



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

2015 INTERIM REPORT

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FINANCIAL HIGHLIGHTS

	30 June 2015 HK\$'m	30 June 2014 HK\$'m	31 December 2014 HK\$'m
For the period/year			
Net operating income before impairment allowances	23,688	21,649	44,282
Operating profit	16,303	15,054	30,260
Profit before taxation	16,782	15,179	30,663
Profit for the period/year	13,791	12,333	25,105
Profit attributable to the equity holders of the Company	13,387	12,083	24,577
Per share	HK\$	HK\$	HK\$
Basic earnings per share	1.2662	1.1428	2.3246
Dividend per share	0.5450	0.5450	1.1200
At period/year end	HK\$'m	HK\$'m	HK\$'m
Capital and reserves attributable to the equity holders of the Company	185,574	168,865	176,714
Issued and fully paid share capital	52,864	52,864	52,864
Total assets	2,367,685	2,085,236	2,189,367
Financial ratios	%	%	%
Return on average total assets ¹	1.22	1.20	1.19
Return on average shareholders' equity ²	14.78	14.75	14.65
Cost to income ratio	27.76	28.71	29.29
Loan to deposit ratio ³	63.87	65.87	64.79
Average liquidity ratio ⁴	–	39.58	42.17
Average value of liquidity coverage ratio ⁴			
First quarter	101.90	–	–
Second quarter	109.89	–	–
Total capital ratio ⁵	17.26	16.90	17.51

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

2. Return on average shareholders' equity

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

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

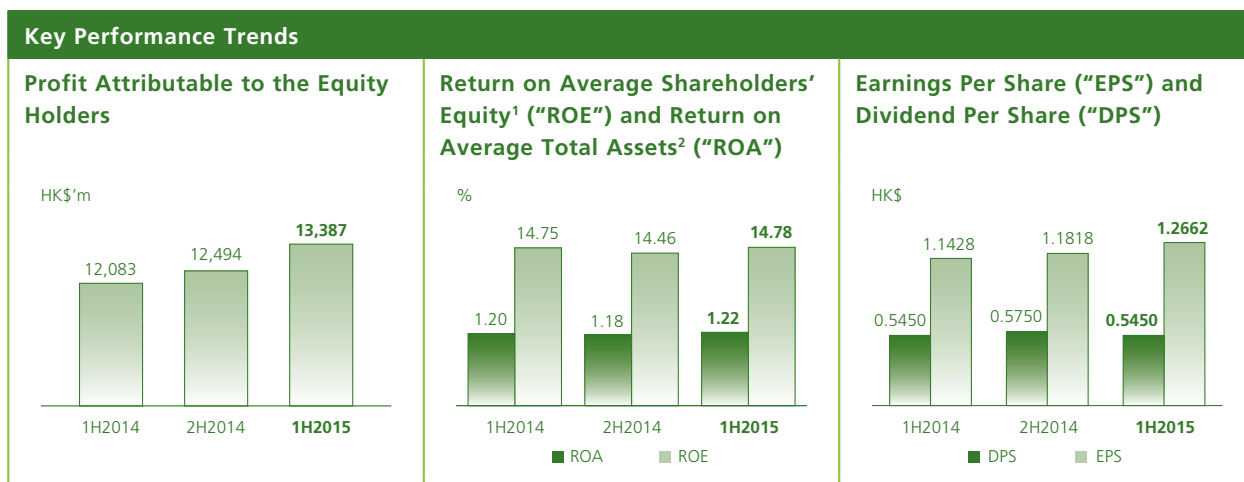
4. The average liquidity ratio is computed on the solo basis (the Hong Kong offices only). The average value of liquidity coverage ratio is computed on the consolidated basis which comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Liquidity) Rules.

5. Total capital ratio is computed on the consolidated basis for regulatory purposes that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE AND CONDITION AT A GLANCE

The Group achieved respectable financial results in the first half of 2015 with interim record highs in revenue and profits. Its financial position remained strong with key financial ratios staying at healthy levels. The following table is a summary of the Group's key financial results for the first half of 2015 in comparison with the previous two half-yearly periods. Meanwhile, the average value of liquidity coverage ratio was reported for the quarter ended 31 March and 30 June 2015.



Profit attributable to the equity holders

- Profit attributable to the equity holders increased by 10.8% year-on-year to HK\$13,387 million. Operating profit after impairment allowances rose by 8.3%, with satisfactory growth in core businesses.

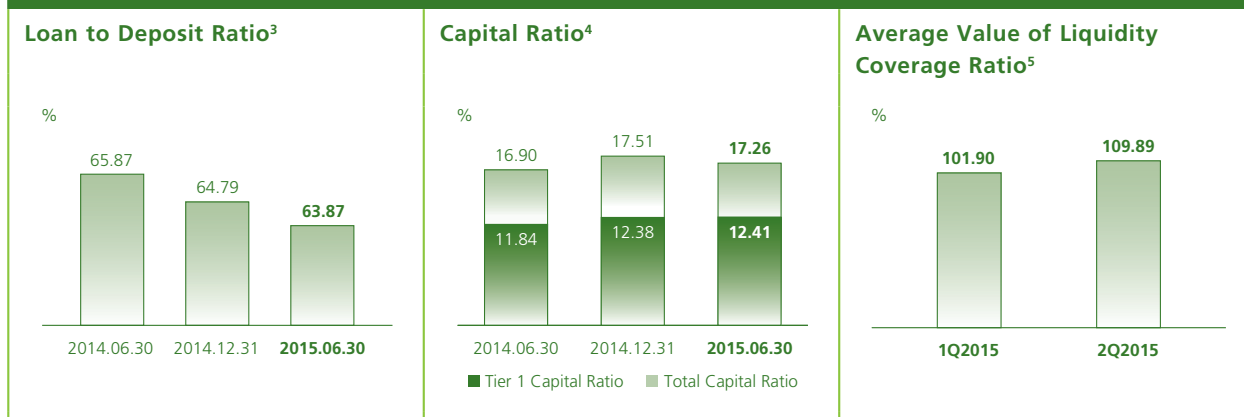
Solid return with sustainable growth

- ROE was 14.78%, up 0.03 percentage point year-on-year, as the increase in profit outpaced that of average equity.
- ROA was 1.22%.

Return to shareholders

- EPS was HK\$1.2662. Interim dividend per share was HK\$0.545.

Financial Position



Loan to deposit ratio at a healthy level

- Advances to customers increased by 7.3% while deposits from customers grew by 8.9% from the end of 2014. Loan to deposit ratio was 63.87%.

Solid capital position to support business growth

- The Group adopted proactive capital management to meet more stringent regulatory requirements and capture long-term business opportunities. The total capital ratio was 17.26% while the Tier 1 capital ratio was 12.41%.

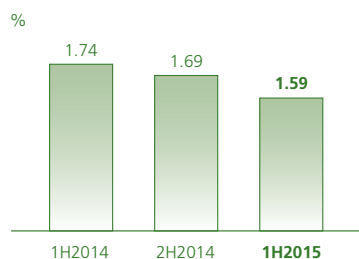
Stable liquidity position

- Average value of liquidity coverage ratio in the first and second quarter of 2015 was 101.90% and 109.89% respectively, well above the regulatory requirement.

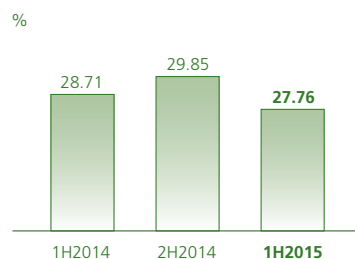
MANAGEMENT'S DISCUSSION AND ANALYSIS

Key Operating Ratios

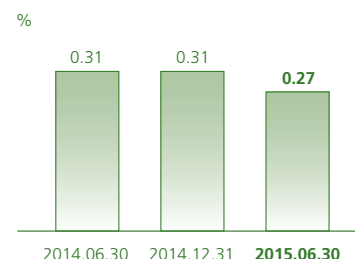
Net Interest Margin ("NIM")



Cost to Income Ratio



Classified or Impaired Loan Ratio⁶



Narrowing NIM with expanded asset size

- NIM was 1.59%, down 15 basis points year-on-year and 10 basis points half-on-half. The decrease was mainly attributable to the diluting impact from an increase in short-term debt securities investments and the lower average interest spread of RMB assets with the decline in market interest rates.

Cautious cost control

- The cost to income ratio was 27.76%, down 0.95 percentage point year-on-year, which was still among the lowest in the industry.

Classified or impaired loan ratio stayed at a low level

- The classified or impaired loan ratio remained low at 0.27%.

- Return on Average Shareholders' Equity as defined in "Financial Highlights".
- Return on Average Total Assets as defined in "Financial Highlights".
- Loan represents gross advances to customers while deposits from customers include structured deposits reported as "Financial liabilities at fair value through profit or loss".
- The capital ratios are computed on a consolidated basis for regulatory purposes that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules.
- The implementation of the Basel III liquidity coverage ratio came into effect on 1 January 2015. The average value of liquidity coverage ratio is calculated based on the arithmetic mean of the liquidity coverage ratio as at the end of each working day in the quarter and is computed on a consolidated basis, which comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Liquidity) Rules.
- Classified or impaired loans represent advances, which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC BACKGROUND AND OPERATING ENVIRONMENT

In the first half of 2015, growth in major economies remained modest. In the US, the recovery remained broadly on track with rising employment and higher levels of business activity. Further monetary easing by the European Central Bank provided support to the economic improvement in the Eurozone but growth momentum remained weak and was further held back by the Greek debt crisis. In the Mainland of China, strong headwinds remained with subdued external demand and slowing internal growth. The Central Government introduced a series of stimulus measures to manage economic growth under what is being termed the "new normal".

The Hong Kong economy continued to grow moderately, supported by domestic demand and solid labour market conditions. However, sluggish external demand and weaker inbound tourism affected net exports and retail sales. The local residential property market showed some signs of consolidation following the introduction of further prudential measures for property mortgage loans by the government in February. The local stock market turned buoyant in the second quarter of 2015 with transaction volumes increasing significantly in April and May.

Overall liquidity in the Hong Kong banking sector stayed abundant and market interest rates remained at low

levels. The average 1-month HIBOR and 1-month LIBOR were 0.24% and 0.18% respectively in the first half of 2015. The average 10-year HKD swap rate and USD swap rate fell from 2.71% and 2.79% in the first half of 2014 to 1.98% and 2.16% respectively in the first half of 2015.

Meanwhile, the offshore RMB business continued to grow steadily. A number of initiatives were introduced to promote capital account convertibility and the global use of RMB. These included the further expansion of the Free Trade Zones ("FTZs") in Guangdong, Tianjin and Fujian; a relaxation of the policy to allow offshore RMB clearing banks and participating banks to take part in repo transactions in the onshore interbank bond market; and the announcement of the launch of the Mainland-Hong Kong Mutual Recognition of Funds.

The operating environment for banks in Hong Kong remained highly challenging in the first half of 2015 owing to the uncertain global recovery. Interest rate cuts in the Mainland of China put pressure on offshore loan pricing. Slower economic growth on the Mainland further dampened already softened loan demand and negatively affected certain industries, which put pressure on asset quality. Nevertheless, the Mainland's strategic initiatives and deepening economic reform continued to present banks with opportunities for acquiring new customers and expanding their business coverage.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL REVIEW

Financial Highlights

HK\$'m	Half-year ended 30 June 2015	Half-year ended 31 December 2014	Half-year ended 30 June 2014
Net operating income before impairment allowances	23,688	22,633	21,649
Operating expenses	(6,576)	(6,756)	(6,216)
Operating profit before impairment allowances	17,112	15,877	15,433
Operating profit after impairment allowances	16,303	15,206	15,054
Profit before taxation	16,782	15,484	15,179
Profit attributable to the equity holders of the Company	13,387	12,494	12,083

In the first half of 2015, the Group captured market opportunities and focused on a variety of growth strategies to achieve a respectable set of financial results. It was proactive in managing its balance sheet and responded swiftly to market changes while continuing to work closely with BOC to capture business opportunities. It also maintained stringent risk management and credit control to safeguard asset quality. As a result, in the first half of 2015 the Group achieved interim record highs in revenue and profits with key financial ratios staying at healthy levels.

The Group's net operating income before impairment allowances rose by HK\$2,039 million, or 9.4% year-on-year, to HK\$23,688 million in the first half of 2015. The increase was driven by the strong growth in net fee and commission income, the higher net operating income of the Group's insurance segment and the net gain from the disposal of certain equity instruments, partially offset by the lower net trading gain. Net interest income was broadly unchanged with the growth in average interest-earning assets, partially offset by the lower net interest

margin. Operating expenses increased as the Group continued to invest in long-term growth. The net charge of loan impairment allowances rose as did the net gain from fair value adjustments on investment properties, which increased year-on-year. Profit attributable to the equity holders grew by HK\$1,304 million, or 10.8%.

As compared with the second half of 2014, the Group's net operating income before impairment allowances increased by HK\$1,055 million, or 4.7%. The growth in income was mainly driven by the increase in net fee and commission income. The net gain from the disposal of certain equity instruments and the higher net operating income of the Group's insurance segment also contributed to the increase in its net operating income. The increases were partially offset by the decline in net interest income, resulting from the narrowing of net interest margin, and the lower net trading gain. Operating expenses fell while net gain from fair value adjustments on investment properties rose. Profit attributable to the equity holders increased by HK\$893 million, or 7.1%, on a half-on-half basis.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INCOME STATEMENT ANALYSIS

Net Interest Income and Margin

HK\$m, except percentages	Half-year ended 30 June 2015	Half-year ended 31 December 2014	Half-year ended 30 June 2014
Interest income	23,860	24,648	23,304
Interest expense	(8,188)	(8,385)	(7,648)
Net interest income	15,672	16,263	15,656
Average interest-earning assets	1,993,548	1,905,864	1,814,625
Net interest spread	1.46%	1.57%	1.62%
Net interest margin*	1.59%	1.69%	1.74%

* Net interest margin is calculated by dividing net interest income by average interest-earning assets.

Compared with the first half of 2014, the Group's net interest income increased moderately by HK\$16 million or 0.1%. The increase was driven by the growth in average interest-earning assets, offset by the lower net interest margin.

Average interest-earning assets expanded by HK\$178,923 million, or 9.9% year-on-year, mainly supported by the increase in deposits from customers.

Net interest margin was 1.59%, down 15 basis points, due to the increase in lower-yielding assets in short-term

debt securities investments and interbank placements. The narrowing of net interest margin was also due to the decrease in the average interest spread of RMB assets, caused by the drop in RMB market interest rates and increase in RMB deposit costs. Nevertheless, the Group continued to be proactive in managing its assets and liabilities and was effective in controlling its deposit pricing. The loan and deposit spread widened. The Group also increased higher-yielding RMB balances and placements with banks, RMB bonds as well as advances to customers. All these partially offset the above negative impact.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	Half-year ended 30 June 2015		Half-year ended 31 December 2014		Half-year ended 30 June 2014	
	Average balance HK\$'m	Average yield %	Average balance HK\$'m	Average yield %	Average balance HK\$'m	Average yield %
ASSETS						
Balances and placements with banks and other financial institutions	442,478	2.67	460,059	3.05	434,892	3.11
Debt securities investments	572,082	2.15	493,881	2.38	455,880	2.49
Advances to customers	962,511	2.46	937,071	2.44	907,670	2.42
Other interest-earning assets	16,477	1.85	14,853	1.61	16,183	1.21
Total interest-earning assets	1,993,548	2.41	1,905,864	2.57	1,814,625	2.59
Non interest-earning assets	276,334	–	257,250	–	246,667	–
Total assets	2,269,882	2.12	2,163,114	2.26	2,061,292	2.28
LIABILITIES						
	Average balance HK\$'m	Average rate %	Average balance HK\$'m	Average rate %	Average balance HK\$'m	Average rate %
Deposits and balances from banks and other financial institutions	193,663	0.94	173,982	0.89	207,172	0.85
Current, savings and time deposits	1,460,105	0.92	1,416,125	0.99	1,306,950	0.99
Certificates of deposit issued	–	–	328	1.11	149	0.78
Subordinated liabilities	19,628	2.11	19,525	2.18	19,704	0.59
Other interest-bearing liabilities	57,459	1.39	52,490	1.31	51,086	1.05
Total interest-bearing liabilities	1,730,855	0.95	1,662,450	1.00	1,585,061	0.97
Non interest-bearing deposits	102,918	–	106,572	–	89,080	–
Shareholders' funds* and other non interest-bearing liabilities	436,109	–	394,092	–	387,151	–
Total liabilities	2,269,882	0.73	2,163,114	0.77	2,061,292	0.75

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

Compared with the second half of 2014, net interest income decreased by HK\$591 million, or 3.6%, due to the lower net interest margin. Average interest-earning assets grew by HK\$87,684 million, or 4.6%, which was supported by the increases in deposits from customers as well as

deposits and balances from banks. Net interest margin was down 10 basis points. This was mainly due to the increase in short-term debt securities investments and the decrease in the average interest spread of RMB assets. The decrease was partially offset by the improved loan and deposit spread.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Fee and Commission Income

HK\$'m	Half-year ended 30 June 2015	Half-year ended 31 December 2014	Half-year ended 30 June 2014
Securities brokerage	2,335	1,496	1,180
Credit card business	1,849	1,881	1,792
Loan commissions	1,330	1,051	1,134
Insurance	818	885	677
Funds distribution	676	522	513
Bills commissions	353	397	413
Payment services	305	304	300
Trust and custody services	241	244	206
Currency exchange	150	126	105
Safe deposit box	140	128	136
Others	289	256	259
Fee and commission income	8,486	7,290	6,715
Fee and commission expense	(2,161)	(1,983)	(1,900)
Net fee and commission income	6,325	5,307	4,815

Net fee and commission income rose strongly by HK\$1,510 million, or 31.4% year-on-year, to HK\$6,325 million. This increase was broad-based. Fee and commission income from securities brokerage, loans, funds distribution, insurance and currency exchange grew strongly. Income from securities brokerage rose substantially by 97.9%, as the Group successfully captured opportunities from increased transactions in the local stock market. Loan commissions grew by 17.3%, due mainly to higher commission income from corporate loans. Income from funds distribution increased by 31.8%, as a result of the Group's enriched product offerings that met customers' needs. Income from insurance grew by 20.8% with the rise in business volume. Income from currency exchange rose by 42.9%, driven by the higher demand for foreign

currency banknotes in the Mainland of China. Commission income from credit cards, trust and custody services also recorded healthy growth. Meanwhile, bills commissions decreased, reflecting the subdued trade-related activities. The increase in fee and commission expense was mainly caused by higher securities brokerage and insurance related expenses.

Compared with the second half of 2014, net fee and commission income grew by HK\$1,018 million, or 19.2%. The increase was mainly driven by an increase in commission income from securities brokerage, loans, funds distribution and currency exchange. Fee and commission expense rose, mainly due to higher securities brokerage and insurance related expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Trading Gain/(Loss)

HK\$'m	Half-year ended 30 June 2015	Half-year ended 31 December 2014	Half-year ended 30 June 2014
Foreign exchange and foreign exchange products	217	575	829
Interest rate instruments and items under fair value hedge	208	234	493
Commodities	30	37	23
Equity and credit derivative instruments	153	(13)	(16)
Net trading gain	608	833	1,329

Net trading gain was HK\$608 million, a decrease of HK\$721 million, or 54.3%, from the first half of 2014. Net trading gain from foreign exchange and foreign exchange products dropped by HK\$612 million, due to the higher net loss on foreign exchange swap contracts*, partially offset by the net gain from foreign exchange transactions. Net trading gain from interest rate instruments and items under fair value hedge dropped by HK\$285 million, mainly attributable to the mark-to-market changes of certain debt securities. There was a net trading gain from equity and credit derivative instruments as opposed to a net trading loss in the first half of 2014, mainly due to the

increased income from equity-linked products in the first half of 2015 versus the mark-to-market loss of certain equity securities in the first half of 2014.

Compared with the second half of 2014, the net trading gain decreased by HK\$225 million, or 27.0%. The decrease was mainly attributable to the higher net loss on foreign exchange swap contracts*, partially offset by the increased income from equity-linked products and the lower net trading loss from certain equity securities investments in the first half of 2015.

* Foreign exchange swap contracts are usually used for the Group's liquidity management and funding activities. Under the foreign exchange swap contracts, the Group exchanges one currency (original currency) for another (swapped currency) at the spot exchange rate (spot transaction) and commits to reverse the spot transaction by exchanging the same currency pair at a future maturity date at a predetermined rate (forward transaction). In this way, surplus funds in the original currency are swapped into another currency for liquidity and funding purposes with minimal foreign exchange risk. The exchange difference between the spot and forward contracts is recognised as a foreign exchange gain or loss (as included in "net trading gain/(loss)"), while the corresponding interest differential between the surplus funds in the original currency and swapped currency is reflected in net interest income.

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

HK\$'m	Half-year ended 30 June 2015	Half-year ended 31 December 2014	Half-year ended 30 June 2014
Net (loss)/gain on financial instruments designated at fair value through profit or loss	(168)	7	18

The Group recorded a net loss of HK\$168 million on financial instruments designated at FVTPL in the first half of 2015, compared with a net gain of HK\$18 million in the first half of 2014. The change was mainly attributable to the mark-to-market loss of debt securities investments of BOCG Life, which was caused by market interest rate movements. This was partially offset by the higher net gain from its equity securities investments. The changes in

market value of its debt securities portfolio were offset by the corresponding changes in policy reserves, as reflected in the changes in net insurance benefits and claims attributable to the movement of market interest rates.

The net gain in the second half of 2014 was mainly attributable to the net gain of BOCG Life's debt securities investments.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Expenses

HK\$'m	Half-year ended 30 June 2015	Half-year ended 31 December 2014	Half-year ended 30 June 2014
Staff costs	3,687	3,779	3,489
Premises and equipment expenses (excluding depreciation)	847	865	814
Depreciation on owned fixed assets	961	929	900
Other operating expenses	1,081	1,183	1,013
Total operating expenses	6,576	6,756	6,216

	At 30 June 2015	At 31 December 2014	At 30 June 2014
Staff headcount measured in full-time equivalents	14,986	14,926	14,623

Total operating expenses increased by HK\$360 million, or 5.8%, to HK\$6,576 million year-on-year, as the Group continued to invest in its service capabilities and new businesses to enhance its long-term competitiveness. During this period, the Group remained focused on disciplined cost control.

Staff costs increased by 5.7%, mainly due to higher salaries as a result of the annual salary increment and the increase in performance-related remuneration.

Premises and equipment expenses were up 4.1% owing to higher rental and maintenance costs.

Depreciation on owned fixed assets rose by 6.8% as a result of a larger depreciation charge on premises and IT equipment as the Group continued to upgrade its IT infrastructure.

Other operating expenses rose by 6.7%, mainly due to higher expenses in connection with the increasing business volume.

Compared with the second half of 2014, operating expenses declined by HK\$180 million, or 2.7%. The decrease was mainly attributable to lower staff costs and advertising expenditure in the first half of 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Charge of Loan Impairment Allowances

HK\$'m	Half-year ended 30 June 2015	Half-year ended 31 December 2014	Half-year ended 30 June 2014
Net charge of allowances before recoveries			
– individual assessment	(812)	(596)	(152)
– collective assessment	(89)	(159)	(326)
Recoveries	95	101	101
Net charge of loan impairment allowances	(806)	(654)	(377)

The net charge of loan impairment allowances was HK\$806 million in the first half of 2015, increasing by HK\$429 million or 113.8% year-on-year. Net charge of individually assessed impairment allowances amounted to HK\$812 million, mainly caused by the downgrade of a few corporate advances due to the worsening asset quality situation in the Mainland of China. The lower net charge of collectively assessed impairment allowances was

primarily due to the periodic update of the parameter values in the assessment model. During the period, recoveries amounted to HK\$95 million.

Compared with the second half of 2014, net charge of loan impairment allowances increased by HK\$152 million, or 23.2%. The increase was mainly caused by the higher net charge of individually assessed impairment allowances.

BALANCE SHEET ANALYSIS

Asset Deployment

HK\$'m, except percentages	At 30 June 2015		At 31 December 2014	
	Amount	% of total	Amount	% of total
Cash and balances with banks and other financial institutions	329,274	13.9	398,673	18.2
Placements with banks and other financial institutions maturing between one and twelve months	50,867	2.1	37,436	1.7
Hong Kong SAR Government certificates of indebtedness	93,530	4.0	90,770	4.2
Securities investments ¹	642,205	27.1	492,820	22.5
Advances and other accounts	1,078,831	45.6	1,014,129	46.3
Fixed assets and investment properties	71,194	3.0	69,766	3.2
Other assets ²	101,784	4.3	85,773	3.9
Total assets	2,367,685	100.0	2,189,367	100.0

1. Securities investments comprise investment in securities and financial assets at fair value through profit or loss.

2. Interests in associates and a joint venture, deferred tax assets and derivative financial instruments are included in other assets.

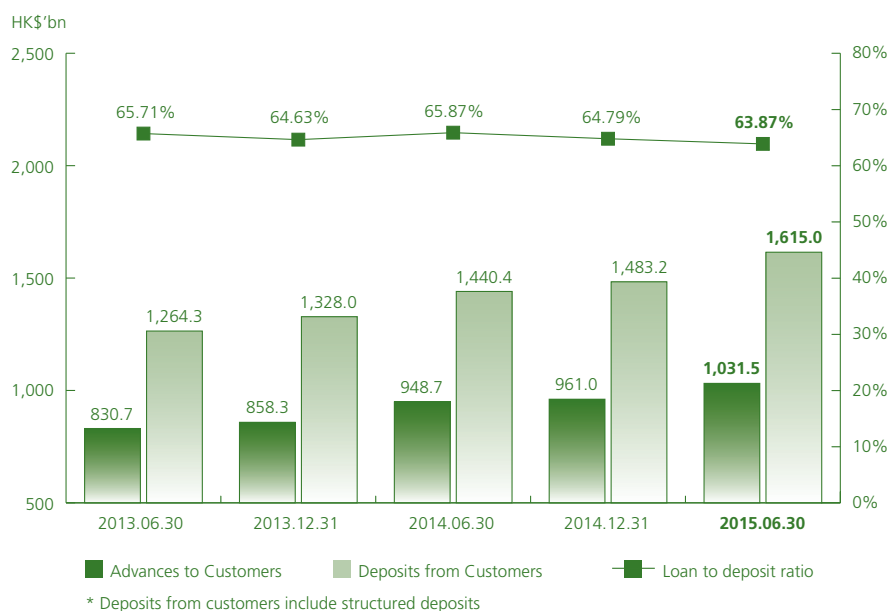
MANAGEMENT'S DISCUSSION AND ANALYSIS

As at 30 June 2015, the Group's total assets amounted to HK\$2,367,685 million, an increase of HK\$178,318 million or 8.1% from the end of 2014. The Group continued to proactively manage its assets and liabilities to enhance profitability.

Key changes in the Group's total assets include the following:

- Cash and balances with banks and other financial institutions decreased by 17.4%, as funds were deployed to securities investments and advances to customers.
- Securities investments increased by 30.3%, with increases mainly in government-related and high-quality corporate bonds.
- Advances and other accounts rose by 6.4%, with the growth in advances to customers by 7.3%.
- Other assets grew by 18.7%, which was led by the increase in account receivables and reinsurance assets.

Advances to customers and deposits from customers*



MANAGEMENT'S DISCUSSION AND ANALYSIS

Advances to Customers

HK\$m, except percentages	At 30 June 2015		At 31 December 2014	
	Amount	% of total	Amount	% of total
Loans for use in Hong Kong	625,371	60.6	575,401	59.9
Industrial, commercial and financial	347,408	33.7	308,141	32.1
Individuals	277,963	26.9	267,260	27.8
Trade finance	87,365	8.5	86,316	9.0
Loans for use outside Hong Kong	318,788	30.9	299,272	31.1
Total advances to customers	1,031,524	100.0	960,989	100.0

The Group continued to adopt a stringent lending policy and focused on customer selection to achieve quality and sustainable loan growth. Advances to customers grew by HK\$70,535 million, or 7.3%, to HK\$1,031,524 million in the first half of 2015.

Loans for use in Hong Kong grew by HK\$49,970 million or 8.7%.

- Lending to the industrial, commercial and financial sectors increased by HK\$39,267 million, or 12.7%. Lending to financial concerns, and for property development, transport and transport equipment as well as manufacturing sectors grew by 260.7%, 21.6%, 20.1% and 20.9% respectively.
- Lending to individuals increased by HK\$10,703 million, or 4.0%. Residential mortgage loans (excluding those under the Government-sponsored home purchasing schemes) grew by 4.5%.

Trade finance rose by HK\$1,049 million, or 1.2%. Loans for use outside Hong Kong grew by HK\$19,516 million, or 6.5%.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Loan Quality

HK\$m, except percentage amounts	At 30 June 2015	At 31 December 2014
Advances to customers	1,031,524	960,989
Classified or impaired loan ratio	0.27%	0.31%
Impairment allowances	4,452	4,616
Regulatory reserve for general banking risks	10,686	10,011
Total allowances and regulatory reserve	15,138	14,627
Total allowances as a percentage of advances to customers	0.43%	0.48%
Impairment allowances ¹ as a percentage of classified or impaired advances	41.17%	38.20%
Residential mortgage loans ² – delinquency and rescheduled loan ratio ³	0.03%	0.02%
Card advances – delinquency ratio ³	0.19%	0.17%
	Half-year ended 30 June 2015	Half-year ended 30 June 2014
Card advances – charge-off ratio ⁴	1.40%	1.45%

1. Referring to impairment allowances on advances classified as “substandard”, “doubtful” or “loss” under the Group’s classification of loan quality, or individually assessed to be impaired.
2. Residential mortgage loans exclude those under the Home Ownership Scheme and other government-sponsored home purchasing schemes.
3. The delinquency ratio is measured by the ratio of the total amount of overdue advances (more than three months) to total outstanding advances.
4. The charge-off ratio is measured by the ratio of total write-offs made during the period to average card receivables during the period.

The Group’s loan quality remained solid. The classified or impaired loan ratio was 0.27%. Classified or impaired advances to customers decreased by HK\$244 million, or 8.1%, to HK\$2,764 million.

Total impairment allowances, including both individual assessment and collective assessment, amounted to HK\$4,452 million. Total impairment allowances on

classified or impaired advances as a percentage of total classified or impaired advances was 41.17%.

The credit quality of the Group’s residential mortgage loans and card advances remained sound. The combined delinquency and rescheduled loan ratio of residential mortgage loans was 0.03% at the end of June 2015. The charge-off ratio of card advances remained low at 1.40% in the first half of 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Deposits from Customers*

HK\$'m, except percentages	At 30 June 2015		At 31 December 2014	
	Amount	% of total	Amount	% of total
Demand deposits and current accounts	166,589	10.3	116,361	7.8
Savings deposits	691,527	42.8	672,826	45.4
Time, call and notice deposits	754,211	46.7	690,922	46.6
	1,612,327	99.8	1,480,109	99.8
Structured deposits	2,672	0.2	3,115	0.2
Deposits from customers	1,614,999	100.0	1,483,224	100.0

- Including structured deposits

The Group continued to leverage its strong customer base and maintain a flexible deposit strategy to support business growth while actively managing deposit pricing. Total deposits from customers were up HK\$131,775 million, or 8.9%, to HK\$1,614,999 million as at 30 June 2015. Demand deposits and current accounts grew

strongly by 43.2% while savings deposits increased by 2.8%. Time, call and notice deposits also increased by 9.2%. The loan to deposit ratio was 63.87% at the end of June 2015, down 0.92 percentage point from the end of 2014.

Capital and Reserves Attributable to the Equity Holders of the Company

HK\$'m	At 30 June 2015	At 31 December 2014
Share capital	52,864	52,864
Premises revaluation reserve	38,748	37,510
Reserve for fair value changes of available-for-sale securities	1,874	1,930
Regulatory reserve	10,686	10,011
Translation reserve	798	778
Retained earnings	80,604	73,621
Reserves	132,710	123,850
Capital and reserves attributable to the equity holders of the Company	185,574	176,714

Capital and reserves attributable to the equity holders of the Company increased by HK\$8,860 million, or 5.0%, to HK\$185,574 million as at 30 June 2015. Retained earnings rose by 9.5%, reflecting the profit for the first half of 2015 after appropriation of the final

dividend for 2014. The premises revaluation reserve increased by 3.3%, which was attributable to the increase in property prices in the first half of 2015. The regulatory reserve rose by 6.7%, mainly due to growth in advances to customers.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital and Liquidity Coverage Ratio

HK\$'m, except percentages	At 30 June 2015	At 31 December 2014
Consolidated capital after deductions		
Common Equity Tier 1 capital	117,304	110,440
Additional Tier 1 capital	592	733
Tier 1 capital	117,896	111,173
Tier 2 capital	45,999	46,035
Total capital	163,895	157,208
Total risk-weighted assets	949,666	897,812
Common Equity Tier 1 capital ratio	12.35%	12.30%
Tier 1 capital ratio	12.41%	12.38%
Total capital ratio	17.26%	17.51%

	Quarter ended 31 March 2015	Quarter ended 30 June 2015
Average value of liquidity coverage ratio	101.90%	109.89%

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

In order to meet extra capital requirements following the Group's designation as one of the domestic systemically important banks in Hong Kong and to capture future business opportunities, the Group continued to adopt proactive measures to manage its capital and optimise the risk-weights of its assets. The Group's aim is to maintain a solid capital adequacy level to support its sustainable growth strategy.

The Group's capital position stayed solid to support its business growth. At 30 June 2015, common equity tier 1 ("CET1") capital ratio was 12.35% and tier 1 capital ratio was 12.41%, up 0.05 percentage point and 0.03 percentage point respectively from that at the end of

2014. Profits net of dividends paid for the half year of 2015 drove up CET1 capital and tier 1 capital by 6.2% and 6.0% respectively. The increase in total risk-weighted assets ("RWA") was mainly from increase in credit RWA due to the growth in advances to customers in the first half of 2015. Total capital ratio was 17.26%.

The average value of liquidity coverage ratio ("LCR") is calculated based on the arithmetic mean of the LCR as at the end of each working day in the quarter and the calculation methodology and instructions set out in the HKMA return of liquidity position. The LCR is computed on a consolidated basis, which comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Liquidity) Rules. The average value of LCR in the first and second quarter of 2015 was 101.90% and 109.89% respectively. For details on the LCR, please refer to Note 3.3(A) to the Interim Financial Information.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Business Segment Performance

Profit/(Loss) before Taxation by Business Segments

HK\$'m, except percentages	Half-year ended 30 June 2015		Half-year ended 30 June 2014	
	Amount	% of total	Amount	% of total
Personal Banking	6,024	35.9	3,388	22.3
Corporate Banking	5,854	34.9	6,379	42.0
Treasury	4,134	24.6	5,367	35.4
Insurance	649	3.9	278	1.8
Others	121	0.7	(233)	(1.5)
Total profit before taxation	16,782	100.0	15,179	100.0

Note: For additional segmental information, see Note 41 to the Interim Financial Information.

PERSONAL BANKING

Financial Results

Personal Banking recorded a strong increase of HK\$2,636 million, or 77.8%, in profit before taxation. The growth was mainly driven by the strong growth in net fee and commission income. Net interest income also grew satisfactorily. The net gain from the disposal of certain equity instruments further contributed to the increase in profit.

Net interest income increased by 15.1%. This was mainly driven by the improvement in the loan spread coupled with the increase in the average balance of deposits and loans. The growth was partially offset by the decrease in the deposit spread.

Net fee and commission income increased strongly by 50.2%. The growth was broad-based and mainly attributable to the higher income from securities brokerage, funds distribution, insurance and credit cards.

During the period, the Group captured market opportunities to dispose of certain equity instruments and realised a net gain.

Operating expenses were up 6.9%, mainly due to the increase in staff costs.

Business operation

The Group's Personal Banking business delivered solid growth in the first half of 2015. It remained the market leader in the underwriting of new mortgage loans and the UnionPay card business. It continuously expanded the product offerings of the investment and insurance businesses with encouraging growth in related commission income. Its refined customer segmentation strategy laid

a solid foundation for stronger customer relationships. The Group also provided targeted sales and promotions to different customer segments, which resulted in the satisfactory growth of its client base in both wealth management and private banking. In addition, the Group collaborated with BOC and its overseas branches to recruit new customers from the Mainland of China and overseas. In recognition of its outstanding performance in retail banking, BOCHK was named the Best Retail Bank 2015 in Hong Kong by The Asian Banker in its International Excellence in Retail Financial Services Programme.

Reinforcing its market leadership in residential mortgages

Market activities in the local residential property market slowed somewhat in the second quarter of the year following the introduction of further prudential measures by the government. To capture new business opportunities, the Group focused on enriching its mortgage service portfolios and providing innovative products across all channels. During the period, the Group added a Mortgage eAssessment function to the Mortgage Expert mobile application, allowing home buyers to obtain preliminary approval amount for their mortgage loan applications within one minute. The Group also supported The Hong Kong Mortgage Corporation Limited by enhancing the features of the Reverse Mortgage Programme and Home Ownership Scheme mortgage plans to offer greater product flexibility. At the same time, the Group continued to work in close partnership with major local property developers and participated in joint promotions with primary property development projects. At the end of June 2015, the balance of the Group's mortgage loans grew by 4.5% compared with the end of last year, and it maintained its leadership position in new residential mortgage loans.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Encouraging growth in the investment and insurance businesses

The investment and insurance businesses registered satisfactory growth in commission income from securities brokerage, funds distribution and insurance during the review period, when the Group stepped up its marketing efforts to acquire new customers and promote more securities dealing services. These included the promotion of its mobile banking securities services and enhanced collaboration with BOC through customer referral incentive schemes. As ties between the Hong Kong and Mainland stock markets grew closer, the Group extended its A-shares trading services to mobile banking. It also invested in customer education with a series of customer seminars and launched the Virtual Securities Investment Competition – BOCHK Investment Championship. As a result, commission income from securities brokerage grew strongly by 97.9%.

In the funds distribution business, the Group continued to broaden its product offerings to satisfy the diverse needs of its customers. Following the announcement of the launch of Mainland-Hong Kong Mutual Recognition of Funds, the Group worked closely with BOC to fully prepare for the provision of a full-range of fund investment services to customers. It selected a number of eligible funds, including Mainland funds with growth potential for local customers and Hong Kong funds with unique features appealing to Mainland customers. To keep local customers abreast of the market information related to Mainland funds and help them identify investment opportunities, the Group launched an education webpage featuring a series of upcoming customer seminars. It also conducted themed marketing campaigns and investment seminars to deepen its relationships with customers, which led to an encouraging 31.8% year-on-year growth in commission income from funds distribution.

With regards to the Bancassurance business, the Group maintained its leading position in the Hong Kong RMB insurance market. During the review period, it continued to provide a diversified range of products and optimised its sales distribution channels. It also held a series of marketing campaigns to reinforce the Group's brand image. As a result, insurance commission income grew satisfactorily by 20.8%.

A recognised leader in the UnionPay card business

The Group's credit card business sustained its growth momentum in the first half of 2015 in terms of cardholder spending volume despite the year-on-year decline in the value of total retail sales in Hong Kong over the same period. It also maintained its leadership in the UnionPay merchant acquiring business and card issuing business in Hong Kong. The BOCHK Credit Card WeChat official account was upgraded to include new functions that improve the customer experience.

Satisfactory growth of customer base in wealth management services

The Group continued to focus on providing customised products and services that meet customers' needs. During the first half of 2015, it launched a series of marketing programmes, including Family Banking-themed promotions. It also introduced tailored product solutions through its Wealth Management, Enrich Banking and i-Free Banking platforms, to provide customers with a wider range of quality banking services. As a result, satisfactory growth was recorded in terms of the number of customers acquired and their related Total Relationship Balance.

The Group's Private Banking business continued to make satisfactory progress owing to the enriched products and services it provided. During the period, it broadened its range of tailored products and services for investment management and estate planning in order to meet the needs of Private Banking clients. The Group also increased its collaboration with BOC to appeal to affluent clients from the Mainland and overseas through a series of client acquisition and referral activities. In order to target overseas clients and capture growing business opportunities from Southeast Asia, it expanded its sales team which helped it to achieve encouraging growth in both the number of Private Banking clients and their assets under management.

A well-recognised electronic banking platform

The Group continued to optimise its distribution channels during the review period. At the end of June 2015, the Group's service network in Hong Kong comprised 260 branches, including 134 wealth management centres. To enhance the customer experience, its overall sales

MANAGEMENT'S DISCUSSION AND ANALYSIS

and service capabilities, and the Group's brand image, the Group continued to roll out its new concept branch in strategic areas of Hong Kong. Automated banking channels were further upgraded in terms of coverage points and facilities. Together with TransUnion, the Group also launched the first-ever Online Loan 360 Service in Hong Kong, an Online-to-Offline (O2O) platform to provide customers with online loan services for enhanced protection of customers' data. Other service improvements included functional enhancements to internet banking, mobile banking and its call centre. In recognition of its well-received electronic platforms and outstanding services, BOCHK was presented with the Best Multi-channel Project Award in the Technology Implementation Awards 2015 by The Asian Banker as well as a number of other industry awards during the period.

CORPORATE BANKING

Financial Results

Corporate Banking recorded a decline of HK\$525 million, or 8.2%, in profit before taxation. The decrease was mainly due to the drop in net interest income and the increase in the net charge of loan impairment allowances, partially offset by the increase in net fee and commission income.

Net interest income decreased by 3.4%, mainly due to the decrease in deposit spread. The decrease was partially offset by the increase in the average balance of deposits and loans.

Net fee and commission income grew by 7.3%, largely led by the increase in loan commissions.

Net charge of loan impairment allowances was up 278.7%, mainly due to the higher net charge of individually assessed impairment allowances incurred by the Group's Mainland business.

Business operation

The Group's Corporate Banking business made strong headway in the first half of 2015. Through deepened collaboration with BOC, the Group was able to capture the increasing demand for cross-border banking services from customers expanding into countries along the One Belt, One Road and ASEAN countries. The Group also

captured opportunities arising from the development of FTZs and extended its geographical presence by securing relationships with overseas financial institutions and central banks. In the custody business, the Group strived to enlarge its customer base and captured opportunities in new client segments. The Group also leveraged its competitive advantage and enhanced its service capabilities in the cash management business.

Capturing opportunities from major national strategic initiatives

The Group was active in capturing opportunities from major national strategic initiatives. These include the One Belt, One Road initiative, the further development of FTZs, Mainland enterprises going global and foreign enterprises expanding into the Mainland. The Group succeeded in expanding its customer base and capturing new business opportunities with leading enterprises in Hong Kong, the Mainland and overseas. Moreover, it formulated differentiated strategies that brought tailored services to customers and provided them with funding solutions that support their expansion into ASEAN. In addition to this, it established working groups to drive product innovation and spur the Group's business development in countries along the One Belt, One Road and in ASEAN. To capture opportunities made possible by the development of the FTZ policy, it took the lead in signing the strategic cooperation agreements or loan contracts with a number of enterprises in new FTZs in Guangdong, Fujian and Tianjin and successfully provided cross-border direct loans to these enterprises.

Developing overseas businesses

Riding on its strong franchise in the RMB business, the Group continued to secure relationships with overseas financial institutions and central banks. Acting as the Asia-Pacific Syndicated Loan Centre of BOC Group, the Group worked closely with BOC's overseas branches and participated in a number of significant syndicated loans for corporates expanding in Asia-Pacific and Europe. In the same vein, during the review period the Group acted as the receiving bank for a number of major IPOs in Hong Kong, which consolidated its leading position in the market. At the end of June 2015, the Group's balance of corporate advances and deposits grew by 8.8% and 13.2% respectively from the end of 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS

An industry segmentation to better serve SMEs

The Group strives to enhance the customer experience for SME customers. During the period, it improved the segmentation of SME customers by industries, which not only further enhanced its service and sales capabilities but also helped expanded its customer base. The Group also added a streamlined application and One-hour Preliminary Approval Service to its BOC Small Business Loan service that improved its operational efficiency and the customer experience. It continued to maintain its contacts with local trade associations by co-organising and sponsoring various business activities. In recognition of its long-standing support of SMEs in Hong Kong, BOCHK received the Best SME's Partner Award from the Hong Kong General Chamber of Small and Medium Business for the eighth year in a row.

Enlarging its customer base for custody services

In the first half of 2015, the Group strived to enlarge its institutional customer base and capture rising opportunities from its new client segments for custody services. It built on its relationships with QDII and RQFII applicants and maintained its status as one of the largest RQFII service providers in Hong Kong. At the same time, it collaborated more closely with BOC and its branches in order to enhance its service capabilities. Significant progress was also made in the preparation for the launch of the Mainland-Hong Kong Mutual Recognition of Funds. At the end of June 2015, excluding the RMB fiduciary account for participating banks, total assets under the Group's custody were valued at HK\$826.6 billion.

Further expansion of cross-border cash management services

The Group further enhanced its cross-border cash management service capabilities. It worked closely with BOC to establish cross-border cash pooling solutions for large corporate clients and helped them to maximise their cash liquidity through onshore and offshore two-way cash sweeping. With the further development of FTZs in China, the Group deepened its collaboration with BOC to provide comprehensive cash management solutions that helped key customers meet their business needs. In

recognition of its outstanding cash management services, BOCHK received the Achievement Award for the Best Cash Management Bank in Hong Kong by The Asian Banker for the third consecutive year. It also received the Hong Kong Domestic Cash Management Bank of the Year award by Asian Banking and Finance for the second consecutive year.

Proactive measures to contain risks

The Group adhered to a prudent credit policy with further refinement in "Know Your Customers" and risk management on key industries. It put in place more stringent pre- and post-lending monitoring measures to track early negative signs. Additionally, it closely monitored the credit positions of customers and industries that could be adversely affected by the volatile economic environment surrounding the Greek debt crisis, slower economic growth in the Mainland, and the expectation of a US interest rate hike. The Group also remained alert to risks from its Mainland exposures and established a trigger point to review and manage those risks. Finally, the Group maintained vigilance in monitoring customers in certain vulnerable industries with the threat of overcapacity.

MAINLAND BUSINESS

Financial performance adversely affected by economic slowdown and weakening credit conditions

The economic slowdown and weakening credit conditions in the Mainland of China adversely affected the Group's Mainland business in the first half of 2015. Net operating income decreased by 14.0% year-on-year, mainly due to the decrease in net interest income as a result of the decline in market interest rates. Slowing economic growth and the need to adjust for excess production capacity in certain industrial sectors created a more challenging credit environment, resulting in an increase in the Group's new classified or impaired advances and hence a higher net charge of loan impairment allowances. The Group remained highly vigilant against risks and conducted more stringent risk management and credit control to safeguard asset quality. Deposits from customers increased by 2.6% while advances to customers grew by 6.8% from the end of last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Continuous enrichment of new products and services

During the period, the Group provided free trade accounts to customers in the Shanghai FTZ and completed its first offshore financial service transaction with the relevant requirements for separate accounting services. It also introduced several China Securities Index 300 linked products to meet increasing customer demand for treasury products. To capture cross-border business opportunities, the Group enhanced its service capabilities in the trade finance business by launching new products with innovative features. In addition, the Group broadened its product offerings in the funds distribution business to satisfy the diverse needs of customers and continued to expand its e-banking capabilities for easy access to banking services. These enhanced capabilities included the launch of WeChat platform for wealth management products and mobile banking service. It also improved its call centre service by extending its operating hours to 24 hours, 7 days a week. At the end of June 2015, the total number of branches and sub-branches operated by the Group in the Mainland remained at 42.

TREASURY

Financial Results

Treasury recorded a decrease of 23.0% in profit before taxation.

Net interest income decreased by 8.2%, mainly due to the decline in the average yield on interbank placements and debt securities investments. The decrease was partially offset by the higher average balance of both related assets.

Net trading gain was down 94.6%. The decrease was mainly caused by a higher net loss on foreign exchange swap contracts and the mark-to-market changes of certain debt securities, which were partially offset by the increased income from equity-linked products.

Net gain on other financial assets was down 44.4% as the Group recorded higher gains from disposal of certain debt securities investments in the first half of last year.

Business Operation

A proactive but risk aware investment strategy

The Group continued to manage its banking book investments carefully throughout the period. It closely monitored changes in the market and acted swiftly to adjust its investment portfolio in order to enhance returns while remaining alert to risks. During the period, the Group adjusted its investment portfolio in response to increased two-way fluctuations in onshore RMB interest rates and growing expectations of a US interest rate hike. In addition to this, the Group increased its investments in government-related and high quality corporate bonds to optimise its investment portfolio.

Enhancing the customer experience

In line with its customer-centric approach, the Group provided time-to-market products and the latest market information to customers. Themed and bundled marketing campaigns along with enhanced support to customers resulted in an overall improvement in the Group's sales capabilities. Among the products and services the Group promoted, currency exchange, FX margin, precious metals and structural products were particularly well-received by customers. In the bond underwriting business, the Group achieved satisfactory results, particularly in the USD and EUR bond underwriting business. During the review period, BOCHK was appointed the sole settlement bank for Shanghai-Hong Kong Gold Connect by Shanghai International Gold Exchange Co. Ltd. ("SGEI"), a wholly-owned subsidiary of Shanghai Gold Exchange, to provide SGEI with funds settlement and cross-border payment services for cross-border gold trading related transactions. In recognition of its outstanding service in treasury products, BOCHK received the Hong Kong Domestic Foreign Exchange Bank of the Year award in the Asian Banking and Finance Wholesale Banking Awards 2015. The Group also successfully established relationships with banks in the ASEAN region for banknotes business.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Continuous support of the RMB business

The Group continued to strengthen its clearing capabilities during the first half of the year by enhancing the functionality of its products and services and offering more efficient infrastructure. This ensured the stable development and continuous improvement of its RMB clearing services in Hong Kong and overseas.

The Group also reinforced its leading position in the offshore RMB market. When the offshore RMB market underwent a volatile period at the beginning of 2015, it acted as an active Primary Liquidity Provider with additional RMB liquidity to stabilise the market. In June, the PBOC enacted a policy that allows offshore RMB clearing and participating banks to take part in the onshore bond repo market, following which the Group completed the first repo transaction conducted by an offshore participating bank.

INSURANCE

Financial Results

Profit before taxation in the Group's Insurance segment was HK\$649 million in the first half of 2015, a rise of 133.5% from the same period in 2014. The growth was mainly driven by improved underwriting income derived from higher premium income and higher returns from its equity investments portfolio.

Net insurance premium income grew robustly by 36.7% as a result of the Group's ongoing efforts to enhance its products as well as marketing and promotional campaigns to increase sales volume.

Net gain on other financial assets amounted to HK\$113 million, up from the HK\$19 million of the same period last year, following the disposal of certain debt securities.

Business Operation

Growth through product enhancement and diversification of distribution channels

The Group continued to broaden its product offerings to meet the diverse needs of customers and to diversify its

distribution channels in order to reach different customer segments. During the period, the Group launched a new annuity product, the IncomeRich Annuity Insurance Plan, for senior customers and a new whole life product, the IncomeShine Whole Life Coupon Plan, for customers who require savings and wealth management. Increasing the number of broker partners and adding new products in the insurance brokers channel helped the Group improve its sales performance. By optimising the broker and tied agency channel and launching a new e-Channel, the Group was able to give customers a broader choice of services.

Continued leadership in RMB insurance products

The Group maintained its leading position in the Hong Kong RMB insurance market by focusing on product optimisation and innovation amid a slowdown in the RMB insurance business. In addition to rolling out innovative new products, the Group optimised the features of its existing products in order to align with the development of multi-distribution channels.

OTHERS

Solid progress in asset management service

BOCHK Asset Management Limited ("BOCHK AM") continued to make progress in the first half of 2015. During the period, the Group launched a new retail fund, the BOCHK All Weather CNY Equity Fund, which was well received by customers. This fund aims to achieve long-term capital growth by investing primarily in China A-shares in the Shenzhen stock market through RQFII. After the BOCHK RMB High Yield Bond Fund was redomiciled to Luxembourg in September 2014, the Group expanded its distribution channel for this fund in Europe and also made preparation for its distribution in Asia. In addition, BOCHK AM established partnerships with BOC's branches in certain Asian countries for fund distribution and customer referrals as well as the promotion of BOCHK AM's services. Following the announcement of the launch of Mainland-Hong Kong Mutual Recognition of Funds, BOCHK AM worked closely with BOC to fully prepare for the provision of a full-range of fund investment services for customers.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Review of the business and assets portfolio of Bank of China Group ("BOC Group")

On 14 July 2015, Bank of China ("BOC") and BOC Hong Kong (Holdings) Limited ("BOCHK (Holdings)") jointly made an announcement in relation to the potential disposal of Nanyang Commercial Bank, Limited ("NCB"), an indirect wholly-owned subsidiary of BOCHK (Holdings) (the "Potential Disposal"). BOC obtained the in-principle approval from the Ministry of Finance of the People's Republic of China for the undertaking of the disposal of 100% interest in NCB in accordance with the relevant regulations of the Administrative Measures for the Transfer of State-owned Assets of Financial Enterprises, by way of public bidding via a legally established assets exchange at the provincial level or above ("Bidding Process"). The Bidding Process via the Beijing Financial Assets Exchange in relation to the potential disposal commenced on 15 July 2015. On 21 May 2015, BOC and BOCHK (Holdings) also jointly announced that both entities have been reviewing their overall business strategies for their respective banking businesses in Hong Kong and the ASEAN region and examining the strategic value and viability of undertaking a restructuring exercise in relation to their banking businesses in the region, including a potential restructuring and transfer of banking businesses and assets owned by BOC in certain ASEAN countries to BOCHK (Holdings) or Bank of China (Hong Kong) Limited ("BOCHK") (the "Potential Restructuring").

The potential disposal and restructuring align with the long-term development strategy of BOC and BOCHK (Holdings). This will help to optimise the resources allocation of the BOC Group and allow it to focus its efforts and enhance its competitiveness in capturing the opportunities arising from the major national strategies including One Belt, One Road, RMB internationalisation and Mainland corporates going global, which will expand its scope for growth. The potential restructuring will also facilitate the development of the BOC Group's business, customer service enhancements, product innovation, marketing capabilities and competitive edge of the BOC Group in the ASEAN region and would be consistent with the long-term development strategy of the BOC Group as a whole in the ASEAN region.

For further information of the potential disposal and restructuring, please refer to the joint announcements made by BOC and BOCHK (Holdings) on 21 May 2015 and 14 July 2015.

RISK MANAGEMENT

Banking Group

Overview

The Group believes that sound risk management is crucial to the success of any organisation. In its daily operation, the Group attaches a high degree of importance to risk management and emphasises that a balance must be struck between risk control and business development. The principal types of risk inherent in the Group's businesses are credit risk, interest rate risk, market risk, liquidity risk, operational risk, reputation risk, legal and compliance risk, and strategic risk. The Group's risk management objective is to enhance shareholder value by maintaining risk exposures within acceptable limits. The Group has a defined risk appetite statement approved by the Board, which is an expression of the types and level of risk that the Group is willing to take in a controllable way in order to achieve its business goals and to meet the expectations of its stakeholders.

Risk Management Governance Structure

The Group's risk management governance structure is designed to cover all business processes and ensures various risks are properly managed and controlled in the course of conducting business. The Group has a robust risk management organisational structure with a comprehensive set of policies and procedures to identify, measure, monitor and control various risks that may arise. These risk management policies and procedures are regularly reviewed and updated to reflect changes in markets and business strategies. Various groups of risk takers assume their respective responsibilities for risk management.

The Board of Directors, representing the interests of shareholders, is the highest decision-making authority of the Group and has the ultimate responsibility for risk management. The Board, with the assistance of its committees, has the primary responsibility for the formulation of risk management strategies and ensuring that the Group has an effective risk management system to implement these strategies.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Risk Committee ("RC"), a standing committee established by the Board of Directors, is responsible for overseeing the Group's various types of risks, approving high-level risk-related policies and monitoring their implementation, reviewing significant or high risk exposures or transactions and exercising its power of veto if it considers that any transaction should not proceed. The Audit Committee assists the Board in fulfilling its role in overseeing the internal control system.

The Chief Executive ("CE") is responsible for managing the Group's various types of risks, approving detailed risk management policies, and material risk exposures or transactions within his authority delegated by the Board of Directors. The Chief Risk Officer ("CRO") assists the CE in fulfilling his responsibilities for the day-to-day management of risks. The CRO is responsible for initiating new risk management strategies, projects and measures that will enable the Group to better monitor and manage new risk issues or areas that may arise from time to time from new businesses, products and changes in the operating environment. The CRO will also take appropriate initiatives in response to regulatory changes. The CRO is also responsible for reviewing material risk exposures or transactions within his delegated authority and exercising his power of veto if he believes that any transaction should not proceed.

Various units of the Group have their respective risk management responsibilities. Business units act as the first line of defence while risk management units, which are independent from the business units, are responsible for the day-to-day management of different kinds of risks. Risk management units have the primary responsibilities for drafting, reviewing and updating various risk management policies and procedures.

The Group's principal banking subsidiaries, NCB, NCB (China) and Chiyu, are subject to risk policies that are consistent with those of the Group. Moreover, the Group's non-banking subsidiaries, such as BOCG Life, are subject to the Group's risk management requirements. These subsidiaries are required to formulate their respective risk management policies based on the characteristics of their own industries, perform daily risk management responsibilities and report to BOCHK on a regular basis. Risk management units of BOCHK monitor the risk management status of these subsidiaries.

Credit Risk Management

Credit risk is the risk of loss that a customer or counterparty is unable to or unwilling to meet its contractual obligations. Credit risk exists in the trading book and banking book, as well as from on- and off-balance sheet transactions of the Group. It arises principally from lending, trade finance and treasury businesses. The Chief Credit Officer, who reports directly to the CRO, takes charge of credit risk management and is also responsible for the control of credit risk exposures of subsidiaries in line with the credit risk management principles and requirements set by the Group.

For advances, different credit approval and control procedures are adopted according to the level of risk associated with the customer, counterparty or transaction. The Credit Risk Assessment Committee, comprising experts from credit and other functions, is responsible for making an independent assessment of material credit which requires the approval of Deputy Chief Executives ("DCE") or above. Credit applications for non-retail exposures are independently reviewed and objectively assessed by risk management units. Obligor ratings (in terms of probability of default) and facility ratings (in terms of loss given default) are assigned to these portfolios to support credit approval. Retail internal rating systems are deployed in the risk assessment of retail credit transactions, including small business retail exposures, residential mortgage loans, personal loans and credit cards. Loan grades, obligor and facility ratings as well as loss estimates (if applicable) are used to support credit approval.

The Group also uses loan grades, obligor ratings and loss estimates (if applicable) to support credit monitoring, reporting and analysis of credit risk information. For non-retail exposures, more frequent rating review and closer monitoring are required for higher-risk customers. For retail exposures, monthly updated internal ratings and loss estimates are used for credit monitoring on a portfolio basis. More comprehensive review is required for obligors being identified under high-risk pools. In the first half of 2015, the Group adopts loan grading criteria which divides credit assets into five categories with reference to the HKMA's guidelines. The Risk Management Department ("RMD") provides regular credit management information reports and ad hoc reports to the Management Committee ("MC"), RC and Board of Directors to facilitate their continuous monitoring of credit risk. In addition, the

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Group identifies credit concentration risk by industry, geography, customer and counterparty. The Group monitors changes to counterparty credit risk, quality of the credit portfolio and credit risk concentrations, and reports regularly to the Group's Management.

The Group employs an internal master rating scale that can be mapped to Standard & Poor's external credit ratings. The structure of internal master rating scale is in compliance with the requirement of the Banking (Capital) Rules under the Hong Kong Banking Ordinance.

For investments in debt securities and securitisation assets, the obligor ratings or external credit ratings, assessment of the underlying assets and credit limits setting on customer/security issuer basis are used for managing credit risk associated with the investment. For derivatives, the Group sets customer limits to manage the credit risk involved and follows the same approval and control processes as applied for advances. On-going monitoring and stop-loss procedures are established. The methodology and assumptions used for impairment assessments are reviewed regularly. In evaluating impairment of asset backed securities ("ABS") and mortgage backed securities ("MBS"), the Group continued to use a significant decline in market price and credit deterioration of the underlying assets to be the key indicators of impairment. The Group also considered other objective evidence of impairment, taking into account the impact of liquidity on market prices and the movement in loss coverage ratios of individual ABS and MBS held by the Group.

Market Risk Management

Market risk refers to the risk of loss arising from movements in the value of foreign exchange, interest rate, equity and commodity positions held by the Group due to the volatility of financial market price (foreign exchange rate, interest rate, equity price, commodity price). The Group adopts a moderate market risk appetite to achieve a balance between risk and return. The Group's objective in managing market risk is to secure healthy growth of the treasury business, by effective management of potential market risk in the Group's business, according to the Group's overall risk appetite and strategy of treasury business on the basis of a well established risk management regime and related management measures.

In accordance with the Group's corporate governance principles in respect of risk management, the Board and RC, senior management and functional departments/units perform their duties and responsibilities to manage the Group's market risk. The RMD (Market Risk Management Division) is mainly responsible for managing market risk, assisting senior management to perform their day-to-day duties, independently monitoring the market risk profile and compliance of management policies and limits of the Group and BOCHK, and ensuring that the aggregate and individual market risks are within acceptable levels.

The Group's market risk management covers BOCHK and its subsidiaries. The Group establishes consistent market risk management policies to regulate BOCHK's and subsidiaries' market risk management; meanwhile, the Group sets up the Group VAR and stress test limits, which are allocated and monitored across the Group, according to the subsidiaries' business requirements and risk tolerance levels. In line with the requirements set in the Group policy, the management of subsidiaries may, subject to prior consent by BOCHK, formulate the detailed policies and procedures and are responsible for managing their daily market risk. The subsidiaries set up independent risk monitoring teams to monitor daily market risk and limit compliance, and submit management information and reports to BOCHK on a regular basis.

The Group sets up market risk indicators and limits to identify, measure, monitor and control market risk. Major risk indicators and limits include but are not limited to VAR, Stop Loss, Open Position, Stress Testing and Sensitivity Analysis (Basis Point Value, Greeks), etc. To meet management requirements, major risk indicators and limits are classified into four levels, and are approved by the RC, MC, CRO and the DCE in charge of the treasury business or the head of the respective business unit, respectively. Treasury business units of BOCHK and subsidiaries (as for Group Limit) are required to conduct their business within approved market risk indicators and limits.

The Group uses the VAR to measure and report general market risks to the RC and senior management on a periodic basis. The Group adopts a uniformed VAR

MANAGEMENT'S DISCUSSION AND ANALYSIS

calculation model, using a historical simulation approach and two years of historical market data, to calculate the VAR of the Group and subsidiaries over a 1-day holding period with a 99% confidence level, and sets up the VAR limit of the Group and subsidiaries.

The Group adopts back-testing to measure the accuracy of VAR model results. The back-testing compares the calculated VAR figure of market risk positions of each business day with the actual and hypothetical revenues arising from those positions on the next business day. Generally speaking, the number of back-testing exceptions in a rolling 12-month period will not exceed four times, given a 99% confidence level.

Interest Rate Risk Management

Interest rate risk means the risks to a bank's earnings and economic value arising from movements in interest rate and term structures of the bank's asset and liability positions. The Group's interest rate risk exposures are mainly structural. The major types of interest rate risk from structural positions are:

- Repricing risk: mismatches in the maturity or repricing periods of assets and liabilities that may affect net interest income;
- Basis risk: different pricing basis for different transactions resulting that the yield on assets and cost of liabilities may change by different amounts within the same repricing period;
- Yield curve risk: non-parallel shifts in the yield curve that may have an adverse impact on net interest income or economic value; and
- Option risk: exercise of the options embedded in assets, liabilities or off-balance sheet items that can cause a change in the cash flows of assets and liabilities.

The Group's risk management framework applies also to interest rate risk management. The Asset and Liability Management Committee ("ALCO") exercises its oversight of interest rate risk in accordance with the "BOCHK Group Banking Book Interest Rate Risk

Management Policy" approved by RC. RMD (Interest Rate and Liquidity Risk Management) is responsible for interest rate risk management. With the cooperation of the Asset and Liability Management Division of Financial Management Department and Investment Management, RMD assists the ALCO to perform day-to-day interest rate risk management. Its roles include, but are not limited to, the formulation of management policies, selection of methodologies, setting of risk indicators and limits, assessment of target balance sheet, monitoring of the compliance with policies and limits, and submission of interest rate risk management reports to the senior management and RC, etc.

The Group sets out interest rate risk indicators and limits to identify, measure, monitor and control interest rate risk. The indicators and limits include, but are not limited to, repricing gap limits, basis risk, duration, price value of a basis point ("PVBP"), Greeks, net interest income sensitivity ratio ("NII"), economic value sensitivity ratio ("EV") (including sub-limit for AFS securities), etc. The indicators and limits are classified into three levels, which are approved by the CFO and CRO, ALCO, RC respectively. Risk-taking business units are required to conduct their business within the boundary of the interest rate risk limits. Before launching a new product or business in the banking book, the relevant departments are required to go through a risk assessment process, which includes the assessment of underlying interest rate risk and consideration of the adequacy of current risk monitoring mechanism. Any material impact on interest rate risk noted during the risk assessment process will be submitted to RC for approval.

NII and EV assess the impact of interest rate movement on the Group's net interest income and capital base. They are the Group's key interest rate risk indicators. The former assesses the impact of interest rate movement on net interest income as a percentage to the projected net interest income for the year. The latter assesses the impact of interest rate movement on economic value (i.e. the net present value of cash flows of assets, liabilities and off-balance sheet items discounted using market interest rate) as a percentage to the latest capital base. Limits are set by the RC on these two indicators to monitor and control the Group's banking book interest rate risk.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Group uses scenario analysis and stress tests to assess the banking book interest rate risk that the Group would face under adverse circumstances. Scenario analyses and stress tests are also used to assess the impact on net interest income and economic value arising from the optionality of savings deposits, the prepayment of mortgage loans and the prepayment of debt securities with embedded options.

Liquidity Risk Management

Liquidity risk is the risk that banks fail to provide sufficient funds to grow assets or pay due obligations, and need to bear an unacceptable loss. The Group maintains sound liquidity risk appetite to provide stable, reliable and adequate sources of cash to meet liquidity needs under normal circumstances or stressed scenarios; and to survive with net positive cumulative cash flow in extreme scenarios, without requesting the HKMA to act as the lender of last resort.

The Group's liquidity risk management objective is to effectively manage the liquidity of on- and off-balance sheet items with reasonable cost based on the liquidity risk appetite to achieve sound operation and sustainable profitability. Deposits from customers are the Group's primary source of funds. To ensure stable and sufficient source of funds are in place, the Group actively attracts new deposits, keeps the core deposit and obtains supplementary funding from the interbank market or by issuing bills in the capital market. According to different term maturities and the results of funding needs estimated from stressed scenarios, the Group adjusts its asset structure (including loans, bonds investment, interbank placement, etc.) to maintain sufficient liquid assets which provides adequate funds in support of normal business needs and ensure its ability to raise funds at a reasonable cost to serve external claims in case of emergency. The Group is committed to diversify the source of funds and the use of funds to avoid excessive concentration of assets and liabilities and prevent triggering liquidity risk due to the break of funding strand when problem occurred in one concentrated funding source. The Group has established intra-group liquidity risk management guideline to manage the liquidity funding among different entities within the Group, and to restrict their reliance of funding on each other. The Group also pays attention

to manage liquidity risk created by off-balance sheet activities, such as loan commitments, derivatives, options and other complex structured products. The Group has an overall liquidity risk management strategy to cover the liquidity management of foreign currency assets and liabilities, collateral, intra-day liquidity, intra-group liquidity, the liquidity risk arising from other risks, etc., and has formulated corresponding contingency plan.

The RC is the decision-making authority of liquidity risk management, and assumes the ultimate responsibility of liquidity risk management. As authorised by RC, ALCO exercises its oversight of liquidity risk and ensures the daily operations of the Group are in accordance with risk appetite and policies as set by RC. RMD (Interest Rate and Liquidity Risk Management) is responsible for overseeing the Group's liquidity risk. It cooperates with the Asset and Liability Management Division of Financial Management Department, Investment Management, etc. to assist the ALCO to perform liquidity management functions according to their specific responsibilities.

The Group established liquidity risk management indicators and limits to identify, measure, monitor and control liquidity risk on daily basis. These indicators and limits include, but are not limited to LCR, loan to deposit ratio, Maximum Cumulative Cash Outflow ("MCO") and liquidity buffer asset portfolio. The Group applies cash flow analysis to assess the Group's liquidity condition under normal conditions and also performs a liquidity stress test (including institution specific, general market crisis and combined crisis) and other methods at least on monthly basis to assess the Group's capability to withstand various severe liquidity crises. Also, the Assets and Liabilities Management System is developed to provide data and the preparation for regular management reports to facilitate liquidity risk management duties.

In accordance with the requirements of Supervisory Policy Manual LM-2 "Sound Systems and controls for Liquidity Risk Management" issued by the HKMA in 2011, the Group has implemented in 2013 the refinement on the behaviour model and assumptions of cash flow analysis and stress test to enhance the Group's cash flow analysis under both normal and stressed conditions. In cash flow analysis under normal circumstances, refinements have

MANAGEMENT'S DISCUSSION AND ANALYSIS

been made to assumptions relating to on-balance sheet items (such as deposits from customers) and off-balance sheet items (such as loan commitments). According to various characteristics of the assets, liabilities and off-balance sheet items, the Group forecasts the future cash flow based on contractual maturity date and the assumptions of customer behaviour and balance sheet changes. The Group establishes MCO indicator which predicts the future 30 days maximum cumulative net cash outflow in normal situations based on the above assumptions, to assess if the Group has sufficient financing capacity to meet the cash flow gap in order to achieve the objective of continuing operation.

In the liquidity stress test, a new combined scenario which is a combination of institution specific and general market crisis has been set up in 2013 to assess the Group's capability to withstand a more severe liquidity crisis, with a more stringent set of assumptions being adopted. Stress test assumptions include the run-off rate of retail, wholesale and interbank deposits; drawdown rate of loan commitments and trade-related contingent liabilities; delinquency ratio and rollover rate of customer loans; and haircut of interbank placement and marketable securities. In addition, the Group has a policy in place to maintain a liquidity cushion which includes high quality marketable securities to ensure funding needs even under stressed scenarios. A contingency plan is being established which details the conditions to trigger the plan based on stress test results and early warning indicators, the action plans and relevant procedures and responsibility of various departments.

The LCR is calculated in accordance with the Banking (Liquidity) Rules effective from 1 January 2015, the Group, being classified as category 1 authorised institution by the HKMA, is required to calculate LCR on consolidated basis. During the year of 2015, the Group is required to maintain a LCR not less than 60%.

In certain derivative contracts, the counterparties have right to request from the Group additional collateral if they have concerns about the Group's creditworthiness.

The Group's liquidity risk management also covers new products or business developments. Before launching a new product or business, the relevant departments are required to go through a risk assessment process, which includes the assessment of underlying liquidity risk and consideration of the adequacy of the current risk management mechanism. Any material impact on liquidity risk noted during the risk assessment process will be reported to RC for approval.

The Group has established a set of uniform liquidity risk management policies which serve as standards and guidance to all the Group's members for liquidity risk management. On the basis of the Group's uniform policy, each of the subsidiaries develops its own liquidity management policies according to its own characteristics, and assumes its own liquidity risk management responsibility. Subsidiaries are required to report their respective liquidity positions on a regular basis to RMD (Interest Rate and Liquidity Risk Management) of BOCHK, which consolidates this information and evaluates group-wide liquidity risk.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal process, people and system, or from external events. The risk is inherent in every aspect of business operations and confronted by the Group in its day-to-day operational activities.

The Group has implemented the "Three Lines of Defence" for its operational risk management. All departments or functional units as the first line of defence are the first parties responsible for operational risk management, and carry out the duties and functions of self risk control in the process of business operation through self assessment and self enhancement. The Compliance and Operational Risk Management Department ("CORMD"), together with certain specialist functional units in relation to operational risk management within the Group, including the Human Resources Department, Information Technology Department, Corporate Services Department, Financial Management Department and General Accounting &

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Accounting Policy Department (collectively known as "specialist functional units"), are the second line of defence. They are responsible for assessing and monitoring the operational risk conditions in the first line of defence, and providing them with guidance. The CORMD, being independent from the business units, is responsible for assisting the Management in managing the Group's operational risk, including the establishment and review of the operational risk management policy and framework, designing the operational risk management tools and reporting mechanism, and assessing and reporting the overall operational risk position to the Management and RC. Specialist functional units are required to carry out their managerial duties of the second line of defence with respect to some specific aspects of operational risk and its related issues. Besides taking charge of operational risk management in their own units, these units are also required to provide other units with professional advice/training in respect of certain operational risk categories and to lead the group-wide operational risk management. Group Audit is the third line of defence which provides independent assessment to the effectiveness and adequacy of the operational risk management framework and is required to conduct periodic audit of the operational risk management activities of various departments or functional units within the Group regarding their compliance and effectiveness and to put forward recommendations for remedial actions.

The Group has put in place an effective internal control process which requires the establishment of policies and control procedures for all the key activities. The Group adheres to the fundamental principle of proper segregation of duties and authorisation. The Group adopts various operational risk management tools or methodologies such as key risk indicators, self-assessment, operational risk events reporting and review to identify, assess, monitor and control the risks inherent in business activities and products, as well as purchase of insurance to mitigate unforeseeable operational risks. Business continuity plans are established to support business operations in the event of an emergency or disaster. Adequate backup facilities are maintained and periodic drills are conducted.

Reputation Risk Management

Reputation risk is the risk that negative publicity about the Group's business practices, whether genuine or not, will cause a potential decline in the customer base, or lead to costly litigation or revenue decrease. Reputation risk is inherent in other types of risk and every aspect of business operation and covers a wide spectrum of issues.

In order to mitigate reputation risk, the Group has formulated and duly followed its Reputation Risk Management Policy. The policy aims to identify and prevent reputation risk proactively at an early stage when an incident occurs. Since reputation risk is often caused by various types of operational and strategic issues that negatively impact the trust and perception of the Group, all operational and key risks identified are assessed through the established Key Control Self-Assessment framework, including risk assessment tools, to evaluate the severity of their impact on the Group, including the damage to reputation.

In addition, the Group has put in place a comprehensive framework to continuously monitor reputation risk incidents in the financial industry. This continuous monitoring enables the Group to effectively manage, control and mitigate any potential adverse impact from an incident. The Group also adopts robust disclosure practices to keep our stakeholders informed at all times, which helps build confidence in the Group and establish a strong public image.

Legal and Compliance Risk Management

Legal risk is the risk that unenforceable contracts, lawsuits or adverse judgments may disrupt or otherwise negatively affect the operations or financial conditions of the Group. Compliance risk is the risk of legal or regulatory sanctions, financial losses or losses in reputation the Group may suffer as a result of its failure to comply with all applicable laws and regulations. Legal and compliance risks are managed by the CORMD, which reports directly to the CRO. All legal matters are handled by the Legal Services Centre ("LSC"), which reports to the Chief Operating Officer. The CORMD is responsible for legal risk management of the Group with support rendered

MANAGEMENT'S DISCUSSION AND ANALYSIS

by the LSC. As part of the Group's corporate governance framework, the policy for the management of legal and compliance risk is approved by the RC as delegated by the Board.

Strategic Risk Management

Strategic risk generally refers to the risks that may cause current or future negative impacts on the earnings, or capital or reputation or market position of the Group because of poor business decisions, improper implementation of strategies and inadequacies in the response to the changing market condition. The Board reviews and approves the strategic risk management policy. Key strategic issues have to be fully evaluated and properly endorsed by the senior management and the Board.

The Group regularly reviews its business strategies to cope with the latest market situation and developments.

Capital Management

The major objective of the Group's capital management is to maximise total shareholders' return while maintaining a capital adequacy position in relation to the Group's overall risk profile. The ALCO periodically reviews the Group's capital structure and adjusts the capital mix where appropriate to maintain an optimal balance among risk, return and capital adequacy.

To comply with the HKMA's requirements as stated in the Supervisory Policy Manual "Supervisory Review Process", the Group adopts the internal capital adequacy assessment process ("ICAAP") and reviews it annually. Based on the HKMA's guidelines on Pillar II, ICAAP has been initiated to assess the extra capital needed to cover the material risks not captured or not adequately captured under Pillar I, and therefore minimum Common Equity Tier 1 capital ratio, minimum Tier 1 capital ratio and minimum Total capital ratio are determined. Meanwhile, operating ranges for the aforementioned capital ratios have also been established which enable the flexibility for future business growth and efficiency of capital utilisation.

Stress Testing

The Group supplements the analysis of various types of risks with stress testing. Stress testing is a risk management tool for estimating risk exposures under stressed conditions arising from extreme but plausible market or macroeconomic movements. These tests are conducted on a regular basis by the Group's various risk management units in accordance with the principles stated in the Supervisory Policy Manual "Stress-testing" published by the HKMA. The ALCO monitors the results against the key risk limits approved by the RC. The Financial Management Department reports the combined stress test results of the Group to the Board and RC regularly.

BOCG Life

BOCG Life's principal business is the underwriting of long-term insurance business in life and annuity (Class A), linked long term business (Class C), retirement scheme management category I (Class G) and retirement scheme management category III (Class I) in Hong Kong. Major types of risk arising from BOCG Life's insurance business are insurance risk, interest rate risk, liquidity risk and credit risk. BOCG Life closely monitors these risks and reports to its Risk Management Committee on a regular basis. The key risks of its insurance business and related risk control process are as follows:

Insurance Risk Management

BOCG Life is in the business of insuring against the risk of mortality, morbidity, disability, critical illness, accidents and related risks. These risks are managed through the application of underwriting policies and reinsurance arrangements.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The reinsurance arrangement helps transfer the insurance risk associated with the insurance contracts to the third party. It does not, however, discharge BOCG Life's liability as the primary insurer. If a reinsurer fails to pay a claim for any reasons, BOCG Life remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered by reviewing the reinsurers' financial strength prior to finalisation of any reinsurance contract. BOCG Life directs its reinsurance placement policy and assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. BOCG Life also monitors the reinsurance counterparty risk exposure on an ongoing basis. It maintains records of the payment history for significant contract holders, with whom it conducts regular business.

For details of the Group's Insurance Risk Management, please refer to Note 3.4 to the Interim Financial Information.

Interest Rate Risk Management

An increase in interest rates may result in the depreciation of the value of BOCG Life's bond portfolio. It might induce in customers surrender. A decrease in interest rates may result in an increase in insurance liability and an inability to adequately match guarantees or lower returns leading to customer dissatisfaction. BOCG Life manages the matching of assets and liabilities of its portfolios within an asset liability management framework that has been developed to achieve investment returns that match its obligations under insurance contracts; and to manage the adverse impact due to interest rate movement.

Liquidity Risk Management

Liquidity risk is the risk of not being able to meet obligations as they fall due without incurring unacceptable

loss. BOCG Life's asset and liability management framework includes cash flow management to preserve liquidity to match policy payout from time to time.

Credit Risk Management

BOCG Life has exposure to credit risk that a customer or counterparty will be unable to or unwilling to meet a commitment that they have entered into. Key areas to which BOCG Life's insurance business is exposed include:

- Default risk of bond issuers or the counterparties of structured products
- Credit spread widening as a result of credit migration (downgrade)
- Reinsurers' share of insurance unpaid liabilities
- Amounts due from reinsurers in respect of claims already paid
- Amounts due from insurance contract holders
- Amounts due from insurance intermediaries

BOCG Life manages credit risk by placing limits on its exposure to each investment counterparty or group of counterparties. Such limits are subject to annual or more frequent review by the Management.

In order to enhance its credit risk management, BOCG Life has strengthened its communication with the Group while closely monitoring and updating internal control to ensure consistency with the Group's credit risk management and investment strategy.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	(Unaudited) Half-year ended 30 June 2015 HK\$'m	(Unaudited) Half-year ended 30 June 2014 HK\$'m
Interest income		23,860	23,304
Interest expense		(8,188)	(7,648)
Net interest income	5	15,672	15,656
Fee and commission income		8,486	6,715
Fee and commission expense		(2,161)	(1,900)
Net fee and commission income	6	6,325	4,815
Gross earned premiums		15,507	11,069
Gross earned premiums ceded to reinsurers		(6,632)	(4,580)
Net insurance premium income		8,875	6,489
Net trading gain	7	608	1,329
Net (loss)/gain on financial instruments designated at fair value through profit or loss		(168)	18
Net gain on other financial assets	8	879	175
Other operating income	9	486	408
Total operating income		32,677	28,890
Gross insurance benefits and claims and movement in liabilities		(16,135)	(12,176)
Reinsurers' share of benefits and claims and movement in liabilities		7,146	4,935
Net insurance benefits and claims and movement in liabilities	10	(8,989)	(7,241)
Net operating income before impairment allowances		23,688	21,649
Net charge of impairment allowances	11	(809)	(379)
Net operating income		22,879	21,270
Operating expenses	12	(6,576)	(6,216)
Operating profit		16,303	15,054
Net gain from disposal of/fair value adjustments on investment properties	13	369	119
Net gain/(loss) from disposal/revaluation of properties, plant and equipment	14	87	(7)
Share of profits less losses after tax of associates and a joint venture		23	13
Profit before taxation		16,782	15,179
Taxation	15	(2,991)	(2,846)
Profit for the period		13,791	12,333
Profit attributable to:			
Equity holders of the Company		13,387	12,083
Non-controlling interests		404	250
		13,791	12,333
Dividends	16	5,762	5,762
		HK\$	HK\$
Earnings per share for profit attributable to the equity holders of the Company			
Basic and diluted	17	1.2662	1.1428

The notes on pages 38 to 110 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited) Half-year ended 30 June 2015 HK\$'m	(Unaudited) Half-year ended 30 June 2014 HK\$'m
Profit for the period	13,791	12,333
Items that will not be reclassified subsequently to income statement:		
Premises:		
Revaluation of premises	1,832	1,443
Deferred tax	(228)	(169)
	1,604	1,274
Items that may be reclassified subsequently to income statement:		
Available-for-sale securities:		
Change in fair value of available-for-sale securities	434	2,817
Release upon disposal of available-for-sale securities reclassified to income statement	(826)	(154)
Amortisation with respect to available-for-sale securities transferred to held-to-maturity securities reclassified to income statement	139	140
Deferred tax	187	(722)
	(66)	2,081
Change in fair value of hedging instruments under net investment hedges	(3)	46
Currency translation difference	20	(264)
	(49)	1,863
Other comprehensive income for the period, net of tax	1,555	3,137
Total comprehensive income for the period	15,346	15,470
Total comprehensive income attributable to:		
Equity holders of the Company	14,940	14,969
Non-controlling interests	406	501
	15,346	15,470

The notes on pages 38 to 110 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) At 30 June 2015 HK\$'m	(Audited) At 31 December 2014 HK\$'m
	Notes		
ASSETS			
Cash and balances with banks and other financial institutions	19	329,274	398,673
Placements with banks and other financial institutions maturing between one and twelve months		50,867	37,436
Financial assets at fair value through profit or loss	20	66,990	53,994
Derivative financial instruments	21	33,631	33,353
Hong Kong SAR Government certificates of indebtedness		93,530	90,770
Advances and other accounts	22	1,078,831	1,014,129
Investment in securities	23	575,215	438,826
Interests in associates and a joint venture		345	324
Investment properties	24	14,988	14,559
Properties, plant and equipment	25	56,206	55,207
Deferred tax assets	32	157	167
Other assets	26	67,651	51,929
Total assets		2,367,685	2,189,367
LIABILITIES			
Hong Kong SAR currency notes in circulation		93,530	90,770
Deposits and balances from banks and other financial institutions		205,604	235,780
Financial liabilities at fair value through profit or loss	27	21,186	12,260
Derivative financial instruments	21	25,385	20,787
Deposits from customers	28	1,612,327	1,480,109
Debt securities and certificates of deposit in issue	29	7,071	11,901
Other accounts and provisions	30	97,132	51,957
Current tax liabilities		4,442	2,778
Deferred tax liabilities	32	8,034	8,081
Insurance contract liabilities	33	82,779	73,796
Subordinated liabilities	34	19,565	19,676
Total liabilities		2,177,055	2,007,895
EQUITY			
Share capital	35	52,864	52,864
Reserves	36	132,710	123,850
Capital and reserves attributable to the equity holders of the Company		185,574	176,714
Non-controlling interests		5,056	4,758
Total equity		190,630	181,472
Total liabilities and equity		2,367,685	2,189,367

The notes on pages 38 to 110 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)								
	Attributable to the equity holders of the Company								
	Share capital HK\$'m	Premises revaluation reserve HK\$'m	Reserve for fair value changes of available- for-sale securities HK\$'m	Regulatory reserve* HK\$'m	Translation reserve HK\$'m	Retained earnings HK\$'m	Total HK\$'m	Non- controlling interests HK\$'m	Total equity HK\$'m
At 1 January 2014	52,864	34,682	488	8,994	1,051	60,734	158,813	4,195	163,008
Profit for the period	-	-	-	-	-	12,083	12,083	250	12,333
Other comprehensive income:									
Premises	-	1,265	-	-	-	-	1,265	9	1,274
Available-for-sale securities	-	-	1,833	-	-	-	1,833	248	2,081
Change in fair value of hedging instruments under net investment hedges	-	-	-	-	43	-	43	3	46
Currency translation difference	-	(3)	39	-	(291)	-	(255)	(9)	(264)
Total comprehensive income	-	1,262	1,872	-	(248)	12,083	14,969	501	15,470
Transfer from retained earnings	-	-	-	807	-	(807)	-	-	-
Dividends	-	-	-	-	-	(4,917)	(4,917)	(183)	(5,100)
At 30 June 2014	52,864	35,944	2,360	9,801	803	67,093	168,865	4,513	173,378
At 1 July 2014	52,864	35,944	2,360	9,801	803	67,093	168,865	4,513	173,378
Profit for the period	-	-	-	-	-	12,494	12,494	278	12,772
Other comprehensive income:									
Premises	-	1,572	-	-	-	-	1,572	12	1,584
Available-for-sale securities	-	-	(434)	-	-	-	(434)	56	(378)
Change in fair value of hedging instruments under net investment hedges	-	-	-	-	3	-	3	-	3
Currency translation difference	-	-	4	-	(28)	-	(24)	-	(24)
Total comprehensive income	-	1,572	(430)	-	(25)	12,494	13,611	346	13,957
Release upon disposal of premises	-	(6)	-	-	-	6	-	-	-
Transfer from retained earnings	-	-	-	210	-	(210)	-	-	-
Dividends	-	-	-	-	-	(5,762)	(5,762)	(101)	(5,863)
At 31 December 2014	52,864	37,510	1,930	10,011	778	73,621	176,714	4,758	181,472

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)								
	Attributable to the equity holders of the Company								
	Share capital HK\$'m	Premises revaluation reserve HK\$'m	Reserve for fair value changes of available-for-sale securities HK\$'m	Regulatory reserve* HK\$'m	Translation reserve HK\$'m	Retained earnings HK\$'m	Total HK\$'m	Non-controlling interests HK\$'m	Total equity HK\$'m
At 1 January 2015	52,864	37,510	1,930	10,011	778	73,621	176,714	4,758	181,472
Profit for the period	-	-	-	-	-	13,387	13,387	404	13,791
Other comprehensive income:									
Premises	-	1,589	-	-	-	-	1,589	15	1,604
Available-for-sale securities	-	-	(52)	-	-	-	(52)	(14)	(66)
Change in fair value of hedging instruments under net investment hedges	-	-	-	-	(3)	-	(3)	-	(3)
Currency translation difference	-	-	(4)	-	23	-	19	1	20
Total comprehensive income	-	1,589	(56)	-	20	13,387	14,940	406	15,346
Release upon disposal of premises	-	(351)	-	-	-	351	-	-	-
Transfer from retained earnings	-	-	-	675	-	(675)	-	-	-
Dividends	-	-	-	-	-	(6,080)	(6,080)	(108)	(6,188)
At 30 June 2015	52,864	38,748	1,874	10,686	798	80,604	185,574	5,056	190,630
Representing:									
2015 interim dividend (Note 16)						5,762			
Others						74,842			
Retained earnings as at 30 June 2015						80,604			

* In accordance with the requirements of the HKMA, the amounts are set aside for general banking risks, including future losses or other unforeseeable risks, in addition to the loan impairment allowances recognised under HKAS 39.

The notes on pages 38 to 110 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Notes	(Unaudited) Half-year ended 30 June 2015 HK\$'m	(Unaudited) Half-year ended 30 June 2014 HK\$'m
Cash flows from operating activities			
Operating cash (outflow)/inflow before taxation	37(a)	(44,747)	2,286
Hong Kong profits tax paid		(1,064)	(910)
Overseas profits tax paid		(340)	(400)
Net cash (outflow)/inflow from operating activities		(46,151)	976
Cash flows from investing activities			
Purchase of properties, plant and equipment		(530)	(282)
Purchase of investment properties		(35)	–
Proceeds from disposal of properties, plant and equipment		466	1
Dividend received from associates and a joint venture		2	2
Net cash outflow from investing activities		(97)	(279)
Cash flows from financing activities			
Dividend paid to the equity holders of the Company		–	(4,917)
Dividend paid to non-controlling interests		(108)	(183)
Interest paid for subordinated liabilities		(204)	(209)
Net cash outflow from financing activities		(312)	(5,309)
Decrease in cash and cash equivalents		(46,560)	(4,612)
Cash and cash equivalents at 1 January		403,828	363,201
Effect of exchange rate changes on cash and cash equivalents		(95)	(7,221)
Cash and cash equivalents at 30 June	37(b)	357,173	351,368

The notes on pages 38 to 110 are an integral part of this interim financial information.

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. Basis of preparation and significant accounting policies

(a) Basis of preparation

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

(b) Significant accounting policies

The significant accounting policies adopted and methods of computation used in the preparation of the unaudited interim financial information are consistent with those adopted and used in the Group’s annual financial statements for the year ended 31 December 2014 and should be read in conjunction with the Group’s Annual Report for 2014.

(c) Standards and amendments issued that are relevant to the Group but not yet effective and have not been early adopted by the Group in 2015

Standards/ Amendments	Content	Applicable for financial years beginning on/after
HKAS 1 (Amendment)	Disclosure Initiative	1 January 2016
HKAS 27 (2011) (Amendment)	Equity Method in Separate Financial Statements	1 January 2016
HKAS 28 (2011) and HKFRS 10 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
HKAS 28 (2011), HKFRS 10 and HKFRS 12 (Amendment)	Investment Entities: Applying the Consolidation Exception	1 January 2016
HKFRS 9 (2014)	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2017

- HKAS 1 (Amendment), “Disclosure Initiative”. The amendments to HKAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.
- HKAS 28 (2011), HKFRS 10 and HKFRS 12 (Amendment), “Investment Entities: Applying the Consolidation Exception”. The narrow-scope amendments to HKAS 28 (2011), HKFRS 10 and HKFRS 12 (Amendment) introduce clarifications to the requirements when accounting for investment entities (i.e. exception on applying equity method/consolidation in relation to investment entities). The amendments also provide relief in particular circumstances. The application of these amendments will not have a material impact on the Group’s financial statements.
- Please refer to Note 2.1(b) of the Group’s Annual Report for 2014 for brief explanations of the rest of the above-mentioned standards and amendments.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

(c) *Standards and amendments issued that are relevant to the Group but not yet effective and have not been early adopted by the Group in 2015 (continued)*

Improvements to HKFRSs

"Improvements to HKFRSs" contains numerous amendments to HKFRSs which the HKICPA considers not urgent but necessary. It comprises amendments that result in accounting changes for presentation, recognition or measurement purpose as well as terminology or editorial amendments related to a variety of individual HKFRSs. The amendments will be effective for annual periods beginning on or after 1 January 2016. The adoption of these improvements does not have a material impact on the Group's financial statements.

2. Critical accounting estimates and judgements in applying accounting policies

The nature and assumptions related to the Group's accounting estimates are consistent with those used in the Group's financial statements for the year ended 31 December 2014.

3. Financial risk management

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

3.1 Credit Risk

(A) Gross advances and other accounts

(a) Impaired advances

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(a) Impaired advances (continued)

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Gross impaired advances to customers	1,763	2,024
Impairment allowances made in respect of such advances	1,085	1,145
Current market value of collateral held against the covered portion of such advances to customers	1,009	1,554
Covered portion of such advances to customers	816	1,204
Uncovered portion of such advances to customers	947	820

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

As at 30 June 2015, there were no impaired trade bills (31 December 2014: Nil).

Classified or impaired advances to customers are analysed as follows:

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Gross classified or impaired advances to customers	2,764	3,008
Gross classified or impaired advances to customers as a percentage of gross advances to customers	0.27%	0.31%
Individually assessed impairment allowances made in respect of such advances	1,035	1,096

Classified or impaired advances to customers represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(b) Advances overdue for more than three months

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

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

	At 30 June 2015		At 31 December 2014	
	Amount HK\$'m	% of gross advances to customers	Amount HK\$'m	% of gross advances to customers
Gross advances to customers which have been overdue for:				
– six months or less but over three months	535	0.05%	512	0.05%
– one year or less but over six months	478	0.05%	555	0.06%
– over one year	413	0.04%	240	0.03%
Advances overdue for over three months	1,426	0.14%	1,307	0.14%
Individually assessed impairment allowances made in respect of such advances	648		768	

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Current market value of collateral held against the covered portion of such advances to customers	1,308	1,230
Covered portion of such advances to customers	808	749
Uncovered portion of such advances to customers	618	558

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

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

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

As at 30 June 2015, there were no trade bills overdue for more than three months (31 December 2014: Nil).

(c) Rescheduled advances

	At 30 June 2015		At 31 December 2014	
	Amount HK\$m	% of gross advances to customers	Amount HK\$m	% of gross advances to customers
Rescheduled advances to customers net of amounts included in "Advances overdue for more than three months"	14	–	25	–

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers

(i) Sectoral analysis of gross advances to customers

The following analysis of the gross advances to customers by industry sector is based on the categories with reference to the completion instructions for the HKMA return of loans and advances.

	At 30 June 2015					
	Gross advances to customers HK\$'m	% Covered by collateral or other security	Classified or impaired HK\$'m	Overdue HK\$'m	Individually assessed impairment allowances HK\$'m	Collectively assessed impairment allowances HK\$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	58,442	29.05%	1	1	1	198
– Property investment	71,202	89.64%	22	145	3	338
– Financial concerns	17,163	6.81%	–	1	–	72
– Stockbrokers	5,714	50.59%	–	–	–	19
– Wholesale and retail trade	40,291	48.20%	153	349	93	193
– Manufacturing	29,126	25.66%	57	90	20	118
– Transport and transport equipment	49,250	32.79%	676	5	–	204
– Recreational activities	462	16.25%	–	–	–	1
– Information technology	9,418	1.26%	3	3	1	29
– Others	66,340	41.43%	60	167	46	247
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	9,117	99.96%	18	190	–	5
– Loans for purchase of other residential properties	213,002	99.94%	102	1,616	1	103
– Credit card advances	12,639	–	37	490	–	91
– Others	43,205	69.32%	49	411	8	66
Total loans for use in Hong Kong	625,371	65.16%	1,178	3,468	173	1,684
Trade finance	87,365	15.33%	419	442	246	333
Loans for use outside Hong Kong	318,788	22.94%	1,167	1,724	616	1,400
Gross advances to customers	1,031,524	47.89%	2,764	5,634	1,035	3,417

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

	At 31 December 2014					
	Gross advances to customers HK\$m	% Covered by collateral or other security	Classified or impaired HK\$m	Overdue HK\$m	Individually assessed	Collectively assessed
					impairment allowances HK\$m	impairment allowances HK\$m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	48,044	31.88%	1	3	–	158
– Property investment	74,110	87.92%	26	413	2	372
– Financial concerns	4,758	22.51%	–	11	–	31
– Stockbrokers	2,051	64.01%	–	–	–	9
– Wholesale and retail trade	38,014	47.71%	149	592	54	187
– Manufacturing	24,097	26.69%	57	145	31	100
– Transport and transport equipment	40,999	33.37%	735	15	13	192
– Recreational activities	454	11.49%	–	–	–	1
– Information technology	13,334	1.02%	2	5	1	41
– Others	62,280	40.54%	26	98	16	252
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	9,363	99.92%	25	229	–	6
– Loans for purchase of other residential properties	203,744	99.92%	71	2,036	1	104
– Credit card advances	13,021	–	37	534	–	93
– Others	41,132	66.70%	43	405	7	66
Total loans for use in Hong Kong	575,401	67.24%	1,172	4,486	125	1,612
Trade finance	86,316	13.88%	353	376	181	334
Loans for use outside Hong Kong	299,272	24.96%	1,483	1,623	790	1,574
Gross advances to customers	960,989	49.28%	3,008	6,485	1,096	3,520

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

(ii) Geographical analysis of gross advances to customers

The following geographical analysis of advances to customers is based on the location of the counterparties, after taking into account the transfer of risk. For an advance to customer guaranteed by a party situated in a country different from the customer, the risk will be transferred to the country of the guarantor.

Gross advances to customers

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Hong Kong	791,763	711,795
Mainland of China	195,563	200,208
Others	44,198	48,986
	1,031,524	960,989
Collectively assessed impairment allowances in respect of the gross advances to customers		
Hong Kong	2,298	2,151
Mainland of China	913	1,142
Others	206	227
	3,417	3,520

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

Overdue advances

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Hong Kong	3,524	4,459
Mainland of China	2,028	1,945
Others	82	81
	5,634	6,485
Individually assessed impairment allowances in respect of the overdue advances		
Hong Kong	215	227
Mainland of China	677	642
Others	1	1
	893	870
Collectively assessed impairment allowances in respect of the overdue advances		
Hong Kong	113	108
Mainland of China	60	12
Others	2	1
	175	121

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

Classified or impaired advances

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Hong Kong	1,356	1,523
Mainland of China	1,402	1,328
Others	6	157
	2,764	3,008
Individually assessed impairment allowances in respect of the classified or impaired advances		
Hong Kong	225	260
Mainland of China	809	771
Others	1	65
	1,035	1,096
Collectively assessed impairment allowances in respect of the classified or impaired advances		
Hong Kong	48	48
Mainland of China	54	5
Others	1	–
	103	53

(B) Repossessed assets

The estimated market value of repossessed assets held by the Group as at 30 June 2015 amounted to HK\$53 million (31 December 2014: HK\$28 million). They comprise properties in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the proprietors concerned) for release in full or in part of the obligations of the borrowers.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(C) Debt securities and certificates of deposit

The following tables present an analysis of the carrying value of debt securities and certificates of deposit by issue rating. In the absence of such issue ratings, the ratings designated for the issuers are reported.

	At 30 June 2015					
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m
Available-for-sale securities	85,520	132,769	194,486	27,302	32,027	472,104
Held-to-maturity securities	34,510	37,524	12,410	3,805	3,995	92,244
Loans and receivables	–	–	6,521	–	1,180	7,701
Financial assets at fair value through profit or loss	11,161	28,032	13,245	3,997	5,233	61,668
Total	131,191	198,325	226,662	35,104	42,435	633,717

	At 31 December 2014					
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m
Available-for-sale securities	64,216	116,869	123,885	21,770	26,720	353,460
Held-to-maturity securities	27,263	30,444	12,763	3,151	3,227	76,848
Loans and receivables	–	–	2,856	–	2,012	4,868
Financial assets at fair value through profit or loss	14,075	19,158	11,844	2,871	3,446	51,394
Total	105,554	166,471	151,348	27,792	35,405	486,570

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(C) Debt securities and certificates of deposit (continued)

The following tables present an analysis of impaired debt securities by issue rating. In the absence of such issue ratings, the ratings designated for the issuers are reported.

	At 30 June 2015						
	Carrying values						Of which accumulated impairment allowances
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m	
Held-to-maturity securities	3	-	-	-	-	3	-
Of which accumulated impairment allowances	-	-	-	-	-	-	-

	At 31 December 2014						
	Carrying values						Of which accumulated impairment allowances
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m	
Held-to-maturity securities	26	-	1	-	-	27	1
Of which accumulated impairment allowances	1	-	-	-	-	1	-

As at 30 June 2015, there were no impaired certificates of deposit and no overdue debt securities and certificates of deposit (31 December 2014: Nil).

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market Risk

(A) VAR

The Group uses the VAR to measure and report general market risks to the RC and senior management on a periodic basis. The Group adopts a uniformed VAR calculation model, using a historical simulation approach and two years of historical market data, to calculate the VAR of the Group and subsidiaries over a 1-day holding period with a 99% confidence level, and sets up the VAR limit of the Group and subsidiaries.

The following table sets out the VAR for all general market risk exposure¹ of the Group.

	Year	At 30 June HK\$'m	Minimum for the first half of year HK\$'m	Maximum for the first half of year HK\$'m	Average for the first half of year HK\$'m
VAR for all market risk	2015	21.9	17.9	38.4	28.3
	2014	21.0	18.2	35.1	26.4
VAR for foreign exchange risk	2015	10.0	9.8	18.4	12.5
	2014	10.5	9.6	19.5	14.3
VAR for interest rate risk	2015	21.7	15.3	37.6	24.8
	2014	21.4	16.8	39.5	27.5
VAR for equity risk	2015	0.3	0.1	0.4	0.3
	2014	0.2	0.1	0.7	0.2
VAR for commodity risk	2015	0.0	0.0	0.2	0.0
	2014	0.6	0.0	1.3	0.3

Note:

1. Structural FX positions have been excluded.

Although a valuable guide to market risk, VAR should always be viewed in the context of its limitations. For example:

- the use of historical market data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a 99% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and
- VAR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

The Group recognises these limitations by formulating stress test indicators and limits to assess and manage the market risk uncovered by VAR. The stress testing programme of the market risk includes sensitivity testing on changes in risk factors with various degrees of severity, as well as scenario analysis on historical events including the 1987 Equity Market Crash, 1994 Bond Market Crash, 1997 Asian Financial Crisis, 2001 9-11 event and 2008 Financial Tsunami, etc.

(B) Currency risk

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market Risk (continued)

(B) Currency risk (continued)

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 30 June 2015 and 31 December 2014. Included in the tables are the assets and liabilities at carrying amounts in HK dollars equivalent, categorised by the original currency.

	At 30 June 2015							
	Renminbi HK\$'m	US Dollars HK\$'m	HK Dollars HK\$'m	Euro HK\$'m	Japanese Yen HK\$'m	Pound Sterling HK\$'m	Others HK\$'m	Total HK\$'m
Assets								
Cash and balances with banks and other financial institutions	257,964	29,941	32,586	566	3,810	822	3,585	329,274
Placements with banks and other financial institutions maturing between one and twelve months	28,597	19,152	2,180	23	-	-	915	50,867
Financial assets at fair value through profit or loss	14,898	22,156	29,737	168	21	7	3	66,990
Derivative financial instruments	483	4,654	28,438	12	1	11	32	33,631
Hong Kong SAR Government certificates of indebtedness	-	-	93,530	-	-	-	-	93,530
Advances and other accounts	139,616	268,055	650,882	13,338	674	136	6,130	1,078,831
Investment in securities								
- Available-for-sale securities	97,413	190,176	96,998	7,873	59,162	4,254	19,394	475,270
- Held-to-maturity securities	33,184	53,786	2,149	-	-	747	2,378	92,244
- Loans and receivables	1,502	6,199	-	-	-	-	-	7,701
Interests in associates and a joint venture	-	-	345	-	-	-	-	345
Investment properties	80	-	14,908	-	-	-	-	14,988
Properties, plant and equipment	824	2	55,380	-	-	-	-	56,206
Other assets (including deferred tax assets)	34,819	6,558	25,031	318	291	94	697	67,808
Total assets	609,380	600,679	1,032,164	22,298	63,959	6,071	33,134	2,367,685
Liabilities								
Hong Kong SAR currency notes in circulation	-	-	93,530	-	-	-	-	93,530
Deposits and balances from banks and other financial institutions	122,716	51,184	30,738	152	47	63	704	205,604
Financial liabilities at fair value through profit or loss	3,712	47	16,204	-	-	6	1,217	21,186
Derivative financial instruments	678	2,651	21,897	101	1	8	49	25,385
Deposits from customers	332,927	308,957	902,787	17,302	8,084	11,930	30,340	1,612,327
Debt securities and certificates of deposit in issue	-	6,441	-	-	570	-	60	7,071
Other accounts and provisions (including current and deferred tax liabilities)	45,489	11,948	47,555	841	1,567	475	1,733	109,608
Insurance contract liabilities	38,569	7,385	36,825	-	-	-	-	82,779
Subordinated liabilities	-	19,565	-	-	-	-	-	19,565
Total liabilities	544,091	408,178	1,149,536	18,396	10,269	12,482	34,103	2,177,055
Net on-balance sheet position	65,289	192,501	(117,372)	3,902	53,690	(6,411)	(969)	190,630
Off-balance sheet net notional position*	(51,105)	(179,545)	287,528	(4,063)	(53,688)	6,320	69	5,516
Contingent liabilities and commitments	77,304	185,168	300,523	2,335	793	17	595	566,735

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market Risk (continued)

(B) Currency risk (continued)

	At 31 December 2014							
	Renminbi HK\$'m	US Dollars HK\$'m	HK Dollars HK\$'m	Euro HK\$'m	Japanese Yen HK\$'m	Pound Sterling HK\$'m	Others HK\$'m	Total HK\$'m
Assets								
Cash and balances with banks and other financial institutions	320,073	37,932	31,296	3,120	1,031	803	4,418	398,673
Placements with banks and other financial institutions maturing between one and twelve months	23,299	9,613	3,393	90	-	97	944	37,436
Financial assets at fair value through profit or loss	14,220	15,440	24,260	-	-	-	74	53,994
Derivative financial instruments	207	8,070	25,034	5	2	9	26	33,353
Hong Kong SAR Government certificates of indebtedness	-	-	90,770	-	-	-	-	90,770
Advances and other accounts	108,107	285,080	603,715	8,013	389	117	8,708	1,014,129
Investment in securities								
– Available-for-sale securities	82,252	155,625	88,070	5,713	-	7,362	18,088	357,110
– Held-to-maturity securities	28,961	42,254	2,317	-	-	649	2,667	76,848
– Loans and receivables	2,075	294	2,499	-	-	-	-	4,868
Interests in associates and a joint venture	-	-	324	-	-	-	-	324
Investment properties	88	-	14,471	-	-	-	-	14,559
Properties, plant and equipment	831	2	54,374	-	-	-	-	55,207
Other assets (including deferred tax assets)	30,106	4,464	16,705	520	20	23	258	52,096
Total assets	610,219	558,774	957,228	17,461	1,442	9,060	35,183	2,189,367
Liabilities								
Hong Kong SAR currency notes in circulation	-	-	90,770	-	-	-	-	90,770
Deposits and balances from banks and other financial institutions	132,829	63,638	37,170	59	42	16	2,026	235,780
Financial liabilities at fair value through profit or loss	937	15	10,078	-	-	6	1,224	12,260
Derivative financial instruments	334	2,567	17,664	151	2	8	61	20,787
Deposits from customers	342,345	310,232	768,896	13,285	3,388	10,637	31,326	1,480,109
Debt securities and certificates of deposit in issue	-	9,780	-	-	1,993	-	128	11,901
Other accounts and provisions (including current and deferred tax liabilities)	16,220	11,800	32,375	1,099	69	418	835	62,816
Insurance contract liabilities	35,796	6,083	31,917	-	-	-	-	73,796
Subordinated liabilities	-	19,676	-	-	-	-	-	19,676
Total liabilities	528,461	423,791	988,870	14,594	5,494	11,085	35,600	2,007,895
Net on-balance sheet position	81,758	134,983	(31,642)	2,867	(4,052)	(2,025)	(417)	181,472
Off-balance sheet net notional position*	(67,792)	(118,871)	193,742	(2,740)	3,831	1,869	(508)	9,531
Contingent liabilities and commitments	67,295	179,433	311,018	1,937	423	14	1,007	561,127

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market Risk (continued)

(C) Interest rate risk

The tables below summarise the Group's on-balance sheet exposure to interest rate risk as at 30 June 2015 and 31 December 2014. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	At 30 June 2015						
	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Non-interest bearing HK\$'m	Total HK\$'m
Assets							
Cash and balances with banks and other financial institutions	312,333	-	-	-	-	16,941	329,274
Placements with banks and other financial institutions maturing between one and twelve months	-	31,095	19,772	-	-	-	50,867
Financial assets at fair value through profit or loss	6,400	11,062	11,886	17,655	15,208	4,779	66,990
Derivative financial instruments	-	-	-	-	-	33,631	33,631
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	93,530	93,530
Advances and other accounts	757,360	196,588	93,817	23,346	1,244	6,476	1,078,831
Investment in securities							
– Available-for-sale securities	38,968	102,785	103,935	167,467	58,949	3,166	475,270
– Held-to-maturity securities	591	1,272	12,054	55,391	22,936	-	92,244
– Loans and receivables	219	3,598	3,884	-	-	-	7,701
Interests in associates and a joint venture	-	-	-	-	-	345	345
Investment properties	-	-	-	-	-	14,988	14,988
Properties, plant and equipment	-	-	-	-	-	56,206	56,206
Other assets (including deferred tax assets)	4,585	-	-	-	-	63,223	67,808
Total assets	1,120,456	346,400	245,348	263,859	98,337	293,285	2,367,685
Liabilities							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	93,530	93,530
Deposits and balances from banks and other financial institutions	161,363	3,080	3,313	-	-	37,848	205,604
Financial liabilities at fair value through profit or loss	6,487	9,418	4,073	714	494	-	21,186
Derivative financial instruments	-	-	-	-	-	25,385	25,385
Deposits from customers	1,131,216	212,425	137,352	12,209	1,273	117,852	1,612,327
Debt securities and certificates of deposit in issue	865	8	525	5,673	-	-	7,071
Other accounts and provisions (including current and deferred tax liabilities)	15,126	2,820	5,980	509	-	85,173	109,608
Insurance contract liabilities	-	-	-	-	-	82,779	82,779
Subordinated liabilities	-	-	-	19,565	-	-	19,565
Total liabilities	1,315,057	227,751	151,243	38,670	1,767	442,567	2,177,055
Interest sensitivity gap	(194,601)	118,649	94,105	225,189	96,570	(149,282)	190,630

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market Risk (continued)

(C) Interest rate risk (continued)

	At 31 December 2014						
	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Non-interest bearing HK\$'m	Total HK\$'m
Assets							
Cash and balances with banks and other financial institutions	376,437	-	-	-	-	22,236	398,673
Placements with banks and other financial institutions maturing between one and twelve months	-	17,730	19,706	-	-	-	37,436
Financial assets at fair value through profit or loss	2,721	7,691	12,173	20,180	8,629	2,600	53,994
Derivative financial instruments	-	-	-	-	-	33,353	33,353
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	90,770	90,770
Advances and other accounts	768,749	154,044	66,747	16,279	1,438	6,872	1,014,129
Investment in securities							
– Available-for-sale securities	40,227	52,220	80,734	122,738	57,541	3,650	357,110
– Held-to-maturity securities	943	2,498	4,241	44,823	24,343	-	76,848
– Loans and receivables	2,499	915	1,454	-	-	-	4,868
Interests in associates and a joint venture	-	-	-	-	-	324	324
Investment properties	-	-	-	-	-	14,559	14,559
Properties, plant and equipment	-	-	-	-	-	55,207	55,207
Other assets (including deferred tax assets)	1,604	-	-	-	-	50,492	52,096
Total assets	1,193,180	235,098	185,055	204,020	91,951	280,063	2,189,367
Liabilities							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	90,770	90,770
Deposits and balances from banks and other financial institutions	201,704	6,277	2,705	-	-	25,094	235,780
Financial liabilities at fair value through profit or loss	3,428	4,643	3,190	483	516	-	12,260
Derivative financial instruments	-	-	-	-	-	20,787	20,787
Deposits from customers	1,061,875	210,280	120,810	14,698	-	72,446	1,480,109
Debt securities and certificates of deposit in issue	2,316	2,811	1,074	5,700	-	-	11,901
Other accounts and provisions (including current and deferred tax liabilities)	16,572	2,685	4,055	194	-	39,310	62,816
Insurance contract liabilities	-	-	-	-	-	73,796	73,796
Subordinated liabilities	-	-	-	-	19,676	-	19,676
Total liabilities	1,285,895	226,696	131,834	21,075	20,192	322,203	2,007,895
Interest sensitivity gap	(92,715)	8,402	53,221	182,945	71,759	(42,140)	181,472

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity Risk

(A) Liquidity coverage ratio/liquidity ratio

	Quarter ended 31 March 2015	Quarter ended 30 June 2015
Average value of liquidity coverage ratio	101.90%	109.89%

The average value of liquidity coverage ratio is calculated based on the arithmetic mean of the liquidity coverage ratio as at the end of each working day in the quarter and the calculation methodology and instructions set out in the HKMA return of liquidity position.

The liquidity coverage ratio is computed on the consolidated basis which comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Liquidity) Rules.

The additional information of liquidity coverage ratio disclosures is available under section "Regulatory Disclosures" on the Bank's website at www.bochk.com.

	Half-year ended 30 June 2014
Average liquidity ratio	39.58%

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

(B) Maturity analysis

The tables below analyse the Group's assets and liabilities as at 30 June 2015 and 31 December 2014 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2015							Total HK\$m
	On demand HK\$m	Up to 1 month HK\$m	1 to 3 months HK\$m	3 to 12 months HK\$m	1 to 5 years HK\$m	Over 5 years HK\$m	Indefinite HK\$m	
Assets								
Cash and balances with banks and other financial institutions	246,128	72,037	-	-	-	-	11,109	329,274
Placements with banks and other financial institutions maturing between one and twelve months	-	-	31,095	19,772	-	-	-	50,867
Financial assets at fair value through profit or loss								
- held for trading								
- debt securities	-	5,775	9,234	11,114	9,631	3,739	-	39,493
- certificates of deposit	-	1	716	705	128	8	-	1,558
- designated at fair value through profit or loss								
- debt securities	-	538	307	455	7,739	11,305	-	20,344
- certificates of deposit	-	-	-	6	267	-	-	273
- equity securities and fund	-	-	-	-	-	-	4,779	4,779
- others	-	188	355	-	-	-	-	543
Derivative financial instruments	12,546	3,020	6,155	6,483	4,632	795	-	33,631
Hong Kong SAR Government certificates of indebtedness	93,530	-	-	-	-	-	-	93,530
Advances and other accounts								
- advances to customers	123,747	33,607	65,370	174,166	391,082	236,733	2,367	1,027,072
- trade bills	2	10,538	15,837	25,382	-	-	-	51,759
Investment in securities								
- available-for-sale								
- debt securities	-	17,132	75,053	70,531	182,313	59,248	-	404,277
- certificates of deposit	-	3,163	8,075	43,999	12,377	213	-	67,827
- held-to-maturity								
- debt securities	-	243	1,467	12,887	54,864	22,762	3	92,226
- certificates of deposit	-	-	-	-	-	18	-	18
- loans and receivables								
- debt securities	-	219	3,598	3,884	-	-	-	7,701
- equity securities	-	-	-	-	-	-	3,166	3,166
Interests in associates and a joint venture	-	-	-	-	-	-	345	345
Investment properties	-	-	-	-	-	-	14,988	14,988
Properties, plant and equipment	-	-	-	-	-	-	56,206	56,206
Other assets (including deferred tax assets)	20,151	21,418	923	4,622	5,562	15,058	74	67,808
Total assets	496,104	167,879	218,185	374,006	668,595	349,879	93,037	2,367,685

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

(B) Maturity analysis (continued)

	At 30 June 2015							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
Liabilities								
Hong Kong SAR currency notes in circulation	93,530	-	-	-	-	-	-	93,530
Deposits and balances from banks and other financial institutions	158,054	41,157	3,080	3,313	-	-	-	205,604
Financial liabilities at fair value through profit or loss	-	6,487	9,418	4,073	714	494	-	21,186
Derivative financial instruments	8,586	2,357	3,458	6,406	3,372	1,206	-	25,385
Deposits from customers	858,545	386,891	214,866	137,968	12,784	1,273	-	1,612,327
Debt securities and certificates of deposit in issue - debt securities	-	865	8	557	5,641	-	-	7,071
Other accounts and provisions (including current and deferred tax liabilities)	26,714	59,743	3,386	11,239	8,524	2	-	109,608
Insurance contract liabilities	21,032	950	1,170	5,245	12,632	41,750	-	82,779
Subordinated liabilities	-	-	418	-	19,147	-	-	19,565
Total liabilities	1,166,461	498,450	235,804	168,801	62,814	44,725	-	2,177,055
Net liquidity gap	(670,357)	(330,571)	(17,619)	205,205	605,781	305,154	93,037	190,630

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

(B) Maturity analysis (continued)

	At 31 December 2014							Total HK\$m
	On demand HK\$m	Up to 1 month HK\$m	1 to 3 months HK\$m	3 to 12 months HK\$m	1 to 5 years HK\$m	Over 5 years HK\$m	Indefinite HK\$m	
Assets								
Cash and balances with banks and other financial institutions	326,887	60,109	-	-	-	-	11,677	398,673
Placements with banks and other financial institutions maturing between one and twelve months	-	-	17,730	19,706	-	-	-	37,436
Financial assets at fair value through profit or loss								
– held for trading								
– debt securities	-	2,627	6,572	10,606	12,530	3,287	-	35,622
– certificates of deposit	-	142	642	393	251	-	-	1,428
– designated at fair value through profit or loss								
– debt securities	-	45	129	1,109	7,534	5,263	-	14,080
– certificates of deposit	-	-	-	-	264	-	-	264
– equity securities and fund	-	-	-	-	-	-	2,600	2,600
Derivative financial instruments	10,880	3,502	2,813	11,619	1,852	2,687	-	33,353
Hong Kong SAR Government certificates of indebtedness	90,770	-	-	-	-	-	-	90,770
Advances and other accounts								
– advances to customers	113,635	28,987	60,630	171,511	347,232	231,875	2,503	956,373
– trade bills	32	12,779	20,973	23,972	-	-	-	57,756
Investment in securities								
– available-for-sale								
– debt securities	-	8,624	27,253	65,814	135,098	58,323	-	295,112
– certificates of deposit	-	13,284	6,072	24,598	14,187	207	-	58,348
– held-to-maturity								
– debt securities	-	434	2,503	5,111	44,481	24,197	27	76,753
– certificates of deposit	-	-	77	-	-	18	-	95
– loans and receivables								
– debt securities	-	2,499	915	1,454	-	-	-	4,868
– equity securities	-	-	-	-	-	-	3,650	3,650
Interests in associates and a joint venture	-	-	-	-	-	-	324	324
Investment properties	-	-	-	-	-	-	14,559	14,559
Properties, plant and equipment	-	-	-	-	-	-	55,207	55,207
Other assets (including deferred tax assets)	15,705	11,999	149	4,157	7,757	12,301	28	52,096
Total assets	557,909	145,031	146,458	340,050	571,186	338,158	90,575	2,189,367

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

(B) Maturity analysis (continued)

	At 31 December 2014							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
Liabilities								
Hong Kong SAR currency notes in circulation	90,770	-	-	-	-	-	-	90,770
Deposits and balances from banks and other financial institutions	203,379	23,419	6,277	2,705	-	-	-	235,780
Financial liabilities at fair value through profit or loss	-	3,428	4,643	3,190	483	516	-	12,260
Derivative financial instruments	6,976	3,029	2,455	4,500	2,532	1,295	-	20,787
Deposits from customers	793,425	338,722	209,587	122,979	15,396	-	-	1,480,109
Debt securities and certificates of deposit in issue - debt securities	-	2,316	2,811	1,106	5,668	-	-	11,901
Other accounts and provisions (including current and deferred tax liabilities)	29,145	14,175	4,294	7,054	8,148	-	-	62,816
Insurance contract liabilities	12,417	1,099	1,733	6,199	14,807	37,541	-	73,796
Subordinated liabilities	-	-	418	-	-	19,258	-	19,676
Total liabilities	1,136,112	386,188	232,218	147,733	47,034	58,610	-	2,007,895
Net liquidity gap	(578,203)	(241,157)	(85,760)	192,317	524,152	279,548	90,575	181,472

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

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

The above analysis in respect of insurance contract liabilities represents the estimated timing of net cash outflows resulting from recognised insurance contract liabilities on the balance sheet.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.4 Insurance Risk

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

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

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

For the in-force insurance contracts, most of the underlying insurance liabilities are related to endowment, whole life and unit-linked insurance products. For most of the insurance policies issued, the Group has a retention limit on any single life insured. The Group cedes the excess of the insured benefit over the limit to reinsurer under an excess of loss reinsurance arrangement. For some of the insurance liabilities, the Group has entered into reinsurance arrangements that reinsure most of insurance risk.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality, morbidity and persistency. The Group conducted relevant experience studies. The results of the studies are considered in determining the assumptions which include appropriate level of prudential margins.

3.5 Capital Management

The Group has adopted the foundation internal ratings-based ("FIRB") approach to calculate the credit risk capital charge for the majority of its non-securitisation exposures and the internal ratings-based (securitisation) approach to calculate the credit risk capital charge for its securitisation exposures. A small residual credit exposures are remained under the standardised (credit risk) ("STC") approach. The Group has adopted the standardised credit valuation adjustment ("CVA") method to calculate the capital charge for the CVA risk of the counterparty. The Group continues to adopt the internal models ("IMM") approach to calculate the general market risk capital charge for foreign exchange and interest rate exposures and, with the approval from the HKMA, exclude its structural FX positions arising from NCB and Chiyu in the calculation of the market risk capital charge. The Group continues to adopt the standardised (market risk) ("STM") approach to calculate the market risk capital charge for the remaining exposures. The Group continues to adopt the standardised (operational risk) ("STO") approach to calculate the operational risk capital charge.

(A) Basis of regulatory consolidation

The consolidation basis for regulatory purposes comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules. For accounting purposes, subsidiaries are consolidated in accordance with HKFRSs and the list of subsidiaries is set out in "Appendix – Subsidiaries of the Company" on pages 118 to 119.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital Management (continued)

(A) Basis of regulatory consolidation (continued)

The Company, its subsidiaries of BOC Group Life Assurance Company Limited and BOCHK Asset Management (Cayman) Limited (including their subsidiaries), and certain subsidiaries of BOCHK are included within the accounting scope of consolidation but not included within the regulatory scope of consolidation.

The particulars of the above-mentioned subsidiaries of BOCHK are as follows:

Name	At 30 June 2015		At 31 December 2014	
	Total assets HK\$'m	Total equity HK\$'m	Total assets HK\$'m	Total equity HK\$'m
Bank of China (Hong Kong) Nominees Limited	–	–	–	–
Bank of China (Hong Kong) Trustees Limited	10	9	9	9
BOC Group Trustee Company Limited	200	200	200	200
BOCHK Information Technology (Shenzhen) Co., Ltd.	220	197	214	186
BOCHK Information Technology Services (Shenzhen) Ltd.	313	267	303	260
BOCI-Prudential Trustee Limited	462	414	458	430
Che Hsing (Nominees) Limited	1	1	1	1
Chiyu Banking Corporation (Nominees) Limited	131	131	115	115
Grace Charter Limited	–	(11)	–	(11)
Kwong Li Nam Investment Agency Limited	4	4	4	4
Nanyang Commercial Bank (Nominees) Limited	1	1	1	1
Nanyang Commercial Bank Trustee Limited	16	16	16	16
Po Sang Financial Investment Services Company Limited	122	105	121	105
Po Sang Futures Limited	468	188	597	188
Seng Sun Development Company, Limited	42	41	40	40
Sin Chiao Enterprises Corporation, Limited	7	7	7	7
Sin Hua Trustee Limited	5	5	5	5
Sino Information Services Company Limited	8	8	20	20

There are no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation as at 30 June 2015 (31 December 2014: Nil).

There are also no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation but the methods of consolidation differ as at 30 June 2015 (31 December 2014: Nil).

The principal activities of the above subsidiaries are set out in “Appendix – Subsidiaries of the Company” on pages 118 to 119.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital Management (continued)

(B) Capital ratio

	At 30 June 2015	At 31 December 2014
CET1 capital ratio	12.35%	12.30%
Tier 1 capital ratio	12.41%	12.38%
Total capital ratio	17.26%	17.51%

The consolidated capital base after deductions used in the calculation of the above capital ratios as at 30 June 2015 and 31 December 2014 and reported to the HKMA is analysed as follows:

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments	43,043	43,043
Retained earnings	84,080	76,649
Disclosed reserves	49,454	47,803
Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	693	614
CET1 capital before regulatory deductions	177,270	168,109
CET1 capital: regulatory deductions		
Valuation adjustments	(31)	(19)
Deferred tax assets net of deferred tax liabilities	(157)	(167)
Gains and losses due to changes in own credit risk on fair valued liabilities	(194)	(160)
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	(48,898)	(47,312)
Regulatory reserve for general banking risks	(10,686)	(10,011)
Total regulatory deductions to CET1 capital	(59,966)	(57,669)
CET1 capital	117,304	110,440
AT1 capital: instruments		
AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	592	733
AT1 capital	592	733
Tier 1 capital	117,896	111,173

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital Management (continued)

(B) Capital ratio (continued)

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Tier 2 capital: instruments and provisions Capital instruments subject to phase out arrangements from Tier 2 capital	18,230	19,294
Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	213	256
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	5,552	5,195
Tier 2 capital before regulatory deductions	23,995	24,745
Tier 2 capital: regulatory deductions Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	22,004	21,290
Total regulatory deductions to Tier 2 capital	22,004	21,290
Tier 2 capital	45,999	46,035
Total capital	163,895	157,208

The capital conservation buffer ratio, higher loss absorbency ratio, countercyclical capital buffer ratio ("CCyB ratio") and the applicable JCCyB ratios for Hong Kong and non-Hong Kong jurisdictions for 2015 are 0% in accordance with the Banking (Capital) Rules.

The additional information of capital disclosures is available under section "Regulatory Disclosures" on the Bank's website at www.bochk.com.

(C) Leverage ratio

	At 30 June 2015 HK\$'m
Tier 1 capital	117,896
Leverage ratio exposure	2,251,075
Leverage ratio	5.24%

The additional information of leverage ratio disclosures is available under section "Regulatory Disclosures" on the Bank's website at www.bochk.com.

NOTES TO THE INTERIM FINANCIAL INFORMATION

4. Fair values of financial assets and liabilities

All financial instruments for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy as defined in HKFRS 13, "Fair value measurement". The categorisation are determined with reference to the observability and significance of the inputs used in the valuation methods and based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: based on quoted prices (unadjusted) in active markets for identical assets or liabilities. This category includes listed equity securities on exchange, debt instruments issued by certain governments and certain exchange-traded derivative contracts.
- Level 2: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly. This category includes majority of the over-the-counter ("OTC") derivative contracts, debt securities and certificates of deposit with quote from pricing services vendors and issued structured deposits.
- Level 3: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. This category includes equity investment and debt instruments with significant unobservable components.

For financial instruments that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

4.1 *Financial instruments measured at fair value*

The Group has an established governance structure and controls framework to ensure that fair values are either determined or validated by control units independent of the front offices. Control units have overall responsibility for independent verification of valuation results from front line businesses and all other significant fair value measurements. Specific controls include verification of observable pricing inputs; review and approval for new models and changes to models; calibration and back-testing of models against observed market transactions; analysis and investigation of significant daily valuation movements; review of significant unobservable inputs and valuation adjustments. Significant valuation issues are reported to senior management, Risk Committee and Audit Committee.

The Group uses valuation techniques or broker/dealer quotations to determine the fair value of financial instruments when unable to obtain the open market quotation in active markets.

The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, counterparty credit spreads and others, which are mostly observable and obtainable from open market.

NOTES TO THE INTERIM FINANCIAL INFORMATION

4. Fair values of financial assets and liabilities (continued)

4.1 Financial instruments measured at fair value (continued)

The technique used to calculate the fair value of the following financial instruments is as below:

Debt securities and certificates of deposit

The fair value of these instruments is determined by obtaining quoted market prices from exchange, dealer or independent pricing service vendors or using discounted cash flow technique. Discounted cash flow model is a valuation technique that measures present value using estimated expected future cash flows from the instruments and then discounts these flows using a discount rate or discount margin that reflects the credit spreads required by the market for instruments with similar risk. These inputs are observable or can be corroborated by observable or unobservable market data.

Asset backed securities

For this class of instruments, external prices are obtained from independent third parties. The valuation of these securities, depending on the nature of transaction, is estimated from market standard cash flow models with input parameter which include spreads to discount rates, default and recovery rates and prepayment rates that may be observable or compiled through matrix pricing for similar issues.

Derivatives

OTC derivative contracts include forward, swap and option contracts on foreign exchange, interest rate, equity, commodity or credit. The fair values of these contracts are mainly measured using valuation techniques such as discounted cash flow models and option pricing models. The inputs can be observable or unobservable market data. Observable inputs include interest rate, foreign exchange rates, equity and stock prices, commodity prices, credit default swap spreads and volatilities. Unobservable inputs such as volatility surface may be used for less commonly traded option products which are embedded in structured deposits. For certain complex derivative contracts, the fair values are determined based on broker/dealer price quotations.

Credit valuation adjustments (“CVA”) and debit valuation adjustments (“DVA”) are applied to the Group’s OTC derivatives. These adjustments reflect interest rates, expectations of counterparty creditworthiness and the Group’s own credit spread respectively. They are mainly determined for each counterparty and are dependent on expected future values of exposures, default probabilities and recovery rates.

Financial liabilities designated at fair value through profit or loss

This class of instruments includes certain deposits received from customers that are embedded with derivatives. The plain vanilla contracts are valued in the similar way described in previous debt securities section. The fair value of structured deposits is derived from the fair value of the underlying deposit by using discounted cash flow analysis taking the Group’s own credit risk into account, and the fair value of the embedded derivatives determined as described in the paragraph above on derivatives.

NOTES TO THE INTERIM FINANCIAL INFORMATION

4. Fair values of financial assets and liabilities (continued)

4.1 Financial instruments measured at fair value (continued)

(A) Fair value hierarchy

	At 30 June 2015			
	Level 1 HK\$'m	Level 2 HK\$'m	Level 3 HK\$'m	Total HK\$'m
Financial assets				
Financial assets at fair value through profit or loss (Note 20)				
– Trading assets				
– Debt securities and certificates of deposit	3	41,048	–	41,051
– Equity securities	7	–	–	7
– Others	–	543	–	543
– Financial assets designated at fair value through profit or loss				
– Debt securities and certificates of deposit	73	18,828	1,716	20,617
– Equity securities	2,106	–	–	2,106
– Fund	2,666	–	–	2,666
Derivative financial instruments (Note 21)	12,551	21,080	–	33,631
Available-for-sale securities (Note 23)				
– Debt securities and certificates of deposit	83,700	387,768	636	472,104
– Equity securities	2,890	–	276	3,166
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 27)				
– Trading liabilities	–	18,514	–	18,514
– Financial liabilities designated at fair value through profit or loss	–	2,672	–	2,672
Derivative financial instruments (Note 21)	8,592	16,793	–	25,385

NOTES TO THE INTERIM FINANCIAL INFORMATION

4. Fair values of financial assets and liabilities (continued)

4.1 Financial instruments measured at fair value (continued)

(A) Fair value hierarchy (continued)

	At 31 December 2014			
	Level 1 HK\$'m	Level 2 HK\$'m	Level 3 HK\$'m	Total HK\$'m
Financial assets				
Financial assets at fair value through profit or loss (Note 20)				
– Trading assets				
– Debt securities and certificates of deposit	189	36,861	–	37,050
– Equity securities	3	–	–	3
– Financial assets designated at fair value through profit or loss				
– Debt securities and certificates of deposit	78	13,186	1,080	14,344
– Equity securities	1,641	–	–	1,641
– Fund	956	–	–	956
Derivative financial instruments (Note 21)	10,885	22,468	–	33,353
Available-for-sale securities (Note 23)				
– Debt securities and certificates of deposit	8,374	344,179	907	353,460
– Equity securities	2,664	719	267	3,650
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 27)				
– Trading liabilities	–	9,145	–	9,145
– Financial liabilities designated at fair value through profit or loss	–	3,115	–	3,115
Derivative financial instruments (Note 21)	6,979	13,808	–	20,787

There were no financial asset and liability transfers between level 1 and level 2 for the Group during the period (31 December 2014: Nil).

NOTES TO THE INTERIM FINANCIAL INFORMATION

4. Fair values of financial assets and liabilities (continued)

4.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items

	At 30 June 2015		
	Financial assets		
	Financial assets designated at fair value through profit or loss	Available-for-sale securities	
		Debt securities and certificates of deposit HK\$'m	Debt securities and certificates of deposit HK\$'m
At 1 January 2015	1,080	907	267
(Losses)/gains			
– Income statement			
– Net loss on financial instruments designated at fair value through profit or loss	(24)	–	–
– Other comprehensive income			
– Change in fair value of available-for-sale securities	–	2	9
Purchases	660	38	–
Sales	–	(79)	–
Transfers out of level 3	–	(232)	–
At 30 June 2015	1,716	636	276
Total unrealised loss for the period included in income statement for financial assets held as at 30 June 2015			
– Net loss on financial instruments designated at fair value through profit or loss	(24)	–	–

NOTES TO THE INTERIM FINANCIAL INFORMATION

4. Fair values of financial assets and liabilities (continued)

4.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

	At 31 December 2014		
	Financial assets		
	Financial assets designated at fair value through profit or loss		
	Available-for-sale securities		
	Debt securities and certificates of deposit HK\$'m	Debt securities and certificates of deposit HK\$'m	Equity securities HK\$'m
At 1 January 2014	385	6,247	250
(Losses)/gains			
– Income statement			
– Net loss on financial instruments designated at fair value through profit or loss	(9)	–	–
– Other comprehensive income			
– Change in fair value of available-for-sale securities	–	22	17
Purchases	725	78	–
Sales	(21)	(3,410)	–
Transfers out of level 3	–	(2,030)	–
At 31 December 2014	1,080	907	267
Total unrealised loss for the year included in income statement for financial assets held as at 31 December 2014			
– Net loss on financial instruments designated at fair value through profit or loss	(9)	–	–

NOTES TO THE INTERIM FINANCIAL INFORMATION

4. Fair values of financial assets and liabilities (continued)

4.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

As at 30 June 2015 and 31 December 2014, financial instruments categorised as level 3 are mainly comprised of debt securities, certificates of deposit and unlisted equity shares.

Debt securities and certificates of deposit were transferred out of level 3 during the first half of 2015 and in the year of 2014 due to improvement of valuation observability. For certain illiquid debt securities and certificates of deposit, the Group obtains valuation quotations from counterparties which may be based on unobservable inputs with significant impact on the valuation. Therefore, these instruments have been classified by the Group as level 3. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

The fair values of unlisted available-for-sale equity shares are determined with reference to multiples of comparable listed companies, such as average of the price/earning ratios of comparables, or net asset value, if appropriate comparables are not available. The fair value is positively correlated to the price/earning ratios of appropriate comparables or net asset values. Had the net asset value of the underlying equity investments increased/decreased by 5%, the Group's other comprehensive income would have increased/decreased by HK\$14 million (31 December 2014: HK\$13 million).

4.2 Financial instruments not measured at fair value

Fair value estimates are made at a specific point in time based on relevant market information and information about various financial instruments. The following methods and assumptions have been used to estimate the fair value of each class of financial instrument as far as practicable.

Balances with/from banks and other financial institutions and trade bills

Substantially all the financial assets and liabilities mature within one year from the balance sheet date and their carrying value approximates fair value.

Advances to customers

Substantially all the advances to customers are on floating rate terms, bear interest at prevailing market interest rates and their carrying value approximates fair value.

Held-to-maturity securities

The fair value of held-to-maturity securities is determined by using the same approach as those debt securities and certificates of deposit and asset backed securities measured at fair value as described in Note 4.1.

NOTES TO THE INTERIM FINANCIAL INFORMATION

4. Fair values of financial assets and liabilities (continued)

4.2 Financial instruments not measured at fair value (continued)

Loans and receivables

A discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

Deposits from customers

Substantially all the deposits from customers mature within one year from the balance sheet date and their carrying value approximates fair value.

Debt securities and certificates of deposit in issue

The fair value of these instruments is determined by using the same approach as those debt securities and certificates of deposit and asset backed securities measured at fair value as described in Note 4.1.

Subordinated liabilities

Fair value for subordinated notes is based on market prices or broker/dealer price quotations.

The following tables set out the carrying values and fair values of the financial instruments not measured at fair value, except for the above with their carrying values being approximation of fair values.

	At 30 June 2015		At 31 December 2014	
	Carrying value HK\$'m	Fair value HK\$'m	Carrying value HK\$'m	Fair value HK\$'m
Financial assets				
Held-to-maturity securities (Note 23)	92,244	94,147	76,848	78,515
Loans and receivables (Note 23)	7,701	7,715	4,868	4,867
Financial liabilities				
Debt securities and certificates of deposit in issue (Note 29)	7,071	7,440	11,901	12,315
Subordinated liabilities (Note 34)	19,565	21,693	19,676	21,624

NOTES TO THE INTERIM FINANCIAL INFORMATION

5. Net interest income

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
Interest income		
Due from banks and other financial institutions	5,856	6,709
Advances to customers	11,740	10,872
Listed investments	2,194	2,466
Unlisted investments	3,919	3,159
Others	151	98
	23,860	23,304
Interest expense		
Due to banks and other financial institutions	(906)	(877)
Deposits from customers	(6,681)	(6,446)
Debt securities and certificates of deposit in issue	(146)	(80)
Subordinated liabilities	(206)	(57)
Others	(249)	(188)
	(8,188)	(7,648)
Net interest income	15,672	15,656

Included within interest income is HK\$10 million (first half of 2014: HK\$3 million) of interest with respect to income accrued on advances classified as impaired for the first half of 2015. Interest income accrued on impaired investment in securities amounted to HK\$1 million (first half of 2014: HK\$2 million).

Included within interest income and interest expense are HK\$23,777 million (first half of 2014: HK\$23,525 million) and HK\$8,469 million (first half of 2014: HK\$7,974 million), before hedging effect, for financial assets and financial liabilities that are not recognised at fair value through profit or loss respectively.

NOTES TO THE INTERIM FINANCIAL INFORMATION

6. Net fee and commission income

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
Fee and commission income		
Securities brokerage	2,335	1,180
Credit card business	1,849	1,792
Loan commissions	1,330	1,134
Insurance	818	677
Funds distribution	676	513
Bills commissions	353	413
Payment services	305	300
Trust and custody services	241	206
Currency exchange	150	105
Safe deposit box	140	136
Others	289	259
	8,486	6,715
Fee and commission expense		
Credit card business	(1,341)	(1,334)
Securities brokerage	(273)	(140)
Insurance	(158)	(114)
Others	(389)	(312)
	(2,161)	(1,900)
Net fee and commission income	6,325	4,815
Of which arise from		
– financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	1,383	1,168
– Fee and commission expense	(10)	(9)
	1,373	1,159
– trust and other fiduciary activities		
– Fee and commission income	340	303
– Fee and commission expense	(15)	(11)
	325	292

NOTES TO THE INTERIM FINANCIAL INFORMATION

7. Net trading gain

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
Net gain/(loss) from:		
– foreign exchange and foreign exchange products	217	829
– interest rate instruments and items under fair value hedge	208	493
– commodities	30	23
– equity and credit derivative instruments	153	(16)
	608	1,329

8. Net gain on other financial assets

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
Net gain on available-for-sale securities	826	154
Net gain on held-to-maturity securities	3	–
Others	50	21
	879	175

9. Other operating income

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
Dividend income from investment in securities		
– listed investments	58	58
– unlisted investments	22	22
Gross rental income from investment properties	227	235
Less: Outgoings in respect of investment properties	(31)	(33)
Others	210	126
	486	408

Included in the “Outgoings in respect of investment properties” is HK\$3 million (first half of 2014: HK\$4 million) of direct operating expenses related to investment properties that were not let during the period.

NOTES TO THE INTERIM FINANCIAL INFORMATION

10. Net insurance benefits and claims and movement in liabilities

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
Gross insurance benefits and claims and movement in liabilities		
Claims, benefits and surrenders paid	(7,246)	(5,723)
Movement in liabilities	(8,889)	(6,453)
	(16,135)	(12,176)
Reinsurers' share of benefits and claims and movement in liabilities		
Reinsurers' share of claims, benefits and surrenders paid	2,506	248
Reinsurers' share of movement in liabilities	4,640	4,687
	7,146	4,935
Net insurance benefits and claims and movement in liabilities	(8,989)	(7,241)

11. Net charge of impairment allowances

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
Advances to customers		
Individually assessed		
– new allowances	(915)	(500)
– releases	103	348
– recoveries	74	82
Net charge of individually assessed loan impairment allowances	(738)	(70)
Collectively assessed		
– new allowances	(346)	(348)
– releases	257	22
– recoveries	21	19
Net charge of collectively assessed loan impairment allowances	(68)	(307)
Net charge of loan impairment allowances	(806)	(377)
Held-to-maturity securities		
Net reversal of individually assessed impairment allowances on held-to-maturity securities	1	2
Others	(4)	(4)
Net charge of impairment allowances	(809)	(379)

NOTES TO THE INTERIM FINANCIAL INFORMATION

12. Operating expenses

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
Staff costs (including directors' emoluments)		
– salaries and other costs	3,409	3,226
– pension cost	278	263
	3,687	3,489
Premises and equipment expenses (excluding depreciation)		
– rental of premises	427	412
– information technology	211	212
– others	209	190
	847	814
Depreciation	961	900
Auditor's remuneration		
– audit services	4	3
– non-audit services	1	3
Other operating expenses	1,076	1,007
	6,576	6,216

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

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
Net gain from fair value adjustments on investment properties	369	119

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

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
Net gain from disposal of premises	96	–
Net loss from disposal of other fixed assets	(10)	(7)
Net gain from revaluation of premises	1	–
	87	(7)

NOTES TO THE INTERIM FINANCIAL INFORMATION

15. Taxation

Taxation in the income statement represents:

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
Current tax		
Hong Kong profits tax		
– current period taxation	2,616	2,197
– over-provision in prior periods	(4)	(57)
	2,612	2,140
Overseas taxation		
– current period taxation	463	603
– (over)/under-provision in prior periods	(7)	4
	3,068	2,747
Deferred tax		
Origination and reversal of temporary differences	(77)	99
	2,991	2,846

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2015. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2015 at the rates of taxation prevailing in the countries in which the Group operates.

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

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
Profit before taxation	16,782	15,179
Calculated at a taxation rate of 16.5% (2014: 16.5%)	2,769	2,505
Effect of different taxation rates in other countries	(7)	36
Income not subject to taxation	(275)	(76)
Expenses not deductible for taxation purposes	71	213
Utilisation of previously unrecognised tax losses	–	(1)
Over-provision in prior periods	(11)	(53)
Foreign withholding tax	444	222
Taxation charge	2,991	2,846
Effective tax rate	17.8%	18.7%

NOTES TO THE INTERIM FINANCIAL INFORMATION

16. Dividends

	Half-year ended 30 June 2015		Half-year ended 30 June 2014	
	Per share HK\$	Total HK\$m	Per share HK\$	Total HK\$m
Interim dividend	0.545	5,762	0.545	5,762

At a meeting held on 28 August 2015, the Board declared an interim dividend of HK\$0.545 per ordinary share for the first half of 2015 amounting to approximately HK\$5,762 million. This declared interim dividend is not reflected as a dividend payable in this interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2015.

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

The calculation of basic earnings per share is based on the consolidated profit attributable to the equity holders of the Company for the first half of 2015 of approximately HK\$13,387 million (first half of 2014: HK\$12,083 million) and on the ordinary shares in issue of 10,572,780,266 shares (2014: 10,572,780,266 ordinary shares).

There was no dilution of earnings per share as no potential ordinary shares were in issue for the first half of 2015 (first half of 2014: Nil).

18. Retirement benefit costs

Defined contribution schemes for the Group's employees are ORSO schemes exempted under the MPF Schemes Ordinance and the BOC-Prudential Easy Choice MPF Scheme. Under the ORSO schemes, employees make monthly contributions to the ORSO schemes equal to 5% of their basic salaries, while the employer makes monthly contributions equal to 5% to 15% of the employees' monthly basic salaries, depending on years of service. The employees are entitled to receive 100% of the employer's contributions upon retirement, early retirement or termination of employment after completing 10 years of service. Employees with 3 to 9 years of service are entitled to receive the employer's contributions at a scale ranging from 30% to 90% upon termination of employment for other reasons other than summary dismissal. All employer's contributions received by employee are subject to MPF Schemes Ordinance.

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

The Group's total contributions made to the ORSO schemes for the first half of 2015 amounted to approximately HK\$183 million (first half of 2014: approximately HK\$179 million), after a deduction of forfeited contributions of approximately HK\$4 million (first half of 2014: approximately HK\$3 million). For the MPF Scheme, the Group contributed approximately HK\$41 million (first half of 2014: approximately HK\$34 million) for the first half of 2015.

NOTES TO THE INTERIM FINANCIAL INFORMATION

19. Cash and balances with banks and other financial institutions

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Cash	7,995	9,749
Balances with central banks	79,345	104,317
Balances with banks and other financial institutions	169,897	224,498
Placements with banks and other financial institutions maturing within one month	72,037	60,109
	329,274	398,673

20. Financial assets at fair value through profit or loss

	Trading assets		Financial assets designated at fair value through profit or loss		Total	
	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
At fair value						
Treasury bills	18,204	11,990	–	–	18,204	11,990
Other debt securities	21,289	23,632	20,344	14,080	41,633	37,712
	39,493	35,622	20,344	14,080	59,837	49,702
Certificates of deposit	1,558	1,428	273	264	1,831	1,692
Total debt securities and certificates of deposit	41,051	37,050	20,617	14,344	61,668	51,394
Equity securities	7	3	2,106	1,641	2,113	1,644
Fund	–	–	2,666	956	2,666	956
Total securities	41,058	37,053	25,389	16,941	66,447	53,994
Others	543	–	–	–	543	–
Total	41,601	37,053	25,389	16,941	66,990	53,994

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

Total securities are analysed by place of listing as follows:

	Trading assets		Financial assets designated at fair value through profit or loss	
	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Debt securities and certificates of deposit				
– Listed in Hong Kong	9,858	10,756	4,768	2,852
– Listed outside Hong Kong	4,328	5,567	9,089	5,419
	14,186	16,323	13,857	8,271
– Unlisted	26,865	20,727	6,760	6,073
	41,051	37,050	20,617	14,344
Equity securities				
– Listed in Hong Kong	7	3	1,445	1,516
– Listed outside Hong Kong	–	–	661	125
	7	3	2,106	1,641
Fund				
– Unlisted	–	–	2,666	956
Total securities	41,058	37,053	25,389	16,941

Total securities are analysed by type of issuer as follows:

	Trading assets		Financial assets designated at fair value through profit or loss	
	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Sovereigns	24,613	19,102	1,494	273
Public sector entities*	379	465	–	–
Banks and other financial institutions	9,336	11,581	15,582	10,332
Corporate entities	6,730	5,905	8,313	6,336
Total securities	41,058	37,053	25,389	16,941

* Included trading assets of HK\$379 million (31 December 2014: HK\$465 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

NOTES TO THE INTERIM FINANCIAL INFORMATION

21. Derivative financial instruments

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

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

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

21. Derivative financial instruments (continued)

The following tables summarise the contract/notional amounts of each class of derivative financial instrument as at 30 June 2015 and 31 December 2014:

	At 30 June 2015			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts				
Spot, forwards and futures	383,915	–	2,548	386,463
Swaps	1,515,351	233	16,319	1,531,903
Foreign currency options				
– Options purchased	40,863	–	–	40,863
– Options written	43,712	–	–	43,712
	1,983,841	233	18,867	2,002,941
Interest rate contracts				
Futures	2,526	–	–	2,526
Swaps	339,329	96,041	3,848	439,218
	341,855	96,041	3,848	441,744
Commodity contracts	8,503	–	–	8,503
Equity contracts	7,739	–	–	7,739
Total	2,341,938	96,274	22,715	2,460,927

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

21. Derivative financial instruments (continued)

	At 31 December 2014			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts				
Spot, forwards and futures	345,227	–	2,047	347,274
Swaps	1,118,201	644	14,098	1,132,943
Foreign currency options				
– Options purchased	35,101	–	–	35,101
– Options written	33,654	–	–	33,654
	1,532,183	644	16,145	1,548,972
Interest rate contracts				
Futures	4,156	–	–	4,156
Swaps	334,572	74,405	3,848	412,825
	338,728	74,405	3,848	416,981
Commodity contracts	6,547	–	–	6,547
Equity contracts	4,253	–	–	4,253
Credit derivative contracts	78	–	–	78
Total	1,881,789	75,049	19,993	1,976,831

NOTES TO THE INTERIM FINANCIAL INFORMATION

21. Derivative financial instruments (continued)

The following tables summarise the fair values of each class of derivative financial instrument as at 30 June 2015 and 31 December 2014:

	At 30 June 2015							
	Fair value assets				Fair value liabilities			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts								
Spot, forwards and futures	13,736	–	1	13,737	(9,810)	–	(1)	(9,811)
Swaps	14,250	–	54	14,304	(11,675)	–	(2)	(11,677)
Foreign currency options								
– Options purchased	1,158	–	–	1,158	–	–	–	–
– Options written	–	–	–	–	(201)	–	–	(201)
	29,144	–	55	29,199	(21,686)	–	(3)	(21,689)
Interest rate contracts								
Futures	3	–	–	3	(4)	–	–	(4)
Swaps	1,607	2,346	–	3,953	(1,794)	(1,466)	(54)	(3,314)
	1,610	2,346	–	3,956	(1,798)	(1,466)	(54)	(3,318)
Commodity contracts	217	–	–	217	(119)	–	–	(119)
Equity contracts	259	–	–	259	(259)	–	–	(259)
Total	31,230	2,346	55	33,631	(23,862)	(1,466)	(57)	(25,385)

NOTES TO THE INTERIM FINANCIAL INFORMATION

21. Derivative financial instruments (continued)

	At 31 December 2014							
	Fair value assets				Fair value liabilities			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts								
Spot, forwards and futures	12,208	-	-	12,208	(7,386)	-	(4)	(7,390)
Swaps	12,462	-	12	12,474	(9,823)	(1)	(21)	(9,845)
Foreign currency options								
- Options purchased	4,676	-	-	4,676	-	-	-	-
- Options written	-	-	-	-	(207)	-	-	(207)
	29,346	-	12	29,358	(17,416)	(1)	(25)	(17,442)
Interest rate contracts								
Futures	2	-	-	2	(3)	-	-	(3)
Swaps	1,311	2,270	2	3,583	(1,881)	(1,128)	(50)	(3,059)
	1,313	2,270	2	3,585	(1,884)	(1,128)	(50)	(3,062)
Commodity contracts	328	-	-	328	(202)	-	-	(202)
Equity contracts	82	-	-	82	(81)	-	-	(81)
Total	31,069	2,270	14	33,353	(19,583)	(1,129)	(75)	(20,787)

The table below gives the credit risk-weighted amounts of the above derivative financial instruments and is prepared with reference to the completion instructions for the HKMA return of capital adequacy ratio.

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Exchange rate contracts	8,492	8,167
Interest rate contracts	583	729
Commodity contracts	-	-
Equity contracts	477	208
Total	9,552	9,104

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

The total fair values of derivatives subject to valid bilateral netting agreements for the Group amounted to HK\$12,468 million (31 December 2014: HK\$10,928 million) and the effect of valid bilateral netting agreements amounted to HK\$8,524 million (31 December 2014: HK\$7,154 million).

NOTES TO THE INTERIM FINANCIAL INFORMATION

22. Advances and other accounts

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Personal loans and advances	294,804	284,007
Corporate loans and advances	736,720	676,982
Advances to customers*	1,031,524	960,989
Loan impairment allowances		
– Individually assessed	(1,035)	(1,096)
– Collectively assessed	(3,417)	(3,520)
	1,027,072	956,373
Trade bills	51,759	57,756
Total	1,078,831	1,014,129

As at 30 June 2015, advances to customers included accrued interest of HK\$1,684 million (31 December 2014: HK\$1,570 million).

As at 30 June 2015, no impairment allowance was made in respect of trade bills (31 December 2014: Nil).

* Included advances to customers denominated in HK dollars of HK\$653,967 million (31 December 2014: HK\$606,590 million) and US dollars equivalent to HK\$246,265 million (31 December 2014: HK\$251,565 million).

NOTES TO THE INTERIM FINANCIAL INFORMATION

23. Investment in securities

	At 30 June 2015			
	At fair value	At amortised cost		
	Available- for-sale securities HK\$'m	Held-to- maturity securities HK\$'m	Loans and receivables HK\$'m	Total HK\$'m
Treasury bills	116,006	2,373	–	118,379
Other debt securities	288,271	89,853	7,701	385,825
	404,277	92,226	7,701	504,204
Certificates of deposit	67,827	18	–	67,845
Total debt securities and certificates of deposit	472,104	92,244	7,701	572,049
Equity securities	3,166	–	–	3,166
Total	475,270	92,244	7,701	575,215

	At 31 December 2014			
	At fair value	At amortised cost		
	Available- for-sale securities HK\$'m	Held-to- maturity securities HK\$'m	Loans and receivables HK\$'m	Total HK\$'m
Treasury bills	48,079	2,375	–	50,454
Other debt securities	247,033	74,378	4,868	326,279
	295,112	76,753	4,868	376,733
Certificates of deposit	58,348	95	–	58,443
Total debt securities and certificates of deposit	353,460	76,848	4,868	435,176
Equity securities	3,650	–	–	3,650
Total	357,110	76,848	4,868	438,826

NOTES TO THE INTERIM FINANCIAL INFORMATION

23. Investment in securities (continued)

Investment in securities is analysed by place of listing as follows:

	At 30 June 2015		
	Available-for-sale securities HK\$'m	Held-to-maturity securities HK\$'m	Loans and receivables HK\$'m
Debt securities and certificates of deposit			
– Listed in Hong Kong	36,342	6,001	–
– Listed outside Hong Kong	104,975	32,183	–
	141,317	38,184	–
– Unlisted	330,787	54,060	7,701
	472,104	92,244	7,701
Equity securities			
– Listed in Hong Kong	2,890	–	–
– Unlisted	276	–	–
	3,166	–	–
Total	475,270	92,244	7,701
Market value of listed held-to-maturity securities		38,568	
	At 31 December 2014		
	Available-for-sale securities HK\$'m	Held-to-maturity securities HK\$'m	Loans and receivables HK\$'m
Debt securities and certificates of deposit			
– Listed in Hong Kong	30,720	5,050	–
– Listed outside Hong Kong	98,874	22,238	–
	129,594	27,288	–
– Unlisted	223,866	49,560	4,868
	353,460	76,848	4,868
Equity securities			
– Listed in Hong Kong	2,664	–	–
– Unlisted	986	–	–
	3,650	–	–
Total	357,110	76,848	4,868
Market value of listed held-to-maturity securities		27,697	

NOTES TO THE INTERIM FINANCIAL INFORMATION

23. Investment in securities (continued)

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

	At 30 June 2015		
	Available- for-sale securities HK\$'m	Held-to- maturity securities HK\$'m	Loans and receivables HK\$'m
	Sovereigns	153,016	2,623
Public sector entities*	18,526	23,377	–
Banks and other financial institutions	203,733	38,955	6,199
Corporate entities	99,995	27,289	1,502
	475,270	92,244	7,701

	At 31 December 2014		
	Available- for-sale securities HK\$'m	Held-to- maturity securities HK\$'m	Loans and receivables HK\$'m
	Sovereigns	67,251	2,917
Public sector entities*	20,227	22,710	–
Banks and other financial institutions	191,867	31,775	2,793
Corporate entities	77,765	19,446	2,075
	357,110	76,848	4,868

* Included available-for-sale securities of HK\$17,681 million (31 December 2014: HK\$18,567 million) and held-to-maturity securities of HK\$4,767 million (31 December 2014: HK\$2,762 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

24. Investment properties

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
At 1 January	14,559	14,597
Additions	35	–
Fair value gains	369	393
Reclassification from/(to) properties, plant and equipment (Note 25)	25	(431)
At period/year end	14,988	14,559

NOTES TO THE INTERIM FINANCIAL INFORMATION

25. Properties, plant and equipment

	Premises HK\$'m	Equipment, fixtures and fittings HK\$'m	Total HK\$'m
Net book value at 1 January 2015	52,639	2,568	55,207
Additions	208	322	530
Disposals	(369)	(11)	(380)
Revaluation	1,833	–	1,833
Depreciation for the period (Note 12)	(559)	(402)	(961)
Reclassification to investment properties (Note 24)	(25)	–	(25)
Exchange difference	1	1	2
Net book value at 30 June 2015	53,728	2,478	56,206
At 30 June 2015			
Cost or valuation	53,728	8,188	61,916
Accumulated depreciation and impairment	–	(5,710)	(5,710)
Net book value at 30 June 2015	53,728	2,478	56,206
The analysis of cost or valuation of the above assets is as follows:			
At 30 June 2015			
At cost	–	8,188	8,188
At valuation	53,728	–	53,728
	53,728	8,188	61,916
Net book value at 1 January 2014	49,791	2,567	52,358
Additions	211	814	1,025
Disposals	(43)	(27)	(70)
Revaluation	3,311	–	3,311
Depreciation for the year	(1,050)	(779)	(1,829)
Reclassification from investment properties (Note 24)	431	–	431
Exchange difference	(12)	(7)	(19)
Net book value at 31 December 2014	52,639	2,568	55,207
At 31 December 2014			
Cost or valuation	52,639	8,308	60,947
Accumulated depreciation and impairment	–	(5,740)	(5,740)
Net book value at 31 December 2014	52,639	2,568	55,207
The analysis of cost or valuation of the above assets is as follows:			
At 31 December 2014			
At cost	–	8,308	8,308
At valuation	52,639	–	52,639
	52,639	8,308	60,947

NOTES TO THE INTERIM FINANCIAL INFORMATION

26. Other assets

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Reposessed assets	36	18
Precious metals	3,194	3,682
Reinsurance assets	37,869	32,525
Accounts receivable and prepayments	26,552	15,704
	67,651	51,929

27. Financial liabilities at fair value through profit or loss

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Trading liabilities		
– Short positions in Exchange Fund Bills and Notes	15,342	9,145
– Others	3,172	–
	18,514	9,145
Financial liabilities designated at fair value through profit or loss		
– Structured deposits (Note 28)	2,672	3,115
	21,186	12,260

The carrying amount of financial liabilities designated at fair value through profit or loss as at 30 June 2015 was less than the amount that the Group would be contractually required to pay at maturity to the holders by HK\$2 million (31 December 2014: HK\$4 million). The amount of change in the fair values of financial liabilities at fair value through profit or loss, during the period and cumulatively, attributable to changes in own credit risk was insignificant.

NOTES TO THE INTERIM FINANCIAL INFORMATION

28. Deposits from customers

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Current, savings and other deposit accounts (per balance sheet)	1,612,327	1,480,109
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 27)	2,672	3,115
	1,614,999	1,483,224
Analysed by:		
Demand deposits and current accounts		
– corporate	133,056	87,585
– personal	33,533	28,776
	166,589	116,361
Savings deposits		
– corporate	231,406	252,515
– personal	460,121	420,311
	691,527	672,826
Time, call and notice deposits		
– corporate	499,046	422,536
– personal	257,837	271,501
	756,883	694,037
	1,614,999	1,483,224

29. Debt securities and certificates of deposit in issue

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Debt securities, at amortised cost		
– Senior notes under the Medium Term Note Programme	5,673	5,636
– Other debt securities	1,398	6,265
	7,071	11,901

NOTES TO THE INTERIM FINANCIAL INFORMATION

30. Other accounts and provisions

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Dividend payable	6,080	–
Other accounts payable	90,715	51,603
Provisions	337	354
	97,132	51,957

31. Assets pledged as security

As at 30 June 2015, the liabilities of the Group amounting to HK\$18,072 million (31 December 2014: HK\$16,309 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK\$23,148 million (31 December 2014: HK\$5,860 million) were secured by debt securities and bills related to sale and repurchase arrangements. The amount of assets pledged by the Group to secure these liabilities was HK\$42,492 million (31 December 2014: HK\$22,423 million) mainly included in "Trading assets", "Investment in securities" and "Trade bills".

32. Deferred taxation

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

The major components of deferred tax (assets)/liabilities recorded in the balance sheet, and the movements during the first half of 2015 and the year ended 31 December 2014 are as follows:

	At 30 June 2015					Total HK\$'m
	Accelerated tax depreciation HK\$'m	Property revaluation HK\$'m	Losses HK\$'m	Impairment allowance HK\$'m	Other temporary differences HK\$'m	
At 1 January 2015	607	7,858	–	(645)	94	7,914
(Credited)/charged to income statement (Note 15)	–	(52)	(44)	(2)	21	(77)
Charged/(credited) to other comprehensive income	–	228	–	–	(187)	41
Exchange difference	–	–	–	(1)	–	(1)
At 30 June 2015	607	8,034	(44)	(648)	(72)	7,877

NOTES TO THE INTERIM FINANCIAL INFORMATION

32. Deferred taxation (continued)

	At 31 December 2014					
	Accelerated tax depreciation HK\$'m	Property revaluation HK\$'m	Losses HK\$'m	Impairment allowance HK\$'m	Other temporary differences HK\$'m	Total HK\$'m
At 1 January 2014	581	7,348	(92)	(594)	(603)	6,640
Charged/(credited) to income statement	26	60	92	(55)	(11)	112
Charged to other comprehensive income	–	451	–	–	706	1,157
Exchange difference	–	(1)	–	4	2	5
At 31 December 2014	607	7,858	–	(645)	94	7,914

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

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Deferred tax assets	(157)	(167)
Deferred tax liabilities	8,034	8,081
	7,877	7,914

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Deferred tax assets to be recovered after more than twelve months	(104)	(129)
Deferred tax liabilities to be settled after more than twelve months	7,960	7,928
	7,856	7,799

As at 30 June 2015, the Group has not recognised deferred tax assets in respect of tax losses amounting to HK\$11 million (31 December 2014: HK\$10 million). These tax losses do not expire under the current tax legislation.

NOTES TO THE INTERIM FINANCIAL INFORMATION

33. Insurance contract liabilities

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
At 1 January	73,796	66,637
Benefits paid	(7,104)	(10,795)
Claims incurred and movement in liabilities	16,087	17,954
At period/year end	82,779	73,796

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK\$37,103 million (31 December 2014: HK\$32,320 million) and the associated reinsurance assets of HK\$37,869 million (31 December 2014: HK\$32,525 million) are included in "Other assets" (Note 26).

34. Subordinated liabilities

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Subordinated notes, at amortised cost with fair value hedge adjustment USD2,500m*	19,565	19,676

In 2010, BOCHK issued listed subordinated notes with an aggregate amount of USD2,500 million.

Amounts qualified as Tier 2 capital instruments for regulatory purposes are shown in Note 3.5(B).

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

35. Share capital

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Issued and fully paid: 10,572,780,266 ordinary shares	52,864	52,864

36. Reserves

The Group's reserves and the movements therein for the current and prior periods are presented in the condensed consolidated statement of changes in equity on pages 35 to 36.

NOTES TO THE INTERIM FINANCIAL INFORMATION

37. Notes to condensed consolidated cash flow statement

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

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
Operating profit	16,303	15,054
Depreciation	961	900
Net charge of impairment allowances	809	379
Unwind of discount on impairment allowances	(10)	(3)
Advances written off net of recoveries	(963)	(94)
Change in subordinated liabilities	93	128
Change in balances with banks and other financial institutions with original maturity over three months	204	5,430
Change in placements with banks and other financial institutions with original maturity over three months	(4,871)	4,055
Change in financial assets at fair value through profit or loss	(10,989)	(4,290)
Change in derivative financial instruments	4,320	(2,726)
Change in advances and other accounts	(64,538)	(89,021)
Change in investment in securities	(124,668)	30,176
Change in other assets	(15,726)	2,637
Change in deposits and balances from banks and other financial institutions	(30,176)	(93,388)
Change in financial liabilities at fair value through profit or loss	8,926	5,909
Change in deposits from customers	132,218	112,214
Change in debt securities and certificates of deposit in issue	(4,830)	3,812
Change in other accounts and provisions	39,095	(1,519)
Change in insurance contract liabilities	8,983	5,626
Effect of changes in exchange rates	112	7,007
Operating cash (outflow)/inflow before taxation	(44,747)	2,286
Cash flows from operating activities included:		
– Interest received	23,934	21,253
– Interest paid	8,253	6,828
– Dividend received	80	80

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

	At 30 June 2015 HK\$'m	At 30 June 2014 HK\$'m
Cash and balances with banks and other financial institutions with original maturity within three months	316,136	322,614
Placements with banks and other financial institutions with original maturity within three months	19,056	12,901
Treasury bills with original maturity within three months	21,698	15,704
Certificates of deposit with original maturity within three months	283	149
	357,173	351,368

NOTES TO THE INTERIM FINANCIAL INFORMATION

38. Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment and the aggregate credit risk-weighted amount and is prepared with reference to the completion instructions for the HKMA return of capital adequacy ratio.

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Direct credit substitutes	25,500	22,621
Transaction-related contingencies	8,081	9,225
Trade-related contingencies	37,378	36,016
Asset sales with recourse	10,690	4,741
Commitments that are unconditionally cancellable without prior notice	416,199	407,681
Other commitments with an original maturity of		
– up to one year	7,755	9,974
– over one year	61,132	70,869
	566,735	561,127
Credit risk-weighted amount	53,207	49,572

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

39. Capital commitments

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

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Authorised and contracted for but not provided for	382	448
Authorised but not contracted for	8	4
	390	452

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

40. Operating lease commitments

(a) *As lessee*

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

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Land and buildings		
– not later than one year	749	756
– later than one year but not later than five years	1,279	1,300
– later than five years	197	265
	2,225	2,321

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

(b) *As lessor*

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

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Land and buildings		
– not later than one year	416	404
– later than one year but not later than five years	372	421
	788	825

The Group leases its investment properties (Note 24) under operating lease arrangements, with leases typically for a period from one to three years. The terms of the leases generally require the tenants to pay security deposits and provide for rent adjustments according to the prevailing market conditions at the expiration of the lease.

NOTES TO THE INTERIM FINANCIAL INFORMATION

41. Segmental reporting

The Group manages the business mainly from a business segment perspective and over 90% of the Group's revenues, profits before tax and assets are derived from Hong Kong. Currently, four operating segments are identified: Personal Banking, Corporate Banking, Treasury and Insurance. The classification of the Group's operating segments is based on customer segment and product type, which is aligned with the RPC (relationship, product and channel) management model of the Group.

Both Personal Banking and Corporate Banking provide general banking services including various deposit products, overdrafts, loans, credit cards, trade related products and other credit facilities, investment and insurance products, and foreign currency and derivative products. Personal Banking mainly serves retail customers and small enterprises, while Corporate Banking mainly deals with corporate customers. Treasury manages the funding and liquidity, and the interest rate and foreign exchange positions of the Group in addition to proprietary trades. The Insurance segment represents business mainly relating to life insurance products, including individual life insurance and group life insurance products. "Others" mainly represents the Group's holdings of premises, investment properties, equity investments and interests in associates and a joint venture.

Measurement of segment assets, liabilities, income, expenses, results and capital expenditure is based on the Group's accounting policies. The segment information includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Inter-segment funding is charged according to the internal funds transfer pricing mechanism of the Group, which is primarily based on market rates with the consideration of specific features of the product.

As the Group derives a majority of revenue from interest and the senior management relies primarily on net interest income in managing the business, interest income and expense for all reportable segments are presented on a net basis. Under the same consideration, insurance premium income and insurance benefits and claims are also presented on a net basis.

NOTES TO THE INTERIM FINANCIAL INFORMATION

41. Segmental reporting (continued)

	Personal Banking HK\$'m	Corporate Banking HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
Half-year ended 30 June 2015								
Net interest income/(expense)								
– external	1,005	4,762	8,816	1,087	2	15,672	–	15,672
– inter-segment	3,465	1,117	(4,261)	5	(326)	–	–	–
	4,470	5,879	4,555	1,092	(324)	15,672	–	15,672
Net fee and commission income/(expense)	4,270	2,141	71	(156)	195	6,521	(196)	6,325
Net insurance premium income	–	–	–	8,884	–	8,884	(9)	8,875
Net trading gain	359	154	48	33	6	600	8	608
Net loss on financial instruments designated at fair value through profit or loss	–	–	(12)	(156)	–	(168)	–	(168)
Net gain on other financial assets	641	50	75	113	–	879	–	879
Other operating income	13	3	–	10	1,044	1,070	(584)	486
Total operating income	9,753	8,227	4,737	9,820	921	33,458	(781)	32,677
Net insurance benefits and claims and movement in liabilities	–	–	–	(8,989)	–	(8,989)	–	(8,989)
Net operating income before impairment allowances	9,753	8,227	4,737	831	921	24,469	(781)	23,688
Net (charge)/reversal of impairment allowances	(137)	(674)	1	–	1	(809)	–	(809)
Net operating income	9,616	7,553	4,738	831	922	23,660	(781)	22,879
Operating expenses	(3,589)	(1,699)	(603)	(177)	(1,289)	(7,357)	781	(6,576)
Operating profit/(loss)	6,027	5,854	4,135	654	(367)	16,303	–	16,303
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	369	369	–	369
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	(3)	–	(1)	(5)	96	87	–	87
Share of profits less losses after tax of associates and a joint venture	–	–	–	–	23	23	–	23
Profit before taxation	6,024	5,854	4,134	649	121	16,782	–	16,782
At 30 June 2015								
Assets								
Segment assets	335,647	773,857	1,098,960	97,593	80,720	2,386,777	(19,437)	2,367,340
Interests in associates and a joint venture	–	–	–	–	345	345	–	345
	335,647	773,857	1,098,960	97,593	81,065	2,387,122	(19,437)	2,367,685
Liabilities								
Segment liabilities	845,114	820,061	419,034	91,666	20,617	2,196,492	(19,437)	2,177,055
Half-year ended 30 June 2015								
Other information								
Capital expenditure	9	–	–	22	534	565	–	565
Depreciation	189	74	35	5	658	961	–	961
Amortisation of securities	–	–	463	(48)	–	415	–	415

NOTES TO THE INTERIM FINANCIAL INFORMATION

41. Segmental reporting (continued)

	Personal Banking HK\$'m	Corporate Banking HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
Half-year ended 30 June 2014								
Net interest income/(expense)								
– external	793	4,405	9,396	1,060	2	15,656	–	15,656
– inter-segment	3,090	1,682	(4,435)	7	(344)	–	–	–
	3,883	6,087	4,961	1,067	(342)	15,656	–	15,656
Net fee and commission income/(expense)	2,843	1,996	72	(98)	209	5,022	(207)	4,815
Net insurance premium income	–	–	–	6,497	–	6,497	(8)	6,489
Net trading gain/(loss)	215	171	882	65	(12)	1,321	8	1,329
Net (loss)/gain on financial instruments designated at fair value through profit or loss	–	–	(1)	19	–	18	–	18
Net gain on other financial assets	–	21	135	19	–	175	–	175
Other operating income	12	10	5	83	873	983	(575)	408
Total operating income	6,953	8,285	6,054	7,652	728	29,672	(782)	28,890
Net insurance benefits and claims and movement in liabilities	–	–	–	(7,241)	–	(7,241)	–	(7,241)
Net operating income before impairment allowances	6,953	8,285	6,054	411	728	22,431	(782)	21,649
Net (charge)/reversal of impairment allowances	(203)	(178)	2	–	–	(379)	–	(379)
Net operating income	6,750	8,107	6,056	411	728	22,052	(782)	21,270
Operating expenses	(3,358)	(1,728)	(689)	(133)	(1,090)	(6,998)	782	(6,216)
Operating profit/(loss)	3,392	6,379	5,367	278	(362)	15,054	–	15,054
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	119	119	–	119
Net loss from disposal/revaluation of properties, plant and equipment	(4)	–	–	–	(3)	(7)	–	(7)
Share of profits less losses after tax of associates and a joint venture	–	–	–	–	13	13	–	13
Profit/(loss) before taxation	3,388	6,379	5,367	278	(233)	15,179	–	15,179
At 31 December 2014								
Assets								
Segment assets	319,722	718,063	1,002,485	87,942	72,827	2,201,039	(11,996)	2,189,043
Interests in associates and a joint venture	–	–	–	–	324	324	–	324
	319,722	718,063	1,002,485	87,942	73,151	2,201,363	(11,996)	2,189,367
Liabilities								
Segment liabilities	808,673	716,585	398,264	82,496	13,873	2,019,891	(11,996)	2,007,895
Half-year ended 30 June 2014								
Other information								
Capital expenditure	7	1	–	3	271	282	–	282
Depreciation	175	74	33	5	613	900	–	900
Amortisation of securities	–	–	472	114	–	586	–	586

NOTES TO THE INTERIM FINANCIAL INFORMATION

42. Offsetting financial instruments

The following tables present details of the Group's financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

	At 30 June 2015					
	Gross amounts of recognised financial assets HK\$m	Gross amounts of recognised financial liabilities set off in the balance sheet HK\$m	Net amounts of financial assets presented in the balance sheet HK\$m	Related amounts not set off in the balance sheet		Net amount HK\$m
				Financial instruments HK\$m	Cash collateral received HK\$m	
Assets						
Derivative financial instruments	20,627	-	20,627	(11,395)	(1,939)	7,293
Reverse repurchase agreements	714	-	714	(714)	-	-
Other assets	15,371	(12,882)	2,489	-	-	2,489
Total	36,712	(12,882)	23,830	(12,109)	(1,939)	9,782

	At 30 June 2015					
	Gross amounts of recognised financial liabilities HK\$m	Gross amounts of recognised financial assets set off in the balance sheet HK\$m	Net amounts of financial liabilities presented in the balance sheet HK\$m	Related amounts not set off in the balance sheet		Net amount HK\$m
				Financial instruments HK\$m	Cash collateral pledged HK\$m	
Liabilities						
Derivative financial instruments	16,532	-	16,532	(11,395)	(1,690)	3,447
Repurchase agreements	3,172	-	3,172	(3,172)	-	-
Other liabilities	19,715	(12,882)	6,833	-	-	6,833
Total	39,419	(12,882)	26,537	(14,567)	(1,690)	10,280

NOTES TO THE INTERIM FINANCIAL INFORMATION

42. Offsetting financial instruments (continued)

	At 31 December 2014					
	Gross amounts of recognised financial assets HK\$'m	Gross amounts of recognised financial liabilities set off in the balance sheet HK\$'m	Net amounts of financial assets presented in the balance sheet HK\$'m	Related amounts not set off in the balance sheet		Net amount HK\$'m
				Financial instruments HK\$'m	Cash collateral received HK\$'m	
Assets						
Derivative financial instruments	21,769	–	21,769	(8,768)	(2,057)	10,944
Other assets	14,794	(11,586)	3,208	–	–	3,208
Total	36,563	(11,586)	24,977	(8,768)	(2,057)	14,152

	At 31 December 2014					
	Gross amounts of recognised financial liabilities HK\$'m	Gross amounts of recognised financial assets set off in the balance sheet HK\$'m	Net amounts of financial liabilities presented in the balance sheet HK\$'m	Related amounts not set off in the balance sheet		Net amount HK\$'m
				Financial instruments HK\$'m	Cash collateral pledged HK\$'m	
Liabilities						
Derivative financial instruments	13,668	–	13,668	(8,768)	(1,128)	3,772
Repurchase agreements	3,751	–	3,751	(3,751)	–	–
Other liabilities	11,867	(11,586)	281	–	–	281
Total	29,286	(11,586)	17,700	(12,519)	(1,128)	4,053

For master netting agreements of OTC derivative and sale and repurchase transactions entered into by the Group, related amounts with the same counterparty can be offset if an event of default or other predetermined events occur.

NOTES TO THE INTERIM FINANCIAL INFORMATION

43. Significant related party transactions

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

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

General information of the parent companies:

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

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

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

The majority of transactions with BOC arise from money market activities. As at 30 June 2015, the related aggregate amounts due from and to BOC of the Group were HK\$115,753 million (31 December 2014: HK\$157,501 million) and HK\$75,444 million (31 December 2014: HK\$61,844 million) respectively. The aggregate amounts of income and expenses of the Group arising from these transactions with BOC for the first half of 2015 were HK\$2,074 million (first half of 2014: HK\$2,761 million) and HK\$287 million (first half of 2014: HK\$159 million) respectively. Transactions with other companies controlled by BOC are not considered material.

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

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

43. Significant related party transactions (continued)

(c) Summary of transactions entered into during the ordinary course of business with associates, a joint venture and other related parties

The aggregate income/expenses and balances arising from related party transactions with associates, a joint venture and other related parties of the Group are summarised as follows:

	Half-year ended 30 June 2015		Half-year ended 30 June 2014	
	Associates and joint venture HK\$m	Other related parties HK\$m	Associates and joint venture HK\$m	Other related parties HK\$m
Income statement items:				
Administrative services fees received/receivable	–	5	–	4
Other operating expenses	32	–	26	–

	At 30 June 2015		At 31 December 2014	
	Associates and joint venture HK\$m	Other related parties HK\$m	Associates and joint venture HK\$m	Other related parties HK\$m
Balance sheet items:				
Deposits from customers	–	–	1	–
Other accounts and provisions	44	–	–	–

(d) Key management personnel

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

The compensation of key management personnel is detailed as follows:

	Half-year ended 30 June 2015 HK\$m	Half-year ended 30 June 2014 HK\$m
Salaries and other short-term employee benefits	17	22
Post-employment benefits	1	1
	18	23

NOTES TO THE INTERIM FINANCIAL INFORMATION

44. Currency concentrations

The following is a summary of the Group's major foreign currency exposures arising from trading, non-trading and structural positions and is prepared with reference to the completion instructions for the HKMA return of foreign currency position. The net options position is calculated based on the basis of delta-weighted positions of all foreign exchange options contracts.

	At 30 June 2015							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	596,078	63,946	22,772	25,581	6,623	635,447	10,886	1,361,333
Spot liabilities	(420,423)	(10,255)	(18,796)	(21,810)	(13,036)	(565,733)	(15,596)	(1,065,649)
Forward purchases	916,801	65,440	105,697	49,774	57,669	438,208	46,059	1,679,648
Forward sales	(1,078,134)	(119,117)	(109,731)	(53,697)	(51,283)	(506,206)	(41,298)	(1,959,466)
Net options position	1,628	1	(985)	15	(1)	(1,286)	(7)	(635)
Net long/(short) position	15,950	15	(1,043)	(137)	(28)	430	44	15,231
Net structural position	293	-	-	-	-	9,727	-	10,020

	At 31 December 2014							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	538,300	1,466	18,063	22,392	9,688	645,120	16,360	1,251,389
Spot liabilities	(429,963)	(5,518)	(15,050)	(22,256)	(11,715)	(547,552)	(16,883)	(1,048,937)
Forward purchases	729,002	67,974	57,895	41,806	32,445	329,654	38,306	1,297,082
Forward sales	(828,777)	(63,934)	(60,757)	(41,870)	(30,334)	(422,850)	(37,897)	(1,486,419)
Net options position	2,613	(1)	(4,463)	12	(4)	(2,625)	(31)	(4,499)
Net long/(short) position	11,175	(13)	(4,312)	84	80	1,747	(145)	8,616
Net structural position	277	-	-	-	-	9,308	-	9,585

NOTES TO THE INTERIM FINANCIAL INFORMATION

45. International claims

The below analysis is prepared with reference to the completion instructions for the HKMA return of international banking statistics. International claims are exposures to counterparties other than local claims in local currency on which the ultimate risk lies, and are derived according to the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, the risk will be transferred to the country of the guarantor. For a claim on an overseas branch of a bank whose head office is located in another country, the risk will be transferred to the country where its head office is located. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate international claims of the Group are shown as follows:

	At 30 June 2015				
	Non-bank private sector				Total HK\$m
	Banks HK\$m	Official sector HK\$m	Non-bank financial institutions		
Non-financial private sector HK\$m					
Mainland of China	396,167	74,430	8,997	188,711	668,305
Hong Kong	11,256	1,922	9,386	253,375	275,939
Total	407,423	76,352	18,383	442,086	944,244

	(Restated) At 31 December 2014				
	Non-bank private sector				Total HK\$m
	Banks HK\$m	Official sector HK\$m	Non-bank financial institutions		
Non-financial private sector HK\$m					
Mainland of China	431,908	97,111	7,121	175,610	711,750
Hong Kong	4,243	2,318	6,605	222,116	235,282
Total	436,151	99,429	13,726	397,726	947,032

The comparative amounts have been restated to conform with the current period's presentation.

NOTES TO THE INTERIM FINANCIAL INFORMATION

46. Non-bank Mainland exposures

The analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties and the type of direct exposures with reference to the completion instructions for the HKMA return of Mainland activities, which includes the Mainland exposures extended by BOCHK and its banking subsidiaries.

		At 30 June 2015		
	Items in the HKMA return	On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total exposure HK\$'m
Central government, central government-owned entities and their subsidiaries and joint ventures	1	314,907	16,562	331,469
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	80,804	12,806	93,610
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	92,074	40,824	132,898
Other entities of central government not reported in item 1 above	4	12,346	1,494	13,840
Other entities of local governments not reported in item 2 above	5	78	–	78
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	57,995	11,397	69,392
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	6,629	–	6,629
Total	8	564,833	83,083	647,916
Total assets after provision	9	2,294,146		
On-balance sheet exposures as percentage of total assets	10	24.62%		

NOTES TO THE INTERIM FINANCIAL INFORMATION

46. Non-bank Mainland exposures (continued)

	Items in the HKMA return	At 31 December 2014		
		On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total exposure HK\$'m
Central government, central government-owned entities and their subsidiaries and joint ventures	1	271,241	32,428	303,669
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	68,812	11,438	80,250
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	86,029	36,298	122,327
Other entities of central government not reported in item 1 above	4	3,306	1,894	5,200
Other entities of local governments not reported in item 2 above	5	39	–	39
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	55,345	10,193	65,538
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	6,857	6	6,863
Total	8	491,629	92,257	583,886
Total assets after provision	9	2,121,908		
On-balance sheet exposures as percentage of total assets	10	23.17%		

NOTES TO THE INTERIM FINANCIAL INFORMATION

47. Events after the balance sheet date

BOC has obtained the in-principle approval from the Ministry of Finance of the People's Republic of China (the "Ministry of Finance") for the undertaking of the disposal of 100% interest in NCB held by BOCHK (the "Potential Disposal") in accordance with the relevant regulations of the Administrative Measures for the Transfer of State-owned Assets of Financial Enterprises (No. 54 Decree of the Ministry of Finance), by way of public bidding via a legally established assets exchange at the provincial level or above (the "Bidding Process").

The Bidding Process via the Beijing Financial Assets Exchange in relation to the Potential Disposal commenced on 15 July 2015. BOCHK published an announcement on 15 July 2015 in relation to the Bidding Process on China Securities Journal and the website of the Beijing Financial Assets Exchange.

On 21 May 2015, BOC and the Company also jointly announced the potential restructuring and transfer of banking businesses and assets owned by BOC in certain ASEAN countries to the Company or BOCHK (the "Potential Restructuring").

No binding agreement has been entered into with respect to the Potential Disposal and the Potential Restructuring.

At present, the financial impact of the Potential Disposal and the Potential Restructuring cannot be reliably estimated.

48. Compliance with HKAS 34

The unaudited interim financial information for the first half of 2015 complies with HKAS 34 "Interim Financial Reporting" issued by the HKICPA.

49. Statutory accounts

The information in this Interim Report is unaudited and does not constitute statutory accounts. The statutory accounts for the year ended 31 December 2014 have been delivered to the Registrar of Companies and the HKMA. The auditor expressed an unqualified opinion on those statutory accounts in the report dated 25 March 2015.

ADDITIONAL INFORMATION

1. Corporate information

Board of Directors

Chairman

TIAN Guoli[#]

Vice Chairmen

CHEN Siqing[#]

YUE Yi

Directors

GAO Yingxin[#]

LI Jiuzhong (appointment effective from 31 March 2015)

CHENG Eva^{*}

KOH Beng Seng^{*}

SHAN Weijian^{*}

TUNG Savio Wai-Hok^{*}

ZHU Shumin[#] (resignation effective from 2 April 2015)

LI Zaohang[#] (retirement effective from 16 June 2015)

[#] Non-executive Directors

^{*} Independent Non-executive Directors

Senior Management

Chief Executive

YUE Yi

Chief Risk Officer

LI Jiuzhong

Deputy Chief Executive

LIN Jingzhen (appointment effective from 26 May 2015)

Chief Financial Officer

SUI Yang

Deputy Chief Executives

KUNG YEUNG Ann Yun Chi

ZHU Yanlai (resignation effective from 15 April 2015)

HUANG Hong (resignation effective from 1 July 2015)

Chief Operating Officer

LEE Alex Wing Kwai (expiry of contract effective from 2 July 2015)

Company Secretary

CHAN Chun Ying

Registered Office

52nd Floor
Bank of China Tower
1 Garden Road
Hong Kong

Auditor

Ernst & Young

Share Registrar

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

ADR Depository Bank

Citibank, N.A.
388 Greenwich Street
14th Floor
New York, NY 10013
United States of America

Credit Ratings (Long Term)

Standard & Poor's	A+
Moody's	Aa3
Fitch	A

Index Constituent

The Company is a constituent of the following indices:
Hang Seng Index Series
Hang Seng Corporate Sustainability Index Series
MSCI Index Series
FTSE Index Series

Stock Codes

Ordinary shares:	
The Stock Exchange of Hong Kong Limited	2388
Reuters	2388.HK
Bloomberg	2388 HK

Level 1 ADR Programme:	
CUSIP No.	096813209
OTC Symbol	BHKLY

Website

www.bochk.com

ADDITIONAL INFORMATION

2. Dividend and closure of register of members

The Board has declared an interim dividend of HK\$0.545 per share (2014: HK\$0.545), payable on Monday, 5 October 2015 to shareholders whose names appear on the Register of Members of the Company on Thursday, 24 September 2015.

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to the interim dividend, from Monday, 21 September 2015 to Thursday, 24 September 2015 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the interim dividend, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Friday, 18 September 2015. Shares of the Company will be traded ex-dividend as from Thursday, 17 September 2015.

3. Substantial interests in share capital

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 30 June 2015, the following parties had the following interests (as defined in the SFO) in the Company set opposite their respective names:

Name of Corporation	Number of shares held in the Company	Approximate % of the total issued shares
Central Huijin	6,984,274,213	66.06%
BOC	6,984,274,213	66.06%
BOCHKG	6,984,175,056	66.06%
BOC (BVI)	6,984,175,056	66.06%

Notes:

1. Following the reorganisation of BOC in August 2004, Central Huijin holds the controlling equity capital of BOC on behalf of the State. Accordingly, for the purpose of the SFO, Central Huijin is deemed to have the same interests in the Company as BOC.
2. BOC holds the entire issued share capital of BOCHKG, which in turn holds the entire issued share capital of BOC (BVI). Accordingly, BOC and BOCHKG are deemed to have the same interests in the Company as BOC (BVI) for the purpose of the SFO. BOC (BVI) beneficially held 6,984,175,056 shares of the Company.
3. BOC holds the entire issued share capital of BOCI, which in turn holds the entire issued share capital of BOCI Asia Limited and BOCI Financial Products Limited. Accordingly, BOC is deemed to have the same interests in the Company as BOCI Asia Limited and BOCI Financial Products Limited for the purpose of the SFO. BOCI Asia Limited had an interest in 24,479 shares of the Company and an interest in 72,000 shares held under physically settled equity derivatives while BOCI Financial Products Limited had an interest in 2,678 shares of the Company.

All the interests stated above represented long positions. Apart from the disclosure above, according to the register maintained by the Company pursuant to section 336 of the SFO, BOCI Financial Products Limited had an interest in 143,522 shares which represented short positions. BOC and Central Huijin are deemed to be interested in such number of shares for the purpose of the SFO. Save as disclosed, no other interests or short positions were recorded in the register maintained by the Company under section 336 of the SFO as at 30 June 2015.

ADDITIONAL INFORMATION

4. Directors' and Chief Executive's interests in shares, underlying shares and debentures

As at 30 June 2015, none of the Directors or the Chief Executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code").

5. Changes of information in respect of Directors

In accordance with Rule 13.51B(1) of the Listing Rules, the changes in information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules after the publication of the Company's Annual Report 2014 on 25 March 2015 up to 28 August 2015 (being the approval date of this Interim Report) are set out below:

Experience including other directorships

- (a) Mr YUE Yi, Vice Chairman, Executive Director and Chief Executive of the Company, has been appointed as chairman of BOCHK Charitable Foundation and BOCG Life with effect from 6 March 2015, NCB and Chiyu on 20 March 2015 as well as NCB (China) effective from 18 May 2015. On 6 March 2015, he has been appointed as the designated representative of the Bank to Hong Kong Association of Banks, member of each of Banking Advisory Committee and Bank Notes Issue Advisory Committee, director of Hong Kong Interbank Clearing Limited, HKICL Services Limited and Hong Kong Note Printing Limited as well as council member of Treasury Markets Association. On 7 March 2015, Mr YUE has been appointed as Vice Chairman of Board of Trustee and Chairman of Investment Subcommittee respectively of Ho Leung Ho Lee Foundation. Mr YUE has been appointed as Honorary President of Hong Kong Chinese Enterprises Association on 22 June 2015 and a member of Exchange Fund Advisory Committee since 15 July 2015. He ceased to be Executive Vice President of BOC from 6 March 2015, chairman of Bohai Industrial Investment Fund Management Co., Ltd. from 10 July 2015, chairman of BOCI from 13 August 2015 and chairman of Bank of China (Luxembourg) S.A. from 14 August 2015.
- (b) Mr LI Jiuzhong has been appointed as Executive Director of the Company and the Bank with effect from 31 March 2015.
- (c) Mr ZHU Shumin resigned as Non-executive Director and ceased to be a member of each of the Risk Committee and the Strategy and Budget Committee of the Company and the Bank with effect from 2 April 2015.
- (d) Mr CHEN Siqing, Vice Chairman of the Company, resigned as chairman of the board of directors of China Cultural Industrial Investment Fund Co., Ltd. in April 2015.
- (e) Mr KOH Beng Seng, Independent Non-executive Director of the Company, resigned as a director of Sing-Han International Financial Services Limited with effect from 30 April 2015.
- (f) Mr GAO Yingxin, Non-executive Director of the Company, has been appointed as Executive Vice President of BOC on 6 May 2015, chairman of the board of directors of China Cultural Industrial Investment Fund Co., Ltd. on 20 May 2015, chairman of BOCI on 13 August 2015 and chairman of Bank of China (Luxembourg) S.A. on 14 August 2015. Mr GAO ceased to be a director of BOCG Insurance with effect from 11 March 2015.
- (g) Mr LI Zaohang retired as Non-executive Director and ceased to be the Chairman of the Strategy and Budget Committee and a member of the Remuneration Committee of the Company and the Bank with effect from 16 June 2015.

ADDITIONAL INFORMATION

6. Purchase, sale or redemption of the Company's shares

During the period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

7. Audit Committee

The Audit Committee consists only of Independent Non-executive Directors. It is chaired by Mr SHAN Weijian. Other members include Mr KOH Beng Seng, Mr TUNG Savio Wai-Hok and Madam CHENG Eva.

Based on the principle of independence, the Audit Committee assists the Board in monitoring the financial reports, internal control, internal audit and external audit of the Group.

At the request of the Audit Committee of the Company, the Group's external auditor has carried out a review of the interim financial information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. The Audit Committee has reviewed with the Management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim reports.

8. Compliance with the "Corporate Governance Code and Corporate Governance Report"

The Company is committed to embracing and enhancing good corporate governance principles and practices. During the period under review, the Company has been in full compliance with all code provisions of the Corporate Governance Code and Corporate Governance Report as contained in Appendix 14 of the Listing Rules (the "Corporate Governance Code") except for Code Provision E.1.2. Due to other business arrangement, Mr TIAN Guoli, Chairman of the Board, was unable to attend the annual general meeting held on 16 June 2015 and delegated Mr YUE Yi, Vice Chairman and Chief Executive of the Company, to chair the meeting. The Company has also complied with nearly all the recommended best practices set out in the Corporate Governance Code throughout the period. For further details, please refer to the section titled "Corporate Governance" contained in the Annual Report 2014 of the Company.

9. Compliance with the Codes for Securities Transactions by Directors

The Company has established and implemented the "Code for Securities Transactions by Directors" (the "Company's Code") to govern the Directors' dealing in securities transactions of the Company. Terms of the Company's Code are more stringent than the mandatory standards set out in the Model Code. Apart from the securities of the Company, the Company's Code also applies to the Director's dealings in the securities of BOC which has been listing on the Hong Kong Stock Exchange in June 2006. In this connection, the Company had made specific enquiry of all Directors, who confirmed that they had strictly complied with the provisions set out in both the Company's Code and the Model Code throughout the period under review. The Company had undertaken a review of the Company's Code in October 2013. There were no fundamental amendments to the Company's Code and changes were in adaptive nature mainly to refine the Company's Code.

10. Compliance with the Banking (Disclosure) Rules and the Listing Rules

This unaudited Interim Report complies with the applicable requirements set out in the Banking (Disclosure) Rules under the Banking Ordinance and the applicable disclosure provisions of the Listing Rules.

ADDITIONAL INFORMATION

11. Interim Report

This Interim Report is available in both English and Chinese. A copy prepared in the language different from that in which you have received is available by writing to the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or email to bochk.ecom@computershare.com.hk.

This Interim Report is also available (in both English and Chinese) on the Company's website at www.bochk.com and the Stock Exchange's website at www.hkexnews.hk. You are encouraged to access the Interim Report and other corporate communications of the Company through these websites in lieu of receiving printed copies to help protect the environment. We believe that it is also the most efficient and convenient method of communication with our shareholders.

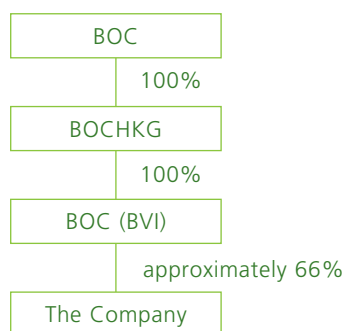
If you have any queries about how to obtain copies of this Interim Report or how to access those corporate communications on the Company's website, please call the Company's hotline at (852) 2846 2700.

12. Reconciliation between HKFRSs vs IFRS/CAS

The Company understands that BOC, an intermediate holding company as well as controlling shareholder of the Company, will prepare and disclose consolidated financial information in accordance with IFRS and CAS for which the Company and its subsidiaries will form part of the interim financial information. The requirements of CAS have substantially converged with HKFRSs and IFRS.

The consolidated financial information of "BOC Hong Kong Group" for the periods disclosed by BOC in its interim financial information is not the same as the consolidated financial information of the Group for the periods published by the Company pursuant to applicable laws and regulations in Hong Kong. There are two reasons for this.

First, the definitions of "BOC Hong Kong Group" (as adopted by BOC for the purpose of its own financial disclosure) and "Group" (as adopted by the Company in preparing and presenting its consolidated financial information) are different: "BOC Hong Kong Group" refers to BOCHKG and its subsidiaries, whereas "Group" refers to the Company and its subsidiaries (see the below organisation chart). Though there is difference in definitions between "BOC Hong Kong Group" and "Group", their financial results for the periods presented are substantially the same. This is because BOCHKG and BOC (BVI) are holding companies only and have no substantive operations of their own.



ADDITIONAL INFORMATION

12. Reconciliation between HKFRSs vs IFRS/CAS (continued)

Second, the Group has prepared its interim financial information in accordance with HKFRSs; whereas the consolidated financial information reported to BOC is prepared in accordance with IFRS and CAS respectively. There is a difference in the election of subsequent measurement basis of bank premises by the Group and by BOC respectively.

The Board considers that the best way to ensure that shareholders and the investing public understand the material differences between the consolidated financial information of the Group published by the Company on the one hand, and the consolidated financial information of BOC Hong Kong Group disclosed by BOC in its interim financial information on the other hand, is to present reconciliations of the profit after tax/net assets of the Group prepared under HKFRSs to the profit after tax/net assets of the Group prepared under IFRS and CAS respectively for the periods presented.

The major differences which arise from the difference in measurement basis relate to the following:

- restatement of carrying value of bank premises; and
- deferred taxation impact arising from the above different measurement basis.

(a) Restatement of carrying value of bank premises

The Company has elected for a revaluation model rather than cost model to account for bank premises and investment properties under HKFRSs. On the contrary, BOC has elected for the cost model for bank premises and revaluation model for investment properties under IFRS and CAS. Therefore, adjustments have been made to the carrying value of bank premises as well as to re-calculate the depreciation charge and disposal gain/loss under IFRS and CAS.

(b) Deferred tax adjustments

These represent the deferred tax effect of the aforesaid adjustments.

Profit after tax/net assets reconciliation

HKFRSs vs IFRS/CAS

	Profit after tax		Net assets	
	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs	13,791	12,333	190,630	181,472
Add: IFRS/CAS adjustments				
Restatement of carrying value of bank premises	740	398	(41,405)	(40,388)
Deferred tax adjustments	(43)	(60)	6,916	6,732
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRS/CAS	14,488	12,671	156,141	147,816

INDEPENDENT REVIEW REPORT



Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Report on review of interim financial information
To the board of directors of BOC Hong Kong (Holdings) Limited
(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 32 to 110, which comprises the condensed consolidated balance sheet of BOC Hong Kong (Holdings) Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2015 and the related condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six-month period then ended, and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

A stylized, handwritten signature of 'Ernst & Young' in a dark green color.

Ernst & Young
Certified Public Accountants
Hong Kong, 28 August 2015

APPENDIX

Subsidiaries of the Company

The particulars of our subsidiaries are as follows:

Name	Place and date of incorporation/operation	Issued and fully paid up share capital/registered capital	Interest held	Principal activities
Directly held:				
Bank of China (Hong Kong) Limited	Hong Kong 16 October 1964	Ordinary shares HK\$43,042,840,858	100.00%	Banking business
BOC Group Life Assurance Company Limited	Hong Kong 12 March 1997	Ordinary shares HK\$3,038,000,000	51.00%	Life insurance business
BOCHK Asset Management (Cayman) Limited	Cayman Islands 7 October 2010	Ordinary shares HK\$50,000,000	100.00%	Investment holding
Indirectly held:				
Nanyang Commercial Bank, Limited	Hong Kong 2 February 1948	Ordinary shares HK\$3,144,517,396	100.00%	Banking business
Chiyu Banking Corporation Limited	Hong Kong 24 April 1947	Ordinary shares HK\$300,000,000	70.49%	Banking business
BOC Credit Card (International) Limited	Hong Kong 9 September 1980	Ordinary shares HK\$480,000,000	100.00%	Credit card services
Bank of China (Hong Kong) Nominees Limited	Hong Kong 1 October 1985	Ordinary shares HK\$2	100.00%	Nominee services
Bank of China (Hong Kong) Trustees Limited	Hong Kong 6 November 1987	Ordinary shares HK\$3,000,000	100.00%	Trustee and agency services
BOC Group Trustee Company Limited	Hong Kong 1 December 1997	Ordinary shares HK\$200,000,000	64.20%	Trustee services
BOCHK Asset Management Limited	Hong Kong 28 October 2010	Ordinary shares HK\$39,500,000	100.00%	Asset management
BOCHK Financial Products (Cayman) Limited	Cayman Islands 10 November 2006	Ordinary shares US\$50,000	100.00%	Issuing structured notes
BOCHK Information Technology (Shenzhen) Co., Ltd.	PRC 16 April 1990	Registered capital HK\$70,000,000	100.00%	Property holding and investment
BOCHK Information Technology Services (Shenzhen) Ltd.	PRC 26 May 1993	Registered capital HK\$40,000,000	100.00%	Information technology services

Subsidiaries of the Company (continued)

Name	Place and date of incorporation/operation	Issued and fully paid up share capital/registered capital	Interest held	Principal activities
BOCI-Prudential Trustee Limited	Hong Kong 11 October 1999	Ordinary shares HK\$300,000,000	41.10%	Trustee services
Che Hsing (Nominees) Limited	Hong Kong 23 April 1980	Ordinary shares HK\$10,000	100.00%	Nominee services
Chiyu Banking Corporation (Nominees) Limited	Hong Kong 3 November 1981	Ordinary shares HK\$100,000	70.49%	Investment holding
Grace Charter Limited	Hong Kong 4 May 2001	Ordinary shares HK\$2	70.49%	Investment holding
Kwong Li Nam Investment Agency Limited	Hong Kong 25 May 1984	Ordinary shares HK\$3,050,000	100.00%	Investment agency
Nanyang Commercial Bank (China), Limited	PRC 14 December 2007	Registered capital RMB6,500,000,000	100.00%	Banking business
Nanyang Commercial Bank (Nominees) Limited	Hong Kong 22 August 1980	Ordinary shares HK\$50,000	100.00%	Nominee services
Nanyang Commercial Bank Trustee Limited	Hong Kong 22 October 1976	Ordinary shares HK\$3,000,000	100.00%	Trustee services
Po Sang Financial Investment Services Company Limited	Hong Kong 23 September 1980	Ordinary shares HK\$95,000,000	100.00%	Gold trading and investment holding
Po Sang Futures Limited	Hong Kong 19 October 1993	Ordinary shares HK\$95,000,000	100.00%	Securities and futures brokerage
Seng Sun Development Company, Limited	Hong Kong 11 December 1961	Ordinary shares HK\$2,800,000	70.49%	Investment holding
Sin Chiao Enterprises Corporation, Limited	Hong Kong 13 September 1961	Ordinary shares HK\$3,000,000	100.00%	Property holding and investment
Sin Hua Trustee Limited	Hong Kong 27 October 1978	Ordinary shares HK\$3,000,000	100.00%	Trustee services
Sino Information Services Company Limited	Hong Kong 11 February 1993	Ordinary shares HK\$7,000,000	100.00%	Information services

Po Sang Financial Investment Services Company Limited and Po Sang Futures Limited increased the share capital of HK\$240 million to HK\$335 million on 10 August 2015 respectively.

DEFINITIONS

In this Interim Report, unless the context otherwise requires, the following terms shall have the meanings set out below:

Terms	Meanings
"ABS"	Asset-backed Securities
"ADR"	American Depositary Receipt
"ALCO"	the Asset and Liability Management Committee
"AT1"	Additional Tier 1
"Associates"	has the meaning ascribed to "associates" in the Listing Rules
"BOC"	Bank of China Limited, a joint stock commercial bank with limited liability established under the laws of the PRC, the H shares and A shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively
"BOC (BVI)"	BOC Hong Kong (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of BOCHK
"BOCG Insurance"	Bank of China Group Insurance Company Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCHK Charitable Foundation"	Bank of China (Hong Kong) Limited Charitable Foundation (formerly known as the "Bank of China Group Charitable Foundation"), a charitable foundation being established in July 1994
"BOCHKG"	BOC Hong Kong (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCHK" or "the Bank"	Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of the Company
"BOCI"	BOC International Holdings Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCI-Prudential Manager"	BOCI-Prudential Asset Management Limited, a company incorporated under the laws of Hong Kong, in which BOCI Asset Management Limited, a wholly-owned subsidiary of BOC International Holdings Limited, and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOCI-Prudential Trustee"	BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong, in which BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOCG Life"	BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOCG Insurance hold equity interests of 51% and 49% respectively
"Board" or "Board of Directors"	the Board of Directors of the Company
"CAS"	China Accounting Standards for Business Enterprises
"CE"	Chief Executive
"CET1"	Common Equity Tier 1
"CFO"	Chief Financial Officer

DEFINITIONS

Terms	Meanings
"CIC"	China Investment Corporation
"CORMD"	the Compliance and Operational Risk Management Department
"CRO"	Chief Risk Officer
"CVA"	Credit Valuation Adjustment
"Central Huijin"	Central Huijin Investment Ltd.
"Chiyu"	Chiyu Banking Corporation Limited, a company incorporated under the laws of Hong Kong, in which BOCHK holds an equity interest of 70.49%
"DCE"	Deputy Chief Executive
"DVA"	Debit Valuation Adjustment
"EV"	Economic Value Sensitivity Ratio
"HIBOR"	Hong Kong Interbank Offered Rate
"HKAS(s)"	Hong Kong Accounting Standard(s)
"HKFRS(s)"	Hong Kong Financial Reporting Standard(s)
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HKMA"	Hong Kong Monetary Authority
"Hong Kong" or "Hong Kong SAR" or "HKSAR"	Hong Kong Special Administrative Region
"ICAAP"	Internal Capital Adequacy Assessment Process
"IFRS"	International Financial Reporting Standards
"IMM"	Internal Models
"IT"	Information Technology
"LCR"	Liquidity Coverage Ratio
"LIBOR"	London Interbank Offered Rate
"LSC"	Legal Services Centre
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MBS"	Mortgage-backed Securities
"MC"	the Management Committee
"MPF"	Mandatory Provident Fund
"MPF Schemes Ordinance"	the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong, as amended
"Mainland" or "Mainland of China"	the mainland of the PRC

DEFINITIONS

Terms	Meanings
"Medium Term Note Programme"	the medium term note programme was established by BOCHK on 2 September 2011
"Moody's"	Moody's Investors Service
"NCB"	Nanyang Commercial Bank, Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK
"NCB (China)"	Nanyang Commercial Bank (China), Limited, a company incorporated under the laws of the PRC and a wholly-owned subsidiary of NCB
"ORSO schemes"	the Occupational Retirement Schemes under Occupational Retirement Schemes Ordinance, Chapter 426 of the Laws of Hong Kong
"OTC"	Over-the-counter
"PRC"	the People's Republic of China
"PVBP"	Price Value of a Basis Point
"QDII"	Qualified Domestic Institutional Investors
"RC"	the Risk Committee
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"RMD"	the Risk Management Department
"RQFII"	Renminbi Qualified Foreign Institutional Investors
"RWA"	Risk-weighted Assets
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"SME(s)"	Small and Medium-sized Enterprise(s)
"STC"	Standardised (Credit Risk)
"STM"	Standardised (Market Risk)
"STO"	Standardised (Operational Risk)
"Standard & Poor's"	Standard & Poor's Ratings Services
"Stock Exchange" or "Hong Kong Stock Exchange" or "Stock Exchange of Hong Kong"	The Stock Exchange of Hong Kong Limited
"the Company"	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong
"the Group"	the Company and its subsidiaries collectively referred as the Group
"US"	the United States of America
"VAR"	Value at Risk



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