

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. Basis of preparation and significant accounting policies

Basis of preparation

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

Significant accounting policies

Except as described below, 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 2011 and should be read in conjunction with the Group's Annual Report for 2011.

Revised standards and amendments to standards that are mandatory for the first time for the financial year beginning on 1 January 2012

- HKAS 12 (Amendment), 'Income Taxes'. The standard which was revised in December 2010 is mandatorily effective for reporting periods beginning on or after 1 January 2012. Earlier application is permitted. The Group considers that the required treatment under the revised standard better reflects the tax position of the investment properties of the Group, and has early adopted the amended standard retrospectively since the year ended 31 December 2010.
- HKFRS 7 (Amendment), 'Financial Instruments: Disclosures – Transfer of Financial Assets'. The amendment introduces new quantitative disclosure requirements for transfers of financial assets that are either fully derecognised or derecognised not in their entirety. The Group will disclose relevant information in the financial statements when the Group undertakes transfers of financial assets that fall within its scope.

Standards and amendments issued that are relevant to the Group but not yet effective and have not been early adopted by the Group in 2012

Standard	Content	Applicable for financial years beginning on/after
HKAS 1 (Revised)	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income	1 July 2012
HKAS 19 (2011)	Employee Benefits	1 January 2013
HKAS 27 (2011)	Separate Financial Statements	1 January 2013
HKAS 28 (2011)	Investments in Associates and Joint Ventures	1 January 2013
HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Transition to HKFRS 9	1 January 2015
HKFRS 9	Financial Instruments	1 January 2015
HKFRS 10	Consolidated Financial Statements	1 January 2013
HKFRS 11	Joint Arrangements	1 January 2013
HKFRS 12	Disclosure of Interests in Other Entities	1 January 2013
HKFRS 13	Fair Value Measurement	1 January 2013

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

Significant accounting policies (continued)

Standards and amendments issued that are relevant to the Group but not yet effective and have not been early adopted by the Group in 2012 (continued)

- Please refer to Note 2.1(b) of the Group's Annual Report for 2011 for brief explanations of the above-mentioned standards and amendments.
- In addition, 'Annual Improvements to HKFRS 2009 – 2011 Cycle' contains numerous amendments to HKFRS which the HKICPA considers not urgent but necessary. It comprises amendments that result in accounting changes for presentation and classification. The amendments will be effective for the financial year beginning on or after 1 January 2013, there is no material impact on the Group's accounting policies.

2. Critical accounting estimates and judgements in applying accounting policies

The nature and assumptions related to the Group's accounting estimates are consistent with those used in the Group's financial statements for the year ended 31 December 2011.

3. Financial risk management

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

3.1 Credit Risk

(A) Gross advances and other accounts

(a) Impaired advances

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(a) Impaired advances (continued)

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
Gross impaired advances to customers	482	439
Individually assessed loan impairment allowances made in respect of such advances	256	259
Current market value of collateral held against the covered portion of such advances to customers	267	159
Covered portion of such advances to customers	153	108
Uncovered portion of such advances to customers	329	331
Gross impaired advances to customers as a percentage of gross advances to customers	0.06%	0.06%

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

Classified or impaired advances to customers are analysed as follows:

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
Gross classified or impaired advances to customers	749	710
Gross classified or impaired advances to customers as a percentage of gross advances to customers	0.10%	0.10%

Classified or impaired advances to customers follow the definitions set out in the Banking (Disclosure) Rules under the Banking Ordinance and represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(b) Advances overdue for more than three months

Advances with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid. Advances repayable by regular instalments are classified as overdue when an instalment payment is past due and remains unpaid. Advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction or when the advances have remained continuously outside 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 2012		At 31 December 2011	
	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	156	0.02%	78	0.01%
– one year or less but over six months	89	0.01%	83	0.01%
– over one year	267	0.04%	227	0.04%
Advances overdue for over three months	512	0.07%	388	0.06%
Individually assessed loan impairment allowances made in respect of such advances	236		219	

	At 30 June 2012 HK\$m	At 31 December 2011 HK\$m
Current market value of collateral held against the covered portion of such advances to customers	569	468
Covered portion of such advances to customers	203	116
Uncovered portion of such advances to customers	309	272

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

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

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

As at 30 June 2012 and 31 December 2011, there were no advances to banks and other financial institutions overdue for more than three months.

(c) Rescheduled advances

	At 30 June 2012		At 31 December 2011	
	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"	79	0.01%	90	0.01%

As at 30 June 2012 and 31 December 2011, there were no rescheduled advances to banks and other financial institutions.

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 overdue advances.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers

(i) Sectoral analysis of gross advances to customers

The information concerning gross advances to customers has been analysed into loans used inside or outside Hong Kong by industry sectors of the borrowers as follows:

	At 30 June 2012					
	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	27,146	47.43%	1	3	–	96
– Property investment	75,406	84.79%	32	232	4	429
– Financial concerns	9,554	17.33%	–	–	–	53
– Stockbrokers	692	66.54%	–	–	–	3
– Wholesale and retail trade	31,972	66.15%	51	156	22	185
– Manufacturing	19,403	38.06%	50	176	20	116
– Transport and transport equipment	27,999	44.21%	53	95	1	106
– Recreational activities	609	16.69%	–	–	–	3
– Information technology	17,112	0.86%	2	20	1	60
– Others	35,634	34.20%	66	160	23	142
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	10,400	99.96%	38	293	–	8
– Loans for purchase of other residential properties	177,670	99.99%	65	1,250	–	97
– Credit card advances	9,609	–	26	329	–	72
– Others	17,387	63.63%	33	254	13	24
Total loans for use in Hong Kong	460,593	71.95%	417	2,968	84	1,394
Trade finance	67,828	14.24%	135	194	88	319
Loans for use outside Hong Kong	218,331	24.50%	197	233	84	999
Gross advances to customers	746,752	52.83%	749	3,395	256	2,712

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

	At 31 December 2011					
	Gross advances to customers HK\$'m	% Covered by collateral or other security	Classified or impaired HK\$'m	Overdue*	Individually assessed impairment allowances HK\$'m	Collectively assessed impairment allowances HK\$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	30,788	46.81%	3	3	–	112
– Property investment	72,910	85.78%	59	747	6	433
– Financial concerns	10,562	22.52%	–	4	–	58
– Stockbrokers	931	78.93%	–	–	–	3
– Wholesale and retail trade	32,755	69.51%	31	152	13	184
– Manufacturing	17,352	41.95%	67	132	36	115
– Transport and transport equipment	26,525	43.36%	61	4	1	108
– Recreational activities	605	15.87%	–	–	–	3
– Information technology	16,050	0.74%	2	2	1	58
– Others	29,079	41.17%	54	195	24	128
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	10,987	99.96%	48	324	–	9
– Loans for purchase of other residential properties	169,780	99.98%	44	1,443	–	99
– Credit card advances	9,655	–	21	260	–	71
– Others	16,561	62.65%	30	153	13	22
Total loans for use in Hong Kong	444,540	73.09%	420	3,419	94	1,403
Trade finance	59,508	15.85%	166	189	85	281
Loans for use outside Hong Kong	195,331	25.11%	124	184	80	887
Gross advances to customers	699,379	54.82%	710	3,792	259	2,571

* Advances with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

(ii) Geographical analysis of gross advances to customers

The following geographical analysis of advances to customers is based on the location of the counterparties, after taking into account the transfer of risk. In general, such transfer of risk takes place if the advances to customers are guaranteed by a party in a country which is different from that of the customer.

Gross advances to customers

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
Hong Kong	575,550	540,862
Mainland China	139,314	121,207
Others	31,888	37,310
	746,752	699,379
Collectively assessed loan impairment allowances in respect of the gross advances to customers		
Hong Kong	1,883	1,855
Mainland China	681	550
Others	148	166
	2,712	2,571

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

Overdue advances

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
Hong Kong	2,873	3,506
Mainland China	405	182
Others	117	104
	3,395	3,792
Individually assessed loan impairment allowances in respect of the overdue advances		
Hong Kong	184	187
Mainland China	29	28
Others	33	36
	246	251
Collectively assessed loan impairment allowances in respect of the overdue advances		
Hong Kong	73	57
Mainland China	8	5
Others	2	2
	83	64

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

Classified or impaired advances

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
Hong Kong	539	574
Mainland China	174	79
Others	36	57
	749	710
Individually assessed loan impairment allowances in respect of the classified or impaired advances		
Hong Kong	188	193
Mainland China	35	28
Others	33	38
	256	259
Collectively assessed loan impairment allowances in respect of the classified or impaired advances		
Hong Kong	29	21
Mainland China	3	2
Others	1	1
	33	24

(B) Repossessed assets

The estimated market value of repossessed assets held by the Group as at 30 June 2012 amounted to HK\$12 million (31 December 2011: HK\$19 million). They comprise properties in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the proprietors concerned) for release in full or in part of the obligations of the borrowers.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(C) Debt securities

The tables below represent an analysis of the carrying value of debt securities by issue rating and credit risk characteristic.

	At 30 June 2012							
					Unrated			Total HK\$'m
					Hong Kong government and government bodies	Other governments and government agencies	Others HK\$'m	
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	HK\$'m	HK\$'m		
Investment in securities								
US non-agency residential mortgage-backed								
– Subprime	119	35	83	–	–	–	–	237
– Alt-A	22	7	–	46	–	–	–	75
– Prime	38	2	64	80	–	–	–	184
Fannie Mae								
– mortgage-backed securities	–	–	–	–	–	2	–	2
Freddie Mac								
– issued debt securities	79	–	–	–	–	–	–	79
– mortgage-backed securities	–	–	–	–	–	312	–	312
Other MBS/ABS	1,324	27	14	1	–	10,450	–	11,816
Other debt securities	57,830	73,121	75,650	17,801	3,553	50,424	88,527	366,906
Subtotal	59,412	73,192	75,811	17,928	3,553	61,188	88,527	379,611
Financial assets at fair value through profit or loss								
Other debt securities	4,268	27,799	13,006	1,214	2,806	469	5,952	55,514
Subtotal	4,268	27,799	13,006	1,214	2,806	469	5,952	55,514
Total	63,680	100,991	88,817	19,142	6,359	61,657	94,479	435,125

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(C) Debt securities (continued)

	At 31 December 2011							
					Unrated			
					Hong Kong government and government bodies	Other governments and government agencies	Others	Total
	Aaa HK\$m	Aa1 to Aa3 HK\$m	A1 to A3 HK\$m	Lower than A3 HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Investment in securities								
US non-agency residential mortgage-backed								
– Subprime	150	35	94	–	–	–	–	279
– Alt-A	24	12	–	82	–	–	–	118
– Prime	65	4	94	82	–	–	–	245
Fannie Mae								
– mortgage-backed securities	–	–	–	–	–	6	–	6
Freddie Mac								
– issued debt securities	79	–	–	–	–	–	–	79
– mortgage-backed securities	–	–	–	–	–	377	–	377
Other MBS/ABS	1,588	40	17	2	–	8,937	–	10,584
Other debt securities	72,872	102,704	44,405	11,377	18,159	54,656	56,638	360,811
Subtotal	74,778	102,795	44,610	11,543	18,159	63,976	56,638	372,499
Financial assets at fair value through profit or loss								
Other MBS/ABS	–	–	5	–	–	–	–	5
Other debt securities	3,306	14,034	15,254	1,395	8,356	301	3,852	46,498
Subtotal	3,306	14,034	15,259	1,395	8,356	301	3,852	46,503
Total	78,084	116,829	59,869	12,938	26,515	64,277	60,490	419,002

The total amount of unrated issues amounted to HK\$162,495 million (31 December 2011: HK\$151,282 million) as at 30 June 2012, of which only HK\$16,092 million (31 December 2011: HK\$17,966 million) were without issuer ratings. For details, please refer to page 55.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(C) Debt securities (continued)

For the above debt securities with no issue rating, their issuer ratings are analysed as follows:

	At 30 June 2012					
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m
Available-for-sale securities	36,442	38,866	45,847	1,739	12,189	135,083
Held-to-maturity securities	31	10,618	3,488	77	509	14,723
Loans and receivables	–	–	3,462	–	–	3,462
Financial assets at fair value through profit or loss	–	4,264	1,153	416	3,394	9,227
Total	36,473	53,748	53,950	2,232	16,092	162,495

	At 31 December 2011					
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m
Available-for-sale securities	30,974	56,273	11,293	1,349	14,192	114,081
Held-to-maturity securities	425	16,367	516	200	511	18,019
Loans and receivables	–	4,797	1,876	–	–	6,673
Financial assets at fair value through profit or loss	–	8,696	447	103	3,263	12,509
Total	31,399	86,133	14,132	1,652	17,966	151,282

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(C) Debt securities (continued)

The impaired debt securities by issue rating are analysed as follows:

	At 30 June 2012						
	Carrying values						Of which accumulated impairment allowances HK\$m
	Aaa HK\$m	Aa1 to Aa3 HK\$m	A1 to A3 HK\$m	Lower than A3 HK\$m	Unrated HK\$m	Total HK\$m	
Available-for-sale securities	–	–	10	10	–	20	1
Held-to-maturity securities	98	31	77	84	–	290	32
Total	98	31	87	94	–	310	33
Of which accumulated impairment allowances	8	3	6	16	–	33	

	At 31 December 2011						
	Carrying values						Of which accumulated impairment allowances HK\$m
	Aaa HK\$m	Aa1 to Aa3 HK\$m	A1 to A3 HK\$m	Lower than A3 HK\$m	Unrated HK\$m	Total HK\$m	
Available-for-sale securities	19	–	11	12	–	42	2
Held-to-maturity securities	129	34	88	–	–	251	25
Total	148	34	99	12	–	293	27
Of which accumulated impairment allowances	15	4	7	1	–	27	

As at 30 June 2012 and 31 December 2011, there were no overdue debt securities.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market Risk

(A) VAR

The Group uses the VAR technique to measure potential losses and general market risks of its trading book for reporting to RC and senior management on a periodic basis. The Group adopts a uniformed VAR calculation model, using historical simulation approach and 2-year historical data, to calculate VAR of the Group and subsidiaries over 1-day holding period with 99% confidence level, and set up VAR limit of the Group and subsidiaries.

The following table sets out the VAR for all general market risk exposure¹ of BOCHK trading book.

	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	2012	29.9	17.0	33.8	24.0
	2011	13.0	6.8	14.6	9.6
VAR for foreign exchange risk products	2012	11.6	10.2	25.2	16.2
	2011	9.6	1.9	12.8	6.3
VAR for interest rate risk products	2012	22.4	9.6	29.6	16.9
	2011	7.5	5.1	9.4	7.5
VAR for equity risk products	2012	1.7	0.0	2.3	0.4
	2011	0.1	0.0	0.4	0.1
VAR for commodity risk products	2012	0.0	0.0	1.0	0.2
	2011	0.2	0.0	0.6	0.1

In the first half of 2012, the average daily revenue² of BOCHK earned from market risk-related trading activities was HK\$6.8 million (first half of 2011: HK\$7.2 million).

Notes:

1 Structural FX positions have been excluded.

2 Revenues from structural FX positions and back-to-back transactions have been excluded.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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 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 trading book 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, the 1997 Asian Financial Crisis, 2001 9-11 event and 2008 Financial Tsunami, etc.

(B) Currency risk

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market Risk (continued)

(B) Currency risk (continued)

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 30 June 2012 and 31 December 2011. Included in the tables are the assets and liabilities at carrying amounts in HK dollars equivalent, categorised by the original currency.

	At 30 June 2012							
	Renminbi HK\$'m	US Dollars HK\$'m	HK Dollars HK\$'m	Euro HK\$'m	Japanese Yen HK\$'m	Pound Sterling HK\$'m	Others HK\$'m	Total HK\$'m
Assets								
Cash and balances with banks and other financial institutions	104,993	17,689	24,874	2,368	317	831	1,970	153,042
Placements with banks and other financial institutions maturing between one and twelve months	82,149	23,479	5,560	304	21	2,294	741	114,548
Financial assets at fair value through profit or loss	5,002	11,348	40,399	-	-	-	77	56,826
Derivative financial instruments	730	4,924	20,720	8	-	-	30	26,412
Hong Kong SAR Government certificates of indebtedness	-	-	72,160	-	-	-	-	72,160
Advances and other accounts	68,556	212,848	491,539	3,658	1,488	111	7,732	785,932
Investment in securities								
– Available-for-sale securities	42,911	180,262	53,780	8,961	29,610	263	24,482	340,269
– Held-to-maturity securities	12,115	14,799	5,571	505	2,072	-	4,216	39,278
– Loans and receivables	-	2,575	-	887	-	-	-	3,462
Interests in associates	-	-	245	-	-	-	-	245
Investment properties	109	-	13,289	-	-	-	-	13,398
Properties, plant and equipment	544	3	43,249	-	-	-	-	43,796
Other assets (including deferred tax assets)	12,898	3,681	17,655	85	309	254	472	35,354
Total assets	330,007	471,608	789,041	16,776	33,817	3,753	39,720	1,684,722
Liabilities								
Hong Kong SAR currency notes in circulation	-	-	72,160	-	-	-	-	72,160
Deposits and balances from banks and other financial institutions	63,524	32,670	15,679	1,069	143	327	633	114,045
Financial liabilities at fair value through profit or loss	697	96	8,646	5	-	6	773	10,223
Derivative financial instruments	790	3,994	16,136	362	-	8	236	21,526
Deposits from customers	217,122	256,041	639,548	12,538	1,678	13,581	42,349	1,182,857
Debt securities in issue at amortised cost	-	5,900	9	-	-	-	-	5,909
Other accounts and provisions (including current and deferred tax liabilities)	5,484	13,847	30,188	1,021	569	834	1,106	53,049
Insurance contract liabilities	14,802	6,624	30,359	-	-	-	-	51,785
Subordinated liabilities	-	22,318	-	6,438	-	-	-	28,756
Total liabilities	302,419	341,490	812,725	21,433	2,390	14,756	45,097	1,540,310
Net on-balance sheet position	27,588	130,118	(23,684)	(4,657)	31,427	(11,003)	(5,377)	144,412
Off-balance sheet net notional position*	(13,961)	(117,687)	146,084	4,772	(31,459)	11,046	5,768	4,563
Contingent liabilities and commitments	37,736	84,615	268,101	3,174	801	967	3,477	398,871

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market Risk (continued)

(B) Currency risk (continued)

	At 31 December 2011							
	Renminbi HK\$m	US Dollars HK\$m	HK Dollars HK\$m	Euro HK\$m	Japanese Yen HK\$m	Pound Sterling HK\$m	Others HK\$m	Total HK\$m
Assets								
Cash and balances with banks and other financial institutions	222,388	30,932	17,138	1,991	2,390	543	3,413	278,795
Placements with banks and other financial institutions maturing between one and twelve months	93,278	10,689	3,443	–	25	–	475	107,910
Financial assets at fair value through profit or loss	4,547	11,833	32,146	–	–	–	76	48,602
Derivative financial instruments	843	4,586	21,330	4	–	–	24	26,787
Hong Kong SAR Government certificates of indebtedness	–	–	65,890	–	–	–	–	65,890
Advances and other accounts	54,189	214,930	472,415	3,105	1,835	84	8,671	755,229
Investment in securities								
– Available-for-sale securities	27,671	149,143	58,883	9,467	44,335	251	26,648	316,398
– Held-to-maturity securities	17,015	20,522	8,262	1,089	2,125	–	4,914	53,927
– Loans and receivables	–	–	–	1,876	–	4,640	157	6,673
Interests in associates	–	–	234	–	–	–	–	234
Investment properties	106	–	12,335	–	–	–	–	12,441
Properties, plant and equipment	554	1	39,095	–	–	–	–	39,650
Other assets (including deferred tax assets)	9,381	412	15,007	423	381	72	298	25,974
Total assets	429,972	443,048	746,178	17,955	51,091	5,590	44,676	1,738,510
Liabilities								
Hong Kong SAR currency notes in circulation	–	–	65,890	–	–	–	–	65,890
Deposits and balances from banks and other financial institutions	155,582	40,110	38,668	40	181	5	2,108	236,694
Financial liabilities at fair value through profit or loss	203	51	2,665	–	–	–	318	3,237
Derivative financial instruments	886	4,025	16,752	393	1	1	223	22,281
Deposits from customers	245,375	231,136	596,308	13,634	1,756	14,434	43,308	1,145,951
Debt securities in issue at amortised cost	–	5,868	117	–	–	–	–	5,985
Other accounts and provisions (including current and deferred tax liabilities)	5,607	14,309	26,225	670	806	778	1,018	49,413
Insurance contract liabilities	10,728	6,501	29,991	–	–	–	–	47,220
Subordinated liabilities	–	22,031	–	6,625	–	–	–	28,656
Total liabilities	418,381	324,031	776,616	21,362	2,744	15,218	46,975	1,605,327
Net on-balance sheet position	11,591	119,017	(30,438)	(3,407)	48,347	(9,628)	(2,299)	133,183
Off-balance sheet net notional position*	604	(110,908)	148,444	3,118	(48,403)	9,634	2,402	4,891
Contingent liabilities and commitments	25,032	102,857	253,398	3,572	1,158	857	3,311	390,185

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market Risk (continued)

(C) Interest rate risk

The tables below summarise the Group's exposure to interest rate risk as at 30 June 2012 and 31 December 2011. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	At 30 June 2012						
	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Non-interest bearing HK\$'m	Total HK\$'m
Assets							
Cash and balances with banks and other financial institutions	138,687	-	-	-	-	14,355	153,042
Placements with banks and other financial institutions maturing between one and twelve months	-	68,029	46,519	-	-	-	114,548
Financial assets at fair value through profit or loss	13,629	9,435	6,998	13,667	11,785	1,312	56,826
Derivative financial instruments	-	-	-	-	-	26,412	26,412
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	72,160	72,160
Advances and other accounts	547,241	171,205	53,321	9,129	18	5,018	785,932
Investment in securities							
– Available-for-sale securities	44,116	43,208	82,731	111,550	55,266	3,398	340,269
– Held-to-maturity securities	5,599	9,409	7,332	13,002	3,936	-	39,278
– Loans and receivables	887	-	2,575	-	-	-	3,462
Interests in associates	-	-	-	-	-	245	245
Investment properties	-	-	-	-	-	13,398	13,398
Properties, plant and equipment	-	-	-	-	-	43,796	43,796
Other assets (including deferred tax assets)	-	-	-	-	-	35,354	35,354
Total assets	750,159	301,286	199,476	147,348	71,005	215,448	1,684,722
Liabilities							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	72,160	72,160
Deposits and balances from banks and other financial institutions	97,250	1,895	177	-	-	14,723	114,045
Financial liabilities at fair value through profit or loss	1,050	7,137	1,385	515	136	-	10,223
Derivative financial instruments	-	-	-	-	-	21,526	21,526
Deposits from customers	855,069	148,034	113,897	9,540	37	56,280	1,182,857
Debt securities in issue at amortised cost	2	6	1	5,900	-	-	5,909
Other accounts and provisions (including current and deferred tax liabilities)	13,673	835	1,771	63	-	36,707	53,049
Insurance contract liabilities	-	-	-	-	-	51,785	51,785
Subordinated liabilities	-	-	6,438	-	22,318	-	28,756
Total liabilities	967,044	157,907	123,669	16,018	22,491	253,181	1,540,310
Interest sensitivity gap	(216,885)	143,379	75,807	131,330	48,514	(37,733)	144,412

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market Risk (continued)

(C) Interest rate risk (continued)

	At 31 December 2011						
	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Non-interest bearing HK\$'m	Total HK\$'m
Assets							
Cash and balances with banks and other financial institutions	269,960	-	-	-	-	8,835	278,795
Placements with banks and other financial institutions maturing between one and twelve months	-	48,637	59,273	-	-	-	107,910
Financial assets at fair value through profit or loss	5,732	10,339	5,474	13,080	11,878	2,099	48,602
Derivative financial instruments	-	-	-	-	-	26,787	26,787
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	65,890	65,890
Advances and other accounts	554,348	128,984	54,042	12,563	31	5,261	755,229
Investment in securities							
– Available-for-sale securities	60,433	64,432	42,885	97,200	46,949	4,499	316,398
– Held-to-maturity securities	5,336	14,862	8,299	17,992	7,438	-	53,927
– Loans and receivables	2,033	-	4,640	-	-	-	6,673
Interests in associates	-	-	-	-	-	234	234
Investment properties	-	-	-	-	-	12,441	12,441
Properties, plant and equipment	-	-	-	-	-	39,650	39,650
Other assets (including deferred tax assets)	-	-	-	-	-	25,974	25,974
Total assets	897,842	267,254	174,613	140,835	66,296	191,670	1,738,510
Liabilities							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	65,890	65,890
Deposits and balances from banks and other financial institutions	211,777	1,807	1,429	-	-	21,681	236,694
Financial liabilities at fair value through profit or loss	1,116	802	824	473	22	-	3,237
Derivative financial instruments	-	-	-	-	-	22,281	22,281
Deposits from customers	867,556	138,977	74,731	9,134	162	55,391	1,145,951
Debt securities in issue at amortised cost	96	20	13	5,856	-	-	5,985
Other accounts and provisions (including current and deferred tax liabilities)	13,137	1,001	2,849	-	-	32,426	49,413
Insurance contract liabilities	-	-	-	-	-	47,220	47,220
Subordinated liabilities	-	-	6,625	-	22,031	-	28,656
Total liabilities	1,093,682	142,607	86,471	15,463	22,215	244,889	1,605,327
Interest sensitivity gap	(195,840)	124,647	88,142	125,372	44,081	(53,219)	133,183

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity Risk

(A) Liquidity ratio

	Half-year ended 30 June 2012	Half-year ended 30 June 2011
Average liquidity ratio	39.87%	36.38%

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

(B) Maturity analysis

Tables below analyse assets and liabilities of the Group as at 30 June 2012 and 31 December 2011 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2012							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
Assets								
Cash and balances with banks and other financial institutions	90,986	62,056	-	-	-	-	-	153,042
Placements with banks and other financial institutions maturing between one and twelve months	-	-	68,029	46,519	-	-	-	114,548
Financial assets at fair value through profit or loss								
- debt securities held for trading								
- certificates of deposit held	-	10	91	108	47	-	-	256
- others	-	12,937	9,094	2,576	5,863	5,038	-	35,508
- debt securities designated at fair value through profit or loss								
- certificates of deposit held	-	-	10	575	364	494	-	1,443
- others	-	458	368	2,750	8,279	6,452	-	18,307
- fund and equity securities	-	-	-	-	-	-	1,312	1,312
Derivative financial instruments	17,988	454	634	1,326	1,991	4,019	-	26,412
Hong Kong SAR Government certificates of indebtedness	72,160	-	-	-	-	-	-	72,160
Advances and other accounts								
- advances to customers	63,902	21,416	54,278	140,837	262,561	200,095	695	743,784
- trade bills	60	12,744	17,339	10,531	-	-	-	40,674
- advances to banks and other financial institutions	-	1,009	-	465	-	-	-	1,474
Investment in securities								
- debt securities held for available-for-sale								
- certificates of deposit held	-	4,141	5,865	37,554	8,220	18	-	55,798
- others	-	26,706	22,186	55,116	119,626	57,419	20	281,073
- debt securities held for held-to-maturity								
- certificates of deposit held	-	1,300	1,507	300	310	-	-	3,417
- others	-	1,707	2,499	13,213	14,006	4,146	290	35,861
- debt securities held for loans and receivables	-	887	-	2,575	-	-	-	3,462
- equity securities	-	-	-	-	-	-	3,398	3,398
Interests in associates	-	-	-	-	-	-	245	245
Investment properties	-	-	-	-	-	-	13,398	13,398
Properties, plant and equipment	-	-	-	-	-	-	43,796	43,796
Other assets (including deferred tax assets)	12,333	11,235	117	251	8,820	2,572	26	35,354
Total assets	257,429	157,060	182,017	314,696	430,087	280,253	63,180	1,684,722

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

(B) Maturity analysis (continued)

	At 30 June 2012							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
Liabilities								
Hong Kong SAR currency notes in circulation	72,160	-	-	-	-	-	-	72,160
Deposits and balances from banks and other financial institutions	89,731	22,242	1,895	177	-	-	-	114,045
Financial liabilities at fair value through profit or loss								
- certificates of deposit issued	-	-	-	-	-	-	-	-
- others	-	1,050	7,137	1,385	515	136	-	10,223
Derivative financial instruments	13,131	727	597	1,528	3,583	1,960	-	21,526
Deposits from customers	599,307	309,513	146,669	115,495	11,836	37	-	1,182,857
Debt securities in issue at amortised cost	-	2	6	34	5,867	-	-	5,909
Other accounts and provisions (including current and deferred tax liabilities)	28,269	10,757	1,415	5,853	6,755	-	-	53,049
Insurance contract liabilities	2,169	552	1,507	5,709	24,748	17,100	-	51,785
Subordinated liabilities	-	-	418	1	-	28,337	-	28,756
Total liabilities	804,767	344,843	159,644	130,182	53,304	47,570	-	1,540,310
Net liquidity gap	(547,338)	(187,783)	22,373	184,514	376,783	232,683	63,180	144,412

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

(B) Maturity analysis (continued)

	At 31 December 2011							Total HK\$m
	On demand HK\$m	Up to 1 month HK\$m	1-3 months HK\$m	3-12 months HK\$m	1-5 years HK\$m	Over 5 years HK\$m	Indefinite HK\$m	
Assets								
Cash and balances with banks and other financial institutions	213,787	65,008	-	-	-	-	-	278,795
Placements with banks and other financial institutions maturing between one and twelve months	-	-	48,637	59,273	-	-	-	107,910
Financial assets at fair value through profit or loss								
- debt securities held for trading								
- certificates of deposit held	-	-	-	15	62	-	-	77
- others	-	5,052	9,587	2,740	2,944	4,633	-	24,956
- debt securities designated at fair value through profit or loss								
- certificates of deposit held	-	-	8	7	927	496	-	1,438
- others	-	282	301	2,672	9,661	7,116	-	20,032
- fund and equity securities	-	-	-	-	-	-	2,099	2,099
Derivative financial instruments	18,640	541	732	1,341	1,934	3,599	-	26,787
Hong Kong SAR Government certificates of indebtedness	65,890	-	-	-	-	-	-	65,890
Advances and other accounts								
- advances to customers	55,319	21,353	52,703	140,462	232,840	193,258	614	696,549
- trade bills	31	10,577	21,847	24,046	-	-	5	56,506
- advances to banks and other financial institutions	-	-	155	2,019	-	-	-	2,174
Investment in securities								
- debt securities held for available-for-sale								
- certificates of deposit held	-	3,170	2,316	12,561	9,495	-	-	27,542
- others	-	43,824	44,025	40,829	105,225	50,412	42	284,357
- debt securities held for held-to-maturity								
- certificates of deposit held	-	226	192	2,293	333	-	-	3,044
- others	-	1,510	5,251	10,853	24,187	8,831	251	50,883
- debt securities held for loans and receivables	-	2,033	-	4,640	-	-	-	6,673
- equity securities	-	-	-	-	-	-	4,499	4,499
Interests in associates	-	-	-	-	-	-	234	234
Investment properties	-	-	-	-	-	-	12,441	12,441
Properties, plant and equipment	-	-	-	-	-	-	39,650	39,650
Other assets (including deferred tax assets)	8,749	8,548	21	152	7,350	1,126	28	25,974
Total assets	362,416	162,124	185,775	303,903	394,958	269,471	59,863	1,738,510

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

(B) Maturity analysis (continued)

	At 31 December 2011							Total HK\$m
	On demand HK\$m	Up to 1 month HK\$m	1-3 months HK\$m	3-12 months HK\$m	1-5 years HK\$m	Over 5 years HK\$m	Indefinite HK\$m	
Liabilities								
Hong Kong SAR currency notes in circulation	65,890	-	-	-	-	-	-	65,890
Deposits and balances from banks and other financial institutions	216,490	16,968	1,801	1,435	-	-	-	236,694
Financial liabilities at fair value through profit or loss								
- certificates of deposit issued	-	-	-	-	-	-	-	-
- others	-	1,116	802	825	472	22	-	3,237
Derivative financial instruments	13,661	700	771	1,491	3,945	1,713	-	22,281
Deposits from customers	583,005	337,186	137,991	76,830	10,777	162	-	1,145,951
Debt securities in issue at amortised cost	-	96	20	45	5,824	-	-	5,985
Other accounts and provisions (including current and deferred tax liabilities)	30,772	6,137	2,191	4,423	5,890	-	-	49,413
Insurance contract liabilities	1,530	729	866	4,379	26,458	13,258	-	47,220
Subordinated liabilities	-	-	419	1	-	28,236	-	28,656
Total liabilities	911,348	362,932	144,861	89,429	53,366	43,391	-	1,605,327
Net liquidity gap	(548,932)	(200,808)	40,914	214,474	341,592	226,080	59,863	133,183

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 "Repayable on demand". In the case of an asset that is repayable by different payments or instalments, only that portion of the asset that is actually overdue is reported as overdue. Any part of the asset that is not due is reported according to the residual maturity unless the repayment of the asset is in doubt in which case the amount is reported as "Indefinite". The above assets are stated after deduction of provisions, if any.

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

The above analysis in respect of insurance contract liabilities represents the estimated timing of net cash outflows resulting from recognised insurance contract liabilities on the condensed consolidated balance sheet as at 30 June 2012 and 31 December 2011.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.4 Insurance Risk

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

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 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 for standard risks (from a medical point of view) to reinsurer under an excess of loss reinsurance arrangement. For some of the insurance liabilities dominated in Renminbi, the Group's insurance subsidiary has entered into another reinsurance arrangement that reinsures 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 and persistency. In order to assess the uncertainty due to the mortality assumption and lapse assumption, the Group conducts mortality study and lapse study in order to determine the appropriate assumptions. In these studies, consistent results are reflected in both assumptions with appropriate margins.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital Management

From 1 January 2011, 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 remain under the standardised (credit risk) (“STC”) approach. From 1 April 2011, BOCHK has adopted the internal models approach (“IMM”) to calculate general market risk capital charge for foreign exchange and interest rate exposures, while the remainder of the Group continued to adopt the standardised (market risk) (“STM”) approach to calculate the market risk capital charge. The Group adopts the standardised (operational risk) (“STO”) approach to calculate the minimum capital charge for operational risk. There are no changes in the above approaches on 30 June 2012.

In response to the implementation of Basel II Enhancements, the Banking (Capital) (Amendment) Rules 2011 became effective on 1 January 2012. The amendments were mainly to revise the market risk framework and incorporate other enhancements to the Basel II framework. The Group has calculated the capital charge according to the related regulatory requirements.

As a result of the change in the bases of regulatory capital calculation, the amounts shown below are not directly comparable.

(A) Capital adequacy ratio

	At 30 June 2012	At 31 December 2011
Capital adequacy ratio	17.43%	16.90%
Core capital ratio	12.96%	12.51%

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

The differences between the basis of consolidation for accounting and regulatory purposes are described in “Appendix – Subsidiaries of the Company” on page 118.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital Management (continued)

(B) Components of capital base after deductions

The consolidated capital base after deductions used in the calculation of the above capital adequacy ratio as at 30 June 2012 and 31 December 2011 and reported to the HKMA is analysed as follows:

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
Core capital:		
Paid up ordinary share capital	43,043	43,043
Reserves	39,958	31,947
Profit and loss account	4,856	8,318
Non-controlling interests	1,678	1,605
Deductible item	(32)	–
	89,503	84,913
Deductions from core capital	(351)	(313)
Core capital	89,152	84,600
Supplementary capital:		
Fair value gains arising from holdings of available-for-sale securities	1,251	290
Fair value gains arising from holdings of securities designated at fair value through profit or loss	28	18
Collective loan impairment allowances	128	91
Regulatory reserve	334	253
Surplus provisions	3,593	3,354
Term subordinated debt	25,743	25,961
	31,077	29,967
Deductions from supplementary capital	(351)	(313)
Supplementary capital	30,726	29,654
Total capital base after deductions	119,878	114,254

Subsidiaries which are not included in the consolidation group for the calculation of capital adequacy ratios are denoted in "Appendix – Subsidiaries of the Company" on pages 115 to 118. Investment costs in such subsidiaries are deducted from the capital base.

Term subordinated debt represents subordinated liabilities qualified as Tier 2 Capital of BOCHK pursuant to the regulatory requirements of the HKMA.

NOTES TO THE INTERIM FINANCIAL INFORMATION

4. Net interest income

	Half-year ended 30 June 2012 HK\$'m	Half-year ended 30 June 2011 HK\$'m
Interest income		
Due from banks and other financial institutions	4,687	3,760
Advances to customers	8,138	6,306
Listed investments	2,165	2,240
Unlisted investments	2,669	2,708
Others	113	142
	17,772	15,156
Interest expense		
Due to banks and other financial institutions	(677)	(1,949)
Deposits from customers	(4,090)	(2,636)
Debt securities in issue	(81)	–
Subordinated liabilities	(184)	(283)
Others	(121)	(83)
	(5,153)	(4,951)
Net interest income	12,619	10,205

Included within interest income is HK\$4 million (first half of 2011: HK\$1 million) of interest with respect to income recognised on advances classified as impaired for the first half of 2012. Interest income accrued on impaired investment in securities amounted to HK\$8 million (first half of 2011: HK\$10 million).

Included within interest income and interest expense are HK\$17,664 million (first half of 2011: HK\$15,113 million) and HK\$5,449 million (first half of 2011: HK\$5,253 million), before hedging effect, for financial assets and financial liabilities that are not recognised at fair value through profit or loss respectively.

NOTES TO THE INTERIM FINANCIAL INFORMATION

5. Net fee and commission income

	Half-year ended 30 June 2012 HK\$'m	Half-year ended 30 June 2011 HK\$'m
Fee and commission income		
Credit card business	1,542	1,337
Securities brokerage	1,054	1,485
Loan commissions	909	588
Insurance	596	610
Bills commissions	370	418
Payment services	325	303
Funds distribution	232	176
Trust and custody services	179	154
Safe deposit box	118	107
Currency exchange	69	76
Others	214	178
	5,608	5,432
Fee and commission expense		
Credit card business	(1,089)	(950)
Securities brokerage	(161)	(234)
Payment services	(45)	(44)
Others	(211)	(218)
	(1,506)	(1,446)
Net fee and commission income	4,102	3,986
Of which arise from		
– financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	993	690
– Fee and commission expense	(3)	(1)
	990	689
– trust and other fiduciary activities		
– Fee and commission income	276	249
– Fee and commission expense	(5)	(3)
	271	246

Certain comparative amounts have been reclassified to conform with the current period's presentation.

NOTES TO THE INTERIM FINANCIAL INFORMATION

6. Net trading gain

	Half-year ended 30 June 2012 HK\$'m	Half-year ended 30 June 2011 HK\$'m
Net gain/(loss) from:		
– foreign exchange and foreign exchange products	936	662
– interest rate instruments and items under fair value hedge	305	(4)
– equity instruments	104	32
– commodities	63	71
	1,408	761

7. Net gain on other financial assets

	Half-year ended 30 June 2012 HK\$'m	Half-year ended 30 June 2011 HK\$'m
Net gain from disposal of available-for-sale securities	474	359
Net gain from redemption of held-to-maturity securities	2	1
Others	1	–
	477	360

8. Other operating income

	Half-year ended 30 June 2012 HK\$'m	Half-year ended 30 June 2011 HK\$'m
Dividend income from investment in securities		
– listed investments	49	48
– unlisted investments	16	14
Gross rental income from investment properties	208	184
Less: Outgoings in respect of investment properties	(27)	(41)
Others	45	40
	291	245

Included in the “Outgoings in respect of investment properties” is HK\$1 million (first half of 2011: HK\$4 million) of direct operating expenses related to investment properties that were not let during the period.

NOTES TO THE INTERIM FINANCIAL INFORMATION

9. Gross insurance benefits and claims

	Half-year ended 30 June 2012 HK\$'m	Half-year ended 30 June 2011 HK\$'m
Claims, benefits and surrenders paid	2,725	3,866
Movement in liabilities	4,744	3,234
	7,469	7,100

10. Net charge of impairment allowances

	Half-year ended 30 June 2012 HK\$'m	Half-year ended 30 June 2011 HK\$'m
Advances to customers		
Individually assessed		
– new allowances	(51)	(79)
– releases	46	121
– recoveries	141	204
Net reversal of individually assessed loan impairment allowances	136	246
Collectively assessed		
– new allowances	(241)	(357)
– releases	3	62
– recoveries	15	12
Net charge of collectively assessed loan impairment allowances	(223)	(283)
Net charge of loan impairment allowances	(87)	(37)
Available-for-sale securities		
Net reversal of impairment allowances on available-for-sale securities		
– Individually assessed	1	6
Held-to-maturity securities		
Net (charge)/reversal of impairment allowances on held-to-maturity securities		
– Individually assessed	(17)	6
Others	(5)	(5)
Net charge of impairment allowances	(108)	(30)

NOTES TO THE INTERIM FINANCIAL INFORMATION

11. Operating expenses

	Half-year ended 30 June 2012 HK\$'m	Half-year ended 30 June 2011 HK\$'m
Staff costs (including directors' emoluments)		
– salaries and other costs	2,796	2,529
– pension cost	232	211
	3,028	2,740
Premises and equipment expenses (excluding depreciation)		
– rental of premises	326	286
– information technology	196	178
– others	159	146
	681	610
Depreciation	722	614
Auditor's remuneration		
– audit services	4	4
– non-audit services	1	2
Lehman Brothers related products*	–	(2,835)
Other operating expenses	955	858
	5,391	1,993

* The final resolution of certain series of Lehman Brothers minibonds was announced on 15 June 2011. The net amount of HK\$2,854 million recovered by the Group from the underlying collateral of the Lehman Brothers minibonds, after deducting the ex gratia payments and provision for trustee expenses, was credited to operating expenses for the first half of 2011.

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

	Half-year ended 30 June 2012 HK\$'m	Half-year ended 30 June 2011 HK\$'m
Net gain from disposal of investment properties	4	–
Net gain from fair value adjustments on investment properties	1,026	1,486
	1,030	1,486

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

	Half-year ended 30 June 2012 HK\$'m	Half-year ended 30 June 2011 HK\$'m
Net gain from disposal of premises	119	–
Net loss from disposal of other fixed assets	(2)	(7)
Net (loss)/gain from revaluation of premises	(1)	2
	116	(5)

14. Taxation

Taxation in the condensed consolidated income statement represents:

	Half-year ended 30 June 2012 HK\$'m	Half-year ended 30 June 2011 HK\$'m
Hong Kong profits tax		
Current tax		
– current period taxation	1,970	2,168
– over-provision in prior periods	(1)	–
	1,969	2,168
Deferred tax credit	(12)	(76)
Hong Kong profits tax	1,957	2,092
Overseas taxation	219	141
	2,176	2,233

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2012. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2012 at the rates of taxation prevailing in the countries in which the Group operates.

NOTES TO THE INTERIM FINANCIAL INFORMATION

14. Taxation (continued)

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

	Half-year ended 30 June 2012 HK\$'m	Half-year ended 30 June 2011 HK\$'m
Profit before taxation	13,825	14,587
Calculated at a taxation rate of 16.5% (2011: 16.5%)	2,281	2,407
Effect of different taxation rates in other countries	21	17
Income not subject to taxation	(296)	(269)
Expenses not deductible for taxation purposes	96	44
Tax losses not recognised	–	2
Utilisation of previously unrecognised tax losses	(70)	(32)
Over-provision in prior periods	(1)	–
Foreign withholding tax	145	64
Taxation charge	2,176	2,233
Effective tax rate	15.7%	15.3%

15. Dividends

	Half-year ended 30 June 2012		Half-year ended 30 June 2011	
	Per share HK\$	Total HK\$'m	Per share HK\$	Total HK\$'m
Interim dividend	0.545	5,762	0.630	6,661

At a meeting held on 23 August 2012, the Board declared an interim dividend of HK\$0.545 per ordinary share for the first half of 2012 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 2012.

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

The calculation of basic earnings per share is based on the consolidated profit attributable to the equity holders of the Company for the first half of 2012 of approximately HK\$11,243 million (first half of 2011: HK\$11,993 million) and on the ordinary shares in issue of 10,572,780,266 shares (2011: 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 2012 (first half of 2011: Nil).

NOTES TO THE INTERIM FINANCIAL INFORMATION

17. Retirement benefit costs

The principal 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 termination of employment after completing 10 years of service, or at a scale ranging from 30% to 90% for employees who have completed between 3 to 10 years of service, on conditions of retirement, early retirement, permanent incapacity and ill-health or termination of employment other than summary dismissal.

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 2012 amounted to approximately HK\$170 million (first half of 2011: approximately HK\$161 million), after a deduction of forfeited contributions of approximately HK\$1.1 million (first half of 2011: approximately HK\$2.5 million). For the MPF Scheme, the Group contributed approximately HK\$29 million (first half of 2011: approximately HK\$25 million) for the first half of 2012.

18. Share option schemes

(a) *Share Option Scheme and Sharesave Plan*

The principal terms of the Share Option Scheme and the Sharesave Plan were approved and adopted by written resolutions of all the shareholders of the Company dated 10 July 2002.

The purpose of the Share Option Scheme is to provide the participants with the opportunity to acquire proprietary interests in the Company. The Board may, in its absolute discretion, offer to grant options under the Share Option Scheme to any person as the Board may select. The subscription price for the shares shall be determined on the date of grant by the Board as an amount per share calculated on the basis of established rules. An option may be exercised in whole or in part at any time after the date prescribed by the Board and from time to time as specified in the offer and on or before the termination date prescribed by the Board.

The purpose of the Sharesave Plan is to encourage broad-based employee ownership of the shares of the Company. The amount of the monthly contribution under the savings contract to be made in connection with an option shall be the amount which the relevant eligible employee is willing to contribute, which amount shall not be less than 1% and not more than 10% of the eligible employee's monthly salary as at the date of application or such other maximum or minimum amounts as permitted by the Board. When an option is exercised during an exercise period, it may be exercised in whole or in part.

No options were granted pursuant to the Share Option Scheme or the Sharesave Plan during the first half of 2012 (first half of 2011: Nil).

NOTES TO THE INTERIM FINANCIAL INFORMATION

18. Share option schemes (continued)

(b) Pre-Listing Share Option Scheme

On 5 July 2002, several directors together with approximately 60 senior management personnel of the Group and employees of BOC were granted options by BOC (BVI), the immediate holding company of the Company, pursuant to a Pre-Listing Share Option Scheme to purchase from BOC (BVI) an aggregate of 31,132,600 existing issued shares of the Company. The Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the recognition and measurement policies have not been applied to all options granted to employees on or before 7 November 2002.

Details of the share options outstanding as at 30 June 2012 and 31 December 2011 are disclosed as follows:

	Directors	Senior management	Others*	Total number of share options	Average exercise price (HK\$ per share)
At 1 January 2012	2,530,500	247,300	1,446,000	4,223,800	8.5
Less: Share options exercised during the period	–	(247,300)	–	(247,300)	8.5
Less: Share options lapsed during the period	–	–	(1,446,000)	(1,446,000)	8.5
At 30 June 2012	2,530,500	–	–	2,530,500	8.5
Exercisable at 30 June 2012	2,530,500	–	–	2,530,500	8.5
At 1 January 2011	3,976,500	247,300	–	4,223,800	8.5
Transfer	(1,446,000)	–	1,446,000	–	8.5
At 31 December 2011	2,530,500	247,300	1,446,000	4,223,800	8.5
Exercisable at 31 December 2011	2,530,500	247,300	1,446,000	4,223,800	8.5

* Represented share options held by ex-directors of the Group.

Share options were exercised on a regular basis throughout the period and its weighted average share price was HK\$23.70. No share options were exercised during the year of 2011.

The options granted under this scheme can be exercised at HK\$8.50 per share in respect of the option price of HK\$1.00. These options have a vesting period of four years from the date on which dealings in the shares commenced on the Stock Exchange with a valid exercise period of ten years. No offer to grant any options under the Pre-Listing Share Option Scheme will be made on or after the date on which dealings in the shares commenced on the Stock Exchange.

NOTES TO THE INTERIM FINANCIAL INFORMATION

19. Cash and balances with banks and other financial institutions

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
Cash	5,954	6,425
Balances with central banks	39,340	158,950
Balances with banks and other financial institutions	55,734	48,412
Placements with banks and other financial institutions maturing within one month	52,014	65,008
	153,042	278,795

20. Financial assets at fair value through profit or loss

	Trading securities		Financial assets designated at fair value through profit or loss		Total	
	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
At fair value						
Debt securities						
– Listed in Hong Kong	6,817	3,628	860	776	7,677	4,404
– Listed outside Hong Kong	4,656	4,732	5,368	5,376	10,024	10,108
	11,473	8,360	6,228	6,152	17,701	14,512
– Unlisted	24,291	16,673	13,522	15,318	37,813	31,991
	35,764	25,033	19,750	21,470	55,514	46,503
Fund						
– Unlisted	–	–	764	1,103	764	1,103
Equity securities						
– Listed in Hong Kong	14	12	348	823	362	835
– Unlisted	186	161	–	–	186	161
	200	173	348	823	548	996
Total	35,964	25,206	20,862	23,396	56,826	48,602

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

Financial assets at fair value through profit or loss are analysed by type of issuer as follows:

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
Sovereigns	28,787	19,524
Public sector entities*	200	285
Banks and other financial institutions	16,363	17,731
Corporate entities	11,476	11,062
	56,826	48,602

* Included financial assets at fair value through profit or loss of HK\$177 million (31 December 2011: HK\$263 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

Financial assets at fair value through profit or loss are analysed as follows:

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
Treasury bills	22,291	14,691
Certificates of deposit held	1,699	1,515
Other financial assets at fair value through profit or loss	32,836	32,396
	56,826	48,602

21. Derivative financial instruments

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

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

21. Derivative financial instruments (continued)

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

The following tables summarise the contract/notional amounts of each class of derivative financial instrument as at 30 June 2012 and 31 December 2011:

	At 30 June 2012			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts				
Spot and forwards	333,420	–	–	333,420
Swaps	574,878	3,684	5,280	583,842
Foreign currency options				
– Options purchased	3,465	–	–	3,465
– Options written	3,632	–	–	3,632
	915,395	3,684	5,280	924,359
Interest rate contracts				
Futures	2,397	–	–	2,397
Swaps	315,881	28,587	45,870	390,338
	318,278	28,587	45,870	392,735
Bullion contracts	14,529	–	–	14,529
Equity contracts	2,142	–	131	2,273
Other contracts	77	–	–	77
Total	1,250,421	32,271	51,281	1,333,973

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

21. Derivative financial instruments (continued)

	At 31 December 2011			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts				
Spot and forwards	311,393	–	–	311,393
Swaps	394,781	4,234	5,181	404,196
Foreign currency options				
– Options purchased	2,595	–	–	2,595
– Options written	3,556	–	–	3,556
	712,325	4,234	5,181	721,740
Interest rate contracts				
Futures	4,035	–	–	4,035
Swaps	340,641	34,587	49,359	424,587
Interest rate options				
– Swaptions purchased	1,005	–	–	1,005
– Swaptions written	505	–	–	505
	346,186	34,587	49,359	430,132
Bullion contracts	13,010	–	–	13,010
Equity contracts	372	–	–	372
Other contracts	82	–	–	82
Total	1,071,975	38,821	54,540	1,165,336

NOTES TO THE INTERIM FINANCIAL INFORMATION

21. Derivative financial instruments (continued)

The following tables summarise the fair values of each class of derivative financial instrument as at 30 June 2012 and 31 December 2011:

	At 30 June 2012							
	Fair value assets				Fair value liabilities			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts								
Spot and forwards	17,731	–	–	17,731	(12,929)	–	–	(12,929)
Swaps	1,688	50	94	1,832	(1,946)	(74)	(139)	(2,159)
Foreign currency options								
– Options purchased	32	–	–	32	–	–	–	–
– Options written	–	–	–	–	(21)	–	–	(21)
	19,451	50	94	19,595	(14,896)	(74)	(139)	(15,109)
Interest rate contracts								
Futures	–	–	–	–	(1)	–	–	(1)
Swaps	2,690	3,327	2	6,019	(5,027)	(707)	(111)	(5,845)
	2,690	3,327	2	6,019	(5,028)	(707)	(111)	(5,846)
Bullion contracts	763	–	–	763	(533)	–	–	(533)
Equity contracts	35	–	–	35	(36)	–	(2)	(38)
Total	22,939	3,377	96	26,412	(20,493)	(781)	(252)	(21,526)

NOTES TO THE INTERIM FINANCIAL INFORMATION

21. Derivative financial instruments (continued)

	At 31 December 2011							
	Fair value assets				Fair value liabilities			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts								
Spot and forwards	18,484	-	-	18,484	(13,804)	-	-	(13,804)
Swaps	1,531	59	89	1,679	(1,553)	(100)	(150)	(1,803)
Foreign currency options								
- Options purchased	18	-	-	18	-	-	-	-
- Options written	-	-	-	-	(23)	-	-	(23)
	20,033	59	89	20,181	(15,380)	(100)	(150)	(15,630)
Interest rate contracts								
Futures	1	-	-	1	(1)	-	-	(1)
Swaps	2,695	2,946	-	5,641	(4,688)	(1,110)	(128)	(5,926)
Interest rate options								
- Swaptions purchased	1	-	-	1	-	-	-	-
- Swaptions written	-	-	-	-	(5)	-	-	(5)
	2,697	2,946	-	5,643	(4,694)	(1,110)	(128)	(5,932)
Bullion contracts	961	-	-	961	(717)	-	-	(717)
Equity contracts	2	-	-	2	(2)	-	-	(2)
Total	23,693	3,005	89	26,787	(20,793)	(1,210)	(278)	(22,281)

NOTES TO THE INTERIM FINANCIAL INFORMATION

21. Derivative financial instruments (continued)

The credit risk weighted amounts of the above derivative financial instruments are as follows:

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
Exchange rate contracts		
Forwards	711	1,487
Swaps	1,807	1,325
Foreign currency options		
– Options purchased	9	2
Interest rate contracts		
Swaps	1,862	1,733
Bullion contracts	10	14
Equity contracts	59	5
	4,458	4,566

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

There is no effect of valid bilateral netting agreement on the fair values or the credit risk weighted amounts of the derivative financial instruments.

22. Advances and other accounts

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
Personal loans and advances	224,751	215,715
Corporate loans and advances	522,001	483,664
Advances to customers*	746,752	699,379
Loan impairment allowances		
– Individually assessed	(256)	(259)
– Collectively assessed	(2,712)	(2,571)
	743,784	696,549
Trade bills	40,674	56,506
Advances to banks and other financial institutions	1,474	2,174
Total	785,932	755,229

As at 30 June 2012, advances to customers included accrued interest of HK\$1,508 million (31 December 2011: HK\$1,305 million).

As at 30 June 2012 and 31 December 2011, no impairment allowance was made in respect of trade bills and advances to banks and other financial institutions.

* Included advances to customers denominated in HK dollars of HK\$493,130 million (31 December 2011: HK\$470,898 million) and US dollars equivalent to HK\$192,626 million (31 December 2011: HK\$179,888 million).

NOTES TO THE INTERIM FINANCIAL INFORMATION

23. Investment in securities

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
(a) Available-for-sale securities		
Debt securities, at fair value		
– Listed in Hong Kong	17,091	9,614
– Listed outside Hong Kong	100,534	102,098
	117,625	111,712
– Unlisted	219,246	200,187
	336,871	311,899
Equity securities, at fair value		
– Listed in Hong Kong	2,522	3,660
– Listed outside Hong Kong	–	92
	2,522	3,752
– Unlisted	876	747
	3,398	4,499
	340,269	316,398
(b) Held-to-maturity securities		
Listed, at amortised cost		
– in Hong Kong	950	1,164
– outside Hong Kong	9,752	14,125
	10,702	15,289
Unlisted, at amortised cost	28,608	38,663
	39,310	53,952
Impairment allowances	(32)	(25)
	39,278	53,927
(c) Loans and receivables		
Unlisted, at amortised cost	3,462	6,673
Total	383,009	376,998
Market value of listed held-to-maturity securities	10,890	15,288

NOTES TO THE INTERIM FINANCIAL INFORMATION

23. Investment in securities (continued)

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

	At 30 June 2012			
	Available-for-sale securities	Held-to-maturity securities	Loans and receivables	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Sovereigns	86,264	13,500	–	99,764
Public sector entities*	35,829	3,210	–	39,039
Banks and other financial institutions	178,296	19,440	3,462	201,198
Corporate entities	39,880	3,128	–	43,008
	340,269	39,278	3,462	383,009

	At 31 December 2011			
	Available-for-sale securities	Held-to-maturity securities	Loans and receivables	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Sovereigns	104,799	20,882	–	125,681
Public sector entities*	36,458	6,509	–	42,967
Banks and other financial institutions	148,056	23,107	6,673	177,836
Corporate entities	27,085	3,429	–	30,514
	316,398	53,927	6,673	376,998

* Included available-for-sale securities of HK\$21,849 million (31 December 2011: HK\$20,746 million) and held-to-maturity securities of HK\$252 million (31 December 2011: HK\$832 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

Available-for-sale and held-to-maturity securities are analysed as follows:

	Available-for-sale securities		Held-to-maturity securities	
	At 30 June 2012	At 31 December 2011	At 30 June 2012	At 31 December 2011
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Treasury bills	47,904	72,906	2,888	6,195
Certificates of deposit held	55,798	27,542	3,417	3,044
Others	236,567	215,950	32,973	44,688
	340,269	316,398	39,278	53,927

NOTES TO THE INTERIM FINANCIAL INFORMATION

24. Investment properties

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
At 1 January	12,441	10,342
Additions	1	14
Disposals	(62)	(25)
Fair value gains	1,026	2,200
Reclassification to properties, plant and equipment (Note 25)	(8)	(92)
Exchange difference	–	2
At period/year end	13,398	12,441

25. Properties, plant and equipment

	Premises HK\$'m	Equipment, fixtures and fittings HK\$'m	Total HK\$'m
Net book value at 1 January 2012	37,049	2,601	39,650
Additions	47	260	307
Disposals	(138)	(3)	(141)
Revaluation	4,699	–	4,699
Depreciation for the period (Note 11)	(367)	(355)	(722)
Reclassification from investment properties (Note 24)	8	–	8
Exchange difference	(2)	(3)	(5)
Net book value at 30 June 2012	41,296	2,500	43,796
At 30 June 2012			
Cost or valuation	41,296	7,588	48,884
Accumulated depreciation and impairment	–	(5,088)	(5,088)
Net book value at 30 June 2012	41,296	2,500	43,796
Net book value at 1 January 2011	28,581	2,468	31,049
Additions	83	827	910
Disposals	(95)	(33)	(128)
Revaluation	8,989	–	8,989
Depreciation for the year	(610)	(667)	(1,277)
Reclassification from investment properties (Note 24)	92	–	92
Exchange difference	9	6	15
Net book value at 31 December 2011	37,049	2,601	39,650
At 31 December 2011			
Cost or valuation	37,049	7,414	44,463
Accumulated depreciation and impairment	–	(4,813)	(4,813)
Net book value at 31 December 2011	37,049	2,601	39,650

NOTES TO THE INTERIM FINANCIAL INFORMATION

25. Properties, plant and equipment (continued)

The analysis of cost or valuation of the above assets is as follows:

	Premises HK\$'m	Equipment, fixtures and fittings HK\$'m	Total HK\$'m
At 30 June 2012			
At cost	–	7,588	7,588
At valuation	41,296	–	41,296
	41,296	7,588	48,884
At 31 December 2011			
At cost	–	7,414	7,414
At valuation	37,049	–	37,049
	37,049	7,414	44,463

26. Other assets

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
Repossessed assets	8	13
Precious metals	5,594	5,260
Reinsurance assets	12,669	9,022
Accounts receivable and prepayments	16,969	11,469
	35,240	25,764

27. Financial liabilities at fair value through profit or loss

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
Trading liabilities		
– Short positions in Exchange Fund Bills and Notes	7,799	2,598
Financial liabilities designated at fair value through profit or loss		
– Structured deposits (Note 28)	2,424	639
	10,223	3,237

The carrying amount of financial liabilities designated at fair value through profit or loss as at 30 June 2012 is more than the amount that the Group would be contractually required to pay at maturity to the holders by HK\$1 million (31 December 2011: HK\$1 million). The amount of change in the fair values of financial liabilities at fair value through profit or loss, during the period and cumulatively, attributable to changes in credit risk is insignificant.

NOTES TO THE INTERIM FINANCIAL INFORMATION

28. Deposits from customers

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
Current, savings and other deposit accounts (per condensed consolidated balance sheet)	1,182,857	1,145,951
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 27)	2,424	639
	1,185,281	1,146,590
Analysed by:		
Demand deposits and current accounts		
– corporate	57,616	62,847
– personal	16,350	14,593
	73,966	77,440
Savings deposits		
– corporate	169,147	162,672
– personal	355,575	342,196
	524,722	504,868
Time, call and notice deposits		
– corporate	353,360	334,581
– personal	233,233	229,701
	586,593	564,282
	1,185,281	1,146,590

29. Debt securities in issue at amortised cost

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
Senior notes under the Medium Term Note Programme	5,900	5,856
Other debt securities	9	129
	5,909	5,985

30. Other accounts and provisions

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
Other accounts payable	42,769	41,445
Provisions	350	366
	43,119	41,811

NOTES TO THE INTERIM FINANCIAL INFORMATION

31. Assets pledged as security

As at 30 June 2012, liabilities of the Group amounting to HK\$11,407 million (31 December 2011: HK\$4,614 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, none of the liabilities of the Group was secured by debt securities related to sale and repurchase arrangements (31 December 2011: HK\$2,005 million). The amount of assets pledged by the Group to secure these liabilities was HK\$11,474 million (31 December 2011: HK\$6,643 million) included in "Trading securities" and "Available-for-sale securities".

32. Deferred taxation

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

The major components of deferred tax (assets)/liabilities recorded in the condensed consolidated balance sheet, and the movements during the first half of 2012 and the year ended 31 December 2011 are as follows:

	At 30 June 2012					
	Accelerated tax depreciation	Property revaluation	Losses	Impairment allowance	Other temporary differences	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1 January 2012	547	5,299	(131)	(451)	(109)	5,155
Charged/(credited) to income statement (Note 14)	6	(47)	(6)	21	14	(12)
Charged to other comprehensive income	-	753	-	-	383	1,136
Exchange difference	-	(1)	-	1	-	-
At 30 June 2012	553	6,004	(137)	(429)	288	6,279

	At 31 December 2011					
	Accelerated tax depreciation	Property revaluation	Losses	Impairment allowance	Other temporary differences	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1 January 2011	535	3,881	(124)	(333)	90	4,049
Charged/(credited) to income statement	12	(5)	(7)	(116)	(43)	(159)
Charged/(credited) to other comprehensive income	-	1,422	-	-	(156)	1,266
Exchange difference	-	1	-	(2)	-	(1)
At 31 December 2011	547	5,299	(131)	(451)	(109)	5,155

NOTES TO THE INTERIM FINANCIAL INFORMATION

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 condensed consolidated balance sheet:

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
Deferred tax assets	(114)	(210)
Deferred tax liabilities	6,393	5,365
	6,279	5,155

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
Deferred tax assets to be recovered after more than twelve months	(122)	(141)
Deferred tax liabilities to be settled after more than twelve months	6,120	5,421
	5,998	5,280

As at 30 June 2012, the Group has not recognised deferred tax assets in respect of tax losses amounting to HK\$847 million (31 December 2011: HK\$1,264 million) which is considered unlikely to be utilised. These tax losses do not expire under the current tax legislation.

33. Insurance contract liabilities

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
At 1 January	47,220	39,807
Benefits paid	(2,549)	(6,037)
Claims incurred and movement in liabilities	7,114	13,450
At period/year end	51,785	47,220

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK\$12,571 million (31 December 2011: HK\$9,012 million) and the associated reinsurance assets of HK\$12,669 million (31 December 2011: HK\$9,022 million) are included in "Other assets" (Note 26).

NOTES TO THE INTERIM FINANCIAL INFORMATION

34. Subordinated liabilities

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
Subordinated loans, at amortised cost EUR660m*	6,438	6,625
Subordinated notes, at amortised cost with fair value hedge adjustment USD2,500m**	22,318	22,031
Total	28,756	28,656

In 2008, BOCHK obtained floating-rate subordinated loans from BOC, the intermediate holding company of the Group. The subordinated loans are repayable prior to maturity after the first 5-year tenure at the option of the borrower. In 2010, BOCHK issued listed subordinated notes with an aggregate amount of USD2,500 million.

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

* Interest rate at 6-month EURIBOR plus 0.85% for the first 5 years, 6-month EURIBOR plus 1.35% for the remaining tenure payable semi-annually, due June 2018.

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

35. Share capital

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
Authorised: 20,000,000,000 ordinary shares of HK\$5 each	100,000	100,000
Issued and fully paid: 10,572,780,266 ordinary shares of HK\$5 each	52,864	52,864

36. Reserves

The Group's reserves and the movements therein for the current and prior periods are presented in the condensed consolidated statement of changes in equity on pages 40 to 41.

NOTES TO THE INTERIM FINANCIAL INFORMATION

37. Notes to condensed consolidated cash flow statement

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

	Half-year ended 30 June 2012 HK\$'m	Half-year ended 30 June 2011 HK\$'m
Operating profit	12,666	13,103
Depreciation	722	614
Net charge of impairment allowances	108	30
Unwind of discount on impairment allowances	(4)	(1)
Advances written off net of recoveries	59	118
Change in subordinated liabilities	398	1,257
Change in balances with banks and other financial institutions with original maturity over three months	(8,875)	(230)
Change in placements with banks and other financial institutions with original maturity over three months	590	(50,019)
Change in financial assets at fair value through profit or loss	142	16,782
Change in derivative financial instruments	(380)	(1,115)
Change in advances and other accounts	(30,841)	(74,235)
Change in investment in securities	(24,129)	(31,490)
Change in other assets	(9,375)	(12,272)
Change in deposits and balances from banks and other financial institutions	(122,649)	73,120
Change in financial liabilities at fair value through profit or loss	6,986	(20,618)
Change in deposits from customers	36,906	76,402
Change in debt securities in issue at amortised cost	(76)	5
Change in other accounts and provisions	1,230	12,362
Change in insurance contract liabilities	4,565	3,238
Effect of changes in exchange rates	2,724	(7,977)
Operating cash outflow before taxation	(129,233)	(926)
Cash flows from operating activities included:		
– Interest received	17,165	14,178
– Interest paid	4,822	4,034
– Dividend received	65	62

Certain comparative figures have been revised to conform with the current period's presentation. The effect of exchange rate changes on cash and cash equivalents has also been separately presented on the condensed consolidated cash flow statement.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

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

	At 30 June 2012 HK\$'m	At 30 June 2011 HK\$'m
Cash and balances with banks and other financial institutions with original maturity within three months	132,524	412,673
Placements with banks and other financial institutions with original maturity within three months	22,799	13,651
Treasury bills with original maturity within three months	44,513	20,177
Certificates of deposit held with original maturity within three months	1,210	–
	201,046	446,501

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:

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
Direct credit substitutes	9,031	8,124
Transaction-related contingencies	10,892	11,871
Trade-related contingencies	43,211	50,422
Commitments that are unconditionally cancellable without prior notice	268,896	263,246
Other commitments with an original maturity of		
– up to one year	22,040	11,506
– over one year	44,801	45,016
	398,871	390,185
Credit risk weighted amount	46,291	41,502

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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

39. Capital commitments

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

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
Authorised and contracted for but not provided for	333	244
Authorised but not contracted for	4	8
	337	252

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 2012 HK\$'m	At 31 December 2011 HK\$'m
Land and buildings		
– not later than one year	641	598
– later than one year but not later than five years	1,085	1,050
– later than five years	380	299
	2,106	1,947

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

40. Operating lease commitments (continued)

(b) *As lessor*

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

	At 30 June 2012 HK\$'m	At 31 December 2011 HK\$'m
Land and buildings		
– not later than one year	423	377
– later than one year but not later than five years	388	441
– later than five years	2	–
	813	818

The Group leases its investment properties (Note 24) under operating lease arrangements, with leases typically for a period from one to three years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions. None of the leases include contingent rentals.

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 business segments are identified which are 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, etc. Personal Banking mainly serves retail customers 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 relating to long-term life insurance products, including traditional and investment-linked individual life insurance and group life insurance products. "Others" mainly represents Group's holdings of premises, investment properties, equity investments and interests in associates.

As the Group's major revenue is derived from interest and the senior management relies primarily on net interest income to assess the performance of the segment, interest income and expense for all reportable segments are presented on a net basis. The senior management also relies primarily on net insurance premium income and benefits and claims to assess the performance of the Insurance segment.

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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

41. Segmental reporting (continued)

	Personal Banking HK\$'m	Corporate Banking HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
Half-year ended 30 June 2012								
Net interest income/(expense)								
– external	426	4,408	6,897	883	5	12,619	–	12,619
– inter-segment	2,752	306	(2,800)	–	(258)	–	–	–
	3,178	4,714	4,097	883	(253)	12,619	–	12,619
Net fee and commission income	2,144	1,795	72	77	68	4,156	(54)	4,102
Net insurance premium income	–	–	–	2,838	–	2,838	(7)	2,831
Net trading gain/(loss)	274	177	744	230	(17)	1,408	–	1,408
Net gain on financial instruments designated at fair value through profit or loss	–	–	24	159	–	183	3	186
Net gain on other financial assets	–	1	354	122	–	477	–	477
Other operating income	20	–	–	10	744	774	(483)	291
Total operating income	5,616	6,687	5,291	4,319	542	22,455	(541)	21,914
Net insurance benefits and claims	–	–	–	(3,749)	–	(3,749)	–	(3,749)
Net operating income before impairment allowances	5,616	6,687	5,291	570	542	18,706	(541)	18,165
Net (charge)/reversal of impairment allowances	(77)	(15)	7	(23)	–	(108)	–	(108)
Net operating income	5,539	6,672	5,298	547	542	18,598	(541)	18,057
Operating expenses	(2,774)	(1,529)	(596)	(96)	(937)	(5,932)	541	(5,391)
Operating profit/(loss)	2,765	5,143	4,702	451	(395)	12,666	–	12,666
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	1,030	1,030	–	1,030
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	(2)	(1)	–	–	119	116	–	116
Share of profits less losses after tax of associates	–	–	–	–	13	13	–	13
Profit before taxation	2,763	5,142	4,702	451	767	13,825	–	13,825
At 30 June 2012								
Assets								
Segment assets	252,612	557,421	763,281	62,876	65,832	1,702,022	(17,545)	1,684,477
Interests in associates	–	–	–	–	245	245	–	245
	252,612	557,421	763,281	62,876	66,077	1,702,267	(17,545)	1,684,722
Liabilities								
Segment liabilities	667,271	553,350	260,880	59,171	17,183	1,557,855	(17,545)	1,540,310
Half-year ended 30 June 2012								
Other information								
Capital expenditure	15	3	–	5	285	308	–	308
Depreciation	159	83	45	3	432	722	–	722
Amortisation of securities	–	–	48	49	–	97	–	97

NOTES TO THE INTERIM FINANCIAL INFORMATION

41. Segmental reporting (continued)

	Personal Banking HK\$'m	Corporate Banking HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
Half-year ended 30 June 2011								
Net interest income/(expense)								
– external	820	3,287	5,262	847	(11)	10,205	–	10,205
– inter-segment	2,023	876	(2,869)	–	(30)	–	–	–
	2,843	4,163	2,393	847	(41)	10,205	–	10,205
Net fee and commission income	2,407	1,483	57	19	66	4,032	(46)	3,986
Net insurance premium income	–	–	–	3,397	–	3,397	(6)	3,391
Net trading gain/(loss)	301	139	352	(2)	(29)	761	–	761
Net gain on financial instruments designated at fair value through profit or loss	–	–	18	380	–	398	–	398
Net gain on other financial assets	–	–	324	–	36	360	–	360
Other operating income	12	–	1	2	663	678	(433)	245
Total operating income	5,563	5,785	3,145	4,643	695	19,831	(485)	19,346
Net insurance benefits and claims	–	–	–	(4,220)	–	(4,220)	–	(4,220)
Net operating income before impairment allowances	5,563	5,785	3,145	423	695	15,611	(485)	15,126
Net (charge)/reversal of impairment allowances	(82)	40	43	(31)	–	(30)	–	(30)
Net operating income	5,481	5,825	3,188	392	695	15,581	(485)	15,096
Operating expenses	(2,754)	(1,371)	(323)	(101)	2,071	(2,478)	485	(1,993)
Operating profit	2,727	4,454	2,865	291	2,766	13,103	–	13,103
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	1,486	1,486	–	1,486
Net loss from disposal/revaluation of properties, plant and equipment	(4)	(1)	–	–	–	(5)	–	(5)
Share of profits less losses after tax of associates	–	–	–	–	3	3	–	3
Profit before taxation	2,723	4,453	2,865	291	4,255	14,587	–	14,587
At 31 December 2011								
Assets								
Segment assets	241,275	536,091	860,848	57,299	61,099	1,756,612	(18,336)	1,738,276
Interests in associates	–	–	–	–	234	234	–	234
	241,275	536,091	860,848	57,299	61,333	1,756,846	(18,336)	1,738,510
Liabilities								
Segment liabilities	676,928	507,852	368,709	54,282	15,892	1,623,663	(18,336)	1,605,327
Half-year ended 30 June 2011								
Other information								
Capital expenditure	6	–	–	–	261	267	–	267
Depreciation	164	75	25	2	348	614	–	614
Amortisation of securities	–	–	(23)	34	–	11	–	11

NOTES TO THE INTERIM FINANCIAL INFORMATION

42. 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.

(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 and indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other state controlled entities. The Group enters into banking transactions with government authorities, agencies, affiliates and other state controlled entities in the normal course of business at commercial terms.

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

42. Significant related party transactions (continued)

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

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

	Half-year ended 30 June 2012		Half-year ended 30 June 2011	
	Associates HK\$'m	Other related parties HK\$'m	Associates HK\$'m	Other related parties HK\$'m
Income statement items: Administrative services fees received/receivable	-	4	-	4

	At 30 June 2012		At 31 December 2011	
	Associates HK\$'m	Other related parties HK\$'m	Associates HK\$'m	Other related parties HK\$'m
Balance sheet items: Deposits from customers	36	-	173	-
Off-balance sheet items: Contingent liabilities and commitments	-	-	20	-

(d) Key management personnel

Key management 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 BOCHK, its holding companies and parties related to them.

The key management compensation is detailed as follows:

	Half-year ended 30 June 2012 HK\$'m	Half-year ended 30 June 2011 HK\$'m
Salaries and other short-term employee benefits	23	21
Post-employment benefits	1	1
	24	22

NOTES TO THE INTERIM FINANCIAL INFORMATION

43. Currency concentrations

The following is a summary of the major foreign currency exposures arising from trading, non-trading and structural positions and is prepared with reference to the Completion Instructions for the prudential return “Foreign Currency Position of an Authorized Institution” issued by the HKMA. The net options position is calculated based on the basis of delta-weighted positions of all foreign exchange options contracts.

	At 30 June 2012							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	480,391	33,830	17,095	28,903	4,197	337,602	15,612	917,630
Spot liabilities	(356,695)	(2,403)	(21,505)	(24,715)	(15,200)	(313,074)	(25,028)	(758,620)
Forward purchases	418,899	39,655	57,152	28,664	23,910	204,447	40,299	813,026
Forward sales	(531,361)	(71,117)	(52,632)	(32,801)	(12,875)	(224,605)	(30,760)	(956,151)
Net options position	227	1	(1)	(23)	(3)	(31)	(23)	147
Net long/(short) position	11,461	(34)	109	28	29	4,339	100	16,032
Net structural position	321	-	-	-	-	8,478	-	8,799

	At 31 December 2011							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	451,222	51,268	18,271	32,826	6,108	449,786	16,695	1,026,176
Spot liabilities	(339,118)	(2,921)	(21,407)	(26,183)	(15,738)	(436,987)	(25,490)	(867,844)
Forward purchases	331,290	30,300	30,439	28,440	23,152	126,276	35,522	605,419
Forward sales	(438,296)	(78,706)	(27,604)	(35,125)	(13,500)	(132,354)	(26,524)	(752,109)
Net options position	441	-	(1)	(15)	(11)	(2)	(14)	398
Net long/(short) position	5,539	(59)	(302)	(57)	11	6,719	189	12,040
Net structural position	315	-	-	-	-	5,261	-	5,576

NOTES TO THE INTERIM FINANCIAL INFORMATION

44. Cross-border claims

The information on cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty, or if the claims are on an overseas branch of a bank whose head office is located in another country. Only regions constituting 10% or more of the aggregate cross-border claims are analysed by geographical areas and disclosed as follows:

	At 30 June 2012			
	Public sector			Total HK\$'m
	Banks HK\$'m	entities* HK\$'m	Others HK\$'m	
Asia, other than Hong Kong				
– Mainland China	266,375	39,342	130,116	435,833
– Others	57,930	36,369	26,166	120,465
	324,305	75,711	156,282	556,298
North America				
– United States	3,582	50,000	32,071	85,653
– Others	8,569	1,330	268	10,167
	12,151	51,330	32,339	95,820
Total	336,456	127,041	188,621	652,118

	At 31 December 2011			
	Public sector			Total HK\$'m
	Banks HK\$'m	entities* HK\$'m	Others HK\$'m	
Asia, other than Hong Kong				
– Mainland China	246,133	171,336	111,932	529,401
– Others	58,475	52,622	24,026	135,123
	304,608	223,958	135,958	664,524
North America				
– United States	10,389	42,037	29,949	82,375
– Others	13,590	1,739	245	15,574
	23,979	43,776	30,194	97,949
Total	328,587	267,734	166,152	762,473

* Included United States of HK\$10,450 million (31 December 2011: HK\$8,937 million) and other countries in North America of HK\$1,296 million (31 December 2011: HK\$1,704 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

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45. Non-bank Mainland China exposures

The analysis of non-bank Mainland China exposures is based on the categories of non-bank counterparties and the type of direct exposures with reference to the HKMA return for non-bank Mainland China exposures. The Group's exposures in Mainland China arising from non-bank counterparties are summarised as follows:

	At 30 June 2012			
	On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total exposure HK\$'m	Individually assessed impairment allowances HK\$'m
Mainland China entities	290,093	68,854	358,947	34
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	43,133	13,448	56,581	24
Other non-bank Mainland China exposures	21,940	2,149	24,089	51
	355,166	84,451	439,617	109

	At 31 December 2011			
	On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total exposure HK\$'m	Individually assessed impairment allowances HK\$'m
Mainland China entities	254,105	65,129	319,234	34
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	34,440	11,941	46,381	14
Other non-bank Mainland China exposures	21,746	2,060	23,806	44
	310,291	79,130	389,421	92

During the period, the basis of the above analyses has been refined and the comparative amounts have been reclassified accordingly.

46. Compliance with HKAS 34

The unaudited interim financial information for the first half of 2012 complies with HKAS 34 "Interim Financial Reporting" issued by the HKICPA.

47. Statutory accounts

The information in this interim report is unaudited and does not constitute statutory accounts. The statutory accounts for the year ended 31 December 2011 have been delivered to the Registrar of Companies and the HKMA. The auditor expressed an unqualified opinion on those statutory accounts in their report dated 29 March 2012.