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

(Incorporated in Hong Kong with limited liability)

(the "Company", Stock Code: 2388)

2019 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors of the Company (the "Board") is pleased to announce the unaudited results of the Company and its subsidiaries for the six months period ended 30 June 2019. This announcement, containing the full text of the 2019 Interim Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of interim results. Printed version of the Company's 2019 Interim Report will be delivered to the Company's shareholders who have chosen to receive printed version and will also be available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and of the Company at www.bochk.com in mid September 2019.

FINANCIAL HIGHLIGHTS

For the period	30 June 2019 HK$'m	30 June 2018 HK$'m
Net operating income before impairment allowances	**29,169**	27,614
Operating profit	**20,848**	20,258
Profit before taxation	**21,552**	21,228
Profit for the period	**18,276**	17,911
Profit attributable to equity holders of the Company and other equity instrument holders	**17,949**	17,561
Per share	**HK$**	HK$
Basic earnings per share	**1.6319**	1.6610
Dividend per share	**0.545**	0.545
At period/year end	**30 June 2019 HK$'m**	31 December 2018 HK$'m
Total assets	**2,988,440**	2,956,004
Issued and fully paid up share capital	**52,864**	52,864
Capital and reserves attributable to equity holders of the Company	**268,334**	257,536
Financial ratios for the period	**30 June 2019 %**	30 June 2018 %
Return on average total assets[1]	**1.25**	1.28
Return on average shareholders' equity[2]	**12.53**	14.32
Cost to income ratio	**25.81**	25.39
Average value of liquidity coverage ratio[3]		
First quarter	**183.00**	134.33
Second quarter	**156.57**	146.39
Financial ratios at period/year end	**30 June 2019 %**	31 December 2018 %
Loan to deposit ratio[4]	**67.02**	66.77
Quarter-end value of net stable funding ratio[3]		
First quarter	**121.36**	118.98
Second quarter	**119.15**	118.82
Total capital ratio[5]	**23.00**	23.10

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

2. Return on average shareholders' equity

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

3. Liquidity coverage ratio and net stable funding ratio are 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.

4. 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".

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.

6. The Group has applied the merger accounting method in the preparation of financial information for the combination with entity under common control in 2019. The comparative information has been restated accordingly.

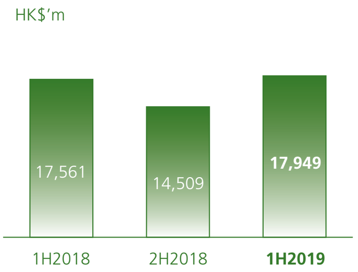
MANAGEMENT DISCUSSION AND ANALYSIS

Following the completion of the acquisition of Bank of China Limited, Vientiane Branch ("BOC Vientiane Branch") on 21 January 2019, the Group has applied the merger accounting method for the combination of entity under common control in the preparation of its financial statements. The comparative information for 2018 has been restated accordingly. The above transaction is referred as the "acquisition" in this Management Discussion and Analysis.

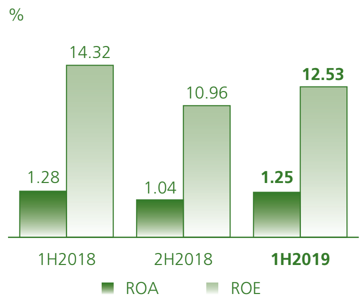
FINANCIAL PERFORMANCE AND CONDITIONS AT A GLANCE

The following table is a summary of the Group's key financial results for the first half of 2019 in comparison with the previous two half-year periods of 2018.

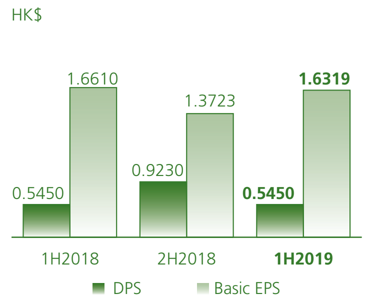
Profit Attributable to Equity Holders and Other Equity Instrument Holders



Return on Average Shareholders' Equity[1] ("ROE") and Return on Average Total Assets[1] ("ROA")



Basic Earnings Per Share ("Basic EPS") and Dividend Per Share ("DPS")



Profit attributable to equity holders and other equity instrument holders

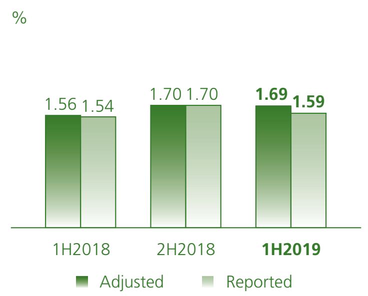
- The profit attributable to equity holders and other equity instrument holders in the first half of 2019 amounted to HK$17,949 million, representing a year-on-year increase of 2.2% and an increase of 23.7% compared to the second half of 2018.

Solid returns to shareholders

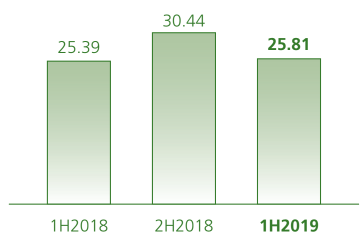
- ROE and ROA was 12.53% and 1.25% respectively.
- Basic EPS was HK$1.6319. The interim dividend per share was HK$0.545.

MANAGEMENT DISCUSSION AND ANALYSIS

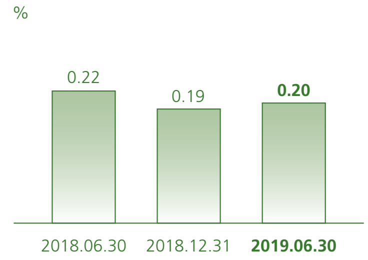
Net Interest Margin ("NIM")



Cost to Income Ratio



Classified or Impaired Loan Ratio[2]



Proactive assets and liabilities management, resulting in improved net interest margin ("NIM")

- NIM was 1.59%, up 5 basis points year-on-year. If the funding income or cost of foreign currency swap contracts[3] were included, NIM would have been 1.69%, up 13 basis points, as a result of the Group capturing opportunities from higher market interest rates and proactively managing its assets and liabilities.

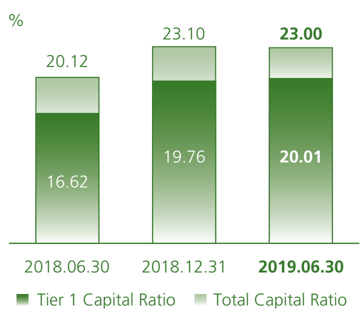
Flexible deployment of resources and high operational efficiency

- The Group's cost to income ratio was 25.81%, up 0.42 percentage points year-on-year, maintaining cost efficiency at a solid level relative to industry peers.

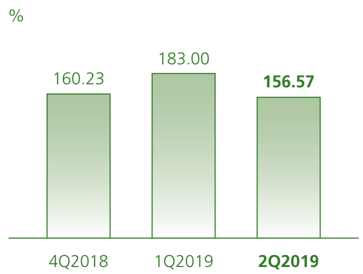
Prudent risk management, maintaining benign asset quality

- The classified or impaired loan ratio was 0.20%, well below the market average level.

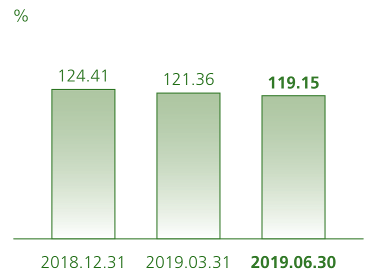
Capital Ratio



Average Value of Liquidity Coverage Ratio



Net Stable Funding Ratio



Strong capital position to support business growth

- Total capital ratio was 23.00%. Tier 1 capital ratio was 20.01%, up 0.25 percentage points from the prior year end.

Sound liquidity position

- The average value of the Group's liquidity coverage ratio in the first and second quarter of 2019 remained stable at 183.00% and 156.57% respectively.
- Net stable funding ratio stood at 121.36% at the end of March 2019 and 119.15% at the end of June 2019 respectively.

1. Return on average shareholders' equity and return on average total assets as defined in "Financial Highlights".
2. Classified or impaired loans represent advances that are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or classified as Stage 3.
3. Foreign exchange swap contracts are normally used for the Group's liquidity management and funding activities. In 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 (funding income or cost) between the spot and forward contracts is recognised as a foreign exchange gain or loss (as included in "net trading gain"), while the corresponding interest differential between the surplus funds in the original currency and swapped currency is reflected in net interest income.

ECONOMIC BACKGROUND AND OPERATING ENVIRONMENT

In the first half of 2019, the global economy exhibited slower growth and a more cautious outlook amid rising uncertainties, including ongoing trade friction between China and the US, the unresolved direction of Brexit, and elevated political risks in certain countries. The US economy continued to grow steadily, although there was a gradual decline in the manufacturing purchasing managers' and consumer confidence indices. Meanwhile, the US Federal Reserve shifted towards a more dovish monetary policy stance. Amid rising political risks in certain countries, Eurozone economic growth remained slow, and the European Central Bank continued its highly accommodative monetary policy. In the face of rising external uncertainties, the Mainland government provided stronger policy support to the Chinese economy, which recorded year-on-year growth of 6.3% in the first half of 2019. Economic performance in Southeast Asia was largely steady, with a number of countries benefitting from increased foreign investment.

Hong Kong's economic growth continued to slacken, with the economy expanded modestly by 0.5% year-on-year in the second quarter of 2019, slightly slower than the 0.6% growth in the first quarter. Total retail sales in Hong Kong declined 2.6% year-on-year in the first half of 2019. Nevertheless, positive factors including full employment, a more proactive fiscal policy by the HKSAR government and increasing policy support in other major economies, helped to overcome some of the uncertainties affecting Hong Kong.

The average 1-month HIBOR and 1-month LIBOR rose from 1.34% and 2.02% respectively in 2018 to 1.67% and 2.47% respectively in the first half of 2019. The USD yield curve was inverted at some points. The US Federal Reserve cut its federal funds target rate in late July, the first time in a decade.

In the first half of 2019, global financial markets were boosted by the dovish shift of the US Federal Reserve's monetary policy stance. However, Hong Kong stock market experienced a correction from the beginning of May onwards, against a backdrop of renewed China-US trade frictions and an increasingly cautious global economic outlook. As at the end of June 2019, the Hang Seng Index was up 10.4% from the end of 2018. However, IPO activity in the first half of 2019 dropped notably compared to the same period of 2018 and the average daily trading volume of the stock market declined by 22.7% over the same period of last year.

Private residential property prices gradually stabilised in the first half of 2019, largely driven by the optimism regarding the more accommodative stance of the US Federal Reserve and the low interest rate environment in Hong Kong. Prices of private residential properties rose 9.5% in the first half of 2019, with transaction volumes also rising. The HKSAR government continued to implement demand management measures and the HKMA maintained prudent supervisory measures on mortgage loans, which helped banks to maintain a solid asset quality of their mortgage businesses.

Offshore RMB business in Hong Kong maintained steady development, with a series of capital account liberalisation and RMB internationalisation measures being introduced and implemented in an orderly manner. The banking and insurance sectors were further opened up to foreign investors through the removal of shareholding limits from foreign investors and total asset requirements. There was also further expansion and improvement of the connections between Hong Kong and Chinese mainland stock markets, as well as gradual progress in the opening-up of the exchange-listed bond market and futures market. Meanwhile, MSCI carried out the phased expansion of the weighting of China's A shares in the MSCI index, while Chinese onshore bonds were included in the Bloomberg Barclays Global Aggregate Index. These measures opened up new business opportunities for the financial industry in Hong Kong and further promoted the healthy development of offshore RMB markets.

In the first half of 2019, Hong Kong's banking industry faced a number of challenges in its operating environment, including looming trade protectionism, changes in global monetary policies, the diverging performance of emerging market economies and rising geopolitical risks. During the period, the HKMA granted eight virtual banking licenses with a view to promote financial inclusion, product and business innovation and changes to the traditional operations of the banking industry. At the same time, the Mainland government further expanded the scope of its economic opening up and deepened its supply-side reform efforts. The development of the Guangdong-Hong Kong-Macao Greater Bay Area was further facilitated by the release of the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area and the expansion of coverage of more than 30 categories of public services in the Chinese mainland to holders of the Mainland Travel Permit for Hong Kong and Macao residents from October 2019. Together with the further development of two-way capital market connections between the Chinese mainland and Hong Kong, all of these factors fueled Hong Kong's economic growth and led to enormous demand for financial services, thus instilling banks in Hong Kong with fresh impetus.

MANAGEMENT DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL REVIEW

The comparative information for 2018 has been restated following the Group's application of the merger accounting method in the preparation of its financial statements as a result of the acquisition.

Financial Highlights

HK$'m	**Half-year ended 30 June 2019**	(Restated) Half-year ended 31 December 2018	(Restated) Half-year ended 30 June 2018
Net operating income before impairment allowances	**29,169**	26,921	27,614
Operating expenses	**(7,528)**	(8,194)	(7,012)
Operating profit before impairment allowances	**21,641**	18,727	20,602
Operating profit after impairment allowances	**20,848**	17,829	20,258
Profit before taxation	**21,552**	17,853	21,228
Profit attributable to equity holders of the Company and other equity instrument holders	**17,949**	14,509	17,561

In the first half of 2019, the Group's profit attributable to equity holders and other equity instrument holders amounted to HK$17,949 million, an increase of HK$388 million or 2.2% year-on-year. Net operating income before impairment allowances was HK$29,169 million, up HK$1,555 million or 5.6% year-on-year. Net interest income rose, mainly as a result of rising market interest rates and the positive impact arising from the Group's proactive management of its assets and liabilities. A higher net gain was also recorded from the disposal of certain debt securities. Net fee and commission income decreased year-on-year, which partially offset the above-mentioned income growth. Operating expenses increased year-on-year as a result of the Group's ongoing investment in supporting its business expansion. Net charge of impairment allowances increased year-on-year while the net gain from fair-value adjustments on investment properties decreased on a year-on-year basis.

As compared with the second half of 2018, the Group's net operating income before impairment allowances rose by HK$2,248 million or 8.4%. This was mainly attributable to an increase in net fee and commission income and a net gain from the disposal of certain debt securities. However, net interest income decreased, partially offsetting the above-mentioned income growth. Moreover, operating expenses and net charge of impairment allowances fell, while the Group recorded a net gain from fair-value adjustments on investment properties. As a result, profit attributable to equity holders and other equity instrument holders increased by HK$3,440 million or 23.7% compared to the second half of last year.

INCOME STATEMENT ANALYSIS

The comparative information of the following income statement analysis has been restated to conform to the current year's presentation.

Net Interest Income and Net Interest Margin

HK$'m, except percentages	**Half-year ended 30 June 2019**	(Restated) Half-year ended 31 December 2018	(Restated) Half-year ended 30 June 2018
Interest income	**33,605**	33,264	28,601
Interest expense	**(13,702)**	(12,302)	(10,062)
Net interest income	**19,903**	20,962	18,539
Average interest-earning assets	**2,521,282**	2,440,558	2,434,698
Net interest spread	**1.37%**	1.49%	1.37%
Net interest margin	**1.59%**	1.70%	1.54%
Net interest margin (adjusted)*	**1.69%**	1.70%	1.56%

* Including the funding income or cost of foreign currency swap contracts.

Net interest income amounted to HK$19,903 million in the first half of 2019. If the funding income or cost of foreign currency swap contracts# were included, net interest income would have increased by 12.2% year-on-year. The increase was driven by improvement in net interest margin and growth in average interest-earning assets.

Average interest-earning assets expanded by HK$86,584 million or 3.6% year-on-year. The increase in deposits from customers led to an increase in advances to customers, debt securities investments and other debt instruments.

Net interest margin was 1.59%. If the funding income or cost of foreign currency swap contracts were included, net interest margin would have been 1.69%, up 13 basis points year-on-year. The Group's loan and deposit spread widened, owing to a year-on-year increase in market interest rates and the proactive management of its assets and liabilities. This, together with the improved average yield of its debt securities investments and other debt instruments and an increase in free fund contribution, resulted in a widening of the Group's net interest margin.

Foreign exchange swap contracts are normally used for the Group's liquidity management and funding activities. In 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 (funding income or cost) between the spot and forward contracts is recognised as a foreign exchange gain or loss (as included in "net trading gain"), while the corresponding interest differential between the surplus funds in the original currency and swapped currency is reflected in net interest income.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below summarises the average balances and average interest rates of individual categories of assets and liabilities:

	Half-year ended 30 June 2019		(Restated) Half-year ended 31 December 2018		(Restated) Half-year ended 30 June 2018	
ASSETS	**Average balance HK$'m**	**Average yield %**	Average balance HK$'m	Average yield %	Average balance HK$'m	Average yield %
Balances and placements with banks and other financial institutions	**353,996**	**1.87**	376,997	1.84	456,406	1.95
Debt securities investments and other debt instruments	**869,063**	**2.42**	813,226	2.61	754,110	2.16
Advances to customers	**1,279,546**	**3.10**	1,232,959	3.03	1,206,431	2.67
Other interest-earning assets	**18,677**	**2.80**	17,376	2.60	17,751	1.66
Total interest-earning assets	**2,521,282**	**2.69**	2,440,558	2.70	2,434,698	2.37
Non interest-earning assets	**407,778**	**–**	386,325	–	372,560	–
Total assets	**2,929,060**	**2.31**	2,826,883	2.33	2,807,258	2.05
LIABILITIES	**Average balance HK$'m**	**Average rate %**	Average balance HK$'m	Average rate %	Average balance HK$'m	Average rate %
Deposits and balances from banks and other financial institutions	**198,894**	**1.22**	224,398	1.15	228,106	1.05
Current, savings and time deposits	**1,838,239**	**1.29**	1,726,379	1.16	1,726,102	0.90
Subordinated liabilities	**13,160**	**5.51**	16,053	5.42	20,458	5.46
Other interest-bearing liabilities	**41,671**	**1.78**	49,309	1.99	60,946	1.91
Total interest-bearing liabilities	**2,091,964**	**1.32**	2,016,139	1.21	2,035,612	1.00
Shareholders' funds* and other non interest-bearing deposits and liabilities	**837,096**	**–**	810,744	–	771,646	–
Total liabilities	**2,929,060**	**0.94**	2,826,883	0.86	2,807,258	0.72

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

If the funding income or cost of foreign currency swap contracts were included, the Group's net interest income would have increased by 0.8% compared to second half of 2018. This was mainly attributable to growth in average interest-earning assets. Net interest margin would have decreased by 1 basis point, mainly due to an increase in deposit costs arising from intense market competition and the rise in Hong Kong dollar savings deposit rate in the second half of last year, which was partially offset by the increase in the average yield of advances to customers.

Net Fee and Commission Income

HK$'m	**Half-year ended 30 June 2019**	(Restated) Half-year ended 31 December 2018	(Restated) Half-year ended 30 June 2018
Credit card business	**1,635**	1,707	1,734
Loan commissions	**1,623**	901	1,712
Insurance	**1,160**	681	865
Securities brokerage	**1,093**	1,064	1,705
Funds distribution	**464**	377	552
Bills commissions	**352**	338	401
Payment services	**339**	355	326
Currency exchange	**323**	322	268
Trust and custody services	**309**	320	313
Safe deposit box	**144**	131	154
Others	**678**	656	636
Fee and commission income	**8,120**	6,852	8,666
Fee and commission expense	**(2,074)**	(2,016)	(2,190)
Net fee and commission income	**6,046**	4,836	6,476

In the first half of 2019, net fee and commission income amounted to HK$6,046 million, down HK$430 million, or 6.6% from the high levels achieved in the same period last year. This was mainly due to the decreases in commission income from securities brokerage and funds distribution of 35.9% and 15.9% respectively, amid weakening investor sentiment in the market. During the reporting period, the Group captured market opportunities, continued to optimise its service channels and functions and enriched its product and service offerings, recording satisfactory growth in a number of areas. Commission income from insurance increased by 34.1%, driven by a growth in sales volume resulting from the Group's efforts to promote innovation in its insurance products and services, deliver promotional campaigns to its key clients and implement the digitalisation of its insurance application processes. Commission income from currency exchange increased 20.5%, as the Group captured opportunities arising from the strong demand for various foreign currency banknotes from travelling customers, as well as the proactive development of its banknote business in Hong Kong, the Chinese mainland, Southeast Asia and other overseas markets. Fee income from payment services was up 4.0%, as the Group accelerated the development of its cash pooling and cash management businesses. However, fee income from the Group's credit card business decreased by 5.7%, due to a decline in retail sales in Hong Kong. Loan commission income was down 5.2%, while fee and commission income from bills, trust and custody services, and safe deposit box also dropped. Meanwhile, fee and commission expenses fell, mainly due to lower credit card and securities brokerage related expenses.

Compared with the second half of 2018, net fee and commission income increased by HK$1,210 million or 25.0%. This was attributable to growth in fee and commission income from loans, insurance, funds distribution and securities brokerage. Fee and commission income from bills and safe deposit box also rose. However, fee and commission income from credit card business, payment services, and trust and custody services dropped. Fee and commission expenses increased, owing to higher insurance-related expenses as a result of growth in sales volume.

Net Trading Gain

HK$'m	**Half-year ended 30 June 2019**	(Restated) Half-year ended 31 December 2018	(Restated) Half-year ended 30 June 2018
Foreign exchange and foreign exchange products	**2,135**	1,016	1,700
Interest rate instruments and items under fair value hedge	**(489)**	(125)	175
Commodities	**126**	123	61
Equity and credit derivative instruments	**57**	26	114
Total net trading gain	**1,829**	1,040	2,050

In the first half of 2019, the Group's net trading gain amounted to HK$1,829 million, a decrease of HK$221 million or 10.8% year-on-year. Net trading gain from foreign exchange and foreign exchange products increased by HK$435 million, which was mainly attributable to an increase in net gain from foreign currency swap contracts, partially offset by the decrease in currency exchange income from customer transactions. Interest rate instruments and items under fair value hedge recorded a net trading loss, as compared with a net trading gain in the same period last year. This was primarily due to movements in interest rates causing mark-to-market changes to certain debt securities investments and interest rate instruments. Net trading gain from commodities increased, due to an increased gain from bullion transactions. The decrease in net trading gain from equity and credit derivative instruments was due to decreased income from equity-linked products. If the funding income or cost of foreign currency swap contracts were excluded, net trading gain would have decreased by 65.0% year-on-year.

Compared with the second half of 2018, net trading gain increased by HK$789 million or 75.9%. This was mainly attributable to a net gain from foreign currency swap contracts as compared with a net loss in the second half of 2018, coupled with a rebound in currency exchange income from customer transactions. This was partially offset by the higher mark-to-market losses of certain debt securities investments and interest rate instruments caused by interest rate movements. If the funding income or cost of foreign currency swap contracts were excluded, net trading gain would have decreased by 40.8% from the second half of 2018.

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

HK$'m	**Half-year ended 30 June 2019**	(Restated) Half-year ended 31 December 2018	(Restated) Half-year ended 30 June 2018
Net gain/(loss) on other financial instruments at fair value through profit or loss	**2,215**	(100)	(1,182)

The Group recorded a net gain of HK$2,215 million on other financial instruments at fair value through profit or loss, compared to a net loss of HK$1,182 million in the first half of 2018. The change was mainly attributable to the mark-to-market gain (as compared with a mark-to-market loss in the first half of 2018) of BOC Life's debt securities investments, caused by market interest rate movements, together with a gain in its equity securities investments. The mark-to-market changes of the debt securities investments mentioned above were offset by changes in BOC Life's policy reserves, as reflected in changes in net insurance benefits and claims as well as movements in liabilities, which were also attributable to the movement of market interest rates.

Compared with the second half of 2018, the change was mainly attributable to the mark-to-market gain of BOC Life's debt securities investments caused by market interest rate movements, together with a gain in its equity securities investments.

Operating Expenses

HK$'m	**Half-year ended 30 June 2019**	(Restated) Half-year ended 31 December 2018	(Restated) Half-year ended 30 June 2018
Staff costs	**4,264**	4,581	4,061
Premises and equipment expenses (excluding depreciation)	**652**	1,005	857
Depreciation	**1,402**	1,068	998
Other operating expenses	**1,210**	1,540	1,096
Total operating expenses	**7,528**	8,194	7,012

	At 30 June 2019	(Restated) At 31 December 2018	(Restated) At 30 June 2018
Staff headcount measured in full-time equivalents*	**13,964**	14,084	13,390

* The comparative information of staff headcounts measured in full-time equivalents as at 30 June and 31 December 2018 has been restated to enable analysis on a comparable basis.

Total operating expenses increased by HK$516 million, or 7.4% year-on-year, as a result of the Group's ongoing investment in human resources and the enhancement of its fintech service capabilities, undertaken with the aim of expediting the Group's transformation into a digital bank, improving its overall service competitiveness and supporting long-term business growth. The cost to income ratio was 25.81%, with the Group maintaining cost efficiency at a solid level relative to industry peers.

Staff costs increased by 5.0% year-on-year, mainly due to annual salary increment and increased headcount.

Premises and equipment expenses decreased by 23.9%. From 1 January 2019 onwards, the Group has adopted Hong Kong Financial Reporting Standard 16 ("HKFRS 16"), "Leases". Under this new standard, leases for use of premises are accounted for as a right-of-use asset, with related rental expenses recognised as the depreciation of the right-of-use asset. As a result, rental expenses dropped. This decline was partially offset by increased investments in information technology.

Depreciation increased by 40.5%, mainly due to the adoption of HKFRS 16, and increased depreciation charges on premises and information technology infrastructure.

Other operating expenses rose by 10.4%, mainly due to an increase in business promotional expenses related to the credit card and payment businesses as well as a rise in communication expenses.

Compared with the second half of 2018, total operating expenses decreased by HK$666 million or 8.1%. The decrease was due to lower performance-related remuneration and business promotional expenses.

Net Charge of Impairment Allowances on Advances and Other Accounts

HK$'m	**Half-year ended 30 June 2019**	(Restated) Half-year ended 31 December 2018	(Restated) Half-year ended 30 June 2018
Stage 1	**(276)**	(298)	460
Stage 2	**12**	(195)	(141)
Stage 3	**(453)**	(424)	(585)
Total net charge of impairment allowances on advances and other accounts	**(717)**	(917)	(266)

In the first half of 2019, the Group's net charge of impairment allowances on advances and other accounts amounted to HK$717 million, an increase of HK$451 million from the same period of 2018. Impairment allowances at Stage 1 recorded a net charge of HK$276 million, mainly driven by loan growth during the period, as compared to a net reversal in the same period last year. Impairment allowances at Stage 2 recorded a net reversal of HK$12 million, as compared to a net charge of HK$141 million in the same period last year. The change mainly reflected the impact of changes in the internal rating of certain customers. Impairment allowances at Stage 3 amounted to HK$453 million, a decrease of HK$132 million year-on-year, mainly attributable to a lower net charge of impairment allowances on certain advances in the personal loan portfolio and a higher recovery.

Compared with the second half of 2018, net charge of impairment allowances on advances and other accounts decreased by HK$200 million. The change mainly reflected the impact from the updating of parameter values in the expected credit losses assessment model in the second half of last year to take into consideration changes in economic outlook.

ANALYSIS ON ASSETS AND LIABILITIES

The table below summarises the Group's asset composition. The comparative figures as of 31 December 2018 have been restated to conform to the current year's presentation. Please refer to Note 22 to the Interim Financial Information for the contract/notional amounts and fair values of the Group's derivative financial instruments. Please refer to Note 38 to the Interim Financial Information for the contractual amounts of each significant class of contingent liability and commitment and the aggregate credit risk-weighted amounts of the Group.

Asset Composition

	At 30 June 2019		(Restated) At 31 December 2018	
HK$'m, except percentages	**Amount**	**% of total**	Amount	% of total
Cash and balances and placements with banks and other financial institutions	**385,357**	**12.9**	433,299	14.7
Hong Kong SAR Government certificates of indebtedness	**163,860**	**5.5**	156,300	5.3
Securities investments and other debt instruments[1]	**873,418**	**29.2**	899,967	30.4
Advances and other accounts	**1,370,281**	**45.9**	1,282,994	43.4
Fixed assets and investment properties	**72,404**	**2.4**	69,119	2.3
Other assets[2]	**123,120**	**4.1**	114,325	3.9
Total assets	**2,988,440**	**100.0**	2,956,004	100.0

1. Securities investments and other debt instruments comprise investment in securities and financial assets at fair value through profit or loss.
2. Other assets comprise derivative financial instruments, interests in associates and joint ventures, current tax assets and deferred tax assets.

Adhering to the principle of balanced and sustainable development, the Group continued to optimise the management of its assets and liabilities. As at 30 June 2019, the total assets of the Group amounted to HK$2,988,440 million, an increase of HK$32,436 million or 1.1% from the end of 2018. Cash and balances and placements with banks and other financial institutions decreased by HK$47,942 million or 11.1%, mainly due to a decrease in balances with banks and central banks. Securities investments and other debt instruments decreased by HK$26,549 million or 2.9%. Advances and other accounts rose by HK$87,287 million or 6.8%, with advances to customers growing by HK$85,303 million or 6.7%, and trade bills increasing by HK$3,173 million or 18.3%.

Advances to Customers

	At 30 June 2019		(Restated) At 31 December 2018	
HK$'m, except percentages	**Amount**	**% of total**	Amount	% of total
Loans for use in Hong Kong	**891,902**	**65.9**	841,720	66.4
Industrial, commercial and financial	**522,867**	**38.6**	492,712	38.9
Individuals	**369,035**	**27.3**	349,008	27.5
Trade financing	**80,517**	**6.0**	65,437	5.2
Loans for use outside Hong Kong	**380,119**	**28.1**	360,078	28.4
Total advances to customers	**1,352,538**	**100.0**	1,267,235	100.0

In the first half of 2019, the Group actively developed its local and cross-border businesses. It seized opportunities arising from the loan demand of large corporates, high-quality commercial and SME customers in Hong Kong. It optimised the digitalisation of the business processes of its mortgage business and enhanced the service quality of its mortgage centres. It strengthened its collaboration with BOC in order to capture opportunities brought about from the implementation of major national strategies. The Group remained the top mandated arranger in the Hong Kong and Macao syndicated loan market. It also maintained its leading position in the residential mortgage and reverse mortgage businesses. At the same time, it enhanced its marketing efforts for Southeast Asia business so as to acquire high-quality and influential local clients, and successfully participated in a number of major financing projects in Southeast Asia. In the first half of 2019, advances to customers grew by HK$85,303 million, or 6.7%, to HK$1,352,538 million.

Loans for use in Hong Kong increased by HK$50,182 million or 6.0%.

- Lending to the industrial, commercial and financial sectors increased by HK$30,155 million or 6.1%, reflecting growth in property development, financial concerns, wholesale and retail trade, information technology, transport and transport equipment, as well as stockbrokers.

- Lending to individuals increased by HK$20,027 million or 5.7%. Residential mortgage loans (excluding those under government-sponsored home purchasing schemes) grew by 4.8% while other individual loans increased by 8.0%, mainly driven by the increase in loans for property refinancing.

Trade financing increased by HK$15,080 million or 23.0%. Loans for use outside Hong Kong grew by HK$20,041 million or 5.6%, mainly driven by growth in loans for use in the Chinese mainland and Southeast Asia.

Loan Quality

HK$'m, except percentages	**At 30 June 2019**	(Restated) At 31 December 2018
Advances to customers	**1,352,538**	1,267,235
Classified or impaired loan ratio	**0.20%**	0.19%
Total impairment allowances	**6,032**	5,419
Total impairment allowances as a percentage of advances to customers	**0.45%**	0.43%
Residential mortgage loans[1] – delinquency and rescheduled loan ratio[2]	**0.01%**	0.01%
Card advances – delinquency ratio[2]	**0.20%**	0.19%

	Half-year ended 30 June 2019	Half-year ended 30 June 2018
Card advances – charge-off ratio[3]	**1.35%**	1.47%

1. Residential mortgage loans exclude those under the Home Ownership Scheme and other government-sponsored home purchasing schemes.
2. The delinquency ratio is the ratio of the total amount of overdue advances (more than three months) to total outstanding advances.
3. The charge-off ratio is the ratio of total write-offs made during the period to average card receivables during the period.

During the reporting period, the Group proactively strengthened its management systems for various types of risks and enhanced its regional risk management so as to maintain benign asset quality. The classified or impaired loan ratio was 0.20% as at 30 June 2019, up 0.01 percentage point from the end of last year. Classified or impaired advances to customers increased by HK$269 million, or 11.3%, to HK$2,652 million.

The credit quality of the Group's residential mortgage loans and card advances remained stable. The combined delinquency and rescheduled loan ratio of residential mortgage loans was 0.01% as at 30 June 2019. The charge-off ratio of card advances for the first half of 2019 was 1.35%, down 0.12 percentage points year-on-year.

Deposits from Customers

HK$'m, except percentages	At 30 June 2019 Amount	At 30 June 2019 % of total	(Restated) At 31 December 2018 Amount	(Restated) At 31 December 2018 % of total
Demand deposits and current accounts	**217,317**	**10.8**	207,812	11.0
Savings deposits	**900,580**	**44.6**	854,117	45.0
Time, call and notice deposits	**900,326**	**44.6**	833,867	43.9
	2,018,223	**100.0**	1,895,796	99.9
Structured deposits	**13**	**–**	2,199	0.1
Total deposits from customers	**2,018,236**	**100.0**	1,897,995	100.0

In the first half of 2019, the Group stepped up efforts to expand its mid- to high-end customer base and strengthened business relationships with large corporates and institutional customers in a bid to enlarge its deposit scale. As of 30 June 2019, total deposits from customers amounted to HK$2,018,236 million, an increase of HK$120,241 million or 6.3% from the end of last year. The Group continued to optimise the management of its deposit structure. With active promotion of its payroll, wealth management and integrated payment service solutions, its role as the main receiving bank for IPOs and its cash management and settlement businesses, the Group was able to support the growth of its current accounts and savings deposits. As a result, demand deposits and current accounts increased by 4.6% and savings deposits rose by 5.4%. Meanwhile, time, call and notice deposits increased by 8.0%.

Capital and Reserves Attributable to Equity Holders of the Company

HK$'m	At 30 June 2019	(Restated) At 31 December 2018
Share capital	**52,864**	52,864
Premises revaluation reserve	**39,460**	38,527
Reserve for fair value changes	**(1,121)**	(4,116)
Reserve for own credit risk	**(36)**	5
Regulatory reserve	**10,877**	10,496
Translation reserve	**(681)**	(832)
Merger reserve	**–**	350
Retained earnings	**166,971**	160,242
Reserves	**215,470**	204,672
Capital and reserves attributable to equity holders of the Company	**268,334**	257,536

Capital and reserves attributable to equity holders of the Company amounted to HK$268,334 million as at 30 June 2019, an increase of HK$10,798 million or 4.2% from the end of 2018. Retained earnings rose by 4.2% from the end of last year, mainly reflecting the profit achieved in the first half of 2019 after the distribution of final dividends for 2018. The premises revaluation reserve increased by 2.4%, reflecting an increase in the valuation of the Group's premises in the first half of 2019. The deficit in reserve for fair value changes decreased, mainly driven by market interest rate movements. The regulatory reserve increased by 3.6%, mainly driven by growth in advances to customers. The merger reserve as at 31 December 2018 arose, owing to the Group's application of the merger accounting method in relation to its combination with BOC Vientiane Branch.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Ratio

HK$'m, except percentages	**At 30 June 2019**	At 31 December 2018
Consolidated capital after deductions		
Common Equity Tier 1 capital	**193,987**	180,202
Additional Tier 1 capital	**23,463**	23,476
Tier 1 capital	**217,450**	203,678
Tier 2 capital	**32,565**	34,393
Total capital	**250,015**	238,071
Total risk-weighted assets	**1,086,888**	1,030,815
Common Equity Tier 1 capital ratio	**17.85%**	17.48%
Tier 1 capital ratio	**20.01%**	19.76%
Total capital ratio	**23.00%**	23.10%

In the course of formulating its internal capital ratio targets, the Group not only takes into consideration regulatory requirements, but also adopts the internal capital adequacy assessment process and stress testing necessary to assess the Bank's capital requirement for Pillar II. This allows the Group to determine the most appropriate capital level to ensure that it has adequate capital strength to withstand any future unexpected losses arising from a drastic change in the economic environment. At the same time, the Group also takes into account its development strategy and risk appetite, as well as its short- and long-term capital requirements (including support from capital replenishment solutions), with the ultimate aim of ensuring the long-term stability of its capital level.

As at 30 June 2019, the Group's Common Equity Tier 1 ("CET1") capital and Tier 1 capital increased by 7.6% and 6.8% respectively, driven by profits net of dividends for the first half of 2019. The Group remains committed to balancing growth in risk-weighted assets ("RWAs") with enhancement in returns. Total RWAs increased by 5.4%, mainly driven by loan growth in the first half of 2019. The CET1 capital ratio was 17.85% and Tier 1 capital ratio was 20.01%, up 0.37 and 0.25 percentage points respectively from the end of 2018. Total capital ratio was 23.00%. The Group has established a long-term capital plan to continuously review its capital structure and control the growth of its RWAs, so as to maintain an appropriate capital level to support the sustainable business development of the Group.

Liquidity Coverage Ratio and Net Stable Funding Ratio

	2019	2018
Average value of liquidity coverage ratio		
First quarter	**183.00%**	134.33%
Second quarter	**156.57%**	146.39%

	2019	2018
Quarter-end value of net stable funding ratio		
First quarter	**121.36%**	118.98%
Second quarter	**119.15%**	118.82%

The Group's liquidity position remained sound, with the average value of its liquidity coverage ratio and the quarter-end value of its net stable funding ratio exceeding the regulatory requirement for the first two quarters of 2019.

BUSINESS REVIEW

In the first half of 2019, the Group remained committed to its strategy of building a top-class, full-service and internationalised regional bank. It actively responded to changes in the market environment and steadily pushed forward its business priorities, achieving steady improvement in development quality and maintaining major financial indicators at solid levels. Striving to be customer-centric at all times, it continued to develop the local market in Hong Kong so as to maintain sustainable development. The Group is actively involved in the development of the Guangdong-Hong Kong-Macao Greater Bay Area, and endeavours to build up its integrated competitive advantages by meeting people's livelihood financial needs. It promoted business development in Southeast Asia, enhancing regional synergies and development quality. It expedited its transformation into a digital bank and improved its capabilities in technological innovation, infrastructure and application. It also refined its diversified business platforms in order to develop its full-service and international service capabilities. Moreover, the Group closely monitored changes in the economic and financial environment and enhanced its risk management capabilities and internal compliance levels. It remained dedicated to cultivating its bank culture in order to ensure a balanced and sustainable development.

Business Segment Performance

Profit before Taxation by Business Segment

	Half-year ended 30 June 2019		(Restated) Half-year ended 30 June 2018	
HK$'m, except percentages	**Amount**	**% of total**	Amount	% of total
Personal Banking	**6,454**	**30.0**	5,911	27.8
Corporate Banking	**8,065**	**37.4**	8,154	38.4
Treasury	**5,074**	**23.5**	4,807	22.7
Insurance	**551**	**2.6**	597	2.8
Others	**1,408**	**6.5**	1,759	8.3
Total profit before taxation	**21,552**	**100.0**	21,228	100.0

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

PERSONAL BANKING

Financial Results

Personal Banking achieved a profit before tax of HK$6,454 million in the first half of 2019, an increase of HK$543 million or 9.2% year-on-year, mainly driven by an increase in net interest income.

Net interest income increased by 22.1%, mainly driven by the growth in the average balance of deposits along with an improvement in the deposit spread. The increase was, however, partially set off by the narrowing of loan spread. Net fee and commission income decreased by 6.5%, as fee income from securities brokerage and funds distribution decreased from the high level of last year amid the weakening investor sentiment in the market. However, commission income from insurance increased in line with a higher business volume, partially offsetting the above-mentioned income drop. Operating expenses rose by 8.2%, mainly due to an increase in staff costs and depreciation of the right-of-use assets.

Business Operations

Striving to be customer oriented and continuously refining its customer structure

The Group adopted a customer-centric strategy by observing customers' preferences and behaviours. It promoted a holistic wealth planning service and offered an all-round asset allocation analysis and portfolio solution to mid- to high-end customers. In order to meet customers' needs in wealth inheritance, assurance and travelling, the Group hosted exclusive sales events for high-net-worth customers and organised the Worldwide Wealth Management Expo 2019, providing customers with diversified investment and wealth management information and thus enhancing its brand recognition and loyalty. The Group further refined its customer structure. At the end of June 2019, the number of mid- to high-end customers increased by 7.8% from the end of last year.

The Group's private banking business maintained satisfactory growth. Through closer collaboration with other business units of the Group and BOC's domestic and overseas entities, the Group was able to provide professional private banking services to high-net-worth clients from Hong Kong, the Chinese mainland and overseas. It further optimised its open product platform for private banking and enriched its exclusive private banking products. It strengthened its private banking team and boosted its service levels in order to enhance its brand reputation. During the reporting period, the number of private banking clients and AUM recorded satisfactory growth as compared with the end of 2018.

Addressing people's livelihood banking needs and stepping up customer service enhancements

In line with measures promoted by the HKSAR government to improve people's livelihood, the Group launched an online virtual payment account opening service. It enriched BoC Pay application scenarios and further expanded its service coverage to non-BOCHK customers, thus allowing more customers in Hong Kong to enjoy convenient digital payments. Through collaboration among different business segments within the Group, it hosted wealth management seminars for tertiary students and provided exclusive services to meet their financial needs, thus increasing its service penetration to the younger customer segment. As part of its efforts to promote financial inclusion, BOCHK took the decision to remove service fees for its personal integrated banking services and general banking accounts, effective from 1 August 2019. During the reporting period, BOCHK was awarded the Best Retail Bank in Hong Kong by *The Asian Banker* in its International Excellence in Retail Financial Services Awards for the third time, in recognition of its performance in the retail banking industry.

Supporting the development of local small enterprises and continuously refining product packages

Responding to the HKMA's call to pursue financial inclusion, the Group continued to refine product packages for small enterprises. To support measures promoted by the HKSAR government for serving start-up enterprises, the Group launched the "Business Lite" account service. This simplifies account opening requirements and waives monthly charges and the minimum deposit balance requirement, with the aim of facilitating easier account opening for start-up enterprises and overseas enterprises investing in Hong Kong. The Group continued to support the development of local small enterprises. It provided customers with BOC "Small Business Loan" unsecured loans, corporate tax loans and one-stop business financial solutions, thus fulfilling customers' full range of financial needs. The Group also established Business Banking Centres at 4 branches so as to strengthen the professionalism and service capabilities of its frontline teams. In addition, the Group promoted BoC Bill, an integrated payment collection service for SMEs which offers various types of online and offline payment tools, in order to help merchants cope better in their daily operations. The total number of business integrated accounts for small enterprises increased by 6.9% compared to the end of last year.

Promoting integrated development and collaboration in the Greater Bay Area and expanding featured cross-border services

The Group actively pushed forward integrated development and collaboration in the Guangdong-Hong Kong-Macao Greater Bay Area by addressing the needs of residents in Guangdong, Hong Kong and Macao for financial services, including account opening, payment services and financing. BOCHK is the first bank in Hong Kong to launch a Chinese mainland personal account opening attestation service which allows Hong Kong residents to open Chinese mainland personal accounts without having to travel to the Chinese mainland. At the end of June 2019, there were over 50,000 related applications. The BoC Pay mobile application's cross-border retail payment function also allows Hong Kong people to make payments across the Greater Bay Area. In wealth management, the Group introduced "Greater Bay Area Service Connect" to provide mutual service access to Wealth Management customers in Guangdong, Hong Kong and Macao. The total number of cross-border mid- to high-end customers increased by 12.8% from the end of last year. During the period, BOCHK received the Outstanding GBA Financial Business – Innovative Cross-border Financial Services Award, jointly organised by Metro Finance and Hong Kong Ta Kung Wen Wei Media Group.

Maintaining steady growth in deposit and loan business with an increase in fee and commission income

In line with market interest rate trends, the Group devoted efforts to maintaining steady deposit growth and optimising deposit tenors. The Group grew its current account and savings deposit businesses via payroll services, wealth management and integrated payment solutions, thus maintaining satisfactory growth in personal deposits. Regarding its loan business, the Group strengthened its mortgage business for new residential properties and Home Ownership Scheme flats in the primary market, accelerated the development of digital mortgage business processes and enhanced the service quality and network coverage of its mortgage centres. As a result of these initiatives, the Group maintained its leading market position in terms of the total number of new residential mortgage loans and captured the largest market share in the reverse mortgage market. In response to market volatility, the Group also enriched its range of investment products so as to enhance their market competitiveness. In addition, to support the deferred annuity policy and Voluntary Health Insurance Scheme promoted by the HKSAR government, the Group enhanced innovation in its insurance product portfolio by integrating the concepts of retirement planning and wealth inheritance. The Group also launched its first online savings insurance plan. These factors, coupled with the full implementation of an electronic insurance application process at all branches, contributed to solid growth in fee and commission income.

Promoting fintech innovation to expedite digital process transformation

Embracing the "New Era of Smart Banking" advocated by the HKMA, the Group stepped up innovation in fintech and committed to pushing forward the digitalisation of its business processes. During the reporting period, the Group utilised open API to extend cross-platform cooperation and launched a developers' portal, opening up access to 63 items of personal financial product information. In addition, the Group cooperated in the development of economic and financial applications to support the roll out of cross-platform securities and foreign exchange trading services, enabling one-stop securities account opening and trading functions for Hong Kong and US stocks as well as China's A Shares. The Group actively initiated collaboration with third party platforms. It cooperated with online real estate platforms to apply blockchain technology in providing customers with one-stop online mortgage application and progress enquiry services. To cater for rapid growth in customer demand for online transactions, the Group adopted the concept of "mobile first" and accelerated the development of its digital services, enhancing both the design and functionality of its mobile banking by launching pioneering mobile fund distribution and remittance services as well as one-stop online securities account opening. At the end of June 2019, the number of mobile banking customers and active customers increased by 17.5% and 20.6% respectively from the end of 2018, with a continuous increase in both the number and proportion of the younger customer segment (aged 18-35).

Advancing development in the Southeast Asia region

The Group continued to enhance the development of its personal banking business in the Southeast Asia region, and successfully expanded its personal banking service network to Thailand, Malaysia, Vietnam, the Philippines, Indonesia, Cambodia, Laos and Brunei. Based on the characteristics of different countries, the Group implemented differentiated management and continued to refine its business organisation structure. It pushed forward its regional product management in an orderly manner and enhanced regional risk management. During the reporting period, the Group officially launched a wealth management service in BOC Malaysia to facilitate mutual brand recognition across the Chinese mainland, Hong Kong and Malaysia and enriched its offering of funds, bonds and other wealth management products, thus promoting the Group's wealth management brand image in Southeast Asia.

Actively promoting payment business development through credit card business

In the first half of 2019, new impetus for the development of the Group's credit card and payment businesses emerged from the rapid development of the Greater Bay Area and the booming mobile payment market in Hong Kong. The credit card business continued to introduce new payment methods, including contactless and QR code mobile payment, in order to penetrate the small amount and high frequency cash payment market, resulting in a year-on-year increase of over 40% in the total number of retail transactions.

CORPORATE BANKING

Financial Results

Corporate Banking achieved a profit before tax of HK$8,065 million, a decrease of HK$89 million or 1.1% year-on-year, mainly due to the decrease in net fee and commission income and an increase in the net charge of impairment allowances, which more than offset the impact from the increase in net interest income.

Net interest income increased by 12.4%, mainly attributable to the growth in the average balance of deposits, coupled with improvement in the deposit spread. Net fee and commission income decreased by 3.5%, with lower bills, loans and insurance commissions, which were partially offset by an increase in commission income from payment services. Net trading gain decreased by 15.4%, owing to a drop in currency exchange income from customer transactions. The net charge of impairment allowances amounted to HK$675 million, an increase of HK$626 million from a lower base in the same period last year when there was an improvement in the internal rating of certain corporate advances and the updating of the parameter values in the expected credit losses assessment model, resulting in a reversal of impairment allowances.

Business Operations

Continuous expansion of customer base and enhancement of integrated service capabilities

The Group remained committed to achieving high-quality development by meeting the demands of key customer groups for integrated financial solutions, including BOC's global strategic clients and large corporates from Hong Kong, Southeast Asia and other overseas countries. It devoted efforts to optimising its business structure and enhancing its service capabilities. By continuously enhancing its service capacity in commercial and investment banking business and improving its regional and comprehensive services, the Group was able to support a number of high-quality projects, which led to stable growth in deposits and loans. It remained the top mandated arranger in the Hong Kong and Macao syndicated loan market and successfully underwrote a number of bond issues with significant market influence. By keeping up with market changes and industrial policy, the Group actively promoted the advancement of green finance, including the underwriting of green bonds. At the same time, the Group promoted technological innovation so as to generate synergistic effects, improve its integrated services and deepen the use of scenario-based applications. Aligning with market trends, it continued to expand its integrated payment and collection services, thus helping to enhance the Group's brand image in payment services. In the first half of 2019, the Group retained its market leadership as an IPO main receiving bank in terms of the number of main board listing projects and the total amount of funds raised. In addition, it maintained strong business relationships with the world's major central banks and sovereign wealth funds.

Proactive development of commercial and SME customer base

The Group continued to improve its services to local commercial customers in Hong Kong by providing e-payment services, integrated payment and settlement solutions, and treasury products and services. It actively cooperated with the HKSAR government to promote the SME Financing Guarantee Scheme to support the development of Hong Kong's SMEs. During the reporting period, BOCHK received the Financial Services Awards of Excellence 2019 – SME Banking Services and SME Partner Awards of Excellence 2019 – Guangdong-Hong Kong-Macao Greater Bay Area Commercial Banking Services from the *Hong Kong Economic Journal*. BOCHK also won the Best SME's Partner Gold Award 2019 from the Hong Kong General Chamber of Small and Medium Business.

Promoting business development in Southeast Asia and the Greater Bay Area

The Group accelerated the improvement of its regional management capabilities and continued to optimise its management model and mechanisms. It strengthened collaborative marketing with its Southeast Asian entities in order to acquire high-quality and influential local clients, and successfully participated in a number of major projects in the region. It further integrated competitively proven products and services from Hong Kong into its Southeast Asian entities' local franchises, to help them expand into local mainstream markets. In keeping with BOC's wider support for China's Belt and Road Initiative, the Group actively collaborated with its Southeast Asian entities by participating in and arranging for relevant exchange and investment-related promotional activities including the Belt and Road Forum for International Cooperation, jointly organised by the Chinese government and the governments of Southeast Asian countries. This had the effect of enhancing BOCHK's brand image and business development in Southeast Asia. In order to capture the enormous business opportunities arising from the development of the Guangdong-Hong Kong-Macao Greater Bay Area, the Group strengthened its collaboration with BOC's entities in the Greater Bay Area across four major aspects of cross-border activities: people flow, commodities flow, fund flow and information flow. It established an integrated marketing and services system with a view to providing a full range of financial services to support the mutual access of infrastructures within the Greater Bay Area and to boosting the development of corporates within the area's technological innovation sector.

Constantly enhancing the competitiveness of corporate banking products and services

The Group continuously upgraded its integrated service capabilities in Hong Kong, the Greater Bay Area and Southeast Asia. Drawing on its customer-centric philosophy and building on its strong foundations in payment and settlement services, the Group continuously enhanced customers' experience and satisfaction through provision of various scenario-based integrated service solutions. It captured important opportunities arising from the Guangdong-Hong Kong-Macao Greater Bay Area and the Belt and Road Initiative to accelerate the regional development of its key businesses, including cash pooling, treasury centre, cash management and trade finance, and further uplifted its integrated regional service capabilities. In recognition of its excellent and highly professional services, BOCHK was named Best Cash Management Bank in Hong Kong for the fifth time and Best Transaction Bank in Hong Kong for the second time by *The Asian Banker*.

Continuous expansion in custody business

In the first half of 2019, there was increased volatility in investment markets which adversely affected the asset servicing industry. Through collaboration within the Group and with Chinese mainland and overseas entities, the Group's custody business strived to overcome these market challenges. Both total assets under custody and the asset size of Bond Connect reached new peaks and it delivered satisfactory growth in income during the reporting period. The Group also seized opportunities arising from China's respective mutual connectivity programmes, "Going Global" enterprises and the development of the Greater Bay Area to expand its cooperation with domestic and overseas institutions, while flexible service solutions were offered to help resolve clients' pain points in dealing with over-the-counter securities investments. The Group also embarked on the construction of a new product platform to enrich its overall service capabilities. As at the end of June 2019, the Group's total assets under custody amounted to HK$1,207.2 billion.

Continuous growth in trustee business with technological upgrades to services

The Group provides trustee and fund administration services for occupational retirement schemes and mandatory provident fund ("MPF") schemes as well as trustee and custodian services for unit trusts, through its subsidiary BOCI-Prudential Trustee Limited ("BOCI-Prudential Trustee"). In April 2019, BOCI-Prudential Trustee successfully launched the Tax Deductible Voluntary Contributions scheme. It also made technological improvements and upgrades to its MPF services in the first quarter, launching a brand new website design and AI chatbot service, "My MPF Bot", in an effort to improve customer experience. Its MPF App continued to incorporate new biometric authentication features such as facial and fingerprint recognition, with optical character recognition and e-signatures also set to be gradually implemented within the MPF application process so as to streamline application procedures and safeguard the security of online MPF accounts. The AUM of MPF maintained steady growth. As at the end of June 2019, its MPF asset size recorded a growth of 11.9% from the end of last year. In the first half of 2019, BOCI-Prudential Trustee received numerous accolades in recognition of its outstanding fund performance and high-quality MPF trustee and management services. BOCI-Prudential Trustee's My Choice MPF Scheme received multiple awards at the MPF Awards 2019, organised by independent rating agency, MPF Ratings. It became the first ever MPF trustee to receive the Excellent Trustee & Management Services Award at the Financial Services Awards of Excellence 2019, organised by the *Hong Kong Economic Journal*. It also received the Best Group Over 3 Years – Overall and the Best Group Over 3 Years – Bond awards at the 2019 Lipper Hong Kong Fund Awards, organised by *REFINITIV*.

TREASURY

Financial Results

Treasury recorded a profit before tax of HK$5,074 million, an increase of HK$267 million or 5.6% year-on-year. The growth was driven by an increase in net trading gain and net gain on other financial assets, which more than offset the decrease in net interest income.

Net interest income decreased by 12.1%, which was mainly attributable to the rise in funding costs. Net trading gain grew by HK$292 million, or 42.5% year-on-year, mainly attributable to an increase in net gain from foreign currency swap contracts, which was partially offset by the mark-to-market changes of certain debt securities investments and interest rate instruments caused by interest rate movements. Net gain on other financial assets increased by HK$686 million, as the Group disposed of certain debt securities and recorded a higher net gain in the first half of 2019. These positive impacts were, however, partially offset by a lower net gain on other financial instruments at fair value through profit or loss.

Business Operations

Continuous enhancement in trading and service capabilities

The Group deepened its research on market development and actively responded to market changes. It continued to enrich its product range and optimise its business structure. By expanding its trading resources and enhancing its trading capabilities, the Group was able to achieve solid growth in trading business. It increased investment in systems and continued to enhance system functionalities in order to steadily improve its electronic trading capabilities. With the aim of sharpening its comprehensive service capabilities and promoting the development of its customer business, the Group continuously strengthened the integration of cross-departmental and cross-business line products, professional capabilities, business models and business resources. Business unit management capabilities were improved in order to drive regional development. At the same time, the Group optimised internal control and conducted stringent control on business risks. In recognition of its treasury business performance, BOCHK was named the Best Currency Swap Member and received the Opening Contribution Award from the China Foreign Exchange Trade System. It also received the Outstanding International Member Award from Shanghai Gold Exchange, and won the Key Business Partner in FIC Market award at the 6th Annual RMB Fixed Income & Currency Conference, organised by HKEX.

Consolidating advantages in banknotes business

The Group actively expanded its wholesale banknotes business globally and enlarged its client base to consolidate its competitive advantages. It further enhanced cooperation with financial institutions in Southeast Asia and other overseas countries and achieved satisfactory results, with continuous improvements in client base and business scale. By increasing its investments in the Chinese mainland market, the Group further improved the blueprint of its foreign currency banknotes business in the Mainland. Meanwhile, it continued to strengthen risk management and improve business processes leading to continuous improvements in overall business capabilities.

Reinforcing competitive advantages in Renminbi clearing business

In April 2019, in line with the trend of constant innovation in Bond Connect cross-border settlement business, the Hong Kong Renminbi Clearing Bank enhanced its cross-border settlement function to support cross-border fund settlement for the negotiable certificate of deposit primary market via Bond Connect, thus expanding the depth and breadth of the cross-border bond business and reinforcing the leading position of BOCHK in the offshore Renminbi market. Moreover, BOCHK was awarded the Prize for Innovative Business Promotion (Bond Connect Business) 2018 by the Shanghai Clearing House in recognition of its contribution towards the cross-border settlement business of Bond Connect.

A proactive but risk-aware investment strategy

The Group continued to take a cautious approach to managing its banking book investments by closely monitoring market changes and seeking investment opportunities to enhance return while remaining alert to risk. In the first half of the year, the Group adjusted its investment portfolio to respond to changes in interest rates and to achieve solid returns.

Strengthening the Southeast Asia treasury business and advancing regional development

The Group actively pushed forward its regional development strategy in treasury business and continued to refine the regional business line management structure. With continuous improvement in developing talent in the treasury business, the Group enhanced its Southeast Asian entities' capabilities in dealing, marketing, products and risk management in order to solidify their business foundation. The Group increased its efforts in market research and business development analysis, and fully supported its Southeast Asian entities to acquire target clients. As a result, it successfully participated in a number of key projects in the region. The Group actively developed its investment business in Southeast Asia by enriching its banking book investment portfolio and optimising its asset allocation. By refining its regional funding pool management, the Group provided ample funding support for the development of its Southeast Asia business.

A wider range of asset management products

BOCHK Asset Management Limited ("BOCHK AM") actively captured development opportunities and expanded further in many areas. As at the end of June 2019, its AUM grew 12.6% compared to the end of last year. During the first half of 2019, BOCHK AM grasped investment opportunities to promote innovation in fund products and launched two public funds, namely the BOCHK All Weather Belt and Road Bond Fund and the BOCHK All Weather Greater Bay Area Strategy Fund. The latter is the first bond fund in Hong Kong to adopt a Greater Bay Area investment theme and the first public fund in the world to provide a Macau Pataca currency share class. In addition, to cater to the investment needs of high-net-worth clients, BOCHK AM launched a private bond fund with a fixed maturity, which would aim to capture investment opportunities in the bond market. These funds recorded satisfactory performance and were well received by clients. BOCHK AM further strengthened its sales network by adding new institutional clients, including state-owned and private-owned enterprises as well as charitable bodies, and by deepening business relationships with existing clients. Meanwhile, it continued to collaborate with BOC's entities in the Chinese mainland and the Group's Southeast Asian entities to expand its cross-border and Southeast Asian businesses. During the reporting period, BOCHK All Weather Greater Bay Area Strategy Fund was awarded Most Innovative New Fund Award – Hong Kong 2019 by *International Finance* in the Financial Awards 2019.

INSURANCE

Financial Results

In the first half of 2019, the Group's insurance segment benefitted from growth in renewal premiums, achieving a gross premium of HK$14,734 million, up 23.2% year-on-year. The standard new premium was HK$7,296 million, an increase of 17.2% year-on-year. The value of new business was HK$606 million, an increase of 12.2% year-on-year. Profit before tax was HK$551 million, down 7.7% year-on-year, which was mainly attributable to the increase in insurance reserve caused by the drop in market interest rates during the reporting period. This decrease was, however, partially offset by increased fair value gain on invested assets and higher net interest income.

Business Operations

Advancing product innovation and optimisation and strengthening service support

To support the tax deductible Voluntary Health Insurance Scheme ("VHIS") and deferred annuity products promoted by the HKSAR government, BOC Life joined the first batch of insurers in introducing relevant products to the market in April 2019, including the BOC Life Standard VHIS, BOC Life Deferred Annuity (Fixed Term) and BOC Life Deferred Annuity (Lifetime), with a view to offering customers a more diverse product range. During the reporting period, the iTarget 3 Years Savings Insurance Plan was launched simultaneously on BOCHK's mobile and internet banking for the first time, providing customers with a simple and convenient application service. This received an encouraging market response. In addition, Forever Glorious ULife Plan II was launched to enhance service support for high-end customers and increase the value of new business and long-term profitability.

Proactive application of insurtech to improve customer experience

Following the launch of BOC Life's Live Chat service in the first half of 2019, customers are now referred to customer service ambassadors via BOC Life's official Facebook page, WeChat Official Account and website, allowing them to make enquiries in an easy and simple manner. Moreover, the policy binding function on the WeChat Official Account effectively strengthened BOC Life's service support and customer communications.

Maintaining market leadership in life insurance and winning recognition for high-quality professional services

The Group maintained its leading position in Hong Kong's life insurance business and remained the market leader in RMB insurance business. In recognition of its service quality and professional image, BOC Life received a number of local and regional awards, including the Outstanding Insurance Business – Annuity Award (Hong Kong China) in the 2019 RMB Business Outstanding Awards, jointly organised by Metro Finance and Hong Kong Ta Kung Wen Wei Media Group; the GBA Insurance Award 2019 (HK Region): Outstanding Customer Services Award (Life Insurance) from Metro Finance; the Award for Innovative Management in Financial Industries: GOLD STEVIE® WINNER and Award for Innovation in Human Resources Management, Planning & Practice: GOLD STEVIE® WINNER presented by the Asia-Pacific Stevie® Awards; the Financial Services Awards of Excellence 2019 – Life Insurance from the *Hong Kong Economic Journal*; the Customer Service Excellence Award: Customer Service Counter Team – Merit Award from the Hong Kong Association for Customer Service Excellence; and the Cross Border Insurance Services – Excellence and Annuity Plan – Excellence awards in *Bloomberg Businessweek*'s Financial Institution Awards 2019.

REGIONAL BUSINESS

Enhancing Southeast Asian development strategy with the aim of building mainstream foreign banks in the region

Southeast Asia has remarkable development potential, as a core focus of China's Belt and Road initiative, as a market for RMB internationalisation and as a target region for Chinese enterprises' "Going Global" efforts. The Group adopted BOC's development strategy and pushed forward its steadfast commitment to building a top-class, full-service and internationalised regional bank. Accelerating its deployment in Southeast Asia, it crafted distinct development strategies for each of its Southeast Asian entities with an aim of gradually establishing differentiated competitive edges, all with a focus on serving "Going Global" enterprises and large corporates in Southeast Asia. The Group has developed a strong franchise and market-oriented management experience through a century of service in Hong Kong. Now acting as the regional hub for Southeast Asia, the Group fully leveraged these advantages and introduced its competitively proven products and services, advanced technology and management, and professional talent teams from Hong Kong to Southeast Asia. By extending BOCHK's competitive advantages in capital funding, products, management and talent, the Group was able to uplift its competitiveness and development quality in the Southeast Asian region, with the aim of building each Southeast Asian entity into the mainstream foreign bank in its local market. As a result of these regional integration efforts, Jakarta Branch was ranked fifth in terms of overall operations in the Indonesian banking industry in 2018 and was ranked first among all foreign banks in Indonesia. Moreover, Jakarta Branch was named the Best Foreign Bank of the year in the Best Indonesian Business Awards in 2019.

Constantly deepening regional management and steadily pushing forward integrated regional development

The Group successfully completed the acquisition of the Laos Business of BOC on 21 January 2019. BOCHK has developed into a regional bank with operating entities in eight Southeast Asian countries, including Thailand, Malaysia, Vietnam, the Philippines, Indonesia, Cambodia, Laos and Brunei. The Group continued to push forward logical integration of the business mechanisms, systems, personnel and culture of its Southeast Asian entities. It accelerated the development of its regional management model according to the business characteristics of the front, middle and back offices, and steadily pushed forward the model's operation and implementation according to differentiated development strategies. Different arrangements were made regarding approval authorisation, resource allocation, personnel management, performance management and daily operations. The frontline units further refined their differentiated regional business positioning and management models, so as to implement integrated operational and management objectives. The middle office units strengthened the internal risk and compliance control of the Southeast Asian entities, in order to effectively improve their overall internal risk control and anti-money laundering capabilities. The back offices enhanced regional administration and resource support in order to improve the operational capacity of back office operations across Southeast Asia.

Well aligned management by line of business leading to continuous growth in operating results

The Group's Southeast Asia business continued to achieve satisfactory results in the first half of 2019. Net operating income before impairment allowances of its Southeast Asian entities* was HK$1,389 million, a growth of 22.8% year-on-year. As at the end of June 2019, deposits from customers and advances to customers amounted to HK$51,025 million and HK$44,869 million, up 6.7% and 12.9% respectively from the end of 2018. The non-performing loan ratio was 1.27%, up 0.14 percentage points from the end of 2018.

* Referring to the eight Southeast Asian entities, including BOC Thailand, BOC Malaysia, Ho Chi Minh City Branch, Manila Branch, Jakarta Branch, Phnom Penh Branch, Vientiane Branch and Brunei Branch. Net operating income before impairment allowances, the balance of deposits from customers and advances to customers represent the consolidated data which were prepared in accordance with Hong Kong Financial Reporting Standards. Non-performing loan ratio was calculated in accordance with local regulatory requirements.

In the corporate banking business, the Group actively developed Belt and Road related projects and local mainstream markets, including projects relating to road and bridge infrastructure development, telecommunications equipment, energy and petroleum, and aviation facilities. It also established a regional relationship manager system with a focus on high-value customers, and continued to promote the integrated management of customer development and project marketing by analysing the distribution of "Going Global" enterprises in Southeast Asia alongside industrial transfer trends in the Asia-Pacific region, so as to capture the development opportunities arising from such customers and projects. It actively supported local corporates and family-owned enterprises in Southeast Asia with service solutions. The Group also actively expanded its business with institutional clients, promoting RMB products and treasury operations. BOC Thailand helped a Thai asset management company to become an RMB Qualified Foreign Institutional Investor, while the Ho Chi Minh City Branch handled the first cross-border RMB entrusted settlement business in Vietnam's non-border area, thus achieving a breakthrough for the expansion of RMB usage in Vietnam.

In the personal banking business, the Group continued to build up its product and service capabilities in Southeast Asia by enhancing its infrastructure and implementing differentiated management approaches. It also strengthened customer positioning and management by allocating suitable products and personnel to support business development and increase revenues. During the reporting period, BOC Malaysia launched its Wealth Management service, offering mutual brand recognition in the Chinese mainland, Hong Kong and Malaysia, and giving full play to regional branding advantages.

Promoting regional risk management using the Three Lines of Defense and Take-the-Most-Stringent-Approach principle to achieve healthy and sustainable development

The Group promoted regional risk management on the basis of the Three Lines of Defense and the Take-the-Most-Stringent-Approach principle, actively pushing forward the full implementation of its risk management framework and stepping up the construction of the management structure and personnel deployment of its Southeast Asian entities. It comprehensively strengthened its Southeast Asian entities' management of credit risk, internal control and compliance. By closely monitoring market and liquidity risk in the Southeast Asian market, these entities were able to enhance their emergency handling capabilities. By comprehensively enhancing their risk compliance and control capabilities, the Southeast Asian entities will lay a solid foundation for high-quality development, ensure compliance with the regulatory requirements of the HKMA and local regulatory bodies, and operate in accordance with the standards stipulated by the Group.

In conjunction with the Group's implementation of the Southeast Asian Institutional Risk Management Framework, the Group promoted anti-money laundering management in Southeast Asia through related policies and systems, organisational structures, professional staffing and technological systems. It continued to push forward the implementation of anti-money laundering systems by its Southeast Asian entities, as well as strengthening their internal control and anti-money laundering talent teams, in order to ensure that anti-money laundering measures are conducted according to the most stringent regulatory requirements. The Group also adopted effective measures to gradually improve the credit policies, credit models, loan approval processes, loan time and post-lending management of its Southeast Asian entities, including the launch of customer credit rating systems especially tailored to improve approval efficiency in the Southeast Asia region, thus continuously strengthen the Group's capabilities in regional credit risk management.

FINTECH AND INNOVATIONS

Adhering to the concept of "technology-based and innovation-driven development", the Group kept pace with fintech development trends and made increased investments to expedite its transformation into a digital bank. By applying innovative technology such as big data, artificial intelligence ("AI"), blockchain, biometric and open API in financial products, service processes, operations management and risk control, the Group was able to improve its service levels and continuously strengthen customer stickiness.

In line with the HKMA's preparation to bring Hong Kong into a new era of smart banking, the Group took the lead in launching an open API project in January 2019. At the same time, it promoted open API interfaces according to the HKMA's framework and fully deployed and leveraged its resources and advantages, allowing customers to use BOCHK open API through third party service providers in order to obtain real-time banking information. The Group continuously strengthened its biometric applications. Finger vein authentication has now been extended to all of BOCHK's automated teller machines in Hong Kong. The Innovation and Optimisation Centre, established in 2018, is dedicated to promoting the Group's overall competitiveness. The Centre formed various inter-departmental agile project teams in the first half of 2019 to support innovation-driven strategy research, deepen scenario-based applications of fintech, and accelerate the transformation of products and services for customer needs fulfilment in a timely fashion.

To meet customer demand for easy and convenient payments, the Group continuously upgraded the functionalities of BoC Pay, its mobile application. BoC Pay is the first mobile application provided by a bank to offer scan and pay, person to person (P2P) transfer and bill payments, to fully support non-BOCHK customers in opening payment accounts, and to offer real-time redemption of credit card gift points for payment. BoC Pay enables customers to scan and pay at a number of local merchants and to make daily payments through FPS in Hong Kong. It also supports UnionPay QR code payments to more than 11 million merchants in the Chinese mainland, including more than 700,000 merchants in the Greater Bay Area. During the reporting period, both transaction volume and the total number of users grew rapidly. The Group continued to expand the coverage of its integrated collection platform, BoC Bill, by providing comprehensive payment and settlement solutions, including all-in-one UnionPay QR code and FPS scanning code, to different types of enterprises in Hong Kong. Its coverage has been extended to a vast number of retail outlets in Hong Kong, in particular SMEs, with the aim of pioneering a new era in payment behaviour and enhancing competitiveness.

The Group also made continuous investments in enhancing technology risk management, boosting its cybersecurity threat monitoring capability and handling efficiency, and strengthening its preventive controls on information leakage, in order to provide customers with solid and secure financial services.

In recognition of its innovative achievements in technology and IT development, BOCHK received the FinTech (Banking, Insurance and Capital Market) Silver Award in the Hong Kong ICT Awards 2019, organised by the Office of the Government Chief Information Officer of the Hong Kong SAR Government and various Hong Kong trade and industry organisations in Hong Kong, Awards of Excellence – FinTech Banking in the Financial Services Awards of Excellence 2019 organised by the *Hong Kong Economic Journal*, and Excellent Brand of Greater Bay Area FinTech Services in the Hong Kong Leaders' Choice 2019 organised by Metro Finance.

Launching a virtual bank

On 27 March 2019, Livi VB Limited ("Livi"), a joint venture company owned by BOC Hong Kong (Holdings) Limited ("the Company"), JD New Orbit Technology (Hong Kong) Limited ("JD New Orbit") and JSH Virtual Ventures Holdings Limited ("JSHVV"), was granted a banking licence by the HKMA to conduct virtual banking businesses. The Company, JD New Orbit and JSHVV have made a total joint initial investment of HK$2.5 billion, with shareholdings of 44%, 36% and 20% respectively.

With the goal of fostering fintech innovation, promoting financial inclusion and enhancing customer experience, Livi brings a unique, brand-new and distinctive banking experience to Hong Kong. Using state-of-the-art technologies such as AI, blockchain, big data and smart risk modelling, Livi creates secure, simple and seamless banking services. Livi will take an innovative approach to providing flexible solutions, anytime and anywhere, to complement the everyday lives of consumers as well as the business operations of SMEs. For further information on the granting of the virtual banking licence, please refer to the announcement made by the Company on 27 March 2019.

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.

The Risk Committee ("RMC"), a standing committee established by the Board of Directors, is responsible for overseeing the Group's various types of risks, approving Level I risk management policies and monitoring their implementation, and approving significant or high risk exposures or transactions. 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, and approving material risk exposures or transactions within his authority delegated by the Board of Directors. The Deputy Chief Executives ("DCEs") assist the CE in fulfilling his responsibilities on the day-to-day management of various types of risk, and are responsible for approving material risk exposures or transactions within their authorities delegated by the CE. 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 in response to regulatory changes that will enable the Group to better monitor and manage any risks that may arise from time to time from new businesses, products and changes in the operating environment. The CRO is also responsible for reviewing material risk exposures or transactions within his delegated authority. In accordance with the principle of setting the hierarchy of risk management policies approved by the Board, senior management is also responsible for approving the detailed risk management policies of their responsible areas.

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 responsibility for drafting, reviewing and updating various risk management policies and procedures.

The Group's principal banking subsidiaries are subject to risk management policies that are consistent with those of the Group. Moreover, the Group's non-banking subsidiaries, such as BOC 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 applications which require the approval of DCEs 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 loans under 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. The Group adopts loan grading criteria which divide 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"), RMC and Board of Directors to facilitate their continuous monitoring of credit risk. In addition, the 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.

For impairment assessment, a new impairment model is introduced in compliance with HKFRS 9, it requires the recognition of Expected Credit Loss ("ECL") for financial instrument held at amortised cost and fair value through other comprehensive income. Under HKFRS 9, ECL is assessed in three stages and the financial assets and loan commitments are classified in one of the three stages.

Stage 1: if the financial instrument is not credit-impaired upon origination and the credit risk on the financial instrument has not increased significantly since initial recognition, the loss allowance is measured at an amount up to 12-month ECL;

Stage 2: if the financial instrument is not credit-impaired upon origination but the credit risk on the financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to the lifetime ECL;

Stage 3: if the financial instrument is credit-impaired, with one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred, the loss allowance is also measured at an amount equal to the lifetime ECL.

The significant credit deterioration criteria framework has been developed to determine the stage of the financial instrument. The framework incorporates quantitative and qualitative assessment such as the number of days past due, change in IRB rating and the stage assessment watchlist.

The Group leverages the parameters implemented under Basel II Internal Ratings-Based ("IRB") models and internal models where feasible and available to assess ECL. For the portfolios without models, all other reasonable and supportable information such as historical information, relevant loss experience or proxies are utilised. The measurement of ECL is the product of the financial instrument's probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") discounted at the effective interest rate to the reporting date.

ECL is measured at an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The Group adopts three economic scenarios in the ECL measurement to meet the requirements of HKFRS 9. The "Baseline" scenario represents a most likely outcome and the other two scenarios, referred to as "Good" scenario and "Bad" scenario, represent less likely outcomes which are more optimistic or more pessimistic compared to Baseline scenario.

RMC is responsible for approving ECL methodology and the Management is responsible for the ECL model implementation. Credit Risk Management is responsible for the maintenance of ECL methodology including models review and parameters update on a regular basis. Independent Model Validation Team is responsible for the annual validation of ECL models. If there is any change in ECL methodology, the Group will follow the proper approval process.

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 the effective management of potential market risk in the Group's business, according to the Group's overall risk appetite and strategy of the 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 RMC, senior management and functional departments/units perform their duties and responsibilities to manage the Group's market risk. The RMD is responsible for the Group's market risk management, 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 market risk management policies to regulate BOCHK's and its subsidiaries' market risk management; meanwhile, the Group sets up the Group's VaR and stress test limits, which are allocated and monitored across the Group according to the business requirements and risk tolerance levels. In line with the requirements set in the Group's policy, the subsidiaries formulate the detailed policies and procedures and are responsible for managing their daily market risk.

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's requirements, major risk indicators and limits are classified into four levels, and are approved by the RMC, MC, CRO and the DCE in charge of the treasury business or the head of the respective business unit respectively. The 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 RMC 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 its subsidiaries over a one-day holding period with a 99% confidence level, and sets up the VaR limit of the Group and its 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 gains or losses 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 the RMC. The RMD is responsible for the Group's interest rate risk management. With the cooperation of the Financial Management Department and Investment Management, etc., 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 senior management and the RMC, etc.

The Group sets out interest rate risk indicators and limits to identify, measure, monitor and control interest rate risk on a daily basis. 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"), etc. The indicators and limits are classified into different levels, which are approved by the CFO, CRO, ALCO and RMC accordingly. 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 the RMC 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 the market interest rate) as a percentage to the latest capital base. Limits are set by the RMC on these two indicators to monitor and control the Group's banking book interest rate risk.

The Group uses scenario analyses 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 may not be able to obtain sufficient and timely funding at a reasonable cost to meet their obligations as they fall due. The Group maintains a 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.

In accordance with the Group's corporate governance principles in respect of risk management, the Board and the RMC, senior management and functional departments/units perform their duties and responsibilities to manage the Group's liquidity risk. The RMC is the decision-making authority of liquidity risk management, and assumes the ultimate responsibility of liquidity risk management. As authorised by the RMC, ALCO exercises its oversight of liquidity risk and ensures the daily operations of the Group are in accordance with the risk appetite and policies as set by the RMC. The RMD is responsible for the Group's liquidity risk management. It cooperates with the Financial Management Department and Investment Management, etc. to assist the ALCO to perform liquidity management functions according to their specific responsibilities.

The Group's liquidity risk management objective is to effectively manage the liquidity of on- and off-balance sheet items with a 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 sources of funds are in place, the Group actively attracts new deposits, keeps the core deposit and obtains supplementary funding from the interbank market and 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 sources, tenors and use of funding to avoid excessive concentration of assets and liabilities; and prevent triggering liquidity risk due to the break of funding strand resulting from over-concentration of sources and use of funding in a particular area where problems occur. In order to manage such risk, the Group sets concentration limits on collateral pools and sources of funding such as Tier 1 high-quality readily liquefiable assets to total high-quality readily liquefiable assets ratio, top ten depositors ratio and large depositors ratio. Whenever necessary, the Group could improve the liquidity position by taking mitigation actions including, but not limited to obtaining funding through interbank borrowings or repos in the money market, selling bonds in the secondary market or retaining existing and attracting new customer deposits. Apart from increasing the funding, the Group would maintain good communication with the counterparties, the parent and the regulators to enhance mutual confidence.

The Group has established intra-group liquidity risk management guidelines 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 Group established liquidity risk management indicators and limits to identify, measure, monitor and control liquidity risk on a daily basis. These indicators and limits include, but are not limited to liquidity coverage ratio ("LCR"), net stable funding ratio ("NSFR"), loan-to-deposit ratio, Maximum Cumulative Cash Outflow ("MCO") and liquidity cushion. The Group applies a 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 a monthly basis to assess the Group's capability to withstand various severe liquidity crises. Also, relevant management information systems such as the Assets and Liabilities Management System and the Basel Liquidity Ratio Management System are developed to provide data and to prepare 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, the Group has implemented a 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, assumptions have been made 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 the contractual maturity date and the assumptions of customer behaviour and balance sheet changes. The Group establishes the 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 operations.

In the liquidity stress test, institution specific, general market crisis and combined crisis scenarios have been set up, a combined crisis scenario is a combination of institution specific and general market crisis 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; the drawdown rate of loan commitments and trade-related contingent liabilities; the delinquency ratio and rollover rate of customer loans; and haircut of interbank placement and marketable securities. As at 30 June 2019, the Group was able to maintain a net cash inflow under the three stressed scenarios, indicating the Group has the ability to meet financing needs under stressed conditions. In addition, the Group has a policy in place to maintain a liquidity cushion which includes high quality or comparable quality marketable securities issued or guaranteed by sovereigns, central banks, public sector entities or multilateral development banks with 0% or

20% risk weight or marketable securities issued by non-financial corporate with a corresponding external credit rating of A- or above 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 relevant departments.

The LCR is calculated in accordance with the Banking (Liquidity) Rules effective from 1 January 2015. The Group, being classified as a category 1 authorised institution by the HKMA, is required to calculate the LCR on a consolidated basis. From 2019, the Group is required to maintain a LCR not less than 100%.

The NSFR is calculated in accordance with the Banking (Liquidity) (Amendment) Rules 2017 effective from 1 January 2018. The Group, being classified as a category 1 authorised institution by the HKMA, is required to calculate NSFR on consolidated basis and maintain a NSFR not less than 100%.

In certain derivative contracts, the counterparties have the 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 the RMC 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 policies, 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 with relevant liquidity ratios on a regular basis to the RMD of BOCHK, which consolidates this information and evaluates group-wide liquidity risk to ensure relevant requirements are satisfied.

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 Legal & Compliance and Operational Risk Management Department ("LCO"), 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 Crime Compliance Department, Financial Management Department, Treasury and General Accounting & 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 LCO, 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 RMC. 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 applicable laws and regulations. Legal and compliance risks are managed by the LCO, while the risks related to money laundering, terrorist financing and financial crimes including bribery and corruption are independently managed and monitored by the Financial Crime Compliance Department ("FCC"). LCO and FCC report directly to the DCE and CRO respectively. As part of the Group's corporate governance framework, the policies for the management of legal and compliance risks, and money laundering, terrorist financing and financial crime compliance risks are approved by the RMC 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. 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 RMC. The Financial Management Department reports the combined stress test results of the Group to the Board and RMC regularly.

BOC Life

BOC Life's principal business underwrites long-term insurance business in life and annuity (Class A), linked long term business (Class C), permanent health (Class D), retirement scheme management category I (Class G) and retirement scheme management category III (Class I) in Hong Kong. Major types of risk arising from BOC Life's insurance business are insurance risk, interest rate risk, liquidity risk, credit risk, equity price risk and currency risk. BOC Life closely monitors these risks and reports to its Risk Management Committee on a regular basis. Furthermore, BOC Life has regular communication with the Group to ensure consistency with the Group's risk management strategy. The key risks of its insurance business and related risk control process are as follows:

Insurance risk management

BOC 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 strategy, reinsurance arrangements and regular experience monitoring.

The underwriting strategy is intended to set premium pricing at an appropriate level that corresponds with the underlying exposure of the risks underwritten and BOC Life's underwriting procedures include the screening processes, such as the review of health condition and family medical history, to ensure alignment with the underwriting strategy.

The reinsurance arrangement transfers the insurance risk associated with the insurance contracts to the third party. It does not, however, discharge BOC Life's liability as the primary insurer. If a reinsurer fails to pay a claim for any reasons, BOC 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. BOC 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. BOC Life also monitors the reinsurance counterparty risk exposure on an ongoing basis.

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. In this regard, BOC Life has conducted relevant experience studies and researches regularly to identify emerging trends. Results would be taken into account in pricing and underwriting management.

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 BOC Life's investment assets. A decrease in interest rates may result in an increase in insurance liability and customer dissatisfaction due to decrease in returns. BOC 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

BOC Life's liquidity risk is the risk of not being able to meet payment obligations as they fall due. BOC Life's asset and liability management framework includes stress tests and cash flow management to preserve liquidity to fulfil policy payment obligations from time to time.

Credit risk management

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

- Default risk associated with bonds, notes and counterparties
- 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

BOC Life manages credit risk by placing limits on its exposure to each investment counterparty and issuer. Such limits are subject to review by the Management at least once a year.

Equity price risk management

BOC Life's equity price risk refers to the risk of loss due to volatility of market price in equity securities, equity funds and private equity. BOC Life's asset and liability management framework includes managing the adverse impact due to equity price movement through stress test and exposure limit.

Currency risk management

BOC Life's currency risk refers to the risk of loss due to volatility of exchange rate. BOC Life's asset and liability framework includes managing the adverse impact due to exchange rate movement through stress test, exposure limit and risk limit.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	**(Unaudited) Half-year ended 30 June 2019 HK$'m**	(Restated) (Unaudited) Half-year ended 30 June 2018 HK$'m
Interest income		**33,605**	28,601
Interest expense		**(13,702)**	(10,062)
Net interest income	5	**19,903**	18,539
Fee and commission income		**8,120**	8,666
Fee and commission expense		**(2,074)**	(2,190)
Net fee and commission income	6	**6,046**	6,476
Gross earned premiums		**14,724**	11,951
Gross earned premiums ceded to reinsurers		**(5,328)**	(4,570)
Net insurance premium income		**9,396**	7,381
Net trading gain	7	**1,829**	2,050
Net gain/(loss) on other financial instruments at fair value through profit or loss	8	**2,215**	(1,182)
Net gain on other financial assets	9	**716**	86
Other operating income	10	**501**	498
Total operating income		**40,606**	33,848
Gross insurance benefits and claims and movement in liabilities		**(17,705)**	(11,384)
Reinsurers' share of benefits and claims and movement in liabilities		**6,268**	5,150
Net insurance benefits and claims and movement in liabilities	11	**(11,437)**	(6,234)
Net operating income before impairment allowances		**29,169**	27,614
Net charge of impairment allowances	12	**(793)**	(344)
Net operating income		**28,376**	27,270
Operating expenses	13	**(7,528)**	(7,012)
Operating profit		**20,848**	20,258
Net gain from disposal of/fair value adjustments on investment properties	14	**657**	918
Net gain from disposal/revaluation of properties, plant and equipment	15	**1**	10
Share of profits less losses after tax of associates and joint ventures		**46**	42
Profit before taxation		**21,552**	21,228
Taxation	16	**(3,276)**	(3,317)
Profit for the period		**18,276**	17,911
Profit attributable to:			
Equity holders of the Company and other equity instrument holders		**17,949**	17,561
Equity holders of the Company		**17,254**	17,561
Other equity instrument holders		**695**	–
Non-controlling interests		**327**	350
		18,276	17,911
Dividends	17	**5,762**	5,762
		HK$	HK$
Earnings per share			
Basic and diluted	18	**1.6319**	1.6610

The notes on pages 43 to 113 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	(Unaudited) Half-year ended 30 June 2019 HK$'m	(Restated) (Unaudited) Half-year ended 30 June 2018 HK$'m
Profit for the period		**18,276**	17,911
Items that will not be reclassified subsequently to income statement:			
Premises:			
Revaluation of premises		**1,069**	1,647
Deferred tax		**(136)**	(231)
		933	1,416
Equity instruments at fair value through other comprehensive income:			
Change in fair value		**(183)**	(182)
Deferred tax		**3**	–
		(180)	(182)
Own credit risk:			
Change in fair value of own credit risk of financial liabilities designated at fair value through profit or loss		**(48)**	7
Deferred tax		**7**	–
		(41)	7
		712	1,241
Items that may be reclassified subsequently to income statement:			
Debt instruments at fair value through other comprehensive income:			
Change in fair value		**5,037**	(2,987)
Change in impairment allowances charged to income statement	12	**46**	12
Release upon disposal/redemption reclassified to income statement	9	**(736)**	(77)
Amortisation of accumulated amount of fair value hedge adjustment reclassified to income statement		**7**	–
Deferred tax		**(710)**	522
		3,644	(2,530)
Currency translation difference		**161**	(103)
		3,805	(2,633)
Other comprehensive income for the period, net of tax		**4,517**	(1,392)
Total comprehensive income for the period		**22,793**	16,519
Total comprehensive income attributable to:			
Equity holders of the Company and other equity instrument holders		**21,980**	16,614
Equity holders of the Company		**21,285**	16,614
Other equity instrument holders		**695**	–
Non-controlling interests		**813**	(95)
		22,793	16,519

The notes on pages 43 to 113 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	(Unaudited) At 30 June 2019 HK$'m	(Restated) (Audited) At 31 December 2018 HK$'m
ASSETS			
Cash and balances and placements with banks and other financial institutions	20	**385,357**	433,299
Financial assets at fair value through profit or loss	21	**78,277**	300,929
Derivative financial instruments	22	**28,887**	34,912
Hong Kong SAR Government certificates of indebtedness		**163,860**	156,300
Advances and other accounts	23	**1,370,281**	1,282,994
Investment in securities	24	**795,141**	599,038
Interests in associates and joint ventures		**1,627**	483
Investment properties	25	**20,625**	19,684
Properties, plant and equipment	26	**51,779**	49,435
Current tax assets		**80**	65
Deferred tax assets	32	**63**	270
Other assets	27	**92,463**	78,595
Total assets		**2,988,440**	2,956,004
LIABILITIES			
Hong Kong SAR currency notes in circulation		**163,860**	156,300
Deposits and balances from banks and other financial institutions		**243,338**	376,980
Financial liabilities at fair value through profit or loss	28	**19,075**	15,535
Derivative financial instruments	22	**33,304**	30,880
Deposits from customers	29	**2,018,223**	1,895,796
Debt securities and certificates of deposit in issue	30	**792**	9,453
Other accounts and provisions	31	**75,075**	59,437
Current tax liabilities		**5,436**	2,516
Deferred tax liabilities	32	**6,302**	5,765
Insurance contract liabilities	33	**113,000**	104,723
Subordinated liabilities	34	**13,168**	13,246
Total liabilities		**2,691,573**	2,670,631
EQUITY			
Share capital	35	**52,864**	52,864
Reserves		**215,470**	204,672
Capital and reserves attributable to equity holders of the Company		**268,334**	257,536
Other equity instruments	36	**23,476**	23,476
Non-controlling interests		**5,057**	4,361
Total equity		**296,867**	285,373
Total liabilities and equity		**2,988,440**	2,956,004

The notes on pages 43 to 113 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)											
	Attributable to equity holders of the Company											
		Reserves										
	Share capital HK$'m	Premises revaluation reserve HK$'m	Reserve for fair value changes HK$'m	Reserve for own credit risk HK$'m	Regulatory reserve* HK$'m	Translation reserve HK$'m	Merger reserve** HK$'m	Retained earnings HK$'m	Total HK$'m	Other equity instruments HK$'m	Non-controlling interests HK$'m	Total equity HK$'m
At 1 January 2018,												
as previously reported	52,864	36,689	(1,774)	–	9,474	(728)	1,062	144,059	241,646	–	4,499	246,145
Effect of merger of entity under												
common control	–	–	–	–	–	21	350	25	396	–	–	396
At 1 January 2018, as restated	52,864	36,689	(1,774)	–	9,474	(707)	1,412	144,084	242,042	–	4,499	246,541
Profit for the period	–	–	–	–	–	–	–	17,561	17,561	–	350	17,911
Other comprehensive income:												
Premises	–	1,416	–	–	–	–	–	–	1,416	–	–	1,416
Equity instruments at fair value through												
other comprehensive income	–	–	(168)	–	–	–	–	–	(168)	–	(14)	(182)
Own credit risk	–	–	–	7	–	–	–	–	7	–	–	7
Debt instruments at fair value through												
other comprehensive income	–	–	(2,099)	–	–	–	–	–	(2,099)	–	(431)	(2,530)
Currency translation difference	–	–	(4)	–	–	(99)	–	–	(103)	–	–	(103)
Total comprehensive income	–	1,416	(2,271)	7	–	(99)	–	17,561	16,614	–	(95)	16,519
Release upon disposal of equity												
instruments at fair value through												
other comprehensive income:												
Transfer	–	–	(43)	–	–	–	–	43	–	–	–	–
Deferred tax	–	–	7	–	–	–	–	–	7	–	7	14
Current tax	–	–	–	–	–	–	–	(7)	(7)	–	(7)	(14)
Acquisition of entities under												
common control	–	–	–	–	–	–	(2,168)	–	(2,168)	–	–	(2,168)
Transfer from retained earnings	–	–	–	–	1,272	–	1,106	(2,378)	–	–	–	–
Dividends	–	–	–	–	–	–	–	(8,014)	(8,014)	–	(124)	(8,138)
At 30 June 2018	52,864	38,105	(4,081)	7	10,746	(806)	350	151,289	248,474	–	4,280	252,754
Profit for the period	–	–	–	–	–	–	–	14,509	14,509	–	234	14,743
Other comprehensive income:												
Premises	–	422	–	–	–	–	–	–	422	–	–	422
Equity instruments at fair value through												
other comprehensive income	–	–	(619)	–	–	–	–	–	(619)	–	(31)	(650)
Own credit risk	–	–	–	18	–	–	–	–	18	–	–	18
Debt instruments at fair value through												
other comprehensive income	–	–	492	–	–	–	–	–	492	–	(33)	459
Currency translation difference	–	–	31	–	–	(26)	–	–	5	–	–	5
Total comprehensive income	–	422	(96)	18	–	(26)	–	14,509	14,827	–	170	14,997
Release upon disposal of equity												
instruments at fair value through												
other comprehensive income:												
Transfer	–	–	73	–	–	–	–	(73)	–	–	–	–
Deferred tax	–	–	(12)	–	–	–	–	–	(12)	–	(9)	(21)
Current tax	–	–	–	–	–	–	–	12	12	–	9	21
Release upon redemption of financial												
liabilities designated at fair value												
through profit or loss:												
Transfer	–	–	–	(20)	–	–	–	20	–	–	–	–
Current tax	–	–	–	–	–	–	–	(3)	(3)	–	–	(3)
Transfer to retained earnings	–	–	–	–	(250)	–	–	250	–	–	–	–
Issue of other equity instruments	–	–	–	–	–	–	–	–	–	23,476	–	23,476
Dividends	–	–	–	–	–	–	–	(5,762)	(5,762)	–	(89)	(5,851)
At 31 December 2018	52,864	38,527	(4,116)	5	10,496	(832)	350	160,242	257,536	23,476	4,361	285,373

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)											
	Attributable to equity holders of the Company											
		Reserves										
	Share capital HK$'m	Premises revaluation reserve HK$'m	Reserve for fair value changes HK$'m	Reserve for own credit risk HK$'m	Regulatory reserve* HK$'m	Translation reserve HK$'m	Merger reserve** HK$'m	Retained earnings HK$'m	Total HK$'m	Other equity instruments HK$'m	Non-controlling interests HK$'m	Total equity HK$'m
At 1 January 2019, as previously reported	52,864	38,527	(4,116)	5	10,496	(853)	–	160,147	257,070	23,476	4,361	284,907
Effect of merger of entity under common control	–	–	–	–	–	21	350	95	466	–	–	466
At 1 January 2019, as restated	52,864	38,527	(4,116)	5	10,496	(832)	350	160,242	257,536	23,476	4,361	285,373
Profit for the period	–	–	–	–	–	–	–	17,949	17,949	–	327	18,276
Upon declaration of dividend to other equity instrument holders	–	–	–	–	–	–	–	(695)	(695)	695	–	–
	–	–	–	–	–	–	–	17,254	17,254	695	327	18,276
Other comprehensive income:												
Premises	–	933	–	–	–	–	–	–	933	–	–	933
Equity instruments at fair value through other comprehensive income	–	–	(177)	–	–	–	–	–	(177)	–	(3)	(180)
Own credit risk	–	–	–	(41)	–	–	–	–	(41)	–	–	(41)
Debt instruments at fair value through other comprehensive income	–	–	3,155	–	–	–	–	–	3,155	–	489	3,644
Currency translation difference	–	–	10	–	–	151	–	–	161	–	–	161
Total comprehensive income	–	933	2,988	(41)	–	151	–	17,254	21,285	695	813	22,793
Release upon disposal of equity instruments at fair value through other comprehensive income:												
Transfer	–	–	8	–	–	–	–	(8)	–	–	–	–
Deferred tax	–	–	(1)	–	–	–	–	–	(1)	–	(1)	(2)
Current tax	–	–	–	–	–	–	–	1	1	–	1	2
Acquisition of entity under common control	–	–	–	–	–	–	(728)	–	(728)	–	–	(728)
Transfer from retained earnings	–	–	–	–	381	–	378	(759)	–	–	–	–
Dividends	–	–	–	–	–	–	–	(9,759)	(9,759)	(695)	(117)	(10,571)
At 30 June 2019	52,864	39,460	(1,121)	(36)	10,877	(681)	–	166,971	268,334	23,476	5,057	296,867

* 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 HKFRS 9.

** Merger reserve was arising on the application of merger accounting method in relation to the combination with entities under common control.

The notes on pages 43 to 113 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Notes	(Unaudited) Half-year ended 30 June 2019 HK$'m	(Restated) (Unaudited) Half-year ended 30 June 2018 HK$'m
Cash flows from operating activities			
Operating cash outflow before taxation	37(a)	**(274,181)**	(40,498)
Hong Kong profits tax paid		**(94)**	(1,194)
Overseas profits tax paid		**(369)**	(355)
Net cash outflow from operating activities		**(274,644)**	(42,047)
Cash flows from investing activities			
Additions of properties, plant and equipment		**(552)**	(633)
Proceeds from disposal of properties, plant and equipment		**1**	5
Additions of investment properties		**(24)**	(2)
Acquisition of associates and joint ventures		**(1,100)**	–
Dividend received from associates and joint ventures		**2**	2
Acquisition of entities under common control		**(728)**	(2,168)
Net cash outflow from investing activities		**(2,401)**	(2,796)
Cash flows from financing activities			
Dividend paid to equity holders of the Company		**(9,759)**	–
Dividend paid to other equity instrument holders		**(695)**	–
Dividend paid to non-controlling interests		**(117)**	(95)
Interest paid for subordinated liabilities		**(353)**	(543)
Payment of lease liabilities		**(295)**	N/A
Net cash outflow from financing activities		**(11,219)**	(638)
Decrease in cash and cash equivalents		**(288,264)**	(45,481)
Cash and cash equivalents at 1 January		**626,126**	382,136
Effect of exchange rate changes on cash and cash equivalents		**3,778**	118
Cash and cash equivalents at 30 June	37(b)	**341,640**	336,773

The notes on pages 43 to 113 are an integral part of this 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

Except for the initial adoption of the below mentioned standard, amendment and interpretation, 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 2018 and shall be read in conjunction with the Group's Annual Report for 2018.

Standard, amendment and interpretation that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2019

The Group has initially applied HKFRS 16 "Leases" and other amendment and interpretation from 1 January 2019 onwards. Except for HKFRS 16, of which the impacts to the Group's financial statements being significant, the application of other amendment and interpretation does not have material effects on the Group's financial statements. Details are disclosed as below:

- HKFRS 16, "Leases". HKFRS 16 supersedes the existing standard and interpretations related to leases. Significant changes to lessees' accounting are introduced, with the distinction between operating and finance leases removed. Lessees account for all leases in a similar way as the finance lease accounting under HKAS 17, i.e. the lessees recognise and measure the corresponding "right-of-use" asset and lease liability at the commencement date (the date when the underlying asset is available for use by lessees) of the lease by discounting the total future lease payment. Subsequently, the lessees recognise interest expense through the unwinding of the lease liability, and the expense on the depreciation of the right-of-use asset, instead of recognising as rental expenses under operating leases before the implementation of HKFRS 16. As a practical expedient, the lessees can elect not to apply this accounting model to short-term leases not more than 12 months and leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term. There are no significant changes to the lessors' accounting requirements as compared with HKAS 17. The requirements of HKFRS 16 are summarised as follows:

  Lease liabilities are the discounted present value of the future cash flows of the non-cancellable lease payments of the lease contracts, after taking into account payments to be made in optional period if the extension option is reasonably certain to be exercised, using the lessees' incremental borrowing rates at the commencement date of leases as discount rate.

  Right-of-use assets are generally measured at the amount of the lease liabilities plus initial direct costs, estimated dismantling or restoring cost and adjusted by prepaid lease payments. Right-of-use assets are subsequently measured at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any remeasurement of the lease liability.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

(b) Significant accounting policies (continued)

Standard, amendment and interpretation that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2019 (continued)

After the commencement date, the carrying value of lease liability will be increased to reflect the unwinding of discount through interest expense and will be reduced to reflect the lease payments made. The lease liability will also be remeasured if there is any modification to the lease contracts. Right-of-use assets are depreciated by straight-line method from commencement date to the end of lease term. In case there is a purchase option that is expected to be exercised, then the right-of-use asset will be depreciated to the end of the useful life of the underlying asset.

The Group has elected to use the modified retrospective approach and the practical expedient on short-term and low-value assets leases for the adoption of HKFRS 16 and recognised the cumulative effect of the initial application by initially recognising the opening balances of the right-of-use assets and lease liabilities at 1 January 2019 with no restatement of the comparative information. The initial application has affected lease contracts that previously classified as operating leases.

The first time application of HKFRS 16 resulted in the initial recognition of lease liabilities (recorded under "Other accounts and provisions" in the balance sheet) of HK$1,743 million and right-of-use assets (recorded under "Properties, plant and equipment" in the balance sheet) of HK$1,757 million respectively, mainly related to lease of properties. The difference between lease liabilities and right-of-use assets is related to the adjustment arising from prepaid or accrued rent as at the initial adoption date. Initial direct costs were not included in the opening adjustment of right-of-use assets as permitted by the transition requirements of the standard.

The Group also holds interests in government land leases in Hong Kong and Mainland of China of which the lease payments have been paid, and had been classified as finance lease and capitalised before the adoption of HKFRS 16. So far as the impact on the adoption of HKFRS 16 is concerned, the Group is not required to make any adjustments or reclassification at the date of initial application of HKFRS 16 on leasehold lands and the properties located there, other than identifying their carrying amounts in the disclosure notes of the corresponding assets. There is no impact on the opening balance of equity.

- HKAS 28 (2011) (Amendments), "Long-term Interests in Associates and Joint Ventures". The amendments clarify that long-term interests such as preference shares or shareholder's loans, to which the equity method shall not be applied, are in the scope of both HKFRS 9 and HKAS 28 and explain that HKFRS 9 is applied independently before the allocation of losses under the equity method. The amendments are applied retrospectively. The application of the amendments does not have a material impact on the Group's financial statements.

- HK(IFRIC) – Int 23, "Uncertainty over Income Tax Treatments". The interpretation specifies how an entity should reflect and measure the effects of uncertainty in accounting for income taxes by determining how probable that a taxation authority will accept an uncertain tax treatment. The interpretation is applied on a modified retrospective basis. The application of this interpretation does not have a material impact on the Group's financial statements.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

(c) Standard and amendments issued that are relevant to the Group but not yet mandatorily effective and have not been early adopted by the Group in 2019

Standard/ Amendments	Content	Applicable for financial years beginning on/after
HKAS 1 and HKAS 8 (Amendments)	Definition of Material	1 January 2020
HKAS 28 (2011) and HKFRS 10 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
HKFRS 3 (Amendments)	Definition of a Business	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021

- Please refer to Note 2.1(b) of the Group's Annual Report for 2018 for brief explanations of the above-mentioned standard and amendments.

(d) Improvements to HKFRSs

"Improvements to HKFRSs" contains numerous amendments to HKFRSs which HKICPA considers not urgent but necessary. The amendments comprise of clarification to changes in presentation, recognition or measurement purpose, amendments to the basis for conclusions as well as terminology or editorial amendments related to each HKFRS. These improvements do 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 in this reporting period are consistent with those used in the Group's financial statements for the year ended 31 December 2018.

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) Advances and other accounts

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 to exceed the approved limit that was advised to the borrower.

Advances are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred such as past due for more than 90 days or the borrower is unlikely to pay in full for the credit obligations to the Group. Credit-impaired advances are classified as Stage 3 and lifetime expected credit losses will be recognised.

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

Evidence that an advance is credit-impaired include observable data about the following events:

– Significant financial difficulty incurred by the borrower;

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

– For economic or legal reasons related to the borrower's financial difficulty, the Group has granted to the borrower a concession that it would not otherwise consider;

– Probable that the borrower will become bankrupt or undergo other financial reorganisation; or

– Other observable data indicating that there is a measurable decrease in the estimated future cash flows from such advances.

Advances classified as Stage 3 may not necessarily result in impairment loss where the advances are fully collateralised.

Gross advances and other accounts before impairment allowances are analysed by internal credit grade and stage classification as follows:

	At 30 June 2019			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Advances to customers				
Pass	1,340,752	3,921	–	1,344,673
Special mention	2,629	2,584	–	5,213
Substandard or below	–	–	2,652	2,652
	1,343,381	6,505	2,652	1,352,538
Trade bills				
Pass	20,530	–	–	20,530
Special mention	–	–	–	–
Substandard or below	–	–	4	4
	20,530	–	4	20,534
Advances to banks and other financial institutions				
Pass	3,248	–	–	3,248
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	3,248	–	–	3,248
	1,367,159	6,505	2,656	1,376,320
Impairment allowances	(4,089)	(313)	(1,637)	(6,039)
	1,363,070	6,192	1,019	1,370,281

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

	At 31 December 2018			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Advances to customers				
Pass	1,254,766	5,019	–	1,259,785
Special mention	1,934	3,133	–	5,067
Substandard or below	–	–	2,383	2,383
	1,256,700	8,152	2,383	1,267,235
Trade bills				
Pass	17,357	–	–	17,357
Special mention	–	–	–	–
Substandard or below	–	–	4	4
	17,357	–	4	17,361
Advances to banks and other financial institutions				
Pass	3,822	–	–	3,822
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	3,822	–	–	3,822
	1,277,879	8,152	2,387	1,288,418
Impairment allowances	(3,748)	(546)	(1,130)	(5,424)
	1,274,131	7,606	1,257	1,282,994

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

Reconciliation of impairment allowances for advances and other accounts is as follows:

	At 30 June 2019			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Impairment allowances				
At 1 January 2019, as previously reported	3,740	546	1,130	5,416
Effect of merger of entity under common control	8	–	–	8
At 1 January 2019, as restated	3,748	546	1,130	5,424
Transfer to Stage 1	102	(91)	(11)	–
Transfer to Stage 2	(32)	48	(16)	–
Transfer to Stage 3	(3)	(176)	179	–
Changes arising from transfer of stage	(87)	83	494	490
Other changes (including new assets and derecognised assets)	363	(95)	(41)	227
Write-offs	–	–	(206)	(206)
Recoveries	–	–	100	100
Unwind of discount on impairment allowances	–	–	–	–
Exchange difference	(2)	(2)	8	4
At 30 June 2019	4,089	313	1,637	6,039
Charged to income statement (Note 12)				717

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

	At 31 December 2018			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Impairment allowances				
At 1 January 2018, as previously reported	3,689	651	618	4,958
Effect of merger of entity under common control	3	–	–	3
At 1 January 2018, as restated	3,692	651	618	4,961
Transfer to Stage 1	267	(253)	(14)	–
Transfer to Stage 2	(38)	53	(15)	–
Transfer to Stage 3	(7)	(240)	247	–
Changes arising from transfer of stage	(241)	293	815	867
Other changes (including new assets and derecognised assets)	79	43	194	316
Write-offs	–	–	(834)	(834)
Recoveries	–	–	120	120
Unwind of discount on impairment allowances	–	–	(1)	(1)
Exchange difference	(4)	(1)	–	(5)
At 31 December 2018	3,748	546	1,130	5,424

(a) Impaired advances

Impaired advances to customers are analysed as follows:

	At 30 June 2019		At 31 December 2018	
	Impaired HK$'m	**Classified or impaired HK$'m**	Impaired HK$'m	Classified or impaired HK$'m
Gross advances to customers	**2,652**	**2,652**	2,383	2,383
Percentage of gross advances to customers	**0.20%**	**0.20%**	0.19%	0.19%
Impairment allowances made in respect of such advances	**1,633**	**1,633**	1,126	1,126

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 classified as Stage 3.

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(a) Impaired advances (continued)

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

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Current market value of collateral held against the covered portion of impaired advances to customers	**1,636**	2,988
Covered portion of impaired advances to customers	**878**	1,511
Uncovered portion of impaired advances to customers	**1,774**	872

As at 30 June 2019, gross impaired trade bills amounted to HK$4 million (31 December 2018: HK$4 million), and there were no impaired advances to banks and other financial institutions (31 December 2018: Nil).

(b) Advances overdue for more than three months

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

	At 30 June 2019		At 31 December 2018	
	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	**769**	**0.06%**	443	0.04%
– one year or less but over six months	**438**	**0.03%**	309	0.02%
– over one year	**594**	**0.04%**	310	0.02%
Advances overdue for over three months	**1,801**	**0.13%**	1,062	0.08%
Impairment allowances made in respect of such advances – Stage 3	**1,334**		828	

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

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

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Current market value of collateral held against the covered portion of such advances to customers	**527**	849
Covered portion of such advances to customers	**313**	349
Uncovered portion of such advances to customers	**1,488**	713

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

As at 30 June 2019, gross trade bills overdue for more than three months amounted to HK$4 million (31 December 2018: HK$4 million) and there were no advances to banks and other financial institutions overdue for more than three months (31 December 2018: Nil).

(c) Rescheduled advances

	At 30 June 2019		At 31 December 2018	
	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"	**258**	**0.02%**	280	0.02%

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".

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) 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 2019					
	Gross advances to customers HK$'m	% covered by collateral or other security	Classified or impaired HK$'m	Overdue HK$'m	Impairment allowances – Stage 3 HK$'m	Impairment allowances – Stages 1 and 2 HK$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	134,293	20.09%	–	–	–	610
– Property investment	50,528	83.00%	27	52	–	52
– Financial concerns	26,710	0.79%	–	–	–	47
– Stockbrokers	2,407	45.95%	–	–	–	2
– Wholesale and retail trade	41,497	35.27%	10	38	4	206
– Manufacturing	48,743	11.79%	129	170	129	168
– Transport and transport equipment	67,935	28.47%	371	18	–	145
– Recreational activities	1,750	1.53%	–	–	–	2
– Information technology	20,760	0.94%	2	7	2	121
– Others	128,244	45.83%	10	496	6	284
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	14,453	99.81%	21	132	–	4
– Loans for purchase of other residential properties	255,698	99.94%	63	1,159	1	60
– Credit card advances	14,362	–	122	527	108	147
– Others	84,522	88.99%	67	514	61	320
Total loans for use in Hong Kong	891,902	57.65%	822	3,113	311	2,168
Trade financing	80,517	15.14%	283	253	247	191
Loans for use outside Hong Kong	380,119	7.95%	1,547	2,315	1,075	2,040
Gross advances to customers	1,352,538	41.15%	2,652	5,681	1,633	4,399

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

	At 31 December 2018					
	Gross advances to customers HK$'m	% covered by collateral or other security	Classified or impaired HK$'m	Overdue HK$'m	Impairment allowances – Stage 3 HK$'m	Impairment allowances – Stages 1 and 2 HK$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	126,328	20.51%	–	–	–	543
– Property investment	50,223	80.51%	37	117	–	44
– Financial concerns	21,239	0.91%	–	–	–	37
– Stockbrokers	1,171	95.73%	–	–	–	1
– Wholesale and retail trade	38,147	34.46%	21	127	3	179
– Manufacturing	51,093	10.57%	136	148	134	87
– Transport and transport equipment	66,256	27.37%	867	17	9	150
– Recreational activities	1,675	1.90%	–	–	–	2
– Information technology	18,006	1.27%	1	220	1	107
– Others	118,574	38.43%	9	166	7	269
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	11,150	99.80%	18	166	–	4
– Loans for purchase of other residential properties	243,963	99.92%	65	1,534	–	58
– Credit card advances	15,613	–	135	558	118	150
– Others	78,282	86.84%	60	634	52	397
Total loans for use in Hong Kong	841,720	56.20%	1,349	3,687	324	2,028
Trade financing	65,437	19.37%	206	232	194	124
Loans for use outside Hong Kong	360,078	8.80%	828	970	608	2,141
Gross advances to customers	1,267,235	40.83%	2,383	4,889	1,126	4,293

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) 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 locations of the counterparties, after taking into account the transfer of risk. For an advance to customer guaranteed by a party situated in a location different from the customer, the risk will be transferred to the location of the guarantor.

Gross advances to customers

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Hong Kong	**1,081,560**	1,008,102
Mainland of China	**133,855**	127,348
Others	**137,123**	131,785
	1,352,538	1,267,235
Impairment allowances made in respect of the gross advances to customers – Stages 1 and 2		
Hong Kong	**2,878**	2,798
Mainland of China	**597**	529
Others	**924**	966
	4,399	4,293

Overdue advances

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Hong Kong	**3,714**	3,752
Mainland of China	**325**	257
Others	**1,642**	880
	5,681	4,889
Impairment allowances made in respect of the overdue advances – Stage 3		
Hong Kong	**780**	407
Mainland of China	**158**	84
Others	**502**	445
	1,440	936

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) 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 2019 HK$'m	At 31 December 2018 HK$'m
Hong Kong	**1,597**	1,485
Mainland of China	**277**	197
Others	**778**	701
	2,652	2,383
Impairment allowances made in respect of the classified or impaired advances – Stage 3		
Hong Kong	**849**	490
Mainland of China	**181**	107
Others	**603**	529
	1,633	1,126

(B) Repossessed assets

The estimated market value of repossessed assets held by the Group as at 30 June 2019 amounted to HK$22 million (31 December 2018: HK$23 million). The repossessed assets 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.

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 and stage classification. In the absence of such issue ratings, the ratings designated for the issuers are reported.

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Investment in securities at fair value through other comprehensive income		
– Stage 1		
Aaa	**101,407**	87,036
Aa1 to Aa3	**169,259**	148,944
A1 to A3	**358,905**	206,957
Lower than A3	**31,095**	28,482
Unrated	**19,145**	14,195
	679,811	485,614
– Stage 2	**–**	–
– Stage 3	**–**	–
	679,811	485,614
Of which: impairment allowances	**(186)**	(140)
Investment in securities at amortised cost		
– Stage 1		
Aaa	**59,319**	55,745
Aa1 to Aa3	**4,176**	4,628
A1 to A3	**27,197**	29,833
Lower than A3	**12,790**	12,271
Unrated	**6,917**	7,048
	110,399	109,525
– Stage 2	**–**	–
– Stage 3	**–**	–
	110,399	109,525
Impairment allowances	**(34)**	(29)
	110,365	109,496
Financial assets at fair value through profit or loss		
Aaa	**3,410**	3,846
Aa1 to Aa3	**27,007**	24,326
A1 to A3	**20,069**	17,538
Lower than A3	**8,857**	7,514
Unrated	**2,994**	1,850
	62,337	55,074

As at 30 June 2019, there were no impaired or overdue debt securities and certificates of deposit (31 December 2018: Nil).

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 RMC 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 its subsidiaries over a one-day holding period with a 99% confidence level, and sets up the VaR limit of the Group and its subsidiaries.

The following table sets out the VaR for all general market risk exposures[1] 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	**2019**	**48.1**	**23.2**	**48.1**	**30.5**
	2018	30.0	24.1	45.7	32.7
VaR for foreign exchange risk	**2019**	**11.7**	**7.7**	**21.1**	**14.6**
	2018	18.0	10.7	20.2	15.3
VaR for interest rate risk in the trading book	**2019**	**20.7**	**9.8**	**24.5**	**17.6**
	2018	23.6	18.7	43.0	28.7
VaR for equity risk in the trading book	**2019**	**0.6**	**0.2**	**2.5**	**0.5**
	2018	1.7	1.2	7.0	2.7
VaR for commodity risk	**2019**	**41.5**	**10.4**	**42.1**	**22.2**
	2018	3.1	0.8	3.4	1.7

Note:
1. Structural FX positions have been excluded.

Although there is 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.

3. Financial risk management (continued)

3.2 Market risk (continued)

(A) VaR (continued)

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 HK Dollar, 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.

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 2019							
	Equivalent in million of HK$							
	US Dollars	**Pound Sterling**	**Japanese Yen**	**Euro**	**Renminbi**	**Australian Dollars**	**Other foreign currencies**	**Total foreign currencies**
Spot assets	**935,400**	**26,447**	**128,045**	**41,615**	**320,494**	**39,121**	**67,019**	**1,558,141**
Spot liabilities	**(842,670)**	**(16,543)**	**(11,725)**	**(23,342)**	**(311,936)**	**(25,508)**	**(66,192)**	**(1,297,916)**
Forward purchases	**1,097,811**	**21,768**	**42,768**	**52,129**	**605,419**	**18,232**	**76,713**	**1,914,840**
Forward sales	**(1,190,348)**	**(31,584)**	**(158,980)**	**(70,478)**	**(611,999)**	**(31,770)**	**(77,884)**	**(2,173,043)**
Net options position	**(439)**	**–**	**(30)**	**(68)**	**(614)**	**(25)**	**135**	**(1,041)**
Net long/(short) position	**(246)**	**88**	**78**	**(144)**	**1,364**	**50**	**(209)**	**981**

	At 31 December 2018							
	Equivalent in million of HK$							
	US Dollars	Pound Sterling	Japanese Yen	Euro	Renminbi	Australian Dollars	Other foreign currencies	Total foreign currencies
Spot assets	867,526	26,486	23,821	33,069	560,809	38,679	63,410	1,613,800
Spot liabilities	(879,874)	(16,358)	(7,125)	(17,729)	(320,961)	(23,991)	(63,990)	(1,330,028)
Forward purchases	1,121,467	22,996	54,990	55,338	454,667	14,107	74,958	1,798,523
Forward sales	(1,107,713)	(33,076)	(71,582)	(70,369)	(693,728)	(28,786)	(73,864)	(2,079,118)
Net options position	1,312	(9)	(66)	(217)	(696)	(33)	4	295
Net long/(short) position	2,718	39	38	92	91	(24)	518	3,472

3. Financial risk management (continued)

3.2 Market risk (continued)

(B) Currency risk (continued)

	At 30 June 2019					
	Equivalent in million of HK$					
	US Dollars	**Baht**	**Malaysian Ringgit**	**Philippine Peso**	**Other foreign currencies**	**Total foreign currencies**
Net structural position	**28,929**	**2,511**	**2,839**	**1,684**	**2,570**	**38,533**

	At 31 December 2018					
	Equivalent in million of HK$					
	US Dollars	Baht	Malaysian Ringgit	Philippine Peso	Other foreign currencies	Total foreign currencies
Net structural position	28,122	2,301	2,769	1,608	1,812	36,612

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 2019 and 31 December 2018. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing date and maturity date.

	At 30 June 2019						
	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 and placements with banks and other financial institutions	250,958	32,053	35,974	–	–	66,372	385,357
Financial assets at fair value through profit or loss	9,896	13,614	9,965	13,180	18,197	13,425	78,277
Derivative financial instruments	–	–	–	–	–	28,887	28,887
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	163,860	163,860
Advances and other accounts	1,083,023	210,582	31,903	32,731	4,538	7,504	1,370,281
Investment in securities							
– At FVOCI	78,464	139,629	185,409	176,684	99,625	4,965	684,776
– At amortised cost	1,747	3,775	13,926	52,366	38,551	–	110,365
Interests in associates and joint ventures	–	–	–	–	–	1,627	1,627
Investment properties	–	–	–	–	–	20,625	20,625
Properties, plant and equipment	–	–	–	–	–	51,779	51,779
Other assets (including current and deferred tax assets)	15,611	–	–	–	–	76,995	92,606
Total assets	1,439,699	399,653	277,177	274,961	160,911	436,039	2,988,440
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	163,860	163,860
Deposits and balances from banks and other financial institutions	214,973	1,340	–	694	–	26,331	243,338
Financial liabilities at fair value through profit or loss	6,595	6,360	4,642	1,052	426	–	19,075
Derivative financial instruments	–	–	–	–	–	33,304	33,304
Deposits from customers	1,410,006	267,704	165,541	3,297	–	171,675	2,018,223
Debt securities and certificates of deposit in issue	20	133	639	–	–	–	792
Other accounts and provisions (including current and deferred tax liabilities)	8,046	–	71	1,026	856	76,814	86,813
Insurance contract liabilities	–	–	–	–	–	113,000	113,000
Subordinated liabilities	–	–	13,168	–	–	–	13,168
Total liabilities	1,639,640	275,537	184,061	6,069	1,282	584,984	2,691,573
Interest sensitivity gap	(199,941)	124,116	93,116	268,892	159,629	(148,945)	296,867

3. Financial risk management (continued)

3.2 Market risk (continued)

(C) Interest rate risk (continued)

	At 31 December 2018						
	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 and placements with banks and other financial institutions	305,438	36,385	20,853	–	–	70,623	433,299
Financial assets at fair value through profit or loss	245,659	11,264	8,178	12,187	15,897	7,744	300,929
Derivative financial instruments	–	–	–	–	–	34,912	34,912
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	156,300	156,300
Advances and other accounts	1,041,818	165,225	27,422	34,612	5,482	8,435	1,282,994
Investment in securities							
– At FVOCI	53,051	81,555	110,700	159,917	80,391	3,928	489,542
– At amortised cost	751	1,676	11,099	58,406	37,564	–	109,496
Interests in associates and joint ventures	–	–	–	–	–	483	483
Investment properties	–	–	–	–	–	19,684	19,684
Properties, plant and equipment	–	–	–	–	–	49,435	49,435
Other assets (including current and deferred tax assets)	7,491	–	–	–	–	71,439	78,930
Total assets	1,654,208	296,105	178,252	265,122	139,334	422,983	2,956,004
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	156,300	156,300
Deposits and balances from banks and other financial institutions	356,095	6,206	118	460	–	14,101	376,980
Financial liabilities at fair value through profit or loss	3,274	8,820	1,761	1,160	520	–	15,535
Derivative financial instruments	–	–	–	–	–	30,880	30,880
Deposits from customers	1,321,733	235,953	166,630	5,284	–	166,196	1,895,796
Debt securities and certificates of deposit in issue	3,480	4,813	1,160	–	–	–	9,453
Other accounts and provisions (including current and deferred tax liabilities)	9,406	–	–	–	–	58,312	67,718
Insurance contract liabilities	–	–	–	–	–	104,723	104,723
Subordinated liabilities	–	–	–	13,246	–	–	13,246
Total liabilities	1,693,988	255,792	169,669	20,150	520	530,512	2,670,631
Interest sensitivity gap	(39,780)	40,313	8,583	244,972	138,814	(107,529)	285,373

3. Financial risk management (continued)

3.3 Liquidity risk

(A) Liquidity coverage ratio and net stable funding ratio

	2019	2018
Average value of liquidity coverage ratio		
– First quarter	**183.00%**	134.33%
– Second quarter	**156.57%**	146.39%

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.

	2019	2018
Quarter-end value of net stable funding ratio		
– First quarter	**121.36%**	118.98%
– Second quarter	**119.15%**	118.82%

Quarter-end value of net stable funding ratio is calculated based on the calculation methodology and instructions set out in the HKMA return of stable funding position.

Liquidity coverage ratio and net stable funding ratio are computed on the consolidated basis which comprise 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 and net stable funding ratio disclosures is available under the section "Regulatory Disclosures" on BOCHK's website at www.bochk.com.

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 2019 and 31 December 2018 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2019							
	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$'m	Total HK$'m
Assets								
Cash and balances and placements with banks and other financial institutions	262,668	54,662	31,660	35,583	784	–	–	385,357
Financial assets at fair value through profit or loss	–	8,145	12,533	10,356	14,405	18,080	14,758	78,277
Derivative financial instruments	11,556	2,532	1,728	4,558	5,345	3,168	–	28,887
Hong Kong SAR Government certificates of indebtedness	163,860	–	–	–	–	–	–	163,860
Advances and other accounts	216,249	54,548	60,343	168,694	594,670	274,642	1,135	1,370,281
Investment in securities								
– At FVOCI	–	68,853	110,904	195,575	203,232	101,026	5,186	684,776
– At amortised cost	–	1,519	4,024	13,310	52,729	38,278	505	110,365
Interests in associates and joint ventures	–	–	–	–	–	–	1,627	1,627
Investment properties	–	–	–	–	–	–	20,625	20,625
Properties, plant and equipment	–	–	–	–	–	–	51,779	51,779
Other assets (including current and deferred tax assets)	45,070	14,740	430	2,455	16,816	13,087	8	92,606
Total assets	699,403	204,999	221,622	430,531	887,981	448,281	95,623	2,988,440
Liabilities								
Hong Kong SAR currency notes in circulation	163,860	–	–	–	–	–	–	163,860
Deposits and balances from banks and other financial institutions	162,816	78,488	1,340	–	694	–	–	243,338
Financial liabilities at fair value through profit or loss	–	6,595	6,363	4,643	1,051	423	–	19,075
Derivative financial instruments	9,776	3,145	2,888	5,113	7,476	4,906	–	33,304
Deposits from customers	1,118,149	463,532	267,704	165,541	3,297	–	–	2,018,223
Debt securities and certificates of deposit in issue	–	20	133	639	–	–	–	792
Other accounts and provisions (including current and deferred tax liabilities)	43,340	28,898	254	5,992	8,135	194	–	86,813
Insurance contract liabilities	38,919	169	504	2,717	21,810	48,881	–	113,000
Subordinated liabilities	–	–	274	12,894	–	–	–	13,168
Total liabilities	1,536,860	580,847	279,460	197,539	42,463	54,404	–	2,691,573
Net liquidity gap	(837,457)	(375,848)	(57,838)	232,992	845,518	393,877	95,623	296,867

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

	At 31 December 2018							
	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$'m	Total HK$'m
Assets								
Cash and balances and placements with banks and other financial institutions	300,427	75,634	36,385	20,457	396	–	–	433,299
Financial assets at fair value through profit or loss	–	243,201	8,448	8,495	15,956	16,323	8,506	300,929
Derivative financial instruments	11,303	3,282	4,025	5,909	6,965	3,428	–	34,912
Hong Kong SAR Government certificates of indebtedness	156,300	–	–	–	–	–	–	156,300
Advances and other accounts	178,403	53,549	51,931	158,880	579,083	259,797	1,351	1,282,994
Investment in securities								
– At FVOCI	–	44,818	52,143	115,304	192,058	81,110	4,109	489,542
– At amortised cost	–	508	1,921	10,500	58,768	37,292	507	109,496
Interests in associates and joint ventures	–	–	–	–	–	–	483	483
Investment properties	–	–	–	–	–	–	19,684	19,684
Properties, plant and equipment	–	–	–	–	–	–	49,435	49,435
Other assets (including current and deferred tax assets)	32,098	17,389	446	1,595	13,193	14,195	14	78,930
Total assets	678,531	438,381	155,299	321,140	866,419	412,145	84,089	2,956,004
Liabilities								
Hong Kong SAR currency notes in circulation	156,300	–	–	–	–	–	–	156,300
Deposits and balances from banks and other financial institutions	241,851	128,345	6,206	118	460	–	–	376,980
Financial liabilities at fair value through profit or loss	–	3,274	8,823	1,762	1,159	517	–	15,535
Derivative financial instruments	8,260	4,081	3,181	5,836	6,560	2,962	–	30,880
Deposits from customers	1,062,147	425,782	235,953	166,630	5,284	–	–	1,895,796
Debt securities and certificates of deposit in issue	–	3,480	4,813	1,160	–	–	–	9,453
Other accounts and provisions (including current and deferred tax liabilities)	39,040	18,443	1,896	1,276	7,056	7	–	67,718
Insurance contract liabilities	36,873	566	686	1,994	17,692	46,912	–	104,723
Subordinated liabilities	–	–	275	–	12,971	–	–	13,246
Total liabilities	1,544,471	583,971	261,833	178,776	51,182	50,398	–	2,670,631
Net liquidity gap	(865,940)	(145,590)	(106,534)	142,364	815,237	361,747	84,089	285,373

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

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 based on contractual maturity date. 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.

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 strategy, reinsurance arrangements and regular experience monitoring.

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

Within the insurance process, concentrations of risk may arise where a particular event or a 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, universal life, annuity, 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 the 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. In this regard, the Group has conducted relevant experience studies and researches regularly to identify emerging trends. Results would be taken into account in pricing and underwriting management. The results of such studies are also considered in determining the assumptions of insurance liability which include an appropriate level of prudential margins.

3. Financial risk management (continued)

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. 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 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".

The Company, its subsidiaries of BOC Group Life Assurance Company Limited, BOCHK Asset Management (Cayman) Limited and BOC Insurance (International) Holdings Company 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.

3. Financial risk management (continued)

3.5 Capital management (continued)

(A) Basis of regulatory consolidation (continued)

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

Name	At 30 June 2019 Total assets HK$'m	At 30 June 2019 Total equity HK$'m	At 31 December 2018 Total assets HK$'m	At 31 December 2018 Total equity HK$'m
BOC Group Trustee Company Limited	**200**	**200**	200	200
BOCI-Prudential Trustee Limited	**534**	**441**	506	464
China Bridge (Malaysia) Sdn. Bhd.	**29**	**16**	38	31
Bank of China (Hong Kong) Nominees Limited	**–**	**–**	–	–
Bank of China (Hong Kong) Trustees Limited	**16**	**16**	15	15
BOC Financial Services (Nanning) Company Limited	**149**	**57**	N/A	N/A
BOCHK Information Technology (Shenzhen) Co., Ltd.	**371**	**251**	377	242
BOCHK Information Technology Services (Shenzhen) Co., Ltd.	**414**	**349**	377	336
Che Hsing (Nominees) Limited	**1**	**1**	1	1
Po Sang Financial Investment Services Company Limited	**362**	**346**	364	346
Po Sang Securities and Futures Limited	**821**	**573**	657	553
Sin Chiao Enterprises Corporation, Limited	**6**	**6**	6	6
Sin Hua Trustee Limited	**5**	**5**	7	6
Billion Express Development Inc.	**–**	**–**	–	–
Billion Orient Holdings Ltd.	**–**	**–**	–	–
Elite Bond Investments Ltd.	**–**	**–**	–	–
Express Capital Enterprise Inc.	**–**	**–**	–	–
Express Charm Holdings Corp.	**–**	**–**	–	–
Express Shine Assets Holdings Corp.	**–**	**–**	–	–
Express Talent Investment Ltd.	**–**	**–**	–	–
Gold Medal Capital Inc.	**–**	**–**	–	–
Gold Tap Enterprises Inc.	**–**	**–**	–	–
Maxi Success Holdings Ltd.	**–**	**–**	–	–
Smart Linkage Holdings Inc.	**–**	**–**	–	–
Smart Union Capital Investments Ltd.	**–**	**–**	–	–
Success Trend Development Ltd.	**–**	**–**	–	–
Wise Key Enterprises Corp.	**–**	**–**	–	–

3. Financial risk management (continued)

3.5 Capital management (continued)

(A) Basis of regulatory consolidation (continued)

The principal activities of the above subsidiaries are set out in "Appendix – Subsidiaries of the Company".

There were no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation as at 30 June 2019 (31 December 2018: Nil).

There were also no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation where the methods of consolidation differ as at 30 June 2019 (31 December 2018: Nil).

The Group operates subsidiaries in different countries/regions where capital is governed by local rules and there may be restrictions on the transfer of funds or regulatory capital between the members of the Group.

(B) Capital ratio

The capital ratios are analysed as follows:

	At 30 June 2019	At 31 December 2018
CET1 capital ratio	**17.85%**	17.48%
Tier 1 capital ratio	**20.01%**	19.76%
Total capital ratio	**23.00%**	23.10%

3. Financial risk management (continued)

3.5 Capital management (continued)

(B) Capital ratio (continued)

The consolidated capital base after deductions used in the calculation of the above capital ratios is analysed as follows:

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments	**43,043**	43,043
Retained earnings	**165,024**	153,501
Disclosed reserves	**49,533**	45,367
CET1 capital before regulatory deductions	**257,600**	241,911
CET1 capital: regulatory deductions		
Valuation adjustments	**(46)**	(9)
Deferred tax assets (net of associated deferred tax liabilities)	**(63)**	(82)
Gains and losses due to changes in own credit risk on fair valued liabilities	**214**	141
Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	**(6)**	N/A
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	**(52,835)**	(51,263)
Regulatory reserve for general banking risks	**(10,877)**	(10,496)
Total regulatory deductions to CET1 capital	**(63,613)**	(61,709)
CET1 capital	**193,987**	180,202
AT1 capital: instruments		
Qualifying AT1 capital instruments classified as equity under applicable accounting standards	**23,476**	23,476
AT1 capital before regulatory deductions	**23,476**	23,476
AT1 capital: regulatory deductions		
Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	**(13)**	N/A
Total regulatory deductions to AT1 capital	**(13)**	N/A
AT1 capital	**23,463**	23,476
Tier 1 capital	**217,450**	203,678

3. Financial risk management (continued)

3.5 Capital management (continued)

(B) Capital ratio (continued)

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Tier 2 capital: instruments and provisions		
Capital instruments subject to phase out arrangements from Tier 2 capital	**2,505**	5,010
Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**6,629**	6,315
Tier 2 capital before regulatory deductions	**9,134**	11,325
Tier 2 capital: regulatory deductions		
Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	**(345)**	N/A
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	**23,776**	23,068
Total regulatory adjustments to Tier 2 capital	**23,431**	23,068
Tier 2 capital	**32,565**	34,393
Total regulatory capital	**250,015**	238,071

The capital buffer ratios are analysed as follows:

	At 30 June 2019	At 31 December 2018
Capital conservation buffer ratio	**2.500%**	1.875%
Higher loss absorbency ratio	**1.500%**	1.125%
Countercyclical capital buffer ratio	**1.907%**	1.418%

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

3. Financial risk management (continued)

3.5 Capital management (continued)

(C) Leverage ratio

The leverage ratio is analysed as follows:

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Tier 1 capital	**217,450**	203,678
Leverage ratio exposure	**2,756,823**	2,733,653
Leverage ratio	**7.89%**	7.45%

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

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 equity securities listed 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, issued structured deposits and other debt instruments.

– 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, debt instruments and certain OTC derivative contracts 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. Fair values of financial assets and liabilities (continued)

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.

Generally, the unit of account for a financial instrument is the individual instrument. HKFRS 13 permits a portfolio exception, through an accounting policy election, to measure the fair value of a portfolio of financial assets and financial liabilities on the basis of the net open risk position when certain criteria are met. The Group applies valuation adjustments at an individual instrument level, consistent with that unit of account. According to its risk management policies and systems to manage derivative financial instruments, the fair value of certain derivative portfolios that meet those criteria is measured on the basis of the price to be received or paid for net open risk. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative size of each of the individual instruments in the portfolio.

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, commodity prices, volatilities and correlations, counterparty credit spreads and others, which are mostly observable and obtainable from open market.

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

Debt securities and certificates of deposit and other debt instruments

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.

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

4.1 Financial instruments measured at fair value (continued)

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, volatilities and correlations. Unobservable inputs 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 ("CVAs") and debit valuation adjustments ("DVAs") are applied to the Group's OTC derivatives. These adjustments reflect market factors movement, 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.

Subordinated liabilities

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

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 2019			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Financial assets				
Trading assets (Note 21)				
– Debt securities and certificates of deposit	75	37,377	–	37,452
– Equity securities	54	–	–	54
– Fund	3	–	–	3
– Other debt instruments	–	2,515	–	2,515
Other financial assets mandatorily classified at fair value through profit or loss (Note 21)				
– Debt securities and certificates of deposit	–	19,234	2,366	21,600
– Equity securities	4,619	–	–	4,619
– Fund	5,318	2,324	1,107	8,749
Financial assets designated at fair value through profit or loss (Note 21)				
– Debt securities and certificates of deposit	708	2,577	–	3,285
– Other debt instruments	–	–	–	–
Derivative financial instruments (Note 22)	11,547	17,340	–	28,887
Investment in securities at FVOCI (Note 24)				
– Debt securities and certificates of deposit	192,645	485,362	1,804	679,811
– Equity securities	3,026	732	1,207	4,965
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 28)				
– Trading liabilities	–	19,062	–	19,062
– Financial liabilities designated at fair value through profit or loss	–	13	–	13
Derivative financial instruments (Note 22)	10,079	23,225	–	33,304
Subordinated liabilities (Note 34)				
– Subordinated notes	–	13,168	–	13,168

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 2018			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Financial assets				
Trading assets (Note 21)				
– Debt securities and certificates of deposit	334	31,783	–	32,117
– Equity securities	2	–	–	2
– Fund	3	–	–	3
– Other debt instruments	–	4,634	–	4,634
Other financial assets mandatorily classified at fair value through profit or loss (Note 21)				
– Debt securities and certificates of deposit	–	17,877	1,909	19,786
– Equity securities	1,010	–	–	1,010
– Fund	3,477	2,337	915	6,729
Financial assets designated at fair value through profit or loss (Note 21)				
– Debt securities and certificates of deposit	691	2,480	–	3,171
– Other debt instruments	–	233,477	–	233,477
Derivative financial instruments (Note 22)	11,356	23,549	7	34,912
Investment in securities at FVOCI (Note 24)				
– Debt securities and certificates of deposit	68,013	415,983	1,618	485,614
– Equity securities	2,599	185	1,144	3,928
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 28)				
– Trading liabilities	–	13,336	–	13,336
– Financial liabilities designated at fair value through profit or loss	–	2,199	–	2,199
Derivative financial instruments (Note 22)	8,417	22,463	–	30,880
Subordinated liabilities (Note 34)				
– Subordinated notes	–	13,246	–	13,246

There were no significant financial asset and liability transfers between level 1 and level 2 for the Group during the period (31 December 2018: Nil).

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 2019				
	Financial assets				
	Other financial assets mandatorily classified at FVPL			Investment in securities at FVOCI	
	Debt securities and certificates of deposit HK$'m	Fund HK$'m	Derivative financial instruments HK$'m	Debt securities and certificates of deposit HK$'m	Equity securities HK$'m
At 1 January 2019	1,909	915	7	1,618	1,144
Gains					
– Income statement					
– Net trading gain	–	–	–	–	–
– Net gain on other financial instruments at fair value through profit or loss	299	41	–	–	–
– Other comprehensive income					
– Change in fair value	–	–	–	186	63
Additions	158	84	–	–	–
Disposals, redemptions and maturity	–	–	–	–	–
Transfer into level 3	–	67	–	–	–
Transfer out of level 3	–	–	(7)	–	–
At 30 June 2019	2,366	1,107	–	1,804	1,207
Total unrealised gains for the period included in income statement for financial assets held as at 30 June 2019					
– Net trading gain	–	–	–	–	–
– Net gain on other financial instruments at fair value through profit or loss	299	41	–	–	–
	299	41	–	–	–

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 2018				
	Financial assets				
	Other financial assets mandatorily classified at FVPL			Investment in securities at FVOCI	
	Debt securities and certificates of deposit HK$'m	Fund HK$'m	Derivative financial instruments HK$'m	Debt securities and certificates of deposit HK$'m	Equity securities HK$'m
At 1 January 2018	1,982	513	–	1,674	812
Gains/(losses)					
– Income statement					
– Net trading gain	–	–	7	–	–
– Net (loss)/gain on other financial instruments at fair value through profit or loss	(73)	37	–	–	–
– Other comprehensive income					
– Change in fair value	–	–	–	(56)	296
Additions	–	489	–	–	36
Disposals, redemptions and maturity	–	(124)	–	–	–
Transfer into level 3	–	–	–	–	–
Transfer out of level 3	–	–	–	–	–
At 31 December 2018	1,909	915	7	1,618	1,144
Total unrealised gains/(losses) for the year included in income statement for financial assets held as at 31 December 2018					
– Net trading gain	–	–	7	–	–
– Net (loss)/gain on other financial instruments at fair value through profit or loss	(73)	37	–	–	–
	(73)	37	7	–	–

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 2019 and 31 December 2018, financial instruments categorised as level 3 are mainly comprised of debt securities and certificates of deposit, fund, unlisted equity shares and certain OTC derivative contracts.

For certain illiquid debt securities and certificates of deposit and fund, the Group obtains valuation quotations from counterparties which may be based on unobservable inputs with significant impact on the valuation. For certain OTC derivative contracts, the counterparty credit spreads used in valuation techniques are unobservable inputs with significant impact on valuation. Therefore, these instruments have been classified by the Group as level 3. Transfers into and out of level 3 in the first half of 2019 were due to change of valuation observability. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

The fair values of unlisted FVOCI 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$60 million (31 December 2018: HK$57 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 and banks and other financial institutions

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

Investment in securities at amortised cost

The fair value of securities at amortised cost 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. Besides, a discounted cash flow model is used for certain securities at amortised cost 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 measured at fair value as described in Note 4.1.

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

4.2 Financial instruments not measured at fair value (continued)

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 2019		At 31 December 2018	
	Carrying value HK$'m	**Fair value HK$'m**	Carrying value HK$'m	Fair value HK$'m
Financial assets				
Investment in securities at amortised cost (Note 24)	**110,365**	**112,937**	109,496	108,352
Financial liabilities				
Debt securities and certificates of deposit in issue (Note 30)	**792**	**794**	9,453	9,454

5. Net interest income

	Half-year ended 30 June 2019 HK$'m	Half-year ended 30 June 2018 HK$'m
Interest income		
Advances to customers, due from banks and other financial institutions	**22,924**	20,388
Investment in securities and financial assets at fair value through profit or loss	**10,422**	8,067
Others	**259**	146
	33,605	28,601
Interest expense		
Deposits from customers, due to banks and other financial institutions	**(12,974)**	(8,930)
Debt securities and certificates of deposit in issue	**(68)**	(308)
Subordinated liabilities	**(360)**	(554)
Lease liabilities	**(27)**	N/A
Others	**(273)**	(270)
	(13,702)	(10,062)
Net interest income	**19,903**	18,539

Included within interest income are HK$24,949 million (first half of 2018: HK$22,309 million) and HK$6,674 million (first half of 2018: HK$5,491 million), before hedging effect, for financial assets measured at amortised cost and at fair value through other comprehensive income respectively.

Included within interest expense are HK$13,178 million (first half of 2018: HK$9,401 million), before hedging effect, for financial liabilities that are not measured at fair value through profit or loss.

6. Net fee and commission income

	Half-year ended 30 June 2019 HK$'m	Half-year ended 30 June 2018 HK$'m
Fee and commission income		
Credit card business	**1,635**	1,734
Loan commissions	**1,623**	1,712
Insurance	**1,160**	865
Securities brokerage	**1,093**	1,705
Funds distribution	**464**	552
Bills commissions	**352**	401
Payment services	**339**	326
Currency exchange	**323**	268
Trust and custody services	**309**	313
Safe deposit box	**144**	154
Others	**678**	636
	8,120	8,666
Fee and commission expense		
Credit card business	**(1,158)**	(1,281)
Insurance	**(302)**	(198)
Securities brokerage	**(133)**	(196)
Others	**(481)**	(515)
	(2,074)	(2,190)
Net fee and commission income	**6,046**	6,476
Of which arise from:		
Financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	**1,889**	1,954
– Fee and commission expense	**(6)**	(20)
	1,883	1,934
Trust and other fiduciary activities		
– Fee and commission income	**403**	406
– Fee and commission expense	**(13)**	(14)
	390	392

7. Net trading gain

	Half-year ended 30 June 2019 HK$'m	Half-year ended 30 June 2018 HK$'m
Net gain/(loss) from:		
Foreign exchange and foreign exchange products	**2,135**	1,700
Interest rate instruments and items under fair value hedge	**(489)**	175
Commodities	**126**	61
Equity and credit derivative instruments	**57**	114
	1,829	2,050

8. Net gain/(loss) on other financial instruments at fair value through profit or loss

	Half-year ended 30 June 2019 HK$'m	Half-year ended 30 June 2018 HK$'m
Net gain/(loss) on other financial instruments mandatorily classified at fair value through profit or loss	**2,141**	(1,538)
Net gain on financial instruments designated at fair value through profit or loss	**74**	356
	2,215	(1,182)

9. Net gain on other financial assets

	Half-year ended 30 June 2019 HK$'m	Half-year ended 30 June 2018 HK$'m
Net gain on disposal/redemption of investment in securities at FVOCI	**736**	77
Net (loss)/gain on disposal/redemption of investment in securities at amortised cost	**(18)**	11
Others	**(2)**	(2)
	716	86

10. Other operating income

	Half-year ended 30 June 2019 HK$'m	Half-year ended 30 June 2018 HK$'m
Dividend income		
– From investment in securities at FVOCI derecognised during the period	**2**	4
– From investment in securities at FVOCI held at the end of the period	**122**	123
Gross rental income from investment properties	**329**	328
Less: Outgoings in respect of investment properties	**(29)**	(33)
Others	**77**	76
	501	498

Included in the "Outgoings in respect of investment properties" is HK$1 million (first half of 2018: HK$1 million) of direct operating expenses related to investment properties that were not let during the period.

11. Net insurance benefits and claims and movement in liabilities

	Half-year ended 30 June 2019 HK$'m	Half-year ended 30 June 2018 HK$'m
Gross insurance benefits and claims and movement in liabilities		
Claims, benefits and surrenders paid	**(9,218)**	(9,458)
Movement in liabilities	**(8,487)**	(1,926)
	(17,705)	(11,384)
Reinsurers' share of benefits and claims and movement in liabilities		
Reinsurers' share of claims, benefits and surrenders paid	**3,450**	4,285
Reinsurers' share of movement in liabilities	**2,818**	865
	6,268	5,150
Net insurance benefits and claims and movement in liabilities	**(11,437)**	(6,234)

12. Net charge of impairment allowances

	Half-year ended 30 June 2019 HK$'m	Half-year ended 30 June 2018 HK$'m
Net charge of impairment allowances on:		
Advances and other accounts	**(717)**	(266)
Investment in securities		
– At FVOCI	**(46)**	(12)
– At amortised cost	**(4)**	(5)
	(50)	(17)
Others	**(26)**	(61)
Net charge of impairment allowances	**(793)**	(344)

13. Operating expenses

	Half-year ended 30 June 2019 HK$'m	Half-year ended 30 June 2018 HK$'m
Staff costs (including directors' emoluments)		
– Salaries and other costs	**4,010**	3,829
– Pension cost	**254**	232
	4,264	4,061
Premises and equipment expenses (excluding depreciation)		
– Rental of premises	**N/A**	363
– Short-term leases, leases of low-value assets and variable lease payments	**117**	N/A
– Information technology	**318**	286
– Others	**217**	208
	652	857
Depreciation	**1,402**	998
Auditor's remuneration		
– Audit services	**3**	3
– Non-audit services	**4**	6
Other operating expenses	**1,203**	1,087
	7,528	7,012

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

	Half-year ended 30 June 2019 HK$'m	Half-year ended 30 June 2018 HK$'m
Net gain from fair value adjustments on investment properties	**657**	918

15. Net gain from disposal/revaluation of properties, plant and equipment

	Half-year ended 30 June 2019 HK$'m	Half-year ended 30 June 2018 HK$'m
Net loss from disposal of equipment, fixtures and fittings	**(1)**	(2)
Net gain from revaluation of premises	**2**	12
	1	10

16. Taxation

Taxation in the income statement represents:

	Half-year ended 30 June 2019 HK$'m	Half-year ended 30 June 2018 HK$'m
Current tax		
Hong Kong profits tax		
– Current period taxation	**3,035**	2,975
Overseas taxation		
– Current period taxation	**360**	390
– Over-provision in prior periods	**(25)**	(20)
	3,370	3,345
Deferred tax		
Origination and reversal of temporary differences and unused tax credits	**(94)**	(28)
	3,276	3,317

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2019. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2019 at the rates of taxation prevailing in the countries/regions in which the Group operates.

16. Taxation (continued)

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 2019 HK$'m	Half-year ended 30 June 2018 HK$'m
Profit before taxation	**21,552**	21,228
Calculated at a taxation rate of 16.5% (2018: 16.5%)	**3,556**	3,503
Effect of different taxation rates in other countries/regions	**132**	46
Income not subject to taxation	**(798)**	(430)
Expenses not deductible for taxation purposes	**327**	118
Utilisation of previously unrecognised tax losses	**(1)**	–
Over-provision in prior periods	**(25)**	(20)
Foreign withholding tax	**85**	100
Taxation charge	**3,276**	3,317
Effective tax rate	**15.2%**	15.6%

17. Dividends

	Half-year ended 30 June 2019		Half-year ended 30 June 2018	
	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 30 August 2019, the Board declared an interim dividend of HK$0.545 per ordinary share for the first half of 2019 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 2019.

18. Earnings per share

The calculation of basic earnings per share for the first half of 2019 is based on the consolidated profit for the period attributable to equity holders of the Company of approximately HK$17,254 million (first half of 2018: HK$17,561 million) and on the ordinary shares in issue of 10,572,780,266 shares (2018: 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 2019 (first half of 2018: Nil).

19. Retirement benefit costs

Retirement benefits are provided to eligible employees of the Group. In Hong Kong, 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.

19. Retirement benefit costs (continued)

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 launched the MPF Scheme according to the regulatory requirement. Since 2019, employees with 5 years of service or above are entitled to employer's voluntary contribution. The trustee of the Scheme 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 2019 amounted to approximately HK$178 million (first half of 2018: approximately HK$171 million), after a deduction of forfeited contributions of approximately HK$4 million (first half of 2018: approximately HK$4 million). For the MPF Scheme, the Group contributed approximately HK$58 million (first half of 2018: approximately HK$46 million) for the first half of 2019.

20. Cash and balances and placements with banks and other financial institutions

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Cash	**15,936**	21,992
Balances with central banks	**142,484**	158,355
Placements with central banks maturing within one month	**8,661**	9,572
Placements with central banks maturing between one and twelve months	**1,054**	2,697
Placements with central banks maturing over one year	**784**	396
	152,983	171,020
Balances with other banks and other financial institutions	**104,248**	120,084
Placements with other banks and other financial institutions maturing within one month	**46,002**	66,064
Placements with other banks and other financial institutions maturing between one and twelve months	**66,198**	54,154
	216,448	240,302
	385,367	433,314
Impairment allowances		
– Stage 1	**(10)**	(15)
– Stage 2	**–**	–
– Stage 3	**–**	–
	385,357	433,299

21. Financial assets at fair value through profit or loss

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Securities		
Trading assets		
– Treasury bills	**19,210**	16,301
– Certificates of deposit	**1,265**	623
– Other debt securities	**16,977**	15,193
	37,452	32,117
– Equity securities	**54**	2
– Fund	**3**	3
	37,509	32,122
Other financial assets mandatorily classified at fair value through profit or loss		
– Certificates of deposit	**2**	2
– Other debt securities	**21,598**	19,784
	21,600	19,786
– Equity securities	**4,619**	1,010
– Fund	**8,749**	6,729
	34,968	27,525
Financial assets designated at fair value through profit or loss		
– Certificates of deposit	**–**	–
– Other debt securities	**3,285**	3,171
	3,285	3,171
Total securities	**75,762**	62,818
Other debt instruments		
Trading assets	**2,515**	4,634
Financial assets designated at fair value through profit or loss	**–**	233,477
Total other debt instruments	**2,515**	238,111
	78,277	300,929

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

Total securities are analysed by place of listing as follows:

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Debt securities and certificates of deposit		
– Listed in Hong Kong	**13,684**	13,556
– Listed outside Hong Kong	**13,709**	14,436
– Unlisted	**34,944**	27,082
	62,337	55,074
Equity securities		
– Listed in Hong Kong	**3,730**	468
– Listed outside Hong Kong	**943**	544
	4,673	1,012
Fund		
– Listed in Hong Kong	**3**	339
– Listed outside Hong Kong	**64**	–
– Unlisted	**8,685**	6,393
	8,752	6,732
Total securities	**75,762**	62,818

Total securities are analysed by type of issuer as follows:

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Sovereigns	**29,672**	26,397
Public sector entities	**1,852**	1,720
Banks and other financial institutions	**32,119**	26,385
Corporate entities	**12,119**	8,316
Total securities	**75,762**	62,818

22. Derivative financial instruments

The Group enters into exchange rate, interest rate, commodity, equity and credit 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 commodity 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 the fair values of 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, commodity prices or equity prices relative to their terms. The aggregate fair values of derivative financial instruments can fluctuate significantly from time to time.

22. Derivative financial instruments (continued)

The following tables summarise the contract/notional amounts and fair values of each class of derivative financial instrument as at 30 June 2019 and 31 December 2018:

	At 30 June 2019		
	Contract/ notional amounts	Fair values	
		Assets	Liabilities
	HK$'m	HK$'m	HK$'m
Exchange rate contracts			
Spot, forwards and futures	**357,326**	**12,347**	**(8,620)**
Swaps	**1,738,692**	**8,044**	**(9,966)**
Options	**55,070**	**149**	**(82)**
	2,151,088	**20,540**	**(18,668)**
Interest rate contracts			
Futures	**10,699**	**3**	**(5)**
Swaps	**1,171,060**	**7,726**	**(11,640)**
Options	**4,223**	**–**	**(6)**
	1,185,982	**7,729**	**(11,651)**
Commodity contracts	**48,293**	**524**	**(2,883)**
Equity contracts	**3,014**	**94**	**(95)**
Credit derivative contracts	**390**	**–**	**(7)**
	3,388,767	**28,887**	**(33,304)**

	At 31 December 2018		
	Contract/ notional amounts	Fair values	
		Assets	Liabilities
	HK$'m	HK$'m	HK$'m
Exchange rate contracts			
Spot, forwards and futures	363,072	12,711	(8,901)
Swaps	1,721,302	12,373	(12,143)
Options	29,715	158	(64)
	2,114,089	25,242	(21,108)
Interest rate contracts			
Futures	20,242	1	(39)
Swaps	1,047,515	9,312	(8,428)
Options	1,566	1	(1)
	1,069,323	9,314	(8,468)
Commodity contracts	28,782	239	(1,184)
Equity contracts	2,998	117	(119)
Credit derivative contracts	392	–	(1)
	3,215,584	34,912	(30,880)

23. Advances and other accounts

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Personal loans and advances	**375,110**	354,619
Corporate loans and advances	**977,428**	912,616
Advances to customers	**1,352,538**	1,267,235
Less: Impairment allowances		
– Stage 1	**(4,086)**	(3,747)
– Stage 2	**(313)**	(546)
– Stage 3	**(1,633)**	(1,126)
	1,346,506	1,261,816
Trade bills	**20,534**	17,361
Less: Impairment allowances		
– Stage 1	**(3)**	(1)
– Stage 2	**–**	–
– Stage 3	**(4)**	(4)
	20,527	17,356
Advances to banks and other financial institutions	**3,248**	3,822
	1,370,281	1,282,994

As at 30 June 2019, advances to customers included accrued interest of HK$2,635 million (31 December 2018: HK$2,338 million).

24. Investment in securities

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Investment in securities at fair value through other comprehensive income		
– Treasury bills	**225,316**	122,462
– Certificates of deposit	**58,979**	34,849
– Other debt securities	**395,516**	328,303
	679,811	485,614
– Equity securities	**4,965**	3,928
	684,776	489,542
Investment in securities at amortised cost		
– Certificates of deposit	**18**	18
– Other debt securities	**110,381**	109,507
	110,399	109,525
– Impairment allowances		
Stage 1	**(34)**	(29)
Stage 2	**–**	–
Stage 3	**–**	–
	110,365	109,496
	795,141	599,038

24. Investment in securities (continued)

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

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Investment in securities at fair value through other comprehensive income		
Debt securities and certificates of deposit		
– Listed in Hong Kong	**74,011**	67,888
– Listed outside Hong Kong	**208,608**	187,903
	282,619	255,791
– Unlisted	**397,192**	229,823
	679,811	485,614
Equity securities		
– Listed in Hong Kong	**3,241**	2,599
– Listed outside Hong Kong	**517**	185
– Unlisted	**1,207**	1,144
	4,965	3,928
	684,776	489,542
Investment in securities at amortised cost		
Debt securities and certificates of deposit		
– Listed in Hong Kong	**19,104**	19,249
– Listed outside Hong Kong	**52,675**	54,225
	71,779	73,474
– Unlisted	**38,586**	36,022
	110,365	109,496
	795,141	599,038
Market value of listed securities at amortised cost	**73,904**	73,086

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

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Sovereigns	**334,758**	185,331
Public sector entities	**49,729**	44,984
Banks and other financial institutions	**239,386**	208,060
Corporate entities	**171,268**	160,663
	795,141	599,038

25. Investment properties

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
At 1 January	**19,684**	19,669
Additions	**24**	13
Fair value gains	**657**	906
Reclassification from/(to) properties, plant and equipment (Note 26)	**260**	(904)
At period/year end	**20,625**	19,684

26. Properties, plant and equipment

	Premises HK$'m	Equipment, fixtures and fittings HK$'m	Right-of-use assets HK$'m	Total HK$'m
Net book value at 1 January 2019, as previously reported	46,390	3,040	–	49,430
Effect of merger of entity under common control	–	5	–	5
Net book value at 1 January 2019, as restated	46,390	3,045	–	49,435
Effect of adoption of HKFRS 16	–	–	1,757	1,757
At 1 January 2019, after adoption of HKFRS 16	46,390	3,045	1,757	51,192
Additions	31	521	621	1,173
Disposals	–	(2)	–	(2)
Revaluation	1,071	–	–	1,071
Depreciation for the period (Note 13)	(572)	(497)	(333)	(1,402)
Reclassification to investment properties (Note 25)	(260)	–	–	(260)
Exchange difference	–	4	3	7
Net book value at 30 June 2019	46,660	3,071	2,048	51,779
At 30 June 2019				
Cost or valuation	46,660	10,910	2,381	59,951
Accumulated depreciation and impairment	–	(7,839)	(333)	(8,172)
Net book value at 30 June 2019	46,660	3,071	2,048	51,779
The analysis of cost or valuation of the above assets is as follows:				
At 30 June 2019				
At cost	–	10,910	2,381	13,291
At valuation	46,660	–	–	46,660
	46,660	10,910	2,381	59,951

26. Properties, plant and equipment (continued)

	Premises HK$'m	Equipment, fixtures and fittings HK$'m	Total HK$'m
Net book value at 1 January 2018, as previously reported	44,329	2,939	47,268
Effect of merger of entity under common control	–	7	7
Net book value at 1 January 2018, as restated	44,329	2,946	47,275
Additions	94	1,081	1,175
Disposals	(4)	(8)	(12)
Revaluation	2,160	–	2,160
Depreciation for the year	(1,092)	(974)	(2,066)
Reclassification from investment properties (Note 25)	904	–	904
Exchange difference	(1)	–	(1)
Net book value at 31 December 2018	46,390	3,045	49,435
At 31 December 2018			
Cost or valuation	46,390	10,511	56,901
Accumulated depreciation and impairment	–	(7,466)	(7,466)
Net book value at 31 December 2018	46,390	3,045	49,435
The analysis of cost or valuation of the above assets is as follows:			
At 31 December 2018			
At cost	–	10,511	10,511
At valuation	46,390	–	46,390
	46,390	10,511	56,901

27. Other assets

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Repossessed assets	**4**	10
Precious metals	**9,253**	6,602
Reinsurance assets	**47,574**	45,898
Accounts receivable and prepayments	**35,632**	26,085
	92,463	78,595

28. Financial liabilities at fair value through profit or loss

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Trading liabilities		
– Short positions in Exchange Fund Bills and Notes	**19,062**	13,336
Financial liabilities designated at fair value through profit or loss		
– Structured deposits (Note 29)	**13**	2,199
	19,075	15,535

As at 30 June 2019 and 31 December 2018, the carrying amount of financial liabilities designated at fair value through profit or loss was approximately the same as the amount that the Group would be contractually required to pay at maturity to the holders.

29. Deposits from customers

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Current, savings and other deposit accounts (per balance sheet)	**2,018,223**	1,895,796
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 28)	**13**	2,199
	2,018,236	1,897,995
Analysed by:		
Demand deposits and current accounts		
– Corporate	**149,350**	144,985
– Personal	**67,967**	62,827
	217,317	207,812
Savings deposits		
– Corporate	**376,649**	337,932
– Personal	**523,931**	516,185
	900,580	854,117
Time, call and notice deposits		
– Corporate	**538,017**	487,934
– Personal	**362,322**	348,132
	900,339	836,066
	2,018,236	1,897,995

30. Debt securities and certificates of deposit in issue

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Debt securities, at amortised cost	**792**	9,453

31. Other accounts and provisions

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Other accounts payable	**72,661**	58,999
Lease liabilities	**1,953**	N/A
Impairment allowances on loan commitments and financial guarantee contracts		
– Stage 1	**408**	375
– Stage 2	**29**	20
– Stage 3	**24**	43
	75,075	59,437

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 and unused tax credits 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 2019 and the year ended 31 December 2018 are as follows:

	At 30 June 2019				
	Accelerated tax depreciation HK$'m	**Property revaluation HK$'m**	**Impairment allowances HK$'m**	**Others HK$'m**	**Total HK$'m**
At 1 January 2019	**706**	**6,991**	**(724)**	**(1,478)**	**5,495**
Charged/(credited) to income statement (Note 16)	**10**	**(78)**	**(50)**	**24**	**(94)**
Charged to other comprehensive income	**–**	**136**	**–**	**700**	**836**
Release upon disposal of equity instruments at fair value through other comprehensive income	**–**	**–**	**–**	**2**	**2**
At 30 June 2019	**716**	**7,049**	**(774)**	**(752)**	**6,239**

	At 31 December 2018				
	Accelerated tax depreciation HK$'m	Property revaluation HK$'m	Impairment allowances HK$'m	Others HK$'m	Total HK$'m
At 1 January 2018	693	6,649	(739)	(977)	5,626
Charged to income statement	13	44	15	11	83
Charged/(credited) to other comprehensive income	–	298	–	(519)	(221)
Release upon disposal of equity instruments at fair value through other comprehensive income	–	–	–	7	7
At 31 December 2018	706	6,991	(724)	(1,478)	5,495

32. Deferred taxation (continued)

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

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Deferred tax assets	**(63)**	(270)
Deferred tax liabilities	**6,302**	5,765
	6,239	5,495

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Deferred tax assets to be recovered after more than twelve months	**(52)**	(60)
Deferred tax liabilities to be settled after more than twelve months	**7,029**	7,011
	6,977	6,951

As at 30 June 2019, the Group has not recognised deferred tax assets in respect of tax losses amounting to HK$22 million (31 December 2018: HK$23 million). Of the amount, HK$9 million (31 December 2018: HK$9 million) for the Group has no expiry date and HK$13 million (31 December 2018: HK$14 million) for the Group is scheduled to expire within six years under the current tax legislation in different countries/regions.

33. Insurance contract liabilities

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
At 1 January	**104,723**	103,229
Benefits paid	**(8,543)**	(17,479)
Claims incurred and movement in liabilities	**16,820**	18,973
At period/year end	**113,000**	104,723

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK$40,605 million (31 December 2018: HK$37,940 million) and the associated reinsurance assets of HK$47,574 million (31 December 2018: HK$45,898 million) are included in "Other assets" (Note 27).

34. Subordinated liabilities

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Subordinated notes		
– designated at fair value through profit or loss	**13,168**	13,246

In 2010, BOCHK issued listed subordinated notes with an aggregate amount of USD2,500 million, interest rate at 5.55% per annum payable semi-annually, due February 2020. In September 2018, USD877 million in principal amount of subordinated notes were purchased and redeemed by BOCHK and cancelled pursuant to the terms and conditions of the notes. USD1,623 million of the aggregate principal amount of subordinated notes remain outstanding. Amounts qualified as Tier 2 capital instruments for regulatory purposes are shown in Note 3.5(B). The carrying amount of subordinated notes designated at fair value through profit or loss as at 30 June 2019 was more than the amount that the Group would be contractually required to pay at maturity to the holders by HK$221 million (31 December 2018: HK$260 million).

35. Share capital

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Issued and fully paid:		
10,572,780,266 ordinary shares	**52,864**	52,864

36. Other equity instruments

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Undated non-cumulative subordinated Additional Tier 1 capital securities	**23,476**	23,476

In September 2018, BOCHK issued USD3,000 million undated non-cumulative subordinated Additional Tier 1 capital securities. The capital securities are perpetual securities in respect of which there is no fixed redemption date and are not callable within the first 5 years. They have an initial rate of distribution of 5.90% per annum payable semi-annually. Dividend paid to other equity instrument holders in the first half of 2019 amounted to HK$695 million.

37. Notes to condensed consolidated cash flow statement

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

	Half-year ended 30 June 2019 HK$'m	Half-year ended 30 June 2018 HK$'m
Operating profit	**20,848**	20,258
Depreciation	**1,402**	998
Net charge of impairment allowances	**793**	344
Advances written off net of recoveries	**(106)**	(150)
Interest expense on lease liabilities	**27**	N/A
Change in subordinated liabilities	**227**	176
Change in balances and placements with banks and other financial institutions with original maturity over three months	**(11,380)**	(10,684)
Change in financial assets at fair value through profit or loss	**(13,061)**	26,391
Change in derivative financial instruments	**8,449**	(5,668)
Change in advances and other accounts	**(87,902)**	(78,377)
Change in investment in securities	**(181,429)**	(90,586)
Change in other assets	**(13,900)**	(4,061)
Change in deposits and balances from banks and other financial institutions	**(133,642)**	14,378
Change in financial liabilities at fair value through profit or loss	**3,540**	(3,808)
Change in deposits from customers	**122,427**	78,924
Change in debt securities and certificates of deposit in issue	**(8,661)**	(6,064)
Change in other accounts and provisions	**13,527**	15,977
Change in insurance contract liabilities	**8,277**	1,685
Effect of changes in exchange rates	**(3,617)**	(231)
Operating cash outflow before taxation	**(274,181)**	(40,498)
Cash flows from operating activities included		
– interest received	**33,813**	27,644
– interest paid	**12,679**	8,390
– dividend received	**124**	127

37. Notes to condensed consolidated cash flow statement (continued)

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

	At 30 June 2019 HK$'m	At 30 June 2018 HK$'m
Cash and balances and placements with banks and other financial institutions with original maturity within three months	**320,755**	306,555
Treasury bills, certificates of deposit and other debt instruments with original maturity within three months		
– financial assets at fair value through profit or loss	**3,307**	2,651
– investment in securities	**17,578**	27,567
	341,640	336,773

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 2019 HK$'m	At 31 December 2018 HK$'m
Direct credit substitutes	**6,989**	6,533
Transaction-related contingencies	**28,318**	29,292
Trade-related contingencies	**31,316**	26,269
Commitments that are unconditionally cancellable without prior notice	**405,096**	404,337
Other commitments with an original maturity of		
– up to one year	**17,560**	10,189
– over one year	**141,701**	131,268
	630,980	607,888
Credit risk-weighted amount	**71,370**	68,508

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 2019 HK$'m	At 31 December 2018 HK$'m
Authorised and contracted for but not provided for	**302**	215
Authorised but not contracted for	**63**	35
	365	250

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

40. Operating lease commitments

As lessor

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

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Land and buildings		
– Not later than one year	**566**	540
– One to two years	**364**	300
– Two to three years	**147**	114
– Three to four years	**21**	1
– Four to five years	**6**	–
	1,104	955

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

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, certain interests in associates and joint ventures and the businesses of the Southeast Asian entities.

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.

Several products/businesses have been reclassified among operating segments in accordance with the latest management model of the Group. Comparative amounts have been restated to conform with current period presentation.

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 2019								
Net interest income/(expense)								
– External	4	7,564	9,547	1,580	1,208	19,903	–	19,903
– Inter-segment	6,881	(226)	(5,943)	(8)	(704)	–	–	–
	6,885	7,338	3,604	1,572	504	19,903	–	19,903
Net fee and commission income/(expense)	3,620	2,247	228	(440)	583	6,238	(192)	6,046
Net insurance premium income	–	–	–	9,406	–	9,406	(10)	9,396
Net trading gain/(loss)	386	713	979	(438)	162	1,802	27	1,829
Net (loss)/gain on other financial instruments at fair value through profit or loss	(1)	–	136	2,075	1	2,211	4	2,215
Net (loss)/gain on other financial assets	–	(2)	729	(11)	–	716	–	716
Other operating income	28	–	11	65	1,068	1,172	(671)	501
Total operating income	10,918	10,296	5,687	12,229	2,318	41,448	(842)	40,606
Net insurance benefits and claims and movement in liabilities	–	–	–	(11,437)	–	(11,437)	–	(11,437)
Net operating income before impairment allowances	10,918	10,296	5,687	792	2,318	30,011	(842)	29,169
Net (charge)/reversal of impairment allowances	(88)	(675)	(44)	(2)	16	(793)	–	(793)
Net operating income	10,830	9,621	5,643	790	2,334	29,218	(842)	28,376
Operating expenses	(4,430)	(1,556)	(570)	(239)	(1,575)	(8,370)	842	(7,528)
Operating profit	6,400	8,065	5,073	551	759	20,848	–	20,848
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	657	657	–	657
Net gain from disposal/revaluation of properties, plant and equipment	–	–	–	–	1	1	–	1
Share of profits less losses after tax of associates and joint ventures	54	–	1	–	(9)	46	–	46
Profit before taxation	6,454	8,065	5,074	551	1,408	21,552	–	21,552
At 30 June 2019								
ASSETS								
Segment assets	403,026	948,779	1,367,764	146,273	151,699	3,017,541	(30,728)	2,986,813
Interests in associates and joint ventures	475	–	–	–	1,152	1,627	–	1,627
	403,501	948,779	1,367,764	146,273	152,851	3,019,168	(30,728)	2,988,440
LIABILITIES								
Segment liabilities	1,070,509	930,364	496,999	136,477	87,952	2,722,301	(30,728)	2,691,573
Half-year ended 30 June 2019								
Other information								
Capital expenditure	35	1	1	21	1,139	1,197	–	1,197
Depreciation	561	110	50	27	654	1,402	–	1,402
Amortisation of securities	–	–	925	30	(34)	921	–	921

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 2018								
Net interest income/(expense)								
– External	1,087	7,360	7,311	1,494	1,287	18,539	–	18,539
– Inter-segment	4,554	(831)	(3,209)	(22)	(492)	–	–	–
	5,641	6,529	4,102	1,472	795	18,539	–	18,539
Net fee and commission income/(expense)	3,871	2,329	195	(306)	570	6,659	(183)	6,476
Net insurance premium income	–	–	–	7,390	–	7,390	(9)	7,381
Net trading gain/(loss)	464	843	687	(123)	147	2,018	32	2,050
Net gain/(loss) on other financial instruments at fair value through profit or loss	4	–	312	(1,502)	–	(1,186)	4	(1,182)
Net (loss)/gain on other financial assets	–	(2)	43	45	–	86	–	86
Other operating income	12	1	6	84	1,044	1,147	(649)	498
Total operating income	9,992	9,700	5,345	7,060	2,556	34,653	(805)	33,848
Net insurance benefits and claims and movement in liabilities	–	–	–	(6,234)	–	(6,234)	–	(6,234)
Net operating income before impairment allowances	9,992	9,700	5,345	826	2,556	28,419	(805)	27,614
Net charge of impairment allowances	(30)	(49)	(1)	(4)	(260)	(344)	–	(344)
Net operating income	9,962	9,651	5,344	822	2,296	28,075	(805)	27,270
Operating expenses	(4,095)	(1,497)	(537)	(225)	(1,463)	(7,817)	805	(7,012)
Operating profit	5,867	8,154	4,807	597	833	20,258	–	20,258
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	918	918	–	918
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	(1)	–	–	–	11	10	–	10
Share of profits less losses after tax of associates and joint ventures	45	–	–	–	(3)	42	–	42
Profit before taxation	5,911	8,154	4,807	597	1,759	21,228	–	21,228
At 31 December 2018								
ASSETS								
Segment assets	379,233	887,900	1,438,436	132,417	140,682	2,978,668	(23,147)	2,955,521
Interests in associates and joint ventures	422	–	1	–	60	483	–	483
	379,655	887,900	1,438,437	132,417	140,742	2,979,151	(23,147)	2,956,004
LIABILITIES								
Segment liabilities	1,038,805	839,505	616,437	124,085	74,946	2,693,778	(23,147)	2,670,631
Half-year ended 30 June 2018								
Other information								
Capital expenditure	3	–	–	5	627	635	–	635
Depreciation	260	69	54	8	607	998	–	998
Amortisation of securities	–	–	386	94	(6)	474	–	474

42. Assets pledged as security

As at 30 June 2019, the liabilities of the Group amounting to HK$17,389 million (31 December 2018: HK$11,891 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK$61,208 million (31 December 2018: HK$65,617 million) were secured by debt securities related to sale and repurchase arrangements. The amount of assets pledged by the Group to secure these liabilities was HK$78,908 million (31 December 2018: HK$78,230 million) mainly included in "Financial assets at fair value through profit or loss" and "Investment in securities".

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 2019, the related aggregate amounts due from and to BOC of the Group were HK$118,071 million (31 December 2018: HK$158,881 million) and HK$32,032 million (31 December 2018: HK$137,562 million) respectively. The aggregate amounts of income and expenses of the Group arising from these transactions with BOC for the first half of 2019 were HK$1,160 million (first half of 2018: HK$1,825 million) and HK$347 million (first half of 2018: HK$283 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.

43. Significant related party transactions (continued)

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

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, purchases, 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.

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

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

	Half-year ended 30 June 2019 HK$'m	Half-year ended 30 June 2018 HK$'m
Income statement items		
Associates		
– Fee and commission expenses	**4**	6
– Other operating expenses	**41**	39
Joint ventures		
– Interest expenses	**2**	–
Other related parties		
– Fee and commission income	**5**	5

	At 30 June 2019 HK$'m	At 31 December 2018 HK$'m
Balance sheet items		
Associates		
– Other accounts and provisions	**47**	7
Joint ventures		
– Deposits from customers	**2,486**	–

43. Significant related party transactions (continued)

(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 and senior management. The Group accepts deposits from and grants loans and credit facilities to key management personnel in the ordinary course of business. During both the current and prior periods, no material transaction was conducted with key management personnel of 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 2019 HK$'m	Half-year ended 30 June 2018 HK$'m
Salaries and other short-term employee benefits	**18**	16

44. 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 on which the ultimate risk lies based on the locations of the counterparties after taking into account the transfer of risk, and represent the sum of cross-border claims in all currencies and local claims in foreign currencies. For a claim guaranteed by a party situated in a location different from the counterparty, the risk will be transferred to the location of the guarantor. For a claim on an overseas branch of a bank whose head office is located in another location, the risk will be transferred to the location where its head office is located.

Claims on individual countries/regions, after risk transfer, amounting to 10% or more of the aggregate international claims of the Group are shown as follows:

	At 30 June 2019				
			Non-bank private sector		
	Banks HK$'m	**Official sector HK$'m**	**Non-bank financial institutions HK$'m**	**Non-financial private sector HK$'m**	**Total HK$'m**
Mainland of China	**328,540**	**116,723**	**19,460**	**160,296**	**625,019**
Hong Kong	**10,955**	**67**	**42,385**	**347,454**	**400,861**
United States	**19,442**	**100,481**	**24,407**	**21,274**	**165,604**

	At 31 December 2018				
			Non-bank private sector		
	Banks HK$'m	Official sector HK$'m	Non-bank financial institutions HK$'m	Non-financial private sector HK$'m	Total HK$'m
Mainland of China	333,781	362,253	22,430	143,578	862,042
Hong Kong	8,084	–	37,312	315,370	360,766
United States	18,044	79,573	25,133	21,818	144,568

45. Non-bank Mainland exposures

The analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties and the types of direct exposures with reference to the completion instructions for the HKMA return of Mainland activities, which includes the Mainland exposures extended by BOCHK's Hong Kong office only.

		At 30 June 2019		
	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	**324,312**	**39,180**	**363,492**
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	**62,884**	**16,654**	**79,538**
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	**104,018**	**22,220**	**126,238**
Other entities of central government not reported in item 1 above	4	**28,650**	**1,222**	**29,872**
Other entities of local governments not reported in item 2 above	5	**561**	**–**	**561**
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	**74,470**	**10,089**	**84,559**
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	**2,439**	**287**	**2,726**
Total	8	**597,334**	**89,652**	**686,986**
Total assets after provision	9	**2,779,920**		
On-balance sheet exposures as percentage of total assets	10	**21.49%**		

45. Non-bank Mainland exposures (continued)

		At 31 December 2018		
	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	292,682	37,793	330,475
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	60,506	13,060	73,566
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	93,286	18,961	112,247
Other entities of central government not reported in item 1 above	4	27,618	630	28,248
Other entities of local governments not reported in item 2 above	5	88	–	88
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	70,926	8,677	79,603
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	2,214	379	2,593
Total	8	547,320	79,500	626,820
Total assets after provision	9	2,752,643		
On-balance sheet exposures as percentage of total assets	10	19.88%		

46. Application of merger accounting

On 21 January 2019, the Branch Interests in Bank of China Limited, Vientiane Branch in Laos was transferred from BOC to BOCHK for a total consideration of HK$728 million in cash. BOC Vientiane Branch and BOCHK are both under the common control of BOC before and after the combination. The Group has applied the merger accounting method in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA in the preparation of financial statements. The comparative amounts have been restated accordingly as if the business of BOC Vientiane Branch had always been carried out by the Group.

The statements of the adjustments to the consolidated equity as at 30 June 2019 and 31 December 2018 are as follows:

	At 30 June 2019			
	Before combination HK$'m	**Entity under common control HK$'m**	**Adjustment HK$'m**	**After combination HK$'m**
Share capital	**52,864**	**350**	**(350)**	**52,864**
Merger reserve	**–**	**–**	**(378)**	**(378)**
Retained earnings and other reserves	**215,688**	**160**	**–**	**215,848**
	268,552	**510**	**(728)**	**268,334**
Other equity instruments	**23,476**	**–**	**–**	**23,476**
Non-controlling interests	**5,057**	**–**	**–**	**5,057**
	297,085	**510**	**(728)**	**296,867**

	At 31 December 2018			
	Before combination HK$'m	Entity under common control HK$'m	Adjustment HK$'m	After combination HK$'m
Share capital	52,864	350	(350)	52,864
Merger reserve	–	–	350	350
Retained earnings and other reserves	204,206	116	–	204,322
	257,070	466	–	257,536
Other equity instruments	23,476	–	–	23,476
Non-controlling interests	4,361	–	–	4,361
	284,907	466	–	285,373

47. Comparative amounts

In respect of the transfer of the Branch Interests in Bank of China Limited, Vientiane Branch in Laos from BOC on 21 January 2019 as explained in Note 46, the Group has applied merger accounting method for the business combination under common control. Comparative amounts in the interim financial information have been restated as if the business of BOC Vientiane Branch had always been carried out by the Group.

48. Compliance with HKAS 34

The unaudited interim financial information for the first half of 2019 complies with HKAS 34 "Interim Financial Reporting" issued by the HKICPA.

49. Statutory accounts

The financial information relating to the year ended 31 December 2018 that is included in this Interim Report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

ADDITIONAL INFORMATION

1. Corporate information

Board of Directors

Chairman

LIU Liange#	(appointment as Chairman effective from 5 July 2019)
CHEN Siqing#	(resignation effective from 28 April 2019)

Vice Chairman

GAO Yingxin

Directors

LIN Jingzhen#	
CHENG Eva*	
CHOI Koon Shum*	
KOH Beng Seng*	
LAW Yee Kwan Quinn*	(appointment effective from 13 March 2019)
TUNG Savio Wai-Hok*	
LI Jiuzhong	(resignation effective from 15 March 2019)

Non-executive Directors
* Independent Non-executive Directors

Senior Management

Chief Executive

GAO Yingxin

Chief Risk Officer

LI Jiuzhong	(resignation effective from 15 March 2019)

Deputy Chief Executives

WANG Qi
YUAN Shu

Chief Operating Officer

ZHONG Xiangqun

Deputy Chief Executives

WANG Bing	
QIU Zhikun	(appointment effective from 8 July 2019)

Chief Financial Officer

SUI Yang

Deputy Chief Executive

KUNG YEUNG Ann Yun Chi

Company Secretary

LUO Nan

Registered Office

24th 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 Depositary Bank

Citibank, N.A.
388 Greenwich Street
6th 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
Hang Seng High Dividend Yield Index Series
MSCI Index Series
FTSE Index Series
CES Belt and Road Index Series
HSI ESG Index

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

2. Interim dividend and closure of register of members

The Board has declared an interim dividend of HK$0.545 per share (2018: HK$0.545), payable on Thursday, 3 October 2019 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 24 September 2019.

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to the interim dividend, from Thursday, 19 September 2019 to Tuesday, 24 September 2019 (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 Wednesday, 18 September 2019. Shares of the Company will be traded ex-dividend as from Tuesday, 17 September 2019.

3. Interest of substantial shareholders

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 30 June 2019, 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 shares of BOCHKG, which in turn holds the entire issued shares 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 shares of BOCI, which in turn holds the entire issued shares 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 2019.

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

As at 30 June 2019, the interests and short position of Directors, Chief Executive and their respective associates 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") are set out below:

The Company:
American Depositary Shares (ADS)

Name of director	Number of shares/underlying shares held				Approximate % of the total issued shares
	Personal interests	Family interests	Corporate interests	Total	
TUNG Savio Wai-Hok	2,000[1]	–	–	2,000	0.00%[2]

Notes:
1. Each ADS represents 20 ordinary shares of the Company.

2. Such shares held by Mr TUNG Savio Wai-Hok represent approximately 0.0004% of the total issued shares of the Company.

Associated corporation of the Company:
Bank of China Limited (H Shares)

Name of director	Number of shares/underlying shares held				Approximate % of the total issued H shares
	Personal interests	Family interests	Corporate interests	Total	
GAO Yingxin	1,100	–	–	1,100	0.00%[1]
CHOI Koon Shum	4,000,000	40,000[2]	1,120,000[3]	5,160,000	0.01%

Notes:
1. Such shares held by Mr GAO Yingxin represent approximately 0.000001% of the total issued H shares of BOC.

2. Such shares are held by the spouse of Dr CHOI Koon Shum.

3. Dr CHOI Koon Shum is deemed to be interested in the 1,120,000 shares held through Choi Koon Shum Education Foundation Limited by virtue of the SFO.

All the interests stated above represented long positions. Save as disclosed above, as at 30 June 2019, none of the Directors, Chief Executive 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.

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 2018 on 29 March 2019 up to 30 August 2019 (being the approval date of this Interim Report) are set out below:

(a) Mr CHEN Siqing resigned as the Chairman, Non-executive Director and a member of the Nomination and Remuneration Committee of the Company and BOCHK with effect from 28 April 2019.

(b) Mr LIU Liange resigned as the President of BOC on 27 June 2019 and has been appointed as the Chairman of BOC with effect from 5 July 2019. Mr LIU has been appointed as the Chairman of the Company and BOCHK with effect from 5 July 2019.

The biographies of Directors are available under the sub-section "Organisation – Board of Directors" of the section headed "About Us" on the Company's website at www.bochk.com.

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 of Independent Non-executive Directors only. It is chaired by Mr TUNG Savio Wai-Hok. Other members include Madam CHENG Eva, Dr CHOI Koon Shum, Mr KOH Beng Seng and Mr LAW Yee Kwan Quinn (appointed as an Independent Non-executive Director and a member of the Audit Committee with effect from 13 March 2019).

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"). 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 2018 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' dealings 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 Directors' dealings in the securities of the Company, the Company's Code has also been applied to the Directors' dealings in the securities of BOC and its subsidiary, BOC Aviation Limited, since their share listing on the Hong Kong Stock Exchange in June 2006 and June 2016 respectively. Upon specific enquiry by the Company, all Directors confirmed that they had strictly complied with the provisions as 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 2018. There were no fundamental amendments to the Company's Code and changes were adaptive in 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 financial disclosure provisions of the Listing Rules.

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.

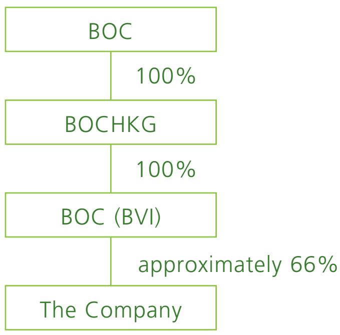
If you have any queries about how to obtain copies of this Interim Report or how to access those corporate communications on the Company's website, please call the Company's hotline at (852) 2846 2700.

12. Reconciliation between HKFRSs vs IFRSs/CASs

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 IFRSs and CASs for which the Company and its subsidiaries will form part of the interim financial information. The requirements of CASs have substantially converged with HKFRSs and IFRSs.

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.



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 IFRSs and CASs 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 IFRSs/CASs respectively for the periods presented.

12. Reconciliation between HKFRSs vs IFRSs/CASs (continued)

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

(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 under HKFRSs. On the contrary, BOC has elected for the cost model for bank premises under IFRSs and CASs. 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 IFRSs and CASs.

(b) Deferred tax adjustments

These represent the deferred tax effect of the aforesaid adjustments.

Profit after tax/net assets reconciliation

HKFRSs vs IFRSs/CASs

	Profit after tax		Net assets	
	Half-year ended 30 June 2019 HK$'m	Half-year ended 30 June 2018 HK$'m	**At 30 June 2019 HK$'m**	At 31 December 2018 HK$'m
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs	**18,276**	17,911	**296,867**	285,373
Add: IFRSs/CASs adjustments				
Restatement of carrying value of bank premises	**437**	403	**(35,473)**	(35,082)
Deferred tax adjustments	**(74)**	(48)	**6,025**	5,965
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRSs/CASs	**18,639**	18,266	**267,419**	256,256

13. Regulatory Disclosures

The Regulatory Disclosures, together with the disclosures in this Interim Report, contained all the disclosures required by the Banking (Disclosure) Rules issued by the HKMA. The Regulatory Disclosures is available under the section "Regulatory Disclosures" on BOCHK's website at www.bochk.com.

INDEPENDENT REVIEW REPORT

EY 安永

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

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 37 to 113, which comprises the condensed consolidated balance sheet of BOC Hong Kong (Holdings) Limited (the "Company") and its subsidiaries (the "Group") as at 30 June 2019 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 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 ("HKICPA"). 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 HKICPA. 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.

Ernst & Young

Ernst & Young
Certified Public Accountants
Hong Kong, 30 August 2019

APPENDIX

Subsidiaries of the Company

The particulars of subsidiaries are as follows:

Name	Place and date of incorporation/ operation	Issued share capital	Interest held	Principal activities
Directly held:				
Bank of China (Hong Kong) Limited	Hong Kong 16 October 1964	HK$43,042,840,858	100.00%	Banking business
BOC Group Life Assurance Company Limited	Hong Kong 12 March 1997	HK$3,538,000,000	51.00%	Life insurance business
BOCHK Asset Management (Cayman) Limited	Cayman Islands 7 October 2010	HK$283,000,000	100.00%	Investment holding
BOC Insurance (International) Holdings Company Limited	Hong Kong 6 June 2017	HK$100	100.00%	Investment holding
Indirectly held:				
BOC Credit Card (International) Limited	Hong Kong 9 September 1980	HK$480,000,000	100.00%	Credit card services
BOC Group Trustee Company Limited	Hong Kong 1 December 1997	HK$200,000,000	66.00%	Trustee services
BOCI-Prudential Trustee Limited	Hong Kong 11 October 1999	HK$300,000,000	42.24%*	Trustee services
Bank of China (Malaysia) Berhad	Malaysia 14 April 2000	RM760,518,480	100.00%	Banking business
China Bridge (Malaysia) Sdn. Bhd.	Malaysia 24 April 2009	RM1,000,000	100.00%	China visa application
Bank of China (Thai) Public Company Limited	Thailand 1 April 2014	Baht10,000,000,000	100.00%	Banking business
Bank of China (Hong Kong) Nominees Limited	Hong Kong 1 October 1985	HK$2	100.00%	Nominee services
Bank of China (Hong Kong) Trustees Limited	Hong Kong 6 November 1987	HK$3,000,000	100.00%	Trustee and agency services
BOC Financial Services (Nanning) Company Limited	PRC 19 February 2019	Registered capital HK$60,000,000	100.00%	Financial operational services
BOCHK Financial Products (Cayman) Ltd.	Cayman Islands 10 November 2006	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

Subsidiaries of the Company (continued)

Name	Place and date of incorporation/ operation	Issued share capital	Interest held	Principal activities
BOCHK Information Technology Services (Shenzhen) Co., Ltd.	PRC 26 May 1993	Registered capital HK$40,000,000	100.00%	Information technology services
Che Hsing (Nominees) Limited	Hong Kong 23 April 1980	HK$10,000	100.00%	Nominee services
Po Sang Financial Investment Services Company Limited	Hong Kong 23 September 1980	HK$335,000,000	100.00%	Gold trading and investment holding
Po Sang Securities and Futures Limited	Hong Kong 19 October 1993	HK$335,000,000	100.00%	Securities and futures brokerage
Sin Chiao Enterprises Corporation, Limited	Hong Kong 13 September 1961	HK$3,000,000	100.00%	Property holding and investment
Sin Hua Trustee Limited	Hong Kong 27 October 1978	HK$3,000,000	100.00%	Trustee services
Billion Express Development Inc.	British Virgin Islands 7 February 2014	US$1	100.00%	Investment holding
Billion Orient Holdings Ltd.	British Virgin Islands 3 February 2014	US$1	100.00%	Investment holding
Elite Bond Investments Ltd.	British Virgin Islands 7 February 2014	US$1	100.00%	Investment holding
Express Capital Enterprise Inc.	British Virgin Islands 3 February 2014	US$1	100.00%	Investment holding
Express Charm Holdings Corp.	British Virgin Islands 7 February 2014	US$1	100.00%	Investment holding
Express Shine Assets Holdings Corp.	British Virgin Islands 3 January 2014	US$1	100.00%	Investment holding
Express Talent Investment Ltd.	British Virgin Islands 13 February 2014	US$1	100.00%	Investment holding
Gold Medal Capital Inc.	British Virgin Islands 3 January 2014	US$1	100.00%	Investment holding
Gold Tap Enterprises Inc.	British Virgin Islands 13 February 2014	US$1	100.00%	Investment holding
Maxi Success Holdings Ltd.	British Virgin Islands 7 February 2014	US$1	100.00%	Investment holding

APPENDIX

Subsidiaries of the Company (continued)

Name	Place and date of incorporation/ operation	Issued share capital	Interest held	Principal activities
Smart Linkage Holdings Inc.	British Virgin Islands 13 February 2014	US$1	100.00%	Investment holding
Smart Union Capital Investments Ltd.	British Virgin Islands 3 January 2014	US$1	100.00%	Investment holding
Success Trend Development Ltd.	British Virgin Islands 18 February 2014	US$1	100.00%	Investment holding
Wise Key Enterprises Corp.	British Virgin Islands 18 February 2014	US$1	100.00%	Investment holding
BOCHK Asset Management Limited	Hong Kong 28 October 2010	HK$272,500,000	100.00%	Asset management
BOCHK Equity Investment Management (Shenzhen) Limited	PRC 2 April 2019	Registered capital US$2,000,000	100.00%	Asset management

* BOCI-Prudential Trustee Limited is a subsidiary of a non-wholly-owned subsidiary of the Company and, accordingly, is accounted for as a subsidiary by virtue of the Company's control over it.

DEFINITIONS

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

Terms	Meanings
"ADR"	American Depositary Receipt
"ADS(s)"	American Depositary Share(s)
"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 BOCHKG
"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
"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
"BOC 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
"BOC Malaysia"	Bank of China (Malaysia) Berhad, a wholly-owned subsidiary of BOCHK
"BOC Thailand"	Bank of China (Thai) Public Company Limited, a wholly-owned subsidiary of BOCHK
"Board" or "Board of Directors"	the Board of Directors of the Company
"CAS"	Chinese Accounting Standard for Business Enterprises

DEFINITIONS

Terms	Meanings
"CE"	Chief Executive
"CET1"	Common Equity Tier 1
"CFO"	Chief Financial Officer
"CIC"	China Investment Corporation
"CRO"	Chief Risk Officer
"CVA"	Credit Valuation Adjustment
"Central Huijin"	Central Huijin Investment Ltd.
"DCE"	Deputy Chief Executive
"DVA"	Debit Valuation Adjustment
"ECL"	Expected Credit Loss
"EV"	Economic Value Sensitivity Ratio
"FCC"	the Financial Crime Compliance Department
"FIRB"	Foundation Internal Ratings-based
"Fitch"	Fitch Ratings
"FVOCI"	Fair value through other comprehensive income
"FVPL"	Fair value through profit or loss
"HIBOR"	Hong Kong Interbank Offered Rate
"HKAS"	Hong Kong Accounting Standard
"HKFRS"	Hong Kong Financial Reporting Standard
"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 of the PRC
"ICAAP"	Internal Capital Adequacy Assessment Process
"IFRS"	International Financial Reporting Standard
"IMM"	Internal Models
"IT"	Information Technology
"LCO"	the Legal & Compliance and Operational Risk Management Department

Terms	Meanings
"LCR"	Liquidity Coverage Ratio
"LIBOR"	London Interbank Offered Rate
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MC"	the Management Committee
"MCO"	Maximum Cumulative Cash Outflow
"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
"Moody's"	Moody's Investors Service
"N/A"	Not applicable
"NII"	Net Interest Income Sensitivity Ratio
"NSFR"	Net Stable Funding Ratio
"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
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"RMC"	the Risk Committee
"RMD"	the Risk Management Department
"RWA"	Risk-weighted Assets
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"SME"	Small and Medium-sized Enterprise
"STC"	Standardised (Credit Risk)
"STM"	Standardised (Market Risk)
"STO"	Standardised (Operational Risk)
"Standard & Poor's"	Standard & Poor's Ratings Services

DEFINITIONS

Terms	Meanings
"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

By Order of the Board
LUO Nan
Company Secretary

Hong Kong, 30 August 2019

As at the date of this announcement, the Board comprises Mr LIU Liange (Chairman), Mr GAO Yingxin (Vice Chairman and Chief Executive), Mr LIN Jingzhen*, Madam CHENG Eva**, Dr CHOI Koon Shum**, Mr KOH Beng Seng**, Mr LAW Yee Kwan Quinn** and Mr TUNG Savio Wai-Hok**.*

* Non-executive Directors
** Independent Non-executive Directors