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)

2018 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 2018. This announcement, containing the full text of the 2018 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 2018 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 2018.

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FINANCIAL HIGHLIGHTS

For the period	30 June 2018 HK$'m	30 June 2017 HK$'m
Net operating income before impairment allowances[1]	**27,557**	23,815
Operating profit[1]	**20,215**	17,223
Profit before taxation[1]	**21,185**	18,142
Profit for the period[1]	**17,878**	15,250
Profit attributable to equity holders of the Company[1]	**17,528**	14,897
Per share	**HK$**	HK$
Basic earnings per share[1]	**1.6578**	1.4090
Dividend per share	**0.5450**	0.6400
At period/year end	**30 June 2018 HK$'m**	31 December 2017 HK$'m
Total assets	**2,774,445**	2,651,086
Issued and fully paid up share capital	**52,864**	52,864
Capital and reserves attributable to equity holders of the Company	**248,045**	244,018
Financial ratios for the period	**30 June 2018 %**	30 June 2017 %
Return on average total assets[2]	**1.27**	1.34
Return on average shareholders' equity[3]	**14.32**	13.76
Cost to income ratio[1]	**25.40**	26.19
Average value of liquidity coverage ratio[4]		
First quarter	**134.33**	121.41
Second quarter	**146.39**	123.88
Financial ratios at period/year end	**30 June 2018 %**	31 December 2017 %
Loan to deposit ratio[5]	**66.29**	64.48
Quarter-end value of net stable funding ratio[4]		
First quarter	**118.98**	–
Second quarter	**118.82**	–
Total capital ratio[6]	**20.12**	20.39

1. The financial information for the period ended 30 June 2018 is from continuing operations and the comparative information has been restated accordingly.

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

3. Return on average shareholders' equity

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

4. 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.

5. 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".

6. 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.

7. The Group has applied the merger accounting method in the preparation of financial information for the combination with entities under common control in 2018. The comparative information has been restated accordingly.

MANAGEMENT DISCUSSION AND ANALYSIS

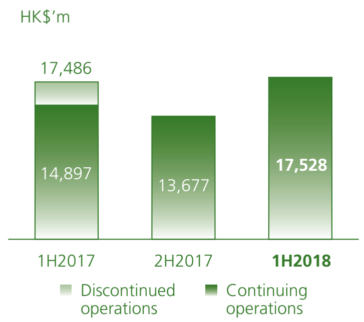
Following the completion of the acquisition of the Indonesia Business and Cambodia Business of BOC on 10 July 2017 and 6 November 2017 respectively, and that of the Vietnam Business and Philippines Business of BOC on 29 January 2018, the Group has applied the merger accounting method for the combination of entities under common control in the preparation of its financial statements. The comparative information for 2017 has been restated accordingly. The above transactions are collectively referred as the "acquisitions" in this Management Discussion and Analysis.

From 1 January 2018 onwards, the Group has adopted Hong Kong Financial Reporting Standard 9 ("HKFRS 9"), "Financial Instruments". Under this new standard, the recognition and measurement of impairment differs from that under Hong Kong Accounting Standard 39 ("HKAS 39"), "Financial Instruments: Recognition and Measurement". Changes in the impairment of the Group's financial assets in the comparative periods of 2017 remain in accordance with HKAS 39. Comparative information has not been restated.

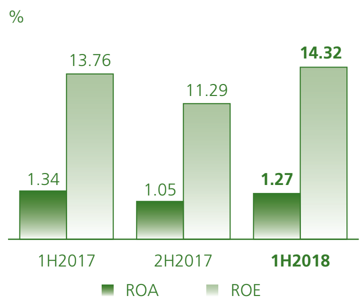
FINANCIAL PERFORMANCE AND CONDITIONS AT A GLANCE

The following table is a summary of the Group's key financial results for the first half of 2018 in comparison with the previous two half-year periods of 2017.

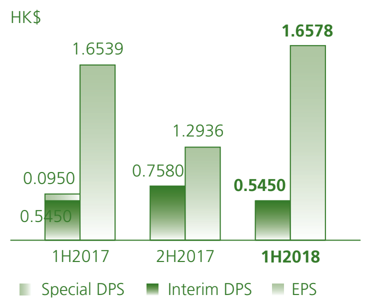
Profit Attributable to Equity Holders



Return on Average Shareholders' Equity[1] ("ROE") and Return on Average Total Assets[2] ("ROA")



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



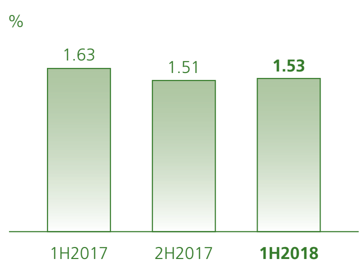
Profit attributable to equity holders

- The profit attributable to equity holders of the Group in the first half of 2018 increased by 0.2% year-on-year to HK$17,528 million. Profit attributable to equity holders from continuing operations increased by 17.7% year-on-year.

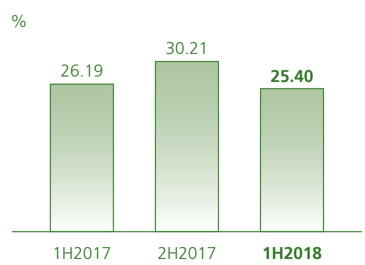
Solid returns to shareholders

- ROE was 14.32%, up 0.56 percentage points year-on-year.
- ROA was 1.27%, down 0.07 percentage points from the previous year's figure, which had included a gain on the disposal of Chiyu.
- EPS was HK$1.6578. The interim dividend per share was HK$0.545.

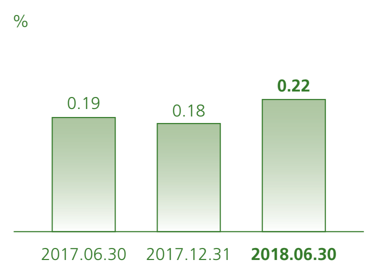
Net Interest Margin ("NIM")[3]



Cost to Income Ratio[3]



Classified or Impaired Loan Ratio[3,4]



Improvement in adjusted net interest margin ("NIM"), along with expanded asset size

- NIM was 1.53%, down 10 basis points year-on-year. If the funding income or cost of foreign currency swap contracts[5] were included, NIM would have been 1.56%, up 10 basis points, as the Group benefited from rising market interest rates and positive results from the proactive management of its assets and liabilities.

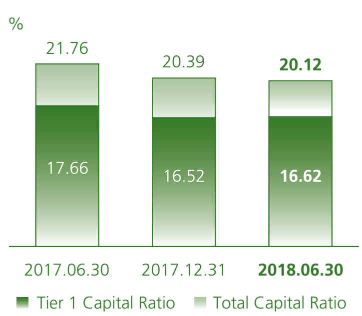
Cautious cost control with high operational efficiency

- The Group's cost to income ratio was 25.40%, down 0.79 percentage points year-on-year, representing a solid level of cost efficiency relative to industry peers.

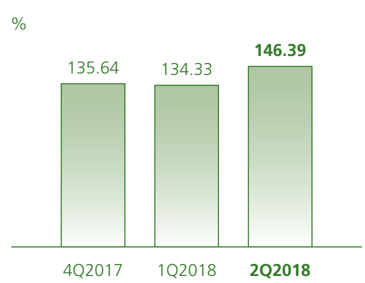
Stable asset quality with classified or impaired loan ratio below market average

- The classified or impaired loan ratio was 0.22%, well below the average level of the Group's peers.

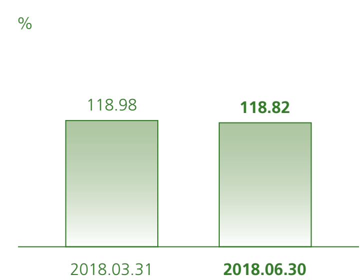
Capital Ratio



Average Value of Liquidity Coverage Ratio



Net Stable Funding Ratio



Strong capital position to support business growth

- Total capital ratio was 20.12%. Tier 1 capital ratio was 16.62%, up 0.10 percentage points from that at the end of 2017.

Sound liquidity position

- The average value of the Group's liquidity coverage ratio in the first and second quarter of 2018 remained stable at 134.33% and 146.39% respectively.
- Net stable funding ratio at the end of March 2018 and at the end of June 2018 stood at 118.98% and 118.82% respectively.

1. Return on Average Shareholders' Equity as defined in "Financial Highlights".
2. Return on Average Total Assets as defined in "Financial Highlights".
3. The financial information for the first half of 2017 was from continuing operations.
4. 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.
5. 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'S DISCUSSION AND ANALYSIS

ECONOMIC BACKGROUND AND OPERATING ENVIRONMENT

In the first half of 2018, the global economy continued to recover. It was not significantly affected by the rise of trade protectionism, the continuous upward trend in interest rates, the reduction in the US Federal Reserve's balance sheet or the rising political risks of some countries. The US economy maintained moderate growth, with the unemployment rate hitting its lowest point since the subprime mortgage crisis. In Europe, economic growth slowed slightly in the first half of the year, with the European Central Bank maintaining an ultra-loose monetary policy amid somewhat intensifying political risks in some countries. The ASEAN regional economy, meanwhile, grew robustly on the back of a recovery in exports, strong foreign investment and vigorous infrastructure spending and household consumption. The Chinese mainland economy maintained a stable and positive trend, characterised by solid economic conditions.

Hong Kong's economy recorded a solid performance in the first half of 2018 with a year-on-year growth of 4.0% in real terms, thanks to strong performance in a number of areas. Foreign trade improved, supported by the ongoing recovery in the global economy. Inbound tourism bottomed out after more than three years of adjustments. A relatively low interest rate environment supported the stock and property markets, and full employment boosted consumer confidence, which led to higher consumption and stronger overall economic performance. However, there seemed to be some moderation in certain areas towards the end of the second quarter.

In mid-April 2018, the Hong Kong dollar triggered the HKMA's weak-side convertibility undertaking of 7.85 against the US dollar for the first time. The related outflow of funds prompted the normalisation of Hong Kong dollar interest rates which gradually trended upward from a low level. The average 1-month HIBOR and 1-month LIBOR rose from 0.55% and 1.11% respectively in 2017 to 1.04% and 1.81% respectively in the first half of 2018. In addition, the yield curve continued to flatten, as evidenced by the narrowing of the interest spread between the 2-year US Treasury yield and its 10-year counterpart, from 52 basis points at the end of 2017 to 33 basis points at the end of June 2018.

Global financial market volatility has increased somewhat since the beginning of the year. However, the average daily turnover of the Hong Kong stock market recorded a significant year-on-year increase in the first half of 2018, with IPO activity also remaining buoyant. This was underpinned by improved macroeconomic conditions, strong corporate earnings and capital inflows from the Chinese mainland.

In the first half of the year, the prices of private residential properties in Hong Kong reached a new high. Transaction volumes for residential properties also increased compared with the same period in 2017. The Government continued to implement demand management measures while the HKMA maintained prudent supervisory measures on mortgage loans, which helped banks to strengthen the risk management of their mortgage businesses.

The offshore RMB business in Hong Kong continued to grow steadily in the first half of 2018. A series of measures were introduced to promote capital account liberalisation and RMB internationalisation. These included the removal of limits on the foreign ownership of local banks and asset management companies, and the relaxation of the same with regard to securities houses, fund management firms, futures companies and personal insurance companies. The scale of mutual connectivity was further expanded with the daily quota of the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect increased fourfold. At the same time, the inclusion of China's A shares in the MSCI index became official in June, with Chinese bonds also to be included in the Bloomberg Barclays Global Aggregate Index. As a result of these measures, new business opportunities opened up for the financial industry in Hong Kong, further promoting the healthy development of offshore RMB markets.

In the first half of 2018, Hong Kong's banking industry faced many challenges in its operating environment, including changes in global monetary policies, rising geopolitical risks, looming trade protectionism and intensifying market competition. That said, banks in Hong Kong also gained new impetus from the enormous demand for financial services arising from the steady progress in the implementation of the Belt and Road initiative and the further implementation of two-way capital market access between Hong Kong and the Chinese mainland.

MANAGEMENT DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL REVIEW

The comparative information for 2017 has been restated following the Group's application of the merger accounting method in the preparation of its financial statements as a result of its acquisitions.

Financial Highlights

HK$'m	**Half-year ended 30 June 2018**	(Restated) Half-year ended 31 December 2017	(Restated) Half-year ended 30 June 2017
FROM CONTINUING OPERATIONS			
Net operating income before impairment allowances	**27,557**	25,191	23,815
Operating expenses	**(7,000)**	(7,610)	(6,238)
Operating profit before impairment allowances	**20,557**	17,581	17,577
Operating profit after impairment allowances	**20,215**	16,880	17,223
Profit before taxation	**21,185**	17,233	18,142
Profit attributable to equity holders of the Company	**17,528**	13,677	17,486
– from continuing operations	**17,528**	13,677	14,897
– from discontinued operations	**–**	–	2,589

In the first half of 2018, the Group earnestly carried out BOC Group's strategic requirements and remained committed to "Building a Top-class, Full-service and Internationalised Regional Bank". It actively responded to changes in the market environment and steadily pushed forward its key business priorities. Its core businesses realised satisfactory growth with major financial indicators remaining at solid levels. The Group seized market opportunities and developed the local market in Hong Kong. It continued to implement its regional development strategies and made satisfactory progress in its business expansion in Southeast Asia. The Group remained committed to expanding its cross-border business with a focus on integrated collaboration with BOC Group in Guangdong, Hong Kong and Macao. In pursuit of full-service capabilities, the Group focused on the construction of its diversified business platforms. Moreover, it stepped up innovation in financial technology ("Fintech") and optimised its online platforms so as to push forward its development as a digital bank. To ensure its balanced, sustainable and high-quality development, the Group continued to strengthen its risk management, internal control and compliance management, while enhancing the refined management of its assets and liabilities.

In the first half of 2018, the Group's profit attributable to equity holders amounted to HK$17,528 million, an increase of HK$42 million, or 0.2%, year-on-year. Profit attributable to equity holders from continuing operations increased by 17.7%. Net operating income before impairment allowances was HK$27,557 million, up HK$3,742 million, or 15.7%, year-on-year. Net interest income increased, owing to rising market interest rates and the positive results of the Group's proactive management of its assets and liabilities. The Group captured opportunities arising from improved investor sentiment in the market and focused on expanding its target customer base, while providing diversified investment services and optimising its service channels. As a result, net fee and commission income rose year-on-year. The net trading gain of the banking business increased, owing to rising foreign exchange income. Operating expenses rose year-on-year, in support of the Group's long-term business expansion. The net gain from fair value adjustments on investment properties also increased.

As compared with the second half of 2017, the Group's net operating income before impairment allowances rose by HK$2,366 million, or 9.4%. This was mainly attributable to an increase in net interest income arising from a rise in net interest margin and growth in average interest-earning assets. Net fee and commission income also increased. The net trading gain of the banking business increased, owing to rising foreign exchange income. Moreover, both operating expenses and the net charge of impairment allowances fell, while the net gain from fair value adjustments on investment properties rose. As a result, profit attributable to equity holders increased by HK$3,851 million, or 28.2%, compared to the second half of last year.

INCOME STATEMENT ANALYSIS

The following income statement analysis is based on the Group's continuing operations, and the comparative information has been restated to conform to the current period's presentation.

Net Interest Income and Net Interest Margin

HK$'m, except percentages	**Half-year ended 30 June 2018**	(Restated) Half-year ended 31 December 2017	(Restated) Half-year ended 30 June 2017
Interest income	**28,543**	25,491	23,586
Interest expense	**(10,053)**	(7,869)	(6,390)
Net interest income	**18,490**	17,622	17,196
Average interest-earning assets	**2,432,178**	2,317,555	2,125,381
Net interest spread	**1.37%**	1.37%	1.51%
Net interest margin*	**1.53%**	1.51%	1.63%

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

Net interest income amounted to HK$18,490 million in the first half of 2018, an increase of HK$1,294 million, or 7.5%, year-on-year. The increase was driven by growth in average interest-earning assets.

Average interest-earning assets expanded by HK$306,797 million, or 14.4%, year-on-year. The increase in deposits from customers led to an increase in advances to customers, debt securities investments and balances and placements with banks.

Net interest margin was 1.53%. If the funding income or cost of foreign currency swap contracts[#] were included, net interest margin would have been 1.56%, up 10 basis points year-on-year. This was mainly attributable to a rise in market interest rates. At the same time, the Group continued to proactively manage its assets and liabilities and enhance its loan and deposit spread. This, together with the improved average yield of its debt securities investments, 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.

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

	Half-year ended 30 June 2018		(Restated) Half-year ended 31 December 2017		(Restated) Half-year ended 30 June 2017	
ASSETS	**Average balance HK$'m**	**Average yield %**	Average balance HK$'m	Average yield %	Average balance HK$'m	Average yield %
Balances and placements with banks and other financial institutions	**455,096**	**1.95**	457,138	1.92	426,928	2.44
Debt securities investments	**753,328**	**2.15**	695,117	2.07	644,365	1.88
Advances to customers	**1,206,003**	**2.67**	1,149,195	2.36	1,036,771	2.39
Other interest-earning assets	**17,751**	**1.66**	16,105	1.35	17,317	1.22
Total interest-earning assets	**2,432,178**	**2.37**	2,317,555	2.18	2,125,381	2.24
Non interest-earning assets[1]	**372,506**	**–**	356,620	–	341,170	–
Total assets	**2,804,684**	**2.05**	2,674,175	1.89	2,466,551	1.93
LIABILITIES	**Average balance HK$'m**	**Average rate %**	Average balance HK$'m	Average rate %	Average balance HK$'m	Average rate %
Deposits and balances from banks and other financial institutions	**228,021**	**1.05**	222,072	0.94	230,127	0.90
Current, savings and time deposits	**1,724,051**	**0.90**	1,638,724	0.71	1,485,180	0.64
Subordinated liabilities	**20,458**	**5.46**	19,656	5.03	18,963	4.61
Other interest-bearing liabilities	**60,946**	**1.91**	57,876	1.61	37,520	1.10
Total interest-bearing liabilities	**2,033,476**	**1.00**	1,938,328	0.81	1,771,790	0.73
Shareholders' funds[2] and other non interest-bearing deposits and liabilities[1]	**771,208**	**–**	735,847	–	694,761	–
Total liabilities	**2,804,684**	**0.72**	2,674,175	0.58	2,466,551	0.52

1. Including assets held for sale and liabilities associated with assets held for sale respectively.
2. Shareholders' funds represent capital and reserves attributable to the equity holders of the Company.

Compared with the second half of 2017, the Group's net interest income increased by HK$868 million, or 4.9%, due to growth in average interest-earning assets and an increase in net interest margin. Average interest-earning assets grew by HK$114,623 million, or 4.9%, which was driven by an increase in deposits from customers. Net interest margin was up 2 basis points. If the funding income or cost of foreign currency swap contracts were included, net interest margin would have been up 13 basis points, mainly because of the rise in market interest rates and the Group's effective control of deposit pricing, which resulted in a widening of the loan and deposit spread. This, along with the improved average yield of the Group's debt securities investments, resulted in a rise in net interest margin.

Net Fee and Commission Income

HK$'m	**Half-year ended 30 June 2018**	(Restated) Half-year ended 31 December 2017	(Restated) Half-year ended 30 June 2017
Credit card business	**1,734**	1,665	1,537
Loan commissions	**1,712**	1,522	2,086
Securities brokerage	**1,705**	1,571	1,054
Insurance	**865**	698	628
Funds distribution	**552**	545	440
Bills commissions	**400**	423	393
Payment services	**325**	326	323
Trust and custody services	**313**	301	254
Currency exchange	**268**	238	195
Safe deposit box	**154**	144	147
Others	**636**	435	575
Fee and commission income	**8,664**	7,868	7,632
Fee and commission expense	**(2,190)**	(2,045)	(1,854)
Net fee and commission income	**6,474**	5,823	5,778

In the first half of 2018, the Group's net fee and commission income amounted to HK$6,474 million, up HK$696 million or 12.0% year-on-year. The Group captured opportunities arising from improved investor sentiment in the market and focused on the continuous development of mid- to high-end and cross-border customers. It also optimised its service channels and functionalities, and enriched its product and service offerings. As a result, commission income from securities brokerage, funds distribution and insurance grew 61.8%, 25.5% and 37.7% year-on-year, respectively. The Group also leveraged its diversified business platforms to record healthy growth in a number of areas. Income from the credit card business rose by 12.8% year-on-year, with the business volumes of the Group's credit card issuing and merchant acquiring businesses rising 12.5% and 19.1% respectively. Income from currency exchange increased 37.4% year-on-year, as the Group captured opportunities arising from travelling customers' strong demand for banknotes in a range of currencies as well as the proactive expansion of its banknotes business in the Chinese mainland, Hong Kong and Southeast Asia. The Group's trust and custody business continued to expand its assets under management, resulting in a year-on-year increase of 23.2% in related income. However, loan commissions dropped. The increase in fee and commission expenses was mainly due to higher credit card, securities brokerage and insurance related expenses.

Compared with the second half of 2017, net fee and commission income increased by HK$651 million, or 11.2%. The increase mainly resulted from growth in fee and commission income from loans, insurance, securities brokerage, credit card business, currency exchange, and trust and custody services, as well as safe deposit box services. At the same time, bills commissions dropped. Fee and commission expenses increased, owing to higher credit card and insurance related expenses.

Net Trading Gain

HK$'m	**Half-year ended 30 June 2018**	(Restated) Half-year ended 31 December 2017	(Restated) Half-year ended 30 June 2017
Foreign exchange and foreign exchange products	**1,694**	114	83
Interest rate instruments and items under fair value hedge	**175**	324	417
Equity and credit derivative instruments	**114**	135	90
Commodities	**61**	98	107
Net trading gain	**2,044**	671	697

In the first half of 2018, the Group's net trading gain amounted to HK$2,044 million, an increase of HK$1,347 million, or 193.3%, year-on-year. Net trading gain from foreign exchange and foreign exchange products increased by HK$1,611 million, which was mainly attributable to a net gain from foreign currency swap contracts in the first half of 2018, as compared with a net loss in the same period last year, as well as growth in currency exchange income from customer transactions. Net trading gain from interest rate instruments and items under fair value hedge decreased by HK$242 million, primarily due to the mark-to-market changes of certain debt securities investments and interest rate instruments caused by interest rate movements. Net trading gain from equity and credit derivative instruments increased, supported by an increase in income from equity-linked products. Net trading gain from commodities declined, due to a decreased gain in bullion transactions.

Compared with the second half of 2017, net trading gain increased by HK$1,373 million, or 204.6%. This was mainly attributable to a net gain from foreign currency swap contracts as compared to a net loss in the second half of 2017, as well as growth in currency exchange income from customer transactions. This was partially offset by the mark-to-market changes of certain debt securities investments and interest rate instruments caused by interest rate movements.

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

HK$'m	**Half-year ended 30 June 2018**	(Restated) Half-year ended 31 December 2017	(Restated) Half-year ended 30 June 2017
Net (loss)/gain on other financial instruments at fair value through profit or loss	**(1,182)**	993	1,188

The Group recorded a net loss of HK$1,182 million on other financial instruments at fair value through profit or loss, compared to a net gain of HK$1,188 million in the first half of 2017. The change was mainly attributable to a loss in the equity securities investments of BOC Life and the mark-to-market loss of its debt securities investments caused by market interest rate movements. The changes in policy reserves, as reflected in the changes in net insurance benefits and claims and movement in liabilities, were also attributable to the movement of market interest rates.

Compared with the second half of 2017, the change was mainly attributable to a loss in the equity securities investments of BOC Life and the mark-to-market loss of its debt securities investments caused by market interest rate movements. The changes in policy reserves, as reflected in the changes in net insurance benefits and claims and movement in liabilities, were also attributable to the movement of market interest rates.

Operating Expenses

HK$'m	**Half-year ended 30 June 2018**	(Restated) Half-year ended 31 December 2017	(Restated) Half-year ended 30 June 2017
Staff costs	**4,053**	4,203	3,698
Premises and equipment expenses (excluding depreciation)	**856**	889	832
Depreciation	**996**	1,024	927
Other operating expenses	**1,095**	1,494	781
Total operating expenses	**7,000**	7,610	6,238

	At 30 June 2018	(Restated) At 31 December 2017	(Restated) At 30 June 2017
Staff headcount measured in full-time equivalents*	**13,358**	13,212	12,982

* The comparative information regarding staff headcounts measured in full-time equivalents at 30 June and 31 December 2017 has been restated to enable analysis on a comparable basis.

Total operating expenses increased by HK$762 million or 12.2% year-on-year as a result of the Group's ongoing investment in human resources, business systems and platforms, and e-finance services, all of which aim to enhance overall service capabilities and support long-term business growth. The Group remained focused on disciplined cost control. Its cost to income ratio was 25.40%, a solid level of cost efficiency relative to the industry peers.

Staff costs increased by 9.6% year-on-year, mainly due to annual salary increment, increased headcount, and an increase in performance-related remuneration.

Premises and equipment expenses were up 2.9%, reflecting higher expenses related to the enhancement of business systems and platforms, and an increase in rental costs.

Depreciation increased by 7.4%, largely due to larger depreciation charges on information technology infrastructure and premises.

Other operating expenses rose by 40.2%, mainly due to a lower base for comparison resulting from the reversal of certain expenses in the first half of 2017. Meanwhile, communication and promotional expenses rose in line with increased business volume.

Compared with the second half of 2017, total operating expenses decreased by HK$610 million, or 8.0%. The decrease was due to lower staff costs and promotional and advertising expenses.

Net Charge of Impairment Allowances on Advances and Other Accounts

HK$'m	**Half-year ended 30 June 2018**	(Restated) Half-year ended 31 December 2017	(Restated) Half-year ended 30 June 2017
Stage 1	**462**	N/A	N/A
Stage 2	**(141)**	N/A	N/A
Stage 3	**(585)**	N/A	N/A
Individually assessed	**N/A**	(80)	151
Collectively assessed	**N/A**	(616)	(501)
Net charge of impairment allowances on advances and other accounts	**(264)**	(696)	(350)

In the first half of 2018, the Group's net charge of impairment allowances on advances and other accounts amounted to HK$264 million. Impairment allowances at Stage 1 recorded a net reversal of HK$462 million, mainly reflecting the reversal caused by the upgrading of certain customers and the updating of the parameter values in the assessment model, which offset the impact of the net charge of impairment allowances arising from loan growth during the period. Impairment allowances at Stage 2 recorded a net charge of HK$141 million, as the result of increases in the credit risk of certain advances. The net charge of impairment allowances at Stage 3 amounted to HK$585 million, mainly relating to the downgrading of certain corporate advances and in the personal loan portfolio.

BALANCE SHEET ANALYSIS

The comparative figures as of 31 December 2017 have been restated to conform to the current period's presentation.

Asset Composition

HK$'m, except percentages	**At 30 June 2018**		(Restated) At 31 December 2017	
	Amount	**% of total**	Amount	% of total
Cash and balances and placements with banks and other financial institutions	**375,408**	**13.5**	426,604	16.1
Hong Kong SAR Government certificates of indebtedness	**153,370**	**5.5**	146,200	5.5
Securities investments[1]	**784,552**	**28.3**	704,526	26.6
Advances and other accounts	**1,268,939**	**45.7**	1,191,554	44.9
Fixed assets and investment properties	**69,146**	**2.5**	66,937	2.5
Other assets[2]	**123,030**	**4.5**	115,265	4.4
Total assets	**2,774,445**	**100.0**	2,651,086	100.0

1. Securities investments comprise investment in securities and securities at fair value through profit or loss.
2. Interests in associates and joint ventures, deferred tax assets, derivative financial instruments and other debt instruments classified as trading assets are included in other assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As at 30 June 2018, the total assets of the Group amounted to HK$2,774,445 million, an increase of HK$123,359 million, or 4.7%, from the end of 2017. The Group continued to optimise its management of assets and liabilities so as to achieve balanced, sustainable and high-quality growth. Key changes in the Group's total assets include the following:

- Cash and balances and placements with banks and other financial institutions decreased by HK$51,196 million, or 12.0%, mainly due to a decrease in balances with banks;

- Securities investments increased by HK$80,026 million, or 11.4%, with increases mainly found in government-related and high-quality financial institutions bonds;

- Advances and other accounts rose by HK$77,385 million, or 6.5%, with a growth in advances to customers of HK$84,082 million, or 7.3%.

Advances to Customers

	At 30 June 2018		(Restated) At 31 December 2017	
HK$'m, except percentages	**Amount**	**% of total**	Amount	% of total
Loans for use in Hong Kong	**810,253**	**65.9**	759,038	66.2
Industrial, commercial and financial	**475,183**	**38.7**	436,754	38.1
Individuals	**335,070**	**27.2**	322,284	28.1
Trade finance	**70,492**	**5.7**	78,196	6.8
Loans for use outside Hong Kong	**349,763**	**28.4**	309,192	27.0
Total advances to customers	**1,230,508**	**100.0**	1,146,426	100.0

In the first half of 2018, the Group continued to implement BOC Group's development strategy and captured opportunities arising from the Belt and Road initiative and the development of the Guangdong-Hong Kong-Macao Greater Bay Area, as well as in Southeast Asia. It strengthened its collaboration with BOC Group in order to provide a diversified range of financial services to mainland "Going Global" enterprises as well as corporates in countries along the Belt and Road. The Group also continued to improve its services to commercial customers in Hong Kong by deepening business relationships with family-owned businesses, chambers of commerce and listed companies. In addition, it enhanced its service penetration to customers in the SME, residential mortgage and other retail loan businesses by leveraging the competitive advantages arising from its branch network and its diversified business platforms. Advances to customers grew by HK$84,082 million, or 7.3%, to HK$1,230,508 million in the first half of 2018.

Loans for use in Hong Kong grew by HK$51,215 million or 6.7%:

- Lending to the industrial, commercial and financial sectors increased by HK$38,429 million or 8.8%, reflecting growth in property development, wholesale and retail trade, financial concerns, transport and transport equipment, manufacturing and IPO financing;

- Lending to individuals increased by HK$12,786 million, or 4.0%. Residential mortgage loans (excluding those under government-sponsored home purchasing schemes) grew by 2.8% while other individual loans increased by 10.6%, mainly driven by an increase in property refinancing and personal loans for investment purposes.

Trade finance decreased by HK$7,704 million or 9.9%. Loans for use outside Hong Kong grew by HK$40,571 million or 13.1%, mainly driven by growth in loans for use in the Chinese mainland and Southeast Asia.

Loan Quality

HK$'m, except percentages	**At 30 June 2018**	(Restated) At 31 December 2017
Advances to customers	**1,230,508**	1,146,426
Classified or impaired loan ratio	**0.22%**	0.18%
Total impairment allowances	**5,150**	4,106
Total impairment allowances as a percentage of advances to customers	**0.42%**	0.36%
Residential mortgage loans[1] – delinquency and rescheduled loan ratio[2]	**0.01%**	0.01%
Card advances – delinquency ratio[2]	**0.22%**	0.21%

	Half-year ended 30 June 2018	Half-year ended 30 June 2017
Card advances – charge-off ratio[3]	**1.47%**	1.70%

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.

The Group adhered to prudent risk management principles and maintained benign asset quality during the reporting period. The classified or impaired loan ratio was 0.22% as at 30 June 2018. Classified or impaired advances to customers increased by HK$588 million, or 28.3%, to HK$2,667 million, due to the downgrading of a few corporate advances and a certain personal loan portfolio.

The credit quality of the Group's residential mortgage loans and card advances remained sound. The combined delinquency and rescheduled loan ratio of residential mortgage loans was 0.01% as at 30 June 2018. The charge-off ratio of card advances for the first half of 2018 fell year-on-year to 1.47%.

*Deposits from Customers**

HK$'m, except percentages	At 30 June 2018 Amount	At 30 June 2018 % of total	(Restated) At 31 December 2017 Amount	(Restated) At 31 December 2017 % of total
Demand deposits and current accounts	**213,583**	**11.5**	203,837	11.5
Savings deposits	**851,691**	**45.9**	913,192	51.3
Time, call and notice deposits	**788,306**	**42.5**	658,061	37.0
	1,853,580	**99.9**	1,775,090	99.8
Structured deposits	**2,575**	**0.1**	2,784	0.2
Total deposits from customers	**1,856,155**	**100.0**	1,777,874	100.0

* Including structured deposits.

The Group continued to implement a number of strategic customer acquisition initiatives during the first half of 2018, including the launch of featured products to targeted customer groups and the development of employee payroll accounts combined with comprehensive wealth management solutions in order to deepen business relationships with government entities, large corporates, major central banks, national treasuries and sovereign wealth funds. As a result, the Group achieved satisfactory growth in both personal and corporate deposits. As at 30 June 2018, total deposits from customers amounted to HK$1,856,155 million, up HK$78,281 million or 4.4% from the end of last year. Demand deposits and current accounts grew by 4.8%, mainly driven by IPO deposits. Saving deposits decreased by 6.7%. Time, call and notice deposits were up 19.8%.

Capital and Reserves Attributable to Equity Holders of the Company

HK$'m	At 30 June 2018	(Restated) At 31 December 2017
Share capital	**52,864**	52,864
Premises revaluation reserve	**38,105**	36,689
Reserve for fair value changes/Reserve for fair value changes of available-for-sale securities	**(4,081)**	42
Reserve for own credit risk	**7**	–
Regulatory reserve	**10,746**	10,224
Translation reserve	**(827)**	(728)
Merger reserve	**–**	1,062
Retained earnings	**151,231**	143,865
Reserves	**195,181**	191,154
Capital and reserves attributable to equity holders of the Company	**248,045**	244,018

Capital and reserves attributable to equity holders of the Company amounted to HK$248,045 million as at 30 June 2018, an increase of HK$4,027 million, or 1.7%, from the end of 2017. Retained earnings rose by 5.1%, mainly reflecting the profit for the first half of 2018 following the distribution of the final dividend for 2017. The premises revaluation reserve increased by 3.9%, which was attributable to an increase in the valuation of premises in the first half of 2018. The reserve for fair value changes recorded a deficit, mainly driven by market interest rate movements. The regulatory reserve rose by 5.1%, mainly driven by growth in advances to customers. The merger reserve arose from the Group's application of the merger accounting method in relation to its combination with BOC's Vietnam Business and Philippines Business.

Capital Ratio

HK$'m, except percentages	At 30 June 2018	At 31 December 2017
Consolidated capital after deductions		
Common Equity Tier 1 capital	**176,702**	170,012
Additional Tier 1 capital	**–**	–
Tier 1 capital	**176,702**	170,012
Tier 2 capital	**37,137**	39,816
Total capital	**213,839**	209,828
Total risk-weighted assets	**1,063,065**	1,029,152
Common Equity Tier 1 capital ratio	**16.62%**	16.52%
Tier 1 capital ratio	**16.62%**	16.52%
Total capital ratio	**20.12%**	20.39%

In the course of formulating its internal capital management 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 it to determine the most appropriate capital level to ensure that the Group has adequate capital strength to withstand any future unexpected loss arising from a drastic change in the economic environment. At the same time, the Group will also take 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. The Group attaches a high degree of importance to the need for capital accumulation and remains committed to strengthening internal capital generation to ensure its sustainable business development.

As at 30 June 2018, both the common equity tier 1 ("CET1") capital ratio and tier 1 capital ratio were 16.62%, up 0.10 percentage points respectively from the end of 2017. Total capital ratio was 20.12%. Profits net of dividends for the first half of 2018 increased CET1 capital by 3.9%. Total risk-weighted assets ("RWAs") were up 3.3%, driven by the growth in advances to customers in the first half of 2018.

Liquidity Coverage Ratio and Net Stable Funding Ratio

	2018	2017
Average value of liquidity coverage ratio		
First quarter	**134.33%**	121.41%
Second quarter	**146.39%**	123.88%

	At 30 June 2018	At 31 March 2018
Net stable funding ratio	**118.82%**	118.98%

The Group's liquidity position remained sound. The average value of LCR in the first and second quarter of 2018 was 134.33% and 146.39% respectively. Net stable funding ratio at 31 March and 30 June 2018 stood at 118.98% and 118.82% respectively.

BUSINESS REVIEW

Business Segment Performance

Profit before Taxation by Business Segment

HK$'m, except percentages	Half-year ended 30 June 2018 Amount	Half-year ended 30 June 2018 % of total	(Restated) Half-year ended 30 June 2017 Amount	(Restated) Half-year ended 30 June 2017 % of total
FROM CONTINUING OPERATIONS				
Personal Banking	**5,905**	**27.9**	4,222	23.3
Corporate Banking	**7,982**	**37.7**	7,301	40.2
Treasury	**4,985**	**23.5**	4,444	24.5
Insurance	**597**	**2.8**	683	3.8
Others	**1,716**	**8.1**	1,492	8.2
Total profit before taxation	**21,185**	**100.0**	18,142	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$5,905 million in the first half of 2018, an increase of HK$1,683 million or 39.9% year-on-year, mainly driven by an increase in net interest income and net fee and commission income, and lower net impairment charges.

Net interest income increased by 18.3%. This was mainly driven by an improvement in the deposit spread along with an increase in the average balance of deposits and loans. Net fee and commission income increased by 32.8% as the Group achieved satisfactory performance in its securities brokerage, insurance and funds distribution business, including encouraging year-on-year growth in commission income. Net trading gain rose by 18.1%, owing to relatively strong growth in currency exchange income from customer transactions and income from equity-linked products. Operating expenses were up 10.4%, mainly due to an increase in staff costs and business-related expenses.

Business operations

Steady expansion in deposit and loan business

The Group's personal deposit business pursued a refined strategy for different customer segments, combining customer development and upgrading with enhanced product sales packages. Featured products were launched to targeted customer groups in a bid to grow deposits. At the same time, through collaboration between the personal and corporate banking segments, the Group strengthened its cooperation with government entities and large corporates via employee payroll account services combined with wealth management solutions. As of 30 June 2018, the Group's total personal deposits grew by 5.8% compared to the end of last year. Regarding its loan business, the Group set up six mortgage centres in the main districts of Hong Kong to enhance its professional service capabilities in mortgages. It enhanced partnerships with property developers and property agencies with a view to exploring new sources of mortgage business. The Group also assisted The Hong Kong Mortgage Corporation Limited to promote the Reverse Mortgage Programme, securing the largest share of this market.

Accelerating the upgrade of mid- to high-end customer services

The Group strived to deepen customer relationships and continued to enhance its professional service level so as to serve mid- to high-end customers. In the first half of the year, it continued to refine its business model for high-end customers and stepped up the development and promotion of a dedicated sales force. It opened its first high-end wealth management centre, the China Hong Kong City Wealth Management Centre. The Group also organised different kinds of value-added activities for customers in order to further enhance the customer experience. As at the end of June 2018, the number of mid- to high-end customers grew by 9.3% compared to the end of last year.

The Group's private banking business maintained satisfactory growth, acquiring high net-worth clients from Hong Kong, the Chinese mainland and overseas. In line with its people-oriented culture, the Group strengthened its private banking team and accelerated development in cross-border business. It optimised its open platform for private banking and enhanced the development of exclusive private banking products such as alternative investments. It also actively participated in the development of the private banking industry by supporting the Pilot Apprenticeship Programme for Private Wealth Management, which is jointly organised by the HKMA and the Private Wealth Management Association, to provide training to wealth management talent. Both the total number of private banking clients and related assets under management grew satisfactorily from the end of last year.

Stepping up general banking service innovations

Capturing opportunities from Fintech development trends, the Group stepped up innovations in its general banking services. It developed "Smart Account", set up electronic self-service channels and enhanced iService by offering an all weather video banking service to customers. The Group also enhanced the development of new smart branch by setting up the Science Park Banking Services Centre and launching a new customer service process. It also streamlined frontline operational procedures, which helped to raise branch effectiveness, and pushed forward the building of a green bank by enhancing paperless and digital business operations.

Capturing market opportunities to increase fee and commission income

The Group launched a brand new mobile banking securities trading application featuring new functions, including express trading settings, price alerts and a stock screener. It continued to support a one-stop service for online account opening, instant trading, chart analysis and portfolio holding enquiries. In addition to providing a diversified fund product range, the Group was the first retail bank to launch funds with an investment theme linked to the Belt and Road initiative. Leveraging the retirement annuities scheme promoted by the HKSAR Government, the Group integrated the concepts of retirement planning and wealth inheritance to launch the All-Round Protection Scheme, offering 45 life insurance and general insurance products. During the reporting period, income generated by securities brokerage, funds distribution, treasury products and insurance business recorded satisfactory year-on-year growth.

Integrated development of banking services in Guangdong, Hong Kong and Macao

The Group strengthened its collaboration with BOC in the Guangdong-Hong Kong-Macao Greater Bay Area and promoted integrated development by continuously reinforcing its servicing model, brand promotion and talent exchange. It implemented its point-to-point port strategy by becoming the only bank to provide branch services in Terminal 1 of Hong Kong International Airport and by formulating a plan to set up a self-service banking centre at Hong Kong West Kowloon Rail Station (the terminus of the Guangzhou-Shenzhen-Hong Kong Express Rail Link) and an automated banking site at the Hong Kong-Zhuhai-Macao Bridge. As at the end of June 2018, the total number of cross-border customers grew by 13.1% compared to the end of last year. During the reporting period, the Group was honoured with the Sing Tao Excellent Services Brand Award – Cross-border Banking Services Award by *Sing Tao Daily* in recognition of its cross-border business.

Advancing the integration of its Southeast Asian institutions

The Group enhanced development of the personal banking businesses of its Southeast Asian institutions. It put its regional product management framework into practice in an orderly manner, refined its mid- to high-end customer service infrastructure and strengthened regional risk management. It set up a wealth management model in BOC Malaysia and the Jakarta Branch so as to offer exclusive and all-round financial service solutions, thus laying a strong foundation for the Group to become a mainstream bank for overseas Chinese in Southeast Asia.

Innovation in credit card business

The Group's credit card business achieved continuous growth in cardholder spending by taking advantages of the ample business opportunities in the market. These included the continued recovery of Hong Kong retail consumption in the first half of 2018 from the end of last year, the positive wealth effect resulting from the high trading turnover of the stock market, and the increasing popularity in mobile payment and QR Code-related techniques, as well as business opportunities in the Guangdong-Hong Kong-Macao Greater Bay Area. The Greater Bay Area BOC UnionPay Dual Currency Card was launched in January 2018, featuring convenient payment and mobile payment functions which, combined with promotional offers, cater for the daily needs of frequent travellers within the Greater Bay Area. In addition, in line with the local development of stored-value facility services, the Group proactively developed its online spending business, with the related business volume recording a year-on-year growth of over 60%. During the reporting period, the Group maintained its market leadership in the UnionPay merchant acquiring and card issuing business in Hong Kong.

CORPORATE BANKING

Financial Results

In the first half of 2018, Corporate Banking achieved a profit before tax of HK$7,982 million, an increase of HK$681 million or 9.3% year-on-year. The growth was mainly driven by an increase in net interest income and net trading gain.

Net interest income increased by 14.6%, owing to an increase in the average balance of loans and deposits, coupled with improvement in the deposit spread. Net fee and commission income decreased by 13.4%, as an increase in commission income from trust and bills services was more than offset by a decrease in loan commissions. Net trading gain increased by 33.8%, owing to the growth of currency exchange income from customer transactions.

Business operations

Continuous expansion of customer base and enhancement of integrated service capabilities

Amid intense market competition, the Group strengthened its business relationships with existing customers while actively acquiring new customers. It reinforced its competitive edge in the syndicated loan business by arranging a number of syndicated loan projects of significant market influence during the reporting period, and remained the top mandated arranger in the Hong Kong and Macao syndicated loan market in the first half of 2018. Meanwhile, the Group grasped opportunities arising from the establishment of treasury centres in Hong Kong and the "Going Global" efforts of mainland enterprises in order to expedite the development of its cash pooling and treasury centre businesses, with the aim of becoming the first-choice bank for cross-border pooling services. Moreover, the total amount of funds raised from IPOs in which the Group served as the main receiving bank reached HK$40.2 billion, representing a market share of 83.8%. It was awarded a number of tender projects by the HKSAR Government and public sector organisations, further reinforcing its business relationships with government entities. The Group also established business relationships with a number of major central banks, national treasuries and sovereign wealth funds. The satisfactory growth of deposits from institutional clients provided a stable funding source for the Group's USD loan business.

Proactive development of commercial and SME customer base

The Group continued to improve its services to commercial customers by deepening business relationships with family-owned businesses, chambers of commerce and listed companies in Hong Kong, and helping them by establishing a convenient and effective financial service platform. It helped customers to access business opportunities in the Chinese mainland and overseas countries by inviting them to participate in the Cross-border Investment Matching Service organised by BOC branches around the world. In addition, by leveraging the competitive advantages arising from its branch network in Hong Kong, the Group continued to enhance its service capabilities to corporate customers. BOCHK won the Best SME's Partner Gold Award 2018 from the Hong Kong General Chamber of Small and Medium Business, in recognition of its achievement of being awarded the Best SME's Partner Award for eleven consecutive years.

Promoting business development in Southeast Asia and the Greater Bay Area

The Group continued to deepen its integrated business model and equip its Southeast Asian institutions with advanced products and services. It also expedited the establishment of a regional management system to upgrade the management capabilities of its Southeast Asian institutions and facilitate their healthy business development. To capture major business opportunities arising from the development of the Guangdong-Hong Kong-Macao Greater Bay Area, the Group strengthened its collaboration with BOC Group's entities in the Greater Bay Area and established an integrated system for marketing and services, 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 boost the development of corporates within the area's technological innovation industry. At the same time, the Group supported the reform of the commercial registration system in the Guangdong Province by coordinating with the Guangdong Province Administration for Industry and Commerce and the Guangdong Branch of BOC to launch Guangdong-Hong Kong Business Registration and Banking Services Connect, in order to optimise and further promote cross-border investments between Guangdong and Hong Kong.

Continuously enhancing the competitiveness of corporate banking products and services

The Group continued to enhance its comprehensive, scenario-based and globalised service capabilities, capturing opportunities arising from the Belt and Road initiative and the development of the Guangdong-Hong Kong-Macao Greater Bay Area by enriching its product offering, refining its regional product line management and enhancing its regional product system coverage. It offered various competitive transaction banking products and comprehensive service solutions so as to develop global client markets while serving local corporates and institutions. It attracted major clients and projects, with focus on building its treasury centre and cash pooling businesses, and supported mainland "Going Global" enterprises, leading enterprises in Hong Kong and Southeast Asia and multinational corporate giants in managing their regional and global funding activities. Its continuous enhancement in product competitiveness and improvement in economies of scale were recognised by the market and the industry. BOCHK again received the Achievement Award for Best Trade Finance Bank in Hong Kong as well as Best Corporate Trade Finance Deal in Hong Kong from *The Asian Banker*. Furthermore, BOCHK was named Hong Kong Domestic Cash Management Bank of the Year for the fifth consecutive year by *Asian Banking & Finance*.

Continuous expansion in custody business

In the first half of 2018, investment markets experienced volatility amid a general downward trend. The Group continued to capture opportunities, arising from various market links, to connect with more local and overseas institutions through Bond Connect. Its market share continued to eclipse its peers, with its value of assets under custody relating to Bond Connect at one point exceeding RMB15 billion. Meanwhile, the Group's insurance and pension client segments continued to exhibit steady growth, while demand for escrow services on assets was also robust. This, coupled with active business collaboration within the Group, meant that the custody business delivered substantial growth in its key performance indicators compared to those of the same period last year. In recognition of its professional service, BOCHK was awarded Best QDII Custodian and Best QDII Mandate in *The Asset*'s Triple A Asset Servicing, Institutional Investor and Insurance Awards. At the end of June 2018, the Group's total assets under custody reached HK$1,167.7 billion.

Proactive credit risk management

In view of the uncertain economic environment, the Group adhered to a prudent credit strategy and closely monitored various potential risks, including rising corporate bond defaults in the Chinese mainland and the China-US trade war. It also enhanced analysis of affected countries and industries, and identified group customers who could be negatively impacted. Moreover, preventive measures were carried out in a timely manner to control risk, so as to support the Group's healthy business development.

TREASURY

Financial Results

Treasury recorded a profit before tax of HK$4,985 million, an increase of HK$541 million or 12.2% year-on-year. The growth was driven by an increase in net trading gain, which more than offset the impact from the decrease in net interest income.

Net interest income decreased by 21.7%, which was mainly attributable to a decrease in the average balance of RMB balances and placements with banks, as well as a decrease in the average yield of related assets caused by a drop in market interest rates. The treasury business recorded a net trading gain in the first half of 2018, as compared to a net trading loss in the same period last year. This was owing to a net gain from foreign currency swap contracts in the first half of 2018, as compared to a net loss in the same period last year, as well as growth in currency exchange income from customer transactions. This was partially offset by the mark-to-market changes of certain debt securities investments and interest rate instruments caused by interest rate movements.

Business Operations

Continuous enhancement in trading and service capabilities

In the first half of 2018, the Group actively responded to market changes and made its best efforts to promote business diversification, while strictly adhering to its risk management principles, in order to improve its ability to capture market opportunities. It steadily improved its pricing and trading capabilities by strengthening its trading system infrastructure and continuously refining its electronic trading platform. The Group also enhanced the development of innovative products and further enriched product lines to meet clients' needs. By leveraging its expertise, capitalising on market opportunities and elevating service quality, the Group achieved rapid growth in customer trading business. It also actively promoted its regional development, making continuous efforts to enhance the development framework for treasury business in Southeast Asia. In recognition of its treasury business performance, BOCHK was named the Best Overseas Member of the Interbank FX Market in 2017 by the China Foreign Exchange Trade System. It received the Best Local Currency Bond Award from *Global Capital* at the Asia Regional Capital Markets Awards 2017, and the 2017 Outstanding International Member Award from the Shanghai Gold Exchange. BOCHK also won the Key Business Partner in FIC Markets award at the 5th Annual RMB Fixed Income and Currency Conference 2018, organised by HKEX.

Proactive expansion in banknotes business

Drawing on its expertise in the wholesale banknotes business, the Group continued to strengthen the development of its banknotes business in the Asia Pacific region and became a major bank for the provision of foreign currency banknotes in Hong Kong, further reinforcing its market leadership in the local banknotes business. Capitalising on its unique edge in the Chinese mainland market, the Group established a flexible and efficient cash banknote operating mechanism, which enabled it to successfully win bids for a number of foreign currency banknotes tenders from mainland peers. As a result, it maintained a steady growth of market share in the Chinese mainland. In addition, it accurately grasped opportunities arising from market changes while actively and steadily pushing forward its regional development strategy to gradually increase its business scale in overseas markets, including Southeast Asia.

Consolidating competitive advantages in RMB clearing business

In line with the Phase II construction of the Cross-border Interbank Payment system ("CIPS") by the People's Bank of China, BOCHK successfully launched its CIPS Phase II project. This provides a longer operation window through the CIPS channel and connects with the new Deferred Net Settlement ("DNS") mechanism, further enhancing the capability and efficiency of the Clearing Bank in terms of RMB cross-border fund clearing, thus reinforcing BOCHK's leadership in the offshore RMB market.

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. During the first half of the year, the Group adjusted its investment portfolio to respond to changes in interest rates and to achieve solid returns.

Steady growth in asset management business

In the first half of 2018, BOCHK Asset Management Limited ("BOCHK AM") achieved steady growth in many areas. The monthly average of its assets under management ("AUM") in the first half of 2018 grew by 19.8% from the same period of 2017. During the reporting period, BOCHK AM further enriched its investment product range by proactively offering innovative products. Two new funds, including a public fund (BOCHK All Weather Asia Pacific High Income Fund) and a private fund which invests in technology company IPOs, were launched to meet the investment needs of different client segments. Additionally, BOCHK AM acquired further new clients and deepened business relationships with existing clients. Discretionary managed account services were launched during the reporting period, with a number of institutional clients increasing their investments in BOCHK AM's funds. Meanwhile, BOCHK AM continued to push for growth in the distribution of cross-border funds. Following the BOCHK All Weather China High Yield Bond Fund, the BOCHK All Weather Hong Kong Equity Fund was approved for distribution in the mainland, becoming the second northbound fund under the Mainland-Hong Kong Mutual Recognition of Funds scheme ("MRF"). It is expected that this new fund will be launched for public distribution in the mainland in the second half of this year. In recognition of its expertise in the market and the industry, BOCHK AM was awarded Best Offshore RMB Bond Performance (5 years) and was named Best RMB Manager in the 2018 Best of the Best Awards organised by *Asia Asset Management*.

Continuous growth in trustee business and 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 company BOCI-Prudential Trustee Limited ("BOCI-Prudential Trustee"). BOCI-Prudential Trustee strives to deliver a holistic retirement planning solution by generating corporate synergy, actively broadening diversified distribution channels, optimising referral mechanisms, promoting innovative marketing and pushing forward the technological upgrading of system functions in order to eventually meet the medium- to long-term goal of the HKSAR Government to establish an eMPF centralised electronic platform and enhance the administrative efficiency of MPF schemes. In the first half of 2018, BOCI-Prudential Trustee upgraded its MPF services by introducing leading human resources and payroll management software. It adopted an advanced interactive voice response system (IVRS) in order to enhance the quality of its interactive voice system services, and rapidly expanded its customer service hotline capacity. As at the end of June 2018, the MPF asset size of BOCI-Prudential Trustee increased by 13.3% from the end of June last year. Moreover, BOCI-Prudential Trustee actively explored new business opportunities with large global asset management companies and continued to be a reputable transfer agent for MRF northbound funds by providing quality trustee services. Given the ongoing financial integration between the mainland and Hong Kong and the accelerated approval process for MRF northbound funds, BOCI-Prudential Trustee will actively support fund house clients in their applications for the distribution of MRF northbound funds.

In the first half of 2018, BOCI-Prudential Trustee received a total of 11 awards from independent rating agency, the industry and market as well as the innovation and technology sector in recognition of its outstanding performance and strength. BOCI-Prudential Trustee's My Choice MPF Scheme and BOC-Prudential Easy-Choice MPF Scheme received multiple accolades at the MPF Awards 2018, organised by MPF Ratings. It was awarded Excellent Brand of MPF Online Platform for the third consecutive year in the Hong Kong Leaders' Choice Brand Awards 2018, organised by Metro Finance. Furthermore, it was recognised as the Best Group Over 3 Years – Overall and received a number of fund awards at the 2018 Lipper Hong Kong Fund Awards, organised by Lipper.

Continuous growth in securities and futures brokerage services

The Group engages in the provision of brokerage services for securities, futures and options trading through its subsidiary company, Po Sang Securities and Futures Limited ("Po Sang Securities and Futures"). In 2018, Po Sang Securities and Futures deepened its engagement in the Hong Kong securities and futures market and focused on enhancing its level of operational risk management and compliance control. At the same time, it was committed to expanding its client base, product and service lines, including the expansion of its account executive team and institutional sales services. In the first half of 2018, each business line achieved satisfactory growth, with the gross turnover of its securities brokerage business growing by over 83% compared to the same period last year.

INSURANCE

Financial Results

Profit before tax in the Group's Insurance segment was HK$597 million in the first half of 2018, down 12.6% year-on-year. The decrease was mainly attributable to losses recorded in equity securities and bond fund investments amid the downturn in investment markets, in contrast to the gains recorded in the same period of 2017. The loss was, however, partially offset by higher interest income from bond investments and reinsurance income. The insurance premium mix continued to be optimised, with strong growth in regular premium business, leading to an increase in net insurance premium income of 34.9% year-on-year.

Business Operations

Proactive application of InsurTech to improve customer experience

In the first half of 2018, an innovative artificial intelligence chatbot service, Easy Chat, was launched to answer customers' enquiries on claims and certain policy-related matters. This helped to develop and activate the younger customer segment, enhance the Group's corporate image and ease the pressure on customer service hotlines. The Group also promoted interaction with customers using social media platforms, including the launch of the brand new BOC Life WeChat Official Account, two Facebook pages (BOC Life and BOC Life Wealth Management Team) and other internet services. The promotion of electronic insurance policy services also reinforced the Group's image as an adopter of innovative technology and services that enhance operational efficiency.

Maintaining a leading position in RMB insurance business, recognised for quality service

In the first half of 2018, the Group maintained its leading position in Hong Kong's RMB life insurance business. In recognition of its quality service and professional image, BOC Life received a number of awards locally and internationally, including the Cross Border Insurance Service – Excellence, Annuity Plan – Outstanding Performance, Customer Service – Outstanding Performance and Claims Management – Excellence awards from *Bloomberg Businessweek*'s Financial Institution Awards 2018; the Outstanding Insurance Business – Customer Service Award (Hong Kong China) and Annuity Award (Hong Kong China) from the 2018 RMB Business Outstanding Awards, jointly organised by Metro Finance and Hong Kong Ta Kung Wen Wei Media Group; and the Award for Innovative Management in Financial Industries: Silver Stevie Winner and Award for Innovation in Human Resources Management, Planning & Practice (Financial Services Industries): Bronze Stevie Winner from the 5th Asia-Pacific Stevie Awards.

Enhancement and innovation of products and development of diversified distribution channels

In the first half of 2018, the Group responded to market trends and launched new products to meet customers' different insurance needs. Based on the success of the SmartUp whole life insurance plan series, the Group launched the SmartUp Plus Whole Life Insurance Plan, an enhanced version with more protection features, so as to raise the value of new business. As regards to savings products, the Group launched two short-term products, the Target 3 Years Insurance Plan and the ReachUp Insurance Plan. The Group joined up with innovative sales platforms, launching the first critical illness product, AlongPro Critical Illness Plan, on the WeChat Pay HK and AlipayHK electronic payment platforms. This product was also launched on BOC Life's online platform, in order to attract customers using mobile networks.

BOC Life's 20th anniversary brand promotions

The year 2018 marked the 20th anniversary of BOC Life. The Group title-sponsored a number of TV programmes using the slogan, Presented by BOC Life 20th Anniversary. A series of promotional programmes was launched to raise awareness of the Group's life insurance business and to further strengthen its brand image.

Regional Business

Improving BOCHK's overall development strategy in Southeast Asia with the aim of becoming a mainstream foreign bank in the region

Southeast Asia has remarkable development potential, both as a core focus of China's Belt and Road initiative, as a key market for RMB internationalisation and as a target region for Chinese enterprises' "Going Global" efforts. BOCHK values the important opportunity that lies in pushing forward its asset restructuring in Southeast Asia and accelerating its self-development, and remains committed to building into a top-class, full-service and internationalised regional bank. Acting as the regional hub for Southeast Asia and leveraging its competitive edges in capital funding, products, talent, management, services and technology, the Group actively developed an advanced, efficient and integrated regional development and management model, while accelerating improvements in the operational capacity, competitiveness and risk management capabilities of its Southeast Asian institutions. All of these initiatives were designed to enhance the management framework and enrich the quality of business development in order to realise the long-term, sustainable and healthy growth of its Southeast Asian institutions. These institutions aim to gradually become mainstream foreign banks in their local areas, with a focus on serving clients including Chinese enterprises "Going Global" under the Belt and Road initiative, large-scale multinational enterprises and institutions in local areas, overseas Chinese and local high-net-worth individuals.

Accelerating the integration of the Southeast Asian institutions and promoting the transformation and development of regional management

Following the completion of the acquisition of the Philippines Business and Vietnam Business of BOC on 29 January 2018, the Group's operational network now extends to the Southeast Asian countries of Thailand, Malaysia, Vietnam, the Philippines, Indonesia, Cambodia and Brunei. It continued to promote logical integration and stepped up its efforts to improve the management system and mechanism of the Southeast Asian institutions. It also accelerated full integration with the Southeast Asian institutions and strived to enhance the capacity and level of its regional management. Through the implementation of differentiated regional development and management strategies at the front, middle and back offices, the Group gradually improved its regional management model. The Group's frontline units further defined its differentiated regional business positioning and management model, so as to implement integrated operational and management objectives. The middle office units strengthened the internal risk and compliance control of the Southeast Asian institutions in order to effectively improve their overall internal risk control and anti-money laundering capabilities. The back offices enhanced regional management services and resource support in order to enhance the capacity of back office operations across Southeast Asia.

Strengthening the integrated development of regional business and expanding local mainstream markets

Since the start of 2018, the Group's Hong Kong operations have pushed forward the development of business in Southeast Asia and have achieved fruitful results through cooperation with its Southeast Asian institutions. In the corporate banking business, the Group actively promoted the marketing and expansion of the Belt and Road related projects, following the concept of integrated management and on a whitelist basis. It established a regional main relationship manager system to extend its cooperation mechanism between customer relationships and channels. The Group also promoted a regional product management model to expand its competitive products and services from Hong Kong to Southeast Asia and made a concerted effort to launch regional integrated business marketing, product development, and customer relationships management in order to accelerate its regional development. The Group also actively developed its businesses with institutional clients, promoted RMB products and treasury operations. The Manila Branch supported the Central Bank of the Philippines to issue RMB1.46 billion of Panda Bonds in China's interbank bond market. Meanwhile, the Phnom Penh Branch strengthened its collaboration with policy banks to provide project financing for the development of Chinese enterprises in Cambodia. In the personal banking business, the Group continued to strengthen its infrastructure by building its service capabilities in personal financial products and services in Southeast Asia, implementing differentiated management and deploying the appropriate products and personnel to support business development in the region. It also refined its regional management infrastructure to enhance its risk management capabilities. In addition, it strengthened customer positioning and management to optimise its customer mix. With a solid foundation in products and services, the Group strived to expand its scale of business and increase business revenue. BOC Malaysia launched two housing loan insurance products and continued to strengthen the distribution of fund products, which were well received by the market. The Jakarta Branch launched a cross-border RMB direct remittance product and began to set up a personal banking wealth management centre, laying a solid foundation for the sustainable development of its personal banking business. The Ho Chi Minh City Branch actively expanded the employee payroll account business of Chinese enterprises and managed to attract more potential mid- to high-end customers.

The development of the Group's Southeast Asia business achieved satisfactory results in the first half of 2018. Net operating income before impairment allowances of its Southeast Asian institutions* was HK$1,074 million, a growth of 24.4% year-on-year. As of 30 June 2018, deposits from customers and advances to customers amounted to HK$41,581 million and HK$36,350 million respectively, up 7.2% and 11.3% respectively from the end of 2017.

* Specifically the consolidated data of the seven Southeast Asian institutions, prepared in accordance with Hong Kong Financial Reporting Standards.

Adhering to the Three Lines of Defense and Take-the-Most-Stringent-Approach principles to achieve sustainable and healthy development

Adhering to its Three Lines of Defense and Take-the-Most-Stringent-Approach principles, the Group pushed forward the full implementation of its risk management framework and stepped up the construction of the management structure and staffing of its Southeast Asian institutions, in order to ensure high levels of compliance and anti-money laundering management. Also, it comprehensively enhanced its supervision of the Southeast Asian institutions' management of credit risk, internal control and compliance, as well as anti-money laundering, in order to safeguard these institutions' capabilities in related areas, to operate in accordance with the standards stipulated by the Group and to ensure compliance with the regulatory requirements of the HKMA and local regulators.

In conjunction with the Group's implementation of the Southeast Asian Institutional Risk Management Framework, it promoted anti-money laundering management in Southeast Asia through related policies and systems, organisational structure, professional staffing and technological systems, with a special focus on system application. 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 institutions, and to continuously improve and strengthen the Group's capabilities in regional credit risk management.

Technology and Operations

The Group actively participated in and encouraged the development of innovation and technology, adhering to the concept of "navigated by technology, driven by innovation", while striving to enhance the competitiveness of its e-finance services in order to become a leading digital bank. During the reporting period, the Group strengthened the application of innovative technologies, promoted the construction of big data and internal knowledge sharing platforms and achieved breakthroughs in biometrics and artificial intelligence. It completed a number of big data integration projects that comprehensively strengthened data quality management. The introduction of finger vein authentication services on all branches and ATMs provided customers with more convenient identity authentication options. At the same time, with the support of big data, the Group bolstered its omni-channel infrastructure by introducing a smart branch to promote different smart channels and product innovations. The Group launched a new mobile banking platform featuring new intelligent elements, including support for fingerprint and facial recognition authentication and the introduction of mobile token technology to simplify the identity authentication process. This has brought a new, safe and convenient mobile banking experience to customers, while significantly improving service efficiency and customer experience. As a result of the innovative applications mentioned above, the total number of customers using e-channels, including internet and mobile banking services, continued to rise, alongside a year-on-year increase in the total number of related transactions. The BOCHK WeChat official account, launched last year, grew rapidly in the first half of 2018, with satisfactory growth in the number of bundled customers and active users. Meanwhile, the Group actively promoted the development of Fintech applications in the Hong Kong banking industry. It held the "BOCHK Fintech Hackathon" competition with the theme of "Future Bank and Artificial Intelligence" to explore innovative solutions and identify outstanding Fintech talent. Furthermore, the Group strengthened its cooperation and idea exchanges with various parties involved in innovation research and development, including setting up seminars, innovative research programmes and Fintech talent cultivation schemes. In response to the proposed launch of Faster Payment System, one of the seven initiatives unveiled by the HKMA, the Group has completed the necessary infrastructure to fully support the HKSAR Government's aims of providing green banking services to the market.

In addition, the Group actively promoted strategic cooperation in order to build a digital financial ecosystem. During the reporting period, it opened a new smart branch in Hong Kong Science Park, showcasing the technology innovation of Science Park companies. The Group also worked with Cyberport to replace the traditional counter setting with advanced smart equipment, so as to provide customers with more convenient 24-hour banking services. The Group undertook continuous and extensive cooperation with large internet and telecommunications companies in the field of mobile payment and precision marketing in order to further enrich its e-finance application scenarios. With regard to technology risk and cybersecurity control, the Group responded to the Cybersecurity Fortification Initiative launched by the HKMA by adopting international best practices and continuously improving its technology risk management and cybersecurity capabilities.

With a view to strengthening its IT and operational infrastructure in line with BOC Group's global IT strategic deployment, the Group completed the system integration project with BOC Group, thus establishing a foundation for the Group's goal of building a top-class, full-service and internationalised regional bank. Putting customers in first consideration, the Group completed the system upgrade within the expected timeframe, with operations running smoothly afterwards. In support of its Southeast Asia development strategy, the Group pushed forward the integration of its Southeast Asian operations in order to enhance the overall operational efficiency and operational risk control of the Group.

In recognition of its innovation achievements in technology and IT development, BOCHK was recognised as Excellent Brand of FinTech-Banking in the Hong Kong Leaders' Choice Brand Awards 2018, organised by Metro Finance. In the 13th Retail Banking Awards, organised by *Asian Banking & Finance*, BOCHK received the Service Innovation of the Year – Hong Kong award for the first time, the Mobile Banking Initiative of the Year – Hong Kong award for the fourth consecutive year and the Digital Banking Initiative of the Year – Hong Kong award for the third consecutive year. The Group's blockchain application for mortgage valuation process won the Fintech Initiatives Award at the Shenzhen-Hong Kong Fintech Awards, jointly organised by the HKMA and the People's Government of Shenzhen Municipality.

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, reviewing significant or high risk exposures or transactions and exercising its power of veto if it considers that any transaction should not proceed. The Audit Committee assists the Board in fulfilling its role in overseeing the internal control system.

The Chief Executive ("CE") is responsible for managing the Group's various types of risks, 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 are 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 responsibilities 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 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 divides credit assets into five categories with reference to the HKMA's guidelines. The Risk Management Department ("RMD") provides regular credit management information reports and ad hoc reports to the Management Committee ("MC"), 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. The methodology and assumptions used for impairment assessments are reviewed regularly.

Market risk management

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

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

The Group's market risk management covers BOCHK and its subsidiaries. The Group establishes market risk management policies to regulate BOCHK's and subsidiaries' market risk management; meanwhile, the Group sets up the Group VAR and stress test limits, which are allocated and monitored across the Group according to the business requirements and risk tolerance levels. In line with the requirements set in the Group 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 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. 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 subsidiaries over a one-day holding period with a 99% confidence level, and sets up the VAR limit of the Group and subsidiaries.

The Group adopts back-testing to measure the accuracy of VAR model results. The back-testing compares the calculated VAR figure of market risk positions of each business day with the actual and hypothetical 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. RMD (Interest Rate and Liquidity Risk Management) is responsible for interest rate risk management. With the cooperation of the Asset and Liability Management Division of Financial Management Department, Treasury, and Investment Management, RMD assists the ALCO to perform day-to-day interest rate risk management. Its roles include, but are not limited to, the formulation of management policies, selection of methodologies, setting of risk indicators and limits, assessment of target balance sheet, monitoring of the compliance with policies and limits, and submission of interest rate risk management reports to the senior management and RMC, etc.

The Group sets out interest rate risk indicators and limits to identify, measure, monitor and control interest rate risk. The indicators and limits include, but are not limited to, repricing gap limits, basis risk, duration, price value of a basis point ("PVBP"), Greeks, net interest income sensitivity ratio ("NII"), economic value sensitivity ratio ("EV"), etc. The indicators and limits are classified into different levels, which are approved by the CFO and CRO, ALCO, 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 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 reasonable cost to meet their obligations as they fall due. The Group maintains sound liquidity risk appetite to provide stable, reliable and adequate sources of cash to meet liquidity needs under normal circumstances or stressed scenarios; and to survive with net positive cumulative cash flow in extreme scenarios, without requesting the HKMA to act as the lender of last resort.

The Group's liquidity risk management objective is to effectively manage the liquidity of on- and off-balance sheet items with reasonable cost based on the liquidity risk appetite to achieve sound operation and sustainable profitability. Deposits from customers are the Group's primary source of funds. To ensure stable and sufficient source of funds are in place, the Group actively attracts new deposits, keeps the core deposit and obtains supplementary funding from the interbank market 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 source of funds and the use of funds to avoid excessive concentration of assets and liabilities and prevent triggering liquidity risk due to the break of funding strand when problem occurred in one concentrated funding source. The Group has established intra-group liquidity risk management guideline to manage the liquidity funding among different entities within the Group, and to restrict their reliance of funding on each other. The Group also pays attention to manage liquidity risk created by off-balance sheet activities, such as loan commitments, derivatives, options and other complex structured products. The Group has an overall liquidity risk management strategy to cover the liquidity management of foreign currency assets and liabilities, collateral, intra-day liquidity, intra-group liquidity, the liquidity risk arising from other risks, etc., and has formulated corresponding contingency plan.

The 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 risk appetite and policies as set by the RMC. RMD (Interest Rate and Liquidity Risk Management) is responsible for overseeing the Group's liquidity risk. It cooperates with the Asset and Liability Management Division of Financial Management Department, Treasury, and Investment Management, etc. to assist the ALCO to perform liquidity management functions according to their specific responsibilities.

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

In accordance with the requirements of Supervisory Policy Manual LM-2 "Sound Systems and controls for Liquidity Risk Management" issued by the HKMA, the Group has implemented 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 contractual maturity date and the assumptions of customer behaviour and balance sheet changes. The Group establishes MCO indicator which predicts the future 30 days maximum cumulative net cash outflow in normal situations based on the above assumptions, to assess if the Group has sufficient financing capacity to meet the cash flow gap in order to achieve the objective of continuing operation.

In the liquidity stress test, institution specific, general market crisis and combined crisis scenarios have been set up, 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; drawdown rate of loan commitments and trade-related contingent liabilities; delinquency ratio and rollover rate of customer loans; and haircut of interbank placement and marketable securities. As at 30 June 2018, 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 category 1 authorised institution by the HKMA, is required to calculate LCR on consolidated basis. During the year of 2018, the Group is required to maintain a LCR not less than 90%.

The NSFR is calculated in accordance with the Banking (Liquidity) (Amendment) Rules 2017 effective from 1 January 2018, the Group, being classified as 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 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 policy, each of the subsidiaries develops its own liquidity management policies according to its own characteristics, and assumes its own liquidity risk management responsibility. Subsidiaries are required to report their respective liquidity positions on a regular basis to RMD (Interest Rate and Liquidity Risk Management) of BOCHK, which consolidates this information and evaluates group-wide liquidity risk.

Operational risk management

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

The Group has implemented the "Three Lines of Defence" for its operational risk management. All departments or functional units as the first line of defence are the first parties responsible for operational risk management, and carry out the duties and functions of self risk control in the process of business operation through self assessment and self enhancement. The 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 relevant financial crime including bribery and corruption are independently managed and controlled by the Financial Crime Compliance Department ("FCC"). Both LCO and FCC report directly to the CRO. 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. The Asset and Liability Management Committee ("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 and reinsurance arrangements.

The underwriting strategy is intended to set premium pricing at an appropriate level that corresponds with the underlying exposure of the risks underwritten 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.

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 obligations as they fall due. BOC Life's asset and liability management framework includes cash flow management to preserve liquidity to match policy payout from time to time.

Credit risk management

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, private equity and real asset. BOC Life's asset and liability 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 2018 HK$'m	(Restated) (Unaudited) Half-year ended 30 June 2017 HK$'m
CONTINUING OPERATIONS			
Interest income		**28,543**	23,586
Interest expense		**(10,053)**	(6,390)
Net interest income	5	**18,490**	17,196
Fee and commission income		**8,664**	7,632
Fee and commission expense		**(2,190)**	(1,854)
Net fee and commission income	6	**6,474**	5,778
Gross earned premiums		**11,951**	10,530
Gross earned premiums ceded to reinsurers		**(4,570)**	(5,062)
Net insurance premium income		**7,381**	5,468
Net trading gain	7	**2,044**	697
Net (loss)/gain on other financial instruments at fair value through profit or loss	8	**(1,182)**	1,188
Net gain on other financial assets	9	**86**	435
Other operating income	10	**498**	476
Total operating income		**33,791**	31,238
Gross insurance benefits and claims and movement in liabilities		**(11,384)**	(13,012)
Reinsurers' share of benefits and claims and movement in liabilities		**5,150**	5,589
Net insurance benefits and claims and movement in liabilities	11	**(6,234)**	(7,423)
Net operating income before impairment allowances		**27,557**	23,815
Net charge of impairment allowances	12	**(342)**	(354)
Net operating income		**27,215**	23,461
Operating expenses	13	**(7,000)**	(6,238)
Operating profit		**20,215**	17,223
Net gain from disposal of/fair value adjustments on investment properties	14	**918**	887
Net gain/(loss) from disposal/revaluation of properties, plant and equipment	15	**10**	(2)
Share of profits less losses after tax of associates and joint ventures		**42**	34
Profit before taxation		**21,185**	18,142
Taxation	16	**(3,307)**	(2,892)
Profit from continuing operations		**17,878**	15,250
DISCONTINUED OPERATIONS			
Profit from discontinued operations	35	**–**	2,623
Profit for the period		**17,878**	17,873
Profit attributable to:			
Equity holders of the Company			
– from continuing operations		**17,528**	14,897
– from discontinued operations	35	**–**	2,589
		17,528	17,486
Non-controlling interests			
– from continuing operations		**350**	353
– from discontinued operations	35	**–**	34
		350	387
		17,878	17,873
Dividends	17	**5,762**	6,767
		HK$	HK$
Earnings per share for profit attributable to equity holders of the Company			
Basic and diluted	18		
– profit for the period		**1.6578**	1.6539
– profit from continuing operations		**1.6578**	1.4090

The notes on pages 41 to 125 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	(Unaudited) Half-year ended 30 June 2018 HK$'m	(Restated) (Unaudited) Half-year ended 30 June 2017 HK$'m
Profit for the period		**17,878**	17,873
Items that will not be reclassified subsequently to income statement:			
Premises:			
Revaluation of premises		**1,647**	1,311
Deferred tax		**(231)**	(196)
		1,416	1,115
Equity instruments at fair value through other comprehensive income:			
Change in fair value		**(182)**	N/A
Own credit risk:			
Change in fair value of own credit risk of financial liabilities designated at fair value through profit or loss		**7**	N/A
		1,241	1,115
Items that may be reclassified subsequently to income statement:			
Debt instruments at fair value through other comprehensive income:			
Change in fair value		**(2,987)**	N/A
Change in impairment allowances charged to income statement		**12**	N/A
Release upon disposal reclassified to income statement		**(77)**	N/A
Deferred tax		**522**	N/A
		(2,530)	N/A
Available-for-sale securities:			
Change in fair value		**N/A**	2,393
Release upon disposal reclassified to income statement		**N/A**	(407)
Amortisation with respect to available-for-sale securities transferred to held-to-maturity securities reclassified to income statement		**N/A**	41
Deferred tax		**N/A**	(252)
		N/A	1,775
Currency translation difference		**(103)**	220
Release upon disposal of discontinued operations reclassified to income statement	35	**–**	48
		(2,633)	2,043
Other comprehensive income for the period, net of tax		**(1,392)**	3,158
Total comprehensive income for the period		**16,486**	21,031
Total comprehensive income attributable to:			
Equity holders of the Company		**16,581**	20,479
Non-controlling interests		**(95)**	552
		16,486	21,031

The notes on pages 41 to 125 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	(Unaudited) At 30 June 2018 HK$'m	(Restated) (Audited) At 31 December 2017 HK$'m
ASSETS			
Cash and balances and placements with banks and other financial institutions	20	**375,408**	426,604
Financial assets at fair value through profit or loss	21	**67,970**	93,194
Derivative financial instruments	22	**39,843**	33,543
Hong Kong SAR Government certificates of indebtedness		**153,370**	146,200
Advances and other accounts	23	**1,268,939**	1,191,554
Investment in securities	24	**720,582**	618,191
Interests in associates and joint ventures		**457**	417
Investment properties	25	**20,757**	19,669
Properties, plant and equipment	26	**48,389**	47,268
Deferred tax assets	32	**292**	58
Other assets	27	**78,438**	74,388
Total assets		**2,774,445**	2,651,086
LIABILITIES			
Hong Kong SAR currency notes in circulation		**153,370**	146,200
Deposits and balances from banks and other financial institutions		**237,763**	223,427
Financial liabilities at fair value through profit or loss	28	**15,912**	19,720
Derivative financial instruments	22	**31,678**	31,046
Deposits from customers	29	**1,853,580**	1,775,090
Debt securities and certificates of deposit in issue	30	**15,577**	21,641
Other accounts and provisions	31	**77,415**	53,088
Current tax liabilities		**5,652**	4,338
Deferred tax liabilities	32	**5,585**	5,704
Insurance contract liabilities	33	**104,914**	103,229
Subordinated liabilities	34	**20,674**	18,980
Total liabilities		**2,522,120**	2,402,463
EQUITY			
Share capital	36	**52,864**	52,864
Reserves		**195,181**	191,154
Capital and reserves attributable to equity holders of the Company		**248,045**	244,018
Non-controlling interests		**4,280**	4,605
Total equity		**252,325**	248,623
Total liabilities and equity		**2,774,445**	2,651,086

The notes on pages 41 to 125 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 of available-for-sale securities HK$'m	Regulatory reserve* HK$'m	Translation reserve HK$'m	Merger reserve** HK$'m	Retained earnings HK$'m	Total HK$'m	Non-controlling interests HK$'m	Total equity HK$'m
At 1 January 2017, as previously reported	52,864	35,608	(592)	9,227	(1,217)	3,455	129,302	228,647	5,907	234,554
Effect of merger of entities under common control	–	–	–	–	(59)	1,062	183	1,186	–	1,186
At 1 January 2017, as restated	52,864	35,608	(592)	9,227	(1,276)	4,517	129,485	229,833	5,907	235,740
Profit for the period	–	–	–	–	–	–	17,486	17,486	387	17,873
Other comprehensive income:										
Premises	–	1,115	–	–	–	–	–	1,115	–	1,115
Available-for-sale securities	–	–	1,616	–	–	–	–	1,616	159	1,775
Currency translation difference	–	1	(32)	–	245	–	–	214	6	220
Release upon disposal of discontinued operations reclassified to income statement	–	–	10	–	38	–	–	48	–	48
Total comprehensive income	–	1,116	1,594	–	283	–	17,486	20,479	552	21,031
Acquisition of entities under common control	–	–	–	–	–	(2,996)	–	(2,996)	–	(2,996)
Transfer from retained earnings	–	–	–	1,041	–	612	(1,653)	–	–	–
Release upon disposal of discontinued operations	–	(752)	–	(159)	–	–	911	–	(2,078)	(2,078)
Dividends	–	–	–	–	–	–	(6,608)	(6,608)	(99)	(6,707)
At 30 June 2017	52,864	35,972	1,002	10,109	(993)	2,133	139,621	240,708	4,282	244,990
Profit for the period	–	–	–	–	–	–	13,677	13,677	380	14,057
Other comprehensive income:										
Premises	–	716	–	–	–	–	–	716	–	716
Available-for-sale securities	–	–	(934)	–	–	–	–	(934)	(3)	(937)
Currency translation difference	–	1	(26)	–	265	–	–	240	(1)	239
Total comprehensive income	–	717	(960)	–	265	–	13,677	13,699	376	14,075
Acquisition of entities under common control	–	–	–	–	–	(3,622)	–	(3,622)	–	(3,622)
Transfer from retained earnings	–	–	–	115	–	2,551	(2,666)	–	–	–
Dividends	–	–	–	–	–	–	(6,767)	(6,767)	(53)	(6,820)
At 31 December 2017	52,864	36,689	42	10,224	(728)	1,062	143,865	244,018	4,605	248,623

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/ Reserve for fair value changes of available-for-sale securities 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$'m	Non-controlling interests HK$'m	Total equity HK$'m
At 1 January 2018, as previously reported	52,864	36,689	42	–	10,224	(669)	–	143,589	242,739	4,605	247,344
Effect of merger of entities under common control	–	–	–	–	–	(59)	1,062	276	1,279	–	1,279
At 1 January 2018, as restated	52,864	36,689	42	–	10,224	(728)	1,062	143,865	244,018	4,605	248,623
Effect of adoption of HKFRS 9	–	–	(1,816)	–	(750)	–	–	194	(2,372)	(106)	(2,478)
Profit for the period	–	–	–	–	–	–	–	17,528	17,528	350	17,878
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)	–	17,528	16,581	(95)	16,486
Acquisition of entities under common control	–	–	–	–	–	–	(2,168)	–	(2,168)	–	(2,168)
Release upon disposal of equity instruments at fair value through other comprehensive income:											
Transfer to retained earnings	–	–	(43)	–	–	–	–	–	(43)	(42)	(85)
Transfer from reserve for fair value changes	–	–	–	–	–	–	–	43	43	42	85
Deferred tax	–	–	7	–	–	–	–	–	7	7	14
Current tax	–	–	–	–	–	–	–	(7)	(7)	(7)	(14)
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	(827)	–	151,231	248,045	4,280	252,325

* In accordance with the requirements of the HKMA, the amounts are set aside for general banking risks, including future losses or other unforeseeable risks, in addition to the loan impairment allowances recognised under HKAS 39/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 41 to 125 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Notes	(Unaudited) Half-year ended 30 June 2018 HK$'m	(Restated) (Unaudited) Half-year ended 30 June 2017 HK$'m
Cash flows from operating activities			
Operating cash (outflow)/inflow before taxation	37(a)	**(40,579)**	234,436
Hong Kong profits tax paid		**(1,194)**	(1,089)
Overseas profits tax paid		**(347)**	(181)
Net cash (outflow)/inflow from operating activities		**(42,120)**	233,166
Cash flows from investing activities			
Additions of properties, plant and equipment		**(633)**	(823)
Proceeds from disposal of properties, plant and equipment		**5**	7
Additions of investment properties		**(2)**	(5)
Proceeds from disposal of investment properties		**–**	2
Dividend received from associates and joint ventures		**2**	1
Acquisition of entities under common control		**(2,168)**	(2,996)
Net cash inflow from disposal of discontinued operations	35	**–**	810
Net cash outflow from investing activities		**(2,796)**	(3,004)
Cash flows from financing activities			
Dividend paid to non-controlling interests		**(95)**	(99)
Interest paid for subordinated liabilities		**(543)**	(294)
Net cash outflow from financing activities		**(638)**	(393)
(Decrease)/increase in cash and cash equivalents		**(45,554)**	229,769
Cash and cash equivalents at 1 January		**380,922**	254,165
Effect of exchange rate changes on cash and cash equivalents		**118**	11,037
Cash and cash equivalents at 30 June	37(b)	**335,486**	494,971

The notes on pages 41 to 125 are an integral part of this interim financial information.

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. Basis of preparation and significant accounting policies

(a) Basis of preparation

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

(b) Significant accounting policies

Except for the initial adoption of the below mentioned standards, amendments 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 2017 and shall be read in conjunction with the Group's Annual Report for 2017.

Standards, amendments and interpretation that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2018

The Group has initially applied HKFRS 9 "Financial instruments", HKFRS 15 "Revenue from Contracts with Customers" and other amendment and interpretation from 1 January 2018 onward. The Group has also early adopted HKFRS 9 (Amendments) "Financial Instruments: Prepayment Features with Negative Compensation" which is mandatorily effective for reporting periods beginning on or after 1 January 2019 with earlier application permitted. Except for HKFRS 9, of which the impacts to the Group's financial statements being significant, the application of HKFRS 15 and other amendment and interpretation do not have material effects on the Group's financial statements. Details are disclosed as below:

- HKFRS 9, "Financial Instruments". The issuance of IFRS 9 "Financial Instruments" completes the International Accounting Standards Board's comprehensive response to the 2008 financial crisis. HKFRS 9, the equivalent standard of IFRS 9 under HKFRS, includes a logical model for classification and measurement, a single, forward-looking "expected loss" impairment model and a tighter linkage of risk management to hedge accounting. The changes introduced in HKFRS 9 are highlighted as follows:

  (i) Classification and measurement

  Financial assets are required to be classified into one of the following measurement categories: (1) measured subsequently at amortised cost, (2) measured subsequently at fair value through other comprehensive income (all fair value changes other than interest accrual, amortisation and impairment will be recognised in other comprehensive income), or (3) measured subsequently at fair value through profit or loss. Classification of financial assets is to be made on transition, and subsequently on initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instruments, or the election of fair value option.

  A financial instrument is subsequently measured at amortised cost only if it is a debt instrument, and the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows characteristics represent only unleveraged payments of principal and interest. A debt instrument is subsequently measured at fair value through other comprehensive income if it is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the instrument fulfils the contractual cash flows characteristics. All other debt instruments are to be measured at fair value through profit or loss.

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

(b) Significant accounting policies (continued)

Standards, amendments and interpretation that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2018 (continued)

(i) Classification and measurement (continued)

Equity instruments are generally measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition to recognise unrealised and realised fair value gains or losses in other comprehensive income without subsequent reclassification of fair value gains or losses to the income statement even upon disposal. Dividend income is recognised in the income statement when the right to receive payment is established.

The classification and measurement requirements of financial liabilities have been basically carried forward with minimal amendments from HKAS 39.

The accounting for fair value option of financial liabilities were changed to address own credit risk. The amount of change in fair value attributable to changes in the credit risk of the financial liabilities measured at fair value is presented in other comprehensive income. The remaining amount of the total gain or loss is included in the income statement. If this creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change would be presented in the income statement. The determination of whether there will be a mismatch will need to be made at initial recognition of individual financial liabilities and will not be re-assessed. Amounts presented in other comprehensive income are not subsequently reclassified to the income statement but may be transferred within equity. This removes the volatility in profit or loss that was caused by changes in the credit risk of financial liabilities elected to be measured at fair value. It also means that gains caused by the deterioration of an entity's own credit risk on such liabilities will no longer be recognised in profit or loss. No accumulated fair value change in own credit risk is reclassified by the Group from retained earnings to other comprehensive income upon transition.

The standard also eliminates the exception from fair value measurement contained in HKAS 39 for derivative financial instruments that are linked to and must be settled by delivery of an unquoted equity instrument.

Upon transition, the Group has performed a detailed analysis for each class of the Group's financial assets and financial liabilities on 1 January 2018, and below accompanying notes explaining the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9.

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

(b) Significant accounting policies (continued)

Standards, amendments and interpretation that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2018 (continued)

(i) Classification and measurement (continued)

Financial assets	Notes	Original classification under HKAS 39	New classification under HKFRS 9	Original gross carrying amount under HKAS 39 HK$'m	Re-classification HK$'m	Re-measurement HK$'m	New gross carrying amount under HKFRS 9 HK$'m
Cash and balances and placements with banks and other financial institutions		L&R	AC	426,604	–	–	426,604
Financial assets at fair value through profit or loss – debt instruments		FVPL (T)	FVPL (T)	49,710	–	–	49,710
		FVPL (T)	FVPL (M)	183	–	–	183
	(a)	FVPL (T)	FVOCI	179	(179)	–	–
	(b)	FVPL (T)	AC	712	(712)	–	–
	(c)	AFS	FVPL (M)	–	988	–	988
	(d)	HTM	FVPL (M)	–	1,381	(4)	1,377
	(e)	FVPL (D)	FVPL (M)	19,336	–	–	19,336
	(a)	FVPL (D)	FVOCI	5,079	(5,079)	–	–
	(b)	FVPL (D)	AC	5,249	(5,249)	–	–
	(f)	AFS	FVPL (D)	–	7,818	–	7,818
Financial assets at fair value through profit or loss – equity securities and fund		FVPL (T)	FVPL (T)	203	–	–	203
	(g)	FVPL (D)	FVPL (M)	12,543	–	–	12,543
	(h)	AFS	FVPL (M)	–	552	–	552
Hong Kong SAR Government certificates of indebtedness		L&R	AC	146,200	–	–	146,200
Derivative financial instruments		FVPL (T)	FVPL (T)	33,543	–	–	33,543
Advances and other accounts		L&R	AC	1,195,660	–	–	1,195,660

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

(b) Significant accounting policies (continued)

Standards, amendments and interpretation that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2018 (continued)

(i) Classification and measurement (continued)

Financial assets	Notes	Original classification under HKAS 39	New classification under HKFRS 9	Original gross carrying amount under HKAS 39 HK$'m	Re-classification HK$'m	Re-measurement HK$'m	New gross carrying amount under HKFRS 9 HK$'m
Investment in securities – debt instruments		AFS	FVOCI	531,964	–	–	531,964
	(c)	AFS	FVPL (M)	988	(988)	–	–
	(f)	AFS	FVPL (D)	7,818	(7,818)	–	–
	(i)	AFS	AC	20,931	(20,931)	–	–
	(a)	FVPL (T)	FVOCI	–	179	–	179
	(a)	FVPL (D)	FVOCI	–	5,079	–	5,079
	(j)	HTM	FVOCI	–	123	1	124
	(k)	L&R	FVOCI	–	499	(1)	498
	(l)	HTM	AC	49,118	–	(5)	49,113
	(d)	HTM	FVPL (M)	1,381	(1,381)	–	–
	(j)	HTM	FVOCI	123	(123)	–	–
	(b)	FVPL (T)	AC	–	712	(35)	677
	(b)	FVPL (D)	AC	–	5,249	(186)	5,063
	(i)	AFS	AC	–	20,931	508	21,439
	(k)	L&R	FVOCI	499	(499)	–	–
Investment in securities – equity securities	(m)	AFS	FVOCI	4,862	–	–	4,862
	(h)	AFS	FVPL (M)	552	(552)	–	–
Other financial assets		L&R	AC	23,353	–	–	23,353
Total financial assets				**2,536,790**	**–**	**278**	**2,537,068**

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

(b) Significant accounting policies (continued)

Standards, amendments and interpretation that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2018 (continued)

(i) Classification and measurement (continued)

Financial liabilities	Notes	Original classification under HKAS 39	New classification under HKFRS 9	Original gross carrying amount under HKAS 39 HK$'m	Re-classification HK$'m	Re-measurement HK$'m	New gross carrying amount under HKFRS 9 HK$'m
Hong Kong SAR currency notes in circulation		AC	AC	146,200	–	–	146,200
Deposits and balances from banks and other financial institutions		AC	AC	223,427	–	–	223,427
Financial liabilities at fair value through profit or loss		FVPL (T)	FVPL (T)	16,936	–	–	16,936
		FVPL (D)	FVPL (D)	2,784	–	–	2,784
Derivative financial instruments		FVPL (T)	FVPL (T)	31,046	–	–	31,046
Deposits from customers		AC	AC	1,775,090	–	–	1,775,090
Debt securities and certificates of deposit in issue		AC	AC	21,641	–	–	21,641
Subordinated liabilities		AC	AC	63	–	–	63
	(n)	AC	FVPL (D)	18,917	–	2,068	20,985
Other financial liabilities		AC	AC	42,144	–	–	42,144
Total financial liabilities				**2,278,248**	**–**	**2,068**	**2,280,316**

Remarks:

FVPL (T)	**Trading assets/liabilities at fair value through profit or loss**
FVPL (M)	**Other financial assets mandatorily classified at fair value through profit or loss**
FVPL (D)	**Financial assets/liabilities designated at fair value through profit or loss**
FVOCI	**Fair value through other comprehensive income**
AC	**Amortised cost**
AFS	**Available-for-sale**
HTM	**Held-to-maturity**
L&R	**Loans and receivables**

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

(b) Significant accounting policies (continued)

Standards, amendments and interpretation that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2018 (continued)

(i) Classification and measurement (continued)

Notes:

(a) Certain debt securities were reclassified as FVOCI out of FVPL because their contractual cash flows demonstrate solely payments of principal and interest on the principal outstanding. The Group reviewed its business model over these debt securities and concluded that the return of investment shall be achieved by both collecting contractual cash flows and sale of these investments.

(b) Certain debt securities were reclassified to AC out of FVPL because their contractual cash flows demonstrate solely payments of principal and interest on the principal outstanding. The Group reviewed its business model over these debt securities and concluded these securities shall fulfil the business model of hold-to-collect.

(c) Certain capital instruments classified as AFS with principal written-down features or equity conversion features at the point of non-viability of issuers were reclassified as FVPL because their cash flows are not solely payments of principal and interest on the principal outstanding.

(d) Certain debt securities were reclassified out of HTM to FVPL because the Group reassessed its business model upon transition and concluded that the investments are managed on a fair value basis and by maximising cash flows through sales.

(e) Certain debt securities fulfil the business model of being managed on a fair value basis and by maximising cash flows through sale and shall be mandatorily classified as FVPL.

(f) Certain AFS securities were designated as financial assets at FVPL because the Group holds related derivatives at FVPL and these designations can eliminate or significantly reduce an accounting mismatch that would otherwise arise.

(g) Equity securities and fund are mandatorily measured at FVPL under HKFRS 9. As such, these investments are no longer required to be designated at FVPL.

(h) Certain equity securities were reclassified as FVPL from AFS because the Group manages these investments on a fair value basis and the return of investment shall be achieved by maximising return through sales.

(i) Certain debt securities investments were reclassified as AC out of AFS because these securities fulfil the cash flow characteristics test and are managed solely for collecting contractual cash flows.

(j) Certain HTM securities were reclassified as FVOCI as the Group reassessed its business model upon transition and concluded that the return on investment shall be achieved both by collection of contractual cash flows and sale of investments.

(k) Certain L&R debt securities investments were reclassified as FVOCI because their contractual cash flows demonstrate solely payments of principal and interest on the principal outstanding and are held within a business model of both collecting contractual cash flows and selling investments.

(l) Certain HTM securities were reclassified as AC. Since these debt securities were AFS securities which had previously been reclassified to HTM securities under HKAS 39, the change in carrying value upon transition is due to the remeasurement from initial recognition of the debt securities.

(m) The Group elected to present in other comprehensive income the changes in fair value of certain equity investments previously classified as AFS because these investments are held as long-term strategic investments that are not managed and evaluated on a fair value basis.

(n) Under HKAS 39, the subordinated liabilities issued were measured at amortised cost and fair value hedge was applied to hedge the interest rate risk of the liabilities. Upon transition, the hedge accounting ceased and the subordinated liabilities were designated in its entirety as at FVPL to eliminate or significantly reduce an accounting mismatch between the liabilities and the hedging instruments that would otherwise arise.

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

(b) Significant accounting policies (continued)

Standards, amendments and interpretation that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2018 (continued)

(ii) Impairment

The standard introduces a new, forward-looking "expected-loss" impairment model that will require more timely recognition of expected credit losses. The impairment allowances for financial instruments that are subsequently measured at amortised cost, fair value through other comprehensive income (debt instruments), irrevocable loan commitments and financial guarantee contracts will be governed by this standard. Specifically, it requires entities to assess credit risk and estimate ECL with an unbiased and probability-weighted approach. Not only information about past events, but all available information including current conditions and forecast of future economic conditions shall be considered with discounting for time value of money. The Group will account for expected credit losses within the next 12 months as Stage 1 when those financial instruments are initially recognised; and to recognise lifetime expected credit losses as Stage 2 when there has been significant increases in credit risk since initial recognition. Lifetime expected credit losses will be recognised for credit-impaired financial instruments as Stage 3 if one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred and interest will then be accrued net of the impairment amount of the respective Stage 3 financial assets.

For assets within the scope of the HKFRS 9 impairment model, the resulting impairment under HKFRS 9 will probably be more forward-looking than that under HKAS 39. Their impairment losses are generally expected to increase and more volatile. Following table is the impact of adoption of HKFRS 9's impairment requirements as at 1 January 2018 to the Group.

Impairment allowances	At 31 December 2017 under HKAS 39 HK$'m	Re-measurement HK$'m	At 1 January 2018 under HKFRS 9 HK$'m
Cash and balances and placements with banks and other financial institutions	–	83	83
Advance and other accounts (including loan commitments and financial guarantee contracts)	4,106	1,204	5,310
Investment in securities			
– debt instruments			
– FVPL reclassified to FVOCI	–	3	3
– AFS, HTM and L&R reclassified to FVOCI	–	124	124
– FVPL reclassified to AC	–	2	2
– AFS and HTM reclassified to AC	45	15	60
Others	5	9	14
Total	**4,156**	**1,440**	**5,596**

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

(b) Significant accounting policies (continued)

Standards, amendments and interpretation that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2018 (continued)

(iii) Hedge Accounting

The requirements related to hedge accounting would better align the accounting treatments with risk management activities and enable entities to better reflect these activities in their financial statements. It relaxes the requirements for assessing hedge effectiveness which may enable more risk management strategies to be eligible for hedge accounting. It also relaxes the rules on using non-derivative financial instruments as hedging instruments and allows greater flexibility on hedged items. Users of the financial statements will be provided with more relevant information about risk management and the effect of hedge accounting on the financial statements.

The Group has chosen to prospectively apply HKFRS 9 on transition. As HKFRS 9 does not change the general principles of accounting for effective hedges, applying the hedge accounting requirements of HKFRS 9 will not have a significant impact on the Group's financial statements.

(iv) Overall impact of adoption of HKFRS 9 on equity

The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement in accordance with the transitional provision of HKFRS 9. The adoption of HKFRS 9 reduced net assets after tax at 1 January 2018 by HK$2.5 billion in aggregate, and the Group's total capital ratio decreased by around 10 basis point. The following table summarises the impact, net of tax, of transition to HKFRS 9 on the opening balances of reserves, retained earnings and non-controlling interests.

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

(b) Significant accounting policies (continued)

Standards, amendments and interpretation that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2018 (continued)

(iv) Overall impact of adoption of HKFRS 9 on equity (continued)

	Other comprehensive income and retained earnings HK$'m
Reserve for fair value changes	
Closing balance as at 31 December 2017	42
Reclassification of debt instruments from HTM to FVOCI	1
Reclassification of debt instruments from L&R to FVOCI	(1)
Reclassification of debt instruments from AFS to AC	508
Reclassification of debt instruments from FVPL(Trading) to FVOCI	4
Reclassification of debt instruments from FVPL(Designated) to FVOCI	149
Release upon reclassification of debt instruments from AFS to FVPL(Mandatory)	4
Release upon reclassification of debt instruments from AFS to FVPL(Designated)	358
Release upon reclassification of equity securities from AFS to FVPL(Mandatory)	(10)
Release upon reclassification of certain debt instruments from HTM to FVPL(Mandatory) [Note 1]	9
Release upon reclassification of certain debt instruments from HTM to AC [Note 1]	(8)
Recognition of ECL under HKFRS 9 for debt securities at FVOCI	127
Reversal of impairment loss previously recognised on AFS equity securities	(2,730)
Deferred tax in relation to the above	(170)
Share of non-controlling interests due to adoption of HKFRS 9	(57)
	(1,816)
Opening balance as at 1 January 2018	(1,774)
Regulatory reserve	
Closing balance as at 31 December 2017	10,224
Release to retained earnings upon adoption of HKFRS 9	(750)
Opening balance as at 1 January 2018	9,474

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

(b) Significant accounting policies (continued)

Standards, amendments and interpretation that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2018 (continued)

(iv) Overall impact of adoption of HKFRS 9 on equity (continued)

	Other comprehensive income and retained earnings HK$'m
Retained earnings	
Closing balance as at 31 December 2017	143,865
Reclassification of debt instruments from HTM to FVPL(Mandatory)	(4)
Reclassification of debt instruments from HTM to AC	(5)
Reclassification of debt instruments from FVPL(Trading) to AC	(35)
Reclassification of debt instruments from FVPL(Designated) to AC	(186)
Reclassification of subordinated liabilities from AC to FVPL(Designated)	(2,068)
Reclassification of debt instruments from FVPL(Trading) to FVOCI	(4)
Reclassification of debt instruments from FVPL(Designated) to FVOCI	(149)
Release upon reclassification of debt instruments from AFS to FVPL(Mandatory)	(4)
Release upon reclassification of debt instruments from AFS to FVPL(Designated)	(358)
Release upon reclassification of equity securities from AFS to FVPL(Mandatory)	10
Release upon reclassification of certain debt instruments from HTM to FVPL(Mandatory) [Note 1]	(9)
Release upon reclassification of certain debt instruments from HTM to AC [Note 1]	8
Recognition of ECL under HKFRS 9	(1,440)
Reversal of impairment loss previously recognised on AFS equity securities	2,730
Reversal of interest previously reduced under HKAS 39	111
Current tax in relation to the above	494
Deferred tax in relation to the above	190
Release from regulatory reserve upon adoption of HKFRS 9	750
Share of non-controlling interests due to adoption of HKFRS 9	163
	194
Opening balance as at 1 January 2018	144,059
Non-controlling interests	
Closing balance as at 31 December 2017	4,605
Share of non-controlling interests due to adoption of HKFRS 9	(106)
Opening balance at 1 January 2018	4,499

Note:

1. Certain debt securities that were originally AFS securities had been reclassified to HTM securities in prior years. Upon adoption of HKFRS 9, the original AFS reserve that subject to amortisation was reversed to retained earnings directly.

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

(b) Significant accounting policies (continued)

Standards, amendments and interpretation that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2018 (continued)

- HKFRS 15, "Revenue from Contracts with Customers". HKFRS 15 applies a single model and specifies the accounting treatment for all revenue arising from contracts with customers. The new standard is based on the core principle that revenue is recognised to reflect the consideration expected to be entitled when control of promised good or service transfers to customer. It is also applicable to the recognition and measurement of gains or losses on the sale of some non-financial assets such as properties or equipment that are not an output of ordinary activities. The Group adopted HKFRS 15 using the modified retrospective method of adoption. The application of this standard does not have a material impact on the Group's financial statements. The Group provides a wide range of financial services in exchange for fee or commission income. Except for a few services, such as safe deposit box service, of which revenue is recognised over time so as to depict the pattern of delivery of services, most of the commission income generated from provision of financial services, such as security brokerage fee, credit card interchange fees and fees which are not an integral part of the effective yield, are recognised on a point-in-time basis, i.e. when the performance obligation is completed. Loan syndication fees are as before recognised as revenue when the related syndication arrangement has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as applicable to the other participants.

- HKAS 40 (Amendments), "Transfer of Investment Property". The amendments clarify that there must be a change in use when a property is transferred to or from investment properties. A change in use would involve an assessment of whether a property meets, or has ceased to meet, the definition of investment property; and supporting evidence that a change in use has occurred. The requirements of these amendments are consistent with the Group's current practice and do not have a material impact on the Group's financial statements.

- HK (IFRIC) – Int 22, "Foreign Currency Transactions and Advance Consideration". The interpretation specifies that the exchange rate on the date of cash payment or receipt is used for transactions that involve advance consideration paid or received in a foreign currency. The application of this interpretation does not have a material impact on the Group's financial statements.

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

(c) Standards, amendments and interpretation issued that are relevant to the Group but not yet mandatorily effective and have not been early adopted by the Group in 2018

Standards/ Amendments/ Interpretation	Content	Applicable for financial years beginning on/after
HKAS 19 (2011) (Amendments)	Plan Amendment, Curtailment or Settlement	1 January 2019
HKAS 28 (2011) and HKFRS 10 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
HKAS 28 (2011) (Amendment)	Long-term Interests in Associates and Joint Ventures	1 January 2019
HKFRS 16	Leases	1 January 2019
HKFRS 17	Insurance Contracts	1 January 2021
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments	1 January 2019

- HKAS 19 (2011) (Amendments), "Plan Amendment, Curtailment or Settlement". The amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the reporting period after a change is made to a plan. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments shall be applied prospectively for annual periods beginning on or after 1 January 2019. The application of these amendments will not have a material impact on the Group's financial statements.

- HKFRS 16, "Leases". Please refer to Note 2.1(b) of the Group's Annual Report for 2017 for brief explanations of the standard. The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of approximately HK$1.8 billion. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit or loss and cash flows. Some of the commitments may be covered by the exemption for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

- Please refer to Note 2.1(b) of the Group's Annual Report for 2017 for brief explanations of the rest of the above-mentioned standards, amendments and interpretation.

(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 HKFRSs. 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 2017, except for those previously related to impairment of financial assets and held-to-maturity securities which are no longer applicable under HKFRS 9. The key assumptions or other estimation of uncertainties under the impairment requirements of HKFRS 9 are presented as below:

The Group reviews its credit portfolios to assess impairment at least on a quarterly basis. Under HKFRS 9, the measurement of impairment losses across all categories of credit asset requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models. The choice of variable inputs and their interdependencies involves a series of assumptions. ECL models are developed by leveraging on existing internal rating models and loss estimates, behavioural models and forecasting factors. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit rating models, which assign Probability of Defaults to the individual ratings. Please refer to CRE of section 8 of the Group's Regulatory Disclosures for 2017 for a description of the Group's internal models;

- The Group's significant credit deterioration criteria (including internal credit rating downgrade, days past due, drop in Mark-to-Market and qualitative assessment) for assessing whether the financial assets' impairment allowances should be measured on a lifetime ECL basis;

- The segmentation of financial assets according to similar risk and default characteristics (portfolios like Sovereign, Bank, Corporates, Retail Small Medium-sized Enterprise, Residential Mortgage Loan, Credit Card etc.) when their ECL is assessed on a collective basis;

- Development of ECL models, including the determination of macroeconomic factor forecasts (e.g. Gross Domestic Product, Consumer Price Index, Property Price Index etc.) and the effect on Probability of Defaults, Loss Given Defaults and Exposure at Defaults; and

- Selection of forward-looking macroeconomic scenarios (including three independent scenarios i.e. good, baseline and downturn) and their probability weightings.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

3. Financial risk management

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

3.1 Credit risk

(A) Gross advances and other accounts

(a) Impaired advances

Advances are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. Credit-impaired advances are classified as Stage 3 and lifetime expected credit losses will be recognised.

The Group identifies the advances as impaired if the exposure is past due for more than 90 days or the borrower is unlikely to pay in full for the credit obligations to the Group.

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Gross impaired advances to customers	**2,667**	1,371
Impairment allowances made in respect of such advances		
– Stage 3	**1,265**	N/A
– Individually assessed	**N/A**	491
Current market value of collateral held against the covered portion of such advances to customers	**3,095**	1,523
Covered portion of such advances to customers	**1,606**	1,083
Uncovered portion of such advances to customers	**1,061**	288

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

As at 30 June 2018, gross impaired trade bills amounted to HK$4 million (31 December 2017: Nil), and there was no impaired advances to banks and other financial institutions (31 December 2017: Nil).

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Gross advances and other accounts (continued)

(a) Impaired advances (continued)

Classified or impaired advances to customers are analysed as follows:

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Gross classified or impaired advances to customers	**2,667**	2,079
Gross classified or impaired advances to customers as a percentage of gross advances to customers	**0.22%**	0.18%
Impairment allowances made in respect of such advances		
– Stages 1 to 3	**1,265**	N/A
– Collectively and individually assessed	**N/A**	540

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/individually assessed to be impaired.

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Gross advances and other accounts (continued)

(b) Advances overdue for more than three months

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

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

	At 30 June 2018		At 31 December 2017	
	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	**225**	**0.02%**	117	0.01%
– one year or less but over six months	**76**	**0.01%**	123	0.01%
– over one year	**385**	**0.03%**	313	0.03%
Advances overdue for over three months	**686**	**0.06%**	553	0.05%
Impairment allowances made in respect of such advances				
– Stage 3	**473**		N/A	
– Individually assessed	**N/A**		309	

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Current market value of collateral held against the covered portion of such advances to customers	**607**	520
Covered portion of such advances to customers	**307**	289
Uncovered portion of such advances to customers	**379**	264

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Gross advances and other accounts (continued)

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

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

As at 30 June 2018, there were no trade bills and advances to banks and other financial institutions overdue for more than three months (31 December 2017: Nil).

(c) Rescheduled advances

	At 30 June 2018		At 31 December 2017	
	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"	**186**	**0.02%**	238	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) Gross advances and other accounts (continued)

(d) Concentration of advances to customers

(i) Sectoral analysis of gross advances to customers

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

	At 30 June 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	112,874	22.22%	–	–	–	451
– Property investment	50,814	83.55%	26	92	–	41
– Financial concerns	18,559	1.42%	–	–	–	38
– Stockbrokers	7,483	32.45%	–	–	–	1
– Wholesale and retail trade	41,572	33.30%	25	153	18	101
– Manufacturing	48,086	12.93%	5	25	2	80
– Transport and transport equipment	65,110	25.73%	955	14	2	166
– Recreational activities	1,866	1.68%	–	–	–	2
– Information technology	20,624	1.21%	–	7	–	97
– Others	108,195	41.71%	20	565	8	253
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	9,992	99.77%	16	131	–	3
– Loans for purchase of other residential properties	240,914	99.93%	88	1,293	–	51
– Credit card advances	14,081	–	134	504	118	196
– Others	70,083	82.97%	336	808	324	531
Total loans for use in Hong Kong	810,253	56.94%	1,605	3,592	472	2,011
Trade finance	70,492	16.20%	155	85	137	151
Loans for use outside Hong Kong	349,763	8.25%	907	1,157	656	1,723
Gross advances to customers	1,230,508	40.76%	2,667	4,834	1,265	3,885

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

	At 31 December 2017					
	Gross advances to customers HK$'m	% covered by collateral or other security	Classified or impaired HK$'m	Overdue HK$'m	Individually assessed impairment allowances HK$'m	Collectively assessed impairment allowances HK$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	99,987	24.22%	–	5	–	336
– Property investment	53,581	78.47%	19	68	–	180
– Financial concerns	13,461	2.42%	–	–	–	68
– Stockbrokers	1,027	89.86%	–	1	–	3
– Wholesale and retail trade	34,931	38.23%	26	160	20	131
– Manufacturing	45,075	13.93%	32	25	4	159
– Transport and transport equipment	61,786	28.44%	1,062	27	44	213
– Recreational activities	2,040	1.47%	–	–	–	6
– Information technology	23,900	1.07%	–	–	–	79
– Others	100,966	41.99%	18	132	5	336
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	9,874	99.75%	12	147	–	6
– Loans for purchase of other residential properties	234,434	99.93%	75	1,520	1	128
– Credit card advances	14,620	–	39	549	–	124
– Others	63,356	80.57%	53	508	20	429
Total loans for use in Hong Kong	759,038	58.31%	1,336	3,142	94	2,198
Trade finance	78,196	14.13%	55	25	32	287
Loans for use outside Hong Kong	309,192	9.19%	688	1,003	365	1,130
Gross advances to customers	1,146,426	42.05%	2,079	4,170	491	3,615

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

(ii) Geographical analysis of gross advances to customers

The following geographical analysis of advances to customers is based on the 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 2018 HK$'m	At 31 December 2017 HK$'m
Hong Kong	**966,567**	911,691
Mainland of China	**139,302**	135,990
Others	**124,639**	98,745
	1,230,508	1,146,426
Impairment allowances made in respect of the gross advances to customers – Stages 1 and 2		
Hong Kong	**2,566**	N/A
Mainland of China	**374**	N/A
Others	**945**	N/A
	3,885	N/A
Impairment allowances made in respect of the gross advances to customers – Collectively assessed		
Hong Kong	**N/A**	2,741
Mainland of China	**N/A**	453
Others	**N/A**	421
	N/A	3,615

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

Overdue advances

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Hong Kong	**3,752**	3,061
Mainland of China	**256**	181
Others	**826**	928
	4,834	4,170
Impairment allowances made in respect of the overdue advances – Stage 3		
Hong Kong	**502**	N/A
Mainland of China	**57**	N/A
Others	**303**	N/A
	862	N/A
Impairment allowances made in respect of the overdue advances – Individually assessed		
Hong Kong	**N/A**	65
Mainland of China	**N/A**	53
Others	**N/A**	220
	N/A	338

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

Classified or impaired advances

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Hong Kong	**1,880**	1,379
Mainland of China	**177**	111
Others	**610**	589
	2,667	2,079
Impairment allowances made in respect of the classified or impaired advances – Stage 3		
Hong Kong	**767**	N/A
Mainland of China	**65**	N/A
Others	**433**	N/A
	1,265	N/A
Impairment allowances made in respect of the classified or impaired advances – Individually assessed		
Hong Kong	**N/A**	113
Mainland of China	**N/A**	70
Others	**N/A**	308
	N/A	491

(B) Repossessed assets

The estimated market value of repossessed assets held by the Group as at 30 June 2018 amounted to HK$48 million (31 December 2017: HK$77 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. In the absence of such issue ratings, the ratings designated for the issuers are reported.

	At 30 June 2018			
	Financial assets at fair value through profit or loss HK$'m	Investment in securities at fair value through other comprehensive income HK$'m	Investment in securities at amortised cost HK$'m	Total HK$'m
Aaa	**7,890**	**124,590**	**43,280**	**175,760**
Aa1 to Aa3	**18,228**	**140,850**	**4,430**	**163,508**
A1 to A3	**17,052**	**309,331**	**30,070**	**356,453**
Lower than A3	**7,564**	**31,043**	**10,640**	**49,247**
Unrated	**1,338**	**14,967**	**6,199**	**22,504**
	52,072	**620,781**	**94,619**	**767,472**
Impairment allowances				
– Stage 1		**139**	**22**	
– Stage 2		**–**	**–**	
– Stage 3		**–**	**43**	
		139	**65**	

	At 31 December 2017				
	Financial assets at fair value through profit or loss HK$'m	Available-for-sale securities HK$'m	Held-to-maturity securities HK$'m	Loans and receivables HK$'m	Total HK$'m
Aaa	18,003	169,826	16,909	–	204,738
Aa1 to Aa3	13,639	135,479	1,581	–	150,699
A1 to A3	29,692	205,403	20,933	499	256,527
Lower than A3	9,662	35,848	6,192	–	51,702
Unrated	2,593	15,145	4,962	–	22,700
	73,589	561,701	50,577	499	686,366
Impairment allowances		–	45	–	

3. Financial risk management (continued)

3.1 Credit risk (continued)

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

The gross impaired and overdue debt securities and certificates of deposit are analysed as follows:

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Overdue for more than one year		
– Investment in securities at amortised cost	43	N/A
– Held-to-maturity securities	N/A	45
	43	45

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

The following table sets out the VAR for all general market risk exposure[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	2018	30.0	24.1	45.7	32.7
	2017	46.1	38.0	80.9	57.3
VAR for foreign exchange risk	2018	18.0	10.7	20.2	15.3
	2017	23.6	23.6	54.1	38.4
VAR for interest rate risk	2018	23.6	18.7	43.0	28.7
	2017	38.2	27.6	82.4	52.9
VAR for equity risk	2018	1.7	1.2	7.0	2.7
	2017	1.4	0.7	5.3	2.6
VAR for commodity risk	2018	3.1	0.8	3.4	1.7
	2017	1.6	1.2	2.0	1.6

Note:

1. Structural FX positions have been excluded.

3. Financial risk management (continued)

3.2 Market risk (continued)

(A) VAR (continued)

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

- the use of historical market data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;

- the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;

- the use of a 99% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and

- VAR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

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

(B) Currency risk

The Group's assets and liabilities are denominated in major currencies, particularly 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.

3. Financial risk management (continued)

3.2 Market risk (continued)

(B) Currency risk (continued)

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 2018							
	Equivalent in million of HK$							
	US Dollars	Pound Sterling	Japanese Yen	Euro	Renminbi	Australian Dollars	Other foreign currencies	Total foreign currencies
Spot assets	853,888	24,939	159,510	37,639	297,452	42,749	59,885	1,476,062
Spot liabilities	(745,084)	(16,542)	(11,049)	(20,072)	(319,164)	(23,697)	(60,867)	(1,196,475)
Forward purchases	982,209	20,154	22,959	54,219	433,691	18,302	93,004	1,624,538
Forward sales	(1,088,121)	(28,594)	(171,267)	(71,566)	(410,445)	(37,309)	(92,362)	(1,899,664)
Net options position	1,521	(3)	(14)	(123)	(111)	(19)	(2)	1,249
Net long/(short) position	4,413	(46)	139	97	1,423	26	(342)	5,710

	At 31 December 2017							
	Equivalent in million of HK$							
	US Dollars	Pound Sterling	Japanese Yen	Euro	Renminbi	Australian Dollars	Other foreign currencies	Total foreign currencies
Spot assets	850,639	23,799	90,147	52,557	365,422	42,746	47,941	1,473,251
Spot liabilities	(742,593)	(15,363)	(11,352)	(25,620)	(288,947)	(19,414)	(50,633)	(1,153,922)
Forward purchases	909,676	16,490	30,145	61,278	356,964	21,391	86,722	1,482,666
Forward sales	(1,014,314)	(25,073)	(108,992)	(88,054)	(433,565)	(44,640)	(83,140)	(1,797,778)
Net options position	(684)	6	(6)	(48)	44	(14)	10	(692)
Net long/(short) position	2,724	(141)	(58)	113	(82)	69	900	3,525

3. Financial risk management (continued)

3.2 Market risk (continued)

(B) Currency risk (continued)

	At 30 June 2018					
	Equivalent in million of HK$					
	US Dollars	**Baht**	**Malaysian Ringgit**	**Philippine Peso**	**Other foreign currencies**	**Total foreign currencies**
Net structural position	**4,491**	**2,304**	**2,688**	**1,567**	**1,552**	**12,602**

	At 31 December 2017					
	Equivalent in million of HK$					
	US Dollars	Baht	Malaysian Ringgit	Philippine Peso	Other foreign currencies	Total foreign currencies
Net structural position	3,531	2,350	2,651	–	1,015	9,547

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 2018 and 31 December 2017. 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 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	288,247	27,373	32,591	–	–	27,197	375,408
Financial assets at fair value through profit or loss	8,100	7,019	11,032	13,972	15,949	11,898	67,970
Derivative financial instruments	–	–	–	–	–	39,843	39,843
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	153,370	153,370
Advances and other accounts	965,592	221,675	36,078	32,286	6,109	7,199	1,268,939
Investment in securities							
– At FVOCI	69,698	172,784	131,887	167,199	79,213	5,182	625,963
– At amortised cost	699	1,009	6,173	49,520	37,218	–	94,619
Interests in associates and joint ventures	–	–	–	–	–	457	457
Investment properties	–	–	–	–	–	20,757	20,757
Properties, plant and equipment	–	–	–	–	–	48,389	48,389
Other assets (including deferred tax assets)	6,238	–	–	–	–	72,492	78,730
Total assets	1,338,574	429,860	217,761	262,977	138,489	386,784	2,774,445
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	153,370	153,370
Deposits and balances from banks and other financial institutions	210,695	2,261	875	460	–	23,472	237,763
Financial liabilities at fair value through profit or loss	5,422	5,875	2,797	1,319	499	–	15,912
Derivative financial instruments	–	–	–	–	–	31,678	31,678
Deposits from customers	1,286,498	229,357	161,507	1,133	–	175,085	1,853,580
Debt securities and certificates of deposit in issue	1,390	13,813	374	–	–	–	15,577
Other accounts and provisions (including current and deferred tax liabilities)	15,832	–	–	–	–	72,820	88,652
Insurance contract liabilities	–	–	–	–	–	104,914	104,914
Subordinated liabilities	–	63	–	20,611	–	–	20,674
Total liabilities	1,519,837	251,369	165,553	23,523	499	561,339	2,522,120
Interest sensitivity gap	(181,263)	178,491	52,208	239,454	137,990	(174,555)	252,325

3. Financial risk management (continued)

3.2 Market risk (continued)

(C) Interest rate risk (continued)

	At 31 December 2017						
	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	344,533	37,363	21,864	–	–	22,844	426,604
Financial assets at fair value through profit or loss	10,940	9,239	17,242	13,824	29,203	12,746	93,194
Derivative financial instruments	–	–	–	–	–	33,543	33,543
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	146,200	146,200
Advances and other accounts	954,709	139,053	55,031	28,574	6,374	7,813	1,191,554
Investment in securities							
– Available-for-sale securities	73,072	102,698	116,481	164,179	105,271	5,414	567,115
– Held-to-maturity securities	1,231	2,467	7,989	24,092	14,798	–	50,577
– Loans and receivables	–	499	–	–	–	–	499
Interests in associates and joint ventures	–	–	–	–	–	417	417
Investment properties	–	–	–	–	–	19,669	19,669
Properties, plant and equipment	–	–	–	–	–	47,268	47,268
Other assets (including deferred tax assets)	4,338	–	–	–	–	70,108	74,446
Total assets	1,388,823	291,319	218,607	230,669	155,646	366,022	2,651,086
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	146,200	146,200
Deposits and balances from banks and other financial institutions	184,793	7,177	380	825	–	30,252	223,427
Financial liabilities at fair value through profit or loss	7,102	4,116	7,068	955	479	–	19,720
Derivative financial instruments	–	–	–	–	–	31,046	31,046
Deposits from customers	1,336,481	160,670	140,524	1,263	–	136,152	1,775,090
Debt securities and certificates of deposit in issue	7,091	1,971	12,579	–	–	–	21,641
Other accounts and provisions (including current and deferred tax liabilities)	13,703	–	–	–	–	49,427	63,130
Insurance contract liabilities	–	–	–	–	–	103,229	103,229
Subordinated liabilities	–	–	63	18,917	–	–	18,980
Total liabilities	1,549,170	173,934	160,614	21,960	479	496,306	2,402,463
Interest sensitivity gap	(160,347)	117,385	57,993	208,709	155,167	(130,284)	248,623

3. Financial risk management (continued)

3.3 Liquidity risk

(A) Liquidity coverage ratio and net stable funding ratio

	2018	2017
Average value of liquidity coverage ratio		
– First quarter	**134.33%**	121.41%
– Second quarter	**146.39%**	123.88%

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.

	2018
Quarter-end value of net stable funding ratio	
– First quarter	**118.98%**
– Second quarter	**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 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 2018 and 31 December 2017 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 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	199,949	115,495	27,373	32,591	–	–	–	375,408
Financial assets at fair value through profit or loss	–	7,227	6,766	11,113	14,447	15,775	12,642	67,970
Derivative financial instruments	11,295	4,348	3,804	6,987	8,221	5,188	–	39,843
Hong Kong SAR Government certificates of indebtedness	153,370	–	–	–	–	–	–	153,370
Advances and other accounts	152,062	43,438	66,112	187,184	563,142	255,192	1,809	1,268,939
Investment in securities								
– At FVOCI	–	59,213	142,612	135,256	203,551	79,956	5,375	625,963
– At amortised cost	–	911	1,142	6,502	49,126	36,938	–	94,619
Interests in associates and joint ventures	–	–	–	–	–	–	457	457
Investment properties	–	–	–	–	–	–	20,757	20,757
Properties, plant and equipment	–	–	–	–	–	–	48,389	48,389
Other assets (including deferred tax assets)	33,060	16,073	200	1,801	12,642	14,924	30	78,730
Total assets	549,736	246,705	248,009	381,434	851,129	407,973	89,459	2,774,445
Liabilities								
Hong Kong SAR currency notes in circulation	153,370	–	–	–	–	–	–	153,370
Deposits and balances from banks and other financial institutions	188,065	46,102	2,261	875	460	–	–	237,763
Financial liabilities at fair value through profit or loss	–	5,422	5,879	2,798	1,318	495	–	15,912
Derivative financial instruments	6,570	3,721	3,591	7,103	6,750	3,943	–	31,678
Deposits from customers	1,065,470	396,113	229,357	161,507	1,133	–	–	1,853,580
Debt securities and certificates of deposit in issue	–	1,390	13,813	374	–	–	–	15,577
Other accounts and provisions (including current and deferred tax liabilities)	45,308	29,988	283	6,079	6,987	7	–	88,652
Insurance contract liabilities	37,320	361	887	2,979	16,997	46,370	–	104,914
Subordinated liabilities	–	–	439	–	20,235	–	–	20,674
Total liabilities	1,496,103	483,097	256,510	181,715	53,880	50,815	–	2,522,120
Net liquidity gap	(946,367)	(236,392)	(8,501)	199,719	797,249	357,158	89,459	252,325

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

	At 31 December 2017							
	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	248,821	111,143	37,363	21,864	–	–	7,413	426,604
Financial assets at fair value through profit or loss	–	10,622	8,561	17,828	14,364	28,912	12,907	93,194
Derivative financial instruments	10,492	4,134	4,097	6,697	5,523	2,600	–	33,543
Hong Kong SAR Government certificates of indebtedness	146,200	–	–	–	–	–	–	146,200
Advances and other accounts	131,113	35,145	68,476	184,172	525,761	244,761	2,126	1,191,554
Investment in securities								
– Available-for-sale securities	–	61,106	72,443	121,513	199,007	107,428	5,618	567,115
– Held-to-maturity securities	–	1,312	2,616	8,162	23,830	14,657	–	50,577
– Loans and receivables	–	–	499	–	–	–	–	499
Interests in associates and joint ventures	–	–	–	–	–	–	417	417
Investment properties	–	–	–	–	–	–	19,669	19,669
Properties, plant and equipment	–	–	–	–	–	–	47,268	47,268
Other assets (including deferred tax assets)	28,492	18,185	777	1,183	9,472	16,300	37	74,446
Total assets	565,118	241,647	194,832	361,419	777,957	414,658	95,455	2,651,086
Liabilities								
Hong Kong SAR currency notes in circulation	146,200	–	–	–	–	–	–	146,200
Deposits and balances from banks and other financial institutions	173,065	41,044	8,113	380	825	–	–	223,427
Financial liabilities at fair value through profit or loss	–	7,102	4,118	7,070	954	476	–	19,720
Derivative financial instruments	6,668	5,600	5,033	6,800	4,636	2,309	–	31,046
Deposits from customers	1,117,254	355,379	160,670	140,524	1,263	–	–	1,775,090
Debt securities and certificates of deposit in issue	–	7,091	1,971	12,579	–	–	–	21,641
Other accounts and provisions (including current and deferred tax liabilities)	35,878	15,299	2,103	3,011	6,831	8	–	63,130
Insurance contract liabilities	35,707	418	890	3,781	14,214	48,219	–	103,229
Subordinated liabilities	–	–	422	16	18,542	–	–	18,980
Total liabilities	1,514,772	431,933	183,320	174,161	47,265	51,012	–	2,402,463
Net liquidity gap	(949,654)	(190,286)	11,512	187,258	730,692	363,646	95,455	248,623

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 policies and reinsurance arrangements.

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

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

For the in-force insurance contracts, most of the underlying insurance liabilities are related to endowment, 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 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. The results of such studies are considered in determining the assumptions of insurance liability which include 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 and the internal ratings-based (securitisation) approach to calculate the credit risk capital charge for its securitisation exposures. A small residual credit exposures which includes the credit exposures of overseas subsidiaries and branches 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:

	At 30 June 2018		At 31 December 2017	
Name	**Total assets HK$'m**	**Total equity HK$'m**	Total assets HK$'m	Total equity HK$'m
BOC Group Trustee Company Limited	**200**	**200**	200	200
BOCI-Prudential Trustee Limited	**516**	**444**	506	464
China Bridge (Malaysia) Sdn. Bhd.	**20**	**14**	37	31
Bank of China (Hong Kong) Nominees Limited	**–**	**–**	–	–
Bank of China (Hong Kong) Trustees Limited	**11**	**11**	15	15
BOCHK Information Technology (Shenzhen) Co., Ltd.	**393**	**254**	355	238
BOCHK Information Technology Services (Shenzhen) Co., Ltd.	**384**	**348**	366	312
Che Hsing (Nominees) Limited	**1**	**1**	1	1
Po Sang Financial Investment Services Company Limited	**361**	**346**	363	346
Po Sang Securities and Futures Limited	**843**	**536**	990	511
Sin Chiao Enterprises Corporation, Limited	**7**	**7**	7	7
Sin Hua Trustee Limited	**7**	**6**	4	4
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 2018 (31 December 2017: 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 2018 (31 December 2017: 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 2018	At 31 December 2017
CET1 capital ratio	**16.62%**	16.52%
Tier 1 capital ratio	**16.62%**	16.52%
Total capital ratio	**20.12%**	20.39%

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 2018 HK$'m	At 31 December 2017 HK$'m
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments	**43,043**	43,043
Retained earnings	**150,453**	142,208
Disclosed reserves	**44,667**	43,673
Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	**–**	–
CET1 capital before regulatory adjustments	**238,163**	228,924
CET1 capital: regulatory deductions		
Valuation adjustments	**(18)**	(12)
Deferred tax assets (net of associated deferred tax liabilities)	**(107)**	(51)
Gains and losses due to changes in own credit risk on fair valued liabilities	**241**	(69)
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	**(50,831)**	(48,556)
Regulatory reserve for general banking risks	**(10,746)**	(10,224)
Total regulatory deductions to CET1 capital	**(61,461)**	(58,912)
CET1 capital	**176,702**	170,012
AT1 capital: instruments		
AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	**–**	–
AT1 capital	**–**	–
Tier 1 capital	**176,702**	170,012

3. Financial risk management (continued)

3.5 Capital management (continued)

(B) Capital ratio (continued)

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Tier 2 capital: instruments and provisions		
Capital instruments subject to phase out arrangements from Tier 2 capital	**7,717**	11,576
Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	**–**	–
Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**6,546**	6,390
Tier 2 capital before regulatory deductions	**14,263**	17,966
Tier 2 capital: regulatory deductions		
Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	**22,874**	21,850
Total regulatory adjustments to Tier 2 capital	**22,874**	21,850
Tier 2 capital	**37,137**	39,816
Total regulatory capital	**213,839**	209,828

The capital buffer ratios are analysed as follows:

	At 30 June 2018	At 31 December 2017
Capital conservation buffer ratio	**1.875%**	1.250%
Higher loss absorbency ratio	**1.125%**	0.750%
Countercyclical capital buffer ratio	**1.403%**	0.934%

The additional information of capital ratio disclosures is available under 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 2018 HK$'m	At 31 December 2017 HK$'m
Tier 1 capital	**176,702**	170,012
Leverage ratio exposure	**2,558,199**	2,461,068
Leverage ratio	**6.91%**	6.91%

The additional information of leverage ratio disclosures is available under 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.

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

4.1 Financial instruments measured at fair value (continued)

Asset backed securities

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

Derivatives

OTC derivative contracts include forward, swap and option contracts on foreign exchange, interest rate, equity, commodity or credit. The fair values of these contracts are mainly measured using valuation techniques such as discounted cash flow models and option pricing models. The inputs can be observable or unobservable market data. Observable inputs include interest rate, foreign exchange rates, equity and stock prices, commodity prices, credit default swap spreads, 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 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	249	31,091	–	31,340
– Equity securities	111	–	–	111
– Other debt instruments	–	4,000	–	4,000
Other financial assets mandatorily classified at fair value through profit or loss (Note 21)				
– Debt securities and certificates of deposit	–	15,593	1,990	17,583
– Equity securities	3,330	–	–	3,330
– Fund	5,677	2,325	455	8,457
Financial assets designated at fair value through profit or loss (Note 21)				
– Debt securities and certificates of deposit	685	2,464	–	3,149
Derivative financial instruments (Note 22)	11,581	28,260	2	39,843
Investment in securities at FVOCI (Note 24)				
– Debt securities and certificates of deposit	184,174	434,990	1,617	620,781
– Equity securities	3,963	317	902	5,182
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 28)				
– Trading liabilities	–	13,337	–	13,337
– Financial liabilities designated at fair value through profit or loss	–	2,575	–	2,575
Derivative financial instruments (Note 22)	6,632	25,046	–	31,678
Subordinated liabilities (Note 34)				
– Subordinated notes	–	20,611	–	20,611

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 2017			
	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	1,947	41,978	–	43,925
– Equity securities	203	–	–	203
– Other debt instruments	–	6,859	–	6,859
Financial assets designated at fair value through profit or loss (Note 21)				
– Debt securities and certificates of deposit	–	26,552	3,112	29,664
– Equity securities	3,481	–	–	3,481
– Fund	6,969	1,580	513	9,062
Derivative financial instruments (Note 22)	10,510	23,033	–	33,543
Available-for-sale securities (Note 24)				
– Debt securities and certificates of deposit	111,552	449,139	1,010	561,701
– Equity securities	4,468	134	812	5,414
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 28)				
– Trading liabilities	–	16,936	–	16,936
– Financial liabilities designated at fair value through profit or loss	–	2,784	–	2,784
Derivative financial instruments (Note 22)	6,703	24,343	–	31,046

There were no financial asset and liability transfers between level 1 and level 2 for the Group during the period (31 December 2017: 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 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, after adoption of HKFRS 9	**1,982**	**513**	**–**	**1,674**	**812**
Gains/(losses)					
– Income statement					
– Net trading gain	**–**	**–**	**2**	**–**	**–**
– Net loss on other financial instruments at fair value through profit or loss	**(81)**	**(16)**	**–**	**–**	**–**
– Other comprehensive income					
– Change in fair value	**–**	**–**	**–**	**(57)**	**90**
Additions	**89**	**82**	**–**	**–**	**–**
Disposals, redemptions and maturity	**–**	**(124)**	**–**	**–**	**–**
Transfer out of level 3	**–**	**–**	**–**	**–**	**–**
Reclassification	**–**	**–**	**–**	**–**	**–**
At 30 June 2018	**1,990**	**455**	**2**	**1,617**	**902**
Total unrealised gains/(losses) for the period included in income statement for financial assets held as at 30 June 2018					
– Net trading gain	**–**	**–**	**2**	**–**	**–**
– Net loss on other financial instruments at fair value through profit or loss	**(81)**	**(16)**	**–**	**–**	**–**
	(81)	**(16)**	**2**	**–**	**–**

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 2017				
	Financial assets				
	Trading assets	Financial assets designated at fair value through profit or loss		Available-for-sale securities	
	Debt securities and certificates of deposit HK$'m	Debt securities and certificates of deposit HK$'m	Fund HK$'m	Debt securities and certificates of deposit HK$'m	Equity securities HK$'m
At 1 January 2017, as previously reported	162	2,878	–	1,735	718
Effect of merger of entities under common control	–	–	–	–	1
At 1 January 2017, as restated	162	2,878	–	1,735	719
Gains					
– Income statement					
– Net trading gain	–	–	–	–	–
– Net gain on other financial instruments at fair value through profit or loss	–	234	43	–	–
– Other comprehensive income					
– Change in fair value	–	–	–	157	88
Additions	–	–	470	–	5
Disposals, redemptions and maturity	(157)	–	–	(287)	–
Transfer out of level 3	(5)	–	–	(238)	–
Reclassification	–	–	–	(357)	–
At 31 December 2017	–	3,112	513	1,010	812
Total unrealised gains for the year included in income statement for financial assets held as at 31 December 2017					
– Net trading gain	–	–	–	–	–
– Net gain on other financial instruments at fair value through profit or loss	–	234	43	–	–
	–	234	43	–	–

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 2018 and 31 December 2017, 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.

Certain debt securities and certificates of deposit were transferred out of level 3 during 2017 due to change of valuation observability. 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. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

The fair values of unlisted FVOCI/available-for-sale equity shares are determined with reference to multiples of comparable listed companies, such as average of the price/earning ratios of comparables, or net asset value, if appropriate comparables are not available. The fair value is positively correlated to the price/earning ratios of appropriate comparables or net asset values. Had the net asset value of the underlying equity investments increased/decreased by 5%, the Group's other comprehensive income would have increased/decreased by HK$45 million (31 December 2017: HK$41 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.

Held-to-maturity securities

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

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

4.2 Financial instruments not measured at fair value (continued)

Loans and receivables

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

Deposits from customers

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

Debt securities and certificates of deposit in issue

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

Subordinated liabilities

The subordinated loan is on floating rate terms, bears interest at prevailing market interest rates and its carrying value approximates fair value. Fair value for subordinated notes is based on market prices or broker/dealer price quotations.

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

	At 30 June 2018		At 31 December 2017	
	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)	**94,619**	**93,251**	N/A	N/A
Held-to-maturity securities (Note 24)	**N/A**	**N/A**	50,577	50,998
Loans and receivables (Note 24)	**N/A**	**N/A**	499	498
Financial liabilities				
Debt securities and certificates of deposit in issue (Note 30)	**15,577**	**15,596**	21,641	21,578
Subordinated liabilities (Note 34)				
– Subordinated notes	**N/A**	**N/A**	18,917	20,985

5. Net interest income

CONTINUING OPERATIONS	Half-year ended 30 June 2018 HK$'m	Half-year ended 30 June 2017 HK$'m
Interest income		
Advances to customers, due from banks and other financial institutions	**20,354**	17,475
Investment in securities and financial assets at fair value through profit or loss	**8,043**	6,006
Others	**146**	105
	28,543	23,586
Interest expense		
Deposits from customers, due to banks and other financial institutions	**(8,921)**	(5,752)
Debt securities and certificates of deposit in issue	**(308)**	(41)
Subordinated liabilities	**(554)**	(434)
Others	**(270)**	(163)
	(10,053)	(6,390)
Net interest income	**18,490**	17,196

Included within interest income and interest expense are HK$27,742 million (first half of 2017: HK$23,220 million) and HK$9,392 million (first half of 2017: HK$6,569 million), before hedging effect, for financial assets and financial liabilities that are not recognised at fair value through profit or loss respectively.

6. Net fee and commission income

CONTINUING OPERATIONS	**Half-year ended 30 June 2018 HK$'m**	Half-year ended 30 June 2017 HK$'m
Fee and commission income		
Credit card business	**1,734**	1,537
Loan commissions	**1,712**	2,086
Securities brokerage	**1,705**	1,054
Insurance	**865**	628
Funds distribution	**552**	440
Bills commissions	**400**	393
Payment services	**325**	323
Trust and custody services	**313**	254
Currency exchange	**268**	195
Safe deposit box	**154**	147
Others	**636**	575
	8,664	7,632
Fee and commission expense		
Credit card business	**(1,281)**	(1,107)
Insurance	**(198)**	(139)
Securities brokerage	**(196)**	(128)
Others	**(515)**	(480)
	(2,190)	(1,854)
Net fee and commission income	**6,474**	5,778
Of which arise from:		
Financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	**1,953**	2,254
– Fee and commission expense	**(20)**	(24)
	1,933	2,230
Trust and other fiduciary activities		
– Fee and commission income	**406**	345
– Fee and commission expense	**(14)**	(10)
	392	335

7. Net trading gain

CONTINUING OPERATIONS	**Half-year ended 30 June 2018 HK$'m**	Half-year ended 30 June 2017 HK$'m
Net gain from:		
Foreign exchange and foreign exchange products	**1,694**	83
Interest rate instruments and items under fair value hedge	**175**	417
Commodities	**61**	107
Equity and credit derivative instruments	**114**	90
	2,044	697

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

CONTINUING OPERATIONS	**Half-year ended 30 June 2018 HK$'m**	Half-year ended 30 June 2017 HK$'m
Net loss on other financial instruments mandatorily classified at fair value through profit or loss	**(1,538)**	N/A
Net gain on financial instruments designated at fair value through profit or loss	**356**	1,188
	(1,182)	1,188

9. Net gain on other financial assets

CONTINUING OPERATIONS	**Half-year ended 30 June 2018 HK$'m**	Half-year ended 30 June 2017 HK$'m
Net gain on investment in securities at FVOCI	**77**	N/A
Net gain on investment in securities at amortised cost	**11**	N/A
Net gain on available-for-sale securities	**N/A**	407
Net gain on held-to-maturity securities	**N/A**	13
Others	**(2)**	15
	86	435

10. Other operating income

CONTINUING OPERATIONS	**Half-year ended 30 June 2018 HK$'m**	Half-year ended 30 June 2017 HK$'m
Dividend income from investment in securities	**127**	69
Gross rental income from investment properties	**328**	293
Less: Outgoings in respect of investment properties	**(33)**	(41)
Others	**76**	155
	498	476

Included in the "Outgoings in respect of investment properties" is HK$1 million (first half of 2017: HK$6 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

CONTINUING OPERATIONS	**Half-year ended 30 June 2018 HK$'m**	Half-year ended 30 June 2017 HK$'m
Gross insurance benefits and claims and movement in liabilities		
Claims, benefits and surrenders paid	**(9,458)**	(6,504)
Movement in liabilities	**(1,926)**	(6,508)
	(11,384)	(13,012)
Reinsurers' share of benefits and claims and movement in liabilities		
Reinsurers' share of claims, benefits and surrenders paid	**4,285**	3,501
Reinsurers' share of movement in liabilities	**865**	2,088
	5,150	5,589
Net insurance benefits and claims and movement in liabilities	**(6,234)**	(7,423)

12. Net charge of impairment allowances

CONTINUING OPERATIONS	Half-year ended 30 June 2018 HK$'m	Half-year ended 30 June 2017 HK$'m
Advances and other accounts		
– Stage 1	**462**	N/A
– Stage 2	**(141)**	N/A
– Stage 3	**(585)**	N/A
– Collectively assessed	**N/A**	(501)
– Individually assessed	**N/A**	151
	(264)	(350)
Investment in securities		
– At FVOCI	**(12)**	N/A
– At amortised cost	**(5)**	N/A
– Held-to-maturity securities	**N/A**	–
	(17)	–
Others	**(61)**	(4)
Net charge of impairment allowances	**(342)**	(354)

13. Operating expenses

CONTINUING OPERATIONS	Half-year ended 30 June 2018 HK$'m	Half-year ended 30 June 2017 HK$'m
Staff costs (including directors' emoluments)		
– Salaries and other costs	**3,821**	3,478
– Pension cost	**232**	220
	4,053	3,698
Premises and equipment expenses (excluding depreciation)		
– Rental of premises	**362**	354
– Information technology	**286**	268
– Others	**208**	210
	856	832
Depreciation	**996**	927
Auditor's remuneration		
– Audit services	**3**	3
– Non-audit services	**6**	2
Other operating expenses	**1,086**	776
	7,000	6,238

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

CONTINUING OPERATIONS	**Half-year ended 30 June 2018 HK$'m**	Half-year ended 30 June 2017 HK$'m
Net gain from fair value adjustments on investment properties	**918**	887

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

CONTINUING OPERATIONS	**Half-year ended 30 June 2018 HK$'m**	Half-year ended 30 June 2017 HK$'m
Net loss from disposal of equipment, fixtures and fittings	**(2)**	(8)
Net gain from revaluation of premises	**12**	6
	10	(2)

16. Taxation

Taxation in the income statement represents:

CONTINUING OPERATIONS	**Half-year ended 30 June 2018 HK$'m**	Half-year ended 30 June 2017 HK$'m
Current tax		
Hong Kong profits tax		
– Current period taxation	**2,975**	2,722
Overseas taxation		
– Current period taxation	**380**	224
– Over-provision in prior periods	**(20)**	–
	3,335	2,946
Deferred tax		
Origination and reversal of temporary differences and unused tax credits	**(28)**	(54)
	3,307	2,892

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2018. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2018 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:

CONTINUING OPERATIONS	**Half-year ended 30 June 2018 HK$'m**	Half-year ended 30 June 2017 HK$'m
Profit before taxation	**21,185**	18,142
Calculated at a taxation rate of 16.5% (2017: 16.5%)	**3,496**	2,993
Effect of different taxation rates in other countries/regions	**43**	56
Income not subject to taxation	**(430)**	(265)
Expenses not deductible for taxation purposes	**118**	86
Tax losses not recognised	**–**	2
Over-provision in prior periods	**(20)**	–
Foreign withholding tax	**100**	20
Taxation charge	**3,307**	2,892
Effective tax rate	**15.6%**	15.9%

17. Dividends

	Half-year ended 30 June 2018		Half-year ended 30 June 2017	
	Per share HK$	**Total HK$'m**	Per share HK$	Total HK$'m
Interim dividend	**0.545**	**5,762**	0.545	5,762
Special dividend	**–**	**–**	0.095	1,005
	0.545	**5,762**	0.640	6,767

At a meeting held on 28 August 2018, the Board declared an interim dividend of HK$0.545 per ordinary share for the first half of 2018 amounting to approximately HK$5,762 million. This declared dividend is not reflected as a dividend payable in this interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2018.

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

The calculation of basic earnings per share for the first half of 2018 is based on the consolidated profit for the period and profit from continuing operations attributable to equity holders of the Company of approximately HK$17,528 million and HK$17,528 million (first half of 2017: HK$17,486 million and HK$14,897 million) respectively and on the ordinary shares in issue of 10,572,780,266 shares (2017: 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 2018 (first half of 2017: 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.

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

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

The Group's total contributions made to the ORSO schemes for the first half of 2018 amounted to approximately HK$171 million (first half of 2017: approximately HK$170 million), after a deduction of forfeited contributions of approximately HK$4 million (first half of 2017: approximately HK$4 million). For the MPF Scheme, the Group contributed approximately HK$46 million (first half of 2017: approximately HK$42 million) for the first half of 2018.

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

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Cash	**15,103**	14,243
Balances with central banks	**99,781**	88,886
Placements with central banks maturing within one month	**13,370**	9,691
Placements with central banks maturing between one and twelve months	**1,632**	1,486
	114,783	100,063
Balances with other banks and other financial institutions	**85,136**	153,105
Placements with other banks and other financial institutions maturing within one month	**102,122**	101,452
Placements with other banks and other financial institutions maturing between one and twelve months	**58,340**	57,741
	245,598	312,298
	375,484	426,604
Impairment allowances		
– Stage 1	**(76)**	N/A
– Stage 2	**–**	N/A
– Stage 3	**–**	N/A
	375,408	426,604

21. Financial assets at fair value through profit or loss

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Securities		
Trading assets		
– Treasury bills	**13,577**	17,780
– Certificates of deposit	**1,731**	1,483
– Other debt securities	**16,032**	24,662
	31,340	43,925
– Equity securities	**111**	203
	31,451	44,128
Other financial assets mandatorily classified at fair value through profit or loss		
– Certificates of deposit	**161**	N/A
– Other debt securities	**17,422**	N/A
	17,583	N/A
– Equity securities	**3,330**	N/A
– Fund	**8,457**	N/A
	29,370	N/A
Financial assets designated at fair value through profit or loss		
– Certificates of deposit	**–**	159
– Other debt securities	**3,149**	29,505
	3,149	29,664
– Equity securities	**–**	3,481
– Fund	**–**	9,062
	3,149	42,207
Total securities	**63,970**	86,335
Other debt instruments		
Trading assets	**4,000**	6,859
	67,970	93,194

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

Total securities are analysed by place of listing as follows:

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Debt securities and certificates of deposit		
– Listed in Hong Kong	**11,753**	18,203
– Listed outside Hong Kong	**13,482**	17,870
– Unlisted	**26,837**	37,516
	52,072	73,589
Equity securities		
– Listed in Hong Kong	**2,410**	2,578
– Listed outside Hong Kong	**1,031**	1,106
	3,441	3,684
Fund		
– Unlisted	**8,457**	9,062
Total securities	**63,970**	86,335

Total securities are analysed by type of issuer as follows:

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Sovereigns	**21,785**	28,929
Public sector entities	**2,389**	703
Banks and other financial institutions	**31,241**	39,844
Corporate entities	**8,555**	16,859
Total securities	**63,970**	86,335

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 2018 and 31 December 2017:

	At 30 June 2018		
	Contract/ notional amounts	**Fair values**	
		Assets	**Liabilities**
	HK$'m	**HK$'m**	**HK$'m**
Exchange rate contracts			
Spot, forwards and futures	**386,259**	**12,734**	**(9,296)**
Swaps	**1,549,180**	**12,926**	**(12,332)**
Options	**46,648**	**127**	**(64)**
	1,982,087	**25,787**	**(21,692)**
Interest rate contracts			
Futures	**14,792**	**2**	**(11)**
Swaps	**1,032,117**	**12,481**	**(9,503)**
Options	**1,570**	**2**	**(2)**
	1,048,479	**12,485**	**(9,516)**
Commodity contracts	**27,943**	**1,177**	**(65)**
Equity contracts	**8,110**	**394**	**(403)**
Credit derivative contracts	**392**	**–**	**(2)**
	3,067,011	**39,843**	**(31,678)**

	At 31 December 2017		
	Contract/ notional amounts	Fair values	
		Assets	Liabilities
	HK$'m	HK$'m	HK$'m
Exchange rate contracts			
Spot, forwards and futures	354,350	12,043	(9,238)
Swaps	1,460,316	13,923	(15,641)
Options	59,734	138	(107)
	1,874,400	26,104	(24,986)
Interest rate contracts			
Futures	17,306	8	(1)
Swaps	932,611	6,788	(5,405)
	949,917	6,796	(5,406)
Commodity contracts	28,001	559	(570)
Equity contracts	6,655	78	(81)
Credit derivative contracts	586	6	(3)
	2,859,559	33,543	(31,046)

23. Advances and other accounts

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Personal loans and advances	**341,007**	327,827
Corporate loans and advances	**889,501**	818,599
Advances to customers	**1,230,508**	1,146,426
Trade bills	**39,232**	42,975
Advances to banks and other financial institutions	**4,357**	6,259
	1,274,097	1,195,660
Impairment allowances		
– Stage 1	**(3,492)**	N/A
– Stage 2	**(397)**	N/A
– Stage 3	**(1,269)**	N/A
– Collectively assessed	**N/A**	(3,615)
– Individually assessed	**N/A**	(491)
	1,268,939	1,191,554

As at 30 June 2018, advances to customers included accrued interest of HK$2,070 million (31 December 2017: HK$1,729 million).

24. Investment in securities

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Investment in securities at fair value through other comprehensive income		
– Treasury bills	**250,158**	N/A
– Certificates of deposit	**33,682**	N/A
– Other debt securities	**336,941**	N/A
	620,781	N/A
– Equity securities	**5,182**	N/A
	625,963	N/A
Investment in securities at amortised cost		
– Certificates of deposit	**18**	N/A
– Other debt securities	**94,666**	N/A
	94,684	N/A
– Impairment allowances		
Stage 1	**(22)**	N/A
Stage 2	**–**	N/A
Stage 3	**(43)**	N/A
	94,619	N/A
Available-for-sale securities at fair value		
– Treasury bills	**N/A**	180,160
– Certificates of deposit	**N/A**	26,762
– Other debt securities	**N/A**	354,779
	N/A	561,701
– Equity securities	**N/A**	5,414
	N/A	567,115
Held-to-maturity securities at amortised cost		
– Certificates of deposit	**N/A**	18
– Other debt securities	**N/A**	50,604
	N/A	50,622
– Impairment allowances	**N/A**	(45)
	N/A	50,577
Loans and receivables at amortised cost		
– Other debt securities	**N/A**	499
	720,582	618,191

24. Investment in securities (continued)

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

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Debt securities and certificates of deposit		
– Listed in Hong Kong	**85,045**	80,808
– Listed outside Hong Kong	**246,076**	210,804
– Unlisted	**384,279**	321,165
	715,400	612,777
Equity securities		
– Listed in Hong Kong	**3,963**	4,468
– Listed outside Hong Kong	**317**	134
– Unlisted	**902**	812
	5,182	5,414
	720,582	618,191

	At 30 June 2018		At 31 December 2017	
	Carrying value HK$'m	Market value HK$'m	Carrying value HK$'m	Market value HK$'m
Listed securities at amortised cost				
– Listed in Hong Kong	**17,145**	**16,975**	N/A	N/A
– Listed outside Hong Kong	**40,890**	**40,533**	N/A	N/A
	58,035	**57,508**	N/A	N/A
Listed held-to-maturity securities				
– Listed in Hong Kong	**N/A**	**N/A**	10,355	10,662
– Listed outside Hong Kong	**N/A**	**N/A**	19,646	19,781
	N/A	**N/A**	30,001	30,443

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

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Sovereigns	**312,500**	234,032
Public sector entities	**44,402**	45,374
Banks and other financial institutions	**215,876**	213,826
Corporate entities	**147,804**	124,959
	720,582	618,191

25. Investment properties

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
At 1 January	**19,669**	18,227
Additions	**2**	13
Disposals	**–**	(2)
Fair value gains	**918**	1,197
Reclassification from properties, plant and equipment (Note 26)	**168**	234
At period/year end	**20,757**	19,669

26. Properties, plant and equipment

	Premises HK$'m	Equipment, fixtures and fittings HK$'m	Total HK$'m
Net book value at 1 January 2018, as previously reported	**44,329**	**2,932**	**47,261**
Effect of merger of entities under common control	**–**	**7**	**7**
Net book value at 1 January 2018, as restated	**44,329**	**2,939**	**47,268**
Additions	**5**	**628**	**633**
Disposals	**(3)**	**(4)**	**(7)**
Revaluation	**1,659**	**–**	**1,659**
Depreciation for the period (Note 13)	**(532)**	**(464)**	**(996)**
Reclassification to investment properties (Note 25)	**(168)**	**–**	**(168)**
Net book value at 30 June 2018	**45,290**	**3,099**	**48,389**
At 30 June 2018			
Cost or valuation	**45,290**	**10,135**	**55,425**
Accumulated depreciation and impairment	**–**	**(7,036)**	**(7,036)**
Net book value at 30 June 2018	**45,290**	**3,099**	**48,389**
The analysis of cost or valuation of the above assets is as follows:			
At 30 June 2018			
At cost	**–**	**10,135**	**10,135**
At valuation	**45,290**	**–**	**45,290**
	45,290	**10,135**	**55,425**

26. Properties, plant and equipment (continued)

	Premises HK$'m	Equipment, fixtures and fittings HK$'m	Total HK$'m
Net book value at 1 January 2017, as previously reported	43,357	2,455	45,812
Effect of merger of entities under common control	–	6	6
Net book value at 1 January 2017, as restated	43,357	2,461	45,818
Additions	112	1,411	1,523
Disposals	(8)	(20)	(28)
Revaluation	2,119	–	2,119
Depreciation for the year	(1,024)	(927)	(1,951)
Reclassification to investment properties (Note 25)	(234)	–	(234)
Exchange difference	7	14	21
Net book value at 31 December 2017	44,329	2,939	47,268
At 31 December 2017			
Cost or valuation	44,329	9,616	53,945
Accumulated depreciation and impairment	–	(6,677)	(6,677)
Net book value at 31 December 2017	44,329	2,939	47,268
The analysis of cost or valuation of the above assets is as follows:			
At 31 December 2017			
At cost	–	9,616	9,616
At valuation	44,329	–	44,329
	44,329	9,616	53,945

27. Other assets

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Repossessed assets	**21**	30
Precious metals	**8,025**	6,291
Reinsurance assets	**46,135**	43,717
Accounts receivable and prepayments	**24,257**	24,350
	78,438	74,388

28. Financial liabilities at fair value through profit or loss

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Trading liabilities		
– Short positions in Exchange Fund Bills and Notes	**13,337**	16,936
Financial liabilities designated at fair value through profit or loss		
– Structured deposits (Note 29)	**2,575**	2,784
	15,912	19,720

The carrying amount of financial liabilities designated at fair value through profit or loss as at 30 June 2018 was less than the amount that the Group would be contractually required to pay at maturity to the holders by HK$4 million (31 December 2017: HK$3 million).

29. Deposits from customers

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Current, savings and other deposit accounts (per balance sheet)	**1,853,580**	1,775,090
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 28)	**2,575**	2,784
	1,856,155	1,777,874
Analysed by:		
Demand deposits and current accounts		
– Corporate	**151,462**	145,029
– Personal	**62,121**	58,808
	213,583	203,837
Savings deposits		
– Corporate	**320,250**	372,909
– Personal	**531,441**	540,283
	851,691	913,192
Time, call and notice deposits		
– Corporate	**484,661**	409,151
– Personal	**306,220**	251,694
	790,881	660,845
	1,856,155	1,777,874

30. Debt securities and certificates of deposit in issue

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Debt securities, at amortised cost	**15,577**	21,641

31. Other accounts and provisions

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Dividend payable	**8,014**	–
Other accounts payable	**69,080**	53,088
Impairment allowances on loan commitments and financial guarantee contracts		
– Stage 1	**308**	N/A
– Stage 2	**11**	N/A
– Stage 3	**2**	N/A
	77,415	53,088

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 2018 and the year ended 31 December 2017 are as follows:

	At 30 June 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**	**(549)**	**(1,147)**	**5,646**
Effect of adoption of HKFRS 9	**–**	**–**	**(190)**	**170**	**(20)**
Charged/(credited) to income statement (Note 16)	**41**	**(59)**	**28**	**(38)**	**(28)**
Charged/(credited) to other comprehensive income	**–**	**231**	**–**	**(522)**	**(291)**
Release upon disposal of equity instruments at fair value through other comprehensive income	**–**	**–**	**–**	**(14)**	**(14)**
At 30 June 2018	**734**	**6,821**	**(711)**	**(1,551)**	**5,293**

	At 31 December 2017				
	Accelerated tax depreciation HK$'m	Property revaluation HK$'m	Impairment allowances HK$'m	Others HK$'m	Total HK$'m
At 1 January 2017	611	6,467	(426)	(1,139)	5,513
Charged/(credited) to income statement	82	(116)	(123)	(89)	(246)
Charged to other comprehensive income	–	298	–	81	379
At 31 December 2017	693	6,649	(549)	(1,147)	5,646

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 2018 HK$'m	At 31 December 2017 HK$'m
Deferred tax assets	**(292)**	(58)
Deferred tax liabilities	**5,585**	5,704
	5,293	5,646

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Deferred tax assets to be recovered after more than twelve months	**(93)**	(38)
Deferred tax liabilities to be settled after more than twelve months	**6,930**	6,794
	6,837	6,756

As at 30 June 2018, the Group has not recognised deferred tax assets in respect of tax losses amounting to HK$27 million (31 December 2017: HK$25 million). Of the amount, HK$9 million (31 December 2017: HK$9 million) for the Group has no expiry date and HK$18 million (31 December 2017: HK$16 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 2018 HK$'m	At 31 December 2017 HK$'m
At 1 January	**103,229**	86,534
Benefits paid	**(9,102)**	(10,815)
Claims incurred and movement in liabilities	**10,787**	27,510
At period/year end	**104,914**	103,229

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK$38,636 million (31 December 2017: HK$38,074 million) and the associated reinsurance assets of HK$46,135 million (31 December 2017: HK$43,717 million) are included in "Other assets" (Note 27).

34. Subordinated liabilities

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Subordinated notes		
– designated at fair value through profit or loss	**20,611**	N/A
– at amortised cost with fair value hedge adjustment	**N/A**	18,917
Subordinated loan		
– at amortised cost	**63**	63
	20,674	18,980

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. 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 2018 was more than the amount that the Group would be contractually required to pay at maturity to the holders by HK$605 million (31 December 2017: N/A).

The subordinated loan is from BOC, the intermediate holding company, with interest rate at 12-month LIBOR plus 1.50% per annum payable annually. The subordinated loan is repayable on five equal annual instalments starting September 2017 and matures on September 2021.

35. Discontinued operations

On 22 December 2016, BOCHK (as seller) entered into a sale and purchase agreement with Xiamen International Investment Limited and the Committee of Jimei Schools (each as a buyer) in relation to the disposal of a total of 2,114,773 ordinary shares of Chiyu. The completion of the disposal was conditional upon the satisfaction of all the conditions precedent set out in the sale and purchase agreement.

All the conditions precedent set out in the sale and purchase agreement were satisfied, and completion of the disposal took place on 27 March 2017 in accordance with the terms and conditions of the sale and purchase agreement. Upon completion, Chiyu ceased to be a subsidiary of BOCHK.

35. Discontinued operations (continued)

The results of discontinued operations for the period are as follows:

DISCONTINUED OPERATIONS	Half-year ended 30 June 2018 HK$'m	Half-year ended 30 June 2017 HK$'m
Interest income	–	268
Interest expense	–	(75)
Net interest income	–	193
Fee and commission income	–	39
Fee and commission expense	–	–
Net fee and commission income	–	39
Net trading gain	–	2
Net gain on other financial instruments at fair value through profit or loss	–	1
Net operating income before impairment allowances	–	235
Net charge of impairment allowances	–	(7)
Net operating income	–	228
Operating expenses	–	(87)
Operating profit	–	141
Taxation	–	(22)
Profit after taxation	–	119
Gain on disposal of discontinued operations	–	2,504
Profit from discontinued operations	–	2,623
Profit attributable to:		
Equity holders of the Company	–	2,589
Non-controlling interests	–	34
	–	2,623
	HK$	HK$
Earnings per share for profit attributable to equity holders of the Company		
Basic and diluted		
– profit from discontinued operations	–	0.2449

35. Discontinued operations (continued)

The net cash flows incurred by discontinued operations are as follows:

	Half-year ended 30 June 2018 HK$'m	Half-year ended 30 June 2017 HK$'m
Operating activities	–	2,000
Investing activities	–	(3)
Financing activities	–	–
Net cash inflow incurred by discontinued operations	–	1,997

The gain on disposal of discontinued operations is analysed as follows:

	Half-year ended 30 June 2017 HK$'m
Total consideration	7,685
Net assets disposed	(7,044)
Non-controlling interests	2,078
Cumulative translation reserve and reserve for fair value changes of available-for-sale securities reclassified to income statement	(48)
Transaction costs incurred in connection with the disposal	(167)
Gain on disposal of discontinued operations	2,504

The net assets of discontinued operations at the date of disposal are as follows:

	At the date of disposal HK$'m
Cash and balances and placements with banks and other financial institutions	8,244
Financial assets at fair value through profit or loss	351
Derivative financial instruments	95
Advances and other accounts	31,411
Investment in securities	14,541
Investment properties	204
Properties, plant and equipment	1,537
Deferred tax assets	63
Other assets	582
Deposits and balances from banks and other financial institutions	(2,765)
Derivative financial instruments	(8)
Deposits from customers	(46,277)
Other accounts and provisions	(725)
Current tax liabilities	(45)
Deferred tax liabilities	(164)
Net assets disposed	7,044

35. Discontinued operations (continued)

The net cash inflow from disposal of discontinued operations is analysed as follows:

	Half-year ended 30 June 2017 HK$'m
Total consideration received, satisfied by cash	7,685
Transaction costs incurred in connection with the disposal	(167)
Cash and cash equivalents disposed	(6,708)
Net cash inflow from disposal of discontinued operations	810

36. Share capital

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Issued and fully paid:		
10,572,780,266 ordinary shares	**52,864**	52,864

37. Notes to condensed consolidated cash flow statement

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

	Half-year ended 30 June 2018 HK$'m	Half-year ended 30 June 2017 HK$'m
Operating profit		
– from continuing operations	**20,215**	17,223
– from discontinued operations	**–**	141
	20,215	17,364
Depreciation	**996**	927
Net charge of impairment allowances	**342**	361
Unwind of discount on impairment allowances	**–**	(1)
Advances written off net of recoveries	**(150)**	(186)
Change in subordinated liabilities	**176**	378
Change in balances and placements with banks and other financial institutions with original maturity over three months	**(10,277)**	2,348
Change in financial assets at fair value through profit or loss	**26,391**	(8,153)
Change in derivative financial instruments	**(5,668)**	14,158
Change in advances and other accounts	**(78,326)**	(139,397)
Change in investment in securities	**(90,585)**	22,478
Change in other assets	**(4,064)**	(6,855)
Change in deposits and balances from banks and other financial institutions	**14,336**	109,575
Change in financial liabilities at fair value through profit or loss	**(3,808)**	5,958
Change in deposits from customers	**78,490**	141,974
Change in debt securities and certificates of deposit in issue	**(6,064)**	8,130
Change in other accounts and provisions	**15,963**	68,515
Change in insurance contract liabilities	**1,685**	7,678
Effect of changes in exchange rates	**(231)**	(10,816)
Operating cash (outflow)/inflow before taxation	**(40,579)**	234,436
Cash flows from operating activities included		
– interest received	**27,591**	22,759
– interest paid	**8,387**	5,734
– dividend received	**127**	69

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

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

	At 30 June 2018 HK$'m	At 30 June 2017 HK$'m
Cash and balances and placements with banks and other financial institutions with original maturity within three months	**305,268**	411,936
Treasury bills, certificates of deposit and other debt instruments with original maturity within three months		
– financial assets at fair value through profit or loss	**2,651**	82,337
– investment in securities	**27,567**	698
	335,486	494,971

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 2018 HK$'m	At 31 December 2017 HK$'m
Direct credit substitutes	**5,855**	8,414
Transaction-related contingencies	**23,871**	30,092
Trade-related contingencies	**32,121**	28,294
Commitments that are unconditionally cancellable without prior notice	**427,002**	397,100
Other commitments with an original maturity of		
– up to one year	**16,206**	17,976
– over one year	**144,660**	154,582
	649,715	636,458
Credit risk-weighted amount	**72,870**	74,844

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 2018 HK$'m	At 31 December 2017 HK$'m
Authorised and contracted for but not provided for	**167**	146
Authorised but not contracted for	**75**	3
	242	149

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

(a) As lessee

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

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Land and buildings		
– Not later than one year	**715**	607
– Later than one year but not later than five years	**1,073**	634
– Later than five years	**41**	14
	1,829	1,255

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

(b) As lessor

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

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Land and buildings		
– Not later than one year	**555**	543
– Later than one year but not later than five years	**465**	502
	1,020	1,045

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 and certain interests in associates and joint ventures.

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 2018								
CONTINUING OPERATIONS								
Net interest income/(expense)								
– External	1,086	7,357	7,315	1,494	1,238	18,490	–	18,490
– Inter-segment	4,554	(831)	(3,209)	(22)	(492)	–	–	–
	5,640	6,526	4,106	1,472	746	18,490	–	18,490
Net fee and commission income/(expense)	3,838	2,071	486	(306)	568	6,657	(183)	6,474
Net insurance premium income	–	–	–	7,390	–	7,390	(9)	7,381
Net trading gain/(loss)	464	843	687	(123)	141	2,012	32	2,044
Net gain/(loss) on other financial instruments at fair value through profit or loss	5	–	311	(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	9,959	9,439	5,639	7,060	2,499	34,596	(805)	33,791
Net insurance benefits and claims and movement in liabilities	–	–	–	(6,234)	–	(6,234)	–	(6,234)
Net operating income before impairment allowances	9,959	9,439	5,639	826	2,499	28,362	(805)	27,557
Net charge of impairment allowances	(30)	(49)	(1)	(4)	(258)	(342)	–	(342)
Net operating income	9,929	9,390	5,638	822	2,241	28,020	(805)	27,215
Operating expenses	(4,068)	(1,408)	(653)	(225)	(1,451)	(7,805)	805	(7,000)
Operating profit	5,861	7,982	4,985	597	790	20,215	–	20,215
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	5,905	7,982	4,985	597	1,716	21,185	–	21,185
At 30 June 2018								
ASSETS								
Segment assets	365,053	895,996	1,266,036	134,809	139,150	2,801,044	(27,056)	2,773,988
Interests in associates and joint ventures	395	–	2	–	60	457	–	457
	365,448	895,996	1,266,038	134,809	139,210	2,801,501	(27,056)	2,774,445
LIABILITIES								
Segment liabilities	1,013,012	844,573	483,166	126,604	81,821	2,549,176	(27,056)	2,522,120
Half-year ended 30 June 2018								
CONTINUING OPERATIONS								
Other information								
Capital expenditure	3	–	–	5	627	635	–	635
Depreciation	259	67	57	8	605	996	–	996
Amortisation of securities	–	–	386	94	(6)	474	–	474

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 2017								
CONTINUING OPERATIONS								
Net interest income/(expense)								
– External	1,773	5,795	7,716	1,340	572	17,196	–	17,196
– Inter-segment	2,994	(101)	(2,469)	(12)	(412)	–	–	–
	4,767	5,694	5,247	1,328	160	17,196	–	17,196
Net fee and commission income/(expense)	2,889	2,392	377	(284)	583	5,957	(179)	5,778
Net insurance premium income	–	–	–	5,477	–	5,477	(9)	5,468
Net trading gain/(loss)	393	630	(765)	311	99	668	29	697
Net gain on other financial instruments at fair value through profit or loss	6	–	3	1,176	–	1,185	3	1,188
Net gain on other financial assets	–	15	217	203	–	435	–	435
Other operating income	39	5	15	95	1,013	1,167	(691)	476
Total operating income	8,094	8,736	5,094	8,306	1,855	32,085	(847)	31,238
Net insurance benefits and claims and movement in liabilities	–	–	–	(7,423)	–	(7,423)	–	(7,423)
Net operating income before impairment allowances	8,094	8,736	5,094	883	1,855	24,662	(847)	23,815
Net charge of impairment allowances	(214)	(82)	–	–	(58)	(354)	–	(354)
Net operating income	7,880	8,654	5,094	883	1,797	24,308	(847)	23,461
Operating expenses	(3,686)	(1,353)	(649)	(200)	(1,197)	(7,085)	847	(6,238)
Operating profit	4,194	7,301	4,445	683	600	17,223	–	17,223
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	887	887	–	887
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	(5)	–	(1)	–	4	(2)	–	(2)
Share of profits less losses after tax of associates and joint ventures	33	–	–	–	1	34	–	34
Profit before taxation	4,222	7,301	4,444	683	1,492	18,142	–	18,142
At 31 December 2017								
ASSETS								
Segment assets	355,060	832,946	1,213,510	130,597	130,831	2,662,944	(12,275)	2,650,669
Interests in associates and joint ventures	350	–	2	–	65	417	–	417
	355,410	832,946	1,213,512	130,597	130,896	2,663,361	(12,275)	2,651,086
LIABILITIES								
Segment liabilities	957,439	810,020	457,289	121,752	68,238	2,414,738	(12,275)	2,402,463
Half-year ended 30 June 2017								
CONTINUING OPERATIONS								
Other information								
Capital expenditure	3	–	1	13	808	825	–	825
Depreciation	226	73	45	8	575	927	–	927
Amortisation of securities	–	–	16	5	–	21	–	21

42. Assets pledged as security

As at 30 June 2018, the liabilities of the Group amounting to HK$14,955 million (31 December 2017: HK$11,111 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK$4,248 million (31 December 2017: HK$14,477 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$19,414 million (31 December 2017: HK$26,002 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 2018, the related aggregate amounts due from and to BOC of the Group were HK$112,367 million (31 December 2017: HK$186,565 million) and HK$57,255 million (31 December 2017: HK$60,385 million) respectively. The aggregate amounts of income and expenses of the Group arising from these transactions with BOC for the first half of 2018 were HK$1,825 million (first half of 2017: HK$549 million) and HK$283 million (first half of 2017: HK$197 million) respectively.

Transactions with other companies controlled by BOC are not considered material.

43. Significant related party transactions (continued)

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

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

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

– lending, provision of credits and guarantees, and deposit taking;

– inter-bank balance taking and placing;

– sales, 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 2018 HK$'m	Half-year ended 30 June 2017 HK$'m
Income statement items		
Associates		
– Fee and commission expenses	**6**	20
– Other operating expenses	**39**	37
Other related parties		
– Fee and commission income	**5**	5

	At 30 June 2018 HK$'m	At 31 December 2017 HK$'m
Balance sheet item		
Associates		
– Other accounts and provisions	**17**	4

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 2018 HK$'m	Half-year ended 30 June 2017 HK$'m
Salaries and other short-term employee benefits	**16**	17

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 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	**333,161**	**100,450**	**29,876**	**145,482**	**608,969**
Hong Kong	**10,508**	**–**	**29,156**	**309,157**	**348,821**
Japan	**10,616**	**143,634**	**2,796**	**1,494**	**158,540**

	At 31 December 2017				
			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	401,249	95,744	25,940	142,557	665,490
Hong Kong	11,186	–	19,529	311,584	342,299
Japan	14,773	79,727	4,452	1,109	100,061

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 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	**282,231**	**33,284**	**315,515**
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	**59,004**	**12,342**	**71,346**
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	**70,689**	**10,467**	**81,156**
Other entities of central government not reported in item 1 above	4	**29,452**	**3,423**	**32,875**
Other entities of local governments not reported in item 2 above	5	**2**	**1**	**3**
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	**78,125**	**8,163**	**86,288**
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	**2,775**	**329**	**3,104**
Total	8	**522,278**	**68,009**	**590,287**
Total assets after provision	9	**2,575,524**		
On-balance sheet exposures as percentage of total assets	10	**20.28%**		

45. Non-bank Mainland exposures (continued)

		At 31 December 2017		
	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	277,878	46,003	323,881
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	67,154	11,268	78,422
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	53,490	11,078	64,568
Other entities of central government not reported in item 1 above	4	29,972	1,029	31,001
Other entities of local governments not reported in item 2 above	5	–	–	–
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	75,825	21,261	97,086
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	2,624	828	3,452
Total	8	506,943	91,467	598,410
Total assets after provision	9	2,445,769		
On-balance sheet exposures as percentage of total assets	10	20.73%		

46. Application of merger accounting

On 29 January 2018, the Philippines Business and the Vietnam Business were transferred from BOC to BOCHK for a total consideration of HK$853 million and HK$1,315 million in cash respectively. The Philippines Business, the Vietnam Business and BOCHK are all 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 Philippines Business and the Vietnam Business had always been carried out by the Group.

The statements of the adjustments to the consolidated equity as at 30 June 2018 and 31 December 2017 are as follows:

	At 30 June 2018			
	Before combination HK$'m	**Entities under common control HK$'m**	**Adjustment HK$'m**	**After combination HK$'m**
Share capital	**52,864**	**1,062**	**(1,062)**	**52,864**
Merger reserve	**–**	**–**	**(1,106)**	**(1,106)**
Retained earnings and other reserves	**196,086**	**201**	**–**	**196,287**
	248,950	**1,263**	**(2,168)**	**248,045**
Non-controlling interests	**4,280**	**–**	**–**	**4,280**
	253,230	**1,263**	**(2,168)**	**252,325**

	At 31 December 2017			
	Before combination HK$'m	Entities under common control HK$'m	Adjustment HK$'m	After combination HK$'m
Share capital	52,864	1,062	(1,062)	52,864
Merger reserve	–	–	1,062	1,062
Retained earnings and other reserves	189,875	217	–	190,092
	242,739	1,279	–	244,018
Non-controlling interests	4,605	–	–	4,605
	247,344	1,279	–	248,623

47. Comparative amounts

In respect of the acquisition of the Indonesia Business and the Cambodia Business from BOC on 10 July 2017 and 6 November 2017 respectively, the Group has applied merger accounting method for the business combination under common control. Comparative amounts in the condensed consolidated income statement and relevant notes have been restated as if the Indonesia Business and the Cambodia Business had always been carried out by the Group.

In respect of the transfer of the Philippines Business and the Vietnam Business from BOC on 29 January 2018 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 Philippines Business and the Vietnam Business had always been carried out by the Group.

48. Compliance with HKAS 34

The unaudited interim financial information for the first half of 2018 complies with HKAS 34 "Interim Financial Reporting" issued by the HKICPA.

49. Statutory accounts

The financial information relating to the year ended 31 December 2017 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 2017 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

CHEN Siqing#

Vice Chairman

GAO Yingxin	(re-designation as Executive Director and appointment as Vice Chairman effective from 1 January 2018)

Directors

LIU Qiang#	(appointment effective from 24 August 2018)
LIN Jingzhen#	(appointment effective from 24 August 2018)
LI Jiuzhong	
CHENG Eva*	
CHOI Koon Shum*	
KOH Beng Seng*	
TUNG Savio Wai-Hok*	
REN Deqi#	(resignation effective from 12 June 2018)

Non-executive Directors
* Independent Non-executive Directors

Senior Management

Chief Executive

GAO Yingxin	(appointment effective from 1 January 2018)

Chief Risk Officer

LI Jiuzhong

Deputy Chief Executives

YUAN Shu	
LIN Jingzhen	(resignation effective from 1 February 2018)

Chief Operating Officer

ZHONG Xiangqun

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

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 (2017: HK$0.545), payable on Wednesday, 3 October 2018 to shareholders whose names appear on the Register of Members of the Company on Monday, 24 September 2018.

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to the interim dividend, from Wednesday, 19 September 2018 to Monday, 24 September 2018 (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 Tuesday, 18 September 2018. Shares of the Company will be traded ex-dividend as from Monday, 17 September 2018.

3. Interest of substantial shareholders

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 30 June 2018, 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 2018.

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

As at 30 June 2018, 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:

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

	Number of shares/underlying shares held				
Name of director	Personal interests	Family interests	Corporate interests	Total	Approximate % of the total issued H shares
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 representing 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 2018, 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 2017 on 29 March 2018 up to 28 August 2018 (being the approval date of this Interim Report) are set out below:

(a) Mr GAO Yingxin, Vice Chairman and Chief Executive of the Company, has been appointed as member of HKSAR Human Resources Planning Commission on 1 April 2018, member of the Council of Treasury Markets Association on 9 April 2018 and Co-Chairman of Guangdong-HK-Macao Bay Area Entrepreneurs Union on 15 May 2018. Mr GAO resigned as Chairman of BOCI and BOC Poverty Relief and Education Charity Fund Limited on 23 April 2018, Chairman of China Cultural Industrial Investment Fund Co., Ltd on 24 April 2018 and Chairman of BOC International (China) Co., Ltd. (formerly known as BOC International (China) Limited) on 31 May 2018.

(b) Mr KOH Beng Seng, Independent Non-executive Director of the Company, ceased to be a Director of Hon Sui Sen Endowment CLG Limited upon its dissolution by members' voluntary winding up on 1 June 2018.

(c) Mr REN Deqi resigned as Non-executive Director and ceased to be the Chairman of the Strategy and Budget Committee and a member of the Risk Committee of the Company and BOCHK with effect from 12 June 2018.

(d) Mr LIU Qiang has been appointed as Non-executive Director, member of each of the Remuneration Committee and the Strategy and Budget Committee of the Company and BOCHK with effect from 24 August 2018.

(e) Mr LIN Jingzhen has been appointed as Non-executive Director, a member of the Strategy and Budget Committee of the Company and BOCHK with effect from 24 August 2018.

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 and Mr KOH Beng Seng.

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 2017 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 securities of the Company, the Company's Code also applies to the Director's dealings in the securities of BOC and its subsidiary, BOC Aviation Limited which have been listed on the Hong Kong Stock Exchange since 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 2016. 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 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.

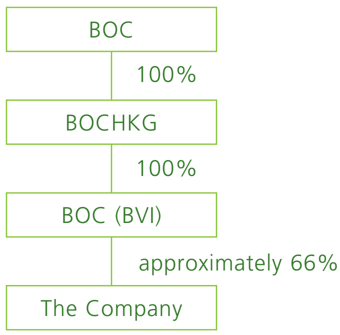
If you have any queries about how to obtain copies of this Interim Report or how to access those corporate communications on the Company's website, please call the Company's hotline at (852) 2846 2700.

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 and 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 and investment properties under HKFRSs. On the contrary, BOC has elected for the cost model for bank premises and revaluation model for investment properties under 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, including the gain on disposal of discontinued operations.

(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 2018 HK$'m	Half-year ended 30 June 2017 HK$'m	**At 30 June 2018 HK$'m**	At 31 December 2017 HK$'m
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs	**17,878**	17,873	**252,325**	248,623
Add: IFRSs/CASs adjustments				
Restatement of carrying value of bank premises	**403**	1,085	**(35,232)**	(34,213)
Deferred tax adjustments	**(48)**	(63)	**6,001**	5,827
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRSs/CASs	**18,233**	18,895	**223,094**	220,237

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 section "Regulatory Disclosures" on BOCHK's website at www.bochk.com.

INDEPENDENT REVIEW REPORT

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

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

Introduction

We have reviewed the interim financial information set out on pages 35 to 125, which comprises the condensed consolidated balance sheet of BOC Hong Kong (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2018 and the related condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six-month period then ended, and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

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

Ernst & Young

Ernst & Young
Certified Public Accountants
Hong Kong, 28 August 2018

Subsidiaries of the Company

The particulars of subsidiaries are as follows:

Name	Place and date of incorporation/ operation	Issued share capital/ registered capital	Interest held	Principal activities
Directly held:				
Bank of China (Hong Kong) Limited	Hong Kong 16 October 1964	Ordinary shares HK$43,042,840,858	100.00%	Banking business
BOC Group Life Assurance Company Limited	Hong Kong 12 March 1997	Ordinary shares HK$3,538,000,000	51.00%	Life insurance business
BOCHK Asset Management (Cayman) Limited	Cayman Islands 7 October 2010	Ordinary shares HK$283,000,000	100.00%	Investment holding
BOC Insurance (International) Holdings Company Limited	Hong Kong 6 June 2017	Ordinary shares HK$100	100.00%	Investment holding
Indirectly held:				
BOC Credit Card (International) Limited	Hong Kong 9 September 1980	Ordinary shares HK$480,000,000	100.00%	Credit card services
BOC Group Trustee Company Limited	Hong Kong 1 December 1997	Ordinary shares HK$200,000,000	66.00%	Trustee services
BOCI-Prudential Trustee Limited	Hong Kong 11 October 1999	Ordinary shares HK$300,000,000	42.24%*	Trustee services
Bank of China (Malaysia) Berhad	Malaysia 14 April 2000	Ordinary shares RM760,518,480	100.00%	Banking business
China Bridge (Malaysia) Sdn. Bhd.	Malaysia 24 April 2009	Ordinary shares RM1,000,000	100.00%	China visa application
Bank of China (Thai) Public Company Limited	Thailand 1 April 2014	Ordinary shares Baht10,000,000,000	100.00%	Banking business
Bank of China (Hong Kong) Nominees Limited	Hong Kong 1 October 1985	Ordinary shares HK$2	100.00%	Nominee services
Bank of China (Hong Kong) Trustees Limited	Hong Kong 6 November 1987	Ordinary shares HK$3,000,000	100.00%	Trustee and agency services
BOCHK Financial Products (Cayman) Ltd.	Cayman Islands 10 November 2006	Ordinary shares US$50,000	100.00%	Issuing structured notes
BOCHK Information Technology (Shenzhen) Co., Ltd.	PRC 16 April 1990	Registered capital HK$70,000,000	100.00%	Property holding and investment

Subsidiaries of the Company (continued)

Name	Place and date of incorporation/ operation	Issued share capital/ registered 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	Ordinary shares HK$10,000	100.00%	Nominee services
Po Sang Financial Investment Services Company Limited	Hong Kong 23 September 1980	Ordinary shares HK$335,000,000	100.00%	Gold trading and investment holding
Po Sang Securities and Futures Limited	Hong Kong 19 October 1993	Ordinary shares HK$335,000,000	100.00%	Securities and futures brokerage
Sin Chiao Enterprises Corporation, Limited	Hong Kong 13 September 1961	Ordinary shares HK$3,000,000	100.00%	Property holding and investment
Sin Hua Trustee Limited	Hong Kong 27 October 1978	Ordinary shares HK$3,000,000	100.00%	Trustee services
Billion Express Development Inc.	British Virgin Islands 7 February 2014	Ordinary shares US$1	100.00%	Investment holding
Billion Orient Holdings Ltd.	British Virgin Islands 3 February 2014	Ordinary shares US$1	100.00%	Investment holding
Elite Bond Investments Ltd.	British Virgin Islands 7 February 2014	Ordinary shares US$1	100.00%	Investment holding
Express Capital Enterprise Inc.	British Virgin Islands 3 February 2014	Ordinary shares US$1	100.00%	Investment holding
Express Charm Holdings Corp.	British Virgin Islands 7 February 2014	Ordinary shares US$1	100.00%	Investment holding
Express Shine Assets Holdings Corp.	British Virgin Islands 3 January 2014	Ordinary shares US$1	100.00%	Investment holding
Express Talent Investment Ltd.	British Virgin Islands 13 February 2014	Ordinary shares US$1	100.00%	Investment holding
Gold Medal Capital Inc.	British Virgin Islands 3 January 2014	Ordinary shares US$1	100.00%	Investment holding
Gold Tap Enterprises Inc.	British Virgin Islands 13 February 2014	Ordinary shares US$1	100.00%	Investment holding
Maxi Success Holdings Ltd.	British Virgin Islands 7 February 2014	Ordinary shares US$1	100.00%	Investment holding

APPENDIX

Subsidiaries of the Company (continued)

Name	Place and date of incorporation/ operation	Issued share capital/ registered capital	Interest held	Principal activities
Smart Linkage Holdings Inc.	British Virgin Islands 13 February 2014	Ordinary shares US$1	100.00%	Investment holding
Smart Union Capital Investments Ltd.	British Virgin Islands 3 January 2014	Ordinary shares US$1	100.00%	Investment holding
Success Trend Development Ltd.	British Virgin Islands 18 February 2014	Ordinary shares US$1	100.00%	Investment holding
Wise Key Enterprises Corp.	British Virgin Islands 18 February 2014	Ordinary shares US$1	100.00%	Investment holding
BOCHK Asset Management Limited	Hong Kong 28 October 2010	Ordinary shares HK$272,500,000	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
"ALCO"	the Asset and Liability Management Committee
"AT1"	Additional Tier 1
"ATM"	Automated Teller Machine
"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
"Board" or "Board of Directors"	the Board of Directors of the Company
"CAS"	Chinese Accounting Standard for Business Enterprises
"CE"	Chief Executive

DEFINITIONS

Terms	Meanings
"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.
"Chiyu"	Chiyu Banking Corporation Limited, a company incorporated under the laws of Hong Kong
"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
"GDP"	Gross Domestic Product
"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

Terms	Meanings
"IT"	Information Technology
"LCO"	the Legal & Compliance and Operational Risk Management Department
"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
"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
"PD"	Probability of Default
"PRC"	the People's Republic of China
"PVBP"	Price Value of a Basis Point
"QDII"	Qualified Domestic Institutional Investors
"RMC"	the Risk Committee
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"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)

DEFINITIONS

Terms	Meanings
"STM"	Standardised (Market Risk)
"STO"	Standardised (Operational Risk)
"Standard & Poor's"	Standard & Poor's Ratings Services
"Stock Exchange" or "Hong Kong Stock Exchange" or "Stock Exchange of Hong Kong"	The Stock Exchange of Hong Kong Limited
"the Company"	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong
"the Group"	the Company and its subsidiaries collectively referred as the Group
"US"	the United States of America
"VAR"	Value at Risk

By Order of the Board
LUO Nan
Company Secretary

Hong Kong, 28 August 2018

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

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