
At 31 December 2010							
Non-derivative financial liabilities							
Deposits and balances of banks	309,737	427,586	1,911,002	2,268,744	–	–	4,917,069
Deposits from customers	17,921,185	23,855,215	17,894,302	7,337,679	343,907	–	67,352,288
Certificates of deposit issued	–	860,000	810,932	4,238,120	1,962,411	–	7,871,463
Current tax payable	–	–	–	36,199	–	–	36,199
Other liabilities	194	281,674	144,902	209,564	22,903	–	659,237
	18,231,116	25,424,475	20,761,138	14,090,306	2,329,221	–	80,836,256
Derivative cash flows settled on a net basis	–	(4,242)	(7,967)	(118)	(11,313)	–	(23,640)
Derivative cash flows settled on a gross basis							
Total inflow	–	33,587,263	16,205,864	30,212,905	96,269	–	80,102,301
Total outflow	–	(33,582,472)	(16,204,697)	(30,228,530)	(111,777)	–	(80,127,476)
	–	4,791	1,167	(15,625)	(15,508)	–	(25,175)

	Bank						
	Repayable on demand $'000	1 month or less $'000	3 months or less but over 1 month $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Total $'000
At 31 December 2009							
Non-derivative financial liabilities							
Deposits and balances of banks	266,030	2,690,577	2,201,481	393,096	–	–	5,551,184
Deposits from customers	14,788,147	16,224,551	11,762,711	5,901,523	–	–	48,676,932
Certificates of deposit issued	–	500,000	500,000	1,274,744	3,010,000	–	5,284,744
Current tax payable	–	–	–	27,607	–	–	27,607
Other liabilities	158	132,825	174,170	165,627	9,376	1,724	483,880
	15,054,335	19,547,953	14,638,362	7,762,597	3,019,376	1,724	60,024,347
Derivative cash flows settled on a net basis	–	(5,958)	(16,411)	(11,383)	(22,873)	(52)	(56,677)
Derivative cash flows settled on a gross basis							
Total inflow	–	14,778,714	8,063,517	74,928,592	153,962	–	97,924,785
Total outflow	–	(14,774,759)	(8,063,663)	(74,946,266)	(148,623)	–	(97,933,311)
	–	3,955	(146)	(17,674)	5,339	–	(8,526)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(d) Capital management

Being an authorised institution incorporated in Hong Kong, the Bank is regulated by the HKMA who sets and monitors capital requirements for the Bank as well as the consolidated position for the banking subsidiaries as prescribed by the HKMA. A locally incorporated banking subsidiary in Macau, China Construction Bank (Macau) Corporation Limited, is subject to the supervision of Autoridade Monetária de Macau, who sets and monitors its capital requirements. A non-banking financial subsidiary, CCB Securities Limited, is subject to the supervision and capital requirements of the Hong Kong Securities and Futures Commission.

The HKMA has issued the Banking (Capital) Rules under Basel II, according to which the Group is required to maintain adequate regulatory capital to support credit risk, market risk and operational risk.

In addition to meeting the regulatory requirements, the Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between higher shareholder returns and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of the capital adequacy ratio as calculated in accordance with the Banking (Capital) Rules and there have been no material changes in the Group's policy on the management of capital during the year.

The Group has formulated a policy on internal capital adequacy assessment process ("CAAP") that sets out the methodologies, assumptions and techniques that the Group adopts in allocating the capital requirements on the residual risks that are not covered by the Banking (Capital) Rules. The Group adopts the scoring approach in deriving the internal minimum capital requirement.

Throughout the year ended 31 December 2010 and 2009, the Group has complied with the capital requirements imposed by the HKMA.

6. FINANCIAL RISK MANAGEMENT (continued)

(e) Fair value of financial assets and liabilities

Financial assets and liabilities are carried at amortised costs except for available-for-sale debt and equity securities, financial instruments measured at fair value through profit and loss and derivative financial instruments which are measured at fair value.

(i) Financial instruments measured at fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair value using the following hierarchy method:

- Level 1: fair values measured using quoted market prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes quoted prices in active markets for similar financial instruments, or quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: fair values measured using significant unobservable inputs. This category includes inputs to valuation techniques not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Where available, the most suitable measure for fair value is the quoted market price. In the absence of organised secondary markets for most of the unlisted securities and over-the-counter derivatives, direct market prices of these financial instruments may not be available. The fair values of such instruments are therefore calculated based on established valuation techniques using current market parameters or market prices provided by counterparties.

Options traded over the counter are valued using broker quotes price. For other derivative financial instruments, the Group uses estimated discounted cash flows to determine their fair value. The fair value of interest rate swaps and currency swaps are calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(e) Fair value of financial assets and liabilities (continued)

(i) Financial instruments measured at fair value (continued)

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised:

	Group				Bank			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2010								
Assets								
Held for trading:								
– certificates of deposit	–	–	–	–	–	–	–	–
– debt securities	–	77,705	–	77,705	–	77,705	–	77,705
Designated at fair value through profit or loss:								
– debt securities	291,221	1,356,166	–	1,647,387	291,221	1,356,166	–	1,647,387
Available-for-sale securities:								
– treasury bills	599,971	198,924	–	798,895	599,971	–	–	599,971
– certificates of deposit	–	2,775,950	–	2,775,950	–	4,275,950	–	4,275,950
– debt securities	187,408	710,312	–	897,720	187,408	710,312	–	897,720
– equity securities	37,868	33,107	–	70,975	3,706	–	–	3,706
Derivatives financial instruments:								
– exchange rate contracts								
– forwards	–	480,084	–	480,084	–	524,573	–	524,573
– options purchased	–	7,121	–	7,121	–	7,012	–	7,012
– currency swaps	–	118	–	118	–	118	–	118
– interest rate swaps	–	22,937	–	22,937	–	22,167	–	22,167
– equity options purchased	–	9,395	–	9,395	–	9,395	–	9,395
– equity swap	–	79	–	79	–	79	–	79
	1,116,468	5,671,898	–	6,788,366	1,082,306	6,983,477	–	8,065,783
Liabilities								
Derivatives financial instruments:								
– exchange rate contracts								
– forwards	–	415,429	–	415,429	–	424,888	–	424,888
– options written	–	7,121	–	7,121	–	7,012	–	7,012
– interest rate swaps	–	79,334	–	79,334	–	69,859	–	69,859
– equity options purchased	–	79	–	79	–	79	–	79
– equity swaps	–	9,395	–	9,395	–	9,395	–	9,395
	–	511,358	–	511,358	–	511,233	–	511,233

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (continued)

(e) Fair value of financial assets and liabilities (continued)

(i) Financial instruments measured at fair value (continued)

	Group				Bank			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2009								
Assets								
Held for trading:								
– certificates of deposit	–	363,196	–	363,196	–	363,196	–	363,196
– debt securities	–	187,378	–	187,378	–	187,378	–	187,378
Designated at fair value through profit or loss:								
– debt securities	634,934	989,859	–	1,624,793	634,934	989,859	–	1,624,793
Available-for-sale securities:								
– treasury bills	–	337,703	–	337,703	–	99,995	–	99,995
– certificates of deposit	–	2,726,966	–	2,726,966	–	3,726,966	–	3,726,966
– debt securities	69,689	264,276	–	333,965	69,689	264,276	–	333,965
– equity securities	–	80,850	–	80,850	–	3,918	–	3,918
Derivatives financial instruments:								
– exchange rate contracts								
– forwards	–	838,599	–	838,599	–	892,226	–	892,226
– options purchased	–	5,514	–	5,514	–	4,631	–	4,631
– currency swaps	–	742	–	742	–	742	–	742
– interest rate swaps	–	13,030	–	13,030	–	13,016	–	13,016
– equity options purchased	–	2,065	–	2,065	–	2,065	–	2,065
– equity swap	–	242	–	242	–	242	–	242
	704,623	5,810,420	–	6,515,043	704,623	6,548,510	–	7,253,133
Liabilities								
Derivatives financial instruments:								
– exchange rate contracts								
– forwards	–	713,015	–	713,015	–	713,439	–	713,439
– options written	–	5,514	–	5,514	–	4,631	–	4,631
– interest rate swaps	–	22,456	–	22,456	–	19,414	–	19,414
– equity options purchased	–	242	–	242	–	242	–	242
– equity swaps	–	2,065	–	2,065	–	2,065	–	2,065
	–	743,292	–	743,292	–	739,791	–	739,791

During the year there were no significant transfers between instruments in Level 1 and Level 2.

(ii) Financial instruments not measured at fair value

The Group assessed that the differences between fair values and carrying amounts of those financial assets and liabilities not presented on the Group's statement of financial position at their fair values are minimal as most of the Group's financial assets and liabilities are either short-term or priced at floating rates.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

7. NET INTEREST INCOME

	2010 $'000	2009 $'000
Interest income		
Interest income arising from financial assets that are not measured at fair value through profit or loss		
Placements and advances to banks	157,116	132,020
Advances to customers and trade bills	1,819,740	1,072,734
Available-for-sale financial assets	31,207	33,095
Unlisted held-to-maturity investments	250	16
Others	–	18
	2,008,313	1,237,883
Interest expense		
Interest expense arising from financial liabilities that are not measured at fair value through profit or loss		
Deposits and balances of banks	59,656	62,761
Deposits from customers	313,877	243,494
Certificates of deposit issued	42,650	18,252
Others	–	2,107
	416,183	326,614
Interest expense on financial liabilities that are designated as cash flow/fair value hedges		
Cash flow hedges		
– Net interest expense (note 17(b))	1,404	971
	417,587	327,585
Net interest income	1,590,726	910,298

There were no interest income accrued on impaired financial assets and interest income on the unwinding of discount on loan impairment losses for the year ended 31 December 2010 and 2009. Interest income from available-for-sale financial assets include $8,368,000 from listed debt securities (2009: $2,334,000) and $44,226,000 from unlisted debt securities (2009: $30,761,000).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

8. NET FEES AND COMMISSION INCOME

	2010 $'000	2009 $'000
Fees and commission income		
– Agency fees for securities, foreign currency dealing and insurance services	164,300	131,161
– Remittance, settlement and account management fees	29,697	26,733
– Payment and collection services fees	30,499	29,794
– Credit cards related	106,229	24,159
– Others	12,258	10,633
	342,983	222,480
Fees and commission expense		
– Credit cards related	(34,998)	(4,217)
– Others	(11,225)	(10,301)
Net fees and commission income	296,760	207,962

Included in the above are the fees and commission income and expense, other than amounts included in determining the effective interest rate, relating to financial assets or financial liabilities not at fair value through profit or loss of $45,881,000 (2009: $43,743,000) and $1,863,000 (2009: $2,431,000) respectively.

9. NET GAINS FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2010 $'000	2009 $'000
Net trading income		
Foreign exchange contracts	305,213	299,461
Interest rate contracts	(80,382)	(232)
Unlisted debt securities		
– interest income	4,234	28,030
– net realised and unrealised gains/(losses)	1,170	(5,017)
	230,235	322,242
Net gains from financial instruments designated at fair value through profit or loss		
Listed debt securities		
– interest income	85,716	68,817
– net unrealised gains	18,867	30,526
	104,583	99,343
	334,818	421,585

Included in the loss on interest rate contracts is a gain of $46,000 (2009: loss of $2,000) relating to the ineffectiveness of the results of cash flow hedges of a subsidiary.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

10. OTHER OPERATING INCOME

	2010 $'000	2009 $'000
Dividend income from available-for-sale equity financial assets		
– unlisted	3,453	3,308
– listed	501	16
Others	874	751
	4,828	4,075

11. OPERATING EXPENSES

	2010 $'000	2009 $'000 (restated)
Staff costs		
– salaries and other benefits	719,056	539,768
– pension and provident fund costs	43,360	30,092
	762,416	569,860
Premises and equipment expenses excluding depreciation		
– rental of premises	215,684	170,099
– impairment loss on fixed assets	919	–
– maintenance	55,963	28,660
– leasing of equipments	19,286	13,539
– others	54,743	48,012
	346,595	260,310
Auditors' remuneration	4,298	2,386
Depreciation	75,282	61,386
Other operating expenses	365,369	168,324
	444,949	232,096
	1,553,960	1,062,266

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

12. LOAN IMPAIRMENT CHARGED AND OTHER CREDIT RISK PROVISIONS

	2010 $'000	2009 $'000 (restated)
Gross advances to customers		
Individually assessed impairment allowances charged	(132,449)	(50,502)
Collectively assessed impairment allowances released/(charged)	105,124	(24,017)
Impairment allowances on loans	(27,325)	(74,519)
Other credit risk provisions released/(charged)	379	(379)
	(26,946)	(74,898)
Trade bills		
Collectively assessed impairment allowances (charged)/released	(3,052)	642
	(29,998)	(74,256)

Include in the above impairment allowances on loans released/(charged):

	2010 $'000	2009 $'000 (restated)
Advances to customers		
New and additional charges	(170,315)	(99,079)
Releases	114,652	15,688
Recoveries	28,338	8,872
	(27,325)	(74,519)
Trade bills		
New and additional charges	(3,052)	–
Releases	–	642
	(3,052)	642
Total	(30,377)	(73,877)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

13. GAIN ON ACQUISITION OF A SUBSIDIARY

On 30 October 2009, the Bank acquired the entire equity interest in AIG Finance (Hong Kong) Limited ("AIGF"), the principal business of which is credit cards and other unsecured personal loans, at a cost, including relevant legal and professional fee, of $578,791,000, satisfied in cash. The acquired subsidiary was renamed as China Construction Bank (Asia) Finance Limited ("CCBAF") on 2 November 2009.

	2009 $'000
Purchase cash consideration paid (note 24)	578,791
Less: Identifiable net assets acquired	1,115,578
Gain on acquisition of a subsidiary	536,787

14. DIRECTORS' EMOLUMENTS

The aggregate amounts of emoluments paid and payable to directors of the Bank during the year pursuant to Section 161 of the Hong Kong Companies Ordinance are as follows:

	2010 **$'000**	2009 $'000
Fees	**770**	730
Other emoluments	**19,216**	12,951
Contribution to provident fund	**424**	394
	20,410	14,075

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

15. TAXATION

(a) Taxation in the consolidated statement of comprehensive income represents:

	2010 $'000	2009 $'000
Current tax – Hong Kong Profits Tax		
Provision for the year	91,440	65,655
Under-provision in respect of prior year	–	4,539
	91,440	70,194
Current tax – Overseas		
Provision for the year – Macau Complementary Tax	3,849	3,118
Under-provision of Macau Complementary Tax in respect of prior year	335	198
Withholding tax in the People's Republic of China ("PRC")	560	5,354
Withholding tax in the United States of America	337	–
	5,081	8,670
Deferred tax		
Origination and reversal of temporary differences	10,238	4,785
	106,759	83,649

The provision of Hong Kong Profits Tax for 2010 is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the year. Taxation for the subsidiary in Macau is calculated at the appropriate current tax rates ruling in Macau.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2010 $'000	2009 $'000
Profit before taxation	667,110	971,976
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	108,663	159,161
Income not subject to taxation	(6,659)	(94,740)
Expenses not deductible for taxation purposes	1,890	8,504
Under provision in prior years	335	4,737
Foreign withholding tax paid	897	5,354
Others	1,633	633
Actual tax expense	106,759	83,649

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

16. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS

The consolidated profit attributable to equity shareholders of the Bank includes a profit of $308,899,000 (2009: $276,324,000) which has been dealt with in the financial statements of the Bank.

17. OTHER COMPREHENSIVE INCOME

(a) Tax effects relating to each component of other comprehensive income

	2010			2009		
	Before-tax amount $'000	Tax expenses $'000	Net-of-tax amount $'000	Before-tax amount $'000	Tax expenses $'000	Net-of-tax amount $'000
Available-for-sale financial assets: net movement in investment revaluation reserve	(2,132)	–	(2,132)	27,449	–	27,449
Cash flow hedge: net movement in hedging reserve	(260)	(494)	(754)	903	(149)	754
Other comprehensive income	(2,392)	(494)	(2,886)	28,352	(149)	28,203

(b) Reclassification adjustments relating to component of other comprehensive income

	2010 $'000	2009 $'000
Available-for-sale financial assets:		
– Changes in fair value recognised during the year	(2,132)	27,449
Net movement in the investment revaluation reserve during the year recognised in other comprehensive income	(2,132)	27,449
Cash flow hedges:		
– Effective portion of changes in fair value of hedging instruments recognised during the year	(658)	(68)
– Reclassification adjustments for amounts transferred to profit or loss:		
– Interest expense (note 7)	1,404	971
– Net trading profit	(1,007)	–
– Net deferred tax charged to other comprehensive income	(493)	(149)
Net movement in the hedging reserve during the year recognised in other comprehensive income	(754)	754

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

18. CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	Group		Bank	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Cash in hand	**265,722**	218,259	**184,202**	150,051
Balances with banks	**4,415,101**	992,809	**3,751,776**	480,917
Balances with central banks	**6,159,320**	3,166,037	**6,098,095**	3,116,584
Money at call and short notice with banks	**3,961,022**	4,372,343	**3,978,164**	3,974,104
	14,801,165	8,749,448	**14,012,237**	7,721,656

Money at call and short notice with banks are mainly balances with the intermediate holding company of $3,017,663,000.

19. ADVANCES TO CUSTOMERS AND TRADE BILLS

(a) Advances to customers less impairment

	Group		Bank	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
		(restated)		(restated)
Gross advances to customers	**68,303,680**	60,650,088	**59,995,296**	53,524,900
Dealers' commission and deferred fee income	**(4,739)**	5,627	**–**	–
	68,298,941	60,655,715	**59,995,296**	53,524,900
Less: Impairment allowances				
– collectively assessed	**(453,032)**	(558,156)	**(80,498)**	(76,402)
– individually assessed	**(87,994)**	(66,749)	**(86,471)**	(65,012)
Net advances to customers	**67,757,915**	60,030,810	**59,828,327**	53,383,486

(b) Trade bills less impairment

	Group		Bank	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Trade bills	**4,471,758**	13,554	**4,470,900**	12,172
Less: Impairment allowances				
– collectively assessed	**(3,148)**	(96)	**(3,148)**	(74)
	4,468,610	13,458	**4,467,752**	12,098

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

19. ADVANCES TO CUSTOMERS AND TRADE BILLS (continued)

(c) Gross advances to customers by industry sectors

	Group	
	2010	2009
	$'000	$'000
		(restated)
Advances for use in Hong Kong		
Industrial, commercial and financial		
– Property development	**594,601**	434,609
– Property investment	**19,103,770**	16,754,971
– Financial concerns	**1,693,714**	3,188,432
– Stockbrokers	**85,100**	119,858
– Wholesale and retail trade	**5,328,394**	2,980,151
– Manufacturing	**1,582,917**	2,074,326
– Transport and transport equipment	**2,797,319**	2,182,217
– Recreational activities	**14,971**	134,365
– Information technology	**800,963**	227,716
– Others	**7,727,661**	4,810,583
	39,729,410	32,907,228
Individuals		
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**14,774**	18,664
– Loans for the purchase of other residential properties	**14,086,008**	16,303,014
– Credit card advances	**4,860,826**	3,713,301
– Others	**3,361,284**	3,667,659
	22,322,892	23,702,638
Trade finance	**1,630,270**	1,407,557
Advances for use outside Hong Kong	**4,621,108**	2,632,665
	6,251,378	4,040,222
Total gross advances to customers	**68,303,680**	60,650,088

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(Expressed in Hong Kong dollars unless otherwise stated)

19. ADVANCES TO CUSTOMERS AND TRADE BILLS (continued)

(c) Gross advances to customers by industry sectors (continued)

	Bank	
	2010	2009
	$'000	$'000
		(restated)
Advances for use in Hong Kong		
Industrial, commercial and financial		
– Property development	**594,601**	434,609
– Property investment	**19,103,770**	16,745,071
– Financial concerns	**1,693,714**	3,188,432
– Stockbrokers	**85,100**	122,858
– Wholesale and retail trade	**5,328,394**	2,980,151
– Manufacturing	**1,582,917**	2,074,326
– Transport and transport equipment	**2,797,319**	1,998,283
– Recreational activities	**14,971**	134,365
– Information technology	**800,963**	227,716
– Others	**7,727,661**	4,810,583
	39,729,410	32,716,394
Individuals		
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**14,774**	16,470
– Loans for the purchase of other residential properties	**14,086,008**	16,250,305
– Credit card advances	**64**	1,278
– Others	**3,075,082**	2,956,495
	17,175,928	19,224,548
Trade finance	**1,630,270**	1,407,557
Advances for use outside Hong Kong	**1,459,688**	176,401
	3,089,958	1,583,958
Total gross advances to customers	**59,995,296**	53,524,900

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

19. ADVANCES TO CUSTOMERS AND TRADE BILLS (continued)

(d) Movement in impairment allowances on advances to customers

	2010					
	Group			Bank		
	Collectively assessed allowances $'000	Individually assessed allowances $'000	Total $'000	Collectively assessed allowances $'000	Individually assessed allowances $'000	Total $'000
At 1 January 2010	558,156	66,749	624,905	76,402	65,012	141,414
Transfer in	–	–	–	463	–	463
Loans written off as uncollectible	–	(139,542)	(139,542)	–	(1,480)	(1,480)
Recoveries of advances written off	–	28,338	28,338	–	5,199	5,199
Impairment losses charged to profit or loss (note 12)	3,735	166,580	170,315	3,633	28,733	32,366
Impairment losses released to profit or loss (note 12)	(108,859)	(34,131)	(142,990)	–	(10,993)	(10,993)
At 31 December 2010	453,032	87,994	541,026	80,498	86,471	166,969

	2009 (restated)					
	Group			Bank		
	Collectively assessed allowances $'000	Individually assessed allowances $'000	Total $'000	Collectively assessed allowances $'000	Individually assessed allowances $'000	Total $'000
At 1 January 2009	67,016	107,208	174,224	64,856	107,170	172,026
Addition through acquisition of a subsidiary	467,123	3,660	470,783	–	–	–
Loans written off as uncollectible	–	(103,493)	(103,493)	–	(69,129)	(69,129)
Recoveries of advances written off	–	8,872	8,872	–	4,336	4,336
Impairment losses charged to profit or loss (note 12)	30,388	68,691	99,079	11,546	36,250	47,796
Impairment losses released to profit or loss (note 12)	(6,371)	(18,189)	(24,560)	–	(13,615)	(13,615)
At 31 December 2009	558,156	66,749	624,905	76,402	65,012	141,414

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(Expressed in Hong Kong dollars unless otherwise stated)

19. ADVANCES TO CUSTOMERS AND TRADE BILLS (continued)

(e) Movement in impairment allowances on trade bills

	Group		Bank	
	2010 Collectively assessed allowances $'000	2009 Collectively assessed allowances $'000 (restated)	**2010 Collectively assessed allowances $'000**	2009 Collectively assessed allowances $'000 (restated)
At 1 January	**96**	738	**74**	674
Impairment losses charged to profit or loss (note 12)	**3,052**	–	**3,074**	–
Impairment losses released to profit or loss (note 12)	**–**	(642)	**–**	(600)
At 31 December	**3,148**	96	**3,148**	74

(f) Impaired advances and allowances are analysed as follows:

	Group			
	2010		2009	
	$'000	**% of gross advances**	$'000	% of gross advances
Gross impaired advances	**244,538**	**0.36**	264,619	0.44
Individual impairment allowances	**(87,994)**		(66,749)	
	156,544		197,870	
Gross individually assessed impaired advances	**87,994**	**0.13**	109,749	0.18
Individual impairment allowances	**(87,994)**		(66,749)	
	–		43,000	
Net realisable value of collateral held against the impaired advances	**30,478**		37,675	

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

19. ADVANCES TO CUSTOMERS AND TRADE BILLS (continued)

(f) Impaired advances and allowances are analysed as follows: (continued)

	Bank			
	2010		2009	
	$'000	**% of gross advances**	$'000	% of gross advances
Gross impaired advances	**99,018**	**0.17**	108,012	0.20
Individual impairment allowances	**(86,471)**		(65,012)	
	12,547		43,000	
Gross individually assessed impaired advances	**86,474**	**0.14**	108,012	0.20
Individual impairment allowances	**(86,471)**		(65,012)	
	3		43,000	
Net realisable value of collateral held against the impaired advances	**30,478**		30,076	

Impaired advances are advances with objective evidence of impairment.

The above individual impairment allowances were made after taking into account the realisable value of collateral in respect of such advances.

As at 31 December 2010, the Group's gross impaired advances included $156,544,000 (2009: $154,870,000) advances mainly comprised credit card advances and unsecured personal loans for which impairment allowances were collectively assessed.

As at 31 December 2010 and as at 31 December 2009, there were no impaired trade bills and advances to banks.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

19. ADVANCES TO CUSTOMERS AND TRADE BILLS (continued)

(g) Net investment in finance leases and hire purchase contracts

	Group		Bank	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Total minimum lease payments	**2,443,647**	2,060,292	**2,441,917**	1,525,697
Unearned future finance income on finance leases	**(238,601)**	(226,876)	**(238,376)**	(181,428)
Present value of the minimum lease payments	**2,205,046**	1,833,416	**2,203,541**	1,344,269
Impairment allowances				
– individually assessed	**(86)**	(279)	**(75)**	(279)
– collectively assessed	**(8,324)**	(8,967)	**(8,309)**	(6,481)
Impairment allowances	**(8,410)**	(9,246)	**(8,384)**	(6,760)
Net investment	**2,196,636**	1,824,170	**2,195,157**	1,337,509

The residual maturity analysis of the minimum lease payments and present value of the minimum lease payments are analysed as follows:

	Group		Bank	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Total minimum lease payments				
Not later than one year	**694,358**	623,156	**693,640**	340,539
Later than one year and not later than five years	**1,106,227**	873,815	**1,105,215**	622,502
Later than five years	**643,062**	563,321	**643,062**	562,656
	2,443,647	2,060,292	**2,441,917**	1,525,697
Present value of the minimum lease payments				
Not later than one year	**648,168**	570,194	**647,537**	316,186
Later than one year and not later than five years	**1,005,471**	798,552	**1,004,597**	564,039
Later than five years	**551,407**	464,670	**551,407**	464,044
	2,205,046	1,833,416	**2,203,541**	1,344,269

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

20. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Bank	
	2010	2009
	$'000	$'000
Held for trading	**77,705**	550,574
Designated at fair value through profit or loss	**1,647,387**	1,624,793
	1,725,092	2,175,367

Financial instruments measured at fair value through profit or loss analysed by type of issuer and place of listing are as follows:

	Group and Bank			
	Trading		Designated at fair value through profit or loss	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Certificates of deposit issued by banks	**–**	363,196	**–**	–
Other debt securities issued by				
– banks	**77,705**	187,378	**1,056,411**	1,027,569
– corporate	**–**	–	**590,976**	597,224
	77,705	550,574	**1,647,387**	1,624,793
Analysed by place of listing				
– listed in Hong Kong	**–**	–	**1,542,298**	1,238,657
– listed outside Hong Kong	**–**	–	**105,089**	386,136
– unlisted	**77,705**	550,574	**–**	–
	77,705	550,574	**1,647,387**	1,624,793

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Bank	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Treasury bills issued by central governments	**798,895**	337,703	**599,971**	99,995
Certificates of deposit issued by banks	**2,775,950**	2,726,966	**4,275,950**	3,726,966
Other debt securities issued by				
– banks	**363,318**	32,669	**363,318**	32,669
– corporate	**534,402**	301,296	**534,402**	301,296
	4,472,565	3,398,634	**5,773,641**	4,160,926
Equity shares issued by corporate				
– listed outside Hong Kong	**70,975**	80,850	**3,706**	3,918
– unlisted	**18,200**	18,184	**17,257**	17,241
	89,175	99,034	**20,963**	21,159
	4,561,740	3,497,668	**5,794,604**	4,182,085
Analysed by place of listing				
– listed in Hong Kong	**38,482**	32,668	**38,482**	32,668
– listed outside Hong Kong	**546,260**	150,539	**478,992**	73,606
– unlisted	**3,976,998**	3,314,461	**5,277,130**	4,075,811
	4,561,740	3,497,668	**5,794,604**	4,182,085

22. HELD-TO-MATURITY INVESTMENTS

	Group	
	2010	2009
	$'000	$'000
Exchange fund bills issued by central government		
– unlisted	**–**	349,997

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

23. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets. The Group uses derivatives for proprietary trading and sale to customers as risk management products. These positions are actively managed through entering offsetting deals with external parties to ensure the Group's net exposures are within acceptable risk levels. No significant proprietary positions are maintained by the Group at the reporting date. The Group also uses these derivatives in the management of its own asset and liability portfolios and structural positions.

(a) Notional amounts of derivatives

Group

	2010				2009			
	Managed in conjunction with financial instruments designated at fair value through profit or loss $'000	Qualifying for hedge accounting $'000	held for trading $'000	Total $'000	Managed in conjunction with financial instruments designated at fair value through profit or loss $'000	Qualifying for hedge accounting $'000	held for trading $'000	Total $'000
Exchange rate contracts								
– Forwards	–	–	77,337,543	77,337,543	–	–	95,118,863	95,118,863
– Options purchased	–	–	1,498,487	1,498,487	–	–	1,271,759	1,271,759
– Options written	–	–	1,498,507	1,498,507	–	–	1,271,809	1,271,809
– Currency swaps	–	–	155,350	155,350	–	–	193,755	193,755
Interest rate swaps	1,554,660	–	8,972,768	10,527,428	1,551,020	150,000	1,243,759	2,944,779
Equity options purchased	–	–	276,335	276,335	–	–	204,567	204,567
Equity swaps	–	–	276,335	276,335	–	–	204,567	204,567
	1,554,660	–	90,015,325	91,569,985	1,551,020	150,000	99,509,079	101,210,099

Bank

	2010			2009		
	Managed in conjunction with financial instruments designated at fair value through profit or loss $'000	held for trading $'000	Total $'000	Managed in conjunction with financial instruments designated at fair value through profit or loss $'000	held for trading $'000	Total $'000
Exchange rate contracts						
– Forwards	–	78,463,765	78,463,765	–	96,662,465	96,662,465
– Options purchased	–	1,481,403	1,481,403	–	1,102,410	1,102,410
– Options written	–	1,481,403	1,481,403	–	1,102,410	1,102,410
– Currency swaps	–	155,350	155,350	–	193,755	193,755
Interest rate swaps	1,554,660	10,472,768	12,027,428	1,551,020	1,255,163	2,806,183
Equity options purchased	–	276,335	276,335	–	204,567	204,567
Equity swaps	–	276,335	276,335	–	204,567	204,567
	1,554,660	92,607,359	94,162,019	1,551,020	100,725,337	102,276,357

The notional amounts of these financial instruments indicate the volume of transactions outstanding and do not represent amounts at risk.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

23. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(b) Notional amounts of derivatives by remaining maturity analysis

The following table provides an analysis of the notional amounts of derivatives of the Group and the Bank by relevant maturity grouping based on the remaining periods to settlement at the reporting date.

Group

	2010				2009			
	1 year or less $'000	Over 1 year to 5 years $'000	Over 5 years $'000	Total $'000	1 year or less $'000	Over 1 year to 5 years $'000	Over 5 years $'000	Total $'000
Exchange rate contracts								
– Forwards	77,337,543	–	–	77,337,543	95,103,353	15,510	–	95,118,863
– Options purchased	1,498,487	–	–	1,498,487	1,271,759	–	–	1,271,759
– Options written	1,498,507	–	–	1,498,507	1,271,809	–	–	1,271,809
– Currency swaps	155,350	–	–	155,350	193,755	–	–	193,755
Interest rate swaps	8,139,604	2,387,824	–	10,527,428	937,347	1,968,657	38,775	2,944,779
Equity options purchased	255,835	20,500	–	276,335	204,567	–	–	204,567
Equity swaps	255,835	20,500	–	276,335	204,567	–	–	204,567
	89,141,161	2,428,824	–	91,569,985	99,187,157	1,984,167	38,775	101,210,099

Bank

	2010				2009			
	1 year or less $'000	Over 1 year to 5 years $'000	Over 5 years $'000	Total $'000	1 year or less $'000	Over 1 year to 5 years $'000	Over 5 years $'000	Total $'000
Exchange rate contracts								
– Forwards	78,463,765	–	–	78,463,765	96,646,955	15,510	–	96,662,465
– Options purchased	1,481,403	–	–	1,481,403	1,102,410	–	–	1,102,410
– Options written	1,481,403	–	–	1,481,403	1,102,410	–	–	1,102,410
– Currency swaps	155,350	–	–	155,350	193,755	–	–	193,755
Interest rate swaps	9,039,604	2,987,824	–	12,027,428	787,347	1,980,061	38,775	2,806,183
Equity options purchased	255,835	20,500	–	276,335	204,567	–	–	204,567
Equity swaps	255,835	20,500	–	276,335	204,567	–	–	204,567
	91,133,195	3,028,824	–	94,162,019	100,242,011	1,995,571	38,775	102,276,357

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(Expressed in Hong Kong dollars unless otherwise stated)

23. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(c) Fair values and credit risk weighted amounts of derivatives

Group

	2010			2009		
	Fair value assets $'000	Fair value liabilities $'000	Credit risk weighted amount $'000	Fair value assets $'000	Fair value liabilities $'000	Credit risk weighted amount $'000
Exchange rate contracts						
– Forwards	489,558	424,903	511,157	838,599	713,015	794,274
– Options purchased	7,121	–	–	5,514	–	–
– Options written	–	7,121	6,770	–	5,514	3,542
– Currency swaps	118	–	334	742	–	1,340
Interest rate swaps	13,463	69,860	6,713	13,030	22,456	9,882
Equity options purchased	9,395	79	–	2,065	242	2,968
Equity swaps	79	9,395	4,269	242	2,065	–
	519,734	511,358	529,243	860,192	743,292	812,006

Bank

	2010			2009		
	Fair value assets $'000	Fair value liabilities $'000	Credit risk weighted amount $'000	Fair value assets $'000	Fair value liabilities $'000	Credit risk weighted amount $'000
Exchange rate contracts						
– Forwards	524,511	424,888	511,901	892,226	713,439	791,992
– Options purchased	7,012	–	–	4,631	–	–
– Options written	–	7,012	6,714	–	4,631	3,035
– Currency swaps	118	–	334	742	–	1,340
Interest rate swaps	22,229	69,859	12,596	13,016	19,414	9,911
Equity options purchased	9,395	79	–	2,065	242	2,968
Equity swaps	79	9,395	4,269	242	2,065	–
	563,344	511,233	535,814	912,922	739,791	809,246

At 31 December 2010 and 2009, the credit risk weighted amount was calculated in accordance with the Banking (Capital) Rules and depends on the status of the counterparty and the maturing characteristics. The risk weights used range from 20% to 100% (2009: 20% to 100%) for all derivatives.

The Group did not enter into any bilateral netting arrangements during the year and accordingly these amounts are shown on gross basis.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

23. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(d) Fair value of derivative financial instruments designated as hedging instruments

The following is a summary of the fair value of derivatives held for cash flow hedges purpose:

	Group and Bank			
	2010		2009	
	Assets	**Liabilities**	Assets	Liabilities
	$'000	**$'000**	$'000	$'000
Interest rate swaps	**–**	**–**	–	3,036

Interest rate swaps were designated as hedges of certain future cash flows from bank borrowings and certificate of deposit issued. In 2010, hedge ineffectiveness recognised in profit or loss arising from cash flow hedges was a gain of $46,000 (2009: loss of $2,000).

No derivatives were held for cash flow hedges as at 31 December 2010.

24. INVESTMENTS IN SUBSIDIARIES

	Bank	
	2010	2009
	$'000	$'000
Unlisted shares, at cost		
At 1 January	**1,508,238**	929,447
Acquisition of a subsidiary	**–**	578,791
At 31 December	**1,508,238**	1,508,238

Particulars of the subsidiaries at 31 December 2010 are as follows:

Name of company	Place of incorporation	Particulars of issued shares held	Percentage directly held	Principal activities
CCB Nominees Limited	Hong Kong	600,000 ordinary shares of HK$10 each	100%	Nominee services
China Construction Bank (Macau) Corporation Limited	Macau	5,000,000 ordinary shares of MOP100 each	100%	Banking
CCB Securities Limited	Hong Kong	500,000,000 ordinary shares of HK$1 each	100%	Securities brokerage
China Construction Bank (Asia) Finance Limited	Hong Kong	25,000,000 ordinary shares of HK$10 each	100%	Unsecured loans and advances

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

25. INVESTMENT IN AN ASSOCIATE

	Group		Bank	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Unlisted shares, at cost	**–**	–	**10,411**	10,411
Share of net assets	**149,502**	125,449	**–**	–
	149,502	125,449	**10,411**	10,411

Particulars of the associate at 31 December 2010 are as follows:

Name of company	Place of incorporation	Particulars of issued and paid up capital	Percentage of ownership held by the Group	Principal activities
QBE Hongkong and Shanghai Insurance Limited	Hong Kong	78,192,220 ordinary shares of HK$1 each	25.50%	Insurance

Summary financial information on the associate:

	Assets $'000	Liabilities $'000	Equity $'000	Revenue $'000	Net profit $'000
2010					
100%	**1,661,277**	**1,074,992**	**586,285**	**738,623**	**94,327**
Group's effective interest	**423,625**	**274,123**	**149,502**	**188,349**	**24,053**
2009					
100%	1,379,161	887,204	491,957	660,188	81,749
Group's effective interest	351,686	226,237	125,449	168,348	20,846

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

26. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current tax (recoverable)/liabilities in the statement of financial position represent:

	Group		Bank	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Provision for Hong Kong Profits Tax for the year	**91,440**	65,655	**76,699**	61,197
Provisional Profits Tax paid	**(46,934)**	(35,457)	**(43,590)**	(33,603)
Balance of Profits Tax provision relating to prior years	**3,115**	38	**3,090**	13
	47,621	30,236	**36,199**	27,607
Provision for taxation in Macau	**4,160**	3,245	**–**	–
	51,781	33,481	**36,199**	27,607
Representing:				
Current tax recoverable	**(3,300)**	–	**–**	–
Current tax payable	**55,081**	33,481	**36,199**	27,607
	51,781	33,481	**36,199**	27,607

(b) Deferred tax assets

	Group		Bank	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Net deferred tax assets recognised on the statement of financial position	**78,915**	89,647	**18,054**	5,535

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

26. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred tax assets (continued)

The components of deferred tax assets recognised in the statement of financial position and the movements during the year are as follows:

	Group				
	Impairment allowances $'000	Accelerated tax depreciation $'000	Provision for staff bonus $'000	Others $'000	Total $'000
At 1 January 2010	**90,825**	**(8,460)**	**–**	**7,282**	**89,647**
(Charged)/credited to profit or loss	**(16,855)**	**198**	**12,285**	**(5,866)**	**(10,238)**
Charged to hedging reserve (note 17)	**–**	**–**	**–**	**(494)**	**(494)**
At 31 December 2010	**73,970**	**(8,262)**	**12,285**	**922**	**78,915**

	Group				
	Impairment allowances $'000	Accelerated tax depreciation $'000	Provision for staff bonus $'000	Others $'000	Total $'000
At 1 January 2009	10,299	(8,108)	–	2,681	4,872
Addition through acquisition of a subsidiary (note 40(d))	77,075	(56)	–	12,690	89,709
Credited/(charged) to profit or loss	3,451	(296)	–	(7,940)	(4,785)
Charged to hedging reserve (note 17(a))	–	–	–	(149)	(149)
At 31 December 2009	90,825	(8,460)	–	7,282	89,647

	Bank				
	Impairment allowances $'000	Accelerated tax depreciation $'000	Provision for staff bonus $'000	Others $'000	Total $'000
At 1 January 2010	**12,105**	**(8,250)**	**–**	**1,680**	**5,535**
Credited/(charged) to profit or loss	**1,106**	**961**	**11,210**	**(758)**	**12,519**
At 31 December 2010	**13,211**	**(7,289)**	**11,210**	**922**	**18,054**

	Bank				
	Impairment allowances $'000	Accelerated tax depreciation $'000	Provision for staff bonus $'000	Others $'000	Total $'000
At 1 January 2009	10,299	(7,687)	–	2,681	5,293
Credited/(charged) to profit or loss	1,806	(563)	–	(1,001)	242
At 31 December 2009	12,105	(8,250)	–	1,680	5,535

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

27. FIXED ASSETS

	Group					
	Leasehold land $'000 (restated)	Freehold land $'000	Buildings $'000	Leasehold improvements $'000	Furniture and equipment $'000	Total $'000 (restated)
Cost:						
At 1 January 2010	87,110	6,463	34,408	148,674	236,935	513,590
Additions	–	–	10,205	25,586	49,545	85,336
Disposals	–	–	(3,856)	(9,211)	(4,691)	(17,758)
At 31 December 2010	87,110	6,463	40,757	165,049	281,789	581,168
Accumulated depreciation:						
At 1 January 2010	18,579	–	23,403	81,382	147,473	270,837
Charge for the year	1,461	–	2,093	33,000	38,728	75,282
Disposals	–	–	(3,856)	(8,231)	(4,370)	(16,457)
At 31 December 2010	20,040	–	21,640	106,151	181,831	329,662
Allowances for impairment losses:						
At 1 January 2010	–	–	–	–	–	–
Charge for the year	–	–	–	74	845	919
At 31 December 2010	–	–	–	74	845	919
Net book value:						
At 31 December 2010	67,070	6,463	19,117	58,824	99,113	250,587

	Group					
	Leasehold land $'000 (restated)	Freehold land $'000	Buildings $'000	Leasehold improvements $'000	Furniture and equipment $'000	Total $'000 (restated)
Cost:						
At 1 January 2009	93,689	6,463	69,947	122,743	198,159	491,001
Additions						
– through acquisition of a subsidiary	–	–	–	94	6,508	6,602
– others	25,921	–	1,491	31,777	35,578	94,767
Disposals	(32,500)	–	(37,030)	(5,940)	(3,310)	(78,780)
At 31 December 2009	87,110	6,463	34,408	148,674	236,935	513,590
Accumulated depreciation:						
At 1 January 2009	18,820	–	27,522	59,815	120,081	226,238
Charge for the year	1,461	–	2,168	27,507	30,250	61,386
Disposals	(1,702)	–	(6,287)	(5,940)	(2,858)	(16,787)
At 31 December 2009	18,579	–	23,403	81,382	147,473	270,837
Net book value:						
At 31 December 2009	68,531	6,463	11,005	67,292	89,462	242,753

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

27. FIXED ASSETS (continued)

Bank

	Leasehold land $'000 (restated)	Freehold land $'000	Buildings $'000	Leasehold improvements $'000	Furniture and equipment $'000	Total $'000 (restated)
Cost:						
At 1 January 2010	87,110	–	28,932	123,593	217,066	456,701
Additions	–	–	10,205	21,632	36,585	68,422
Disposals	–	–	(3,856)	(9,211)	(4,513)	(17,580)
At 31 December 2010	87,110	–	35,281	136,014	249,138	507,543
Accumulated depreciation:						
At 1 January 2010	18,579	–	19,782	71,264	138,558	248,183
Charge for the year	1,461	–	1,727	26,833	31,504	61,525
Disposals	–	–	(3,855)	(8,231)	(4,318)	(16,404)
At 31 December 2010	20,040	–	17,654	89,866	165,744	293,304
Net book value:						
At 31 December 2010	67,070	–	17,627	46,148	83,394	214,239

Bank

	Leasehold land $'000 (restated)	Freehold land $'000	Buildings $'000	Leasehold improvements $'000	Furniture and equipment $'000	Total $'000 (restated)
Cost:						
At 1 January 2009	93,689	–	64,470	105,099	185,549	448,807
Additions	25,921	–	1,492	24,434	34,071	85,918
Disposals	(32,500)	–	(37,030)	(5,940)	(2,554)	(78,024)
At 31 December 2009	87,110	–	28,932	123,593	217,066	456,701
Accumulated depreciation:						
At 1 January 2009	18,820	–	24,265	54,321	113,461	210,867
Charge for the year	1,461	–	1,803	22,883	27,525	53,672
Disposals	(1,702)	–	(6,286)	(5,940)	(2,428)	(16,356)
At 31 December 2009	18,579	–	19,782	71,264	138,558	248,183
Net book value:						
At 31 December 2009	68,531	–	9,150	52,329	78,508	208,518

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

27. FIXED ASSETS (continued)

The analysis of net book value of buildings and leasehold land are as follows:

	Group		Bank	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Building				
Held in Hong Kong:				
Leases of between 10 to 50 years	**17,627**	9,150	**17,627**	9,150
Held outside Hong Kong:				
Leases of over 50 years	**1,490**	1,855	**–**	–
	19,117	11,005	**17,627**	9,150

	Group and Bank	
	2010	2009
	$'000	$'000
Leasehold land		
Held in Hong Kong:		
Leases of between 10 to 50 years	**40,025**	41,155
Leases of over 50 years	**27,044**	27,376
	67,069	68,531

28. OTHER ASSETS

	Group		Bank	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Accrued interest receivable	**239,613**	96,759	**219,680**	86,429
Notes receivable	**500,000**	860,996	**500,000**	860,996
Settlement accounts	**23,527**	59,890	**16,818**	111,262
Customer liability under acceptances	**175,686**	129,557	**170,296**	114,752
Account receivables	**34,028**	39,513	**44,127**	6,139
Repossessed assets	**63**	597	**63**	597
Refundable Deposits	**52,804**	49,020	**43,467**	40,016
Others	**122,821**	118,538	**97,910**	104,699
	1,148,542	1,354,870	**1,092,361**	1,324,890

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

29. DEPOSITS AND BALANCES OF BANKS

	Group		Bank	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Deposits and balances of banks	5,662,593	5,923,142	4,917,069	5,551,184

30. DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Demand deposits and current accounts	5,386,942	3,960,625	5,115,684	3,782,826
Savings deposits	13,972,812	11,980,269	12,805,501	10,962,962
Time and call deposits	51,463,355	36,581,951	49,110,048	33,719,086
Structured notes	274,312	169,699	274,312	169,699
Other deposits	55,733	61,180	46,743	42,359
	71,153,154	52,753,724	67,352,288	48,676,932

31. CERTIFICATES OF DEPOSIT ISSUED

	Group		Bank	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Issued at amortised cost	7,876,452	5,439,729	7,871,463	5,284,744

32. OTHER LIABILITIES

	Group		Bank	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Accrued interest payable	122,677	65,338	113,653	56,465
Settlement accounts	23,527	80,225	16,818	112,247
Account payables	173,117	127,204	100,515	83,849
Credit card related payables	126,634	92,574	–	–
Acceptances outstanding	175,686	129,557	170,296	114,752
Unearned income	74,875	23,362	28,501	11,060
Accrued salaries and welfare	115,277	112,340	98,470	82,829
Others	103,951	60,145	24,226	12,917
	915,744	690,745	552,479	474,119

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

33. CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's individual components of equity between the beginning and the end of the year are set out below:

	Share capital $'000	General reserve $'000	Investment revaluation reserve $'000	Regulatory reserve $'000	Other reserve $'000	Retained profits $'000	Total $'000
At 1 January 2010	6,511,043	750,956	(3,251)	426,750	15,913	7,068,486	14,769,897
Net profit for the year	–	–	–	–	–	308,898	308,898
Other comprehensive income:							
– change in fair value of available-for-sale financial assets	–	–	7,470	–	–	–	7,470
Total comprehensive income for the year	–	–	7,470	–	–	308,898	316,368
Regulatory reserve	–	–	–	95,587	–	(95,587)	–
At 31 December 2010	6,511,043	750,956	4,219	522,337	15,913	7,281,797	15,086,265

	Share capital $'000	General reserve $'000	Investment revaluation reserve $'000	Regulatory reserve $'000	Other reserve $'000	Retained profits $'000	Total $'000
At 1 January 2009	310,131	750,956	(22,531)	296,675	15,913	6,922,237	8,273,381
Issuance of shares (note 33(b))	6,200,912	–	–	–	–	–	6,200,912
Net profit for the year	–	–	–	–	–	276,324	276,324
Other comprehensive income:							
– change in fair value of available-for-sale financial assets	–	–	19,280	–	–	–	19,280
Total comprehensive income for the year	–	–	19,280	–	–	276,324	295,604
Regulatory reserve	–	–	–	130,075	–	(130,075)	–
At 31 December 2009	6,511,043	750,956	(3,251)	426,750	15,913	7,068,486	14,769,897

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

33. CAPITAL AND RESERVES (continued)

(b) Share capital

	2010 $'000	2009 $'000
Authorised:		
167,587,600 (2009: 167,587,600) ordinary shares of $40 each	6,703,504	6,703,504

	2010 $'000	2009 $'000
Issued and fully paid:		
162,776,068 (2009: 162,776,068) ordinary shares of $40 each	6,511,043	6,511,043

	2010		2009	
	No. of shares issued	Issued and fully paid share capital $'000	No. of shares issued	Issued and fully paid share capital $'000
At 1 January	162,776,068	6,511,043	7,753,268	310,131
Capital injection:				
– On 16 February 2009	–	–	38,771,900	1,550,876
– On 30 March 2009	–	–	77,500,900	3,100,036
– On 24 July 2009	–	–	38,750,000	1,550,000
	–	–	155,022,800	6,200,912
At 31 December	162,776,068	6,511,043	162,776,068	6,511,043

33. CAPITAL AND RESERVES (continued)

(c) Reserves

All reserves, except for general reserve, are not available for distribution.

(i) General reserve

General reserve is appropriated from the retained profits for future use. It also includes a non-distributable regulatory reserve maintained in accordance with the banking regulations in Macau amounting to MOP101,900,000 (2009: MOP97,100,000).

(ii) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the financial assets are derecognised and is dealt with in accordance with the accounting policies adopted for the measurement of the available-for-sale financial assets at fair value.

(iii) Exchange reserve

Exchange reserve comprises of all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(iv) Regulatory reserve

A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movements in the reserve are made directly through retained profits and in consultation with the HKMA.

(v) Hedging reserve

The hedging reserve of the Group comprises the effective portion of the cumulative net change in the fair value of interest rate swaps used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policies adopted for cash flow hedges.

(vi) Other reserve

Other reserve is used to record the corresponding amount of the share options and bonus rewards granted by the former parent company to the Bank's employees. The options and rewards granted are classified as equity-settled share-based payments and the amount recognised in other reserve represents capital contribution from its former parent company and is not distributable.

(vii) Retained profits

The Bank and its financial subsidiaries are required to maintain minimum capital adequacy ratios under their respective regulatory jurisdictions. The minimum capital requirements could therefore potentially restrict the amount of retained profits available for distribution to the shareholders.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

34. MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Group entered into transactions with related parties in the normal course of its banking business including lending, acceptance and placement of inter-bank deposits, correspondent banking transactions, securities brokerage and derivative transactions. The transactions were priced at the relevant market rates at the time of each transaction.

Advances to banks comprise advances to the intermediate holding company under normal course of business and bear interest ranging from 1.71% p.a. to 3.9% p.a. (2009: 0.6% p.a. to 2.3% p.a.) with a contractual term of 1 month to 1 year in 2010 and 2009.

(a) The amount of material related party transactions during the year and outstanding balances at the reporting date are set out below:

	Group					
	Intermediate holding company		Fellow subsidiaries		Associate	
	2010 **$'000**	2009 $'000	**2010** **$'000**	2009 $'000	**2010** **$'000**	2009 $'000
Interest income	**148,579**	117,212	**2,594**	4,865	**–**	–
Interest expense	**19,784**	60,234	**4,281**	5,103	**1,254**	2,264
Fee and commission expenses	**–**	–	**7,649**	–	**–**	–
Net (losses)/gains from financial instruments at fair value through profit or loss	**(66,861)**	3,556	**–**	–	**–**	–
Operating income	**150**	–	**–**	–	**–**	–
Operating expenses	**17,155**	14,303	**–**	–	**–**	–

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

34. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) The amount of material related party transactions during the year and outstanding balances at the reporting date are set out below: (continued)

	Group					
	Intermediate holding company		Fellow subsidiaries		Associate	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Amounts due from:						
Cash and balances with banks	3,283,709	3,000,000	–	–	–	–
Placements with banks maturing between one and twelve months	6,690	6,288	–	–	–	–
Advance to banks	7,253,040	3,973,856	–	–	–	–
Advance to customers and trade bills	4,217,534	–	–	300,000	–	–
Financial instruments measured at fair value through profit or loss	–	115,600	–	–	–	–
Available-for-sale financial assets	1,000,000	1,500,000	–	–	–	–
Derivative financial instruments	–	10,489	–	–	–	–
Other assets						
– notes receivable	–	500,000	–	–	–	–
– others	112,583	14,299	6,709	190	–	–
Amounts due to:						
Deposits and balances of banks	2,002,246	1,419,155	–	–	–	–
Deposits from customers	–	–	527,270	522,325	341,980	283,050
Certificates of deposit issued	–	3,500,000	–	–	–	–
Derivative financial instruments	41,738	8,247	–	–	–	–
Other liabilities	24,013	20,859	27,259	8,130	753	484
Contingencies and commitments:						
Trade-related contingencies	–	2,188	–	–	–	–
Other commitments	–	–	390,000	149,930	–	–
Derivative financial instrument: (notional amount)						
Exchange rate contracts	–	1,163,230	–	–	–	–
Interest rate swaps	1,049,396	1,046,938	–	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

34. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) The amount of material related party transactions during the year and outstanding balances at the reporting date are set out below: (continued)

	Bank							
	Intermediate holding company		Fellow subsidiaries		Subsidiaries		Associate	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Amounts due from:								
Cash and balances with banks	3,283,709	3,000,000	–	–	27,335	511,436	–	–
Placements with banks maturing between one and twelve months	6,690	6,288	–	–	762,599	10,130	–	–
Advances to banks	6,323,048	3,973,856	–	–	–	–	–	–
Advances to customers and trade bills	4,217,534	–	–	300,000	–	3,000	–	–
Financial instruments measured at fair value through profit or loss	–	115,600	–	–	–	–	–	–
Available-for-sale financial assets	1,000,000	1,500,000	–	–	1,500,000	1,000,000	–	–
Derivative financial instruments	–	10,489	–	–	77,991	110,172	–	–
Other assets								
– notes receivable	–	500,000	–	–	–	–	–	–
– others	95,493	14,299	–	190	44,046	65,477	–	–
Amounts due to:								
Deposits and balances of banks	682,495	255,949	–	–	574,227	1,079,996	–	–
Deposits from customers	–	–	11,500	8,476	171,703	709,493	341,961	283,026
Certificates of deposit issued	–	3,500,000	–	–	–	–	–	–
Derivative financial instruments	41,738	8,247	–	–	34,579	59,455	–	–
Other liabilities	19,921	18,824	24,235	7,465	788	47,324	753	484
Contingencies and commitments:								
Trade-related contingencies	–	2,188	–	–	–	–	–	–
Other commitments	–	–	390,000	149,930	–	4,995	–	–
Derivative financial instrument: (notional amount)								
Exchange rate contracts	–	1,163,230	–	–	1,883,137	3,116,410	–	–
Interest rate swaps	1,049,396	1,046,938	–	–	1,500,000	11,404	–	–

34. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) The amount of material related party transactions during the year and outstanding balances at the reporting date are set out below: (continued)

The Group may enter into transactions with entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations ("state-owned entities") in the normal course of business. These transactions are entered on terms similar to those that would have been entered into with non-state-owned entities. These transactions include but are not limited to

– lending and deposit taking;

– inter-bank balances taking and placing;

– insurance and securities agency;

– custody services;

– sale, purchase, underwriting and redemption of bonds;

– purchase, sale and leases of property and other assets; and

– rendering and receiving of utilities and other services.

The Group's pricing and approval processes for major products and services do not depend on whether the customers or counterparties are state-owned entities. Having due regard to the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(b) Directors and key management personnel

During the year, the Group provided credit facilities to and accepted deposits from the directors and key management personnel of the Group and its holding companies and their close family members and companies controlled or significantly influenced by them. The credit facilities and deposits were provided and taken in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing, or where applicable, with other employees. These transactions did not involve more than the normal risk of collectability or present other unfavourable features.

	Group	
	2010	2009
	$'000	$'000
Loans	**9,528**	4,782
– Interest income earned	**112**	116
Deposits	**29,024**	27,965
– Interest expense paid	**217**	150
Compensation		
– Salaries and other short-term benefits	**35,740**	27,290

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

35. CONTINGENT LIABILITIES AND COMMITMENTS

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments to extend credit:

	Group		Bank	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Direct credit substitutes	**488,566**	641,206	**422,407**	598,407
Transaction-related contingencies	**87,260**	73,670	**83,791**	70,159
Trade-related contingencies	**643,563**	537,743	**568,067**	499,783
Other commitments:				
– which are unconditionally cancellable or automatically cancellable due to the deterioration in the credit worthiness of the borrower	**28,946,208**	25,392,364	**2,367,954**	2,243,359
– with an original maturity – under one year	**1,169,155**	483,412	**1,128,027**	381,059
	31,334,752	27,128,395	**4,570,246**	3,792,767

The aggregate credit risk weighted amounts of the above contingent liabilities and commitments are as follows:

	Group		Bank	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Credit risk weighted amounts	**840,723**	687,688	**759,283**	621,261

Contingent liabilities and commitments are credit-related instruments which include letter of credits, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for the loans. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client defaults. As the facilities may expire without being drawn upon, the contract amounts do not represent expected future cash flows.

The risk weights used in the computation of credit risk weighted amounts range from 0% to 100% (2009: 0% to 100%).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

36. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December not provided for in the financial statements are as follows:

	Group	
	2010	2009
	$'000	$'000
Expenditure contracted but not provided for	**9,558**	33,755
Expenditure authorised but not contracted for	**10,765**	1,860
	20,323	35,615

37. LEASE COMMITMENTS

At 31 December 2010, the Group and the Bank had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group		Bank	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Buildings:				
– Not later than one year	**182,838**	181,240	**156,667**	150,757
– Later than one year and not later than five years	**237,595**	241,227	**217,441**	209,503
– Later than five years	**205**	384,480	**–**	384,480
	420,638	806,947	**374,108**	744,740

The Group and the Bank lease a number of properties under operating leases. The leases typically run for an initial period of 2 to 5 years with an option to renew the lease when all terms are renegotiated, except for an operating lease with a lease term of 40 years which expires on 27 March 2032 and will be reviewed after 27 March 2013. Lease payments are usually increased every 3 years to reflect market rentals. None of the leases includes contingent rentals.

38. LOANS TO OFFICERS

Particulars of loans made to officers and disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	Group and Bank	
	2010	2009
	$'000	$'000
Aggregate amount in respect of principal and interest as at 31 December	**9,528**	4,770
The maximum aggregate amount outstanding in respect of principal and interest during the year	**14,847**	5,975

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

39. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash outflow from operating activities

	Group	
	2010	2009
	$'000	$'000
Operating activities		
Operating profit	**643,174**	407,398
Adjustments for:		
Dividend income	**(3,954)**	(3,324)
Depreciation	**75,282**	61,386
Charges on impairment allowances	**29,998**	74,256
Written off of loans and advance net of recoveries	**(111,204)**	(94,621)
Impairment loss on fixed assets	**919**	–
	634,215	445,095
(Increase)/decrease in operating assets		
Balances and placements with banks with original maturity beyond three months	**2,629**	3,362,788
Gross advances to banks	**(3,190,390)**	2,028,476
Gross advances to customers and trade bills	**(12,101,430)**	(15,425,987)
Financial instruments measured at fair value through profit or loss with original maturity beyond three months	**310,747**	(1,596,173)
Derivative financial instruments	**340,458**	(382,239)
Other assets	**206,328**	(830,533)
	(14,431,658)	(12,843,668)
Increase/(decrease) in operating liabilities		
Deposits and balances of banks with original maturity beyond three months	**(260,549)**	(12,774,401)
Deposits from customers	**18,399,430**	10,379,536
Derivative financial instruments	**(232,194)**	186,052
Certificates of deposit issued	**2,436,723**	1,522,882
Other liabilities	**225,378**	(13,872)
	20,568,788	(699,803)
Net cash inflow/(outflow) from operations	**6,771,345**	(13,098,376)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

39. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Cash and cash equivalents in the consolidated statement of cash flows

	Group	
	2010	2009
	$'000	$'000
Cash and balances with banks	**14,801,165**	8,749,448
Placements with banks with original maturity within three months	**9,943**	25,413
Treasury bills and certificate of deposits held with original maturity within three months categorised as		
– measured at fair value	**–**	139,528
– held-to-maturity	**–**	349,997
– available-for-sale	**798,895**	337,703
	15,610,003	9,602,089

(c) Reconciliation with the consolidated statement of financial position

	Group	
	2010	2009
	$'000	$'000
Cash and balances with banks (note 18)	**14,801,165**	8,749,448
Placements with banks maturing between one and twelve months	**9,943**	28,042
Treasury bills and certificate of deposits held categorised as		
– trading	**1,725,092**	363,196
– held-to-maturity	**–**	349,997
– available-for-sale	**4,561,740**	3,064,669
Amounts shown in consolidated statement of financial position	**21,097,940**	12,555,352
Less: Amounts with an original maturity of beyond three months		
– Cash and balances with banks	**–**	–
– Placements with banks maturing between one and twelve months	**–**	(2,629)
– Treasury bills and certificate of deposits held categorised as		
– trading	**(1,725,092)**	(223,668)
– available-for-sale	**(3,762,845)**	(2,726,966)
Cash and cash equivalent in the consolidated statement of cash flows	**15,610,003**	9,602,089

40. IMMEDIATE PARENT AND ULTIMATE CONTROLLING PARTY

At 31 December 2010, the directors consider the immediate parent to be CCB Overseas Holdings Limited ("CCBOHL"), which is incorporated in Hong Kong, and the ultimate controlling party to be China Investment Corporation ("CIC") a company incorporated in the People's Republic of China.

The Group's intermediate parent, CCBC, which is a listed bank incorporated in the People's Republic of China, produces financial statements available for public use.

41. COMPARATIVE FIGURES

As a result of the adoption of the amendments to HKAS 17, *Leases*, certain comparative figures have been adjusted to conform with the current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2010. Further details of these developments are disclosed in note 3 of the consolidated financial statements.

In 2009, the amount of trade bills was included in the balance of advances to customers. In 2010, separate analyses on advances to customers and trade bills have been made in the notes to the consolidated financial statements. The comparative figures of advances to customers and trade bills have been restated to conform with the current year's presentation.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended 31 December 2010

The notes to the consolidated financial statements and the following unaudited supplementary information are prepared to comply with the Banking (Disclosure) Rules.

1. OVERDUE AND RESCHEDULED ASSETS

(a) Gross advances to customers overdue for more than three months:

	2010 $'000	2010 % on total advances to customers	2009 $'000	2009 % on total advances to customers
Six months or less but over three months	**10,167**	**0.01**	18,678	0.03
One year or less but over six months	**974**	**–**	52,152	0.09
Over one year	**63,935**	**0.09**	11,061	0.02
Total gross amount of advances overdue for more than three months	**75,076**	**0.10**	81,891	0.14
Individually assessed impairment allowances made in respect of the above overdue advances	**63,933**		37,444	
Net realisable value of collateral held against the overdue advances	**7,251**		4,860	
Covered portion of overdue advances	**2,876**		2,130	
Uncovered portion of overdue advances	**72,200**		79,761	
	75,076		81,891	

Collateral held with respect of overdue advances to customers is mainly residential, commercial and industrial properties.

As at 31 December 2010 and 31 December 2009, there were no overdue advances to banks and trade bills.

(b) Rescheduled advances to customers:

	2010 $'000	2010 % on total advances to customers	2009 $'000	2009 % on total advances to customers
Rescheduled advances to customers	**166,986**	**0.24**	167,856	0.28

Rescheduled advances are those advances which have been restructured or renegotiated because of deterioration in the financial position of the borrower, or the inability of the borrower to meet the original repayment schedule and for which the revised payment terms are non-commercial to the Bank. The rescheduled advances are stated net of any advances that have subsequently become overdue for over three months and reported as overdue advances as above.

As at 31 December 2010 and 31 December 2009, there were no rescheduled trade bills and advances to banks.

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1. OVERDUE AND RESCHEDULED ASSETS (continued)

(c) Other overdue and rescheduled assets

As at 31 December 2010 and 31 December 2009, there were no other overdue and rescheduled assets.

2. LIQUIDITY RATIO

	2010	2009
	%	%
Consolidated average liquidity ratio	**47.03**	38.72

As at 2009, the consolidated average liquidity ratio was the average liquidity ratio as reported on a consolidated basis for December 2009 only. Since December 2009, the Bank has computed the average liquidity ratio on a consolidated basis, including for the Bank and its subsidiary, China Construction Bank (Asia) Finance Limited ("CCBAF") which was acquired by the Bank on 30 October 2010, as required by the Hong Kong Monetary Authority ("HKMA") for its regulatory purposes, in accordance with Schedule 70 of the Hong Kong Banking Ordinance.

3. CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT

(a) Capital adequacy ratio

	Group	
	2010	2009
	%	%
Capital adequacy ratio as at 31 December	**24.99**	30.14
Core capital adequacy ratio as at 31 December	**24.29**	29.92

At 31 December 2010, the capital adequacy ratio was computed on a consolidated basis, including the Bank and its subsidiaries, China Construction Bank (Macau) Corporation Limited ("CCB (Macau)") and CCBAF, in accordance with the Banking (Capital) Rules. Deductions from total capital base include investments in certain subsidiaries, namely CCB Securities Limited and CCB Nominees Limited, which conduct non-banking related businesses, and their risk weighted assets have not been consolidated into the total risk weighted assets of the Group.

In calculating the risk weighted assets, the Group adopted the Standardised (Credit Risk) Approach and the Standardised (Market Risk) Approach for credit risk and market risk respectively. For operational risk, the capital requirement is calculated using the Basic Indicator Approach.

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For the year ended 31 December 2010

3. CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

(b) Capital base after deductions

	2010 $'000	2009 $'000
Core capital:		
Paid-up ordinary share capital	**6,511,043**	6,511,043
Published reserves	**8,681,248**	7,932,550
Profit and loss account	**498,150**	808,942
Deduct: Deferred tax assets	**(78,915)**	(87,800)
Total core capital before deductions	**15,611,526**	15,164,735
Less: Deductions from core capital	**(367,830)**	(544,283)
Total core capital after deductions	**15,243,696**	14,620,452
Supplementary capital:		
Reserves attributable to fair value gains on revaluation of holding of available-for-sale equities and debt securities	**2,647**	22,003
Fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss	**15,792**	15,092
Regulatory reserve for general banking risks	**547,764**	445,170
Collectively assessed impairment allowances	**239,450**	170,436
Total supplementary capital before deductions	**805,653**	652,701
Less: Deductions from supplementary capital	**(367,831)**	(544,284)
Total supplementary capital after deductions	**437,822**	108,417
Total capital base before deductions	**16,417,179**	15,817,436
Total deductions from total capital base	**(735,661)**	(1,088,567)
Total capital base after deductions	**15,681,518**	14,728,869

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For the year ended 31 December 2010

3. CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

(c) Credit risk

The Group uses the following external credit assessment institutions ("ECAIs") to calculate its capital adequacy requirements under the Standardised (Credit Risk) Approach prescribed in the Banking (Capital) Rules:

– Moody's Investors Service

– Standard & Poor's Ratings Services

The process used to map ECAIs issue specific ratings in the Group's banking book is consistent with those prescribed in the Banking (Capital) rules.

The capital requirements on each class of exposures under the Standardised (Credit Risk) Approach at the reporting date are summarised as follows:

	Capital charges 2010 $'000	Capital charges 2009 $'000
Exposures on the statement of financial position		
Public sector entity	**6,371**	8,544
Bank	**1,335,483**	712,867
Securities firm	**2,004**	1,619
Corporate	**1,680,705**	1,360,074
Regulatory retail	**677,824**	567,574
Residential mortgage loans	**740,173**	790,402
Other exposures which are not past due exposures	**107,457**	95,935
Past due exposures	**18,465**	22,260
Total capital charge	**4,568,482**	3,559,275
Exposures not on the statement of financial position		
Direct credit substitutes	**35,819**	37,217
Transaction-related contingencies	**3,061**	2,237
Trade-related contingencies	**9,706**	8,231
Other commitments	**18,671**	7,365
Exchange rate contracts	**41,461**	63,932
Interest rate contracts	**537**	791
Equity contracts	**342**	237
Total capital charge	**109,597**	120,010
Total capital charge for credit risk	**4,678,079**	3,679,285

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended 31 December 2010

3. CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

(d) The risk weighted assets for each class of credit risk exposures are set out as follows:

At 31 December 2010

Class of exposures	Total exposures* $'000	Exposures covered by recognised credit risk mitigation: Collateral $'000	Exposures covered by recognised credit risk mitigation: Guarantees $'000	Exposures after recognised credit risk mitigation: Rated $'000	Exposures after recognised credit risk mitigation: Unrated $'000	Risk weighted amount: Rated $'000	Risk weighted amount: Unrated $'000	Total $'000
On-balance sheet								
– Sovereign	6,958,216	–	266,072	6,958,216	266,072	–	–	–
– Public sector entity	–	–	398,194	–	398,194	–	79,639	79,639
– Bank	24,765,570	–	11,817,433	36,505,260	122,992	16,653,525	40,007	16,693,532
– Securities firm	85,106	35,003	–	–	50,103	–	25,052	25,052
– Corporate	34,390,032	536,983	12,287,555	2,298,153	19,693,860	2,429,497	18,579,315	21,008,812
– Cash	265,722	–	–	–	265,722	–	–	–
– Regulatory retail	11,501,045	203,979	–	–	11,297,066	–	8,472,799	8,472,799
– Residential mortgage loans	22,420,106	–	399,840	–	22,020,266	–	9,252,169	9,252,169
– Other exposures which are not past due exposures	1,594,059	250,847	–	–	1,343,212	–	1,343,212	1,343,212
– Past due exposures	158,136	–	–	–	158,136	–	230,812	230,812
Off-balance sheet								
– Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	855,874	55,495	3,804	54,680	741,895	393,363	447,360	840,723
– OTC derivative transactions	1,338,482	289,961	–	730,783	317,739	211,565	317,678	529,243
Total	104,332,348	1,372,268	25,172,898	46,547,092	56,675,257	19,687,950	38,788,043	58,475,993
Exposures deducted from capital base	735,661							

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended 31 December 2010

3. CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

(d) The risk weighted assets for each class of credit risk exposures are set out as follows: (continued)

At 31 December 2009

Class of exposures	Total exposures* $'000	Exposures covered by recognised credit risk mitigation: Collateral $'000	Exposures covered by recognised credit risk mitigation: Guarantees $'000	Exposures after recognised credit risk mitigation: Rated $'000	Exposures after recognised credit risk mitigation: Unrated $'000	Risk weighted amount: Rated $'000	Risk weighted amount: Unrated $'000	Risk weighted amount: Total $'000
On-balance sheet								
– Sovereign	3,853,738	–	311,597	4,165,335	–	–	–	–
– Public sector entity	–	–	533,985	–	533,985	–	106,797	106,797
– Bank	13,960,491	–	7,316,629	20,273,866	1,003,254	8,409,944	500,889	8,910,833
– Securities firm	119,518	79,037	–	–	40,481	–	20,241	20,241
– Corporate	26,125,852	710,295	7,740,678	1,277,944	16,396,935	603,996	16,396,935	17,000,931
– Cash	218,259	–	–	–	218,259	–	–	–
– Regulatory retail	9,673,418	213,857	–	–	9,459,561	–	7,094,671	7,094,671
– Residential mortgage loans	24,513,757	–	538,121	–	23,975,636	–	9,880,027	9,880,027
– Other exposures which are not past due exposures	1,356,434	157,244	–	–	1,199,190	–	1,199,190	1,199,190
– Past due exposures	189,317	–	–	–	189,317	–	278,247	278,247
Off-balance sheet								
– Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	27,133,395	210,462	–	2,188	26,920,745	219	687,899	688,118
– OTC derivative transactions	94,769,757	278,615	–	52,875,243	41,615,899	412,915	399,091	812,006
Total	201,913,936	1,649,510	16,441,010	78,594,576	121,553,262	9,427,074	36,563,987	45,991,061
Exposures deducted from capital base	1,088,567							

* Total exposures represent the principal amount or credit equivalent amount, as applicable, net of individually assessed impairment allowances.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended 31 December 2010

3. CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

(e) Credit risk mitigation

As mentioned in note 6(a) to the financial statements on the credit risk management of the Group, the Group has established policies in managing and recognising credit risk mitigation, one of which is the taking of collateral and other credit enhancements. The principal types of collateral taken by the Group are also those of the recognised credit risk mitigation as prescribed in the Banking (Capital) Rules.

For regulatory capital calculation, the Group adheres to the criteria as stipulated in the Banking (Capital) Rules when assessing the eligibility of the credit risk mitigation.

Recognised collateral include both financial and physical collateral. Financial collateral include cash deposit, shares and debt securities and mutual fund, whilst physical collateral include commercial real estate and residential real estate. The exposure amount after mitigation is determined by applying the standard supervisory haircut stipulated in the Banking (Capital) Rules as an adjustment discount to the current collateral value.

Recognised guarantor is any sovereign entities, public sector entities, banks and regulated securities firms with a lower risk weight than the borrower.

On-balance sheet and off-balance sheet recognised netting is not adopted by the Group.

(f) Over-the-counter ("OTC") derivative transactions

In respect of the Group's counterparty credit risk which arises from OTC derivative transactions, the related credit risk management has set out in note 6(a) to the financial statements. In sum, the counterparty credit risk arising from OTC derivatives in the trading book is subject to the same credit risk management framework of the banking book. The Group manages and monitors the risk exposure by determining the current exposure amount of the transactions.

There were neither repo-style transactions nor credit derivative contracts entered by the Group at 31 December 2010 and 2009.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended 31 December 2010

3. CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

(f) Over-the-counter ("OTC") derivative transactions (continued)

(i) Counterparty credit risk exposures

	OTC derivative transactions 2010 $'000	OTC derivative transactions 2009 $'000
Gross total positive fair value	**642,017**	983,432
Credit equivalent amount	**1,338,482**	1,922,956
Credit equivalent amounts or net credit exposures net of recognised collateral held	**1,048,522**	1,644,340
Risk weighted amounts	**529,243**	812,006

(ii) Major class of exposures by counterparty type

		2010	
	Contract amount $'000	**Credit equivalent amount $'000**	**Risk weighted amount $'000**
Banks	**59,385,126**	**730,474**	**211,258**
Securities Firms	**2,035**	**122**	**61**
Corporate	**14,778,831**	**307,454**	**289,308**
Others	**3,391,795**	**300,432**	**28,616**
	77,557,787	**1,338,482**	**529,243**

		2009	
	Contract amount $'000	Credit equivalent amount $'000	Risk weighted amount $'000
Banks	52,875,245	1,244,474	412,915
Securities Firms	25,818	1,549	774
Corporate	38,076,039	425,986	378,241
Others	3,792,655	250,946	20,076
	94,769,757	1,922,955	812,006

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended 31 December 2010

3. CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

(g) Asset securitisation

There was no asset securitisation for which the Group is an originating institution or an investing institution at 31 December 2010 and 2009.

(h) Market risk

	2010 $'000	2009 $'000
Interest rate exposures	102,548	58,973
Foreign exchange exposures (including options)	12,200	4,449
Capital charge for market risk	114,748	63,422

(i) Operational risk

	2010 $'000	2009 $'000
Capital charge for operational risk	245,465	197,174

(j) Equity exposures in banking book

Investments in equity shares which are intended to be held on a continuing basis, but which do not comprise investments in associate, jointly controlled entities or subsidiaries, are classified as available-for-sale securities and are reported in the statement of financial position as "Available-for-sale financial assets". Included within this category are unquoted investments made by the Group for being members of the electronic payment systems in Hong Kong.

	2010 $'000	2009 $'000
Cumulative realised gains on disposal	–	–
Unrealised gains:		
– recognised in reserve but not through the income statement	5,882	46,899
– deducted from the supplementary capital	2,647	21,105

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended 31 December 2010

4. SEGMENTAL INFORMATION

(a) Gross advances to customers

(i) Gross advances to customers by industry sectors

Analysis of gross advances to customers covered by collateral is as follow:

	Group			
	2010		2009	
	Outstanding balance $'000	**% of advances covered by collateral**	Outstanding balance $'000	% of advances covered by collateral
Advances for use in Hong Kong				
Industrial, commercial and financial				
– Property development	**594,601**	**7.50**	434,609	10.26
– Property investment	**19,103,770**	**93.55**	16,754,971	94.25
– Financial concerns	**1,693,714**	**79.95**	3,188,432	82.96
– Stockbrokers	**85,100**	**41.13**	119,858	65.91
– Wholesale and retail trade	**5,328,394**	**93.25**	2,980,151	88.20
– Manufacturing	**1,582,917**	**48.85**	2,074,326	52.28
– Transport and transport equipment	**2,797,319**	**37.60**	2,182,217	37.61
– Recreational activities	**14,971**	**98.88**	134,365	12.80
– Information technology	**800,963**	**93.03**	227,716	73.57
– Others	**7,727,661**	**87.13**	4,810,583	86.55
	39,729,410		32,907,228	

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended 31 December 2010

4. SEGMENTAL INFORMATION (continued)

(a) Gross advances to customers (continued)

(i) Gross advances to customers by industry sectors (continued)

	Group			
	2010		2009	
	Outstanding balance $'000	**% of advances covered by collateral**	Outstanding balance $'000 (restated)	% of advances covered by collateral
Individuals				
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**14,774**	**100.00**	18,664	100.00
– Loans for the purchase of other residential properties	**14,086,008**	**99.75**	16,303,014	99.78
– Credit card advances	**4,860,826**	**0.00**	3,713,301	0.05
– Others	**3,361,284**	**60.64**	3,667,659	66.33
	22,322,892		23,702,638	
Trade finance	**1,630,270**	**50.27**	1,407,557	35.96
Advances for use outside Hong Kong	**4,621,108**	**61.79**	2,632,665	81.65
Total gross advances to customers	**68,303,680**		60,650,088	

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended 31 December 2010

4. SEGMENTAL INFORMATION (continued)

(a) Gross advances to customers (continued)

(i) Gross advances to customers by industry sectors (continued)

Further analysis of gross advances to customers which constitute not less than 10% of gross advances to customers are as follows:

		2010 $'000	2009 $'000
(1)	Property investment		
	– Impaired advances	–	–
	– Overdue advances	–	–
	– Individually assessed impairment allowances	–	–
	– Collectively assessed impairment allowances	11,367	14,457
	– Impairment allowances (released)/charged during the year	(3,090)	243
	– Advances written-off during the year	–	–
(2)	Individuals - loans for the purchase of other residential properties		
	– Impaired advances	5,624	13,086
	– Overdue advances	974	7,733
	– Individually assessed impairment allowances	–	–
	– Collectively assessed impairment allowances	139	558
	– Impairment allowances released during the year	(419)	–
	– Advances written-off during the year	–	–
(3)	Others		
	– Impaired advances	–	–
	– Overdue advances	–	–
	– Individually assessed impairment allowances	–	–
	– Collectively assessed impairment allowances	9,613	9,202
	– New impairment allowances charged during the year	411	4,533
	– Advances written-off during the year	–	–

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended 31 December 2010

4. SEGMENTAL INFORMATION (continued)

(a) Gross advances to customers (continued)

(ii) Gross advances to customers by geographical areas

	2010 $'000	2009 $'000 (restated)
Hong Kong	65,035,516	57,738,229
China	78,998	114,435
Macau	2,839,419	2,236,835
Others	349,747	560,589
	68,303,680	60,650,088

(iii) Impaired advances by geographical areas

	2010		2009	
	Gross impaired advances $'000	Individually assessed impairment allowances $'000	Gross impaired advances $'000	Individually assessed impairment allowances $'000
Hong Kong	244,530	87,983	264,619	66,749
China	–	–	–	–
Macau	8	11	–	–
	244,538	87,994	264,619	66,749

More than 90% of the collective impairment allowances were allocated to Hong Kong at 31 December 2010 and 2009. The geographical analysis is based on location of the customers and has taken account of transfer of risk.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended 31 December 2010

4. SEGMENTAL INFORMATION (continued)

(b) Cross-border claims

Cross-border claims are exposures recorded on the statement of financial position of counterparties based on the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate cross-border claims are shown as follows:

	Banks $'000	**Others $'000**	**Total $'000**
At 31 December 2010			
Asia Pacific excluding Hong Kong	**22,194,624**	**14,503,324**	**36,697,948**
– of which China	**22,147,040**	**11,932,560**	**34,079,600**

	Banks $'000	Others $'000	Total $'000
At 31 December 2009			
Asia Pacific excluding Hong Kong	11,419,109	9,392,664	20,811,773
– of which China	10,566,955	7,412,841	17,979,796

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended 31 December 2010

4. SEGMENTAL INFORMATION (continued)

(c) Geographical information

The following table sets out information about the geographical location of the Group's revenue from external customers, profit before taxation, total assets, total liabilities, specified non-current assets, contingent liabilities and commitments. The geographical location of customers is based on the location at which the services were provided. The geographical location of the specified non-current assets which comprise fixed assets, interests in leasehold land and investment in an associate is based on the physical location of the asset, in case of fixed assets, and the location of the operation to which they are allocated, in the case of intangible assets and interests in associate.

	Revenues from external customers $'000	Profit before taxation $'000	Total assets $'000	Total liabilities $'000	Specified non-current assets $'000	Contingent liabilities and commitments $'000
At 31 December 2010						
Hong Kong (place of domicile)	**2,139,689**	**636,353**	**99,054,156**	**83,382,546**	**375,208**	**31,008,043**
Macau	**87,440**	**30,756**	**5,156,305**	**4,311,164**	**24,881**	**345,339**
Less: Intra-group items	**–**	**–**	**(1,482,376)**	**(1,519,328)**	**–**	**(18,630)**
	2,227,129	**667,109**	**102,728,085**	**86,174,382**	**400,089**	**31,334,752**
At 31 December 2009						
Hong Kong (place of domicile)	1,465,968	945,571	79,668,618	64,067,458	341,290	26,837,973
Macau	77,952	26,405	4,122,806	3,304,281	26,912	290,422
Less: Intra-group items	–	–	(2,211,073)	(1,787,626)	–	–
	1,543,920	971,976	81,580,351	65,584,113	368,202	27,128,395

4. SEGMENTAL INFORMATION (continued)

(d) Reportable segments

The Group manages its businesses by divisions, which are organised by products and services and customer types. In a manner consistent with the way in which information is reported internally to the Group's senior management for the purposes of resource allocation and performance assessment, the Group has presented the following 4 reportable segments. No reportable segments have been aggregated to form the following reportable segments.

(i) Commercial banking

This segment represents the provision of a range of financial products and services to corporations, securities firms and small and medium sized enterprises. The products and services include commercial loans, syndicated loans, residential and commercial mortgages, trade financing, machinery and equipment leasing, stockbroker financing and deposit-taking activities.

(ii) Consumer banking

This segment represents the provision of a range of financial products and services to non-China individual customers. The products and services comprise personal loans, residential mortgages, auto-financing, deposit-taking activities, wealth management, insurance and securities agency services.

(iii) Commercial banking - China Enterprises

This segment represents the provision of a range of financial products and services to China related customers. The products and services comprise commercial loans, syndicated loans, residential and commercial mortgages, trade financing, refinancing loans and deposit-taking activities. This segment was previously included in the commercial banking segment but has been separated as an individual segment for better monitoring of the performance of China-related corporations.

(iv) Treasury business

This segment covers the Bank's treasury operations. The Treasury Department enters into inter-bank money market transactions and invests in debt instruments. It also trades in debt instruments, derivatives and foreign currency for its own account. The treasury carries out customer driven derivatives, such as foreign currency trading. Its function also includes the management of the Group's overall liquidity position, including the issuance of certificates of deposit.

Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Non-current assets comprise fixed assets, interests in leasehold land and investment in an associate. Segment assets and liabilities are composed of placement with banks, advances to banks and customers, investment securities, derivatives financial instruments, deposits and certificate of deposit issued.

Revenue and expenses are allocated to the reportable segments with reference to interest and fee and commission income generated by those segments and the expenses incurred by these segments or which otherwise arise from the depreciation or amortisation of assets attributable to these segments.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended 31 December 2010

4. SEGMENTAL INFORMATION (continued)

(d) Reportable segments (continued)

	2010				
	Commercial banking $'000	Consumer banking $'000	Commercial Banking – China Enterprises $'000	Treasury business $'000	Total $'000
Net interest income	431,778	942,630	269,025	(76,511)	1,566,922
Revenue from external customers	520,506	1,205,209	374,964	112,365	2,213,044
Inter-segment revenue	(12,906)	40,275	(12,415)	(21,534)	(6,580)
Reportable segment revenue	507,600	1,245,484	362,549	90,831	2,206,464
Depreciation and amortisation	(2,851)	(37,407)	(4)	(2,036)	(42,298)
Operating profit before impairment losses	304,189	114,175	303,132	48,890	770,386
Loan impairment and other credit risk provisions	(11,232)	7,525	(25,827)	–	(29,534)
Operating profit after impairment losses	292,957	121,700	277,305	48,890	740,852
Non-operating income	–	–	–	–	–
Reportable segment profit before taxation	292,957	121,700	277,305	48,890	740,852
Reportable segment assets	25,597,468	29,157,770	25,797,846	20,278,433	100,831,517
Reportable segment liabilities	13,824,294	54,485,169	4,229,246	12,664,848	85,203,557

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended 31 December 2010

4. SEGMENTAL INFORMATION (continued)

(d) Reportable segments (continued)

	2009				
	Commercial banking $'000	Consumer banking $'000	Commercial Banking – China Enterprises $'000	Treasury business $'000	Total $'000
Net interest income	384,309	480,647	84,384	(37,542)	911,798
Revenue from external customers	450,757	719,790	219,641	117,545	1,507,733
Inter-segment revenue	(12,967)	15,080	(7,818)	–	(5,705)
Reportable segment revenue	437,790	734,870	211,823	117,545	1,502,028
Depreciation and amortisation	(2,335)	(28,339)	(4)	(745)	(31,423)
Operating profit before impairment losses	262,389	7,669	173,920	80,894	524,872
Loan impairment and other credit risk provisions	(8,543)	(45,743)	(19,970)	–	(74,256)
Operating profit after impairment losses	253,846	(38,074)	153,950	80,894	450,616
Non -operating income	–	6,945	–	–	6,945
Reportable segment profit before taxation	253,846	(31,129)	153,950	80,894	457,561
Reportable segment assets	20,606,907	31,912,679	13,795,629	13,234,158	79,549,373
Reportable segment liabilities	9,095,675	42,784,493	2,540,765	10,438,954	64,859,887

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended 31 December 2010

4. SEGMENTAL INFORMATION (continued)

(d) Reportable segments (continued)

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2010 $'000	2009 $'000
Revenue		
Reportable segment revenue	2,206,464	1,502,028
Elimination of inter-segment interest income	6,580	5,705
Unallocated net interest income/(expenses)	17,221	(7,205)
Unallocated other operating (expenses)/income	(3,133)	43,392
Consolidated operating income	2,227,132	1,543,920
Profit		
Reportable segment profit before taxation	740,852	457,561
Eliminated of inter-segment interest income	6,580	5,705
Gain on acquisition of a subsidiary	–	536,787
Share of profits of an associate	24,053	20,846
Unallocated net interest income/(expenses)	17,221	(7,205)
Unallocated other operating (expenses)/income	(3,136)	43,392
Operating expenses	(118,460)	(85,110)
Consolidated profit before taxation	667,110	971,976
Assets		
Reportable segment assets	100,831,517	79,549,373
Investment in an associate	149,502	125,449
Unallocated fixed assets	250,587	242,753
Current tax recoverable	3,300	–
Other assets	1,148,542	1,354,870
Deferred tax assets	78,915	89,647
Cash in hand	265,722	218,259
Consolidated total assets	102,728,085	81,580,351
Liabilities		
Reportable segment liabilities	85,203,557	64,859,887
Other liabilities	915,744	690,745
Current tax payable	55,081	33,481
Consolidated liabilities	86,174,382	65,584,113

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For the year ended 31 December 2010

5. NON-BANK MAINLAND EXPOSURES

Non-bank Mainland exposures are the Mainland exposures to non-bank counterparties. The categories follow the non-bank Mainland exposures submitted by the Bank to the HKMA pursuant to Section 63 of the Hong Kong Banking Ordinance.

	On-balance sheet exposure $'000	Off-balance sheet exposure $'000	Total $'000	Individually assessed impairment allowances $'000
At 31 December 2010				
Mainland entities	**1,535,743**	**7,514**	**1,543,257**	**–**
Companies and individuals outside Mainland where the credit is granted for use in the Mainland	**2,218,385**	**345,979**	**2,564,364**	**53,200**
Other counterparties the exposure to whom are considered by the Bank to be non-bank Mainland exposures	**432,697**	**22,100**	**454,797**	**–**
	4,186,825	**375,593**	**4,562,418**	**53,200**

	On-balance sheet exposure $'000 (restated)	Off-balance sheet exposure $'000	Total $'000 (restated)	Individually assessed impairment allowances $'000
At 31 December 2009				
Mainland entities	687,298	128,384	815,682	–
Companies and individuals outside Mainland where the credit is granted for use in the Mainland	1,588,125	483,387	2,071,512	28,462
Other counterparties the exposure to whom are considered by the Bank to be non-bank Mainland exposures	277,077	30,354	307,431	–
	2,552,500	642,125	3,194,625	28,462

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended 31 December 2010

6. CURRENCY CONCENTRATIONS

The Group had the following net foreign currency exposures which exceeded 10% of the net foreign currency exposure in all currencies:

	Total	Of which AUD	JPY	CNY	NZD	CAD	USD	MOP
	$'000	$'000 HKD equivalent	$'000 HKD equivalent	$'000 HKD equivalent	$'000 HKD equivalent	$'000 HKD equivalent	$'000 HKD equivalent	$'000 HKD equivalent
At 31 December 2010								
Spot assets	32,311,427	46,353	195,685	8,673,560	30,909	4,515	22,319,499	754,014
Spot liabilities	(25,852,736)	(1,381,503)	(48,276)	(4,189,708)	(454,888)	(432,418)	(17,803,744)	(368,014)
Forward purchases	63,541,586	2,251,601	1,076,128	20,487,051	892,651	621,422	35,745,141	–
Forward sales	(69,755,533)	(948,316)	(1,281,837)	(24,976,774)	(488,177)	(213,895)	(40,247,478)	(589)
Net long/(short) position	244,744	(31,865)	(58,300)	(5,871)	(19,505)	(20,376)	13,418	385,411
Net structural position	423,447	–	–	–	–	–	–	423,447

	Total	Of which AUD	JPY	CNY	NZD	CAD	USD	MOP
	$'000	$'000 HKD equivalent	$'000 HKD equivalent	$'000 HKD equivalent	$'000 HKD equivalent	$'000 HKD equivalent	$'000 HKD equivalent	$'000 HKD equivalent
At 31 December 2009								
Spot assets	14,900,643	178,106	152,826	499,656	7,686	3,290	12,810,367	772,853
Spot liabilities	(17,939,666)	(1,871,738)	(44,815)	(504,454)	(583,031)	(440,040)	(12,980,086)	(431,460)
Forward purchases	93,150,670	2,699,804	843,171	38,401,884	771,983	621,635	47,206,536	–
Forward sales	(90,027,500)	(990,248)	(985,390)	(38,491,332)	(209,939)	(211,772)	(47,139,949)	–
Net long/(short) position	84,147	15,924	(34,208)	(94,246)	(13,301)	(26,887)	(103,132)	341,393
Net structural position	423,447	–	–	–	–	–	–	423,447

The structural assets of the Group in MOP include investment in a subsidiary in Macau.

The net options position is calculated using the Simplified Approach and there was no net options position as at 31 December 2010 and 31 December 2009.

7. CORPORATE GOVERNANCE

The Bank has fully complied with the requirements set out in the module on "Corporate Governance of Locally Incorporation Authorised Institutions" under the Supervisory Policy Manual issued by the HKMA in September 2001.

(a) Board of Directors

The Board of Directors of the Group has the ultimate responsibilities to the shareholders, depositors, creditors, employees and other stakeholders, banking supervisors of the Group in ensuring that the business and operational functions of the Group are managed in a prudent, professional and competent manner and in conformity with relevant laws and regulations. Key specialised committees are established to ensure that such operational functions, as well as efficient management of the main types of risk arising out of the business, are effectively carried out.

The terms of reference of the Board is set out below:

– Ensuring competency of the Group's management by appointing a competent chief executive, overseeing appointment of other senior executives, and effectively supervising senior management's performance on an on-going basis;

– Reviewing and approving the Group's business objectives, strategy and business plans, and to ensure that performance against plan is regularly reviewed, with corrective action to be taken as needed;

– Ensuring that the operations of the Group are conducted prudently and within the framework of laws and regulations by implementing and maintaining an effective control environment throughout the institution;

– Monitoring and ensuring that the Group conducts its affairs with a high degree of integrity and ethical values through the implementation of appropriate policies, guidelines and standards, and monitoring programs;

– Observing the module on "Corporate Governance of Locally Incorporation Authorised Institutions" under the Supervisory Policy Manual issued by the HKMA; and

– Any other additional responsibility that may derive from the listing obligations of the ultimate controlling party.

Members of the Board of Directors, who come from a variety of different backgrounds, have a diverse range of business, banking and professional expertise. Currently, the Board comprises three executive Directors and five non-executive Directors. Of the five non-executive Directors, four are independent non-executive Directors.

7. CORPORATE GOVERNANCE (continued)

(b) Executive Committee

The Executive committee has, to the extent not specifically restricted by law or by the Bank's Articles of Association, all the powers of the Board of Directors in the management of the business and affairs of the Group during intervals between Board meetings. Specifically, the Executive Committee is responsible for:

– Reviewing that the Group performs in accordance with approved business objectives, strategies and plans, and taking appropriate actions as needed;

– Ensuring that the business and affairs of the Group are conducted prudently and within the framework of laws, regulation and established policies; and

– Ensuring that all employees are conducting the Group's affairs with a high degree of integrity and in compliance with the Group's established code of conduct and ethical values.

Membership of the Executive Committee is appointed by the Board of Directors, and the current composition consists of six members, namely the Chief Executive Officer as the Chairperson, Head of Consumer Banking, Chief Financial Officer, Head of Information Systems, Head of Commercial Banking - Hong Kong & Macau Division and Head of Commercial Banking - China Enterprises Division.

(c) Operations Committee

The Operations committee is charged with the responsibility for:

– Formulating and approving operations policies, procedures and guidelines pertaining to all business activities of the Group to ensure ongoing operational efficiency, cost-effectiveness and adequate controls, as well as compliance with all applicable regulatory and corporate requirements and standards;

– Reviewing and approving standard service charges and fees in relation to products and services offered by the Group to ensure fairness and market competitiveness;

– Formulating and approving expense authority delegations to different levels of management staff to ensure adequate balance of operational efficiency and expense control; and

– Reviewing, analysing and approving operation losses and operational issues that are exceptions to the Group's normal business activities to ensure due compliance with all relevant regulatory and corporate guideline and standards.

7. CORPORATE GOVERNANCE (continued)

(c) Operations Committee (continued)

Membership of the Operations Committee is appointed by the Executive Committee and ratified by the Board of Directors. Chaired by the Head of Operations Planning, Product Services & Administration, there are nine other members in the Operations Committee, namely the Head of Consumer Banking, Head of Consumer Branch Banking, Head of Information Systems, Head of Operations, Head of Planning, Marketing and Communications, Head of Finance and Accounting, Head of Compliance, Services & Operations Manager of Consumer Banking Section of CCB (Macau) and representative from and Operational Risk Management.

(d) Asset and Liability Committee

The Asset and Liability Committee ("ALCO") is charged with the overall responsibility to manage the Group's:

– Liquidity, interest rate risk, foreign exchange risk and earnings exposure;

– Funding strategy and composition of the Group's assets and liabilities, including on- balance and off-balance sheet items; and

– Establishing various limits, control ratios and guidelines in accordance with the statutory and local regulatory requirements.

Membership of the ALCO is appointed by the Executive Committee and ratified by the Board of Directors. Currently, the Committee consists of seven members, namely the Chief Financial Officer as the Chairperson, the Chief Executive Officer, Head of Treasury, Treasury Manager of China Construction Bank Corporation, Head of Consumer Banking, Head of Finance and Accounting and Head of Money Trader.

(e) Information Technology Committee

The Information Technology Committee is responsible for:

– Overseeing the development of the Group's long-term and near-term information technology strategic plans, including strategy formulation, risk management and resource planning for internet banking;

– Formulating and approving major information technology policies and practices;

– Prioritising and monitoring major information technology projects and allocation of resources;

– Assessing the effectiveness of information technology budgeting, planning and resourcing processes;

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7. CORPORATE GOVERNANCE (continued)

(e) Information Technology Committee (continued)

- Appraising major accomplishments in the application of technology, as well as reviewing and resolving any significant systems related issues;
- Ensuring an adequate information technology control environment to be in place;
- Evaluating and ensuring the overall cost and effectiveness of information technology systems employed by the Group; and
- Providing a platform to disseminate technology related policies and practices to business units, as well as to solicit their inputs and support.

Membership of the Information Technology Committee is appointed by the Executive Committee and ratified by the Board of Directors. Currently, the Committee consists of eight members with the Head of Information Systems as the Chairperson. Other members are the Chief Executive Officer, Head of Consumer Banking, designated representative from Operations Planning, Product Services & Administration, Consumer Banking Business, Technology Risk and Internal Control, Information Systems and Planning, Marketing and Communications.

(f) Audit Committee

The Audit Committee serves as the Board's "eyes and ears" in monitoring compliance with the Bank's policies and other internal and statutory regulations. It provides oversight of the Group's internal and external auditors and thereby assists the Board in providing independent review of the effectiveness of the financial reporting process and internal control system of the Group.

The Committee is responsible for:

- Reviewing and monitoring the effectiveness of the internal control system of the Group;
- Overseeing the workings of the internal and external auditors;
- Ensuring the objectivity, credibility and integrity of financial reporting; and
- Monitoring the compliance by the Group with the necessary legal and regulatory requirements.

The members of the Audit Committee are appointed by the Board of Directors from amongst the non-executive Directors of the Group. The Audit Committee consists of three non-executive Directors, the majority of whom are independent.

7. CORPORATE GOVERNANCE (continued)

(f) Audit Committee (continued)

Other than the members of the Committee, the Head of Finance and Accounting, Internal Audit Manager, the Head of Risk Management and a representative of the external auditors shall normally attend the meetings. Other Board members shall also have the right of attendance.

(g) Remuneration Committee

The Remuneration Committee provides oversight of the overall remuneration matters of the Group to be consistent with its culture, strategy and control environment. It also makes recommendations to the Board on the remuneration policy for senior executives who are sitting on the Executive Committee ("Senior Executives") of the Group and based on which to approve their specific remuneration packages. The Remuneration Committee ensures that the levels of remuneration should be sufficient and appropriate to attract and retain the necessary talents in order to provide a stable and efficient operation of the Group.

The Committee is responsible for:

– Reviewing and making recommendations to the Board on the overall remuneration policy and structure;

– Reporting to the Board on any major changes and updates of overall remuneration policy and structure reviewed by the Committee;

– Determining the specific remuneration packages of Senior Executives, including benefits in kind, pension rights and compensation payments, based on the recommendation of the Chief Executive;

– Reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

– Reviewing and approving the compensation payable to Senior Executives in connection with any termination of their office to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and appropriate;

– Reviewing and approving compensation arrangements relating to dismissal or removal of Senior Executives for misconduct or other reasons to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

7. CORPORATE GOVERNANCE (continued)

(g) Remuneration Committee (continued)

– Ensuring that no Senior Executives or any of his/her associates is involved in deciding his/her own remuneration to avoid conflict of interest; and

– Considering any other topics, as defined by the Board.

The members of the Remuneration Committee are appointed by the Board of Directors from amongst the Directors of the Group. The Remuneration Committee consists of three Directors, the majority of whom are non-executive.

The Chief Executive Officer or in his absence, the Alternate Chief Executive Officer is to attend the meetings of the Committee as a regular attendee. Head of Human Resources is also to attend the meetings of the Committee as a regular attendee to provide the necessary support.

Disclosure on remuneration for CG-5 Guideline on a Sound Remuneration System issued by the HKMA

The Board has delegated power to the Remuneration Committee to oversee the design and operation of the Bank's remuneration system.

The Remuneration Committee currently has 3 members. The independent non-executive Directors represent two-third of the Committee members.

The major responsibilities of the Committee include:

– Determining remuneration packages of the Chief Executive, the Senior Management and the Key Personnel;

– Making recommendations to the Board on the Bank's remuneration structure, annual salary adjustment, annual performance bonus and long term incentive, if applicable; and

– Conducting regular review of the Bank's remuneration system and its operation.

7. CORPORATE GOVERNANCE (continued)

(g) Remuneration Committee (continued)

Disclosure on remuneration for CG-5 Guideline on a Sound Remuneration System issued by the HKMA (continued)

The most important design characteristics of the Bank's remuneration system include the following parameters:

– Advocate pay-for-performance philosophy and internal equity to encourage achievement of results and desirable behaviours in support of the Bank's long term goals and strategies;

– Encourage behaviours that support the Bank's risk tolerance, risk management framework and long term financial soundness;

– Focus on "total cash remuneration" comprising of fixed salary and variable remuneration, while allocation of variable remuneration shall take into account the full range of current and potential risks connected with the activities of associates, overall performance of the relevant business units, the Bank and the associate;

– Respond to market intelligence with flexibility to ensure the Bank's competitiveness in attracting and retaining qualified associates;

– Be integrated with other performance management practices; ensuring that award of remuneration shall depend on the fulfilment of pre-determined and assessable criteria covering both financial and non-financial factors; and

– Apply in general to all associates directly hired by the Bank, with specific regard to the remuneration of the Senior Management, Key Personnel and Risk Control Personnel.

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7. CORPORATE GOVERNANCE (continued)

(g) Remuneration Committee (continued)

Disclosure on remuneration for CG-5 Guideline on a Sound Remuneration System issued by the HKMA (continued)

Remuneration for the Senior Management and Key Personnel

	2010
Number of beneficiaries	12

	2010 $
Fixed remuneration (note (i))	15,729,652
Variable remuneration (note (ii))	
Cash	7,987,098
Total	7,987,098
Deferred remuneration (note (iii))	
Vested	–
Unvested	521,300
Total	521,300
Awarded	2,930,391
Paid out	(2,930,391)
Reduced through performance adjustments	–

Notes:

(i) The fixed remuneration included employer contributions to pension scheme.

(ii) The variable remuneration represented variable cash bonuses paid out during 2010, excluding deferred remuneration reported separately under the part of "Deferred Remuneration".

(iii) The deferred remuneration represented variable cash bonuses paid out under a deferral mechanism and was excluded from the amount stated under the part of "Variable Remuneration".

7. CORPORATE GOVERNANCE (continued)

(h) Credit Committee

The Group has set up Credit Committee to act as a central forum for overseeing its asset quality and resolve all credit risk related issues. Its major responsibilities include the followings:

– Oversee overall credit quality of the Group;

– Ensure credit policies are adequate in the light of updated market conditions and economic trends, and lending activities are conducted in accordance with the Group's established policies and relevant laws and regulations;

– Review and approve credit applications;

– Monitor and control large exposures, connected lending, as well as product and industry concentration based on established policies and internal risk limits to ensure prudent credit decisions are made and that the Group complies with statutory requirements and supervisory guidelines;

– Assess the Group's vulnerability to stressed scenario through review of credit risk stress testing assumptions and results; and

– Review trends in delinquency and appropriateness of impairment allowance.

The members of the Credit Committee are appointed by the Board of Directors. Current composition consists of six members with Chief Credit Officer as the Chairperson. Other members are the Chief Executive Officer, Head of Consumer Banking, Chief Financial Officer, Head of Commercial Banking - Hong Kong & Macau Division and Head of Commercial Banking - China Enterprises Division.

8. RISK MANAGEMENT

(a) Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Mitigating this risk are sound risk management systems, well defined procedures and established controls to monitor transactions and positions, documentation of transactions, regulatory compliance reviews, prudent underwriting and reconciliation standards, periodic reviews by internal control and audit, examiners and auditors, and continuous maintenance of high employee risk awareness and ethical standards. Business line management is responsible for managing operational risks specific to their business units on a day-to-day basis. In addition, the Group also maintains contingency plans and data processing back-up sites for operations support in the event of any disastrous events.

Designated unit under Risk Management drives and coordinates the development of operational risk management process, in particular conducting self-assessment exercises and the setting up of key risk indicators; while Operations Committee plays a role to oversee the operational risk of the Group. The internal control environment is assessed and reviewed by the Group's Internal Control unit on an on going basis while the Audit Department of the ultimate controlling party, China Construction Bank Corporation, will also conduct reviews on the Group on a regular basis. The results of their monitoring activities are reported to the senior management of the Group, the Board of Directors, as well as to the senior management of the ultimate controlling party. Their periodic reviews cover a comprehensive evaluation of all the Group's business processes and support functions.

Compliance awareness is upgraded through compliance circulars and training, both by internal resources and through engagement of external expertise. All officers are required to actively engage in the continuous monitoring process. A Compliance Officer in collaboration with risk management units is designated to oversee the overall regulatory compliance matters.

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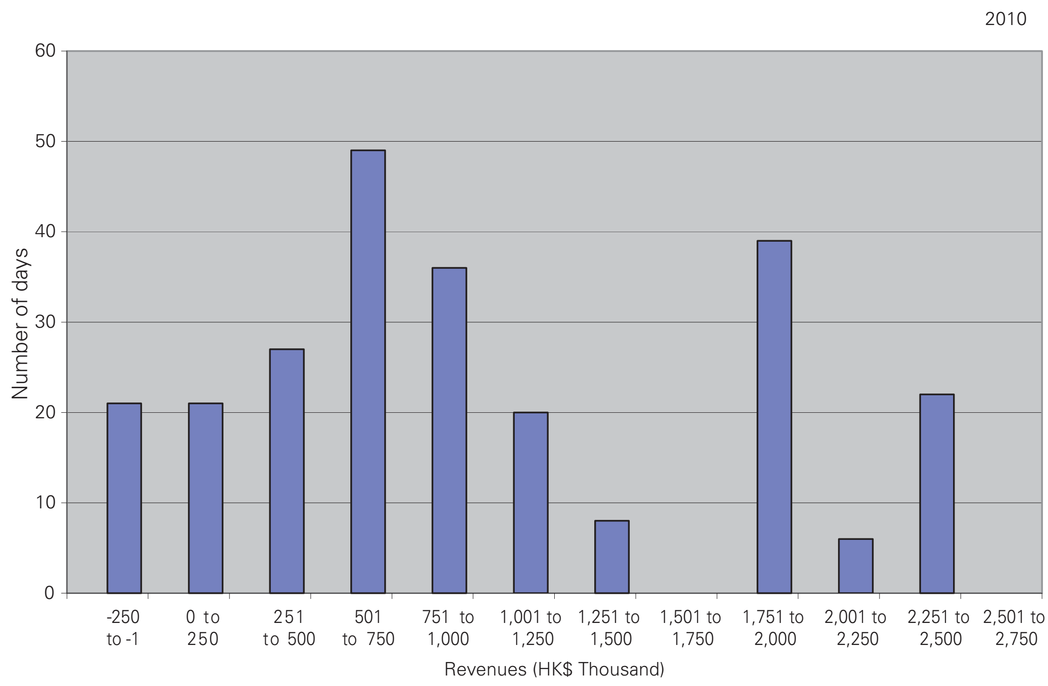
8. RISK MANAGEMENT (continued)

(b) Market risk management

The Group's market risk management is detailed in note 6(b) to the financial statements.

The Group's foreign exchange risk exposure arises from its foreign exchange trading activities. For the year ended 31 December 2010, the average daily revenue of the foreign exchange trading activities was $615,978 (2009: $694,140) and the standard deviation of this daily revenue was $782,954 (2009: $937,058). An analysis of the frequency distribution of the daily foreign exchange trading revenue is presented by the following charts.

Frequency distribution of daily FX trading income



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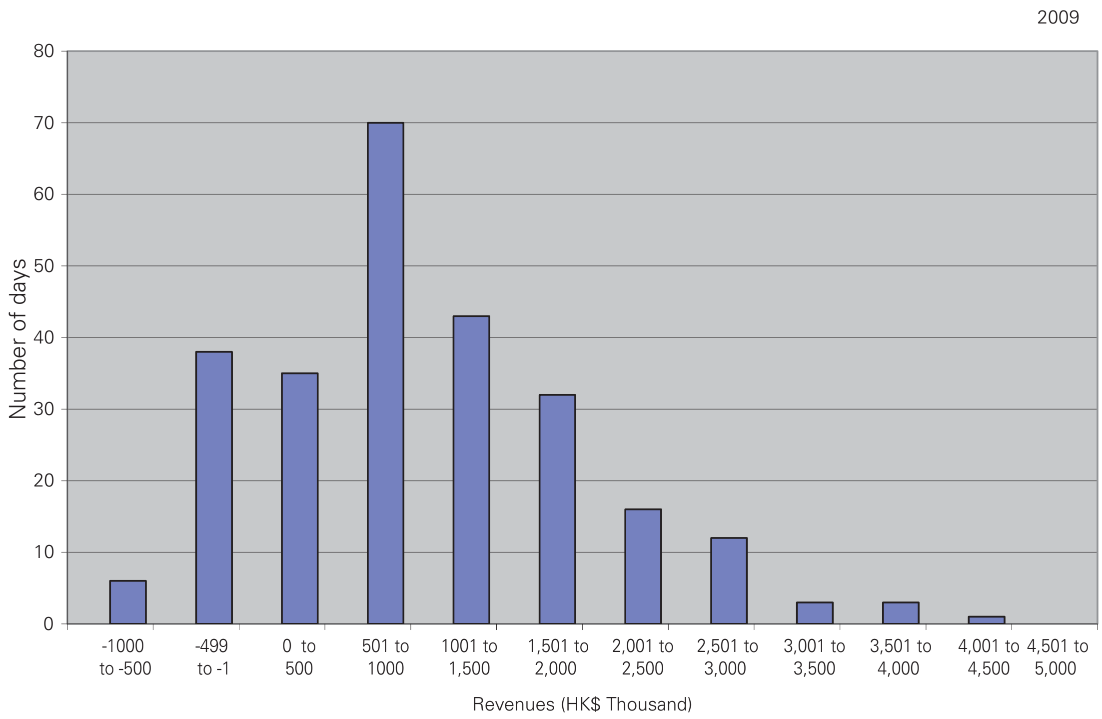
For the year ended 31 December 2010

8. RISK MANAGEMENT (continued)

(b) Market risk management (continued)

Frequency distribution of daily FX trading income



OFFICES AND BRANCHES

Executive Office

16/F, York House, The Landmark, 15 Queen's Road Central, Central, Hong Kong

Administrative Offices

11/F & 17/F, Devon House, 979 King's Road, Hong Kong

Private Banking

Central	12/F, 9 Queen's Road Central	Tel: 3718 3779

Branches in Hong Kong

Aberdeen	170 Aberdeen Main Road	Tel: 3718 3155
Causeway Bay Jardine's Bazaar	51–53 Jardine's Bazaar	Tel: 3718 3520
Causeway Bay Plaza	G/F, Causeway Bay Plaza I, 489 Hennessy Road	Tel: 2838 2384
Central	G/F, 6 Des Voeux Road Central	Tel: 2844 7016
Central Des Voeux Road	99 Des Voeux Road Central	Tel: 2851 6611
Cheung Sha Wan	Shop 105, 1/F, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road	Tel: 3718 3600
Fo Tan	Shop 10, 1/F, Shatin Galleria	Tel: 3718 7062
Happy Valley	G/F, 37 & 39 Sing Woo Road	Tel: 2892 7488
Hunghom Ma Tau Wai Road	G/F, Chasegold Tower, 100 Ma Tau Wai Road	Tel: 3718 3580
Hunghom Whampoa	Shop A3, G/F, Yuen Wah Building, Whampoa Estates	Tel: 3718 3180
Jordan	316 Nathan Road	Tel: 3718 3999
Kowloon Bay Amoy Gardens	Shop 181, G/F Phase II A, Amoy Gardens	Tel: 3718 7366
Kwun Tong Hoi Yuen Road	56 Hoi Yuen Road	Tel: 3718 7082
Kwun Tong Hip Wo Street	191 Hip Wo Street	Tel: 3718 7333
Ma On Shan	Shop 297, Level 2, Ma On Shan Plaza	Tel: 3718 3560
Mei Foo	Shop N46, G/F, 2 Humbert Street, Mei Foo Sun Chuen	Tel: 3510 7800
Mongkok Allied Plaza	Shop G46, G/F, Allied Plaza, 760 Nathan Road	Tel: 2787 3390
Mongkok Nathan Road	788–790 Nathan Road	Tel: 3718 7128
North Point	382–384 King's Road	Tel: 3718 3500
Quarry Bay	Shop E, 1/F, Devon House, 979 King's Road	Tel: 3718 2518
Sai Wan	518 Queen's Road West	Tel: 3718 3640
Sai Ying Pun	73-78 Des Voeux Road West	Tel: 3718 3960
Shatin Plaza	Shop 5, Level 1, Shatin Plaza	Tel: 3718 3160
Shau Kei Wan	2 Po Man Street	Tel: 3718 7000
Sheung Shui	67 San Fung Avenue	Tel: 3718 3620
Sheung Wan Des Voeux Road	237 Des Voeux Road Central	Tel: 3718 7040
Tai Kok Tsui Olympian City	Shop 109, 1/F, Olympian City 2	Tel: 3718 3920
Tai Koo Shing	Shop 001, G/F., Cityplaza II	Tel: 3718 7380
Tai Po	Shop 9B, G/F, 1 On Chee Road	Tel: 3718 7022
Tseung Kwan O	Shop 190, Level 1, Metro City 3	Tel: 3718 3120

OFFICES AND BRANCHES

Branches in Hong Kong (continued)

Tsimshatsui Hankow Road	17 Hankow Road	Tel: 3718 3680
Tsimshatsui Humphreys Avenue	3–3A Humphreys Avenue	Tel: 3718 7166
Tsuen Wan	282–284 Sha Tsui Road	Tel: 3718 7199
Tuen Mun	Shop 9, G/F, Tuen Mun Town Plaza 2	Tel: 3718 3118
Wanchai Great Eagle Centre	Shop 121, 1/F, Great Eagle Centre	Tel: 3718 3900
Wanchai Hennessy Road	Unit C, G/F, China Overseas Building, 139 Hennessy Road	Tel: 3718 7233
Wanchai Johnston Road	150 Johnston Road	Tel: 3718 7300
Wanchai Queen's Road East	72 Queen's Road East	Tel: 3718 3668
Yaumati	556 Nathan Road	Tel: 3718 7200
Yuen Long	68–76 Castle Peak Road	Tel: 3718 3543

Branches in Macau

Central	70–76 Avenida de Almeida Ribeiro	Tel: 8396 9611
Fai Chi Kei	G/F, Chino Plaza, 144 Rua da Bacia Sul	Tel: 8291 1050
Hak Sha Wan	111 Avenida de Venceslau de Morais	Tel: 8291 1380
Kou Si Tak	36–38A Avenida de Horta e Costa	Tel: 8981 3000
Nam Wan	359 Avenida da Praia Grande	Tel: 8291 1980
San Hau On Hot Line	Shop Q, Edificio Hot Line, 349 Alameda Dr. Carlos D'Assumpcao	Tel: 8291 1180
San Hau On Landmark	Shop 024, G/F, Macau Landmark, 555 Avenida da Amizade	Tel: 8291 1710
San Kiu Lin Seng	83 Estrada de Coelho do Amaral	Tel: 8291 1580
Taipa Flower City	Shop A, Supreme Flower City, 160 Rua de Braganca	Tel: 8895 5111

SUBSIDIARY AND ASSOCIATED COMPANIES

Subsidiary Companies

Hong Kong

China Construction Bank (Asia) Finance Limited

23/F, Dorset House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong Tel: 2597 3000

CCB Securities Limited

11/F, Devon House, 979 King's Road, Quarry Bay, Hong Kong Tel: 2903 8498

CCB Nominees Limited

11/F, Devon House, 979 King's Road, Quarry Bay, Hong Kong Tel: 3718 3388

Macau

China Construction Bank (Macau) Corporation Limited

70–76 Avenida de Almeida Ribeiro, Macau Tel: 8396 9611

Associated Company

Hong Kong

QBE Hongkong & Shanghai Insurance Limited

17/F, Warwick House, West Wing, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong Tel: 2877 8488

BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

Board of Directors

DU Yajun *(Chairman)*

MAO Yumin *(Vice Chairman)*

Miranda Pui Fong KWOK *(President & Chief Executive Officer)*

CHAN Mo Po, MH, JP

CHAN Wing Kee, GBS, OBE, JP

James S. DICKSON LEACH

Bucky Wing Foon FONG

Charles Chi Man MA

Secretariat

Cathy Pui Ling CHENG *(Corporate Secretary)*

Executive Management

Miranda Pui Fong KWOK	President & Chief Executive Officer
HUANG Tao	Executive Vice President & Head of Consumer Banking Group
Michael Kin Man LEUNG	Senior Vice President & Chief Information Officer
Peter Yiu Wai HONG	Senior Vice President, Commercial Banking – Hong Kong & Macau
YANG Hao	Senior Vice President, Commercial Banking – China Enterprise
MA Chan Chi	Senior Vice President & Chief Financial Officer