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INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED

(incorporated with limited liability in Hong Kong)

US\$5,000,000,000 Medium Term Note Programme

On 22 November 2010, Industrial and Commercial Bank of China (Asia) Limited (the **Issuer** or the **Bank**) established a US\$5,000,000,000 Medium Term Note Programme (the **Programme**). This offering circular describes the Programme. Any Notes (as defined below) issued under this Programme on or after the date of this Offering Circular are issued subject to the provisions described herein.

Under the Programme, the Issuer, subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes (the **Notes**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Notes may be issued in bearer or registered form (respectively **Bearer Notes** and **Registered Notes**). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed US\$5,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under “*Summary of the Programme*” and any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the **SGX-ST**) for the listing of any Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. The approval in-principle from, and the admission of any Notes to the Official List of, the SGX-ST are not to be taken as indications of the merits of the Issuer, the Programme or the Notes. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under “*Terms and Conditions of the Notes*”) of Notes will be set out in a pricing supplement (the **Pricing Supplement**) which, with respect to Notes to be listed on the SGX-ST, will be delivered to the SGX-ST before the date of listing of the Notes of such Tranche.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes.

Each Tranche of Notes of each Series (as defined in “*Form of the Notes*”) of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a **Temporary Bearer Global Note**) or a permanent global note in bearer form (each a **Permanent Bearer Global Note**). Notes in registered form will initially be represented by a global note in registered form (each a **Registered Global Note** and together with any Temporary Bearer Global Notes and Permanent Bearer Global Notes, the **Global Notes** and each a **Global Note**). Global Notes may be deposited on the issue date with a common depositary for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**).

Global Notes may also be deposited with a sub-custodian for the Hong Kong Monetary Authority (the **HKMA**), as operator of the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority (the **CMU Service**). The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in “*Form of the Notes*”.

The Issuer may agree with any Dealer (as defined herein) that the Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes intended to be listed on the SGX-ST) a supplementary offering circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Notes issued under the Programme may be rated or unrated. Where an issue of a certain series of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme and (where applicable) such rating will be specified in the relevant Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

See “Investment Considerations” for a discussion of certain factors to be considered in connection with an investment in the Notes.

Arrangers

BofA MERRILL LYNCH

HSBC

ICBC INTERNATIONAL

Dealers

BofA Merrill Lynch

HSBC

ICBC International

The date of this Offering Circular is 22 November 2010

To the best of the knowledge and belief of the Issuer (having made all reasonable enquiries to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything that would make the statements therein, in light of the circumstances which they were made misleading. The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information which is material in the context of the issue and offering of the Notes, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading. The Issuer accepts responsibility accordingly.

No person is or has been authorised by the Issuer to give any information or to make any representations other than those contained in this Offering Circular in connection with the Programme or the Notes and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer, the Arrangers or the Dealers.

The Arrangers and the Dealers have not separately verified the information contained in this Offering Circular to the fullest extent permitted by law. None of the Arrangers nor the Dealers makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Offering Circular. To the fullest extent permitted by law, none of the Arrangers nor the Dealers accepts any responsibility for the contents of this Offering Circular. Each of the Arrangers and the Dealers accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement. Neither this Offering Circular nor any financial statements included or incorporated herein are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arrangers or the Dealers that any recipient of this Offering Circular or any such financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Offering Circular and make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the risks involved. The purchase of Notes by investors should be based upon their investigation as they deem necessary. None of the Arrangers nor the Dealers undertakes to review the financial condition or affairs of the Issuer and, the Issuer and its subsidiaries taken as a whole (together, the **Group**) during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arrangers or the Dealers.

Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, any of the Arrangers or the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arrangers and the Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Notes.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**), and are subject to U.S. tax law requirements. Subject to certain

exceptions, the Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this Offering Circular, see “*Subscription and Sale*”.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Issuer, the Arrangers or the Dealers represents that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arrangers or the Dealers which would permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of the Notes in the United States, the European Economic Area (including the United Kingdom), Singapore, Japan and Hong Kong. See “*Subscription and Sale*”.

CERTAIN DEFINITIONS

Unless otherwise specified or the context requires, references herein to **US dollars** and **US\$** are to the lawful currency of the United States of America (the **USA** or the **US**), references to **Hong Kong dollars**, **HK dollars** and **HK\$** are to the lawful currency of Hong Kong, references to **Renminbi** and **RMB** are to the lawful currency of the People's Republic of China (the **PRC**), references to **Singapore dollars** and **S\$** are to the lawful currency of Singapore, references to **Sterling** and **£** are to the lawful currency of the United Kingdom and references to **EUR**, **euro** and **€** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the functioning of the European Union, as amended.

In addition, references to **Hong Kong** are to the Hong Kong Special Administrative Region of the PRC, references to **Macau** are to the Macau Special Administrative Region of the PRC, references to **Mainland China** are to the PRC excluding Hong Kong and Macau and references to **Greater China** are to the PRC including Hong Kong and Macau.

For convenience only and unless otherwise noted, all translations from HK dollars into US dollars in this Offering Circular were made at the rate of HK\$7.755 to US\$1.00. No representation is made that the HK dollar amounts referred to in this Offering Circular could have been or could be converted into US dollars at any particular rate or at all.

Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

FORWARD-LOOKING STATEMENTS

The Issuer has included statements in this Offering Circular which contain words or phrases such as **will**, **would**, **aim**, **aimed**, **is likely**, **are likely**, **believe**, **expect**, **expected to**, **will continue**, **anticipated**, **estimate**, **estimating**, **intend**, **plan**, **seeking to**, **future**, **objective**, **should**, **can**, **could**, **may**, and similar expressions or variations of such expressions, that are "forward-looking statements". Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with the Issuer's expectations with respect to, but not limited to, its ability to successfully implement its strategy, its ability to integrate recent or future mergers or acquisitions into its operations, future levels of non-performing assets and restructured assets, its growth and expansion, the adequacy of its provision for credit and investment losses, technological changes, investment income, its ability to market new products, cash flow projections, the outcome of any legal or regulatory proceedings it is or becomes a party to, the future impact of new accounting standards, its ability to pay dividends, its ability to roll over its short-term funding sources, its exposure to operational, market, credit, interest rate and currency risks and the market acceptance of and demand for Internet banking services.

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IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE PRICING SUPPLEMENT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES OF THE SERIES (AS DEFINED BELOW) OF WHICH SUCH TRANCHE FORMS PART AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR PERSON(S) ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSON(S) ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (a) the independent auditor's report dated 24 March 2009 by Ernst & Young, Certified Public Accountants, the consolidated financial statements of the Issuer as at and for the year ended 31 December 2007 and 2008;
- (b) the most recently published audited financial statements of the Issuer and the most recently published unaudited interim financial statements of the Issuer; and
- (c) all supplements or amendments to this Offering Circular circulated by the Issuer from time to time,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

The Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its office set out at the end of this Offering Circular. In addition, such documents will be available free of charge from the office of The Hongkong and Shanghai Banking Corporation Limited (the **Fiscal Agent**) at Level 30, HSBC Main Building, 1 Queen's Road Central, Hong Kong. Pricing Supplements relating to unlisted Notes will only be available for inspection by a holder of such Notes and such holder must produce evidence satisfactory to the Issuer or the relevant Paying Agent as to its holding of Notes and its identity.

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, a new offering circular will be prepared.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Notes denominated in any currency, subject to as set out herein. A summary of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under “*Form of the Notes*”.

This Offering Circular and any supplement will only be valid for Notes issued under the Programme during the period of 12 months from the date of this Offering Circular in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed US\$5,000,000,000 or its equivalent in other currencies. For the purpose of calculating the US dollar equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

- (a) the US dollar equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under “*Form of the Notes*”) shall be determined, at the discretion of the Issuer, either as at the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in Hong Kong, in each case on the basis of the spot rate for the sale of the US dollar against the purchase of such Specified Currency in the Hong Kong foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;
- (b) the US dollar equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under “*Form of the Notes*”) shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and
- (c) the US dollar equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under “*Form of the Notes*”) and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

SUMMARY FINANCIAL AND OTHER INFORMATION

The following tables set forth the summary consolidated financial and other information of the Bank as at and for the periods indicated. The summary consolidated financial information as at and for the years ended 31 December 2008 and 2009 and the six months ended 30 June 2009 and 2010 set forth below is derived from the Bank's audited consolidated financial statements and unaudited condensed consolidated interim financial statements, respectively, and should be read in conjunction with the audited consolidated financial statements and unaudited condensed consolidated interim financial statements of the Bank and the notes thereto included elsewhere in this Offering Circular. Certain items in the audited consolidated financial statements of the Bank as at and for the years ended 31 December 2008 and 2009 and the unaudited condensed consolidated interim financial statements of the Bank as at and for the six months ended 30 June 2009 and 2010 have been aggregated for the purpose of presentation of the summary financial information in the tables below.

The Bank's audited consolidated financial statements as at and for the year ended 31 December 2008 and 2009 and unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 2009 and 2010 were prepared in accordance with Hong Kong Financial Reporting Standards (**HKFRS**). The accounting policies of the Bank have been summarised in note 2 of the Bank's audited consolidated financial statements as at and for the year ended 31 December 2009 and notes 2.1 and 3.1 of the Bank's unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 2010.

CONSOLIDATED INCOME STATEMENT

	For the year ended			For the six months ended 30 June		
	2008	2009	2009	2009	2010	2010
	(Expressed in thousands of Hong Kong dollars)	(Expressed in thousands of US dollars)	(Expressed in thousands of US dollars)	(Expressed in thousands of Hong Kong dollars) (Restated) ⁽¹⁾	(Expressed in thousands of Hong Kong dollars)	(Expressed in thousands of US dollars)
Interest income	7,753,857	4,479,068	577,572	2,322,494	2,513,851	324,159
Interest expense	(4,755,554)	(1,469,872)	(189,539)	(832,462)	(788,979)	(101,738)
Net interest income	2,998,303	3,009,196	388,033	1,490,032	1,724,872	222,421
Fee and commission income	756,268	814,429	105,020	348,439	421,997	54,416
Fee and commission expense	(93,166)	(87,395)	(11,270)	(35,661)	(64,156)	(8,273)
Net fee and commission income	663,102	727,034	93,750	312,778	357,841	46,143
Net trading income	273,441	214,338	27,639	120,864	163,299	21,057
Net (loss)/gain on financial assets and liabilities designated at fair value through profit or loss	(230,640)	193,215	24,915	73,756	18,037	2,326
Dividend income from financial investments ..	14,859	6,476	835	3,517	3,591	463
Other operating income...	33,246	39,922	5,148	18,311	10,650	1,373
Operating income	3,752,311	4,190,181	540,320	2,019,258	2,278,290	293,783
Operating expenses	(1,252,119)	(1,358,339)	(175,157)	(696,418)	(679,802)	(87,660)
Operating profit before impairment losses	2,500,192	2,831,842	365,163	1,322,840	1,598,488	206,123
Charge for impairment losses on loans and advances	(408,629)	(385,536)	(49,715)	(224,605)	(210,328)	(27,122)
Write-back of impairment losses on held-to-maturity financial investments ..	156	2,145	277	1,126	80	10
Charge for impairment losses on available-for-sale financial investments ..	(802,880)	(195,058)	(25,153)	(42,870)	—	—
Operating profit after impairment losses	1,288,839	2,253,393	290,572	1,056,491	1,388,240	179,011
Revaluation (loss)/gain on investment properties	(498)	6,087	785	—	1,275	164
Net gain from disposal/reversal of revaluation deficits of property, plant and equipment and leasehold land and land use rights	5,513	3,850	496	2,762	2,271	293
Loss on disposal of loans and advances	(28,710)	—	—	—	21,291	2,745
Net (loss)/gain on disposal of available-for-sale financial investments ..	(201,962)	782,300	100,877	56,892	58,529	7,547
Gain on disposal of subsidiaries and an associate	—	1,328	171	—	—	—

	For the year ended			For the six months ended 30 June		
	2008	2009	2009	2009	2010	2010
	(Expressed in thousands of Hong Kong dollars)		(Expressed in thousands of US dollars)	(Expressed in thousands of Hong Kong dollars)		(Expressed in thousands of US dollars)
				(Restated) ⁽¹⁾		
Operating profit	1,063,182	3,046,958	392,901	1,116,145	1,471,606	189,760
Share of profits of associates	655	23,243	2,997	10,881	7,174	925
Profit before tax	1,063,837	3,070,201	395,898	1,127,026	1,478,780	190,685
Income tax expense	(94,814)	(544,059)	(70,156)	(198,183)	(249,622)	(32,189)
Profit attributable to equity holders	969,023	2,526,142	325,742	928,843	1,229,158	158,496
Earnings per share - Basic and diluted	HK\$0.77	HK\$1.95	US\$0.25	HK\$0.72	HK\$0.93	US\$0.12

Note:

- (1) As a result of the adoption of the amendment to HKAS 17 “Leases”, certain comparative figures of the consolidated interim financial statements of the Bank for the six months ended 30 June 2009 have been restated in order to be comparable with the financial statements for the six months ended 30 June 2010.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended			For the six months ended 30 June		
	2008	2009	2009	2009	2010	2010
	(Expressed in thousands of Hong Kong dollars)	(Expressed in thousands of US dollars)	(Expressed in thousands of US dollars)	(Expressed in thousands of Hong Kong dollars) (Restated) ⁽¹⁾	(Expressed in thousands of Hong Kong dollars)	(Expressed in thousands of US dollars)
Profit for the period	969,023	2,526,142	325,742	928,843	1,229,158	158,496
Revaluation surplus on bank premises	7,289	7,343	947	(417)	12,896	1,663
Income tax effect	(1,656)	(3,614)	(466)	—	2,273	293
	5,633	3,729	481	(417)	15,169	1,956
Change of fair value of hedging instruments under cash flow hedge	7,853	(7,853)	(1,013)	(1,780)	(42,191)	(5,440)
Income tax effect	—	—	—	(1,002)	6,962	897
	7,853	(7,853)	(1,013)	(2,782)	(35,229)	(4,543)
Change in fair value reserve of available-for-sale financial investments	(3,419,922)	2,035,053	262,418	1,216,499	(18,159)	(2,342)
Transfer from the available-for-sale financial investment reserve to the income statement on impairment	819,504	43,715	5,637	42,905	—	—
Income tax effect	445,638	(336,082)	(43,337)	(206,505)	(2,622)	(338)
	(2,154,780)	1,742,686	224,718	1,052,899	(20,781)	(2,680)
Exchange differences arising from translation of results of a foreign subsidiary	72,778	123	16	1,233	20,781	2,680
Other comprehensive income for the year/period, net of tax	(2,068,516)	1,738,685	224,202	1,050,933	(20,060)	(2,587)
Total comprehensive income for the year/period, net of tax	(1,099,493)	4,264,827	549,944	1,979,776 ⁽¹⁾	1,209,098	155,909
Attributable to: Equity holders of the Bank	(1,099,493)	4,264,827	549,944	1,979,776	1,209,098	155,909

Note:

- (1) As a result of the adoption of the amendment to HKAS 17 “Leases”, certain comparative figures of the consolidated interim financial statements of the Bank for the six months ended 30 June 2009 have been restated in order to be comparable with the financial statements for the six months ended 30 June 2010.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December			As at 30 June		
	2008	2009	2009	2009	2010	2010
	(Expressed in thousands of Hong Kong dollars)		(Expressed in thousands of US dollars)	(Expressed in thousands of Hong Kong dollars) (Restated) ⁽¹⁾		(Expressed in thousands of US dollars)
Assets						
Cash and balances with banks and other financial institutions ..	28,678,778	27,910,582	3,599,044	38,390,316	27,424,822	3,536,405
Placements with and advances to banks and other financial institutions	844,358	1,663,286	214,479	15,326,779	1,549,249	199,774
Financial assets held for trading	52,051	190,246	24,532	45,849	197,876	25,516
Financial assets designated at fair value through profit or loss	1,488,003	1,162,149	149,858	1,305,904	944,533	121,797
Derivative financial instruments	2,308,702	1,285,306	165,739	1,348,166	2,006,609	258,750
Loans and advances to customers, banks and other financial institutions	137,082,721	147,024,582	18,958,682	128,814,577	184,592,521	23,803,033
Financial investments:	19,379,478	33,653,175	4,339,546	30,046,641	35,801,360	4,616,552
— Available-for-sale ..	17,403,075	32,361,666	4,173,007	28,404,433	34,596,813	4,461,227
— Held-to-maturity ...	1,976,403	1,291,509	166,539	1,642,208	1,204,547	155,325
Investments in associates	184,854	175,177	22,589	195,317	182,351	23,514
Goodwill and other intangible assets	1,032,938	1,020,893	131,643	1,028,120	1,018,718	131,363
Investment properties	40,126	46,213	5,959	40,126	47,488	6,124
Property, plant and equipment	276,074	273,953	35,326	498,360 ⁽¹⁾	486,775	62,769
Leasehold land and land use rights	43,860	43,117	5,560	—	—	—
Current income tax assets	130,988	—	—	—	—	—
Deferred income tax assets	151,619	—	—	—	—	—
Other assets	2,869,559	1,305,150	168,298	1,310,067	1,554,306	200,427
Total assets	<u>194,564,109</u>	<u>215,753,829</u>	<u>27,821,255</u>	<u>218,350,222</u>	<u>255,806,628</u>	<u>32,986,024</u>
Liabilities						
Deposits from banks and other financial institutions	20,056,756	20,176,700	2,601,767	25,745,556	33,477,605	4,316,906
Derivative financial instruments	3,296,670	1,403,832	181,023	1,431,854	2,427,258	312,993
Deposits from customers	138,183,332	161,161,561	20,781,633	159,849,555	180,678,728	23,298,353
— Designated at fair value through profit or loss	301,216	—	—	—	—	—
— At amortised cost ..	137,882,116	161,161,561	20,781,633	159,849,555	180,678,728	23,298,353
Certificates of deposit issued	4,312,361	2,394,546	308,774	1,484,935	7,289,223	939,938
— Designated at fair value through profit or loss	3,489,361	1,419,077	102,988	1,161,935	1,086,547	140,109
— At amortised cost ..	823,000	975,469	125,786	323,000	6,202,676	799,829
Debt securities in issue ..	3,146,399	159,526	20,571	3,122,645	202,351	26,093
— Designated at fair value through profit or loss	3,146,399	—	—	3,122,645	101,175	13,046
— At amortised cost ..	—	159,526	20,571	—	101,176	13,047
Current income tax liabilities	10,113	1,531,204	197,447	36,536	1,752,548	225,989

	As at 31 December			As at 30 June		
	2008	2009	2009	2009	2010	2010
	(Expressed in thousands of Hong Kong dollars)	(Expressed in thousands of US dollars)	(Expressed in thousands of US dollars)	(Expressed in thousands of Hong Kong dollars) (Restated) ⁽¹⁾	(Expressed in thousands of Hong Kong dollars)	(Expressed in thousands of US dollars)
Deferred income tax liabilities	14,072	190,262	24,534	102,471	206,317	26,604
Subordinated debts measured at amortised cost	8,556,348	8,561,125	1,103,949	8,556,348	8,589,790	1,107,645
Other liabilities	3,050,280	2,070,476	266,986	1,996,521	1,842,906	237,641
Total liabilities	180,626,331	197,649,232	25,486,684	202,326,420	236,466,726	30,492,162
Equity						
Share capital	2,570,536	2,636,681	339,998	2,598,476	2,704,123	348,694
Retained earnings	3,290,741	5,181,915	668,203	3,981,150 ⁽¹⁾	5,610,900	723,520
Other reserves	8,076,501	10,286,001	1,326,370	9,444,176	11,024,879	1,421,648
Total equity	13,937,778	18,104,597	2,334,571	16,023,802	19,339,902	2,493,862
Total equity and liabilities	194,564,109	215,753,829	27,821,255	218,350,222	255,806,628	32,986,024

Note:

- (1) As a result of the adoption of the amendment to HKAS 17 “Leases”, certain comparative figures of the consolidated interim financial statements of the Bank for the six months ended 30 June 2009 have been restated in order to be comparable with the financial statements for the six months ended 30 June 2010.

OTHER INFORMATION (unaudited and not reviewed)

	As at 31 December		As at 30 June	
	2008	2009	2009	2010
Capital Adequacy Ratio ⁽¹⁾	13.6%	14.9%	14.4%	13.4%
Average Liquidity Ratio ⁽²⁾	37.0%	40.2%	38.0%	41.5%
Loan to Deposits	72.9%	71.9%	68.5%	72.3%
Loans to Total Assets	70.5%	68.1%	59.0%	72.2%
Impaired Loan/Non-Performing Loan Ratio	0.65%	0.92%	0.71%	0.65%
Collective/General Provision Coverage ⁽³⁾ .	0.9%	0.9%	0.9%	0.9%
Cost to Income	33.3%	32.4%	34.4%	29.8%
Dividend Payout	61.5%	44.1%	39.2%	40.7%
Return on Average Assets	0.5%	1.2%	1.0%	1.0%
Return on Average Common Equity	6.8%	16.1%	13.0%	13.7%

Notes:

- (1) As at 31 December 2008 and 2009 and as at 30 June 2009 and 2010, the Bank's capital adequacy ratio was computed on a consolidated basis covering the Bank and certain of its subsidiaries as required by the Hong Kong Monetary Authority (the **HKMA**) for its regulatory purposes, and was in accordance with Banking (Capital) Rules effective on 1 January 2007.
- (2) The average liquidity ratio was computed on a consolidated basis covering the Bank and certain of its subsidiaries as required by the HKMA for its regulatory purposes, and is in accordance with the Fourth Schedule to the Banking Ordinance (Cap. 155) of Hong Kong (the **Banking Ordinance**).
- (3) Collective/General Provision Coverage includes Regulatory Reserve.

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in “Form of the Notes” and “Terms and Conditions of the Notes” shall have the same meanings in this summary.

Issuer:	Industrial and Commercial Bank of China (Asia) Limited, a company incorporated with limited liability in Hong Kong and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the HKSE).
Description:	Medium Term Note Programme
Arrangers:	The Hongkong and Shanghai Banking Corporation Limited, ICBC International Securities Limited and Merrill Lynch International
Dealers:	The Hongkong and Shanghai Banking Corporation Limited, ICBC International Securities Limited and Merrill Lynch International and any other Dealers appointed in accordance with the Programme Agreement.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “ <i>Subscription and Sale</i> ”) including the following restrictions applicable at the date of this Offering Circular.

Notes having a maturity of less than one year

Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in Section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see “*Subscription and Sale*”.

Fiscal Agent and Agent Bank: . . .	The Hongkong and Shanghai Banking Corporation Limited
Registrar and Transfer Agent: . . .	The Hongkong and Shanghai Banking Corporation Limited
CMU Lodging and Paying Agent: . . .	The Hongkong and Shanghai Banking Corporation Limited
Programme Size:	Up to US\$5,000,000,000 (or its equivalent in other currencies calculated as described under “ <i>General Description of the Programme</i> ”) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.

Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer.
Redenomination:	The applicable Pricing Supplement may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 5.
Maturities:	Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid or (in the case of the Notes other than Subordinated Notes) a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer or registered form as described in “ <i>Form of the Notes</i> ”. Registered Notes will not be exchangeable for Bearer Notes and <i>vice versa</i> .
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the Dealer.
Floating Rate Notes:	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; (c) or on such other basis as may be agreed between the Issuer and the relevant Dealer. <p>The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each series of Floating Rate Notes.</p>

Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.
Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:	<p>Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.</p>
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount, or offered and sold at their nominal amount and be redeemed at a premium, and will not bear interest.
Redemption:	<p>The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons, regulatory reasons, or pursuant to a winding-up of the Issuer following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.</p> <p>The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.</p> <p>Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see “<i>Certain Restrictions — Notes having a maturity of less than one year</i>” above.</p>

No Subordinated Notes may be redeemed or purchased by the Issuer or its Subsidiaries (as defined under the “*Terms and Conditions of the Notes*”) prior to its stated maturity, for tax reasons, regulatory reasons or otherwise, without the prior written consent of the HKMA at the relevant time. See *Condition 8.13 of the “Terms and Conditions of the Notes”*.

Denomination of Notes:	Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see “ <i>Certain Restrictions</i> ” above.
Taxation:	All payments of principal and interest in respect of the Notes, Receipts and Coupons will be made without deduction for or on account of withholding taxes imposed by Hong Kong, subject as provided in Condition 9. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 9, be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge:	The terms of the Senior Notes will contain a negative pledge provision as further described in Condition 4.
Events of Default for Senior Notes:	Events of default for Senior Notes are set out in Condition 11.1.
Cross Default:	The terms of the Senior Notes will contain a cross default provision as further described in Condition 11.1.
Status of the Senior Notes:	The Senior Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of the negative pledge in Condition 4) unsecured obligations of the Issuer, ranking <i>pari passu</i> and without any preference among themselves. The payment obligations of the Issuer under the Senior Notes will rank at least equally with all other unsecured and unsubordinated obligations of the Issuer, present and future, including liabilities in respect of deposits, save for such exceptions as may be provided by applicable legislation and subject to Condition 4.
Status, Events of Default and other terms of Subordinated Notes:	Subordinated Notes will be Dated Subordinated Notes or Undated Subordinated Notes as indicated in the applicable Pricing Supplement. The status of the Subordinated Notes and events of default applicable to Subordinated Notes are set out in Conditions 3.2 and 11.2, respectively. Subordinated Notes do not have the benefit of a negative pledge or cross default provision.

Listing:	<p>Approval in-principle has been received from the SGX-ST for the listing of any Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes will be traded on the SGX-ST in a minimum board lot size of S\$200,000 (or its equivalent in other currencies).</p> <p>Unlisted Notes may also be issued.</p> <p>The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).</p>
Ratings	<p>Tranches of Notes will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Pricing Supplement.</p> <p>A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, revision, reduction or withdrawal at any time by the assigning rating agency.</p>
Governing Law:	<p>The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law, except that the provisions of the Notes relating to subordination shall be governed by, and construed in accordance with, the laws of Hong Kong.</p>
Selling Restrictions:	<p>There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom), Singapore, Japan and Hong Kong and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see “<i>Subscription and Sale</i>”.</p>
United States Selling Restrictions:	<p>Regulation S, Category 1 or 2, as specified in the applicable Pricing Supplement. TEFRA C or D/TEFRA not applicable, as specified in the applicable Pricing Supplement.</p>
Clearing Systems:	<p>The CMU Service, Clearstream, Luxembourg, Euroclear and/or any other clearing system as specified in the applicable Pricing Supplement, see “<i>Form of the Notes</i>”.</p>

FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached.

Bearer Notes

Each Tranche of Bearer Notes will be in bearer form and will be initially issued in the form of a Temporary Bearer Global Note or, if so specified in the applicable Pricing Supplement, a Permanent Bearer Global Note which, in either case, will be delivered on or prior to the original issue date of the Tranche to either (i) a common depository (the **Common Depository**) for, Euroclear and Clearstream, Luxembourg or (ii) a sub-custodian for the CMU Service.

Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and/or the CMU Lodging and Paying Agent and (in the case of a Temporary Bearer Global Note delivered to a Common Depository for Euroclear and Clearstream, Luxembourg) Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent (as defined in “*Terms and Conditions of the Notes*”). On and after the date (the **Exchange Date**) which is 40 days after a Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a Permanent Bearer Global Note of the same Series or (b) for definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that the purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Notes. The CMU Service may require that any such exchange for a Permanent Global Bearer Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU Service) have so certified. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification.

In respect of a Bearer Global Note held through the CMU Service, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Bearer Global Note are credited (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU Service) and, save in the case of final payment, no presentation of the relevant Bearer Global Note shall be required for such purpose.

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (a) not less than 60 days' written notice (i), in the case of Notes held by a Common Depository for Euroclear and Clearstream, Luxembourg, from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent as described therein or (ii), in the case of Notes held through a sub-custodian for the CMU Service, from the relevant account holders therein to the CMU Lodging and Paying Agent as described therein or (b) only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 11) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have, or in the case of Notes cleared through the CMU Service, the CMU Service has, been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bearer Notes represented by the Permanent Bearer Global Note in definitive form and a certificate to such effect signed by two directors of the Issuer is given to the Fiscal Agent. The Issuer will promptly give notice to Noteholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, (a) in the case of Notes held by a Common Depository for Euroclear and Clearstream, Luxembourg, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) or, (b) in the case of Notes held through a sub-custodian for the CMU Service, the relevant account holders therein, may give notice to the Principal Paying Agent or, as the case may be, the CMU Lodging and Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent or, as the case may be, the CMU Lodging and Paying Agent.

The following legend will appear on all Bearer Notes which have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Notes:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear, Clearstream, Luxembourg or the CMU Service, as the case may be.

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global note in registered form (a **Registered Global Note**, together with any Bearer Global Note, the **Global Notes**). Prior to expiry of the distribution compliance period (as defined in Regulation S), if any, applicable to each Tranche of Notes, beneficial interests in a Registered Global Note may not be

offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through Euroclear, Clearstream, Luxembourg or the CMU Service and such Registered Global Note will bear a legend regarding such restrictions on transfer.

Registered Global Notes will be deposited with a Common Depository for, and registered in the name of a common nominee of, Euroclear, Clearstream, Luxembourg and/or deposited with a sub-custodian for the CMU Service (if applicable), as specified in the applicable Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 7.4) as the registered holder of the Registered Global Notes. None of the Issuer, the Fiscal Agent, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 7.4) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, Exchange Event means that (i) an Event of Default has occurred and is continuing, (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered where the Notes represented by the Registered Global Notes in definitive form or (iii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg and, in the case of Notes cleared through the CMU Service, the CMU Service have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any case, no successor or alternative clearing system is available. The Issuer will promptly give notice to Noteholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, (a) in the case of Notes registered in the name of a nominee for a Common Depository for Euroclear and Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Registered Global Note) and/or, (b) in the case of Notes held through a sub-custodian for the CMU Service, the relevant account holders therein, may give notice to the Registrar or the CMU Lodging and Paying Agent, as the case may be, requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar or the CMU Lodging and Paying Agent, as the case may be.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear, Clearstream, Luxembourg and the CMU Service, in each case to the extent applicable.

General

Pursuant to the Agency Agreement (as defined under “*Terms and Conditions of the Notes*”), the Principal Paying Agent or, as the case may be, the CMU Lodging and Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CMU instrument number which are different from the common code, CMU instrument number and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act), if any, applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg or the CMU Service, each person (other than Euroclear and/or Clearstream, Luxembourg or the CMU Service) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg or the CMU Service as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear and/or Clearstream, Luxembourg or the CMU Service as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Fiscal Agent and their agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purposes the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer, the Fiscal Agent and their agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly. Notwithstanding the above, if a Note (whether in global or definitive form) is held through the CMU Service, any payment that is made in respect of such Note shall be made at the direction of the bearer or the registered holder to the person(s) for whose account(s) interests in such Note are credited as being held through the CMU Service in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU Service in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service as to the identity of any accountholder and the principal amount of any Note credited to its account, save in the case of manifest error) and such payments shall discharge the obligation of the Issuer in respect of that payment under such Note.

Any reference herein to Euroclear and/or Clearstream, Luxembourg and/or the CMU Service shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 11. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8.00 p.m. (Hong Kong time) on such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear, Clearstream, Luxembourg and/or the CMU Service, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear, Clearstream, Luxembourg and/or the CMU Service on and subject to the terms of a deed of covenant (the **Deed of Covenant**) dated 22 November 2010 and executed by the Issuer.

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 6, 7, 8 (except Condition 8.2 or 8.3), 12, 13, 14, 15 (insofar as such Notes are not

listed or admitted to trade on any stock exchange) or 19, they will not necessitate the preparation of a supplement to this Offering Circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Offering Circular will be prepared, if appropriate.

For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, in the event that any of the Global Notes representing such Notes is exchanged for definitive Notes. In addition, in the event that any of the Global Notes is exchanged for definitive Notes, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

APPLICABLE PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.

[Date]

Industrial and Commercial Bank of China (Asia) Limited

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the US\$5,000,000,000
Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 22 November 2010. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Offering Circular dated [*original date*]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [*current date*], save in respect of the Conditions which are extracted from the Offering Circular dated [*original date*] and are attached hereto.]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination [must/may need to] be £100,000 or its equivalent in any other currency.]

1. Issuer: Industrial and Commercial Bank of China (Asia) Limited
2. (a) Series Number: [●]
(b) Tranche Number: [●] (*If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible*)
3. Specified Currency or Currencies: [●]
4. Aggregate Nominal Amount:
 - (a) Series: [●]
 - (b) Tranche: [●]

5. [(a)] Issue Price: [●] % of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)]
- [(b)] Net Proceeds: [●] (required only for listed issues)]
6. (a) Specified Denominations: [●]
- (Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the FSMA and] which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies). (Note — where multiple denominations above [€ 50,000] or equivalent are being used with respect to Bearer Notes, the following sample wording should be followed:
- “[€ 50,000] and integral multiples of [€ 1,000] in excess thereof up to and including [€ 99,000]. No Notes in definitive form will be issued with a denomination above [€ 99,000].”)
- (N.B. If an issue of Notes is (i) NOT admitted to trading on a European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the € [1,000]/[50,000] minimum denomination is not required.)
- (In the case of Registered Notes, this means the minimum integral amount in which transfers can be made.)
- (b) Calculation Amount: [●] (If only one Specified Denomination, insert the Specified Denomination.
- If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)
7. (a) Issue Date: [●]
- (b) Interest Commencement Date: [specify/Issue Date/Not Applicable] (N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)
8. Maturity Date: [Fixed rate - specify date/Floating rate - Interest Payment Date falling on or about [specify month and year]]¹

¹ Note that for Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the second option here.

9. Interest Basis: % Fixed Rate] [LIBOR/EURIBOR/HIBOR] +/- % Floating Rate] [Zero Coupon] [Index Linked Interest] [Dual Currency Interest] [*specify other*] (further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Instalment] [*specify other*]
11. Change of Interest Basis or Redemption/Payment Basis: [*Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis*]
12. Put/Call Options: [Investor Put] [Issuer Call] [(further particulars specified below)]
13. (a) Status of the Notes: [Senior/[Dated/Undated]Subordinated]
- (b) Date of [Board] approval for issuance of Notes obtained: [and , respectively]]/[None required] (*N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes*)
- (c) Date of regulatory approval for issuance of Notes obtained: /[None required]
14. Listing: [Singapore/*specify other*/None]
15. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16. Fixed Rate Note Provisions Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
- (a) Rate(s) of Interest: % per annum [payable [annually/semi-annually/quarterly/*other specify*]] in arrear] (*If payable other than annually, consider amending Condition 6*)
- (b) Interest Payment Date(s): [in each year² up to and including the Maturity Date]/[*specify other*] (*N.B. This will need to be amended in the case of long or short coupons*)

² Note that for certain Hong Kong dollar denominated Fixed Rate Notes the Interest Payment Dates are subject to modification and the following words should be added: “provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day. For these purposes, “Business Day” means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and currency deposits) in Hong Kong and .

- (c) Fixed Coupon Amount(s): per Calculation Amount³
(Applicable to Notes in definitive form)
- (d) Broken Amount(s): per Calculation Amount, payable on the Interest Payment Date falling
(Applicable to Notes in definitive form)
- (e) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or Actual/360 or Actual/365 (Fixed)⁴ or *[specify other]*]
- (f) [Determination Date(s): in each year (*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)*)]
- (g) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/*Give details*]
17. Floating Rate Note Provisions (*If not applicable, delete the remaining subparagraphs of this paragraph*)
- (a) Specified Period(s)/Specified Interest Payment Dates:
- (b) First Interest Payment Date:
- (c) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*[specify other]*]
- (d) Additional Business Centre(s):
- (e) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/*specify other*]
- (f) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent):

³ For Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest HK\$0.01, HK\$0.005 being rounded upwards."

⁴ Applicable to Hong Kong denominated Fixed Rate Notes.

- (g) Screen Rate Determination:
- Reference Rate: [●] *(Either LIBOR, EURIBOR, HIBOR or other, although additional information is required if other - including fallback provisions in the Agency Agreement)*
 - Interest Determination Date(s): [●] *(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling, Hong Kong dollar or euro LIBOR), first day of each Interest Period if Sterling LIBOR or Hong Kong dollar LIBOR or HIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)*
 - Relevant Screen Page: [●] *(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
- (h) ISDA Determination:
- Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]
- (i) Margin(s): [+/-] [●] % per annum
- (j) Minimum Rate of Interest: [●] % per annum
- (k) Maximum Rate of Interest: [●] % per annum
- (l) Day Count Fraction: [Actual/Actual (ISDA) Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 30E/360 (ISDA) Other] *(See Condition 6 for alternatives)*
- (m) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [●]
18. Zero Coupon Note Provisions [Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Accrual Yield: [●] % per annum
 - (b) Reference Price: [●]
 - (c) Any other formula/basis of determining amount payable: [●]

- (d) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 8.7(c) and 8.12 apply/specify other] (*Consider applicable day count fraction if not U.S. dollar denominated*)
19. Index Linked Interest Note Provisions [Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
- (a) Index/Formula: [Give or annex details]
- (b) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Principal Paying Agent): [●]
- (c) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [*Need to include a description of market disruption or settlement disruption events and adjustment provisions*]
- (d) Specified Period(s)/Specified Interest Payment Dates: [●]
- (e) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
- (f) Additional Business Centre(s): [●]
- (g) Minimum Rate of Interest: [●]% per annum
- (h) Maximum Rate of Interest: [●]% per annum
- (i) Day Count Fraction: [●]
20. Dual Currency Interest Note Provisions [Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
- (a) Rate of Exchange/method of calculating Rate of Exchange: [Give or annex details]
- (b) Party, if any, responsible for calculating the principal and/or interest due (if not the Principal Paying Agent): [●]
- (c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [*Need to include a description of market disruption or settlement disruption events and adjustment provisions*]

- (d) Person at whose option Specified Currency(ies) is/are payable: [●]

PROVISIONS RELATING TO REDEMPTION

21. Issuer Call: [Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Optional Redemption Date(s): [●]
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[●] per Calculation Amount/specify other]
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: [●] per Calculation Amount
- (ii) Maximum Redemption Amount: [●] per Calculation Amount
- (d) Notice period (if other than as set out in the Conditions): [●] *(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Fiscal Agent)*
22. Investor Put: [Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Optional Redemption Date(s): [●]
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[●] per Calculation Amount/specify other]
- (c) Notice period (if other than as set out in the Conditions): [●] *(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Fiscal Agent)*
23. Final Redemption Amount: [●] per Calculation Amount/specify other/see Appendix]

24. Early Redemption Amount payable [●] per Calculation Amount/specify other/see Appendix] on redemption or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 8.7):

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25. Form of Notes: [Bearer Notes: Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]
- [Bearer Notes: Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
- [Bearer Notes: Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event/at any time at the request of the Issuer]]
- [Registered Notes: Registered Global Note ([●] nominal amount)]
- (Ensure that this is consistent with the wording in the "Form of the Notes" section in the Offering Circular and the Notes themselves. N.B. The exchange upon notice/at any time options for Bearer Notes should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "[€] and integral multiples of [€]] in excess thereof up to and including [€]]."* Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.)
26. Additional Financial Centre(s) or other special provisions relating to Payment Days: [Not Applicable/give details] *(Note that this paragraph relates to the place of payment and not Interest Period end dates to which sub-paragraphs 16(b), 17(d) and 19(f) relate)*
27. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]

28. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details. N.B. a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues]
29. Details relating to Instalment Notes:
- (a) Instalment Amount(s): [Not Applicable/give details]
- (b) Instalment Date(s): [Not Applicable/give details]
30. Redenomination applicable: Redenomination [not] applicable (If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))
31. Other terms: [Not Applicable/give details]

DISTRIBUTION

32. (a) If syndicated, names of Managers: [Not Applicable/give names]
- (b) Date of Subscription Agreement [●]
- (c) Stabilising Manager(s) (if any): [Not Applicable/give name]
33. If non-syndicated, name of relevant Dealer: [Not Applicable/give name]
34. U.S. Selling Restrictions: [Reg. S Category 1/2]; TEFRA D/TEFRA C/TEFRA not applicable]
35. Additional selling restrictions: [Not Applicable/give details]

Operational Information

36. Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [CMU/Not Applicable/give name(s) and number(s)]
37. Delivery: Delivery [against/free of] payment

38. Additional Paying Agent(s)

(if any):

ISIN:

Common Code:

(insert here any other relevant codes such as a CMU instrument number)

39. Ratings

The Notes to be issued have been rated:

[Moody's:

[Fitch:

[[Other:

(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

[LISTING APPLICATION

This Pricing Supplement comprises the pricing supplement required to list the issue of Notes described herein pursuant to the US\$5,000,000,000 Medium Term Note Programme of Industrial and Commercial Bank of China (Asia) Limited.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

The Singapore Exchange Securities Trading Limited (the **SGX-ST**) assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Pricing Supplement. The approval in-principle from, and the admission of the Notes to the Official List of, the SGX-ST are not to be taken as indications of the merits of the Issuer, the Programme or the Notes.

Signed on behalf of the Issuer:

By:

Duly authorised

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the rules of the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to “Form of the Pricing Supplement” for a description of the contents of the applicable Pricing Supplement which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by Industrial and Commercial Bank of China (Asia) Limited (the **Issuer**) pursuant to the Agency Agreement (as defined below).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

- (a) in relation to any Notes represented by a global Note (a **Global Note**), units of each Specified Denomination in the currency specified herein or, if none is specified, the currency in which the Notes are denominated (the **Specified Currency**);
- (b) any Global Note in bearer form (each a **Bearer Global Note**);
- (c) any Global Notes in registered form (each a **Registered Global Note**);
- (d) any definitive Notes in bearer form (**Definitive Bearer Notes**, together with the Bearer Global Notes, the **Bearer Notes**) issued in exchange for a Global Note in bearer form; and
- (e) any definitive Notes in registered form (**Definitive Registered Notes**, together with the Registered Global Notes, the **Global Notes**) (whether or not issued in exchange for a Global Note in registered form).

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 22 November 2010 and made between the Issuer, The Hongkong and Shanghai Banking Corporation Limited as fiscal agent (the **Fiscal Agent**, which expression shall include any successor fiscal agent), The Hongkong and Shanghai Banking Corporation Limited as CMU lodging and paying agent (the **CMU Lodging and Paying Agent**, which expression shall include any successor CMU lodging and paying agent) and the other paying agents named therein (together with the Fiscal Agent and the CMU Lodging and Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents) and The Hongkong and Shanghai Banking Corporation Limited as registrar (the **Registrar**, which expression shall include any successor registrar) and as transfer agent (together with the Registrar and the other transfer agents named therein, the **Transfer Agents**, which expression shall include any additional or successor transfer agents). For the purposes of these Terms and Conditions (the **Conditions**), all references (other than in relation to the determination of interest and other amounts payable in respect of the Notes) to the Fiscal Agent shall, with respect to a Series of Notes to be held in the CMU Service (as defined below), be deemed to be a reference to the CMU Lodging and Paying Agent and all such references shall be construed accordingly.

Interest bearing Definitive Bearer Notes have interest coupons (**Coupons**) and, if indicated in the applicable Pricing Supplement, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons. Definitive Bearer Notes repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Definitive Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

The final terms for this Note (or the relevant provisions thereof) are set out in the Pricing Supplement attached to or endorsed on this Note which supplements the Conditions and to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References to the **applicable Pricing Supplement** are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to **Noteholders** or **holders** in relation to any Notes shall mean (in the case of Definitive Bearer Notes) the holders of the Notes and (in the case of Definitive Registered Notes) the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to **Receiptholders** shall mean the holders of the Receipts and any reference herein to **Couponholders** shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (such Deed of Covenant as amended and/or supplemented and/or restated from time to time, the **Deed of Covenant**) dated 22 November 2010 and made by the Issuer. The original of the Deed of Covenant is held by the common depository for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices (as set out in the applicable Pricing Supplement).

Copies of the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Fiscal Agent being at Level 30, HSBC Main Building, 1 Queen's Road Central, Hong Kong and at the specified office of each of the Registrar, the other Paying Agents and Transfer Agents (such Paying Agents and the Registrar being together referred to as **Agents**). Copies of the applicable Pricing Supplement are obtainable during normal business hours at the specified office of the Issuer and of each of the Fiscal Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable during normal business hours at the specified office of each of the Paying Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Issuer or the relevant Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, and are bound by, all the provisions of the Agency Agreement, the Deed of Covenant and the applicable Pricing Supplement which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1. FORM, DENOMINATION AND TITLE

The Notes are issued in bearer form or in registered form as specified in the applicable Pricing Supplement and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Notes in bearer form may not be exchanged for Notes in registered form and vice versa.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

This Note may also be a Senior Note, an Undated Subordinated Note or a Dated Subordinated Note, as indicated in the applicable Pricing Supplement.

Definitive Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to Definitive Bearer Notes, Receipts and Coupons will pass by delivery and title to Definitive Registered Notes will pass upon registration of transfers in the register which is kept by the Registrar in accordance with the provisions of the Agency Agreement. The Issuer and the Agents will (except as otherwise required by law) deem and treat the bearer of any Definitive Bearer Note, Receipt or Coupon and the registered holder of any Definitive Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes, but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) and/or a sub-custodian for the Central Moneymarkets Unit Service operated by the Hong Kong Monetary Authority (the **CMU Service**), each person (other than Euroclear or Clearstream, Luxembourg or the CMU Service) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg or the CMU Service as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg or the CMU Service as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly. Notwithstanding the above, if a Note (whether in global or definitive form) is held through the CMU Service, any payment that is made in respect of such Note shall be made at the direction of the bearer or the registered holder to the person(s) for whose account(s) interests in such Note are credited as being held through the CMU Service in accordance with the CMU Rules at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU Service in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service as to the identity of any accountholder and the principal amount of any Note credited to its account, save in the case of manifest error) (**CMU Accountholders**) and such payments shall discharge the obligation of the Issuer in respect of that payment under such Note.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg and the CMU Service, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg and/or the CMU Service shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer and the Fiscal Agent.

2. TRANSFERS OF REGISTERED NOTES

2.1 Transfers of interests in Registered Global Notes

Transfers of beneficial interests in Registered Global Notes will be effected by Euroclear, Clearstream, Luxembourg or the CMU Service, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing system acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Definitive Registered Notes or for a beneficial interest in another Registered Global Note only in the authorised denominations set out in the applicable Pricing Supplement and only in accordance with the rules and operating procedures for the time being of Euroclear, Clearstream, Luxembourg or the CMU Service and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee for Euroclear, Clearstream, Luxembourg or the CMU Service shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of Euroclear, Clearstream, Luxembourg or the CMU Service or to a successor if Euroclear, Clearstream, Luxembourg or the CMU Service or such successor's nominee.

2.2 Transfers of Definitive Registered Notes

Subject as provided in Condition 2.5 below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Definitive Registered Note may be transferred in whole or in part (in the authorised denominations set out in the applicable Pricing Supplement). In order to effect any such transfer (i) the holder or holders must (A) surrender the Definitive Registered Note for registration of the transfer of the Definitive Registered Note (or the relevant part of the Definitive Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (B) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 8 to the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Definitive Registered Note in definitive form of a like aggregate nominal amount to the Definitive Registered Note (or the relevant part of the Definitive Registered Note) transferred. In the case of the transfer of part only of a Definitive Registered Note, a new Definitive Registered Note in respect of the balance of the Definitive Registered Note not transferred will be authenticated and delivered or (at the risk of the transferor) sent to the transferor.

2.3 Registration of transfer upon partial redemption

In the event of a partial redemption of Notes under Condition 8, the Issuer shall not be required to register the transfer of any Definitive Registered Note, or part of a Definitive Registered Note, called for partial redemption.

2.4 Costs of registration

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

2.5 Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered during the period of (i) 15 days ending on (and including) the due date for redemption of, or payment of any Instalment Amount in respect of, that Note and (ii) during the period of seven days ending on (and including) any Record Date.

2.6 Exchanges and transfers of Definitive Registered Notes generally

Holders of Definitive Registered Notes may exchange such Notes for interests in a Registered Global Note of the same type at any time.

3. STATUS OF THE NOTES

3.1 Status of the Senior Notes

The Notes the status of which is specified in the applicable Pricing Supplement as Senior (the **Senior Notes**) and any relative Receipts and Coupons constitute direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Senior Notes shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations including liabilities in respect of deposits.

3.2 Status of the Subordinated Notes

*This Condition 3.2 applies only to Notes specified in the applicable Pricing Supplement as being either Dated Subordinated Notes or Undated Subordinated Notes. Undated Subordinated Notes and Dated Subordinated Notes are together referred to in the Conditions as **Subordinated Notes**.*

(a) Provisions relating to Dated Subordinated Notes

If the Notes are specified as Dated Subordinated Notes in the applicable Pricing Supplement, the Dated Subordinated Notes and the relative Receipts and Coupons constitute direct, unconditional, unsecured and, in accordance with this Condition 3.2(a), subordinated obligations of the Issuer, ranking *pari passu* without any preference among themselves.

In the event of the Winding-Up (as defined in Condition 11.2) of the Issuer, the claims of the Noteholders, the Receiptholders and the Couponholders against the Issuer in respect of the Dated Subordinated Notes and the relative Receipts and Coupons will be subordinated in right of payment to the claims of depositors and all other unsubordinated creditors of the Issuer and will rank at least *pari passu* in right of payment with all other Subordinated Indebtedness, present and future, of the Issuer. Claims in respect of the Dated Subordinated Notes will rank in priority to the rights and claims of holders of subordinated liabilities which by their terms rank

or are expressed to rank in right of payment junior to the Dated Subordinated Notes and of all classes of equity securities of the Issuer, including holders of preference shares. For these purposes, **Subordinated Indebtedness** means all indebtedness which is subordinated, in the event of the Winding-Up of the Issuer, in right of payment to the claims of depositors and other unsubordinated creditors of the Issuer, and for this purpose indebtedness shall include all liabilities, whether actual or contingent.

The provisions of this Condition 3.2(a) apply only to the principal and interest in respect of the Dated Subordinated Notes.

(b) ***Provisions relating to Undated Subordinated Notes***

If the Notes are specified as Undated Subordinated Notes in the applicable Pricing Supplement, the Undated Subordinated Notes and any relative Receipts and Coupons are direct, unsecured and subordinated obligations of the Issuer, conditional as described below and rank *pari passu* without any preference among themselves.

The rights of the holders of the Undated Subordinated Notes and any relative Receipts and Coupons will, in the event of the Winding-Up (as defined in Condition 11.2) of the Issuer, be subordinated in right of payment to the claims of Prior Creditors. In the event of the Winding-Up of the Issuer, there shall be payable by the Issuer in respect of each Undated Subordinated Note (in lieu of any other payment by the Issuer), but subject as provided in this Condition, such amount, if any, as would have been payable to the Noteholder thereof if, at the close of business on the day prior to the commencement of the Winding-Up of the Issuer and thereafter, such Noteholder were the holder of a class of fully paid, validly issued preference shares in the capital of the Issuer having a preferential right to a return of assets in the Winding-Up of the Issuer over the holders of all issued shares (including for this purpose other preference shares issued but excluding any preference shares which are classified as “Supplementary Capital” for the purpose of capital adequacy under Part XVII of the Banking Ordinance (Cap. 155) of the laws of Hong Kong) for the time being in the Issuer’s capital on the assumption that such preference shares, were entitled to receive on a return of assets in such Winding-Up of the Issuer an amount (disregarding any tax credit which would have been given in relation to dividends payable on such preference shares) equal to the principal amount of such Undated Subordinated Note together with Arrears of Interest, if any, and accrued interest as provided below.

The Issuer’s obligation to make any payment of interest and, where applicable, any repayment of principal in respect of any Undated Subordinated Notes is conditional upon the Issuer being able to make such payment and remain Solvent immediately thereafter.

For the purposes of this Condition, **Solvent** and **Solvency** means that the Issuer:

- (i) is able to pay its debts as they fall due; and
- (ii) has Assets that exceed its Liabilities (other than its Liabilities to persons in respect of Primary Capital Indebtedness).

The obligations of the Issuer in respect of Undated Notes are conditional upon the Issuer being Solvent for the purposes of this Condition 3.2(b) immediately before and after payment by the Issuer. If this Condition 3.2(b) is not satisfied, any amounts which might otherwise have been allocated in or towards payment of principal and interest in respect of Undated Subordinated Notes may be used to absorb losses without the Issuer being obliged to cease trading.

The Issuer may at any time procure that two Directors of the Issuer shall give or (if the Issuer is dissolved or in Winding-Up) the liquidator shall give a certificate in writing as to whether or not the Issuer is or would in any specified circumstances be Solvent for the purposes of this Condition 3.2(b) and, in the absence of manifest error, any such certificate shall be treated

and accepted by the Issuer, the Fiscal Agent, the Noteholders, Receiptholders and Couponholders as correct and sufficient evidence of such fact. In the absence of any such certificate to the contrary, it shall for the purposes hereof be assumed (unless the contrary is proved prior to the date of payment) that the Issuer is and will after any payment hereunder be Solvent for such purposes. In the event of the delivery of a certificate of the Directors that the Issuer is not Solvent the Issuer shall procure that the Auditors shall provide, within 30 days of the date of such certificate of the Directors, a report of the Auditors as to whether or not the Issuer is Solvent for the purposes of this Condition 3.2(b) and such report of the Auditors shall supersede the certificate of the Directors for all purposes of this Condition 3.2(b) and, in the absence of manifest error, any such report of the Auditors shall be treated and accepted by the Issuer, the Fiscal Agent, the Noteholders and the Couponholders as correct and sufficient evidence of such fact.

In these Conditions, the following expressions have the following meanings:

Assets means the unconsolidated gross assets of the Issuer and **Liabilities** means the unconsolidated gross liabilities (including contingent liabilities) of the Issuer, all as shown in the latest published balance sheet having the benefit of an unqualified Auditors' report, but with such adjustments as the Auditors or, if the Issuer is in Winding-Up, the liquidator shall determine;

Auditors means the independent certified public accountants for the time being of the Issuer;

Directors means the Board of Directors for time to time of the Issuer and **Director** means any one of them;

Primary Capital Indebtedness means (i) any money payable under the Undated Subordinated Notes and (ii) Undated Subordinated Indebtedness, the right to payment by the Issuer by the terms whereof is, or is expressed to be, subordinated in the event of a Winding-Up of the Issuer to the claims of all or any of the creditors of the Issuer (including all or any of the creditors in respect of the Undated Subordinated Indebtedness) so that it ranks *pari passu* with, or junior to, claims against the Issuer in respect of (i) undated subordinated notes or (ii) undated subordinated guarantees or is required by the terms of any agreement here before or hereafter entered into by the Issuer to be so subordinated but is not so subordinated;

Prior Creditors means creditors of the Issuer (including creditors in respect of the principal and interest payable in respect of notes issued or guaranteed by the Issuer which do not constitute Primary Capital Indebtedness) except creditors in respect of Primary Capital Indebtedness;

Undated Subordinated Indebtedness means any liability of the Issuer howsoever arising for the payment of money (including (i) the principal and interest payable in respect of dated subordinated notes, (ii) the principal and interest payable in respect of undated subordinated notes, (iii) any amounts payable by the Issuer under dated subordinated guarantees and (iv) any amounts payable by the Issuer under undated subordinated guarantees) the right to payment of which by the Issuer by the terms whereof is, or is expressed to be, subordinated in the event of a Winding-Up of the Issuer to the claims of all or any of the creditors; and

Subsidiary means any company (i) in which the Issuer holds a majority of the voting rights, (ii) of which the Issuer is a member and has the right to appoint or remove a majority of the board of directors or (iii) of which the Issuer is a member and controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of the Issuer.

(c) *Set-off*

Subject to applicable law, no Noteholder, Receiptholder or Couponholder may exercise, claim or plead any right of set-off, counter-claim or retention in respect of any amount owned to it by the Issuer arising under or in connection with the Subordinated Notes, the relative Receipts or the Coupons and each Noteholder, Receiptholder and Couponholder shall, by virtue of being the holder of any Subordinated Note, Receipt or Coupon, be deemed to have waived all such rights of such set-off, counter-claim or retention.

In the event that any Noteholder, Receiptholder or Couponholder nevertheless receives (whether by set-off or otherwise) directly in a Winding-Up Proceeding in respect of the Issuer any payment by, or distribution of assets of, the Issuer of any kind or character, whether in cash, property or securities, in respect of any amount owing to it by the Issuer arising under or in connection with the Notes, other than in accordance with this Condition 3.2, such Noteholder, Receiptholder or Couponholder shall, subject to applicable law, immediately pay an amount equal to the amount of such payment or discharge to the liquidator for the time being in the winding up of the Issuer for distribution and each Noteholder, Receiptholder or Couponholder, by virtue of becoming a holder of any Subordinated Note, Receipt or Coupon, shall be deemed to have so agreed and undertaken with and to the Issuer and all depositors and other unsubordinated creditors of the Issuer for good consideration

4. **NEGATIVE PLEDGE (SENIOR NOTES ONLY)**

So long as any of the Senior Notes and the relative Receipts or Coupons remains outstanding (as defined in the Agency Agreement) the Issuer will not create or permit to subsist, and will procure that no Subsidiary creates or permits to subsist, any mortgage, charge, pledge, lien or other form of encumbrance or security interest (each a **Security Interest**) upon the whole or any part of its business, undertaking, assets or revenues (including any uncalled capital), present or future, to secure any Relevant Indebtedness (as defined below) unless, at the same time or prior thereto and, in any other case, promptly, takes any and all action necessary to ensure that:

- (a) the Issuer's obligations under the Senior Notes are secured equally and rateably therewith, or
- (b) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided as is approved by an Extraordinary Resolution.

For the purposes of this Condition, **Relevant Indebtedness** means any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities which are for the time being, or are capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market and (ii) any guarantee or indemnity of any such indebtedness.

5. **REDENOMINATION**

5.1 **Redenomination**

Where redenomination is specified in the applicable Pricing Supplement as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders, on giving prior notice to the Fiscal Agent, Euroclear and Clearstream, Luxembourg and/or as applicable, the CMU Service and at least 30 days' prior notice to the Noteholders in accordance with Condition 15, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

- (a) the Notes and the Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Fiscal Agent, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Paying Agents of such deemed amendments;
- (b) save to the extent that an Exchange Notice has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
- (c) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Fiscal Agent may approve) euro 0.01 and such other denominations as the Fiscal Agent shall determine and notify to the Noteholders;
- (d) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Fiscal Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
- (e) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (f) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:
 - (i) in the case of the Notes represented by a Global Note, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Notes represented by such Global Note; and
 - (ii) in the case of definitive Notes, by applying the Rate of Interest to the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding; and

- (g) if the Notes are Floating Rate Notes, the applicable Pricing Supplement will specify any relevant changes to the provisions relating to interest; and
- (h) such other changes shall be made to this Condition as the Issuer may decide, after consultation with the Fiscal Agent, and as may be specified in the notice, to conform it to conventions then applicable to instruments denominated in euro.

5.2 Definitions

In the Conditions, the following expressions have the following meanings:

Established Rate means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Union regulations) into euro established by the Council of the European Union pursuant to Article 140 of the Treaty;

euro means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

Redenomination Date means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to Condition 5.1 above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union; and

Treaty means the Treaty on the Functioning of the European Union, as amended.

6. INTEREST

6.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount (or if it is a Partly Paid Note, the nominal amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in the Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where a Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (a) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (b) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 6.1:

- (a) if **Actual/Actual (ICMA)** is specified in the applicable Pricing Supplement:
 - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or
 - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
 - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;
- (b) if **30/360** is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360; and
- (c) if **Actual/365 (Fixed)** is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365.

In these Conditions:

Determination Period means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

sub-unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

6.2 Interest on Floating Rate Notes and Index Linked Interest Notes

(a) *Interest Payment Dates*

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or if it is a Partly Paid Note, the nominal amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in the Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

In these Conditions, if a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 6.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls in the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, **Business Day** means a day which is both:

- I. a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Hong Kong and each Additional Business Centre specified in the applicable Pricing Supplement; and
- II. either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than Hong Kong and any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open.

(b) **Rate of Interest**

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(i) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Fiscal Agent under an interest rate swap transaction if the Fiscal Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

- (A) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (B) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (C) the relevant Reset Date is either (a) if the applicable Floating Rate Option is based on the London interbank offered rate (**LIBOR**) on the Euro-zone interbank offered rate (**EURIBOR**) or on the Hong Kong interbank offered rate (**HIBOR**), the first day of that Interest Period or (b) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this subparagraph (i), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Pricing Supplement the Minimum Rate of Interest shall be deemed to be zero.

(ii) *Screen Rate Determination for Floating Rate Notes*

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) the offered quotation; or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR, or Hong Kong time, in the case of HIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Fiscal Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Fiscal Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR or HIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

(c) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) *Determination of Rate of Interest and calculation of Interest Amounts*

The Fiscal Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Fiscal Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Fiscal Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

- (i) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (ii) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 6.2:

- (a) if **Actual/Actual (ISDA)** or **Actual/Actual** is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (b) if **Actual/365 (Fixed)** is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (c) if **Actual/365 (Sterling)** is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (d) if **Actual/360** is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;
- (e) if **30/360**, **360/360** or **Bond Basis** is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

Y1 is the year, expressed as a number, in which the first day of the Interest Period falls;

Y2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

- M1** is the calendar month, expressed as a number, in which the first day of the Interest Period falls;
- M2** is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;
- D1** is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and
- D2** is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (f) if **30E/360** or **Eurobond Basis** is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

- Y1** is the year, expressed as a number, in which the first day of the Interest Period falls;
- Y2** is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;
- M1** is the calendar month, expressed as a number, in which the first day of the Interest Period falls;
- M2** is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;
- D1** is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and
- D2** is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30; and

- (g) if **30E/360 (ISDA)** is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

- Y1** is the year, expressed as a number, in which the first day of the Interest Period falls;
- Y2** is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;
- M1** is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D1 is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

D2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30.

(e) *Notification of Rate of Interest and Interest Amounts*

The Fiscal Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 15 as soon as possible after their determination but in no event later than the fourth Hong Kong Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 15. For the purposes of this paragraph, the expression **Hong Kong Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in Hong Kong.

(f) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6.2, whether by the Fiscal Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith and manifest error) be binding on the Issuer, the Fiscal Agent, the Calculation Agent (if applicable), the other Agents and all Noteholders, Receiptholders and Couponholders and (in the absence of wilful default and bad faith) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Fiscal Agent or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

6.3 Interest on Dual Currency Interest Notes

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

6.4 Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

6.5 Accrual of interest

Each interest-bearing Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Fiscal Agent and notice to that effect has been given to the Noteholders in accordance with Condition 15.

6.6 Deferral of interest on Undated Subordinated Notes

Where during the 12 calendar months preceding a date on which interest is due to be paid in respect of the Undated Subordinated Notes no dividend has been declared or paid on any class of share capital of the Issuer, such due date shall be referred to as an **Optional Interest Payment Date**.

The Issuer may if it so elects, but shall not be obliged to, pay on any Optional Interest Payment Date the interest that is due to be paid on such date in respect of the Undated Subordinated Notes and any failure to pay shall not constitute a default by the Issuer for any purpose. Any interest not paid on an Optional Interest Payment Date shall (except to the extent such interest shall subsequently have been paid) constitute **Arrears of Interest**.

In relation to the Undated Subordinated Notes, Arrears of Interest may, prior to the commencement of the Winding-Up of the Issuer, be paid in whole or in part upon the expiration of not less than seven days' notice given to the holders of the Notes in accordance with Condition 15, but payment in respect of Interest Periods during which Arrears of Interest have accrued shall be made taking the earliest Interest Period first. Arrears of Interest shall otherwise only become payable on (i) the due date for repayment of the Undated Subordinated Notes to which such Arrears of Interest relate, (ii) the date on which any declaration or payment of any dividend on any class of share capital of the Issuer is made or (iii) the commencement of the Winding-Up of the Issuer (except for the purposes of a reconstruction, amalgamation or otherwise the terms of which have previously been approved by an Extraordinary Resolution of Noteholders or which is permitted under Condition 16.3). If notice is given by the Issuer of its intention to pay any Arrears of Interest, the Issuer shall be obliged to do so upon the expiration of such notice. Arrears of Interest shall not themselves bear interest.

The Issuer shall give notice in accordance with Condition 15:

- (a) not more than 30 days nor less than seven days prior to any Optional Interest Payment Date in respect of which it will elect not to make any payment of interest in accordance with the above provisions, of such election; and
- (b) of any date on which Arrears of Interest shall have become payable.

7. PAYMENTS

7.1 Method of payment

Subject as provided below:

- (a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and
- (b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9.

7.2 Presentation of Definitive Bearer Notes, Receipts and Coupons

Payments of principal in respect of Definitive Bearer Notes not held in CMU Service will (subject as provided below) be made in the manner provided in Condition 7.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Definitive Bearer Notes, and payments of interest in respect of Definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of instalments of principal (if any) in respect of Definitive Bearer Notes not held in CMU Service, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 7.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 7.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Definitive Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Definitive Bearer Note to which it appertains. Receipts presented without the Definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any Definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form not held in CMU Service (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of ten years after the Relevant Date (as defined in Condition 9) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 10) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive bearer form not held in CMU Service becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A Long Maturity Note is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

In the case of Definitive Bearer Notes held in CMU Service, payment will be made to the person(s) for whose account(s) interests in the relevant Definitive Bearer Note are credited as being held with CMU Service in accordance with the CMU Rules at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU Service in a relevant CMU Instrument Position Report or any relevant notification by CMU Service, which notification shall be conclusive evidence of the records of CMU Service (save in the case of manifest error) and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

If the due date for redemption of any Definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Definitive Bearer Note.

In relation to any Undated Subordinated Note in definitive form, if any payment is to be made in respect of interest the Interest Payment Date for which falls on or after the date on which the Winding-Up of the Issuer is deemed to have commenced, such payment shall be made only against presentation of the relevant Note, Receipt and the Coupon for any such Interest Payment Date. In addition, any Undated Subordinated Note in definitive form presented for payment after an order is made or an effective resolution is passed for the Winding-Up of the Issuer must be presented together with all Coupons in respect of Arrears of Interest relating to Interest Payment Dates falling prior to such commencement of the Winding-Up of the Issuer, failing which there shall be withheld from any payment otherwise due to the holder of such Undated Subordinated Note such proportion thereof as the Arrears of Interest due in respect of any such missing Coupon bears to the total of the principal amount of the relevant Undated Subordinated Note, all Arrears of Interest in respect thereof and interest (other than Arrears of Interest) accrued on such Undated Subordinated Note in respect of the Interest Accrual Period current at the date of the commencement of the Winding-Up.

7.3 Payments in respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of any Bearer Global Note will (subject as provided below) be made in the manner specified above in relation to Definitive Bearer Notes and otherwise in the manner specified in the relevant Bearer Global Note (i) in the case of a Bearer Global Note lodged with CMU Service, to the person(s) for whose account(s) interests in the relevant Bearer Global Note are credited as being held by CMU Service in accordance with the CMU Rules, or (ii) in the case of a Bearer Global Note not lodged with CMU Service, against presentation or surrender, as the case may be, of such Bearer Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Bearer Global Note, distinguishing between any payment of principal and any payment of interest, will be made (in the case of a Global Note not lodged with CMU Service) on such Bearer Global Note by the Paying Agent to which it was presented or (in the case of a Global Note lodged with CMU Service) on withdrawal of the Bearer Global Note by the CMU Lodging and Paying Agent, and in each such case such record shall be *prima facie* evidence that the payment in question has been made.

7.4 Payments in respect of Registered Notes

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Note will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Note appearing in the register of holders of the Notes in registered form maintained by the Registrar (the **Register**) (i) where in global form at the close of the business day (being for this purpose, in respect of Notes clearing through Euroclear and Clearstream, Luxembourg, a day on which Euroclear and Clearstream, Luxembourg are open for business and, in respect of Notes clearing through CMU Service, a day on which CMU Services is open for business) before the relevant due date and (ii) where in definitive form at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (a) a holder does not have a Designated Account or (b) the principal amount of the Notes held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, **Designated Account** means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and **Designated Bank** means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Note will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Note in registered form appearing in the Register, (i) where in global form at the close of business day (being for this purpose, in respect of Notes clearing through Euroclear and Clearstream, Luxembourg, a day on which Euroclear and Clearstream, Luxembourg are open for business and, in respect of Notes clearing through CMU Service, a day on which CMU Service is open for business) before the relevant due date and (ii) where in definitive form at the close of business on the 15th day (whether or not such 15th day is a business day) before the relevant due date (the **Record Date**) at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest or an instalment of principal (other than the final instalment) in respect of a Note in registered form, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Notes in registered form which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Note in registered form on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Note.

In the case of Definitive Registered Note or Registered Global Note held through the CMU Service, payment will be made at the direction of the registered holder to the CMU Accountholders and such payment shall discharge the obligation of the Issuer in respect of that payment.

Holders of Notes in registered form will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Note in registered form as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holder by the Registrar in respect of any payments of principal or interest in respect of Notes in registered form.

None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

7.5 General provisions applicable to payments

The holder of a Global Note (if the Global Note is not lodged with CMU Service) or (if the Global Note is lodged with CMU Service) the person(s) for whose account(s) interests in such Global Note are credited as being held in CMU Service in accordance with the CMU Rules as notified to the CMU Lodging and Paying Agent by CMU Service in a relevant CMU Instrument Position Report or any other relevant notification by CMU Service (which notification, in either case, shall be conclusive evidence of the records of CMU Service save in the case of manifest error), shall be the only person(s) entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note or such person(s) for whose account(s) interests in such Global Note are credited as being held in CMU Service (as the case may be) in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or the CMU Service, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream, Luxembourg or the CMU Lodging and Paying Agent, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Definitive Bearer or Bearer Global Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;
- (b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

7.6 Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day (as defined below), the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 10) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (i) the relevant place of presentation;
 - (ii) each Additional Financial Centre specified in the applicable Pricing Supplement; and
- (b) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

7.7 Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 9;
- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (f) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 8.7); and
- (g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 9 and any Arrears of Interest (if applicable).

8. REDEMPTION AND PURCHASE

8.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) which is not an Undated Subordinated Note will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date. If this Note is an Undated Subordinated Note, it has no final maturity and is only redeemable in accordance with the following provisions of this Condition 8 or Condition 11.

8.2 Redemption for tax reasons

Subject (in the case of Subordinated Notes) to Condition 8.13, the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 nor more than 60 days' notice to the Fiscal Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), if:

- (a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and
- (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts or give effect to such treatment, as the case may be, were a payment in respect of the Notes then due.

Prior to giving any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent (i) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment and (ii) in the case of Subordinated Notes, a copy of the written consent of the Hong Kong Monetary Authority or any successor thereto (the **HKMA**); and the Fiscal Agent shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders, Receiptholders and the Couponholders.

Notes redeemed pursuant to this Condition 8.2 will be redeemed at their Early Redemption Amount referred to in Condition 8.7 below together (if appropriate) with interest accrued to (but excluding) the date of redemption and, in the case of Undated Subordinated Notes, all Arrears of Interest (if any) as provided in Condition 6.6.

8.3 Redemption of the Undated and/or Dated Subordinated Notes for Regulatory Reasons

Subject to Condition 8.13, the Undated Subordinated Notes and/or the Dated Subordinated Notes, as the case may be, may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note) on giving not less than 30 nor more than 60 days' notice to the Fiscal Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), if for the purposes of the Banking Ordinance (Cap.155) of Hong Kong, or any successor legislation, the Undated and/or Dated Subordinated Notes, as the case may be, after having qualified as such, will no longer qualify as Category II Supplementary Capital (or equivalent) (other than for the reason that the amount of the Undated or Dated Subordinated Notes, as the case may be, exceeds any limitations prescribed by the HKMA with respect to the amount that qualifies as Category II Supplementary Capital or solely as a result of any discounting requirements as to the eligibility of the Notes for such inclusion pursuant to the relevant legislation and statutory guidelines in force as at the Issue Date (**Regulatory Redemption Event**), provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which it is determined that a Regulatory Redemption Event has occurred.

Prior to giving any notice of redemption pursuant to this Condition 8.3, the Issuer shall deliver to the Fiscal Agent (i) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that a Regulatory Redemption Event has occurred and (ii) a copy of the written consent of the HKMA; and the Fiscal Agent shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders, Receiptholders and the Couponholders.

Notes redeemed pursuant to this Condition 8.3 will be redeemed at the Early Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant date fixed for redemption and, in the case of Undated Subordinated Notes, all Arrears of Interest (if any) as provided in Condition 6.6.

8.4 Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified in the applicable Pricing Supplement, the Issuer may, having given:

- (a) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 15; and
- (b) not less than 15 days before the giving of the notice referred to in (a) above, notice to the Fiscal Agent and, in the case of a redemption of Registered Notes, the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date and, in the case of Undated Subordinated Notes, all Arrears of Interest (if any) as provided in Condition 6.6. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg and/or the CMU Service (as appropriate), in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in

accordance with Condition 15 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes or represented by a Global Note shall in each case bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding and Notes outstanding represented by such Global Note, respectively, bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that, if necessary, appropriate adjustments shall be made to such nominal amounts to ensure that each represents an integral multiple of the Calculation Amount. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 8.4 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 15 at least five days prior to the Selection Date.

8.5 Redemption at the option of the Noteholders other than holders of Undated Subordinated Notes (Investor Put)

If this Note is a Senior Note or a Dated Subordinated Note and Investor Put is specified in the applicable Pricing Supplement, then, if and to the extent specified in the applicable Pricing Supplement, upon the holder of this Senior Note or this Dated Subordinated Note, as the case may be, giving to the Issuer, in accordance with Condition 15, not less than 15 nor more than 30 days' notice (or such other notice period as is specified in the applicable Pricing Supplement) (which notice shall be irrevocable), the Issuer will, upon the expiry of such notice, redeem subject to, and in accordance with, the terms specified in the applicable Pricing Supplement in whole (but not in part) such Senior Note or such Dated Subordinated Note, as the case may be, on the Optional Redemption Date and at the relevant Optional Redemption Amount as specified in, or determined in the manner specified in, the applicable Pricing Supplement, together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Pricing Supplement.

8.6 Put Notices

If this Senior Note or this Dated Subordinated Note, as the case may be, is in definitive form, to exercise the right to require redemption of this Senior Note or this Dated Subordinated Note, as the case may be, the holder of this Senior Note or this Dated Subordinated Note, as the case may be, must deliver such Senior Note, or such Dated Subordinated Note, as the case may be, on any Business Day (as defined in Condition 6) falling within the notice period at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes), at any time during the normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition accompanied by, if this Note is in definitive form, this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2.2. If this Senior Note or this Dated Subordinated Note, as the case may be, is represented by a Global Note or is in definitive form and held through Euroclear, Clearstream, Luxembourg or the CMU Service, to exercise the right to require redemption of this Senior Note or this Dated Subordinated Note, as the case may be, the holder of this Senior Note or this Dated Subordinated Note, as the case may be, must, within the notice period, give notice to the Fiscal Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) of such exercise in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg and the CMU Service (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or the CMU Service or any common depository, as the case

may be, for them to the Fiscal Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) by electronic means) in a form acceptable to Euroclear, Clearstream, Luxembourg and the CMU Service from time to time and, if this Senior Note or this Dated Subordinated Note, as the case may be, is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Fiscal Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) for notation accordingly.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg or the CMU Service given by a holder of any Senior Note or any Dated Subordinated Note pursuant to Condition 8.5 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph.

8.7 Early Redemption Amounts

For the purpose of Condition 8.2 and Condition 11.1 (if this Note is a Senior Note) or Condition 11.2 (if this Note is a Subordinated Note), each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (a) in the case of a Note (other than a Zero Coupon Note, an Instalment Note and a Partly Paid Note) with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (b) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or
- (c) in the case of a Zero Coupon Note, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Pricing Supplement.

8.8 Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 8.7.

8.9 Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

8.10 Purchases

The Issuer or any of its Subsidiaries may at any time purchase Notes (provided that, in the case of Definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Noteholders alike. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent and/or the Registrar for cancellation.

8.11 Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to Condition 8.10 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Fiscal Agent and cannot be reissued or resold.

8.12 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 8.1, 8.2, 8.3, 8.4 or 8.5 above or upon its becoming due and repayable as provided in Condition 11 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 8.7(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Fiscal Agent or the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 15.

8.13 Conditions for Redemption and Purchase in respect of Subordinated Notes

Notwithstanding any other provision in these Conditions, Subordinated Notes may not be redeemed (other than pursuant to Condition 8.1 or Condition 11.2) or purchased by the Issuer or any of its Subsidiaries without the prior written consent of the HKMA. Accordingly, the Issuer shall not redeem any of the Subordinated Notes (other than pursuant to Condition 8.1 or Condition 11.2) and the Issuer or any of its Subsidiaries shall not purchase any of the Subordinated Notes unless the prior written consent of the HKMA shall have been obtained, provided however, that if from time to time the consent of the HKMA is not a requirement of any such Subordinated Notes to constitute Category II Supplementary Capital (or equivalent) of the Issuer for the purposes of, and as defined in, the Banking Ordinance (Cap. 155) of Hong Kong, or any successor legislation, then the condition to the redemption or purchase and cancellation of the relevant Notes set out in this Condition 8.13 shall not apply for so long as such consent is not required.

For the avoidance of doubt, this provision shall not apply to the Issuer or any of its Subsidiaries holding the Subordinated Notes in a purely nominee capacity.

9. TAXATION

All payments of principal, premium and interest in respect of the Notes, Receipts and Coupons by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of Hong Kong or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of the withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) presented for payment by or on behalf of, a holder who is liable to the Taxes in respect of such Note, Receipt or Coupon by reason of his having some connection with Hong Kong other than the mere holding of such Note, Receipt or Coupon; or
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any other law implementing or complying with, or introduced in order to conform to, such Directive; or
- (c) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or
- (d) presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Payment Day (as defined in Condition 7.6).

As used in these Conditions, **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent or the Registrar on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect is duly given to the Noteholders by the Issuer in accordance with Condition 15.

10. PRESCRIPTION

The Notes, Receipts and Coupons will become void unless presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 9) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 7.2 or any Talon which would be void pursuant to Condition 7.2.

11. EVENTS OF DEFAULT AND ENFORCEMENT

11.1 Events of Default relating to Senior Notes

This Condition 11.1 only applies to Senior Notes. If any one or more of the following events (each an **Event of Default**) shall occur and be continuing:

- (a) **Payment default:** default is made in the payment of any principal due in respect of the Notes and, in the case of interest due in respect of the Senior Notes, the default continues for a period of five days;
- (b) **Other defaults:** the Issuer fails to perform or comply with any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy, when no such continuation or notice as hereinafter mentioned is required) the failure continues for the period of 21 days next following the service by any Noteholder on the Issuer of notice requiring the same to be remedied;
- (c) **Cross-acceleration:** (i) any Indebtedness for Borrowed Money (as defined below) of the Issuer or any Subsidiary becomes due and repayable prematurely by reason of an event of default (however described); (ii) the Issuer or any Subsidiary fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment; (iii) any security given by the Issuer or any Subsidiary for any Indebtedness for Borrowed Money becomes enforceable; or (iv) default is made by the Issuer or any Subsidiary in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person; provided that no event described in this subparagraph (c) shall constitute an Event of Default unless the relevant amount of Indebtedness for Borrowed Money or other relative liability due and unpaid, either alone or when aggregated (without duplication) with other amounts of Indebtedness for Borrowed Money and/or other liabilities due and unpaid relative to all (if any) other events specified in (i) to (iv) above, amounts to at least U.S.\$15,000,000 (or its equivalent in any other currency);
- (d) **Winding-up of the Issuer:** an order is made by any competent court or an effective resolution is passed for the winding-up or dissolution of the Issuer or,
- (e) **Winding-up of Principal Subsidiary and Cessation of Business:** any order is made by any competent court or an effective resolution is passed for the winding-up or dissolution of any Principal Subsidiary or any Principal Subsidiary ceases or threatens to cease to carry on all or substantially all of its business or operations, except (i) for the purposes of, or pursuant to and followed by, a consolidation or amalgamation with, or merger into, the Issuer or any other Subsidiary or a consolidation, merger or sale of assets permitted under Condition 16.3; (ii) for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reorganisation (other than as described in (i) above) the terms of which shall have previously been approved by an Extraordinary Resolution of the Noteholders; or (iii) by way of a voluntary winding-up or dissolution where there are surplus assets in such Principal Subsidiary and such surplus assets are transferred to or otherwise vested in the Issuer or any other Subsidiary;
- (f) **Insolvency:** the Issuer or any Principal Subsidiary stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent;

- (g) **Security enforced:** (i) proceedings are initiated against the Issuer or any Principal Subsidiary under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any Principal Subsidiary or, as the case may be, in relation to, in the case of the Issuer, the whole or any substantial part of its undertaking or assets or, in the case of a Principal Subsidiary, the whole or substantially all of its undertaking or assets or an encumbrancer takes possession of, in the case of the Issuer, the whole or any substantial part of its undertaking or assets or, in the case of a Principal Subsidiary, the whole or substantially all of its undertaking or assets, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against, in the case of the Issuer, the whole or any substantial part of its undertakings or assets or, in the case of a Principal Subsidiary, the whole or substantially all of its undertaking or assets, and (ii) in any such case (other than the appointment of an administrator) unless initiated by the relevant company, is not discharged within 60 days;
- (h) **Nationalisation:** any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of, in the case of the Issuer, all or a substantial part of its assets or, in the case of a Principal Subsidiary, all or substantially all of its assets;
- (i) **Illegality:** it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Senior Notes;
- (j) **Consent and authorisations:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, license, order, recording or registration) at any time required to be taken, fulfilled or done in order (A) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Senior Notes, (B) to ensure that those obligations are legally binding and enforceable and (C) to make the Senior Notes admissible in evidence in the courts of Hong Kong is not taken, fulfilled or done; or
- (k) **Analogous events:** any event occurs which, under the laws of any relevant jurisdiction, has an analogous effect to any of the events referred to in paragraphs (d) to (j) above,

then any holder of a Note, by written notice to the Issuer at the specified office of the Fiscal Agent, effective upon the date of receipt there by the Fiscal Agent, declare any Senior Note held by it to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Redemption Amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

For the purposes of this Condition:

Indebtedness for Borrowed Money means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities or any borrowed money or any liability under or in respect of any acceptance or acceptance credit; and

Principal Subsidiary means Chinese Mercantile Bank and any other Subsidiary of the Issuer:

- (a) whose profits from ordinary activities before taxation (**pre-tax profit**) or (in the case of a Subsidiary which itself has subsidiaries) consolidated pre-tax profit, as shown by its latest audited income statement, are at least 10 per cent. of the consolidated pre-tax profit as shown by the latest published audited consolidated income statement of the Issuer and its Subsidiaries including, for the avoidance of doubt, the Issuer and its consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or

- (b) whose gross assets or (in the case of a Subsidiary which itself has subsidiaries) gross consolidated assets, as shown by its latest audited balance sheet, are at least 10 per cent. of the amount of the consolidated gross assets of the Issuer and its Subsidiaries, as shown by the latest published audited consolidated balance sheet of the Issuer and its Subsidiaries, plus any amount represented by the investment of the Issuer in each Subsidiary whose financial statements are not consolidated with the consolidated audited financial statements of the Issuer and after adjustment for minority interests;

provided that, in relation to paragraphs (a) and (b) above:

- (i) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited financial statements of the Issuer relate, the reference to the then latest consolidated audited financial statements of the Issuer for the purposes of the calculation above shall, until the consolidated audited financial statements of the Issuer for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published, be deemed to be a reference to the then latest consolidated audited financial statements of the Issuer adjusted to consolidate the latest audited financial statements (consolidated in the case of a Subsidiary which itself has subsidiaries) of such subsidiary in such financial statements;
- (ii) if at any relevant time in relation to the Issuer or any Subsidiary which itself has subsidiaries no consolidated financial statements are prepared and audited, gross assets of the Issuer and/or any such Subsidiary shall be determined on the basis of pro forma consolidated financial statements prepared for this purpose by the Issuer, which are reviewed by the Issuer's Auditors for the time being, for the purposes of preparing a certificate thereon to the Fiscal Agent;
- (iii) if at any relevant time in relation to any Subsidiary, no financial statements are audited, its gross assets (consolidated, if appropriate) shall be determined on the basis of pro forma financial statements (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Issuer, which are reviewed by the Issuer's Auditors for the time being, for the purposes of preparing a certificate thereon to the Fiscal Agent; and
- (iv) if the financial statements of any Subsidiary (not being a Subsidiary referred to in proviso (i) above) are not consolidated with those of the Issuer, then the determination of whether or not such Subsidiary is a Principal Subsidiary shall be based on a pro forma consolidation of its financial statements (consolidated, if appropriate) with the consolidated financial statements (determined on the basis of the foregoing) of the Issuer; or
- (c) any Subsidiary of the Issuer to which is transferred the whole or substantially the whole of the assets of a Subsidiary which, immediately prior to such transfer, was a Principal Subsidiary, provided that the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall become a Principal Subsidiary at the date on which the first published audited financial statements (consolidated, if appropriate), of the Issuer prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Principal Subsidiary on the basis of such financial statements by virtue of the provisions of paragraphs (a) and (b) above.

A certificate by an Authorised Signatory that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary, shall, in the absence of manifest error, be conclusive and binding on all parties.

11.2 Events of Default relating to Subordinated Notes

If default is made in the payment of any amount of principal in respect of the Subordinated Notes on the due date for payment thereof or of any amount of interest in respect of the Subordinated Notes within seven days after the date for payment thereof (which, in the case of the Undated Subordinated Notes, shall be the date upon which the payment of interest is compulsory pursuant to Condition 6.6) (each, an Event of Default) then in order to enforce the obligations of the Issuer, then any holder of a Note may institute a Winding-Up Proceeding against the Issuer.

If an order is made or an effective resolution is passed for the Winding-Up of the Issuer (whether or not an Event of Default has occurred and is continuing) then any holder of a Note, by written notice to the Issuer at the specified office of the Fiscal Agent, effective upon the date of receipt there by the Fiscal Agent, declare any Subordinated Note held by it to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Redemption Amount, together with accrued interest and all Arrears of Interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

In these Conditions:

Winding-Up shall mean, with respect to the Issuer, a final and effective order or resolution for the bankruptcy, winding-up, liquidation, receivership or similar proceeding in respect of the Issuer (except for the purposes of a consolidation, amalgamation, merger or reorganisation the terms of which have previously been approved by an Extraordinary Resolution of the Noteholders); and

Winding-Up Proceedings shall mean, with respect to the Issuer, proceedings in Hong Kong in respect of the Issuer for the bankruptcy, liquidation, winding-up, receivership, or other similar proceeding of the Issuer.

11.3 Enforcement

In the case of Subordinated Notes and subject to applicable laws, no remedy (including the exercise of any right of set-off or analogous event) other than those provided for in Condition 11.2 above, will be available to the Noteholders, Receiptholders or Couponholders.

12. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Fiscal Agent or the Paying Agent (in the case of Bearer Notes, Receipts or Coupons) or the Registrar or the Transfer Agent (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13. AGENTS

The names of the initial Fiscal Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Agent and/or appoint additional Agents and/or approve any change in the specified office through any of the same acts, provided that:

- (a) there will at all times be a Fiscal Agent and a Registrar;
- (b) so long as the Notes are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent (in the case of Notes in bearer form) and a Registrar and Transfer Agent (in the case of Notes in registered form) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and

- (c) if the Notes are issued in definitive form, there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to any law implementing the European Council Directive 2003/48/EC on the taxation of savings income or any other Directive implementing the conclusions of the EcoFin Council meeting of 26-27 November 2000 on the taxation of saving income or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (d) so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, if the Notes are issued in definitive form, there will at all times be a Paying Agent in Singapore.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 7.2. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 15.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and, in certain circumstances specified therein, and do not assume any obligation to, or relationship of agency with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

14. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 10.

15. NOTICES

All notices regarding Notes in bearer forms will be deemed to be validly given if published in a leading daily newspaper of general circulation in Hong Kong by the Issuer. It is expected that such publication will be made in the *South China Morning Post* in Hong Kong. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Bearer Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

All notices regarding Notes in registered form will be deemed to be validly given if (a) sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the third day after mailing and (b) if and for so long as the Registered Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of (i) Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the

Notes or (ii) the CMU Service, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU Service on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note and, in addition, in the case of both (i) and (ii) above, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the first day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or the persons shown in the relevant CMU Instrument Position Report.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Fiscal Agent (in the case of Notes in bearer form) or the Registrar (in the case of Notes in registered form). Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Fiscal Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Fiscal Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg, and/or, in the case of Notes lodged with the CMU Service, by delivery by such holder of such notice to the CMU Lodging and Paying Agent in Hong Kong, as the case may be, in such manner as the Fiscal Agent, the Registrar, the CMU Lodging and Paying Agent and Euroclear and/or Clearstream, Luxembourg and/or the CMU Service, as the case may be, may approve for this purpose.

Receiptholders and Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this condition.

16. MEETINGS OF NOTEHOLDERS, MODIFICATIONS AND CONSOLIDATIONS

16.1 Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

16.2 Modifications

The Fiscal Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (a) any modification (except such modifications in respect of which an increased quorum is required as mentioned above) of the Notes, the Receipts, the Coupons or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or
- (b) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 15 as soon as practicable thereafter.

16.3 Consolidation, Merger and Sale of Assets

The Issuer shall not consolidate with or merge into any other company or entity, and the Issuer may not, directly or indirectly, sell, convey, transfer or lease all or substantially all of its properties and assets to any company or other entity unless:

- (a) the company or other entity formed by or surviving such consolidation or merger or the person, company or other entity which acquires by conveyance or transfer, or which leases, all or substantially all of the properties and assets of the Issuer shall expressly assume by way of supplemental agency agreement the due and punctual payment of the principal of, and interest on, the Notes and the performance of the Notes, the Agency Agreement on the part of the Issuer to be performed or observed;
- (b) immediately after giving effect to such transaction, no Event of Default with respect to the Notes, and no event, which after notice or lapse of time, or both, would become an Event of Default with respect to the Notes, shall have happened and be continuing;
- (c) the Issuer has delivered to the Fiscal Agent (i) a certificate signed by two directors of the Issuer and (ii) an opinion of independent legal advisers of recognised standing stating that such consolidation, merger, conveyance, transfer or lease and any such supplemental agency agreement comply with this Condition 16.3 and that all conditions precedent relating to such transaction have been complied with; and
- (d) immediately after giving effect to such consolidation, amalgamation or merger of the Issuer, no internationally recognised rating agency has in respect of the Notes, issued any notice downgrading its credit rating for such Notes or indicating that it intends to downgrade its credit rating for such Notes.

17. SUBSTITUTION

17.1 Senior Notes

The Issuer, or any previous substituted company (if applicable), may at any time, without the consent of the Noteholders, Receiptholders or the Couponholders, substitute for itself as principal debtor under any Series of the Senior Notes, the Receipts, the Coupons and the Talons any Subsidiary, branch or affiliate of the Issuer, or the successor company of the Issuer, or jointly and severally one or more companies to whom the Issuer has transferred all of its assets and business undertakings (in each case the **Substitute**) provided that the substitution shall be made by a deed poll (the **Deed Poll**) to be substantially in the form scheduled to the Agency Agreement and may take place only if:

- (i) no Event of Default has occurred and is continuing;
- (ii) the Substitute, by means of the Deed Poll, agrees to indemnify each Noteholder, Receiptholder and Couponholder against any tax, duty, assessment, withholding, deduction or governmental charge which is imposed on it by (or by any taxing authority in or of) the jurisdiction of the country of the Substitute's residence for tax purposes and, if different, of its incorporation with respect to any Note, Receipt, Coupon, Talon or the Deed of Covenant and which would not have been so imposed had the substitution not been made, as well as against any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution;
- (iii) unless the Substitute is the successor company of the Issuer or one or more companies to whom the Issuer has transferred all of its assets and business undertakings each of whom are to be jointly and severally liable as principal debtor under the relevant Series of Notes, Receipts, Coupons and Talons, the obligations of the Substitute under the Deed Poll, the Notes, the Receipts, the Coupons and the Talons are unconditionally and irrevocably guaranteed by the Issuer or its successor or each of the companies to whom together the Issuer has transferred all of its assets and business undertakings (each a **Guarantor**) by means of a guarantee substantially in the form contained in the Deed Poll (the **Senior Guarantee**);
- (iv) all actions, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Deed Poll, the Notes, the Receipts, the Coupons, the Talons and the Deed of Covenant represent valid, legally binding and enforceable obligations of the Substitute and, in the case of the Senior Guarantee, of the Guarantor have been taken, fulfilled and done and are in full force and effect;
- (v) the Substitute has become party to the Agency Agreement, with any appropriate consequential amendments, as if it had been an original party to it;
- (vi) legal opinions addressed to the Noteholders have been delivered to them (care of the Fiscal Agent) from a lawyer or firm of lawyers with a leading securities practice in each jurisdiction referred to in (ii) above as to the fulfilment of the preceding conditions of this Condition 17 and the other matters specified in the Deed Poll;
- (vii) the substitution does not affect adversely the rating of the Notes by Fitch Ratings Ltd. and Moody's Investor Service Inc. or, if any such rating agency does not exist at the relevant time, any two existing internationally recognised rating agencies; and
- (viii) the Issuer has given at least 14 days' prior notice of such substitution to the Noteholders, stating that copies of all documents (in draft or final form) in relation to the substitution which are referred to above, or which might otherwise reasonably be regarded as material to Noteholders, will be available for inspection at the specified office of each of the Paying Agents.

Such substitution effected in accordance with this Condition 17.1 will release the Issuer or any previously substituted company and the Noteholders, Receiptholders and Couponholders expressly consent hereto. References in Condition 10 to obligations under the Notes shall be deemed to include obligations under the Deed Poll and, where the Deed Poll contains a Senior Guarantee, the events listed in Conditions 11.1(a) and 11.1(b) shall be deemed to include such Senior Guarantee not being (or being claimed by the Guarantor not to be) in full force and effect. In addition, the Senior Guarantee shall contain (A) events of default in respect of the Notes in the same terms as Condition 11.1 relating to the Guarantor (except that references in Condition 11.1(a) to failure to pay principal and interest on the Notes shall be a reference to failure to pay under the Senior Guarantee), (B) provisions relating to the Senior Guarantee in the form of Condition 3.1, (C) provisions relating to the Guarantor in the form of Conditions 8.10 and 8.11 and (D) a negative pledge in relation to the Senior Guarantee in the form of Condition 4.

References to “outstanding” in relation to the Notes of any Series shall, on a substitution of the Issuer where the Guarantor guarantees the Notes, not include Notes held by the Guarantor and its subsidiaries for the purposes of (i) ascertaining the right to attend and vote at any meeting of the Noteholders and (ii) the determination of how many Notes are outstanding for the purposes of Condition 16.

17.2 Subordinated Notes

Subject to the provisions of this Condition, the Noteholders, Receiptholders and the Couponholders, by subscribing to or purchasing any Notes, Receipts or Coupons, expressly consent to the Issuer, or any previously substituted company (if applicable), at any time, but where applicable, with the prior approval of the HKMA, substituting for itself as principal debtor under any Series of the Notes, the Receipts, the Coupons and the Talons any Subsidiary, branch or affiliate of the Issuer or, the successor company of the Issuer or jointly and severally one or more companies to whom the Issuer has transferred all of its assets and business undertakings (in each case the **Substitute**) provided that the substitution shall be made by a deed poll (the **Deed Poll**) to be substantially in the form scheduled to the Agency Agreement and may take place only if:

- (i) no Event of Default has occurred or is continuing;
- (ii) the Substitute, by means of the Deed Poll, agrees to indemnify each Noteholder, Receiptholder and Couponholder against any tax, duty, assessment, withholding, deduction or governmental charge which is imposed on it by (or by any taxing authority in or of) the jurisdiction of the country of the Substitute’s residence for tax purposes and, if different, of its incorporation with respect to any Note, Receipt, Coupon or Talon and which would not have been so imposed had the substitution not been made, as well as against any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution;
- (iii) unless the Substitute is the successor company of the Issuer or one or more companies to whom the Issuer has transferred all of its assets and business undertakings each of whom are to be jointly and severally liable as principal debtor under the relevant Series of Notes, Receipts, Coupons and Talons, the obligations of the Substitute under the Deed Poll, the Notes, the Receipts, the Coupons and the Talons are unconditionally and irrevocably guaranteed by the Issuer or its successor or each of the companies to whom together the Issuer has transferred all of its assets and business undertakings (each a **Guarantor**) by means of a guarantee on a subordinated basis substantially in the form contained in the Deed Poll (the **Subordinated Guarantee**);
- (iv) all actions, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Deed Poll, the Notes, the Receipts, the Coupons and the Talons and the Deed of Covenant represent valid, legally binding and enforceable obligations of the Substitute and, in the case of the Subordinated Guarantee, of the Guarantor have been taken, fulfilled and done and are in full force and effect;

- (v) the Substitute has become party to the Agency Agreement, with any appropriate consequential amendments, as if it had been an original party to it;
- (vi) legal opinions addressed to the Noteholders have been delivered to them (care of the Fiscal Agent) from a lawyer or firm of lawyers with a leading securities practice in each jurisdiction referred to in (ii) above as to the fulfilment of the preceding conditions of this Condition 17 and the other matters specified in the Deed Poll;
- (vii) the substitution does not affect adversely the rating of the Notes by Fitch Ratings Ltd. and Moody's Investor Service Inc. or, if any such rating agency does not exist at the relevant time, any two existing internationally recognised rating agencies; and
- (viii) the Issuer has given at least 14 days' prior notice to such substitution to the Noteholders, stating that copies, or pending execution the agreed text, of all documents in relation to the substitution which are referred to above, or which might otherwise reasonably be regarded as material to Noteholders, will be available for inspection at the specified office of each of the Paying Agents.

Such substitution effected in accordance with this Condition 17.2 will release the Issuer or any previously substituted company and the Noteholders, Receiptholders and Couponholders expressly consent hereto. References in Condition 10 to obligations under the Notes shall be deemed to include obligations under the Deed Poll and, where the Deed Poll contains a Subordinated Guarantee, the events listed in Conditions 11.2 shall be deemed to include such Subordinated Guarantee not being (or being claimed by the Guarantor not to be) in full force and effect. In addition, the Subordinated Guarantee shall contain (A) rights of enforcement in the form of Condition 11.2 (except that references in Condition 11.2 to failure to pay principal and interest on the Notes shall be a reference to failure to pay under the Subordinated Guarantee), (B) provisions relating to the Subordinated Guarantee in the form of Condition 3.2 and (C) provisions relating to the Guarantor in the form of Condition 8.10 and 8.11.

18. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes (whether in bearer or registered form) having terms and conditions of the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single series with the outstanding notes of any series (including the Notes).

19. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

20. GOVERNING LAW

- (a) **Governing law:** The Agency Agreement, the Deed of Covenant, the Notes, the Receipts, the Coupons, the Talons and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Deed of Covenant, the Notes, the Receipts, the Coupons and the Talons are governed by, and shall be construed in accordance with, English law, except that the subordination provisions set out in Condition 3.2 (Status of the Subordinated Notes) shall be governed by and construed in accordance with the laws of Hong Kong.

- (b) **Jurisdiction:** The courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes (including any dispute relating to any non-contractual obligations arising out of or in connection with the Notes) and accordingly any legal action or proceedings arising out of or in connection with the Notes (including any legal action or proceedings relating to any non-contractual obligations arising out of or in connection with the Notes) (**Proceedings**) may be brought in such courts. The Issuer irrevocably submits to the exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient or inappropriate forum. This submission is made for the benefit of each of the Noteholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).
- (c) **Agent for service of process:** The Issuer irrevocably appoints Industrial and Commercial Bank of China, (London) Limited of 36 King Street, London EC2V 8BB, United Kingdom as its agent in England to receive service of process in any Proceedings in England. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Noteholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.
- (d) **Waiver of immunity:** The Issuer hereby irrevocably and unconditionally waives with respect to the Notes, the Receipts and the Coupons any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

USE OF PROCEEDS

Unless otherwise specified in the Pricing Supplement, the net proceeds from each issue of Notes will be applied by the Issuer for its funding and general corporate purposes.

INVESTMENT CONSIDERATIONS

Prospective investors should carefully take into account the following considerations, in addition to the other information contained in this Offering Circular, before investing in the Notes. The occurrence of one or more events described below could have an adverse effect on the Group's business, financial condition or results of operations, and could affect the Bank's ability to make payments of principal, premium and/or interest (if any) under the Notes. The following considerations and uncertainties described below may not be the only ones which the Group faces. Additional considerations and uncertainties not presently known to the Bank, or which the Bank currently deems immaterial, may also have an adverse effect on an investment in the Notes.

Considerations relating to the Group

Volatility in interest rates could have an adverse effect on the Group's business, financial condition, liquidity and results of operations.

Net interest income is a significant factor in determining the Group's overall financial performance. For the year ended 31 December 2009 and the six months ended 30 June 2010, net interest income represented 71.8% and 75.7% of the Group's consolidated operating income, respectively. Interest rates in Hong Kong have remained relatively low and have been falling steadily in recent years, a situation which has had a negative impact on the Group's net interest income. However, there can be no assurance that interest rates will not rise or fall or become volatile or that changes in interest rates will not be frequent. Change in market interest rates affect the interest received on the Group's interest-earning assets and the interest paid on the Group's interest-bearing liabilities. These changes could result in an increase in the Group's interest expenses relative to its interest income, which may lead to a reduction in its net interest income. Interest rates in Hong Kong are sensitive to factors over which the Group has no control, including Prime Rate and HIBOR movements in Hong Kong, and domestic and international economic and political conditions having an impact on local and international interest rates. Any significant volatility and abrupt movements in interest rates could adversely affect the Group's business, financial condition and results of operations.

The increasing competition in the Hong Kong and the PRC banking industries could adversely affect the Group's profitability.

The Group focuses principally on the Hong Kong market for individual and corporate customers. The banking industry in Hong Kong is a mature market, and the Group is subject to increasing competition from many other Hong Kong-incorporated banks and Hong Kong branches of international banks, including competitors that have significantly greater financial and other resources. According to statistics published by the HKMA, there were 145 international and local licensed banks as at 30 June 2010, competing for a population in Hong Kong of approximately seven million people. There is a limited market, especially for business from personal banking products such as residential mortgage loans, credit cards and personal loans. The Group expects that further consolidation in the industry, in particular among medium-sized Hong Kong banks, will continue to intensify competition. There can be no assurance that the Group will be able to compete effectively in the face of such increased competition. Increased competition may make it difficult for the Group to increase the size of its loan portfolio and deposit base and may cause intense pricing competition, which could have an adverse effect on its growth plans, interest, margins, ability to pass on increased costs of funding, results of operations and financial condition.

In particular, since 2000, banks in Hong Kong, including the Bank, have lowered interest rates charged on non-Hong Kong government-guaranteed new residential mortgage loans (**Mortgage Interest Rates**). As future movements in Mortgage Interest Rates are uncertain, there can be no assurance that competition among banks in Hong Kong for residential mortgage loans will not result in further reductions in Mortgage Interest Rates. Further reductions in Mortgage Interest Rates could have an adverse effect on the Group's business, financial condition or results of operations.

Due to the maturity of the Hong Kong banking industry and new business opportunities in the PRC, the Group intends to continue to expand its personal and corporate lending portfolio by growing its PRC-related business. However, the Group is likely to face increased competition in the PRC market from existing local Chinese banks and other foreign banks entering the market. The Group expects competition from foreign commercial banks to increase significantly, as previous restrictions on their geographical presence, customer base and operating licences in the PRC were removed in December 2006 pursuant to the PRC's World Trade Organization (**WTO**) commitments. A number of foreign banks have established locally incorporated banks in the PRC. In addition, the PRC's Closer Economic Partnership Arrangement (**CEPA**) with Hong Kong and Macau allows smaller banks from these jurisdictions to operate in the PRC, a development which may also increase competition in the banking industry in the PRC.

The increased competition in the Hong Kong and the PRC banking industries may adversely affect the Group's business and prospects, results of operations and financial condition by potentially:

- reducing its market share in the principal products and services that the Group offers;
- reducing the growth of its loan and deposit portfolios and other products and services;
- reducing its net interest income;
- reducing its fee and commission income; and
- increasing its non-interest expenses.

The Group has a relatively high concentration of loans to the property-related sectors, and if these sectors experience volatility or an extended downturn in the future, the Group's business and financial condition could be adversely affected.

The Group has significant exposure to the Hong Kong and the PRC property markets due to its portfolio of loans to real estate investors and developers and residential mortgage loans. As at 30 June 2010, loans for property development and investment and residential mortgage loans accounted for 18.2% and 8.7%, respectively, of the Group's total advances to customers. The Hong Kong and the PRC property markets are highly cyclical and property prices in general have been volatile. For example, Hong Kong residential property prices, after reaching record highs in 1997, fell significantly as a result of the Asian economic downturn. In addition, while the Hong Kong property market showed improvement during the period from 2004 to the first half of 2008, property prices in Hong Kong declined in the second half of 2008 and early 2009, before showing signs of recovery since the second half of 2009. Property prices are affected by a number of factors, including, among other things, the supply of, and demand for, comparable properties, the rate of economic growth in Hong Kong, political and economic developments in the PRC, and the relationship between the PRC, Hong Kong and other countries. Accordingly, any prolonged decrease or fluctuations in property values and/or liquidity of the Hong Kong and the PRC property markets could adversely affect the Group's business, financial condition and results of operations.

The Group's funding is primarily short-term, and if depositors do not roll over their deposits upon maturity, the Group's liquidity could be adversely affected.

The Group's primary sources of funding comprise customer deposits, certificates of deposit and shareholders' funds. As at 30 June 2010, 86.0% of the Group's customer deposits had a remaining maturity of three months or less. Historically, a substantial portion of such customer deposits have been rolled over upon maturity. However, no assurance can be given that this pattern will continue. If a substantial number of depositors fail to roll over deposited funds upon maturity, the Group's liquidity position would be adversely affected and it may need to seek alternative sources of short-term or long-term funding to finance its operations, which may be more expensive than current deposits.

In October 2008, to minimise the impact of the financial crisis on the banks in Hong Kong and to restore depositor confidence, the Hong Kong Government announced the use of the Hong Kong Government's Exchange Fund to guarantee repayment of all customer deposits held with authorised institutions in Hong Kong subject to the rules laid down in the Deposit Protection Scheme established under the Deposit Protection Scheme Ordinance. The guarantee is scheduled to remain in force until the end of 2010. On 30 June 2010, the Deposit Protection Scheme (Amendment) Ordinance 2010 (the **Amendment Ordinance**) was passed by the Legislative Council of Hong Kong. Among other things, the Amendment Ordinance will increase the Deposit Protection Scheme limit established under the Deposit Protection Scheme Ordinance (Cap. 581) of the Laws of Hong Kong from HK\$100,000 to HK\$500,000 and will come into effect on 1 January 2011 upon the expiry of the guarantee. However, there can be no assurance that the level of customer deposits of the Group will not be adversely affected by the expiration of the guarantee, the future withdrawal of or any other changes to the Deposit Protection Scheme.

The HKMA acts as the lender of last resort to all authorised institutions in Hong Kong to provide support for liquidity needs in the banking system generally as well as to specific institutions. In this regard, certain portions of the Bank's interest-earning assets are acceptable to the HKMA for such emergency funding support. However, there can be no assurance that the HKMA will take measures to assist banks in Hong Kong in the future or that it would elect to provide liquidity support assistance in the future to the Bank in the event of a liquidity crisis.

The Group may need additional capital in the future, and there can be no assurance that it would be able to obtain such capital on acceptable terms or at all.

Uncertainties in the economic and business environment in Hong Kong, the PRC, the United States and certain other developed countries may result in a deterioration of the Group's capital adequacy position. In particular, the Group may experience a deterioration in its asset quality as a result of a worsening macroeconomic climate. Any increase in the Group's allowances for impaired assets will decrease its operating profit after such allowances. To the extent that the Group's future operating income is not sufficient to meet provisioning requirements, its capital will be eroded, and the Group may be required to obtain new capital. A requirement to increase significantly the level of the Group's provisions would adversely affect its financial condition, results of operations and capital position. Moreover, the HKMA may increase the Bank's required capital adequacy ratio levels in the future in response to, among other things, an adverse economic or credit environment or regulatory changes. In addition, in order for the Group to grow, remain competitive, enter new businesses or expand its base of operations, the Group may require new capital. The Bank may raise additional capital in the future through equity issuances or other capital instruments that are eligible for capital adequacy purposes under the Banking (Capital) Rules (Cap. 155L) or successor legislation. There can be no assurance that the Group will be able to obtain additional capital in a timely manner, on acceptable terms or at all.

If the Group is unable to effectively maintain the quality of its loan portfolio, investment securities, the collateral securing its loans, or other assets, its business could be materially and adversely affected.

The Group's results of operations could be materially and adversely affected by any deterioration in the quality of its loan portfolio, investment securities or other assets. Risks from changes in credit quality and the recoverability of loans and amounts due from counterparties as well as risks from the Group's investment activities are inherent in a wide range of its businesses. The Group's impaired loans represented 0.7%, 0.9% and 0.7% of its total loans and advances to customers, banks and other financial institutions as at 31 December 2008 and 2009 and 30 June 2010, respectively. The Group may not be able to control effectively the level of impaired loans in its current loan portfolio or control effectively the level of new loans that may become impaired in the future. In particular, the amount of the Group's impaired loans may increase in the future due to a deterioration in the quality of its

loan portfolio and/or a substantial increase in the amount of its new loans. The Group's total loans to customers and advances to customers, banks and other financial institutions have increased from HK\$137 billion (US\$18 billion) as at 31 December 2008 to HK\$147 billion (US\$19 billion) as at 31 December 2009 and to HK\$185 billion (US\$24 billion) as at 30 June 2010.

Deterioration in the quality of the Group's loan portfolio, investment securities or other assets may occur for a variety of reasons, including factors which are beyond its control, such as a slowdown in growth of the Hong Kong or global economies, a relapse of a global credit crisis, volatility in interest rates and market liquidity, and other adverse macroeconomic trends and financial conditions in Hong Kong, Europe, Dubai and other parts of the world. As a result, these factors may cause operational, financial and liquidity problems for the Group's borrowers and the issuers of the Group's investment securities which may materially and adversely affect their ability to service their outstanding debt and fulfil their payment obligations associated with the securities issued. For example, in 2009, a provision of approximately HK\$101 million (US\$13 million) was made against the Group's Dubai-related loan exposure in relation to the Group's syndicated loan business for the Dubai market. In 2008, the Group wrote down HK\$611 million (US\$79 million) of its bonds issued by Icelandic banks. Other factors may also cause the asset quality of the Group's loan portfolio to deteriorate and the market value of its securities investment to decrease, including actual or perceived failure or worsening credit of counterparties (in particular, those counterparties to which the Group has substantial exposure), declines in residential and commercial property prices, higher unemployment rates and reduced profitability of corporate borrowers. Moreover, to the extent that a material portion of the Group's loans has been extended to a relatively small number of counterparties, the overall quality of its loan portfolio could be adversely affected by a decline in the credit quality of such borrowers. In addition, the Group's expansion in the PRC and overseas markets may potentially impact the quality of its loan portfolio, where the Group is less able to control its loan portfolio quality and where uncertainties in economic and monetary policies are likely to affect its borrowers severely. Moreover, in connection with its periodic examinations of the Bank's operations, the HKMA may in the future require the Bank to change the classification of some of its loans which may increase the level of the Group's impaired loans. If the level of the Group's impaired loans or write-offs in its investment securities and other assets increases, its business, financial condition and results of operations may be materially and adversely affected.

The Group may not be able to realise the full value of its collateral as a result of a downturn in the real estate markets, delays in bankruptcy and foreclosure proceedings, fraudulent transfers by borrowers and other factors beyond its control. Any decline in the value of the collateral securing the Group's loans may result in an increase in its impairment allowances and a reduction in the recovery from collateral realisation, which may reduce the Group's net profit and may adversely affect its financial condition and results of operations.

The Bank faces potential risks in relation to the sales of certain investment products such as the Lehman Brothers Minibonds.

On 22 July 2009, the Bank, without admission of any liability, reached an agreement among the Securities and Futures Commission (the **SFC**), the HKMA, and 15 other distributing banks pursuant to which the Bank offered to repurchase all the outstanding retail structured notes issued under the "Secured Continuously Offered Note Program" by Pacific International Finance Limited and arranged by Lehman Brothers group companies, commonly known as Lehman Brothers Minibonds (the **Minibonds**), from eligible customers who had subscribed or purchased the Minibonds through the Bank (the **Repurchase Scheme**). The acceptance of the Bank's offer under the Repurchase Scheme by such eligible customers will result in the release of claims such eligible customers may have against the Bank in relation to the sales and purchase of the Minibonds. There can be no assurance, however, that the Bank will not be subject to further claims by customers who have not accepted the terms of the Repurchase Scheme and/or who are not eligible for the Repurchase Scheme. Therefore, there can be no assurance that the Bank's maximum exposure associated with the Minibonds will not exceed the amount of its provisions made. In addition, there can be no assurance that the Bank will not face any

further claims by its customers who have purchased other investment products offered by the Bank. Expenses associated with Lehman Brothers-related products for the year ended 31 December 2009 were HK\$89 million (US\$11 million), primarily including those in relation to the Minibonds by taking into account the uncertainties in the amount recoverable from such Minibonds.

In addition, investors' interest in structured financial products and their confidence in other related products offered by the Group may be adversely affected by the Minibonds incident and the Repurchase Scheme. Such a loss of confidence by its existing or future customers may adversely affect the Group's ability to market and promote the structured financial products it offers and, in turn, the Group's business operations and income may suffer.

The loan classification and provisioning system for Hong Kong banks is different in certain respects from that in certain other countries.

In 2007, Hong Kong implemented the Revised Framework of International Convergence of Capital Measurement and Capital Standards (**Basel II**). In accordance with guidelines set by the HKMA, the Group classifies its problem loans into one of three categories corresponding to levels of risks: "sub-standard", "doubtful" and "loss". See "*Selected Statistical and Other Information Relating to the Bank and the Group — Asset Quality — Loan Classification*". In grading loans, the Group considers various quantitative and qualitative factors, including: (a) the payment history of the loan; (b) the history of the Group's dealings with the borrower in question; (c) the borrower's financial condition; (d) the management and operation of the borrower's business; (e) the status of any collateral or guarantees; and (f) the market conditions affecting the borrower's industry. Loans are reviewed on an ongoing basis and by periodic reviews to re-examine the appropriateness of the assigned loan grade and provision level. Loans are classified as non-performing once they are in payment default for over 90 days or when the borrower declares insolvency. In general, interest accrual will be suspended if the loans are classified as non-performing, taking into consideration both qualitative and quantitative factors including: (a) the type and amount of collateral; (b) whether the net realisable value of the security is sufficient to cover the principal and accrued interest; (c) whether the principal or interest amount has been overdue for more than 90 days; and (d) the expectations for recovery or performance. Individual impairment provisioning is made for the Group's non-performing loans in accordance with HKAS 39.

The laws, regulations and guidelines governing banking in Hong Kong differ from those applicable in certain other countries in certain respects and may result in particular loans being classified at a different time or being classified in a category reflecting a different degree of risk than would be required in certain other countries. In addition, the typical procedures for writing off loans in Hong Kong may result in loans being written-off later than would be the case for banks in certain other countries. Banks in Hong Kong may accrue interest on "sub-standard" loans in situations where such interest would not be accrued by banks in certain other countries. Whilst the Group believes that its loan provisioning policies are more prudent than those which are required under Hong Kong laws and regulations, the Group is not required to maintain such policies at levels above those generally applicable to banks in Hong Kong. For a description of the banking regulations that apply to banks in Hong Kong, see "*Regulation and Supervision*".

There are operational risks associated with the industry that the Group operates in which, if realised, may have an adverse impact on its business.

The Group is exposed to many types of operational risks, including the risk of fraud, unauthorised transactions or other misconduct by employees (including the violation of regulations for the prevention of corrupt practices, and other regulations governing its business activities).

On 7 October 2010, an employee and a former employee of the Bank were charged with the offences of bribery and handling crime proceeds in relation to certain loan applications handled by them following investigation initiated by the Independent Commission Against Corruption of Hong Kong (the ICAC) in response to a corruption complaint. The Bank has offered full assistance to the

ICAC in its investigation. Although these front line employees were not members of the credit approval team of the Bank and no provision is required to be made by the Bank in relation to the loans, the Bank cannot predict whether or when such misconduct will happen and in what form, and cannot assure investors that it will be able to timely detect or prevent such misconduct. Whilst the Bank continues to improve its risk management and internal controls against fraud, corruption and other misconduct, the business, reputation and prospects of the Bank may be adversely affected if it is not able to timely detect and prevent fraud, corruption or other misconduct committed by its employees, customers or other third parties.

In addition, the Group is exposed to risks associated with operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems. The Group is further exposed to the risk that external vendors may be unable to fulfill their contractual obligations to the Group (or will be subject to the same risk of fraud or operational errors by their employees). For example, the Group uses direct marketing associates to market its retail credit products and the Group also outsources some functions to other agencies. Moreover, the Group is exposed to the risk that its (or its vendors') business continuity and data security systems prove not to be sufficient in case of a system failure or natural disaster.

Given the Group's high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. In addition, the Group's dependence upon automated systems to record and process transactions may further increase the risk of technical system flaws or employee tampering or manipulation of those systems that will result in losses that may be difficult to detect. The Group may also be subject to disruptions of its operating systems, arising from events that are wholly or partially beyond its control (including, for example, computer viruses or electrical or telecommunication outages), which may give rise to a deterioration in customer service and loss or liability to the Group. The Group also faces the risk that the design of its controls and procedures may prove inadequate or are circumvented, thereby causing delays in detection of errors in information. Although the Group maintains back-up systems at an off-site location for its core banking systems, implements business continuity drills once a year for contingencies such as power failure, fire, or contagious disease, and maintains a system of controls designed to keep operational risks at appropriate levels, there can be no assurance that it will not suffer material losses from operational risks in the future. The Group's reputation could be adversely affected by the occurrence of any such events involving its employees, customers or third parties. In addition to internal factors that may affect the Group's operations, the rapid growth and expansion of its business in recent years as compared to other banks may have also resulted in increasing complexity in its internal and external control systems and risk management measures, which may add to its operational risks.

The Group's internet banking and trading services are subject to security risks and the proper functioning and maintenance of its information technology system.

The Group uses its internet banking and trading services as a means of providing customers with greater access to its products and services and attracting new customers. The Group's business may be adversely affected if its internet banking and trading services does not continue to grow or grows more slowly than anticipated. Usage of the Group's internet banking and trading services may be adversely affected for a number of reasons, including inadequate network infrastructure, security concerns, inconsistent quality of service and unavailability of high-speed internet access.

To the extent that the Group's internet banking and trading activities involve the storage and transmission of confidential information, security breaches could expose the Group to possible liability and/or damage the Group's reputation. The Group's networks may be vulnerable to unauthorised access, computer viruses and other disruptive problems. Costs required to rectify any of such disruptive problem may be high and may adversely affect the Group's financial condition and results of operations. Concerns regarding security risks may deter the Group's existing and potential customers from using its internet banking and trading products and services. Eliminating computer viruses and alleviating other security problems may result in interruptions, delays or termination of

service to customers accessing the Group's internet banking and trading services. Undetected defects in software products that the Group uses in its products and the Group's inability to sustain a high volume of traffic may materially and adversely affect the Group's internet banking and trading business.

The Group will be exposed to various risks as it expands its range of products and services.

In order to meet the needs of the Group's customers and to diversify its business portfolio, the Group has been expanding the range of products and services it provides to its customers. Expansion of the Group's business is subject to certain risks and challenges, including:

- new products and services may not be accepted by customers or meet the Group's expectations for profitability;
- the requirement to hire additional qualified personnel who may not be available;
- the failure to obtain regulatory approval for new products or services; and
- the inability to enhance risk management capabilities and information technology systems to support a broader range of products and services.

If the Group is unable to achieve the intended results with respect to the new products and services to be offered to its customers, the Group could experience an adverse effect on its business, financial condition and results of operations.

The proposed privatisation of the Bank is subject to certain conditions being fulfilled or waived and may or may not be successful.

On 10 August 2010, Industrial and Commercial Bank of China Limited (**ICBC**) and the Bank jointly announced the proposal for the proposed privatisation of the Bank (the **Proposal**). The Proposal will be implemented by way of a scheme of arrangement under Section 166 of the Companies Ordinance (Cap. 32) of Hong Kong (the **Scheme of Arrangement**). The Proposal is conditional upon the fulfilment or waiver, as applicable, of certain conditions which include, among others, the sanction of the Scheme of Arrangement by the High Court of Hong Kong (the **High Court**), there having been obtained and remaining in full force and effect all necessary authorisations, consents and approvals of any governmental or regulatory body (including approval from the China Banking Regulatory Commission) in relation to the proposed privatisation of the Bank and there having been no material adverse change in the business, financial or trading position of the Bank and its subsidiaries taken as a whole. If the conditions are not fulfilled or not waived on or before 1 March 2011 (or such later date as ICBC and the Bank may agree or (to the extent applicable) as the High Court may direct), the Scheme of Arrangement will lapse. There is no assurance that the conditions will be met, including the sanction of the Scheme of Arrangement by the High Court or that the relevant authorisations, consents and approvals will be obtained by the required date, and accordingly the proposed privatisation of the Bank will become effective. For further details on the proposed privatisation of the Bank, see "*Description of the Bank — Recent Development — Proposed Privatisation of the Bank*" and "*Appendix I*" for the full extract of the announcement dated 10 August 2010.

The Group's ability to extend credit may be affected by ICBC's credit exposure limits, which may adversely affect its business and results of operations.

As a subsidiary of ICBC, the Group's ability to extend credit to a customer or counterparty of ICBC may be constrained by ICBC's overall credit exposure limits and specific credit exposure limits to such customer or counterparty. Any constraint on the Group's ability to conduct operations in its best economic interest may make the Group's business less competitive, as well as adversely affect its business and results of operations.

Discontinuation of the link of the Hong Kong dollar to the US dollar or revaluation of the Hong Kong dollar could adversely affect the Group's liquidity position as well as its financial condition and results of operations.

The majority of the Group's revenues are generated in Hong Kong dollars. Although the Hong Kong dollar has been linked to the US dollar since 1983, there can be no assurance that such linkage will be maintained in the future. In order to ensure continued liquidity of the Hong Kong dollar, the HKMA has entered into bilateral repurchase agreements with the central banks of Australia, the PRC, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand. In addition, the Hong Kong Government is committed to maintaining exchange rate stability under the "Linked Exchange Rate System", an automatic interest rate adjustment mechanism. No assurance can be given that, in the event of a liquidity problem affecting the Hong Kong dollar, such bilateral repurchase agreements or automatic interest rate adjustment mechanism will help to maintain adequate liquidity for the Hong Kong dollar. The Group's business, financial condition and results of operations could be adversely affected by the impact on the Hong Kong economy of the discontinuation of the link of the Hong Kong dollar to the US dollar, any change in the liquidity of the Hong Kong dollar or any devaluation of the Hong Kong dollar.

The interim financial statements of the Bank for the six months ended 30 June 2009 have been restated and the financial statements of the Bank for the year ended 31 December 2009 are not comparable with the financial statements for the six months ended 30 June 2009 and 2010

For accounting periods beginning 1 January 2010, there have been certain revisions and/or amendments to HKFRS 1, HKFRS 2, HKFRS 3, HKAS 27, HKAS 39, HK(IFRIC)-Int 17 and HK-Int 4, as well as amendments to various HKFRSs as set out in the Improvements to HKFRSs 2009 issued by the Hong Kong Institute of Certified Public Accountants. The Bank has restated its consolidated interim financial statements as at and for the six months ended 30 June 2009 in order for it to be comparable with the financial statements as at and for the six months ended 30 June 2010, although the financial statements of the Bank as at and for the years ended 31 December 2008 and 2009 have not been restated. Accordingly, the restated financial statements of the Bank as at and for the six months ended 30 June 2009 have been prepared on a different basis than the financial statements as at and for the year ended 31 December 2009. For further details, see notes 3.1 and 3.3 to the unaudited condensed consolidated interim financial statements of the Bank for the six months ended 30 June 2010 set out in the *F-pages*. Therefore, the financial statements of the Bank presented in the audited consolidated financial statements as at and for the year ended 31 December 2009 are not comparable to those presented in the restated unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 2009 and the unaudited condensed consolidated interim financial information as at and for the six months ended 30 June 2010. Potential investors must exercise caution when using such information to evaluate the financial condition, results of operations and prospects of the Bank.

CONSIDERATIONS RELATING TO HONG KONG AND THE PRC

An economic downturn in Hong Kong and the PRC may materially and adversely affect the Group's business, financial condition or results of operations.

The Group conducts most of its operations and generates most of its revenue in Hong Kong. The Group's performance and the quality and growth of its assets are necessarily dependent on the overall economy in Hong Kong. As a result, any downturn in the Hong Kong economy may adversely affect the Group's business, financial condition or results of operations.

In 2003, the Hong Kong economy was severely affected by Severe Acute Respiratory System (SARS), which resulted in, among other things, increased provisions which negatively affected the Group's profitability. Although the Hong Kong economy had, to a great extent, recovered from the impact of SARS in the subsequent years after 2003, it has been adversely affected by the worsening of the global economy resulting from the subprime mortgage crisis in the United States, the global

credit crunch in 2007 and the collapse of Lehman Brothers Inc. in September 2008, which adversely affected global financial markets and the liquidity in global credit markets. These developments resulted in an economic slowdown in the United States and most economies around the world, substantial volatility in equity securities markets globally, fluctuations in foreign currency exchange rates and volatility and tightening of liquidity in global credit markets. The Group expects the recovery of, and the continued growth in, the Hong Kong economy to depend in part upon the economic performance of the United States and the PRC, as well as certain other developed countries. Although there has been evidence mounting since the second half of 2009 that the global economy is recovering, recent economic downturns and sovereign debt concerns in certain European countries have led to renewed doubts regarding the sustainability of the global economic recovery. If there is any renewed economic downturn, there can be no assurance that the Hong Kong economy or the Group's business and financial condition will not be adversely affected.

Due to the Group's relationship with ICBC and the Group's strategy to expand its PRC business, the Group's performance is also influenced by the PRC's economic conditions and the economic measures undertaken by the PRC government. The PRC has experienced rapid economic growth over the past three decades in part as a result of the PRC government's extensive economic reforms. However, the recent downturn in economic conditions adversely impacted the PRC's growth in 2008 and the PRC government took several steps to support economic growth. From the last quarter of 2008 to the end of 2009, the PBOC loosened certain monetary policies, increasing liquidity and lowering the required reserve ratio, thereby increasing lending. The PRC government implemented a four trillion Renminbi fiscal stimulus package centred on infrastructure projects. Large liquidity injections in the last quarter of 2008 contributed to a significant increase in bank lending in 2009. However, due to the PRC government's growing concerns that rapidly rising bank lending could fuel asset bubbles and increase the risk of inflation, in January, February and May 2010, the PBOC raised the Renminbi deposit reserve requirement ratio for banks by 50 basis points for each of the three months. If the PRC's economic growth experiences slowdowns in the future, or the PRC government continues to tighten its monetary policies, the Group's PRC business and its ability to implement its growth strategies in the PRC could be materially and adversely affected.

The Bank is subject to different regulatory requirements in the Hong Kong banking industry.

The Bank's issued shares are listed on the HKSE and, as such, the Bank has to fulfill the requirements under the Rules Governing the Listing of Securities on the HKSE (the **Listing Rules**) to publish annual audited and interim unaudited consolidated financial information. The amount of information publicly available for listed companies in Hong Kong is less than that publicly available for comparable companies in certain other countries.

Under the Banking Ordinance, the HKMA regulates the business activities and operations of commercial banks and has the ability to influence banking and financial markets generally. Potential investors should be aware that regulatory requirements in Hong Kong may differ from those that prevail in other countries. Since the Group operates in the highly regulated banking and securities industries in Hong Kong, potential investors should also be aware that the regulatory authorities have been consistently imposing higher standards and developing new guidelines and regulatory requirements. For example, the Basel II capital adequacy standards have been adopted by the HKMA in Hong Kong since the beginning of 2007. The new standards require banks to disclose key pieces of information on capital, risk exposures, risk assessment processes and hence capital adequacy. The aim of the new standards is to encourage banks to demonstrate to the market participants that their risk management systems are robust and that all relevant risks have been identified and controlled. In addition, since 2007, the regulators in Hong Kong have introduced recommendations which are intended to provide tighter control and more transparency in the Hong Kong banking sector, in particular, in relation to the selling of investment products to retail customers.

The Group has taken steps to implement the recommendations by relevant regulators and to comply with any new or modified regulations. Increased regulation and the requirement for more

stringent investor protections have increased its operational and compliance expenses. Any changes in regulation, governmental policies, income tax laws or rules and accounting principles, as well as international conventions and standards relating to commercial banking operations in Hong Kong, could affect the Group's operations. There can be no assurance that the relevant regulatory authorities will not implement further regulations and that such change will not materially increase the Group's operational and compliance cost or adversely affect its business or operations. In December 2009, the Basel Committee on Banking Supervision issued a consultative document with proposals to reform the capital adequacy standards of the banking sector. There is no certainty as to the final framework for capital adequacy standards which will be developed and implemented, which may require increased capital requirements and impact existing business models, or the timing of the implementation. If such final recommended measures are adopted by the HKMA, the Bank may incur substantial costs in monitoring and complying with the new requirements. There can also be no assurance that breaches of legislation or regulations by the Group will not occur and, to the extent that such a breach does occur, that significant liability or penalties will not be incurred.

Any future outbreaks of contagious diseases in Hong Kong may have a material adverse effect on the Group's operations, financial condition and results of operations.

During the first half of 2003, the outbreak of SARS caused an adverse effect on the economies of the affected regions in Asia, including Hong Kong and the PRC, which affected the Group's operations in these affected regions. In the last few years, there have also been outbreaks of avian influenza in parts of Asia, including Hong Kong. In 2009, there have also been outbreaks among humans of the Human Swine Influenza A (H1N1) virus globally. On 11 June 2009, the World Health Organization (WHO) raised its pandemic alert level to Phase 6, its highest level, after considering data confirming the H1N1 outbreak. To date, there has been a significant number of confirmed cases of H1N1 in the Asia Pacific region and a number of deaths worldwide.

No assurance can be given that there will not be a recurrence of the outbreak of SARS or other epidemics, or that incidents of avian influenza or H1N1 will not increase. There can be no assurance that the Group's business, financial condition and results of operations would not be adversely affected if another outbreak of SARS, H1N1 virus or another highly contagious disease occurs.

Considerations relating to the Notes under the Programme

The payment of interest and premium (if any) on and principal of the Notes is not guaranteed by ICBC, and ICBC is not legally obligated to provide any support in respect of the Notes.

As the Issuer is controlled by ICBC, the Issuer has received and expects to continue to receive support from ICBC in different forms and means, including capital contributions and interbank and money market lines and/or funding. See "Relationship with ICBC". There can be no assurance that support received from ICBC will not decrease or cease in the future.

ICBC is not an obligor under the Notes. Payment by the Issuer of interest and premium on or principal under its outstanding indebtedness, including the Notes, is not backed by the credit of, or supported by any guarantee, by ICBC. The Letter of Comfort is not a guarantee by ICBC, and it does not impose any legal obligation on ICBC with respect to the Notes. Accordingly, holders of the Notes will not be able to bring any action against ICBC to enforce the Letter of Comfort or any part thereof.

Furthermore, there is no statutory or other legal requirement for ICBC to provide the Issuer with direct financial support to meet its outstanding debt obligations, including the Notes.

Notes may not be a suitable investment for all investors.

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes may be complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Investors shall pay attention to any modification, waivers and substitution.

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions may be amended, modified, or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.

The Conditions of the Notes also provide that the Fiscal Agent may, without the consent of Noteholders, agree to (a) any modification (except such modifications in respect of which an increased quorum is required as mentioned above) of the Notes, the Receipts, the Coupons or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or (b) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law as described in Condition 16.2.

In addition, the conditions of the Notes contain a provision for the substitution of another company as principal debtor under any Notes in place of the Issuer without the consent of the Noteholders, subject to the fulfilment of certain conditions as described in Condition 17.

Investors shall be aware of the effect of change of law.

The Conditions of the Notes are based on English law and the law of Hong Kong (in respect of any subordination provisions) in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law, Hong Kong law or administrative practice after the date of this Offering Circular.

Considerations related to the structure of a particular issue of Notes.

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Notes subject to optional redemption by the Bank

An optional redemption feature is likely to limit the market value of Notes. During any period when the Bank may elect to redeem Notes, the market value of those Notes will generally not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

The Bank may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor would generally not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes

The Bank may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each a **Relevant Factor**). In addition, the Bank may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) the payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Partly-paid Notes

The Bank may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of such Notes are typically more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Bank may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Bank's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Bank may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Bank converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Bank converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

No limitation on issuing senior or pari passu securities in respect of Subordinated Notes

There is no restriction on the amount of securities which the Bank may issue and which rank senior to, or *pari passu* with, the Subordinated Notes. The issue of any such securities may reduce the amount recoverable by holders of Subordinated Notes in case of a winding-up of the Bank. The Subordinated Notes are subordinated obligations of the Bank. Accordingly, in the winding-up of the Bank, there may not be a sufficient amount to satisfy the amounts owing to the holders of Subordinated Notes.

If the Bank does not satisfy its obligations under the Notes, Noteholders' remedies will be limited

Payment of principal of the Notes may be accelerated only in the event of certain events involving the Bank's bankruptcy, winding-up or dissolution or similar events or otherwise if certain conditions have been satisfied. See "*Terms and Conditions of the Notes — Events of Default and — Enforcement*".

The Bank's obligations under Subordinated Notes are subordinated

The payment obligations of the Bank under Dated Subordinated Notes and Undated Subordinated Notes will rank behind Senior Notes. Dated Subordinated Notes constitute unsecured and, in accordance with the paragraphs below, subordinated obligations of the Bank and rank *pari passu* without any preference among themselves. Undated Subordinated Notes constitute unsecured and, in accordance with the paragraphs below, subordinated obligations of the Bank and rank *pari passu* without any preference among themselves.

Payments of principal and interest in respect of the Undated Subordinated Notes are conditional upon the Bank being solvent. No such principal or interest will be payable in respect of Undated Subordinated Notes except to the extent that the Bank could make such payment in whole or in part and still be solvent immediately thereafter. See Conditions 3.2(a) and 3.2(b) of the Terms and Conditions of the Notes for a full description of subordination and the payment obligations of the Bank under the Subordinated Notes.

Any suspension of payments under the Undated Subordinated Notes will likely have an adverse effect on the market price of the Undated Subordinated Notes. In addition, as a result of the conditional payment provisions of the Undated Subordinated Notes, the market price of the Undated Subordinated Notes may be more volatile than the market prices of other debt securities on which original issue discount or interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in the Bank's financial condition.

In addition, under statutory requirements prevailing as at the date of this Offering Circular relating to Category II Supplementary Capital for the purposes of the Banking Ordinance, any redemption of Subordinated Notes intended to constitute Category II Supplementary Capital (or equivalent) of the Bank prior to its stated maturity, for tax reasons, regulatory reasons or otherwise, is subject to the prior consent of the HKMA at the relevant time.

Considerations related to the market generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk.

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes would generally have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Bank will pay principal and interest (where applicable) on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or

modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency-equivalent yield on the Notes (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market and additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Investors should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

CAPITALISATION

As at the date of this Offering Circular, the total authorised share capital of the Bank is HK\$4,000,000,000 divided into 2,000,000,000 ordinary shares of par value HK\$2.00 each, and the issued share capital is HK\$2,704,123,066 divided into 1,352,061,533 ordinary shares of HK\$2.00 each. All of the Bank's issued share capital comprises fully paid shares.

The total number of authorised convertible non-cumulative preference shares is 232,000,000 shares with a par value of HK\$5 per share.

The following table sets forth the consolidated capitalisation of the Group as at 30 June 2010.

	As at 30 June 2010
	HK\$ (in millions)
Short-term borrowings⁽¹⁾:	
Deposits of banks and financial institutions, short-term portion	33,478
Deposits of customers, short-term portion	180,209
Certificates of deposits, short-term portion	3,670
Debt securities in issue	202
Subordinated Notes	623
 Total short-term liabilities	 218,182
Long-term borrowings⁽²⁾:	
Deposits of banks and financial institutions, long-term portion	—
Deposits of customers, long-term portion	470
Certificates of deposits, long-term portion	3,619
Debt securities in issue	—
Subordinated Notes	7,967
 Total long-term liabilities	 12,056
Capital reserve:	
Share capital	2,704
Reserves	16,636
 Total equity	 19,340
 Total capitalisation	 249,578

Notes:

- (1) Short-term borrowings represent borrowings with a remaining maturity of one year or less or borrowings that are repayable on demand.
- (2) Long-term borrowings represent borrowings with a remaining maturity of more than one year.
- (3) There has been no material change in the consolidated capitalisation of the Bank since 30 June 2010.

DESCRIPTION OF THE BANK

INTRODUCTION

The Bank is a leading commercial bank in Hong Kong. It is principally engaged in banking, financial and other financial related services with a focus on retail banking, commercial banking as well as corporate banking businesses.

The Group provides a wide range of banking and financial services including various types of deposit and loan products, trade finance, remittance, settlement, commercial and industrial finance, syndicated loans, inward and outward bills of exchange, asset management services, securities business, trustee services, custodian services and credit card services as well as insurance agency services. The Group also provides RMB banking products and services in Hong Kong, such as deposit, exchange, remittance, RMB non-deliverable forward contracts, dual currency credit cards, PRC account opening witness services and PRC mortgage loans to its retail customers as well as RMB trade settlement and finance to its corporate customers. The Group conducts its treasury operations primarily through the Bank's global markets and trading department. The Bank has 44 branches, 10 "Elite Club" wealth management centres and four commercial business centres in Hong Kong.

The Bank is the flagship of the Hong Kong banking business of ICBC. ICBC was the largest commercial bank in the PRC in terms of total assets and in the world in terms of market capitalisation as at 30 June 2010. As a member of the ICBC Group, the Bank receives extensive support from ICBC in terms of funding, settlement, information technology and client resources. The significant collaboration between the Group and ICBC enables the Group to better serve its customers, maximise cross selling efforts, expand its product range and capture the emerging business opportunities in the PRC and overseas markets. See "Relationship with ICBC" section.

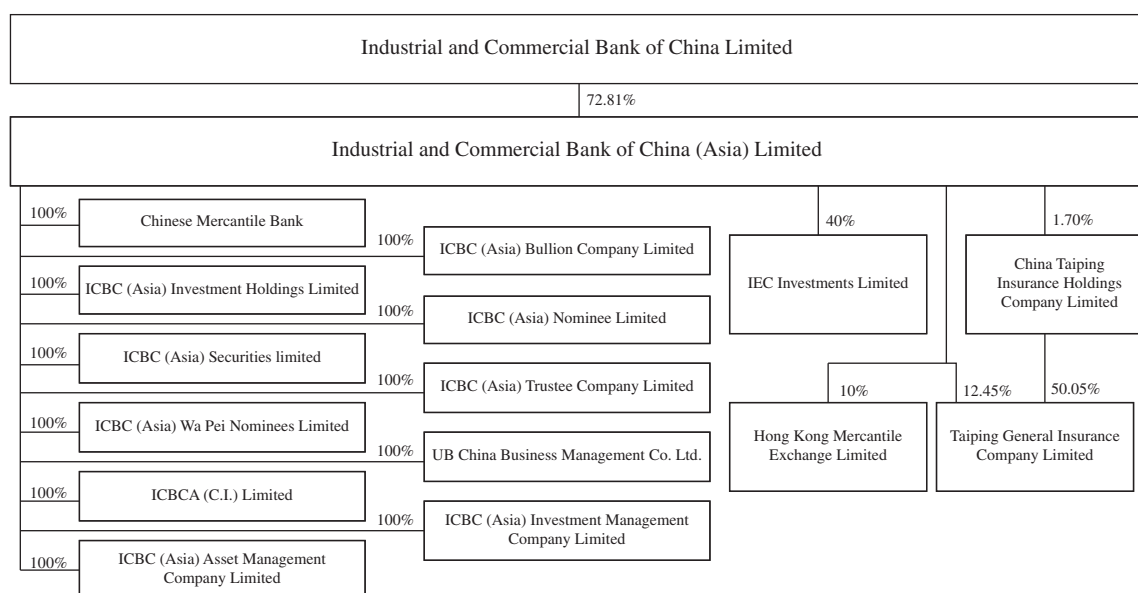
The Bank was established in 1964 as Union Bank Limited, which was renamed Union Bank of Hong Kong Limited in the following year. Its shares were publicly listed on the HKSE in 1973 (Stock Code: 349). The Bank was acquired by ICBC in June 2000 and was renamed Industrial and Commercial Bank of China (Asia) Limited in August 2000. The corporate and commercial banking businesses and other loan business of Industrial and Commercial Bank of China Limited, Hong Kong Branch (**ICBC HK**) was transferred to the Bank pursuant to a business transfer agreement in July 2001 (the **Business Transfer Agreement**).

On 30 April 2004, the Bank purchased the entire issued share capital of Fortis Bank Asia HK (subsequently renamed Belgian Bank in May 2004) from Fortis Bank. On 10 October 2005, Belgian Bank, Hong Kong Branch was merged into the Bank. On 12 August 2005, the Bank completed its acquisition of the entire issued share capital of Chinese Mercantile Bank (**CMB**) which now focuses on the RMB banking business of the Group in the PRC. On 31 August 2008, the Bank completed the acquisition of Worldsec Asset Management Limited, which was renamed ICBC (Asia) Investment Management Company Limited. ICBC (Asia) Investment Management Company Limited provides professional investment and asset management services.

As at 30 June 2010, on an unaudited consolidated basis, the Group's total assets, share capital, advances to customers, banks and other financial institutions and total deposits (including certificates of deposit) were HK\$255,807 million (US\$32,986 million), HK\$2,704 million (US\$349 million), HK\$184,593 million (US\$23,803 million) and HK\$221,446 million (US\$28,555 million), respectively. For the six months ended 30 June 2010, the Group's operating profit before impairment losses and profit attributable to equity holders were HK\$1,598 million (US\$206 million) and HK\$1,229 million (US\$158 million), respectively. The Bank's core capital ratio and capital adequacy ratio (adjusted) as at 30 June 2010 were 8.4% and 13.4%, respectively. The Bank's market capitalisation as at 19 November 2010 was HK\$39,615 million (US\$5,108 million).

Organisation

The following chart sets out the Group's organisation structure as at 31 October 2010:



RECENT DEVELOPMENT

Proposed Privatisation of the Bank

On 10 August 2010, the board of directors of ICBC and the Board of Directors jointly announced the Proposal which, if approved, would result in the Bank becoming wholly-owned by ICBC and the withdrawal of listing of the shares of the Bank on the HKSE. The Proposal will be implemented by way of a Scheme of Arrangement. Upon the Scheme of Arrangement becoming effective, the shares subject to the Scheme of Arrangement (the **Scheme Shares**) will be cancelled and new shares will be issued as fully paid to ICBC. The Bank will also make an application for the listing of its shares to be withdrawn from the HKSE in accordance with the Listing Rules, with effect from the date on which the Scheme of Arrangement becomes effective. It is the intention of ICBC to continue the core business of the Bank in banking and financial services if the privatisation of the Bank is successful.

Under the Scheme of Arrangement, ICBC has proposed that the holders of the Scheme Shares will receive from ICBC as cancellation consideration HK\$29.45 for every Scheme Share cancelled. ICBC has advised that the cancellation consideration will not be revised in the course of the Scheme of Arrangement and ICBC does not reserve the right to do so.

On 9 November 2010, a special resolution to approve the Scheme of Arrangement was approved by the minority shareholders of the Bank at a meeting convened at the direction of the High Court (the **Court Meeting**) and a special resolution to give effect to the Scheme of Arrangement was approved by the shareholders of the Bank at an extraordinary general meeting held immediately following the Court Meeting.

The Proposal is conditional upon the fulfilment or waiver, as applicable, of certain other conditions which include, among others, the sanction of the Scheme of Arrangement by the High Court, there having been obtained and remaining in full force and effect all necessary authorisations, consents and approvals of any governmental or regulatory body (including approval from the China Banking Regulatory Commission) in relation to the proposed privatisation of the Bank pursuant to the laws and regulations in Hong Kong, the PRC and other relevant jurisdictions and there having been no material adverse change in the business, financial or trading position of the Bank and its subsidiaries taken as a whole. If the conditions are not fulfilled or, if applicable, not waived on or

before 1 March 2011 (or such later date as ICBC and the Bank may agree or (to the extent applicable) as the High Court may direct), the Scheme of Arrangement will lapse. The listing of the shares of the Bank on the HKSE will not be withdrawn if the Scheme of Arrangement is withdrawn, not approved or lapses.

See also “*Appendix I*” for the full extract of the announcement dated 10 August 2010 and “*Investment Considerations — Considerations relating to the Group — The proposed privatisation of the Bank is subject to certain conditions being fulfilled or waived and may or may not be successful*”.

Statement of Indebtedness

As at the close of business on 31 July 2010, the Group had the following indebtedness:

- (a) Subordinated floating rate notes of HK\$8,573 million and debt securities issued of HK\$99 million. In addition, borrowings from banks and money market takings from banks and other financial institutions, deposits from customers and certificates of deposits that arose from the normal course of the Group’s banking and deposit taking businesses.
- (b) Direct credit substitutes, transaction-related contingencies, trade-related contingencies and other commitments that mainly arose from the normal course of banking business.
- (c) A charge over moneys held in an account of the Bank, Bombo Limited and Carrabelle Limited (collectively the **Partnership**) as security in relation to a loan made available to the Partnership to finance a hire purchase of aircraft by Cathay Pacific Airways Limited.

Except as set out above, the Group did not have, as at 31 July 2010, any outstanding mortgages, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities.

For the purpose of the above statement of indebtedness, foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 31 July 2010.

STRATEGY

The major components of the Group’s overall strategy are as follows:

Strengthen and expand core banking business to enhance overall competitiveness

The Group will continue to leverage on its core competencies to further consolidate the Bank’s position as a leading bank in Hong Kong and enhance its overall competitiveness in the Hong Kong banking industry. The Group intends to reinforce and further expand its banking business by strengthening its client relationships, accelerating its product innovation and enhancing customer and product penetration. For instance, the Group is continually upgrading and expanding its branch network.

Diversify sources of revenue to achieve sustainable growth

The Group aims to strengthen its business capabilities for a more balanced and sustainable revenue platform. The Group intends to continue to diversify its revenue sources by providing comprehensive products and services to meet customer needs. In addition, the Group intends to enhance the contribution of its non-interest income businesses for a more diversified revenue mix by growing its fee-based income businesses, such as securities trading, insurance, wealth management and investment services. By offering a total solution through an integrated service platform and enhanced service capabilities, the Group aims to be the premier banking group for its customers.

Leverage the Group's relationship with ICBC to better serve its customers, maximise cross selling efforts and expand its product range and geographic coverage

The Group will continue to pursue growth by leveraging on its relationship with ICBC. With support from ICBC, the Group expects that it will continue to grow by (i) maintaining a business focus on the Greater China region, (ii) supporting and servicing quality PRC clients in implementing their strategic plan to "go global" and their need for cross-regional and one-stop banking services, and (iii) developing clients in other markets on a selective basis. With a view to expanding its geographic coverage in the PRC and its ability to serve its PRC clients, the Group will continue to enhance the co-operation between the Group and ICBC at all levels, from customer relationship management and cross selling across products and clients, to back office processing and sharing of information technology platforms, providing integrated financial services to customers in the PRC and Hong Kong and capturing emerging business opportunities in the PRC and overseas markets.

Further strengthen the Group's offshore RMB business

The Group intends to leverage on the significant network and client funding resources of ICBC to further develop its offshore RMB banking business. Through the close co-operation between the Group and ICBC, the Group believes it is well positioned to capture the emerging opportunities from the growing significance of RMB in the global economy and the favourable environment for increasing RMB internationalisation. As one of the first banks in Hong Kong to launch a wide spectrum of RMB trade settlement and finance services, the Group plans to broaden its client base and deepen its customer relationships through enhanced co-operation with ICBC and intensified cross selling and client referral efforts.

BUSINESS

The Group operates predominantly in Hong Kong. Its core operations comprise corporate and investment banking, commercial banking, retail banking, global markets and trading, institutional banking and banking business in the PRC through CMB, a wholly foreign owned bank incorporated in the PRC.

The table below sets forth a summary of the performance of the Group by business segment for the years ended 31 December 2008 and 2009 and the six months ended 30 June 2009 and 2010:

	Operating income before impairment losses				Profit/(loss) before taxation			
	Year ended		Six months ended		Year ended		Six months ended	
	31 December	31 December	30 June	30 June	31 December	31 December	30 June	30 June
	2008	2009	2009	2010	2008	2009	2009	2010
	(Expressed in thousands of Hong Kong dollars)				(Expressed in thousands of Hong Kong dollars)			
Corporate and Investment Banking	602,514	885,061	435,168	457,696	497,200	774,488	393,877	416,380
Commercial Banking	756,929	938,351	416,999	520,802	503,105	785,997	263,443	514,614
Retail Banking	221,716	237,423	56,386	109,280	188,648	233,206	55,994	104,063
Global Markets and Trading	546,364	615,801	323,121	198,908	(389,262)	522,892	229,741	198,849
Institutional Banking	298,030	164,107	87,209	117,033	292,794	158,239	100,303	91,511
Chinese Mercantile Bank	245,507	252,770	113,687	169,850	215,035	117,534	79,458	57,564
Unallocated	(170,868)	(261,671)	109,730	24,919	(243,683)	477,845	4,210	95,799
Total	<u>2,500,192</u>	<u>2,831,842</u>	<u>1,322,840</u>	<u>1,598,488</u>	<u>1,063,837</u>	<u>3,070,201</u>	<u>1,127,026</u>	<u>1,478,780</u>

The table below sets forth a summary of the gross loans of the Group by business segment as at 31 December 2008 and 2009 and 30 June 2010:

	As at 31 December			As at 30 June	
	2008	2009	Percentage of total (2009)	2010	Percentage of total (2010)
(Expressed in thousands of Hong Kong dollars, except percentages)					
Corporate and Investment					
Banking	41,954,474	45,585,672	30.9%	51,201,825	27.6%
Commercial Banking	43,542,153	51,898,657	35.1%	60,307,832	32.6%
Retail Banking	24,799,616	28,037,715	19.0%	31,012,568	16.8%
Global Markets and Trading	1,376	—	—%	47,213	—%
Institutional Banking	17,548,358	12,549,683	8.5%	28,014,771	15.1%
Chinese Mercantile Bank.....	8,825,462	9,539,695	6.5%	14,592,608	7.9%
Unallocated	98,508	51,771	0.0%	54,207	—%
Total	<u>136,769,947</u>	<u>147,663,193</u>	<u>100.0%</u>	<u>185,231,023</u>	<u>100.0%</u>

Corporate and Investment Banking

Corporate and investment banking activities mainly comprise lending to large corporations, corporate loan syndication and financial advisory services to corporate customers in the Greater China Region.

The Group arranges and provides funds to major corporate clients in Hong Kong and is an active participant in the Hong Kong loan syndication market.

The corporate banking loan portfolio of the Group amounted to HK\$51,202 million (US\$6,602 million) as at 30 June 2010. For the six months ended 30 June 2010, the corporate and investment banking operations represented 28.6% and 28.2% of the Group's net operating income before impairment losses and profit before taxation, respectively. The majority of loans advanced by the Bank are made to entities and companies located in Hong Kong. The Group, through CMB, also provides RMB loans and RMB-related services in the PRC. In addition, the Group refers certain customers who wish to expand their businesses and obtain funding in the PRC to ICBC and from time to time provides support to such customers in the form of bank guarantees and financial advisory services.

The Group is a leading provider of funds to corporates and institutions in Hong Kong. The Group's corporate loan products include general purpose, working capital and trade finance, as well as specialised finance such as mergers and acquisitions finance, leverage buyout finance, infrastructure finance, project finance, property finance, aircraft and shipping finance. The Group organises its corporate banking team by industry groups to enhance its services and product offerings to its sector clients.

In 2009, the Group continued to achieve growth in the number and size of syndicated loans, club loans and bilateral loans. In particular, the Bank was mandated as lead arranger for a number of significant syndicated loan transactions including the HK\$8 billion financing for the Henderson Land Group, the US\$5 billion – equivalent multi-currency financing for International Petroleum Investment Company, the HK\$3 billion financing for The Link REIT, the HK\$1.225 billion term loan financing for HSH Financial Services, the HK\$1.95 billion financing for China Agri-Industries Holdings Ltd, the HK\$5.46 billion financing for Sino-Ocean Land and the HK\$1.56 billion financing for Minmetals Capitals.

In the first half of 2010, the Group took part in a number of major syndicated loan transactions, including the US\$250 million term loan facility for China Huiyuan Juice Group Limited, the US\$450 million term loan facility for Poly (Hong Kong) Investments Ltd, the HK\$18.12 billion term loan facility for Sun Hung Kai Properties Limited and the HK\$16 billion term loan facility for Hong Kong Telecommunications (HKT) Ltd.

The Group has actively taken part in commodity trade finance, an area of strong growth in 2010. There has also been an increasing demand for RMB related structured trade and cash management solutions from the corporate clients of the Group and, in order to capture such business opportunities, the Group has launched a series of RMB products under the brand of “跨境通”, covering remittance, exchange, trade finance, loan and cash management.

The Group offers its corporate customers the same types of current, fixed and savings deposit products as those offered to its individual customers. See “Retail banking — Deposit-taking” for a description of the Group’s deposit products. Deposits from corporate clients represented a significant source of funds for the Bank and contributed 28.8% of the total deposit base of the Bank as at 30 June 2010.

Commercial banking

The Group’s commercial banking segment mainly comprises banking, products and services to middle market companies including commercial lending and trade and receivables finance. The Group delivers its commercial banking products and services through a combination of its branch network, service centres, correspondent banks and online banking. The Group is a major credit provider to small and medium-sized enterprise (SME) customers in Hong Kong. The total loan portfolio of the commercial banking business of the Group as at 30 June 2010 was HK\$60,308 million (US\$7,777 million). For the six months ended 30 June 2010, the commercial banking operations represented 32.6% and 34.8% of the Group’s net operating income before impairment losses and profit before taxation, respectively. The Group believes that it benefits from the reputation of ICBC in relation to PRC-related services and the comprehensive services it provides locally. The major products of commercial banking are bilateral loans and trade finance offered to customers in the SME sector.

The commercial banking business of the Group focuses on lending business with SMEs as well as cross selling other bank products. The Group also provides special financial products and services that are specifically tailored to the needs of its SME customers. The Group’s target clients in this segment are medium-sized manufacturers and traders engaged in manufacturing and trading activities.

In the first half of 2010, the Group’s commercial banking business recorded considerable growth in profitability, attributable mainly to the performance of its portfolio of SMEs in Hong Kong. In addition, the Group maintained a low level of loan impairment provision through its credit management process.

Volume of trade finance for the first half of 2010 increased over the corresponding period last year due to the launch of a number of new products since the beginning of the year. Key product development includes financing programmes related to the cross-border RMB trade settlement business. With the anticipated extension of the cross-border RMB trade settlement programme to an increasing number of cities and provinces of Mainland China in the second half of 2010, cross-border trade volume is expected to increase significantly. The Group is also committed to working closely with ICBC branches and CMB to develop new products to cater for the business need of its clients.

Bilateral loans

The majority of the commercial banking loan portfolio consists of bilateral loans to SMEs. The majority of the bilateral loans granted are short-term facilities in terms of working capital lines.

Overdraft facilities

Overdraft facilities are provided to borrowers to finance a temporary cash flow shortfall and are one of the most common forms of working capital finance in Hong Kong. Consistent with the lending practices of other banks in Hong Kong, the Group's overdraft facilities are generally secured by real property or cash deposits. An overdraft facility is typically provided to borrowers on a floating interest rate basis. The facility is generally provided for a period of up to 12 months subject to repayment on demand, with a review after 12 months.

Asset finance

The Group also offers various types of asset finance to its commercial banking customers to meet their capital needs for acquisition of industrial and commercial properties, machinery and transportation equipment. The Group's principal asset finance loan products include commercial mortgage loans and lease financing and hire purchase loans.

- *Commercial mortgage loans.* The Group offers mortgage loans to its commercial banking customers for the purchase of real property. The Bank's mortgage products allow its corporate customers to borrow as much as 70% of the appraised property value or the purchase price, whichever is lower, if the appraised value of the property is less than HK\$20 million. The repayment periods can be as long as 20 years.
- *Lease financing and hire purchase loans.* The Group provides lease financing and hire purchase loans to its customers to finance their capital expenditure needs for acquisition of new and second-hand machinery and transportation equipment, including vehicles and boats. The Group generally requires its lease financing and hire purchase loans to be secured.

Trade and receivables finance

The Group's trade finance segment primarily involves import and export financing. The Group's import financing products and services include letters of credit, trust receipts, import loans and invoice financing. The Group's commercial banking customers who are engaged in the import business typically request that the Bank issues letters of credit or guarantee bonds to support their payment obligations to sellers of goods. Some commercial banking customers also rely on trust receipts, import loans and invoice financing to support their cash flow. For customers who are engaged in the export business, the Bank offers letter of credit negotiation, bills purchase, invoice discounting and packing loans to assist them in managing their liquidity. Receivables finance involves receivable management, credit-risk cover and finance to exporters against accounts receivable with overseas buyers. Financing is based on customers' accounts receivable without requiring additional security. The Group often provides a package of working capital financing that may consist of various trade and receivables finance products and services to meet customers' needs in their trading business, and also different treasury products to enable clients to hedge against their foreign exchange risks.

Collaborating with ICBC, the commercial banking business segment launched a pilot scheme for RMB cross-border trade settlement service in Hong Kong in 2009 which allows the Group to provide cross-border RMB banking services to enable its customers to minimise the cost and risk of currency exchange relating to trade settlement between Hong Kong and the PRC.

The commercial banking unit has also formed specialist teams, including European Banking, Diamond Trade Finance and India Banking teams to provide tailor-made banking and financial solutions and specialist support to its customers.

Retail banking

The principal retail banking activities of the Group include residential mortgage financing, deposit-taking from individuals, consumer loans and overdrafts, hire-purchase business, securities trading, the marketing and sale of investment products, wealth management and the provision of

insurance agency services. The Group conducts its retail banking business primarily through the Bank's retail banking unit. The Bank markets its retail products and services through a combination of its branch network, Elite Club wealth management centres and ATMs in Hong Kong and other delivery channels such as telephone banking and online banking services. The aggregate amount of the retail banking portfolio comprised approximately 16.8% of the total loan portfolio of the Group as at 30 June 2010. The retail banking segment contributed HK\$109 million (US\$14 million) and HK\$104 million (US\$13 million) to the Group's net operating income before impairment losses and profit before tax, respectively, for the six months ended 30 June 2010. The Bank continues to embark on a series of initiatives to expand its branch network. This includes expanding and relocating certain branches and considering opening a number of branches in certain areas in Hong Kong where there is presently no branch coverage. In addition, the Group continues to leverage on the strength of ICBC to offer services to its customers in Hong Kong who do business in the PRC. For example, with the extensive branch network of ICBC, the "Remittance Express Service" provides an efficient way to remit funds to many locations in the PRC. The Bank's "Mortgage Plus" services offer Hong Kong dollar/US dollar real estate financing services to non-PRC customers investing in real properties in the PRC. The Group plans to enhance its mutual co-operation and connections with ICBC's branches in the PRC to serve common customers and capitalise on business opportunities within the region by leveraging ICBC's PRC extensive branch network, channels and sizeable customer base.

The major retail banking products and services offered by the Group are as follows:

Personal Loan Products and Services

The Group offers to its customers a wide range of personal loan products, including residential mortgage loans, Hong Kong government guaranteed home ownership scheme loans, unsecured personal loans, tax loans and other retail loans.

Residential Mortgage Financing

Residential mortgage loans comprised approximately 8.7% of the total advances to customers of the Group as at 30 June 2010. The Group's general policy in relation to new residential mortgages in Hong Kong is consistent with the guidelines established by the HKMA. Collateral is taken in the form of a first legal charge or an equitable charge over the relevant property. Key criteria for any mortgage loan offered by the Bank are:

- (a) the debt to service ratio of the borrower should generally not exceed 50.0% at the time the loan is made; and
- (b) for properties valued below HK\$12 million, the loan amount should generally not exceed the lower of 70.0% of the purchase price and the property valuation except with mortgage insurance arrangements.

The types of residential mortgages offered by the Group are divided mainly into the following types:

- (i) loans for the home financing schemes guaranteed by the Hong Kong Special Administrative Region Government;
- (ii) loans for the purchase of other residential properties; and
- (iii) loans for refinancing mortgages.

The Bank is a participant in various Hong Kong Special Administration Region Government guaranteed home financing schemes, including the home ownership scheme. Unlike residential mortgage loans, borrowers may obtain loans for an amount of up to 95.0% of the property value under this scheme, and the loan is repayable over a period of 25 years in equal instalments. As at 30 June 2010, the aggregate outstanding amount of home ownership scheme loans (including private sector participation scheme and tenants' purchase scheme) of the Group was HK\$542 million (US\$70 million).

As at 30 June 2010, total residential mortgage loans of the Group amounted to HK\$16,116 million (US\$2,078 million) compared to HK\$14,650 million (US\$1,889 million) as at 31 December 2009.

Given the historic volatility in the Hong Kong property market, the Group operates with rigorous risk assessment and control in its mortgage business. The credit quality of residential mortgages remained sound. The delinquency and rescheduled loan ratio for the portfolio of residential mortgages of the Group in Hong Kong as at 30 June 2010 was 0.2%.

Other personal loans

The Group offers unsecured personal loans and overdraft facilities for amounts determined by different risk factors of different customer segments. These loans are either revolving or repayable in monthly instalments over a maximum period of 48 months.

The Group also offers tax loans to customers for amounts which are generally repayable over a maximum period of 24 months.

Deposit-taking

The Group offers a range of deposit services to retail customers, including savings and current accounts and time deposits denominated in Hong Kong dollars and other currencies.

The Bank was one of the first few banks in Hong Kong to introduce RMB services to individuals who are holders of Hong Kong Identity Cards (including residents who legally work, study, conduct business or reside in Hong Kong). Different tenors of RMB fixed deposits are available.

As at 30 June 2010, total customer's deposits of the Group amounted to HK\$180,679 million (US\$23,298 million), compared to HK\$161,162 million (US\$20,782 million) as at 31 December 2009.

Securities trading

The Group offers securities trading services to its customers through various channels, including its branch network and online banking. Such services enable customers to trade in shares listed on the HKSE as well as overseas stock exchanges such as the New York Stock Exchange and the NASDAQ. The Group also provides secured facilities to its customers for margin trading and share financing for initial public offering subscriptions. Other ancillary services such as custodian, nominee, share registration and dividend collection services are also offered.

Wealth management

The Group offers personal wealth management services to its customers who maintain total assets under management of over HK\$800,000 ("Elite Club" banking services). Through personal wealth management services offered in the Bank's Wealth Management Centres, the Group is able to deliver comprehensive banking solutions to its high net-worth customers. Currently, the Bank has a network of 10 Wealth Management Centres located in designated branches in Hong Kong. The Bank's personal wealth management services include providing a variety of financial products, priority counter services and financial planning services to its customers. The Bank has a team of dedicated and qualified relationship managers who offer cash management, securities trading and funds and bond trading services that can be tailored to the customers' financial needs.

As part of an ongoing effort to enhance the personal financial services, the Group has substantially expanded its wealth management product spectrum in recent years. The Group currently offers its clients a broad range of investment products, including securities, bonds investment services, investment saving plans, equity-linked deposits, currency-linked deposits, foreign exchange margin trading services and RMB non-deliverable forward contracts.

The Group also offers a wide spectrum of funds from over 15 selected fund managers, including ICBC (Asia) Investment Management Company Limited with a broad range of regions, sectors and

asset classes. In August 2009, the Group launched its own brand of investment fund products. Through co-operation with its asset management business, the Group has successfully marketed such products which resulted in a significant increase of the sale volume of unit trust products for the year ended 31 December 2009 and the six months ended 30 June 2010.

Private banking

The Group offers a variety of banking products and services to its private banking customers through a small but dedicated team of relationship managers and investment consultants. Other than traditional wealth management and investment consulting services, more sophisticated services such as succession planning and trust advisory services are offered to suit the situation and requirements of private banking customers.

Credit cards

The Group offers a comprehensive range of credit card products in Hong Kong with a total of 13 personal, co-brand, affinity or corporate programmes that cater to general as well as specialised markets. The Bank had approximately 120,000 credit cards in issue as at 30 June 2010 and, as at such date, its total credit card receivables amounted to HK\$91 million (US\$11.8 million). The Bank offers Visa, MasterCard and CUP cards in Hong Kong. Since 2002, the Bank has also offered Hong Kong dollar and RMB dual-currency credit cards.

The introduction of new innovative credit card products such as the “1872 Golf Card” and “Guangshen Railway Dual Currency Card” in 2009 has contributed to the continued growth of the Bank’s credit card business. The Group continues to focus on improving the delinquency and risk management of both the card issuance and merchant business by adopting a more sophisticated roll-over model, strengthening its collector performance measurement and the introduction of daily turnover ceiling for each merchant. In addition, leveraging on its connection with ICBC, the Group utilises its group synergy in the Pearl River Delta Region as the focus of its card promotion, marketing and advertising strategy.

Insurance

The Bank also acts as a sale agent for its insurance partners to solicit various general and life insurance products, including home protection plans, domestic helper plans, medical and hospitalisation plans, travel insurance, motor insurance, personal accident insurance, life endowment plans, term life plans, whole life plans, mortgage life plans and investment-linked insurance. The Group intends to continue to expand the product range of its insurance services to suit the different needs of its customers.

Hire-purchase finance

The Group offers instalment loan financing services to owners of taxis, public light buses and other vehicles. For taxis and public light buses, the financing is typically secured on the underlying assets (including vehicle licences) and customers can borrow up to 85.0% of the market value of such underlying asset. The Group determines whether to extend hire-purchase finance primarily based on the ability of the customer to repay the loan, cash flow generated from the underlying assets, as well as the market value of the licences. Hire-purchase lending accounted for approximately 4.6% of the Group’s total loan portfolio as at 30 June 2010. Due to the maintenance of quality loans, the delinquency rate remained below 0.2% and 0.1% during 2009 and the six months ended 30 June 2010, respectively.

Other personal banking products and services

The Group also offers a series of other personal banking products and services to meet the diverse needs of its individual customers. These products and services include safe deposit boxes, auto payments, remittances, direct debit services, trustee and custodian services, money exchange, travellers’ cheques and gift cheques.

Global markets and trading

Global markets and trading (GMT) activities include foreign exchange, money markets and capital markets. GMT also provides treasury services to corporate and individual customers, asset and liability management to improve liquidity management as well as facilitate the Bank's funding needs and market risk management for the Bank's investment portfolio to achieve a steady return on its investment. Following the establishment of a structured derivatives and derivatives trading team in 2009, a new treasury system for structured products was installed in January 2010, which enhanced the Group's capability for risk calculation, derivatives pricing and the marked-to-market process. GMT contributed HK\$199 million (US\$26 million) and HK\$199 million (US\$26 million) to the Group's net operating income before impairment losses and profit before tax for the six months ended 30 June 2010.

In 2009 and the first half of 2010, GMT continued to expand its customer base through co-operation with other business departments of the Bank and co-operation with a large number of ICBC branches in the PRC. The Group's relationship with ICBC has strengthened its market making capability for RMB in preparation for further relaxation of offshore RMB banking business in Hong Kong. As a result of the recent global financial crisis, GMT realigned its focus on traditional products such as foreign exchange business and currency-linked deposits. In addition, the Bank established a structured products team to enhance its ability of pricing and managing such products. Structurers and traders of the team work closely with treasury marketing sales and various other departments in resolving issues in relation to launching new treasury products of the Bank. They will also be responsible for trading, pricing, warehousing and hedging derivatives and structured products.

Liquidity Management

The Bank is a participant in the interbank money market in Hong Kong. As at 30 June 2010, the Group had total deposits and balances of banks and other financial institutions of HK\$33,478 million (US\$4,317 million), which accounted for approximately 14.2% of the total liabilities of the Group, and had total loans to banks of HK\$27,836 million (US\$3,589 million), which accounted for approximately 10.9% of the total assets of the Group.

GMT is responsible for managing the liquidity position of the Group. The objective of liquidity management is to achieve a reasonable return on the liquid assets of the Group while complying with the requirements of the Banking Ordinance, the guidelines of the HKMA and the liquidity management guidelines set by the Risk Management Committee of Board of Directors. In particular, the Group seeks to have sufficient cash and other liquid assets to handle contingencies.

Proprietary trading

The Group prudently invests in securities through the Bank for its own account, primarily Hong Kong dollar- and U.S. dollar-denominated debt securities issued by banks and other financial institutions, and debt securities issued by governments, central banks and public sector entities in the Group of Seven (G-7) countries. As at 30 June 2010, the aggregate carrying value of the debt securities investments held by the Group was HK\$35,271 million (US\$4,548 million). Generally, approximately 69.3% of the investment portfolio of the Group consists of debt securities with a minimum credit rating of "A" by S&P, Moody's or Fitch (including issuer rating distribution for debt securities with no issue rating).

Foreign exchange

GMT's foreign exchange revenue is derived mainly from services provided to customers, such as foreign exchange trading and forward contracts. It also engages in foreign exchange trading for its own account.

Derivatives

The Bank is a dealer in Hong Kong's interbank derivatives market. The Bank conducts derivatives transactions for its own account for hedging purposes. The Group's derivatives activities

primarily involve effecting transactions for interest rate swaps, forward rate agreements, interest rate futures and options, cross currency interest rate swap and currency options to meet customers' and the Group's own hedging and yield enhancement needs. In particular, the Bank offers RMB non-deliverable forward for hedging RMB-related risks.

The Group adopts a conservative approach to proprietary trading and places strict limits on dealer's positions. The Bank sets individual dealer's limits for its foreign exchange derivative trading depending on the seniority and experience of the particular dealer. Compliance with these limits is regularly monitored by the Risk Management Department (**RMD**).

Sales and distribution

GMT's sales activities provide corporate and individual customers with a broad range of investment, yield enhancing, capital guaranteed and structured hedging products as well as customised risk management solutions for customers through financial instruments. The Group's relationship with ICBC contributed to the expansion of the customer base for its treasury business. GMT continues to seek cross selling opportunities for financial products to PRC corporates. GMT seeks to provide suitable financial products to further strengthen its position among corporate and retail customers and build a stronger position in the market for high net-worth clients by improving and adapting products and service concepts to their individual needs. Going forward, GMT will continue its effort on the improvement of risk assessment and control by adopting advanced technology that will assist the Group in the upgrade of market risk analysis and monitoring.

The Bank established a HK\$5 billion Certificates of Deposit Programme in September 2002 and a US\$2 billion Structured Notes Programme in August 2006 to further diversify funding sources. The size of the Certificates of Deposit Programme was increased to HK\$20 billion in April 2005 to satisfy demand from institutions and individual clients. The Bank updated its Structured Notes Programme in October 2009. The Bank had issued certificates of deposit totalling HK\$7,289 million (US\$940 million) as at 30 June 2010, compared to HK\$2,395 million (US\$309 million) as at 31 December 2009. A total of HK\$59,223 million (US\$7,637 million) certificates of deposit and HK\$101 million (US\$13 million) equity linked notes were issued off the programmes to institutions and retail customers up to 30 June 2010 to secure longer term funding and to cater for customers' demand for structured products.

Institutional banking

The Group's institutional banking segment offers lending, deposit-taking and general banking services to institutional clients such as investment banks and stockbrokers. The Group offers its institutional customers cash management products and services, including its online platform, payment and collection services and liquidity management products. These products and services help customers manage their daily receivables and payment requirements as well as their liquidity needs.

In addition, the institutional banking team co-operates closely with ICBC on non-RMB denominated trade finance related business conducted through various branches of ICBC, primarily through the form of a loan extended by the Group to cover the initial trade settlement, with the ultimate repayment of the loan guaranteed by ICBC by means of an obligation for reimbursement to the Group. The volume of such transactions varies significantly from time to time depending on the market economy and the prevailing exchange rates of RMB.

The total loan portfolio of the institutional banking business of the Group was HK\$28,015 million (US\$3,613 million) as at 30 June 2010. The institutional banking segment contributed HK\$92 million (US\$12 million) to the profit before tax of the Group for the six months ended 30 June 2010.

Chinese Mercantile Bank

In 2005, the Bank completed its acquisition of the entire issued share capital of CMB. CMB provides banking services primarily for customers in the Guangdong Province of the PRC, including general deposit-taking and banking services to individuals and corporations, RMB denominated loans,

RMB remittance services, trade settlement services and PRC mortgage services. Since the acquisition, the Group has, through CMB, sought to provide one-stop cross-border financial-related services to its PRC customers. In January 2009, CMB opened its Guangzhou Branch which is its first branch operating outside Shenzhen. The registered capital of CMB was increased to RMB1.65 billion in 2009.

Due to the global financial crisis and aggressive loan growth strategy of other domestic banks in the PRC, as well as an increase in provision for doubtful loans, the performance of CMB declined in 2009, and in the first half of 2010. CMB contributed HK\$58 million (US\$7 million) to the Group's profit before tax for the six months ended 30 June 2010 and HK\$118 million (US\$15 million) to the Group's profit before tax for the year ended 31 December 2009, compared to HK\$215 million (US\$28 million) for the year ended 31 December 2008. The Group's profit before tax from CMB for the year ended 31 December 2009 and the six months ended 30 June 2010 represented 3.8% and 3.9% of the Group's profit before tax, respectively.

In addition, net profit of CMB was HK\$41 million (US\$5 million) for the six months ended 30 June 2010, which represented a decrease of HK\$22 million (US\$3 million) or 35.1% compared to the six months ended 30 June 2009. Total assets of CMB was HK\$19,410 million (US\$2,053 million) as at 30 June 2010, representing an increase of 51.6% as compared to as at 31 December 2009. Total customers' loan and deposit balance as at 30 June 2010 was HK\$14,593 million (US\$1,882 million) and HK\$8,696 million (US\$1,121 million) respectively, representing increases of 53.0% in total customers' loan and 55.4% in total deposit balance as at 31 December 2009.

Asset Management Business

On 31 August 2008, the Bank completed the acquisition of Worldsec Asset Management Limited, which was renamed ICBC (Asia) Investment Management Company Limited. ICBC (Asia) Investment Management Company Limited provides professional investment and asset management services. In August 2009, ICBC (Asia) Investment Management Company Limited launched its own series of investment funds under the "ICBC (Asia)" brand name, comprising of China and Hong Kong Vision Fund, Asia Selection Growth Fund, Asia Infrastructure and Redevelopment Fund, Global Financial Opportunities Fund and Global Total Return Bond Fund.

To maximise cross selling opportunities between the Bank's retail banking network and asset management business and to promote such new products, investment forums were held at the time of the launch of the funds at most of the Bank's branches in Hong Kong and after-sales support such as the provision of weekly and monthly investment commentaries are provided to the Bank's retail banking network.

RMB Banking Business

With the approval from the State Council of the PRC, RMB business in Hong Kong began in 2004, and since then the scope of RMB business has been gradually expanded in line with the policies of the PBOC. The Bank is one of the pioneers of RMB business in Hong Kong. Leveraging the extensive network and technology platform of ICBC in the PRC, the Group offers a wide range of RMB products and services to individual, corporate, commercial and institutional customers.

The Group's RMB retail products and services include deposits, exchange, remittance and dual currency credit cards. The Group focuses on providing integrated, comprehensive and competitive RMB services. The Group pioneered the account opening witness service in Hong Kong for the opening of the Elite Club or Peony Money Link Card • E-Age of ICBC. The Elite Club services provided by ICBC are of the same standard as those of the Bank. Peony Money Link Card • E-Age is a multi-function bank card which is integrated with ICBC's e-Banking Services, and which offers services, including personal settlement, e-Banking, investment and financing. Once either card is activated, a customer can enjoy the facilities provided by ICBC in the PRC. The account opening witness service was also made available in approximately 800 designated ICBC branches in Shenzhen, Beijing, Shanghai, Chongqing, Guangdong, Fujian, Hainan, Hubei, Hunan, Jiangsu, Zhejiang,

Shandong, Shaanxi, Sichuan and Guangxi, which allowed customers of ICBC to open bank accounts with the Bank without the need to travel to Hong Kong. The ICBC dual currency credit card issued by the Bank in Hong Kong uses both RMB and Hong Kong dollars as the settlement currencies and is specifically designed to cater for Hong Kong and the PRC cross-border travellers' needs. The Bank's "Mortgage Plus" service provides customers with flexible mortgage loan services in many major cities in the PRC.

For corporate customers, the Group provides RMB cash deposit, remittance, and fund transfer services. The Group aims to provide a one-stop solution for its corporate customers in both Hong Kong and the PRC. Following the launch of the "Pilot Renminbi Trade Settlement Scheme" in July 2009, the Bank launched the RMB Settlement of Cross-border Trade Transaction Services, enabling its corporate customers to conduct RMB trade transactions including import and export services such as letter of credit issuance, import and export collections, invoice financing, import trade receivables financing and export bills negotiation and discount. The Group is working with the ICBC branches to enhance the cross selling efforts for such services. With the increasing significance of the RMB in the global economy, the Group believes that there will be increasing demand for RMB as the settlement currency for cross-border trade transactions. The newly introduced RMB trade service will broaden the scope of the Group's RMB services in Hong Kong.

INSURANCE

The Group maintains insurance coverage which includes an "all risks" insurance for its money, properties and computers, public liability insurance and directors' and officers' liability insurance. The Group periodically reviews such insurance coverage to ensure that there is adequate coverage. The Group generally requires borrowers to obtain appropriate insurance coverage for certain types of security, such as residential premises, provided by them.

SALES AND DISTRIBUTION

The Group will continue to build an integrated multi-channel distribution capability to distribute its products and services by leveraging on its existing distribution channels, including its branch network and diversifying into other distribution channels. The Group currently has the following distribution channels: branch network, ATMs, call centres, wealth management centres, commercial service centres, online banking and phone banking services. Moreover, to leverage and enhance the co-operation and connections with ICBC's branches in the PRC, and to capture business opportunities within the region, the Group has successfully launched its cross-border call centre service by integrating its phone banking facilities with ICBC in the PRC.

COMPETITION

The Hong Kong banking industry is well developed and the Group faces intense competition from many other Hong Kong banks and international banks. In addition, the banking industry in Hong Kong is a mature market and a number of competitors of the Group have enjoyed a longer presence in this market. As at 30 June 2010, there were 145 licensed banks in Hong Kong.

The intensity of competition in the past few years has had an adverse impact on the pricing of certain products including investment and insurance products, home mortgage loans, credit cards, personal loans and transport lending businesses.

Since 2000, many banks in Hong Kong, including the Bank, have lowered interest rates charged on new-home mortgage loans not guaranteed by the Hong Kong government. Despite a slight increase in such interest rates in 2008, competition in the mortgage loans market remains intense. The current rates for new-home mortgage loans charged by banks in Hong Kong have been reduced to approximately 3.0% to 3.25% below the prime lending rate. As at 30 June 2010, the standard rate the Bank charged on its new-home mortgage loans was 3.1% below the prime lending rate.

As a result of the intensified competition among banks, the Bank has experienced downward pressure on its profit margins in recent years. To counter the effects of increased competition, the Group has actively pursued a strategy of diversifying its income sources by focusing on increasing its fee-based income, introducing innovative products and, at the same time, improving the cost efficiency of its operations. See “*Investment Considerations — Risks relating to the Group — The increasing competition in the Hong Kong and the PRC banking industries could adversely affect the Group’s profitability*”.

LITIGATION

Neither the Bank nor any of its subsidiaries is currently involved in any material litigation or similar proceedings and the Bank is not aware of any circumstances under which any of the same is pending or threatened.

EMPLOYEES

As at 30 June 2010, the Group had a total of 1,419 employees, approximately 19.7% of which were of manager and above levels. With the expanded business, the Group plans to recruit more senior staff to improve the quality and control of the management.

The Group believes that it maintains a good relationship with its employees. The Group provides housing loans and accident and medical insurance benefits and offers support to the Staff Association to maintain and promote good employer-employee relationship and a better work and life balance for employees. The Group also maintains, amongst other things, a “Mandatory Provident Fund” scheme for its employees. During the year ended 31 December 2009 and the six months ended 30 June 2010, no share option was granted by the Bank and, as at 31 December 2009 and 30 June 2010, there were no options of the Bank outstanding.

SUBSIDIARIES AND ASSOCIATED COMPANY

The Bank’s subsidiaries are involved in the provision of general banking and related financial services. The Bank’s associated company (which is accounted for in the Bank’s financial statements under the equity method of accounting) engages in investment holding in Hong Kong. Details of the Bank’s principal subsidiaries and associated company and its effective equity interest in each, as at 30 June 2010, are set out below.

<u>Name of Company</u>	<u>Place of incorporation</u>	<u>Particulars of issued shares held/ registered capital</u>	<u>Bank’s interest (%)</u>	<u>Principal activities</u>
Subsidiaries				
Chinese Mercantile Bank	PRC	RMB1,650,000,000	100	Banking business
ICBC (Asia) Asset Management Company Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	100	Provision of asset management services
ICBC (Asia) Bullion Company Limited	Hong Kong	6,000,000 ordinary shares of HK\$1 each	100	Inactive
ICBC (Asia) Investment Holdings Limited	Hong Kong	26,000,000 ordinary shares of HK\$1 each	100	Management of the Bank’s PRC impaired loan portfolio
ICBC (Asia) Investment Management Company Limited	Hong Kong	27,828,870 ordinary shares of HK\$1 each	100	Provision of asset management services
ICBC (Asia) Nominee Limited	Hong Kong	100 ordinary shares of HK\$100 each	100	Provision of nominee services
ICBC (Asia) Securities Limited	Hong Kong	100,000,000 ordinary shares of HK\$1 each	100	Provision of securities brokerage services
ICBC (Asia) Trustee Company Limited	Hong Kong	30,000 ordinary shares of HK\$100 each	100	Provision of trustee services

<u>Name of Company</u>	<u>Place of incorporation</u>	<u>Particulars of issued shares held/ registered capital</u>	<u>Bank's interest (%)</u>	<u>Principal activities</u>
ICBC (Asia) Wa Pei Nominees Limited.....	Hong Kong	100 ordinary shares of HK\$1 each	100	Inactive
ICBCA (C.I.) Limited.....	Cayman Islands	1 ordinary share of US\$1 each	100	Being a special-purpose vehicle for bond issuance
UB China Business Management Co. Ltd.	British Virgin Islands	1 ordinary share of US\$1 each	100	Inactive
Associated company				
IEC Investments Limited.....	Hong Kong	100,000 ordinary shares of HK\$1 each	40	Investment holding

SELECTED STATISTICAL AND OTHER INFORMATION RELATING TO THE GROUP AND THE BANK

The selected statistical and other information as at and for the years ended 31 December 2008 and 2009 and the six months ended 30 June 2010 set forth below, unless otherwise stated, relates to the Group. This section should be read in conjunction with the information contained elsewhere in this Offering Circular, including “*Business*”.

Loan Portfolio

Overview

As at 30 June 2010, the Group’s total gross advances to customers were HK\$185,231 million (US\$23,885 million) which represented 72.4% of the total assets of the Group. Residential mortgage loans and loans for property investment and development in Hong Kong represented 26.9% of total advances to customers by the Group as at 30 June 2010.

The table below sets forth a summary of the Group’s gross loans by sector as at the dates indicated.

	As at 31 December				As at 30 June	
	2008 ⁽¹⁾		2009 ⁽¹⁾		2010 ⁽¹⁾	
	Loan	Percentage of total	Loan	Percentage of total	Loan	Percentage of total
(Expressed in thousands of Hong Kong dollars, except percentages)						
Loans for use in Hong Kong						
Industrial, commercial and financial						
Property development	8,352,343	6.1%	11,729,026	7.9%	15,885,580	8.6%
Property investment	20,070,465	14.7%	18,490,007	12.5%	17,887,321	9.7%
Financial concerns	6,932,161	5.1%	8,315,020	5.6%	8,053,440	4.3%
Stockbrokers	5,429	0.0%	429,430	0.3%	342,096	0.2%
Wholesale and retail trade	5,180,477	3.8%	6,100,255	4.1%	8,715,648	4.7%
Civil engineering works	209,574	0.2%	239,373	0.2%	202,435	0.1%
Manufacturing.....	4,005,977	2.9%	3,814,127	2.6%	5,345,702	2.9%
Transport and transport equipment	8,102,202	5.9%	9,224,828	6.2%	11,593,163	6.3%
Electricity and gas	42,014	0.0%	143,772	0.1%	78,487	0.04%
Information technology	1,510,208	1.1%	1,998,801	1.4%	2,287,045	1.2%
Recreation activities	2,491	0.0%	3,155	0.0%	1,705	0.001%
Hotels, boarding house and catering.....	760,375	0.6%	2,095,209	1.4%	2,122,286	1.1%
Others.....	5,632,521	4.1%	4,869,563	3.4%	6,206,006	3.4%
Individuals						
Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme.....						
	373,563	0.3%	484,437	0.3%	541,735	0.3%
Loans for the purchase of other residential properties						
	11,823,488	8.6%	14,165,865	9.6%	15,574,163	8.4%
Credit card advances.....	86,965	0.1%	94,156	0.1%	91,821	0.05%
Others.....	2,096,453	1.5%	2,246,082	1.5%	2,277,011	1.2%
Trade finance	22,495,570	16.4%	15,775,567	10.7%	32,839,628	17.7%
Loans for use outside Hong Kong	39,087,671	28.6%	47,444,520	32.1%	55,185,751	29.8%
Total.....	<u>136,769,947</u>	<u>100.0%</u>	<u>147,663,193</u>	<u>100.0%</u>	<u>185,231,023</u>	<u>100.0%</u>

Note:

- (1) This information as at 31 December 2008 and 2009 and 30 June 2010 has been extracted from the unaudited supplementary financial information in the 31 December 2009 and 30 June 2010 published accounts of the Group.

Geographical concentration

As at 30 June 2010, the majority of loans advanced are made to entities and companies located in Hong Kong, with approximately 29.8% of the loan portfolio of the Group consisting of loans for use outside Hong Kong as at 30 June 2010. See “*Asset Quality*” below.

Customer loan concentration

The Banking Ordinance generally prohibits any bank incorporated in Hong Kong from maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its capital base without the approval of the HKMA. As at 30 June 2010, the Group’s 20 largest performing non-bank borrowers on-balance sheet exposures (including groups of individuals and companies) accounted for HK\$34,043 million (US\$4,390 million) or 18.4% of the Group’s loan outstanding exposure. As at 30 June 2010, the Group’s five largest non-bank borrowers on-balance sheet exposures (including groups of individuals and companies) accounted for HK\$12,262 million (US\$1,581 million) or 6.6% of the Group’s loan outstanding exposure with the largest borrower accounting for HK\$2,727 million (US\$352 million) or 1.5% of the Group’s loan outstanding exposure. As at 30 June 2010, the Group’s ten largest non-bank on-balance sheet exposures (including groups of individuals and companies) accounted for HK\$20,784 million (US\$2,680 million) or 11.3% of the Group’s loan outstanding exposure.

Loan analysis

Of the total advances to customers, 18.4% had a remaining maturity of more than five years as at 30 June 2010, the main portion of which comprised residential mortgage loans and syndicated loans. The following table sets forth a summary of the Group’s total loans to customers by remaining maturity as at the dates indicated.

	Total advances to customers as at					
	31 December 2008		31 December 2009		30 June 2010	
	Loans outstanding	Percentage of total	Loans outstanding	Percentage of total	Loans outstanding	Percentage of total
	(Expressed in thousands of Hong Kong dollars, except percentages)					
Repayable on demand	13,755,723	10.0%	15,629,122	10.6%	23,080,387	12.5%
One year or less.....	43,829,319	32.0%	40,365,748	27.5%	64,073,878	34.7%
Over one year to five years.....	52,491,165	38.3%	61,072,255	41.5%	63,437,013	34.4%
More than five years.....	27,006,514	19.7%	29,957,457	20.4%	34,001,243	18.4%
Total.....	<u>137,082,721</u>	<u>100.0%</u>	<u>147,024,582</u>	<u>100.0%</u>	<u>184,592,521</u>	<u>100.0%</u>

As at 30 June 2010, 65.3% of performing loans to customers made by the Group were at floating rates of interest. The Group’s interest rate for loans in Hong Kong is comparable to that of other licensed banks in Hong Kong. As at 30 June 2010, 56.1% of total performing loans to customers made by the Group were denominated in Hong Kong dollars while the remainder were denominated primarily in US dollars.

An important component of the Group’s asset and liability policy is its management of interest rate risk, which is the relationship between market interest rates and the Group’s interest rates on its interest-earning assets and interest-bearing liabilities. See “*Asset and Liability Management*”. The following table sets forth the amounts, in Hong Kong dollars, and percentages represented by fixed, prime and floating-rate loans denominated in Hong Kong dollars and foreign currencies, respectively, as at 30 June 2010.

Gross performing loans outstanding as at 30 June 2010

	HK dollar loans		Foreign currency loans		Total	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
(Expressed in thousands of Hong Kong dollars, except percentages)						
Fixed rate.....	2,322,724	1.3%	38,015,757	20.7%	40,338,481	21.9%
Prime rate.....	21,788,356	11.8%	1,604,319	0.9%	23,392,675	12.7%
Floating rate.....	78,942,088	42.9%	41,188,662	22.4%	120,130,750	65.3%
Non-interest bearing.....	111,509	0.1%	46,040	0.0%	157,549	0.1%
Total Performing Loans (incl. bills of exchange).....	<u>103,164,677</u>	<u>56.1%</u>	<u>80,854,778</u>	<u>43.9%</u>	<u>184,019,455</u>	<u>100.0%</u>

The Group's lending policies focus primarily on the financial strength of the obligor and security (including taking security through fixed and floating charges, guarantees and other forms of collateral).

The Bank's policy is for the collateral in the form of property to be valued by an independent appraiser at the origination of the loan. Properties are revalued on a periodic basis by the Bank, except for residential mortgage loans which are standalone and performing.

Credit policies and approval procedures

Internal policies and procedures

The Group's lending policies have been formulated on the basis of the Group's own risk appetites, the Banking Ordinance, the Listing Rules, HKMA guidelines and other statutory requirements (and, in the case of overseas branches and subsidiaries, the relevant local laws and regulations).

As at 30 June 2010, the exposure of the Group to property lending in Hong Kong was 26.9% of its total advances to customers' portfolios. Underlying property values are based on the lower of the purchase price or the appraised value of the property which is appraised independently in respect of the Bank.

The Bank has its own Credit Committee which oversees its credit risk portfolio and sets the framework for decisions of individual exposures. The Credit Committee is also responsible for the review and approval of the large credit exposures, the management of credit risk concentrations, accepting or rejecting new credit strategies and responding to deteriorating credits. The Credit Committee of the Bank consists of the Head of the Credit Department (Chairman), Chief Risk Officer and Deputy General Managers or Assistant General Managers in charge of business lines. The Credit Committee regularly reviews credit-related policies and procedures and approves credit reports originating from the business units of the Bank. The Credit Committee has the power to approve credit-related proposals by majority votes. However, the Credit Department may veto such proposals approved by the Credit Committee.

The Credit Committee delegates certain authorities to designated officers based on, among other things, an individual officer's role, experience level and expertise. The delegation is expressed in terms of tier levels representing the Hong Kong dollar amount of secured and total credit exposure.

For its corporate, commercial and trade finance loans, the Group's credit assessment is based upon factors including: (a) the history of the Group's dealings with the borrower in question; (b) the borrower's financial condition; (c) the management and operation of the borrower's business; (d) the status of any guarantees and collateral; (e) market conditions affecting the borrower's industry; and (f) the borrower's borrowing and repayment records with the Group and with other banks.

The Group plans to expand its retail lending business. The Bank has approval criteria for residential mortgage loans which are in line with the market standard. Credit scoring and other qualitative and behavioural parameters are also in place for approvals of tax and personal loans and credit cards. The Bank does not implement any credit scoring system for hire-purchase and equipment financing loans. The Bank approves the size of taxi and public light bus financing on the basis of the value of collateral (including the vehicle, operating licence and any dealer's guarantee), the future cash flow of the borrower comprising rental or operating income that can be derived from the vehicle and the borrower's assessed financial strength to withstand market fluctuations common in the taxi and public light bus industry. The Bank has had negligible levels of impairment losses in respect of its residential mortgage loans and taxi and public light bus loans over the last three years.

Asset quality

Overview

The following table sets out key indicators of the quality of the Group's assets as at the dates indicated.

	As at 31 December		As at 30 June
	2008	2009	2010
(Expressed in thousands of Hong Kong dollars, except percentages)			
Non-performing loans			
Amount	888,965	1,358,618	1,211,568
Percentage of total loans	0.65%	0.92%	0.65%
Overdue loans			
Amount	289,929	527,361	1,016,411
Percentage of total loans	0.21%	0.36%	0.54%

The Bank maintains a policy to guard against the concentration of credit exposure to non-bank PRC entities. These credit exposures accounted for 25.6% of the Group's total loans and advances and investments as at 30 June 2010. The Bank's current policy is to cap exposure (excluding its exposure to banks) to 50.0% and 15.0% of its total loans and advances and investments, respectively. The policy and the associated ratios are subject to periodic and regular management review. Non-bank PRC entities mainly include:

- (a) International Trust and Investment Corporations (including Trust and Investment Corporations) and their subsidiaries;
- (b) companies incorporated outside the PRC, listed in Hong Kong and controlled directly or indirectly by PRC entities (including state-owned organisations, provincial or municipal authorities in the PRC);
- (c) companies incorporated in the PRC, listed in Hong Kong and controlled directly or indirectly by PRC entities;
- (d) state-owned PRC enterprises with shares listed in Hong Kong and their subsidiaries;
- (e) other state, provincial or municipal government-owned entities and their subsidiaries; and
- (f) other entities known to be owned or controlled by PRC interests.

The performance of the Hong Kong economy is heavily dependent on the property sector. Property lending in Hong Kong accounted for 26.9% of the Group's total advances to customers as at 30 June 2010. As a result, the Group's asset quality is vulnerable to deflation in property prices. The ability of borrowers, including homeowners, to make timely repayments of their loans may be adversely affected by rising interest rates and/or a slowdown in economic recovery.

Loan classification

The Group employs a 15-grade loan classification system which, whilst complying with the HKMA's guidelines, expands beyond the HKMA's standard five-grade system and incorporates a multi-tier classification system by weighing borrowers' financial, management, ownership, industrial and other characteristics. With internal data accumulated through years of experience, it is expected that the Group could make further use of statistics in the internal credit risk grading system, amongst other things, to profile and track down credit risk migration and to measure loan default probabilities. Set out below are the five categories graded in accordance with the HKMA's guidelines.

Grade	Loan	Description
1.	"Pass"	Repayment of principal and interest is current and not in doubt.
2.	"Special mention"	Borrowers have experienced some difficulties, although loss is not expected at this stage. Usually reflected by persistent deteriorated financial status or overdue loan record.
3.	"Sub-standard"	Borrowers are experiencing difficulties which may threaten the Bank's position.
4.	"Doubtful"	Full recovery is doubtful, given the value of security available.
5.	"Loss"	Considered non-collectable after realisation of security and exhausting all collection efforts.

Grades 1 and 2 loans are considered to be performing loans, while grades 3 to 5 are classified. Interest normally ceases to accrue for grade 3, 4 and 5 loans. Individual impairment is made for grade 3, 4 and 5 loans, with full impairment or write-off for grade 5 loans.

In grading loans, the Group considers relevant factors including: (a) the general economic outlook; (b) the borrower's cash flow and expected cash flow; (c) the borrower's financial condition; (d) the management and operation of the borrower's business; (e) the borrower's experience in his/her business and future business plans; (f) market conditions affecting the borrower's industry; and (g) the borrower's borrowing and repayment records with the Group and with other banks. Loans are reviewed on an ongoing basis and by periodic reviews when the appropriateness of the assigned loan grade and impairment level, if any, is re-examined.

Within the retail banking products, individual impairment is made primarily by reference to the "days past due" of the respective credit facility. Such impairment is carried out collectively.

Non-performing loans

The table below sets out a summary of the Group's consolidated non-performing loans as at 31 December 2008 and 2009 and as at 30 June 2010.

	Advances to customers		
	As at 31 December		As at 30 June
	2008 ⁽¹⁾	2009 ⁽¹⁾	2010 ⁽²⁾
	(Expressed in thousands of Hong Kong dollars)		
Advances which are overdue for more than three months.....	289,929	527,361	1,016,411
Trade bills which are overdue for more than three months.....	1,666	1,635	1,641
Rescheduled advances.....	161,662	112,377	105,458
	<u>453,257</u>	<u>641,373</u>	<u>1,123,510</u>
Gross non-performing loans	888,965	1,358,618	1,211,568

Note:

- (1) The information as at 31 December 2008 and 2009 has been extracted from the consolidated financial statements as at and for the years ended 31 December 2008 and 2009, that have been audited by Ernst & Young, independent auditors, as stated in their reports appearing or incorporated by reference herein.
- (2) The information as at 30 June 2010 has been extracted from the unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 2010.

Overdue loans

The table below sets out a summary of the Group's consolidated overdue loans as at 31 December 2008 and 2009 and as at 30 June 2010.

	Gross advances	Percentage of advances to customers	Market value of collateral	Amount of secured balance	Amount of unsecured balance	Individual impairment allowance
(Expressed in thousands of Hong Kong dollars, except percentages)						
At 31 December 2008						
Three months to six months	241,726	0.2%	313,680	186,712	55,014	34,592
Over six months to one year	35,196	0.0%	9,499	9,331	25,865	25,632
Over one year.....	13,007	0.0%	5,461	3,224	9,783	13,007
	<u>289,929</u>	<u>0.2%</u>	<u>328,640</u>	<u>199,267</u>	<u>90,662</u>	<u>73,231</u>
At 31 December 2009						
Three months to six months.....	29,403	0.0%	13,568	4,426	24,977	908
Over six months to one year.....	388,847	0.3%	236,048	231,932	156,915	196,572
Over one year.....	109,111	0.1%	65,283	43,668	65,443	70,033
	<u>527,361</u>	<u>0.4%</u>	<u>314,899</u>	<u>280,026</u>	<u>247,335</u>	<u>267,513</u>
At 30 June 2010						
Three months to six months.....	519,132	0.3%	27,810	19,029	499,819	104,634
Over six months to one year	237,640	0.1%	183,363	169,031	68,609	71,340
Over one year.....	259,639	0.1%	136,997	89,479	169,794	214,222
	<u>1,016,411</u>	<u>0.5%</u>	<u>348,170</u>	<u>277,539</u>	<u>738,222</u>	<u>390,196</u>

Rescheduled loans

The table below sets out a summary of the Group's consolidated rescheduled loans as at 31 December 2008 and 2009 and as at 30 June 2010.

	As at 31 December				As at 30 June	
	2008 ⁽¹⁾		2009 ⁽¹⁾		2010 ⁽²⁾	
	Rescheduled loans	Percentage of advances to customers	Rescheduled loans	Percentage of advances to customers	Rescheduled loans	Percentage of advances to customers
(Expressed in thousands of Hong Kong dollars, except percentages)						
Rescheduled advances to customers	<u>161,662</u>	<u>0.1%</u>	<u>112,377</u>	<u>0.1%</u>	<u>105,458</u>	<u>0.1%</u>

Note:

- (1) The information as at 31 December 2008 and 2009 has been extracted from the consolidated financial statements as at and for the years ended 31 December 2008 and 2009, that have been audited, by Ernst & Young, independent auditors, as stated in their reports appearing or incorporated by reference herein.
- (2) The information as at 30 June 2010 has been extracted from the unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 2010.

Impairment allowances on loans and advances

The table below summarises the changes in the Group's impairment allowances on loans and advances for the years ended 31 December 2008 and 2009 and the six months ended 30 June 2010.

	As at 31 December 2008 ⁽¹⁾			As at 31 December 2009 ⁽¹⁾			As at 30 June 2010 ⁽²⁾		
	Impairment allowances			Impairment allowances			Impairment allowances		
	Individual assessment	Collective assessment	Total	Individual assessment	Collective assessment	Total	Individual assessment	Collective assessment	Total
(Expressed in thousands of Hong Kong dollars)									
Balance as at 1 January	125,293	210,269	335,562	282,506	378,849	661,355	441,896	453,392	895,288
Impairment losses	239,659	168,970	408,629	311,358	74,178	385,536	82,639	127,689	210,328
Loans written off as uncollectible	(79,829)	—	(79,829)	(184,514)	—	(184,514)	(58,490)	—	(58,490)
Unwinding of discounts of loan impairment allowances recognised as interest income	(13,213)	—	(13,213)	(10,999)	—	(10,999)	(11,348)	—	(11,348)
Recoveries of advances written off in previous years	11,594	—	11,594	43,533	—	43,533	2,746	—	2,746
Exchange and other adjustments	(998)	(390)	(1,388)	12	365	377	609	569	1,178
Balance as at 31 December/30 June ..	<u>282,506</u>	<u>378,849</u>	<u>661,355</u>	<u>441,896</u>	<u>453,392</u>	<u>895,288</u>	<u>458,052</u>	<u>581,650</u>	<u>1,039,702</u>

Note:

- (1) The information as at 31 December 2008 and 2009 has been extracted from the consolidated financial statements as at and for the years ended 31 December 2008 and 2009, that have been audited, by Ernst & Young, independent auditors, as stated in their reports appearing or incorporated by reference herein.
- (2) The information as at 30 June 2010 has been extracted from the unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 2010.

Accrual of interest

The Group follows HKMA's guidelines and HKAS 39 provisions on "Recognition of Interest". In general, interest accrual will be suspended if there is a reasonable doubt as to the collectability of

the loans, taking into consideration both qualitative and quantitative factors (including the type and amount of collateral, whether the net realisable value of the security is sufficient to cover the principal and accrued interest, expected debt servicing cash flow and the expectations for recovery or performance).

The table below sets forth a summary of non-performing loans of the Group as at the dates indicated.

	Group		
	As at 31 December		As at 30 June
	2008 ⁽¹⁾	2009 ⁽¹⁾	2010 ⁽²⁾
	(Expressed in thousands of Hong Kong dollars)		
Gross non-performing loans	<u>888,965</u>	<u>1,358,618</u>	<u>1,211,568</u>
Individual impairment allowances made in respect of such advances	<u>282,506</u>	<u>441,896</u>	<u>458,052</u>

Note:

- (1) The information as at 31 December 2008 and 2009 has been extracted from the consolidated financial statements as at and for the years ended 31 December 2008 and 2009, that have been audited, by Ernst & Young, independent auditors, as stated in their reports appearing or incorporated by reference herein.
- (2) The information as at 30 June 2010 has been extracted from the unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 2010.

Impairment of financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, 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.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the original effective interest rate of the financial asset (i.e. the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowances are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The present value of the estimated future cash flows of a collateralised financial asset less costs for obtaining and selling the collateral, reflects the cash flows that may result from foreclosure whether or not the foreclosure can be achieved during the relevant period.

For the purpose of a collective evaluation of impairment, retail financial assets including mortgage loans, personal loans and credit cards are grouped on the basis of the number of days overdue. For other cases, collective impairments during stable economic environments are made on the basis of historical probability of default over a span of the past seven years to give rise to an estimation of incurred loss as defined by HKAS39. For periods of economic downturns as measured by negative GDP growth, falling property prices and growing unemployment, a ‘Crisis Model’ for collective impairment replaces the ‘Normal Model’, pursuant to which collective impairments historically increased by more than 100.0% for such years.

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such a loan is written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowances for loan impairment in the income statement.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, such as an improvement in the debtor’s credit rating, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Loans and advances individually impaired

The Group has a policy of downgrading customers to the non-performing loan grade when overdue is longer than 90 days. Loans outstanding for over 90 days are rarely retained in pass grade instead of the impaired grade. Impaired borrowing accounts are typically transferred to management by the Special Assets Department, so that the prospect and means of recovery can be more independently evaluated, decided and implemented. The Special Assets Department may not take any immediate recovery action. It may even help in circumstances where the customer in question is deemed to be able to be rehabilitated and the collateral is important to the customer’s continued business operation. The Group may at times join or seek agreement with other creditor banks to stand still in concert. Otherwise, the Group will take appropriate measures to preserve the customer’s assets, to maximise recovery and to realise property collateral in a quick and timely manner either by private sale or by public auction at prices that are in acceptable proximity with the average of several external valuations.

The Group adopts an objective individual impairment policy in compliance with the requirement of HKAS 39. Impairment requirements, if any, can always be traceable back to a reasonably expected discount of the expected cash flow from customer’s repayment, other sources of recovery and exercise of collateral (net of cost).

Segmental analysis of non-performing loans

The following table sets forth, as at the dates indicated, the Group's gross non-performing loans by business segment and as a percentage of the Group's gross non-performing loans.

	As at 31 December				As at 30 June	
	2008 ⁽¹⁾		2009 ⁽¹⁾		2010 ⁽¹⁾	
	Non-performing loans	Percentage of total	Non-performing loans	Percentage of total	Non-performing loans	Percentage of total
(Expressed in thousands of Hong Kong dollars, except percentages)						
Corporate and investment banking	83,402	9.4%	558,896	41.1%	535,260	44.2%
Commercial banking	695,328	78.2%	701,187	51.6%	592,334	48.9%
Retail banking	109,239	12.3%	96,997	7.2%	82,143	6.8%
Unallocated	996	0.1%	1,538	0.1%	1,831	0.1%
Gross non-performing loans	<u>888,965</u>	<u>100.0%</u>	<u>1,358,618</u>	<u>100.0%</u>	<u>1,211,568</u>	<u>100.0%</u>
Individual impairment made in respect of such advances	<u>(282,506)</u>		<u>(441,896)</u>		<u>(458,052)</u>	
Net non-performing loans	<u><u>606,459</u></u>		<u><u>916,722</u></u>		<u><u>753,516</u></u>	

Note:

(1) This information is unaudited.

Non-performing loans to customers by the Group as at 30 June 2010 represented 0.65% (compared to 0.92% as at 31 December 2009) of the advances to customers by the Group.

Top ten non-performing loans

As at 30 June 2010, the Group's ten largest non-performing loans accounted for 0.6% of the Group's total advances to customers and 85.9% of the Group's gross non-performing loans to customers. As at 30 June 2010, the Group's exposure to its ten largest non-performing loans ranged from HK\$19 million (US\$2 million) to HK\$497 million (US\$64 million).

Non-performing loans which have been rescheduled

The Group maintains an account upgrade policy in accordance with HKMA's guidelines. For example, if payments under a classified loan are rescheduled, that loan may be upgraded to a pass loan only if the revised payment terms are honoured for a minimum period of six months, in the case of monthly repayments, and 12 months, in the case of quarterly or semi-annual repayments, and that the Bank's loan collection department and Credit Committee have reasonable belief that the borrower has sufficient assets and cash flow to sustain continued and punctual loan servicing.

Investments in securities

The Group's investments in securities, except those held either solely for the purpose of recovering advances or as investments in subsidiaries, associates or joint ventures, are classified into four categories: (a) financial assets held for trading; (b) financial assets designated at fair value through profit or loss; (c) available-for-sale financial investments; and (d) held-to-maturity financial investments. As at 30 June 2010, financial assets held for trading amounted to HK\$198 million (US\$26 million), financial assets designated at fair value through profit or loss amounted to HK\$945 million (US\$122 million), available-for-sale financial investments amounted to HK\$34,597 million (US\$4,461 million) and held-to-maturity financial investments amounted to HK\$1,205 million (US\$155 million). The Group increased the amount of its investment in debt securities in 2009 and the first half of 2010 to achieve higher returns for the Group's assets portfolio. As part of the Group's overall policy to invest in highly liquid debt securities, the Group increased its certificates of deposit

held from HK\$8 million (US\$1 million) as at 31 December 2008 to HK\$150 million (US\$19 million) as at 31 December 2009 and to HK\$1,723 million (US\$222 million) as at 30 June 2010. Dividend income from investments in listed equity securities and unlisted equity securities for the six months ended 30 June 2010 were HK\$0.7 million (US\$0.1 million) and HK\$2.9 million (US\$0.4 million), respectively.

The following table sets forth the fair/book value of the debt and equity securities of the Group as at the dates indicated.

Financial assets held for trading

	As at 31 December		As at 30 June
	2008	2009	2010
	(Expressed in thousands of Hong Kong dollars)		
Debt securities, at fair value			
Listed in Hong Kong	410	8,180	6,899
Unlisted.....	<u>30,441</u>	<u>38,868</u>	<u>33,605</u>
	30,851	47,048	40,504
Equity securities, at fair value			
Listed in Hong Kong	21,200	20,950	19,850
Unlisted.....	<u>—</u>	<u>122,248</u>	<u>137,522</u>
	21,200	143,198	157,372
Total financial assets held for trading	<u>52,051</u>	<u>190,246</u>	<u>197,876</u>
Financial assets held for trading are analysed by category of issuer as follows			
Central governments and central banks	—	23	23
Public sector entities	628	425	419
Banks and other financial institutions	51,423	181,878	190,792
Corporate entities	<u>—</u>	<u>7,920</u>	<u>6,642</u>
	<u>52,051</u>	<u>190,246</u>	<u>197,876</u>

Financial assets designated at fair value through profit or loss

	As at 31 December		As at 30 June
	2008	2009	2010
(Expressed in thousands of Hong Kong dollars)			
Debt securities, at fair value			
Listed in Hong Kong	340,506	377,848	302,134
Listed outside Hong Kong	973,906	599,139	453,994
Unlisted.....	<u>173,591</u>	<u>185,162</u>	<u>188,425</u>
Total financial assets designated at fair value through profit or loss	<u>1,488,003</u>	<u>1,162,149</u>	<u>944,553</u>
Financial assets designated at fair value through profit or loss are comprised of the following items			
Other debt securities	<u>1,488,003</u>	<u>1,162,149</u>	<u>944,553</u>
	<u>1,488,003</u>	<u>1,162,149</u>	<u>944,553</u>
Financial assets designated at fair value through profit or loss are analysed by category of issuer as follows			
Central governments and central banks	202,890	—	—
Public sector entities	200,119	201,022	125,748
Banks and other financial institutions	309,333	183,716	188,441
Corporate entities	<u>775,661</u>	<u>777,411</u>	<u>630,364</u>
	<u>1,488,003</u>	<u>1,162,149</u>	<u>944,553</u>

Available-for-sale financial investments

	As at 31 December		As at 30 June
	2008	2009	2010
(Expressed in thousands of Hong Kong dollars)			
Debt securities			
Listed in Hong Kong	1,916,434	2,386,583	2,366,893
Listed outside Hong Kong	8,752,054	15,803,326	16,235,682
Unlisted.....	5,456,666	12,583,957	14,478,759
	<u>16,125,154</u>	<u>30,773,866</u>	<u>33,081,334</u>
Equity securities			
Listed in Hong Kong	1,198,756	1,501,944	1,431,329
Unlisted.....	79,165	85,856	84,150
	<u>1,277,921</u>	<u>1,587,800</u>	<u>1,515,479</u>
Total available-for-sale financial investments	<u>17,403,075</u>	<u>32,361,666</u>	<u>34,596,813</u>
Market value of listed securities	11,867,244	19,691,853	20,033,904
Debt securities after taking into account of impairment losses are comprised of the following items			
Certificates of deposit held.....	7,931	150,225	1,722,946
Other debt securities.....	16,117,223	30,623,641	31,358,388
	<u>16,125,154</u>	<u>30,773,866</u>	<u>33,081,334</u>
Available-for-sale financial investments are analysed by category of issuer as follows			
Central governments and central banks	1,353,598	2,991,296	946,669
Public sector entities	753,638	779,928	602,790
Banks and other financial institutions	7,401,455	19,799,129	24,356,980
Corporate entities	7,893,403	8,787,116	8,689,697
Others	981	4,197	677
	<u>17,403,075</u>	<u>32,361,666</u>	<u>34,596,813</u>

Held-to-maturity financial investments

	As at 31 December		As at 30 June
	2008	2009	2010
(Expressed in thousands of Hong Kong dollars)			
Debt securities			
Listed in Hong Kong	78,605	—	—
Listed outside Hong Kong	575,811	80,466	54,488
Unlisted.....	1,324,366	1,211,277	1,150,213
	1,978,782	1,291,743	1,204,701
Less: Impairment loss	(2,379)	(234)	(154)
Total held-to-maturity financial investments.....	<u>1,976,403</u>	<u>1,291,509</u>	<u>1,204,547</u>
Market value of listed securities	630,681	79,045	54,313
Debt securities after taking into account of impairment losses are comprised of the following items			
Treasury bills	1,136,282	1,146,414	1,145,621
Other debt securities.....	840,121	145,095	58,926
	<u>1,976,403</u>	<u>1,291,509</u>	<u>1,204,547</u>
Held-to-maturity financial investments are analysed by category of issuer as follows			
Central governments and central banks.....	1,214,640	1,146,414	1,145,621
Public sector entities	83,539	60,318	—
Banks and other financial institutions	238,354	84,777	58,926
Corporate entities	439,870	—	—
	<u>1,976,403</u>	<u>1,291,509</u>	<u>1,204,547</u>
Movement in impairment allowances on held-to-maturity financial investments			
At 1 January.....	2,535	2,379	234
Write-back of impairment losses.....	(156)	(2,145)	(80)
At 31 December/30 June	<u>2,379</u>	<u>234</u>	<u>154</u>

Strategy and credit control procedures

In making securities investments, the GMT's principal objectives are to maintain the liquidity of the Bank's assets and obtain consistent, stable returns on investments generally recognised by the HKMA as liquefiable assets in the statutory liquidity ratio computation. The Bank complies with the securities investment policies as approved by the Bank's Credit Committee, Asset and Liability Management Committee (ALCO), Executive Committee and Risk Management Committee of Board of Directors. No securities can be purchased except those within the respective predetermined country, credit rating, tenor and issuer credit limit. Deviations from such predetermined criteria will require the approval from the Credit Committee on a case-by-case basis.

Funding

The Group's primary sources of funding comprise deposits of customers, certificates of deposit issued and shareholders' funds. Deposits include demand deposits and savings and time deposits. The issuance of certificates of deposit helps lengthen funding maturities and reduces possible maturity mismatches.

The table below sets forth a summary of the Group's deposits and other borrowed funds by type as at the dates indicated.

	As at 31 December				As at 30 June	
	2008		2009		2010	
	(HK\$ millions)	%	(HK\$ millions)	%	(HK\$ millions)	%
Deposits:						
Current, fixed, savings and other deposits of customers	138,183	85.0%	161,162	87.7%	180,679	81.6%
Certificates of deposit issued.	4,312	2.7%	2,394	1.3%	7,289	3.3%
Total deposits	<u>142,495</u>	<u>87.7%</u>	<u>163,556</u>	<u>89.0%</u>	<u>187,968</u>	<u>84.9%</u>
Borrowings:						
Borrowings from other banks and financial institutions	20,057	12.3%	20,177	11.0%	33,478	15.1%
Total borrowings	<u>20,057</u>	<u>12.3%</u>	<u>20,177</u>	<u>11.0%</u>	<u>33,478</u>	<u>15.1%</u>
Total deposits and borrowings	<u>162,552</u>	<u>100.0%</u>	<u>183,733</u>	<u>100.0%</u>	<u>221,446</u>	<u>100.0%</u>

Note:

- (1) As at 30 June 2010, HK\$183,879 million (US\$23,711 million), representing 97.8% of the Group's customer's deposits and certificates of deposit had a remaining maturity of less than one year.

The Group determines the rate of the interest which it pays on Hong Kong dollar deposits and certificates of deposit according to prevailing market conditions. Interest on Hong Kong dollar savings deposits is paid at variable rates of interest. Interest rates on foreign currency deposits are based principally on the London Interbank Offered Rate or the applicable interbank interest rates of the relevant currency. As at 30 June 2010, 45.7% of deposits of the Group were denominated in Hong Kong dollars, with the remainder denominated principally in US dollars.

The following table sets forth the maturity profile of deposits from customers of the Group analysed by the remaining period as at the dates indicated to the contractual maturity dates.

	As at 31 December		As at 30 June
	2008	2009	2010
	(Expressed in thousands of Hong Kong dollars)		
Repayable on demand	25,332,357	46,811,559	41,425,973
Three months or less.....	101,830,299	89,798,740	113,868,219
Over three months to one year	10,973,517	23,533,175	24,914,975
Over one year and five years	37,084	989,730	441,097
Over five years	10,075	28,357	28,464
	<u>138,183,332</u>	<u>161,161,561</u>	<u>180,678,728</u>

Apart from relying on customers' deposits, the Group also obtains funding from, and the Bank has entered into a guarantee agreement (in respect of certain customer exposures) with, ICBC. See "Relationship with ICBC — Letter of Comfort".

Further, the Bank issued certificates of deposit of nominal value, as at 31 December 2009, of US\$100 million, all of which were bought by ICBC. The interest expense attributable to these certificates of deposit for the year ended 31 December 2009 and for the six months ended 30 June 2010 was approximately HK\$16 million (US\$2 million) and HK\$6 million (US\$0.8 million), respectively, compared to HK\$43 million (US\$6 million) for the year ended 31 December 2008.

In addition, the Bank issued subordinated floating rate notes totalling US\$1,104 million as at 31 December 2009 and as at 30 June 2010 to ICBC. The interest expense attributable to these notes for the year ended 31 December 2009 and for the six months ended 30 June 2010 was HK\$148 million (US\$19 million) and HK\$40 million (US\$5 million), respectively, compared to HK\$293 million (US\$38 million) for the year ended 31 December 2008.

As at 30 June 2010, approximately HK\$24,649 million (US\$3,178 million) of interbank deposits, compared to HK\$11,009 million (US\$1,420 million) as at 30 June 2009, were placed with the Bank by ICBC. This included an amount of HK\$4,979 million (US\$642 million) representing utilisation of a credit facility of US\$2,500 million granted by the ultimate holding company to the Bank for working capital purposes. The interest expense attributable to these deposits for the six months ended 30 June 2010 was approximately HK\$54 million (US\$7 million), representing an increase from HK\$38 million (US\$5 million) for the six months ended 30 June 2009.

The Group's interest rate risk arises mainly from the maturity mismatch and the timing differences in repricing of interest-bearing assets and liabilities. The Group manages its interest rate risk by way of entering into on-balance sheet and off-balance sheet interest rate hedging instruments. The strategy is continually reviewed by the Bank's ALCO based on market and interest rate conditions.

Capital adequacy and liquidity ratios

The following table sets out a summary of the Group's capital adequacy and liquidity ratios as at 31 December 2008 and 2009 and as at 30 June 2010:

	As at 31 December 2008 ⁽¹⁾	As at 31 December 2009 ⁽¹⁾	As at 30 June 2010 ⁽¹⁾
Core capital ratio	7.3%	9.0%	8.4%
Capital adequacy ratio	13.6%	14.9%	13.4%
Average liquidity ratio	37.0%	40.2%	41.5%

Note:

- (1) The information as at 31 December 2008 and 2009 and as at 30 June 2010 has been extracted from the unaudited supplementary financial information in the 2009 and the 30 June 2010 published accounts.

The capital ratios were computed in accordance with the Banking (Capital) Rules (the “**Capital Rules**”) issued by the HKMA under section 98A of the Banking Ordinance for the implementation of the Basel II effective on 1 January 2007. In view of the Capital Rules, the Bank has adopted the “standardised (credit risk) approach” for the calculation of the risk-weighted assets for credit risk, the “basic indicator approach” for the calculation of the operational risk and the “standardised (market risk) approach” for the calculation of market risk. Under the Capital Rules, the basis of consolidation in calculating the capital ratios follows that of the financial reporting of the Bank with the exclusion of subsidiaries which are “regulated financial entities” as defined by the Capital Rules. Accordingly, the investment costs of these unconsolidated subsidiaries are deducted from the capital base. There is no capital shortfall from these unconsolidated subsidiaries.

The average liquidity ratio is the simple average of the average liquidity ratio of each calendar month, which is computed on the consolidated basis as required by the HKMA and is computed in accordance with the Fourth Schedule to the Banking Ordinance.

The capital base of the Group after deductions used in the calculation of the above capital adequacy ratios as at 31 December 2008 and 2009 and as at 30 June 2010 and reported to the HKMA was as follows:

	Group		
	As at 31 December		As at 30 June
	2008 ⁽¹⁾	2009 ⁽¹⁾	2010 ⁽¹⁾
	(Expressed in thousands of Hong Kong dollars)		
Core capital:			
Paid-up ordinary share capital	2,570,536	2,636,681	2,704,123
Share premium	8,209,593	8,640,575	9,187,798
Reserves	621,457	2,608,537	3,564,211
Income statement	407,616	1,139,434	685,211
Deduct: Goodwill	(980,154)	(980,154)	(980,154)
Other intangible assets	(31,318)	(19,282)	(17,107)
Net deferred tax assets	(137,547)	—	—
50.0% of total unconsolidated investments and other deductions...	(431,507)	(898,244)	(972,971)
	<u>10,228,676</u>	<u>13,127,547</u>	<u>14,171,183</u>
Eligible supplementary capital:			
Fair value gains on the revaluation of land and buildings	5,095	5,302	92,651
Fair value gains on the revaluation of available-for-sale equities and debt securities	—	569,191	561,019
Unrealised fair value gains arising from equities and debt securities designated at fair value through profit or loss	—	18,818	29,546
Collective impairment allowances and regulatory reserve	1,162,545	1,255,137	1,574,464
Perpetual subordinated debts	3,480,032	3,481,600	3,491,008
Subordinated debts measured at amortised cost	4,487,308	4,141,170	3,814,356
Less: 50.0% of total unconsolidated investments and other deductions	(431,507)	(898,244)	(972,971)
	<u>8,703,473</u>	<u>8,572,974</u>	<u>8,590,073</u>
Total capital base before deductions	18,932,149	21,700,521	22,761,256
Deductions from total capital base	—	—	—
Total capital base after deductions	<u>18,932,149</u>	<u>21,700,521</u>	<u>22,761,256</u>
Risk-weighted assets:			
Credit risk	130,373,943	137,671,817	158,063,545
Market risk	2,937,625	1,118,738	3,617,838
Operational risk	6,059,438	7,194,275	7,757,350
Total risk-weighted assets	<u>139,371,006</u>	<u>145,984,830</u>	<u>169,438,733</u>

Note:

(1) The information as at 31 December 2008 and 2009 and as at 30 June 2010 has been extracted from the unaudited supplementary financial information in the 31 December 2009 and the 30 June 2010 published accounts.

Asset and liability management

The ALCO monitors the mix of liquid assets and funding channels, and the exposure to movements in interest rate and foreign exchange. The ALCO members also meet to review the optimal liquidity level in response to internal requirements and external market indicators. The ALCO comprises the Chief Financial Officer (who is the Chairman of the ALCO), all Deputy General Managers, the designated Assistant General Manager in charge of business units, Chief Risk Officer, Head of the Asset and Liability Management Department, Market Risk Section Head of the RMD and Head of the GMT. The ALCO meets on a monthly basis.

The following table sets forth the interest-bearing Hong Kong dollar asset-liability repricing gap position for the Group as at 31 December 2008 and 2009 and as at 30 June 2010.

At 31 December 2008	Up to one month	One to three months	Three to 12 months	One to five years	Over five years	Non-interest bearing
(Expressed in thousands of Hong Kong dollars)						
Assets						
Cash and balances with banks and other financial institutions	28,116,080	—	—	—	—	562,698
Placements with and advances to banks and other financial institutions	—	689,360	154,998	—	—	—
Financial assets held for trading	—	50	5,692	25,109	—	21,200
Financial assets designated at fair value through profit or loss	—	—	77,400	923,444	487,157	—
Derivative financial instruments.....	—	—	—	—	—	2,308,702
Loans and advances to customers, banks and other financial institutions	95,205,918	30,084,808	11,086,371	466,590	139,535	99,499
Available-for-sale financial investments	1,836,298	4,154,659	1,850,926	6,458,068	1,818,947	1,284,177
Held-to-maturity financial investments	292,086	292,852	1,361,659	29,806	—	—
Other assets	734,126	—	—	—	—	3,995,892
Total assets	<u>126,184,508</u>	<u>35,221,729</u>	<u>14,537,046</u>	<u>7,903,017</u>	<u>2,445,641</u>	<u>8,272,168</u>
Liabilities						
Deposits from banks and other financial institutions	6,896,715	12,031,964	778,690	—	—	349,387
Derivative financial instruments.....	—	—	—	—	—	3,296,670
Deposits from customers.....	102,133,978	21,024,863	10,973,517	36,087	10,075	4,004,812
Certificates of deposit issued	250,000	1,220,762	2,261,857	579,742	—	—
Debt securities in issue designated at fair value through profit or loss	—	3,146,399	—	—	—	—
Subordinated debts measured at amortised cost	3,061,290	3,712,535	1,782,523	—	—	—
Other liabilities	83,761	—	—	—	—	2,990,704
Total liabilities	<u>112,425,744</u>	<u>41,136,523</u>	<u>15,796,587</u>	<u>615,829</u>	<u>10,075</u>	<u>10,641,573</u>
Total interest sensitivity gap	<u>13,758,764</u>	<u>(5,914,794)</u>	<u>(1,259,541)</u>	<u>7,287,188</u>	<u>2,435,566</u>	<u>(2,369,405)</u>

At 31 December 2009	Up to one month	One to three months	Three to 12 months	One to five years	Over five years	Non-interest bearing
(Expressed in thousands of Hong Kong dollars)						
Assets						
Cash and balances with banks and other financial institutions	27,490,845	—	—	—	—	419,737
Placements with and advances to banks and other financial institutions	—	903,730	759,556	—	—	—
Financial assets held for trading	—	—	19,884	19,244	7,920	143,198
Financial assets designated at fair value through profit or loss	—	78,433	157,551	711,467	214,698	—
Derivative financial instruments.....	—	—	—	—	—	1,285,306
Loans and advances to customers, banks and other financial institutions	110,067,397	25,486,467	9,366,608	534,006	1,503,876	66,228
Available-for-sale financial investments	2,843,909	8,600,204	5,158,233	12,678,739	1,486,571	1,594,010
Held-to-maturity financial investments	114,436	—	1,177,073	—	—	—
Other assets	12,330	—	—	—	—	2,852,173
Total assets	<u>140,528,917</u>	<u>35,068,834</u>	<u>16,638,905</u>	<u>13,943,456</u>	<u>3,213,065</u>	<u>6,360,652</u>
Liabilities						
Deposits from banks and other financial institutions	11,564,169	6,958,339	1,026,322	—	—	627,870
Derivative financial instruments.....	—	—	—	—	—	1,403,832
Deposits from customers.....	94,676,777	33,875,477	23,533,062	989,716	28,357	8,058,172
Certificates of deposit issued.....	1,053,200	50,306	356,013	935,027	—	—
Debt securities in issue designated at amortised cost	—	—	—	—	—	159,526
Subordinated debts measured at amortised cost	3,063,225	3,714,250	1,783,650	—	—	—
Other liabilities	387,162	—	—	—	—	3,404,780
Total liabilities	<u>110,744,533</u>	<u>44,598,372</u>	<u>26,699,047</u>	<u>1,924,743</u>	<u>28,357</u>	<u>13,654,180</u>
Total interest sensitivity gap	<u>29,784,384</u>	<u>(9,529,538)</u>	<u>(10,060,142)</u>	<u>12,018,713</u>	<u>3,184,708</u>	<u>(7,293,528)</u>

As at 30 June 2010	Up to one month	One to three months	Three to 12 months	One to five years	Over five years	Non-interest bearing
(Expressed in thousands of Hong Kong dollars)						
Assets						
Cash and balances with banks and other financial institutions	26,873,094	—	—	—	—	551,728
Placements with and advances to banks and other financial institutions	—	390,185	1,159,064	—	—	—
Financial assets held for trading	4,936	14,964	419	13,542	6,643	157,372
Financial assets designated at fair value through profit or loss	—	—	219,000	725,553	—	—
Derivative financial instruments.....	—	—	—	—	—	2,006,609
Loans and advances to customers, banks and other financial institutions	134,173,527	28,979,538	19,068,626	731,986	1,481,968	156,876
Available-for-sale financial investments	3,794,097	9,031,876	3,038,883	15,671,541	1,536,984	1,523,432
Held-to-maturity financial investments	54,346	4,580	1,145,621	—	—	—
Other assets	176,745	—	—	—	—	3,112,893
Total assets	<u>165,076,745</u>	<u>38,421,143</u>	<u>24,631,613</u>	<u>17,142,622</u>	<u>3,025,595</u>	<u>7,508,910</u>
Liabilities						
Deposits from banks and other financial institutions	16,672,592	8,981,445	7,355,616	—	—	467,952
Derivative financial instruments.....	—	—	—	—	—	2,427,258
Deposits from customers.....	96,657,058	50,837,746	24,880,722	370,842	28,464	7,903,896
Certificates of deposit issued.....	4,833,218	558,190	311,334	1,586,481	—	—
Debt securities in issue	151,422	50,929	—	—	—	—
Subordinated debts measured at amortised cost	3,074,838	3,724,540	1,790,412	—	—	—
Other liabilities	144,860	—	—	—	—	3,656,911
Total liabilities	<u>121,533,988</u>	<u>64,152,850</u>	<u>34,338,084</u>	<u>1,957,323</u>	<u>28,464</u>	<u>14,456,017</u>
Total interest sensitivity gap	<u>43,542,757</u>	<u>(25,731,707)</u>	<u>(9,706,471)</u>	<u>15,185,299</u>	<u>2,997,131</u>	<u>(6,947,107)</u>

The following table shows the interest rate risk exposure of performing loans denominated in Hong Kong dollars and US dollars for the Bank as at 30 June 2010.

Time band	Impact/Scenario analysis		
	Interest-bearing loans and advances	Earnings perspective	
		Time weight on earning	Impact on earnings over the next 12 months if interest rates by 200 basis points
	(1)	(2)	(1) x (2)
30 June 2010 ⁽¹⁾	%	30 June 2010 ⁽¹⁾	
(Expressed in millions of Hong Kong dollars, except percentages)			
Next day or less (A)	—	1.997%	—
Two to seven days (B)	38,548	1.975%	761
Eight days to one month (C)	84,790	1.896%	1,608
One to three months (D)	25,218	1.667%	420
Three to six months (E)	9,925	1.250%	124
Six to 12 months (F)	5,530	0.500%	28
One to five years (G)	314	N/A ⁽²⁾	—
More than five years (O)	1,222	N/A ⁽²⁾	—
			<u>2,941</u>

Notes:

- (1) This information, which relates to the Bank, is unaudited.
- (2) The HKMA's current guideline is not to time weight loans with a maturity of one year or more.
- (3) The interest-bearing loans and advances are disclosed when each single currency exposure is over 5% of total on-balance sheet loan exposure of the Bank.

The Group's liquidity structure, derived from its assets, liabilities and contingent commitments, is managed to ensure that all of the Group's operations can meet their funding requirements and comply with the statutory liquidity ratio and regulatory requirements on maturity mismatch profile. The liquidity risk is controlled by holding sufficient quality assets, such as cash, short-term funds and liquid securities of reasonable quality. Access to interbank liquidity is maintained through sufficient counterparty money markets as well as repurchase facilities. In addition, liquidity is enhanced through the issuance of long-term certificates of deposit and the credit lines of ICBC.

The Bank monitors its liquidity position by carrying out daily forecasts to ensure the Bank's funding needs can be met and the statutory minimum liquidity ratio, currently at 25.0%, is complied with. The average consolidated liquidity ratio was 37.0% in 2008, 40.2% in 2009 and 41.5% in the six months ended 30 June 2010.

As at 30 June 2010, approximately 78.0% of the Group's total performing loans to customers were made at floating rates and prime rates of interest. The Group's interest-earning assets have floating interest rates fixed by reference to the Group's best lending rate, prime rate and interbank rate, and the Group's interest-bearing liabilities have floating interest rates set by reference to interbank rates for Hong Kong dollar current and saving deposits. The ALCO continuously monitors the gap between the Hong Kong Interbank Offered Rate (**HIBOR**) and the prime rate and, consequently, the net interest margin. If the net interest margin declines due to the squeeze of the spread between prime rate and HIBOR, the ALCO may recommend the adjustment of the Group's best lending rate or the margin charged on loans and/or the expansion of the Group's higher margin loan products business.

The table below sets out the Group's average balances and related average interest rates for the periods indicated. Average balances of interest-earning assets and interest-bearing liabilities for the years ended 31 December 2008 and 2009 and the six months ended 30 June 2010 are based on the arithmetic mean of the respective daily average balances. Average balances of non-interest earning assets and non-interest bearing liabilities for the years ended 31 December 2008 and 2009 and the six months ended 30 June 2010 are based on the arithmetic mean of the respective balances at the beginning and the end of each period.

	For the Year ended 31 December ⁽¹⁾				For the Six Months ended 30 June ⁽¹⁾	
	2008		2009		2010	
	Average balance	Average rate (%)	Average balance	Average rate (%)	Average balance	Average rate (%)
(Expressed in millions of Hong Kong dollars, except percentages)						
Interbank Placement.....	38,169	2.74%	38,616	0.44%	29,103	0.53%
Securities Investment	19,581	4.43%	27,351	2.47%	35,129	2.00%
Performing Loans.....	135,489	4.19%	129,616	2.63%	164,900	2.27%
Total Interest-Earning Assets	193,239	3.93%	195,583	2.17%	229,132	2.00%
Deposits.....	146,551	2.42%	152,324	0.62%	179,622	0.54%
Bank-issued Subordinate Debt.....	7,371	3.97%	8,558	1.73%	8,578	0.94%
Interbank Borrowing	25,098	3.02%	19,713	0.96%	24,534	0.72%
Bank-issued Bond	3,141	3.93%	2,217	2.77%	—	—
Total Interest-Bearing Liabilities	182,161	2.61%	182,812	0.75%	212,734	0.58%
Yearly Average Net Interest Margin		<u>1.55%</u>		<u>1.56%</u>		<u>1.51%</u>

Note:

(1) This information, which relates to the Group, is unaudited.

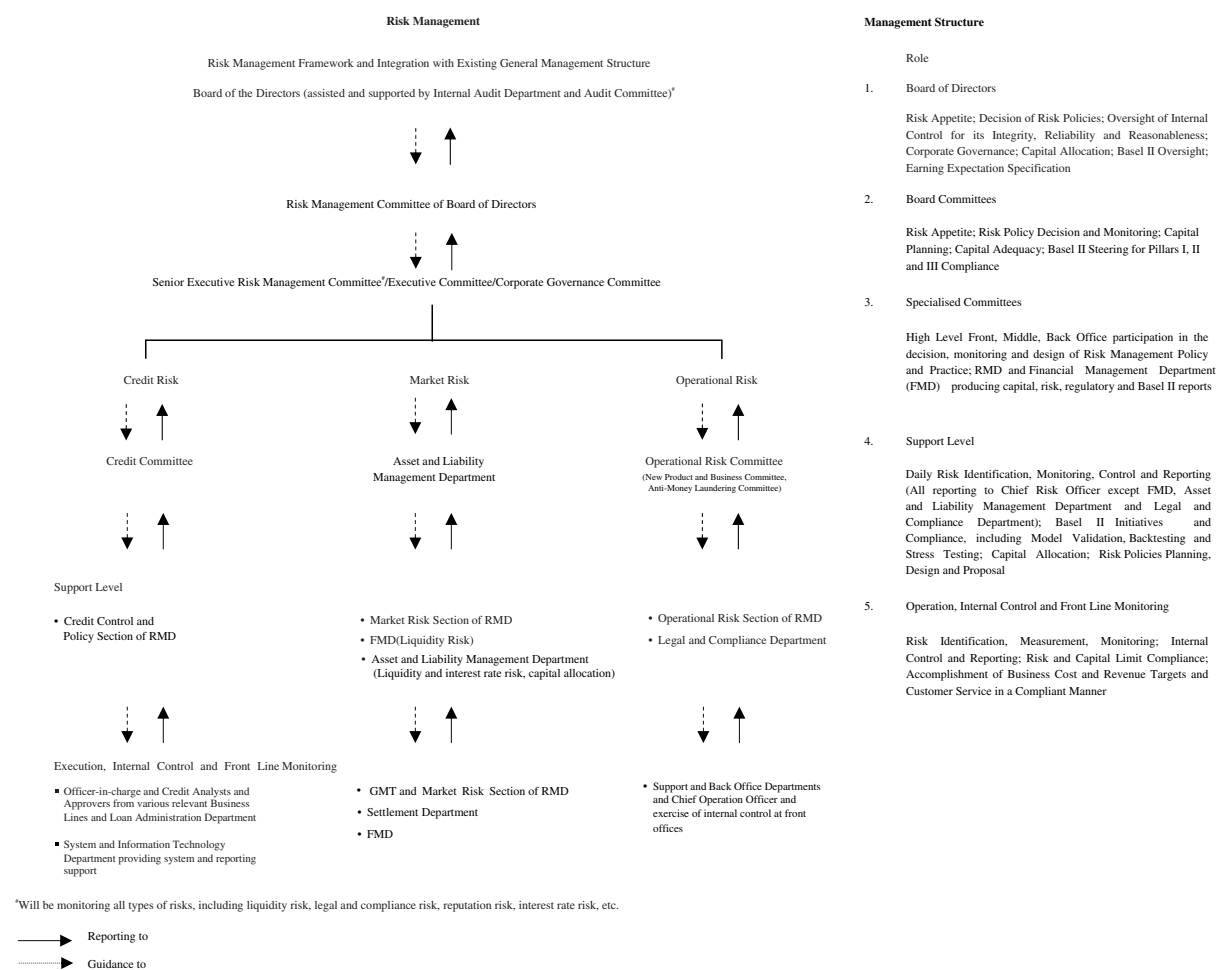
Risk Management

Pursuant to the implementation of Basel II in January 2007, the Group conducted its risk management in 2009 and the first half of 2010 in accordance with the principles and requirements of Basel II. With an increased focus on corporate governance, the Board of Directors continues to supervise the Group in relation to its risk management structure, processes, policies and internal control. For its business plans and activities, the Group identifies, assesses, monitors, controls, reports and reviews the major risks to ensure capital adequacy and compliance with regulatory guidelines and adherence to the Board of Directors' risk expectation.

The Group has implemented policies and procedures for the identification, measurement, control and monitoring of risks (including credit, liquidity, market, interest rate, operational, legal and compliance risks). The Board of Directors supervises the Group's risk management process and ultimately endorses all core risk policies and their subsequent amendments. Two Risk Management Committees, one at the Board of Directors' level and the other at the senior executive level, reinforce the Board of Directors' and management's supervision in the risk management structure, process and policies. The management of the Group, the RMD and the relevant functional committees review and revise these policies and procedures on a regular basis. The Group's Internal Audit Department also performs regular reviews on the compliance with policies and procedures of the Bank.

The RMD is responsible for credit, market and operational risk management. The head of the RMD reports to Chief Risk Officer, who in turn reports to the Risk Management Committee of Board of Directors.

The following diagram depicts the Group's risk management structure under the Basel II regime and compatible with relevant HKMA guidelines.



Management Structure

- Role
- Board of Directors
Risk Appetite; Decision of Risk Policies; Oversight of Internal Control for its Integrity, Reliability and Reasonableness; Corporate Governance; Capital Allocation; Basel II Oversight; Earning Expectation Specification
 - Board Committees
Risk Appetite; Risk Policy Decision and Monitoring; Capital Planning; Capital Adequacy; Basel II Steering for Pillars I, II and III Compliance
 - Specialised Committees
High Level Front, Middle, Back Office participation in the decision, monitoring and design of Risk Management Policy and Practice; RMD and Financial Management Department (FMD) producing capital, risk, regulatory and Basel II reports
 - Support Level
Daily Risk Identification, Monitoring, Control and Reporting (All reporting to Chief Risk Officer except FMD, Asset and Liability Management Department and Legal and Compliance Department); Basel II Initiatives and Compliance, including Model Validation, Backtesting and Stress Testing; Capital Allocation; Risk Policies Planning, Design and Proposal
 - Operation, Internal Control and Front Line Monitoring
Risk Identification, Measurement, Monitoring; Internal Control and Reporting; Risk and Capital Limit Compliance; Accomplishment of Business Cost and Revenue Targets and Customer Service in a Compliant Manner

Credit risk management

Credit risk is the risk that a borrower or counterparty of the Group will be unable or unwilling to honour a repayment obligation. The Group has standards, policies and procedures and designated functional departments in place to control and monitor these risks.

The Group devotes considerable resources in maintaining its credit risk management. The management sets the credit policies and systems to identify, measure, monitor and control risks inherent in various lending businesses. This process ensures prudence, minimises operational omissions in credit matters, and aims at early detection of potential problems, thus minimising business loss. With the enlarged lending operation of the Group to SMEs, credit policies and practice apposite to their risk monitoring are adopted or modified to maintain desired credit standard as the Group competes for SME related business.

High-level credit policies of the Group are set, reviewed and constantly updated by the relevant functional departments and committees, and for prominent issues, by the Board of Directors to maintain a balanced account of the dynamic market situation, regulatory requirement, the Group's usual lending practices and its latest business strategies. Such credit policies, processes and practices, as they are developed, updated, reviewed and revised, are written periodically into credit manuals and supplementary lending product manuals for internal control and compliance purposes. Since the Basel II capital accord was implemented in January 2007, the Group has been adjusting its credit risk management practice to align with relevant guidelines released by the HKMA and to enhance its internal credit control processing efficiency and product competitiveness.

Credit authorities are delegated to individual approvers for efficiency and productivity purposes. Except for approvals of taxi loans, credit cards, small business loans, special government guaranteed SME loans and consumer loans, no business originating unit can singly approve any loan. Loans singly approved by business originating units are nevertheless still subject to approval criteria pre-set by the Credit Function or the Credit Committee of the Bank. Otherwise, the Group generally requires a “dual” approval process whereby loan proposals are required to be jointly approved by the Business Line and the Credit Function. The Credit Committee, which approves all credit policies, large loans and investment in interest earning securities, shall not pass any credit related proposal which has been objected by the Credit Function. Only the loan proposals approved by the Credit Committee would be submitted to the Chief Executive Officer for signature if and where it is needed.

The Credit Department is the centralised department in the Bank mandated to carry out its credit policies. It performs independent credit assessment and other credit control functions to ensure that the credit process complies with credit policies and guidelines laid down by the management. Apart from the independent credit assessment and matrix approval process, regular post approval inspection by the Risk Management Department and credit audits are conducted on specific loan portfolios or operating units in the credit process. To maintain its independence, the Credit Department has a direct reporting line to a Deputy General Manager who is independent of business. Identical control procedures, supplemented by system support, regular marked-to-market and case-by-case approval by the Risk Management Department, also apply to the counterparty credit risk of structured derivative products.

The Loans Credit Administration Department is ultimately responsible for loan disbursement and credit line input and implementation, after it is fully satisfied that all pre-conditions, documentations and regulatory constraints arising in the credit approval process have already been duly met and are in place. The Loans Administration Department is also independent of business function, reporting to a Deputy General Manager in charge of credit and risk.

The management continues to monitor the quality and behaviour of the loan portfolio. The Group’s internal credit risk grading system consisting of 15 grades based on Basel II - compliant attributes is adopted for credit risk differentiation purpose. With internal data constantly updated through the years, it is expected that the Group can make further use of the credit statistics to profile and track down credit risk migration, to measure loan default probabilities and to practise other credit risk management processes, of which the new credit rating model is and will substantially be an integral part.

Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its financial obligations as and when they fall due. Liquidity risk management is therefore to ensure adequate cash flows to meet all financial obligations under both normal and contingency circumstances in a cost-effective manner and within regulatory requirements. To manage liquidity risk, the Group has established asset and liquidity management policies that are reviewed by the relevant functional committees, with prominent issues approved by the Board of Directors. Liquidity is also managed and forecasted on a daily basis to enable GMT and the relevant functional committees to act proactively according to changing market conditions and to implement contingency plans on a timely basis. Stress tests are regularly performed to assess contingent funding needs and the adequacy of funds to meet them. If a shortage of funding has been identified, corresponding remedial measures will be planned. The Group continues to explore and diversify funding channels to capitalise on opportunities for the Group’s business expansion. Funding from ICBC has strengthened the Group’s liquidity capability. As at 30 June 2010, the Group had a total of approximately HK\$7.3 billion (US\$0.9 billion) of certificates of deposit issued to secure longer term funding.

The Group’s average liquidity ratio was 37.0%, 40.2% and 41.5% for the years ended 31 December 2008 and 2009 and the six months ended 30 June 2010, respectively, each of which was above the statutory requirement of 25.0%.

Capital management

The Group's objective for capital management is to allocate capital in an efficient and risk-based approach to optimise risk-adjusted return to the shareholders. The Group periodically reviews its capital structure and maintains an adequate capital base to support the development of its business. The Group manages its capital to execute its strategic business plans and support its growth and investments in an efficient way. The Group's core capital ratio and capital adequacy ratio were 8.4% and 13.4%, respectively, as at 30 June 2010. The Group adjusts its business and lending strategy from time to time to optimise its risk-return profile. A capital planning and allocation policy, engineered by the Asset and Liability Management Department, is in place to ensure compliance with Basel II Pillar II and other related HKMA requirements. The HKMA requires the Bank to maintain a capital adequacy ratio at the minimum of 8.0% plus a capital cushion. Certain subsidiaries of the Group are also subject to statutory capital requirements from other regulatory authorities, such as the Hong Kong Securities and Futures Commission. Capital adequacy and the use of regulatory capital are closely monitored by the Management in accordance with the techniques set out in the Capital Rules. Information which is required to be filed with the HKMA is filed on a quarterly basis.

Market risk management

Market risk is the risk that market rates and prices on assets, liabilities and off-balance sheet positions change, thus causing profits or losses. Generally, the Group's market risk is associated with its positions in foreign exchange, debt securities, derivatives and stocks. Most off-balance sheet derivative positions arise from the execution of customer-related orders and positions taken for hedging purpose.

Market risk exposure for different types of transactions is managed within risk limits and guidelines approved by the management and the ALCO. Trading limits are increased for opportunities in the market. Exposures are measured and monitored against limits such as outstanding positions, stop-loss, value-at-risk, sensitivity, delta and gamma functions. Daily risk monitoring is carried out by an independent Market Risk Unit of the Risk Management Department, which ensures all dealing activities are conducted in a proper manner and within approved limits. The Group's market risk exposures are reviewed by the ALCO, the Senior Executive Risk Management Committee and the Risk Management Committee of the Board of Directors. All exceptions to limits are reported to the ALCO. Important deviations will be escalated to the Board's attention. Stress tests are performed regularly to estimate the possible losses under extreme circumstances. The Group's Internal Audit Department also performs regular reviews and testing on dealing activities to ensure compliance with all internal guidelines.

In addition, a number of treasury systems are being used to further strengthen the function of control and monitoring, supplemented as mentioned above by, among others, predetermined stop-loss limits. An enhanced system has recently been installed in order to strengthen the Group's market risk management and counterparty credit risk control for structured products.

The average daily revenue earned from the Group's market risk related activities was HK\$332,994 (US\$42,939) and HK\$124,486 (US\$16,052) for the six months ended 30 June 2010 and for the six months ended 30 June 2009, respectively. The standard deviation for such daily revenue was HK\$1,458,179 (US\$188,031) and HK\$655,294 (US\$84,500) for the six months ended 30 June 2010 and for the six months ended 30 June 2009, respectively.

An analysis of the frequency distribution of daily revenue shows that losses were recorded on 44 days out of 121 trading days for the six months ended 30 June 2010 as compared to 57 days out of 121 trading days for the six months ended 30 June 2009. The maximum daily loss was HK\$4.5 million (US\$0.6 million) for the six months ended 30 June 2010 as compared to HK\$1.7 million (US\$0.2 million) for the six months ended 30 June 2009.

The highest daily revenue was HK\$7.4 million (US\$1.0 million) for the six months ended 30 June 2010 as compared to HK\$2.6 million for the six months ended 30 June 2009. In respect of proprietary trading and customers' expectation, the Group will gradually increase its market risk activities to complement its conventional reliance on loan assets for revenue. In the process, the Group will watch out for the resulting market risks and counterparty credit risks, as well as liquidity and capital implications.

Interest rate risk management

Interest rate risk is the risk that the Group's position may be adversely affected by a change in market interest rates. Interest rate risk arises mainly from maturity mismatches of interest-bearing assets and liabilities and yield curve movements. Interest rate risk exposures are managed within risk limits approved and monitored by ALCO with the participation of the Risk Management Department and the Asset and Liability Management Department. Interest rate risk exposures in non-trading portfolio are measured on a monthly basis and the results are reported to the ALCO.

The Group manages its interest rate risk by way of entering into on or off balance sheet interest rate risk hedging instruments. The effectiveness of the hedging activities is assessed regularly in accordance with HKAS 39. The Group's interest rate risk position is further regularly reported to and scrutinised by the Senior Executive Risk Management Committee and the Risk Management Committee of Board of Directors.

Foreign currency funding used to fund Hong Kong dollar assets is normally hedged using currency swaps or forward exchange contracts to neutralise foreign exchange risk.

The Group relies on stop-loss, management trigger limits and stress tests to manage its interest rate risk.

Operational risk management

Operational risk is the risk of unexpected financial losses resulting from inadequate or failed internal processes, people, systems and from external events. It is inherent in every business organisation and covers a wide spectrum of activities. Efforts in identifying and understanding the underlying operational risks are taken by the Bank through the Risk Management Department. An Operational Risk Committee is in place to carry out the operational risk management initiatives. Such risk is further mitigated through the implementation of key risk assessment, key risk indicators, comprehensive internal control systems, adequate insurance cover, offshore computer back-up sites and contingency plans with periodic drills. The Group's Internal Audit Department also plays an important role in detecting any deviations from operating procedures and identifying weaknesses at all operating levels independently and objectively. The Group will continue to pursue active and proactive operational risk management practice in accordance with the relevant Basel II and HKMA guidelines and principles.

Legal and compliance risk management

Legal and compliance risk is the prospective risk of legal and regulatory sanctions, financial loss, or reputation loss that the Group may suffer as a result for violations of, or non-compliance with, all applicable laws, regulations, internal policies with respect to the conduct of business.

Legal and compliance staff members advise the management on the legal and regulatory developments and assist the management in establishing policies, procedures and monitoring programme to ensure compliance with the legal and regulatory requirements. They conduct regular compliance reviews so that the Group can identify any potential non-compliance issue and take remedial action on a timely basis. They also issue monthly bulletins and arrange training to enrich the knowledge of all staff of the relevant legal and regulatory requirements. Furthermore, regular reports on non-compliance issues and changes in the legal and regulatory requirement are made to the Senior Executive Risk Management Committee and the Risk Management Committee of Board of Directors.

For a detailed discussion on the Risk Management of the Group, please refer to “*The Notes of the Financial Statements of the Bank for the year ended 31 December 2009*”.

Internal Controls

The Board of Directors is responsible for the internal controls of the Group and for reviewing its effectiveness through the use of internal control procedures, policies and standards. A review of the effectiveness of the Bank’s internal controls system is carried out annually. The annual review covers all material controls, including financial, operational and compliance controls and risk management functions. In addition, the annual review also considers the adequacy of resources, qualifications and experience of staff of the Bank’s accounting and financial reporting function and their training programmes and budget. Systems, policies and procedures are in place in the Bank to identify, measure, control and monitor the major types of risks the Bank faces. Business departments are responsible for the assessment of individual types of risk arising under their areas of responsibility, the management of the risks in accordance with risk management procedures and reporting on risk management. The senior management, Senior Executive Risk Management Committee and RMD review and revise the risk management policies and procedures from time to time as deemed appropriate. The Internal Audit Department also performs regular checks to ensure due compliance with policies and procedures.

Internal Audit

The Internal Audit Department plays an important role in the Bank’s internal controls framework. It monitors the effectiveness of internal control procedures and compliance with policies and standards across all departments of the Bank. It also evaluates the Bank’s internal controls on an on-going basis and reports to the Audit Committee at least four times each year on significant findings on internal controls. All management letters from external auditors and relevant reports from regulatory authorities will be reviewed by the Audit Committee and all recommendations will be implemented. The Internal Audit Department also advises management on operational efficiency and other risk management issues. In performing the audit, the risk based approach is adopted. The Head of the Internal Audit Department of the Bank reports to the Audit Committee and the Chief Executive Officer. Copies of the minutes of the Audit Committee meetings will also be sent to the Board members for information.

MANAGEMENT

Board of Directors

The Board of Directors of the Bank has collective responsibility for leadership and management of the Bank and is collectively responsible for promoting the success of the Bank by directing and supervising the Bank's affairs.

The Board of Directors of the Bank consisted of ten directors comprising four executive directors, three non-executive directors and three independent non-executive directors. The Bank has adopted a set of formal, considered and transparent procedures for the appointment of new directors. The appointment of each new director is discussed at the Nomination Committee of the Bank before recommendation is made to the Board of Directors for consideration and approval. In accordance with the requirement under the Banking Ordinance, approval from the HKMA will also be obtained for any appointment of new directors. Any new director appointed by the Board of Directors is subject to election by shareholders of the Bank at the next scheduled annual general meeting after his/her date of appointment, and shall then be entitled for re-election.

The non-executive directors and independent non-executive directors are not appointed for specific terms but subject to retirement by rotation and re-election at the annual general meetings in accordance with the Articles of Association of the Bank. At each annual general meeting, one-third of the directors for the time being or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third of the directors for the time being, shall retire from office by rotation.

The aggregate emoluments, consisting of fees, salaries, allowances and benefits in kind, pension contributions and bonuses, of the Directors of the Bank for the year ended 31 December 2009 and the six months ended 30 June 2010 were HK\$17 million (US\$2 million) and HK\$4 million (US\$0.5 million), respectively. During the year ended 31 December 2009 and the six months ended 30 June 2010, no share option was granted to any of the Directors and as at 31 December 2009 and 30 June 2010, there were no options outstanding.

As at the date of this Offering Circular, the Board of Directors of the Bank is comprised of the following individuals:

Name	Age	Title
Dr. Jiang Jianqing	57	Chairman
Ms. Wang Lili	59	Vice Chairlady
Mr. Chen Aiping	52	Managing Director and Chief Executive Officer
Mr. Hu Hao	48	Non-executive Director
Mr. Wong Yuen Fai	54	Director, Deputy General Manager and Alternate Chief Executive
Mr. Zhang Yi	48	Director, Deputy General Manager and Alternate Chief Executive
Mr. Zong Jianxin	44	Director, Deputy General Manager and Alternate Chief Executive
Professor Wong Yue Chim, Richard....	58	Independent Non-executive Director
Mr. Tsui Yi Wa, Alec	61	Independent Non-executive Director
Mr. Yuen Kam Ho, George	66	Independent Non-executive Director

Dr. Jiang Jianqing (*Chairman*)

Dr. Jiang, aged 57, was appointed as the Chairman and a Director of the Bank in June 2000. Dr. Jiang graduated from Shanghai University of Finance and Economics, and received a Master's Degree in engineering and a Doctorate Degree in management, respectively after finishing postgraduate and doctorate courses at Shanghai Jiao Tong University. Dr. Jiang has over 31 years of banking experience and he is the Chairman of the Board of Directors and the Executive Director of ICBC, the Chairman of China Banking Association, the Vice Chairman of China Society for Finance and Banking, and a tutor to the PhD students of Shanghai Jiao Tong University.

Ms. Wang Lili (*Vice Chairlady*)

Ms. Wang, aged 59, was appointed as the Vice Chairlady and a Director of the Bank in December 2002. Ms. Wang is the Executive Director and Senior Executive Vice President of ICBC, primarily responsible for matters relating to the assets and liabilities management, international business, financial market business, asset management business and legal affairs. Ms. Wang graduated from Nankai University and received a MBA Degree in International Finance from University of Birmingham, United Kingdom. Ms. Wang has over 34 years of banking experience and was awarded a Certificate of Competence for Professor in the banking field. She is also the Chairlady of the Board of Directors of ICBC (London) Limited and a Non-executive Director of Hong Kong Mercantile Exchange Limited.

Mr. Chen Aiping (*Managing Director and Chief Executive Officer*)

Mr. Chen, aged 52, was appointed as a Director of the Bank in December 2002 and re-designated as the Managing Director and the Chief Executive Officer of the Bank in July 2008. Mr. Chen was also appointed as the Chairman of CMB in November 2008 and a Director of certain other wholly-owned subsidiaries of the Bank, namely, ICBC (Asia) Bullion Company Limited, ICBC (Asia) Nominee Limited and ICBC (Asia) Asset Management Company Limited. He is also the Vice Chairman of ICBC International Holdings Limited and a Director of Taiping General Insurance Company Limited. Mr. Chen holds a Bachelor of Arts Degree from Wuhan University and a Master of Business Administration (International) Degree from The University of Hong Kong. He has over 24 years of banking experience and was previously the General Manager of the International Business Department of ICBC and the Chairman of Industrial and Commercial Bank of China Luxembourg S.A.

Mr. Hu Hao (*Non-executive Director*)

Mr. Hu, aged 48, was appointed as a Director of the Bank in November 2008. Mr. Hu holds a Bachelor Degree in Economics from Hunan University and a Doctorate Degree in Economics from the Chinese Academy of Social Sciences. He has over 25 years of banking experience and is the General Manager of the International Business Department of ICBC. He is also a Director of Xiamen International Bank, Taiping General Insurance Company Limited and Taiping Life Insurance Company Limited.

Mr. Wong Yuen Fai (*Director, Deputy General Manager and Alternate Chief Executive*)

Mr. Wong, aged 54, joined the Bank as a Deputy General Manager in July 2004 and was appointed as a Director and an Alternate Chief Executive of the Bank in August 2004. Mr. Wong was also appointed as a Director of ICBC (Asia) Investment Holdings Limited, ICBC (Asia) Bullion Company Limited, ICBC (Asia) Nominee Limited, ICBC (Asia) Wa Pei Nominees Limited and UB China Business Management Co. Ltd., all are wholly-owned subsidiaries of the Bank. Mr. Wong was also appointed as a Director of CMB in September 2005. Mr. Wong is an associate member of The Chartered Institute of Bankers (UK) and The Institute of Chartered Secretaries and Administrators (UK). He holds a Master's Degree in Applied Finance from the Macquarie University, Australia. Mr. Wong has 36 years of banking experience. Prior to joining the Bank, Mr. Wong was the Chief Executive Officer of Standard Chartered Bank, China from January 2001 to June 2003. Mr. Wong is currently a member of the Hong Kong Housing Authority, a member of the Hong Kong Town Planning Board, a member of the Banking Advisory Committee of the HKMA, a member of the Standing Committee on Directorate Salaries and Conditions of Service, a member of the Securities and Futures Appeals Tribunal, the Honourary Treasurer of Friends of the Earth (HK) and the Chairman of the Hong Kong Dance Company.

Mr. Zhang Yi (*Director, Deputy General Manager and Alternate Chief Executive*)

Mr. Zhang, aged 48, joined the Bank as an Assistant General Manager in January 2003 and was promoted as a Deputy General Manager of the Bank in December 2003. Mr. Zhang was appointed as

a Director and an Alternate Chief Executive of the Bank in March 2005. He is also a Director of CMB, ICBC (Asia) Investment Holdings Limited and ICBC (Asia) Investment Management Company Limited, all are wholly-owned subsidiaries of the Bank. Mr. Zhang graduated from Shanghai University of Finance & Economics with a Master's Degree in Money & Banking and qualified as a Senior Economist. Prior to joining the Bank, Mr. Zhang was the General Manager of Financial Planning Department of ICBC, Shanghai Municipal Branch.

Mr. Zong Jianxin (*Director, Deputy General Manager and Alternate Chief Executive*)

Mr. Zong, aged 44, joined the Bank as a Deputy General Manager in January 2010 and oversees the overall development and operation of corporate banking, electronic banking and securities businesses of the Bank. Mr. Zong graduated from Shanghai Jiao Tung University with a Master's Degree in Business Administration and qualified as an Economist. Mr. Zong has over 14 years' of banking experience, specialised in corporate banking, international business and investment banking businesses. Prior to joining the Bank, Mr. Zong was the Vice President of ICBC, Shenzhen Branch.

Professor Wong Yue Chim, Richard, S.B.S., J.P. (*Independent Non-executive Director*)

Professor Wong, aged 58, was appointed as an Independent Non-executive Director of the Bank in July 2000. Professor Wong is the Chairman of the Audit Committee of the Bank. Professor Wong studied Economics at the University of Chicago and graduated with a Doctorate in Philosophy. Professor Wong is the Deputy Vice-Chancellor and Provost of The University of Hong Kong. He has been active in advancing economic research on policy issues in Hong Kong and the PRC through his work as founding Director of both the Hong Kong Centre for Economic Research and Hong Kong Institute of Economics and Business Strategy. Professor Wong was awarded the Silver Bauhinia Star in 1999 by the Government of the Hong Kong for his contributions in education, housing, industry and technology development.

Mr. Tsui Yiu Wa, Alec (*Independent Non-executive Director*)

Mr. Tsui, aged 61, was appointed as an Independent Non-executive Director of the Bank in August 2000. Mr. Tsui is the Chairman of the Nomination Committee of the Bank. Mr. Tsui graduated from University of Tennessee with a Bachelor of Science Degree and a Master of Engineering Degree in Industrial Engineering. He has completed the Programme for Senior Managers in Government at the John F. Kennedy School of Government at Harvard University. Mr. Tsui is currently the Chairman of WAG Worldsec Corporate Finance Limited and also the Vice-Chairman of China Mergers and Acquisition Association. Prior to his current appointment, he was the Adviser and Council Member of the Shenzhen Stock Exchange from July 2001 to June 2002 and was the Chief Executive of Regent Pacific Group Limited, a Hong Kong listed investment company, from August 2000 to February 2001. He was also the Chairman of Hong Kong Securities Institute from December 2001 to December 2004. He joined The HKSE in 1994 as an Executive Director of the Finance and Operations Services Division and became the Chief Executive from 1997 to 2000. He was also the Chief Operating Officer of Hong Kong Exchanges and Clearing Limited from March 2000 to July 2000 and the General Manager (Finance, Technology & Human Resources), and then the Assistant Director (Licensing), and at the same time the General Manager (Human Resources) of the Securities and Futures Commission of Hong Kong from 1989 to 1993. Mr. Tsui also involved in numerous government and community activities, including being a former Chairman of the Supervisory Committee of Tracker Fund of Hong Kong and the Organizing Committee of Independent Commission Against Corruption Professional Ethics Programme for the Securities, Futures and Investments Sectors, a former member of the Standing Committee on Company Law Reform, the Hong Kong Trade Development Council Financial Services Advisory Committee, The Community Chest of Hong Kong Corporate and Employee Contribution Programme Organizing Committee (Banking and Finance Group), the Banking and Finance Industry Training Board of the Vocational Training Council and the Investment Sub-Committee of the Government Committee of the Beat Drugs Fund Association.

Mr. Yuen Kam Ho, George, FHKIoD (*Independent Non-executive Director*)

Mr. Yuen, aged 66, was appointed as an Independent Non-executive Director of the Bank in April 2003. Mr. Yuen is the Chairman of the Remuneration Committee and the Alternate Chairman of the Audit Committee of the Bank. Mr. Yuen is currently an independent non-executive director of Tradelink Electronic Commerce Limited and LeRoi Holdings Limited, both are Hong Kong listed companies. He graduated from The University of Hong Kong with a Bachelor's Degree (Honours) in Economics and Political Science. Mr. Yuen had attended post-graduate studies in marketing management at the International Marketing Institute, Cambridge, Massachusetts, USA and had completed the Hong Kong Administrators Course (commissioned by the Hong Kong Government) in public administration and international relations at Oxford University, the United Kingdom, and the International Executive Program in INSEAD, France respectively. In June 2003, Mr. Yuen was admitted to the Leadership in Development Program organised by Kennedy School of Government, Harvard University. In June 2004, Stanford University, California, USA had also invited Mr. Yuen to participate in its "Corporate Governance" forum and in early 2006 the University awarded a fellowship to Mr. Yuen as a non-profit leader at its Centre for Social Innovation. Mr. Yuen had been Chief Executive of The Better Hong Kong Foundation for nine years since September 1997. Prior to his joining the Foundation, he was the Assistant Director/Acting Deputy Director of the Information Services Department of the Hong Kong Government. Mr. Yuen plays an active role in organising international business conferences in Hong Kong and also takes part in numerous government and community activities, including being a board member of the East-West Strategic Development Commission. Mr. Yuen was the Panel member of the Central Policy Unit of the Hong Kong Government on the Pan-Pearl River Delta between 2003 and 2007. Mr. Yuen is currently a member of The Chinese People's Political Consultative Conference, Guangxi Autonomous Region, China; an advisor of the Institute of Finance and Trade Economics; Chinese Academy of Social Sciences; an advisor of The Shanghai Academy of Social Sciences, China; an advisor of The Board of International Investment of Guangzhou Municipality, China; and a Special Advisor of the China National Committee for Pacific Economic Cooperation (PECC China). Mr. Yuen is a Fellow of the Hong Kong Institute of Directors, a member of the British Institute of Management and the Institute of Marketing, United Kingdom, and was also commended by the former President of the USA, George W. Bush for his efforts in support of coalition's campaign against global terrorism.

Senior Management

Mr. Fung Siu Ming (*Deputy General Manager and Chief Risk Officer*)

Mr. Fung, aged 57, was appointed as the Chief Risk Officer of the Bank on 10 October 2005, the appointed day for the merger of the Bank and Belgian Bank, Hong Kong Branch, and was promoted as a Deputy General Manager of the Bank in January 2006. Mr. Fung is also a Director of ICBC (Asia) Wa Pei Nominees Limited, a wholly-owned subsidiary of the Bank. Mr. Fung holds a Bachelor's Degree in Social Sciences and Law from The University of Hong Kong. Mr. Fung has over 35 years of local banking experience specialised in bank lending and credit risk management.

Mr. Leung Ming Hym, Peter (*Assistant General Manager and Chief Financial Officer*)

Mr. Leung, aged 47, joined the Bank in July 2001 and was appointed as an Assistant General Manager and the Chief Financial Officer in March 2007. Mr. Leung is also a Director of certain wholly-owned subsidiaries of the Bank, namely, ICBC (Asia) Investment Holdings Limited, ICBCA (C.I.) Limited, ICBC (Asia) Investment Management Company Limited, ICBC (Asia) Asset Management Company Limited and UB China Business Management Co. Ltd. Mr. Leung holds a Bachelor's Degree in Accounting and Financial Analysis from University of Newcastle upon Tyne, UK and a Bachelor's Degree in Laws from University of London, United Kingdom. Mr. Leung is an associate member of The Institute of Chartered Accountants in England and Wales and serves on its Members' Advisory Panel. He is also a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants (UK). Mr. Leung has over 18 years of experience in corporate finance.

Mr. Chen Yulong (*Assistant General Manager and Chief Operation Officer*)

Mr. Chen, aged 37, joined the Bank as an Assistant General Manager in October 2010 and was appointed as Chief Operation Officer in November 2010. Mr. Chen was also appointed as a Director of ICBC (Asia) Trustee Company Limited, a wholly-owned subsidiary of the Bank, in November 2010. Mr. Chen holds a Master's Degree in Economics from Jilin University and a Bachelor's Degree in Economics from Renmin University of China. Mr. Chen has over 16 years' of banking experience, specialised in operations management. Prior to joining the Bank, Mr. Chen was the Deputy General Manager of Business Department of Industrial and Commercial Bank of China Limited, Jilin Provincial Branch.

Board Committees

The Board of Directors has set up five committees, namely Audit Committee, Corporate Governance Committee, Nomination Committee, Remuneration Committee and Risk Management Committee of Board of Directors. Each of these Board Committees has specific written Terms of Reference which state clearly with its authority and duties. The Terms of Reference of Audit Committee, Nomination Committee and Remuneration Committee have primarily included the duties prescribed in code provisions and/or recommended best practices as contained in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules with appropriate modifications when necessary. All Board Committees are comprised mainly of non-executive Directors. All Board Committees report to the Board of Directors on their decisions or recommendations on a regular basis. Material matters are reserved for the approval of the Board of Directors according to the terms of reference of such committees.

The **Audit Committee** meets regularly, normally at least four times a year, with senior financial and internal audit executives and external auditors, to consider, among other things, the Bank's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance. It is also responsible for making recommendations on the appointment, re-appointment, removal and remuneration of the Bank's external auditors.

The **Corporate Governance Committee** meets at least twice a year. It mainly oversees and promotes a high standard of corporate governance practices, with the aim to strengthen the corporate governance framework of the Bank, including but not limited to risk management and internal controls enhancement. The Corporate Governance Committee also continuously reviews the appropriate structure of the Board of Directors, enhances the effectiveness of the independence of the Board of Directors, enhances the corporate transparency and quality of information disclosure and keeps abreast of changes in regulations, with the aim to maximise sustainable corporate values and shareholders' interests.

The **Nomination Committee** meets at least once a year and is responsible for assessing the suitability of the candidates and recommending to the Board of Directors all new appointments of Directors and senior executives (including but not limited to Chief Executive Officer, alternate chief executives, deputy general managers, chief risk officer, chief financial officer and chief operation officer). The Nomination Committee also reviews the structure and composition of the Board of Directors on a regular basis.

The **Remuneration Committee** meets at least once a year and is responsible for overseeing the remuneration of the Directors and senior management of the Bank to ensure that their remuneration is appropriate for their duties and consistent with the Bank's culture, strategy and control environment. The Remuneration Committee is also responsible for recommending to the Board of Directors on the Bank's remuneration policy framework.

The **Risk Management Committee of Board of Directors** meets regularly on a quarterly basis. It reviews the Bank's position in various risks and formulates risk management principles, basic policies, guidelines and risk appetite of the Bank. It monitors and reviews the effectiveness of the risk management of the Bank, including its ability to stand stress conditions. The risks it oversees include credit, market, operational, interest rate, legal and compliance, liquidity, strategic and reputation risks.

Specialised Committees

Apart from the Board Committees, the Board of Directors has also established the following five key specialised committees which comprise Executive Directors and other senior executives of the Bank from relevant areas:

The **Executive Committee** was established to supervise the overall operation of the Group. The Chairman of the Executive Committee is the Chief Executive Officer and the other committee members consist of the Alternate Chief Executives, Deputy General Managers, Chief Risk Officer, Chief Financial Officer, Chief Operation Officer and Assistant General Managers designated by the Chief Executive Officer. The Executive Committee meets at least once a month.

The **Asset and Liability Management Committee** was established to closely monitor the mix of liquid assets and funding channels, and the exposure to movements in interest rate and foreign exchange. The ALCO also meets to review the optimal liquidity level in response to internal requirements and external market indicators. It comprises the Chief Financial Officer (the Chairman and Secretary of the Committee), all Deputy General Managers, the designated Assistant General Managers in charge of business units, Chief Risk Officer, Head of Asset and Liability Management Department, Market Risk Section Head of RMD and Head of GMT. The ALCO reports to the Executive Committee and meets on a monthly basis.

The **Credit Committee** sets up credit related policies, guidelines and procedures in order to maintain the quality of the credit portfolio of the Bank. It reviews and approves large credit exposures, manages credit risk concentration, accepts or rejects new credit strategies and responds to deteriorating credits. The Credit Committee consists of Head of Credit Department (Chairman), Chief Risk Officer and Deputy General Managers or Assistant General Managers or Department Heads in charge of the business lines. The Credit Committee reports to the Senior Executive Risk Management Committee and meets from time to time.

The Chief Risk Officer reports to the Risk Management Committee of Board of Directors on credit related matters on a quarterly basis.

The **Operational Risk Committee** was established to focus on operational risk management. It reviews and reports on the adequacy of operational risk management policies, procedures and systems for the Bank. It also evaluates the effectiveness of existing policies, and the need for other risk control tools as to mitigate operational risks; makes recommendations or decides on amended/increased/decreased operational control policies, procedures and measures of the Bank. It comprises the Chief Risk Officer (Chairman), Chief Operation Officer, Co-Head (or Deputy Head) of the Human Resources Department, Head (or Deputy Head) of Internal Audit Department, Operational Risk Head and representative from the Personal Banking Department. The Operational Risk Committee reports to the Senior Executive Risk Management Committee and meets on a quarterly basis.

The **Senior Executive Risk Management Committee** was established to review and report on the adequacy and efficiency of risk management procedures, policies and systems of the Group. It focuses on credit risk, interest rate risk, market risk, liquidity risk, operational risk, reputation risk and legal risk. The Senior Executive Risk Management Committee comprises the Chief Risk Officer (Chairman), Chief Executive Officer, Deputy General Manager in charge of GMT, Deputy General Manager in charge of Retail Banking, Chief Financial Officer, Chief Operation Officer, Head of GMT, Head of RMD, Head of Credit Department, Market Risk Section Head of RMD, Head of Systems & IT Department and Head of Legal and Compliance. The Senior Executive Risk Management Committee reports to the Executive Committee and the Risk Management Committee of Board of Directors and meets on a quarterly basis.

Each of these key specialised committees has specific written terms of reference which state clearly its authorities and duties.

RELATIONSHIP WITH ICBC

Overview

The Bank is a subsidiary of ICBC. As at the date of this Offering Circular, ICBC held approximately 72.81% of the issued share capital of the Bank.

ICBC was established on 1 January 1984 as a state-owned specialised bank. On 28 October 2005, ICBC was wholly restructured to a joint-stock limited company. On 27 October 2006, ICBC was listed on both the Shanghai Stock Exchange (Stock Code: 601398) and the HKSE (Stock Code: 1398). The two largest shareholders of ICBC are Central Huijin Investment Ltd. and the Ministry of Finance of the PRC.

ICBC is the world's largest commercial bank in terms of market capitalisation and the largest commercial bank of the PRC in terms of assets, customer deposits and profit. As at 30 April 2010, ICBC provided financial products and services to approximately 3.6 million corporate banking customers and 216 million personal banking customers with a distribution network comprising approximately 16,200 domestic institutions, and over 160 overseas institutions and 1,500 correspondent banks worldwide, as well as an E-banking network (comprising internet and telephone banking services) and self-service banking centres.

ICBC as the controlling shareholder of the Bank provides support and guidance on matters concerning the Bank's strategy, management and operations. Subject to compliance with the regulations of the HKMA and the rules of the Shanghai Stock Exchange and the HKSE, ICBC is able to give direction on the Bank's corporate policies, nominate candidates to act as directors and officers for the Bank's consideration and vote to pursue corporate actions requiring shareholders' approval. Five of the nine directors of the Bank, including the Chairman, are currently directors of ICBC or certain other subsidiaries of ICBC or were officers of the ICBC Group.

The Bank is the listed flagship of ICBC's Hong Kong banking business. As a member of the ICBC Group, the Bank receives extensive support from ICBC in terms of funding, settlement, information technology and client resources. The significant collaboration between the Group and ICBC enables the Group to better serve its customers, expand its customer base through client referrals, maximise cross selling efforts, achieve synergies in risk management and credit assessment, expand its product range and capture the emerging business opportunities in the PRC and overseas markets. In particular, ICBC has entered into certain agreements with the Bank and provided a Letter of Comfort to the Bank and the HKMA. See "*Letter of Comfort*" below.

Related Party Transactions and Continuing Connected Transactions

The Group entered into a number of transactions with ICBC and its affiliates in its ordinary course of business, including the acceptance of placement of interbank deposits, corresponding banking transactions and off-balance sheet transactions. The activities were priced at the relevant market rates at the time of the transactions.

Information on principal related party transactions and continuing connected transactions between the Bank and ICBC and its subsidiaries (collectively, the **ICBC Group**) as at 30 June 2010 is set out below.

Collaboration Agreements

In 2001, a collaboration agreement (the **Main Collaboration Agreement**) was signed between the Bank and ICBC when ICBC injected certain assets of ICBC HK into the Bank. Subsequently, supplemental collaboration agreements were also signed between the Bank and ICBC on similar terms in 2005 and 2008 (together with the Main Collaboration Agreement, the **Collaboration Agreements**). Although ICBC does not compete with the Group in business development, a decision was made to

retain ICBC HK's banking licence to retain business flexibility for both ICBC and the Group. Due to the limited size of the Group's capital, the Group at times relies on ICBC's large balance sheet to compete for corporate and investment banking business. From time to time, the Group also utilises credit lines extended by some institutions for ICBC HK to facilitate the Group's own funding needs or the execution of certain financial transactions through arm's length transactions between ICBC HK and the Group.

ICBC's licence to carry on banking business in Hong Kong through ICBC HK enables the Bank to participate in all the banking business previously undertaken by or which was within the scope of the type or category of banking business previously undertaken by ICBC HK (with the exception of the treasury function and specific loans and deposits retained by ICBC HK). The Collaboration Agreements provide that such banking business undertaken by ICBC HK will be undertaken by the Bank unless the Bank's executive management determines that it is not in the Bank's best interest to undertake such business. The present function of ICBC HK under the Collaboration Agreements is to act as a booking centre or "warehouse" for the Bank with respect to certain loans that the Bank cannot handle on its own due to capital constraints or other commercial reasons, subject to the credit checking requirements of the Bank and ICBC HK. Under the Collaboration Agreements, the Bank provides management services to ICBC HK such as accounting and budgeting, internal audit, marketing, back office settlement and clearing, and management, administrative and marketing services of ICBC HK's credit card business. ICBC agreed to reimburse the Bank for the time costs of its personnel in providing the management service and associated expenses and overheads. In addition, ICBC agreed to pay a monthly fee of HK\$120,000 (US\$15,474) for the services, with such fees to be reviewed on a quarterly basis. For the year ended 31 December 2009 and the six months ended 30 June 2010, the total service fee received by the Bank from ICBC was approximately HK\$6 million (US\$0.8 million) and HK\$3 million (US\$0.4 million), respectively.

The Collaboration Agreements provide that, except for ICBC HK's treasury function and the specific loans and deposits retained by ICBC HK, ICBC HK generally will not compete with the Bank in respect of banking business, nor seek or solicit banking business from the Bank's current and prospective customers, unless such customers specifically wish to continue to deal directly with ICBC HK.

The Collaboration Agreements will expire on 31 December 2010. Subject to the compliance with the Listing Rules, the Bank intends to renew the Collaboration Agreements upon their expiry.

Letter of Comfort

Pursuant to a letter of comfort dated 3 July 2001, ICBC has confirmed to the Bank that, amongst other things, (i) it is ICBC's policy to provide the Bank with such support and assistance as may be required to ensure that the Bank maintains sufficient capital and liquidity levels to enable the Bank to meet its obligations at all times; (ii) it is in ICBC's interest and ICBC's policy to provide the Bank with such interbank and money market lines at market rates and on normal commercial terms as the Bank may require to carry out its banking business pursuant to the Business Transfer Agreement and (iii) it is in ICBC's interest and ICBC's policy to support the business and development of the Bank in the future so that the Bank shall succeed in its business objective of becoming one of the leading commercial banks in Hong Kong.

Simultaneously on 3 July 2001, ICBC and the Bank entered into a guarantee agreement whereby ICBC agreed to guarantee the payment of large exposures of certain customers whose exposures were transferred to the Bank and to indemnify the Bank in respect of any losses incurred if any obligation of such customers becomes unenforceable. The amount of such on-balance sheet and off-balance sheet exposures of the Bank covered by this guarantee as at 31 December 2008 and 2009 and 30 June 2010 were HK\$39 million (US\$5 million) and HK\$39 million (US\$5 million) and HK\$39 million (US\$5 million), respectively. No off-balance sheet exposures of the Bank were covered by this guarantee as at 31 December 2008 and 2009 and 30 June 2010.

Relevant Advances to the ICBC Group

During 2009 and the first half of 2010, the Group had made relevant advances to the ICBC Group in the ordinary course of the Group's banking business which, in aggregate, exceed 8.0% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules. Accordingly, the Bank is under a general obligation to disclose the details of the relevant advances.

As at 31 December 2009 and 30 June 2010, the types of relevant advances and the balances of the relevant outstanding amounts due from, and all guarantees given on behalf of, the ICBC Group were as follows:

Types of the relevant advances

	As at 31 December 2009	As at 30 June 2010
	HK\$'000	HK\$'000
Trade Loan to ICBC Group outstanding	8,965,484	24,238,741
Confirmed ICBC Group Standby Letter of Credit/Guarantee outstanding	573,136	786,730
Money Market Placements to ICBC Group outstanding	7,161,160	8,539,963
Syndication/Club/Revolving Short-term Loan to ICBC Group outstanding	2,525,317	1,657,024
Purchase of Certificates of Deposit of ICBC Group outstanding...	—	500,266
Total relevant advances to ICBC Group	<u>19,225,097</u>	<u>35,722,724</u>

The interest rates charged for the relevant advances are mostly floating interest rates based on the prevailing interbank offer rate, with the exception of money market placements whose interest rates are set by the ICBC Group and based on the prevailing interbank bid rate. The relevant advances are repayable in full at maturity, and the maturity date for the relevant advances generally ranges from overnight to one year, or longer than one year for capital market instruments and standby letter of credit or guarantee. The relevant advances to the ICBC Group are not secured by any collateral.

The relevant advances to the ICBC Group were made by the Group in the ordinary course of the Group's banking business, and on normal commercial terms commensurate with customers of the Group having similar credit ratings or financial strengths, and as part of the ongoing banking transactions entered into between the Group and the ICBC Group.

Derivatives transactions

The Bank entered into various derivatives transactions with the ICBC Group, including but not limited to interest rate swaps and various options contracts for the purpose of balance sheet and/or interest rate risk management or hedging against customer-driven transactions.

The total notional amount of the outstanding derivatives transactions between the Bank and the ICBC Group as at 31 December 2009 and as at 30 June 2010 was approximately HK\$2,289 million (US\$295 million) and HK\$1,838 million (US\$237 million), respectively. The interest income attributable to these transactions for the year ended 31 December 2009 and the six months ended 30 June 2010 were approximately HK\$81 million (US\$10 million) and HK\$34 million (US\$4 million), respectively, and the interest expense attributable to these transactions for the year ended 31 December 2009 and the six months ended 30 June 2010 were approximately HK\$96 million (US\$12 million) and HK\$37 million (US\$5 million), respectively. No net option premium income or expense was attributable to these transactions for the year ended 31 December 2009 and a net option premium income of HK\$0.4 million (US\$0.05 million) was attributable to these transaction for the six months ended 30 June 2010.

Sub-participation of loans

The Bank entered into various capital markets transactions with ICBC HK, which include arranging participation/sub-participation in loans, acquiring and disposing of interests in syndicated or individual loans, subscribing to and/or issuing of debt securities and tax efficient financing. These transactions included sub-participation in loans of the Bank by ICBC and/or ICBC HK for a total of HK\$36,049 million (US\$4,648 million) and HK\$45,133 million (US\$5,820 million), for the year ended 31 December 2009 and the six months ended 30 June 2010, respectively. For the year ended 31 December 2008, there was similar sub-participation in loans of ICBC HK by the Bank for a total of HK\$24,179 million (US\$3,118 million), but no such transaction took place for the year ended 31 December 2009 or the six months ended 30 June 2010. For the year ended 31 December 2009 and the six months ended 30 June 2010, the total fee attributable to the above transactions of approximately HK\$29 million (US\$4 million) and HK\$25 million (US\$3 million), respectively, was paid by the Bank to ICBC HK. These transactions were priced based either on the terms of the underlying loan agreement, if applicable, or prevailing market rates if such comparable rates were available, or on terms that were no less favourable than those available to other independent loan members.

Interbank capital markets transactions

The Bank entered into the following interbank capital markets transactions with the ICBC Group for the purpose of portfolio and risk management and compliance with the relevant regulatory requirements. The transactions could also provide long-term funding to the Group for general working capital:

- (a) buying and selling debt securities (either issued by independent third parties or the ICBC Group) from and to the ICBC Group in the primary and secondary markets;
- (b) buying and selling debt securities on behalf of the ICBC Group; and
- (c) selling debt securities issued by the Group.

Approximately HK\$178 million (US\$23 million) of debt securities were sold to the ICBC Group in primary and secondary markets for the year ended 31 December 2009 while no debt securities were sold to the ICBC Group for the six months ended 30 June 2010. On the other hand, no debt securities were purchased from the ICBC Group for the year ended 31 December 2009 or the six months ended 30 June 2010.

For the year ended 31 December 2009, ICBC subscribed floating rate certificates of deposit issued by the Bank with nominal value of US\$100 million. The interest expense attributable to these certificates of deposit for the year ended 31 December 2009 and the six months ended 30 June 2010 was approximately HK\$16 million (US\$2 million) and HK\$6 million (US\$0.8 million), respectively.

In addition, the Bank issued subordinated floating rate notes totalling US\$975 million and HK\$1,000 million (US\$129 million), which were fully subscribed by ICBC. The interest expense attributable to these notes for the year ended 31 December 2009 and the six months ended 30 June 2010 was approximately HK\$148 million (US\$19 million) and HK\$40 million (US\$5 million), respectively.

Trade finance transactions

The Bank entered into trade finance transactions with the ICBC Group which included buying and selling interests in certain trade finance products only in relation to bills of exchange secured under letters of credit, inwards and outwards collection, and trade loans. Approximately HK\$17,524 million (US\$2,260 million) and HK\$59,834 million (US\$7,716 million) of the above trade finance transactions with the ICBC Group were entered into for the year ended 31 December 2009 and the six months ended 30 June 2010, respectively.

Dividend services

Pursuant to a dividend services agreement dated 4 June 2007, ICBC (Asia) Trustee Company Limited, a wholly-owned subsidiary of the Bank, was appointed by ICBC to provide services in relation to the distribution and payment of dividends payable by ICBC to the holders of its H-shares of RMB1.00 each (the **ICBC Shares**) and such services include, but are not limited to, facilitating the payment of dividends by ICBC to the holders of the ICBC Shares through the bank accounts of the Bank and handling any unclaimed dividend payments in respect of the ICBC Shares that arise from time to time.

Total service fee received by the Group from ICBC for the year ended 31 December 2009 was approximately HK\$241,000 (US\$31,077). No total service fee was received by the Group from ICBC for the six months ended 30 June 2010.

Custodian and trustee services

Pursuant to a custodian and trustee services agreement dated 4 September 2007 (as amended and supplemented by a supplemental agreement dated 16 May 2008), the Bank was appointed by ICBC to provide custodian, settlement and clearing services to ICBC in relation to the investments outside the PRC in certain investment products held by the customers of ICBC in connection with the Qualified Domestic Institutional Investor scheme of the PRC. On 31 December 2009, the Bank entered into a second supplemental agreement with ICBC to extend the service period for a further term of three years effective from 31 December 2009.

Total service fee received by the Group from ICBC for the year ended 31 December 2009 and the six months ended 30 June 2010 was approximately HK\$8 million (US\$1 million) and HK\$3 million (US\$0.4 million), respectively.

Data processing services

Pursuant to a service levels agreement dated 21 February 2002 (as amended and supplemented by supplemental agreements dated 31 December 2004, 4 February 2005, 28 September 2006, 19 February 2008 and 30 December 2008), ICBC through its overseas data centre agreed to provide data processing and other related services to the Bank, including, amongst other things, a new on-line application system, interbank deposit and fund transfer application, customer information application, bank cashier's order application and an upgraded operating system to the Bank.

For the year ended 31 December 2009 and the six months ended 30 June 2010, the total service fee paid by the Bank to ICBC was approximately RMB15 million and RMB8 million, respectively.

On 19 March 2008, CMB entered into a service levels agreement with ICBC whereby the overseas data centre of ICBC agreed to provide data processing services including a data storage server, application server, on-line application server, storage facilities and network facilities to CMB for the period from 25 March 2008 to 31 December 2010. The agreement is renewable for a further one-year period subject to the consent of both parties as well as compliance with relevant regulatory requirements.

For the year ended 31 December 2009 and the six months ended 30 June 2010, the total service fee paid by CMB to ICBC was RMB525,000 and RMB261,000, respectively.

Pursuant to a credit card service levels agreement dated 30 December 2008, ICBC through its overseas data centre agreed to provide data processing and other related services to the Bank's credit card operation for two years effective from 1 January 2009. For the year ended 31 December 2009 and the six months ended 30 June 2010, total service fee paid by the Bank to ICBC was approximately HK\$400,000 (US\$51,580) and HK\$200,000 (US\$25,790), respectively.

Securities brokerage agency services

On 4 January 2008, the Bank entered into a securities brokerage agency agreement (as amended and supplemented) (the **First Agency Agreement**) with ICBC, Macau Branch under which the Bank agreed to provide Hong Kong securities brokerage and related services to ICBC, Macau Branch for providing back-to-back services to its customers for a term of one year effective from 4 January 2008 renewable for successive terms of one year each.

On 13 February 2009, Seng Heng Bank, a subsidiary of ICBC, opened a standard omnibus account with the Bank, which was amended and supplemented by a supplemental agreement dated 1 April 2009 (the **Second Agency Agreement**), under which the Bank agreed to provide Hong Kong securities brokerage and related services to Seng Heng Bank for providing back-to-back services to its customers for a term of three years effective from 1 April 2009. Following the integration of businesses of ICBC, Macau Branch with Seng Heng Bank on 11 July 2009 and renamed as Industrial and Commercial Bank of China (Macau) Limited (**ICBC Macau**), the provision of Hong Kong securities brokerage and related services by the Bank has been conducted under the Second Agency Agreement.

For the year ended 31 December 2009 and the six months ended 30 June 2010, the total service fees (comprising commissions and other related service fees) paid by ICBC Macau to the Bank was approximately HK\$9 million (US\$1 million) and HK\$5 million (US\$0.6 million), respectively.

Premises expense and fee expense

The Bank entered into the following types of agreements with the ICBC Group:

- (a) granting a license for ICBC to occupy a portion of floor area of 28th floor of ICBC Tower pursuant to a licence agreement dated 1 June 2010, with an expiry date of 31 October 2010; and
- (b) renting a portion of the first floor of No. 9 Queen's Road Central, Hong Kong as the Central Branch of the Bank pursuant to a tenancy agreement dated 31 December 2008, with expiry on 31 December 2011.

The total premises (excluding management fee) expenses paid to the ICBC Group for the year ended 31 December 2009 and the six months ended 30 June 2010 were approximately HK\$6 million (US\$0.8 million) and HK\$3 million (US\$0.4 million), respectively.

Please refer to the notes to the audited consolidated financial statements for the year ended 31 December 2009 and the six months ended 30 June 2010 for further details of the Group's related party transactions with (i) ICBC, (ii) its subsidiaries, (iii) its associates, (iv) its key management personnel and (v) its officers, including the Group's aggregate income and expenses arising from such transactions.

REGULATION AND SUPERVISION

The banking sector in Hong Kong is regulated by and subject to the provisions of the Banking Ordinance and to the powers and functions ascribed by the Banking Ordinance to the HKMA. The Banking Ordinance provides that only banks (that is, a bank which has been granted a banking licence (**licence**) by the HKMA) may carry on banking business (as defined in the Banking Ordinance) in Hong Kong and contains controls and restrictions on such banks (**licensed banks**).

Supervision of Licensed Banks in Hong Kong

The provisions of the Banking Ordinance are implemented by the HKMA, the principal function of which is to promote the general stability and effectiveness of the banking system, especially in the area of supervising compliance with the provisions of the Banking Ordinance. The HKMA supervises licensed banks through, *inter alia*, a regular information gathering process, the main features of which are as follows:

- (1) each licensed bank must submit a monthly return to the HKMA setting out the assets and liabilities of its operations in Hong Kong and a further comprehensive quarterly return relating to its principal place of business in Hong Kong and all local branches, although the HKMA has the right to allow returns to be made at less frequent intervals;
- (2) the HKMA may order a licensed bank, any of its subsidiaries, its holding company or any subsidiaries of its holding company to provide such further information (either specifically or periodically) as it may reasonably require for the exercise of its functions under the Banking Ordinance or as it may consider necessary to be submitted in the interests of the depositors or potential depositors of the licensed bank concerned. Such information shall be submitted within such period and in such manner as the HKMA may require. The HKMA may in certain circumstances also require such information or any return submitted to it to be accompanied by a certificate of the licensed bank's auditors (approved by the HKMA for the purpose of preparing the report) confirming compliance with certain matters;
- (3) licensed banks may be required to provide information to the HKMA regarding companies in which they have an aggregate 20.0% or more direct or indirect shareholding or with which they have common directors or managers (as defined in the Banking Ordinance), the same controller, a common name or a concert party arrangement to promote the licensed bank's business;
- (4) in addition, licensed banks are obliged to report to the HKMA immediately of their likelihood of becoming unable to meet their obligations or of the commencement of material civil proceedings applicable only to licensed banks incorporated in Hong Kong;
- (5) the HKMA may direct a licensed bank to appoint an auditor to report to the HKMA on the state of affairs and/or profit and loss of the licensed bank or the adequacy of the systems of control of the licensed bank or other matters as the HKMA may reasonably require;
- (6) the HKMA may, at any time, with or without prior notice, examine the books, accounts and transactions of any licensed bank, and in the case of a licensed bank incorporated in Hong Kong, any local branch, overseas branch, overseas representative office or subsidiary, whether local or overseas, of such institution. Such inspections are carried out by the HKMA on a regular basis; and
- (7) licensed banks are required to give written notice to the HKMA immediately of any proposal to remove an auditor before the expiration of his term of office or replace an auditor at the expiration of his term of office.

Exercise of Powers over Licensed Banks

The HKMA may, after consultation with the Financial Secretary, exercise certain powers over the conduct of licensed banks in any of the following circumstances:

- (1) when a licensed bank informs the HKMA that it is likely to become unable to meet its obligations, that it is insolvent, or that it is about to suspend payment;
- (2) when a licensed bank becomes unable to meet its obligations or suspends payment;
- (3) if, after an examination or investigation, the HKMA is of the opinion that a licensed bank:
 - (a) is carrying on its business in a manner detrimental to the interests of its depositors or potential depositors or of its creditors or of holders or potential holders of multi-purpose cards issued by it or the issue of which is facilitated by it;
 - (b) is insolvent or is likely to become unable to meet its obligations or is about to suspend payment;
 - (c) has contravened or failed to comply with any of the provisions of the Banking Ordinance; or
 - (d) has contravened or failed to comply with any condition attached to its licence or certain conditions in the Banking Ordinance; and
- (4) where the Financial Secretary advises the HKMA that he considers it in the public interest to do so.

In any of the circumstances described above, the HKMA, after consultation with the Financial Secretary, may exercise any of the following powers:

- (1) to require the licensed bank, by notice in writing served on it, forthwith to take any action or to do any act or thing whatsoever in relation to its business and property as the HKMA may consider necessary;
- (2) to direct the licensed bank to seek advice on the management of its affairs, business and property from an adviser approved by the HKMA;
- (3) to assume control of and carry on the business of the licensed bank, or direct some other person to assume control of and carry on the business of the licensed bank; or
- (4) to report to the Chief Executive in Council in certain circumstances (in which case the Chief Executive in Council may exercise a number of powers including directing the Financial Secretary to present a petition to the Court of First Instance for the winding-up of the licensed bank).

Revocation and Suspension of Banking Licence

The HKMA also has powers to recommend the revocation or suspension of a licence. Both powers are exercisable after consultation with the Financial Secretary and with a right of appeal of the licensed bank concerned except in the event of temporary suspension in urgent cases. The grounds for suspension or revocation include the following:

- (1) the licensed bank no longer fulfills the criteria for authorisation and the requirements for registration;
- (2) the licensed bank is likely to be unable to meet its obligations or proposes to make, or has made, any arrangement with its creditors or is insolvent;
- (3) the licensed bank has failed to provide material information required under the Banking Ordinance or has provided false information;
- (4) the licensed bank has breached a condition attached to its licence;
- (5) a person has become or continues to be a controller or chief executive or director of the licensed bank after the HKMA has made an objection;
- (6) the interests of the depositors require that the licence be revoked; or
- (7) the licensed bank is engaging in practices likely to prejudice Hong Kong as an international financial centre or in practices (specified in the HKMA guidelines) that it should not be engaged in.

Revocation or suspension of a licence means that the licensed bank can no longer conduct banking business (for the specified period in the case of a suspension).

Principal Obligations of Licensed Banks

The obligations of a licensed bank under the Banking Ordinance, which are enforced by the HKMA through the system described above, include, but are not limited to, the following:

Capital Adequacy

A licensed bank incorporated in Hong Kong must at all times maintain a capital adequacy ratio of at least 8.0%, calculated as the ratio (expressed as a percentage) of its capital base to its risk-weighted exposure as more fully described below. In relation to a licensed bank with subsidiaries, the HKMA may require the ratio to be calculated on a consolidated basis, or on both a consolidated and an unconsolidated basis, or on a consolidated basis only in respect of such subsidiaries of the licensed bank as may be specified by the HKMA. The HKMA may, after consultation with the licensed bank concerned, increase the ratio for any particular licensed bank. A licensed bank is under a duty to inform the HKMA immediately of a failure to maintain the required capital adequacy ratio and to provide the HKMA with such particulars as it may require. It is an indictable offence not to do so, and the HKMA is entitled to prescribe remedial action.

The capital base of a licensed bank is, broadly speaking but not limited to, all its paid-up capital and reserves, its profit and loss account including its current year's profit or loss, together with perpetual and term subordinated debt meeting prescribed conditions, general provisions against doubtful debts subject to certain limitations and a portion of its latent reserves arising from the revaluation of long-term holdings of specified equity securities or its reserves on the revaluation of

real property. Investments in, advances to and guarantees of liabilities of certain connected companies, shareholdings in subsidiaries or holding companies and in other companies in which more than 20% of voting power is held and investments in other banks (except for those which are not subject to a cross-holding arrangement or not otherwise a strategic investment) must be deducted.

The risk-weighted exposure is determined by:

- (1) multiplying risk-weight factors to the book value of various categories of assets (including but not limited to notes and coins, Hong Kong government certificates of indebtedness and cash items in the course of collection);
- (2) multiplying the credit conversion factors to various off balance sheet items (including but not limited to direct credit substitutes, transaction-related contingencies, repurchase contracts, note issuance facilities and exchange rate contracts) to determine their credit equivalent amount;
- (3) aggregating the amounts determined pursuant to (1) and (2); and
- (4) subtracting from the amount determined pursuant to (3) the value of general provisions not included in the capital base of the licensed bank and the amount by which the book value of reserves on revaluation of real property exceeds the book value of such reserves as at the period-end.

Risk-weight factors are specified in the Banking Ordinance in Hong Kong as being a percentage varying between 0%, and 100% to reflect the extent to which an asset might be regarded as being at risk or the extent to which a liability might arise. Credit conversion factors are also specified in the Banking Ordinance as being percentages varying between 0% to 100% as being the percentage of the relevant item to which the risk-weight factor should be applied.

The capital adequacy standards described above (commonly known as Basel I) were promulgated by the Basel Committee on Banking Supervision (the **BCBS**) and have been applied in Hong Kong since 1989. The Banking (Amendment) Ordinance 2005, enacted on 6 July 2005, has put in place a legislative framework for the implementation in Hong Kong of Basel II. In line with the timetable set by BCBS for its members, implementation of Basel II commenced in Hong Kong in January 2007.

There are four approaches under Basel II to calculate credit risks, namely the basic approach, the standardised approach, foundation internal rating based approach and the advanced internal ratings based approach. Licensed banks in Hong Kong under Basel II are to adopt the standardised approach initially, under which expanded risk weights (0%, 20%, 35%, 75%, 100% and 150%) are used for assessing capital required.

A licensed bank, if approved by the HKMA, may adopt the basic approach in reporting its capital adequacy as a transitional measure before eventually adopting the internal ratings based approach. Under the internal ratings based approach, the capital required of a licenced bank relies on a bank's internal ratings system (subject to supervisory validation and approval) and is based on three risk components — probability of default, loss given default and exposure at default.

Furthermore, in addition to credit risk and market risk, operation risk is also required to be included in the determination of the capital adequacy ratio. Even with the inclusion of operation risk in the calculation, the minimum capital adequacy ratio remains unchanged at 8%. For the calculation of operation risk, there are three approaches, namely, basic indicator approach, standardised approach and the alternative standardized approach.

Liquidity

Authorised institutions must maintain at all times a liquidity ratio of not less than 25% in each calendar month, calculated as the ratio (expressed as a percentage) of the sum of the net weighted amount of its liquefiable assets to the sum of its qualifying liabilities for each working day of the calendar month concerned as calculated in accordance with the Fourth Schedule to the Banking Ordinance. In relation to a licensed bank with subsidiaries, the HKMA may require that ratio to be calculated on a consolidated basis, or both on a consolidated basis and an unconsolidated basis, or on a consolidated basis only in respect of such subsidiaries of the licensed bank as may be specified by the HKMA. The ratio may be varied by the HKMA. A licensed bank has a duty to inform the HKMA if the ratio requirement is not fulfilled and provide it with such particulars of that contravention as it may require, and it is an indictable offence not to do so; the HKMA is entitled to prescribe remedial action. For the purpose of the liquidity ratio, in the case of a licensed bank which has places of business in Hong Kong and elsewhere, its places of business in Hong Kong are collectively treated as a separate licensed bank to which the liquidity ratio provisions would apply.

Liquefiable assets are, broadly speaking, assets held in the form of currency notes and coins, gold, loans due within one month from other banks (after deducting amounts payable to other banks within one month), certain export bills payable within one month, certain kinds of marketable debt securities or prescribed instruments (in some cases subject to a discount) and certain types of loan repayments due on fixed dates within one month on performing loans (subject to a discount).

Qualifying liabilities are, broadly speaking, liabilities which will or could or, in the case of contingent liabilities, in the opinion of the HKMA, may, fall due within one month, except that liabilities to other banks are treated on a net basis.

Financial Exposure to Any One Customer

The financial exposure of a licensed bank incorporated in Hong Kong to any one person or group of connected persons must not (subject to certain exceptions) exceed 25% of the capital base of the licensed bank. Subject to certain exclusions, the licensed bank's financial exposure to any one person or group of connected persons is taken to be the aggregate of:

- (1) all advances, loans and credit facilities granted to that person or group;
- (2) the value of the licensed bank's holdings of shares, debentures and other debt securities issued by that person or group; and
- (3) the principal amount, multiplied by a factor to be specified by the HKMA, for off-balance sheet items resulting from transactions between the licensed bank and that person or group.

For these purposes, persons shall be treated as connected if one company is the subsidiary of another, they have a common holding company, they have a common controller (not being a company) or if one (not being a company) is a controller of another (being a company).

The calculation of financial exposure does not include financial exposure to the Hong Kong government or authorised institutions or financial exposure generally to the extent it is secured by a cash deposit, a guarantee, an undertaking, certain specified securities or a letter of comfort accepted by the HKMA.

If a person or a company to whom an authorised institution is financially exposed is a trustee of more than one trust, the HKMA may by notice in writing extend the limit of the institution's financial exposure to that person or company.

Other Restrictions on Lending

The Banking Ordinance also provides that:

- (1) licensed banks may not grant any loan, advance or credit facility (including letters of credit) or give any guarantee or incur any other liability against the security of their own shares (or, except with the approval of the HKMA, that of their respective holding companies, subsidiaries or fellow subsidiaries of such holding companies);
- (2) the amount of the facilities which a Hong Kong incorporated licensed bank may make available on an unsecured basis to its controllers, its directors, their relatives or certain of its employees and persons associated with any of them shall be subject to the restrictions set out therein; and
- (3) licensed banks may not, except with the written consent of the HKMA, provide to any one of their employees any unsecured facility of an amount in excess of that employee's salary for one year.

Restrictions on Investments in Land

A licensed bank incorporated in Hong Kong cannot purchase or hold any interest in land, whether situated in or outside Hong Kong, of a value or to an aggregate value in excess of 25% of its capital base. There are exceptions for land held that in the opinion of the HKMA is necessary for the operation of the business or for providing housing or amenities for staff.

Shareholding in Other Companies

A licensed bank incorporated in Hong Kong may not acquire or hold any part of the share capital of any other company or companies to an aggregate value which exceeds 25% of the licensed bank's capital base except for shares held by way of security for facilities and by virtue of acquisitions in satisfaction of debts due to it (which must, however, be disposed of at the earliest suitable opportunity and not later than 18 months after their acquisition unless the HKMA agrees to a longer period). Shares held by virtue of underwriting and sub-underwriting commitments are, nevertheless, permitted provided the relevant shares are disposed of within seven working days or such longer period as the HKMA may agree.

There are other exemptions for any holding of share capital approved by the HKMA in other banks and companies carrying on nominee, executor, trustee or other functions related to banking business, the business of deposit taking, insurance, investments or other financial services.

Other Restrictions on Investment

The aggregate of the outstanding amounts of all facilities granted to or on behalf of a licensed bank's controllers, directors, their relatives, certain of its employees and their associates; the value of all holdings of share capital in other companies; and the value of all holdings of interests in land (including land purchased or held which is necessary for the conduct of business or the provision of housing or amenities for the staff of the institution) must not exceed 80% of its capital base.

Charges

A licensed bank incorporated in Hong Kong is not permitted to create any charges over its assets if either the aggregate value of all charges existing over its total assets is 5% or more of the value of those total assets or creating that charge would cause the aggregate value of all charges over its total assets to be more than 5% of the value of those total assets.

Restrictions on Overseas Activities

A licensed bank which is incorporated in Hong Kong is subject to a condition that it shall not establish or maintain any overseas branch or overseas representative office without the approval of the HKMA. The HKMA is empowered by the Banking Ordinance to require financial and other information regarding any such overseas branch to be supplied to it.

Further, a licensed bank incorporated in Hong Kong or its Hong Kong incorporated holding company may not without the consent of the HKMA own a company incorporated outside Hong Kong which may (whether or not in or outside Hong Kong) lawfully take deposits from the public. The HKMA may at any time attach in respect of any such approved overseas companies any conditions as the HKMA may think proper.

Shareholders, Chief Executives and Directors

Limitations on Shareholders

The HKMA has the power to object, on certain specified grounds, to persons becoming or being “controllers” of licensed banks incorporated in Hong Kong. “Controller” in this context means:

- (1) a person who, either alone or with any associate(s), is entitled to exercise, or control the exercise of, 10% or more, but not more than 50%, of the voting power at any general meeting of the licensed bank or of another company of which it is a subsidiary; or
- (2) a person who, either alone or with any associate(s), is entitled to exercise, or control the exercise of, more than 50% of the voting power at any general meeting of the licensed bank or of another company of which it is a subsidiary; or
- (3) a person in accordance with whose directions or instructions the directors of the licensed bank or of another company of which it is a subsidiary are accustomed to act (but does not include any professional advisers or managers appointed by the HKMA to manage the licensed bank).

A person may not become a controller of a licensed bank incorporated in Hong Kong unless he has served a written notice on the HKMA of his proposal to that effect and the HKMA consents to his becoming such a controller or does not object within three months.

Within the three-month period, the HKMA may object to the applicant’s proposal, unless it is satisfied that the applicant is a fit and proper person to become a controller; that depositors’ or potential depositors’ interests will not be threatened by that person being such a controller; and having regard to the applicant’s likely influence on that institution as a controller, the licensed bank is likely to continue to conduct its business prudently or that the applicant is likely to undertake adequate remedial action to ensure that the licensed bank will conduct its business prudently.

The HKMA may also object to the continuation of a person as a controller on similar grounds as in respect of new controllers.

Where a person becomes a controller (by virtue of being able to exercise or control the exercise of certain voting power in a licensed bank) after a notice of objection has been served on him or otherwise in the contravention of the procedure prescribed by the Banking Ordinance, the HKMA may notify the controller that until further notice any specified shares are subject to one or more of the following restrictions:

- (1) any transfer of the shares or, in the case of unissued shares, any transfer of the right to be issued with them, and any issue of such shares, shall be void;

- (2) voting rights in respect of those shares shall not be exercisable;
- (3) no further shares in right or pursuant to any offer made to the shareholder shall be issued;
or
- (4) except in a liquidation, no payments of any sums due from the licensed bank on the shares shall be paid.

In addition, the HKMA may apply to court for an order that the shares be sold. Once the shares are sold, the proceeds (less the costs of sale) shall be paid into court and held for the benefit of the persons beneficially interested in them.

In the case of an indirect controller who does not have the approval of the HKMA, the person concerned is prohibited from giving directions or instructions to the directors of the licensed bank or of another company of which it is a subsidiary.

Limitations on Persons Becoming Chief Executives or Directors

All licensed banks must have a chief executive ordinarily resident in Hong Kong. A person requires the consent of the HKMA before becoming a chief executive and alternate chief executive.

The consent of the HKMA is also required for a person to become a director of a Hong Kong incorporated licensed bank.

Supervision of Securities Business

The Securities and Futures Ordinance (Cap. 571) of the laws of Hong Kong (the **SFO**), which came into operation in April 2003, introduced a substantial change to the conduct of securities business by banks. Banks are no longer exempted from the relevant regulations when they engage in securities business. Instead they are required to apply for registration with the SFC, which means they will have to meet the Fit and Proper Criteria set by the SFC. Likewise, staff engaged by banks in securities business will have to meet the Fit and Proper Criteria applicable to staff of brokerage firms. It is a statutory condition of registration for banks that each member of staff engaged by them in securities business is a fit and proper person. Banks will also have to comply with the various regulatory requirements set by the SFC in relation to their securities business, including the subsidiary legislation and the business conduct codes. Under the SFO, banks and their securities staff will be subject to the same range of disciplinary actions that are applicable to brokers and their staff in case they are guilty of misconduct or otherwise not fit and proper.

With the introduction of a new licensing regime under the SFO, corresponding changes have been made to the Banking Ordinance by way of the introduction of the Banking (Amendment) Ordinance 2002. Such ordinance came into operation simultaneously with the SFO and has enabled the HKMA to enhance their regulatory functions in relation to securities businesses of banks and other Authorised Institutions that are registered under the SFO.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream, Luxembourg or CMU (together, the Clearing Systems) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believe to be reliable, but neither the Issuer nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.

Book-entry Systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

CMU

The CMU Service is a central depository service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service (**CMU Members**) of capital markets instruments (**CMU Instruments**) which are specified in the CMU Reference Manual as capable of being held within the CMU Service. The CMU Service is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the services is open to all members of the Hong Kong Capital Markets Association, “authorised institutions” under the Banking Ordinance and other domestic and overseas financial institutions at the discretion of the HKMA. Compared to clearing services provided by Euroclear and Clearstream, Luxembourg, the standard custody and clearing service provided by the CMU Service is limited. In particular (and unlike the European clearing systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Instruments. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Instruments are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging and Paying Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest in the Notes through an account with either Euroclear or Clearstream, Luxembourg will hold that interest through the respective accounts which Euroclear and Clearstream, Luxembourg each have with the CMU Service.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within Euroclear, Clearstream, Luxembourg and the CMU Service will be effected in accordance with the customary rules and operating procedures of the relevant Clearing System. Euroclear, Clearstream, Luxembourg and the CMU Service have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among accountholders of Euroclear, Clearstream, Luxembourg and the CMU Service. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Paying Agents, the Registrar and the Dealers will be responsible for any performance by Euroclear, Clearstream, Luxembourg or the CMU Service or their respective accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

The statements herein regarding taxation are based on the laws in force as at the date of this document and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers or certain professional investors) may be subject to special rules. Investors should consult their own tax advisers regarding the tax consequences of an investment in the Notes.

Hong Kong

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Cap.112) of Hong Kong (the **Inland Revenue Ordinance**), as it is currently applied in the Inland Revenue Department, interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (i) interest on the Notes is derived from Hong Kong and is received by or accrues to a company, other than a financial institution, carrying on a trade, profession or business in Hong Kong; or
- (ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a company, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business; or
- (iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong.

Pursuant to the Exemption from Profits Tax (Interest Income) Order, interest income accruing to a person other than a financial institution on deposits (denominated in any currency and whether or not the deposit is evidenced by a certificate of deposit) placed with, inter alia, a financial institution in Hong Kong (within the meaning of section 2 of the Banking Ordinance) are exempt from the payment of Hong Kong profits tax. Provided no prospectus with respect to the issue of Notes is registered under the Companies Ordinance (Cap. 32) of Hong Kong, the issue of Notes by the Issuer is expected to constitute a deposit to which the above exemption from payment will apply.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to profits tax.

Sums derived from the sale, disposal or redemption of Bearer Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes by the Issuer, provided either:

- (i) such Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) such Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong).

If stamp duty is payable it is payable by the Issuer on the issue of Bearer Notes at a rate of 3% of the market value of the Notes at the time of issue.

No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes.

Stamp duty may be payable on any transfer of Registered Notes issued by the Issuer. Stamp duty will, however, not be payable on any transfers of Registered Notes, provided that either:

- (i) the Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) the Registered Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong).

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.2% (of which 0.1% is payable by the seller and 0.1% is payable by the purchaser) normally by reference to the consideration or its value. If, in the case of either the sale or purchase of such Registered Notes, stamp duty is not paid, both the seller and the purchaser may be liable jointly and severally to pay any unpaid stamp duty and also any penalties for late payment. If stamp duty is not paid on or before the due date (two days after the sale or purchase if effected in Hong Kong or 30 days if effected elsewhere) a penalty of up to 10 times the duty payable may be imposed. In addition, stamp duty is payable at the fixed rate of HK\$5.00 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

EU Directive on the Taxation of Savings Income

The European Union has adopted the EC Council Directive 2003/48/EC (the **Directive**) regarding the taxation of savings income. The Directive requires Member States of the European Economic Area to provide to the tax authorities of other Member States details of payments of interest or other similar income paid by a person within its jurisdiction to an individual or to certain limited types of entities established in that other Member State, except that Austria and Luxembourg are instead required to operate a withholding system in relation to such payments for a transitional period (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries) unless during such period they elect otherwise. A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (such Programme Agreement as modified and/or supplemented and/or restated from time to time, the **Programme Agreement**) dated 22 November 2010, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

- (a) The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States (or, in certain circumstances, to, or for the account or benefit of, U.S. persons) except in certain transactions exempt from the registration requirements of the Securities Act.
- (b) Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Bearer Notes will be issued in accordance with the provisions of U.S. Treasury Regulation or section 1.163 — 5(c)(2)(i)(D), unless the relevant Pricing Supplement specifies that Notes will be issued in accordance with the provision of U.S. Treasury Regulation or section 1.163 — 5(c)(2)(i)(C).
- (c) In connection with any Notes which are offered or sold outside the United States in reliance on exemption from the registration requirements of the Securities Act provided under Category 1 of Regulation S (Category 1 of Regulation S Notes), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Category 1 of Regulation S Notes within the United States or to a United States person, as such term is defined in the U.S. Internal Revenue Code of 1986 and regulations thereunder. Each Dealer has agreed that it will not offer, sell or deliver any Notes within the United States, except as permitted by the Programme Agreement. In addition, until 40 days after the commencement of the offering of any identifiable tranche of such Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.
- (d) In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Category 2 of Regulation S (Category 2 of Regulation S Notes), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Category 2 of Regulation S Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Category 2 of Regulation S Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree,

that it will send to each dealer to which it sells any Category 2 of Regulation S Notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Category 2 of Regulation S Notes within the United States or to, or for the account or benefit of, U.S. persons.

- (e) Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the Subscription Agreement:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Acts 2000 (the **FSMA**) by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a Non-exempt Offer), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the

competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable;

- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (d) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (e) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Notes referred to in (b) to (e) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (e) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an **offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person under Section 275(1) of the SFA, or to any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Each of the following persons specified in Section 275 of the SFA which has subscribed or purchased the Notes, namely a person who is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor,

should note that shares, debentures and unit trusts of that corporation or the beneficiaries' rights and interests in that trust shall not be transferable for six months after that corporation or that trust has acquired the Notes under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA or to any person arising from an offer referred to in Section 275(1A) of the SFA or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law; or
- (4) pursuant to Section 276(7) of the SFA.

Japan

The Notes have been and will be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the **FIEA**) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance, or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

- (b) it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue any advertisement, invitation or document relating to the Notes, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws in Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571) and any rules made under that Ordinance.

General

Each Dealer has agreed and each further Dealers appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes the Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer and any other Dealer shall have any responsibility therefor.

None of the Issuer and any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction that would permit a public offering of any of the Notes, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with any additional restrictions agreed between the Issuer and the relevant Dealer and set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorisation

1. The establishment of the Programme and the issue of Notes under the Programme have been duly authorised by written resolutions of the Board of Directors of the Issuer dated 13 May 2010 and 20 September 2010.

Listing

2. Approval in-principle has been received from the SGX-ST for the listing of any Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST.

Clearing systems

3. The Notes to be issued under the Programme have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. The Issuer may also apply to have Bearer Notes accepted for clearance through the CMU Service. The relevant CMU instrument number will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

No significant change

4. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer or of the Group since 31 December 2009 and there has been no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2009.

Litigation

5. Save as disclosed in this Offering Circular, neither the Issuer nor any member of the Group is involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of the Issuer or the Group.

Auditors

6. The auditors of the Issuer are Ernst & Young, Certified Public Accountants.
7. The consolidated financial statements of the Bank as at and for the years ended 31 December 2008 and 2009, which are included elsewhere or incorporated by reference in this Offering Circular, have been audited by Ernst & Young, independent auditors, as stated in their reports appearing or incorporated by reference herein.

Documents

8. So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available from the registered office of the Issuer and from the specified office of the Fiscal Agent for the time being in Level 30, HSBC Main Building, 1 Queen's Road Central, Hong Kong:
- (a) the constitutional documents of the Issuer;
 - (b) the audited consolidated financial statements of the Issuer in respect of the financial years ended 31 December 2008 and 2009 (in each case together with the audit reports in connection therewith). The Issuer currently prepares audited consolidated accounts on an annual basis;
 - (c) the unaudited condensed consolidated interim financial statements in respect of the six months ended 30 June 2010;
 - (d) the most recent annual audited consolidated financial statements of the Issuer and the most recently published unaudited consolidated interim financial statements of the Issuer (if any);
 - (e) the Programme Agreement, the Agency Agreement, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
 - (f) a copy of this Offering Circular; and
 - (g) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference.

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⁽¹⁾ The Independent Auditors' Report on the consolidated financial statement of the Bank set out herein are reproduced from the Annual Report of the Bank for the year ended 31 December 2009, and page references included in the Independent Auditors' Report refer to pages set out in such annual report.

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED *(Incorporated in Hong Kong with limited liability)*

We have audited the financial statements of Industrial and Commercial Bank of China (Asia) Limited (the "Bank") set out on pages 83 to 240, which comprise the consolidated and the Bank's statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

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

Ernst & Young

Certified Public Accountants

18th Floor,
Two International Financial Centre,
8 Finance Street,
Central,
Hong Kong

24 March 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
Interest income	(6)	4,479,068	7,753,857
Interest expense	(6)	(1,469,872)	(4,755,554)
Net interest income	(6)	3,009,196	2,998,303
Fee and commission income.....	(7)	814,429	756,268
Fee and commission expense.....	(7)	(87,395)	(93,166)
Net fee and commission income	(7)	727,034	663,102
Net trading income	(8)	214,338	273,441
Net gain/(loss) on financial assets and liabilities			
designated at fair value through profit or loss	(9)	193,215	(230,640)
Dividend income from financial investments.....	(10)	6,476	14,859
Other operating income.....	(11)	39,922	33,246
Operating income		4,190,181	3,752,311
Operating expenses	(12)	(1,358,339)	(1,252,119)
Operating profit before impairment losses		2,831,842	2,500,192
Charge for impairment losses on loans and advances	(14)	(385,536)	(408,629)
Write-back of impairment losses on held-to-maturity			
financial investments	(28)	2,145	156
Charge for impairment losses on available-for-sale			
financial investments		(195,058)	(802,880)
Operating profit after impairment losses		2,253,393	1,288,839
Revaluation gain/(loss) on investment properties.....	(31)	6,087	(498)
Net gain from disposal/reversal of revaluation deficits			
of property, plant and equipment and leasehold land			
and land use rights	(15)	3,850	5,513
Loss on disposal of loans and advances		—	(28,710)
Net gain/(loss) on disposal of available-for-sale			
financial investments		782,300	(201,962)
Gain on disposal of subsidiaries and an associate		1,328	—
Operating profit		3,046,958	1,063,182
Share of profits of associates		23,243	655
Profit before tax		3,070,201	1,063,837
Income tax expense.....	(16)	(544,059)	(94,814)
Profit attributable to equity holders		2,526,142	969,023
Earnings per share — Basic and diluted	(19)	HK\$1.95	HK\$0.77

Details of the dividend paid and proposed for the year are disclosed in Note 18 to the financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	<u>2009</u>	<u>2008</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Profit for the year	<u>2,526,142</u>	<u>969,023</u>
Revaluation surplus on bank premises	7,343	7,289
Income tax effect	(3,614)	(1,656)
	3,729	5,633
Change of fair value of hedging instruments under cash flow hedge	(7,853)	7,853
Change in fair value reserve of available-for-sale financial investments	2,035,053	(3,419,922)
Transfer from the available-for-sale financial investment reserve to the income statement on impairment	43,715	819,504
Income tax effect	(336,082)	445,638
	1,742,686	(2,154,780)
Exchange differences arising from translation of results of a foreign subsidiary	123	72,778
Other comprehensive income for the year, net of tax	<u>1,738,685</u>	<u>(2,068,516)</u>
Total comprehensive income for the year, net of tax	<u>4,264,827</u>	<u>(1,099,493)</u>
Attributable to:		
Equity holders of the Bank	<u>4,264,827</u>	<u>(1,099,493)</u>

Consolidated Statement of Financial Position

As at 31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
Assets			
Cash and balances with banks and other financial institutions	(21)	27,910,582	28,678,778
Placements with and advances to banks and other financial institutions	(22)	1,663,286	844,358
Financial assets held for trading	(23)	190,246	52,051
Financial assets designated at fair value through profit or loss	(24)	1,162,149	1,488,003
Derivative financial instruments	(25)	1,285,306	2,308,702
Loans and advances to customers, banks and other financial institutions	(26)	147,024,582	137,082,721
Financial investments:.....		33,653,175	19,379,478
— Available-for-sale	(27)	32,361,666	17,403,075
— Held-to-maturity	(28)	1,291,509	1,976,403
Investments in associates	(29)	175,177	184,854
Goodwill and other intangible assets	(30)	1,020,893	1,032,938
Investment properties	(31)	46,213	40,126
Property, plant and equipment	(32)	273,953	276,074
Leasehold land and land use rights	(33)	43,117	43,860
Current income tax assets		—	130,988
Deferred income tax assets	(38)	—	151,619
Other assets	(34)	1,305,150	2,869,559
Total assets		<u>215,753,829</u>	<u>194,564,109</u>
Liabilities			
Deposits from banks and other financial institutions		20,176,700	20,056,756
Derivative financial instruments	(25)	1,403,832	3,296,670
Deposits from customers	(36)	161,161,561	138,183,332
— Designated at fair value through profit or loss	(37)	—	301,216
— At amortised cost		161,161,561	137,882,116
Certificates of deposit issued		2,394,546	4,312,361
— Designated at fair value through profit or loss	(37)	1,419,077	3,489,361
— At amortised cost		975,469	823,000
Debt securities in issue		159,526	3,146,399
— Designated at fair value through profit or loss	(37)	—	3,146,399
— At amortised cost		159,526	—
Current income tax liabilities		1,531,204	10,113
Deferred income tax liabilities	(38)	190,262	14,072
Subordinated debts measured at amortised cost	(39)	8,561,125	8,556,348
Other liabilities	(40)	2,070,476	3,050,280
Total liabilities		<u>197,649,232</u>	<u>180,626,331</u>
Equity			
Share capital	(41)	2,636,681	2,570,536
Retained earnings	(42)	5,181,915	3,290,741
Other reserves	(42)	10,286,001	8,076,501
Total equity		<u>18,104,597</u>	<u>13,937,778</u>
Total equity and liabilities		<u><u>215,753,829</u></u>	<u><u>194,564,109</u></u>

Jiang Jianqing
Chairman

Chen Aiping
Managing Director &
Chief Executive Officer

Wong Yuen Fai
Director & Deputy
General Manager

Tsang Mei Kuen
Company Secretary

Statement of Financial Position

As at 31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
Assets			
Cash and balances with banks and other financial institutions.....	(21)	25,247,532	27,649,423
Placements with and advances to banks and other financial institutions	(22)	2,427,183	1,660,123
Financial assets held for trading	(23)	67,998	52,051
Financial assets designated at fair value through profit or loss	(24)	1,162,149	1,488,003
Derivative financial instruments.....	(25)	1,285,306	2,308,702
Loans and advances to customers, banks and other financial institutions	(26)	137,725,764	128,285,852
Financial investments:.....		33,652,605	19,378,861
— Available-for-sale.....	(27)	32,361,096	17,402,458
— Held-to-maturity	(28)	1,291,509	1,976,403
Investments in associates	(29)	138,138	152,646
Investments in subsidiaries.....	(35)	2,772,478	1,908,750
Goodwill and other intangible assets.....	(30)	630,967	642,109
Investment properties.....	(31)	25,500	25,200
Property, plant and equipment.....	(32)	180,464	185,878
Leasehold land and land use rights	(33)	43,117	43,860
Current income tax assets		—	128,586
Deferred income tax assets.....	(38)	—	151,619
Other assets	(34)	1,647,361	3,095,070
Total assets		<u>207,006,562</u>	<u>187,156,733</u>
Liabilities			
Deposits from banks and other financial institutions		16,804,941	17,001,164
Derivative financial instruments.....	(25)	1,403,832	3,324,174
Deposits from customers	(36)	157,977,892	137,636,067
— Designated at fair value through profit or loss	(37)	—	301,216
— At amortised cost.....		157,997,892	137,334,851
Certificates of deposit issued		2,394,546	4,312,361
— Designated at fair value through profit or loss	(37)	1,419,077	3,489,361
— At amortised cost.....		975,469	823,000
Debt securities in issue measured at amortised cost		159,526	—
Current income tax liabilities.....		208,893	—
Deferred income tax liabilities	(38)	184,850	—
Subordinated debts measured at amortised cost.....	(39)	8,561,125	8,556,348
Other liabilities.....	(40)	2,217,332	3,101,794
Total liabilities		<u>189,912,937</u>	<u>173,931,908</u>
Equity			
Share capital.....	(41)	2,636,681	2,570,536
Retained earnings.....	(42)	4,525,547	2,885,298
Other reserves.....	(42)	9,931,397	7,768,991
Total equity		<u>17,093,625</u>	<u>13,224,825</u>
Total equity and liabilities		<u>207,006,562</u>	<u>187,156,733</u>

Jiang Jianqing
Chairman

Chen Aiping
Managing Director &
Chief Executive Officer

Wong Yuen Fai
Director & Deputy
General Manager

Tsang Mei Kuen
Company Secretary

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Notes	2009	2008
		HK\$'000	HK\$'000
Total equity as at 1 January		13,937,778	15,008,139
Profit attributable to equity holders.....	(42)	2,526,142	969,023
Other comprehensive income.....		1,738,685	(2,068,516)
Total comprehensive income		4,264,827	(1,099,493)
Dividends	(42)	(595,135)	(1,137,307)
Shares issued in lieu of dividends.....	(41)	497,187	868,160
Shares issued on exercise of warrants	(41)	—	298,400
Share issue expenses.....	(41),(42)	(60)	(121)
Total equity as at 31 December.....		<u>18,104,597</u>	<u>13,937,778</u>

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009	2008
		HK\$'000	HK\$'000
Cash flows from operating activities:			
Profit before tax		3,070,201	1,063,837
Write-back of impairment losses on held-to-maturity financial investments	(28)	(2,145)	(156)
Charge for impairment losses on loans and advances	(14)	385,536	408,629
Charge for impairment losses on available-for-sale financial investments		195,058	802,880
Amortisation of intangible assets.....	(12)	17,755	46,835
Amortisation of leasehold land	(12)	743	744
Depreciation	(12)	47,124	47,595
Interest paid on subordinated debts measured at amortised cost		147,886	292,565
Recoveries of loans and advances written off	(14)	43,532	11,594
Net gain from disposal/reversal of revaluation deficits of property, plant and equipment and leasehold land and land use rights	(15)	(3,850)	(5,513)
Revaluation (gain)/loss on investment properties	(31)	(6,087)	498
Net (gain)/loss on disposal of available-for-sale financial investments		(782,300)	201,962
Loss on disposal of loans and advances.....		—	28,710
Gain on disposal of subsidiaries and an associate ...		(1,328)	—
Share of net profits of associates.....		(23,243)	(655)
Dividend income received from listed financial assets held for trading	(10)	(664)	(1,133)
Dividend income received from listed available-for-sale financial investments	(10)	(2,006)	(9,747)
Dividend income received from unlisted available-for-sale financial investments	(10)	(3,806)	(3,979)
Operating profit before working capital changes		3,082,406	2,884,666

	Notes	2009	2008
		HK\$'000	HK\$'000
(Increase)/decrease in operating assets:			
Treasury bills maturing beyond three months		(10,132)	847,211
Placements with and advances to banks and other financial institutions maturing beyond three months		(275,755)	1,589,593
Held-to-maturity financial investments		697,171	490,359
Financial assets held for trading		(22,822)	2,205
Financial assets designated at fair value through profit or loss		325,854	266,739
Available-for-sale financial investments		(12,336,295)	(5,731,364)
Loans and advances to customers, banks and other financial institutions and other assets		(8,904,520)	(15,810,098)
Derivative financial instruments		1,031,249	(1,087,111)
Increase/(decrease) in operating liabilities:			
Deposits from banks and other financial institutions maturity beyond three months		119,944	(1,430,820)
Deposits from customers		22,978,229	656,772
Certificates of deposit issued		(1,917,815)	606,965
Debt securities in issue		(2,986,873)	26,527
Other liabilities		(984,764)	(405,124)
Derivative financial instruments		(1,892,838)	1,944,972
Cash flows used in operations		(1,096,961)	(15,148,508)
Hong Kong profits tax paid		(50,799)	(335,533)
Overseas tax paid		(35,770)	(48,242)
Net cash flows used in operating activities		<u>(1,183,530)</u>	<u>(15,532,283)</u>
Cash flows from investing activities:			
Investments in subsidiaries/purchase of a subsidiary ..	(35b)	1,171,732	(18,786)
Purchase of intangible assets	(30)	(5,900)	(16,439)
Purchase of property, plant and equipment	(32)	(31,747)	(62,014)
Proceeds from disposal of property, plant and equipment		171	121
Proceeds from disposal of an associate		28,796	—
Proceeds from disposal of subsidiaries	(35c)	4,627	—
Dividend income received from listed financial assets held for trading	(10)	664	1,133
Dividend income received from listed available-for-sale financial investments	(10)	2,006	9,747
Dividend income received from unlisted available-for-sale financial investments	(10)	3,806	3,979
Net cash flows from/(used in) investing activities		<u>1,174,155</u>	<u>(82,259)</u>
Cash flows from financing activities:			
Issuance of a subordinated debt measured at amortised cost		—	1,550,020
Redemption of a subordinated debt measured at amortised cost		—	(500,000)
Issuance of shares on exercise of warrants	(41)	—	298,400
Share issue expenses	(41),(42)	(60)	(121)
Interest paid on subordinated debts measured at amortised cost		(147,886)	(292,565)
Dividends paid on ordinary shares		<u>(97,948)</u>	<u>(269,147)</u>

<u>Notes</u>	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Net cash flows (used in)/from financing activities	(245,894)	786,587
Effects of foreign exchange differences.....	30,246	67,330
Net decrease in cash and cash equivalents	(225,023)	(14,760,625)
Cash and cash equivalents at 1 January.....	28,933,732	43,694,357
Cash and cash equivalents at 31 December	<u>28,708,709</u>	<u>28,933,732</u>

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with original maturity of three months or less:

	<u>Group</u>	
	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions (Note 21)	6,776,503	9,182,552
Placements with banks and other financial institutions	21,932,206	19,751,180
	<u>28,708,709</u>	<u>28,933,732</u>

Notes to the Financial Statements

1.1 PRINCIPAL ACTIVITIES

The principal activities of the Bank are the provision of banking, financial and other financial related services. The principal activities of the subsidiaries are shown in Note 35 to the financial statements.

1.2 PRINCIPAL PLACE OF BUSINESS

The Bank is a licenced bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 33/F, ICBC Tower, 3 Garden Road, Central, Hong Kong

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been prepared under the historical cost convention, except for certain buildings modified by the revaluation, available-for-sale financial assets, financial assets and financial liabilities held for trading, financial assets and financial liabilities at fair value through profit or loss and derivative financial instruments which have been measured at fair value.

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

2.2 Impact of new and revised Hong Kong Financial Reporting Standards

The Group has adopted the following new and revised HKFRSs for the first time for the current year’s financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised HKFRSs has had no significant effect on these financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment — Vesting Conditions and Cancellations
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments
HKFRS 8*.	Operating Segments
HKAS 1 (Revised).	Presentation of Financial Statements
HKAS 32 and HKAS 1 Amendments .	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation

HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement — Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-Int 18	Transfers of Assets from Customers (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)	Amendments to a number of HKFRSs

* Included in Improvements to HKFRSs 2009 (as issued in May 2009).

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) *Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Bank to consider whether there is an indicator of impairment. The amendment is applied prospectively. HKAS 27 has also been amended to deal with the measurement of the cost of investments where a parent reorganises the structure of its group by establishing a new entity as its parent. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

(b) *Amendments to HKFRS 2 Share-based Payment — Vesting Conditions and Cancellations*

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. As the Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendments have had no impact on the financial position or results of operations of the Group.

(c) *Amendments to HKFRS 7 Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments*

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.

(d) *HKFRS 8 Operating Segments*

HKFRS 8, which replaces HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14.

The Group has early adopted in these financial statements the Amendments to HKFRS 8 issued in Improvements to HKFRSs 2009 which clarifies that segment assets need only to be reported when those assets are included in measures that are used by the chief operating decision maker.

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

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

(f) *Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. The HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments have had no impact on the financial position or results of operations of the Group.

(g) *Amendments to HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement — Embedded Derivatives*

The amendment to HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. HKAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

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

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. Adoption of this new HKFRS requirement has had no material effect on the financial position or performance of the Group, nor has resulted in restatement of comparative figures.

(i) *HK(IFRIC)-Int 16 Hedges of a Net Investment in a Foreign Operation*

HK(IFRIC)-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation has had no impact on the financial position or results of operations of the Group.

(j) *HK(IFRIC)-Int 18 Transfers of Assets from Customers (adopted from 1 July 2009)*

HK(IFRIC)-Int 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

- (k) In October 2008, the HKICPA issued its first Improvements to HKFRSs which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations - Plan to sell the controlling interest in a subsidiary which is effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact to the Group. Details of the key amendments most applicable to the Group are as follows:

HKFRS 7 Financial Instruments: Disclosures: Removes the reference to “total interest income” as a component of finance costs.

HKAS 1 Presentation of Financial Statements: Clarifies that assets and liabilities which are classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the statement of financial position.

HKAS 16 Property, Plant and Equipment: Replaces the term “net selling price” with “fair value less costs to sell” and the recoverable amount of property, plant and equipment is the higher of an asset’s fair value less costs to sell and its value in use. In addition, items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventories when rental ceases and they are held for sale.

HKAS 27 Consolidated and Separate Financial Statements: Requires that when a parent entity financial statements for a subsidiary at fair value in accordance with HKAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

HKAS 28 Investments in Associates: Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

HKAS 36 Impairment of Assets: When discounted cash flows are used to estimate “fair value less costs to sell”, additional disclosures (e.g., discount rate and growth rate used) are required which are consistent with the disclosures required when the discounted cash flows are used to estimate “value in use”.

HKAS 38 Intangible Assets: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method for intangible assets other than the straight-line method has been removed. The Group has reassessed the useful lives of its intangible assets and concluded that the straight-line method is still appropriate.

HKAS 39 Financial Instruments: Recognition and Measurement: (i) sets out a number of changes in circumstances relating to derivatives that are not considered to result in reclassification into or out of the fair value through profit or loss category; (ii) removes the reference to the designation of hedging instrument at the segment level; and (iii) requires that the revised effective interest rate (rather than the original effective interest rate) calculated on cessation of fair value hedge accounting should be used for the re-measurement of the hedged item when paragraph AG8 of HKAS 39 is applicable.

HKAS 40 Investment Property: Revises the scope such that property being constructed or developed for future as an investment property is classified as an investment property.

2.3 Impact of issued but not yet effective HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

HKFRS 1 (Revised)	First Time Adoption of Hong Kong Financial Reporting Standards ¹
HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemptions from Comparative HKFRS7 Disclosures for First-time Adopters ⁴
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment — Group Cash-settled Share-based Payment Transactions ²
HKFRS 3 (Revised)	Business Combinations ¹

HKFRS 9	Financial Instruments ⁶
HKAS 24 (Revised)	Related Party Disclosures ⁵
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKAS 32 Amendments	Amendment to HKAS 32 Financial Instruments: Presentation — Classification of Rights Issues ³
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items ¹
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement ⁵
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ⁴
Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008	Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary ¹
HK Interpretation 4 (Revised in December 2009).	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases ²

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2009 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

- 1 Effective for annual periods beginning on or after 1 July 2009
- 2 Effective for annual periods beginning on or after 1 January 2010
- 3 Effective for annual periods beginning on or after 1 February 2010
- 4 Effective for annual periods beginning on or after 1 July 2010
- 5 Effective for annual periods beginning on or after 1 January 2011
- 6 Effective for annual periods beginning on or after 1 January 2013

HKFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of HKFRSs, the amendments will not have any financial impact on the Group.

The HKFRS 1 Amendments provide relief from the full retrospective application of HKFRSs for the measurement of oil and gas assets and leases. As a result of extending the options for determining deemed cost to oil and gas assets, the existing exemption relating to decommissioning liabilities has also been revised. As the Group is not a first-time adopter of HKFRSs, the amendments will not have any financial impact on the Group.

The HKFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions. The amendments also incorporate guidance that was previously included in HK(IFRIC)-Int 8 Scope of HKFRS 2 and HK(IFRIC)-Int 11 HKFRS 2 — Group and Treasury Share Transactions. The Group expects to adopt the HKFRS 2 Amendments from 1 January 2010. The amendments are unlikely to have any significant implications on the Group's accounting for share-based payments.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 Statement of Cash Flows, HKAS 12 Income Taxes, HKAS 21 The Effects of Changes in Foreign Exchange Rates, HKAS 28 Investments in Associates and HKAS 31 Interests in Joint Ventures.

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect the accounting of future acquisitions, loss of control and transactions with minority interests.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

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

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

The HKAS 32 Amendment revises the definition of financial liabilities such that rights, options or warrants issued to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The Group expects to adopt the HKAS 32 Amendment from 1 January 2011. As the Group currently has no such rights, options or warrants in issue, the amendment is unlikely to have any financial impact on the Group.

The HKAS 39 Amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Group expects to adopt the HKAS 39 Amendment from 1 January 2010. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

The HK(IFRIC)-Int 14 Amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in future contributions is thus equal to the sum of (i) the prepayment for future services and (ii) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments. While the adoption of the amendments is mandatory from 1 January 2011, earlier adoption is permitted. The Group is considering the implications of the amendments, the impact on the Group and the timing of its adoption by the Group.

HK(IFRIC)-Int 17 standardises practice in the accounting for nonreciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 Events after the Reporting Period and HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

HK(IFRIC)-Int 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the interpretation from 1 January 2011. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with HKAS 39 Financial Instruments: Recognition and Measurement and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. As the Group has not undertaken such transactions, the interpretation is unlikely to have any material financial impact on the Group.

The amendments to HKFRS 5 clarify that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. The Group expects to adopt the amendments from 1 January 2010. The changes must be applied prospectively and will affect future sale transactions or plans involving loss of control of a subsidiary.

Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. Except for the amendment to HKAS 18 and the amendment to HKFRS 8, the Group expects to adopt the amendments from 1 January 2010. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group are as follows:

- (a) HKFRS 2 Share-based Payment: Clarifies that a contribution of a business on the formation of a joint venture and combination of entities or businesses under common control is not within the scope of HKFRS 2 even though it is outside the scope of HKFRS 3.
- (b) HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Clarifies that (i) the disclosures required in respect of non-current assets (or a disposal group) classified as held for sale or a discontinued operation are those set out in HKFRS 5; (ii) the general requirements of HKAS 1 still apply (e.g., source of estimation uncertainty); and (iii) the disclosures in other HKFRSs are not required unless:
 - (i) those HKFRSs specifically require disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or
 - (ii) the disclosures relate to the measurement of assets or liabilities within a disposal group that are outside the scope of measurement requirements of HKFRS 5 and disclosures are not disclosed elsewhere in the financial statements.
- (c) HKAS 1 Presentation of Financial Statements: States that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- (d) HKAS 7 Statement of Cash Flows: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.
- (e) HKAS 17 Leases: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

HK Interpretation 4 Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases is revised as a consequence of the amendment to HKAS 17 Leases included in improvements to HKFRSs 2009. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.
- (f) HKAS 36 Impairment of Assets: Clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in HKFRS 8 Operating Segments before aggregation for financial reporting purposes.
- (g) HKAS 38 Intangible Assets: Clarifies that (i) if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of assets as a single asset provided that the individual assets have similar useful lives; and (ii) the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.
- (h) HKAS 39 Financial Instruments: Recognition and Measurement: Clarifies that (i) a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; (ii) the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date, applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and (iii) gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.
- (i) HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives: Clarifies that it does not apply to possible reassessment, at the date of acquisition, to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture.

- (j) HK(IFRIC)-Int 16 Hedges of a Net Investment in a Foreign Operation: Removes the restriction of where the hedging instrument may be held in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the Group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of HKAS 39 that relate to a net investment hedge are satisfied.

2.4 Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiaries and attributable share of results and reserves of its associates (collectively referred to as the “Group”) for the year ended 31 December 2009.

(a) *Subsidiaries*

Subsidiaries are those entities in which the Bank, directly or indirectly, controls the composition of the Board of Directors, controls more than half of the voting power or holds more than half of the issued share capital; or over which the Bank has a contractual right to exercise a dominant influence with respect to that entity’s financial and operating policies. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any goodwill or negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement.

The results of subsidiaries are included in the Bank’s income statement to the extent of dividends received and receivable. The Bank’s investments in subsidiaries are stated at cost less any impairment losses.

(b) *Associates*

An associate is an entity, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group’s interests in associates are stated in the consolidated statement of financial position at the Group’s share of net assets under the equity method of accounting, less any impairment losses. The Group’s share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group’s interests in associates and is not individually tested for impairment.

The results of associates are included in the Bank’s income statement to the extent of dividends received and receivable. The Bank’s investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

For regulatory reporting, the basis of consolidation for calculation of consolidated capital adequacy ratio of the Group is set out in Note 1 of the “Supplementary Financial Information” section.

2.5 Interest income and expenses

Interest income and expense are recognised in the income statement for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the

effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment 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.

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

2.6 Non-interest income

Fee and commission income and expense

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate as the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis.

Net trading income

Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities classified as held for trading and available for sale. Gains or losses arising from changes in fair value of derivatives to the extent as described in the accounting policy set out in Note 2.10 are reported as “Net trading income”.

Gains and losses on foreign exchange trading and other transactions are also reported as “Net trading income” except for those gains and losses on translation of foreign currencies recognised in the foreign exchange reserve in accordance with the accounting policy set out in Note 2.15.

Dividend income

Dividends are recognised in the income statement when the Group’s right to receive payment is established.

2.7 Financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, heldto- maturity investments and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

When the fair value of unlisted equity securities cannot be reliably measured because (i) the variability in the range of reasonable fair value estimates is significant for that investment or (ii) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group’s financial assets include cash and bank balances, trade and other receivables, loans receivable, quoted and unquoted financial instruments, and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

(b) *Loans and receivables*

Loans and receivables, including cash and short-term funds, placements with and advances to banks and other financial institutions, trade bills and loans and advances to customers, banks and other financial institutions, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in net interest income in the income statement. The loss arising from impairment is recognised in the income statement.

(c) *Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in net interest income in the income statement. The loss arising from impairment is recognised in the income statement. Were the Group to sell or reclassify other than an insignificant amount of held-to-maturity investments, the entire category would be tainted and reclassified as available for sale.

(d) *Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale financial investment reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed from the available-for-sale financial investment reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "net interest income" and "dividend income from financial investments".

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. In rare circumstances, reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in reserve is amortised to the income statement over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in reserve is reclassified to the income statement.

(e) *Derecognition of financial assets*

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay in full without material delay to a third party under a "pass through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(f) *Fair value*

The fair values of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. The Group establishes the fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, a discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

2.8 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or a group of financial assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the borrower's financial difficulty granting to the borrower, a concession that the lender would not otherwise consider;
- it is becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

- the disappearance of an active market for that financial asset because of financial difficulties;
- deterioration in the value of collateral;
- downgrading below investment grade level; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group; or national or local economic conditions that correlate with the defaults on the assets in the group.

(a) *Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, 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.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowances are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The present value of the estimated future cash flows of a collateralised financial asset less costs for obtaining and selling the collateral, reflects the cash flows that may result from foreclosure whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, overdue status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows from groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and the historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such loan is written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowances for loan impairment in the income statement.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

(b) *Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is “significant” or “prolonged” requires judgement. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

2.9 Financial liabilities

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition.

(a) *Financial liabilities at fair value through profit or loss*

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

Financial liabilities designated as at fair value through profit or loss, including the Group’s own debt securities in issue and deposits received from customers that are embedded with certain derivatives, are designated as such at inception. Financial liabilities designated at fair value through profit or loss are carried at fair value and any gains and losses from changes in fair value are recognised in the income statement.

A financial liability is classified as held for trading if it is incurred principally for the purpose of sale in the short term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Any interests charged on these financial liabilities are included in the income statement under “Interest expense”. It is carried at fair value and any gains and losses from changes in fair value are recognised in the income statement.

(b) *Other financial liabilities*

Other financial liabilities are recognised initially at fair value net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the other financial liabilities using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within “Interest expense” in the income statement.

(c) *Derecognition of financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

2.10 Derivative financial instruments and hedge accounting

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

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is better evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profits on day one.

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

Derivatives that qualify for hedge accounting

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (i) hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments (fair value hedge); or (ii) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) *Fair value hedge*

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

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

(b) *Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts recognised in other comprehensive income are recycled to the income statement in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place).

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

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

2.11 Offsetting of financial instruments

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

2.12 Sale and repurchase agreements

Securities sold subject to repurchase agreements (“repos”) are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks and other financial institutions or deposits from customers, as appropriate. Securities purchased under

agreements to resell (“reverse repos”) are recorded as loans and advances to customers, banks or other financial institutions, as appropriate. The difference between sale and repurchase prices is treated as an interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in the trading income. The obligation to return them is recorded at fair value as a trading liability.

2.13 Repossessed assets

Repossessed collateral assets are reported as off balance-sheet items and are stated at fair value. In the recovery of impaired loans and advances, the Group may take possession of the collateral assets through court proceedings or voluntary delivery of possession by the borrowers. In accordance with the Group’s accounting policy set out in Note 2.8(a), impairment allowances for impaired loans and advances are maintained after taking into account the net realisable value of the collateral assets. On a sale transaction of repossessed assets, the amount received will be used to offset the loans and advances first until they are fully recovered, and any remaining amount will be released to the borrowers.

2.14 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.15 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

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

(c) *Group companies*

The results and financial positions of all the group entities (none of which has a functional currency which is the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities of these entities are translated at the closing rate at the end of the reporting period;
- their income statements are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates prevailing at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity.

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) *Consolidated statement of cash flows*

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

2.16 Property, plant and equipment

Bank premises and properties comprise mainly branches and offices. Bank premises and properties are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. All other items of property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Increases in the carrying amount arising on revaluation of bank premises and properties are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against bank premises revaluation reserve directly in equity; all other decreases are expensed in the income statement. Each year the difference between the depreciation amount based on the revalued carrying amount of the asset expensed in the income statement and the depreciation amount based on the asset's original cost is transferred from the bank premises revaluation reserve to retained earnings.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Bank premises and properties	Over the remaining lease period of the land on which the properties are situated or 50 years, whichever is shorter
Leasehold improvements.....	Over the lease term of the leased premises or 10 years whichever is shorter
Furniture and equipment.....	4 to 10 years

The residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each financial year end.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount, with the amount charged directly to the income statement.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset. On disposal of a revalued asset, the relevant portion of the reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

2.17 Investment properties

Property that is held for long-term yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property.

Investment properties comprise land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as an investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment properties are measured initially at cost, including related transaction costs. After initial recognition, investment properties are carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers. Investment properties that are being redeveloped for continuing use as investment properties, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment properties reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the properties. Some of those outflows are recognised as liabilities, including finance lease liabilities in respect of land classified as investment properties; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Properties that are being constructed or developed for future use as investment properties is classified as property, plant and equipment and stated at cost until construction or development is completed, at which time they are reclassified and subsequently accounted for as investment properties.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

2.18 Leasehold land and land use rights

Leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in land at the time the lease was first entered into by the Group. The interest in leasehold land is stated at cost less impairment loss in the statement of financial position and is amortised to the income statement on the straight-line basis over the remaining lease term.

2.19 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets and liabilities and contingent liabilities assumed of the acquired subsidiaries at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of an associate is included in "Investments in associates". The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is carried at cost less accumulated impairment losses. An impairment loss recognised for goodwill is not reversed in a subsequent period. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units is represented by each primary reporting segment.

2.20 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Gains or losses from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the assets are derecognised.

(a) *Computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful life of four years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as intangible assets are amortised over their estimated useful life (not exceeding four years).

(b) *Trading rights*

Trading rights represent eligibility rights with indefinite useful lives to trade on or through The Stock Exchange of Hong Kong Limited and are tested for impairment annually. Such intangible assets are not amortised. The useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable, if not, the change in the useful life assessment from indefinite to infinite is accounted for on a prospective basis.

2.21 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, but are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). 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 the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for as deferred income tax. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of the reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.23 Employee benefits

(a) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

(b) *Pension obligations*

The Group operates a defined contribution retirement scheme under the Occupational Retirement Schemes Ordinance (the “ORSO Scheme”) and another defined contribution retirement scheme under the Mandatory Provident Fund Schemes Ordinance (the “MPF Scheme”) for those employees of the Group who are eligible and have elected to participate in the schemes. The Group’s contributions to the ORSO Scheme are made based on a percentage of the eligible employees’ basic salaries and those made to the MPF Scheme are made based on a percentage of the eligible employees’ relevant income as defined in the MPF Scheme. These contributions are expensed as incurred and are reduced by contributions forfeited by those employees of the Group who leave the schemes prior to the contributions vesting fully. The assets of the schemes are held separately from those of the Group in independently administered funds.

2.24 Provisions

Provisions for restructuring costs and legal claims are recognised when (i) the Group has a present legal or constructive obligation as a result of past events; (ii) it is more likely than not that an outflow of resources will be required to settle the obligation; and (iii) the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.25 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on the straightline basis over the period of the lease. The Group’s interests in leasehold land and land use rights are also accounted as operating leases.

Where the Group is a lessor under operating leases, assets leased out are included in property, plant and equipment in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on the straight-line basis over the lease term.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.26 Cash and cash equivalents

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

2.27 Contingent liabilities and contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the Group's control.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Group's control, or a present obligation arising from past events that is not recognised either because an outflow of resources embodying economic benefits will be required to settle the obligation is not probable or the amount of obligation cannot be measured with sufficient reliability.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When the inflow is virtually certain, it will be recognised as an asset.

A contingent liability is not recognised as a provision but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.28 Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

2.29 Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Bank's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.30 Fiduciary activities

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

(a) Impairment allowances on loans and advances

The Group reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or in the national or local economic conditions that correlate with defaults on assets in the group of borrowers. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Fair value of derivatives

The fair values of financial instruments that are not quoted in active markets are determined by using various valuation techniques according to the nature of the financial instruments. These include third party price quotation, a discounted cash flow and option pricing models. These models are built by reputable system suppliers and are widely used in the market. They are reviewed and calibrated by qualified personnel independent of the area that created them. Valuation outputs are generated from these systems using relevant current observable market parameters and are verified before they are used for financial reporting purposes.

(c) Impairment of available-for-sale investments

The Group determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share prices. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operating and financing cash flows.

(d) Held-to-maturity investments

The Group follows the guidance of HKAS 39 to classify non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances, for example, selling an insignificant amount close to maturity, it will be required to reclassify the entire class as available-for-sale financial investments. The investments would therefore be measured at fair value and not at amortised cost.

(e) Fair value of bank premises and properties

The fair value of the leasehold building is estimated based on the valuation made by an independent professionally qualified valuer on an open market basis.

(f) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on the value-in-use calculations. These calculations require the use of estimates of discount rate and long-term growth rate.

(g) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4 FINANCIAL RISK MANAGEMENT

4.1 Overall risk management

Pursuant to the implementation of Basel II New Accord since January 2007, the Group practises risk management in 2009 in congruence with the principles and requirements of the New Accord. Paying increased attention to corporate governance, the Board oversight and a top-down approach permeated through the Group's risk management structure, processes, policies and internal control. For its business plan and activities, the Group identifies, assesses, monitors, controls, reports and reviews the major risks to ensure capital adequacy and compliance with regulatory guidelines and adherence to the Board's risk expectation, including during stress times.

Risk management structure and principles

The Group has established policies and procedures for the identification, measurement, control and monitoring of risk factors (including credit, liquidity, market, interest rate, operational, legal and compliance risks). Central to the Group's risk management is the Board's oversight, which ultimately endorses all core risk policies and their subsequent amendments. Two Risk Management Committees, one at Board level and the other at senior executive level, reinforce the Board and management's oversight in the risk management structure, process and policies. The management of the Group, the Risk Management Department and the relevant functional committees review and revise these policies and procedures on a regular basis. The Group's Internal Audit Department also performs regular checks on compliance with policies and procedures.

Launch of new products and services

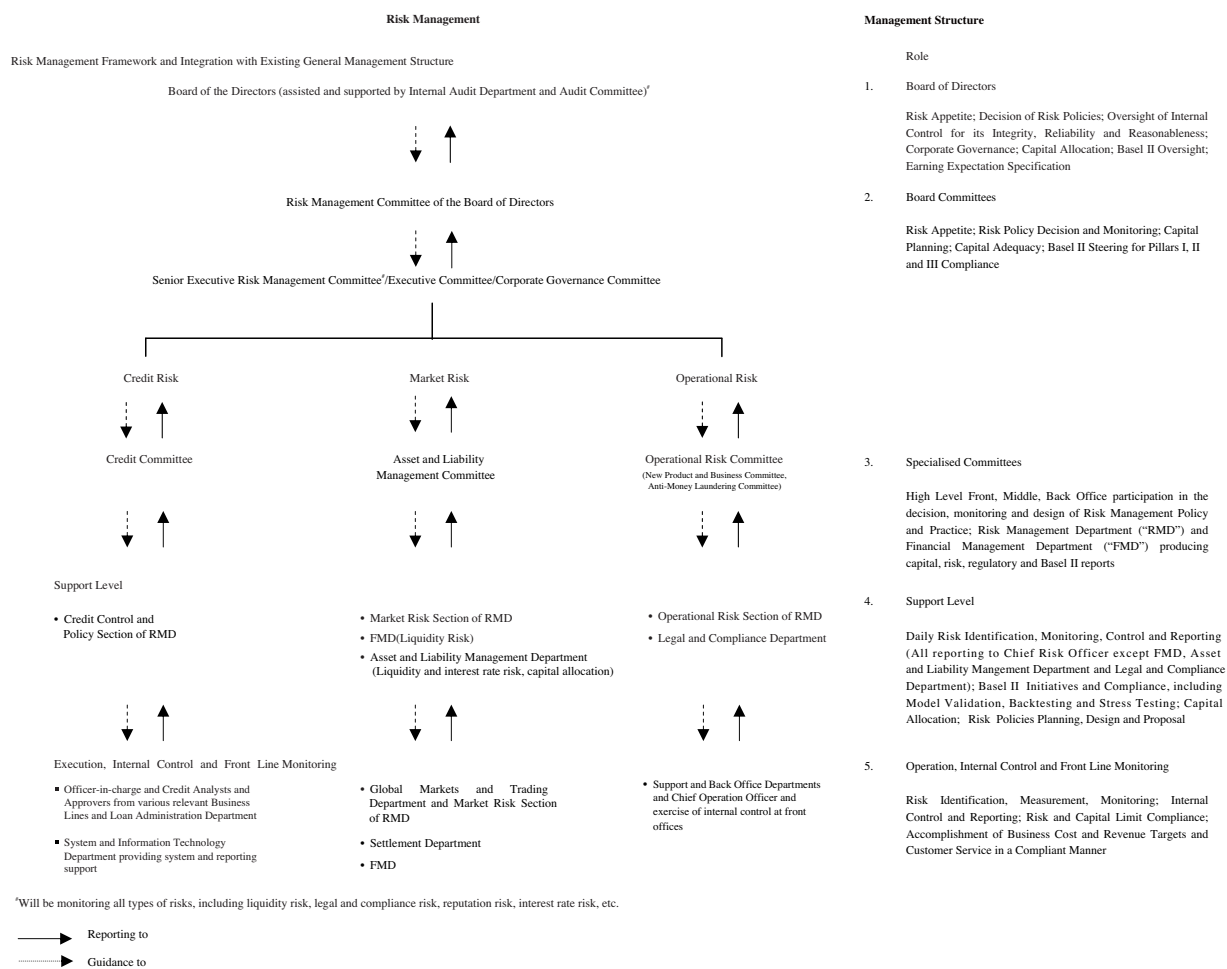
The launch of new banking products and services has to go through the essential steps of development and approval process to ensure their commercial viability, ethical suitability and statutory compliance. The Product Development Department or other relevant business unit is responsible to prepare a proposal for any new product or service to the New Product & Business Committee (chaired by an executive director of the Bank) for approval. The main objective of the process is to identify and assess the risks associated with the product; to implement steps to prevent the occurrence or minimise its magnitude of impact; and to exercise measures to ensure the risks are all the times under managed and control.

In accordance with Basel II Pillar I, the Group adopts the following approaches for its credit, market and operational risk exposure in the calculation of its capital adequacy ratio ("CAR"):

Credit risk	— Standardized approach
Market risk	— Standardized approach
Operational risk	— Basic indicator approach

The Risk Management Department is responsible for credit, market and operational risk management. Its department head reports to Chief Risk Officer, who in turn reports to the Risk Management Committee of the Board of Directors.

The following diagram depicts the Group's risk management structure under the Basel II regime and compatible with relevant HKMA guidelines.



Management Structure

- Role
- Board of Directors
 - Risk Appetite; Decision of Risk Policies; Oversight of Internal Control for its Integrity, Reliability and Reasonableness; Corporate Governance; Capital Allocation; Basel II Oversight; Earning Expectation Specification
 - Board Committees
 - Risk Appetite; Risk Policy Decision and Monitoring; Capital Planning; Capital Adequacy; Basel II Steering for Pillars I, II and III Compliance
 - Specialised Committees
 - High Level Front, Middle, Back Office participation in the decision, monitoring and design of Risk Management Policy and Practice; Risk Management Department ("RMD") and Financial Management Department ("FMD") producing capital, risk, regulatory and Basel II reports
 - Support Level
 - Daily Risk Identification, Monitoring, Control and Reporting (All reporting to Chief Risk Officer except FMD, Asset and Liability Management Department and Legal and Compliance Department); Basel II Initiatives and Compliance, including Model Validation, Backtesting and Stress Testing; Capital Allocation; Risk Policies Planning, Design and Proposal
 - Operation, Internal Control and Front Line Monitoring
 - Risk Identification, Measurement, Monitoring; Internal Control and Reporting; Risk and Capital Limit Compliance; Accomplishment of Business Cost and Revenue Targets and Customer Service in a Compliant Manner

4.2 Credit risk

Credit risk is the risk that a borrower or counterparty of the Group will be unable or unwilling to honor a repayment obligation. The Group has standards, policies and procedures and designated functional departments in place to control and monitor these risks.

The Group devotes considerable resources to maintaining sound credit risk management. Management has set credit policies and systems to identify, measure, monitor and control risks inherent in various lending businesses. This process ensures prudence, minimises operational omissions in credit matters, and aims at early detection of potential problems, thereby minimising business loss.

High-level credit policies of the Group are set, reviewed and constantly updated by the relevant functional departments and committees, and for prominent issues, by the Management or even the Board of Directors to take balanced account of dynamic market situation, regulatory requirement, the Group's usual prudent lending practices and its latest business strategies. All these credit policies, processes and practices, as they are developed, updated, reviewed and revised, are written now and then into Credit Manuals and supplementary lending product manuals for internal control and compliance purposes. Given the Basel II Capital Accord implemented since January 2007, the Group has been adjusting its credit risk management practice in line with relevant guidelines released by the HKMA and for the sake of enhancing internal credit control, processing efficiency and product competitiveness.

Credit authorities are delegated to individual approvers for efficiency and productivity purposes. Except for taxi loans, small business loans and consumer loans, no business originating units can singly approve any loan. Loans singly approved by business originating units are nevertheless still subject to approval criteria pre-set by the Credit Function or Credit Committee. Otherwise, the Group generally requires "dual" approval whereby loan proposals shall require joint approval by the Business Line and Credit Function. The Bank's Credit Committee, which approves all credit policies and large loans, shall not pass any credit related proposal if its Credit Function approvers disagree. Only the loan proposals approved by the Credit Committee would be submitted to Chief Executive Officer for signature if and where it is needed.

The Credit Department and the Loans Administration Department are the centralised departments in the Bank mandated to carry out credit policies. They perform independent credit assessment, post-approval credit administration and other credit control functions to ensure that the credit process complies with credit policies and guidelines laid down by the management. Apart from the independent credit assessment and matrix approval process, regular post approval inspection by the Risk Management Department and credit audits are conducted on specific loan portfolio or operating units in the credit process. To maintain its independence, the Credit Department and Loans Administration Department of the Bank have a direct reporting line to a Deputy General Manager who is independent of business. Same control, supplemented by system support, regular mark-to-market and case by case approval by the Risk Management Department, also applies to the counter party credit risk of structured derivative products.

The Group employs RAROC techniques to help ensure that its loan assets are commensurately priced on a credit risk-adjusted basis according to Basel II principles.

Management spares no efforts in monitoring the quality and behavior of the loan portfolio. The Group's internal credit risk grading system consisting of 15 grades built on Basel II — compliant attributes is adopted for credit risk differentiation purpose. With internal data to be constantly enriched through years of experience, it is expected that the Group can make further use of the credit statistics to profile and track down credit risk migration, to measure loan default probabilities and to practise other credit risk management processes, of which the new credit rating model is and will substantially be an integral part.

The Group's credit risk appetite is spelt out, disseminated and referred to in daily credit decision. Purpose is to limit the range of credit proposals presented to the credit approval process to those that fit the Group's risk appetite developed out of the Group's past experience, the Board preference and risk or reward evaluation.

The Bank is vigilant about risk concentration and has therefore be practising credit risk exposure limits to individual customers in absolute amount and as a percentage of the Bank's equity, to industry sectors and to geographical markets.

The Group's quarterly credit guidelines and quarterly loan portfolio review have been practised for years. In economic bad times, it is basic to the mechanism for initiating pre-emptive measures to help stabilise the quality of the Group's loan asset portfolio. Given that the market liquidity of investment papers tends to rapidly dry up when global economic conditions suffer, the Group increases its reliance, too, on the Credit Function and on the Credit Committee in the approval and risk monitoring process of these investment papers.

(a) *Maximum exposure to credit risk before collateral held or other credit enhancements*

	Group		Bank	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Credit risk exposures relating to on-balance sheet assets are as follows:				
Cash and balances with banks and other financial institutions	27,910,582	28,678,778	25,247,532	27,649,423
Placements with and advances to banks and other financial institutions	1,663,286	844,358	2,427,183	1,660,123
Financial assets held for trading	190,246	52,051	67,998	52,051
Financial assets designated at fair value through profit or loss	1,162,149	1,488,003	1,162,149	1,488,003
Derivative financial instruments	1,285,306	2,308,702	1,285,306	2,308,702
Loans and advances to customers, banks and other financial institutions	147,024,582	137,082,721	137,725,764	128,285,852
Available-for-sale financial investments	32,361,666	17,403,075	32,361,096	17,402,458
Held-to-maturity financial investments	1,291,509	1,976,403	1,291,509	1,976,403
Credit risk exposures relating to off-balance sheet items are as follows:				
Loan commitments and other credit related commitments	11,085,237	17,994,335	6,183,199	5,752,305
Financial guarantees and other credit related contingent liabilities	92,672,144	71,723,015	92,446,260	71,525,226
At the end of the reporting period	316,646,707	279,551,441	300,197,996	258,100,546

(b) *Credit quality*

Gross loans and advances

(i) *Distribution of gross loans and advances by credit quality is summarised as follows:*

	Group		Bank	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gross loans and advances to customers:				
— neither past due nor impaired.....	135,103,632	117,918,865	125,928,706	109,378,442
— past due but not impaired.....	529,218	1,230,299	529,218	1,226,677
— impaired.....	1,358,618	888,965	1,095,353	835,897
Total	<u>136,991,468</u>	<u>120,038,129</u>	<u>127,553,277</u>	<u>111,441,016</u>

	Group		Bank	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gross loans and advances to banks and other financial institutions:				
— neither past due nor impaired.....	10,671,725	16,731,818	10,671,725	16,556,691
— past due but not impaired.....	—	—	—	—
— impaired.....	—	—	—	—
Total	<u>10,671,725</u>	<u>16,731,818</u>	<u>10,671,725</u>	<u>16,556,691</u>

(ii) *Distribution of gross loans and advances that are neither past due nor impaired*

The credit quality of the portfolio of loans and advances that were neither past due nor impaired at the end of the reporting periods can be assessed by reference to the internal rating system adopted by the Group.

Credit rating	Internal rating	S&P's equivalent	Group		Bank	
			2009	2008	2009	2008
			HK\$'000	HK\$'000	HK\$'000	HK\$'000
Pass Grade	A-E	AAA to BBB-	34,875,810	34,061,738	34,019,167	33,393,354
	F-H	BB+ to BB	63,989,856	70,190,588	61,993,408	65,952,459
	I-J	BB- to B+	36,472,345	24,189,154	30,404,242	20,666,337
Special Mention Grade	K-L	B to CCC-	10,437,346	6,209,203	10,183,614	5,922,983
Total			<u>145,775,357</u>	<u>134,650,683</u>	<u>136,600,431</u>	<u>125,935,133</u>

The various internal and external rating criteria and calibration are mapped back to one single internal credit rating scale for statistical and regulatory purposes. The Standard & Poor's ("S&P") equivalent ratings are based on mapping the individual probability of default of each internal grade with that of the S&P's ratings.

The Credit Function and Credit Committee decide an individual borrower's credit rating. Credit rating is a function of quantitative and management attributes that include economic outlook, account conduct and industry risk. The Group has a different rating scale for large corporates and SMEs. The external rating of S&P, Moodys and Fitch will be adopted, if available.

The following table which gives a distribution of the Group's total loans and advances by credit rating. The Group has calibrated its borrowing customers into Grade A — Grade O and works out their respective weighted average probability of default ("PD") and loss given default ("LGD") since 2005.

Pass Grades	A to J
Special Mention Grades	K to L
Non-Performing Loan Grade ("NPL")	M to O

Grades A — J: Loans where borrowers are currently in meeting commitment and full repayment of interest and principal is not in doubt. There are 10 grades within the performing category from A to J.

Grades K — L: All pass grade borrowers which have overdue loans for a period exceeding one month are downgraded to special mention rating or below, unless with strong justification irrespective of the internal ratings. Borrowers exhibiting one or more of the characteristics per the HKMA's special mention or non-performing grades definition or as general economic environment deteriorates, may also be graded K & L, notwithstanding the absence of overdue loan on default record. This is a stringent credit rating approach to raise the Group's credit risk alertness.

(iii) *Gross loans and advances which were past due but not impaired*

The analysis below shows the gross loans and advances to customers, banks and other financial institutions that were past due but not impaired at the end of the reporting periods:

	Group		Bank	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Past due up to 30 days.....	473,455	748,891	473,455	748,891
Past due 31-60 days.....	51,519	73,419	51,519	69,797
Past due 61-90 days.....	1,890	404,953	1,890	404,953
Past due over 90 days.....	2,354	3,036	2,354	3,036
Total	<u>529,218</u>	<u>1,230,299</u>	<u>529,218</u>	<u>1,226,677</u>
Fair value of collateral.....	<u>479,922</u>	<u>1,034,412</u>	<u>479,922</u>	<u>1,030,790</u>

Other than gross loans and advances, no financial assets were past due but not impaired at the end of the reporting periods of 2009 and 2008.

Where collateral values are greater than gross loans and advances, only the amount of collateral up to the gross loans and advances was included.

(iv) *Loans and advances individually impaired*

The Group has a policy of downgrading customers to the NPL grade when overdue is longer than 90 days. Very seldom would outstandings for over 90 days be retained in pass grade instead of the impaired. Impaired borrowing accounts are typically transferred to management by the Special Assets Department, so that the prospect and means of recovery can be more independently evaluated, decided and implemented. The Special Assets Department may not take any immediate recovery action. It may even help in circumstances where the customer in question is deemed to be able to be rehabilitated and the collateral is important to the customer's continued business operation. The Group may at times join or seek agreement with other creditor banks to stand still in concert. Otherwise, the Group will take appropriate measures to preserve the customer's assets, to maximise recovery and to fast realise property collateral in a timely manner either by private sale or by public auction at prices that are in acceptable proximity with the average of several external valuations.

The Group adopts an objective individual impairment policy in compliance with the requirement of HKAS 39. Impairment requirement, if any, can always be traceable back to reasonably expected discounted repayment cash flows and/or the assessed net realisable value of the collateral.

(v) *Renegotiated loans that would otherwise be past due or impaired*

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar restructured debts by the Special Assets Department. Restructuring policies and practices are based

on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired totalled HK\$7,049,372 as at 31 December 2009 (2008: HK\$6,651,801). They are retained in classified loans for as long as we do not have sufficient good reasons to believe that the obligor will be able to sustainably meet the re-scheduled loan repayment terms.

Debt and equity securities

(i) Financial investments by rating agency designation

The table below presents an analysis of financial investments by rating agency designation at 31 December, based on S&P's ratings or their equivalence to the respective categories of financial investments. In the absence of such issue ratings, the rating scale adopted by the issuers is used.

Group 2009	Financial assets designated at		Available-for-sale financial investments	Held-to-maturity financial investments	Total
	Financial assets held for trading	fair value through profit or loss			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
AAA	—	—	4,697,943	—	4,697,943
AA- to AA+	425	201,022	7,016,151	1,206,732	8,424,330
A- to A+	62,687	562,713	15,569,046	84,777	16,279,223
Lower than A-	4,886	398,414	4,723,280	—	5,126,580
Unrated	122,248	—	355,246	—	477,494
Total	<u>190,246</u>	<u>1,162,149</u>	<u>32,361,666</u>	<u>1,291,509</u>	<u>35,005,570</u>

Group 2008	Financial assets designated at		Available-for-sale financial investments	Held-to-maturity financial investments	Total
	Financial assets held for trading	fair value through profit or loss			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
AAA	—	—	1,700,548	—	1,700,548
AA- to AA+	628	200,119	2,192,436	1,219,821	3,613,004
A- to A+	46,728	399,792	9,051,465	756,582	10,254,567
Lower than A-	4,695	695,092	4,241,970	—	4,941,757
Unrated	—	193,000	216,656	—	409,656
Total	<u>52,051</u>	<u>1,488,003</u>	<u>17,403,075</u>	<u>1,976,403</u>	<u>20,919,532</u>

Bank 2009	Financial assets designated at		Available-for-sale financial investments	Held-to-maturity financial investments	Total
	Financial assets held for trading	fair value through profit or loss			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
AAA	—	—	4,697,943	—	4,697,943
AA- to AA+	425	201,022	7,016,151	1,206,732	8,424,330
A- to A+	62,687	562,713	15,569,046	84,777	16,279,223
Lower than A-	4,886	398,414	4,723,280	—	5,126,580
Unrated	—	—	354,676	—	354,676
Total	<u>67,998</u>	<u>1,162,149</u>	<u>32,361,096</u>	<u>1,291,509</u>	<u>34,882,752</u>

Bank 2008	Financial assets designated at		Available-for-sale financial investments	Held-to-maturity financial investments	Total
	Financial assets held for trading	fair value through profit or loss			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
AAA	—	—	1,700,548	—	1,700,548
AA- to AA+	628	200,119	2,192,436	1,219,821	3,613,004
A- to A+	46,728	399,792	9,051,465	756,582	10,254,567
Lower than A-	4,695	695,092	4,241,970	—	4,941,757
Unrated	—	193,000	216,039	—	409,039
Total	52,051	1,488,003	17,402,458	1,976,403	20,918,915

(ii) *Investment portfolio*

As at 31 December 2009, the Bank's debt securities portfolio amounted to HK\$32.1 billion, with a 77.1% increase over the HK\$18.1 billion as at 31 December 2008. HK\$10.3 billion or 32.1% of the portfolio will mature in 2010. The majority of the portfolio are denominated in US\$ and HK\$ whereas the rest are in other currencies, such as AUD, EUR, CNY, JPY and SGD. In terms of booking, over 90% of the outstanding exposures are kept in the available-for-sale book category. Over 84% of the portfolio falls within the investment grade category. The Bank's debt securities portfolio operates under a strict and prudent risk management framework and is in compliance with all pre-determined internal investment guidelines, which are reviewed and approved by the Board of Directors annually. It is noteworthy that the Bank has no exposure to collateralised debt obligations ("CDOs") and United States subprime mortgages but has some exposures to structured investment vehicles ("SIVs") and commercial mortgagebacked securities ("CMBSs").

The Bank adopts HKAS 39 compliant accounting and value impairment policy for its investment paper portfolio other than the held-to-maturity ones. They are marked-to-market on a monthly basis, often with prices quoted by several reliable sources from which the more realistically conservative one is selected for impairment adjustment or permanent value diminution purpose.

(c) *Derivatives*

The Group maintains strict control limits on open derivative positions. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e., assets where their fair values are positive), which is only a small fraction of the contracts in relation to derivatives, or is not limited to the notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with counterparties on nominal amounts. Collateral or other security is obtained for credit risk exposures either in the form of margin deposits or when the accrued marked-to-market loss exceeds a pre-determined threshold.

(d) *Master netting arrangements*

The Group further restricts its exposure to credit risk by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis.

(e) *Credit-related commitments*

The primary purpose of these instruments is to ensure that funds are available to a customer to settle his obligations as required. Guarantees and standby letters of credit which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties carry the same credit risk as loans. Documentary and commercial letters of credit which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct lending.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed

to loss in an amount equal to the total unused commitments. However, even in the worst scenario, loss is likely to be less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(f) *Collateral and other credit enhancements*

The Group holds collateral against loans and advances to customers in the forms of mortgages over property, other registered securities over assets, cash deposits and guarantees. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument.

(g) *Credit risk stress test*

In accordance with the HKMA's supervisory policy guidelines, the Group runs the counterparty credit risk stress test periodically in estimation of the probable credit loss in a mild, moderate and severe crisis scenario. The Group performs the credit risk stress test on the basis of the empirical data during the Asian financial crisis spanning 1998 and 2004, including the 2003 SARS epidemic. The Senior Executive Risk Management Committee reviews the stress test, their parameters and their impact on the Group's regulatory capital adequacy ratio. Contingent measures will be devised to control possible adversities, if deemed necessary.

The following table summarises the result of the Group's latest credit risk stress tests for counterparties.

Crisis scenario		31 December 2009	31 December 2008
Mild	NPL (HK\$ million)	3,412	5,611
	NPL ratio (%)	2.80%	4.67%
	Expected credit loss (HK\$ million)	1,126	828
Moderate	NPL (HK\$ million)	4,057	6,548
	NPL ratio (%)	3.35%	5.45%
	Expected credit loss (HK\$ million)	1,393	1,158
Severe	NPL (HK\$ million)	4,649	7,497
	NPL ratio (%)	3.84%	6.24%
	Expected credit loss (HK\$ million)	1,674	1,549

All the above credit risk reports are reviewed monthly by the Credit Committee or quarterly by the Senior Executive Risk Management Committee. Warning signals or policy deviations, if any, will be investigated, discussed, rectified or dealt with, and, if necessary, be reported to the Board in due course for information, instruction or approval.

4.3 Market risk management

Market risk is the risk that market rates and prices on assets, liabilities and off-balance sheet positions change, thus causing profits or losses. Generally the Group's market risk is associated with its positions in foreign exchange, money market, debt securities, derivatives and stocks. Most off-balance sheet derivative positions arise from the execution of customer-related orders and positions taken for hedging purposes. Structured products are basically offered to customers in most cases on a back-to-back basis to maintain the Bank's market competitiveness at minimal market risk, commensurate with the Group's risk appetite. The Board places material emphasis on market risk control, including the operational control of the Bank's proprietary and non-bank customer dealing operation, for which regular Board's initiatives are made.

The objective of the Group's market risk management is to optimise return and control market risk in ways consistent with the Group's risk profile and its status as a premier provider of financial products and services.

The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading portfolios include those positions arising from market-making, proprietary position taking and other mark-to-market positions so designated. Non-trading portfolios primarily arise from the effective foreign exchange and interest rate management of the Group's retail, corporate and commercial banking assets and liabilities.

(a) *Market risk management framework*

Market risk exposure for different types of transactions is managed within risk limits and guidelines approved by the Management and the Asset and Liability Management Committee (the "ALCO"), and for prominent issues, reviewed by the Board of Directors. Trading limits are increased for opportunities in the market. Exposures are measured and monitored against

limits on positions, stop-loss, value-at-risk, sensitivity, delta, gamma, etc. Daily risk monitoring is carried out by an independent market risk unit of the Risk Management Department, which ensures all dealing activities are conducted in a proper mode and within approved limits. The Group's market risk exposures are reviewed by the ALCO and the Senior Executive Risk Management Committee. All exceptions to limits are reported to the ALCO. Important derivations, if any, will be escalated to the attention of the Risk Management Committee of Board of Directors. Stress tests are performed regularly to estimate the possible losses under extreme circumstances. The Group's Internal Audit Department also performs regular review and testing on dealing activities to ensure compliance with all internal guidelines.

Besides, various reputable treasury systems are being used to further strengthen the functions of control and monitoring, supplemented as mentioned by, among others, predetermined stop loss limits to keep the risk of increased trading limits at bay. An enhanced system is in process of installation with implementation in phases during 2009 through 2012, and with a view to ultimately strengthen the Group's market risk management and counterparty credit risk control for structured products.

(b) *Measurement of Market Risk*

Measurement techniques used to quantify the market risk arising from the Bank's trading and non-trading activities include sensitivity analysis and stress testing. Sensitivity measures, concentration and stop-loss limits are used as the risk management tools. Limits are set for each portfolio, product and risk type. Stress tests are performed regularly to assess the potential losses under extreme circumstances. The ALCO and the Senior Executive Risk Management Committee review stress test results on a regular basis.

(c) *Interest rate risk*

Interest rate risk is the risk that the Group's position may be adversely affected by a change in market interest rates. Interest rate risk arises mainly from the maturity mismatch of interestbearing assets and liabilities and yield curve movements. Interest-rate risk exposures are managed within risk limits approved and monitored by the ALCO with the participation of the Risk Management Department and the Asset and Liability Management Department. Interest rate risk exposures in non-trading portfolio are measured once a month and the results are reported to the ALCO.

The Group manages its interest rate risk by way of entering into on or off-balance sheet interest rate risk hedging instruments. The effectiveness of the hedging activities is assessed regularly in accordance with HKAS 39. The Group's interest rate risk position is further regularly reported to and scrutinised by the Senior Executive Risk Management Committee.

Foreign currency funding used to fund Hong Kong dollar assets is normally hedged using currency swaps or forward exchange contracts to neutralise foreign exchange risk.

The Group will use and counts on stop loss, management trigger limits, stress test and a software system in installation to manage its interest rate risk.

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

Group At 31 December 2009	Up to	1-3	3-12	1-5	Over	Non-	Total
	1 month	months	months	years	5 years	interest- bearing	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets							
Cash and balances with banks and other financial institutions	27,490,845	—	—	—	—	419,737	27,910,582
Placements with and advances to banks and other financial institutions	—	903,730	759,556	—	—	—	1,663,286
Financial assets held for trading ..	—	—	19,884	19,244	7,920	143,198	190,246
Financial assets designated at fair value through profit or loss	—	78,433	157,551	711,467	214,698	—	1,162,149
Derivative financial instruments ..	—	—	—	—	—	1,285,306	1,285,306
Loans and advances to customers, banks and other financial institutions	110,067,397	25,486,467	9,366,608	534,006	1,503,876	66,228	147,024,582
Available-for-sale financial investments	2,843,909	8,600,204	5,158,233	12,678,739	1,486,571	1,594,010	32,361,666
Held-to-maturity financial investments	114,436	—	1,177,073	—	—	—	1,291,509
Other assets	12,330	—	—	—	—	2,852,173	2,864,503
Total assets	140,528,917	35,068,834	16,638,905	13,943,456	3,213,065	6,360,652	215,753,829
Liabilities							
Deposits from banks and other financial institutions	11,564,169	6,958,339	1,026,322	—	—	627,870	20,176,700
Derivative financial instruments ..	—	—	—	—	—	1,403,832	1,403,832
Deposits from customers	94,676,777	33,875,477	23,533,062	989,716	28,357	8,058,172	161,161,561
Certificates of deposit issued	1,053,200	50,306	356,013	935,027	—	—	2,394,546
Debt securities in issue measured at amortised cost	—	—	—	—	—	159,526	159,526
Subordinated debts measured at amortised cost	3,063,225	3,714,250	1,783,650	—	—	—	8,561,125
Other liabilities	387,162	—	—	—	—	3,404,780	3,791,942
Total liabilities	110,744,533	44,598,372	26,699,047	1,924,743	28,357	13,654,180	197,649,232
Total interest sensitivity gap	29,784,384	(9,529,538)	(10,060,142)	12,018,713	3,184,708	(7,293,528)	18,104,597

Group At 31 December 2008	Up to 1	1-3	3-12	1-5	Over	Non-	Total
	month	months	months	years	5 years	interest- bearing	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets							
Cash and balances with banks and other financial institutions	28,116,080	—	—	—	—	562,698	28,678,778
Placements with and advances to banks and other financial institutions	—	689,360	154,998	—	—	—	844,358
Financial assets held for trading ..	—	50	5,692	25,109	—	21,200	52,051
Financial assets designated at fair value through profit or loss	—	—	77,400	923,444	487,159	—	1,488,003
Derivative financial instruments ..	—	—	—	—	—	2,308,702	2,308,702
Loans and advances to customers, banks and other financial institutions	95,205,918	30,084,808	11,086,371	466,590	139,535	99,499	137,082,721
Available-for-sale financial investments	1,836,298	4,154,659	1,850,926	6,458,068	1,818,947	1,284,177	17,403,075
Held-to-maturity financial investments	292,086	292,852	1,361,659	29,806	—	—	1,976,403
Other assets	734,126	—	—	—	—	3,995,892	4,730,018
Total assets	<u>126,184,508</u>	<u>35,221,729</u>	<u>14,537,046</u>	<u>7,903,017</u>	<u>2,445,641</u>	<u>8,272,168</u>	<u>194,564,109</u>
Liabilities							
Deposits from banks and other financial institutions	6,896,715	12,031,964	778,690	—	—	349,387	20,056,756
Derivative financial instruments ..	—	—	—	—	—	3,296,670	3,296,670
Deposits from customers	102,133,978	21,024,863	10,973,517	36,087	10,075	4,004,812	138,183,332
Certificates of deposit issued	250,000	1,220,762	2,261,857	579,742	—	—	4,312,361
Debt securities in issue designated at fair value through profit or loss	—	3,146,399	—	—	—	—	3,146,399
Subordinated debts measured at amortised cost	3,061,290	3,712,535	1,782,523	—	—	—	8,556,348
Other liabilities	83,761	—	—	—	—	2,990,704	3,074,465
Total liabilities	<u>112,425,744</u>	<u>41,136,523</u>	<u>15,796,587</u>	<u>615,829</u>	<u>10,075</u>	<u>10,641,573</u>	<u>180,626,331</u>
Total interest sensitivity gap	<u>13,758,764</u>	<u>(5,914,794)</u>	<u>(1,259,541)</u>	<u>7,287,188</u>	<u>2,435,566</u>	<u>(2,369,405)</u>	<u>13,937,778</u>

Bank At 31 December 2009	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest- bearing	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets							
Cash and balances with banks and other financial institutions	24,841,315	—	—	—	—	406,217	25,247,532
Placements with and advances to banks and other financial institutions	212,120	1,229,597	985,466	—	—	—	2,427,183
Financial assets held for trading ..	—	—	19,884	19,244	7,920	20,950	67,998
Financial assets designated at fair value through profit or loss	—	78,433	157,551	711,467	214,698	—	1,162,149
Derivative financial instruments ..	—	—	—	—	—	1,285,306	1,285,306
Loans and advances to customers, banks and other financial institutions	104,979,951	23,240,230	7,979,938	145,667	1,213,750	166,228	137,725,764
Available-for-sale financial investments	2,843,909	8,600,204	5,158,233	12,678,739	1,486,571	1,593,440	32,361,096
Held-to-maturity financial investments	114,436	—	1,177,073	—	—	—	1,291,509
Other assets	12,330	—	—	—	—	5,425,695	5,438,025
Total assets	133,004,061	33,148,464	15,478,145	13,555,117	2,922,939	8,897,836	207,006,562
Liabilities							
Deposits from banks and other financial institutions	11,108,520	5,052,300	15,510	—	—	628,611	16,804,941
Derivative financial instruments ..	—	—	—	—	—	1,403,832	1,403,832
Deposits from customers	93,082,814	33,183,194	22,139,693	786,232	28,356	8,757,603	157,977,892
Certificates of deposit issued	1,053,200	50,306	356,013	935,027	—	—	2,394,546
Debt securities in issue measured at amortised cost	—	—	—	—	—	159,526	159,526
Subordinated debts measured at amortised cost	3,063,225	3,714,250	1,783,650	—	—	—	8,561,125
Other liabilities	387,162	—	—	—	—	2,223,913	2,611,075
Total liabilities	108,694,921	42,000,050	24,294,866	1,721,259	28,356	13,173,485	189,912,937
Total interest sensitivity gap	24,309,140	(8,851,586)	(8,816,721)	11,833,858	2,894,583	(4,275,649)	17,093,625

Bank At 31 December 2008	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest- bearing	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets							
Cash and balances with banks and other financial institutions	27,288,086	—	—	—	—	361,337	27,649,423
Placements with and advances to banks and other financial institutions	—	496,415	1,163,708	—	—	—	1,660,123
Financial assets held for trading ..	—	50	5,692	25,109	—	21,200	52,051
Financial assets designated at fair value through profit or loss	—	—	77,400	923,444	487,159	—	1,488,003
Derivative financial instruments ..	—	—	—	—	—	2,308,702	2,308,702
Loans and advances to customers, banks and other financial institutions	89,223,831	28,606,164	9,737,876	517,074	139,535	61,372	128,285,852
Available-for-sale financial investments	1,836,298	4,154,659	1,850,926	6,458,068	1,818,947	1,283,560	17,402,458
Held-to-maturity financial investments	292,086	292,852	1,361,659	29,806	—	—	1,976,403
Other assets	718,899	—	—	—	—	5,614,819	6,333,718
Total assets	119,359,200	33,550,140	14,197,261	7,953,501	2,445,641	9,650,990	187,156,733
Liabilities							
Deposits from banks and other financial institutions	6,470,722	10,174,632	—	—	—	355,810	17,001,164
Derivative financial instruments ..	—	—	—	—	—	3,324,174	3,324,174
Deposits from customers	99,912,839	20,544,328	12,978,351	915	10,075	4,189,559	137,636,067
Certificates of deposit issued	250,000	1,220,762	2,261,857	579,742	—	—	4,312,361
Subordinated debts measured at amortised cost	3,061,290	3,712,535	1,782,523	—	—	—	8,556,348
Other liabilities	83,761	—	—	—	—	3,018,033	3,101,794
Total liabilities	109,778,612	35,652,257	17,022,731	580,657	10,075	10,887,576	173,931,908
Total interest sensitivity gap	9,580,588	(2,102,117)	(2,825,470)	7,372,844	2,435,566	(1,236,586)	13,224,825

Trading portfolio

The Group's control of interest rate risk is based on restricting individual operations to trading within the market risk limits, and a list of permissible instruments authorised by the Board. In particular, trading in the derivative products is supported by robust control systems whereas more complicated derivatives are basically undertaken on a back-to-back basis. Sensitivity measures, concentration and stop-loss limits are used as the risk management tools. Risk limits are independently monitored on a daily basis.

Non-trading portfolio

The principal objective of interest rate risk management of nontrading portfolios (also known as "banking book") is to optimise net interest income but without exposing to excessive risk. This is done on a daily basis by the Global Markets and Trading Department ("GMT") taking over the interest rate risk in nontreasury business under the supervision of the ALCO. When the behavioral characteristics of a product differ from its contractual characteristics, the behavioral characteristics are assessed to determine their actual underlying interest rate risk. The ALCO monitors all such behavioral assumptions and interest rate risk positions to ensure they comply with interest rate risk limits established by the Board. Interest rate risk limits are set for the purpose of governing the interest rate risk arising from nontrading portfolio. The limits are measured and independently monitored on a regular basis.

There are four primary forms of interest rate risk faced by the Group with regard to its banking book: re-pricing (or maturity mismatch) risk, yield curve risk, basis risk and option risk. Interest rate risk is measured in relation to the impact of changes in interest rates on earnings or economic values assuming all other factors to remain constant, e.g., no action taken by GMT or other business units to mitigate the impact of this interest rate risk and interest rates of all maturities move by the same amount. Prepayment, early withdrawal of customer loans or deposits are usually not entertained or with fees paid.

Sensitivity analysis

The tables below show the last stress tests on the Bank's trading and investment portfolios conducted in December 2009 and 2008 respectively. The testing scenario (bps of yield curve shift) of the stress test is changed in the current year to be in line with the financial market development:

2009

Interest rate stress test for interest rate trading

Yield curve shift	Scenario					
	Light		Moderate		Extreme	
	-100 bps	+100 bps	-200 bps	+200 bps	-300 bps	+300 bps
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
December 2009	<u>(4,403)</u>	<u>(2,973)</u>	<u>(8,831)</u>	<u>(5,861)</u>	<u>(13,283)</u>	<u>(8,703)</u>

Interest rate risk for investment book debt securities (excluding HTM book and EFNs)

Yield curve shift	Scenario						
	Light	Moderate	Extreme	Yield curve steepen		Yield curve flatten	
	+100 bps	+200 bps	+300 bps	100 bps	300 bps	100 bps	300 bps
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
December 2009	<u>(304,178)</u>	<u>(550,813)</u>	<u>(760,644)</u>	<u>(204,356)</u>	<u>(465,467)</u>	<u>(105,342)</u>	<u>(321,087)</u>

2008

Interest rate stress test for interest rate trading

Yield curve shift	Scenario					
	Light		Moderate		Extreme	
	-100 bps	+100 bps	-200 bps	+200 bps	-300 bps	+300 bps
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
December 2008	<u>(4,659)</u>	<u>(5,787)</u>	<u>(9,307)</u>	<u>(11,574)</u>	<u>(13,899)</u>	<u>(17,227)</u>

Interest rate risk for investment book debt securities (excluding HTM book and EFNs)

Yield curve shift	Scenario						
	Light	Moderate	Extreme	Yield curve steepen		Yield curve flatten	
	+100 bps	+200 bps	+300 bps	100 bps	300 bps	100 bps	300 bps
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
December 2008	<u>(323,547)</u>	<u>(587,275)</u>	<u>(718,522)</u>	<u>(185,599)</u>	<u>(413,918)</u>	<u>(111,346)</u>	<u>(327,935)</u>

(d) **Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group's foreign exchange exposures mainly comprise foreign exchange dealing by GMT and currency exposures originated from the Group's banking business. Currency exposures arising from non-trading businesses are transferred to GMT for centralised management within foreign exchange position limits approved by the Board of Directors. Management has set limits on positions by currency. Positions are independently monitored by Risk Management Department against the approved limits on a daily basis.

The tables below summarise the Group's and the Bank's exposure to foreign currency exchange risk. Included in the tables are the Group's and the Bank's assets and liabilities at carrying amounts, categorised by currency.

Group				
At 31 December 2009	HK\$	US\$	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets				
Cash and balances with banks and other financial institutions	4,637,922	19,023,634	4,249,026	27,910,582
Placements with and advances to banks and other financial institutions	721,257	942,029	—	1,663,286
Financial assets held for trading	143,623	7,920	38,703	190,246
Financial assets designated at fair value through profit or loss	325,210	836,939	—	1,162,149
Loans and advances to customers, banks and other financial institutions	94,653,805	39,316,802	13,053,975	147,024,582
Available-for-sale financial investments	2,197,991	26,608,511	3,555,164	32,361,666
Held-to-maturity financial investments	1,206,733	54,117	30,659	1,291,509
Investments in associates	175,177	—	—	175,177
Goodwill and other intangible assets	653,422	—	367,471	1,020,893
Investment properties	25,500	—	20,713	46,213
Property, plant and equipment	181,145	—	92,808	273,953
Leasehold land and land use rights	43,117	—	—	43,117
Other assets	779,508	473,252	52,390	1,305,150
Total assets	<u>105,744,410</u>	<u>87,263,204</u>	<u>21,460,909</u>	<u>214,468,523</u>
Liabilities				
Deposits from banks and other financial institutions	6,010,926	11,431,061	2,734,713	20,176,700
Deposits from customers	76,597,664	66,572,639	17,991,258	161,161,561
Certificates of deposit issued	1,458,472	936,074	—	2,394,546
Debt securities in issue at amortised cost	159,526	—	—	159,526
Subordinated debts measured at amortised cost	1,000,000	7,561,125	—	8,561,125
Other liabilities, including current and deferred tax liabilities	2,605,906	909,475	276,561	3,791,942
Total liabilities	<u>87,832,494</u>	<u>87,410,374</u>	<u>21,002,532</u>	<u>196,245,400</u>
Net on-balance sheet position	<u>17,911,916</u>	<u>(147,170)</u>	<u>458,377</u>	<u>18,223,123</u>
Credit commitments	<u>81,353,064</u>	<u>19,856,953</u>	<u>2,547,364</u>	<u>103,757,381</u>

Group				
At 31 December 2008	HK\$	US\$	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets				
Cash and balances with banks and other financial institutions	650,345	15,530,015	12,498,418	28,678,778
Placements with and advances to banks and other financial institutions	23,660	751,747	68,951	844,358
Financial assets held for trading	21,828	—	30,223	52,051
Financial assets designated at fair value through profit or loss	300,580	1,187,423	—	1,488,003
Loans and advances to customers, banks and other financial institutions	81,987,659	42,033,711	13,061,351	137,082,721
Available-for-sale financial investments	1,616,080	12,757,816	3,029,179	17,403,075
Held-to-maturity financial investments	1,319,509	627,088	29,806	1,976,403
Investments in associates	184,854	—	—	184,854
Goodwill and other intangible assets	1,028,060	—	4,878	1,032,938
Investment properties	25,200	—	14,926	40,126
Property, plant and equipment	186,971	—	89,103	276,074
Leasehold land and land use rights	43,860	—	—	43,860
Other assets	1,785,619	1,302,506	64,041	3,152,166
Total assets	<u>89,174,225</u>	<u>74,190,306</u>	<u>28,890,876</u>	<u>192,255,407</u>
Liabilities				
Deposits from banks and other financial institutions	3,056,158	14,276,836	2,723,762	20,056,756
Deposits from customers	60,958,666	64,796,200	12,428,466	138,183,332
Certificates of deposit issued	2,915,886	1,396,475	—	4,312,361
Debt securities in issue designated at fair value through profit or loss	—	3,146,399	—	3,146,399
Subordinated debts measured at amortised cost	1,000,000	7,556,348	—	8,556,348
Other liabilities, including current and deferred tax liabilities	1,800,468	945,427	328,570	3,074,465
Total liabilities	<u>69,731,178</u>	<u>92,117,685</u>	<u>15,480,798</u>	<u>177,329,661</u>
Net on-balance sheet position	<u>19,443,047</u>	<u>(17,927,379)</u>	<u>13,410,078</u>	<u>14,925,746</u>
Credit commitments	<u>65,133,066</u>	<u>22,035,266</u>	<u>2,549,018</u>	<u>89,717,350</u>

Bank				
At 31 December 2009	HK\$	US\$	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets				
Cash and balances with banks and other financial institutions	4,612,417	18,769,411	1,865,704	25,247,532
Placements with and advances to banks and other financial institutions	996,810	1,309,044	121,329	2,427,183
Financial assets held for trading	21,375	7,920	38,703	67,998
Financial assets designated at fair value through profit or loss	325,210	836,939	—	1,162,149
Loans and advances to customers, banks and other financial institutions	94,365,635	37,662,880	5,697,249	137,725,764
Available-for-sale financial investments	2,197,421	26,608,511	3,555,164	32,361,096
Held-to-maturity financial investments	1,206,733	54,117	30,659	1,291,509
Investments in associates	138,138	—	—	138,138
Investments in subsidiaries	400,403	—	2,372,075	2,772,478
Goodwill and other intangible assets	630,967	—	—	630,967
Investment properties	25,500	—	—	25,500
Property, plant and equipment	180,464	—	—	180,464
Leasehold land and land use rights	43,117	—	—	43,117
Other assets	1,074,181	468,337	104,843	1,647,361
Total assets	106,218,371	85,717,159	13,785,726	205,721,256
Liabilities				
Deposits from banks and other financial institutions	6,011,645	10,626,751	166,545	16,804,941
Deposits from customers	77,197,505	67,611,414	13,168,973	157,977,892
Certificates of deposit issued	1,458,472	936,074	—	2,394,546
Debt securities in issue measured at amortised cost	159,526	—	—	159,526
Subordinated debts measured at amortised cost	1,000,000	7,561,125	—	8,561,125
Other liabilities, including current and deferred tax liabilities	1,574,259	909,983	126,833	2,611,075
Total liabilities	87,401,407	87,645,347	13,462,351	188,509,105
Net on-balance sheet position	18,816,964	(1,928,188)	323,375	17,212,151
Credit commitments	81,179,115	15,799,118	1,651,226	98,629,459

Bank				
At 31 December 2008	HK\$	US\$	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets				
Cash and balances with banks and other financial institutions	675,478	15,373,500	11,600,445	27,649,423
Placements with and advances to banks and other financial institutions	105,999	1,471,216	82,908	1,660,123
Financial assets held for trading	21,828	—	30,223	52,051
Financial assets designated at fair value through profit or loss	300,580	1,187,423	—	1,488,003
Loans and advances to customers, banks and other financial institutions	81,848,955	40,394,074	6,042,823	128,285,852
Available-for-sale financial investments	1,615,463	12,757,816	3,029,179	17,402,458
Held-to-maturity financial investments	1,319,509	627,088	29,806	1,976,403
Investments in associates	152,646	—	—	152,646
Investments in subsidiaries	148,403	—	1,760,347	1,908,750
Goodwill and other intangible assets	642,109	—	—	642,109
Investment properties	25,200	—	—	25,200
Property, plant and equipment	185,878	—	—	185,878
Leasehold land and land use rights	43,860	—	—	43,860
Other assets	1,903,151	1,353,394	118,730	3,375,275
Total assets	88,989,059	73,164,511	22,694,461	184,848,031
Liabilities				
Deposits from banks and other financial institutions	3,062,581	13,584,245	354,338	17,001,164
Deposits from customers	61,141,628	67,795,705	8,698,734	137,636,067
Certificates of deposit issued	2,915,886	1,396,475	—	4,312,361
Subordinated debts measured at amortised cost	1,000,000	7,556,348	—	8,556,348
Other liabilities, including current and deferred tax liabilities	1,982,109	983,451	136,234	3,101,794
Total liabilities	70,102,204	91,316,224	9,189,306	170,607,734
Net on-balance sheet position	18,886,855	(18,151,713)	13,505,155	14,240,297
Credit commitments	64,755,918	10,782,238	1,739,375	77,277,531

Stress test

The tables below show the last stress tests conducted in December which calculate the change in dollar term of a reasonably possible movement of spot rates and foreign exchange volatility for 2009 and 2008, with all other variables held constant. The testing scenario (volatility change) of the stress test is changed in the current year to be in line with the financial market development:

2009	Scenario		
	Light 2%	Moderate 5%	Extreme 15%
	HK\$'000	HK\$'000	HK\$'000
Risk stress testing for foreign exchange position			
Worst of spot and 5% volatility change (excluding CNY)	<u>(3,685)</u>	<u>(9,261)</u>	<u>(18,938)</u>
	Scenario		
	Light 1%	Moderate 3%	Extreme 5%
	HK\$'000	HK\$'000	HK\$'000
Worst of spot and 5% volatility change (CNY)	<u>(790)</u>	<u>(2,370)</u>	<u>(3,951)</u>

2008 Risk stress testing for foreign exchange position	Scenario		
	Light 2%	Moderate 5%	Extreme 15%
	HK\$'000	HK\$'000	HK\$'000
Worst of spot and 5% volatility change (excluding CNY)	(3,828)	(8,895)	(21,253)

	Scenario		
	Light 1%	Moderate 3%	Extreme 5%
	HK\$'000	HK\$'000	HK\$'000
Worst of spot and 5% volatility change (CNY).....	(6,083)	(18,275)	(30,458)

(e) **Equity price risk**

Equity price risk is the risk that the fair values of the equity portfolio decrease as the result of changes in the levels of equity indices and the value of individual stocks. Since the second half of 2006, the Group has begun to take market risk positions in shares at the time of their respective IPO process. Concentration limits and stop-loss limits are set for individual shares. Market risk positions on equity are relatively not sizeable at this stage.

Investments that are held for the purpose of entering into a strategic cooperation with the investee with a view to leveraging the respective strengths to enhance the Group's business are classified by the Group as strategic investments. Other equity investments are held for capital gain purposes.

For capital adequacy ratio purpose, the Bank deducts those equity holdings taken for relationship and strategic reasons from the core and supplementary capital and includes those equity holdings taken for other reasons in the risk-weighted assets.

The Group's equity exposures in 2009 and 2008 are mainly longterm equity investments which are reported as "available-for-sale financial investments" set out in Note 27. Equities held for trading purpose are included under "Financial assets held for trading" set out in Note 23. These are subject to risk management control procedures.

Accounting techniques and valuation methodologies applied for equity investments are detailed in Note 2 of the financial statements. There are no significant changes during the annual reporting period.

	Group and Bank	
	2009	2008
	HK\$'000	HK\$'000
Cumulative realised gains arising from sales and liquidations of equity exposure	834,384	5,896
Total unrealised gains recognised in the Bank's reserve but not through the income statement	1,247,844	778,217
Unrealised gains included in the Bank's supplementary capital for capital adequacy ratio purpose	—	—

4.4 **Liquidity risk**

Liquidity risk is the risk that the Group cannot meet its financial obligations as and when they fall due. Liquidity risk management is therefore to ensure adequate cash flows to meet all financial obligations under both normal and contingency circumstances in a cost-effective manner and within regulatory requirements. To manage liquidity risk, the Group has established asset and liquidity management policies that are reviewed by the relevant functional committees, with prominent issues approved by the Board. Liquidity is also managed and forecasted on a daily basis to enable GMT and the relevant functional committee to act proactively according to the changing market conditions and to implement contingent plans on a timely basis. Stress tests are regularly performed to assess contingent funding needs and the adequacy of funds to meet them. In case of shortage identified, the corresponding remedial measures will be executed. The Group continues to explore and diversify funding channels to capitalise on opportunities for the Group's business expansion. Concrete funding from the parent company, ICBC, has proven to be efficient in strengthening the Group's liquidity capability.

The liquidity position remained affluent throughout 2009 with an average liquidity ratio of 40.2% (Average for 2008: 37.0%), that was well above the statutory requirement of 25%.

In early 2009, the Group set up a new Asset and Liability Management Department to support the ALCO in the latter's implementation of liquidity risk monitoring and control. The Group has always a high vigilance for liquidity risk management, relying much more significantly on customer's deposit than on inter-bank funding, particularly in volatile times. The Group will continue to take the necessary measures commensurate with its scale and complexity of operation to strengthen its liquidity capability, including meeting various stress scenarios and any new liquidity risk requirements that will be introduced in 2010 by regulators.

The table below summarises the Group's and the Bank's assets and liabilities by maturity based on the remaining period at the end of the reporting period to the contractual maturity date.

The matching and controlled mismatching assets and liabilities are fundamental to the liquidity management of the Group. It is unusual for banks to be completely matched, as transactions often entail uncertain terms and are often of different types. While an unmatched position potentially enhances profitability, it increases the interest rate risk and the liquidity risk of an entity.

As the trading and available-for-sale portfolios may be sold before maturity or deposit from customers may mature without being withdrawn, the contractual maturity dates do not totally represent the expected timing and availability of future cash flows.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitments because the Group does not generally expect its third parties to draw funds under the agreements. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or be terminated without being funded.

The tables below analyse assets and liabilities of the Group and the Bank as at 31 December into relevant maturing groupings based on the remaining period at the end of reporting period date to the contractual maturity date.

Group At 31 December 2009	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets								
Cash and balances with banks and other financial institutions	6,240,723	21,134,079	—	—	—	—	535,780	27,910,582
Placements with and advances to banks and other financial institutions	—	—	903,730	759,556	—	—	—	1,663,286
Financial assets held for trading	—	—	—	19,884	19,244	7,920	143,198	190,246
Financial assets designated at fair value through profit or loss								
— other debt securities	—	—	78,433	157,551	711,467	214,698	—	1,162,149
Derivative financial instruments	61	399,829	149,750	320,904	256,211	158,551	—	1,285,306
Loans and advances to customers, banks and other financial institutions	15,629,122	6,722,168	8,189,544	25,454,036	61,072,255	29,957,457	—	147,024,582
Available-for-sale financial investments								
— equity securities	—	—	—	—	—	—	1,587,800	1,587,800
— certificates of deposit held	—	—	—	—	150,225	—	—	150,225
— other debt securities	—	302,225	3,291,607	5,473,922	19,863,398	1,686,279	6,210	30,623,641
Held-to-maturity financial investments								
— treasury bills	—	—	—	1,146,414	—	—	—	1,146,414
— other debt securities	—	—	—	84,777	—	60,318	—	145,095
Investments in associates	—	—	—	—	—	—	175,177	175,177
Goodwill and other intangible assets	—	—	—	—	—	—	1,020,893	1,020,893
Investment properties	—	—	—	—	—	—	46,213	46,213
Property, plant and equipment	—	—	—	—	—	—	273,953	273,953
Leasehold land and land use rights	—	—	—	—	—	43,117	—	43,117
Other assets	19,676	588,916	251,953	111,209	84,220	—	249,176	1,305,150
Total assets	<u>21,889,582</u>	<u>29,147,217</u>	<u>12,865,017</u>	<u>33,528,253</u>	<u>82,157,020</u>	<u>32,128,340</u>	<u>4,038,400</u>	<u>215,753,829</u>
Liabilities								
Deposits from banks and other financial institutions	1,313,038	10,879,001	6,731,190	1,253,471	—	—	—	20,176,700
Derivative financial instruments	5,164	244,176	137,561	391,698	441,575	183,658	—	1,403,832
Deposits from customers	46,811,559	55,923,263	33,875,477	23,533,175	989,730	28,357	—	161,161,561
Certificates of deposit issued	—	77,731	99,748	356,013	1,861,054	—	—	2,394,546
Debt securities in issue measured at amortised cost	—	66,529	92,997	—	—	—	—	159,526
Subordinated debts measured at amortised cost	—	—	—	—	7,010,125	1,551,000	—	8,561,125
Other liabilities, including current and deferred tax liabilities	182,704	707,880	541,684	1,971,797	94,060	—	293,817	3,791,942
Total liabilities	<u>48,312,465</u>	<u>67,898,580</u>	<u>41,478,657</u>	<u>27,506,154</u>	<u>10,396,544</u>	<u>1,763,015</u>	<u>293,817</u>	<u>197,649,232</u>
Net liquidity gap	<u>(26,422,883)</u>	<u>(38,751,363)</u>	<u>(28,613,640)</u>	<u>6,022,099</u>	<u>71,760,476</u>	<u>30,365,325</u>	<u>3,744,583</u>	<u>18,104,597</u>

Group	Repayable	Up to	1-3	3-12	1-5	Over	Indefinite	Total
At 31 December 2008	on demand	1 month	months	months	years	5 years		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets								
Cash and balances with banks and other financial institutions	9,182,560	19,496,218	—	—	—	—	—	28,678,778
Placements with and advances to banks and other financial institutions	—	—	689,360	154,998	—	—	—	844,358
Financial assets held for trading	—	—	50	5,692	25,109	—	21,200	52,051
Financial assets designated at fair value through profit or loss								
— other debt securities	—	—	—	77,400	923,444	487,159	—	1,488,003
Derivative financial instruments	5,071	436,272	403,457	661,278	615,555	187,069	—	2,308,702
Loans and advances to customers, banks and other financial institutions	13,755,723	9,490,067	15,242,404	19,096,848	52,491,165	27,006,514	—	137,082,721
Available-for-sale financial investments								
— equity securities	—	—	—	—	—	—	1,277,921	1,277,921
— certificates of deposit held	—	—	—	—	—	7,931	—	7,931
— other debt securities	—	—	115,219	2,580,260	11,145,044	2,270,443	6,257	16,117,223
Held-to-maturity financial investments								
— treasury bills	—	—	—	1,136,282	—	—	—	1,136,282
— other debt securities	—	154,522	—	518,228	83,832	83,539	—	840,121
Investments in associates	—	—	—	—	—	—	184,854	184,854
Goodwill and other intangible assets	—	—	—	—	—	—	1,032,938	1,032,938
Investment properties	—	—	—	—	—	—	40,126	40,126
Property, plant and equipment	—	—	—	—	—	—	276,074	276,074
Leasehold land and land use rights	—	—	—	—	—	43,860	—	43,860
Other assets	41,764	1,567,543	243,350	924,708	237,377	2,301	135,123	3,152,166
Total assets	22,985,118	31,144,622	16,693,840	25,155,694	65,521,526	30,088,816	2,974,493	194,564,109
Liabilities								
Deposits from banks and other financial institutions	840,360	6,405,743	12,031,966	778,687	—	—	—	20,056,756
Derivative financial instruments	252	309,961	251,479	1,561,999	819,922	353,057	—	3,296,670
Deposits from customers	25,332,357	80,805,435	21,024,864	10,973,517	37,084	10,075	—	138,183,332
Certificates of deposit issued	—	—	997,762	2,734,857	579,742	—	—	4,312,361
Debt securities in issue designated at fair value through profit or loss	—	—	—	3,146,399	—	—	—	3,146,399
Subordinated debts measured at amortised cost	—	—	—	1,162,515	5,843,813	1,550,020	—	8,556,348
Other liabilities, including current and deferred tax liabilities	149,279	1,692,613	316,781	717,883	130,531	—	67,378	3,074,465
Total liabilities	26,322,248	89,213,752	34,622,852	21,075,857	7,411,092	1,913,152	67,378	180,626,331
Net liquidity gap	(3,337,130)	(58,069,130)	(17,929,012)	4,079,837	58,110,434	28,175,664	2,907,115	13,937,778

Bank	Repayable	Up to	1-3	3-12	1-5	Over	Indefinite	Total
At 31 December 2009	on demand	1 month	months	months	years	5 years		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets								
Cash and balances with banks and other financial institutions	5,271,923	19,975,609	—	—	—	—	—	25,247,532
Placements with and advances to banks and other financial institutions	—	—	906,652	1,520,531	—	—	—	2,427,183
Financial assets held for trading	—	—	—	19,884	19,244	7,920	20,950	67,998
Financial assets designated at fair value through profit or loss								
— other debt securities	—	—	78,433	157,551	711,467	214,698	—	1,162,149
Derivative financial instruments	61	399,829	149,750	320,904	256,211	158,551	—	1,285,306
Loans and advances to customers, banks and other financial institutions	15,447,695	6,368,202	7,046,141	21,618,818	57,889,763	29,355,145	—	137,725,764
Available-for-sale financial investments								
— equity securities	—	—	—	—	—	—	1,587,800	1,587,800
— certificates of deposit held	—	—	—	—	150,225	—	—	150,225
— other debt securities	—	302,225	3,291,607	5,473,922	19,863,398	1,686,279	5,640	30,623,071
Held-to-maturity financial investments								
— treasury bills	—	—	—	1,146,414	—	—	—	1,146,414
— other debt securities	—	—	—	84,777	—	60,318	—	145,095
Investments in associates	—	—	—	—	—	—	138,138	138,138
Investments in subsidiaries	—	—	—	—	—	—	2,772,478	2,772,478
Goodwill and other intangible assets	—	—	—	—	—	—	630,967	630,967
Investment properties	—	—	—	—	—	—	25,500	25,500
Property, plant and equipment	—	—	—	—	—	—	180,464	180,464
Leasehold land and land use rights	—	—	—	—	—	43,117	—	43,117
Other assets	8,415	869,567	252,023	174,136	96,456	—	246,764	1,647,361
Total assets	20,728,094	27,915,432	11,724,606	30,516,937	78,986,764	31,526,028	5,608,701	207,006,562
Liabilities								
Deposits from banks and other financial institutions	1,323,435	10,413,696	5,052,300	15,510	—	—	—	16,804,941
Derivative financial instruments	5,164	244,176	137,561	391,698	441,575	183,658	—	1,403,832
Deposits from customers	46,184,497	55,655,794	33,183,194	22,139,807	786,244	28,356	—	157,977,892
Certificates of deposit issued	—	77,731	99,748	356,013	1,861,054	—	—	2,394,546
Debt securities in issue measured at amortised cost	—	66,529	92,997	—	—	—	—	159,526
Subordinated debts measured at amortised cost	—	—	—	—	7,010,125	1,551,000	—	8,561,125
Other liabilities, including current and deferred tax liabilities	181,359	987,721	530,781	675,061	51,474	—	184,679	2,611,075
Total liabilities	47,694,455	67,445,647	39,096,581	23,578,089	10,150,472	1,763,014	184,679	189,912,937
Net liquidity gap	(26,966,361)	(39,530,215)	(27,371,975)	6,938,848	68,836,292	29,763,014	5,424,022	17,093,625

Bank At 31 December 2008	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets								
Cash and balances with banks and other financial institutions	8,465,361	19,184,062	—	—	—	—	—	27,649,423
Placements with and advances to banks and other financial institutions	—	—	496,415	1,163,708	—	—	—	1,660,123
Financial assets held for trading	—	—	50	5,692	25,109	—	21,200	52,051
Financial assets designated at fair value through profit or loss								
— other debt securities	—	—	—	77,400	923,444	487,159	—	1,488,003
Derivative financial instruments	5,071	436,272	403,457	661,278	615,555	187,069	—	2,308,702
Loans and advances to customers, banks and other financial institutions	13,714,196	7,571,828	14,081,899	16,984,348	49,046,920	26,886,661	—	128,285,852
Available-for-sale financial investments								
— equity securities	—	—	—	—	—	—	1,277,921	1,277,921
— certificates of deposit held	—	—	—	—	—	7,931	—	7,931
— other debt securities	—	—	115,219	2,580,260	11,145,044	2,270,443	5,640	16,116,606
Held-to-maturity financial investments								
— treasury bills	—	—	—	1,136,282	—	—	—	1,136,282
— other debt securities	—	154,522	—	518,228	83,832	83,539	—	840,121
Investments in associates	—	—	—	—	—	—	152,646	152,646
Investments in subsidiaries	—	—	—	—	—	—	1,908,750	1,908,750
Goodwill and other intangible assets	—	—	—	—	—	—	642,109	642,109
Investment properties	—	—	—	—	—	—	25,200	25,200
Property, plant and equipment	—	—	—	—	—	—	185,878	185,878
Leasehold land and land use rights	—	—	—	—	—	43,860	—	43,860
Other assets	41,720	1,627,207	286,554	1,049,078	237,377	2,301	131,038	3,375,275
Total assets	22,226,348	28,973,891	15,383,594	24,176,274	62,077,281	29,968,963	4,350,382	187,156,733
Liabilities								
Deposits from banks and other financial institutions	851,683	5,974,849	10,174,632	—	—	—	—	17,001,164
Derivative financial instruments	252	309,961	251,479	1,589,503	819,922	353,057	—	3,324,174
Deposits from customers	25,141,505	78,960,802	20,544,329	12,978,351	1,005	10,075	—	137,636,067
Certificates of deposit issued	—	—	997,762	2,734,857	579,742	—	—	4,312,361
Subordinated debts measured at amortised cost	—	—	—	1,162,515	5,843,813	1,550,020	—	8,556,348
Other liabilities, including current and deferred tax liabilities	82,863	1,870,898	329,704	698,116	43,583	—	76,630	3,101,794
Total liabilities	26,076,303	87,116,510	32,297,906	19,163,342	7,288,065	1,913,152	76,630	173,931,908
Net liquidity gap	(3,849,955)	(58,142,619)	(16,914,312)	5,012,932	54,789,216	28,055,811	4,273,752	13,224,825

The tables below present the cash flows payable by the Group under non-derivative financial liabilities, derivative financial liabilities that will be settled on a net basis and derivative financial instruments that will be settled on a gross basis by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the tables are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on the expected undiscounted cash inflows.

Those derivatives that will be settled on a net basis include:

- Foreign exchange derivatives: over-the-counter (“OTC”) currency options; and
- Interest rate derivatives: interest rate swaps, forward rate agreements and OTC interest rate options

Those derivatives that will be settled on a gross basis include:

- Foreign exchange derivatives: currency forward, currency swaps; and
- Interest rate derivatives: cross currency interest rate swaps.

Group At 31 December 2009	Repayable on demand	3 months or less	3-12 months	1-5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial liabilities						
Deposits from banks and other financial institutions	1,313,039	18,345,501	571,493	—	—	20,230,033
Deposits from customers	46,608,827	90,103,686	23,774,438	1,022,925	28,357	161,538,233
Certificates of deposit issued.....	—	207,169	395,511	1,899,196	—	2,501,876
Debt securities in issue measured at amortised cost	—	159,526	—	—	—	159,526
Subordinated debts measured at amortised cost	—	15,498	64,795	7,286,525	1,763,900	9,130,718
Other financial liabilities.....	178,079	1,058,822	1,783,258	71,393	293,817	3,385,369
Total financial liabilities.....	48,099,945	109,890,202	26,589,495	10,280,039	2,086,074	196,945,755
Derivative cash flows						
Derivative financial instruments settled on a net basis	(2,375)	19	(221,885)	(923,874)	(270,996)	(1,419,111)
Total inflow	—	552,952	3,818,804	16,606,459	6,712,951	27,691,166
Total outflow.....	(2,375)	(552,933)	(4,040,689)	(17,530,333)	(6,983,947)	(29,110,277)
Derivative financial instruments settled on a gross basis						
Total inflow	229,834	32,869,801	51,286,554	3,112,984	—	87,499,173
Total outflow.....	(234,937)	(32,710,957)	(51,351,749)	(3,128,392)	—	(87,426,035)

Off-balance sheet items

Group At 31 December 2009	No later than 1 year	1-5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loan commitments	71,985,549	19,871,892	—	91,857,441
Guarantees, acceptances and other financial facilities	11,085,237	—	—	11,085,237
Forward forward deposits placed.....	814,703	—	—	814,703
Total.....	83,885,489	19,871,892	—	103,757,381

Group At 31 December 2008	Repayable on demand	3 months or less	3-12 months	1-5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial liabilities						
Deposits from banks and other financial institutions	840,528	18,543,148	841,210	4,408	—	20,229,294
Deposits from customers	25,341,896	102,172,660	11,341,091	41,954	10,075	138,907,676
Certificates of deposit issued.....	1,880	1,028,719	2,824,376	606,486	—	4,461,461
Debt securities in issue designated at fair value through profit or loss	—	105,637	3,206,075	—	—	3,311,712
Subordinated debts measured at amortised cost	—	63,704	1,394,744	6,931,521	2,526,031	10,916,000
Other financial liabilities.....	108,560	1,416,345	453,779	81,368	65,326	2,125,378
Total financial liabilities.....	26,292,864	123,330,213	20,061,275	7,665,737	2,601,432	179,951,521

Derivative cash flows

Derivative financial instruments settled on a net basis	(4,626)	4,050	21,689	(151,214)	(21,202)	(151,303)
Total inflow	26,193	1,201,782	8,023,139	15,579,501	6,795,710	31,626,325
Total outflow.....	(30,819)	(1,197,732)	(8,001,450)	(15,730,715)	(6,816,912)	(31,777,628)
Derivative financial instruments settled on a gross basis						
Total inflow	63,533	46,041,388	44,670,723	4,606,561	—	95,382,205
Total outflow.....	(58,714)	(45,777,898)	(45,610,624)	(4,608,657)	—	(96,055,893)

Off-balance sheet items

Group At 31 December 2008	No later than 1 year	1-5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loan commitments.....	58,714,921	10,697,995	—	69,412,916
Guarantees, acceptances and other financial facilities	17,994,335	—	—	17,994,335
Forward forward deposits placed.....	2,310,099	—	—	2,310,099
Total	79,019,355	10,697,995	—	89,717,350

Bank At 31 December 2009	Repayable on demand	3 months or less	3-12 months	1-5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial liabilities						
Deposits from banks and other financial institutions	1,323,435	15,484,883	15,606	—	—	16,823,924
Deposits from customers.....	46,185,563	88,933,528	22,325,744	796,350	28,356	158,269,541
Certificates of deposit issued	—	207,169	395,511	1,899,196	—	2,501,876
Debt securities in issue measured at amortised cost	—	159,526	—	—	—	159,526
Subordinated debts measured at amortised cost	—	15,498	64,795	7,286,525	1,763,900	9,130,718
Other financial liabilities	177,917	1,339,251	507,208	35,886	184,679	2,244,941
Total financial liabilities	47,686,915	106,139,855	23,308,864	10,017,957	1,976,935	189,130,526

Derivative cash flows

Derivative financial instruments settled on a net basis	(2,375)	19	(221,885)	(923,874)	(270,996)	(1,419,111)
Total inflow	—	552,952	3,818,804	16,606,459	6,712,951	27,691,166
Total outflow	(2,375)	(552,933)	(4,040,689)	(17,530,333)	(6,983,947)	(29,110,277)
Derivative financial instruments settled on a gross basis						
Total inflow	229,834	32,869,801	51,286,554	3,112,984	—	87,499,173
Total outflow	(234,937)	(32,710,957)	(51,351,749)	(3,128,392)	—	(87,426,035)

Off-balance sheet items

Bank At 31 December 2009	No later than 1 year	1-5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loan commitments	71,939,852	19,497,830	—	91,437,682
Guarantees, acceptances and other financial facilities	6,377,074	—	—	6,377,074
Forward forward deposits placed.....	814,703	—	—	814,703
Total	79,131,629	19,497,830	—	98,629,459

Bank At 31 December 2008	Repayable on demand	3 months or less	3-12 months	1-5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial liabilities						
Deposits from banks and other financial institutions	851,851	16,217,433	—	—	—	17,069,284
Deposits from customers.....	25,150,135	99,835,424	13,324,070	1,043	10,075	138,320,747
Certificates of deposit issued	1,880	1,028,719	2,824,376	606,486	—	4,461,461
Subordinated debts measured at amortised cost	—	63,704	1,394,744	6,931,521	2,526,031	10,916,000
Other financial liabilities	42,144	1,682,869	460,043	35,482	76,630	2,297,168
Total financial liabilities	26,046,010	118,828,149	18,003,233	7,574,532	2,612,736	173,064,660

Derivative cash flows

Derivative financial instruments settled on a net basis						
	(4,626)	(7,207)	11,306	(151,214)	(21,202)	(172,943)
Total inflow	26,193	1,211,387	11,069,624	15,579,501	6,795,710	34,682,415
Total outflow	(30,819)	(1,218,594)	(11,058,318)	(15,730,715)	(6,816,912)	(34,855,358)
Derivative financial instruments settled on a gross basis						
Total inflow	63,533	46,041,388	44,670,723	4,606,561	—	95,382,205
Total outflow	(58,714)	(45,777,898)	(45,610,624)	(4,608,657)	—	(96,055,893)

Off-balance sheet items

Bank At 31 December 2008	No later than 1 year	1-5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loan commitments	58,616,668	10,598,459	—	69,215,127
Guarantees, acceptances and other financial facilities	5,752,305	—	—	5,752,305
Forward forward deposits placed.....	2,310,099	—	—	2,310,099
Total	66,679,072	10,598,459	—	77,277,531

4.5 Strategy in using financial instruments

By their nature, the Group's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to optimise the interest margins by investing these funds in high-quality assets. The Group seeks to increase these margins generally by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity in the process to meet all claims that might fall due.

The Group also seeks to raise its interest margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances but also guarantees and other commitments such as letters of credit and performance and other bonds.

The Group also trades in financial instruments by taking positions in OTC instruments to take advantage of short-term market movements in currencies, interest rates and securities prices. The Management places trading limits on the level of exposure for trading products.

(a) *Fair value hedges*

The Group hedges part of the existing Hong Kong dollar and foreign currency interest rate risk in its fixed rate assets by means of interest rate and cross-currency interest rate swaps. The net fair value of these swaps as at 31 December 2009 was HK\$136 million negative (2008: HK\$271 million negative).

(b) *Cash flow hedges*

The Group uses cross-currency swaps to protect against exposures to variability in future cash flows on non-trading assets which bear interest at variable rates. There was no cross-currency swap as at 31 December 2009 (2008: HK\$37 million negative).

4.6 **Fair values of financial assets and liabilities**

Financial instruments measured at fair value using a valuation technique

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, OTC derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on observable market conditions existing at the end of each reporting period. Market quotes are used for debt securities and structured derivatives. The fair value of interest rate swaps is 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 end of the reporting period.

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a “Day 1” profit) in “Net trading income”. In cases where data which is not observable is used, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

Determination of fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value that are not based on observable market data (unobservable inputs).

The following table shows an analysis of financial instruments measured at fair value by level of the fair value hierarchy:

Group	Level 1	Level 2	Level 3	Total
31 December 2009	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	—	694,470	—	694,470
Currency swaps.....	—	13,084	—	13,084
FX options.....	—	33,645	—	33,645
Interest rate swaps.....	—	326,018	55,681	381,699
Interest rate options.....	—	4,657	—	4,657
Equity options	—	157,751	—	157,751
	<u>—</u>	<u>1,229,625</u>	<u>55,681</u>	<u>1,285,306</u>
Financial assets held for trading				
Debt securities.....	46,883	165	—	47,048
Fund investment	122,248	—	—	122,248
Equities	20,950	—	—	20,950
	<u>190,081</u>	<u>165</u>	<u>—</u>	<u>190,246</u>
Financial assets designated at fair value through profit or loss				
Debt securities.....	598,890	563,259	—	1,162,149
	<u>598,890</u>	<u>563,259</u>	<u>—</u>	<u>1,162,149</u>
Available-for-sale financial investments				
Debt securities.....	22,697,961	8,067,735	1,960	30,767,656
Equities	1,501,944	—	—	1,501,944
	<u>24,199,905</u>	<u>8,067,735</u>	<u>1,960</u>	<u>32,269,600</u>
Total financial assets.....	<u>24,988,876</u>	<u>9,860,784</u>	<u>57,641</u>	<u>34,907,301</u>
Financial liabilities				
Derivative financial instruments				
Forward foreign exchange contracts.....	—	608,472	—	608,472
Currency swaps.....	—	23,720	—	23,720
FX options.....	—	34,179	—	34,179
Interest rate swaps.....	—	519,372	55,681	575,053
Interest rate options.....	—	4,657	—	4,657
Equity options	—	157,751	—	157,751
	<u>—</u>	<u>1,348,151</u>	<u>55,681</u>	<u>1,403,832</u>
Financial liabilities designated at fair value through profit or loss				
Certificates of deposit issued	—	1,419,077	—	1,419,077
	<u>—</u>	<u>1,419,077</u>	<u>—</u>	<u>1,419,077</u>
Total financial liabilities.....	<u>—</u>	<u>2,767,228</u>	<u>55,681</u>	<u>2,822,909</u>

Bank				
31 December 2009	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	—	694,470	—	694,470
Currency swaps	—	13,084	—	13,084
FX options	—	33,645	—	33,645
Interest rate swaps	—	326,018	55,681	381,699
Interest rate options	—	4,657	—	4,657
Equity options	—	157,751	—	157,751
	<u>—</u>	<u>1,229,625</u>	<u>55,681</u>	<u>1,285,306</u>
Financial assets held for trading				
Debt securities	46,883	165	—	47,048
Equities	20,950	—	—	20,950
	<u>67,833</u>	<u>165</u>	<u>—</u>	<u>67,998</u>
Financial assets designated at fair value through profit or loss				
Debt securities	598,890	563,259	—	1,162,149
	<u>598,890</u>	<u>563,259</u>	<u>—</u>	<u>1,162,149</u>
Available-for-sale financial investments				
Debt securities	22,697,961	8,067,735	1,960	30,767,656
Equities	1,501,944	—	—	1,501,944
	<u>24,199,905</u>	<u>8,067,735</u>	<u>1,960</u>	<u>32,269,600</u>
Total financial assets	<u>24,866,628</u>	<u>9,860,784</u>	<u>57,641</u>	<u>34,785,053</u>
Financial liabilities				
Derivative financial instruments				
Forward foreign exchange contracts	—	608,472	—	608,472
Currency swaps	—	23,720	—	23,720
FX options	—	34,179	—	34,179
Interest rate swaps	—	519,372	55,681	575,053
Interest rate options	—	4,657	—	4,657
Equity options	—	157,751	—	157,751
	<u>—</u>	<u>1,348,151</u>	<u>55,681</u>	<u>1,403,832</u>
Financial liabilities designated at fair value through profit or loss				
Certificates of deposit issued	—	1,419,077	—	1,419,077
	<u>—</u>	<u>1,419,077</u>	<u>—</u>	<u>1,419,077</u>
Total financial liabilities	<u>—</u>	<u>2,767,228</u>	<u>55,681</u>	<u>2,822,909</u>

Movements in the fair value measurements in Level 3 during the year are as follows:

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities which are recorded at fair value:

	At 1 January 2009	Total gains/(losses) recorded in the income statement	Total gains recorded in other comprehensive income	At 31 December 2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
Derivative financial instruments				
Interest rate swaps	47,202	8,479	—	55,681
	<u>47,202</u>	<u>^(a)8,479</u>	<u>—</u>	<u>55,681</u>
Available-for-sale financial investments				
Debt securities	13,247	(12,572)	1,285	1,960
	<u>13,247</u>	<u>^(b)(12,572)</u>	<u>1,285</u>	<u>1,960</u>
Total Level 3 financial assets	<u>60,449</u>	<u>(4,093)</u>	<u>1,285</u>	<u>57,641</u>
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	(47,202)	(8,479)	—	(55,681)
Total Level 3 financial liabilities	<u>(47,202)</u>	<u>^(a)(8,479)</u>	<u>—</u>	<u>(55,681)</u>
Total net Level 3 financial assets/(liabilities) .	<u>13,247</u>	<u>(12,572)</u>	<u>1,285</u>	<u>1,960</u>

(a) Included in "Net trading income"

(b) Included in "Impairment losses on available-for-sale financial investments"

Losses on Level 3 financial instruments included in the income statement for the year comprise:

2009	Unrealised losses	Unrealised gain	Total
	HK\$'000	HK\$'000	HK\$'000
Total losses included in the income statement for the year	<u>(12,572)</u>	<u>—</u>	<u>(12,572)</u>

During the year ended 31 December 2009, there was no transfer of fair value measurements between Level 1 and 2 and no transfers into or out of Level 3.

Financial instruments not measured at fair value

The fair values of financial assets and liabilities are estimated as follows:

(a) *Balances and placements with banks and other financial institutions*

The fair values of floating rate placements and overnight deposits are their carrying amounts. The estimated fair value of fixed interest-bearing deposits, all of which are less than one year, is based on the discounted cash flows using prevailing money-market interest rates and the remaining maturity. Therefore, the fair value is approximately equal to its carrying value.

(b) *Loans and advances to customers, banks and other financial institutions*

Loans and advances to customers, banks and other financial institutions are net of allowances for impairment. All items, except a very insignificant portion of loans and advances to customers, bear interest at a floating rate. The Group has assessed the fair values of loans and advances to customers, banks and other financial institutions, after taking into account the relevant market interest rates and noted that the total fair value is not materially different from the total carrying value.

(c) *Held-to-maturity financial investments*

The fair value of held-to-maturity debt securities is determined with reference to the available market value. If quoted market prices are not available, then the fair value is estimated on the basis of pricing models.

Group and Bank	Carrying value		Fair value	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
Held-to-maturity financial investments.....	<u>1,291,509</u>	<u>1,976,403</u>	<u>1,290,189</u>	<u>1,961,113</u>

(d) *Deposits and balances from customers, banks and other financial institutions*

The estimated fair value of deposits and balances with no stated maturity is the amount repayable on demand. The fair value of those balances having an interest at a floating rate is their carrying value.

The estimated fair value of the fixed interest-bearing deposits of banks and deposits from customers without quoted market prices is based on discounted cash flows using interest rates for new debts with similar remaining maturity. As their maturity is normally less than one year from the end of the reporting period, their fair values are approximately equal to their carrying values.

(e) *Certificates of deposit issued and subordinated debts*

The Group has assessed the fair value of certificates of deposit after taking into account the relevant yield curve and noted that the total fair value is not materially different from the total carrying value.

(f) *Other assets and other liabilities*

The estimated fair value of the other assets and other liabilities, which are normally non-interest-bearing, is their carrying value.

4.7 Capital management

The Group's objective for managing capital is to allocate capital in an efficient and risk-based approach to optimise risk adjusted return to the shareholders. The Group periodically reviews its capital structure and maintains a strong capital base to support the development of its business.

The Group manages its capital to execute its strategic business plans and support its growth and investments in an efficient way. The Group's core capital ratio and capital adequacy ratio were 9.0% and 14.9% respectively as at 31 December 2009. The Group adjusts its business and lending strategy from time to time to optimise its risk-return profile. A capital planning and allocation policy is in place to ensure compliance with Basel II Pillar II and the related HKMA requirements, engineered by the Asset and Liability Management Department.

The HKMA requires the Bank to maintain a ratio of total regulatory capital to the risk-weighted asset (the capital adequacy ratio) at the minimum of 8% plus a capital cushion. Certain subsidiaries of the Group are also subject to statutory capital requirements from other regulatory authorities, such as the Hong Kong Securities and Futures Commission. Capital adequacy and the use of regulatory capital are closely monitored by the Management, employing techniques based on the Capital Rules. The required information is filed with the HKMA on a quarterly basis. The disclosure of capital adequacy and capital base are shown in Note 1 of the Supplementary Financial Information.

The following exhibits the Bank's Basel II Pillar I Regulatory Capital Adequacy Ratio ("CAR") on a consolidated basis. The Group will perform capital planning and allocation in due course to fulfill Basel II Pillar II standards. During the two years ended 31 December 2009 and 2008, the Group complied with all of the capital requirements externally imposed by the HKMA.

	<u>2009</u>	<u>2008</u>
Capital adequacy ratio	<u>14.9%</u>	<u>13.6%</u>

4.8 Operational risk management

Operational risk is the risk of unexpected financial losses resulting from inadequate or failed internal processes, people, systems and from external events. It is inherent to every business organisation and covers a wide spectrum of issues. Enhanced efforts in identifying and understanding the underlying operational risks in process are taken. This is part of the job of the Risk Management Department. Its capability for handling operational risk management is enhanced. An Operational Risk Committee is in place in forging ahead with the initiatives. Such operational risk is further mitigated through the implementation of key risk assessment, key risk indicators, comprehensive internal control systems, adequate insurance cover, offshore computer back-up sites and contingency plans with periodic drills. The Group's Internal Audit Department also plays an important role in detecting any deviations from operating procedures and identifying weaknesses at all operating levels independently and objectively. The Group will keep on pursuing active and proactive operational risk management practice in accordance with the relevant Basel II and HKMA guidelines and principles. In the wake of the financial tsunami that began in the last quarter of 2008, the Group has adopted incremental presumptive measures to detect and prevent fraud.

4.9 Legal and compliance risk management

Legal and compliance risk is the prospective risk of legal and regulatory sanctions, financial loss, or reputation loss that the Group may suffer as a result for violations of, or non-compliance with, all applicable laws, regulations, internal policies etc with respect to the conduct of business.

Legal and compliance staff members advise the management on the legal and regulatory developments and assist the management in establishing policies, procedures and monitoring programme to ensure compliance with the legal and regulatory requirements. They conduct regular compliance checking so that the Bank can identify any potential non-compliance issue and take remedial action on a timely basis. They also issue monthly bulletins and arrange training from time to time to enrich the knowledge of all staff in the legal and regulatory requirements. Furthermore, regular reports on non-compliance issues and the legal and regulatory developments are made to the Executive Committee.

5 SEGMENT REPORTING

(a) Class of business

Following an internal restructuring during 2009, the business of the Group has been organised into seven major operating segments. Commercial banking represents commercial lending and trade financing. Retail banking represents retail banking, hire purchase and leasing, and credit card business. Global markets and trading represents foreign exchange, money market and capital market activities. Corporate and investment banking mainly comprises corporate banking, the provision of debt capital market and investment banking. Institutional banking represents financial institution business. Chinese Mercantile Bank represents the business of the Bank's subsidiary in Mainland China. Unallocated items mainly comprise the central management unit, bank premises and any items which cannot be reasonably allocated to specific operating segments.

	Corporate and investment banking	Commercial banking	Retail banking	Global markets and trading	Institutional banking	Chinese Mercantile Bank	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income/(expense)	826,679	948,050	575,871	414,889	112,587	269,041	(137,921)	3,009,196
Fee and commission income	134,506	241,854	302,591	1,610	67,037	49,406	17,425	814,429
Fee and commission expense	(15,497)	(10,970)	(50,188)	—	(1,004)	(2,640)	(7,096)	(87,395)
Net fee and commission income	119,009	230,884	252,403	1,610	66,033	46,766	10,329	727,034
Net trading income/(expense)	747	41,920	18,894	187,604	1,365	(496)	(35,696)	214,338
Net gain on financial assets and liabilities designated at fair value through profit or loss	—	—	—	110,097	—	—	83,118	193,215
Dividend income from financial investments	597	—	40	—	—	—	5,839	6,476
Other operating income	352	3,374	13,992	180	31	10,758	11,235	39,922
Operating income/(expense)	947,384	1,224,228	861,200	714,380	180,016	326,069	(63,096)	4,190,181
Operating expenses	(62,323)	(285,877)	(623,777)	(98,579)	(15,909)	(73,299)	(198,575)	(1,358,339)
Operating profit/(loss) before impairment losses	885,061	938,351	237,423	615,801	164,107	252,770	(261,671)	2,831,842
(Charge for)/write-back of impairment losses on loans and advances	(110,567)	(152,355)	(3,779)	473	(5,868)	(141,011)	27,571	(385,536)
Write-back of impairment losses on held-to-maturity financial investments	—	—	—	2,145	—	—	—	2,145
Charge for impairment losses on available-for-sale financial investments	—	—	—	(43,676)	—	—	(151,382)	(195,058)
Operating profit/(loss) after impairment losses	774,494	785,996	233,644	574,743	158,239	111,759	(385,482)	2,253,393
Revaluation gain on investment properties	—	—	—	—	—	5,787	300	6,087
Net (loss)/gain from disposal/reversal of revaluation deficits of property, plant and equipment and leasehold land and land use rights	(6)	1	(438)	(22)	—	(12)	4,327	3,850
Gain on disposal of subsidiaries and an associate	—	—	—	—	—	—	1,328	1,328
Net (loss)/gain on disposal of available-for-sale financial investments	—	—	—	(51,829)	—	—	834,129	782,300
Operating profit	774,488	785,997	233,206	522,892	158,239	117,534	454,602	3,046,958
Share of profits of associates	—	—	—	—	—	—	23,243	23,243
Profit before tax	774,488	785,997	233,206	522,892	158,239	117,534	477,845	3,070,201
Segment assets	45,757,943	51,775,753	28,448,567	59,620,247	12,546,559	12,805,062	708,626	211,662,757
Investments in associates	—	—	—	—	—	—	3,915,895	3,915,895
Unallocated assets	—	—	—	—	—	—	175,177	175,177
Total assets	45,757,943	51,775,753	28,448,567	59,620,247	12,546,559	12,805,062	4,799,698	215,753,829
Segment liabilities	51,006,908	47,579,809	50,110,770	17,414,802	8,634,626	9,119,425	853,476	184,719,816
Unallocated liabilities	—	—	—	—	—	—	12,929,416	12,929,416
Total liabilities	51,006,908	47,579,809	50,110,770	17,414,802	8,634,626	9,119,425	13,782,892	197,649,232
Capital expenditure	28	169	16,382	762	65	667	19,574	37,647
Depreciation and amortisation charges	602	2,364	24,437	1,399	156	12,183	24,481	65,622

	Corporate and investment banking	Commercial banking	Retail banking	Global markets and trading	Institutional banking	Chinese Mercantile Bank	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income/(expense)	443,610	813,727	526,553	624,614	284,668	306,812	(1,681)	2,998,303
Fee and commission income/(expense)	246,743	212,091	262,365	(787)	26,112	32,582	(22,838)	756,268
Fee and commission expense	(24,048)	(21,149)	(38,835)	—	(621)	(712)	(7,801)	(93,166)
Net fee and commission income/(expense)	222,695	190,942	223,530	(787)	25,491	31,870	(30,639)	663,102
Net trading income/(expense)	6,373	43,630	17,081	182,852	196	(17,264)	40,573	273,441
Net loss on financial assets and liabilities designated at fair value through profit or loss	—	—	—	(163,855)	—	—	(66,785)	(230,640)
Dividend income from financial investments	943	—	22	—	—	—	13,894	14,859
Other operating (loss)/income	(1)	7,650	13,147	629	—	3,070	8,751	33,246
Inter segment (expense)/income	—	—	(830)	—	—	—	830	—
Operating income/(expense)	673,620	1,055,949	779,503	643,453	310,355	324,488	(35,057)	3,752,311
Operating expenses	(71,106)	(299,020)	(557,787)	(97,089)	(12,325)	(78,981)	(135,811)	(1,252,119)
Operating profit/(loss) before impairment losses	602,514	756,929	221,716	546,364	298,030	245,507	(170,868)	2,500,192
(Charge for)/write-back of impairment losses on loans and advances	(101,821)	(242,754)	(34,921)	(190)	(4,984)	(30,774)	6,815	(408,629)
Write-back of impairment losses on held-to-maturity financial investments	—	—	—	156	—	—	—	156
Charge for impairment losses on available-for-sale financial investments	—	—	—	(721,390)	—	—	(81,490)	(802,880)
Operating profit/(loss) after impairment losses	500,693	514,175	186,795	(175,060)	293,046	214,733	(245,543)	1,288,839
Revaluation gain/(loss) on investment properties	—	—	—	—	—	302	(800)	(498)
Net gain/(loss) from disposal/reversal of revaluation deficits of property, plant and equipment and leasehold land and land use rights	—	5	(1,107)	(1)	—	—	6,616	5,513
Loss on disposal of loans and advances	(3,493)	(11,075)	(3,600)	—	(252)	—	(10,290)	(28,710)
Net gain/(loss) on disposal of available-for-sale financial investments	—	—	6,560	(214,201)	—	—	5,679	(201,962)
Operating profit/(loss)	497,200	503,105	188,648	(389,262)	292,794	215,035	(244,338)	1,063,182
Share of profits of associates	—	—	—	—	—	—	655	655
Profit/(loss) before tax	497,200	503,105	188,648	(389,262)	292,794	215,035	(243,683)	1,063,837
Segment assets	42,056,048	43,470,331	26,687,406	49,534,105	18,044,877	10,397,781	249,236	190,439,784
Investments in associates	—	—	—	—	—	—	184,854	184,854
Unallocated assets	—	—	—	—	—	—	3,939,471	3,939,471
Total assets	42,056,048	43,470,331	26,687,406	49,534,105	18,044,877	10,397,781	4,373,561	194,564,109
Segment liabilities	39,174,235	36,905,248	51,232,047	19,564,555	9,495,181	7,705,671	355,348	164,432,285
Unallocated liabilities	—	—	—	—	—	—	16,194,046	16,194,046
Total liabilities	39,174,235	36,905,248	51,232,047	19,564,555	9,495,181	7,705,671	16,549,394	180,626,331
Capital expenditure	100	1,094	42,909	230	76	8,708	20,168	73,285
Depreciation and amortisation charges	545	2,092	25,422	1,985	126	11,850	53,154	95,174

(b) **Geographical area**

The Group operates predominantly in Hong Kong. The geographical analysis, which has been classified by the location of the principal operations, is as follows:.

2009

	<u>Hong Kong</u>	<u>Asia Pacific (excluding Hong Kong)</u>	<u>Europe</u>	<u>Total</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
Operating income.....	3,861,083	326,069	3,029	4,190,181
Profit before tax	2,950,575	117,533	2,093	3,070,201
Total assets	202,522,159	12,816,014	415,656	215,753,829
Total liabilities	187,026,401	10,613,554	9,277	197,649,232
Contingent liabilities and commitments	98,629,459	5,127,922	—	103,757,381
Capital expenditure during the year.....	<u>36,980</u>	<u>667</u>	<u>—</u>	<u>37,647</u>

2008

	<u>Hong Kong</u>	<u>Asia Pacific (excluding Hong Kong)</u>	<u>Europe</u>	<u>Total</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
Operating income/(expense)	3,437,069	324,489	(9,247)	3,752,311
Profit/(loss) before tax	867,849	215,036	(19,048)	1,063,837
Total assets	183,756,501	10,397,781	409,827	194,564,109
Total liabilities	172,915,166	7,705,671	5,494	180,626,331
Contingent liabilities and commitments	77,277,530	12,439,819	—	89,717,349
Capital expenditure during the year.....	<u>64,577</u>	<u>8,708</u>	<u>—</u>	<u>73,285</u>

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2009 or 2008.

6 NET INTEREST INCOME

	2009	2008
	HK\$'000	HK\$'000
Interest income on:		
Cash and balances with banks and other financial institutions	70,008	860,645
Placements with and advances to banks and other financial institutions	98,613	175,740
Loans and advances to customers, banks and other financial institutions	3,466,631	5,795,131
Financial investments — available-for-sale	749,181	755,224
Financial investments — held-to-maturity	24,510	79,279
	<u>4,408,943</u>	<u>7,666,019</u>
Financial assets held for trading	1,809	458
Financial assets designated at fair value through profit or loss	68,316	87,380
	<u>4,479,068</u>	<u>7,753,857</u>
Interest expense on:		
Deposits from banks and other financial institutions	190,724	766,413
Deposits from customers	869,919	3,387,747
Certificates of deposit issued	6,699	18,069
Subordinated debts measured at amortised cost	147,886	292,565
Others	90,354	9,617
	<u>1,305,582</u>	<u>4,474,411</u>
Financial liabilities designated at fair value through profit or loss	164,290	281,143
	<u>1,469,872</u>	<u>4,755,554</u>
Net interest income	<u>3,009,196</u>	<u>2,998,303</u>

Included in the above is interest income accrued on impaired financial assets of HK\$23,569,520 (2008: HK\$45,236,357), including unwinding of discounts on loan impairment losses of HK\$10,999,491 (2008: HK\$13,212,853).

7 NET FEE AND COMMISSION INCOME

	2009	2008
	HK\$'000	HK\$'000
Loans, overdrafts and guarantees	261,870	296,175
Securities and brokerage	199,579	128,822
Trade finance	161,612	151,423
Credit card	72,312	55,480
Remittance	26,895	23,413
Insurance	20,695	18,242
Other retail and commercial banking services	34,420	34,722
Others	37,046	47,991
	<u>814,429</u>	<u>756,268</u>
Fee and commission expense	(87,395)	(93,166)
Net fee and commission income	<u>727,034</u>	<u>663,102</u>
Of which:		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss ..	<u>423,482</u>	<u>447,598</u>
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	<u>14,041</u>	<u>10,405</u>

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Of which:		
Fee and commission income by product line constitutes not less than 10% of the total amount of fee and commission income, as follows:		
— securities and brokerage	199,579	128,822
— syndicated loan	<u>200,128</u>	<u>173,755</u>

8 NET TRADING INCOME

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Equity investments	17,356	(16,306)
Debt securities — financial assets held for trading	3,100	1,424
— available-for-sale financial investments	28,404	—
Derivatives	54,061	(45,454)
Foreign exchange	<u>118,009</u>	<u>361,928</u>
	220,930	301,592
Loss from hedging activities		
Fair value hedges		
— Net (loss)/gain on hedged items attributable to the hedged risk	(153,823)	204,484
— Net gain/(loss) on hedging instruments	<u>147,231</u>	<u>(232,635)</u>
	(6,592)	(28,151)
Total net trading income	<u>214,338</u>	<u>273,441</u>

Included in the total net trading income is the gain on financial liabilities measured at amortised cost of HK\$2,884 (2008: HK\$501,762).

9 NET GAIN/(LOSS) ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Financial assets designated at fair value through profit or loss	108,626	(158,763)
Financial liabilities designated at fair value through profit or loss	<u>84,589</u>	<u>(71,877)</u>
Total net gain/(loss) on financial assets and liabilities designated at fair value through profit or loss	<u>193,215</u>	<u>(230,640)</u>

10 DIVIDEND INCOME FROM FINANCIAL INVESTMENTS

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Dividend income from listed financial assets held for trading	664	1,133
Dividend income from listed available-for-sale financial investments	2,006	9,747
Dividend income from unlisted available-for-sale financial investments	<u>3,806</u>	<u>3,979</u>
Total dividend income from financial investments	<u>6,476</u>	<u>14,859</u>

11 OTHER OPERATING INCOME

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Management fee income.....	7,253	7,500
Rental income.....	62	79
Rental income from investment properties.....	2,446	2,372
Less: Direct operating expenses arising from investment properties that generated rental income during the year	(227)	(115)
Others.....	<u>30,388</u>	<u>23,410</u>
Total other operating income.....	<u><u>39,922</u></u>	<u><u>33,246</u></u>

12 OPERATING EXPENSES

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Staff costs:		
— Salaries and other costs	623,333	568,150
— Redundancy payments.....	2,498	—
— Retirement benefit costs.....	<u>38,586</u>	<u>38,491</u>
	<u>664,417</u>	<u>606,641</u>
Premises and equipment expenses, excluding depreciation and amortisation:		
— Rental of premises	230,259	222,407
— Others.....	<u>73,850</u>	<u>74,063</u>
	<u>304,109</u>	<u>296,470</u>
Depreciation and amortisation expenses	65,622	95,174
Auditors' remuneration	5,196	5,134
General administrative expenses.....	34,766	35,087
Business promotion expenses	40,237	43,874
Communication expenses	41,051	38,086
Other operating expenses	<u>202,941</u>	<u>131,653</u>
Total operating expenses.....	<u><u>1,358,339</u></u>	<u><u>1,252,119</u></u>

13 RETIREMENT BENEFIT COSTS

The retirement benefit cost charged to the income statement represents contributions payable by the Group to the ORSO Scheme and the MPF Scheme (the "Schemes").

Under the Schemes, the Group's contributions are reduced by contributions forfeited by those employees who leave the Schemes prior to the contributions vesting fully. Forfeited contributions totalling HK\$2,290,000 (2008: HK\$1,450,000) were utilised during the year leaving HK\$232,000 (2008: HK\$152,000) available at the year-end to reduce future contributions.

No contributions were payable to the Schemes at the year end (2008: Nil). The assets of the Schemes are held separately from those of the Group in independently administered funds.

14 CHARGE FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Charge for impairment losses on loans and advances		
Individually assessed		
— New allowances	414,003	272,908
— Releases.....	(59,113)	(21,655)
— Recoveries (Note 26)	<u>(43,532)</u>	<u>(11,594)</u>
Net charge for impairment losses on individually assessed loans and advances (Note 26)	<u>311,358</u>	<u>239,659</u>
Collectively assessed		
— New allowances	77,800	168,970
— Releases.....	<u>(3,622)</u>	<u>—</u>
Net charge for impairment losses on collectively assessed loans and advances (Note 26)	<u>74,178</u>	<u>168,970</u>
Net charge to the income statement.....	<u><u>385,536</u></u>	<u><u>408,629</u></u>

15 NET GAIN FROM DISPOSAL/REVERSAL OF REVALUATION DEFICITS OF PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND AND LAND USE RIGHTS

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Net gain on disposal of property, plant and equipment	3,840	5,503
Write-back of reversal of revaluation deficits of bank premises	<u>10</u>	<u>10</u>
	<u><u>3,850</u></u>	<u><u>5,513</u></u>

16 INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable for overseas branches and subsidiaries have been calculated at the rates of tax prevailing in the countries in which the Group operates.

The amount of tax charged to the consolidated income statement represents:

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Current tax — provision for Hong Kong Profits Tax for the year	490,729	159,332
— provision for overseas tax for the year.....	50,156	49,315
Under/(over) provision in respect of prior years.....	1,394	(83,299)
Deferred taxation		
— Origination and reversal of temporary differences	1,780	(29,960)
— Effect of change in tax rate	<u>—</u>	<u>(574)</u>
	<u><u>544,059</u></u>	<u><u>94,814</u></u>

The difference between the tax expense for the Group's profit before tax and the theoretical amount that would arise at the current tax rate is as follows:

	<u>2009</u>	<u>2008</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Profit before tax	3,070,201	1,063,837
Calculated at a tax rate of 16.5% (2008: 16.5%)	506,583	175,534
Effect of different tax rates in other countries.....	30,488	3,033
Effect of change of tax rate	—	(574)
Income not subject to tax.....	(38,283)	(43,771)
Expenses not deductible for tax purposes	55,288	43,999
Adjustments in respect of current tax of previous years	1,346	(83,299)
Tax credit claimed	(10,412)	—
Share of tax of an associate	(3,835)	(108)
Taxation of partnership	(2,923)	—
Others.....	5,807	—
Tax charge	<u>544,059</u>	<u>94,814</u>

17 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every director for the year ended 31 December 2009 is set out below:

Name of director	Fees	Salaries and allowances	Discretionary bonuses	Contribution	Total
				to the Schemes (as defined in Note 13)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Dr. Jiang Jianqing	190	—	—	—	190
Ms. Wang Lili.....	140	—	—	—	140
Mr. Chen Aiping	—	3,166	2,000	217	5,383
Mr. Wong Yuen Fai	—	4,397	1,100	332	5,829
Mr. Zhang Yi	—	2,419	1,800	159	4,378
Mr. Hu Hao	90	—	—	—	90
Prof. Wong Yue Chim, Richard, S.B.S., J.P.***	260	—	—	—	260
Mr. Tsui Yiu Wa, Alec***	270	—	—	—	270
Mr. Yuen Kam Ho, George***	270	—	—	—	270
	<u>1,220</u>	<u>9,982</u>	<u>4,900</u>	<u>708</u>	<u>16,810</u>

The remuneration of every director for the year ended 31 December 2008 is set out below:

Name of director	Fees	Salaries and allowances	Discretionary bonuses	Contribution	Total
				to the Schemes (as defined in Note 13)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Dr. Jiang Jianqing	190	—	—	—	190
Ms. Wang Lili	140	—	—	—	140
Mr. Zhu Qi*	—	1,387	—	128	1,515
Mr. Chen Aiping	50	1,041	—	61	1,152
Mr. Wong Yuen Fai	—	4,375	300	330	5,005
Mr. Zhang Yi	—	1,724	500	159	2,383
Mr. Hu Hao	15	—	—	—	15
Mr. Damis Jacobus Ziengs**	—	—	—	—	—
Prof. Wong Yue Chim, Richard, S.B.S., J.P.***	250	—	—	—	250
Mr. Tsui Yiu Wa, Alec***	250	—	—	—	250
Mr. Yuen Kam Ho, George***	250	—	—	—	250
	<u>1,145</u>	<u>8,527</u>	<u>800</u>	<u>678</u>	<u>11,150</u>

* Resigned on 22 July 2008

** Resigned on 24 January 2008

*** Independent Non-executive directors

There was no arrangement under which any director waived or agreed to waive any remuneration during the year.

(b) **Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include three directors (2008: three) whose emoluments are reflected in the analysis presented above. The emoluments paid and payable to the remaining two (2008: two) individuals during the year are as follows:

	2009	2008
	HK\$'000	HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	4,750	4,724
Bonuses	2,824	632
Contributions to the Schemes	526	523
	<u>8,100</u>	<u>5,879</u>

The emoluments fall within the following bands:

Emolument bands	2009	2008
HK\$2,000,001 to HK\$2,500,000	—	1
HK\$2,500,001 to HK\$3,000,000	—	—
HK\$3,000,001 to HK\$3,500,000	1	—
HK\$3,500,001 to HK\$4,000,000	—	1
HK\$4,000,001 to HK\$4,500,000	—	—
HK\$4,500,001 to HK\$5,000,000	1	—
	<u>2</u>	<u>2</u>

18 DIVIDENDS

(a) Dividends attributable to the year

	<u>2009</u>	<u>2008</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Paid interim dividend of HK\$0.28 (2008: HK\$0.28) per ordinary share	363,787	355,599
Final dividend paid in respect of the previous financial year on shares issued from exercise of bonus warrants subsequent to the end of the reporting period and before the close of the Register of Members of the Bank, of HK\$0.18 (2008: HK\$0.63)	—	9,358
Proposed final dividend of HK\$0.57 (2008: HK\$0.18) per ordinary share ..	751,454	231,348
	<u>1,115,241</u>	<u>596,305</u>

(b) Dividends attributable to the prior year, approved and paid during the year

	<u>2009</u>	<u>2008</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Final dividend in respect of the prior year, approved and paid during the year, of HK\$0.18 (2008: HK\$0.63) per ordinary share	—	781,708

At a meeting held on 24 March 2010, the Board of Directors proposed a final dividend of HK\$0.57 per ordinary share. The final dividend will be payable in cash with an option to receive new, fully paid shares in lieu of cash, to shareholders whose names appear on the Register of Members of the Bank at the close of business on Tuesday, 25 May 2010. This proposed dividend is subject to the approval of the Bank's shareholders and was not reflected as dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ended 31 December 2009.

19 EARNINGS PER SHARE

The basic earnings per share amount is calculated by dividing the profit for the year attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year.

	<u>2009</u>	<u>2008</u>
Profit attributable to equity holders (HK\$'000)	2,526,142	969,023
Weighted average number of ordinary shares in issue (thousands).....	1,296,898	1,254,631
Basic earnings per share	<u>HK\$1.95</u>	<u>HK\$0.77</u>

No adjustments have been made to the basic earnings per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as per share amount presented.

Diluted earnings per share amounts for the year ended 31 December 2009 and 31 December 2008 have not been disclosed, as the subscription rights attaching to the warrants were lapsed on 6 November 2008.

20 ACCOUNTING CLASSIFICATIONS

Group At 31 December 2009			Designated	Available-	Held-to-	Loans and	Other	Total
	Trading	Hedging	at fair value	for-sale	maturity	receivables	amortised cost	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets								
Cash and balances with banks and other financial institutions	—	—	—	—	—	—	27,910,582	27,910,582
Placements with and advances to banks and other financial institutions	—	—	—	—	—	1,663,286	—	1,663,286
Derivative financial instruments.....	1,235,654	49,652	—	—	—	—	—	1,285,306
Loans and advances to customers, banks and other financial institutions	—	—	—	—	—	147,024,582	—	147,024,582
Investment securities.....	190,246	—	1,162,149	32,361,666	1,291,509	—	—	35,005,570
Total financial assets.....	<u>1,425,900</u>	<u>49,652</u>	<u>1,162,149</u>	<u>32,361,666</u>	<u>1,291,509</u>	<u>148,687,868</u>	<u>27,910,582</u>	<u>212,889,326</u>
Non-financial assets								<u>2,864,503</u>
Total assets								<u><u>215,753,829</u></u>
Liabilities								
Deposits from banks and other financial institutions	—	—	—	—	—	—	20,176,700	20,176,700
Derivative financial instruments.....	1,218,304	185,528	—	—	—	—	—	1,403,832
Deposits from customers	—	—	—	—	—	—	161,161,561	161,161,561
Certificates of deposit issued and debt securities in issue	—	—	1,419,077	—	—	—	1,134,995	2,554,072
Subordinated debts measured at amortised cost	—	—	—	—	—	—	8,561,125	8,561,125
Total financial liabilities	<u>1,218,304</u>	<u>185,528</u>	<u>1,419,077</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>191,034,381</u>	<u>193,857,290</u>
Non-financial liabilities.....								<u>3,791,942</u>
Total liabilities.....								<u><u>197,649,232</u></u>

Group At 31 December 2008			Designated	Available-	Held-to-	Loans and	Other	Total
	Trading	Hedging	at fair value	for-sale	maturity	receivables	amortised cost	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets								
Cash and balances with banks and other financial institutions	—	—	—	—	—	—	28,678,778	28,678,778
Placements with and advances to banks and other financial institutions	—	—	—	—	—	844,358	—	844,358
Derivative financial instruments	2,305,212	3,490	—	—	—	—	—	2,308,702
Loans and advances to customers, banks and other financial institutions	—	—	—	—	—	137,082,721	—	137,082,721
Investment securities	52,051	—	1,488,003	17,403,075	1,976,403	—	—	20,919,532
Total financial assets	<u>2,357,263</u>	<u>3,490</u>	<u>1,488,003</u>	<u>17,403,075</u>	<u>1,976,403</u>	<u>137,927,079</u>	<u>28,678,778</u>	<u>189,834,091</u>
Non-financial assets								<u>4,730,018</u>
Total assets								<u><u>194,564,109</u></u>
Liabilities								
Deposits from banks and other financial institutions	—	—	—	—	—	—	20,056,756	20,056,756
Derivative financial instruments	3,023,284	273,386	—	—	—	—	—	3,296,670
Deposits from customers	—	—	301,216	—	—	—	137,882,116	138,183,332
Certificates of deposit issued and debt securities in issue	—	—	6,635,760	—	—	—	823,000	7,458,760
Subordinated debts measured at amortised cost	—	—	—	—	—	—	8,556,348	8,556,348
Total financial liabilities	<u>3,023,284</u>	<u>273,386</u>	<u>6,936,976</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>167,318,220</u>	<u>177,551,866</u>
Non-financial liabilities								<u>3,074,465</u>
Total liabilities								<u><u>180,626,331</u></u>

Bank			Designated	Available-	Held-to-	Loans and	Other	
At 31 December 2009	Trading	Hedging	at fair	for-sale	maturity	receivables	amortised	Total
	HK\$'000	HK\$'000	value	HK\$'000	HK\$'000	HK\$'000	cost	HK\$'000
			HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets								
Cash and balances with banks and other financial institutions	—	—	—	—	—	—	25,247,532	25,247,532
Placements with and advances to banks and other financial institutions	—	—	—	—	—	2,427,183	—	2,427,183
Derivative financial instruments	1,235,654	49,652	—	—	—	—	—	1,285,306
Loans and advances to customers, banks and other financial institutions	—	—	—	—	—	137,725,764	—	137,725,764
Investment securities	67,998	—	1,162,149	32,361,096	1,291,509	—	—	34,882,752
Total financial assets	1,303,652	49,652	1,162,149	32,361,096	1,291,509	140,152,947	25,247,532	201,568,537
Non-financial assets								5,438,025
Total assets								207,006,562
Liabilities								
Deposits from banks and other financial institutions	—	—	—	—	—	—	16,804,941	16,804,941
Derivative financial instruments	1,218,304	185,528	—	—	—	—	—	1,403,832
Deposits from customers	—	—	—	—	—	—	157,977,892	157,977,892
Certificates of deposit issued and debt securities in issue	—	—	1,419,077	—	—	—	1,134,995	2,554,072
Subordinated debts measured at amortised cost	—	—	—	—	—	—	8,561,125	8,561,125
Total financial liabilities	1,218,304	185,528	1,419,077	—	—	—	184,478,953	187,301,862
Non-financial liabilities								2,611,075
Total liabilities								189,912,937

Bank At 31 December 2008			Designated	Available-	Held-to-	Loans and	Other	Total
	Trading	Hedging	at fair value	for-sale	maturity	receivables	amortised cost	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets								
Cash and balances with banks and other financial institutions	—	—	—	—	—	—	27,649,423	27,649,423
Placements with and advances to banks and other financial institutions	—	—	—	—	—	1,660,123	—	1,660,123
Derivative financial instruments	2,305,212	3,490	—	—	—	—	—	2,308,702
Loans and advances to customers, banks and other financial institutions	—	—	—	—	—	128,285,852	—	128,285,852
Investment securities	52,051	—	1,488,003	17,402,458	1,976,403	—	—	20,918,915
Total financial assets	<u>2,357,263</u>	<u>3,490</u>	<u>1,488,003</u>	<u>17,402,458</u>	<u>1,976,403</u>	<u>129,945,975</u>	<u>27,649,423</u>	<u>180,823,015</u>
Non-financial assets								6,333,718
Total assets								<u><u>187,156,733</u></u>
Liabilities								
Deposits from banks and other financial institutions	—	—	—	—	—	—	17,001,164	17,001,164
Derivative financial instruments	3,050,788	273,386	—	—	—	—	—	3,324,174
Deposits from customers	—	—	301,216	—	—	—	137,334,851	137,636,067
Certificates of deposit issued and debt securities in issue	—	—	3,489,361	—	—	—	823,000	4,312,361
Subordinated debts measured at amortised cost	—	—	—	—	—	—	8,556,348	8,556,348
Total financial liabilities	<u>3,050,788</u>	<u>273,386</u>	<u>3,790,577</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>163,715,363</u>	<u>170,830,114</u>
Non-financial liabilities								3,101,794
Total liabilities								<u><u>173,931,908</u></u>

21 CASH AND BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash on hand	266,421	260,075	266,409	260,061
Balances with central banks	5,213,938	924,435	4,045,227	408,605
Balances with other banks and financial institutions	1,296,144	7,998,042	960,287	7,796,695
Placements with banks and other financial institutions maturing within one month	<u>21,134,079</u>	<u>19,496,226</u>	<u>19,975,609</u>	<u>19,184,062</u>
	<u><u>27,910,582</u></u>	<u><u>28,678,778</u></u>	<u><u>25,247,532</u></u>	<u><u>27,649,423</u></u>

22 PLACEMENTS WITH AND ADVANCES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Placements with other banks and other financial institutions maturing between one and twelve months	1,663,286	844,358	2,427,183	1,660,123
	<u>1,663,286</u>	<u>844,358</u>	<u>2,427,183</u>	<u>1,660,123</u>

23 FINANCIAL ASSETS HELD FOR TRADING

	Group	
	2009	2008
	HK\$'000	HK\$'000
Debt securities, at fair value:		
Listed in Hong Kong	8,180	410
Unlisted	38,868	30,441
	<u>47,048</u>	<u>30,851</u>
Equity securities, at fair value:		
Listed in Hong Kong	20,950	21,200
Unlisted	122,248	—
	143,198	21,200
Total financial assets held for trading	<u>190,246</u>	<u>52,051</u>
Financial assets held for trading are analysed by category of issuer as follows:		
Central governments and central banks	23	—
Public sector entities	425	628
Banks and other financial institutions	181,878	51,423
Corporate entities	7,920	—
	<u>190,246</u>	<u>52,051</u>
	Bank	
	2009	2008
	HK\$'000	HK\$'000
Debt securities, at fair value:		
Listed in Hong Kong	8,180	410
Unlisted	38,868	30,441
	<u>47,048</u>	<u>30,851</u>
Equity securities, at fair value:		
Listed in Hong Kong	20,950	21,200
	20,950	21,200
Total financial assets held for trading	<u>67,998</u>	<u>52,051</u>
Financial assets held for trading are analysed by category of issuer as follows:		
Central governments and central banks	23	—
Public sector entities	425	628
Banks and other financial institutions	59,630	51,423
Corporate entities	7,920	—
	<u>67,998</u>	<u>52,051</u>

24 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Bank	
	2009	2008
	HK\$'000	HK\$'000
Debt securities, at fair value:		
Listed in Hong Kong	377,848	340,506
Listed outside Hong Kong	599,139	973,906
Unlisted.....	<u>185,162</u>	<u>173,591</u>
Total financial assets designated at fair value through profit or loss	<u>1,162,149</u>	<u>1,488,003</u>
Financial assets designated at fair value through profit or loss are comprised of the following item:		
Other debt securities.....	<u>1,162,149</u>	<u>1,488,003</u>
	<u>1,162,149</u>	<u>1,488,003</u>
Financial assets designated at fair value through profit or loss are analysed by category of issuer as follows:		
Central governments and central banks	—	202,890
Public sector entities	201,022	200,119
Banks and other financial institutions	183,716	309,333
Corporate entities	<u>777,411</u>	<u>775,661</u>
	<u>1,162,149</u>	<u>1,488,003</u>

25 DERIVATIVE FINANCIAL INSTRUMENTS

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

Currency forwards represent commitments to purchase and sell foreign currency on a future date.

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

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

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

The Group trades derivative products (both exchange-traded or OTC) mainly for customer business. The Group strictly follows risk management policies in providing derivative products to the customers and in trading derivative products in the interbank market.

Derivatives are also used to manage the interest rate risk of the banking book. A derivative instrument must be included in the approved product list before any transactions for that instrument can be made. There are limits to control the notional amount of exposure arising from derivative transactions and the maximum tenor of the deal and management alert limit in profit or loss is set. Every derivative transaction must be input into the relevant system for settlement, mark to market revaluation, reporting and control.

The following tables summaries the contractual/notional amounts of each significant type of derivative financial instruments as at 31 December:

2009

	Group		
	Contractual/ notional amount	Fair value assets	Fair value liabilities
	HK\$'000	HK\$'000	HK\$'000
1) Derivatives held for trading			
a) Foreign exchange derivatives			
— Currency forwards	87,492,643	707,554	(632,192)
— OTC currency options purchased	5,013,375	33,494	(151)
— OTC currency options written	5,007,140	151	(34,028)
Total foreign exchange derivatives		741,199	(666,371)
b) Interest rate derivatives			
— Interest rate swaps	16,136,691	327,792	(301,572)
— Interest rate options purchased	804,075	4,657	—
— Interest rate options written	804,075	—	(4,657)
Total interest rate derivatives		332,449	(306,229)
c) Equity derivatives			
— Equity options	310,807	157,751	(157,751)
Total equity derivatives		157,751	(157,751)
Total derivative assets/(liabilities) held for trading		1,231,399	(1,130,351)
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges	8,388,175	49,652	(185,528)
— Interest rate swaps			
b) Derivatives designated as cash flow hedges			
— Cross currency swaps	—	—	—
Total derivative assets/(liabilities) held for hedging		49,652	(185,528)
3) Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
Interest rate swaps	1,300,395	4,255	(87,953)
Total derivative assets/(liabilities) not qualified as hedges	1,300,395	4,255	(87,953)
Total recognised derivative assets/(liabilities)		1,285,306	(1,403,832)

	Group		
	Contractual/ notional amount	Fair value assets	Fair value liabilities
	HK\$'000	HK\$'000	HK\$'000
1) Derivatives held for trading			
a) Foreign exchange derivatives			
— Currency forwards	94,045,118	1,644,821	(2,262,968)
— OTC currency options purchased	6,258,859	62,706	(88,640)
— OTC currency options written	6,080,840	88,640	(62,842)
Total foreign exchange derivatives		1,796,167	(2,414,450)
b) Interest rate derivatives			
— Interest rate swaps	23,309,829	501,510	(431,715)
— Interest rate options purchased	300,000	5,470	—
— Interest rate options written	300,000	—	(5,470)
Total interest rate derivatives		506,980	(437,185)
c) Equity derivatives			
— Equity options	30,130	—	—
Total equity derivatives		—	—
Total derivative assets/(liabilities) held for trading		2,303,147	(2,851,635)
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
— Interest rate swaps	3,185,923	—	(270,636)
b) Derivatives designated as cash flow hedges			
— Cross currency swaps	503,757	—	(37,261)
Total derivative assets/(liabilities) held for hedging		—	(307,897)
3) Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
Interest rate swaps	1,648,517	5,555	(137,138)
Total derivative assets/(liabilities) not qualified as hedges	1,648,517	5,555	(137,138)
Total recognised derivative assets/(liabilities)		2,308,702	(3,296,670)

	Bank		
	Contractual/ notional amount	Fair value assets	Fair value liabilities
	HK\$'000	HK\$'000	HK\$'000
1) Derivatives held for trading			
a) Foreign exchange derivatives			
— Currency forwards	87,492,643	707,554	(632,192)
— OTC currency options purchased	5,013,375	33,494	(151)
— OTC currency options written	5,007,140	151	(34,028)
Total foreign exchange derivatives		741,199	(666,371)
b) Interest rate derivatives			
— Interest rate swaps	16,136,691	327,792	(301,572)
— Interest rate options purchased	804,075	4,657	—
— Interest rate options written	804,075	—	(4,657)
Total interest rate derivatives		332,449	(306,229)
c) Equity derivatives			
— Equity options	310,807	157,751	(157,751)
Total equity derivatives		157,751	(157,751)
Total derivative assets/(liabilities) held for trading		1,231,399	(1,130,351)
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges	8,388,175	49,652	(185,528)
— Interest rate swaps			
b) Derivatives designated as cash flow hedges			
— Cross currency swaps	—	—	—
Total derivative assets/(liabilities) held for hedging		49,652	(185,528)
3) Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
Interest rate swaps	1,300,395	4,255	(87,953)
Total derivative assets/(liabilities) not qualified as hedges	1,300,395	4,255	(87,953)
Total recognised derivative assets/(liabilities)		1,285,306	(1,403,832)

	Bank		
	Contractual/ notional amount	Fair value assets	Fair value liabilities
	HK\$'000	HK\$'000	HK\$'000
1) Derivatives held for trading			
a) Foreign exchange derivatives			
— Currency forwards	94,045,118	1,644,821	(2,262,968)
— OTC currency options purchased	6,258,859	62,706	(88,640)
— OTC currency options written	6,080,840	88,640	(62,842)
Total foreign exchange derivatives		1,796,167	(2,414,450)
b) Interest rate derivatives			
— Interest rate swaps	26,409,869	501,510	(459,219)
— Interest rate options purchased	300,000	5,470	—
— Interest rate options written	300,000	—	(5,470)
Total interest rate derivatives		506,980	(464,689)
c) Equity derivatives			
— Equity options	30,130	—	—
Total equity derivatives		—	—
Total derivative assets/(liabilities) held for trading		2,303,147	(2,879,139)
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
— Interest rate swaps	3,185,923	—	(270,636)
b) Derivatives designated as cash flow hedges			
— Cross currency swaps	503,757	—	(37,261)
Total derivative assets/(liabilities) held for hedging		—	(307,897)
3) Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
Interest rate swaps	1,648,517	5,555	(137,138)
Total derivative assets/(liabilities) not qualified as hedges	1,648,517	5,555	(137,138)
Total recognised derivative assets/(liabilities)		2,308,702	(3,324,174)

The contractual or notional amounts of contingent liabilities and commitments and derivative financial instruments provide only an indication of the volume of business outstanding at the end of the reporting period and bear little relation to the underlying risks of the exposures.

Among the above derivative financial instruments, certain of them were designated as hedging instruments.

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets due to movements in market interest rates. The financial instruments hedged for interest rate risk mainly include available-for-sale debt securities. The Bank uses interest rate swaps to hedge interest rate risk.

The effectiveness of the hedge based on changes in fair value of the derivatives and the hedged items attributable to the hedged risk recognised in the income statement during the year is presented as follows:

	Group and Bank	
	2009	2008
	HK\$'000	HK\$'000
Gain/(loss) arising from fair value hedge, net:		
— Hedging instruments	147,231	(232,635)
— Hedged items attributable to the hedged risk.....	<u>(153,823)</u>	<u>204,484</u>
	<u>(6,592)</u>	<u>(28,151)</u>

Cash flow hedge consists of a cross-currency interest swap entered into in 2008 that is used to protect the Group against exposures to variability of a floating-rate asset. Gains and losses on the effective portion of the swap are initially recognised directly in equity, in the cash flow hedging reserve, and are transferred to the income statement when the forecast cash flows affect the income statement. The gains and losses on ineffective portions of such derivatives are recognised immediately in the income statement. During the year, there was no ineffectiveness recognised in the income statement that arose from cash flow hedges (2008: Nil). The hedging cross-currency interest rate swap had matured during the year. The related cash flow hedge reserve of HK\$7,853,000 (2008: Nil) previously recognised in equity was transferred to the income statement and included in the net interest income.

The aggregate replacement costs and credit risk weighted amounts of the above contingent liabilities and commitments and derivative financial instruments are:

	Group and Bank			
	2009		2008	
	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments.....	—	14,394,189	—	14,141,170
Exchange rate contracts				
— Forwards.....	475,856	485,712	1,050,816	611,967
— Swaps	13,084	13,685	331,641	160,531
— Options	<u>33,366</u>	<u>39,711</u>	<u>62,635</u>	<u>102,839</u>
	522,306	539,108	1,445,092	875,337
Interest rate contracts				
— Swaps	384,475	366,596	507,066	502,651
— Options	<u>4,657</u>	<u>4,916</u>	<u>5,476</u>	<u>1,395</u>
	389,132	371,512	512,542	504,046
Equity contracts.....	<u>157,751</u>	<u>33,467</u>	—	<u>181</u>
	<u>1,069,189</u>	<u>15,338,276</u>	<u>1,957,634</u>	<u>15,520,734</u>

The replacement costs and credit risk weighted amounts of the exposures do not have the effects of bilateral netting arrangements.

26 LOANS AND ADVANCES TO CUSTOMERS, BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Loans and advances to customers, banks and other financial institutions

	Group		Bank	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Advances to customers.....	135,734,340	118,428,192	126,358,120	109,838,262
Advances to banks and other financial institutions	10,671,725	16,731,818	10,671,725	16,556,691
Trade bills	1,257,128	1,609,937	1,195,157	1,602,754
Gross loans and advances to customers, banks and other financial institutions	147,663,193	136,769,947	138,225,002	127,997,707
Accrued interest.....	256,677	974,129	237,454	920,113
	<u>147,919,870</u>	<u>137,744,076</u>	<u>138,462,456</u>	<u>128,917,820</u>
Less: impairment allowances				
— Individually assessed.....	(441,896)	(282,506)	(370,636)	(267,287)
— Collectively assessed.....	(453,392)	(378,849)	(366,056)	(364,681)
	<u>147,024,582</u>	<u>137,082,721</u>	<u>137,725,764</u>	<u>128,285,852</u>

	Group		Bank	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gross impaired loans and advances.....	1,358,618	888,965	1,095,353	835,897
Impairment allowances made in respect of such loans	441,896	282,506	370,636	267,287
Gross impaired loans and advances as a percentage of the total gross loans and advances.....	0.92%	0.65%	0.79%	0.65%
Market value of collateral.....	<u>693,671</u>	<u>806,490</u>	<u>501,666</u>	<u>784,185</u>

Impaired loans and advances are defined as those loans which are individually determined to have objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event has an impact on the estimated future cash flows of the loans that can be reliably estimated.

There were no impaired advances to banks and other financial institutions as at 31 December 2009 and 31 December 2008; nor were there any individual impairment allowances made for them on these two dates.

(b) **Loan impairment allowances against advances to customers, banks and other financial institutions****2009**

	Group		
	Individual assessment	Collective Assessment	Total
	HK\$'000	HK\$'000	HK\$'000
Movement in impairment allowances on loans and advances:			
Balance at 1 January 2009.....	282,506	378,849	661,355
Impairment losses (Note 14).....	311,358	74,178	385,536
Loans written off as uncollectible	(184,514)	—	(184,514)
Unwinding of discounts of loan impairment allowances recognised as interest income (Note 6)	(10,999)	—	(10,999)
Recoveries of advances written off in previous years (Note 14)	43,533	—	43,533
Exchange and other adjustments	12	365	377
At 31 December 2009.....	<u>441,896</u>	<u>453,392</u>	<u>895,288</u>
Deducted from:			
Advances to customers.....	440,231	428,693	868,924
Advances to banks and other financial institutions .	—	20,825	20,825
Trade bills.....	1,665	3,874	5,539
	<u>441,896</u>	<u>453,392</u>	<u>895,288</u>

2008

	Group		
	Individual assessment	Collective assessment	Total
	HK\$'000	HK\$'000	HK\$'000
Movement in impairment allowances on loans and advances:			
Balance at 1 January 2008.....	125,293	210,269	335,562
Impairment losses (Note 14).....	239,659	168,970	408,629
Loans written off as uncollectible	(79,829)	—	(79,829)
Unwinding of discounts of loan impairment allowances recognised as interest income (Note 6)	(13,213)	—	(13,213)
Recoveries of advances written off in previous years (Note 14)	11,594	—	11,594
Exchange and other adjustments	(998)	(390)	(1,388)
At 31 December 2008.....	<u>282,506</u>	<u>378,849</u>	<u>661,355</u>
Deducted from:			
Advances to customers.....	279,794	356,201	635,995
Advances to banks and other financial institutions .	—	17,589	17,589
Trade bills.....	2,712	5,059	7,771
	<u>282,506</u>	<u>378,849</u>	<u>661,355</u>

2009

	Bank		
	Individual assessment	Collective assessment	Total
	HK\$'000	HK\$'000	HK\$'000
Movement in impairment allowances on loans and advances:			
Balance at 1 January 2009.....	267,287	364,681	631,968
Impairment losses.....	257,947	1,375	259,322
Loans written off as uncollectible	(173,936)	—	(173,936)
Unwinding of discounts of loan impairment allowances recognised as interest income	(9,398)	—	(9,398)
Recoveries of advances written off in previous years	28,736	—	28,736
At 31 December 2009.....	<u>370,636</u>	<u>366,056</u>	<u>736,692</u>
Deducted from:			
Advances to customers.....	368,971	341,980	710,951
Advances to banks and other financial institutions .	—	20,825	20,825
Trade bills.....	1,665	3,251	4,916
	<u>370,636</u>	<u>366,056</u>	<u>736,692</u>

2008

	Bank		
	Individual assessment	Collective assessment	Total
	HK\$'000	HK\$'000	HK\$'000
Movement in impairment allowances on loans and advances:			
Balance at 1 January 2008.....	125,293	210,269	335,562
Impairment losses.....	227,913	154,412	382,325
Loans written off as uncollectible	(79,829)	—	(79,829)
Unwinding of discounts of loan impairment allowances recognised as interest income	(13,213)	—	(13,213)
Recoveries of advances written off in previous years	7,123	—	7,123
At 31 December 2008.....	<u>267,287</u>	<u>364,681</u>	<u>631,968</u>
Deducted from:			
Advances to customers.....	264,575	342,407	606,982
Advances to banks and other financial institutions .	—	17,229	17,229
Trade bills.....	2,712	5,045	7,757
	<u>267,287</u>	<u>364,681</u>	<u>631,968</u>

(c) **Overdue advances to customers, banks and other financial institutions (excluding trade bills and receivables)**

The gross amount of the Group's and the Bank's advances to customers, banks and other financial institutions (excluding trade bills and receivables) which have been overdue is analysed as follows:

Group

	Gross advances	% of advances to customers	Market value of collateral	Amount of secured balance	Amount of unsecured balance	Individual impairment allowance
	HK\$'000		HK\$'000	HK\$'000	HK\$'000	HK\$'000
2009						
Six months or less but over three months	29,403	0.0	13,568	4,426	24,977	908
One year or less but over six months	388,847	0.3	236,048	231,932	156,915	196,572
Over one year.....	109,111	0.1	65,283	43,668	65,443	70,033
	<u>527,361</u>	<u>0.4</u>	<u>314,899</u>	<u>280,026</u>	<u>247,335</u>	<u>267,513</u>
2008						
Six months or less but over three months	241,726	0.2	313,680	186,712	55,014	34,592
One year or less but over six months	35,196	0.0	9,499	9,331	25,865	25,632
Over one year.....	13,007	0.0	5,461	3,224	9,783	13,007
	<u>289,929</u>	<u>0.2</u>	<u>328,640</u>	<u>199,267</u>	<u>90,662</u>	<u>73,231</u>

Bank

	Gross advances	% of advances to customers	Market value of collateral	Amount of secured balance	Amount of unsecured balance	Individual impairment allowance
	HK\$'000		HK\$'000	HK\$'000	HK\$'000	HK\$'000
2009						
Six months or less but over three months	29,403	0.0	13,568	4,426	24,977	908
One year or less but over six months	178,735	0.1	58,830	54,714	124,021	163,678
Over one year.....	55,958	0.0	50,496	28,881	27,077	31,667
	<u>264,096</u>	<u>0.1</u>	<u>122,894</u>	<u>88,021</u>	<u>176,075</u>	<u>196,253</u>
2008						
Six months or less but over three months	241,726	0.2	313,680	186,712	55,014	34,592
One year or less but over six months	35,196	0.0	9,499	9,331	25,865	25,632
Over one year.....	13,007	0.0	5,461	3,224	9,783	13,007
	<u>289,929</u>	<u>0.2</u>	<u>328,640</u>	<u>199,267</u>	<u>90,662</u>	<u>73,231</u>

The criteria for eligible collateral are as follows:

- The market value of the collateral is readily determinable or can be reasonably established and verified;
- The collateral is marketable and there exists a readily available secondary market for disposing of the collateral;
- The Bank's rights to repossess the collateral is legally enforceable and without impediment; and

— If the collateral is a movable asset, it should be under the Bank's custody, or its whereabouts can be located by the Bank.

The eligible collateral is mainly properties, deposits and shares.

(d) **Other overdue assets**

Group

	<u>2009</u>	<u>2009</u>	<u>2008</u>	<u>2008</u>
	Accrued interest	Other assets	Accrued interest	Other assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six months or less but over three months	—	—	25	227
One year or less but over six months	692	1,635	—	—
Over one year	<u>7,378</u>	<u>—</u>	<u>1</u>	<u>1,439</u>
	8,070	1,635	26	1,666
Rescheduled assets	<u>9</u>	<u>—</u>	<u>2</u>	<u>—</u>
	<u><u>8,079</u></u>	<u><u>1,635</u></u>	<u><u>28</u></u>	<u><u>1,666</u></u>

Bank

	<u>2009</u>	<u>2009</u>	<u>2008</u>	<u>2008</u>
	Accrued interest	Other assets	Accrued interest	Other assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six months or less but over three months	—	—	25	227
One year or less but over six months	—	1,635	—	—
Over one year	<u>1</u>	<u>—</u>	<u>1</u>	<u>1,439</u>
	1	1,635	26	1,666
Rescheduled assets	<u>9</u>	<u>—</u>	<u>2</u>	<u>—</u>
	<u><u>10</u></u>	<u><u>1,635</u></u>	<u><u>28</u></u>	<u><u>1,666</u></u>

Other assets refer to trade bills and receivables.

(e) **Rescheduled advances**

Group and Bank

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Rescheduled advances (excluding overdue loans over three months)	<u>112,377</u>	<u>161,662</u>
	<u>2009</u>	<u>2008</u>
As % of advances to customers	<u>0.1</u>	<u>0.1</u>

Rescheduled advances which have been overdue for more than three months under the revised repayment terms are included in the analysis of overdue advances in (c) above.

There were no advances to banks and other financial institutions which were overdue for over 3 months; nor were there any rescheduled advances to banks and other financial institutions as at 31 December 2009 and 31 December 2008.

(f) **Repossessed assets**

At 31 December 2009, the estimated market value of the repossessed assets of the Group amounted to HK\$6,304,000 (2008: HK\$49,023,000). They only comprise properties which the Group has acquired access or control (e.g., through legal actions or voluntary actions by the borrowers concerned) for releasing in full or in part on the obligations of the borrowers.

27 AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

	Group	
	2009	2008
	HK\$'000	HK\$'000
Debt securities		
Listed in Hong Kong	2,386,583	1,916,434
Listed outside Hong Kong	15,803,326	8,752,054
Unlisted	12,583,957	5,456,666
	<u>30,773,866</u>	<u>16,125,154</u>
Equity securities		
Listed in Hong Kong	1,501,944	1,198,756
Unlisted	85,856	79,165
	<u>1,587,800</u>	<u>1,277,921</u>
Total available-for-sale financial investments	<u>32,361,666</u>	<u>17,403,075</u>
Market value of listed securities	<u>19,691,853</u>	<u>11,867,244</u>
Debt securities after taking into account of impairment loss comprised the following items:		
Certificates of deposit held	150,225	7,931
Other debt securities	30,623,641	16,117,223
	<u>30,773,866</u>	<u>16,125,154</u>
Available-for-sale financial investments are analysed by category of issuer as follows:		
Central governments and central banks	2,991,296	1,353,598
Public sector entities	779,928	753,638
Banks and other financial institutions	19,799,129	7,401,455
Corporate entities	8,787,116	7,893,403
Others	4,197	981
	<u>32,361,666</u>	<u>17,403,075</u>

During the year, the individual impairment loss made amounted to HK\$195,058,000 (2008: HK\$802,880).

	Bank	
	2009	2008
	HK\$'000	HK\$'000
Debt securities		
Listed in Hong Kong	2,386,583	1,916,434
Listed outside Hong Kong	15,803,326	8,752,054
Unlisted	12,583,387	5,456,049
	<u>30,773,296</u>	<u>16,124,537</u>
Equity securities		
Listed in Hong Kong	1,501,944	1,198,756
Unlisted	85,856	79,165
	<u>1,587,800</u>	<u>1,277,921</u>
Total available-for-sale financial investments	<u>32,361,096</u>	<u>17,402,458</u>
Market value of listed securities	<u>19,691,853</u>	<u>11,867,244</u>
Debt securities after taking into account of impairment loss comprised the following items:		
Certificates of deposit held	150,225	7,931
Other debt securities	30,623,071	16,116,606
	<u>30,773,296</u>	<u>16,124,537</u>
Available-for-sale financial investments are analysed by category of issuer as follows:		
Central governments and central banks	2,991,296	1,353,598
Public sector entities	779,928	753,638
Banks and other financial institutions	19,799,129	7,401,455
Corporate entities	8,790,366	7,893,390
Others	377	377
	<u>32,361,096</u>	<u>17,402,458</u>

28 HELD-TO-MATURITY FINANCIAL INVESTMENTS

	Group and Bank	
	2009	2008
	HK\$'000	HK\$'000
Debt securities		
Listed in Hong Kong	—	78,605
Listed outside Hong Kong	80,466	575,811
Unlisted	1,211,277	1,324,366
	<u>1,291,743</u>	<u>1,978,782</u>
Less: Impairment loss	(234)	(2,379)
Total held-to-maturity financial investments	<u>1,291,509</u>	<u>1,976,403</u>
Market value of listed securities	<u>79,045</u>	<u>630,681</u>
Debt securities after taking into account of impairment loss comprised the following items:		
Treasury bills	1,146,414	1,136,282
Other debt securities	145,095	840,121
	<u>1,291,509</u>	<u>1,976,403</u>
Held-to-maturity financial investments are analysed by category of issuer as follows:		
Central governments and central banks	1,146,414	1,214,640
Public sector entities	60,318	83,539
Banks and other financial institutions	84,777	238,354
Corporate entities	—	439,870
	<u>1,291,509</u>	<u>1,976,403</u>

Movement in collective impairment allowances on held-to-maturity financial investments

	Group and Bank	
	2009	2008
	HK\$'000	HK\$'000
At 1 January	2,379	2,535
Write-back of collective impairment losses	(2,145)	(156)
At 31 December	<u>234</u>	<u>2,379</u>

29 INVESTMENTS IN ASSOCIATES

	Group	
	2009	2008
	HK\$'000	HK\$'000
Share of net assets	145,391	155,068
Goodwill on acquisition	29,786	29,786
	<u>175,177</u>	<u>184,854</u>
	Bank	
	2009	2008
	HK\$'000	HK\$'000
Unlisted shares investments at cost	<u>138,138</u>	<u>152,646</u>

The Group's interests in its principal associates which are unlisted, are as follows:

2009	Place of incorporation	Assets	Liabilities	Revenues	Profit/(loss)	% of interest held
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
IEC Investments Limited	HongKong	<u>214,719</u>	<u>131,792</u>	<u>21,874</u>	<u>18,984</u>	<u>40%</u>
2008						
China Ping An Insurance (Hong Kong) Company Limited	HongKong	51,547	22,886	(7,112)	(13,743)	25%
IEC Investments Limited	HongKong	<u>207,956</u>	<u>81,549</u>	<u>19,802</u>	<u>14,398</u>	<u>40%</u>

The interest of shareholding held by the Group in China Ping An Insurance (Hong Kong) Company Limited was disposed during the year.

IEC Investments Limited engages in investment holding in Hong Kong. The Group held 40,000 ordinary shares of HK\$1 each of this associate during the year.

30 GOODWILL AND OTHER INTANGIBLE ASSETS

Group

	Goodwill	Computer software	Trading rights	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or net carrying amount				
At 1 January 2009	999,715	210,827	1,895	1,212,437
Additions (Note (i))	—	5,900	—	5,900
Disposal	—	(560)	—	(560)
Other adjustments	—	(302)	—	(302)
At 31 December 2009	<u>999,715</u>	<u>215,865</u>	<u>1,895</u>	<u>1,217,475</u>
Accumulated amortisation				
At 1 January 2009	—	179,499	—	179,499
Charge for the year	—	17,768	—	17,768
Disposal	—	(468)	—	(468)
Other adjustments	—	(217)	—	(217)
At 31 December 2009	<u>—</u>	<u>196,582</u>	<u>—</u>	<u>196,582</u>
Net book value				
At 31 December 2009	<u>999,715</u>	<u>19,283</u>	<u>1,895</u>	<u>1,020,893</u>

Group

	<u>Goodwill</u>	<u>Computer software</u>	<u>Trading rights</u>	<u>Total</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or net carrying amount				
At 1 January 2008	974,805	203,349	1,895	1,180,049
Acquired from a subsidiary	—	11	—	11
Additions (Notes (i) and (ii))	24,910	11,270	—	36,180
Disposal	—	(3,803)	—	(3,803)
At 31 December 2008	<u>999,715</u>	<u>210,827</u>	<u>1,895</u>	<u>1,212,437</u>
Accumulated amortisation				
At 1 January 2008	—	136,467	—	136,467
Charge for the year	—	46,835	—	46,835
Disposal	—	(3,803)	—	(3,803)
At 31 December 2008	<u>—</u>	<u>179,499</u>	<u>—</u>	<u>179,499</u>
Net book value				
At 31 December 2008	<u>999,715</u>	<u>31,328</u>	<u>1,895</u>	<u>1,032,938</u>

Bank

	<u>Goodwill</u>	<u>Computer software</u>	<u>Total</u>
	HK\$'000	HK\$'000	HK\$'000
Cost or net carrying amount			
At 1 January 2009	615,669	204,792	820,461
Additions (Notes (i))	—	5,537	5,537
Disposal	—	(442)	(442)
Other adjustments	—	(288)	(288)
At 31 December 2009	<u>615,669</u>	<u>209,599</u>	<u>825,268</u>
Accumulated amortisation			
At 1 January 2009	—	178,352	178,352
Charge for the year	—	16,607	16,607
Disposal	—	(442)	(442)
Other adjustments	—	(216)	(216)
At 31 December 2009	<u>—</u>	<u>194,301</u>	<u>194,301</u>
Net book value			
At 31 December 2009	<u>615,669</u>	<u>15,298</u>	<u>630,967</u>

Bank

	Goodwill	Computer software	Total
	HK\$'000	HK\$'000	HK\$'000
Cost or net carrying amount			
At 1 January 2008.....	615,669	202,513	818,182
Additions (Notes (i)).....	—	6,082	6,082
Disposal.....	—	(3,803)	(3,803)
At 31 December 2008	<u>615,669</u>	<u>204,792</u>	<u>820,461</u>
Accumulated amortisation			
At 1 January 2008.....	—	136,438	136,438
Charge for the year.....	—	45,717	45,717
Disposal.....	—	(3,803)	(3,803)
At 31 December 2008	<u>—</u>	<u>178,352</u>	<u>178,352</u>
Net book value			
At 31 December 2008	<u>615,669</u>	<u>26,440</u>	<u>642,109</u>

Notes:

- (i) The Core banking system was upgraded in October 2005 with direct costs including software development consultancy fees and employee costs recognised as intangible asset as at 31 December 2009 and 2008 respectively.
- (ii) In section 7.13 of the sale and purchase agreement of the acquisition of Belgian Bank, Hong Kong Branch, it was agreed that the purchaser (the Bank) shall pay to the seller (Fortis Bank) the difference between the payment by the debtor of Belgian Bank's debt and the amount paid by the purchaser during the period while the tax deed is in effect. The clause 2.1.2 of the tax deed stipulated that the seller will pay to the purchaser the tax liability which has arisen in respect of income, profits or gains earned, accrued or received on or before the completion date. The goodwill represents the difference between the amount paid on Belgian Bank's debts and the amount received from tax deeds.
- (iii) Impairment tests for cash-generating units containing goodwill Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to operating segment's as follows:

	2009	2008
	HK\$'000	HK\$'000
Corporate and Investment Banking.....	585,715	585,715
Commercial Banking.....	230,450	230,450
Retail Banking.....	142,386	142,386
Others.....	41,164	41,164
	<u>999,715</u>	<u>999,715</u>

The recoverable amount of a CGU is determined based on value-in-use calculations. Such calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the one-year period are extrapolated using the estimate rates stated below. The growth rate which applies to the cash flow projections over the one-year period does not exceed the long-term average growth rate for the business of which the CGU operates.

The discount rates used for value-in-use calculations range from 0% to 4% (2008: 2% to 8%).

Management determined the budgeted financial performance based on the past performance and its expectation for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports.

31 INVESTMENT PROPERTIES

	Group		Bank	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Carrying amount at 1 January	40,126	40,624	25,200	26,000
Net revaluation gain/(loss)	6,087	(498)	300	(800)
Carrying amount at 31 December	<u>46,213</u>	<u>40,126</u>	<u>25,500</u>	<u>25,200</u>

The Group's investment properties are situated in Hong Kong and Mainland China and its net book value are held under the following lease terms:

	Group		Bank	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Held in Hong Kong				
Long term leases (over 50 years)	25,500	25,200	25,500	25,200
Medium term leases (10-50 years)	—	—	—	—
Held outside Hong Kong				
Medium term leases (10-50 years)	20,713	14,926	—	—
	<u>46,213</u>	<u>40,126</u>	<u>25,500</u>	<u>25,200</u>

The Bank's investment property was revalued on 31 December 2009 by A.G. Wilkinson & Associates, an independent professionally qualified valuer, at HK\$25,500,000 (2008: HK\$25,200,000) on an open market, existing use basis. The investment properties of the Bank's subsidiaries were revalued on 31 December 2009 by Shenzhen GuoZhongLian Asset and Real Estate Appraisal Consulting Co., Ltd, an independent professionally qualified valuer, at HK\$20,713,000 (2008: HK\$14,926,000) on an open market, existing use basis.

Particulars of investment properties
31 December 2009

Location	Use	Lease term	Attributable interest of the Group
Shop B on the Ground Floor No. 8 Causeway Road Hong Kong	Office building	Long term lease (over 50 years)	100%
23/F, Dongfeng Building No. 2010 Shennan Central Road Futian District, Shenzhen...	Office building	Medium term lease (10-50 years)	100%
Units A&B, 2/F, Block 4 SEG Technology Park Zhenxing Road, Futian District, Shenzhen.....	Office building	Medium term lease (10-50 years)	100%

Group

	Bank premises and properties	Leasehold improvements	Furniture and equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2008 and 1 January 2009:				
Cost or valuation	150,720	204,330	233,670	588,720
Accumulated depreciation and impairment	<u>(52,718)</u>	<u>(111,236)</u>	<u>(148,692)</u>	<u>(312,646)</u>
Net book value at 31 December 2008 and 1 January 2009	<u>98,002</u>	<u>93,094</u>	<u>84,978</u>	<u>276,074</u>
Additions	—	15,630	16,117	31,747
Disposals	—	(119)	(1,172)	(1,291)
Revaluation (Note (i)).....	14,452	—	—	14,452
Depreciation provided during the year	(10,074)	(17,560)	(19,490)	(47,124)
Exchange rate and other adjustments.....	<u>86</u>	<u>1</u>	<u>8</u>	<u>95</u>
Net book value at 31 December 2009	<u>102,466</u>	<u>91,046</u>	<u>80,441</u>	<u>273,953</u>
At 31 December 2009:				
Cost or valuation.....	171,868	208,261	221,736	601,865
Accumulated depreciation and impairment .	<u>(69,402)</u>	<u>(117,215)</u>	<u>(141,295)</u>	<u>(327,912)</u>
Net book value at 31 December 2009	<u>102,466</u>	<u>91,046</u>	<u>80,441</u>	<u>273,953</u>
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2009:				
At cost.....	—	208,261	221,736	429,997
At valuation	<u>102,466</u>	<u>—</u>	<u>—</u>	<u>102,466</u>
	<u>102,466</u>	<u>208,261</u>	<u>221,736</u>	<u>532,463</u>
At 31 December 2007 and 1 January 2008:				
Cost or valuation	139,411	192,153	251,664	583,228
Accumulated depreciation and impairment	<u>(42,423)</u>	<u>(100,919)</u>	<u>(182,133)</u>	<u>(325,475)</u>
Net book value at 31 December 2007 and 1 January 2008.....	<u>96,988</u>	<u>91,234</u>	<u>69,531</u>	<u>257,753</u>
Additions	6,766	21,330	33,918	62,014
Acquired from a subsidiary.....	—	—	30	30
Disposals	—	(1,212)	(238)	(1,450)
Revaluation (Note (i)).....	7,155	—	—	7,155
Depreciation provided during the year	(10,078)	(18,867)	(18,650)	(47,595)
Exchange rate and other adjustments.....	<u>(2,829)</u>	<u>609</u>	<u>387</u>	<u>(1,833)</u>
Net book value at 31 December 2008	<u>98,002</u>	<u>93,094</u>	<u>84,978</u>	<u>276,074</u>
At 31 December 2008:				
Cost or valuation	150,720	204,330	233,670	588,720
Accumulated depreciation and impairment	<u>(52,718)</u>	<u>(111,236)</u>	<u>(148,692)</u>	<u>(312,646)</u>

	Bank premises and properties	Leasehold improvements	Furniture and equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net book value at 31 December 2008	<u>98,002</u>	<u>93,094</u>	<u>84,978</u>	<u>276,074</u>
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2008:				
At cost.....	—	204,330	233,670	438,000
At valuation.....	<u>98,002</u>	<u>—</u>	<u>—</u>	<u>98,002</u>
	<u>98,002</u>	<u>204,330</u>	<u>233,670</u>	<u>536,002</u>

Bank

	Bank premises and properties	Leasehold improvements	Furniture and equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2008 and 1 January 2009:				
Cost or valuation	17,306	203,605	221,788	442,699
Accumulated depreciation and impairment	<u>(2,763)</u>	<u>(111,117)</u>	<u>(142,941)</u>	<u>(256,821)</u>
Net book value at 31 December 2008 and 1 January 2009	<u>14,543</u>	<u>92,488</u>	<u>78,847</u>	<u>185,878</u>
Additions	—	15,630	15,764	31,394
Disposals	—	(119)	(1,032)	(1,151)
Revaluation (Note (i)).....	(30)	—	—	(30)
Depreciation provided during the year	<u>(800)</u>	<u>(17,187)</u>	<u>(17,640)</u>	<u>(35,627)</u>
Net book value at 31 December 2009	<u>13,713</u>	<u>90,812</u>	<u>75,939</u>	<u>180,464</u>
At 31 December 2009:				
Cost or valuation	17,234	207,535	209,622	434,391
Accumulated depreciation and impairment	<u>(3,521)</u>	<u>(116,723)</u>	<u>(133,683)</u>	<u>(253,927)</u>
Net book value at 31 December 2009	<u>13,713</u>	<u>90,812</u>	<u>75,939</u>	<u>180,464</u>
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2009:				
At cost.....	—	207,535	209,622	417,157
At valuation.....	<u>13,713</u>	<u>—</u>	<u>—</u>	<u>13,713</u>
	<u>13,713</u>	<u>207,535</u>	<u>209,622</u>	<u>430,870</u>

	Bank premises and properties	Leasehold improvements	Furniture and equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2007 and 1 January 2008:				
Cost or valuation	17,261	182,290	244,769	444,320
Accumulated depreciation and impairment	<u>(2,139)</u>	<u>(97,432)</u>	<u>(178,059)</u>	<u>(277,630)</u>
Net book value at 31 December 2007 and 1 January 2008	<u>15,122</u>	<u>84,858</u>	<u>66,710</u>	<u>166,690</u>
Additions	—	27,371	29,917	57,288
Disposals	—	(993)	(238)	(1,231)
Revaluation (Note (i)).....	181	—	—	181
Depreciation provided during the year	(760)	(18,748)	(17,201)	(36,709)
Exchange rate and other adjustments.....	<u>—</u>	<u>—</u>	<u>(341)</u>	<u>(341)</u>
Net book value at 31 December 2008	<u>14,543</u>	<u>92,488</u>	<u>78,847</u>	<u>185,878</u>
At 31 December 2008:				
Cost or valuation	17,306	203,605	221,788	442,699
Accumulated depreciation and impairment	<u>(2,763)</u>	<u>(111,117)</u>	<u>(142,941)</u>	<u>(256,821)</u>
Net book value at 31 December 2008	<u>14,543</u>	<u>92,488</u>	<u>78,847</u>	<u>185,878</u>
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2008:				
At cost.....	—	203,605	221,788	425,393
At valuation	<u>14,543</u>	<u>—</u>	<u>—</u>	<u>14,543</u>
	<u>14,543</u>	<u>203,605</u>	<u>221,788</u>	<u>439,936</u>

Note:

- (i) The bank premises were revalued at 31 December 2009 based on the open market value by A.G. Wilkinson & Associates, an independent professionally qualified valuer. The subsidiary's premises were revalued at 31 December 2009 based on the open market value by Shenzhen GuoZhongLian Asset and Real Estate Appraisal Consulting Co., Ltd, an independent professionally qualified valuer in Mainland China. The revaluation surplus net of applicable deferred income taxes was credited to bank premises revaluation reserve in shareholders' equity. The carrying amounts of the bank premises and properties of the Group and the Bank would have been HK\$41,861,000 (2008: HK\$49,060,000) and HK\$9,321,000 (2008: HK\$9,720,000) respectively had they been stated at cost less accumulated depreciation.

The Group's properties are situated in Hong Kong and Mainland China and their net book values are held under the following lease terms:

	Group		Bank	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Held in Hong Kong				
Long term leases (over 50 years).....	4,039	4,405	4,039	4,405
Medium term leases (10-50 years)	9,674	10,138	9,674	10,138
Held outside Hong Kong				
Medium term leases (10-50 years)	<u>88,753</u>	<u>83,459</u>	<u>—</u>	<u>—</u>
	<u>102,466</u>	<u>98,002</u>	<u>13,713</u>	<u>14,543</u>

33 LEASEHOLD LAND AND LAND USE RIGHTS

	<u>Group and Bank</u>
	<u>HK\$'000</u>
Carrying amount	
At 1 January 2009 and as at 31 December 2009	54,449
Accumulated amortisation and impairment	
At 1 January 2009	10,589
Amortisation for the year	743
At 31 December 2009	<u>11,332</u>
Net carrying amount	
At 31 December 2009	<u>43,117</u>

	<u>Group and Bank</u>
	<u>HK\$'000</u>
Carrying amount	
At 1 January 2008 and as at 31 December 2008	54,449
Accumulated amortisation and impairment	
At 1 January 2008	9,845
Amortisation for the year	744
At 31 December 2008	<u>10,589</u>
Net carrying amount	
At 31 December 2008	<u>43,860</u>

The Group's interests in leasehold land and land use rights represent operating leases and their net book values are analysed as follows:

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
In Hong Kong, held on:		
— Leases over 50 years.....	29,014	29,380
— Leases between 10 and 50 years	<u>14,103</u>	<u>14,480</u>
	<u>43,117</u>	<u>43,860</u>

34 OTHER ASSETS

	<u>Group</u>		<u>Bank</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest receivable.....	340,173	498,375	336,088	540,501
Prepayments.....	110,882	130,557	108,850	124,640
Settlement accounts	409,350	1,209,518	689,398	1,390,600
Others.....	<u>444,745</u>	<u>1,031,109</u>	<u>513,025</u>	<u>1,039,329</u>
	<u>1,305,150</u>	<u>2,869,559</u>	<u>1,647,361</u>	<u>3,095,070</u>

35 INVESTMENTS IN SUBSIDIARIES

(a) Investments at cost

	<u>Bank</u>	
	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Unlisted shares at cost.....	<u>2,772,478</u>	<u>1,908,750</u>

The following is a list of subsidiaries held by the Bank at 31 December 2009:

Name	Place of incorporation/ establishment	Principal activities	Particulars of issued shares held/ registered capital	Interest held	
				2009	2008
Chinese Mercantile Bank*	People's Republic of China	Banking business	RMB1,650,000,000	100%	100%
ICBC (Asia) Asset Management Company Limited	Hong Kong	Provision of asset management services	1,000,000 ordinary shares of HK\$1 each	100%	100%
ICBC (Asia) Bullion Company Limited	Hong Kong	Inactive	6,000,000 ordinary shares of HK\$1 each	100%	100%
ICBC (Asia) Investment Holdings Limited	Hong Kong	Management of the Bank's PRC impaired loan portfolio	26,000,000 ordinary Shares of HK\$1 each	100%	100%
ICBC (Asia) Investment Management Company Limited	Hong Kong	Provision of asset management services	27,828,870 ordinary shares of HK\$1 each	100%	100%
ICBC (Asia) Nominee Limited	Hong Kong	Provision of nominee services	100 ordinary shares of HK\$100 each	100%	100%
ICBC (Asia) Securities Limited	Hong Kong	Provision of securities brokerage services	100,000,000 ordinary shares of HK\$1 each	100%	100%
ICBC (Asia) Trustee Company Limited	Hong Kong	Provision of trustee services	30,000 ordinary shares of HK\$100 each	100%	100%
ICBC (Asia) Wa Pei Nominees Limited	Hong Kong	Inactive	100 ordinary shares of HK\$1 each	100%	100%
ICBC Asia Wa Pei Limited#	Belgium	In liquidation	415,879 ordinary shares of EUR72.14 each	100%	100%
ICBCA (C.I.) Limited....	Cayman Islands	Being a special-purpose vehicle for bond issuance	1 ordinary share of US\$1 each	100%	100%
UB China Business Management Co. Ltd.	British Virgin Islands	Inactive	1 ordinary share of US\$1 each	100%	100%

Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network firms

* Foreign-owned enterprise

(b) **Investment in controlled unit trusts**

During the year, the Bank acquired a number of controlled unit trusts.

The fair value of the identifiable assets and liabilities acquired at the date of acquisition and the correspond carrying amounts immediately before the acquisition are as follows:

	Fair value/ Carrying amount
	HK\$'000
Cash and cash equivalents	1,291,732
Financial assets held for trading	120,648
Current income tax liabilities	(1,292,380)
Net assets acquired.....	<u>120,000</u>
Goodwill	<u>—</u>
Total purchase consideration paid (discharged by cash)	<u>120,000</u>
Cost of acquisition	120,000
Less: cash and cash equivalents in controlled unit trusts acquired	(1,291,732)
Net inflow of cash on acquisition.....	<u>(1,171,732)</u>

(c) **Disposed of controlled unit trusts**

	2009
	HK\$'000
Net assets disposed of: Trading securities	<u>4,500</u>
	<u>4,500</u>
Gain on disposal of controlled unit trusts	<u>127</u>
	<u>4,627</u>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of controlled unit trusts is as follows:

	2009
	HK\$'000
Satisfied by:	
Cash	<u>4,627</u>
Cash consideration	4,627
Cash and bank balances disposed of	<u>—</u>
Net inflow of cash and cash equivalents in respect of the disposal of controlled unit trusts	<u>4,627</u>

36 DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Demand deposits and current accounts	9,869,396	4,986,854	9,105,791	4,446,744
Savings deposits	36,475,880	20,034,376	36,827,183	20,383,633
Time, call and notice deposits	114,816,285	113,162,102	112,044,918	112,805,690
	<u>161,161,561</u>	<u>138,183,332</u>	<u>157,977,892</u>	<u>137,636,067</u>

37. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deposits from customers	—	301,216	—	301,216
Certificates of deposit issued (i)	1,419,077	3,489,361	1,419,077	3,489,361
Debt securities in issue	—	3,146,399	—	—
	<u>1,419,077</u>	<u>6,936,976</u>	<u>1,419,077</u>	<u>3,790,577</u>

- (i) The fair value of the certificates of deposit issued at 31 December 2009 was HK\$14 million higher (2008: HK\$46 million higher) than the contractual amount at maturity. The amounts of changes in the fair value of the financial liabilities that were attributable to changes in credit risk were considered not significant during the year presented and cumulatively as at 31 December 2009 and 31 December 2008.

The amounts of changes in the fair value of the financial liabilities that are attributable to changes in credit risk are determined as the amounts of changes in the fair value of the financial liabilities that are not attributable to changes in market conditions that give rise to market risk. The credit spread has not changed and the changes in fair value of the financial liabilities are attributable to the changes in other market factor components.

38 DEFERRED INCOME TAX

Deferred income tax is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2008: 16.5%).

The movements on the deferred tax assets/(liabilities) account are as follows:

	Group		Total		Bank	
	2009	2008	2008	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	137,547	(11,539)	(324,717)	(336,256)	151,619	(324,717)
Effect of change in tax rate . (Debited)/credited to the income statement	(1,780)	(75)	30,035	29,960	(394)	30,035
(Debited)/credited to equity (Note 42)	(339,696)	(1,744)	427,744	426,000	(336,075)	427,744
Exchange and other adjustments	13,667	(714)	1	(713)	—	1
At 31 December	<u>(190,262)</u>	<u>(14,072)</u>	<u>151,619</u>	<u>137,547</u>	<u>(184,850)</u>	<u>151,619</u>

The deferred income tax credited/(debited) to equity during the year is as follows:

	Group		Bank	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fair value reserves in shareholder's equity ...				
Bank premises (Note 42)	(3,614)	(1,773)	7	(29)
Available-for-sale financial investments (Note 42)	(336,082)	427,773	(336,082)	427,773
Effect of change in tax rate	—	17,982	—	17,982
	<u>(339,696)</u>	<u>443,982</u>	<u>(336,075)</u>	<u>445,726</u>

The movements in deferred income tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

Group

	Deferred income tax assets							
	Collective impairment losses		Investment revaluation reserve		Accelerated tax depreciation		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	38,688	14,038	261,403	16,954	1,484	1,398	301,575	32,390
Effect of change in tax rate ..	—	(802)	—	(969)	—	—	—	(1,771)
(Charged)/credited to the income statement	(127)	25,452	—	—	61	—	(66)	25,452
(Debited)/credited to equity ..	—	—	(258,594)	245,418	—	—	(258,594)	245,418
Exchange and other adjustments	—	—	—	—	12,201	86	12,201	86
At 31 December.....	<u>38,561</u>	<u>38,688</u>	<u>2,809</u>	<u>261,403</u>	<u>13,746</u>	<u>1,484</u>	<u>55,116</u>	<u>301,575</u>

Bank

	Collective impairment losses		Investment revaluation reserve		Total	
	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	38,688	14,038	261,403	16,954	300,091	30,992
Effect of change in tax rate....	—	(802)	—	(969)	—	(1,771)
(Charged)/credited to the income statement	(127)	25,452	—	—	(127)	25,452
(Debited)/credited to equity....	—	—	(258,594)	245,418	(258,594)	245,418
Exchange and other adjustments	—	—	—	—	—	—
At 31 December.....	<u>38,561</u>	<u>38,688</u>	<u>2,809</u>	<u>261,403</u>	<u>41,370</u>	<u>300,091</u>

Group

	Deferred income tax liabilities									
	Premises revaluation reserve		Investment revaluation reserve		Accelerated tax depreciation		Partnership		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	17,507	14,976	128,406	329,595	18,115	24,075	—	—	164,028	368,646
Effect of change in tax rate	—	(117)	—	(18,834)	—	(1,376)	—	—	—	(20,327)
Credited/(charged) to the income statement	1,447	75	—	—	(215)	(4,583)	482	—	1,714	(4,508)
Credited/(debited) to equity	3,614	1,773	77,488	(182,355)	—	—	—	—	81,102	(180,582)
Exchange and other adjustments	(1,466)	800	—	—	—	(1)	—	—	(1,466)	799
At 31 December.....	<u>21,102</u>	<u>17,507</u>	<u>205,894</u>	<u>128,406</u>	<u>17,900</u>	<u>18,115</u>	<u>482</u>	<u>—</u>	<u>245,378</u>	<u>164,028</u>

Bank	Premises revaluation reserve		Investment revaluation reserve		Accelerated tax depreciation		Partnership		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	1,951	2,039	128,406	329,595	18,115	24,075	—	—	148,472	355,709
Effect of change in tax rate	—	(117)	—	(18,834)	—	(1,376)	—	—	—	(20,327)
(Charged)/credited to the income statement	—	—	—	—	(215)	(4,583)	482	—	267	(4,583)
(Debited)/credited to equity	(7)	29	77,488	(182,355)	—	—	—	—	77,481	(182,326)
Exchange and other adjustments	—	—	—	—	—	(1)	—	—	—	(1)
At 31 December.....	<u>1,944</u>	<u>1,951</u>	<u>205,894</u>	<u>128,406</u>	<u>17,900</u>	<u>18,115</u>	<u>482</u>	<u>—</u>	<u>226,220</u>	<u>148,472</u>

The Group has tax losses arising in Hong Kong of HK\$19,883,116 (2008: HK\$4,300,465) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for sometime and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2009, there was no significant unrecognised deferred tax liability (2008: Nil) for taxes that would be payable on the future earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be received.

There are no income tax consequences attaching to the payment of dividends by the Bank to its shareholders.

The amounts shown in the statement of financial position include the following:

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position.

Group

	Total			
	2009	2008	2008	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deferred income tax assets:				
to be recovered after 12 months.....	54,177	1,484	299,275	300,759
to be recovered within 12 months	939	—	816	816
	<u>55,116</u>	<u>1,484</u>	<u>300,091</u>	<u>301,575</u>
Deferred income tax liabilities:				
to be settled after 12 months	(243,842)	(15,556)	(144,099)	(159,655)
to be settled within 12 months	(1,536)	—	(4,373)	(4,373)
	<u>(245,378)</u>	<u>(15,556)</u>	<u>(148,472)</u>	<u>(164,028)</u>
Deferred income tax (liabilities)/assets, net....	<u>(190,262)</u>	<u>(14,072)</u>	<u>151,619</u>	<u>137,547</u>

Bank

	<u>2009</u>	<u>2008</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Deferred income tax assets:		
to be recovered after 12 months.....	40,431	299,275
to be recovered within 12 months.....	939	816
	<u>41,370</u>	<u>300,091</u>
Deferred income tax liabilities:		
to be settled after 12 months.....	(224,684)	(144,099)
to be settled within 12 months.....	(1,536)	(4,373)
	<u>(226,220)</u>	<u>(148,472)</u>
Deferred income tax (liabilities)/assets, net.....	<u>(184,850)</u>	<u>151,619</u>

39 SUBORDINATED DEBTS MEASURED AT AMORTISED COST

	<u>Group and Bank</u>			
	<u>2009</u>		<u>2008</u>	
	<u>HK\$'000</u>	<u>Interest rate %</u>	<u>HK\$'000</u>	<u>Interest rate %</u>
Subordinated floating rate notes				
- with a final maturity on 2 July 2011	581,625	0.481%	581,258	0.686%
- with a final maturity on 12 December 2011	620,400	0.680%	620,008	2.000%
- with a final maturity on 26 March 2012 .	542,850	0.680%	542,507	2.000%
- with a final maturity on 28 April 2014 ...	1,163,250	1.430%	1,162,515	2.250%
- with a final maturity on 29 June 2016 (callable on 30 June 2011)	620,400	0.751%	620,008	1.925%
- with a final maturity on 20 October 2018 (callable on 21 October 2013)	1,551,000	1.101%	1,550,020	2.275%
- perpetual (callable on 10 December 2012)	1,000,000	0.639%	1,000,000	1.451%
- perpetual (callable on 9 July 2013)	930,600	0.751%	930,012	1.925%
- perpetual (callable on 30 June 2016)	<u>1,551,000</u>	<u>0.851%</u>	<u>1,550,020</u>	<u>2.025%</u>
	<u>8,561,125</u>		<u>8,556,348</u>	

Subordinated debts were raised by the Bank for the development and expansion of business and have been fully subscribed by the ultimate holding company and its branch. These notes have been qualified and included as the Bank's supplementary capital in accordance with the Capital Rules.

40 OTHER LIABILITIES

	<u>Group</u>		<u>Bank</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
Interest payable.....	406,233	821,990	376,829	804,652
Salaries and welfare payable.....	101,702	47,171	94,116	47,171
Settlement accounts	407,497	1,212,046	689,975	1,398,032
Others.....	<u>1,155,044</u>	<u>969,073</u>	<u>1,056,412</u>	<u>851,939</u>
	<u>2,070,476</u>	<u>3,050,280</u>	<u>2,217,332</u>	<u>3,101,794</u>

The Group and the Bank have not had any defaults of principal, interest or other breaches with respect to their liabilities during the year (2008: Nil).

41 SHARE CAPITAL

	Number of shares in thousands	Ordinary shares HK\$'000	Ordinary share premium HK\$'000
At 1 January 2009	1,285,268	2,570,536	8,209,593
Allotment of new shares regarding the scrip dividend scheme of final dividend for the year ended 31 December 2008	13,970	27,940	160,323
Allotment of new shares regarding the scrip dividend scheme of interim dividend for the period ended 30 June 2009	19,102	38,205	270,719
Share issue expenses	—	—	(60)
At 31 December 2009.....	<u>1,318,340</u>	<u>2,636,681</u>	<u>8,640,575</u>
At 1 January 2008	1,225,952	2,451,904	7,161,786
Allotment of new shares regarding the scrip dividend scheme of final dividend for the year ended 31 December 2007	29,125	58,250	550,450
Allotment of new shares regarding the scrip dividend scheme of interim dividend for the period ended 30 June 2008	15,271	30,542	228,918
Warrants exercised.....	14,920	29,840	268,560
Share issue expenses	—	—	(121)
At 31 December 2008.....	<u>1,285,268</u>	<u>2,570,536</u>	<u>8,209,593</u>

The total number of authorised ordinary shares is 2,000 million shares (2008: 2,000 million shares) with a par value of HK\$2 per share (2008: HK\$2 per share). All issued shares are fully paid.

The total number of authorised convertible non-cumulative preference shares is 232 million shares (2008: 232 million shares) with a par value of HK\$5 per share (2008: HK\$5 per share).

The Bank adopted a scrip dividend scheme allowing the shareholders to have the options to receive (1) dividends in cash; (2) an allotment of new shares in lieu of cash; or (3) a combination of cash and new shares. Certain shareholders have selected to receive new shares as dividends amounted to HK\$497.2 million (2008: HK\$868.2million).

Share options

Share Option Scheme

During the year, no option has been granted and as at 31 December 2009 (2008: Nil), there was no option outstanding.

The Share Option Scheme was approved by the shareholders of the Bank at the general meeting held on 10 May 2007.

The adoption of the Share Option Scheme is subject to the approval of the shareholders of ICBC, the holding company of the Bank.

42 RESERVES

Group

	Bank							Total
	Ordinary share premium	Bank premises revaluation reserve	Investment revaluation reserve	Cash flow hedge reserve	Exchange reserve	General reserve	Retained earnings	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009	8,209,593	52,469	(681,710)	7,853	141,906	346,390	3,290,741	11,367,242
Issue of shares (Note 41)	431,042	—	—	—	—	—	—	431,042
Share issue expenses (Note 41)	(60)	—	—	—	—	—	—	(60)
Change in fair value of available-for-sale financial investments	—	—	2,678,462	—	—	—	—	2,678,462
Reserve realised on disposal of available-for-sale financial investments	—	—	(643,409)	—	—	—	—	(643,409)
Transfer from available-for-sale financial investments reserve to the income statement on impairment	—	—	43,715	—	—	—	—	43,715
Charge in fair value of cash flow hedge....	—	—	—	(7,853)	—	—	—	(7,853)
Revaluation surplus on bank premises	—	7,343	—	—	—	—	—	7,343
Exchange differences	—	—	1	—	123	(1)	—	123
Partial transfer of retained earnings to general reserve (Note a)	—	—	—	—	—	39,833	(39,833)	—
Total comprehensive income for the year ..	—	—	—	—	—	—	2,526,142	2,526,142
Change in deferred tax (Note 38)	—	(3,614)	(336,082)	—	—	—	—	(339,696)
2008 final dividend paid (Note 18)	—	—	—	—	—	—	(231,348)	(231,348)
2009 interim dividend paid (Note 18)	—	—	—	—	—	—	(363,787)	(363,787)
At 31 December 2009	<u>8,640,575</u>	<u>56,198</u>	<u>1,060,977</u>	<u>—</u>	<u>142,029</u>	<u>386,222</u>	<u>5,181,915</u>	<u>15,467,916</u>

(a) The general reserve of the Group comprised of:

- the transfer of retained earnings which is distributable to the shareholders of the Group; and
- a statutory surplus reserve of a subsidiary represents 10% of the profit after tax appropriation as required by law and regulation in the PRC. This reserve is used to offset accumulated losses or increase in capital.

(b) The directors proposed a final dividend of HK\$751,454,000 after the year end which will be reflected as an appropriation of retained earnings for the year ended 31 December 2009 (Note 18).

(c) As at 31 December 2009, the Group has earmarked a “Regulatory Reserve” of HK\$801,511,000 (2008: HK\$781,317,000) from the retained earnings. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. Movements in the reserve are made directly through retained earnings and in consultation with the HKMA.

(d) The consolidated profit attributable to equity holders of the Group includes a profit of HK\$2,235,384,000 (2008: HK\$739,638,000) which has been dealt with in the financial statements of the Bank.

Group

	Ordinary share premium	Bank premises revaluation reserve	Investment revaluation reserve	Cash flow hedge reserve	Exchange reserve	General reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2008	7,161,786	46,835	1,473,070	—	69,129	323,882	3,481,533	12,556,235
Issue of shares (Note 41)	1,047,928	—	—	—	—	—	—	1,047,928
Share issue expenses (Note 41)	(121)	—	—	—	—	—	—	(121)
Change in fair value of available-for-sale financial investments	—	—	(3,416,759)	—	—	—	—	(3,416,759)
Reserve realised on disposal of available-for-sale financial investments	—	—	(3,163)	—	—	—	—	(3,163)
Transfer from available-for-sale financial investments reserve to the income statement on impairment	—	—	819,504	—	—	—	—	819,504
Charge in fair value of cash flow hedge....	—	—	—	7,853	—	—	—	7,853
Revaluation surplus on bank premises.....	—	7,289	—	—	—	—	—	7,289
Exchange differences	—	1	—	—	72,777	—	—	72,778
Partial transfer of retained earnings to general reserve (Note a)	—	—	—	—	—	22,508	(22,508)	—
Total comprehensive income for the year ..	—	—	—	—	—	—	969,023	969,023
Change in deferred tax (Note 38).....	—	(1,656)	445,638	—	—	—	—	443,982
2007 final dividend paid (Note 18)	—	—	—	—	—	—	(781,708)	(781,708)
2008 interim dividend paid (Note 18)	—	—	—	—	—	—	(355,599)	(355,599)
At 31 December 2008	<u>8,209,593</u>	<u>52,469</u>	<u>(681,710)</u>	<u>7,853</u>	<u>141,906</u>	<u>346,390</u>	<u>3,290,741</u>	<u>11,367,242</u>

Bank

	Ordinary share premium	Bank premises revaluation reserve	Investment revaluation reserve	Cash flow hedge reserve	Exchange reserve	General reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009	8,209,593	9,871	(680,903)	7,853	3,377	219,200	2,885,298	10,654,289
Issue of shares (Note 41)	431,042	—	—	—	—	—	—	431,042
Share issue expenses (Note 41)	(60)	—	—	—	—	—	—	(60)
Change in fair value of available-for-sale financial investments	—	—	2,678,462	—	—	—	—	2,678,462
Reserve realised on disposal of available-for-sale financial investments	—	—	(643,409)	—	—	—	—	(643,409)
Transfer from available-for-sale financial investments reserve to the income statement on impairment	—	—	43,715	—	—	—	—	43,715
Charge in fair value of cash flow hedge....	—	—	—	(7,853)	—	—	—	(7,853)
Revaluation surplus on bank premises.....	—	(40)	—	—	—	—	—	(40)
Exchange differences	—	—	1	—	(3,377)	—	—	(3,376)
Total comprehensive income for the year ..	—	—	—	—	—	—	2,235,384	2,235,384
Change in deferred tax (Note 38).....	—	7	(336,082)	—	—	—	—	(336,075)
2008 final dividend paid (Note 18)	—	—	—	—	—	—	(231,348)	(231,348)
2009 interim dividend paid (Note 18)	—	—	—	—	—	—	(363,787)	(363,787)
At 31 December 2009	<u>8,640,575</u>	<u>9,838</u>	<u>1,061,784</u>	<u>—</u>	<u>—</u>	<u>219,200</u>	<u>4,525,547</u>	<u>14,456,944</u>

Bank

	Ordinary share premium	Bank premises revaluation reserve	Investment revaluation reserve	Cash flow hedge reserve	Exchange reserve	General reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2008	7,161,786	9,611	1,473,877	—	822	219,200	3,282,967	12,148,263
Issue of shares (Note 41)	1,047,928	—	—	—	—	—	—	1,047,928
Share issue expenses (Note 41)	(121)	—	—	—	—	—	—	(121)
Change in fair value of available-for-sale financial investments	—	—	(3,416,759)	—	—	—	—	(3,416,759)
Reserve realised on disposal of available-for-sale financial investments	—	—	(3,163)	—	—	—	—	(3,163)
Transfer from available-for-sale financial investments reserve to the income statement on impairment	—	—	819,504	—	—	—	—	819,504
Charge in fair value of cash flow hedge....	—	—	—	7,853	—	—	—	7,853
Revaluation surplus on bank premises.....	—	171	—	—	—	—	—	171
Exchange differences	—	1	—	—	2,555	—	—	2,556
Total comprehensive income for the year..	—	—	—	—	—	—	739,638	739,638
Change in deferred tax (Note 38).....	—	88	445,638	—	—	—	—	445,726
2007 final dividend paid (Note 18)	—	—	—	—	—	—	(781,708)	(781,708)
2008 interim dividend paid (Note 18)	—	—	—	—	—	—	(355,599)	(355,599)
At 31 December 2008	<u>8,209,593</u>	<u>9,871</u>	<u>(680,903)</u>	<u>7,853</u>	<u>3,377</u>	<u>219,200</u>	<u>2,885,298</u>	<u>10,654,289</u>

43 RELATED PARTY TRANSACTIONS

Listed out below is a summary of the transactions entered into during the ordinary course of business with the ultimate holding company and fellow subsidiaries and associates, including the acceptance of placement of interbank deposits, corresponding banking transactions and off-balance sheet transactions. The activities were priced at the relevant market rates at the time of transactions.

a. Ultimate holding company

	2009	2008
	HK\$'000	HK\$'000
Interest income	242,035	1,274,954
Interest expense	351,297	1,079,392
Other operating income ^{1, 2}	64,372	13,774
Other operating expenses ³	23,717	14,805
Amounts due from	18,713,744	19,052,897
Amounts due to	<u>23,552,602</u>	<u>21,200,266</u>

- In accordance with the collaboration agreement dated 3 July 2001 and the supplemental collaboration agreements dated 4 February 2005 and 13 February 2008, management fee income was received from the Hong Kong Branch of ICBC (the "Branch") for the provision of services such as accounting and budgeting, internal audit, marketing and back office settlement and clearing. In accordance with the collaboration agreement dated 28 September 2007, management fee income was received from the ultimate holding company for the provision of management, administrative and marketing services of its credit card business.
- In accordance with the custodian and trustee services agreement dated 4 September 2007 and the supplemental custodian and trustee services agreements dated 16 May 2008 and 31 December 2009, services fees were paid by the ultimate holding company to the Bank for providing custodian, settlement and clearing services in relation to the investments outside the PRC in certain investment products by the customers of the ultimate holding company in connection with the Qualified Domestic Institutional Investor Scheme of the PRC.

3. In accordance with the service levels agreements with the Bank dated 21 February 2002 (as amended and supplemented by supplemental agreements), and the service levels agreement with a subsidiary of the Bank dated 19 March 2008, service fee expense was paid to the ultimate holding company for the provision of data processing services to the Bank and its subsidiary.

Transactions with the ultimate holding company included the issuance of certificates of deposit and subordinated floating rate notes, which were both fully subscribed by the ultimate holding company and its branches. As at 31 December 2009, the Bank has issued floating rate certificates of deposit with a nominal value of US\$100,000,000 to the ultimate holding company (2008: fixed rate certificates of deposit with nominal value of US\$100,000,000).

Information relating to issuance of subordinated floating rate notes by the Group, fully subscribed by the ultimate holding company and its branch can be found in Note 39.

Other material transactions

i. Undertaking from the ultimate holding company

To demonstrate its support to the Bank, a letter of comfort dated 3 July 2001 was executed by the ultimate holding company, pursuant to which it will provide the Bank with such funding as may be required by the Bank to ensure that it will maintain sufficient capital and liquidity levels.

Simultaneously on 3 July 2001, the ultimate holding company and the Bank entered into a guarantee agreement whereby the ultimate holding company agreed to guarantee to the extent of HK\$9,000,000,000 the payment obligations of certain customers whose “large exposures” were transferred to the Bank pursuant to a business transfer agreement and to indemnify the Bank in respect of any losses incurred if any obligation of such customers becomes unenforceable. The amount of such on-balance sheet large exposures of the Bank covered by this guarantee as at 31 December 2009 was approximately HK\$39,212,000 (2008: HK\$39,188,000).

ii. Sub-participation of loans

The Bank entered into various capital markets transactions with the Branch, which include arranging participation/sub-participation in loans, acquiring and disposing of interests in syndicated or individual loans, subscribing to and/or issuing of debt securities and tax efficient financing. These transactions included sub-participation in loans of the Bank by the ultimate holding company and/or the Branch for a total of HK\$36,048,500,000 (2008: HK\$130,793,038,000). For 2008, there was similar sub-participation in loans of the Branch by the Bank for a total of HK\$24,178,687,000, but no such transaction took place during 2009. The total fee attributable to the above transactions of approximately HK\$28,737,000 (2008: HK\$48,745,000) was paid by the Bank to the Branch in 2009. These transactions were priced based either on the terms of the underlying loan agreement, if applicable, or prevailing market rates if such comparable rates were available, or on terms that were no less favorable than those available to other independent loan members.

b. Fellow subsidiaries

	<u>2009</u>	<u>2008</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Interest income	15,468	16,716
Interest expense	1,452	23,457
Other operating income	211	—
Amounts due from	476	476
Amounts due to	<u>1,571,449</u>	<u>1,562,725</u>

c. **Associates**

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Interest income	1,899	611
Interest expense	78	596
Other operating income	1	3,510
Amounts due from	6	2,635
Amounts due to	<u>7,769</u>	<u>28,355</u>

d. **Transactions with other state-controlled entities**

The following state-controlled entities are considered as related parties:

- The Ministry of Finance (“MOF”) of the PRC
- Central Huijin Investment Limited (“Huijin”)
- Other banks and financial institutions under the direction of the PRC government in which Huijin has equity interests

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Interest income	64,440	91,847
Interest expense	14,782	43,158
Amounts due from	8,146,831	4,076,075
Amounts due to	<u>1,010,312</u>	<u>3,819,913</u>

e. **Key management personnel’s remuneration**

Remuneration for key management personnel, including the Bank’s directors’ emoluments as disclosed in Note 17(a) and the five highest paid individuals as disclosed in Note 17(b), is as follows:

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Employee benefits.....	<u>22,611</u>	<u>24,758</u>

f. **Material transactions with key management personnel**

During the year, the Group entered into certain banking transactions consisting of loans and advances, deposits and other financial related transactions with related parties in the normal course of business. The related parties include key management personnel of the Bank, their close family members and companies controlled or significantly influenced by them.

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Interest income	134	178
Interest expense	141	356
Loans and advances	4,347	5,657
Deposits.....	<u>18,513</u>	<u>21,245</u>

g. **Loans to officers**

Particulars of the loans made to officers and disclosed pursuant to Section 161B(4B) of the Hong Kong Companies Ordinance are as follows:

	Balance outstanding at 31 December		Maximum balance during the year	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Aggregate amount outstanding in respect of principal and interest.....	<u>4,347</u>	<u>5,657</u>	<u>5,309</u>	<u>6,562</u>

44 OFF-BALANCE SHEET EXPOSURES

(a) **Contingent liabilities and commitments**

The following are summaries of the contractual amounts of each significant class of contingent liabilities and commitments:

Group	2009	2009	2008	2008
	Contractual amount	Credit risk weighted amount	Contractual amount	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Direct credit substitutes	7,021,198	3,630,946	14,701,288	7,777,596
Transaction-related contingencies	132,742	36,848	314,227	101,271
Trade-related contingencies	3,931,297	644,944	2,978,820	534,506
Other commitments				
- Unconditionally cancellable.....	71,161,225	—	58,436,103	—
- With original maturity of less than one year	824,324	126,086	278,817	55,763
- With original maturity of over one year .	19,871,892	9,792,424	10,697,995	5,210,014
Forward forward deposits placed.....	<u>814,703</u>	<u>162,941</u>	<u>2,310,099</u>	<u>462,020</u>
	<u>103,757,381</u>	<u>14,394,189</u>	<u>89,717,349</u>	<u>14,141,170</u>

Bank	2009	2009	2008	2008
	Contractual amount	Credit risk weighted amount	Contractual amount	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Direct credit substitutes	2,119,160	1,258,280	2,459,258	1,672,433
Transaction-related contingencies	132,742	36,848	314,227	101,271
Trade-related contingencies	3,931,297	644,944	2,978,820	534,506
Asset sales with recourse	193,875	193,875	—	—
Other commitments				
- Unconditionally cancellable.....	71,161,225	—	58,436,103	—
- With original maturity of less than one year	778,627	116,946	180,564	36,113
- With original maturity of over one year .	19,497,830	9,605,393	10,598,459	5,160,246
Forward forward deposits placed.....	<u>814,703</u>	<u>162,941</u>	<u>2,310,099</u>	<u>462,020</u>
	<u>98,629,459</u>	<u>12,019,227</u>	<u>77,277,530</u>	<u>7,966,589</u>

(b) **Capital commitments**

Capital commitments for property, plant and equipment outstanding as at 31 December 2009 not provided for in the financial statements were as follows:

	Group		Bank	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Expenditure contracted but not provided for .	48,111	4,268	47,956	4,135
Expenditure authorised but not contracted for	<u>235</u>	<u>7,505</u>	<u>235</u>	<u>7,505</u>
	<u>48,346</u>	<u>11,773</u>	<u>48,191</u>	<u>11,640</u>

(c) **Operating lease commitments**

At 31 December 2009, the Group and the Bank had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group		Bank	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Land and buildings				
- Not later than one year.....	237,070	239,993	235,248	236,439
- Later than one year and not later than five years	503,870	833,255	503,409	830,171
- More than five years	<u>—</u>	<u>48,420</u>	<u>—</u>	<u>48,420</u>
	<u>740,940</u>	<u>1,121,668</u>	<u>738,657</u>	<u>1,115,030</u>

(d) **Operating lease arrangements**

The Group leases its investment properties (Note 31 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from two to five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At as 31 December 2009, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group		Bank	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	1,659	2,203	320	320
In the second to fifth years, inclusive	<u>3,561</u>	<u>2,814</u>	<u>—</u>	<u>—</u>
	<u>5,220</u>	<u>5,017</u>	<u>320</u>	<u>320</u>

During the year, the Group has no unrecognised contingent rentals receivable (2008: Nil).

45 POST BALANCE SHEET EVENT

On 23 March 2010, ICBC Asia Wa Pei Limited, a wholly-owned subsidiary of the Bank, had completed its liquidation process with its total assets and liabilities of HK\$54,858,000 and HK\$8,548,000 respectively as of the date of liquidation fully transferred to the Bank.

46 COMPARATIVE AMOUNTS

As further explained in Note 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirement. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

47 THE ULTIMATE HOLDING COMPANY

In the opinion of the directors, the ultimate holding company of the Bank is Industrial and Commercial Bank of China Limited, which is established in the PRC.

48 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 24 March 2010.

Supplementary Financial Information

The following information is disclosed as part of the accompanying information to the financial statements and does not form part of the audited financial statements.

1 CAPITAL ADEQUACY AND CAPITAL BASE

The capital ratios as at 31 December 2009 were computed in accordance with the Banking (Capital) Rules (the “Capital Rules”) issued by the HKMA under section 98A of the Hong Kong Banking Ordinance for the implementation of the “Basel II” with effect from 1 January 2007. In view of the Capital Rules, the Bank has adopted the “standardized (credit risk) approach” for the calculation of the risk-weighted assets for credit risk, “basic indicator approach” for the calculation of the operational risk and the “standardized (market risk) approach” for the calculation of market risk. Under the Capital Rules, the basis of consolidation in calculating the capital ratios follow that of the financial reporting with the exclusion of subsidiaries which are “regulated financial entities” (e.g., insurance and securities companies) as defined by the Capital Rules. Accordingly the investment costs of these unconsolidated subsidiaries are deducted from the capital base. There is no capital shortfall of these unconsolidated subsidiaries. Unconsolidated subsidiaries include UB China Business Management Co. Ltd., ICBC (Asia) Investment Holdings Limited, ICBC (Asia) Bullion Company Limited, ICBC (Asia) Securities Limited, ICBC (Asia) Trustee Company Limited, ICBC (Asia) Asset Management Company Limited, ICBC (Asia) Investment Management Company Limited and ICBC (Asia) Wa Pei Nominees Limited.

	<u>2009</u>	<u>2008</u>
Core capital ratio	<u>9.0%</u>	<u>7.3%</u>
Capital adequacy ratio	<u>14.9%</u>	<u>13.6%</u>

The components of the total capital base after deductions include the following items:

	<u>2009</u>	<u>2008</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Core capital:		
Paid-up ordinary share capital.....	2,636,681	2,570,536
Share premium.....	8,640,575	8,209,593
Reserves	2,608,537	621,457
Income statement	1,139,434	407,616
Deduct: Goodwill	(980,154)	(980,154)
Other intangible assets	(19,282)	(31,318)
Net deferred tax assets	—	(137,547)
50 per cent of the total unconsolidated investments and other deductions	(898,244)	(431,507)
	<u>13,127,547</u>	<u>10,228,676</u>
Eligible supplementary capital:		
Fair value gains on the revaluation of land and buildings	5,302	5,095
Fair value gains on the revaluation of available-for-sale equities and debt securities	569,191	—
Unrealised fair value gains arising from equities and debt securities designated at fair value through profit or loss	18,818	—
Collective impairment allowances and regulatory reserve.....	1,255,137	1,162,545
Perpetual subordinated debts.....	3,481,600	3,480,032
Subordinated debts measured at amortised cost	4,141,170	4,487,308
Deduct: 50 per cent of the total unconsolidated investments and other deductions.....	(898,244)	(431,507)
	<u>8,572,974</u>	<u>8,703,473</u>
Total capital base before deductions.....	21,700,521	18,932,149
Deductions from total capital base	—	—
Total capital base after deductions	<u>21,700,521</u>	<u>18,932,149</u>

	<u>2009</u>	<u>2008</u>
	HK\$'000	HK\$'000
Risk-weighted assets		
Credit risk	137,671,817	130,373,943
Market risk	1,118,738	2,937,625
Operational risk	<u>7,194,275</u>	<u>6,059,438</u>
Total risk-weighted assets	<u><u>145,984,830</u></u>	<u><u>139,371,006</u></u>

2 LIQUIDITY RATIO

The average liquidity ratio for the year is the simple average of each calendar month's average liquidity ratio, which is computed on the consolidated basis as required by the HKMA for its regulatory purposes, and is computed in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

	<u>Group</u>	
	<u>2009</u>	<u>2008</u>
Average liquidity ratio for the year	<u>40.2%</u>	<u>37.0%</u>

(a) Credit risk

(i) The Group uses the following external credit assessment institutions ("ECAIs") to calculate its capital adequacy requirements under the standardized (credit risk) approach prescribed in the Capital Rules:

- Moody's Investors Service
- S&P's Ratings Services
- Fitch Ratings

The capital requirements on each class of exposures under the standardised (credit risk) approach as at the end of reporting period are summarised as follows:

	2009	2008
	HK\$'000	HK\$'000
On-balance sheet		
Sovereign exposures.....	25,891	31,501
Public sector entity exposures.....	26,977	21,211
Multilateral development bank exposures.....	—	—
Bank exposures.....	2,868,437	1,822,690
Securities firm exposures.....	18,040	200
Corporate exposures.....	5,447,259	6,131,348
Collective investment scheme exposures.....	18,560	—
Cash items.....	9,225	9,704
Regulatory retail exposures.....	434,625	354,525
Residential mortgage loans.....	464,143	417,416
Other exposures which are not past due exposures.....	435,325	361,290
Past due exposures.....	34,789	31,586
Total capital charge for on-balance sheet exposures.....	<u>9,783,271</u>	<u>9,181,471</u>
Off-balance sheet		
Direct credit substitutes.....	290,476	622,208
Transaction-related contingencies.....	2,948	8,102
Trade-related contingencies.....	51,595	42,760
Forward asset purchases.....	—	—
Partly paid-up shares and securities.....	—	—
Forward deposits placed.....	13,035	36,962
Unconditionally cancellable commitments.....	—	—
Other commitments.....	793,481	421,262
Exchange rate contracts.....	43,129	70,027
Interest rate contracts.....	29,721	40,324
Equity contracts.....	2,677	14
OTC derivative transactions and credit derivative contracts subject to valid bilateral netting agreements.....	—	—
Other off-balance exposures which are not elsewhere specified.....	—	—
Total capital charge for off-balance sheet exposures.....	<u>1,227,062</u>	<u>1,241,659</u>
Total capital charge for credit risk.....	<u><u>11,010,333</u></u>	<u><u>10,423,130</u></u>

The capital requirement is made by multiplying the Group's riskweighted amount derived from the relevant calculation approach by 8%. It does not reflect the Group's actual regulatory capital.

(ii) Where exposures have been rated by the above-mentioned ECAs, they are categorised under the following classes of exposures:

- Sovereign exposures
- Public sector entity exposures
- Multilateral development bank exposures
- Bank exposures
- Securities firm exposures
- Corporate exposures
- Collective investment scheme exposures

(iii) The process used to map ECAs issuer ratings or ECAs issue specific ratings in the Group's banking book is consistent with those prescribed in the Capital Rules.

(b) **Operational risk**

HKMA has granted approval under section 24(1)(a) of the Capital Rules for the Group to use the Basel II Basic Indicator Approach to calculate its operational risk. The Group thus applies this approach in managing operational risk, but is simultaneously adopting the relevant supervising guidelines of the HKMA. As at 31 December 2009, the capital charge for operational risk amounted to HK\$575,542,000 (2008: HK\$484,755,040).

(c) **Market risk**

Market risk activities currently undertaken by the Bank can basically be divided into “Trading Book” and “Non-Trading Book”.

Trading Book:

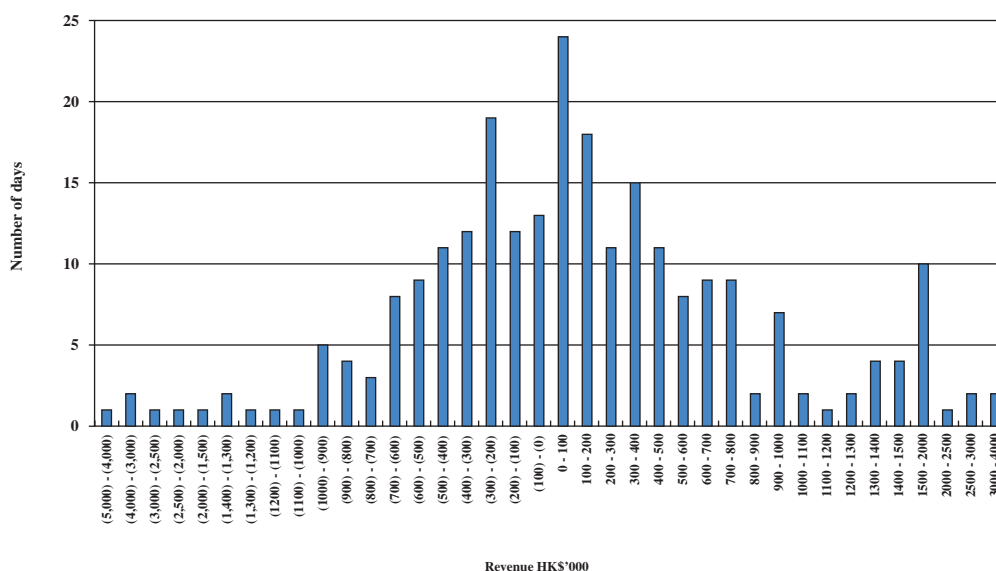
It consists of proprietary positions in financial instruments and derivatives which are held for re-sale or which are taken on with the trading intention of benefiting from actual and/or expected short-term price or interest rate movements.

The Group applies the “standardized approach” for its market risk in the Capital Rules. The trading book positions as at 31 December 2009 and their capital consumptions are HK\$89,499,040 (2008: HK\$235,010,000). The market risk capital requirement for trading books as at 31 December 2009 and 2008 are:

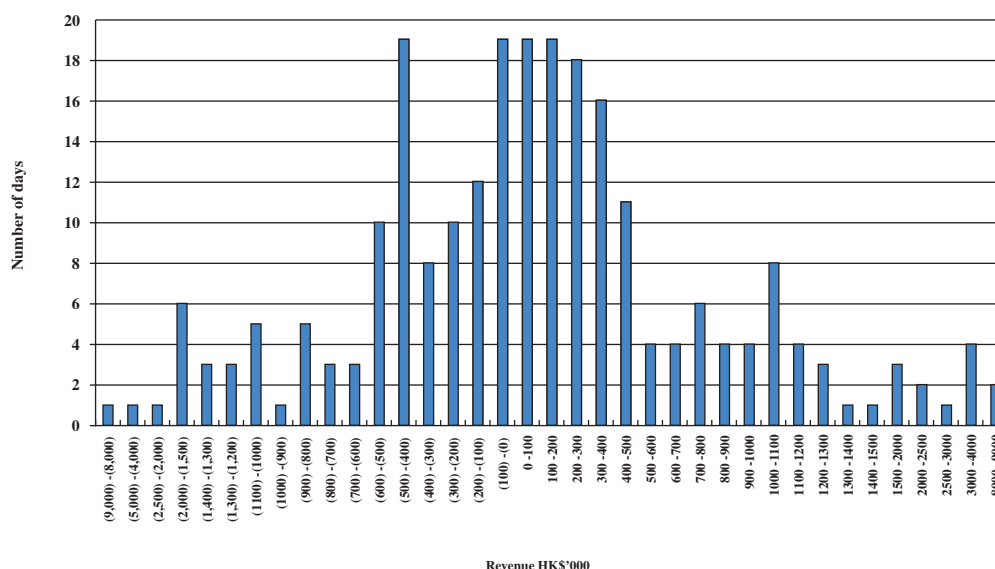
Risk type	Market risk capital charges	
	2009	2008
	HK\$'000	HK\$'000
Interest rate exposure - specific risk	1,046	334
Interest rate exposure - general market risk	58,367	137,113
Equity exposures	3,352	3,392
Foreign exchange exposures	22,692	94,171
Commodity exposures	—	—
Option exposures	4,042	—
Total	<u>89,499</u>	<u>235,010</u>

The following histograms show the frequency distribution of daily revenues related to market risk activities of the Group for the years ended 31 December 2009 and 31 December 2008.

For the year ended 31 December 2009



For the year ended 31 December 2008



The average daily revenue earned from the Group's market risk related activities during the year ended 31 December 2009 was HK\$124,235 (2008: HK\$173,542) and the standard deviation for such daily revenue was HK\$909,522 (2008: HK\$2,327,709). An analysis of the frequency distribution of daily revenue showed that losses were recorded on 107 days out of 249 trading days for the year 2009 (2008: 110 days out of 244 trading days). The maximum daily loss was HK\$4.83 million (2008: HK\$15.04 million). The highest daily revenue was HK\$3.72 million (2008: HK\$28.85 million). In respect of proprietary trading and customers' expectation, the Group will gradually expand the scope of treasury products and services to complement its conventional reliance on loan assets for revenue. In the process, the Group will watch out for the resulting market risk, and counterparty credit risk, liquidity and capital implications.

Non-Trading Book:

It consists of structured foreign exchange and interest rate risk positions arising from funding and liquidity management as well as investment and balance sheet activities from non-treasury related business. Debt securities activities undertaken by Global Markets & Trading Department are largely for investment and liquidity management purpose.

4 ASSET SECURITISATION

During the year, the Bank only acted as an investor in related securitisation exposure. Ratings from Moody's Investors Service, S&P's and Fitch Ratings are adopted in assessing securitisation exposures. Since the securitisation exposures held by the Bank are all rated by recognised ECAs designated by the Capital Rules, the Bank uses the standardized (securitisation) approach to calculate the weighted credit risk for these exposures. The Bank closely monitors the risk arising from these exposures.

The following table indicates the securitisation exposures as at 31 December 2009 and 2008:

2009

	Outstanding amounts	Risk-weighted amounts	Capital requirements	Exposures deducted from its	
				Core capital	Supplementary capital
				HK\$'000	HK\$'000
Securitisation exposures					
Traditional securitisations					
Instalment loan	105,643	21,129	1,690	—	—
Retail mall properties	97,814	19,563	1,565	—	—
Others.....	1,967	1,963	157	2	2
	<u>205,424</u>	<u>42,655</u>	<u>3,412</u>	<u>2</u>	<u>2</u>

2008

	Outstanding amounts	Risk-weighted amounts	Capital requirements	Exposures deducted from its	
				Core capital	Supplementary capital
				HK\$'000	HK\$'000
Securitisation exposures					
Traditional securitisations					
Instalment loan	106,021	21,204	1,696	—	—
Retail mall properties	97,943	19,589	1,567	—	—
Others.....	44,404	44,025	3,522	190	190
	<u>248,368</u>	<u>84,818</u>	<u>6,785</u>	<u>190</u>	<u>190</u>

Capital requirement of securitisation exposures under the standardized (securitisation) approach at 31 December 2009 was HK\$3,412,332 (2008: HK\$6,785,391). The deductible items from core and supplementary capital under asset securitisation at 31 December 2009 amounted to HK\$3,996 (2008: HK\$378,982).

5 COUNTERPARTY CREDIT RISK-RELATED EXPOSURE

The Bank has adopted the current exposure method (the “CEM”) to determine the exposure amount for inter bank counterparty credit risk which arises from OTC derivative transactions in banking and trading books. As at 31 December 2009, there are no repo-style transactions nor credit derivative contracts in the Bank (2008: Nil). No recognised collateral including recognised credit derivative contracts is held as credit protection for counterparty credit risk-related exposure as at 31 December 2009 (2008: Nil).

The following table indicates the information of counterparty credit risk related exposures under the standardized approach:

	Gross total positive fair value	Credit equivalent	Risk weighted amount
	HK\$'000	HK\$'000	HK\$'000
2009			
OTC derivative transactions:			
Bank	652,560	1,498,570	373,152
Others	416,629	729,922	570,935
	<u>1,069,189</u>	<u>2,228,492</u>	<u>944,087</u>
2008			
OTC derivative transactions:			
Bank	1,477,597	2,519,656	710,873
Others	480,037	675,355	668,691
	<u>1,957,634</u>	<u>3,195,011</u>	<u>1,379,564</u>

There is no effect of bilateral netting agreement on the credit equivalent amounts of the derivative transactions.

6 CREDIT RISK MITIGATION

(a) Process of managing and recognising credit risk mitigation

The Bank has established policies on managing and recognising credit risk mitigation, which are approved by the Credit Committee, for all types of credit exposure under the standardised approach including counterparty credit risk-related exposure which arises from OTC derivative transactions. The Bank applies prudent assessments of eligibility and quality of collateral. Acceptable credit risk mitigations are as defined by the Credit Committee and/or regulatory authorities. The Bank also adheres to safe custodian of collateral, regular revaluation and close monitoring. Marketable securities are marked to market on a daily basis or, if daily revaluation/marked to market is unavailable, a minimum of once a month, whilst properties are revalued periodically.

For regulatory capital calculation, only recognised collateral and guarantee defined in the Capital Rules are considered as recognised credit risk mitigations. The Bank applies the simple approach criteria as stipulated in the Capital Rules in ascertaining credit risk mitigation.

Recognised collateral includes eligible guarantees, cash deposits, gold, shares, debt securities and collective investments in transferable securities, commercial real estate, residential real estate, vehicles and equipment. The exposure amount after mitigation is determined by applying the standard supervisory haircut laid down by the Capital Rules to the current collateral value. Recognised guarantor is any sovereign entity, public sector entity, bank and regulated securities firm with a lower risk weight than the borrower, or company that is internally rated with a rating equivalent to external rating of A-or better.

The main types of guarantors and their external ratings as at 31 December 2009 and 2008 are analysed as follows:

Class of guarantors	S & P's equivalent	Guaranteed amount	
		2009	2008
		HK\$'000	HK\$'000
S&P's equivalent			
Bank	AAA/AA-	21,404	48,323
	A+/A-	39,770,069	22,623,042
Sovereign	AAA/AA-	982,466	75,196
		<u>40,773,939</u>	<u>22,746,561</u>

There are limited credit and market risk concentrations within the credit risk mitigants (recognised collateral and guarantees) used by the Group, except for real estate which is extensively relied on for risk mitigation in lending to non-bank corporate and non-corporate customers.

(b) **Credit risk exposures**

S&P's Ratings Services, Moody's Investors Service and Fitch Ratings are the ECAIs that the Group uses in relation to each and all classes of exposures below. The process it used to map ECAI issuer ratings to exposures booked in its banking book is a process as prescribed in Part 4 of the Capital Rules.

2009

Class of exposures	Total exposures*	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk - weighted amounts	Exposure covered by collateral	Exposure covered by guarantees
		Rated [#]	Unrated [@]	Rated [#]	Unrated [@]			
On-balance sheet								
Sovereign.....	9,272,680	9,261,234	981,340	321,345	2,289	323,634	—	—
Public sector entity.....	1,243,953	1,243,953	—	337,214	—	337,214	—	—
Multilateral development bank.....	—	—	—	—	—	—	—	—
Bank.....	50,570,230	28,044,828	62,082,397	10,743,496	25,111,966	35,855,462	—	—
Securities firm.....	451,006	—	451,006	—	225,503	225,503	—	—
Corporate.....	115,278,707	13,361,813	59,685,654	8,405,088	59,685,654	68,090,742	3,529,907	38,701,333
Collective investment scheme.....	232,000	—	232,000	—	232,000	232,000	—	—
Cash items.....	271,394	—	4,414,265	—	115,318	115,318	—	—
Regulatory retail.....	9,141,454	—	7,243,743	—	5,432,808	5,432,808	264,584	1,633,127
Residential mortgage loans ...	15,820,241	—	15,792,612	—	5,801,782	5,801,782	27,629	—
Other exposures which are not past due exposures.....	5,954,743	—	5,441,564	—	5,441,564	5,441,564	320,751	192,428
Past due exposures.....	402,813	—	402,813	—	434,860	434,860	322,560	5,064
Off-balance sheet								
Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts.....	18,789,342	1,333,927	17,455,415	826,387	13,567,802	14,394,189	934,117	241,987
OTC derivative transactions..	2,228,492	615,205	1,613,287	128,243	815,844	944,087	—	—
Credit derivative contracts....	—	—	—	—	—	—	—	—
Other off-balance sheet exposures not elsewhere specified.....	—	—	—	—	—	—	—	—
Exposures deducted from capital base.....	1,796,488							

Class of exposures	Total exposures*	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk - weighted amounts	Exposure covered by collateral	Exposure covered by guarantees
		Rated [#]	Unrated [@]	Rated [#]	Unrated [@]			
On-balance sheet								
Sovereign.....	3,334,539	3,151,873	253,342	357,234	36,533	393,767	—	—
Public sector entity	946,291	817,263	129,028	239,332	25,806	265,138	—	—
Multilateral development bank.....	—	—	—	—	—	—	—	—
Bank	42,589,791	15,978,578	49,099,056	5,150,075	17,633,545	22,783,620	—	—
Securities firm	6,230	—	5,006	—	2,503	2,503	1,224	—
Corporate	104,811,051	8,181,907	71,565,661	5,076,186	71,565,661	76,641,847	4,664,413	20,399,070
Collective investment scheme.....	—	—	—	—	—	—	—	—
Cash items	262,211	—	5,446,193	—	121,299	121,299	—	—
Regulatory retail	8,024,810	—	5,908,758	—	4,431,568	4,431,568	274,105	1,841,947
Residential mortgage loans ...	12,566,382	—	12,542,714	—	5,217,697	5,217,697	23,668	—
Other exposures which are not past due exposures	5,054,201	—	4,516,128	—	4,516,128	4,516,128	220,574	317,499
Past due exposures.....	374,653	—	374,653	—	394,825	394,825	316,215	4,372
Off-balance sheet								
Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	23,169,026	1,351,994	21,817,032	517,959	13,623,211	14,141,170	682,705	183,673
OTC derivative transactions..	3,195,013	981,512	2,213,501	205,158	1,174,406	1,379,564	—	—
Credit derivative contracts	—	—	—	—	—	—	—	—
Other off-balance sheet exposures not elsewhere specified	—	—	—	—	—	—	—	—
Exposures deducted from capital base	<u>863,104</u>							

* Representing principal amount or credit equivalent amount, as applicable, net of individual impairments

including exposures with ECAI issue specific rating and exposures which have an inferred rating (i.e. exposures which do not have an issue-specific rating but whose risk-weights are determined under the Capital Rules by reference to an ECAI issuer rating assigned to the obligor of the exposure or to an ECAI issue rating of any other exposures of the obligor)

@ Representing exposures which do not have the ECAI issue specific rating nor inferred rating

7 SEGMENTAL INFORMATION

(a) Loans and advances to customers, banks and other financial institutions

(i) Advances to customers, banks and other financial institutions by geographical area

The Group's gross advances to customers, banks and other financial institutions by country or geographical area after taking into account any risk transfers are as follows:

	Gross advances to customers, banks and other financial institutions	Overdue advances for over three months	Impaired loans and advances	Individual impairment allowance	Collective impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2009					
Hong Kong	75,287,249	264,493	588,759	268,285	288,708
Mainland China	62,536,164	264,502	264,555	72,550	116,663
Macau	1,602,866	1	—	—	4,054
Asia Pacific Region (excluding Hong Kong, Mainland China and Macau)	2,230,517	—	—	—	16,891
United Kingdom	240,796	—	—	—	3,782
Others	5,765,601	—	505,304	101,061	23,294
	<u>147,663,193</u>	<u>528,996</u>	<u>1,358,618</u>	<u>441,896</u>	<u>453,392</u>

	Gross advances to customers, banks and other financial institutions	Overdue advances for over three months	Impaired loans and advances	Individual impairment allowance	Collective impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2008					
Hong Kong	77,727,521	291,595	808,496	242,859	296,671
Mainland China	49,801,743	—	80,469	39,647	34,146
Macau	1,597,665	—	—	—	6,024
Asia Pacific Region (excluding Hong Kong, Mainland China and Macau)	2,511,335	—	—	—	14,718
United Kingdom	9,563	—	—	—	93
Others	5,122,120	—	—	—	27,197
	<u>136,769,947</u>	<u>291,595</u>	<u>888,965</u>	<u>282,506</u>	<u>378,849</u>

Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

(ii) *Gross loans and advances to customers, banks and other financial institutions - by industry sector*

	Group			
	2009	2009	2008	2008
	Gross loans and advances	% of secured advances	Gross loans and advances	% of secured advances
	HK\$'000	%	HK\$'000	%
Loans for use in Hong Kong				
Industrial, commercial and financial				
— Property development	11,729,026	31.10%	8,352,343	40.67%
— Property investment	18,490,007	81.65%	20,070,465	76.87%
— Financial concerns	8,315,020	2.34%	6,932,161	2.95%
— Stockbrokers	429,430	99.67%	5,429	100.00%
— Wholesale and retail trade.....	6,100,255	48.57%	5,180,477	46.06%
— Civil engineering works	239,373	72.70%	209,574	65.11%
— Manufacturing.....	3,814,127	59.23%	4,005,977	51.91%
— Transport and transport equipment	9,224,828	68.39%	8,102,202	68.01%
— Electricity and gas	143,772	100.00%	42,014	100.00%
— Information technology	1,998,801	1.14%	1,510,208	0.43%
— Recreational activities.....	3,155	100.00%	2,491	100.00%
— Hotels, boarding houses and catering	2,095,209	84.84%	760,375	80.73%
— Others.....	4,869,563	32.34%	5,632,521	28.90%
Individuals				
— Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	484,437	93.34%	373,563	90.68%
— Loans for the purchase of other residential properties	14,165,865	99.81%	11,823,488	99.89%
— Credit card advances.....	94,156	0.00%	86,965	0.00%
— Others	2,246,082	95.13%	2,096,453	97.08%
Trade finance.....	15,775,567	14.15%	22,495,570	12.34%
Loans for use outside Hong Kong	47,444,520	32.41%	39,087,671	32.00%
	<u>147,663,193</u>	46.68%	<u>136,769,947</u>	44.53%

Individually impaired loans, overdue loans and advances over three months, impairment allowances and impaired loans and advances written off in respect of industry sectors that constitute 10% or more of the total advances to customers, banks and other financial institutions are as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
(a) Property investment		
Individually impaired loans.....	146,800	244,043
Overdue loans and advances over three months.....	22,041	166,530
Individual impairment allowance.....	5,110	9,738
Collective impairment allowance.....	50,235	62,392
New impairment allowance charged to the income statement.....	(16,786)	32,635
Impaired loans and advances written off during the year.....	6,601	—
(b) Trade finance		
Individually impaired loans.....	85,293	186,185
Overdue loans and advances over three months.....	85,052	34,490
Individual impairment allowance.....	80,868	93,767
Collective impairment allowance.....	34,887	33,762
New impairment allowance charged to the income statement.....	(11,774)	66,048
Impaired loans and advances written off during the year.....	109,727	43,828
(c) Loans for use outside Hong Kong		
Individually impaired loans.....	993,218	195,495
Overdue loans and advances over three months.....	373,606	56,270
Individual impairment allowance.....	307,576	103,922
Collective impairment allowance.....	188,153	108,327
New impairment allowance charged to the income statement.....	283,480	97,871
Impaired loans and advances written off during the year.....	21,871	24,739

(b) **Cross-border claims**

The Group analyses cross-border claims by geographical area. In determining this analysis, the Group has taken into account transfer of risk with respect to claims guaranteed by a party in a country different from that of the counterparty. Those areas that constitute 10% or more of the aggregate cross-border claims are as follows:

	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
2009				
Asia Pacific (excluding Hong Kong).....	28,137	4,245	55,941	88,323
North and South America.....	3,726	2,451	6,417	12,594
Europe.....	17,065	—	929	17,994
	<u>48,928</u>	<u>6,696</u>	<u>63,287</u>	<u>118,911</u>
2008				
Asia Pacific (excluding Hong Kong).....	32,334	2,617	38,827	73,778
North and South America.....	8,881	1,104	6,041	16,026
Europe.....	10,249	—	565	10,814
	<u>51,464</u>	<u>3,721</u>	<u>45,433</u>	<u>100,618</u>

(c) **Non-bank Mainland China exposures**

The analysis of non-bank Mainland China exposures is based on the categories of non-bank counterparties and the types of direct exposures defined by the HKMA under the Banking (Disclosure) Rules with reference to the completion instructions in Note 6 of the “Returns of Quarterly Analysis of Loans and Advances and Provisions - MA(BS)2A”, which includes the Mainland China exposures extended by the Bank and its overseas subsidiary and branch.

	On-balance sheet exposure	Off-balance sheet exposure	Total exposures	Individually assessed allowances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2009				
Mainland China entities	24,138,564	5,826,938	29,965,502	—
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	14,314,188	895,502	15,209,690	133,965
Other counterparties where the exposure is considered by the Bank to be non-bank Mainland China exposure	3,775,205	48,813	3,824,018	1,290
	<u>42,227,957</u>	<u>6,771,253</u>	<u>48,999,210</u>	<u>135,255</u>
2008				
Mainland China entities	18,246,241	1,144,763	19,391,004	—
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	14,747,579	1,104,903	15,852,482	121,849
Other counterparties where the exposure is considered by the Bank to be non-bank Mainland China exposure	996,813	26,459	1,023,272	24,428
	<u>33,990,633</u>	<u>2,276,125</u>	<u>36,266,758</u>	<u>146,277</u>

8 CURRENCY CONCENTRATIONS

Currency concentrations - the table below summarises the net foreign currency positions of the Group and the Bank. The net positions in foreign currency is disclosed when the currency constitutes 10% or more of the total net position of all foreign currencies. A sensitivity analysis calculates the effect of a reasonably possible movement in a currency rate against the Hong Kong dollar, with all other variables in the income statement and equity held constant.

Group	US\$	RMB	JPY	NZD	CHF	GBP	Other foreign currencies	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2009								
Non-structural position								
Spot assets	86,907,654	9,297,418	1,788,980	785,658	84,132	114,045	7,277,737	106,255,624
Spot liabilities	(88,627,701)	(9,428,321)	(380,549)	(1,022,437)	(83,693)	(1,332,928)	(9,342,294)	(110,217,923)
Forward purchases	42,625,084	23,655,848	2,512,865	734,436	372,409	1,469,551	9,586,605	80,956,798
Forward sales	(40,673,650)	(23,499,689)	(3,713,344)	(596,882)	(325,005)	(204,746)	(7,805,448)	(76,818,764)
Net option position	(325,790)	—	(78,553)	124,676	(8,997)	(718)	297,500	8,118
Net long/(short) position ...	(94,403)	25,256	129,399	25,451	38,846	45,204	14,100	183,853
Net structural position	478,849	1,662,351	—	—	—	—	20,644	2,161,844

Group	US\$	RMB	JPY	NZD	CHF	GBP	Other foreign currencies	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2008								
Non-structural position								
Spot assets	74,119,558	8,794,490	11,984,424	450,489	23,350	410,947	7,213,158	102,996,416
Spot liabilities.....	(90,047,326)	(7,892,910)	(48,181)	(916,950)	(100,675)	(731,961)	(6,478,412)	(106,216,415)
Forward purchases	53,942,597	13,214,944	2,356,141	550,414	239,061	515,608	8,560,870	79,379,635
Forward sales.....	(37,207,089)	(13,231,607)	(14,142,215)	(78,033)	(125,740)	(154,503)	(9,271,267)	(74,210,454)
Net option position	(850)	—	(20,131)	6,812	22,089	315	(17,818)	(9,583)
Net long/(short) position ...	<u>806,890</u>	<u>884,917</u>	<u>130,038</u>	<u>12,732</u>	<u>58,085</u>	<u>40,406</u>	<u>6,531</u>	<u>1,939,599</u>

Foreign currency exposures include those arising from trading position. The net option position is calculated using the delta equivalent approach. The net structural position of the Group includes the structural positions of the Bank's capital investment in overseas subsidiaries (including Chinese Mercantile Bank).

There was no net structural position in a particular foreign currency which constitutes (in absolute terms) not less than 10% of its total net structural position in all currencies as at 31 December 2008.

9 DISCLOSURES PURSUANT TO RULE 13.20 OF THE LISTING RULES

As at 4 January 2010, the types of Relevant Advances and the balance of the relevant outstanding amounts due from, and all guarantees given on behalf of, the ICBC Group were as follows:

Types of the Relevant Advances

	HK\$'000
Trade Loan to ICBC Group outstanding.....	9,575,000
Confirmed ICBC Group Standby Letter of Credit/Guarantee outstanding	7,014,000
Money Market Placements to ICBC Group outstanding.....	13,081,000
Syndication/Club/Revolving Short-term Loan to ICBC Group outstanding	<u>2,528,000</u>
Total Relevant Advances to ICBC Group.....	<u>32,198,000</u>

As at 9 March 2010, the types of Relevant Advances and the balance of the relevant outstanding amounts due from, and all guarantees given on behalf of, the ICBC Group were as follows:

Types of the Relevant Advances

	HK\$'000
Trade Loan to ICBC Group outstanding.....	12,341,800
Confirmed ICBC Group Standby Letter of Credit/Guarantee outstanding	8,439,300
Money Market Placements to ICBC Group outstanding.....	17,310,000
Syndication/Club/Revolving Short-term Loan to ICBC Group outstanding	<u>1,972,400</u>
Total Relevant Advances to ICBC Group.....	<u>40,063,500</u>

As at 15 April 2010, the types of Relevant Advances and the balance of the relevant outstanding amounts due from, and all guarantees given on behalf of, the ICBC Group were as follows:

Types of the Relevant Advances

	HK\$'000
Trade Loan to ICBC Group outstanding	17,190,085
Confirmed ICBC Group Standby Letter of Credit/Guarantee outstanding	8,924,794
Money Market Placements to ICBC Group outstanding	19,958,020
Syndication/Club/Revolving Short-term Loan to ICBC Group outstanding	1,972,400
Purchase of Certificates of Deposit of ICBC Group outstanding	<u>500,500</u>
Total Relevant Advances to ICBC Group	<u>48,545,799</u>

The interest rates charged for the Relevant Advances mostly are floating interest rates based on the prevailing interbank offer rate, except for some Certificates of Deposit are priced at fixed rate; and that money market placements whose interest rates are set by the ICBC Group and based on the prevailing interbank bid rate. The Relevant Advances are repayable in full at maturity, and the maturity date for the Relevant Advances generally range from overnight to one year, or longer than one year for capital market instruments and standby letter of credit/guarantee/certificates of deposit. The Relevant Advances to the ICBC Group are not secured by any collateral.

The Relevant Advances to the ICBC Group were made by the Group in the ordinary course of the Group's banking business, and on normal commercial terms commensurate with customers of the Group having similar credit ratings or financial strengths, and as part of the ongoing banking transactions entered into between the Group and the ICBC Group.

Consolidated Income Statement

For the six months ended 30 June 2010 (Unaudited)

	Notes	Restated		
		Six Months Ended		Change
		30 Jun 2010	30 Jun 2009	
		HK\$'000	HK\$'000	
Interest income	(6)	2,513,851	2,322,494	8%
Interest expense	(6)	(788,979)	(832,462)	-5%
Net interest income	(6)	1,724,872	1,490,032	16%
Fee and commission income.....	(7)	421,997	348,439	21%
Fee and commission expense.....	(7)	(64,156)	(35,661)	80%
Net fee and commission income	(7)	357,841	312,778	14%
Net trading income	(8)	163,299	120,864	35%
Net gain on financial assets and liabilities designated at fair value through profit or loss	(9)	18,037	73,756	-76%
Dividend income from financial investments....	(10)	3,591	3,517	2%
Other operating income.....	(11)	10,650	18,311	-42%
Operating income		2,278,290	2,019,258	13%
Operating expenses	(12)	(679,802)	(696,418)	-2%
Operating profit before impairment losses		1,598,488	1,322,840	21%
Charge for impairment losses on loans and advances	(13)	(210,328)	(224,605)	-6%
Write-back of impairment losses on held-to-maturity financial investments		80	1,126	-93%
Charge for impairment losses on available-for-sale financial investments		—	(42,870)	-100%
Operating profit after impairment losses		1,388,240	1,056,491	31%
Revaluation gain on investment properties		1,275	—	—
Net gain from disposal/reversal of revaluation deficits of property, plant and equipment		2,271	2,762	-18%
Net gain on disposal of available-for-sale financial investments		58,529	56,892	3%
Gain on disposal of loans and advances		21,291	—	—%
Operating profit		1,471,606	1,116,145	32%
Share of profit of an associate		7,174	10,881	-34%
Profit before tax		1,478,780	1,127,026	31%
Income tax expense.....	(14)	(249,622)	(198,183)	26%
Profit for the period and attributable to equity holders	(3.3)	1,229,158	928,843	32%
Earnings per share	(16)	HK\$0.93	HK\$0.72	29%

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010 (Unaudited)

	Note	Restated		Change
		Six Months Ended		
		30 Jun 2010	30 Jun 2009	
		HK\$'000	HK\$'000	%
Profit for the period.....	(3.3)	<u>1,229,158</u>	<u>928,843</u>	32%
Revaluation surplus/(deficit) on bank premises		12,896	(417)	-3193%
Income tax effect.....		<u>2,273</u>	<u>—</u>	—%
		15,169	(417)	3738%
Change of fair value of hedging instruments				
under cash flow hedges		(42,191)	(1,780)	2270%
Income tax effect.....		<u>6,962</u>	<u>(1,002)</u>	-795%
		(35,229)	(2,782)	1166%
Change in fair value of reserve of				
available-for-sale financial investments		(18,159)	1,216,499	-101%
Transfer from available-for-sale financial				
investment reserve to the income statement				
on impairment		—	42,905	-100%
Income tax effect.....		<u>(2,622)</u>	<u>(206,505)</u>	-99%
		(20,781)	1,052,899	-102%
Exchange differences arising from translation				
of results of a foreign subsidiary		<u>20,781</u>	<u>1,233</u>	1585%
Other comprehensive income for the period,				
net of tax		<u>(20,060)</u>	<u>1,050,933</u>	-102%
Total comprehensive income for the period,				
net of tax	(3.3)	<u>1,209,098</u>	<u>1,979,776</u>	-39%
Attributable to:				
Equity holders of the bank.....		<u>1,209,098</u>	<u>1,979,776</u>	-39%

Consolidated Statement of Financial Position

As at 30 June 2010

	Notes	Unaudited	Restated	Change	Restated	Change
		30 Jun	31 Dec		30 Jun	
		2010	2009		2009	
		HK\$'000	HK\$'000	%	HK\$'000	%
Assets						
Cash and balances with banks and other financial institutions	(17)	27,424,822	27,910,582	-2%	38,390,316	-29%
Placements with and advances to banks and other financial institutions	(18)	1,549,249	1,663,286	-7%	15,326,779	-90%
Financial assets held for trading.....	(19)	197,876	190,246	4%	45,849	332%
Financial assets designated at fair value through profit or loss	(20)	944,553	1,162,149	-19%	1,305,904	-28%
Derivative financial instruments.....	(21)	2,006,609	1,285,306	56%	1,348,166	49%
Loans and advances to customers, banks and other financial institutions	(22)	184,592,521	147,024,582	26%	128,814,577	43%
Financial investments:		35,801,360	33,653,175	6%	30,046,641	19%
- Available-for-sale	(23)	34,596,813	32,361,666	7%	28,404,433	22%
- Held-to-maturity	(24)	1,204,547	1,291,509	-7%	1,642,208	-27%
Investments in associates		182,351	175,177	4%	195,317	-7%
Goodwill and other intangible assets		1,018,718	1,020,893	0%	1,028,120	-1%
Investment properties	(25)	47,488	46,213	3%	40,126	18%
Property, plant and equipment.....	(3.3),(26)	486,775	514,191	-5%	498,360	-2%
Other assets	(27)	1,554,306	1,305,150	19%	1,310,067	19%
Total assets		<u>255,806,628</u>	<u>215,950,950</u>	18%	<u>218,350,222</u>	17%
Liabilities						
Deposits from banks and other financial institutions		33,477,605	20,176,700	66%	25,745,556	30%
Derivative financial instruments.....	(21)	2,427,258	1,403,832	73%	1,431,854	70%
Deposits from customers						
- At amortised cost.....	(28)	180,678,728	161,161,561	12%	159,849,555	13%
Certificates of deposit issued		7,289,223	2,394,546	204%	1,484,935	391%
- Designated at fair value through profit or loss		1,086,547	1,419,077	-23%	1,161,935	-6%
- At amortised cost.....		6,202,676	975,469	536%	323,000	1820%
Debt securities in issue		202,351	159,526	27%	3,122,645	-94%
- Designated at fair value through profit or loss		101,175	—	—	3,122,645	-97%
- At amortised cost.....		101,176	159,526	-37%	—	—
Current income tax liabilities.....		1,752,548	1,531,204	14%	36,535	4697%
Deferred income tax liabilities.....	(29)	206,317	224,386	-8%	102,471	101%
Subordinated debts measured at amortised cost	(30)	8,589,790	8,561,125	0%	8,556,348	0%
Other liabilities.....	(31)	1,842,906	2,070,476	-11%	1,996,521	-8%
Total liabilities		<u>236,466,726</u>	<u>197,683,356</u>	20%	<u>202,326,420</u>	17%
Equity						
Share capital	(32)	2,704,123	2,636,681	3%	2,598,476	4%
Retained earnings.....	(3.3),(33)	5,610,900	5,172,225	8%	3,981,150	41%
Other reserves.....	(33)	11,024,879	10,458,688	5%	9,444,176	17%
Total equity		<u>19,339,902</u>	<u>18,267,594</u>	6%	<u>16,023,802</u>	21%
Total equity and liabilities		<u>255,806,628</u>	<u>215,950,950</u>	18%	<u>218,350,222</u>	17%

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010 (Unaudited)

	<u>Notes</u>	<u>30 Jun 2010</u>	<u>Restated</u>
		<u>HK\$'000</u>	<u>30 Jun 2009</u>
			<u>HK\$'000</u>
Total equity as at 1 January		18,104,597	13,937,778
Effect of adopting HKAS 17		<u>162,997</u>	<u>152,384</u>
		18,267,594	14,090,162
Profit for the period.....	(33)	1,229,158	928,843
Other comprehensive income.....		<u>(20,060)</u>	<u>1,050,933</u>
Total comprehensive income		1,209,098	1,979,776
Change in general reserve		—	(3,051)
Dividends paid during the period	(33)	(751,454)	(231,348)
Shares issued in lieu of dividends	(32)	<u>614,664</u>	<u>188,263</u>
Total equity as at 30 June		<u><u>19,339,902</u></u>	<u><u>16,023,802</u></u>

Condensed Consolidated Statement of Cash Flows*For the six months ended 30 June 2010 (Unaudited)*

	Six Months Ended	
	30 Jun 2010	30 Jun 2009
	HK\$'000	HK\$'000
Net cash flow (used in)/from operating activities	(779,352)	21,366,283
Net cash flow from/(used in) investing activities	17,745	(20,948)
Net cash flow used in financing activities	(176,591)	(137,906)
Effects of foreign exchange differences	38,851	(6,071)
Net (decrease)/increase in cash and cash equivalents	(899,347)	21,201,358
Cash and cash equivalents at 1 January	<u>28,708,709</u>	<u>28,933,732</u>
Cash and cash equivalents at 30 June	<u>27,809,362</u>	<u>50,135,090</u>

Components of cash and cash equivalents in the consolidated statement of cash flows:

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with an original maturity of three months or less:

	30 Jun 2010	30 Jun 2009
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	10,929,251	9,091,070
Placements with banks and other financial institutions	<u>16,880,111</u>	<u>41,044,020</u>
	<u>27,809,362</u>	<u>50,135,090</u>

Notes to the Condensed Interim Accounts

1 Principal activities

The principal activities of the Bank are the provision of banking, financial and other financial related services.

2.1 Basis of preparation

The unaudited condensed consolidated interim report of the Group have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “*Interim Financial Reporting*”, issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”). These accounts also comply with the applicable disclosures provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and disclosure information required under the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (the “HKMA”).

The unaudited condensed consolidated interim accounts do not include all the information and disclosures required in the annual accounts, and should be read in conjunction with the Group’s annual accounts for the year ended 31 December 2009.

The preparation of accounts requires management to exercise its judgement and make estimates and assumptions in the process of applying the Group’s accounting policies and reporting amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The significant judgements made by management were the same as those applied to the consolidated accounts for the year ended 31 December 2009.

2.2 Basis of consolidation

The consolidated accounts include the accounts of the Bank and all its subsidiaries, a controlled unit trust and attributable share of results and reserves of its associates. For regulatory reporting, the basis of consolidation is set out in Note 1 of the “Supplementary Financial Information” section.

List of subsidiaries, which are all 100% held by the Bank, include in the consolidation are:

- Chinese Mercantile Bank
- ICBC (Asia) Asset Management Company Limited
- ICBC (Asia) Bullion Company Limited
- ICBC (Asia) Investment Holdings Limited
- ICBC (Asia) Investment Management Company Limited
- ICBC (Asia) Nominee Limited
- ICBC (Asia) Securities Limited
- ICBC (Asia) Trustee Company Limited
- ICBC (Asia) Wa Pei Nominees Limited
- ICBCA (C.I.) Limited
- UB China Business Management Co. Ltd.

3.1 Impact of new/ revised Hong Kong Financial Reporting Standards (“HKFRSs”)

The accounting policies adopted in the preparation of the condensed interim report are consistent with those used in the preparation of the Group’s audited accounts for the year ended 31 December 2009 except for the adoption of the following HKFRSs and HKASs issued up to 30 June 2010 which are pertinent to the Group’s operations and relevant to these interim financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards - Additional Exemptions for First-time Adopters
HKFRS 1 (Revised)	First Time Adoption of Hong Kong Financial Reporting Standards
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment - Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
HK-Int 4 Amendment (Revised in December 2009)	Leases - Determination of the Length of Lease Term in respect of Hong Kong Land Leases

Apart from the above, the HKICPA has also issued Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording.

* Improvements to HKFRSs 2009 contains amendments to HKFRS 2, HKFRS 5, HKAS 1, HKAS 7, HKAS 17, HKAS 36, HKAS 38.

HKFRS 1 Amendments address the retrospective application of HKFRSs to particular situations (such as exempt entities using the full cost method from retrospective application of HKFRSs for oil and gas assets or existing leasing contracts from reassessing the classification of those contracts in accordance with HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease when the application of their other accounting requirements produced the same result) and are aimed at ensuring that entities applying HKFRSs will not face undue cost or effort in the transition process. The amendments do not have any material financial impact on the Group.

HKFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. The Group is not a first-time adopter of HKFRS.

HKFRS 2 Amendments clarify its scope and the accounting for group companies' cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transactions. The amendments do not have any material financial impact on the Group.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. These changes, include, but are not limited to (i) introducing an option to measure non-controlling interests at fair value; (ii) recognising gains or losses from remeasuring to the fair value the interest in the acquiree held by the entity immediately before the business combination, in a step acquisition; (iii) expensing acquisition costs as incurred; (iv) recognising the fair value of contingent considerations at the acquisition date with subsequent changes generally reflected in the income statement; and (v) separately accounting for pre-existing relationships between the acquirer and acquiree.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments are made to HKAS 7 Statement of Cash Flows, HKAS 12 Income Taxes, HKAS 21 The Effects of Changes in Foreign Exchange Rates, HKAS 28 Investments in Associates and HKAS 31 Interests in Joint Ventures.

The amendment to HKAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

HK(IFRIC)-Int 17 standardises practice in the accounting for all non-reciprocal distributions of non-cash assets to owners. This new interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments are made to HKAS 10 Events after the Reporting Period and HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations. While the adoption of the Interpretation has resulted in changes in accounting policy, the Interpretation does not have any material financial impact on the Group.

HK-Int 4 was revised in December 2009 as a consequence of the amendment to HKAS 17 made by Improvements to HKFRSs issued in May 2009. The amendment to HKAS 17 removes the specific guidance which stated that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. The new guidance, paragraph 15A, indicates that entities should use judgement to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. A lease of land is therefore classified as a finance lease if the lease transfers substantially all the risks and rewards incidental to ownership to the lessee. Following this amendment, the scope of this Interpretation has been expanded to cover all land leases, including those classified as finance leases. As a result, this Interpretation is applicable to all leases of properties accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

The adoption of HKAS 17 Amendment and HK-Int 4 has resulted in a change in the accounting policy, disclosure and presentation relating to leasehold land. A leasehold land has been re-classified from an operating lease to a finance lease, and the land lease is now stated at fair value and depreciated over the remaining period of the lease on straight line basis. The financial impact on the Group is detailed in note 3.3.

In May 2009, the HKICPA issued Improvements to HKFRSs which sets out amendments to HKFRSs, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

HKFRS 2 Share-based Payment: It revises the scope that transaction in which an entity acquires goods as part of the net assets acquired in a business combination, in a combination of entities or business under common controls, or the contribution of a business on the formation of a joint venture does not fall under the scope of this HKFRS.

HKFRS 5 Amendments clarify that an entity that is committed to a sale plan involving loss of control of a subsidiary shall have relevant disclosures when the subsidiary is a disposal group that meets the definition of a discontinued operation.

HKAS 7 Statement of Cash Flows: It specifies that only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities.

HKAS 36 Impairment of Assets: It clarifies that each unit or group of units to which the goodwill is so allocated should not be larger than an operating segment before aggregation.

HKAS 38 Intangible Assets: It introduces amendments to the measurement of fair value of an intangible asset acquired in a business combination. Intangible assets acquired in business combination may be separable together with a related contract and an identifiable liability in addition to an identifiable asset. Additional consequential amendments to this HKAS arising from the revised HKFRS 3 are also incorporated.

Other than as further explained above regarding the impact of HK-Int 4 and HKAS 17 Amendment, the adoption of these new and revised HKFRSs has had no significant impact on the financial position or performance of the Group.

3.2 Issued but not yet effective HKFRSs

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these interim financial statements:

HKFRS 1 Amendment	Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards - Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ¹
HKFRS 9	Financial Instruments ³
HKAS 24 (Revised)	Related Party Disclosures ²
HK(IFRIC)-Int 14 Amendments	Amendments to HK (IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement ²
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ¹
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation - Classification of Rights Issues ⁴

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendments to HKFRS 3 and HKAS 27 which are effective for annual periods beginning on or after 1 July 2010, the amendments are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard or interpretation.

¹ effective for annual periods beginning on or after 1 July 2010

² effective for annual periods beginning on or after 1 January 2011

³ effective for annual periods beginning on or after 1 January 2013

⁴ effective for annual periods beginning on or after 1 February 2010

* Improvements to HKFRSs 2010 contain amendments to HKFRS 1, HKFRS 3, HKFRS 7, HKAS 1, HKAS 27, HKAS 34 and HK(IFRIC)-Int 13.

HKFRS 9 represents the completion of the first part of a three-part project to replace HKAS 39 Financial Instruments: Recognition and Measurement. HKFRS 9 uses a business model and contractual cash flow characteristics to determine whether a financial asset is measured at amortised cost or fair value, replacing the four category classification in HKAS 39. The approach is also based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets from 1 January 2013.

HKAS 24 (Revised) simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Government-related entities are now defined as entities that are controlled, jointly controlled or significantly influenced by the government. The revised standard still requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users. It achieves this balance by requiring disclosure about these transactions only if they are significant. The amendments are unlikely to have any material financial impact on the Group.

The amendment to HK(IFRIC)-Int 14 requires entities to recognise as an economic benefit any prepayment of minimum funding requirement contributions. As the Group has no defined benefit scheme, the amendment is unlikely to have any material financial impact on the Group.

HK(IFRIC)-Int 19 addresses the accounting by an entity when the terms of a financial liability are re-negotiated and resulted in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the Interpretation from 1 January 2011. As the Group has not re-negotiated the terms of a financial liability and issued equity instruments to settle the financial liability, the Interpretation is unlikely to have any material financial impact on the Group.

The amendment to HKAS 32 addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided that certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The amendment is unlikely to have any material financial impact on the Group.

In May 2010, the HKICPA issued Improvements to HKFRSs which sets out amendments to HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The Group expects to adopt the amendments to HKFRSs from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of them may result changes in accounting policy, none of these amendments are expected to have a material financial impact on the Group.

- (a) HKFRS 1 Amendments: It addresses the presentation and disclosure requirements for entity which changes its accounting policies or its uses of the exemptions contained in this HKFRS. It also introduces the use of a revaluation basis as deemed cost and extends the use of the deemed cost exemption to entities with operations subject to rate regulation.
- (b) HKFRS 3 Amendments: It states the transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised HKFRS. It explains the measurement principle for non-controlling interests in the acquiree for business combination. It also provides guidance on the accounting of share-based payment transactions of the acquiree or replacement of an acquiree's share-based payment transactions with share-based payment transactions of the acquirer in accordance with HKFRS 2 at the acquisition date.
- (c) HKFRS 7 Amendments: It clarifies quantitative disclosure requirements for risks arising from financial instruments, and encourages accompanying narrative disclosures if the concentration of risk is not apparent from the quantitative disclosures. The requirements for disclosures of credit risk are clarified and reduced, which disclosures on carrying amounts of assets that will have been past due or impaired unless they have been renegotiated, as well as description of collateral held by the entity as security and other credit enhancements and estimates of their fair value, are no longer required.
- (d) HKAS 1 (Revised) clarifies that entities may present the required reconciliations for each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.
- (e) Transition requirements for amendments to HKAS 21, HKAS 28 and HKAS 31 as a result of HKAS 27 Consolidated and Separate Financial Statements are to be applied prospectively for annual periods beginning on or after 1 July 2010.
- (f) HKAS 34 Amendments: It requires the updating of relevant information related to significant events and transactions in the most recent annual financial report. HKAS 34 now specifies events and transactions for which disclosures are required, and guidance has been added covering the application of the requirements for financial instruments.
- (g) HK(IFRIC)-Int 13 clarifies that fair value of award credits should take account of expected forfeitures as well as the discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale.

3.3 Financial impact of the adoption of the amendment to HKAS 17

As explained in note 3.1 above, following the adoption of the amendment to HKAS 17, the corresponding prior year comparatives have been adjusted as follows:

	<u>As reported</u>	<u>Adjustment</u>	<u>Restated</u>
	HK\$'000	HK\$'000	HK\$'000
Half year ended 30 June 2009			
Profit for the period	930,145	(1,302)	928,843
Total comprehensive income.....	1,981,078	(1,302)	1,979,776
As at 31 December 2009			
Property, plant and equipment	273,953	240,238	514,191
Bank premises revaluation reserve.....	56,198	172,687	228,885
Retained earnings	5,181,915	(9,690)	5,172,225
As at 30 June 2009			
Property, plant and equipment	272,277	226,083	498,360
Bank premises revaluation reserve.....	52,052	159,470	211,522
Retained earnings	3,989,538	(8,388)	3,981,150

4 Analysis of assets and liabilities by remaining maturity

The table below summarises the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

Group 30 June 2010	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets								
Cash and balances with banks and other financial institutions	9,873,833	16,495,571	—	—	—	—	1,055,418	27,424,822
Placements with and advances to banks and other financial institutions	—	—	390,185	1,159,064	—	—	—	1,549,249
Financial assets held for trading	—	4,936	14,964	419	13,542	6,643	157,372	197,876
Financial assets designated at fair value through profit or loss.....	—	—	—	219,000	725,553	—	—	944,553
Derivative financial instruments.....	159,664	129,205	330,241	965,245	275,869	146,385	—	2,006,609
Loans and advances to customers, banks and other financial institutions	23,080,387	20,726,316	9,514,185	33,833,377	63,437,013	34,001,243	—	184,592,521
Available-for-sale financial investments								
- equity securities	—	—	—	—	—	—	1,515,792	1,515,792
- certificates of deposit held	—	—	—	733,516	989,430	—	—	1,722,946
- other debt securities	—	697,063	1,521,022	3,128,601	24,271,136	1,732,613	7,640	31,358,075
Held-to-maturity financial investments								
- treasury bills	—	—	—	1,145,621	—	—	—	1,145,621
- other debt securities	—	54,346	4,580	—	—	—	—	58,926
Investments in associates	—	—	—	—	—	—	182,351	182,351
Goodwill and other intangible assets	—	—	—	—	—	—	1,018,718	1,018,718
Investment properties.....	—	—	—	—	—	—	47,488	47,488
Property, plant and equipment.....	—	—	—	—	—	—	486,775	486,775
Other assets	9,088	587,218	99,801	252,201	104,960	—	501,038	1,554,306
Total assets	<u>33,122,972</u>	<u>38,694,655</u>	<u>11,874,978</u>	<u>41,437,044</u>	<u>89,817,503</u>	<u>35,886,884</u>	<u>4,972,592</u>	<u>255,806,628</u>
Liabilities								
Deposits from banks and other financial institutions	1,201,372	14,334,321	10,586,288	7,355,624	—	—	—	33,477,605
Derivative financial instruments.....	28,919	131,729	372,225	980,506	650,182	263,697	—	2,427,258
Deposits from customers.....	41,425,973	63,020,145	50,848,074	24,914,975	441,097	28,464	—	180,678,728
Certificates of deposit issued.....	—	150,306	49,759	3,469,740	3,619,418	—	—	7,289,223
Debt securities in issue.....	1,110	150,312	50,929	—	—	—	—	202,351
Subordinated debts measured at amortised cost.....	—	—	—	622,752	6,410,158	1,556,880	—	8,589,790
Other liabilities, including current and deferred tax liabilities	93,179	776,052	396,539	2,208,668	80,402	1,211	245,720	3,801,771
Total liabilities	<u>42,750,553</u>	<u>78,562,865</u>	<u>62,303,814</u>	<u>39,552,265</u>	<u>11,201,257</u>	<u>1,850,252</u>	<u>245,720</u>	<u>236,466,726</u>
Net liquidity gap	<u>(9,627,581)</u>	<u>(39,868,210)</u>	<u>(50,428,836)</u>	<u>1,884,779</u>	<u>78,616,246</u>	<u>34,036,632</u>	<u>4,726,872</u>	<u>19,339,902</u>

Group (Restated) At 31 December 2009	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets								
Cash and balances with banks and other financial institutions	6,240,723	21,134,079	—	—	—	—	535,780	27,910,582
Placements with and advances to banks and other financial institutions	—	—	903,730	759,556	—	—	—	1,663,286
Financial assets held for trading	—	—	—	19,884	19,244	7,920	143,198	190,246
Financial assets designated at fair value through profit or loss	—	—	78,433	157,551	711,467	214,698	—	1,162,149
Derivative financial instruments	61	399,829	149,750	320,904	256,211	158,551	—	1,285,306
Loans and advances to customers, banks and other financial institutions	15,629,122	6,722,168	8,189,544	25,454,036	61,072,255	29,957,457	—	147,024,582
Available-for-sale financial investments								
- equity securities	—	—	—	—	—	—	1,587,800	1,587,800
- certificates of deposit held	—	—	—	—	150,225	—	—	150,225
- other debt securities	—	302,225	3,291,607	5,473,922	19,863,398	1,686,279	6,210	30,623,641
Held-to-maturity financial investments								
- treasury bills	—	—	—	1,146,414	—	—	—	1,146,414
- other debt securities	—	—	—	84,777	—	60,318	—	145,095
Investments in associates	—	—	—	—	—	—	175,177	175,177
Goodwill and other intangible assets	—	—	—	—	—	—	1,020,893	1,020,893
Investment properties	—	—	—	—	—	—	46,213	46,213
Property, plant and equipment	—	—	—	—	—	—	514,191	514,191
Other assets	19,676	588,916	251,953	111,209	84,220	—	249,176	1,305,150
Total assets	<u>21,889,582</u>	<u>29,147,217</u>	<u>12,865,017</u>	<u>33,528,253</u>	<u>82,157,020</u>	<u>32,085,223</u>	<u>4,278,638</u>	<u>215,950,950</u>
Liabilities								
Deposits from banks and other financial institutions	1,313,038	10,879,001	6,731,190	1,253,471	—	—	—	20,176,700
Derivative financial instruments	5,164	244,176	137,561	391,698	441,575	183,658	—	1,403,832
Deposits from customers	46,811,559	55,923,263	33,875,477	23,533,175	989,730	28,357	—	161,161,561
Certificates of deposit issued	—	77,731	99,748	356,013	1,861,054	—	—	2,394,546
Debt securities in issue	—	66,529	92,997	—	—	—	—	159,526
Subordinated debts measured at amortised cost	—	—	—	—	7,010,125	1,551,000	—	8,561,125
Other liabilities, including current and deferred tax liabilities	182,704	707,880	541,684	1,971,797	94,060	—	327,941	3,826,066
Total liabilities	<u>48,312,465</u>	<u>67,898,580</u>	<u>41,478,657</u>	<u>27,506,154</u>	<u>10,396,544</u>	<u>1,763,015</u>	<u>327,941</u>	<u>197,683,356</u>
Net liquidity gap	<u>(26,422,883)</u>	<u>(38,751,363)</u>	<u>(28,613,640)</u>	<u>6,022,099</u>	<u>71,760,476</u>	<u>30,322,208</u>	<u>3,950,697</u>	<u>18,267,594</u>

5 **Segment reporting**

(a) *Class of business*

The Group comprises seven operating segments. Commercial banking represents commercial lending and trade financing. Retail banking represents retail banking, hire purchase and leasing, and credit card business. Global markets and trading represents foreign exchange, money market and capital market activities. Corporate and investment banking mainly comprise corporate banking, debt capital market and investment banking. Institutional banking represents financial institution business. Chinese Mercantile Bank represents the business of the Bank's subsidiary in Mainland China. Unallocated items mainly comprise the central management unit, bank premises and any items which cannot be reasonably allocated to specific operating segments.

30 Jun 2010	Corporate and investment banking	Commercial banking	Retail banking	Global markets and trading	Institutional banking	Chinese Mercantile Bank	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income.....	401,060	532,711	263,557	210,048	97,067	194,145	26,284	1,724,872
Fee and commission income.....	91,670	98,992	174,773	564	28,290	22,190	5,518	421,997
Fee and commission expense.....	(14,118)	(11,961)	(35,693)	—	(1)	(2,292)	(91)	(64,156)
Net fee and commission income.....	77,552	87,031	139,080	564	28,289	19,898	5,427	357,841
Net trading income/(expense).....	22,170	77,077	24,599	41,186	8,336	(2,150)	(7,919)	163,299
Net gain on financial assets and liabilities designated at fair value through profit or loss.....	—	—	—	12,742	—	—	5,295	18,037
Dividend income from financial investments	237	—	24	—	—	—	3,330	3,591
Other operating income.....	1,335	11	526	776	—	3,525	4,477	10,650
Operating income.....	502,354	696,830	427,786	265,316	133,692	215,418	36,894	2,278,290
Operating expenses	(44,658)	(176,028)	(318,506)	(66,408)	(16,659)	(45,568)	(11,975)	(679,802)
Operating profit before impairment losses. (Charge for)/write-back of impairment loss on loans and advances.....	457,696	520,802	109,280	198,908	117,033	169,850	24,919	1,598,488
Write-back of impairment loss on held-to-maturity financial investments	—	—	—	80	—	—	—	80
Operating profit after impairment losses ...	398,827	510,876	104,009	198,867	91,511	57,564	26,586	1,388,240
Revaluation gain on investment properties	—	—	—	—	—	—	1,275	1,275
Net gain from disposal/reversal of revaluation deficits of property, plant and equipment.....	—	—	54	—	—	—	2,217	2,271
Net (loss)/gain on disposal of available-for-sale financial investments	—	—	—	(18)	—	—	58,547	58,529
Gain on disposal of loans and advances ...	17,553	3,738	—	—	—	—	—	21,291
Operating profit	416,380	514,614	104,063	198,849	91,511	57,564	88,625	1,471,606
Share of profit of an associate	—	—	—	—	—	—	7,174	7,174
Profit before tax	416,380	514,614	104,063	198,849	91,511	57,564	95,799	1,478,780
Segment assets.....	51,362,828	60,241,200	31,616,558	60,401,417	28,077,267	19,409,792	2,283,139	253,392,201
Investment in an associate	—	—	—	—	—	—	182,351	182,351
Unallocated assets.....	—	—	—	—	—	—	2,232,076	2,232,076
Total assets	51,362,828	60,241,200	31,616,558	60,401,417	28,077,267	19,409,792	4,697,566	255,806,628
Segment liabilities	54,053,694	52,407,094	56,318,668	28,886,476	10,716,021	15,193,676	2,112,951	219,688,580
Unallocated liabilities	—	—	—	—	—	—	16,778,146	16,778,146
Total liabilities	54,053,694	52,407,094	56,318,668	28,886,476	10,716,021	15,193,676	18,891,097	236,466,726
Capital expenditure.....	8	137	3,163	1,066	7	904	9,605	14,890
Depreciation and amortisation charges	294	1,088	11,868	763	84	7,449	9,590	31,136

(Restated) 30 Jun 2009	Corporate and investment banking	Commercial banking	Retail banking	Global markets and trading	Institutional banking	Chinese Mercantile Bank	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income.....	397,281	467,844	276,629	227,597	70,448	115,067	(64,834)	1,490,032
Fee and commission income.....	78,696	77,308	142,516	830	22,518	26,444	127	348,439
Fee and commission expense.....	(7,212)	(2,652)	(21,244)	—	(47)	(892)	(3,614)	(35,661)
Net fee and commission income/ (expense).....	71,484	74,656	121,272	830	22,471	25,552	(3,487)	312,778
Net trading income/(expense).....	22	13,955	9,097	119,996	796	(162)	(22,840)	120,864
Net gain on financial assets and liabilities designated at fair value through profit or loss.....	—	—	—	21,207	—	—	52,549	73,756
Dividend income from financial investments.....	201	—	11	—	—	—	3,305	3,517
Other operating income.....	—	1,395	2,580	9	31	9,624	4,672	18,311
Operating income/(loss).....	468,988	557,850	409,589	369,639	93,746	150,081	(30,635)	2,019,258
Operating expenses.....	(33,820)	(140,851)	(353,203)	(46,518)	(6,537)	(36,394)	(79,095)	(696,418)
Operating profit/(loss) before impairment losses.....	435,168	416,999	56,386	323,121	87,209	113,687	(109,730)	1,322,840
(Charge for)/write-back of impairment loss on loans and advances.....	(41,285)	(153,560)	(81)	312	13,094	(34,229)	(8,856)	(224,605)
Write-back of impairment losses on held-to-maturity financial investments.....	—	—	—	1,126	—	—	—	1,126
Charge for impairment losses on available-for-sale financial investments.....	—	—	—	(42,870)	—	—	—	(42,870)
Operating profit/(loss) after impairment losses.....	393,883	263,439	56,305	281,689	100,303	79,458	(118,586)	1,056,491
Net (loss)/gain from disposal/reversal of revaluation deficits of property, plant and equipment.....	(6)	4	(311)	(21)	—	—	3,096	2,762
Net (loss)/gain on disposal of available-for-sale financial investments.....	—	—	—	(51,927)	—	—	108,819	56,892
Operating profit/(loss).....	393,877	263,443	55,994	229,741	100,303	79,458	(6,671)	1,116,145
Share of profits of associates.....	—	—	—	—	—	—	10,881	10,881
Profit before tax.....	393,877	263,443	55,994	229,741	100,303	79,458	4,210	1,127,026
Segment assets.....	46,474,478	46,362,745	26,362,019	81,770,170	5,010,939	7,946,089	272,466	214,198,906
Investment in an associate.....	—	—	—	—	—	—	195,317	195,317
Unallocated assets.....	—	—	—	—	—	—	3,955,999	3,955,999
Total assets.....	46,474,478	46,362,745	26,362,019	81,770,170	5,010,939	7,946,089	4,423,782	218,350,222
Segment liabilities.....	37,890,588	38,320,833	46,829,921	25,183,964	35,503,328	4,711,802	351,137	188,791,573
Unallocated liabilities.....	—	—	—	—	—	—	13,534,847	13,534,847
Total liabilities.....	37,890,588	38,320,833	46,829,921	25,183,964	35,503,328	4,711,802	13,885,984	202,326,420
Capital expenditure.....	18	88	9,307	724	63	505	13,775	24,480
Depreciation and amortisation charges.....	299	1,153	13,713	687	73	5,050	13,251	34,226

(b) *Geographical area*

The Group operates predominantly in Hong Kong. The geographical analysis, which has been classified by the location of the principal operations, is as follows:

For the six months ended 30 Jun 2010

	Hong Kong	Asia Pacific (excluding Hong Kong)	Europe	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating income (net of interest expense) ...	2,125,440	215,418	(62,568)	2,278,290
Profit/(loss) before tax	1,483,932	57,564	(62,716)	1,478,780
Total assets	236,396,836	19,409,792	—	255,806,628
Total liabilities	221,273,050	15,193,676	—	236,466,726
Contingent liabilities and commitments	101,064,417	20,075,171	—	121,139,588
Capital expenditure during the period	<u>13,986</u>	<u>904</u>	<u>—</u>	<u>14,890</u>

For the six months ended 30 Jun 2009

	Hong Kong	Asia Pacific (excluding Hong Kong)	Europe	Consolidated
Restated	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating income (net of interest expense) ...	1,875,545	150,081	(6,368)	2,019,258
Profit before tax	1,055,077	79,458	(7,509)	1,127,026
Total assets	209,995,603	7,946,089	408,530	218,350,222
Total liabilities	197,602,912	4,711,802	11,706	202,326,420
Contingent liabilities and commitments	79,972,486	2,880,646	—	82,853,132
Capital expenditure during the period	<u>23,975</u>	<u>505</u>	<u>—</u>	<u>24,480</u>

6 Net interest income

	30 Jun 2010	30 Jun 2009
	HK\$'000	HK\$'000
Interest income on:		
Cash and balances with banks and other financial institutions	59,259	52,845
Placements with and advances to banks and other financial institutions	20,332	39,393
Loans and advances to customers, banks and other financial institutions	1,935,911	1,821,469
Financial investments - available-for-sale	470,663	349,882
Financial investments - held-to-maturity	1,946	19,324
	<u>2,488,111</u>	<u>2,282,913</u>
Financial assets held for trading	737	1,006
Financial assets designated at fair value through profit or loss	25,003	38,575
	<u>2,513,851</u>	<u>2,322,494</u>
Interest expense on:		
Deposits from banks and other financial institutions	91,920	105,939
Deposits from customers	467,176	495,728
Certificates of deposit issued	9,872	3,384
Subordinated debts measured at amortised cost	39,801	94,822
Others	160,438	18,651
	<u>769,207</u>	<u>718,524</u>
Financial liabilities designated at fair value through profit or loss	19,772	113,938
	<u>788,979</u>	<u>832,462</u>
Net interest income	<u>1,724,872</u>	<u>1,490,032</u>

Included in the above is interest income accrued on impaired financial assets of HK\$32,961,326 (First half of 2009: HK\$19,906,551), including unwinding of discounts on loan impairment losses of HK\$11,348,000 (First half of 2009: HK\$6,164,157).

7 Net fee and commission income

	<u>30 Jun 2010</u>	<u>30 Jun 2009</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Loans, overdrafts and guarantees	159,838	92,611
Securities and brokerage	83,219	98,829
Trade finance	73,409	69,041
Credit cards	43,859	30,974
Remittance	14,994	12,313
Insurance	14,265	10,589
Other retail and commercial banking services	17,636	17,773
Others	14,777	16,309
Fee and commission income	421,997	348,439
Fee and commission expense	(64,156)	(35,661)
Net fee and commission income	<u>357,841</u>	<u>312,778</u>
Of which:		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss ..	<u>233,247</u>	<u>161,652</u>
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	<u>11,901</u>	<u>7,532</u>
Of which:		
Fee and commission income by product line constituting not less than 10% of the total amount of fees and commission income:		
— syndication loan	88,026	60,352
— securities and brokerage	83,219	98,829
— credit card	43,859	—
— inwards bill	40,490	—

8 **Net trading income**

	<u>30 Jun 2010</u>	<u>30 Jun 2009</u>
	HK\$'000	HK\$'000
Equity investments.....	(1,100)	14,806
Debt securities		
— financial assets held for trading	(3,486)	988
— available-for-sale financial investments	—	25,853
Derivatives	10,117	26,035
Foreign exchange	158,145	52,808
	<u>163,676</u>	<u>120,490</u>
Gain/(loss) from hedging activities		
Fair value hedges		
— Net gain/(loss) on hedged items attributable to the hedged risk	347,656	(110,231)
— Net (loss)/gain on hedging instruments	(348,033)	110,605
	<u>(377)</u>	<u>374</u>
Total net trading income	<u>163,299</u>	<u>120,864</u>

There is no trading income on the gain of financial liabilities measured at amortised cost for first half of 2010 (First half of 2009: HK\$2,884).

9 **Net gain on financial assets and liabilities designated at fair value through profit or loss**

	<u>30 Jun 2010</u>	<u>30 Jun 2009</u>
	HK\$'000	HK\$'000
Financial assets designated at fair value through profit or loss	12,719	19,736
Financial liabilities designated at fair value through profit or loss	5,318	54,020
Total net gain on financial assets and liabilities designated at fair value through profit or loss	<u>18,037</u>	<u>73,756</u>

10 **Dividend income from financial investments**

	<u>30 Jun 2010</u>	<u>30 Jun 2009</u>
	HK\$'000	HK\$'000
Dividend income from listed financial assets held for trading	720	737
Dividend income from unlisted available-for-sale financial investments	2,871	2,780
Total dividend income from financial investments.....	<u>3,591</u>	<u>3,517</u>

11 **Other operating income**

	<u>30 Jun 2010</u>	<u>30 Jun 2009</u>
	HK\$'000	HK\$'000
Management fee income.....	3,750	3,750
Rental income.....	18	32
Rental income from investment properties.....	1,248	1,217
Less: Direct operating expenses arising from investment properties that generated rental income during the period	(41)	(77)
Others.....	5,675	13,389
Total other operating income.....	<u>10,650</u>	<u>18,311</u>

12 **Operating expenses**

	30 Jun 2010	Restated 30 Jun 2009
	HK\$'000	HK\$'000
Staff costs		
— Salaries and other costs	342,905	299,467
— Redundancy payment	1,563	853
— Retirement benefit cost	19,536	19,929
	<u>364,004</u>	<u>320,249</u>
Premises and equipment expenses, excluding depreciation and amortisation		
— Rental of premises	125,892	112,564
— Others	39,207	34,928
	<u>165,099</u>	<u>147,492</u>
Depreciation and amortisation expenses	31,136	34,226
Auditors' remuneration	3,355	3,304
General administration expense	18,606	17,359
Business promotion expense	18,097	12,143
Communication expense	22,162	20,711
Other operating expenses	57,343	140,934
Total operating expenses	<u>679,802</u>	<u>696,418</u>

13 **Charge for impairment losses on loans and advances**

	30 Jun 2010	30 Jun 2009
	HK\$'000	HK\$'000
Charge for impairment losses on loans and advances		
Individually assessed		
— New allowances	102,955	242,528
— Releases	(17,570)	(18,348)
— Recoveries	(2,746)	(5,505)
Net charge for impairment losses on individually assessed loans and advances	<u>82,639</u>	<u>218,675</u>
Collectively assessed		
— New allowances	127,689	9,552
— Releases	—	(3,622)
Net charge for impairment losses on collectively assessed loans and advances	<u>127,689</u>	<u>5,930</u>
Net charge to the income statement	<u>210,328</u>	<u>224,605</u>

14 **Tax**

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable for overseas subsidiaries have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The amount of tax charged to the consolidated income statement represents:

	<u>30 Jun 2010</u>	<u>30 Jun 2009</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Current tax		
— provision for Hong Kong Profits Tax for the period	240,812	162,976
— provision for overseas tax for the period.....	16,805	14,633
Underprovision in respect of prior years	3,448	19,388
Deferred taxation relating to the origination and reversal of temporary differences	<u>(11,443)</u>	<u>1,186</u>
	<u>249,622</u>	<u>198,183</u>

The difference between the tax expense for the Group's profit before tax and the theoretical amount that would arise using the current tax rate is as follows:

	<u>30 Jun 2010</u>	<u>Restated 30 Jun 2009</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Profit before tax	1,478,780	1,127,026
Calculated at a tax rate of 16.5% (2009: 16.5%).....	243,999	185,959
Effect of different tax rates in other countries.....	7,273	2,913
Income not subject to tax.....	(31,510)	(25,816)
Expenses not deductible for tax purposes.....	27,703	17,534
Adjustments in respect of current tax of previous periods	3,448	19,388
Share of tax of associates	(1,184)	(1,795)
Taxation of partnership	<u>(107)</u>	<u>—</u>
Tax charge	<u>249,622</u>	<u>198,183</u>

15 **Declared interim dividend**

	<u>30 Jun 2010</u>	<u>30 Jun 2009</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Declared interim dividend of HK\$0.37 (2009: HK\$0.28) per ordinary share	<u>500,263</u>	<u>363,787</u>

At the Board Meeting of the Bank held on 25 August 2010, the Board has declared an interim dividend of HK\$0.37 per ordinary share. The interim dividend will be payable in cash to shareholders whose names appear on the Register of Members of the Bank at the close of business on Tuesday, 14 September 2010.

16 **Earnings per share**

The basic earnings per share amount for the period is calculated by dividing the profit for the period attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the period.

	<u>30 Jun 2010</u>	<u>Restated 30 Jun 2009</u>
Profit attributable to equity holders (HK\$'000).....	1,229,158	928,843
Weighted average number of ordinary shares in issue (thousands)	1,318,713	1,285,654
Basic earnings per share	<u>HK\$0.93</u>	<u>HK\$0.72</u>

Diluted earnings per share amounts for the periods ended 30 June 2010 and 30 June 2009 were the same as basic earning per share, as the Group had no potential dilutive ordinary shares in issue during those periods.

17 **Cash and balances with banks and other financial institutions**

	<u>30 Jun 2010</u>	<u>31 Dec 2009</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Cash in hand.....	271,592	266,421
Balances with central banks	7,651,646	5,213,938
Balances with other banks and financial institutions	3,006,013	1,296,144
Placements with banks and other financial institutions maturing within one month	<u>16,495,571</u>	<u>21,134,079</u>
	<u>27,424,822</u>	<u>27,910,582</u>

18 **Placements with and advances to banks and other financial institutions**

	<u>30 Jun 2010</u>	<u>31 Dec 2009</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Placements with banks and other financial institutions maturing between one and twelve months	<u>1,549,249</u>	<u>1,663,286</u>

19 **Financial assets held for trading**

	<u>30 Jun 2010</u>	<u>31 Dec 2009</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Debt securities, at fair value:		
Listed in Hong Kong	6,899	8,180
Unlisted	<u>33,605</u>	<u>38,868</u>
	40,504	47,048
Equity securities, at fair value:		
Listed in Hong Kong	19,850	20,950
Unlisted	<u>137,522</u>	<u>122,248</u>
	157,372	143,198
Total financial assets held for trading	<u>197,876</u>	<u>190,246</u>
Financial assets held for trading are analysed by category of issuer as follows:		
Central governments and central banks	23	23
Public sector entities	419	425
Banks and other financial institutions	190,792	181,878
Corporate entities	<u>6,642</u>	<u>7,920</u>
	<u>197,876</u>	<u>190,246</u>

20 **Financial assets designated at fair value through profit or loss**

	<u>30 Jun 2010</u>	<u>31 Dec 2009</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Debt securities, at fair value:		
Listed in Hong Kong	302,134	377,848
Listed outside Hong Kong	453,994	599,139
Unlisted	<u>188,425</u>	<u>185,162</u>
Total financial assets designated at fair value through profit or loss	<u>944,553</u>	<u>1,162,149</u>
Financial assets designated at fair value through profit or loss comprise the following item:		
Other debt securities	<u>944,553</u>	<u>1,162,149</u>
Financial assets designated at fair value through profit or loss are analysed by category of issuer as follows:		
Public sector entities	125,748	201,022
Banks and other financial institutions	188,441	183,716
Corporate entities	<u>630,364</u>	<u>777,411</u>
	<u>944,553</u>	<u>1,162,149</u>

21 **Derivative financial instruments**

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

Currency forwards represent commitments to purchase and sell foreign currencies on a future date.

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

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

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

The Group trades derivative products (both exchange-traded or OTC) mainly for customer business. The Group strictly follows its risk management policies in providing derivative products to the customers and in trading derivative products in the interbank market.

Derivatives are also used to manage the interest rate risk of the banking book. A derivative instrument must be included in the approved product list before any transactions for that instrument can be made. There are limits to control the notional amount of exposure arising from derivative transactions and the maximum tenor of the deal and management alert limit in profit or loss is set. Every derivative transaction must be input into the relevant system for settlement, mark-to-market revaluation, reporting and control.

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

As at 30 June 2010	Contractual/ notional amount	Fair value assets	Fair value liabilities
	HK\$'000	HK\$'000	HK\$'000
1) Derivatives held for trading			
a) Foreign exchange derivatives			
— Currency forwards	182,615,563	1,345,426	(1,230,257)
— OTC currency options purchased	6,132,716	88,275	—
— OTC currency options written	5,606,569	—	(111,278)
— Structured foreign exchange instruments	200,506	23,542	(22,575)
Total foreign exchange derivatives		1,457,243	(1,364,110)
b) Interest rate derivatives			
— Interest rate swaps	15,616,456	319,132	(278,691)
— Interest rate options purchased	705,986	1,763	—
— Interest rate options written	705,986	—	(1,763)
— Structured interest rate instruments	746,068	5,108	(5,149)
Total interest rate derivatives		326,003	(285,603)
c) Equity derivatives			
— Equity options	195,706	190,291	(190,291)
		190,291	(190,291)
Total derivative assets/(liabilities) held for trading		1,973,537	(1,840,004)
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
— Interest rate swaps	8,114,380	—	(418,970)
— Cross currency swaps	959,993	27,103	(27,367)
b) Derivatives designated as cash flow hedges			
— Interest rate swaps	3,139,381	—	(42,186)
— Cross currency swaps	404,789	1,631	—
Total derivative assets/(liabilities) held for hedging		28,734	(488,523)
3) Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
— Interest rate swaps	1,070,656	4,338	(98,731)
Total derivative assets/(liabilities) not qualified as hedges		4,338	(98,731)
Total recognised derivative assets/(liabilities) ..		<u>2,006,609</u>	<u>(2,427,258)</u>

As at 31 December 2009	Contractual/ notional amount	Fair value assets	Fair value liabilities
	HK\$'000	HK\$'000	HK\$'000
1) Derivatives held for trading			
a) Foreign exchange derivatives			
— Currency forwards	87,492,643	707,554	(632,192)
— OTC currency options purchased	5,013,375	33,494	(151)
— OTC currency options written.....	5,007,140	151	(34,028)
Total foreign exchange derivatives.....		741,199	(666,371)
b) Interest rate derivatives			
— Interest rate swaps.....	16,136,691	327,792	(301,572)
— Interest rate options purchased.....	804,075	4,657	—
— Interest rate options written.....	804,075	—	(4,657)
Total interest rate derivatives		332,449	(306,229)
c) Equity derivatives			
— Equity options	310,807	157,751	(157,751)
		157,751	(157,751)
Total derivative assets/(liabilities) held for trading		1,231,399	(1,130,351)
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
— Interest rate swaps	8,388,175	49,652	(185,528)
Total derivative assets/(liabilities) held for hedging		49,652	(185,528)
3) Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
— Interest rate swaps.....	1,300,395	4,255	(87,953)
Total derivative assets/(liabilities) not qualified as hedges		4,255	(87,953)
Total recognised derivative assets/(liabilities) ..		1,285,306	(1,403,832)

The contractual or notional amounts of contingent liabilities and commitments and derivative financial instruments provide only an indication of the volume of business outstanding at the end of the reporting period and bear little relation to the underlying risks of the exposures.

Among the above derivative financial instruments, certain of them were designated as hedging instruments.

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets due to movements in market interest rates. The financial instruments hedged for interest rate risk mainly include available-for-sale debt securities. The Bank uses interest rate swaps to hedge interest rate risk.

The effectiveness of the hedge based on changes in fair value of the derivatives and the hedged items attributable to the hedged risk recognised in the income statement during the period is presented as follows:

	Group and Bank	
	30 Jun 2010	30 Jun 2009
	HK\$'000	HK\$'000
Gain/(loss) arising from fair value hedge, net:		
— Hedging instruments	(348,033)	110,605
— Hedged items attributable to the hedged risk.....	347,656	(110,231)
	(377)	374

Cash flow hedge consists of interest rate swaps entered into in 2010 that is used to protect the Group against exposures to variability of floating-rate liabilities. Gains and losses on the effective portion of the swap are initially recognised directly in equity, in the cash flow hedging reserve, and are transferred to the income statement when the forecast cash flows affect the income statement. The gains and losses on ineffective portions of such derivatives are recognised immediately in the income statement. During the period, there was no ineffectiveness recognised in the income statement that arose from cash flow hedges (First half of 2009: Nil).

The aggregate replacement costs and credit risk weighted amounts of the contingent liabilities and commitments and derivative financial instruments are as follows:

	30 Jun 2010		31 Dec 2009	
	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments	—	19,717,088	—	14,394,189
Exchange rate contracts	1,266,659	1,269,785	522,306	539,108
Interest rate contracts.....	336,279	375,610	389,132	371,512
Other contracts	190,291	39,245	157,751	33,467
	<u>1,793,229</u>	<u>21,401,728</u>	<u>1,069,189</u>	<u>15,338,276</u>

The replacement costs and credit risk weighted amounts of the exposures do not have the effects of bilateral netting arrangements.

22 Loans and advances to customers, banks and other financial institutions

(a) Loans and advances to customers, banks and other financial institutions

	30 Jun 2010	31 Dec 2009
	HK\$'000	HK\$'000
Advances to customers.....	155,266,460	135,734,340
Advances to banks and other financial institutions	27,836,096	10,671,725
Trade bills	2,128,467	1,257,128
Gross loans and advances to customers, banks and other financial institutions.....	185,231,023	147,663,193
Accrued interest.....	401,200	256,677
	<u>185,632,223</u>	<u>147,919,870</u>
Less: impairment allowances		
— Individually assessed.....	(458,052)	(441,896)
— Collectively assessed.....	(581,650)	(453,392)
	<u>184,592,521</u>	<u>147,024,582</u>
	<u>30 Jun 2010</u>	<u>31 Dec 2009</u>
	HK\$'000	HK\$'000
Gross impaired loans and advances	1,211,568	1,358,618
Impairment allowances made in respect of such loans	458,052	441,896
Gross impaired loans and advances as a percentage of total gross loans and advances	0.65%	0.92%
Market value of collateral	<u>497,241</u>	<u>693,671</u>

Impaired loans and advances are defined as those loans which are individually determined to have objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated future cash flows of the loans that can be reliably estimated.

Loss event refers to situations such as credit downgrade of the loan borrowers; or loan outstandings become overdue.

There were no impaired advances to banks and other financial institutions as at 30 June 2010 and 31 December 2009; nor were there any individual impairment allowances made for them on these two dates.

The market value of the collateral is readily determinable or can be reasonably established and verified.

(b) *Overdue advances to customers, banks and other financial institutions (excluding trade bills and receivables)*

The gross amount of the Group's advances to customers, banks and other financial institutions (excluding trade bills and receivables) which have been overdue is analysed as follows:

	Gross advances	Percentage of advances to customers	Market value of collateral	Amount of secured balance	Amount of unsecured balance	Individual impairment allowance
	HK\$'000	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 30 June 2010						
Six months or less but over three months	519,132	0.3	27,810	19,029	499,819	104,634
One year or less but over six months.....	237,640	0.1	183,363	169,031	68,609	71,340
Over one year.....	<u>259,639</u>	<u>0.1</u>	<u>136,997</u>	<u>89,479</u>	<u>169,794</u>	<u>214,222</u>
	<u><u>1,016,411</u></u>	<u><u>0.5</u></u>	<u><u>348,170</u></u>	<u><u>277,539</u></u>	<u><u>738,222</u></u>	<u><u>390,196</u></u>
As at 31 December 2009						
Six months or less but over three months	29,403	0.0	13,568	4,426	24,977	908
One year or less but over six months	388,847	0.3	236,048	231,932	156,915	196,572
Over one year.....	<u>109,111</u>	<u>0.1</u>	<u>65,283</u>	<u>43,668</u>	<u>65,443</u>	<u>70,033</u>
	<u><u>527,361</u></u>	<u><u>0.4</u></u>	<u><u>314,899</u></u>	<u><u>280,026</u></u>	<u><u>247,335</u></u>	<u><u>267,513</u></u>

The criteria for eligible collateral are as follows:

- The market value of the collateral is readily determinable or can be reasonably established and verified;
- The collateral is marketable and there exists a readily available secondary market for disposing of the collateral;
- The Bank's rights to repossess the collateral is legally enforceable and without impediment; and
- If the collateral is a moveable asset, it should be under the Bank's custody, or its whereabouts can be located by the Bank.

The eligible collaterals are mainly properties, deposits and shares.

There were no advances to banks and other financial institutions which were overdue, nor were there any rescheduled advances to banks and other financial institutions as at 30 June 2010 and 31 December 2009.

(c) *Other overdue assets*

	<u>30 Jun 2010</u>	<u>30 Jun 2010</u>	<u>31 Dec 2009</u>	<u>31 Dec 2009</u>
	<u>Accrued interest</u>	<u>Other assets</u>	<u>Accrued interest</u>	<u>Other assets</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
One year or less but over six months	25,652	—	692	1,635
Over one year	<u>10,401</u>	<u>1,641</u>	<u>7,378</u>	<u>—</u>
	36,053	1,641	8,070	1,635
Rescheduled assets.....	<u>16</u>	<u>—</u>	<u>9</u>	<u>—</u>
	<u><u>36,069</u></u>	<u><u>1,641</u></u>	<u><u>8,079</u></u>	<u><u>1,635</u></u>

Other assets refer to trade bills and receivables.

There were no debt securities which were overdue for over 3 months; nor were there any rescheduled assets as at 30 June 2010 and 31 December 2009.

(d) *Rescheduled advances*

	<u>30 Jun 2010</u>	<u>As percentage of advances to customers</u>	<u>31 Dec 2009</u>	<u>As percentage of advances to customers</u>
	<u>HK\$'000</u>	<u>%</u>	<u>HK\$'000</u>	<u>%</u>
Rescheduled advances (excluding overdue loans over three months)	<u>105,458</u>	<u>0.1</u>	<u>112,377</u>	<u>0.1</u>

Rescheduled advances which have been overdue for more than three months under the revised repayment terms are included in the analysis of overdue advances in (b) above.

(e) *Repossessed assets*

At 30 June 2010, the estimated market value of the repossessed assets of the Group amounted to HK\$37,000,000 (31 December 2009: HK\$6,304,000). These are properties which the Group has acquired access to or control of (e.g. through legal actions or voluntary actions by the borrowers concerned) for releasing in full or in part on the obligations of the borrowers.

23 Available-for-sale financial investments

	<u>30 Jun 2010</u>	<u>31 Dec 2009</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Debt securities:		
Listed in Hong Kong	2,366,893	2,386,583
Listed outside Hong Kong	16,235,682	15,803,326
Unlisted.....	14,478,759	12,583,957
	<u>33,081,334</u>	<u>30,773,866</u>
Equity securities:		
Listed in Hong Kong	1,431,329	1,501,944
Unlisted.....	84,150	85,856
	<u>1,515,479</u>	<u>1,587,800</u>
Total available-for-sale financial investments	<u>34,596,813</u>	<u>32,361,666</u>
Market value of listed securities	<u>20,033,904</u>	<u>19,691,853</u>
Debt securities after taking into account impairment losses comprise the following items:		
Certificates of deposit held	1,722,946	150,225
Other debt securities	31,358,388	30,623,641
	<u>33,081,334</u>	<u>30,773,866</u>
Available-for-sale financial investments are analysed by category of issuer as follows:		
Central governments and central banks	946,669	2,991,296
Public sector entities	602,790	779,928
Banks and other financial institutions	24,356,980	19,799,129
Corporate entities	8,689,697	8,787,116
Others.....	677	4,197
	<u>34,596,813</u>	<u>32,361,666</u>

During the period, there was no individual impairment loss made on available-for-sale financial investments (First half of 2009: HK\$42,870,000).

24 Held-to-maturity financial investments

	<u>30 Jun 2010</u>	<u>31 Dec 2009</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Debt securities:		
Listed outside Hong Kong	54,488	80,466
Unlisted.....	1,150,213	1,211,277
	<u>1,204,701</u>	<u>1,291,743</u>
Less: Impairment loss	(154)	(234)
Total held-to-maturity financial investments.....	<u>1,204,547</u>	<u>1,291,509</u>
Market value of listed securities	<u>54,313</u>	<u>79,045</u>
Debt securities after taking into account impairment losses comprise the following items:		
Treasury bills.....	1,145,621	1,146,414
Other debt securities.....	58,926	145,095
	<u>1,204,547</u>	<u>1,291,509</u>
Held-to-maturity financial investments are analysed by category of issuer as follows:		
Central governments and central bank.....	1,145,621	1,146,414
Public sector entities	—	60,318
Banks and other financial institutions	58,926	84,777
	<u>1,204,547</u>	<u>1,291,509</u>

Movement in collective impairment allowances on held-to-maturity financial investments:

	<u>30 Jun 2010</u>	<u>31 Dec 2009</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
At 1 January	234	2,379
Write back of collective impairment loss	<u>(80)</u>	<u>(2,145)</u>
At 30 June/31 December	<u>154</u>	<u>234</u>

25 **Investment properties**

	<u>30 Jun 2010</u>	<u>31 Dec 2009</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Carrying amount at 1 January	46,213	40,126
Net revaluation gain	<u>1,275</u>	<u>6,087</u>
Carrying amount at 30 June/31 December	<u>47,488</u>	<u>46,213</u>

26 **Property, plant and equipment**

<u>Group</u>	<u>Bank premises</u>	<u>Leasehold improvements</u>	<u>Furniture and equipment</u>	<u>Total</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
At 31 December 2009 and 1 January 2010:				
Cost or valuation	171,868	208,261	221,736	601,865
Accumulated depreciation and impairment	<u>(69,402)</u>	<u>(117,215)</u>	<u>(141,295)</u>	<u>(327,912)</u>
Net book value at				
31 December 2009 and				
1 January 2010	<u>102,466</u>	<u>91,046</u>	<u>80,441</u>	<u>273,953</u>
Effect of adopting Amendment to HKAS17	<u>240,238</u>	<u>—</u>	<u>—</u>	<u>240,238</u>
Net book value at				
31 December 2009 and				
1 January 2010, as restated	342,704	91,046	80,441	514,191
Additions	—	2,837	9,503	12,340
Disposals	(26,879)	—	(112)	(26,991)
Revaluation	13,116	—	—	13,116
Depreciation provided during the year	(7,354)	(8,706)	(10,314)	(26,374)
Exchange rate and other adjustments	<u>(157)</u>	<u>1</u>	<u>649</u>	<u>493</u>
Net book value at 30 June 2010	<u>321,430</u>	<u>85,178</u>	<u>80,167</u>	<u>486,775</u>
At 30 June 2010:				
Cost or valuation	399,393	210,828	229,291	839,512
Accumulated depreciation and impairment	<u>(77,963)</u>	<u>(125,650)</u>	<u>(149,124)</u>	<u>(352,737)</u>
Net book value at 30 June 2010	<u>321,430</u>	<u>85,178</u>	<u>80,167</u>	<u>486,775</u>
The analysis of cost or valuation of the above assets is as follows:				
At 30 June 2010:				
At cost	—	210,828	229,291	440,119
At valuation	<u>321,430</u>	<u>—</u>	<u>—</u>	<u>321,430</u>
	<u>321,430</u>	<u>210,828</u>	<u>229,291</u>	<u>761,549</u>

Group (Restated)	Bank premises	Leasehold improvements	Furniture and equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2008 and 1 January 2009:				
Cost or valuation	150,720	204,330	233,670	588,720
Accumulated depreciation and impairment	<u>(52,718)</u>	<u>(111,236)</u>	<u>(148,692)</u>	<u>(312,646)</u>
Net book value at				
31 December 2008 and				
1 January 2009	<u>98,002</u>	<u>93,094</u>	<u>84,978</u>	<u>276,074</u>
Effect of adopting Amendment to HKAS17 ...	<u>227,757</u>	<u>—</u>	<u>—</u>	<u>227,757</u>
Net book value at				
31 December 2009 and				
1 January 2010, as restated	325,759	93,094	84,978	503,831
Additions	—	15,630	16,117	31,747
Disposals	—	(119)	(1,172)	(1,291)
Revaluation.....	30,280	—	—	30,280
Depreciation provided during the year	(13,421)	(17,560)	(19,490)	(50,471)
Exchange rate and other adjustments	<u>86</u>	<u>1</u>	<u>8</u>	<u>95</u>
Net book value at				
31 December 2009	<u>342,704</u>	<u>91,046</u>	<u>80,441</u>	<u>514,191</u>
At 31 December 2009:				
Cost or valuation	415,917	208,261	221,736	845,914
Accumulated depreciation and impairment	<u>(73,213)</u>	<u>(117,215)</u>	<u>(141,295)</u>	<u>(331,723)</u>
Net book value at				
31 December 2009	<u>342,704</u>	<u>91,046</u>	<u>80,441</u>	<u>514,191</u>
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2009:				
At cost	—	208,261	221,736	429,997
At valuation	<u>342,704</u>	<u>—</u>	<u>—</u>	<u>342,704</u>
	<u>342,704</u>	<u>208,261</u>	<u>221,736</u>	<u>772,701</u>

27 **Other assets**

	30 Jun 2010	31 Dec 2009
	HK\$'000	HK\$'000
Interest receivable.....	319,826	340,173
Prepayments.....	139,854	110,882
Settlement accounts	400,852	409,350
Others.....	<u>693,774</u>	<u>444,745</u>
	<u>1,554,306</u>	<u>1,305,150</u>

28 **Deposits from customers**

	30 Jun 2010	31 Dec 2009
	HK\$'000	HK\$'000
Demand deposits and current accounts	9,584,227	9,869,396
Savings deposits	31,271,391	36,475,880
Time, call and notice deposits.....	<u>139,823,110</u>	<u>114,816,285</u>
	<u>180,678,728</u>	<u>161,161,561</u>

29 **Deferred income tax**

Deferred income tax is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2009: 16.5%).

The movements in the deferred tax asset/(liability) accounts are as follows:

	30 Jun 2010	Restated 31 Dec 2009
	HK\$'000	HK\$'000
At 1 January	(190,262)	137,547
Effect of adopting Amendment to HKAS 17.....	<u>(34,124)</u>	<u>(31,512)</u>
At 1 January, as restated.....	(224,386)	106,035
Credited/(debited) to income statement	11,443	(1,780)
Credited/(debited) to equity (Note 33)	6,613	(342,308)
Exchange and other adjustments.....	<u>13</u>	<u>13,667</u>
At 30 June/31 December.....	<u>(206,317)</u>	<u>(224,386)</u>

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position.

Group	30 Jun 2010	Restated 31 Dec 2009
	HK\$'000	HK\$'000
Deferred income tax assets:		
to be recovered after more than 12 months	61,713	54,177
to be recovered within 12 months	<u>—</u>	<u>939</u>
	<u>61,713</u>	<u>55,116</u>
Deferred income tax liabilities:		
to be settled after more than 12 months	(264,933)	(277,966)
to be settled within 12 months	<u>(3,097)</u>	<u>(1,536)</u>
	<u>(268,030)</u>	<u>(279,502)</u>
Deferred income tax liabilities, net	<u>(206,317)</u>	<u>(224,386)</u>

30 Subordinated debts measured at amortised cost

	30 Jun 2010		31 Dec 2009	
	HK\$'000	Interest rate %	HK\$'000	Interest rate %
Subordinated floating rate notes				
— with a final maturity on 2 July 2011	583,830	0.598%	581,625	0.481%
— with a final maturity on 12 December 2011	622,752	1.003%	620,400	0.680%
— with a final maturity on 26 March 2012	544,908	1.003%	542,850	0.680%
— with a final maturity on 28 April 2014	1,167,660	1.753%	1,163,250	1.430%
— with a final maturity on 29 June 2016 (callable on 30 June 2011)	622,752	1.034%	620,400	0.751%
— with a final maturity on 20 October 2018 (callable on 21 October 2013) ..	1,556,880	1.384%	1,551,000	1.101%
— perpetual (callable on 10 December 2012)	1,000,000	1.071%	1,000,000	0.639%
— perpetual (callable on 9 July 2013)	934,128	1.034%	930,600	0.751%
— perpetual (callable on 30 June 2016) ...	1,556,880	1.134%	1,551,000	0.851%
	<u>8,589,790</u>		<u>8,561,125</u>	

Subordinated debts were raised by the Bank for the development and expansion of business and have been fully subscribed by the ultimate holding company and its branch. These notes have been qualified and included as the Bank's supplementary capital in accordance with the Banking (Capital) Rules.

31 Other liabilities

	30 Jun 2010	31 Dec 2009
	HK\$'000	HK\$'000
Interest payable.....	463,991	406,233
Salaries and welfare payable.....	79,724	101,702
Settlement accounts	376,373	407,497
Others.....	922,818	1,155,044
	<u>1,842,906</u>	<u>2,070,476</u>

32 Share capital

	Number of shares	Ordinary shares	Ordinary share premium
	(in thousands)	HK\$'000	HK\$'000
At 1 January 2010.....	1,318,340	2,636,681	8,640,575
Allotment of new shares regarding the scrip dividend scheme of final dividend for the year ended 31 December 2009 (Note 33)	33,721	67,442	547,222
At 30 June 2010.....	<u>1,352,061</u>	<u>2,704,123</u>	<u>9,187,797</u>
At 1 January 2009.....	1,285,268	2,570,536	8,209,593
Allotment of new shares regarding the scrip dividend scheme of final dividend for the year ended 31 December 2008 (Note 33)	13,970	27,940	160,323
Allotment of new shares regarding the scrip dividend scheme of interim dividend for the period ended 30 June 2009 (Note 33)	19,102	38,205	270,719
Share issue expenses (Note 33)	—	—	(60)
At 31 December 2009.....	<u>1,318,340</u>	<u>2,636,681</u>	<u>8,640,575</u>

The total number of authorised ordinary shares is 2,000 million (2009: 2,000 million) with a par value of HK\$2 per share (2009: HK\$2 per share). All issued shares are fully paid.

The total number of authorised convertible non-cumulative preference shares is 232 million (2009: 232 million) with a par value of HK\$5 per share (2009: HK\$5 per share).

The Bank adopted a scrip dividend scheme allowing the shareholders to have the options to receive (1) dividends in cash; or (2) an allotment of new shares in lieu of cash; or (3) a combination of cash and new shares. Certain shareholders have selected to receive new shares as dividends amounting to HK\$614.7 million (2009: HK\$497.2million).

Share options

Share Option Scheme

During the period, no option has been granted and at 30 June 2010 (2009: Nil), there was no option outstanding.

The Share Option Scheme was approved by the shareholders of the Bank at the general meeting held on 10 May 2007.

The adoption of the Share Option Scheme is subject to the approval of the shareholders of ICBC, the holding company of the Bank.

33 Reserves

Group	Ordinary share premium	Bank premises revaluation reserve	Investment revaluation reserve	Cash flow hedge reserve	Exchange reserve	General reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010	8,640,575	56,198	1,060,977	—	142,029	386,222	5,181,915	15,467,916
Adoption of Amendment to HKAS 17:								
Land	—	206,811	—	—	—	—	(9,690)	197,121
Deferred tax	—	(34,124)	—	—	—	—	—	(34,124)
Effect of adopting Amendment to HKAS 17	—	172,687	—	—	—	—	(9,690)	162,997
At 1 January 2010, as restated	8,640,575	228,885	1,060,977	—	142,029	386,222	5,172,225	15,630,913
Issue of shares (Note 32)	547,222	—	—	—	—	—	—	547,222
Change in fair value of available-for-sale financial investments	—	—	26,011	—	—	—	—	26,011
Reserve realised on disposal of available-for-sale financial investments	—	—	(44,170)	—	—	—	—	(44,170)
Changes in fair value of cash flow hedge	—	—	—	(42,191)	—	—	—	(42,191)
Disposal of bank premises	—	(26,671)	—	—	—	—	26,671	—
Revaluation surplus on bank premises	—	12,896	—	—	—	—	—	12,896
Exchange differences	—	—	(1)	—	20,783	(1)	—	20,781
Partial transfer of retained earnings to general reserve (Note a)	—	—	—	—	—	65,700	(65,700)	—
Profit for the period	—	—	—	—	—	—	1,229,158	1,229,158
Change in deferred tax (Note 29) ...	—	2,273	(2,622)	6,962	—	—	—	6,613
2009 final dividend paid	—	—	—	—	—	—	(751,454)	(751,454)
At 30 June 2010	<u>9,187,797</u>	<u>217,383</u>	<u>1,040,195</u>	<u>(35,229)</u>	<u>162,812</u>	<u>451,921</u>	<u>5,610,900</u>	<u>16,635,779</u>

Group (Restated)	Ordinary share premium	Bank premises Revaluation Reserve	Investment revaluation reserve	Cash flow hedge reserve	Exchange reserve	General reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009	8,209,593	52,469	(681,710)	7,853	141,906	346,390	3,290,741	11,367,242
Adoption of Amendment to HKAS 17:								
Land	—	190,982	—	—	—	—	(7,086)	183,896
Deferred tax	—	(31,512)	—	—	—	—	—	(31,512)
Effect of adopting Amendment to HKAS 17	—	159,470	—	—	—	—	(7,086)	152,384
At 1 January 2009, as restated	8,209,593	211,939	(681,710)	7,853	141,906	346,390	3,283,655	11,519,626
Issue of shares (Note 32)	431,042	—	—	—	—	—	—	431,042
Share issue expenses (Note 32)	(60)	—	—	—	—	—	—	(60)
Change in fair value of available-for-sale financial investments	—	—	2,678,462	—	—	—	—	2,678,462
Reserve realised on disposal of available-for-sale financial investments	—	—	(643,409)	—	—	—	—	(643,409)
Transfer from available-for-sale financial investments reserve to the income statement on impairment	—	—	43,715	—	—	—	—	43,715
Changes in fair value of cash flow hedge	—	—	—	(7,853)	—	—	—	(7,853)
Revaluation surplus on bank premises	—	23,172	—	—	—	—	—	23,172
Exchange differences	—	—	1	—	123	(1)	—	123
Partial transfer of retained earnings to general reserve (Note a)	—	—	—	—	—	39,833	(39,833)	—
Profit for the year	—	—	—	—	—	—	2,523,538	2,523,538
Change in deferred tax (Note 29) ...	—	(6,226)	(336,082)	—	—	—	—	(342,308)
2008 final dividend paid	—	—	—	—	—	—	(231,348)	(231,348)
2009 interim dividend paid (Note 15)	—	—	—	—	—	—	(363,787)	(363,787)
At 31 December 2009	<u>8,640,575</u>	<u>228,885</u>	<u>1,060,977</u>	<u>—</u>	<u>142,029</u>	<u>386,222</u>	<u>5,172,225</u>	<u>15,630,913</u>

(a) The general reserve of the Group comprised of:

- the transfer of retained earnings which is distributable to the shareholders of the Group; and
- a statutory surplus reserve of a subsidiary represents 10% of the profit after tax appropriation as required by law and regulation in PRC. This reserve is used to offset accumulated losses or increase in capital.

(b) As at 30 June 2010, the Group has earmarked a “Regulatory Reserve” of HK\$992,660,000 (31 December 2009: HK\$801,511,000) from the retained earnings. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. Movements in the reserve are made directly through retained earnings and in consultation with the Hong Kong Monetary Authority.

34 Related party transactions

Listed out below is a summary of the transactions entered into during the ordinary course of business with the ultimate holding company and fellow subsidiaries and associates, including the acceptance of placement of interbank deposits, corresponding banking transactions and off-balance sheet transactions. The activities were priced at the relevant market rates at the time of transactions. There have been no guarantees provided or received for any related party receivables or payables. For the period ended 30 June 2010, the Bank has not made any provision for doubtful debts relating to amounts owed by related parties (2009: Nil).

(a) Ultimate holding company

	Six months ended	
	30 Jun 2010	30 Jun 2009
	HK\$'000	HK\$'000
Interest income	161,560	172,204
Interest expense	136,416	216,116
Other operating income ^{1,2}	21,911	25,123
Other operating expenses ^{3,4}	<u>12,005</u>	<u>11,685</u>
	30 Jun 2010	31 Dec 2009
	HK\$'000	HK\$'000
Amounts due from	34,169,736	18,713,744
Amounts due to	<u>36,799,760</u>	<u>23,552,602</u>

1. In accordance with the collaboration agreement dated 3 July 2001 and the supplemental collaboration agreements dated 4 February 2005 and 13 February 2008, management fee income was received from the Hong Kong Branch of ICBC (the "Branch") for the provision of services such as accounting and budgeting, internal audit, marketing and back office settlement and clearing. In accordance with the collaboration agreement dated 28 September 2007, management fee income was received from the ultimate holding company for the provision of management, administrative and marketing services of its credit card business.
2. In accordance with the custodian and trustee services agreement dated 4 September 2007 and the supplemental custodian and trustee services agreements dated 16 May 2008 and 31 December 2009, services fees were paid by the ultimate holding company to the Bank for providing custodian, settlement and clearing services in relation to the investments outside the PRC in certain investment products by the customers of the ultimate holding company in connection with the Qualified Domestic Institutional Investor Scheme of the PRC.
3. In accordance with the service levels agreements with the Bank dated 21 February 2002 (as amended and supplemented by supplemental agreements), and the service levels agreement with a subsidiary of the Bank dated 19 March 2008, service fee expense was paid to the ultimate holding company for the provision of data processing services to the Bank and its subsidiary.
4. In accordance with the tenancy agreement dated 31 December 2008, rental expense was paid to the ultimate holding company for the leasing of a property located in Hong Kong.

The transactions with the ultimate holding company included the issuance of floating rate certificates of deposits and subordinated floating rate notes, which were both fully subscribed by the ultimate holding company and its branches. As at 30 June 2010, the Bank has issued floating rate certificates of deposit with a nominal value of HK\$2,500,000,000 and US\$100,000,000 to the ultimate holding company (First half of 2009: Nil).

Information relating to issuance of subordinated floating rate notes by the Group, fully subscribed by the ultimate holding company and its branch can be found in note 30.

Other material transactions

i. Undertaking from the ultimate holding company

To demonstrate its support to the Bank, a Letter of Comfort dated 3 July 2001 was executed by the ultimate holding company, pursuant to which it will provide the Bank with such funding as may be required by the Bank to ensure that it will maintain sufficient capital and liquidity levels.

Simultaneously on 3 July 2001, the ultimate holding company and the Bank entered into a guarantee agreement whereby the ultimate holding company agreed to guarantee to the extent of HK\$9,000,000,000, being the payment obligations of certain customers whose "large exposures" were transferred to the Bank pursuant to the business transfer agreement and to indemnify the Bank in respect of any losses incurred if any obligation of such customers becomes unenforceable. The amount of such on-balance sheet large exposures of the Bank covered by this guarantee as at 30 June 2010 was HK\$39,361,000 (First half of 2009: HK\$39,188,000).

ii. Sub-participation of loans

During the period, the Bank entered into various capital markets transactions with the Branch, which included arranging participation/sub-participation in loans, acquiring and disposing of interests in syndicated or individual loans, subscribing to and/or issuing of debt securities and tax efficient financing. These transactions included sub-participation in the loans of the Bank by the ultimate holding company and/or the Branch for a total of HK\$45,132,992,000 (First half of 2009: HK\$31,738,295,000). For the first half of 2009, there was similar sub-participation in the loans of the Branch by the Bank for a total of HK\$3,179,183,622, but no such transaction took place during 2010. The total fee attributable to the above transactions of approximately HK\$25,270,000 (First half of 2009: HK\$11,840,000) was paid by the Bank to the Branch. These transactions were priced based either on the terms of the underlying loan agreement, if applicable, or prevailing market rates if such comparable rates were available, or on terms that were no less favourable than those available to other independent loan members.

(b) *Fellow subsidiaries*

	Six months ended	
	30 Jun 2010	30 Jun 2009
	HK\$'000	HK\$'000
Interest income	25,838	3,044
Interest expense	157	1,013
Other operating income	<u>20</u>	<u>1,403</u>
	30 Jun 2010	31 Dec 2009
	HK\$'000	HK\$'000
Amounts due from	1,660,046	476
Amounts due to	<u>905,314</u>	<u>1,571,449</u>

(c) *Associates*

	Six months ended	
	30 Jun 2010	30 Jun 2009
	HK\$'000	HK\$'000
Interest income	2,089	863
Interest expense	7	77
Other operating income	<u>5,990</u>	<u>1</u>
	30 Jun 2010	31 Dec 2009
	HK\$'000	HK\$'000
Amounts due from	6	6
Amounts due to	<u>2,192</u>	<u>7,769</u>

(d) *Transactions with other state-controlled entities*

The following state-controlled entities are considered as related parties:

- The Ministry of Finance (“MOF”) of the PRC
- Central Huijin Investment Limited (“Huijin”)
- Other banks and financial institutions under the direction of the PRC government in which Huijin has control, joint control or significant influence.

	<u>Six months ended</u>	
	<u>30 Jun 2010</u>	<u>30 Jun 2009</u>
	<u>HK\$’000</u>	<u>HK\$’000</u>
Interest income	36,564	42,178
Interest expense	<u>1,807</u>	<u>11,394</u>
	<u>30 Jun 2010</u>	<u>31 Dec 2009</u>
	<u>HK\$’000</u>	<u>HK\$’000</u>
Amounts due from	5,604,564	8,146,831
Amounts due to	<u>80,353</u>	<u>1,010,312</u>

(e) *Key management personnel remuneration*

Remuneration for key management personnel is as follows:

	<u>Six months ended</u>	
	<u>30 Jun 2010</u>	<u>30 Jun 2009</u>
	<u>HK\$’000</u>	<u>HK\$’000</u>
Employee benefits.....	<u>13,728</u>	<u>11,400</u>

(f) *Material transactions with key management personnel*

During the period, the Group entered into certain banking transactions consisting of loans and advances, deposits and other financial related transactions with related parties in the normal course of business. The related parties include key management personnel of the Bank, their close family members and companies controlled or significantly influenced by them.

	<u>Six months ended</u>	
	<u>30 Jun 2010</u>	<u>30 Jun 2009</u>
	<u>HK\$’000</u>	<u>HK\$’000</u>
Interest income	53	79
Interest expense	<u>65</u>	<u>81</u>
	<u>30 Jun 2010</u>	<u>31 Dec 2009</u>
	<u>HK\$’000</u>	<u>HK\$’000</u>
Amounts due from	3,737	4,347
Amounts due to	<u>31,421</u>	<u>18,513</u>

35 **Off-balance sheet exposures**

(a) *Contingent liabilities and commitments*

The following are the summaries of the contractual amounts of each significant class of contingent liabilities and commitments:

	30 Jun 2010	30 Jun 2010	31 Dec 2009	31 Dec 2009
	Contractual	Credit risk	Contractual	Credit risk
	amount	weighted	amount	weighted
	HK\$'000	amount	amount	amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Direct credit substitutes	21,975,827	7,866,400	7,021,198	3,630,946
Transaction-related contingencies	124,670	28,715	132,742	36,848
Trade-related contingencies	3,905,511	657,642	3,931,297	644,944
Other commitments				
— Unconditionally cancellable.....	69,948,930	—	71,161,225	—
— With original maturity of less than one year .	692,206	138,442	824,324	126,086
— With original maturity of over one year	21,470,098	10,421,420	19,871,892	9,792,424
Forward forward deposits placed	3,022,346	604,469	814,703	162,941
	<u>121,139,588</u>	<u>19,717,088</u>	<u>103,757,381</u>	<u>14,394,189</u>

(b) *Capital commitments*

Capital commitments for property, plant and equipment outstanding for the period/year not provided for in the financial statements were as follows:

	30 Jun 2010	31 Dec 2009
	HK\$'000	HK\$'000
Expenditure contracted but not provided for.....	31,470	48,111
Expenditure authorised but not contracted for	—	235
	<u>31,470</u>	<u>48,346</u>

(c) *Operating lease commitments*

The Group had future aggregate minimum lease payments under non-cancellable operating leases for the period/year as follows:

	30 Jun 2010	31 Dec 2009
	HK\$'000	HK\$'000
Land and buildings		
— Not later than one year	221,603	237,070
— Later than one year and not later than five years	379,557	503,870
	<u>601,160</u>	<u>740,940</u>

(d) *Operating lease arrangements*

The Group leases its investment properties (see Note 25) under operating lease arrangements, with leases negotiated for terms ranging from two to eight years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 June 2010, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<u>30 Jun 2010</u>	<u>31 Dec 2009</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Within one year	2,501	1,659
In the second to fifth years, inclusive	<u>3,502</u>	<u>3,561</u>
	<u>6,003</u>	<u>5,220</u>

During the period/year, the Group has no unrecognised contingent rentals receivable (2009: Nil).

36 **Comparative figures**

As a result of the adoption of the amendment to HKAS 17 "Leases", certain comparative figures have been adjusted to conform with the current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2010. The financial impact on the Group of the adoption of the amendment to HKAS 17 is detailed in note 3.3.

37 **Events after the reporting period**

On 10 August 2010, ICBC and the Bank jointly announced that ICBC had requested the Board to put forward to the scheme shareholders of the Bank a proposal for the privatisation of the Bank (the "Proposal"). Under the Proposal, the scheme shareholders will receive from ICBC cancellation consideration of HK\$29.45 for every scheme share of the Bank cancelled.

Supplementary Financial Information (Unaudited)

The following information is disclosed as part of the accompanying information to the financial statements and does not form part of the financial statements.

1 Capital adequacy and capital base

The capital ratios as at 30 June 2010 and 31 December 2009 were computed in accordance with the Banking (Capital) Rules (the “Capital Rules”) issued by the Hong Kong Monetary Authority under section 98A of the Hong Kong Banking Ordinance for the implementation of the “Basel II” with effect from 1 January 2007. In view of the Capital Rules, the Bank has adopted the “standardised (credit risk) approach” for the calculation of the risk-weighted assets for credit risk, “basic indicator approach” for the calculation of the operational risk and the “standardised (market risk) approach” for the calculation of market risk. Under the Capital Rules, the basis of consolidation in calculating the capital ratios follows that of the financial reporting with the exclusion of subsidiaries which are “regulated financial entities” (e.g. insurance and securities companies) as defined by the Capital Rules. Accordingly, the investment costs of these unconsolidated subsidiaries are deducted from the capital base. There is no capital shortfall of these unconsolidated subsidiaries. Unconsolidated subsidiaries include UB China Business Management Co. Ltd., ICBC (Asia) Investment Holdings Limited, ICBC (Asia) Bullion Company Limited, ICBC (Asia) Securities Limited, ICBC (Asia) Trustee Company Limited, ICBC (Asia) Asset Management Company Limited, ICBC (Asia) Investment Management Company Limited and ICBC (Asia) Wa Pei Nominees Limited.

	<u>30 Jun 2010</u>	<u>31 Dec 2009</u>
Core capital ratio	8.4%	9.0%
Capital adequacy ratio	13.4%	14.9%

The components of the total capital base after deductions include the following items:

	<u>30 Jun 2010</u>	<u>31 Dec 2009</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Core capital:		
Paid-up ordinary share capital	2,704,123	2,636,681
Share premium	9,187,798	8,640,575
Reserves	3,564,211	2,608,537
Income statement	685,283	1,139,434
Deduct: Goodwill	(980,154)	(980,154)
Other intangible assets	(17,107)	(19,282)
50% of total unconsolidated investments and other deductions	(972,971)	(898,244)
	<u>14,171,183</u>	<u>13,127,547</u>
Eligible supplementary capital:		
Fair value gains on the revaluation of land and buildings	92,651	5,302
Fair value gains on the revaluation of available-for-sale equities and debt securities	561,019	569,191
Unrealised fair value gains arising from equities and debt securities designated at fair value through profit or loss	29,546	18,818
Collective impairment allowances and regulatory reserve	1,574,464	1,255,137
Perpetual subordinated debts	3,491,008	3,481,600
Subordinated debts measured at amortised cost	3,814,356	4,141,170
Deduct: 50% of total unconsolidated investments and other deductions	(972,971)	(898,244)
	<u>8,590,073</u>	<u>8,572,974</u>
Total capital base after deductions	<u>22,761,256</u>	<u>21,700,521</u>
Risk-weighted assets		
Credit risk	158,063,545	137,671,817
Market risk	3,617,838	1,118,738
Operational risk	7,757,350	7,194,275
Total risk-weighted assets	<u>169,438,733</u>	<u>145,984,830</u>

2 Liquidity ratio

The average liquidity ratio for the period is the simple average of each calendar month's average liquidity ratio, which is computed on the consolidated basis as required by the Hong Kong Monetary Authority for its regulatory purposes, and is computed in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

	<u>30 Jun 2010</u>	<u>30 Jun 2009</u>
Average liquidity ratio for the six months ended.....	<u>41.5%</u>	<u>38.0%</u>

3 Segmental information

(a) Loans and advances to customers, banks and other financial institutions

Advances to customers, banks and other financial institutions by geographical area

The Group's gross advances to customers, banks and other financial institutions by country or geographical area after taking into account any risk transfers are as follows:

<u>30 Jun 2010</u>	Gross advances to banks and customers	Overdue advances for over three months	Impaired loans and advances	Individual impairment allowances	Collective impairment allowances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	84,195,678	251,556	444,231	248,959	219,216
Mainland China	94,271,099	267,235	267,235	107,649	344,844
Macau	1,344,461	—	841	—	3,496
Asia Pacific region excluding Hong Kong, Mainland China and Macau	1,818,250	—	—	—	4,728
United Kingdom.....	7,340	—	—	—	19
Others.....	<u>3,594,195</u>	<u>499,261</u>	<u>499,261</u>	<u>101,444</u>	<u>9,347</u>
	<u>185,231,023</u>	<u>1,018,052</u>	<u>1,211,568</u>	<u>458,052</u>	<u>581,650</u>

<u>31 Dec 2009</u>	Gross advances to banks and customers	Overdue advances for over three months	Impaired loans and advances	Individual impairment allowances	Collective impairment allowances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	75,287,249	264,493	588,759	268,285	288,708
Mainland China	62,536,164	264,502	264,555	72,550	116,663
Macau	1,602,866	1	—	—	4,054
Asia Pacific region excluding Hong Kong, Mainland China and Macau	2,230,517	—	—	—	16,891
United Kingdom.....	240,796	—	—	—	3,782
Others.....	<u>5,765,601</u>	<u>—</u>	<u>505,304</u>	<u>101,061</u>	<u>23,294</u>
	<u>147,663,193</u>	<u>528,996</u>	<u>1,358,618</u>	<u>441,896</u>	<u>453,392</u>

Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

(b) *Cross-border claims*

The Group analyses cross-border claims by geographical area. In determining this analysis, the Group has taken into account of the transfers of risk with respect to claims guaranteed by a party in a country different from that of the counterparty. Those areas that constitute 10% or more of the aggregate cross-border claims are as follows:

	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
30 Jun 2010				
Asia Pacific excluding Hong Kong	43,503	7,829	70,006	121,338
North and South America.....	3,604	129	5,243	8,976
Europe	<u>19,311</u>	<u>—</u>	<u>16</u>	<u>19,327</u>
31 Dec 2009				
Asia Pacific excluding Hong Kong	28,137	4,245	55,941	88,323
North and South America.....	3,726	2,451	6,417	12,594
Europe	<u>17,065</u>	<u>—</u>	<u>929</u>	<u>17,994</u>

(c) *Non-bank Mainland exposures*

The analysis of non-bank Mainland China exposure is based on the categories of non-bank counterparties and the type of direct exposures defined by the Hong Kong Monetary Authority under the Banking (Disclosure) Rules with reference to the completion instructions for note (6) of “Returns of Quarterly Analysis of Loans and Advances and Provisions - MA(BS)2A”, which includes the Mainland exposures extended by the Bank and its overseas subsidiary and branch.

	On-balance sheet exposure	Off-balance sheet exposure	Total exposures	Individually assessed allowances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
30 Jun 2010				
Mainland China entities	33,074,947	1,644,829	34,719,776	—
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	18,666,133	1,023,277	19,689,410	123,624
Other counterparties where the exposure is considered by the Bank to be non-bank Mainland China exposure	<u>4,930,767</u>	<u>344,045</u>	<u>5,274,812</u>	<u>1,101</u>
	<u>56,671,847</u>	<u>3,012,151</u>	<u>59,683,998</u>	<u>124,725</u>
31 Dec 2009				
Mainland China entities	24,138,564	5,826,938	29,965,502	—
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	14,314,188	895,502	15,209,690	133,965
Other counterparties where the exposure is considered by the Bank to be non-bank Mainland China exposure	<u>3,775,205</u>	<u>48,813</u>	<u>3,824,018</u>	<u>1,290</u>
	<u>42,227,957</u>	<u>6,771,253</u>	<u>48,999,210</u>	<u>135,255</u>

4 **Loans and advances to customers, banks and other financial institutions***Gross loans and advances to customers, banks and other financial institutions by industry sectors*

	30 Jun 2010	30 Jun 2010	31 Dec 2009	31 Dec 2009
	Gross advances	% of secured	Gross advances	% of secured
	HK\$'000	%	HK\$'000	%
Loans for use in Hong Kong				
Industrial, commercial and financial				
— Property development.....	15,885,580	27.35%	11,729,026	31.10%
— Property investment	17,887,321	84.87%	18,490,007	81.65%
— Financial concerns	8,053,440	2.40%	8,315,020	2.34%
— Stockbrokers	342,096	99.42%	429,430	99.67%
— Wholesale and retail trade.....	8,715,648	37.81%	6,100,255	48.57%
— Civil engineering works	202,435	91.35%	239,373	72.70%
— Manufacturing.....	5,345,702	43.56%	3,814,127	59.23%
— Transport and transport equipment	11,593,163	65.89%	9,224,828	68.39%
— Electricity and gas	78,487	40.49%	143,772	100.00%
— Information technology	2,287,045	0.63%	1,998,801	1.14%
— Recreational activities.....	1,705	100.00%	3,155	100.00%
— Hotels, boarding houses and catering ...	2,122,286	85.58%	2,095,209	84.84%
— Others.....	6,206,006	25.99%	4,869,563	32.34%
Individuals				
— Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	541,735	94.36%	484,437	93.34%
— Loans for the purchase of other residential properties	15,574,163	99.75%	14,165,865	99.81%
— Credit card advances.....	91,821	0.00%	94,156	0.00%
— Others.....	2,277,011	94.58%	2,246,082	95.13%
Trade finance.....	32,839,628	8.39%	15,775,567	14.15%
Loans for use outside Hong Kong	55,185,751	32.99%	47,444,520	32.41%
	<u>185,231,023</u>	41.09%	<u>147,663,193</u>	46.68%

Individually impaired loans, overdue loans and advances over three months, impairment allowances and impaired loans and advances written off in respect of industry sectors that constitute 10% or more of the total advances to customers, banks and other financial institutions are as follows:

	30 Jun 2010	31 Dec 2009
	HK\$'000	HK\$'000
(a) Property investment		
Individually impaired loans.....	58,046	146,800
Overdue loans and advances over three months.....	40,369	22,041
Individual impairment allowances	2,400	5,110
Collective impairment allowances	46,630	50,235
New impairment allowances charged to the income statement	(6,314)	(16,786)
Impaired loans and advances written off during the period/year	—	6,601
(b) Trade finance		
Individually impaired loans.....	80,043	85,293
Overdue loans and advances over three months.....	74,392	85,052
Individual impairment allowances	74,258	80,868
Collective impairment allowances	69,015	34,887
New impairment allowances charged to the income statement	27,518	(11,774)
Impaired loans and advances written off during the period/year	7,238	109,727
(c) Loans for use outside Hong Kong		
Individually impaired loans.....	947,334	993,218
Overdue loans and advances over three months.....	856,536	373,606
Individual impairment allowances	332,717	307,576
Collective impairment allowances	257,934	188,153
New impairment allowances charged to the income statement	94,922	283,480
Impaired loans and advances written off during the period/year	48,964	21,871

5 Currency concentration

The table below summarises the net foreign currency positions of the Group. The net positions in foreign currency is disclosed when the currency constitutes 10% or more of the total net position of all foreign currencies.

	US\$	RMB	EUR	Other foreign currencies	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
30 Jun 2010					
Non-structural position					
Spot assets.....	101,964,541	16,069,961	4,369,758	7,082,872	129,487,132
Spot liabilities	(104,734,484)	(16,157,889)	(3,429,496)	(10,943,240)	(135,265,109)
Forward purchases	91,983,391	57,135,229	4,301,331	8,334,565	161,754,516
Forward sales.....	(89,762,747)	(56,611,698)	(5,277,345)	(4,604,192)	(156,255,982)
Net option position	(242,391)	—	369	177,420	(64,602)
Net long/(short) position	(791,690)	435,603	(35,383)	47,425	(344,045)
Net structural position	480,664	1,659,058	—	—	2,139,722
31 Dec 2009					
Non-structural position					
Spot assets.....	86,907,654	9,297,418	2,648,526	7,402,026	106,255,624
Spot liabilities	(88,627,701)	(9,428,321)	(4,559,238)	(7,602,663)	(110,217,923)
Forward purchases	42,625,084	23,655,848	7,476,998	7,198,868	80,956,798
Forward sales.....	(40,673,650)	(23,499,689)	(5,562,352)	(7,083,073)	(76,818,764)
Net option position	(325,790)	—	1,621	332,287	8,118
Net long/(short) position	(94,403)	25,256	5,555	247,445	183,853
Net structural position	478,849	1,662,351	20,644	—	2,161,844

Foreign currency exposures include those arising from trading position. The net option position is calculated using the delta equivalent approach. The net structural position of the Group includes the structural positions of the Bank's capital investment in overseas subsidiaries (including Chinese Mercantile Bank).

6 Risk management

The Group has established policies and procedures for the identification, measurement, control and monitoring of risk factors (including credit, liquidity, market, interest rate, operational, legal and compliance risk). The Management and the relevant functional committees review and revise these policies and procedures on a regular basis, and the Group's Internal Audit Department also performs regular check to ensure due compliance with policies and procedures.

(a) Credit risk management

Credit risk is the risk that a borrower or counterparty of the Group will be unable or unwilling to honour a repayment obligation. The Group has standards, policies and procedures and designated functional departments in place to control and monitor these risks.

The Group devotes considerable resources to maintaining sound credit risk management. The Management has set credit policies and systems to identify, measure, monitor and control risks inherent in various lending businesses. This process ensures prudence, minimises operational omissions in credit matters, and aims at early detection of potential problems, thus minimising business loss. With the enlarged lending operation of the Group to SMEs, credit policies and practice apposite to their risk monitoring are adopted or modified to maintain desired credit standard as the Group competes for SME related business.

High-level credit policies of the Group are set, reviewed and constantly updated by the relevant functional departments and committees, and for prominent issues, by the Board of Directors to take balanced account of the dynamic market situation, regulatory requirement, the Group's usual prudent lending practices and its latest business strategies. All these credit policies, processes and practices, as they are developed, updated, reviewed and revised, are written now and then into credit manuals and supplementary lending product manuals for internal control and compliance purposes. Given the Basel II capital accord implemented since January 2007, the Group has been adjusting its credit risk management practice in line with relevant guidelines released by the Hong Kong Monetary Authority and for the sake of enhancing internal credit control processing efficiency and product competitiveness.

Credit authorities are delegated to individual approvers for efficiency and productivity purposes. Except for taxi loans, credit cards, small business loans, special government guaranteed SME loans and consumer loans, no business originating unit can singly approve any loan. Loans singly approved by business originating units are nevertheless still subject to approval criteria pre-set by the Credit Function or the Credit Committee of the Bank. Otherwise, the Group generally requires "dual" approval whereby loan proposals shall require joint approval by the Business Line and the Credit Function. The Credit Committee, which approves all credit policies, large loans and investment in interest earning securities, shall not pass any credit related proposal if its Credit Function approvers disagree. Only the loan proposals approved by the Credit Committee would be submitted to the Chief Executive Officer for signature if and where it is needed.

The Credit Department is the centralised department in the Bank mandated to carry out our credit policies. It performs independent credit assessment and other credit control functions to ensure that the credit process complies with credit policies and guidelines laid down by the Management. Apart from the independent credit assessment and matrix approval process, regular post approval inspection by the Risk Management Department and credit audits are conducted on specific loan portfolios or operating units in the credit process. To maintain its independence, the Credit Department has a direct reporting line to a Deputy General Manager independent of business. Same control, supplemented by system support, regular marked-to-market and case-by-case approval by the Risk Management Department, also applies to the counterparty credit risk of structured derivative products.

The Loans Administration Department is ultimately responsible for loan disbursement and credit line input and implementation, after it is fully satisfied that all pre-conditions, documentations and regulatory constraints arising in the credit approval process have already been duly met and in place. The Loans Administration Department is likewise independent of business function, reporting to a Deputy General Manager in charge of credit and risk.

The Management spares no effort in monitoring the quality and behaviour of the loan portfolio. The Group's internal credit risk grading system consisting of 15 grades built on Basel II - compliant attributes is adopted for credit risk differentiation purpose. With internal data to be constantly enriched through years of experience, it is expected that the Group can make further use of the credit statistics to profile and track down credit risk migration, to measure loan default probabilities and to practice other credit risk management processes, of which the new credit rating model is and will substantially be an integral part.

(b) *Liquidity risk management*

Liquidity risk is the risk that the Group cannot meet its financial obligations as and when they fall due. Liquidity risk management is therefore to ensure adequate cash flows to meet all financial obligations under both normal and contingency circumstances in a cost-effective manner and within regulatory requirements. To manage liquidity risk, the Group has established asset and liquidity management policies that are reviewed by the relevant functional committees, with prominent issues approved by the Board of Directors. Liquidity is also managed and forecasted on a daily basis to enable Global Markets and Trading Department and the relevant functional committees to act proactively according to changing market conditions and to implement contingency plans on a timely basis. Stress tests are regularly performed to assess contingent funding needs and the adequacy of funds to meet them. In case of shortage identified, corresponding remedial measures will be planned. The Group continues to explore and diversify funding channels to capitalize on opportunities for the Group's business expansion. Concrete funding from the parent company, ICBC, has proven to be effective in strengthening the Group's liquidity capability. As at 30 June 2010, the Group has a total of approximately HK\$7.3 billion of certificates of deposit issued to secure longer term funding.

The liquidity position remained affluent throughout the first half of 2010 with an average liquidity ratio of 41.5% (Average for the first half of 2009: 38.0%), that was well above the statutory requirement of 25%.

(c) *Capital management*

The Group manages its capital to execute its strategic business plans and support its growth and investments in an efficient way. The Group's core capital ratio and capital adequacy ratio were 8.4% and 13.4% respectively as at 30 June 2010. The Group adjusts its business and lending strategy from time to time to optimise its risk-return profile.

(d) *Market risk management*

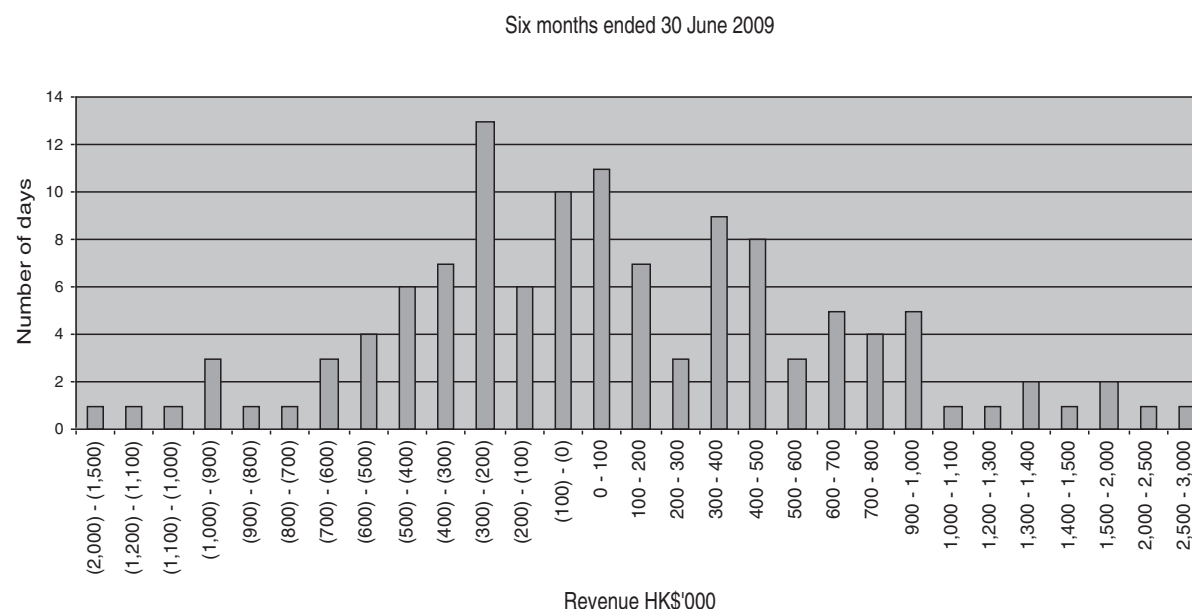
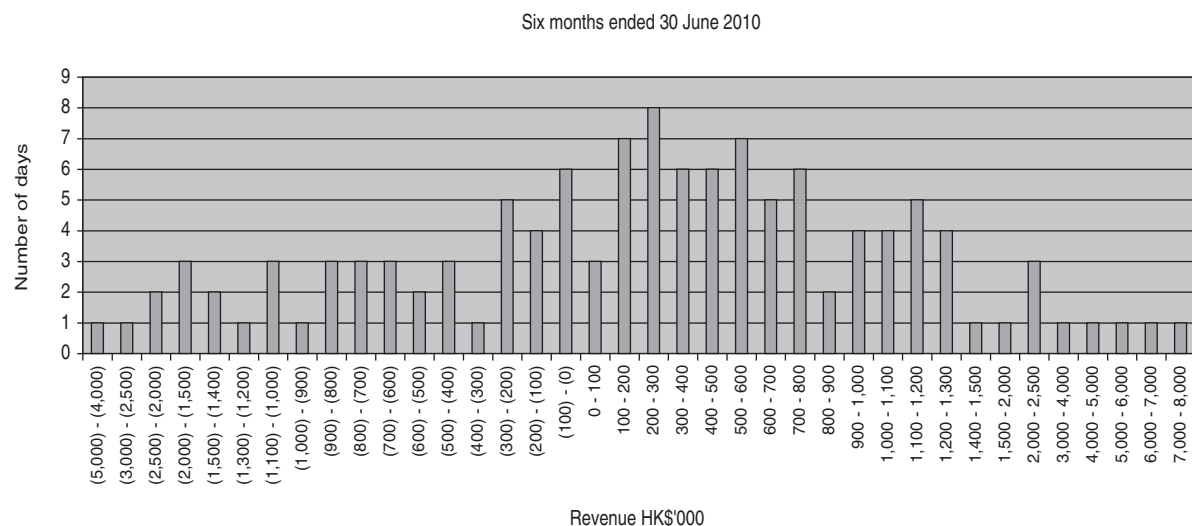
Market risk is the risk that market rates and prices on assets, liabilities and off-balance sheet positions change, thus causing profits or losses. Generally, the Group's market risk is associated with its positions in foreign exchange, debt securities, derivatives and stocks. Most off-balance sheet derivative positions arise from the execution of customer-related orders and positions taken for hedging purpose.

Market risk exposure for different types of transactions is managed within risk limits and guidelines approved by the Management and the Asset and Liability Management Committee ("ALCO"). Trading limits are increased for opportunities in the market. Exposures are measured and monitored against limits on positions, stop-loss, value-at-risk, sensitivity, delta, gamma, etc. Daily risk monitoring is carried out by an independent Market Risk Unit of the Risk Management Department, which ensures all dealing activities are conducted in a proper manner and within approved limits. The Group's market risk exposures are reviewed by the ALCO, the Senior Executive Risk Management Committee and the Risk Management Committee of the Board of Directors. All exceptions to limits are reported to the ALCO. Important deviations, if any, will be escalated to the Board's attention. Stress tests are performed regularly to estimate the possible losses under extreme circumstances. The Group's Internal Audit Department also performs regular review and testing on dealing activities to ensure compliance with all internal guidelines.

Besides, various reputable treasury systems are being used to further strengthen the function of control and monitoring, supplemented as mentioned above by, among others, predetermined stop-loss limits. An enhanced system has recently been successfully installed in order to strengthen the Group's market risk management and counterparty credit risk control for structured products.

The average daily revenue earned from the Group's market risk related activities during the period ended 30 June 2010 was HK\$332,994 (First half of 2009: HK\$124,486) and the standard deviation for such daily revenue was HK\$1,458,179 (First half of 2009: HK\$655,294). An analysis of the frequency distribution of daily revenue shows that losses were recorded on 44 days out of 121 trading days for the first half of 2010 (57 days out of 121 trading days for the first half of 2009). The maximum daily loss was HK\$4.48 million (HK\$1.70 million for the first half of 2009). The highest daily revenue was HK\$7.40 million (HK\$2.63 million for the first half of 2009). In respect of proprietary trading and customers' expectation, the Group will gradually increase its market risk activities to complement its conventional reliance on loan assets for revenue. In the process, the Group will watch out for the resulting market risks and counterparty credit risks, as well as liquidity and capital implications.

The following histograms show the frequency distribution of daily revenues related to market activities of the Group for the six months ended 30 June 2010 and 30 June 2009.



(e) *Interest rate risk management*

Interest rate risk is the risk that the Group's position may be adversely affected by a change in market interest rates. Interest rate risk arises mainly from the maturity mismatch of interest bearing assets and liabilities and yield curve movement. Interest rate risk exposures are managed within risk limits approved and monitored by the ALCO with the participation of the Risk Management Department and the Asset and Liability Management Department. Interest rate risk exposures in non-trading portfolio are measured once a month and the results are reported to the ALCO.

The Group manages its interest rate risk by way of entering into on or off balance sheet interest rate risk hedging instruments. The effectiveness of the hedging activities is assessed regularly in accordance with Hong Kong Accounting Standard 39. The Group's interest rate risk position is further regularly reported to and scrutinized by the Senior Executive Risk Management Committee and the Risk Management Committee of the Board of Directors.

Foreign currency funding used to fund Hong Kong dollar assets is normally hedged using currency swaps or forward exchange contracts to neutralize foreign exchange risk.

The Group counts on stop-loss, management trigger limits and stress tests to manage its interest rate risk.

(f) *Operational risk management*

Operational risk is the risk of unexpected financial losses resulting from inadequate or failed internal processes, people, systems and from external events. It is inherent to every business organisation and covers a wide spectrum of activities. Efforts in identifying and understanding of underlying operational risks are taken. This is part of the job of the Risk Management Department. An Operational Risk Committee is in place in forging ahead with the initiatives. Such risk is further mitigated through the implementation of key risk assessment, key risk indicators, comprehensive internal control systems, adequate insurance cover, offshore computer back-up sites and contingency plans with periodic drills. The Group's Internal Audit Department also plays an important role in detecting any deviations from operating procedures and identifying weaknesses at all operating levels independently and objectively. The Group will keep on pursuing active and proactive operational risk management practice in accordance with the relevant Basel II and HKMA guidelines and principles.

(g) *Legal and compliance risk management*

Legal and compliance risk is the prospective risk of legal and regulatory sanctions, financial loss, or reputation loss that the Group may suffer as a result for violations of, or non-compliance with, all applicable laws, regulations, internal policies with respect to the conduct of business.

Legal and compliance staff members advise the Management on the legal and regulatory developments and assist the Management in establishing policies, procedures and monitoring programme to ensure compliance with the legal and regulatory requirements. They conduct regular compliance checking so that the Group can identify any potential non-compliance issue and take remedial action on a timely basis. They also issue monthly bulletins and arrange training to enrich the knowledge of all staff of the relevant legal and regulatory requirements. Furthermore, regular reports on non-compliance issues and changes in the legal and regulatory requirement are made to the Senior Executive Risk Management Committee and the Risk Management Committee of the Board of Directors.

7 Disclosure Pursuant to Rule 13.20 of the Listing Rules

During the period, the Group had made Relevant Advances to the ICBC Group in the ordinary course of the Group's banking business which, in aggregate, exceed 8% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules. Accordingly, the Bank is under a general obligation to disclose the details of the Relevant Advances and therefore the disclosure below is made in compliance with Rule 13.20 of the Listing Rules.

As at 30 June 2010, the types of Relevant Advances and the balance of the relevant outstanding amounts due from, and all guarantees given on behalf of, the ICBC Group were as follows:

	HK\$'000
Types of the Relevant Advances	
Trade Loan to ICBC Group outstanding.....	24,238,741
Confirmed ICBC Group Standby Letter of Credit/Guarantee outstanding	786,730
Money Market Placements to ICBC Group outstanding.....	8,539,963
Syndication/Revolving Short-term Loan to ICBC Group outstanding.....	1,657,024
Purchase of Certificates of Deposit of ICBC Group outstanding	500,266
Total Relevant Advances to ICBC Group.....	<u>35,722,724</u>

The interest rates charged for the Relevant Advances mostly are floating interest rates based on the prevailing interbank offer rate except for some Certificates of Deposit which are priced at fixed rate; and that money market placements whose interest rates are set by the ICBC Group and based on the prevailing interbank bid rate. The Relevant Advances are repayable in full at maturity, and the maturity date for the Relevant Advances generally ranges from overnight to one year, or longer than one year for capital market instruments and standby letter of credit/guarantee/certificates of deposit. The Relevant Advances to the ICBC Group are not secured by any collateral.

The Relevant Advances to the ICBC Group were made by the Group in the ordinary course of the Group's banking business, and on normal commercial terms commensurate with customers of the Group having similar credit ratings or financial strengths, and as part of the ongoing banking transactions entered into between the Group and the ICBC Group.

APPENDIX I — JOINT ANNOUNCEMENT

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**Industrial and Commercial Bank
of China Limited**

*(a joint stock limited company incorporated in the People's
Republic of China with limited liability)*
(Stock Code: 1398)



中國工商銀行(亞洲)
ICBC (Asia)

**Industrial and Commercial Bank
of China (Asia) Limited**

*(incorporated in Hong Kong
with limited liability)*
(Stock Code: 349)

JOINT ANNOUNCEMENT

PROPOSAL TO PRIVATISE INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 166 OF THE COMPANIES ORDINANCE

PROPOSED WITHDRAWAL OF LISTING OF INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED

RESUMPTION OF TRADING IN SHARES OF INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED

Joint financial advisers to Industrial and Commercial Bank of China Limited



ICBC International Capital Limited

**Goldman
Sachs**

Goldman Sachs (Asia) L.L.C.

THE PROPOSAL

The board of directors of the Offeror and the Board jointly announce that on 28 July 2010, the Offeror requested the Board to put forward to the Scheme Shareholders the Proposal for the proposed privatisation of the Company which, if approved, would result in the withdrawal of listing of the Shares on the Hong Kong Stock Exchange. The Offeror owns approximately 72.81% of the issued share capital of the Company as at the date of this announcement. The Board has reviewed the Proposal and has agreed to put it forward to the Scheme Shareholders.

The Proposal will be implemented by way of a scheme of arrangement under Section 166 of the Companies Ordinance. Upon the Scheme of Arrangement becoming effective, the Scheme Shares will be cancelled and the New Shares will be issued as fully paid to the Offeror. The Company will make an application for the listing of the Shares to be withdrawn from the Hong Kong Stock Exchange in accordance with Rule 6.15 of the Listing Rules, with effect from the date on which the Scheme of Arrangement becomes effective.

Under the Scheme of Arrangement, the Offeror has proposed that the Scheme Shareholders will receive from the Offeror as Cancellation Consideration HK\$29.45 for every Scheme Share cancelled. **The Offeror has advised that the Cancellation Consideration will not be revised in the course of the Scheme of Arrangement and the Offeror does not reserve the right to do so.**

The Cancellation Consideration of HK\$29.45 in cash for every Scheme Share cancelled under the Scheme of Arrangement represents: (i) a premium of approximately 27.77% over the closing price of HK\$23.05 per Share as quoted on the Hong Kong Stock Exchange on the Last Trading Day; (ii) a premium of approximately 41.18% over the average closing price of approximately HK\$20.86 per Share as quoted on the Hong Kong Stock Exchange for the 30 Trading Days up to and including the Last Trading Day; (iii) a premium of approximately 47.92% over the average closing price of approximately HK\$19.91 per Share as quoted on the Hong Kong Stock Exchange for the 60 Trading Days up to and including the Last Trading Day; (iv) a premium of approximately 48.74% over the average closing price of approximately HK\$19.80 per Share as quoted on the Hong Kong Stock Exchange for the 90 Trading Days up to and including the Last Trading Day; (v) a premium of approximately 21.79% over the historically highest closing price of HK\$24.18 per Share as quoted on the Hong Kong Stock Exchange on 1 September 1997; and (vi) a premium of approximately 114.49% over the audited consolidated net asset value of approximately HK\$13.73 per Share as at 31 December 2009.

The Proposal is conditional upon the fulfilment or waiver, as applicable, of the conditions described in the section headed “Conditions of the Proposal” of this announcement, which include, among others, the approval by the Minority Shareholders at the Court Meeting and the sanction of the Scheme of Arrangement by the High Court. If the conditions are not fulfilled or, if applicable, not waived on or before 1 March 2011 (or such later date as the Offeror and the Company may agree or (to the extent applicable) as the High Court may direct and as may be permitted under the Takeovers Code), the Scheme of Arrangement will lapse. The listing of the Shares on the Hong Kong Stock Exchange will not be withdrawn if the Scheme of Arrangement is withdrawn, not approved or lapses.

The Shares beneficially owned by the Offeror, representing approximately 72.81% of the issued Shares, will not form part of the Scheme Shares and, as such, will not be voted at the Court Meeting. Although the Shares beneficially owned by parties acting in concert with the Offeror in respect of the Company may form part of the Scheme Shares, such Shares will not, in compliance with the Takeovers Code, be voted at the Court Meeting.

FINANCIAL RESOURCES

The total cash payment under the Proposal will be approximately HK\$10,828.67 million which will be funded from the internal resources of the Offeror.

ICBCI and Goldman Sachs, the joint financial advisers to the Offeror, are satisfied that sufficient financial resources are available to the Offeror to implement the Proposal in accordance with its terms.

SHAREHOLDING STRUCTURE OF THE COMPANY

As at the date of this announcement, the authorised share capital of the Company is HK\$5,160,000,000 comprising HK\$4,000,000,000 divided into 2,000,000,000 Shares of par value HK\$2.00 each and HK\$1,160,000,000 divided into 232,000,000 Preference Shares of par value HK\$5.00 each and the issued share capital of the Company is HK\$2,704,123,066 divided into 1,352,061,533 Shares of par value HK\$2.00 each. No Preference Shares are outstanding.

As at the date of this announcement, the Offeror is interested in 984,364,740 Shares, representing approximately 72.81% of the issued Shares. As at the date of this announcement, the Goldman Sachs group (other than those members of the Goldman Sachs group that are conducting exempt principal trader activities and exempt fund manager activities), presumed to be acting in concert with the Offeror, holds 300,000 Shares, representing approximately 0.02% of the issued Shares.

As at the date of this announcement, the Company does not have any outstanding options, warrants, derivatives or securities convertible into Shares in issue.

Assuming that no new Shares will be issued after the date of this announcement up to the Record Time, the Offeror will immediately after the Scheme of Arrangement becomes effective be interested in 1,352,061,533 Shares, representing all of the Shares then in issue.

Mr. Jiang Jianqing, a non-executive Director, Mr. Zhang Yi, an executive Director, and Mr. Yuen Kam Ho, George, an independent non-executive Director are interested in 15,453 Shares, 2,223 Shares and 19,293 Shares, respectively, representing approximately 0.0011%, 0.0002% and 0.0014%, respectively, of the issued Shares as at the date of this announcement. Mr. Jiang Jianqing is the chairman and an executive director of the Offeror and hence is acting in concert with the Offeror and is not entitled to vote at the Court Meeting. Based on the confirmation from Mr. Zhang Yi and Mr. Yuen Kam Ho, George that they are not acting in concert with the Offeror and parties acting in concert with it, they will be entitled to vote at the Court Meeting since their rights under the Scheme of Arrangement will not be any different from those of any other Minority Shareholder. Mr. Zhang Yi has confirmed that he intends to vote in favour of the Proposal.

Save as aforesaid, the Offeror and persons who are parties acting in concert with the Offeror (including Huijin) do not hold any other Shares or any options, warrants, derivatives or securities convertible into Shares or other derivatives in respect of securities in the Company. Huijin has undertaken to the Offeror that it will not deal in any Shares or any options, warrants, derivatives or securities convertible into Shares until the earlier of (i) the listing of the Shares being withdrawn from the Hong Kong Stock Exchange and (ii) 1 March 2011. As at the date of this announcement, the Minority Shareholders are interested in an aggregate of 367,381,340 Shares, representing approximately 27.17% of the issued Shares, and they will be entitled to vote at the Court Meeting.

INFORMATION ON ICBC

ICBC, formerly known as Industrial and Commercial Bank of China, was wholly restructured as a joint-stock limited company on 28 October 2005 and was listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange on 27 October 2006. Through its continuous endeavour and stable development, ICBC has developed into the world's top listed bank with the highest market capitalisation, customer deposits and profit. As of 31 December 2009, ICBC provides comprehensive financial products and services to 3.61 million corporate banking customers and 216 million personal banking customers through its distribution network comprising 16,232 domestic institutions, 162 overseas institutions and over 1,504 correspondent banks worldwide, as well as through its E-banking network comprising a range of internet and telephone banking services and self-service banking centres. The controlling shareholders of ICBC are MOF and Huijin, a wholly-State-owned investment company incorporated with the approval of the State Council.

INFORMATION ON THE COMPANY

The Company is a licensed bank incorporated in Hong Kong, the Shares of which are listed on the Hong Kong Stock Exchange. The Company is principally engaged in banking, financial and other financial related services with a focus on retail banking, commercial banking as well as corporate banking business. As at the date of this announcement, the Company has 44 retail branches, 10 "Elite Club" wealth management centres and 4 commercial business centres in Hong Kong, and an overseas branch established in the Cayman Islands. The Company is the listed flagship of the Hong Kong banking business of ICBC.

FUTURE PLANS FOR ICBC ASIA

It is the intention of ICBC to continue the core business of ICBC Asia in banking and financial services after the successful privatisation of the Company. ICBC Asia will also actively expand its client base and business in the Greater China region in the future.

In the event that the proposed privatisation of the Company by ICBC is not successful, the Company will continue to carry on its core businesses in banking and financial services. At the same time, the Company may need to consider increasing its capital through methods which are feasible under its existing shareholding structure (including but not limited to rights issue) and implementing measures such as appropriately controlling the distribution of any dividend to satisfy the Company's future business needs.

SCHEME OF ARRANGEMENT

Independent board committee of the Company

An independent committee of the Board (comprising Professor Wong Yue Chim, Richard, S.B.S., J.P., Mr. Tsui Yiu Wa, Alec and Mr. Yuen Kam Ho, George, being independent non-executive Directors) has been formed to advise the Minority Shareholders in connection with the Proposal. As for the non-executive Directors: (1) Mr. Jiang Jianqing is the chairman and an executive director of the Offeror, (2) Ms. Wang Lili is an executive director of the Offeror and (3) Mr. Hu Hao is an employee of the Offeror. They have not been included in the independent committee of the Board so as to avoid a conflict of interest.

An independent financial adviser will be appointed (with the approval of the independent committee of the Board) to advise the independent committee of the Board in connection with the Proposal and the Scheme of Arrangement.

Scheme document

A scheme document including further details of the Proposal, the Scheme of Arrangement, an explanatory statement, the expected timetable relating to the Proposal, the recommendations of the independent committee of the Board, the letter of advice from the independent financial adviser, notices of the Court Meeting and the EGM as well as other particulars required by the Takeovers Code will be despatched to the Shareholders within 21 days from the date of this announcement or such later date as may be permitted under the Takeovers Code. A further announcement will be made regarding the expected timetable for the Proposal.

IMPLICATIONS UNDER THE LISTING RULES

With respect to ICBC, all the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the Proposal are below 5%. Accordingly, under the Listing Rules, the Proposal does not constitute a notifiable transaction for ICBC.

SUSPENSION OF TRADING IN THE SHARES

At the request of the Company, trading in the Shares on the Hong Kong Stock Exchange was suspended from 9:30 a.m. on 27 July 2010 pending the release of this announcement. Application has been made to the Hong Kong Stock Exchange for a resumption of trading in the Shares with effect from 9:30 a.m. on 11 August 2010.

The Shareholders and/or potential investors should be aware that the implementation of the Proposal is subject to the conditions set out below being fulfilled or waived, as applicable, and thus the Proposal may or may not become effective. Accordingly, they are advised to exercise caution when dealing in the Shares.

INTRODUCTION

On 28 July 2010, the Offeror requested the Board to put forward to the Scheme Shareholders the Proposal which, if implemented, will result in the Company becoming wholly-owned by ICBC. The Offeror owns approximately 72.81% of the issued Shares. The Proposal will be implemented by way of a scheme of arrangement under Section 166 of the Companies Ordinance. Upon the Scheme of Arrangement becoming effective, the Scheme Shares will be cancelled and the New Shares will be issued as fully paid to the Offeror.

The Board resolved to put forward the Proposal to the Scheme Shareholders for consideration. The Company will make an application for the listing of the Shares to be withdrawn from the Hong Kong Stock Exchange in accordance with Rule 6.15 of the Listing Rules, with effect from the date on which the Scheme of Arrangement becomes effective.

The Proposal

Under the Proposal, if the Scheme of Arrangement becomes effective, the Scheme Shareholders will receive from the Offeror as Cancellation Consideration HK\$29.45 in cash for every Scheme Share cancelled. **The Offeror has advised that the Cancellation Consideration will not be revised in the course of the Scheme of Arrangement and the Offeror does not reserve the right to do so.**

SHAREHOLDING STRUCTURE OF THE COMPANY

As at the date of this announcement, the authorised share capital of the Company is HK\$5,160,000,000 comprising of HK\$4,000,000,000 divided into 2,000,000,000 Shares of par value HK\$2.00 each and HK\$1,160,000,000 divided into 232,000,000 Preference Shares of HK\$5.00 each, and the issued share capital of the Company is HK\$2,704,123,066 divided into 1,352,061,533 Shares. No Preference Shares are outstanding.

The table below sets out the shareholding structure of the Company as at the date of this announcement and immediately upon the Scheme of Arrangement becoming effective and assuming no other new Shares will be issued prior thereto:

Shareholders	As at the date of this announcement		Upon the Scheme of Arrangement becoming effective	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
The Offeror	984,364,740	72.81	1,352,061,533	100
Other concert parties	315,453	0.02	0	0
The Offeror and parties acting in concert with it	984,680,193	72.83	1,352,061,533	100
Minority Shareholders	367,381,340	27.17	0	0
Total issued share capital	<u>1,352,061,533</u>	<u>100</u>	<u>1,352,061,533</u>	<u>100</u>

As at the date of this announcement, the Offeror is interested in 984,364,740 Shares, representing approximately 72.81 % of the issued Shares. The Shares beneficially owned by the Offeror will not form part of the Scheme Shares and, as such, will not be voted at the Court Meeting. However, the Offeror has indicated that, if the Scheme of Arrangement is approved at the Court Meeting, the Offeror will vote in favour of the special resolution to be proposed at the EGM to approve and give effect to the Scheme of Arrangement, including the approval of the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares and of the issue to the Offeror of such number of New Shares as is equal to the number of the Scheme Shares cancelled. As at the date of this announcement, the Goldman Sachs group (other than those members of the Goldman Sachs group that are conducting exempt principal trader activities and exempt fund manager activities), presumed to be acting in concert with the Offeror, holds 300,000 Shares, representing approximately 0.02% of the issued Shares. Although the Shares beneficially owned by parties acting in concert with the Offeror may form part of the Scheme Shares, such Shares will not, in compliance with the Takeovers Code, be voted at the Court Meeting.

Mr. Jiang Jianqing, a non-executive Director, Mr. Zhang Yi, an executive Director, and Mr. Yuen Kam Ho, George, an independent non-executive Director are interested in 15,453 Shares, 2,223 Shares and 19,293 Shares, respectively, representing approximately 0.0011%, 0.0002% and 0.0014%, respectively, of the issued Shares as at the date of this announcement. Mr. Jiang Jianqing is the chairman and an executive director of the Offeror and hence is acting in concert with the Offeror and is not entitled to vote at the Court Meeting. Based on the confirmation from Mr. Zhang Yi and Mr. Yuen Kam Ho, George that they are not acting in concert with the Offeror and parties acting in concert with it, they will be entitled to vote at the Court Meeting since their rights under the Scheme of Arrangement will not be any different from those of any other Minority Shareholder. Mr. Zhang Yi has confirmed that he intends to vote in favour of the Proposal.

As at the date of this announcement, the Company does not have any outstanding options, warrants, derivatives or securities convertible into Shares in issue.

Save as aforesaid, the Offeror and persons who are parties acting in concert with it (including Huijin) do not hold any other Shares or any options, warrants, derivatives or securities convertible into Shares or other derivatives in respect of securities in the Company. Huijin has undertaken to the Offeror that it will not deal in any Shares or any options, warrants, derivatives or securities convertible into Shares until the earlier of (i) the listing of the Shares being withdrawn from the Hong Kong Stock Exchange and (ii) 1 March 2011. As at the date of this announcement, the Minority Shareholders are interested in an aggregate of 367,381,340 Shares, representing approximately 27.17% of the issued Shares, and they will be entitled to vote at the Court Meeting.

As of the date of this announcement, none of the Offeror or parties acting in concert with it has received any irrevocable voting commitment from the Minority Shareholders in respect of the Court Meeting.

As of the date of this announcement, there are no arrangements (whether by way of option, indemnity or otherwise) in relation to Shares or shares of the Offeror which might be material to the Proposal or the Scheme of Arrangement.

As of the date of this announcement, the Offeror and any person acting in concert with it have not borrowed or lent any relevant securities of the Company (as defined in Note 4 to Rule 22 of the Takeovers Code) except the Goldman Sachs group (other than those members of the Goldman Sachs group that are conducting exempt principal trader activities and exempt fund manager activities) has borrowed 258,000 Shares to cover its short position, representing approximately 0.02% of the issued Shares.

CONDITIONS OF THE PROPOSAL

The Proposal will become effective and binding on the Company, the Offeror and all the Scheme Shareholders subject to the fulfilment or waiver, as applicable, of the following conditions:

- (a) the approval of the Scheme of Arrangement (by way of poll) by a majority in number of the Scheme Shareholders, representing not less than three-fourths in nominal value of the Scheme Shares, present and voting either in person or by proxy at the Court Meeting, provided that:
 - (i) the Scheme of Arrangement is approved (by way of poll) by at least 75% of the votes attaching to the Scheme Shares held by the Minority Shareholders that are cast either in person or by proxy at the Court Meeting; and
 - (ii) the number of votes cast (by way of poll) against the resolution to approve the Scheme of Arrangement at the Court Meeting is not more than 10% of the votes attaching to all the Scheme Shares held by the Minority Shareholders;
- (b) the passing of a special resolution by a majority of not less than 75% of the votes cast by the Shareholders present and voting in person or by proxy at the EGM to approve and give effect to the Scheme of Arrangement, including the approval of the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares and of the issue to the Offeror of such number of New Shares as is equal to the number of the Scheme Shares cancelled;
- (c) the sanction of the Scheme of Arrangement (with or without modifications) and the confirmation of the reduction of the issued share capital of the Company involved in the Scheme of Arrangement by the High Court and the delivery to the Registrar of Companies of a copy of the order of the High Court for registration;
- (d) the compliance with the procedural requirements of Section 61 and Section 166 of the Companies Ordinance in relation to the reduction of the issued share capital of the Company and the Scheme of Arrangement, respectively;
- (e) all necessary authorisations, consents and approvals (including approval in-principle) of any governmental or regulatory body (including approval from the China Banking Regulatory Commission) in relation to the Proposal (including its implementation) having been obtained and remaining in full force and effect pursuant to the provisions of any laws or regulations in Hong Kong, the PRC and other relevant jurisdictions;

- (f) all necessary third party consents in relation to the Proposal required pursuant to any agreement to which any member of the ICBC Asia Group is a party (where any failure to obtain a consent would have a material adverse effect on the business of the ICBC Asia Group taken as a whole) having been obtained or waived by the relevant party(ies);
- (g) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having granted any order or made any decision that would make the Proposal void, unenforceable or illegal, or restrict or prohibit the implementation of, or impose any additional material conditions or obligations with respect to, the Proposal (other than such orders or decisions as would not have a material adverse effect on the legal ability of the Offeror to proceed with or consummate the Proposal);
- (h) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any of the Relevant Authorities which is not expressly provided for, or is in addition to the requirements expressly provided for, in the relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each case up to and at the time when the Scheme of Arrangement becomes effective;
- (i) no event having occurred which would make the Proposal or the cancellation of the Scheme Shares void, unenforceable or illegal or which would prohibit the implementation of the Proposals or impose any additional material conditions or obligations with respect to the Proposal or any part thereof or on the cancellation of the Scheme Shares; and
- (j) since the date of this announcement, there having been no material adverse change in the business, financial or trading position of the ICBC Asia Group, taken as a whole.

ICBC reserves the right to waive all or any of the conditions (except for the conditions referred to in paragraphs (a) to (e), (g) and (i) above) in whole or in part. ICBC Asia does not have the right to waive any of the conditions. All of the above conditions will have to be fulfilled or waived, as applicable, on or before 1 March 2011 (or such later date as the Offeror and the Company may agree or (to the extent applicable) as the High Court may direct and as may be permitted under the Takeovers Code), otherwise the Scheme of Arrangement will lapse. If the Scheme of Arrangement is withdrawn, not approved or lapses, the listing of the Shares on the Hong Kong Stock Exchange will not be withdrawn.

As of the date of this announcement, there are no agreements or arrangements to which ICBC is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Proposal.

In accordance with Rule 31.1 of the Takeovers Code, except with the consent of the Executive, neither the Offeror nor any person who is acting in concert with it in relation to the Proposal, may within 12 months from which the Proposal is withdrawn or lapses, either announce an offer or possible offer for the Company or acquire any voting rights of the Company if the Offeror or persons acting in concert with it would thereby become obliged under Rule 26 of the Takeovers Code to make an offer.

COMPARISON OF VALUE

The Cancellation Consideration of HK\$29.45 in cash for every Scheme Share cancelled under the Scheme of Arrangement represents:

- (i) a premium of approximately 27.77% over the closing price of HK\$23.05 per Share as quoted on the Hong Kong Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 41.18% over the average closing price of approximately HK\$20.86 per Share as quoted on the Hong Kong Stock Exchange for the 30 Trading Days up to and including the Last Trading Day; and
- (iii) a premium of approximately 47.92% over the average closing price of approximately HK\$19.91 per Share as quoted on the Hong Kong Stock Exchange for 60 Trading Days up to and including the Last Trading Day;
- (iv) a premium of approximately 48.74% over the average closing price of approximately HK\$19.80 per Share as quoted on the Hong Kong Stock Exchange for the 90 Trading Days up to and including the Last Trading Day;
- (v) a premium of approximately 21.79% over the historically highest closing price of HK\$24.18 per Share as quoted on the Hong Kong Stock Exchange on 1 September 1997; and
- (vi) a premium of approximately 114.49% over the audited consolidated net asset value of approximately HK\$13.73 per Share as at 31 December 2009.

TOTAL CONSIDERATION AND CONFIRMATION OF FINANCIAL RESOURCES

The total cash payment under the Proposal will be approximately HK\$10,828.67 million which will be funded from the internal resources of the Offeror.

ICBCI and Goldman Sachs, the joint financial advisers to the Offeror, are satisfied that sufficient financial resources are available to the Offeror to implement the Proposal in accordance with its terms.

REASONS FOR AND BENEFITS OF THE PROPOSAL

The Proposal will facilitate business integration between ICBC Asia and ICBC and will provide ICBC with greater flexibility to support the future business development of ICBC Asia. The Offeror currently holds approximately 72.81% of the total issued Shares and the Listing Rules require a minimum public float of 25%. As the business scale of ICBC Asia is expected to continue to develop in the next few years, its capital requirements may need to increase correspondingly and the listing status of ICBC Asia will limit the flexibility of ICBC in providing additional capital to ICBC Asia.

In addition, the listing of the Shares requires ICBC Asia to bear listing-related costs and expenses. If the privatisation of ICBC Asia is successful, these costs and expenses can be saved.

During the six-month period preceding the Last Trading Day, the highest closing price of the Shares as quoted on the Hong Kong Stock Exchange was HK\$23.05 per Share on the Last Trading Day, and the lowest closing price of the Shares as quoted on the Hong Kong Stock Exchange was HK\$15.20 per Share on 27 January 2010. In addition, the historically highest closing price of the Shares as quoted on the Hong Kong Stock Exchange was HK\$24.18 per Share on 1 September 1997. ICBC believes that the Cancellation Consideration represents a premium to the prices at which the market had valued ICBC Asia and has reflected the potential value of the development of the business of ICBC Asia in the next few years under its current state and provides an opportunity for the Scheme Shareholders to immediately realise their investments. However, if the Proposal does not proceed, the ongoing compliance of the relevant legal requirements to maintain the listing status of ICBC Asia, including continuing connected transaction and minimum public float requirements, could restrict the future business development of ICBC Asia and thereby adversely affect Shareholders in realising the value of their investment. At the same time, ICBC Asia may need to consider increasing its capital through methods which are feasible under its existing shareholding structure (including but not limited to rights issue) and implementing measures such as appropriately controlling the distribution of any dividend to satisfy the Company's future business needs. Further information about the future intention for ICBC Asia is set out in the section below headed "Future Plans for ICBC Asia".

INFORMATION ON ICBC

ICBC, formerly known as Industrial and Commercial Bank of China, was wholly restructured as a joint-stock limited company on 28 October 2005 and was listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange on 27 October 2006. Through its continuous endeavour and stable development, ICBC has developed into the world's top listed bank with the highest market capitalisation, customer deposits and profit. As of 31 December 2009, ICBC provides comprehensive financial products and services to 3.61 million corporate banking customers and 216 million personal banking customers through its distribution network comprising 16,232 domestic institutions, 162 overseas institutions and over 1,504 correspondent banks worldwide, as well as through its E-banking network comprising a range of internet and telephone banking services and self-service banking centres. The controlling shareholders of ICBC are the MOF and Huijin, a wholly-State-owned investment company incorporated with the approval of the State Council.

INFORMATION ON THE COMPANY

The Company is a licensed bank incorporated in Hong Kong, the Shares of which are listed on the Hong Kong Stock Exchange. The Company is principally engaged in banking, financial and other financial related services with a focus on retail banking, commercial banking as well as corporate banking business. As at the date of this announcement, the Company has 44 retail branches, 10 "Elite Club" wealth management centres and 4 commercial business centres in Hong Kong, and an overseas branch established in the Cayman Islands. The Company is the listed flagship of the Hong Kong banking business of ICBC.

A summary of the audited consolidated results of the Company for each of the two financial years ended 31 December 2008 and 2009, as extracted from the annual report of the Company published on 22 April 2010, is set out below:

	For the year ended 31 December		Increase/ Decrease compared to previous year
	2008	2009	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>
Operating income	3,752,311	4,190,181	11.67
Profit before taxation	1,063,837	3,070,201	188.60
Profit attributable to Shareholders	969,023	2,526,142	160.69
Dividends*	596,305	1,115,241	87.03
Basic earnings per Share (<i>HK cents</i>)	77	195	153.25

*Note: Includes interim dividend paid during the year and underprovision of final dividend in respect of the previous year.

Based on the annual report of the Company published on 22 April 2010, the audited consolidated net assets attributable to the Shareholders were approximately HK\$13,937,778,000 as at 31 December 2008 and approximately HK\$18,104,597,000 as at 31 December 2009.

FUTURE PLANS FOR ICBC ASIA

It is the intention of ICBC to continue the core business of ICBC Asia in banking and financial services after the successful privatisation of the Company. ICBC Asia will also actively expand its client base and business in the Greater China region in the future. ICBC does not have any plans to make any material adjustments with respect to the assets and existing employees of ICBC Asia.

In the event that the proposed privatisation of the Company by ICBC is not successful, the Company will continue its core business in banking and financial services. At the same time, the Company may need to consider increasing its capital through methods which are feasible under its existing shareholding structure (including but not limited to rights issue) and implementing measures such as appropriately controlling the distribution of any dividend to satisfy the Company's future business needs.

WITHDRAWAL OF LISTING OF THE SHARES

Upon the Scheme of Arrangement becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company will make an application for the listing of the Shares to be withdrawn from the Hong Kong Stock Exchange in accordance with Rule 6.15 of the Listing Rules, with effect from the date on which the Scheme of Arrangement becomes effective. Subject to the requirements of the Takeovers Code, the Scheme of Arrangement will lapse if any of the conditions described in the section headed "Conditions of the Proposal" has not been fulfilled or waived, as applicable, on or before 1 March 2011 (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Court may direct and as may be permitted under the

Takeovers Code). The Scheme Shareholders will be notified by way of an announcement of the dates of the last day for dealing in the Shares and on which the Scheme of Arrangement and the withdrawal of the listing of the Shares on the Hong Kong Stock Exchange will become effective. A detailed timetable of the Scheme of Arrangement will be included in the scheme document referred to in the section headed “Scheme document” below. The scheme document will also contain, among other things, further details of the Proposal and the Scheme of Arrangement.

If the Scheme of Arrangement is withdrawn or not approved or lapses, the listing of the Shares on the Hong Kong Stock Exchange will not be withdrawn.

OVERSEAS SHAREHOLDERS

Offers made under the Proposal to those Scheme Shareholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions where such Scheme Shareholders are located. Such Scheme Shareholders should inform themselves about and observe any applicable legal and regulatory requirements of their own jurisdictions. It is the responsibility of any overseas Scheme Shareholders wishing to accept the offers under the Proposal to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

In the event that the receipt of the scheme document by overseas Scheme Shareholders is prohibited by any relevant law or regulation or may only be effected after compliance with conditions or requirements that the directors of the Offeror regard as unduly onerous or burdensome (or otherwise not in the best interests of the Offeror or the shareholders of the Offeror), the Scheme Document will not be despatched to such overseas Scheme Shareholders. For that purpose, the Offeror will apply for any waivers as may be required by the Executive pursuant to Note 3 to Rule 8 of the Takeovers Code at such time. Any such waiver will only be granted if the Executive is satisfied that it would be unduly burdensome to despatch the Scheme Document to such overseas Scheme Shareholders. In granting the waiver, the Executive will be concerned to see that all material information in the scheme document is made available to such Scheme Shareholders.

If any such waiver is granted by the Executive, the Offeror reserves the right to make arrangements in respect of Scheme Shareholders who are not resident in Hong Kong in relation to the terms of the Proposal. Such arrangements may include notifying any matter in connection with the Proposal to the Scheme Shareholders having a registered overseas address by announcement or by advertisement in a newspaper which may or may not be circulated in the jurisdiction within which such persons are resident. The notice will be deemed to have been sufficiently given, despite any failure by such Scheme Shareholders to receive or see that notice.

Scheme Shareholders are recommended to consult their own professional advisors if they are in any doubt as to the taxation implications of accepting the Proposal. It is emphasised that none of the Company, the Offeror, ICBCI or Goldman Sachs or any of their respective directors, officers or associates or any other person involved in the Proposal accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Proposal.

SCHEME OF ARRANGEMENT

Independent committee of the Board

An independent committee of the Board (comprising Professor Wong Yue Chim, Richard, S.B.S., J.P., Mr. Tsui Yiu Wa, Alec and Mr. Yuen Kam Ho, George, being independent non-executive Directors), has been formed to advise the Minority Shareholders in connection with the Proposal. As for the non-executive Directors, (1) Mr. Jiang Jianqing is the chairman and an executive director of the Offeror, (2) Ms. Wang Lili is an executive director of the Offeror and (3) Mr. Hu Hao is an employee of the Offeror. They have not been included in the independent committee of the Board so as to avoid a conflict of interest.

An independent financial adviser will be appointed (with the approval of the independent committee of the Board) to advise the independent committee of the Board in connection with the Proposal and the Scheme of Arrangement. A separate announcement will be made as soon as possible after the independent financial adviser has been appointed.

Scheme document

A scheme document including, among other things, further details of the Proposal and the Scheme of Arrangement, an explanatory statement, the expected timetable relating to the Proposal, the recommendations of the independent committee of the Board, the letter of advice from the independent financial adviser, notices of the Court Meeting and the EGM as well as other particulars required by the Takeovers Code will be despatched to the Shareholders within 21 days from the date of this announcement or such later date as may be permitted under the Takeovers Code. A further announcement will be made regarding the expected timetable for the Proposal.

IMPLICATIONS UNDER THE LISTING RULES

With respect to ICBC, all the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the Proposal are below 5%. Accordingly, under the Listing Rules, the Proposal does not constitute a notifiable transaction for ICBC.

SUSPENSION OF TRADING IN THE SHARES

At the request of the Company, trading in the Shares on the Hong Kong Stock Exchange was suspended from 9:30 a.m. on 27 July 2010 pending the release of this announcement. Application has been made to the Hong Kong Stock Exchange for a resumption of trading in the Shares with effect from 9:30 a.m. on 11 August 2010.

GENERAL

Associates of the Company and the Offeror are reminded to disclose their dealings in any securities in the Company.

In accordance with Rule 3.8 of the Takeovers Code, reproduced below is the full text of Note 11 to Rule 22 of the Takeovers Code:

“Stockbrokers, banks and others who deal in relevant securities on behalf of clients have a general duty to ensure, so far as they are able, that those clients are aware of the disclosure obligations attaching to associates and other persons under Rule 22 and that those clients are willing to comply with them. Principal traders and dealers who deal directly with investors should, in appropriate cases, likewise draw attention to the relevant Rules. However, this does not apply when the total value of dealings (excluding stamp duty and commission) in any relevant security undertaken for a client during any 7 day period is less than HK\$1 million. This dispensation does not alter the obligation of principals, associates and other persons themselves to initiate disclosure of their own dealings, whatever total value is involved. Intermediaries are expected to co-operate with the Executive in its dealings enquiries. Therefore, those who deal in relevant securities should appreciate that stockbrokers and other intermediaries will supply the Executive with relevant information as to those dealings, including identities of clients, as part of that co-operation.

Intermediaries are expected to co-operate with the Executive under the Takeovers Code in its dealings enquiries. Therefore, those who deal in the securities of the Company should appreciate that stockbrokers and other intermediaries will supply the Executive with relevant information as to those dealings, including identities of clients, as part of that co-operation.

WARNING

Shareholders and/or potential investors should be aware that the implementation of the Proposal are subject to the conditions set out above being fulfilled or waived, as applicable, and thus the Proposal may or may not become effective. Accordingly, they are advised to exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise.

“acting in concert”	has the meaning given to it in the Takeovers Code, and “parties acting in concert” and “concert parties” shall be construed accordingly
“Associate(s)”	has the meaning given to it in the Takeovers Code
“Authorisations”	all necessary authorisations, registrations, filings, rulings, consents, permissions, waivers, exemptions and approvals required from the Relevant Authorities or other third parties which are necessary for the Company to carry on its business
“Board”	the board of the directors of the Company
“Cancellation Consideration”	the consideration of HK\$29.45 in cash for every Scheme Share cancelled

“Companies Ordinance”	Companies Ordinance, Chapter 32 of the Laws of Hong Kong
“Company” or “ICBC Asia”	Industrial and Commercial Bank of China (Asia) Limited, a company incorporated in Hong Kong with limited liability whose Shares are listed on the Hong Kong Stock Exchange (stock code: 349)
“Court Meeting”	a meeting of the Minority Shareholders to be convened at the direction of the High Court for the purpose of approving the Scheme of Arrangement
“Director(s)”	director(s) of the Company
“Effective Date”	the date on which the Scheme of Arrangement becomes effective
“EGM”	an extraordinary general meeting of the Company to be held immediately following the Court Meeting for the purpose of approving the reduction of the share capital of the Company and implementing the Scheme of Arrangement
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Goldman Sachs”	Goldman Sachs (Asia) L.L.C., the joint financial adviser to the Offeror. Goldman Sachs is a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities
“High Court”	High Court of Hong Kong
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	the Main Board of The Stock Exchange of Hong Kong Limited
“Huijin”	Central Huijin Investment Ltd.
“ICBC Asia Group”	the Company and its subsidiaries
“ICBCI”	ICBC International Capital Limited, the joint financial adviser to the Offeror. ICBCI is a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities

“Last Trading Day”	26 July 2010, being the last full trading day in the Shares immediately before the suspension of trading in the Shares pending publication of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Minority Shareholders”	Shareholders other than the Offeror or parties acting in concert with it
“MOF”	Ministry of Finance of the PRC
“New Shares”	new Shares to be issued to the Offeror pursuant to the Scheme of Arrangement, and being the same in number as the number of the Scheme Shares
“Offeror” or “ICBC”	Industrial and Commercial Bank of China Limited, a joint stock limited company incorporated in the PRC and the H shares and A shares of which are listed on the Hong Kong Stock Exchange (stock code: 1398) and the Shanghai Stock Exchange (stock code: 601398), respectively
“PRC”	People’s Republic of China
“Preference Shares”	preference shares of HK\$5.00 each in the capital of the Company
“Proposal”	the proposed privatisation of the Company by the Offeror by way of the Scheme of Arrangement
“Record Time”	4:00 p.m. Hong Kong time on the trading day immediately preceding the day when the Scheme of Arrangement becomes effective, being the record time for determining entitlements of the Scheme Shareholders under the Scheme of Arrangement
“Registrar of Companies”	the Registrar of Companies appointed under the Companies Ordinance
“Relevant Authorities”	applicable governments or governmental bodies, regulatory bodies, courts or institutions including but not limited to the SFC, the Hong Kong Stock Exchange, the Hong Kong Monetary Authority and the Hong Kong Insurance Authority
“Scheme of Arrangement”	the scheme of arrangement under Section 166 of the Companies Ordinance for the implementation of the Proposal
“Scheme Shareholders”	registered holders of the Scheme Shares

“Scheme Shares”	Shares in issue at the Record Time, including any Shares which may be issued by the Company following the date of this announcement, other than those beneficially owned by the Offeror
“SFC”	Securities and Futures Commission
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shareholders”	registered holders of the Shares
“Shares”	ordinary shares of HK\$2.00 each in the capital of the Company
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers (as revised from time to time)

By Order of the Board
**INDUSTRIAL AND COMMERCIAL BANK
OF CHINA LIMITED**
Jiang Jianqing
Chairman

By Order of the Board
**INDUSTRIAL AND COMMERCIAL BANK
OF CHINA (ASIA) LIMITED**
Chen Aiping
Managing Director and Chief Executive Officer

Hong Kong, 10 August 2010

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this announcement, other than those relating to the Company, and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this announcement, other than those expressed by the Company, have been arrived at after due and careful consideration and there are no facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this announcement relating to the Company, and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this announcement, other than those expressed by the Offeror, have been arrived at after due and careful consideration and there are no facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.

As at the date of this announcement, the board of directors of the Offeror comprises Mr. Jiang Jianqing, Mr. Yang Kaisheng and Ms. Wang Lili as executive directors, Mr. Huan Huiwu, Mr. Gao Jianhong, Ms. Li Chunxiang, Mr. Li Jun, Mr. Li Xiwen and Mr. Wei Fusheng as non-executive directors, Mr. Leung Kam Chung, Antony, Mr. Qian Yingyi, Mr. Xu Shanda, Mr. Wong Kwong Shing, Frank, Sir Malcolm Christopher McCarthy and Mr. Kenneth Patrick Chung as independent non-executive directors.

As at the date of this announcement, the Board comprises Mr. Chen Aiping, Mr. Wong Yuen Fai and Mr. Zhang Yi as executive directors, Mr. Jiang Jianqing, Ms. Wang Lili and Mr. Hu Hao as non-executive directors and Professor Wong Yue Chim, Richard, S.B.S., J.P., Mr. Tsui Yiu Wa, Alec and Mr. Yuen Kam Ho, George as independent non-executive directors.

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