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

2012 INTERIM REPORT

Stock code: 2388

This version of the 2012 Interim Report will be replaced by the the printed version available around early September 2012.

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FINANCIAL HIGHLIGHTS

For the period/year	30 June 2012 HK$'m	30 June 2011 HK$'m	31 December 2011 HK$'m
Net operating income before impairment allowances	**18,165**	15,126	30,846
Operating profit	**12,666**	13,103	22,478
Profit before taxation	**13,825**	14,587	24,680
Profit for the period/year	**11,649**	12,354	20,813
Profit attributable to the equity holders of the Company	**11,243**	11,993	20,430
Per share	**HK$**	HK$	HK$
Basic earnings per share	**1.0634**	1.1343	1.9323
Dividend per share	**0.5450**	0.6300	1.1880
At period/year end	**HK$'m**	HK$'m	HK$'m
Capital and reserves attributable to the equity holders of the Company	**140,714**	126,163	129,765
Issued and fully paid share capital	**52,864**	52,864	52,864
Total assets	**1,684,722**	1,830,379	1,738,510
Financial ratios	**%**	%	%
Return on average total assets[1]	**1.35**	1.33	1.14
Return on average shareholders' equity[2]	**16.63**	19.88	16.68
Cost to income ratio[3]	**29.68**	13.18	25.49
Loan to deposit ratio[4]	**63.00**	60.95	61.00
Average liquidity ratio[5]	**39.87**	36.38	36.17
Capital adequacy ratio[6]	**17.43**	17.62	16.90

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

2. Return on average shareholders' equity

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

3. In calculating cost to income ratios in 2011, cost includes the impact of Lehman Brothers minibonds.

4. Loan to deposit ratio is calculated as at 30 June 2012, 30 June 2011 and 31 December 2011. Loan represents gross advances to customers. Deposit represents deposits from customers including structured deposits reported as "Financial liabilities at fair value through profit or loss".

5. Average liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of BOCHK for the period/year.

6. Capital adequacy ratio is 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 bases of regulatory capital calculation for credit risk, market risk and operational risk are described in Note 3.5 to the Interim Financial Information in this Interim Report. As a result of the change in the bases used, the capital ratios shown above are not directly comparable.

CHAIRMAN'S STATEMENT

I am delighted to report that the Group delivered once again a set of satisfactory results for the first half of 2012, with core income and profits achieving new highs. During the period, we proactively managed our assets and liabilities to improve profitability and to contain risks amid a more volatile market environment. Core businesses posted solid growth while financial position remained sound.

For the first six months of 2012, the Group's net operating income before impairment allowances grew by 20.1% year-on-year to HK$18,165 million with broad-based growth. Compared to the same period last year, operating profit before impairment allowances decreased by 2.7% to HK$12,774 million while profit attributable to the equity holders declined by 6.3% to HK$11,243 million or HK$1.0634 per share. The decline in profits was mainly due to the net recovery from the underlying collateral of the Lehman Brothers Minibonds recorded in the first half of 2011. Excluding such impact, operating profit before impairment allowances and profit attributable to the equity holders registered encouraging increase of 24.0% and 16.2% respectively. As at end June 2012, the Group's total assets declined by 3.1% to HK$1.68 trillion, mainly due to the decrease in RMB funds deposited by participating banks with the clearing bank. The Board has declared an interim dividend of HK$0.545 per share, compared to HK$0.63 per share for the same period last year which included the impact of the Lehman-related recovery.

During the first half, global markets experienced increased volatilities as the Eurozone debt crisis intensified while economic growth in major markets was losing steam. Against this backdrop, we focused on safeguarding our solid financial position and proactively managing our risk exposure while capturing growth opportunities within the Group's risk limits. Loan demand softened amid slowing growth in global economies, but we managed to capture quality growth opportunities capitalising on our strong customer franchise and financial position. As at end June 2012, loan growth was 6.8% compared to last year end. The Group strictly adhered to stringent lending policy and vigilantly managed its loan portfolio. The loan quality was healthy with classified or impaired loan ratio staying at a low level of 0.10%. The loan growth was supported by our solid deposit base which increased by 3.4%. Loan-to-deposit ratio increased to 63.0% from 61.0% as at end 2011. In managing our investment portfolio, we further optimised the mix to contain the potential risks arising from unpredictable market disruption. Net interest margin improved notably, reflecting the effectiveness of our proactive asset and liability management. Our capital and liquidity positions remained strong with capital adequacy ratio of 17.43% and average liquidity ratio of 39.87% as at end June 2012.

As for business development, the Group continued to make good progress, especially in the offshore RMB business. We maintained leading market positions and enhanced our RMB product and service capabilities in areas such as Dim Sum bonds underwriting, cash management and custody. Income contribution from RMB business increased further driven by enhanced deployment of our RMB funds. Riding on the momentum achieved in the second half of 2011, the Group's RMB lending business recorded satisfactory growth. We have also arranged the first sizable 100% RMB syndicated loan in Hong Kong. In addition to loans, we also deployed our RMB funds in bond investment and interbank activities. Capitalising on our RMB franchise and close collaboration with parent bank, BOC, we further enhanced our customer relationship and extended our services to other geographical regions. This will pave the way for further development of our offshore RMB business and also create other business opportunities for the Group. As the RMB clearing bank in Hong Kong, BOCHK gives full support to the further development of the RMB market in Hong Kong as well as in other offshore locations. In June, we have extended the service hours of the clearing function to enable participating banks in different time zones to enjoy the convenience of our settlement services. The new measure is implemented in line with the extension of the operating hours of the RMB Real Time Gross Settlement system in Hong Kong.

Recent macro trends have shown that global economies may face further downward pressure. The overall market environment in the near term will remain challenging and difficulties may persist for a while. We need to stay agile in adjusting our strategies and taking prompt measures in response to any shifts in the market. On a brighter note, to celebrate the 15th anniversary for Hong Kong's return to Chinese sovereignty, the Central Government has further deepened the economic cooperation between Hong Kong and the Mainland. The new measures and policies introduced will give rise to more business opportunities for Hong Kong in the mid-to-longer term.

Given the prevailing market conditions and the more stringent regulatory requirements, having a solid capital position will be a distinct competitive advantage for financial institutions. In this respect, the Group is strongly positioned. We will maintain proactive capital management to solidify our capital strength. Despite the slowdown in overall economic activities, investing in our franchise remains a key priority for us to enhance the Group's long-term competitiveness. Over the past years, we have never stopped investing in our business even during tough times of the financial crisis in 2008 and 2009. This strategy proved to be prescient as today, they have enabled us to capture many new business opportunities. We will continue to upscale our capabilities to better serve our customers and create new growth drivers.

In May 2012, BOCHK was ranked as the world's second strongest banks by Bloomberg Markets Magazine in terms of financial strength, asset quality and operating efficiency. This recognition reflected once again the results of the determined efforts of our people. I wish to take this opportunity to thank them for their contributions. I would also like to thank our customers and shareholders for their continuous support and the Board for their wisdom and counsel.

2012 is a special year for BOC Group as it is the 100th anniversary of BOC and the 10th anniversary of the Company's listing. We take great pride in witnessing the solid development of BOC Group throughout the years. Looking forward, we will strive to maximise the strength of the BOC Group franchise, especially in promoting our capabilities in cross-border financial activities and global services to meet customers' needs. We will endeavour to safeguard our solid foundation to support the Group's long-term growth and create greater value for our customers, employees, shareholders and the community as a whole.

XIAO Gang
Chairman

Hong Kong, 23 August 2012

CHIEF EXECUTIVE'S REPORT

As the Company is entering the tenth year of its public listing in Hong Kong, I am pleased to report that we have evolved into a more dynamic banking group that lives up to our pledge to create greater value for shareholders and customers. In the first half of 2012, we once again recorded solid growth in income and profit, achieving new interim heights for our net operating income and core profit attributable to the equity holders. We maintained our leading positions in key market segments and strengthened our financial positions. We also covered significant mileage in capturing new business opportunities and diversifying our income and profit streams.

The operating environment turned out to be far more uncertain and risky than a year ago. The sovereign debt crisis in the Eurozone was aggravating while the US economic recovery was losing steam. After years of fast growth, the Mainland economy was assuming a more modest pace. In Hong Kong, although inbound tourism still rendered strong support for the retail sector, the momentum for GDP growth turned weaker with sluggish external trade and domestic consumption. For the banking sector, operating costs continued to escalate though inflationary pressure as a whole moderated to some extent. Interest rates stayed at a very low level but competition for deposits intensified, thus adding to the cost of funding. On the positive side, however, new business opportunities were cropping up with the further development of offshore RMB banking business in Hong Kong and overseas.

Strategic Initiatives and Achievements

- By pursuing a proactive business growth strategy, we reinforced our core businesses and diversified our income and profit streams. Given our strong foundations and core competencies, we were able to capture various growth opportunities. Our offshore RMB banking business flourished and further strengthened the Group's leading market position. We made great progress in building up the RMB business as one of the Group's new growth engines. Our loan business registered healthy growth with satisfactory growth in RMB loans. Our strenuous effort in fostering the funds and bonds distribution business enabled us to achieve robust growth in this area, regardless of volatilities in the investment market. When the local property market showed early signs of revival in late March, we grew our residential mortgage loans and topped the market in the underwriting of new mortgage loans.

- The Group's profitability continued to improve under a proactive asset and liability management strategy, which we have been implementing over the past years and has proven to be essential in enhancing the Group's earning power. We succeeded in enhancing the deployment of RMB funds, improving the pricing of loans, boosting our deposit base through a flexible deposit-taking strategy, and controlling the cost of funding. As a result, we significantly improved our net interest margin (NIM), thus achieving solid growth in net interest income and hence overall profit.

- Our rigorous risk management policy remained effective in safeguarding the high quality of the Group's assets. With a vigilant and selective credit policy, we guarded against the formation of new impaired loans and maintained our classified or impaired loan ratio at the best level in the market. By means of a proactive yet prudent investment strategy, we better managed our investment portfolio to capture higher return and minimise risks. We refined our portfolio mix by reducing the Group's exposure to the European market and increasing the holding of high quality bonds issued by Asia-Pacific institutions and corporations.

- We succeeded in maintaining our financial strength to support business growth and development. We are well-capitalised, with our consolidated capital adequacy ratio and core capital ratio among the best in the local industry. Average liquidity ratio and loan-to-deposit ratio stayed sound and solid. Our cost-to-income ratio was also the best in industry. In consideration of such factors as financial strength, asset quality and operating efficiency, BOCHK was ranked by Bloomberg Markets in May 2012 as the world's second strongest bank and the top one among banks in Hong Kong. This is another international recognition of our core strengths in sustaining growth while fending off potential risks.

Financial Performance

In the first half of 2012, the Company's profit attributable to the equity holders was HK$11,243 million, a decrease of 6.3% as compared to the first half of 2011. This relative drop was due mainly to the net recovery of HK$2,854 million from the underlying collateral of the Lehman Brothers Minibonds in the first half of 2011. After discounting the Lehman Brothers-related factor, the Company's profit attributable to the equity holders increased strongly by 16.2% as a result of the solid growth in nearly all core business segments.

The Group's net operating income before impairment allowances was HK$18,165 million, surging by 20.1% year-on-year. In comparison with the second half of 2011, the Group's net operating income before impairment allowances, operating profit before impairment allowances and profit attributable to the equity holders increased by 15.6%, 29.7% and 33.3% respectively.

Return on average total assets (ROA) and return on average shareholders' equity (ROE) were 1.35% and 16.63% respectively, versus 1.33% and 19.88% respectively for the first half of 2011.

For the period under review, net interest income rose by 23.7% year-on-year to HK$12,619 million. This increase was led by a conspicuous improvement in the NIM by 43 basis points year-on-year and 20 basis points half-on-half to 1.64%. The improvement can be attributed primarily to the increased deployment of RMB funds in lending and investment. It was also due to the better pricing of new loans extended to corporate and individual customers. In line with the new developments in offshore RMB business, coupled with the introduction of the Fiduciary Account scheme, participating banks reduced their RMB deposits with BOCHK as the clearing bank, thus alleviating the diluting effect of such deposits on the Group's NIM. As at 30 June 2012, the Group's average interest-earning assets were HK$1,544,663 million, down 9.1% due largely to the reduction of participating banks' RMB deposits.

Net fee and commission income rose by 2.9% year-on-year to HK$4,102 million. Loan commission increased strongly by 54.6%. The robust performance of the Group's funds distribution business, particularly RMB funds, resulted in the surge of 31.8% in related commission income. Fee income from credit cards increased by 15.3%. Our trust and custody as well as payment services also saw steady growth in fee income.

The Group's net trading gain increased substantially by 85.0% year-on-year to HK$1,408 million. This was due mainly to the increase in net trading income from foreign exchange and related products as well as a net gain from interest rate instruments and items under fair value hedge.

Under the volatile market conditions, the Group continued to adopt a stringent and selective credit policy to ensure quality growth. Advances to customers grew by 6.8% as compared with end-2011 to a total of HK$746,752 million. Corporate loans and personal loans increased by 7.9% and 4.2% respectively. At the same time, we achieved higher return from the lending business by raising the pricing of new loans.

The Group's deposit base expanded further in the interim period. In view of the competition for RMB deposits, we followed a more flexible deposit strategy to support business growth and manage the cost of funding. As at 30 June 2012, the Group's total deposits from customers reached HK$1,185,281 million, representing an increase of 3.4% from end-2011. The Group's loan-to-deposit ratio increased to 63.0%, up 2 percentage points from the end of December 2011.

The Group's total assets showed a decrease of 3.1% to HK$1,684,722 million as at 30 June 2012. It was mainly due to the decline in RMB funds deposited by participating banks with BOCHK as the clearing bank. We continued to implement a proactive yet balanced strategy with regard to asset deployment and risk management, thus ensuring better utilisation of funds while keeping risk under well control. The quality of our assets remained excellent. The classified or impaired loan ratio as at 30 June 2012 remained at a low level of 0.10%, the same as one year ago.

In the interim period, we continued to exercise high prudence in containing cost. Owing to the significant net recovery from the underlying collateral of the Lehman Brothers Minibonds in the first half of 2011, the Group's total operating expenses for the first half of 2012 showed an apparent increase of 170.5% to HK$5,391 million. Should the impact of Lehman Brothers-related products be discounted, core operating expenses would be seen to have increased by 11.7%. The increase was necessitated by the investment in human resources and service infrastructure to support business growth in the time ahead. It also speaks for the Group's determination to maintain the competitiveness of its remuneration for the staff. The Group's cost-to-income ratio for the first half of 2012 stayed at the low level of 29.68%.

The Group's capital and liquidity positions were strong. Consolidated CAR as at 30 June 2012 was 17.43%, up 0.53 percentage point from the end of last year. Core capital ratio was 12.96%, versus 12.51% six months ago and 12.87% a year ago. Average liquidity ratio stayed at a healthy level of 39.87%, versus 36.38% for the same period last year.

Business Review

We succeeded in attaining across-the-board growth in all of our core business segments in the first half of this year.

The Group's **Corporate Banking** business recorded outstanding results in the first half of the year. Net operating income before impairment allowances increased strongly by 15.6% to HK$6,687 million while profit before taxation surged by 15.5% to HK$5,142 million.

Our corporate segment maintained its growth momentum against the backdrop of a slower economy. Corporate loans grew by 7.9% with better pricing in new loans. The growth was driven by the sustained increase in RMB loans as well as non-RMB loans. We maintained our position as the top mandated arranger in Hong Kong's syndicated loan market, and arranged the first 100% RMB syndicated loan in Hong Kong. We enhanced our services for SMEs by offering them one-stop financial solutions via our dedicated commercial centres and extensive branch network. We gave further support to the enhanced SME Financing Guarantee Scheme launched by the Hong Kong Mortgage Corporation. Through product innovation and service enhancement, the Group's trade finance balance grew by 14.0%. By collaborating more closely with BOC and NCB (China), we increased our servicing capability for cross-border customers. Our custody service showed significant progress. We secured the mandates for a number of RMB fund products and became the largest service provider of RQFII funds in the local market. We expanded our client base by providing global custody services to QDIIs and various types of fund clients. In line with the new arrangements of the RMB RTGS system in Hong Kong from late June, we have upgraded our related services and extended our service hours for same-day RMB telegraphic transfer and express transfer, facilitating RMB trade settlement and fund transfer by corporations from around the world. Our cross-border cash management service capabilities have been greatly enhanced by the linkage of our e-banking platform with those of BOC and its overseas branches.

Our **Personal Banking** business recorded steady growth in both loans and deposits. Net operating income before impairment allowances and profit before taxation reached HK$5,616 million and HK$2,763 million respectively.

With the revival of the local property market early this year, our residential mortgage loans grew by 4.6%. For the interim period, we were the market leader in underwriting new mortgages. Although sluggish stock trading affected our brokerage fee income, our other investment services flourished, in particular the distribution of funds and bonds, and contributed significantly to the rise in fee and commission income. We were the largest retail distributor of RQFII funds in Hong Kong. The launch of the "BOCHK – World Bank Emerging Markets Bond Fund" in June marked the inaugural cooperation between the Group and the World Bank, making it the first global emerging market currency bond fund in Hong Kong with a China theme. In addition, our bonds distribution business made encouraging progress. We initiated the private placement service for bonds in the secondary market. We also led the HKSAR iBond market in terms of over-the-counter turnover. The Group's insurance business continued to develop in a healthy manner. Through product innovation and brand building, BOC Life reinforced its position as a prominent life insurer and the leader in RMB-denominated insurance market. Meanwhile, our credit card business recorded growth of 10.8% and 16.8% in cardholder spending and merchant acquiring volumes respectively. As regards wealth management, we completed the unification of our service platform as well as enhanced our brand awareness and market position.

We have been working more closely with BOC to tailor-make relevant services for select customers. While driving business growth, we kept enhancing our customer service by optimising our distribution channels. The functions of our e-banking service platform have been expanded. We pioneered the first chip-based ATM card with enhanced security.

The Group's **Treasury** segment once again recorded solid financial results in the first half of 2012. Net operating income before impairment allowances increased by 68.2% year-on-year to HK$5,291 million, led by the strong growth in net interest income, while profit before taxation increased by 64.1% to HK$4,702 million.

Under volatile market conditions, we continued with a proactive yet highly vigilant approach in managing our banking book investments, responding swiftly to any change in the market. To safeguard our asset quality and return, we further improved our investment portfolio to manage risk and maximise return. On the one hand, we continued to trim down our holdings of European bonds. On the other hand, we invested in more high quality bonds issued by Asia-Pacific institutions and corporations. On the product development front, in anticipation of customers' needs, we rolled out new product packages that aimed to reduce customers' exposure to exchange rate risk and financing costs. We remained an active participant in the underwriting of offshore RMB-denominated bonds. We launched three new offshore RMB bond sub-indices that serve as performance benchmarks for the offshore RMB bond market.

The Group's **Mainland** business registered healthy growth in the first six months. Net operating income increased by 32.7%. Advances to customers and customer deposits grew by 1.2% and 9.8% respectively. By stepping up our marketing and promotion, working closely with BOC, and exploiting the e-banking channels, we boosted our deposit base and grew our retail banking business in the Mainland. The range of wealth management products was enriched to support the growth of the wealth management segment. We have also been actively preparing for the issuance of credit cards in the Mainland. During the interim period, four new NCB (China) sub-branches were added to our Mainland network.

The **Insurance** business recorded robust growth and strengthened its position in the RMB insurance market. Net operating income before impairment allowances increased by 34.8% year-on-year to HK$570 million while profit before taxation grew substantially by 55.0% to HK$451 million. The outstanding growth in profit was mainly attributable to the better investment performance as compared to the same period last year. The increase in realised gain from equity investments as well as mark-to-market gain of debt securities contributed to the improvement of investment income. At the same time, we further enlarged our RMB product offerings with new insurance plans and solidified our position as the leading RMB insurance service provider.

Outlook

With ongoing headwinds created by the Eurozone debt crisis and the austerity measures implemented in the related countries, the global financial markets remain fragile and volatile. It seems more likely that uncertainty would still prevail over the global economy in the coming months. This inevitably implies a tougher operating environment for us. For the local banking sector, the slowdown of the Mainland and Hong Kong economies might curb loan growth in general. Moreover, persistently low interest rates, increasingly fierce competition, and higher funding costs would have a negative impact on the banking sector's net interest margin and net interest income. On the positive side, however, the further opening of the offshore RMB banking services is expected to bring us new business opportunities. The Mainland's stabilising economic measures should help to support growth across the border.

Given our core competencies and financial strength, we are in a more favourable position to pursue a proactive business strategy for a balanced and sustainable growth in the rest of the year and beyond. We will seek to maintain our growth momentum and capture new market opportunities. We will place special emphasis on the quality of growth and overall cost-effectiveness. Our financial strength enables us to invest in the enhancement and expansion of our business platforms that will offer added values to our customers. This has proven to be indispensable for a forward-looking banking group like us: we have made investments for our sustainable development in the longer term, even at the difficult times of the financial crisis and economic slowdown over the past few years.

Riding on our solid capabilities and competitive edge, we will continue to drive the growth of offshore RMB banking business. The HKMA's new regulations on RMB liquidity management allow the banking sector to have greater flexibility on RMB asset allocation, which would be conducive to our RMB business development. The recently announced arrangement whereby RMB banking services can be extended to non-Hong Kong residents has opened a new window to expand our RMB business. Since its launch in August, we have made a good start by offering an array of RMB services to global customers. To better prepare the Group for the RMB business opportunities ahead, we will persist in upgrading and optimising our product platform to enhance customer service and enlarge our clientele. As offshore RMB banking has become an integral part of BOC Group's global development strategy, we will work more closely with BOC and its overseas branches to explore new businesses and markets.

At the same time, we will reinforce our position as a leading Hong Kong-based banking group through service enhancement and innovation. While striving to maintain the growth trends and market positions of our core business segments, we will step up the development of new income streams with high potential, such as funds and bonds distribution, cash management, asset management, and custody services. In particular, we will seek to expand our wealth management services by constantly upgrading our service platform and strengthening our service capabilities for high net-worth customers. With the launch of private banking services in the second half of this year, we will be in a better position to accelerate the growth of our wealth management business. In addition to the dedicated commercial centres, the opening of more exclusive commercial counters at our branches will also be conducive to our service for commercial clients.

While striving for income and profit growth, we will stay highly vigilant over the fast-changing market conditions here and around the world, and exercise rigorous risk management to safeguard our asset quality and capital base. Despite the alleviation of inflationary pressure in Hong Kong, we will remain cost-conscious in growing our business and seek to enhance our cost efficiency.

I am pleased that we are celebrating the tenth anniversary of the Company's public listing in Hong Kong with outstanding interim results, for which I am very much indebted to the Board of Directors, shareholders, customers and all my colleagues for their continued trust and support. I am confident that the Group, supported by its strong financial positions, will be able to reach a new horizon in business growth and development, which will in turn create higher value to our stakeholders.

HE Guangbei
Vice Chairman & Chief Executive

Hong Kong, 23 August 2012

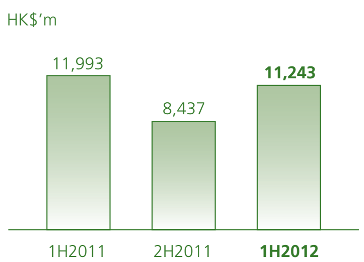
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE AND CONDITION IN BRIEF

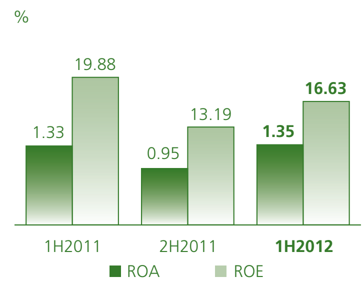
The following table is a summary of the Group's key financial results for the first half of 2012 in comparison with the previous two half-yearly periods.

Key Performance Trends

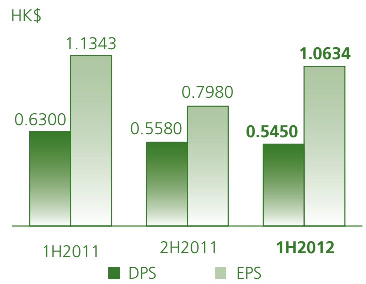
Profit Attributable to the Equity Holders



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



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



Profit attributable to the equity holders

- Profit attributable to the equity holders decreased by 6.3% to HK$11,243 million year-on-year. The decrease was largely due to the net recovery from the underlying collateral of the Lehman Brother Minibonds[3] in the first half of 2011. Should this factor be excluded, it would have increased by 16.2% year-on-year.

Solid return with sustainable growth

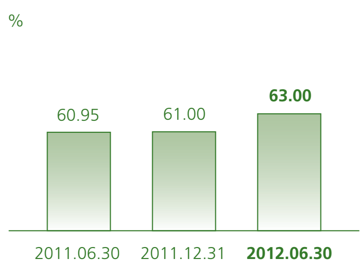
- ROE was 16.63%, down 3.25 percentage points year-on-year. Excluding the impact of the Lehman Brothers-related products in the first half of 2011, ROE would have risen by 0.74 percentage point.
- ROA was 1.35%, up 0.02 percentage point year-on-year. Excluding the impact of the Lehman Brothers-related products in the first half of 2011, ROA would have increased by 0.28 percentage point.

Consistent return to shareholders

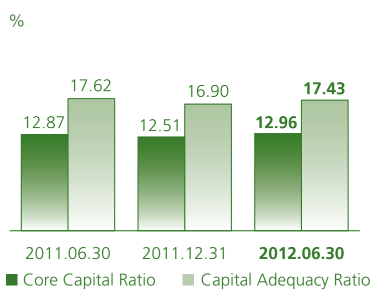
- EPS was HK$1.0634. Interim dividend per share was HK$0.545.

Financial Position

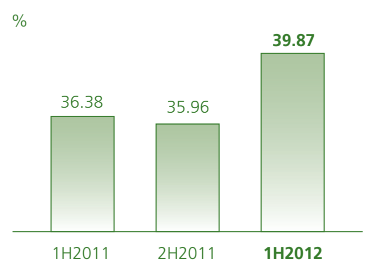
Loan-to-Deposit Ratio[4]



Capital Adequacy Ratio[5]



Average Liquidity Ratio[6]



Loan-to-deposit ratio at a healthy level

- Advances to customers increased by 6.8% while deposits from customers grew by 3.4% from the end of 2011. Loan-to-deposit ratio was 63.00%.

Solid capital position to support business growth

- CAR improved to 17.43%, while core capital ratio stood at 12.96%.

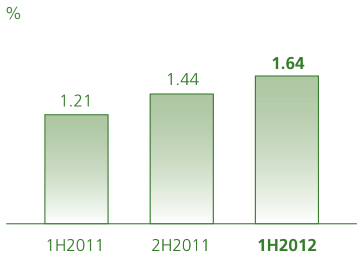
Sound liquidity position

- Average liquidity ratio improved to 39.87%.

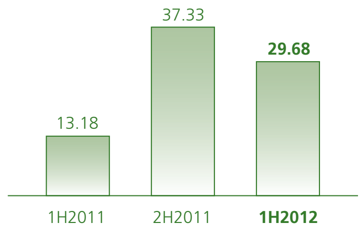
MANAGEMENT'S DISCUSSION AND ANALYSIS

Key Operating Ratios

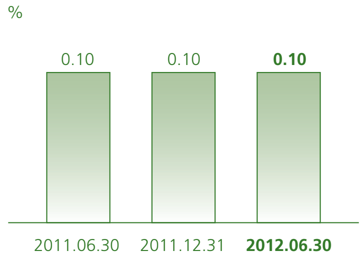
Net Interest Margin ("NIM")



Cost-to-Income Ratio



Classified or Impaired Loan Ratio[7]



Further improvement in NIM in the first half of 2012

- NIM was 1.64%, up 43 basis points year-on-year. During the period, the return on RMB business improved and the diluting effect of the Group's RMB clearing bank[8] business eased. NIM on non-local RMB business improved slightly year-on-year.

Stringent cost control

- Cost-to-income ratio was 29.68%. Excluding the impact of the Lehman Brothers-related products in the first half of 2011, it would have fallen 2.24 percentage points year-on-year.

Solid loan quality

- Classified or impaired loan ratio remained low at 0.10%. Formation of new classified loans remained at a low level.

1. Return on Average Shareholders' Equity as defined in "Financial Highlights".
2. Return on Average Total Assets as defined in "Financial Highlights".
3. 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 in the first half of 2011. The net recovery together with the expenses of Lehman Brothers-related products is referred to as "impact of Lehman Brothers-related products" in the Management's Discussion and Analysis.
4. The deposit base also includes structured deposits reported as "Financial liabilities at fair value through profit or loss".
5. Capital adequacy ratio is 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 bases of regulatory capital calculation for credit risk, market risk and operational risk are described in Note 3.5 to the Interim Financial Information.
6. The average liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of BOCHK for the period.
7. Classified or impaired loans 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.
8. Since December 2003, the Bank has been appointed as the clearing bank to provide RMB clearing services in Hong Kong.

ECONOMIC BACKGROUND AND OPERATING ENVIRONMENT

In the first half of 2012, the state of the global economy remained volatile. Economic growth indicators in general appeared lacklustre. The sovereign debt crisis in the Eurozone continued to pose a serious risk to the global financial market. The recovery of the US economy also assumed a slower pace as a result of uncertainties emanating from its own fiscal policies and the Euro crisis. In the Mainland, slower economic growth for the whole year was generally expected as the GDP growth moderated from 9.2% in the year 2011 to 7.8% in the first half of 2012.

In Hong Kong, the economic growth showed signs of losing steam. In the first half of 2012, the GDP grew by 0.9% over a year earlier. Inflationary pressure moderated somewhat, with the year-on-year Composite CPI increasing by 3.7% in June 2012.

After a rather quiet second half of 2011, the local residential property market revived since March 2012. The average price of private domestic properties rose by 10.5% in the first half of 2012. However, investment sentiments in the local stock market turned weak largely because of the threat of the lingering European debt crisis and the expectation of a slower economic growth in the Mainland. As a result, the market turnover in the first half of 2012 declined by 22.3% year-on-year.

Loan demand slowed down in the first half of 2012 compared to that of 2011. Meanwhile, banks' funding pressure for the HKD and USD eased somewhat. Market interest rates remained low. Average 1-month HIBOR was 0.32% in the first half of 2012, up 0.14 percentage point year-on-year. The market competition for RMB deposits intensified as the deployment channels of RMB funds broadened remarkably, thus fuelling the rise in related deposit costs.

During the first half of 2012, the liquidity of the offshore RMB market in Hong Kong has been enhanced under the new regulations announced by the HKMA. These include the broadening of the definition of RMB liquid assets for the purpose of calculating the RMB risk management limit and the raising of the RMB net open position limit. The RMB risk management limit has been subsequently replaced with a RMB liquidity ratio. These changes allow banks more flexibility and liquidity to facilitate offshore RMB transactions and lending.

In short, owing to various external uncertainties, the operating environment for the banking industry remained highly challenging in the first half of 2012. Banks were faced with intensifying competition while low interest spreads continued to constrain the improvement of banks' net interest margin. At the same time, the slowdown of certain economic activities meant that there was lower credit demand. On a positive note, the further expansion of the offshore RMB market has been presenting the banking sector with new business opportunities.

The outlook for the second half of 2012 is expected to consist of a combination of challenges and opportunities. On the one hand, the global economy would remain highly uncertain. The Hong Kong economy would still be subject to risks coming from the unresolved European debt crisis and the likely slower growth of the Mainland economy. On the other hand, the Mainland's growth stabilising policies would probably give rise to more business opportunities in Hong Kong. The further development of the RMB would give impetus to the expansion of the offshore RMB banking business.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL REVIEW

Financial Highlights

HK$'m	**Half-year ended 30 June 2012**	Half-year ended 31 December 2011	Half-year ended 30 June 2011
Net operating income before impairment allowances	**18,165**	15,720	15,126
Operating expenses	**(5,391)**	(5,869)	(1,993)
Operating profit before impairment allowances	**12,774**	9,851	13,133
Operating profit after impairment allowances	**12,666**	9,375	13,103
Profit before taxation	**13,825**	10,093	14,587
Profit attributable to the equity holders of the Company	**11,243**	8,437	11,993

The Group recorded encouraging financial results in the first half of 2012. This was made possible by the solid growth of its traditional businesses, increased contribution from its RMB businesses as well as prudent cost control. The Group fully capitalised on its core competencies, enhanced its service capabilities and captured new business opportunities, particularly from offshore RMB businesses. At the same time, it maintained stringent risk management in view of the more challenging environment.

In the first half of 2012, the Group's net operating income before impairment allowances increased by HK$3,039 million or 20.1% year-on-year to HK$18,165 million. The increase in income was broad-based. Net interest income was the major driver, the growth of which was primarily attributable to loan growth with improved yield and the better deployment of RMB funds. Net fee and commission income, net trading gain from foreign exchange as well as income of the Group's insurance segment also registered growth. Operating expenses increased sharply, largely due to the net recovery from the underlying collateral of the Lehman Brothers Minibonds in the first half of 2011. Operating profit before impairment allowances decreased by 2.7%. Excluding the impact of the Lehman Brothers-related products, it would have increased by 24.0%. The Group recorded a modest amount of net charge of impairment allowances. The net gain on property revaluation fell year-on-year. Profit attributable to the equity holders decreased by HK$750 million, or 6.3%, to HK$11,243 million. Excluding the impact of the Lehman Brothers-related products, profit attributable to the equity holders would have increased by 16.2%.

As compared to the second half of 2011, the Group's net operating income before impairment allowances rose by HK$2,445 million, or 15.6%. The growth in income was again broad-based. Net gain on other financial assets also rose. Meanwhile, net charge of impairment allowances decreased while net gain on property revaluation increased. As a result, profit attributable to the equity holders increased by HK$2,806 million, or 33.3%.

INCOME STATEMENT ANALYSIS

Analyses of the Group's financial performance and business operations are set out in the following sections.

Net Interest Income and Margin

HK$'m, except percentage amounts	**Half-year ended 30 June 2012**	Half-year ended 31 December 2011	Half-year ended 30 June 2011
Interest income	**17,772**	16,775	15,156
Interest expense	**(5,153)**	(5,001)	(4,951)
Net interest income	**12,619**	11,774	10,205
Average interest-earning assets	**1,544,663**	1,626,293	1,698,704
Net interest spread	**1.53%**	1.36%	1.14%
Net interest margin*	**1.64%**	1.44%	1.21%

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

Compared to the first half of 2011, the Group's net interest income increased by HK$2,414 million or 23.7%. The increase was mainly driven by the widening of net interest margin. Average interest-earning assets dropped by HK$154,041 million or 9.1% year-on-year, mainly due to the decrease in participating banks' RMB deposits with the clearing bank. Net interest margin was 1.64%, up 43 basis points. The increase was mainly attributable to the improved return on the offshore RMB business and the eased dilution by the Group's RMB clearing bank business while NIM on non-local RMB business improved slightly year-on-year. The return on the offshore RMB business improved with the increased deployment of RMB funds in RMB loans and advances, interbank placements and bonds. In addition, the improved loan pricing and the higher average balance of loans also contributed to the NIM improvement. However, this was partly offset by the higher deposit costs amid keen market competition.

The Group's RMB clearing bank business had a lower average spread than other businesses, which dragged the overall net interest margin in previous periods. In line with the new developments in offshore RMB market, coupled with the introduction of the Fiduciary Account scheme, participating banks reduced their RMB deposits with the clearing bank. As a result, the diluting effect of the Group's RMB clearing bank business on net interest margin became insignificant in the first half of 2012.

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

	Half-year ended 30 June 2012		Half-year ended 31 December 2011		Half-year ended 30 June 2011	
ASSETS	**Average balance HK$'m**	**Average yield %**	Average balance HK$'m	Average yield %	Average balance HK$'m	Average yield %
Balances and placements with banks and other financial institutions	**388,424**	**2.42**	515,745	1.81	628,593	1.21
Debt securities investments	**444,859**	**2.18**	417,015	2.33	423,344	2.36
Loans and advances to customers	**696,697**	**2.34**	678,863	2.07	630,343	2.02
Other interest-earning assets	**14,683**	**1.55**	14,670	1.23	16,424	1.74
Total interest-earning assets	**1,544,663**	**2.31**	1,626,293	2.05	1,698,704	1.80
Non interest-earning assets	**184,455**	**–**	162,734	–	160,827	–
Total assets	**1,729,118**	**2.06**	1,789,027	1.86	1,859,531	1.64
LIABILITIES	**Average balance HK$'m**	**Average rate %**	Average balance HK$'m	Average rate %	Average balance HK$'m	Average rate %
Deposits and balances from banks and other financial institutions	**190,083**	**0.71**	317,392	0.60	441,309	0.89
Current, savings and fixed deposits	**1,066,697**	**0.77**	1,045,822	0.69	1,000,360	0.53
Subordinated liabilities	**28,640**	**1.29**	28,494	1.94	27,094	2.11
Other interest-bearing liabilities	**42,953**	**0.95**	36,937	0.62	41,910	0.40
Total interest-bearing liabilities	**1,328,373**	**0.78**	1,428,645	0.69	1,510,673	0.66
Non interest-bearing deposits	**87,466**	**–**	71,943	–	67,777	–
Shareholders' funds* and non interest-bearing liabilities	**313,279**	**–**	288,439	–	281,081	–
Total liabilities	**1,729,118**	**0.60**	1,789,027	0.55	1,859,531	0.54

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

Compared to the second half of 2011, net interest income increased by HK$845 million or 7.2% primarily due to the growth in net interest margin. Net interest margin was 1.64%, up 20 basis points. The increase in net interest margin was mainly due to the improvement in the return of the offshore RMB business. The diluting effect of the Group's clearing bank business eased further as RMB funds from participating banks continued to decline while NIM on non-local RMB business also improved. There was also an improvement in loan pricing while rising deposit costs continued to put pressure on the net interest spread.

Net Fee and Commission Income

HK$'m	**Half-year ended 30 June 2012**	Half-year ended 31 December 2011	Half-year ended 30 June 2011
Credit cards	**1,542**	1,550	1,337
Securities brokerage	**1,054**	1,297	1,485
Loan commissions	**909**	572	588
Insurance	**596**	487	610
Bills commissions	**370**	436	418
Payment services	**325**	334	303
Funds distribution	**232**	161	176
Trust and custody services	**179**	225	154
Safe deposit box	**118**	104	107
Currency exchange	**69**	80	76
Others	**214**	180	178
Fee and commission income	**5,608**	5,426	5,432
Fee and commission expenses	**(1,506)**	(1,579)	(1,446)
Net fee and commission income	**4,102**	3,847	3,986

Net fee and commission income grew by HK$116 million, or 2.9%, year-on-year to HK$4,102 million, primarily due to the growth of fee and commission income from loans, credit card business and funds distribution. There was a decrease of 29.0% in commission income from securities brokerage in a more sluggish local stock market. Loan commissions grew strongly by 54.6%. Fee income from the credit card business grew by 15.3%, driven by the increase of 10.8% and 16.8% respectively in cardholder spending and merchant acquiring volume. Commission from funds distribution rose substantially by 31.8% with the Group's strong performance in the distribution of RMB Qualified Foreign Institutional Investors ("RQFII") funds and its continuous effort in enriching its product shelf to meet customers' needs. Commission income from trust and custody services as well as payment services also registered satisfactory growth. Fee and commission expenses increased by HK$60 million, or 4.1%, mainly due to the increase in credit card-related expenses.

Compared to the second half of 2011, net fee and commission income grew by HK$255 million or 6.6%. There was growth in the commission income from loans, insurance and funds distribution. Fee and commission income from securities brokerage, bills and trust and custody services declined.

Net Trading Gain/(Loss)

HK$'m	**Half-year ended 30 June 2012**	Half-year ended 31 December 2011	Half-year ended 30 June 2011
Foreign exchange and foreign exchange products	**936**	768	662
Interest rate instruments and items under fair value hedge	**305**	16	(4)
Equity instruments	**104**	50	32
Commodities	**63**	115	71
Net trading gain	**1,408**	949	761

Net trading gain was HK$1,408 million, increasing by HK$647 million, or 85.0%, from the first half of 2011. The growth in foreign exchange and foreign exchange products was mainly due to the lower foreign exchange loss on foreign exchange swap contracts*. This was partly offset by the lower gain from currency exchange activities. There was a net gain from interest rate instruments and items under fair value hedge versus a net loss in the same period in 2011. The improvement was mainly attributable to the mark-to-market changes of certain interest rate instruments of both the banking business and BOC Life, caused by market interest rate movements. The growth in equity instruments was mainly attributable to the investment gain of BOC Life's equity portfolio.

Compared to the second half of 2011, net trading gain was up HK$459 million or 48.4%. The growth was mainly due to the lower foreign exchange loss on foreign exchange swap contracts. It was also due to the mark-to-market changes of certain interest rate instruments and foreign exchange products.

* Foreign exchange swap contracts are usually used for the Group's liquidity management and funding activities. Under the foreign exchange swap contracts, the Group exchanges one currency (original currency) for another (swapped currency) at the spot exchange rate (spot transaction) and commits to reverse the spot transaction by exchanging the same currency pair at a future maturity at a predetermined rate (forward transaction). In this way, surplus funds in original currency are swapped into another currency for liquidity and funding purposes without any foreign exchange risk. The exchange difference between the spot and forward contracts is recognised as foreign exchange gain or loss (as included in "net trading gain/(loss)"), while the corresponding interest differential between the surplus funds in original currency and swapped currency is reflected in net interest income.

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

HK$'m	**Half-year ended 30 June 2012**	Half-year ended 31 December 2011	Half-year ended 30 June 2011
Banking business of the Group*	**27**	(19)	18
BOC Life	**159**	(719)	380
Net gain/(loss) on financial instruments designated at fair value through profit or loss	**186**	(738)	398

* Amounts were after group consolidation elimination.

The Group recorded a net gain of HK$186 million on financial instruments designated at FVTPL in the first half of 2012. This gain was mainly attributable to the mark-to-market changes of certain debt securities of BOC Life, caused by market interest rate movements. The changes in market value of its securities portfolio were substantially offset by the corresponding changes in policy reserves, as reflected in the changes in net insurance benefits and claims which were attributable to the movement of market interest rates.

The net loss in the second half of 2011 was mainly attributable to the loss from the investment portfolio of BOC Life amid the weak financial market.

Operating Expenses

HK$'m	**Half-year ended 30 June 2012**	Half-year ended 31 December 2011	Half-year ended 30 June 2011
Staff costs	**3,028**	3,298	2,740
Premises and equipment expenses (excluding depreciation)	**681**	780	610
Depreciation on owned fixed assets	**722**	663	614
Other operating expenses	**960**	1,090	864
Core operating expenses	**5,391**	5,831	4,828
Impact of Lehman Brothers-related products*	**–**	38	(2,835)
Total operating expenses	**5,391**	5,869	1,993

	At 30 June 2012	At 31 December 2011	At 30 June 2011
Staff headcount measured in full-time equivalents	**14,534**	14,475	14,104

* Refer to note 3 to the section of "Financial Performance and Condition in Brief" for details.

Total operating expenses increased by HK$3,398 million, or 170.5%, to HK$5,391 million year-on-year, as there was a net recovery of HK$2,854 million from the underlying collateral of the Lehman Brothers Minibonds in the first half of 2011. Core operating expenses rose by HK$563 million, or 11.7%, reflecting the Group's continued investment to support long-term business growth while maintaining disciplined cost control and operational efficiency.

Staff costs increased by 10.5%, mainly due to higher salaries as a result of annual salary increment, increase in headcount and performance-related remuneration.

Premises and equipment expenses rose by 11.6% with higher rental for branches, in particular those in the Mainland, as well as higher IT costs. Depreciation rose by 17.6%. It was largely attributable to larger depreciation charge on premises following the upward property revaluation in Hong Kong and on IT equipment as the Group continued to invest in its IT infrastructure.

Other operating expenses were up by 11.1% mainly due to higher marketing and promotion expenses as well as expenses connected with the increasing business volume.

Compared to the second half of 2011, operating expenses declined by HK$478 million or 8.1%. The decrease was due to lower staff costs, promotion, IT and maintenance expenses in the first half of 2012.

Net (Charge)/Reversal of Loan Impairment Allowances

HK$'m	**Half-year ended 30 June 2012**	Half-year ended 31 December 2011	Half-year ended 30 June 2011
Net (charge)/reversal of allowances before recoveries			
– individual assessment	**(5)**	(54)	42
– collective assessment	**(238)**	(425)	(295)
Recoveries	**156**	137	216
Net charge of loan impairment allowance	**(87)**	(342)	(37)

The Group's loan quality remained solid with a modest net charge of loan impairment allowances of HK$87 million in the first half of 2012. There was a small net charge of HK$5 million in individually assessed impairment allowances. The lower net charge of collectively assessed impairment allowances was primarily due to the periodic review of the parameter values in the assessment model in the first half of 2011 as well as the stronger loan growth in the first half of 2011 relative to that in the same period of 2012. Both of these factors have led to a higher net charge of collectively assessed impairment allowances in the first half of 2011. Meanwhile, recoveries during the period totaled HK$156 million.

Compared to the second half of 2011, net charge of loan impairment allowances decreased by HK$255 million. The decline was mainly due to the lower net charge of collectively assessed impairment allowances as a result of the periodic review of the parameter values in the assessment model conducted in the second half of 2011 which led to a higher net charge for the corresponding period.

BALANCE SHEET ANALYSIS

Asset Deployment

HK$'m, except percentage amounts	**At 30 June 2012**		At 31 December 2011	
	Amount	**% of total**	Amount	% of total
Cash and balances with banks and other financial institutions	**153,042**	**9.1%**	278,795	16.0%
Placements with banks and other financial institutions maturing between one and twelve months	**114,548**	**6.8%**	107,910	6.2%
Hong Kong SAR Government certificates of indebtedness	**72,160**	**4.3%**	65,890	3.8%
Securities investments[1]	**439,835**	**26.1%**	425,600	24.5%
Advances and other accounts	**785,932**	**46.6%**	755,229	43.5%
Fixed assets and investment properties	**57,194**	**3.4%**	52,091	3.0%
Other assets[2]	**62,011**	**3.7%**	52,995	3.0%
Total assets	**1,684,722**	**100.0%**	1,738,510	100.0%

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

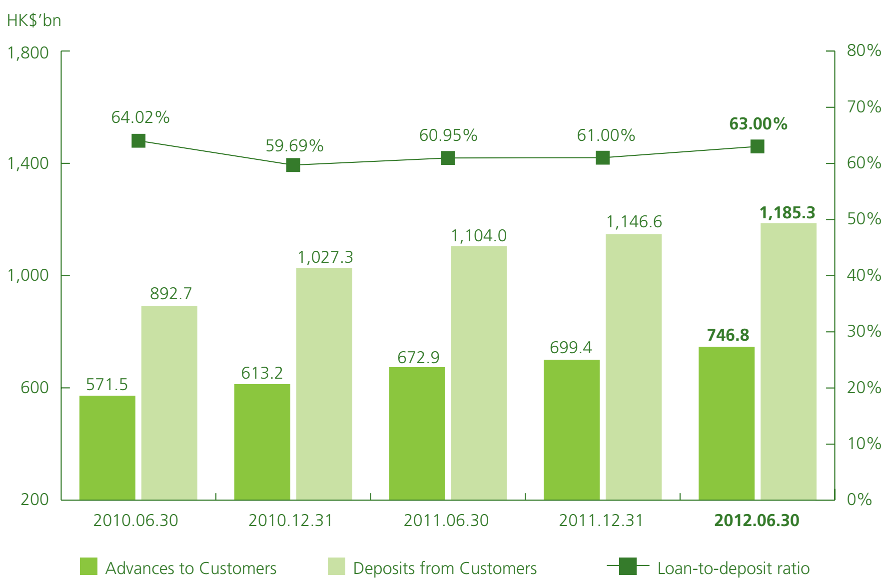
MANAGEMENT'S DISCUSSION AND ANALYSIS

As at 30 June 2012, the Group's total assets amounted to HK$1,684,722 million, down HK$53,788 million or 3.1% from the end of 2011. The decline in total assets was mainly due to the decrease in RMB funds deposited by participating banks with the clearing bank. In the first half of 2012, the Group continued to strengthen its assets and liabilities management. It maintained a balanced growth strategy on loans and deposits with focus on enhancing loan pricing and maintaining a high degree of prudence over funding costs. Higher-yielding assets such as advances to customers registered a good growth.

Key changes in the Group's total assets include:

- Cash and balances with banks and other financial institutions decreased by 45.1%, mainly due to the decline in RMB funds placed with the People's Bank of China ("PBOC") by BOCHK's clearing business as RMB funds from participating banks to the clearing bank decreased.
- Securities investments increased by 3.3% as the Group increased its holdings in RMB-denominated securities and high-quality corporate bonds.
- Advances and other accounts rose by 4.1%, which was mainly attributable to the growth in advances to customers by 6.8%.
- Other assets grew by 17.0%, which was mainly led by the increase in accounts receivable and prepayments as well as reinsurance assets.

Advances to customers and deposits from customers*



* Deposits from customers include structured deposits

Advances to Customers

	At 30 June 2012		At 31 December 2011	
HK$'m, except percentage amounts	**Amount**	**% of total**	Amount	% of total
Loans for use in Hong Kong	**460,593**	**61.7%**	444,540	63.6%
Industrial, commercial and financial	**245,527**	**32.9%**	237,557	34.0%
Individuals	**215,066**	**28.8%**	206,983	29.6%
Trade finance	**67,828**	**9.1%**	59,508	8.5%
Loans for use outside Hong Kong	**218,331**	**29.2%**	195,331	27.9%
Total advances to customers	**746,752**	**100.0%**	699,379	100.0%

In view of the volatile global economic environment, the Group adhered to stringent risk control and customer selection to achieve quality and sustainable growth. Advances to customers increased by HK$47,373 million or 6.8% to HK$746,752 million in the first half of 2012 with improved pricing on new corporate and residential mortgage loans.

Loans for use in Hong Kong grew moderately by HK$16,053 million or 3.6%.

- Lending to the industrial, commercial and financial sectors increased by HK$7,970 million, or 3.4%, to HK$245,527 million. The increase covered a wide range of industries. Loans to the manufacturing, property investment, transport and transport equipment as well as information technology sectors grew by 11.8%, 3.4%, 5.6% and 6.6% respectively.

- Lending to individuals increased by HK$8,083 million, or 3.9%. Residential mortgage loans (excluding those under the Government-sponsored Home Ownership Scheme) were up 4.6%. The Group has been capturing the growth opportunities arising from the revival of the local residential property market since March 2012 when the transaction volume started to increase.

Trade finance rose by HK$8,320 million, or 14.0% while loans for use outside Hong Kong grew by HK$23,000 million or 11.8%.

Loan Quality

HK$'m, except percentage amounts	**At 30 June 2012**	At 31 December 2011
Advances to customers	**746,752**	699,379
Classified or impaired loan ratio[1]	**0.10%**	0.10%
Impairment allowances	**2,968**	2,830
Regulatory reserve for general banking risks	**7,230**	6,967
Total allowances and regulatory reserve	**10,198**	9,797
Total allowances as a percentage of advances to customers	**0.40%**	0.40%
Impairment allowances[2] on classified or impaired loan ratio	**38.58%**	39.86%
Residential mortgage loans[3] – delinquency and rescheduled loan ratio[4]	**0.01%**	0.01%
Card advances – delinquency ratio[4]	**0.19%**	0.16%

	Half-year ended 30 June 2012	Half-year ended 30 June 2011
Card advances – charge-off ratio[5]	**1.23%**	1.07%

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

The Group's loan quality remained sound. The classified or impaired loan ratio remained at 0.10% – among the lowest in the industry. Classified or impaired loans increased by HK$39 million, or 5.5%, to HK$749 million. Formation of new classified loans in the first half of 2012 remained at a low level and represented approximately 0.05% of total loans outstanding.

Total impairment allowances, including both individual assessment and collective assessment, amounted to HK$2,968 million. Total impairment allowances on classified or impaired loans as a percentage of total classified or impaired loans was at 38.58%.

The credit quality of the Group's residential mortgage loans continued to be sound with the combined delinquency and rescheduled loan ratio standing at 0.01% at the end of June 2012. The charge-off ratio of card advances was 1.23% in the first half of 2012, remaining below the market average.

*Deposits from Customers**

HK$'m, except percentage amounts	At 30 June 2012 Amount	At 30 June 2012 % of total	At 31 December 2011 Amount	At 31 December 2011 % of total
Demand deposits and current accounts	**73,966**	**6.2%**	77,440	6.7%
Savings deposits	**524,722**	**44.3%**	504,868	44.0%
Time, call and notice deposits	**584,169**	**49.3%**	563,643	49.2%
	1,182,857	**99.8%**	1,145,951	99.9%
Structured deposits	**2,424**	**0.2%**	639	0.1%
Deposits from customers	**1,185,281**	**100.0%**	1,146,590	100.0%

* Including structured deposits.

The Group's deposit base grew by HK$38,691 million, or 3.4%, in the first half of 2012. Savings deposits grew by 3.9% while time, call and notice deposits increased by 3.6%. Demand deposits and current accounts decreased by 4.5%. The Group's loan-to-deposit ratio was 63.00% at the end of June 2012, up 2.00 percentage points from the end of 2011.

While banks' funding pressure on HKD and USD eased in the first half of 2012, market competition for RMB deposits intensified. The Group adhered to a flexible deposit strategy to support business growth while maintaining a cautious control on funding costs.

Capital and Reserves Attributable to the Equity Holders of the Company

HK$'m	At 30 June 2012	At 31 December 2011
Share capital	**52,864**	52,864
Premises revaluation reserve	**27,045**	23,150
Reserve for fair value changes of available-for-sale securities	**3,565**	1,787
Regulatory reserve	**7,230**	6,967
Translation reserve	**598**	674
Retained earnings	**49,412**	44,323
Reserves	**87,850**	76,901
Capital and reserves attributable to the Equity Holders of the Company	**140,714**	129,765

Capital and reserves attributable to the equity holders increased by HK$10,949 million, or 8.4% to HK$140,714 million at 30 June 2012. Retained earnings rose by 11.5%, reflecting the profit for the first half of 2012 after the appropriation of final dividend of 2011. Premises revaluation reserve increased by 16.8%, which was attributable to the increase in property prices in the first half of 2012. Regulatory reserve rose by 3.8% due to loan growth. Reserve for fair value changes of available-for-sale securities was up 99.5%, reflecting the rise in fair value of available-for-sale debt securities, mainly due to the changes in market interest rates.

Capital and Liquidity Ratio

HK$'m, except percentage amounts	**At 30 June 2012**	At 31 December 2011
Core capital after deductions	**89,152**	84,600
Supplementary capital after deductions	**30,726**	29,654
Total capital base after deductions	**119,878**	114,254
Total risk-weighted assets	**687,774**	676,024
Capital adequacy ratios (consolidated basis)*		
Core capital ratio	**12.96%**	12.51%
Capital adequacy ratio	**17.43%**	16.90%

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

Consolidated capital adequacy ratio at 30 June 2012 was 17.43%, 0.53 percentage point above that at the end of 2011. Total capital base expanded by 4.9% to HK$119,878 million, mainly due to the increase in retained earnings. Total risk-weighted assets increased by 1.7% to HK$687,774 million. The increase was mainly due to the growth of credit risk-weighted assets in light of the loan growth in the first half of 2012. Market risk-weighted assets also increased following the introduction of stressed VAR for the calculation of market risk capital charges after the Banking (Capital) (Amendment) Rules 2011 became effective on 1 January 2012. These increases were counterbalanced by the effect of no additional risk-weighted amount required for the capital floor adjustment as the Group's capital charges for the period exceeded the required capital floor amount[#].

The average liquidity ratio in the first half of 2012 remained strong at 39.87%.

* Capital adequacy ratio is 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 bases of regulatory capital calculation for credit risk, market risk and operational risk are described in Note 3.5 to the Interim Financial Information.

\# The HKMA requires that all reporting institutions using the IRB approach (whether foundation or advanced) for capital adequacy purposes are subject to a capital floor for the first three years of the adoption of the IRB approach. The use of the capital floor is to prevent a sudden fall in capital charges solely as a result of the changes in how the risk-weighted amount for credit risk is measured. The capital floor is derived by applying an adjustment factor to the capital charge calculated under the STC approach where the adjustment factors are 90%/80%/70% for the respective 1st/2nd/3rd year of the implementation of IRB approach. As at 30 June 2012 and in its second year of the implementation of FIRB approach, the Group's capital charges exceeded the capital floor amount as required by the HKMA and therefore no additional risk-weighted amount was required for the period.

BUSINESS REVIEW

Business Segment Performance

HK$'m, except percentage amounts	Personal Banking	Corporate Banking	Treasury	Insurance	Others[1]	Consolidated
Half-year ended 30 June 2012						
Profit before taxation	**2,763**	**5,142**	**4,702**	**451**	**767**	**13,825**
% of total	**20.0%**	**37.2%**	**34.0%**	**3.3%**	**5.5%**	**100.0%**
Half-year ended 30 June 2011						
Profit before taxation	2,723	4,453	2,865	291	4,255	14,587
% of total	18.7%	30.5%	19.6%	2.0%	29.2%	100.0%

1. Profit before taxation of Others in the first half of 2011 included the net recovery from the underlying collateral of the Lehman Brothers Minibonds.
2. For additional segmental information, see Note 41 to the Interim Financial Information.

PERSONAL BANKING

Financial Results

Personal Banking recorded a profit before taxation of HK$2,763 million.

Net interest income increased by 11.8%, mainly driven by the growth in average loans and deposits coupled with the improvement in deposit spread. The increase was largely offset by the decrease of 10.9% in net fee and commission. Commission income from securities brokerage was lower amid adverse investment sentiments. Meanwhile, there was growth in fee income from funds distribution and credit cards. Personal loans and customer deposits increased by 4.2% and 3.2% respectively from last year end.

Business operation

The Group's Personal Banking business continued to make good progress in the first half of 2012. There was satisfactory growth in both deposit and lending businesses. Funds and bonds distribution businesses also performed strongly. In addition to investing in service enhancement and branding with regard to the wealth management platform, a new private banking business platform has been set up to provide unique and tailor-made services to targeted affluent customers.

Residential mortgages – outgrowing the market

With its all-round service and expertise in residential mortgages, the Group succeeded in growing its market share and was the market leader in the underwriting of new mortgages during the period. The Group continued to work in close partnership with major property developers. Various joint promotional activities were conducted with developers to deliver enhanced services to customers from both the Hong Kong and Mainland markets. The Group also continued to lead the market with a wide range of mortgage products and mobile applications. At the end of June 2012, the Group's mortgage book grew by 4.6% versus the end of last year.

Investment and insurance businesses – strong growth in the sales of funds and bonds

In the first half of 2012, sentiments of the local stock market were adversely affected by the external environment. Nevertheless, the Group continued to expand its stock brokerage service spectrum to reinforce its strong position in the personal securities business. New services were introduced to enable customers to trade with a higher degree of ease.

As regards the funds distribution business, the Group rolled out new products to both high-end and mass retail customers. A private fund, the BOCHK Asian Dynamic Income Fund, and a retail fund, the BOCHK-World Bank Emerging Markets Bond Fund, were introduced to customers. During the period, the Group distributed 14 RQFII funds, making it the largest distributor of RQFII funds in Hong Kong. As a result, commission income from funds distribution surged by 31.8% year-on-year. The Group also actively engaged in the bonds distribution business. The Group's private placement services for bonds in the secondary market were launched in January this year, offering bonds to targeted high-end customers. In addition, the Group led the iBond market in terms of over-the-counter turnover. Meanwhile, the Group's

Investment Product Specialist Team was further expanded to provide customers with comprehensive professional service in connection with investment products.

Regarding its Bancassurance business, the Group strengthened its position as a prominent life insurance provider and maintained its lead in the RMB insurance market. It continued to roll out new products to meet customers' needs. The RMB-denominated "IncomeGrowth Annuity Insurance Plan" was introduced to offer life protection with guaranteed annuity payments. The Group also further enhanced its financial planning model and cross-selling capabilities with encouraging results.

Credit card business – recording double-digit volume growth

The Group's credit card business sustained its growth momentum in the first half of 2012. It maintained its leadership in the China UnionPay merchant acquiring business and card issuing business. The Group also continued to exploit its competitive edge to extend appealing merchant offer programmes to customers through its comprehensive merchant network in Hong Kong, Macau and the Mainland. The total number of cards issued grew by 5.0% from the end of last year. Cardholder spending and merchant acquiring volumes grew by 10.8% and 16.8% respectively.

Wealth management service – enhancing brand awareness

The Group continued to offer differentiated services and customised wealth management solutions to foster long-term relationship with wealth management customers. In the first half of 2012, the Group completed the unification of its wealth management service platform, thus strengthening its brand awareness and position in the market. In addition, a new private banking business platform has been set up to cater to the more sophisticated needs of the affluent customers. The Group also continued to work more closely with BOC branches to provide banking services to high net-worth customers from the Mainland.

Distribution channels – e-channels with enhanced security features

The Group kept optimising its distribution channels to meet the needs of both local and cross-border customers. At the end of June 2012, the Group's service network in Hong Kong comprised 267 branches, including 137 wealth management centres.

The Group further invested in automated banking channels. In April, it launched Hong Kong's first chip-based ATM card with enhanced security and new banking service functions. With the new chip-based BOC Card, customers can enjoy the BOC Card services in Hong Kong, the Mainland and overseas, including the settlement of purchases and HKD/RMB notes withdrawal at "JETCO" ATMs in Hong Kong. Fund transfer and bill payment can also be made through the ATM and point-of-sale networks. The functions of the Group's e-Banking platform were expanded, including the use of a new security device for two-factor authentication. At the same time, the Group also introduced more mobile banking services.

In recognition of their outstanding salesmanship, four of the Group's sales personnel were honoured with the "Distinguished Salesperson" awards 2012 organised by the Hong Kong Management Association.

CORPORATE BANKING

Financial Results

Corporate Banking recorded a satisfactory growth of HK$689 million, or 15.5%, in profit before taxation. This was mainly attributable to the increase in net interest income as well as net fee and commission income.

Net interest income rose by 13.2%, mainly driven by an expansion in loans. The growth in net interest income was also attributable to the increase in deposits with improvement in the average deposit spread. Corporate loans and customer deposits grew by 7.9% and 3.6% respectively from the end of 2011.

Net fee and commission income increased by 21.0%, largely led by the growth in loan commissions. Meanwhile, bills commissions declined along with the slowdown of economic activities.

Business operation

Despite a slowdown of the economy, the Group's Corporate Banking business recorded satisfactory loan growth with better loan pricing in the first six months of

2012. It remained the top mandated arranger in the Hong Kong syndicated loan market and continued to provide strong support to its corporate customers. In view of the fast expansion of the offshore RMB business, more innovative trade-related products were introduced to corporate clients. The Group also made good progress in the custody and cash management businesses. As regards the custody business, the Group was the largest service provider for RQFII funds in the market. Cross-border cash management capabilities were further enhanced with the linkage of the Group's e-Banking platform with those of BOC and its overseas branches.

Corporate lending business – 7.9% growth of corporate loans

The Group continued to implement "Total Solution" for core customers and enhanced the management of its clientele in different industries through better customer segmentation. Tailor-made services were provided to large corporates and public sector entities with the aim to become their main banker. At the end of June, the Group's balance of corporate loans grew by 7.9% from the end of 2011. In the first half of 2012, the Group successfully arranged the first 100% RMB syndicated loan in Hong Kong and it was also the largest of its kind in the market by the end of June 2012. The Group remained the top mandated arranger in the Hong Kong syndicated loan market in the first half of 2012.

SME business – providing full-fledged services to customers

The Group stepped up its service capabilities for SME customers. It optimised the business model of "Integrated Branches for Commercial Business" by establishing exclusive counters in selected branches and launched the "Business Integrated Account" to provide one-stop financial solutions, including consultation services on credit facilities, cash management and insurance, as well as personal financial solutions for SME companies and their proprietors, partners or shareholders. The Group also actively participated in the "SME Financing Guarantee Scheme" launched by the Hong Kong Mortgage Corporation Limited. In recognition of its long-standing support for SMEs in Hong Kong, the Group received for the fifth consecutive year the "SME's Best Partner Award" presented by the Hong Kong Chamber of Small and Medium Business Limited.

Trade finance – product innovation and promotion to drive growth

Taking advantage of its strong cross-border service capabilities and the continuous expansion of the offshore RMB business, the Group was able to capture more business opportunities in trade finance. In collaboration with BOC and NCB (China), it actively promoted the factoring business. Through product innovation, especially in RMB financing and RMB settlement, the Group further enhanced its competitiveness in the trade finance business. A new product, "Acceptance L/C Discounting" was launched during the period. At the end of June 2012, the Group's balance of trade finance grew by 14.0% from the end of 2011.

Custody service – becoming the largest service provider for RQFII fund products

The custody business continued to expand in the first half of 2012. The Group successfully secured mandates for a number of RMB fund products during the period, and became the largest service provider for RQFII funds in the market. At the same time, the Group continued to provide high-quality global custody services to Qualified Domestic Institutional Investors and various types of fund clients. During the period, the Group completed several deals in providing escrow services to large corporate entities and financial institutions. At the end of June 2012, excluding the RMB fiduciary account for participating banks, total assets under the Group's custody were valued at HK$536 billion.

Cash management service – making solid progress in cross-border servicing capabilities

In line with the extension of the operating hours of the RMB Real Time Gross Settlement ("RMB RTGS") system in Hong Kong, the Group extended the service hours for same-day RMB telegraphic transfer and express transfer instructions made through internet banking. The intra-day cash pooling service was launched to enable corporate customers to build up a cash pool, allowing better internal cash flow management. The linkage of the Group's e-Banking platform with those of BOC and its overseas branches has been completed, enabling the Group's corporate customers to operate their overseas BOC accounts via Corporate Internet Banking and BOC customers to operate their BOCHK accounts via BOC Online Banking ("BOCNET"). This has greatly enhanced the cross-border cash management capabilities of the Group.

Risk management – proactive measures in place

The Group remained highly focused on safeguarding its asset quality by adhering strictly to its risk management policy. It performed close credit monitoring on corporate customers who could be adversely affected by the volatile economic environment, including the slowdown of the Mainland's export growth which may pose an adverse impact on the investments of manufacturing establishments. The Group also stays alert to the latest development of the Eurozone debt crisis and the impact of the Central Government's stimulation measures on the Chinese economy.

MAINLAND BUSINESS

Financial performance – maintaining healthy growth

The Group's Mainland business maintained healthy growth in the first half of 2012. It strengthened its deposit base by growing customer deposits by 9.8% from the end of last year. During the period, it focused on optimising the loan structure and improving loan pricing. Advances to customers grew by 1.2% with the overall loan quality remaining sound. Total operating income increased by 32.7% year-on-year, mainly driven by the strong growth in net interest income.

Distribution channels – building up branch network and channel sharing with BOC

In view of the slower economic growth and lower domestic demand in the Mainland, the Group proactively adjusted its product and business strategy. It stepped up its marketing effort and deepened its business collaboration with the BOC group. The "Channel Sharing" model, which allows promotional activities to be conducted on-site and via e-channels with BOC's branches, has been effective in serving its purpose. During the interim period, the model not only boosted deposit growth but also generated more retail banking business. Meanwhile, the upgrade of the Group's e-Banking platforms in 2011 proved to be extremely successful as the number of new accounts and transaction volume increased significantly. The range of wealth management products was further expanded, resulting in a complete series of "Yi Da" products. All wealth management products could be acquired via the e-Banking platform. The Group has been actively preparing for the issuance of credit cards in the Mainland. The SME business platform was instrumental to the completion of the "SME Business Win" product series, leading to a satisfactory growth in SME lending in the interim period. During the first half of 2012, four new NCB (China) sub-branches, including the Shanghai Huangpu Sub-branch, Guangdong Foshan Sub-branch, Chengdu Chuangye Road Sub-branch and Dongguan Sub-branch, commenced operation. The Group's total number of branches and sub-branches in the Mainland increased to 31 by the end of June 2012.

TREASURY

Financial Results

Treasury recorded a strong year-on-year increase of 64.1% in profit before taxation.

Net interest income grew by 71.2% with the improved yield on interbank placements coupled with the increase in the related balance.

Net trading gain was up 111.4%. The growth was caused by the lower foreign exchange loss on foreign exchange swap contracts and the increase in mark-to-market gain of certain interest rate instruments.

Business Operation

Proactive investment strategy – maintaining a balance on safety, liquidity and yield enhancement

The Group continued with a proactive but prudent approach in managing its banking book investments. In the first half of the year, the Group closely monitored market changes and acted swiftly to adjust its investment portfolio in response to the deterioration of the European debt crisis. During the period, the Group increased its holdings in RMB-denominated securities and high-quality corporate bonds.

Product innovation – responding to customers' needs

In line with its customer-centric approach, the Group continued with product innovation to meet customers' needs. In the first half of 2012, the RMB exchange business was adversely affected by the slower economic growth of the Mainland and the lower expectation for the appreciation of the RMB. The Group responded quickly to these market changes by rolling out new product packages that bundled offshore RMB exchange rate-related and interest rate-related products with deposits, loans and trade finance, thus lowering customers' exchange rate risk and financing costs.

As part of its ongoing endeavour to facilitate the development of the offshore RMB bond market, the Group launched three new offshore RMB bond sub-indices. These were the BOCHK Offshore RMB Chinese Sovereign Bond Index, the BOCHK Offshore RMB Investment Grade Bond Index and the BOCHK Offshore RMB 1 to 3 Years Central Government Bond Index, which serve as performance benchmarks for the offshore RMB bond market. Meanwhile, the Group remained an active participant in the offshore RMB bond underwriting business.

RMB-clearing bank service – extending service hours to offshore markets

The Group maintained strong support for its clearing services. The operating hours of the RMB RTGS were extended to cover the working hours in other major financial centres, including London and New York. This not only facilitated participating banks and their customers in conducting RMB cross-border settlement and payment, but also enhanced BOCHK's brand awareness at the global level.

Banknotes business – building up a global network

The Group continued to cooperate with BOC's overseas branches in extending the overseas RMB banknotes business. The transaction turnover rose significantly from the same period in 2011. Meanwhile, the Group has established business relationships with banks and financial institutions in different countries and regions, and has also penetrated the non-RMB banknotes business in these markets.

INSURANCE

Financial Results

The Group's Insurance segment recorded a strong growth in its profit before taxation by 55.0% to HK$451 million in the first half of 2012. The growth was mainly attributable to the better investment performance comparing to the same period last year.

The increase in realised gain from equity investments as well as mark-to-market gain of debt securities contributed to the improvement of investment income.

Business Operation

Driving growth through service enhancement

Through the constant optimisation of product features and service enhancement, the Group continued to improve its services for customers. A series of training programmes were conducted to enhance the professionalism and capabilities of the sales team. To reinforce its brand and promote its product offerings, BOC Life also launched major promotion campaigns. The sale of investment-linked products also registered a satisfactory growth.

RMB insurance products – a prominent provider

The Group maintained its leading position in the RMB insurance market. Popular RMB insurance products such as the "Target 5 Years Insurance Plan Series", "Multi-Plus Savings Insurance Plan" and "RMB Universal Life Insurance Plan" continued to be well received by customers. To meet customers' needs, the Group launched the RMB-denominated "IncomeGrowth Annuity Insurance Plan", a RMB income insurance plan providing life protection with guaranteed annuity payments. During the first half of 2012, BOC Life was granted the approval to invest directly in the Mainland's interbank bond market, thus facilitating the expansion of RMB assets and the further development of its RMB insurance products.

RISK MANAGEMENT

Banking Group

Overview

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

Risk Management Governance Structure

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

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

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

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

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

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

Credit Risk Management

Credit risk is the risk of loss arising from that a customer or counterparty will be unable to or unwilling to meet its contractual obligations. Credit risk exists in the trading book and banking book, on- and off-balance sheet exposures of a bank. It arises principally from the lending, trade finance and treasury businesses, and covers inter-bank transactions, foreign exchange and derivative transactions as well as investments in bonds and securities. The Chief Credit Officer, who reports directly to the CRO, takes charge of credit risk management and is also responsible for the control of credit risk exposure of subsidiaries in line with the credit risk management principles and requirements set by the Group. The Chief Analytics Officer, who also reports directly to the CRO, is responsible for the development and maintenance of internal rating models, internal rating criteria, internal rating platforms and the risk-weighted asset calculation for credit risk. For loans and advances to customers, different credit approval and control procedures are adopted according to the level of risk associated with the customer, counterparty or transaction. The Credit Risk Assessment Committee comprising credit experts and other functions is responsible for making an independent assessment of all credit facilities which require the approval of Deputy Chief Executives ("DCE") or above. Corporate and financial institution credit applications are independently reviewed and objectively assessed by risk management units. Obligor ratings and facility grades are assigned to these portfolios. Retail internal rating systems are deployed in the risk assessment of retail credit transactions, including small business retail exposures, residential mortgage loans, personal loans and credit cards. Loan grades, obligor ratings as well as loss estimates (if applicable) are used to support credit approval.

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

The Group uses loan grades, obligor ratings and loss estimates (if applicable) to support credit monitoring, analysis and reporting. For corporate and financial institution, more frequent rating review and closer monitoring are required for higher-risk customers. For retail exposures, monthly updated ratings and loss estimates are used for credit monitoring on a portfolio basis. More comprehensive review is required for obligors being identified under high-risk pools. The Group has established credit risk master scale for internal rating purpose, which is in compliance with the Banking (Capital) Rules under the Hong Kong Banking Ordinance on rating structure, and can be mapped to Standard & Poor's external ratings. In addition to obligor ratings, the Group adopts a facility rating system (in the case of corporate and bank exposure) and expected loss (in the case of retail exposure) to assess the risk in the facility structure during credit approval. This two-dimensional rating approach to evaluate credit risk complies with the HKMA's requirements on IRB.

In the first half of 2012, the Group has continued to adopt loan grading criteria which divide credit assets into 5 categories with reference to HKMA's guidelines. The Risk Management Department ("RMD") provides regular credit management information reports and ad hoc reports to the Management Committee ("MC"), RC and Board of Directors to facilitate their continuous monitoring of credit risk.

For investments in debt securities and securitisation assets, the obligor ratings or external credit ratings, assessment of the underlying assets and credit limits setting on customer/security issuer basis are used for managing credit risk associated with the investment. For derivatives, the Group sets customer limits to manage the credit risk involved and follows the same approval and control processes as applied for loans and advances. On-going monitoring and stop-loss procedures are established.

The methodology and assumptions used for impairment assessments are reviewed regularly. In evaluating impairment of asset backed securities ("ABS") and mortgage backed securities ("MBS"), the Group continued to use a significant decline in market price and credit deterioration of the underlying assets to be the key indicators of impairment. The Group also considered other objective evidences of impairment, taking into account the impact of liquidity on market prices and the movement in loss coverage ratios of individual ABS and MBS held by the Group.

Interest Rate Risk Management

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

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

The Group's risk management framework applies also to interest rate risk management. The Assets and Liabilities Management Committee ("ALCO") exercises its oversight of interest rate risk in accordance with the

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

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

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

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

Market Risk Management

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

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

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

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

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

The predictive power of the VAR measure is monitored by back-testing, which compares the calculated VAR figure of trading positions of each business day with the actual and hypothetical revenues arising from those positions on the next business day. Generally speaking, the number of back-testing exceptions in a rolling 12-month period will not exceed four times, given a 99% confidence level. BOCHK conducts back-testing on a monthly basis.

Liquidity Risk Management

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

The Group's liquidity risk management objective is to effectively manage the liquidity of on-balance sheet and off-balance sheet items with reasonable cost based on the liquidity risk appetite to achieve sound operation and sustainable profitability. Customer deposits are the Group's primary source of funds. To ensure that a stable and sufficient source of funds is in place, the Group actively attracts new deposits, keeps the core deposits and obtains supplementary funding from the interbank market or by issuing bills in the capital market. According to different term maturities and the results of funding needs estimated from stressed scenarios, the Group adjusts its asset structure (including loans, bond investments, interbank placements, etc.) to maintain sufficient liquid assets in support of normal business needs and ensure its ability to raise enough funds at reasonable costs to serve external claims in case of emergency. The Group is committed to diversifying the source of funds and the use of funds to avoid excessive concentration of assets and liabilities, and to prevent triggering liquidity risk due to the break of funding strand when problems occur in one concentrated funding source. The Group also pays attention to liquidity risk created by off-balance sheet activities, such as loan commitments, derivatives, options and other complex structured products. The Group has an overall liquidity risk management strategy to cover the liquidity management of foreign currency assets and liabilities, intraday liquidity, intra-group liquidity, the liquidity risk arising from others' risk, etc., and has formulated a corresponding funding contingency plan.

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

The Group has established liquidity risk management indicators and limits to identify, measure, monitor and control liquidity risk. Such indicators and limits include (but are not limited to) the liquidity ratio, deposit stability ratio, loan-to-deposit ratio, Maximum Cumulative Outflow ("MCO") and liquidity buffer asset portfolio. The Group applies cash flow analysis (under normal and stress conditions) and liquidity stress test (including institution-specific and worldwide crisis) to assess the Group's capability to withstand various severe liquidity crises. Also, the Assets and Liabilities Management System is developed to provide data support for facilitating the liquidity risk management duties.

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

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

Operational Risk Management

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

The Group has implemented the "Three Lines of Defence" for its operational risk management. All departments or functional units as the first line of defence are the first parties responsible for operational risk management, and carry out the duties and functions of self risk control in the process of business operation through self assessment, self checking, self correction and self development. The Operational Risk and Compliance Department ("OR&CD") together with certain specialist functional units in relation to operational risk management within the Group, including the Human Resources Department, Information Technology Department, Corporate Services Department, Financial Management Department and General Accounting & Accounting Policy Department (collectively known as "Specialist functional units"), are the second line of defence, which is responsible for assessing and monitoring the operational risk conditions in the first line of defence, and providing them with guidance. The OR&CD, being independent from the business units, is responsible for assisting the Management in managing the Group's operational risk, including the establishment and review of the operational risk management policy and framework, designing the operational risk management tools and reporting mechanism, and assessing and reporting the overall operational risk position to the Management and RC. Specialist functional units are required to carry out their managerial duties of the second line defence with respect to some specific aspects of operational risk and its related issues. Besides taking charge of operational risk management in their own units, these units are also required to provide other units with professional advice/training in respect of certain operational risk categories and to lead the Group-wide operational risk management. Group Audit is the third line of defence which provides independent assessment to the robustness and adequacy of the operational risk management framework and is required to conduct periodic audit of the operational risk management activities of various departments or functional units within the Group regarding their compliance and effectiveness and to put forward recommendations for remedial actions.

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

Reputation Risk Management

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

In order to mitigate reputation risk, the Group has formulated and duly followed its Reputation Risk Management Policy. The policy aims to prevent and manage reputation risk proactively at an early stage when an incident occurs. Since reputation risk is often caused by various types of operational and strategic issues that negatively impact the trust and perception of the company, all operational and key risks identified are assessed through the established Key Control Self-Assessment framework, including risk assessment tools, to evaluate the severity of their impact on the Group, including the damage to reputation. In addition, the Group has put in place a framework, including system support, to achieve continuous monitoring of external reputation risk incidents and published failures of risk incidents in the financial industry.

Legal and Compliance Risk Management

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

Strategic Risk Management

Strategic risk generally refers to the risks that may induce immediate or future negative impact on the financial and market positions of the Group because of poor strategic decisions, improper implementation of strategies and lack of response to the market. The Board reviews and approves the policy for the management of strategic risks. Key strategic issues have to be fully evaluated and properly endorsed by the senior management and the Board.

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

Capital Management

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

To comply with the HKMA's requirements as stated in the Supervisory Policy Manual "Supervisory Review Process", the Group adopts the Internal Capital Adequacy Assessment Process ("ICAAP") and reviews it annually. Using the statutory minimum capital adequacy ratio ("CAR"), 8%, as a starting point, extra capital (capital add-on) needed to cover the material risks not captured under Pillar I is assessed. A Scorecard approach based on the HKMA's compliance guidance on Pillar II has been used to evaluate the Group's risk profile in order to assess the add-on capital to determine the minimum common equity CAR, minimum core CAR and the minimum CAR. In the process, an Operating CAR Range has also been established which incorporates the need for future business growth and efficiency of capital utilisation.

The HKMA has issued a consultation paper on capital standards in January 2012 for the implementation of Basel III in Hong Kong. The Group has conducted a detailed impact analysis of it and has prepared for the future implementation of new capital requirements.

Stress Testing

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

BOC Life Insurance

BOC Life's principal business activity is the underwriting of long-term insurance business in life and annuity, unit-linked long-term business and retirement scheme management in Hong Kong. Major types of risk arising from the BOC Life's insurance business are insurance risk, interest rate risk, liquidity risk and credit risk. BOC Life closely monitors these risks and reports to its RC on a regular basis. The key risks of its insurance business and related risk control process are as follows:

Insurance Risk Management

BOC Life is in the business of insuring against the risk of mortality, morbidity, disability, critical illness, accidents and related risks. These risks are managed through the application of underwriting 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 BOC Life's underwriting procedures.

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

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

Interest Rate Risk Management

An increase in interest rates may result in the depreciation of the value of BOC Life's bond portfolio. It may also result in customers accelerating surrenders. A decrease in interest rates may result in an increase in insurance liability and an inability to adequately match guarantees or lower returns leading to customer dissatisfaction. BOC Life manages the asset liability matching of its portfolios within an asset liability management framework that has been developed to achieve investment returns that match its obligations under insurance contracts.

Liquidity Risk Management

Liquidity risk is the risk of not being able to fund increases in assets or meet obligations as they fall due without incurring unacceptable loss. BOC Life's asset liability matching framework includes cash flow management to preserve liquidity to match policy payout from time to time. In the normal course of BOC Life's business, new business premiums generate constant cash inflows and, as a result, the portfolios also grow gradually to meet future liquidity requirement.

Credit Risk Management

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

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

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

In order to enhance its credit risk management, BOC Life has strengthened its communication with the Investment Management of the Group while closely monitoring and updating the established Bonds Issuers Disposal and Watch Lists to ensure consistency with the Group's credit risk management and investment strategy. For the management of reinsurers' credit risk, please refer to the Insurance Risk Management above.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	(Unaudited) Half-year ended 30 June 2012 HK$'m	(Unaudited) Half-year ended 30 June 2011 HK$'m
Interest income		**17,772**	15,156
Interest expense		**(5,153)**	(4,951)
Net interest income	4	**12,619**	10,205
Fee and commission income		**5,608**	5,432
Fee and commission expense		**(1,506)**	(1,446)
Net fee and commission income	5	**4,102**	3,986
Gross earned premiums		**6,490**	6,524
Gross earned premiums ceded to reinsurers		**(3,659)**	(3,133)
Net insurance premium income		**2,831**	3,391
Net trading gain	6	**1,408**	761
Net gain on financial instruments designated at fair value through profit or loss		**186**	398
Net gain on other financial assets	7	**477**	360
Other operating income	8	**291**	245
Total operating income		**21,914**	19,346
Gross insurance benefits and claims	9	**(7,469)**	(7,100)
Reinsurers' share of benefits and claims		**3,720**	2,880
Net insurance benefits and claims		**(3,749)**	(4,220)
Net operating income before impairment allowances		**18,165**	15,126
Net charge of impairment allowances	10	**(108)**	(30)
Net operating income		**18,057**	15,096
Operating expenses	11	**(5,391)**	(1,993)
Operating profit		**12,666**	13,103
Net gain from disposal of/fair value adjustments on investment properties	12	**1,030**	1,486
Net gain/(loss) from disposal/revaluation of properties, plant and equipment	13	**116**	(5)
Share of profits less losses after tax of associates		**13**	3
Profit before taxation		**13,825**	14,587
Taxation	14	**(2,176)**	(2,233)
Profit for the period		**11,649**	12,354
Profit attributable to:			
Equity holders of the Company		**11,243**	11,993
Non-controlling interests		**406**	361
		11,649	12,354
Dividends	15	**5,762**	6,661
		HK$	HK$
Earnings per share for profit attributable to the equity holders of the Company			
Basic and diluted	16	**1.0634**	1.1343

The notes on pages 43 to 105 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**(Unaudited) Half-year ended 30 June 2012 HK$'m**	(Unaudited) Half-year ended 30 June 2011 HK$'m
Profit for the period		**11,649**	12,354
Premises:			
Revaluation of premises		**4,700**	5,252
Deferred tax		**(753)**	(855)
		3,947	4,397
Available-for-sale securities:			
Change in fair value of available-for-sale securities		**2,747**	1,001
Release upon disposal of available-for-sale securities		**(474)**	(318)
Net reversal of impairment allowances on available-for-sale securities transferred to income statement	10	**(1)**	(6)
Amortisation with respect to available-for-sale securities transferred to held-to-maturity securities		**(8)**	(17)
Deferred tax		**(383)**	(103)
		1,881	557
Change in fair value of hedging instruments under net investment hedges		**29**	(52)
Currency translation difference		**(102)**	170
Other comprehensive income for the period, net of tax		**5,755**	5,072
Total comprehensive income for the period		**17,404**	17,426
Total comprehensive income attributable to:			
Equity holders of the Company		**16,848**	17,030
Non-controlling interests		**556**	396
		17,404	17,426

The notes on pages 43 to 105 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	(Unaudited) At 30 June 2012 HK$'m	(Audited) At 31 December 2011 HK$'m
ASSETS			
Cash and balances with banks and other financial institutions	19	**153,042**	278,795
Placements with banks and other financial institutions maturing between one and twelve months		**114,548**	107,910
Financial assets at fair value through profit or loss	20	**56,826**	48,602
Derivative financial instruments	21	**26,412**	26,787
Hong Kong SAR Government certificates of indebtedness		**72,160**	65,890
Advances and other accounts	22	**785,932**	755,229
Investment in securities	23	**383,009**	376,998
Interests in associates		**245**	234
Investment properties	24	**13,398**	12,441
Properties, plant and equipment	25	**43,796**	39,650
Deferred tax assets	32	**114**	210
Other assets	26	**35,240**	25,764
Total assets		**1,684,722**	1,738,510
LIABILITIES			
Hong Kong SAR currency notes in circulation		**72,160**	65,890
Deposits and balances from banks and other financial institutions		**114,045**	236,694
Financial liabilities at fair value through profit or loss	27	**10,223**	3,237
Derivative financial instruments	21	**21,526**	22,281
Deposits from customers	28	**1,182,857**	1,145,951
Debt securities in issue at amortised cost	29	**5,909**	5,985
Other accounts and provisions	30	**43,119**	41,811
Current tax liabilities		**3,537**	2,237
Deferred tax liabilities	32	**6,393**	5,365
Insurance contract liabilities	33	**51,785**	47,220
Subordinated liabilities	34	**28,756**	28,656
Total liabilities		**1,540,310**	1,605,327
EQUITY			
Share capital	35	**52,864**	52,864
Reserves	36	**87,850**	76,901
Capital and reserves attributable to the equity holders of the Company		**140,714**	129,765
Non-controlling interests		**3,698**	3,418
Total equity		**144,412**	133,183
Total liabilities and equity		**1,684,722**	1,738,510

The notes on pages 43 to 105 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)								
	Attributable to the equity holders of the Company								
	Share capital HK$'m	Premises revaluation reserve HK$'m	Reserve for fair value changes of available-for-sale securities HK$'m	Regulatory reserve* HK$'m	Translation reserve HK$'m	Retained earnings HK$'m	Total HK$'m	Non-controlling interests HK$'m	Total equity HK$'m
At 1 January 2011	52,864	15,750	2,629	5,076	453	38,409	115,181	3,108	118,289
Profit for the period	–	–	–	–	–	11,993	11,993	361	12,354
Other comprehensive income:									
Premises	–	4,367	–	–	–	–	4,367	30	4,397
Available-for-sale securities	–	–	572	–	–	(17)	555	2	557
Change in fair value of hedging instruments under net investment hedges	–	–	–	–	(49)	–	(49)	(3)	(52)
Currency translation difference	–	2	16	–	146	–	164	6	170
Total comprehensive income	–	4,369	588	–	97	11,976	17,030	396	17,426
Release upon disposal of premises	–	(19)	–	–	–	19	–	–	–
Transfer from retained earnings	–	–	–	1,519	–	(1,519)	–	–	–
Dividends	–	–	–	–	–	(6,048)	(6,048)	(44)	(6,092)
At 30 June 2011	52,864	20,100	3,217	6,595	550	42,837	126,163	3,460	129,623
Company and subsidiaries	52,864	20,100	3,217	6,595	550	42,785	126,111		
Associates	–	–	–	–	–	52	52		
	52,864	20,100	3,217	6,595	550	42,837	126,163		
At 1 July 2011	52,864	20,100	3,217	6,595	550	42,837	126,163	3,460	129,623
Profit for the period	–	–	–	–	–	8,437	8,437	22	8,459
Other comprehensive income:									
Premises	–	3,141	–	–	–	–	3,141	29	3,170
Available-for-sale securities	–	–	(1,410)	–	–	(11)	(1,421)	(33)	(1,454)
Change in fair value of hedging instruments under net investment hedges	–	–	–	–	(61)	–	(61)	(4)	(65)
Currency translation difference	–	2	(20)	–	185	–	167	8	175
Total comprehensive income	–	3,143	(1,430)	–	124	8,426	10,263	22	10,285
Release upon disposal of premises	–	(93)	–	–	–	93	–	–	–
Transfer from retained earnings	–	–	–	372	–	(372)	–	–	–
Dividends	–	–	–	–	–	(6,661)	(6,661)	(64)	(6,725)
At 31 December 2011	52,864	23,150	1,787	6,967	674	44,323	129,765	3,418	133,183
Company and subsidiaries	52,864	23,150	1,787	6,967	674	44,251	129,693		
Associates	–	–	–	–	–	72	72		
	52,864	23,150	1,787	6,967	674	44,323	129,765		

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)								
	Attributable to the equity holders of the Company								
	Share capital HK$'m	Premises revaluation reserve HK$'m	Reserve for fair value changes of available-for-sale securities HK$'m	Regulatory reserve* HK$'m	Translation reserve HK$'m	Retained earnings HK$'m	Total HK$'m	Non-controlling interests HK$'m	Total equity HK$'m
At 1 January 2012	52,864	23,150	1,787	6,967	674	44,323	129,765	3,418	133,183
Profit for the period	–	–	–	–	–	11,243	11,243	406	11,649
Other comprehensive income:									
Premises	–	3,912	–	–	–	–	3,912	35	3,947
Available-for-sale securities	–	–	1,772	–	–	(8)	1,764	117	1,881
Change in fair value of hedging instruments under net investment hedges	–	–	–	–	27	–	27	2	29
Currency translation difference	–	(1)	6	–	(103)	–	(98)	(4)	(102)
Total comprehensive income	–	3,911	1,778	–	(76)	11,235	16,848	556	17,404
Release upon disposal of premises	–	(16)	–	–	–	16	–	–	–
Transfer from retained earnings	–	–	–	263	–	(263)	–	–	–
Dividends	–	–	–	–	–	(5,899)	(5,899)	(276)	(6,175)
At 30 June 2012	52,864	27,045	3,565	7,230	598	49,412	140,714	3,698	144,412
Company and subsidiaries	52,864	27,045	3,565	7,230	598	49,329	140,631		
Associates	–	–	–	–	–	83	83		
	52,864	27,045	3,565	7,230	598	49,412	140,714		
Representing:									
2012 interim dividend (Note 15)						5,762			
Others						43,650			
Retained earnings as at 30 June 2012						49,412			

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

The notes on pages 43 to 105 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Notes	(Unaudited) Half-year ended 30 June 2012 HK$'m	(Unaudited) Half-year ended 30 June 2011 HK$'m
Cash flows from operating activities			
Operating cash outflow before taxation	37(a)	**(129,233)**	(926)
Hong Kong profits tax paid		**(755)**	(583)
Overseas profits tax paid		**(133)**	(118)
Net cash outflow from operating activities		**(130,121)**	(1,627)
Cash flows from investing activities			
Purchase of properties, plant and equipment		**(307)**	(255)
Purchase of investment properties		**(1)**	(12)
Proceeds from disposal of properties, plant and equipment		**152**	5
Proceeds from disposal of investment properties		**66**	6
Dividend received from associates		**2**	1
Net cash outflow from investing activities		**(88)**	(255)
Cash flows from financing activities			
Dividend paid to the equity holders of the Company		**(5,899)**	(6,048)
Dividend paid to non-controlling interests		**(198)**	(44)
Interest paid for subordinated liabilities		**(298)**	(296)
Net cash outflow from financing activities		**(6,395)**	(6,388)
Decrease in cash and cash equivalents		**(136,604)**	(8,270)
Cash and cash equivalents at 1 January		**340,446**	446,679
Effect of exchange rate changes on cash and cash equivalents		**(2,796)**	8,092
Cash and cash equivalents at 30 June	37(b)	**201,046**	446,501

The notes on pages 43 to 105 are an integral part of this interim financial information.

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

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.

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.

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

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.

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

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* 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	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.

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

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

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.

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			
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Hong Kong government and government bodies HK$'m	Other governments and government agencies HK$'m	Others HK$'m	Total HK$'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

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(C) Debt securities (continued)

	At 31 December 2011							
					Unrated			
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Hong Kong government and government bodies HK$'m	Other governments and government agencies HK$'m	Others HK$'m	Total HK$'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.

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

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
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m	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
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m	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.

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 exposure[1] 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 revenue[2] 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.

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.

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

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.

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

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

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.

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							
	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$'m	Total HK$'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

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

(B) Maturity analysis (continued)

	At 30 June 2012							
	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$'m	Total HK$'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

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

(B) Maturity analysis (continued)

	At 31 December 2011							
	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$'m	Total HK$'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

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

(B) Maturity analysis (continued)

	At 31 December 2011							
	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$'m	Total HK$'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.

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.

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.

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.

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.

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.

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.

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)

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

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.

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).

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).

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.

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

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).

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.

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

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)

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)

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).

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

23. Investment in securities (continued)

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

	At 30 June 2012			
	Available-for-sale securities HK$'m	**Held-to-maturity securities HK$'m**	**Loans and receivables HK$'m**	**Total HK$'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 HK$'m	Held-to-maturity securities HK$'m	Loans and receivables HK$'m	Total HK$'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 HK$'m	At 31 December 2011 HK$'m	**At 30 June 2012 HK$'m**	At 31 December 2011 HK$'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

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

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.

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

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 HK$'m	**Property revaluation HK$'m**	**Losses HK$'m**	**Impairment allowance HK$'m**	**Other temporary differences HK$'m**	**Total HK$'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 HK$'m	Property revaluation HK$'m	Losses HK$'m	Impairment allowance HK$'m	Other temporary differences HK$'m	Total HK$'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

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).

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.

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.

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.

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.

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.

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

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

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.

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

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

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			
	Banks HK$'m	**Public sector entities* HK$'m**	**Others HK$'m**	**Total HK$'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			
	Banks HK$'m	Public sector entities* HK$'m	Others HK$'m	Total HK$'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.

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.

ADDITIONAL INFORMATION

1. Corporate information

Board of Directors

Chairman	XIAO Gang#
Vice Chairmen	LI Lihui#
	HE Guangbei
Directors	LI Zaohang#
	ZHOU Zaiqun#
	CHEN Siqing#
	GAO Yingxin
	FUNG Victor Kwok King*
	KOH Beng Seng*
	SHAN Weijian*
	TUNG Chee Chen*
	TUNG Savio Wai-Hok*

\# Non-executive Directors
* Independent Non-executive Directors

Senior Management

Chief Executive	HE Guangbei
Deputy Chief Executive	GAO Yingxin
Chief Financial Officer	ZHUO Chengwen
Deputy Chief Executive	WONG David See Hong
Deputy Chief Executive	YEUNG Jason Chi Wai
Chief Risk Officer	LI Jiuzhong
Chief Operating Officer	LEE Alex Wing Kwai
Assistant Chief Executive	ZHU Yanlai

Company Secretary

CHAN Chun Ying

Registered Office

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

Auditor

PricewaterhouseCoopers

Share Registrar

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

ADR Depositary Bank

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

Credit Ratings (Long Term)

Standard & Poor's	A+
Moody's Investors Service	Aa3
Fitch Ratings	A

Index Constituent

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

Stock Codes

Ordinary shares:	
The Stock Exchange of Hong Kong Limited	2388
Reuters	2388.HK
Bloomberg	2388 HK
Level 1 ADR Programme:	
CUSIP No.	096813209
OTC Symbol	BHKLY

Website

www.bochk.com

2. Dividend and closure of register of members

The Board has declared an interim dividend of HK$0.545 per share (2011: HK$0.63), payable on Friday, 21 September 2012 to shareholders whose names appear on the Register of Members of the Company on Thursday, 13 September 2012.

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to the interim dividend, from Monday, 10 September 2012 to Thursday, 13 September 2012 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the interim dividend, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Friday, 7 September 2012. Shares of the Company will be traded ex-dividend as from Thursday, 6 September 2012.

3. Substantial interests in share capital

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 30 June 2012, the following parties had the following interests (as defined in the SFO) in the Company set opposite their respective names:

Name of Corporation	No. of shares of HK$5.00 each in the Company	% of total issued shares
Central Huijin	6,984,274,213	66.06%
BOC	6,984,274,213	66.06%
BOCHKG	6,984,175,056	66.06%
BOC (BVI)	6,984,175,056	66.06%

Notes:

1. Following the reorganisation of BOC in August 2004, Central Huijin holds the controlling equity capital of BOC on behalf of the State. Accordingly, for the purpose of the SFO, Central Huijin is deemed to have the same interests in the Company as BOC.

2. BOC holds the entire issued share capital of BOCHKG, which in turn holds the entire issued share capital of BOC (BVI). Accordingly, BOC and BOCHKG are deemed to have the same interests in the Company as BOC (BVI) for the purpose of the SFO. BOC (BVI) beneficially held 6,984,175,056 shares of the Company.

3. BOC holds the entire issued share capital of BOCI, which in turn holds the entire issued share capital of BOCI Asia Limited and BOCI Financial Products Limited. Accordingly, BOC is deemed to have the same interests in the Company as BOCI Asia Limited and BOCI Financial Products Limited for the purpose of the SFO. BOCI Asia Limited had an interest in 24,479 shares of the Company and an interest in 72,000 shares held under physically settled equity derivatives while BOCI Financial Products Limited had an interest in 2,678 shares of the Company.

All the interests stated above represented long positions. Save as disclosed above, as at 30 June 2012, BOCI Financial Products Limited had an interest in 143,522 shares which represented short positions. BOC and Central Huijin are deemed to be interested in such amount of shares for the purpose of the SFO. Save as disclosed, no other interests or short positions were recorded in the register maintained by the Company under section 336 of the SFO as at 30 June 2012.

ADDITIONAL INFORMATION

4. Directors' rights to acquire shares

On 5 July 2002, the following Directors 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) existing issued shares of the Company at a price of HK$8.50 per share. These options have a vesting period of four years from 25 July 2002 with a valid exercise period of ten years.

Particulars of the outstanding options granted to the Directors under the Pre-Listing Share Option Scheme as at 30 June 2012 are set out below:

				Number of share options					
Name of Director	Date of grant	Exercise price per share (HK$)	Exercisable period	Granted on 5 July 2002	Balances as at 1 January 2012	Exercised during the period	Surrendered during the period	Lapsed during the period	Balances as at 30 June 2012
LI Zaohang	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	–	–	–	1,446,000
ZHOU Zaiqun	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,084,500	–	–	–	1,084,500
Total				2,892,000	2,530,500	–	–	–	2,530,500

Note: According to the rules of the Pre-Listing Share Option Scheme, all outstanding options granted pursuant to the said Scheme have been lapsed on 5 July 2012.

Save as disclosed above, at no time during the period was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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

As at 30 June 2012, the Directors, the Chief Executive and their respective associates had the following interests in the shares and underlying shares of the Company, as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers:

	Number of shares/underlying shares held					
Name of Director	Personal interests	Family interests	Corporate interests	Other interests	Total	% of the issued share capital
HE Guangbei	100,000	–	–	–	100,000	0.001%
LI Zaohang	1,446,000 Note	–	–	–	1,446,000	0.014%
ZHOU Zaiqun	1,084,500 Note	–	–	–	1,084,500	0.010%
Total	2,630,500	–	–	–	2,630,500	0.025%

Note: Such interests represented the respective Directors' interests in underlying shares in respect of the share options granted to him pursuant to the Pre-Listing Share Option Scheme, details of which are set out in the section titled "Directors' rights to acquire shares" above.

5. Directors' and Chief Executive's interests in shares, underlying shares and debentures (continued)

Save as disclosed above, as at 30 June 2012, none of the Directors or the Chief Executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

6. Changes of information in respect of Directors

In accordance with Rule 13.51B(1) of the Listing Rules, the changes in information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules after the publication of the Company's Annual Report 2011 on 29 March 2012 up to 23 August 2012 (being the approval date of this Interim Report) are set out below:

Experience including other directorships and major appointments

(a) Dr. FUNG Victor Kwok King, an Independent Non-executive Director of the Company, relinquished his position as Group Chairman of Li & Fung Limited, a company listed on the Stock Exchange, and assumed the title of Honorary Chairman with effect from 14 May 2012 and continued as a Non-executive Director of Li & Fung Limited. Also, Dr. FUNG was appointed as an Independent Non-executive Director of China Petrochemical Corporation, a company incorporated in the PRC, since April 2012. In addition, Dr. FUNG was appointed as a member of the WTO Panel on Defining the Future of Trade since April 2012.

(b) Mr. SHAN Weijian, an Independent Non-executive Director of the Company, resigned as a Director of Taishin Financial Holding Co., Ltd. and Taiwan Cement Corporation, both are companies listed in Taiwan, with effect from 1 May 2012 and 21 June 2012 respectively.

(c) Mr. TUNG Chee Chen, an Independent Non-executive Director of the Company, resigned as an Independent Non-executive Director of Zhejiang Expressway Co., Ltd., a company listed on the Stock Exchange, with effect from 11 June 2012.

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

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

8. Audit Committee

The Audit Committee consists only of Non-executive Directors, the majority of whom are Independent Non-executive Directors. It is chaired by Independent Non-executive Director Mr. SHAN Weijian. Other members include Mr. ZHOU Zaiqun, Dr. FUNG Victor Kwok King, Mr. TUNG Chee Chen, Mr. TUNG Savio Wai-Hok and Mr. KOH Beng Seng.

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

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

9. Compliance with the "Corporate Governance Code"

The Stock Exchange recently merged the "Corporate Governance Report" contained in Appendix 23 to the Listing Rules with the "Code on Corporate Governance Practices" contained in Appendix 14 (the "Former CG Code") to be the "Corporate Governance Code and Corporate Governance Report" as set out in the amended Appendix 14 (the "Corporate Governance Code"). The Corporate Governance Code took effect on 1 April 2012.

The Company is committed to embracing and enhancing good corporate governance principles and practices. During the period under review, the Company has been in full compliance with all code provisions as set out in the Former CG Code as well as the Corporate Governance Code. The Company has also complied with nearly all the recommended best practices set out in the Corporate Governance Code throughout the period. For further details, please refer to the section titled "Corporate Governance" contained in the Annual Report 2011 of the Company.

10. Compliance with the Codes for Securities Transactions by Directors

The Company has established and implemented the "Code for Securities Transactions by Directors" (the "Company's Code") to govern securities transactions by Directors. Terms of the Company's Code are more stringent than the mandatory standards set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" contained in Appendix 10 of the Listing Rules (the "Model Code"). Apart from the securities of the Company, the Company's Code also applies to the Director's dealings in the securities of BOC which has been listing on the Hong Kong Stock Exchange in June 2006. In this connection, the Company had made specific enquiry of all Directors, who confirmed that they had complied with the standards set out in both the Company's Code and the Model Code throughout the period under review. The Company had undertaken a review of the Company's Code in March 2012. There were no fundamental amendments to the Company's Code and changes were in adaptive nature mainly to refine the Company's Code.

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

The unaudited interim report complies with the applicable requirements set out in the Banking (Disclosure) Rules under the Banking Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

12. Interim Report

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

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

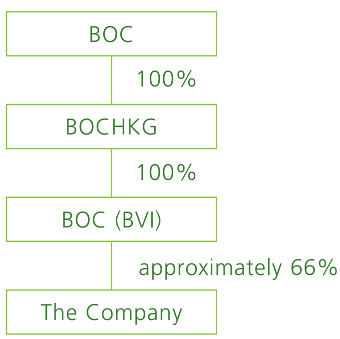
If you have any queries about how to obtain copies of this Interim Report or how to access those corporate communications on the Company's website, please call the Company's hotline at (852) 2846 2700.

13. Reconciliation between HKFRSs vs IFRS/CAS

The Company understands that BOC, an intermediate holding company as well as controlling shareholder of the Company, will prepare and disclose consolidated financial information in accordance with IFRS and CAS for which the Company and its subsidiaries will form part of the interim financial information. CAS is the new set of PRC accounting standards that has been effective for annual periods beginning on or after 1 January 2007 for companies publicly listed in PRC. The requirements of CAS have substantially converged with HKFRSs and IFRS.

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

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



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

Second, the Group has prepared its interim financial information in accordance with HK GAAP prior to 1 January 2005 and as from 1 January 2005 onwards in accordance with HKFRSs; whereas the consolidated financial information reported to BOC is prepared in accordance with IFRS and CAS respectively. Despite the fact that HKFRSs have converged with IFRS, there is a timing difference in the initial adoption of HKFRSs and IFRS by the Group and by BOC respectively.

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

The major differences between HKFRSs and IFRS/CAS, which arise from the difference in measurement basis in IFRS or CAS and the timing difference in the initial adoption of HKFRSs and IFRS relate to the following:

– re-measurement of carrying value of treasury products;

– restatement of carrying value of bank premises; and

– deferred taxation impact arising from the above different measurement basis.

(a) Re-measurement of carrying value of treasury products

Due to the difference in the timing of first adoption of HKFRSs and IFRS, classification and measurement of certain investment securities under HKFRSs and IFRS were different. Therefore, investment securities were reclassified and re-measured to align with the accounting policies of BOC for the relevant periods. Classification and measurement under IFRS and CAS is basically the same.

(b) Restatement of carrying value of bank premises

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

(c) Deferred tax adjustments

These represent the deferred tax effect of the aforesaid adjustments.

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

As the counterpart of IFRS/CAS to the amendment to HKAS 12 has already been mandatorily effective since 1 January 2012, there is no more difference due to early adoption of HKFRS.

Profit after tax/net assets reconciliation

HKFRSs vs IFRS/CAS

	Profit after tax		Net assets	
	Half-year ended 30 June 2012 HK$'m	Half-year ended 30 June 2011 HK$'m	**At 30 June 2012 HK$'m**	At 31 December 2011 HK$'m
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs	**11,649**	12,354	**144,412**	133,183
Add: IFRS/CAS adjustments				
Re-measurement of carrying value of treasury products	**(8)**	(14)	**–**	–
Restatement of carrying value of bank premises	**343**	181	**(30,458)**	(26,124)
Deferred tax adjustments	**(33)**	8	**5,022**	4,305
Effect of early adoption of HKAS 12 (Amendment)	**–**	(214)	**–**	(1,778)
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRS/CAS	**11,951**	12,315	**118,976**	109,586

INDEPENDENT REVIEW REPORT

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF BOC HONG KONG (HOLDINGS) LIMITED
(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 37 to 105, which comprises the condensed consolidated balance sheet of BOC Hong Kong (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2012 and the related condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 23 August 2012

APPENDIX

Subsidiaries of the Company

The particulars of our subsidiaries are as follows:

Name of company	Place and date of incorporation/ operation/ registration	Issued and fully paid up share capital/ registered capital/ units in issue	Interest held	Principal activities
Directly held:				
Bank of China (Hong Kong) Limited	Hong Kong 16 October 1964	Ordinary shares HK$43,042,840,858	100.00%	Banking business
BOC Group Life Assurance Company Limited*	Hong Kong 12 March 1997	Ordinary shares HK$3,038,000,000	51.00%	Life insurance business
BOCHK Asset Management (Cayman) Limited*	Cayman Islands 7 October 2010	Ordinary shares HK$30,000,000	100.00%	Investment holding
Indirectly held:				
Nanyang Commercial Bank, Limited	Hong Kong 2 February 1948	Ordinary shares HK$700,000,000	100.00%	Banking business
Chiyu Banking Corporation Limited	Hong Kong 24 April 1947	Ordinary shares HK$300,000,000	70.49%	Banking business
BOC Credit Card (International) Limited	Hong Kong 9 September 1980	Ordinary shares HK$480,000,000	100.00%	Credit card services
Bank of China (Hong Kong) Nominees Limited*	Hong Kong 1 October 1985	Ordinary shares HK$2	100.00%	Nominee services
Bank of China (Hong Kong) Trustees Limited*	Hong Kong 6 November 1987	Ordinary shares HK$3,000,000	100.00%	Trustee and agency services
BNPP Flexi III China Fund*	Luxembourg 15 December 2009	Units in issue HK$2,686,606,239	51.00%	Investment
BOC Group Trustee Company Limited*	Hong Kong 1 December 1997	Ordinary shares HK$200,000,000	64.20%	Trustee services
BOC Travel Services Limited*	Hong Kong 24 August 1982	Ordinary shares HK$2,000,000	100.00%	Travel services
BOCG Life Aggressive Growth Fund*	Hong Kong 8 November 2002	Units in issue US$1,870,000	51.00%	Investment
BOCG Life Moderate Growth Fund*	Hong Kong 8 November 2002	Units in issue US$1,400,000	51.00%	Investment
BOCG Life Stable Growth Fund*	Hong Kong 8 November 2002	Units in issue US$200,000	51.00%	Investment

APPENDIX

Subsidiaries of the Company (continued)

Name of company	Place and date of incorporation/ operation/ registration	Issued and fully paid up share capital/ registered capital/ units in issue	Interest held	Principal activities
BOCG Life Money Market Fund*	Hong Kong 8 November 2002	Units in issue US$2,270,000	51.00%	Investment
BOCHK Asset Management Limited*	Hong Kong 28 October 2010	Ordinary shares HK$29,500,000	100.00%	Asset management
BOCHK Financial Products (Cayman) Limited	Cayman Islands 10 November 2006	Ordinary shares US$50,000	100.00%	Issuing structured notes
BOCHK Information Technology (Shenzhen) Co., Ltd.*	PRC 16 April 1990	Registered capital HK$70,000,000	100.00%	Property holding and investment
BOCHK Information Technology Services (Shenzhen) Ltd.*	PRC 26 May 1993	Registered capital HK$40,000,000	100.00%	Information technology services
BOCI-Prudential Trustee Limited*	Hong Kong 11 October 1999	Ordinary shares HK$300,000,000	41.10%	Trustee services
Che Hsing (Nominees) Limited*	Hong Kong 23 April 1980	Ordinary shares HK$10,000	100.00%	Nominee services
Chiyu Banking Corporation (Nominees) Limited*	Hong Kong 3 November 1981	Ordinary shares HK$100,000	70.49%	Investment holding
Chung Chiat Company Limited	Hong Kong 9 April 1980	Ordinary shares HK$200	100.00%	Property holding and investment
Dwell Bay Limited*	Hong Kong 19 December 1980	Ordinary shares HK$100,000	100.00%	Property holding and investment
Grace Charter Limited*	Hong Kong 4 May 2001	Ordinary shares HK$2	70.49%	Investment holding
G.Z.Y. Microfilm Technology (Shenzhen) Co., Ltd.*	PRC 24 September 1993	Registered capital HK$40,000,000	100.00%	Property holding and investment
Kincheng Finance (H.K.) Limited	Hong Kong 30 March 1979	Ordinary shares HK$100	100.00%	Loan financing
Kincheng Investments & Developments (H.K.) Limited	Hong Kong 15 May 1981	Ordinary shares HK$6,000	100.00%	Property holding and investment

Subsidiaries of the Company (continued)

Name of company	Place and date of incorporation/ operation/ registration	Issued and fully paid up share capital/ registered capital/ units in issue	Interest held	Principal activities
Kincheng (Nominees) Limited*	Hong Kong 12 December 1980	Ordinary shares HK$100,000	100.00%	Nominee services
Kiu Nam Investment Corporation Limited	Hong Kong 9 November 1963	Ordinary shares HK$2,000,000	100.00%	Property holding and investment
Kwong Li Nam Investment Agency Limited*	Hong Kong 25 May 1984	Ordinary shares HK$3,050,000	100.00%	Investment agency
Nanyang Commercial Bank (China), Limited	PRC 14 December 2007	Registered capital RMB6,500,000,000	100.00%	Banking business
Nanyang Commercial Bank (Nominees) Limited*	Hong Kong 22 August 1980	Ordinary shares HK$50,000	100.00%	Nominee services
Nanyang Commercial Bank Trustee Limited*	Hong Kong 22 October 1976	Ordinary shares HK$3,000,000	100.00%	Trustee services
Perento Limited*	Hong Kong 27 September 1983	Ordinary shares HK$10,000	100.00%	Property holding and investment
Po Hay Enterprises Limited	Hong Kong 2 October 1979	Ordinary shares HK$100,000	100.00%	Property holding and investment
Po Sang Financial Investment Services Company Limited*	Hong Kong 23 September 1980	Ordinary shares HK$95,000,000	100.00%	Gold trading and investment holding
Po Sang Futures Limited*	Hong Kong 19 October 1993	Ordinary shares HK$95,000,000	100.00%	Securities and futures brokerage
Seng Sun Development Company, Limited*	Hong Kong 11 December 1961	Ordinary shares HK$2,800,000	70.49%	Investment holding
Shenstone Limited*	Hong Kong 4 September 1979	Ordinary shares HK$2	100.00%	Property holding and investment
Sin Chiao Enterprises Corporation, Limited*	Hong Kong 13 September 1961	Ordinary shares HK$3,000,000	100.00%	Property holding and investment
Sin Hua Trustee Limited*	Hong Kong 27 October 1978	Ordinary shares HK$3,000,000	100.00%	Trustee services
Sin Mei (Nominee) Limited*	Hong Kong 27 April 1982	Ordinary shares HK$100,000	100.00%	Nominee services

Subsidiaries of the Company (continued)

Name of company	Place and date of incorporation/ operation/ registration	Issued and fully paid up share capital/ registered capital/ units in issue	Interest held	Principal activities
Sin Yeh Shing Company Limited	Hong Kong 28 November 1980	Ordinary shares HK$100,000	100.00%	Property holding and investment
Sino Information Services Company Limited*	Hong Kong 11 February 1993	Ordinary shares HK$7,000,000	100.00%	Information services
The China-South Sea (Nominees) Services Limited*	Hong Kong 13 February 1981	Ordinary shares HK$100,000	100.00%	Nominee services
Track Link Investment Limited	Hong Kong 8 February 1994	Ordinary shares HK$2	100.00%	Property holding and investment

Sin Mei (Nominee) Limited, Kincheng (Nominees) Limited, Sin Yeh Shing Company Limited and Track Link Investment Limited commenced members' voluntary winding up on 31 October 2011.

Po Hay Enterprises Limited, Chung Chiat Company Limited and Kiu Nam Investment Corporation Limited commenced members' voluntary winding up on 21 November 2011.

The China-South Sea (Nominees) Services Limited commenced members' voluntary winding up on 28 November 2011.

G.Z.Y. Microfilm Technology (Shenzhen) Co., Ltd. commenced winding up on 26 December 2011.

Nanyang Finance Company Limited and Nan Song Company, Limited were dissolved on 16 February 2012.

Patson (HK) Limited was dissolved on 19 March 2012.

Kincheng Finance (H.K.) Limited commenced members' voluntary winding up on 31 May 2012.

Dwell Bay Limited and Shenstone Limited have been dissolved on 17 July 2012.

Perento Limited has been dissolved on 27 July 2012.

Remarks:

Name of subsidiaries which are not included in the consolidation group for regulatory purposes in respect of capital adequacy is marked with * in the above table. BOCHK and its subsidiaries specified by the HKMA form the basis of consolidation for its regulatory purposes in accordance with the Banking (Capital) Rules. For accounting purposes, subsidiaries are consolidated in accordance with the accounting standards issued by the HKICPA pursuant to section 18A of the Professional Accountants Ordinance.

DEFINITIONS

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

Terms	Meanings
"ABS"	Asset-backed securities
"ADR"	American Depositary Receipt
"ALCO"	the Asset and Liability Management Committee
"ATM"	Automated Teller Machine
"BOC"	Bank of China Limited, a joint stock commercial bank with limited liability established under the laws of the PRC, the H shares and A shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively
"BOC (BVI)"	BOC Hong Kong (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of BOCHKG
"BOCHKG"	BOC Hong Kong (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCHK" or "the Bank"	Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of the Company
"BOCI"	BOC International Holdings Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOC Insurance"	Bank of China Group Insurance Company Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCI-Prudential Manager"	BOCI-Prudential Asset Management Limited, a company incorporated under the laws of Hong Kong, in which BOCI Asset Management Limited, a wholly-owned subsidiary of BOC International Holdings Limited, and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOCI-Prudential Trustee"	BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong, in which BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOC Life"	BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOC Insurance hold equity interests of 51% and 49% respectively
"Board" or "Board of Directors"	the Board of Directors of the Company
"CAR"	Capital Adequacy Ratio, 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
"CAS"	China Accounting Standards for Business Enterprises
"CE"	Chief Executive
"CFO"	Chief Financial Officer

DEFINITIONS

Terms	Meanings
"CIC"	China Investment Corporation
"CRO"	Chief Risk Officer
"Central Huijin"	Central Huijin Investment Ltd.
"Chiyu"	Chiyu Banking Corporation Limited, a company incorporated under the laws of Hong Kong, in which BOCHK holds an equity interest of 70.49%
"DCE"	Deputy Chief Executive
"EURIBOR"	Euro Interbank Offered Rate
"FIRB"	Foundation Internal Ratings-Based
"Fitch"	Fitch Ratings
"GDP"	Gross Domestic Product
"HIBOR"	Hong Kong Interbank Offered Rate
"HKAS(s)"	Hong Kong Accounting Standard(s)
"HKFRS(s)"	Hong Kong Financial Reporting Standard(s)
"HK GAAP"	Generally Accepted Accounting Principles in Hong Kong
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HKMA"	Hong Kong Monetary Authority
"Hong Kong" or "Hong Kong SAR"	Hong Kong Special Administrative Region
"ICAAP"	Internal Capital Adequacy Assessment Process
"IFRS"	International Financial Reporting Standards
"IRB"	Internal Ratings-Based
"IT"	Information Technology
"LSC"	Legal Services Centre
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MBS"	Mortgage-backed securities
"MC"	the Management Committee
"MPF"	Mandatory Provident Fund
"MPF Schemes Ordinance"	the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong, as amended

Terms	Meanings
“MSCI Index”	Morgan Stanley Capital International Index
“Mainland” or “Mainland China”	the mainland of the PRC
“Medium Term Note Programme”	the medium term note programme was established by BOCHK on 2 September 2011
“Moody’s”	Moody’s Investors Service
“NCB (China)”	Nanyang Commercial Bank (China), Limited, a company incorporated under the laws of the PRC and a wholly-owned subsidiary of Nanyang
“Nanyang”	Nanyang Commercial Bank, Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK
“OR&CD”	the Operational Risk & Compliance Department
“ORSO schemes”	the Occupational Retirement Schemes under Occupational Retirement Schemes Ordinance, Chapter 426 of the Laws of Hong Kong
“PBOC”	People’s Bank of China
“PRC”	the People’s Republic of China
“QDIIs”	Qualified Domestic Institutional Investors
“RC”	the Risk Committee
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“RMB RTGS”	RMB Real Time Gross Settlement
“RMD”	the Risk Management Department
“RQFII(s)”	Renminbi Qualified Foreign Institutional Investor(s)
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“SME(s)”	Small and medium-sized enterprise(s)
“STC”	Standardised (Credit Risk)
“STM”	Standardised (Market Risk)
“STO”	Standardised (Operational Risk)
“Share Option Scheme”	the Share Option Scheme conditionally approved and adopted by the shareholders of the Company on 10 July 2002
“Sharesave Plan”	the Sharesave Plan conditionally approved and adopted by the shareholders of the Company on 10 July 2002
“Standard & Poor’s”	Standard & Poor’s Ratings Services

DEFINITIONS

Terms	Meanings
"Stock Exchange" or "Hong Kong Stock Exchange" or "Stock Exchange of Hong Kong"	The Stock Exchange of Hong Kong Limited
"the Company"	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong
"the Group"	the Company and its subsidiaries collectively referred as the Group
"US"	the United States of America
"VAR"	Value at Risk

中銀香港(控股)有限公司
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