

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. Basis of preparation and significant accounting policies

(a) *Basis of preparation*

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

(b) *Significant accounting policies*

Except 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 2012 and should be read in conjunction with the Group’s Annual Report for 2012.

Standards and amendments to standards that are relevant to the Group and mandatory for the first time for the financial year beginning on 1 January 2013

- HKAS 1 (Revised), “Presentation of Financial Statements”. The amendments to HKAS 1 (Revised) require companies preparing financial statements in accordance with HKFRSs to group together items within other comprehensive income (OCI) that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The adoption of this revised standard affects the presentation of the Group’s statement of comprehensive income.
- HKAS 19 (2011), “Employee Benefits”. The revised standard mainly amends the part related to accounting for changes in defined benefit obligations and plan assets, and related presentation and disclosure. The amendments do not have impact on the Group’s financial statements.
- HKAS 27 (2011), “Separate Financial Statements”. Please refer to the below on HKFRS 10, “Consolidated Financial Statements”.
- HKAS 28 (2011), “Investments in Associates and Joint Ventures”. Please refer to the below on HKFRS 11, “Joint Arrangements”.
- HKFRS 7 (Amendment), “Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities”. The amendments require new disclosures to include information that enable users of an entity’s financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity’s recognised financial assets and recognised financial liabilities, on the entity’s financial position. New disclosure for the adoption of this amended standard is disclosed in Note 41 to the Group’s interim financial information.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

(b) Significant accounting policies (continued)

Standards and amendments to standards that are relevant to the Group and mandatory for the first time for the financial year beginning on 1 January 2013 (continued)

- HKFRS 10, "Consolidated Financial Statements". HKFRS 10 builds on existing principles by identifying the concept of control as the determining factor when considering whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. It also replaces all of the guidance on control and consolidation stipulated in HKAS 27 (Revised), "Consolidated and Separate Financial Statements", and HK(SIC)-Int 12, "Consolidation – Special Purpose Entities". The remainder of HKAS 27 (Revised) is renamed as HKAS 27 (2011), "Separate Financial Statements" as a standard dealing solely with separate financial statements without changing the existing guidance for separate financial statements.
- HKFRS 11, "Joint Arrangements". Changes in the definitions stipulated in HKFRS 11 have reduced the types of joint arrangements to two: joint operations and joint ventures. A joint operation is a joint arrangement that gives parties to the arrangement direct rights to the assets and obligations for the liabilities. The "jointly controlled assets" classification in HKAS 31, "Interests in Joint Ventures", has been merged into joint operations, as both types of arrangements generally result in the same accounting outcome. A joint venture, in contrast, gives the parties rights to the net assets or outcome of the arrangement. Joint ventures are accounted for using the equity method in accordance with HKAS 28, "Investments in Associates" which is renamed as HKAS 28 (2011), "Investments in Associates and Joint Ventures". The standard is amended to include the requirements of joint ventures accounting and to merge with the requirements of HK(SIC)-Int 13, "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". After the application of HKAS 28 (2011), entities can no longer account for an interest in a joint venture using the proportionate consolidation method.
- HKFRS 12, "Disclosure of Interests in Other Entities". The standard sets out the required disclosures for entities reporting under the two new standards, HKFRS 10 and HKFRS 11, and the revised standard HKAS 28 (2011). The existing guidance and disclosure requirements for separate financial statements stipulated in HKAS 27 (Revised) are unchanged. HKFRS 12 requires entities to disclose information that helps financial statements users to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

The above HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011) and HKAS 28 (2011) issued in June 2011 are a group of five new standards that address the scope of reporting entity and supersede HKAS 27 (Revised), HKAS 28, HKAS 31, HK(SIC)-Int 12 and HK(SIC)-Int 13. The adoption of these standards does not have a material impact on the Group's financial statements.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

(b) Significant accounting policies (continued)

Standards and amendments to standards that are relevant to the Group and mandatory for the first time for the financial year beginning on 1 January 2013 (continued)

- HKFRS 10, 11 and 12 (Amendment), on transition guidance. The amendments provide additional transition relief to HKFRS 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The adoption of this amendment does not affect the disclosure of the Group's financial statements.
- HKFRS 13, "Fair Value Measurement". The new standard which was issued in June 2011 replaces the fair value measurement guidance contained in individual HKFRSs by providing a revised definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied when its use is already required or permitted by other standards within HKFRSs. The adoption of this standard does not have a material impact on the Group's financial statements.
- In addition, "Annual Improvements to HKFRS 2009 – 2011 Cycle" contains numerous amendments to HKFRSs which the HKICPA considers not urgent but necessary. It comprises amendments that result in accounting changes for presentation and classification. The adoption of these improvements does not have a material impact on the Group's financial statements.

Standards and amendments issued that are relevant to the Group but not yet effective and have not been early adopted by the Group in 2013

Standard	Content	Applicable for financial years beginning on/after
HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Transition to HKFRS 9	1 January 2015
HKFRS 9	Financial Instruments	1 January 2015

- Please refer to Note 2.1(b) of the Group's Annual Report for 2012 for brief explanations of the above-mentioned standards and amendments.

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 2012.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management

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

3.1 Credit Risk

(A) Gross advances and other accounts

(a) Impaired advances

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

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

	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m
Gross impaired advances to customers	1,844	1,807
Individually assessed loan impairment allowances made in respect of such advances	800	736
Current market value of collateral held against the covered portion of such advances to customers	1,483	1,426
Covered portion of such advances to customers	1,154	1,177
Uncovered portion of such advances to customers	690	630
Gross impaired advances to customers as a percentage of gross advances to customers	0.22%	0.23%

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

As at 30 June 2013 and 31 December 2012, there were no impaired trade bills.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(a) Impaired advances (continued)

Classified or impaired advances to customers are analysed as follows:

	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m
Gross classified or impaired advances to customers	2,120	2,054
Gross classified or impaired advances to customers as a percentage of gross advances to customers	0.26%	0.26%

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.

(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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

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

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

	At 30 June 2013		At 31 December 2012	
	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	295	0.03%	153	0.02%
– one year or less but over six months	147	0.02%	129	0.02%
– over one year	385	0.05%	323	0.04%
Advances overdue for over three months	827	0.10%	605	0.08%
Individually assessed loan impairment allowances made in respect of such advances	476		303	

	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m
Current market value of collateral held against the covered portion of such advances to customers	779	1,115
Covered portion of such advances to customers	258	253
Uncovered portion of such advances to customers	569	352

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

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

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

As at 30 June 2013 and 31 December 2012, there were no trade bills overdue for more than three months.

(c) Rescheduled advances

	At 30 June 2013		At 31 December 2012	
	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"	1,014	0.12%	1,119	0.14%

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers

(i) Sectoral analysis of gross advances to customers

The 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 2013					
	Gross advances to customers HK\$'m	% covered by collateral or other security	Classified or impaired HK\$'m	Overdue HK\$'m	Individually assessed loan impairment allowances HK\$'m	Collectively assessed loan impairment allowances HK\$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	34,610	39.75%	1	4	–	153
– Property investment	82,672	87.92%	31	276	5	474
– Financial concerns	6,498	12.28%	–	2	–	46
– Stockbrokers	2,477	45.70%	–	–	–	13
– Wholesale and retail trade	32,025	50.08%	59	216	34	188
– Manufacturing	21,383	34.88%	78	152	38	126
– Transport and transport equipment	29,418	30.55%	974	50	272	159
– Recreational activities	540	15.68%	–	–	–	2
– Information technology	19,588	0.75%	2	5	–	74
– Others	40,837	34.10%	65	238	22	185
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	9,364	99.97%	31	267	–	7
– Loans for purchase of other residential properties	192,267	99.99%	95	1,680	1	108
– Credit card advances	10,561	–	33	394	–	81
– Others	23,225	64.05%	35	328	11	36
Total loans for use in Hong Kong	505,465	69.54%	1,404	3,612	383	1,652
Trade finance	76,494	14.48%	196	224	154	367
Loans for use outside Hong Kong	248,784	26.41%	520	963	263	1,301
Gross advances to customers	830,743	51.55%	2,120	4,799	800	3,320

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

	At 31 December 2012					
	Gross advances to customers HK\$'m	% covered by collateral or other security	Classified or impaired HK\$'m	Overdue HK\$'m	Individually assessed loan impairment allowances HK\$'m	Collectively assessed loan impairment allowances HK\$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	31,408	38.05%	1	2	–	115
– Property investment	76,975	83.98%	49	424	4	458
– Financial concerns	5,984	27.09%	–	3	–	52
– Stockbrokers	1,146	45.39%	–	–	–	11
– Wholesale and retail trade	30,031	57.89%	70	175	33	173
– Manufacturing	21,758	32.25%	53	158	24	125
– Transport and transport equipment	27,241	41.75%	1,104	4	313	166
– Recreational activities	614	21.77%	6	–	6	6
– Information technology	21,369	0.62%	2	2	1	74
– Others	36,351	34.12%	60	264	25	151
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	9,847	99.97%	34	304	–	8
– Loans for purchase of other residential properties	186,601	99.98%	68	1,835	–	110
– Credit card advances	11,534	–	28	431	–	79
– Others	19,894	62.98%	31	290	11	29
Total loans for use in Hong Kong	480,753	69.92%	1,506	3,892	417	1,557
Trade finance	67,137	14.94%	186	202	151	294
Loans for use outside Hong Kong	230,374	26.45%	362	720	168	1,118
Gross advances to customers	778,264	52.31%	2,054	4,814	736	2,969

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

(ii) Geographical analysis of gross advances to customers

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

Gross advances to customers

	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m
Hong Kong	651,876	607,965
Mainland China	139,524	138,345
Others	39,343	31,954
	830,743	778,264
Collectively assessed loan impairment allowances in respect of the gross advances to customers		
Hong Kong	2,324	2,074
Mainland China	789	729
Others	207	166
	3,320	2,969

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

Overdue advances

	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m
Hong Kong	3,581	3,937
Mainland China	1,058	639
Others	160	238
	4,799	4,814
Individually assessed loan impairment allowances in respect of the overdue advances		
Hong Kong	214	198
Mainland China	249	175
Others	46	33
	509	406
Collectively assessed loan impairment allowances in respect of the overdue advances		
Hong Kong	85	76
Mainland China	9	6
Others	2	3
	96	85

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

Classified or impaired advances

	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m
Hong Kong	1,546	1,631
Mainland China	441	385
Others	133	38
	2,120	2,054
Individually assessed loan impairment allowances in respect of the classified or impaired advances		
Hong Kong	488	526
Mainland China	249	177
Others	63	33
	800	736
Collectively assessed loan impairment allowances in respect of the classified or impaired advances		
Hong Kong	40	29
Mainland China	3	3
Others	1	1
	44	33

(B) Repossessed assets

The estimated market value of repossessed assets held by the Group as at 30 June 2013 amounted to HK\$71 million (31 December 2012: HK\$27 million). They comprise properties in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the proprietors concerned) for release in full or in part of the obligations of the borrowers.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(C) Debt securities and certificates of deposit

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

	At 30 June 2013					
	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	96,118	131,785	126,737	31,083	25,104	410,827
Held-to-maturity securities	2,493	2,649	3,164	1,296	509	10,111
Loans and receivables	–	130	11,655	–	1,233	13,018
Financial assets at fair value through profit or loss	15,255	14,312	10,525	2,447	3,527	46,066
Total	113,866	148,876	152,081	34,826	30,373	480,022

	At 31 December 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	97,987	142,536	168,142	22,606	19,826	451,097
Held-to-maturity securities	4,828	6,173	5,569	1,319	509	18,398
Loans and receivables	–	–	8,277	–	957	9,234
Financial assets at fair value through profit or loss	16,977	13,842	11,420	1,669	3,351	47,259
Total	119,792	162,551	193,408	25,594	24,643	525,988

As at 30 June 2013, the Group's exposure to MBS/ABS amounted to HK\$12,581 million (31 December 2012: HK\$12,016 million), representing 2.6% (31 December 2012: 2.3%) of the total debt securities and certificates of deposit of the Group.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

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

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

	At 30 June 2013						
	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	
Available-for-sale securities	-	7	-	-	-	7	-
Held-to-maturity securities	53	30	1	-	-	84	8
Total	53	37	1	-	-	91	8
Of which accumulated impairment allowances	5	3	-	-	-	8	

	At 31 December 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	
Available-for-sale securities	-	-	9	-	-	9	1
Held-to-maturity securities	70	31	1	-	-	102	9
Total	70	31	10	-	-	111	10
Of which accumulated impairment allowances	6	3	1	-	-	10	

As at 30 June 2013 and 31 December 2012, there were no impaired certificates of deposit and no overdue debt securities and certificates of deposit.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market Risk

(A) VAR

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

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

	Year	At 30 June HK\$'m	Minimum for the first half of year HK\$'m	Maximum for the first half of year HK\$'m	Average for the first half of year HK\$'m
VAR for all market risk	2013	21.6	13.9	27.0	20.5
	2012	30.8	17.9	35.1	24.6
VAR for foreign exchange risk	2013	15.4	10.3	27.6	14.8
	2012	13.4	11.6	25.7	17.9
VAR for interest rate risk	2013	18.7	8.8	21.7	16.2
	2012	22.3	9.7	29.5	16.9
VAR for equity risk	2013	1.7	0.0	2.4	1.0
	2012	1.7	0.0	2.3	0.4
VAR for commodity risk	2013	0.1	0.0	0.7	0.2
	2012	0.0	0.0	1.0	0.2

In the first half of 2013, the average daily revenue² of the Group earned from market risk-related trading activities was HK\$8.1 million (first half of 2012: HK\$7.7 million).

Notes:

- 1 Structural FX positions have been excluded. In the first half of 2013, all general market risk exposure are presented on the Group basis, comparative amounts are presented on the same basis accordingly.
- 2 Revenues from structural FX positions and back-to-back transactions have been excluded.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market Risk (continued)

(A) VAR (continued)

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

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

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

(B) Currency risk

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market Risk (continued)

(B) Currency risk (continued)

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 30 June 2013 and 31 December 2012. Included in the tables are the assets and liabilities at carrying amounts in HK dollars equivalent, categorised by the original currency.

	At 30 June 2013							
	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	143,377	14,198	21,001	937	544	824	1,569	182,450
Placements with banks and other financial institutions maturing between one and twelve months	22,094	27,665	4,324	110	-	-	318	54,511
Financial assets at fair value through profit or loss	6,583	11,404	30,336	-	-	-	241	48,564
Derivative financial instruments	331	6,433	24,743	2	-	2	21	31,532
Hong Kong SAR Government certificates of indebtedness	-	-	90,080	-	-	-	-	90,080
Advances and other accounts	110,648	214,787	546,585	6,421	632	120	6,074	885,267
Investment in securities								
- Available-for-sale securities	72,406	218,744	93,396	6,065	315	327	23,188	414,441
- Held-to-maturity securities	633	6,226	1,467	-	157	-	1,628	10,111
- Loans and receivables	1,698	8,464	1,500	-	-	1,356	-	13,018
Interests in associates and a joint venture	-	-	270	-	-	-	-	270
Investment properties	115	-	14,457	-	-	-	-	14,572
Properties, plant and equipment	836	4	48,844	-	-	-	-	49,684
Other assets (including deferred tax assets)	21,313	1,403	15,700	659	124	215	747	40,161
Total assets	380,034	509,328	892,703	14,194	1,772	2,844	33,786	1,834,661
Liabilities								
Hong Kong SAR currency notes in circulation	-	-	90,080	-	-	-	-	90,080
Deposits and balances from banks and other financial institutions	44,304	67,110	31,397	288	33	425	1,110	144,667
Financial liabilities at fair value through profit or loss	1,740	101	16,008	-	-	6	1,227	19,082
Derivative financial instruments	412	4,415	15,912	208	-	2	121	21,070
Deposits from customers	270,912	243,447	679,276	10,321	2,595	13,364	39,841	1,259,756
Debt securities in issue at amortised cost	-	5,762	4	-	-	-	-	5,766
Other accounts and provisions (including current and deferred tax liabilities)	13,551	13,862	27,631	682	103	784	1,432	58,045
Insurance contract liabilities	24,143	6,407	29,366	-	-	-	-	59,916
Subordinated liabilities	-	20,577	-	-	-	-	-	20,577
Total liabilities	355,062	361,681	889,674	11,499	2,731	14,581	43,731	1,678,959
Net on-balance sheet position	24,972	147,647	3,029	2,695	(959)	(11,737)	(9,945)	155,702
Off-balance sheet net notional position*	(9,768)	(139,589)	138,275	(2,515)	669	11,686	10,209	8,967
Contingent liabilities and commitments	65,245	106,608	331,318	4,894	489	1,160	3,297	513,011

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market Risk (continued)

(B) Currency risk (continued)

	At 31 December 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	156,693	24,087	12,051	1,796	376	889	2,856	198,748
Placements with banks and other financial institutions maturing between one and twelve months	28,365	31,872	4,525	419	-	201	643	66,025
Financial assets at fair value through profit or loss	5,178	11,273	32,801	-	-	-	80	49,332
Derivative financial instruments	367	5,074	25,871	-	-	-	27	31,339
Hong Kong SAR Government certificates of indebtedness	-	-	82,930	-	-	-	-	82,930
Advances and other accounts	97,641	191,418	517,998	6,125	758	148	5,651	819,739
Investment in securities								
– Available-for-sale securities	61,840	193,050	89,735	8,080	77,766	353	23,908	454,732
– Held-to-maturity securities	948	10,672	2,042	-	1,912	-	2,824	18,398
– Loans and receivables	1,157	5,846	-	-	-	2,231	-	9,234
Interests in associates and a joint venture	-	-	259	-	-	-	-	259
Investment properties	112	-	14,252	-	-	-	-	14,364
Properties, plant and equipment	855	4	47,884	-	-	-	-	48,743
Other assets (including deferred tax assets)	14,982	1,998	18,794	548	226	51	321	36,920
Total assets	368,138	475,294	849,142	16,968	81,038	3,873	36,310	1,830,763
Liabilities								
Hong Kong SAR currency notes in circulation	-	-	82,930	-	-	-	-	82,930
Deposits and balances from banks and other financial institutions	82,762	48,667	45,710	102	50	26	1,889	179,206
Financial liabilities at fair value through profit or loss	776	48	18,525	7	-	6	810	20,172
Derivative financial instruments	382	3,682	16,621	337	-	-	192	21,214
Deposits from customers	234,719	246,065	683,270	11,156	3,393	12,127	35,560	1,226,290
Debt securities in issue at amortised cost	-	5,919	4	-	-	-	-	5,923
Other accounts and provisions (including current and deferred tax liabilities)	9,995	16,162	28,536	645	298	685	941	57,262
Insurance contract liabilities	17,550	6,400	29,987	-	-	-	-	53,937
Subordinated liabilities	-	22,006	-	6,749	-	-	-	28,755
Total liabilities	346,184	348,949	905,583	18,996	3,741	12,844	39,392	1,675,689
Net on-balance sheet position	21,954	126,345	(56,441)	(2,028)	77,297	(8,971)	(3,082)	155,074
Off-balance sheet net notional position*	(12,217)	(105,886)	190,779	1,917	(77,231)	8,714	3,305	9,381
Contingent liabilities and commitments	47,614	90,233	315,496	3,756	538	1,074	5,058	463,769

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market Risk (continued)

(C) Interest rate risk

The tables below summarise the Group's exposure to interest rate risk as at 30 June 2013 and 31 December 2012. 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 2013						
	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	164,567	-	-	-	-	17,883	182,450
Placements with banks and other financial institutions maturing between one and twelve months	-	27,384	27,127	-	-	-	54,511
Financial assets at fair value through profit or loss	4,729	9,305	8,478	16,883	6,671	2,498	48,564
Derivative financial instruments	-	-	-	-	-	31,532	31,532
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	90,080	90,080
Advances and other accounts	629,479	164,036	72,769	12,883	515	5,585	885,267
Investment in securities							
– Available-for-sale securities	54,535	71,819	48,129	149,982	86,362	3,614	414,441
– Held-to-maturity securities	926	799	1,671	5,815	900	-	10,111
– Loans and receivables	1,103	2,500	9,415	-	-	-	13,018
Interests in associates and a joint venture	-	-	-	-	-	270	270
Investment properties	-	-	-	-	-	14,572	14,572
Properties, plant and equipment	-	-	-	-	-	49,684	49,684
Other assets (including deferred tax assets)	-	-	-	-	-	40,161	40,161
Total assets	855,339	275,843	167,589	185,563	94,448	255,879	1,834,661
Liabilities							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	90,080	90,080
Deposits and balances from banks and other financial institutions	131,576	1,446	342	-	-	11,303	144,667
Financial liabilities at fair value through profit or loss	10,348	6,898	1,492	217	127	-	19,082
Derivative financial instruments	-	-	-	-	-	21,070	21,070
Deposits from customers	905,289	167,081	111,518	8,270	167	67,431	1,259,756
Debt securities in issue at amortised cost	4	-	-	5,762	-	-	5,766
Other accounts and provisions (including current and deferred tax liabilities)	14,013	2,561	3,160	242	-	38,069	58,045
Insurance contract liabilities	-	-	-	-	-	59,916	59,916
Subordinated liabilities	-	-	-	-	20,577	-	20,577
Total liabilities	1,061,230	177,986	116,512	14,491	20,871	287,869	1,678,959
Interest sensitivity gap	(205,891)	97,857	51,077	171,072	73,577	(31,990)	155,702

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market Risk (continued)

(C) Interest rate risk (continued)

	At 31 December 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	188,266	-	-	-	-	10,482	198,748
Placements with banks and other financial institutions maturing between one and twelve months	-	24,152	41,873	-	-	-	66,025
Financial assets at fair value through profit or loss	11,403	4,853	6,732	17,257	7,014	2,073	49,332
Derivative financial instruments	-	-	-	-	-	31,339	31,339
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	82,930	82,930
Advances and other accounts	620,505	118,455	64,651	9,495	22	6,611	819,739
Investment in securities							
– Available-for-sale securities	69,387	117,085	66,886	131,589	66,150	3,635	454,732
– Held-to-maturity securities	2,600	5,666	811	7,402	1,919	-	18,398
– Loans and receivables	-	1,558	7,676	-	-	-	9,234
Interests in associates and a joint venture	-	-	-	-	-	259	259
Investment properties	-	-	-	-	-	14,364	14,364
Properties, plant and equipment	-	-	-	-	-	48,743	48,743
Other assets (including deferred tax assets)	-	-	-	-	-	36,920	36,920
Total assets	892,161	271,769	188,629	165,743	75,105	237,356	1,830,763
Liabilities							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	82,930	82,930
Deposits and balances from banks and other financial institutions	159,083	1,483	208	-	-	18,432	179,206
Financial liabilities at fair value through profit or loss	10,017	6,286	3,475	255	139	-	20,172
Derivative financial instruments	-	-	-	-	-	21,214	21,214
Deposits from customers	919,431	129,374	110,938	5,969	38	60,540	1,226,290
Debt securities in issue at amortised cost	4	-	-	5,919	-	-	5,923
Other accounts and provisions (including current and deferred tax liabilities)	13,990	1,710	3,350	25	-	38,187	57,262
Insurance contract liabilities	-	-	-	-	-	53,937	53,937
Subordinated liabilities	-	-	6,749	-	22,006	-	28,755
Total liabilities	1,102,525	138,853	124,720	12,168	22,183	275,240	1,675,689
Interest sensitivity gap	(210,364)	132,916	63,909	153,575	52,922	(37,884)	155,074

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity Risk

(A) Liquidity ratio

	Half-year ended 30 June 2013	Half-year ended 30 June 2012
Average liquidity ratio	38.70%	39.87%

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

(B) Maturity analysis

Tables below analyse assets and liabilities of the Group as at 30 June 2013 and 31 December 2012 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2013							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
Assets								
Cash and balances with banks and other financial institutions	132,888	49,562	-	-	-	-	-	182,450
Placements with banks and other financial institutions maturing between one and twelve months	-	-	27,384	27,127	-	-	-	54,511
Financial assets at fair value through profit or loss								
– held for trading								
– certificates of deposit	-	16	54	33	2	-	-	105
– debt securities	-	4,145	8,761	4,807	7,770	4,595	-	30,078
– designated at fair value through profit or loss								
– certificates of deposit	-	-	260	8	370	-	-	638
– debt securities	-	255	266	2,321	10,380	2,023	-	15,245
– fund and equity securities	-	-	-	-	-	-	2,498	2,498
Derivative financial instruments	16,198	1,389	2,866	6,013	1,512	3,554	-	31,532
Hong Kong SAR Government certificates of indebtedness	90,080	-	-	-	-	-	-	90,080
Advances and other accounts								
– advances to customers	66,883	25,634	59,850	144,179	308,290	220,198	1,589	826,623
– trade bills	1	14,897	21,406	22,340	-	-	-	58,644
Investment in securities								
– held for available-for-sale								
– certificates of deposit	-	9,076	18,270	33,237	14,400	18	-	75,001
– debt securities	-	18,132	27,333	37,371	165,005	87,978	7	335,826
– held for held-to-maturity								
– certificates of deposit	-	-	-	233	77	-	-	310
– debt securities	-	143	189	1,755	6,592	1,038	84	9,801
– debt securities held for loans and receivables	-	1,103	2,500	9,415	-	-	-	13,018
– equity securities	-	-	-	-	-	-	3,614	3,614
Interests in associates and a joint venture	-	-	-	-	-	-	270	270
Investment properties	-	-	-	-	-	-	14,572	14,572
Properties, plant and equipment	-	-	-	-	-	-	49,684	49,684
Other assets (including deferred tax assets)	11,971	12,055	120	296	9,970	5,707	42	40,161
Total assets	318,021	136,407	169,259	289,135	524,368	325,111	72,360	1,834,661

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

(B) Maturity analysis (continued)

	At 30 June 2013							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
Liabilities								
Hong Kong SAR currency notes in circulation	90,080	-	-	-	-	-	-	90,080
Deposits and balances from banks and other financial institutions	91,788	51,091	1,446	342	-	-	-	144,667
Financial liabilities at fair value through profit or loss	-	10,348	6,898	1,492	217	127	-	19,082
Derivative financial instruments	11,531	1,306	2,166	2,580	2,810	677	-	21,070
Deposits from customers	666,883	303,316	167,101	112,048	10,241	167	-	1,259,756
Debt securities in issue at amortised cost	-	4	-	32	5,730	-	-	5,766
Other accounts and provisions (including current and deferred tax liabilities)	29,488	12,772	2,004	6,429	7,352	-	-	58,045
Insurance contract liabilities	6,394	79	148	3,162	24,682	25,451	-	59,916
Subordinated liabilities	-	-	419	-	-	20,158	-	20,577
Total liabilities	896,164	378,916	180,182	126,085	51,032	46,580	-	1,678,959
Net liquidity gap	(578,143)	(242,509)	(10,923)	163,050	473,336	278,531	72,360	155,702

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

(B) Maturity analysis (continued)

	At 31 December 2012							Total HK\$m
	On demand HK\$m	Up to 1 month HK\$m	1-3 months HK\$m	3-12 months HK\$m	1-5 years HK\$m	Over 5 years HK\$m	Indefinite HK\$m	
Assets								
Cash and balances with banks and other financial institutions	145,534	53,214	-	-	-	-	-	198,748
Placements with banks and other financial institutions maturing between one and twelve months	-	-	24,152	41,873	-	-	-	66,025
Financial assets at fair value through profit or loss								
– held for trading								
– certificates of deposit	-	67	64	14	-	-	-	145
– debt securities	-	11,075	3,855	3,454	6,585	4,159	-	29,128
– designated at fair value through profit or loss								
– certificates of deposit	-	-	509	310	378	-	-	1,197
– debt securities	-	31	369	2,350	11,207	2,832	-	16,789
– fund and equity securities	-	-	-	-	-	-	2,073	2,073
Derivative financial instruments	17,690	2,535	2,032	3,421	1,600	4,061	-	31,339
Hong Kong SAR Government certificates of indebtedness	82,930	-	-	-	-	-	-	82,930
Advances and other accounts								
– advances to customers	60,076	19,055	53,963	138,157	288,680	213,106	1,522	774,559
– trade bills	76	10,150	15,765	19,189	-	-	-	45,180
Investment in securities								
– held for available-for-sale								
– certificates of deposit	-	3,001	15,580	45,533	8,708	19	-	72,841
– debt securities	-	49,064	76,254	40,775	143,730	68,424	9	378,256
– held for held-to-maturity								
– certificates of deposit	-	465	-	332	77	-	-	874
– debt securities	-	430	2,822	3,792	8,276	2,102	102	17,524
– debt securities held for loans and receivables	-	-	1,558	7,676	-	-	-	9,234
– equity securities	-	-	-	-	-	-	3,635	3,635
Interests in associates and a joint venture	-	-	-	-	-	-	259	259
Investment properties	-	-	-	-	-	-	14,364	14,364
Properties, plant and equipment	-	-	-	-	-	-	48,743	48,743
Other assets (including deferred tax assets)	10,563	13,904	73	47	8,857	3,452	24	36,920
Total assets	316,869	162,991	196,996	306,923	478,098	298,155	70,731	1,830,763

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

(B) Maturity analysis (continued)

	At 31 December 2012							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
Liabilities								
Hong Kong SAR currency notes in circulation	82,930	-	-	-	-	-	-	82,930
Deposits and balances from banks and other financial institutions	140,245	37,270	1,483	208	-	-	-	179,206
Financial liabilities at fair value through profit or loss	-	10,017	6,287	3,475	254	139	-	20,172
Derivative financial instruments	13,022	668	865	1,766	3,602	1,291	-	21,214
Deposits from customers	701,678	276,068	129,269	111,327	7,910	38	-	1,226,290
Debt securities in issue at amortised cost	-	4	-	32	5,887	-	-	5,923
Other accounts and provisions (including current and deferred tax liabilities)	28,005	14,148	2,999	4,545	7,559	6	-	57,262
Insurance contract liabilities	3,281	493	3,068	1,070	24,655	21,370	-	53,937
Subordinated liabilities	-	-	418	-	-	28,337	-	28,755
Total liabilities	969,161	338,668	144,389	122,423	49,867	51,181	-	1,675,689
Net liquidity gap	(652,292)	(175,677)	52,607	184,500	428,231	246,974	70,731	155,074

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.4 Insurance Risk

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

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

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

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

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

3.5 Capital Management

The Group has adopted the foundation internal ratings-based ("FIRB") approach to calculate the credit risk capital charge for the majority of its non-securitisation exposures and the internal ratings-based (securitisation) approach to calculate the credit risk capital charge for its securitisation exposures. A small residual credit exposures remain under the standardised (credit risk) ("STC") approach. In view of the Banking (Capital) (Amendment) Rules 2012 which came into operation on 1 January 2013, the Group has adopted the standardised method to calculate credit valuation adjustment capital charge for all its counterparties in respect of the derivative contracts and securities financing transactions booked in banking book and trading book. The Group has adopted the internal models ("IMM") approach to calculate general market risk capital charge for foreign exchange and interest rate exposures and has been approved by HKMA to exclude its structural FX positions arising from Nanyang and Chiyu in the calculation of the market risk capital charge, while the Group continues to adopt the standardised (market risk) ("STM") approach to calculate the market risk capital charge for the remaining exposures. The Group has adopted the standardised (operational risk) ("STO") approach to calculate the minimum capital charge for operational risk.

As a result of the adoption of Banking (Capital) (Amendment) Rules 2012 since 1 January 2013, the amounts shown for 30 June 2013 are not directly comparable to those of 31 December 2012.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital Management (continued)

(A) Capital ratio

	At 30 June 2013
CET1 capital ratio	11.04%
Tier 1 capital ratio	11.17%
Total capital ratio	16.40%

	At 31 December 2012
Core capital ratio	12.31%
Capital adequacy ratio	16.80%

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.

Subsidiaries which are not included in the consolidation group for the calculation of capital ratios are denoted in "Appendix – Subsidiaries of the Company" on pages 124 to 126.

The differences between the basis of consolidation for accounting and regulatory purposes are described in "Appendix – Subsidiaries of the Company" on page 126.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital Management (continued)

(B) Components of capital base after deductions

The consolidated capital base after deductions used in the calculation of the above capital ratios as at 30 June 2013 and 31 December 2012 and reported to the HKMA is analysed as follows:

	At 30 June 2013 HK\$'m
CET1 capital: instruments and reserves	
Directly issued qualifying CET1 capital instruments plus any related share premium	43,043
Retained earnings	57,186
Disclosed reserves	40,858
Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	507
CET1 capital before regulatory deductions	141,594
CET1 capital: regulatory deductions	
Valuation adjustments	(84)
Deferred tax assets net of deferred tax liabilities	(78)
Gains and losses due to changes in own credit risk on fair valued liabilities	(121)
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	(42,095)
Regulatory reserve for general banking risks	(8,145)
Total regulatory deductions to CET1 capital	(50,523)
CET1 capital	91,071
AT1 capital: instruments	
AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	1,027
AT1 capital	1,027
Tier 1 capital	92,098

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital Management (continued)

(B) Components of capital base after deductions (continued)

	At 30 June 2013 HK\$'m
Tier 2 capital: instruments and provisions	
Capital instruments subject to phase out arrangements from Tier 2 capital	19,294
Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	145
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	4,827
Tier 2 capital before regulatory deductions	24,266
Tier 2 capital: regulatory deductions	
Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	18,943
Total regulatory deductions to Tier 2 capital	18,943
Tier 2 capital	43,209
Total capital	135,307

As at 30 June 2013, there were no shareholdings in any subsidiaries deducted from the CET1 capital.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital Management (continued)

(B) Components of capital base after deductions (continued)

	At 31 December 2012 HK\$'m
Core capital:	
Paid up ordinary share capital	43,043
Reserves	38,987
Profit and loss account	5,820
Non-controlling interests	1,658
Deductible item	(25)
	89,483
Deductions from core capital	(387)
Core capital	89,096
Supplementary capital:	
Fair value gains arising from holdings of available-for-sale securities	2,067
Fair value gains arising from holdings of securities designated at fair value through profit or loss	35
Collective loan impairment allowances	192
Regulatory reserve	539
Surplus provisions	3,963
Term subordinated debt	26,043
	32,839
Deductions from supplementary capital	(387)
Supplementary capital	32,452
Total capital base after deductions	121,548

To comply with the Banking (Disclosure) Rules, a section "Regulatory Disclosures" will be available on the Company's website at www.bochk.com before 30 September 2013 and will include the following information:

- A detailed breakdown of the Group's capital base and regulatory deductions, using the standard template as specified by the HKMA.
- A reconciliation of capital components to the Group's balance sheet, using the standard template as specified by the HKMA.
- A description of the main features and the full terms and conditions of the Group's issued capital instruments.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.6 Fair values of financial assets and liabilities

(A) Financial instruments not measured at fair value

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

Balances with banks and other financial institutions and trade bills

The maturities of these financial assets and liabilities are within one year and the carrying value approximates fair value.

Advances to customers, banks and other financial institutions

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

Held-to-maturity securities

Fair value for held-to-maturity securities is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics. Their carrying value approximates fair value.

Loans and receivables

A discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity and their carrying value approximates fair value.

Deposits from customers

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

Debt securities in issue at amortised cost

Fair value for senior notes and other debt securities in issue is based on market prices or broker/dealer price quotations. The carrying value and fair value of senior notes as at 30 June 2013 amounted to HK\$5,762 million and HK\$6,254 million respectively. The carrying value of other debt securities in issue approximates fair value.

Subordinated liabilities

Fair value for subordinated notes is based on market prices or broker/dealer price quotations and their carrying value approximates fair value.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.6 Fair values of financial assets and liabilities (continued)

(B) Financial instruments measured at fair value

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

Financial instruments measured at fair value are classified into following three levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities, including listed equity securities on exchange, debt instruments issued by certain governments and certain exchange-traded derivative contracts.
- Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the OTC derivative contracts, debt securities with quote from pricing services providers and issued structured deposits.
- Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investment and debt instruments with significant unobservable components.

The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.6 Fair values of financial assets and liabilities (continued)

(B) Financial instruments measured at fair value (continued)

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

Debt securities and certificates of deposit

The fair value of these instruments is determined by obtaining quoted market prices from exchange, dealer or independent pricing service vendors. Where market price is not available from market sources, valuation techniques are used with inputs derived from observable or unobservable market data.

Asset backed securities

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

Derivatives

Over-the-counter derivative contracts include forward, swap and option contracts on foreign exchange, interest rate, equity or commodity. The derivative contracts are valued using valuation techniques such as discounted cash flow models and option pricing models. The inputs can be observable or unobservable market data. Observable inputs include interest rate, foreign exchange rates, equity and stock prices, commodity prices and volatilities. Unobservable inputs include volatility surface for less commonly traded option products which are embedded in structured deposits.

Credit Valuation Adjustments (CVA) and Debit Valuation Adjustments (DVA) are applied to the Group's over-the-counter derivatives. These adjustments reflect interest rates, expectations of counterparty creditworthiness and the Group's own credit spread respectively. They are determined for each counterparty and are dependent on expected future values of exposures, default probabilities and recovery rates.

Financial liabilities designated at fair value through profit or loss

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.6 Fair values of financial assets and liabilities (continued)

(B) Financial instruments measured at fair value (continued)

(i) Fair value hierarchy

	At 30 June 2013			
	Level 1 HK\$m	Level 2 HK\$m	Level 3 HK\$m	Total HK\$m
Financial assets				
Financial assets at fair value through profit or loss (Note 19)				
– Trading securities				
– Debt securities	–	30,078	–	30,078
– Certificates of deposit	–	105	–	105
– Equity securities	6	248	–	254
– Financial assets designated at fair value through profit or loss				
– Debt securities	375	14,527	343	15,245
– Certificates of deposit	–	638	–	638
– Fund	595	–	–	595
– Equity securities	1,649	–	–	1,649
Derivative financial instruments (Note 20)	16,203	15,329	–	31,532
Available-for-sale securities (Note 22)				
– Debt securities	12,113	321,911	1,802	335,826
– Certificates of deposit	–	70,378	4,623	75,001
– Equity securities	2,383	1,011	220	3,614
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 26)				
– Trading liabilities	–	14,548	–	14,548
– Financial liabilities designated at fair value through profit or loss	–	2,794	1,740	4,534
Derivative financial instruments (Note 20)	11,550	9,520	–	21,070

During the first half of 2013, there have been no asset and liability transfers between level 1 and level 2.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.6 Fair values of financial assets and liabilities (continued)

(B) Financial instruments measured at fair value (continued)

(ii) Reconciliation of level 3 items

	At 30 June 2013				
	Financial assets				Financial liabilities
	Financial assets designated at fair value through profit or loss	Available-for-sale securities			Financial liabilities designated at fair value through profit or loss
		Debt securities HK\$'m	Debt securities HK\$'m	Certificates of deposit HK\$'m	
At 1 January 2013	333	1,449	1,188	205	771
Gains/(losses)					
– Income statement					
– Net gain/(loss) on financial instruments designated at fair value through profit or loss	7	–	–	–	(5)
– Other comprehensive income					
– Change in fair value of available-for-sale securities	–	(86)	(1)	15	–
Purchases	172	613	1,819	–	–
Issues	–	–	–	–	1,745
Sales	–	–	(381)	–	–
Settlements	–	–	–	–	(771)
Transfers into level 3	–	–	2,315	–	–
Transfers out of level 3	(169)	(174)	(317)	–	–
At 30 June 2013	343	1,802	4,623	220	1,740
Total unrealised loss for the period included in income statement for financial assets and liabilities held as at 30 June 2013					
– Net loss on financial instruments designated at fair value through profit or loss	(14)	–	–	–	(5)
	(14)	–	–	–	(5)

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.6 Fair values of financial assets and liabilities (continued)

(B) Financial instruments measured at fair value (continued)

(ii) Reconciliation of level 3 items (continued)

As at 30 June 2013, financial instruments categorised as level 3 are mainly comprised of debt securities, certificates of deposit and financial liabilities designated at fair value through profit or loss.

The transfers of debt securities and certificates of deposit into and out of level 3, comprising bonds issued by financial institutions and corporate entities, were due to change in valuation observability. For certain illiquid debt securities, the Group obtains valuation quotations from counterparties which may be based on unobservable inputs with significant impact on the valuation. Therefore, these instruments have been classified by the Group as level 3. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

Financial liabilities designated at fair value through profit or loss categorised in level 3 are deposits received from customers that are embedded with options bought by the Group. During the first half of 2013, there has been no transfer into and out of level 3. The fair values of embedded options are determined using the market standard option pricing model by using estimated interest rate volatilities.

NOTES TO THE INTERIM FINANCIAL INFORMATION

4. Net interest income

	Half-year ended 30 June 2013 HK\$'m	Half-year ended 30 June 2012 HK\$'m
Interest income		
Due from banks and other financial institutions	3,387	4,687
Advances to customers	9,757	8,138
Listed investments	2,382	2,165
Unlisted investments	2,818	2,669
Others	115	113
	18,459	17,772
Interest expense		
Due to banks and other financial institutions	(267)	(677)
Deposits from customers	(4,557)	(4,090)
Debt securities in issue	(72)	(81)
Subordinated liabilities	(83)	(184)
Others	(149)	(121)
	(5,128)	(5,153)
Net interest income	13,331	12,619

Included within interest income is HK\$9 million (first half of 2012: HK\$4 million) of interest with respect to income recognised on advances classified as impaired for the first half of 2013. Interest income accrued on impaired investment in securities amounted to HK\$3 million (first half of 2012: HK\$8 million).

Included within interest income and interest expense are HK\$18,522 million (first half of 2012: HK\$17,664 million) and HK\$5,436 million (first half of 2012: HK\$5,449 million), before hedging effect, for financial assets and financial liabilities that are not recognised at fair value through profit or loss respectively.

NOTES TO THE INTERIM FINANCIAL INFORMATION

5. Net fee and commission income

	Half-year ended 30 June 2013 HK\$'m	(Restated) Half-year ended 30 June 2012 HK\$'m
Fee and commission income		
Credit card business	1,734	1,477
Securities brokerage	1,224	1,054
Loan commissions	1,078	974
Insurance	708	596
Funds distribution	441	232
Bills commissions	387	370
Payment services	322	325
Trust and custody services	181	179
Safe deposit box	122	118
Currency exchange	88	69
Others	224	214
	6,509	5,608
Fee and commission expense		
Credit card business	(1,291)	(1,106)
Securities brokerage	(150)	(161)
Payment services	(44)	(45)
Others	(343)	(263)
	(1,828)	(1,575)
Net fee and commission income	4,681	4,033
Of which arise from		
– financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	1,125	993
– Fee and commission expense	(4)	(3)
	1,121	990
– trust and other fiduciary activities		
– Fee and commission income	272	276
– Fee and commission expense	(9)	(5)
	263	271

Certain comparative amounts of fee and commission income, fee and commission expense and operating expenses have been reclassified to conform with current period's presentation.

NOTES TO THE INTERIM FINANCIAL INFORMATION

6. Net trading gain

	Half-year ended 30 June 2013 HK\$'m	Half-year ended 30 June 2012 HK\$'m
Net gain from:		
– foreign exchange and foreign exchange products	1,019	936
– interest rate instruments and items under fair value hedge	197	305
– equity instruments	183	104
– commodities	42	63
	1,441	1,408

7. Net gain on other financial assets

	Half-year ended 30 June 2013 HK\$'m	Half-year ended 30 June 2012 HK\$'m
Net gain on available-for-sale securities	101	474
Net gain on held-to-maturity securities	–	2
Others	5	1
	106	477

8. Other operating income

	Half-year ended 30 June 2013 HK\$'m	Half-year ended 30 June 2012 HK\$'m
Dividend income from investment in securities		
– listed investments	54	49
– unlisted investments	21	16
Gross rental income from investment properties	238	208
Less: Outgoings in respect of investment properties	(27)	(27)
Others	29	45
	315	291

Included in the “Outgoings in respect of investment properties” is HK\$2 million (first half of 2012: HK\$1 million) of direct operating expenses related to investment properties that were not let during the period.

NOTES TO THE INTERIM FINANCIAL INFORMATION

9. Net insurance benefits and claims

	Half-year ended 30 June 2013 HK\$'m	Half-year ended 30 June 2012 HK\$'m
Gross insurance benefits and claims		
Claims, benefits and surrenders paid	(4,410)	(2,725)
Movement in liabilities	(5,697)	(4,744)
	(10,107)	(7,469)
Reinsurers' share of benefits and claims		
Claims, benefits and surrenders recovered	46	21
Movement in assets	5,527	3,699
	5,573	3,720
Net insurance benefits and claims	(4,534)	(3,749)

10. Net charge of impairment allowances

	Half-year ended 30 June 2013 HK\$'m	Half-year ended 30 June 2012 HK\$'m
Advances to customers		
Individually assessed		
– new allowances	(170)	(51)
– releases	88	46
– recoveries	175	141
Net reversal of individually assessed loan impairment allowances	93	136
Collectively assessed		
– new allowances	(479)	(241)
– releases	3	3
– recoveries	15	15
Net charge of collectively assessed loan impairment allowances	(461)	(223)
Net charge of loan impairment allowances	(368)	(87)
Available-for-sale securities		
Net reversal of impairment allowances on available-for-sale securities		
– Individually assessed	–	1
Held-to-maturity securities		
Net reversal/(charge) of impairment allowances on held-to-maturity securities		
– Individually assessed	1	(17)
Others	(4)	(5)
Net charge of impairment allowances	(371)	(108)

NOTES TO THE INTERIM FINANCIAL INFORMATION

11. Operating expenses

	Half-year ended 30 June 2013 HK\$'m	(Restated) Half-year ended 30 June 2012 HK\$'m
Staff costs (including directors' emoluments)		
– salaries and other costs	2,985	2,796
– pension cost	249	232
	3,234	3,028
Premises and equipment expenses (excluding depreciation)		
– rental of premises	386	326
– information technology	187	196
– others	171	159
	744	681
Depreciation	810	722
Auditor's remuneration		
– audit services	3	4
– non-audit services	1	1
Other operating expenses	900	886
	5,692	5,322

Certain comparative amounts of operating expenses have been reclassified to fee and commission expense to conform with current period's presentation.

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

	Half-year ended 30 June 2013 HK\$'m	Half-year ended 30 June 2012 HK\$'m
Net gain from disposal of investment properties	–	4
Net gain from fair value adjustments on investment properties	203	1,026
	203	1,030

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

	Half-year ended 30 June 2013 HK\$'m	Half-year ended 30 June 2012 HK\$'m
Net gain from disposal of premises	–	119
Net loss from disposal of other fixed assets	–	(2)
Net gain/(loss) from revaluation of premises	4	(1)
	4	116

NOTES TO THE INTERIM FINANCIAL INFORMATION

14. Taxation

Taxation in the income statement represents:

	Half-year ended 30 June 2013 HK\$'m	Half-year ended 30 June 2012 HK\$'m
Current tax		
Hong Kong profits tax		
– current period taxation	2,180	1,970
– over-provision in prior periods	–	(1)
	2,180	1,969
Overseas taxation	231	219
	2,411	2,188
Deferred tax	(120)	(12)
	2,291	2,176

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2013. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2013 at the rates of taxation prevailing in the countries in which the Group operates.

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

	Half-year ended 30 June 2013 HK\$'m	Half-year ended 30 June 2012 HK\$'m
Profit before taxation	13,948	13,825
Calculated at a taxation rate of 16.5% (2012: 16.5%)	2,301	2,281
Effect of different taxation rates in other countries	9	21
Income not subject to taxation	(105)	(296)
Expenses not deductible for taxation purposes	26	96
Utilisation of previously unrecognised tax losses	(82)	(70)
Over-provision in prior periods	–	(1)
Foreign withholding tax	142	145
Taxation charge	2,291	2,176
Effective tax rate	16.4%	15.7%

NOTES TO THE INTERIM FINANCIAL INFORMATION

15. Dividends

	Half-year ended 30 June 2013		Half-year ended 30 June 2012	
	Per share HK\$	Total HK\$'m	Per share HK\$	Total HK\$'m
Interim dividend	0.545	5,762	0.545	5,762

At a meeting held on 29 August 2013, the Board declared an interim dividend of HK\$0.545 per ordinary share for the first half of 2013 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 2013.

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 2013 of approximately HK\$11,252 million (first half of 2012: HK\$11,243 million) and on the ordinary shares in issue of 10,572,780,266 shares (2012: 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 2013 (first half of 2012: 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 2013 amounted to approximately HK\$175 million (first half of 2012: approximately HK\$170 million), after a deduction of forfeited contributions of approximately HK\$2 million (first half of 2012: approximately HK\$1 million). For the MPF Scheme, the Group contributed approximately HK\$33 million (first half of 2012: approximately HK\$29 million) for the first half of 2013.

NOTES TO THE INTERIM FINANCIAL INFORMATION

18. Cash and balances with banks and other financial institutions

	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m
Cash	6,666	6,688
Balances with central banks	59,249	84,387
Balances with banks and other financial institutions	78,370	64,735
Placements with banks and other financial institutions maturing within one month	38,165	42,938
	182,450	198,748

19. 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 2013 HK\$'m	At 31 December 2012 HK\$'m	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m
At fair value						
Debt securities						
– Listed in Hong Kong	7,318	5,378	704	959	8,022	6,337
– Listed outside Hong Kong	5,239	4,982	7,118	7,119	12,357	12,101
	12,557	10,360	7,822	8,078	20,379	18,438
– Unlisted	17,521	18,768	7,423	8,711	24,944	27,479
	30,078	29,128	15,245	16,789	45,323	45,917
Certificates of deposit						
– Unlisted	105	145	638	1,197	743	1,342
Fund						
– Unlisted	–	–	595	636	595	636
Equity securities						
– Listed in Hong Kong	6	13	1,486	1,126	1,492	1,139
– Listed outside Hong Kong	–	–	163	86	163	86
	6	13	1,649	1,212	1,655	1,225
– Unlisted	248	212	–	–	248	212
	254	225	1,649	1,212	1,903	1,437
Total	30,437	29,498	18,127	19,834	48,564	49,332

NOTES TO THE INTERIM FINANCIAL INFORMATION

19. 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 2013 HK\$'m	At 31 December 2012 HK\$'m
Sovereigns	23,193	22,729
Public sector entities*	193	267
Banks and other financial institutions	13,172	15,006
Corporate entities	12,006	11,330
	48,564	49,332

* Included financial assets at fair value through profit or loss of HK\$177 million (31 December 2012: HK\$168 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 2013 HK\$'m	At 31 December 2012 HK\$'m
Treasury bills	14,627	17,210
Certificates of deposit	743	1,342
Other financial assets at fair value through profit or loss	33,194	30,780
	48,564	49,332

20. Derivative financial instruments

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

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

20. 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 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 2013 and 31 December 2012:

	At 30 June 2013			
	Trading HK\$m	Hedging HK\$m	Not qualified for hedge accounting HK\$m	Total HK\$m
Exchange rate contracts				
Spot, forwards and futures	293,550	–	–	293,550
Swaps	664,178	2,828	8,969	675,975
Foreign currency options				
– Options purchased	8,479	–	–	8,479
– Options written	8,299	–	–	8,299
	974,506	2,828	8,969	986,303
Interest rate contracts				
Futures	754	–	–	754
Swaps	281,678	70,497	9,993	362,168
Interest rate options				
– Swaptions written	690	–	–	690
	283,122	70,497	9,993	363,612
Commodity contracts	23,772	–	–	23,772
Equity contracts	2,687	–	86	2,773
Other contracts	67	–	–	67
Total	1,284,154	73,325	19,048	1,376,527

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

20. Derivative financial instruments (continued)

	At 31 December 2012			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts				
Spot, forwards and futures	270,913	–	–	270,913
Swaps	680,377	3,174	7,451	691,002
Foreign currency options				
– Options purchased	4,821	–	–	4,821
– Options written	9,096	–	–	9,096
	965,207	3,174	7,451	975,832
Interest rate contracts				
Futures	235	–	–	235
Swaps	284,906	46,872	8,646	340,424
	285,141	46,872	8,646	340,659
Commodity contracts	20,481	–	–	20,481
Equity contracts	1,507	–	–	1,507
Other contracts	69	–	–	69
Total	1,272,405	50,046	16,097	1,338,548

NOTES TO THE INTERIM FINANCIAL INFORMATION

20. Derivative financial instruments (continued)

The following tables summarise the fair values of each class of derivative financial instrument as at 30 June 2013 and 31 December 2012:

	At 30 June 2013							
	Fair value assets				Fair value liabilities			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts								
Spot, forwards and futures	14,590	–	–	14,590	(10,031)	–	–	(10,031)
Swaps	9,339	38	141	9,518	(5,183)	(48)	(152)	(5,383)
Foreign currency options								
– Options purchased	81	–	–	81	–	–	–	–
– Options written	–	–	–	–	(94)	–	–	(94)
	24,010	38	141	24,189	(15,308)	(48)	(152)	(15,508)
Interest rate contracts								
Futures	2	–	–	2	(1)	–	–	(1)
Swaps	1,607	3,238	7	4,852	(2,125)	(1,225)	(67)	(3,417)
Interest rate options								
– Swaptions written	–	–	–	–	(3)	–	–	(3)
	1,609	3,238	7	4,854	(2,129)	(1,225)	(67)	(3,421)
Commodity contracts	2,356	–	–	2,356	(2,006)	–	–	(2,006)
Equity contracts	131	–	2	133	(135)	–	–	(135)
Total	28,106	3,276	150	31,532	(19,578)	(1,273)	(219)	(21,070)

NOTES TO THE INTERIM FINANCIAL INFORMATION

20. Derivative financial instruments (continued)

	At 31 December 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, forwards and futures	17,257	-	-	17,257	(13,001)	-	-	(13,001)
Swaps	7,476	42	119	7,637	(2,557)	(55)	(136)	(2,748)
Foreign currency options								
- Options purchased	23	-	-	23	-	-	-	-
- Options written	-	-	-	-	(28)	-	-	(28)
	24,756	42	119	24,917	(15,586)	(55)	(136)	(15,777)
Interest rate contracts								
Futures	1	-	-	1	-	-	-	-
Swaps	2,231	3,338	24	5,593	(3,157)	(1,693)	(89)	(4,939)
	2,232	3,338	24	5,594	(3,157)	(1,693)	(89)	(4,939)
Commodity contracts	818	-	-	818	(488)	-	-	(488)
Equity contracts	10	-	-	10	(10)	-	-	(10)
Total	27,816	3,380	143	31,339	(19,241)	(1,748)	(225)	(21,214)

NOTES TO THE INTERIM FINANCIAL INFORMATION

20. Derivative financial instruments (continued)

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

	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m
Exchange rate contracts		
Forwards	744	462
Swaps	5,468	3,746
Foreign currency options		
– Options purchased	61	10
Interest rate contracts		
Swaps	1,363	913
Commodity contracts	9	6
Equity contracts	105	38
	7,750	5,175

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.

21. Advances and other accounts

	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m
Personal loans and advances	247,168	238,702
Corporate loans and advances	583,575	539,562
Advances to customers*	830,743	778,264
Loan impairment allowances		
– Individually assessed	(800)	(736)
– Collectively assessed	(3,320)	(2,969)
	826,623	774,559
Trade bills	58,644	45,180
Total	885,267	819,739

As at 30 June 2013, advances to customers included accrued interest of HK\$1,339 million (31 December 2012: HK\$1,434 million).

As at 30 June 2013 and 31 December 2012, no impairment allowance was made in respect of trade bills.

* Included advances to customers denominated in HK dollars of HK\$549,501 million (31 December 2012: HK\$520,638 million) and US dollars equivalent to HK\$189,156 million (31 December 2012: HK\$177,027 million).

NOTES TO THE INTERIM FINANCIAL INFORMATION

22. Investment in securities

	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m
(a) Available-for-sale securities		
Debt securities, at fair value		
– Listed in Hong Kong	28,301	20,252
– Listed outside Hong Kong	128,154	110,594
	156,455	130,846
– Unlisted	179,371	247,410
	335,826	378,256
Certificates of deposit, at fair value		
– Listed in Hong Kong	501	–
– Listed outside Hong Kong	1,078	1,375
	1,579	1,375
– Unlisted	73,422	71,466
	75,001	72,841
Equity securities, at fair value		
– Listed in Hong Kong	2,383	2,592
– Unlisted	1,231	1,043
	3,614	3,635
	414,441	454,732
(b) Held-to-maturity securities		
Debt securities, at amortised cost		
– Listed in Hong Kong	710	948
– Listed outside Hong Kong	5,317	7,807
	6,027	8,755
– Unlisted	3,782	8,778
	9,809	17,533
Certificates of deposit, at amortised cost		
– Unlisted	310	874
	10,119	18,407
Impairment allowances	(8)	(9)
	10,111	18,398
(c) Loans and receivables		
Unlisted, at amortised cost	13,018	9,234
Total	437,570	482,364
Market value of listed held-to-maturity securities	6,174	8,983

NOTES TO THE INTERIM FINANCIAL INFORMATION

22. Investment in securities (continued)

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

	At 30 June 2013			
	Available-for-sale securities	Held-to-maturity securities	Loans and receivables	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Sovereigns	66,180	2,305	–	68,485
Public sector entities*	45,242	321	–	45,563
Banks and other financial institutions	229,715	6,263	11,320	247,298
Corporate entities	73,304	1,222	1,698	76,224
	414,441	10,111	13,018	437,570

	At 31 December 2012			
	Available-for-sale securities	Held-to-maturity securities	Loans and receivables	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Sovereigns	152,583	3,208	–	155,791
Public sector entities*	39,913	1,278	–	41,191
Banks and other financial institutions	211,561	12,115	8,077	231,753
Corporate entities	50,675	1,797	1,157	53,629
	454,732	18,398	9,234	482,364

* Included available-for-sale securities of HK\$24,499 million (31 December 2012: HK\$20,974 million) and held-to-maturity securities of HK\$241 million (31 December 2012: HK\$248 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 2013 HK\$'m	At 31 December 2012 HK\$'m	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m
Treasury bills	40,548	115,637	568	885
Certificates of deposit	75,001	72,841	310	874
Others	298,892	266,254	9,233	16,639
	414,441	454,732	10,111	18,398

NOTES TO THE INTERIM FINANCIAL INFORMATION

23. Investment properties

	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m
At 1 January	14,364	12,441
Additions	–	2
Disposals	–	(62)
Fair value gains	203	1,885
Reclassification from properties, plant and equipment (Note 24)	5	98
At period/year end	14,572	14,364

24. Properties, plant and equipment

	Premises HK\$'m	Equipment, fixtures and fittings HK\$'m	Total HK\$'m
Net book value at 1 January 2013	46,178	2,565	48,743
Additions	53	199	252
Disposals	(1)	(2)	(3)
Revaluation	1,494	–	1,494
Depreciation for the period (Note 11)	(469)	(341)	(810)
Reclassification to investment properties (Note 23)	(5)	–	(5)
Exchange difference	8	5	13
Net book value at 30 June 2013	47,258	2,426	49,684
At 30 June 2013			
Cost or valuation	47,258	7,842	55,100
Accumulated depreciation and impairment	–	(5,416)	(5,416)
Net book value at 30 June 2013	47,258	2,426	49,684
Net book value at 1 January 2012	37,049	2,601	39,650
Additions	358	687	1,045
Disposals	(147)	(9)	(156)
Revaluation	9,792	–	9,792
Depreciation for the year	(778)	(715)	(1,493)
Reclassification to investment properties (Note 23)	(98)	–	(98)
Exchange difference	2	1	3
Net book value at 31 December 2012	46,178	2,565	48,743
At 31 December 2012			
Cost or valuation	46,178	7,793	53,971
Accumulated depreciation and impairment	–	(5,228)	(5,228)
Net book value at 31 December 2012	46,178	2,565	48,743

NOTES TO THE INTERIM FINANCIAL INFORMATION

24. 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 2013			
At cost	–	7,842	7,842
At valuation	47,258	–	47,258
	47,258	7,842	55,100
At 31 December 2012			
At cost	–	7,793	7,793
At valuation	46,178	–	46,178
	46,178	7,793	53,971

25. Other assets

	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m
Repossessed assets	45	18
Precious metals	4,840	6,610
Reinsurance assets	20,424	14,671
Accounts receivable and prepayments	14,635	15,532
	39,944	36,831

26. Financial liabilities at fair value through profit or loss

	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m
Trading liabilities		
– Short positions in Exchange Fund Bills and Notes	14,548	17,331
Financial liabilities designated at fair value through profit or loss		
– Structured deposits (Note 27)	4,534	2,841
	19,082	20,172

The carrying amount of financial liabilities designated at fair value through profit or loss as at 30 June 2013 is less than the amount that the Group would be contractually required to pay at maturity to the holders by HK\$4 million (the carrying amount of financial liabilities designated at fair value through profit or loss as at 31 December 2012 is more than the amount that the Group would be contractually required to pay at maturity to the holders by 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 own credit risk is insignificant.

NOTES TO THE INTERIM FINANCIAL INFORMATION

27. Deposits from customers

	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m
Current, savings and other deposit accounts (per balance sheet)	1,259,756	1,226,290
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 26)	4,534	2,841
	1,264,290	1,229,131
Analysed by:		
Demand deposits and current accounts		
– corporate	78,676	76,742
– personal	20,992	20,553
	99,668	97,295
Savings deposits		
– corporate	183,410	202,846
– personal	381,075	400,719
	564,485	603,565
Time, call and notice deposits		
– corporate	364,994	298,902
– personal	235,143	229,369
	600,137	528,271
	1,264,290	1,229,131

28. Debt securities in issue at amortised cost

	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m
Senior notes under the Medium Term Note Programme	5,762	5,919
Other debt securities	4	4
	5,766	5,923

29. Other accounts and provisions

	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m
Other accounts payable	47,768	47,639
Provisions	335	344
	48,103	47,983

NOTES TO THE INTERIM FINANCIAL INFORMATION

30. Assets pledged as security

As at 30 June 2013, liabilities of the Group amounting to HK\$16,817 million (31 December 2012: HK\$18,029 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK\$92 million (31 December 2012: HK\$438 million) were secured by debt securities and bills related to sale and repurchase arrangements. The amount of assets pledged by the Group to secure these liabilities was HK\$16,957 million (31 December 2012: HK\$18,596 million) mainly included in "Trading securities", "Available-for-sale securities" and "Trade bills".

31. Deferred taxation

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

The major components of deferred tax (assets)/liabilities recorded in the balance sheet, and the movements during the first half of 2013 and the year ended 31 December 2012 are as follows:

	At 30 June 2013					
	Accelerated tax depreciation	Property revaluation	Losses	Impairment allowance	Other temporary differences	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1 January 2013	564	6,772	(144)	(492)	617	7,317
(Credited)/charged to income statement (Note 14)	(14)	(50)	1	(72)	15	(120)
Charged/(credited) to other comprehensive income	–	236	–	–	(906)	(670)
Exchange difference	–	1	–	(1)	(1)	(1)
At 30 June 2013	550	6,959	(143)	(565)	(275)	6,526

	At 31 December 2012					
	Accelerated tax depreciation	Property revaluation	Losses	Impairment allowance	Other temporary differences	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1 January 2012	547	5,299	(131)	(451)	(109)	5,155
Charged/(credited) to income statement	17	(128)	(13)	(41)	(4)	(169)
Charged to other comprehensive income	–	1,601	–	–	730	2,331
At 31 December 2012	564	6,772	(144)	(492)	617	7,317

NOTES TO THE INTERIM FINANCIAL INFORMATION

31. Deferred taxation (continued)

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

	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m
Deferred tax assets	(217)	(89)
Deferred tax liabilities	6,743	7,406
	6,526	7,317

	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m
Deferred tax assets to be recovered after more than twelve months	(167)	(154)
Deferred tax liabilities to be settled after more than twelve months	6,975	6,847
	6,808	6,693

As at 30 June 2013, the Group has not recognised deferred tax assets in respect of tax losses amounting to HK\$126 million (31 December 2012: HK\$718 million). These tax losses do not expire under the current tax legislation.

32. Insurance contract liabilities

	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m
At 1 January	53,937	47,220
Benefits paid	(4,222)	(7,169)
Claims incurred and movement in liabilities	10,201	13,886
At period/year end	59,916	53,937

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK\$20,398 million (31 December 2012: HK\$14,644 million) and the associated reinsurance assets of HK\$20,424 million (31 December 2012: HK\$14,671 million) are included in "Other assets" (Note 25).

NOTES TO THE INTERIM FINANCIAL INFORMATION

33. Subordinated liabilities

	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m
Subordinated loans, at amortised cost EUR660m*	–	6,749
Subordinated notes, at amortised cost with fair value hedge adjustment USD2,500m**	20,577	22,006
Total	20,577	28,755

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. During the period, HKMA has approved BOCHK to early repay the subordinated loans.

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

Amounts qualified as Tier 2 capital instruments/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. It has been fully repaid during the period.

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

34. Share capital

	At 30 June 2013 HK\$'m	At 31 December 2012 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

35. 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 42 to 43.

NOTES TO THE INTERIM FINANCIAL INFORMATION

36. Notes to condensed consolidated cash flow statement

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

	Half-year ended 30 June 2013 HK\$'m	Half-year ended 30 June 2012 HK\$'m
Operating profit	13,728	12,666
Depreciation	810	722
Net charge of impairment allowances	371	108
Unwind of discount on impairment allowances	(9)	(4)
Advances written off net of recoveries	46	59
Change in subordinated liabilities	(1,231)	398
Change in balances with banks and other financial institutions with original maturity over three months	1,872	(8,875)
Change in placements with banks and other financial institutions with original maturity over three months	12,706	590
Change in financial assets at fair value through profit or loss	(681)	142
Change in derivative financial instruments	(337)	(380)
Change in advances and other accounts	(65,943)	(30,841)
Change in investment in securities	(1,160)	(24,129)
Change in other assets	(3,117)	(9,375)
Change in deposits and balances from banks and other financial institutions	(34,539)	(122,649)
Change in financial liabilities at fair value through profit or loss	(1,090)	6,986
Change in deposits from customers	33,466	36,906
Change in debt securities in issue at amortised cost	(157)	(76)
Change in other accounts and provisions	120	1,230
Change in insurance contract liabilities	5,979	4,565
Effect of changes in exchange rates	2,641	2,724
Operating cash outflow before taxation	(36,525)	(129,233)
Cash flows from operating activities included:		
– Interest received	18,077	17,165
– Interest paid	5,148	4,822
– Dividend received	75	65

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

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

	At 30 June 2013 HK\$'m	At 30 June 2012 HK\$'m
Cash and balances with banks and other financial institutions with original maturity within three months	164,885	132,524
Placements with banks and other financial institutions with original maturity within three months	9,344	22,799
Treasury bills with original maturity within three months	13,032	44,513
Certificates of deposit with original maturity within three months	847	1,210
	188,108	201,046

37. 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 2013 HK\$'m	At 31 December 2012 HK\$'m
Direct credit substitutes	17,339	14,168
Transaction-related contingencies	16,715	11,681
Trade-related contingencies	47,419	45,412
Commitments that are unconditionally cancellable without prior notice	360,207	320,777
Other commitments with an original maturity of		
– up to one year	13,623	18,988
– over one year	57,708	52,743
	513,011	463,769
Credit risk weighted amount	57,931	59,008

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

38. Capital commitments

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

	At 30 June 2013 HK\$'m	At 31 December 2012 HK\$'m
Authorised and contracted for but not provided for	456	325
Authorised but not contracted for	20	1
	476	326

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

39. 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 2013 HK\$'m	At 31 December 2012 HK\$'m
Land and buildings		
– not later than one year	709	697
– later than one year but not later than five years	1,240	1,209
– later than five years	399	446
	2,348	2,352

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

39. 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 2013 HK\$'m	At 31 December 2012 HK\$'m
Land and buildings		
– not later than one year	371	410
– later than one year but not later than five years	391	272
	762	682

The Group leases its investment properties (Note 23) under operating lease arrangements, with leases typically for a period from one to three years. The terms of the leases generally require the tenants to pay security deposits and provide for rent adjustments according to the prevailing market conditions at the expiration of the lease.

40. Segmental reporting

The Group manages the business mainly from a business segment perspective and over 90% of the Group's revenues, profits before tax and assets are derived from Hong Kong. Currently, four operating segments are identified 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 life insurance products, including traditional and unit-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 and a joint venture.

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

40. 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 2013								
Net interest income/(expense)								
– external	849	4,982	6,591	908	1	13,331	–	13,331
– inter-segment	2,846	759	(3,396)	5	(214)	–	–	–
	3,695	5,741	3,195	913	(213)	13,331	–	13,331
Net fee and commission income/(expense)	2,797	1,863	55	(28)	136	4,823	(142)	4,681
Net insurance premium income	–	–	–	4,979	–	4,979	(8)	4,971
Net trading gain/(loss)	336	161	1,136	(163)	(35)	1,435	6	1,441
Net loss on financial instruments designated at fair value through profit or loss	–	–	(34)	(486)	–	(520)	–	(520)
Net gain on other financial assets	–	5	97	4	–	106	–	106
Other operating income	12	1	–	3	826	842	(527)	315
Total operating income	6,840	7,771	4,449	5,222	714	24,996	(671)	24,325
Net insurance benefits and claims	–	–	–	(4,534)	–	(4,534)	–	(4,534)
Net operating income before impairment allowances	6,840	7,771	4,449	688	714	20,462	(671)	19,791
Net (charge)/reversal of impairment allowances	(115)	(257)	1	–	–	(371)	–	(371)
Net operating income	6,725	7,514	4,450	688	714	20,091	(671)	19,420
Operating expenses	(3,153)	(1,641)	(532)	(124)	(913)	(6,363)	671	(5,692)
Operating profit/(loss)	3,572	5,873	3,918	564	(199)	13,728	–	13,728
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	203	203	–	203
Net gain from disposal/revaluation of properties, plant and equipment	–	–	–	–	4	4	–	4
Share of profits less losses after tax of associates and a joint venture	–	–	–	–	13	13	–	13
Profit before taxation	3,572	5,873	3,918	564	21	13,948	–	13,948
At 30 June 2013								
Assets								
Segment assets	276,028	630,301	799,027	73,174	67,027	1,845,557	(11,166)	1,834,391
Interests in associates and a joint venture	–	–	–	–	270	270	–	270
	276,028	630,301	799,027	73,174	67,297	1,845,827	(11,166)	1,834,661
Liabilities								
Segment liabilities	702,005	597,602	309,407	69,231	11,880	1,690,125	(11,166)	1,678,959
Half-year ended 30 June 2013								
Other information								
Capital expenditure	6	1	–	–	245	252	–	252
Depreciation	166	89	38	5	512	810	–	810
Amortisation of securities	–	–	298	134	–	432	–	432

NOTES TO THE INTERIM FINANCIAL INFORMATION

40. 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
(Restated)								
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	2,115	1,755	72	77	68	4,087	(54)	4,033
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	5,587	6,647	5,291	4,319	542	22,386	(541)	21,845
Net insurance benefits and claims	–	–	–	(3,749)	–	(3,749)	–	(3,749)
Net operating income before impairment allowances	5,587	6,647	5,291	570	542	18,637	(541)	18,096
Net (charge)/reversal of impairment allowances	(77)	(15)	7	(23)	–	(108)	–	(108)
Net operating income	5,510	6,632	5,298	547	542	18,529	(541)	17,988
Operating expenses	(2,745)	(1,489)	(596)	(96)	(937)	(5,863)	541	(5,322)
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 and a joint venture	–	–	–	–	13	13	–	13
Profit before taxation	2,763	5,142	4,702	451	767	13,825	–	13,825
At 31 December 2012								
Assets								
Segment assets	266,839	573,803	870,488	66,150	65,760	1,843,040	(12,536)	1,830,504
Interests in associates and a joint venture	–	–	–	–	259	259	–	259
	266,839	573,803	870,488	66,150	66,019	1,843,299	(12,536)	1,830,763
Liabilities								
Segment liabilities	716,696	551,508	346,561	61,904	11,556	1,688,225	(12,536)	1,675,689
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

Certain comparative amounts of operating expenses have been reclassified to net fee and commission income to conform with current period's presentation.

NOTES TO THE INTERIM FINANCIAL INFORMATION

41. Offsetting financial instruments

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

	At 30 June 2013					
	Gross amounts of recognised financial assets HK\$m	Gross amounts of recognised financial liabilities set off in the balance sheet HK\$m	Net amounts of financial assets presented in the balance sheet HK\$m	Related amounts not set off in the balance sheet		Net amount HK\$m
			Financial instruments HK\$m	Cash collateral received HK\$m		
Assets						
Derivative financial instruments	15,017	–	15,017	(7,254)	(1,966)	5,797
Other assets	11,639	(9,212)	2,427	–	–	2,427
Total	26,656	(9,212)	17,444	(7,254)	(1,966)	8,224

	At 30 June 2013					
	Gross amounts of recognised financial liabilities HK\$m	Gross amounts of recognised financial assets set off in the balance sheet HK\$m	Net amounts of financial liabilities presented in the balance sheet HK\$m	Related amounts not set off in the balance sheet		Net amount HK\$m
			Financial instruments HK\$m	Cash collateral pledged HK\$m		
Liabilities						
Derivative financial instruments	9,414	–	9,414	(7,254)	–	2,160
Other liabilities	9,754	(9,212)	542	–	–	542
Total	19,168	(9,212)	9,956	(7,254)	–	2,702

NOTES TO THE INTERIM FINANCIAL INFORMATION

41. Offsetting financial instruments (continued)

	At 31 December 2012					
	Gross amounts of recognised financial assets HK\$'m	Gross amounts of recognised financial liabilities set off in the balance sheet HK\$'m	Net amounts of financial assets presented in the balance sheet HK\$'m	Related amounts not set off in the balance sheet		Net amount HK\$'m
			Financial instruments HK\$'m	Cash collateral received HK\$'m		
Assets						
Derivative financial instruments	13,542	–	13,542	(6,292)	(3,245)	4,005
Other assets	15,452	(9,939)	5,513	–	–	5,513
Total	28,994	(9,939)	19,055	(6,292)	(3,245)	9,518

	At 31 December 2012					
	Gross amounts of recognised financial liabilities HK\$'m	Gross amounts of recognised financial assets set off in the balance sheet HK\$'m	Net amounts of financial liabilities presented in the balance sheet HK\$'m	Related amounts not set off in the balance sheet		Net amount HK\$'m
			Financial instruments HK\$'m	Cash collateral pledged HK\$'m		
Liabilities						
Derivative financial instruments	8,182	–	8,182	(6,292)	–	1,890
Other liabilities	10,456	(9,939)	517	–	–	517
Total	18,638	(9,939)	8,699	(6,292)	–	2,407

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

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.

The majority of transactions with BOC arise from money market activities. As at 30 June 2013, the related aggregate amounts due from and to BOC of the Group are HK\$56,357 million (31 December 2012: HK\$59,739 million) and HK\$45,195 million (31 December 2012: HK\$46,429 million) respectively. The aggregate amounts of income and expenses of the Group arising from these transactions with BOC for the first half of 2013 are HK\$752 million (first half of 2012: HK\$1,238 million) and HK\$50 million (first half of 2012: HK\$59 million) respectively. Transactions with other companies controlled by BOC are not considered material.

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

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

42. Significant related party transactions (continued)

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

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

	Half-year ended 30 June 2013		Half-year ended 30 June 2012	
	Associates and a joint venture HK\$'m	Other related parties HK\$'m	Associates and a joint venture HK\$'m	Other related parties HK\$'m
Income statement items:				
Administrative services fees received/receivable	–	4	–	4
Other expenses	21	–	–	–

	At 30 June 2013		At 31 December 2012	
	Associates and a joint venture HK\$'m	Other related parties HK\$'m	Associates and a joint venture HK\$'m	Other related parties HK\$'m
Balance sheet items:				
Deposits from customers	26	–	34	–
Other accounts and provisions	5	–	5	–

(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, senior management and company secretary. The Group accepts deposits from and grants loans and credit facilities to key management personnel in the ordinary course of business. During both the current and prior periods, no material transaction was conducted with key management personnel of BOCHK, its holding companies and parties related to them.

The key management compensation is detailed as follows:

	Half-year ended 30 June 2013 HK\$'m	Half-year ended 30 June 2012 HK\$'m
Salaries and other short-term employee benefits	24	23
Post-employment benefits	1	1
	25	24

NOTES TO THE INTERIM FINANCIAL INFORMATION

43. Currency concentrations

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

	At 30 June 2013							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	505,083	1,738	14,459	24,428	3,261	397,249	13,951	960,169
Spot liabilities	(367,906)	(2,697)	(11,603)	(29,578)	(14,997)	(373,488)	(18,685)	(818,954)
Forward purchases	422,619	68,823	45,454	36,323	26,856	169,484	38,359	807,918
Forward sales	(552,448)	(68,160)	(48,123)	(30,916)	(15,172)	(187,297)	(33,597)	(935,713)
Net options position	463	–	(4)	(15)	(3)	(1,208)	(7)	(774)
Net long/(short) position	7,811	(296)	183	242	(55)	4,740	21	12,646
Net structural position	333	–	–	–	–	8,995	–	9,328

	At 31 December 2012							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	480,099	81,033	17,279	24,874	4,336	374,118	17,313	999,052
Spot liabilities	(357,163)	(3,736)	(19,074)	(25,594)	(13,308)	(359,234)	(19,321)	(797,430)
Forward purchases	438,027	39,150	36,876	27,824	32,925	169,229	30,962	774,993
Forward sales	(543,759)	(116,379)	(35,207)	(27,018)	(24,226)	(184,128)	(28,746)	(959,463)
Net options position	(53)	(3)	5	(4)	8	(17)	(21)	(85)
Net long/(short) position	17,151	65	(121)	82	(265)	(32)	187	17,067
Net structural position	321	–	–	–	–	8,583	–	8,904

NOTES TO THE INTERIM FINANCIAL INFORMATION

44. Cross-border claims

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

	At 30 June 2013			
	Public sector			Total HK\$'m
	Banks HK\$'m	entities* HK\$'m	Others HK\$'m	
Asia, other than Hong Kong				
– Mainland China	292,859	45,725	139,399	477,983
– Japan	7,669	5,389	549	13,607
– Others	42,495	4,525	31,025	78,045
	343,023	55,639	170,973	569,635
North America				
– United States	3,712	37,464	39,715	80,891
– Others	6,029	1,960	304	8,293
	9,741	39,424	40,019	89,184
Total	352,764	95,063	210,992	658,819

	At 31 December 2012			
	Public sector			Total HK\$'m
	Banks HK\$'m	entities* HK\$'m	Others HK\$'m	
Asia, other than Hong Kong				
– Mainland China	272,511	81,892	128,295	482,698
– Japan	7,283	81,320	158	88,761
– Others	49,874	4,410	24,687	78,971
	329,668	167,622	153,140	650,430
North America				
– United States	2,439	46,397	34,290	83,126
– Others	12,990	1,392	276	14,658
	15,429	47,789	34,566	97,784
Total	345,097	215,411	187,706	748,214

* Included United States of HK\$11,364 million (31 December 2012: HK\$10,442 million) and other countries in North America of HK\$1,960 million (31 December 2012: HK\$1,355 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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 2013			
	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	348,178	78,783	426,961	251
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	56,383	15,892	72,275	16
Other non-bank Mainland China exposures	27,135	1,855	28,990	56
	431,696	96,530	528,226	323

	At 31 December 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	317,910	70,998	388,908	142
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	44,283	16,191	60,474	16
Other non-bank Mainland China exposures	23,213	2,600	25,813	67
	385,406	89,789	475,195	225

46. Compliance with HKAS 34

The unaudited interim financial information for the first half of 2013 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 2012 have been delivered to the Registrar of Companies and the HKMA. The former auditor expressed an unqualified opinion on those statutory accounts in their report dated 26 March 2013.