

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 2013 and should be read in conjunction with the Group’s Annual Report for 2013.

Amendments and interpretation to standards that are relevant to the Group and mandatory for the first time for the financial year beginning on 1 January 2014

- HKAS 32 (Amendment), “Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities”. The amendment addresses inconsistencies in current practice when applying the offsetting criteria and clarifies the meaning of “currently has a legally enforceable right of set-off”; and the application of offsetting criteria to some gross settlement systems (such as central clearing house systems) that may be considered equivalent to net settlement. The adoption of this amendment does not have a material impact on the Group’s financial statements.
- HKAS 36 (Amendment), “Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets”. The amendment aligns the disclosure requirements with its original intention which does not intend to disclose at level of cash generating unit. It also requires additional disclosure about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. The adoption of this amendment does not affect the disclosure of the Group’s financial statements.
- HKAS 39 (Amendment), “Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting”. The amendment introduces a relief to allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation. The adoption of this amendment does not have a material impact on the Group’s financial statements.
- HK(IFRIC) – Int 21, “Levies”. The interpretation addresses how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. For a levy that is triggered upon reaching a minimum threshold, no liability should be anticipated before the specified minimum threshold is reached. The adoption of this interpretation does not have a material impact on the Group’s financial statements.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

(c) Standards and amendment issued that are relevant to the Group but not yet effective and have not been early adopted by the Group in 2014

Standards/ Amendment	Content	Applicable for financial years beginning on/after
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Transition to HKFRS 9	1 January 2015
HKFRS 9	Financial Instruments	To be determined
HKFRS 15	Revenue from Contracts with Customers	1 January 2017

- HKFRS 15, “Revenue from Contracts with Customers”. HKFRS 15 applies a single model and specifies the accounting treatment for all revenue arising from contracts with customers. The new standard is based on the core principle that revenue is recognised to reflect the consideration expected to be entitled when control of promised good or service transfers to customer, it is also applicable to the recognition and measurement of gains or losses on the sale of some non-financial assets such as properties or equipments that are not an output of ordinary activities. HKFRS 15 also includes a set of disclosure requirements about revenue from customer contracts. The new standard will replace the separate models for goods, services and construction contracts stipulated in different standards under the current HKFRS. The Group is considering the financial impact of the standard and the timing of its application.
- The IASB published the final version of IFRS 9 “Financial Instruments” in July 2014 which will be mandatorily effective on or after 1 January 2018 with early application in its entirety is permitted except for own credit risk, which can be early adopted in isolation. In this final version, expected credit losses were introduced to replace the existing “incurred loss” impairment model, accompanied by improved disclosures, in order to cope with the issue of delayed recognition of credit losses on financial assets. The expected loss model is forward-looking, and future conditions are needed to be considered together with past and current conditions. The model requires an entity to recognise expected credit losses at all time, including at initial recognition.

Besides the expected credit loss model, the fair value through other comprehensive income classification was also added for debt instruments. Financial assets categorised in this classification should be held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. All fair value change other than interest accrual, amortisation and impairment will be recognised in other comprehensive income, which would be subsequently reclassified into profit and loss upon disposal.

It is expected the HKICPA will soon pronounce an equivalent standard with an identical mandatory effective date. The Group will consider the financial impact and the timing of its application.

- Please refer to Note 2.1(b) of the Group’s Annual Report for 2013 for brief explanations of the rest of the above-mentioned standard and amendment.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

(c) *Standards and amendment issued that are relevant to the Group but not yet effective and have not been early adopted by the Group in 2014 (continued)*

Improvements to HKFRSs

"Improvements to HKFRSs" contains numerous amendments to HKFRSs which the HKICPA considers not urgent but necessary. It comprises amendments that result in accounting changes for presentation, recognition or measurement purpose as well as terminology or editorial amendments related to a variety of individual HKFRSs. The amendments are effective and adopted for annual periods beginning on or after 1 July 2014. The adoption of these improvements does not have a material impact on the Group's financial statements.

2. Critical accounting estimates and judgements in applying accounting policies

The nature and assumptions related to the Group's accounting estimates are consistent with those used in the Group's financial statements for the year ended 31 December 2013.

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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(a) Impaired advances (continued)

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
Gross impaired advances to customers	2,601	2,128
Individually assessed impairment allowances made in respect of such advances	947	840
Current market value of collateral held against the covered portion of such advances to customers	2,449	1,779
Covered portion of such advances to customers	1,865	1,550
Uncovered portion of such advances to customers	736	578
Gross impaired advances to customers as a percentage of gross advances to customers	0.27%	0.25%

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

As at 30 June 2014 and 31 December 2013, 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 2014 HK\$'m	At 31 December 2013 HK\$'m
Gross classified or impaired advances to customers	2,930	2,433
Gross classified or impaired advances to customers as a percentage of gross advances to customers	0.31%	0.28%

Classified or impaired advances to customers represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or 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 2014		At 31 December 2013	
	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	777	0.08%	266	0.03%
– one year or less but over six months	331	0.04%	97	0.01%
– over one year	301	0.03%	314	0.04%
Advances overdue for over three months	1,409	0.15%	677	0.08%
Individually assessed impairment allowances made in respect of such advances	650		406	

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
Current market value of collateral held against the covered portion of such advances to customers	1,303	723
Covered portion of such advances to customers	727	245
Uncovered portion of such advances to customers	682	432

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 2014 and 31 December 2013, there were no trade bills overdue for more than three months.

(c) Rescheduled advances

	At 30 June 2014		At 31 December 2013	
	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"	35	–	1,012	0.12%

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

	At 30 June 2014					
	Gross advances to customers HK\$'m	% Covered by collateral or other security	Classified or impaired HK\$'m	Overdue HK\$'m	Individually assessed impairment allowances HK\$'m	Collectively assessed impairment allowances HK\$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	41,393	38.26%	1	1	–	157
– Property investment	80,349	87.05%	34	169	6	399
– Financial concerns	7,725	8.85%	–	13	–	39
– Stockbrokers	4,647	37.82%	–	–	–	18
– Wholesale and retail trade	37,238	43.67%	180	261	47	208
– Manufacturing	24,479	29.16%	76	155	35	120
– Transport and transport equipment	38,124	31.34%	33	2	1	203
– Recreational activities	461	8.91%	–	–	–	1
– Information technology	14,210	1.31%	2	5	1	45
– Others	61,715	38.05%	31	151	25	257
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	9,565	99.97%	24	222	–	6
– Loans for purchase of other residential properties	193,775	99.96%	68	1,688	–	99
– Credit card advances	11,845	–	31	309	–	70
– Others	36,892	67.55%	48	556	7	84
Total loans for use in Hong Kong	562,418	66.76%	528	3,532	122	1,706
Trade finance	92,749	11.62%	157	177	97	405
Loans for use outside Hong Kong	293,537	26.53%	2,245	1,398	728	1,436
Gross advances to customers	948,704	48.92%	2,930	5,107	947	3,547

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 2013					
	Gross advances to customers HK\$'m	% Covered by collateral or other security	Classified or impaired HK\$'m	Overdue HK\$'m	Individually assessed impairment allowances HK\$'m	Collectively assessed impairment allowances HK\$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	40,596	37.02%	1	1	–	173
– Property investment	79,103	87.88%	54	275	4	416
– Financial concerns	7,748	11.42%	–	2	–	46
– Stockbrokers	4,215	50.25%	–	–	–	15
– Wholesale and retail trade	32,846	49.28%	95	237	34	173
– Manufacturing	19,031	36.22%	57	112	31	103
– Transport and transport equipment	34,327	31.95%	971	4	271	157
– Recreational activities	492	10.99%	–	1	–	2
– Information technology	10,852	1.55%	2	2	1	37
– Others	38,422	38.08%	42	164	24	172
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	9,773	99.97%	26	241	–	7
– Loans for purchase of other residential properties	190,031	99.98%	59	2,006	–	105
– Credit card advances	12,223	–	28	455	–	84
– Others	28,312	63.53%	36	354	10	50
Total loans for use in Hong Kong	507,971	69.73%	1,371	3,854	375	1,540
Trade finance	85,413	13.84%	266	285	122	375
Loans for use outside Hong Kong	264,948	28.35%	796	1,108	343	1,480
Gross advances to customers	858,332	51.39%	2,433	5,247	840	3,395

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. For an advance to customer guaranteed by a party situated in a country different from the customer, the risk will be transferred to the country of the guarantor.

Gross advances to customers

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
Hong Kong	705,391	666,602
Mainland of China	195,711	153,201
Others	47,602	38,529
	948,704	858,332
Collectively assessed impairment allowances in respect of the gross advances to customers		
Hong Kong	2,266	2,232
Mainland of China	1,032	946
Others	249	217
	3,547	3,395

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 2014 HK\$'m	At 31 December 2013 HK\$'m
Hong Kong	3,537	4,010
Mainland of China	1,496	1,084
Others	74	153
	5,107	5,247
Individually assessed impairment allowances in respect of the overdue advances		
Hong Kong	177	209
Mainland of China	468	323
Others	19	28
	664	560
Collectively assessed impairment allowances in respect of the overdue advances		
Hong Kong	91	80
Mainland of China	9	6
Others	1	2
	101	88

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 2014 HK\$'m	At 31 December 2013 HK\$'m
Hong Kong	698	1,743
Mainland of China	1,753	586
Others	479	104
	2,930	2,433
Individually assessed impairment allowances in respect of the classified or impaired advances		
Hong Kong	199	488
Mainland of China	601	324
Others	147	28
	947	840
Collectively assessed impairment allowances in respect of the classified or impaired advances		
Hong Kong	47	35
Mainland of China	3	1
Others	–	2
	50	38

(B) Repossessed assets

The estimated market value of repossessed assets held by the Group as at 30 June 2014 amounted to HK\$103 million (31 December 2013: HK\$118 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 2014					
	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	69,996	120,626	101,629	21,544	26,208	340,003
Held-to-maturity securities	25,320	31,705	7,528	3,344	3,254	71,151
Loans and receivables	–	–	2,252	–	1,508	3,760
Financial assets at fair value through profit or loss	15,991	14,646	9,307	2,142	2,978	45,064
Total	111,307	166,977	120,716	27,030	33,948	459,978

	At 31 December 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	73,321	150,393	133,961	28,205	25,169	411,049
Held-to-maturity securities	2,315	4,267	5,225	2,960	2,688	17,455
Loans and receivables	–	–	7,270	–	675	7,945
Financial assets at fair value through profit or loss	8,276	17,137	9,960	2,205	3,750	41,328
Total	83,912	171,797	156,416	33,370	32,282	477,777

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 2014						
	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	-	-	-	-	-	-	-
Held-to-maturity securities	28	-	1	-	-	29	1
Total	28	-	1	-	-	29	1
Of which accumulated impairment allowances	1	-	-	-	-	1	

	At 31 December 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	-	6	-	-	-	6	-
Held-to-maturity securities	44	-	1	-	-	45	3
Total	44	6	1	-	-	51	3
Of which accumulated impairment allowances	3	-	-	-	-	3	

As at 30 June 2014 and 31 December 2013, 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 a historical simulation approach and two years of historical market data, to calculate the VAR of the Group and subsidiaries over a 1-day holding period with a 99% confidence level, and sets up the VAR limit of the Group and subsidiaries.

The following table sets out the VAR for all general market risk 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	2014	21.0	18.2	35.1	26.4
	2013	21.6	13.9	27.0	20.5
VAR for foreign exchange risk	2014	10.5	9.6	19.5	14.3
	2013	15.4	10.3	27.6	14.8
VAR for interest rate risk	2014	21.4	16.8	39.5	27.5
	2013	18.7	8.8	21.7	16.2
VAR for equity risk	2014	0.2	0.1	0.7	0.2
	2013	1.7	0.0	2.4	1.0
VAR for commodity risk	2014	0.6	0.0	1.3	0.3
	2013	0.1	0.0	0.7	0.2

Note:

1. Structural FX positions have been excluded. In the first half of 2014, all general market risk exposure are presented on the Group basis, comparative amounts are presented on the same basis accordingly.

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market Risk (continued)

(A) VAR (continued)

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

(B) Currency risk

The Group's assets and liabilities are denominated in major currencies, particularly 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 2014 and 31 December 2013. Included in the tables are the assets and liabilities at carrying amounts in HK dollars equivalent, categorised by the original currency.

	At 30 June 2014							
	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	283,728	35,483	13,836	3,417	1,320	488	2,245	340,517
Placements with banks and other financial institutions maturing between one and twelve months	22,876	6,780	3,475	117	-	92	156	33,496
Financial assets at fair value through profit or loss	9,634	9,941	27,441	-	-	-	167	47,183
Derivative financial instruments	223	7,461	19,959	-	2	-	22	27,667
Hong Kong SAR Government certificates of indebtedness	-	-	92,680	-	-	-	-	92,680
Advances and other accounts	98,427	309,882	590,151	6,936	699	422	7,188	1,013,705
Investment in securities								
- Available-for-sale securities	80,167	163,748	67,376	6,678	306	6,239	19,628	344,142
- Held-to-maturity securities	24,779	40,562	2,388	-	-	209	3,213	71,151
- Loans and receivables	1,863	1,547	350	-	-	-	-	3,760
Interests in associates and a joint venture	-	-	303	-	-	-	-	303
Investment properties	130	-	14,168	-	-	-	-	14,298
Properties, plant and equipment	812	3	52,758	-	-	-	-	53,573
Other assets (including deferred tax assets)	27,882	1,039	12,706	136	463	131	404	42,761
Total assets	550,521	576,446	897,591	17,284	2,790	7,581	33,023	2,085,236
Liabilities								
Hong Kong SAR currency notes in circulation	-	-	92,680	-	-	-	-	92,680
Deposits and balances from banks and other financial institutions	98,958	43,652	39,602	170	56	79	2,368	184,885
Financial liabilities at fair value through profit or loss	1,590	2,821	13,561	-	-	7	1,510	19,489
Derivative financial instruments	291	2,486	15,484	179	2	1	62	18,505
Deposits from customers	333,861	304,340	740,607	13,485	3,035	9,971	31,063	1,436,362
Debt securities and certificates of deposit in issue at amortised cost	-	7,709	-	-	1,714	-	73	9,496
Other accounts and provisions (including current and deferred tax liabilities)	15,959	10,641	29,493	658	101	555	1,003	58,410
Insurance contract liabilities	32,805	6,677	32,781	-	-	-	-	72,263
Subordinated liabilities	-	19,768	-	-	-	-	-	19,768
Total liabilities	483,464	398,094	964,208	14,492	4,908	10,613	36,079	1,911,858
Net on-balance sheet position	67,057	178,352	(66,617)	2,792	(2,118)	(3,032)	(3,056)	173,378
Off-balance sheet net notional position*	(55,989)	(156,708)	215,518	(3,098)	2,046	2,805	1,565	6,139
Contingent liabilities and commitments	68,781	162,162	309,450	1,967	546	39	1,222	544,167

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market Risk (continued)

(B) Currency risk (continued)

	At 31 December 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	296,496	38,476	14,273	1,264	230	259	2,743	353,741
Placements with banks and other financial institutions maturing between one and twelve months	35,264	10,442	476	107	-	-	405	46,694
Financial assets at fair value through profit or loss	7,261	11,508	24,563	-	-	-	161	43,493
Derivative financial instruments	722	4,598	20,006	2	-	-	20	25,348
Hong Kong SAR Government certificates of indebtedness	-	-	99,190	-	-	-	-	99,190
Advances and other accounts	105,008	259,236	549,916	3,792	459	205	6,327	924,943
Investment in securities								
– Available-for-sale securities	84,103	211,684	89,717	6,024	296	515	22,981	415,320
– Held-to-maturity securities	4,334	9,956	1,646	-	-	-	1,519	17,455
– Loans and receivables	833	4,039	3,073	-	-	-	-	7,945
Interests in associates and a joint venture	-	-	292	-	-	-	-	292
Investment properties	135	-	14,462	-	-	-	-	14,597
Properties, plant and equipment	865	3	51,490	-	-	-	-	52,358
Other assets (including deferred tax assets)	24,821	1,287	18,367	487	111	10	477	45,560
Total assets	559,842	551,229	887,471	11,676	1,096	989	34,633	2,046,936
Liabilities								
Hong Kong SAR currency notes in circulation	-	-	99,190	-	-	-	-	99,190
Deposits and balances from banks and other financial institutions	167,166	58,511	50,607	381	89	106	1,413	278,273
Financial liabilities at fair value through profit or loss	1,590	16	10,842	-	-	7	1,125	13,580
Derivative financial instruments	894	2,433	15,323	187	1	-	74	18,912
Deposits from customers	311,506	272,761	674,425	9,965	3,563	11,270	40,658	1,324,148
Debt securities in issue at amortised cost	-	5,684	-	-	-	-	-	5,684
Other accounts and provisions (including current and deferred tax liabilities)	14,382	9,974	30,276	981	148	600	1,294	57,655
Insurance contract liabilities	28,428	6,867	31,342	-	-	-	-	66,637
Subordinated liabilities	-	19,849	-	-	-	-	-	19,849
Total liabilities	523,966	376,095	912,005	11,514	3,801	11,983	44,564	1,883,928
Net on-balance sheet position	35,876	175,134	(24,534)	162	(2,705)	(10,994)	(9,931)	163,008
Off-balance sheet net notional position*	(23,168)	(162,157)	167,162	(17)	2,573	10,966	9,465	4,824
Contingent liabilities and commitments	73,056	146,235	293,677	4,069	501	1,244	4,223	523,005

* 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 2014 and 31 December 2013. 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 2014						
	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Non-interest bearing HK\$'m	Total HK\$'m
Assets							
Cash and balances with banks and other financial institutions	330,350	-	-	-	-	10,167	340,517
Placements with banks and other financial institutions maturing between one and twelve months	-	23,237	10,259	-	-	-	33,496
Financial assets at fair value through profit or loss	4,061	5,500	13,324	16,142	6,037	2,119	47,183
Derivative financial instruments	-	-	-	-	-	27,667	27,667
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	92,680	92,680
Advances and other accounts	700,420	199,171	92,278	15,064	1,048	5,724	1,013,705
Investment in securities							
– Available-for-sale securities	38,095	50,682	72,113	115,986	63,127	4,139	344,142
– Held-to-maturity securities	1,838	1,129	4,049	41,168	22,967	-	71,151
– Loans and receivables	557	1,519	1,684	-	-	-	3,760
Interests in associates and a joint venture	-	-	-	-	-	303	303
Investment properties	-	-	-	-	-	14,298	14,298
Properties, plant and equipment	-	-	-	-	-	53,573	53,573
Other assets (including deferred tax assets)	1,120	-	-	-	-	41,641	42,761
Total assets	1,076,441	281,238	193,707	188,360	93,179	252,311	2,085,236
Liabilities							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	92,680	92,680
Deposits and balances from banks and other financial institutions	153,325	7,320	5,485	-	-	18,755	184,885
Financial liabilities at fair value through profit or loss	6,805	6,364	5,283	513	524	-	19,489
Derivative financial instruments	-	-	-	-	-	18,505	18,505
Deposits from customers	975,434	209,633	165,878	14,153	-	71,264	1,436,362
Debt securities and certificates of deposit in issue at amortised cost	1,705	-	1,997	5,794	-	-	9,496
Other accounts and provisions (including current and deferred tax liabilities)	13,655	3,607	3,794	217	1	37,136	58,410
Insurance contract liabilities	-	-	-	-	-	72,263	72,263
Subordinated liabilities	-	-	-	-	19,768	-	19,768
Total liabilities	1,150,924	226,924	182,437	20,677	20,293	310,603	1,911,858
Interest sensitivity gap	(74,483)	54,314	11,270	167,683	72,886	(58,292)	173,378

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market Risk (continued)

(C) Interest rate risk (continued)

	At 31 December 2013						
	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Non-interest bearing HK\$'m	Total HK\$'m
Assets							
Cash and balances with banks and other financial institutions	336,303	-	-	-	-	17,438	353,741
Placements with banks and other financial institutions maturing between one and twelve months	-	33,801	12,893	-	-	-	46,694
Financial assets at fair value through profit or loss	2,691	6,211	10,244	15,198	6,984	2,165	43,493
Derivative financial instruments	-	-	-	-	-	25,348	25,348
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	99,190	99,190
Advances and other accounts	699,423	121,716	78,275	18,082	1,004	6,443	924,943
Investment in securities							
– Available-for-sale securities	47,934	58,235	78,309	146,099	80,472	4,271	415,320
– Held-to-maturity securities	1,325	460	4,009	5,250	6,411	-	17,455
– Loans and receivables	1,660	2,931	3,354	-	-	-	7,945
Interests in associates and a joint venture	-	-	-	-	-	292	292
Investment properties	-	-	-	-	-	14,597	14,597
Properties, plant and equipment	-	-	-	-	-	52,358	52,358
Other assets (including deferred tax assets)	608	-	-	-	-	44,952	45,560
Total assets	1,089,944	223,354	187,084	184,629	94,871	267,054	2,046,936
Liabilities							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	99,190	99,190
Deposits and balances from banks and other financial institutions	240,026	3,768	671	-	-	33,808	278,273
Financial liabilities at fair value through profit or loss	5,451	5,406	2,071	382	270	-	13,580
Derivative financial instruments	-	-	-	-	-	18,912	18,912
Deposits from customers	951,236	169,169	124,513	10,589	39	68,602	1,324,148
Debt securities in issue at amortised cost	-	-	-	5,684	-	-	5,684
Other accounts and provisions (including current and deferred tax liabilities)	12,198	2,588	4,106	397	-	38,366	57,655
Insurance contract liabilities	-	-	-	-	-	66,637	66,637
Subordinated liabilities	-	-	-	-	19,849	-	19,849
Total liabilities	1,208,911	180,931	131,361	17,052	20,158	325,515	1,883,928
Interest sensitivity gap	(118,967)	42,423	55,723	167,577	74,713	(58,461)	163,008

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity Risk

(A) Liquidity ratio

	Half-year ended 30 June 2014	Half-year ended 30 June 2013
Average liquidity ratio	39.58%	38.70%

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 2014 and 31 December 2013 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2014							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
Assets								
Cash and balances with banks and other financial institutions	262,653	65,345	-	-	-	-	12,519	340,517
Placements with banks and other financial institutions maturing between one and twelve months	-	-	23,237	10,259	-	-	-	33,496
Financial assets at fair value through profit or loss								
– held for trading								
– debt securities	-	4,023	5,089	11,141	7,778	4,402	-	32,433
– certificates of deposit	-	-	292	177	90	-	-	559
– designated at fair value through profit or loss								
– debt securities	-	77	58	1,603	8,385	1,575	-	11,698
– certificates of deposit	-	-	-	109	265	-	-	374
– fund and equity securities	-	-	-	-	-	-	2,119	2,119
Derivative financial instruments	14,078	1,240	1,289	6,606	1,356	3,098	-	27,667
Hong Kong SAR Government certificates of indebtedness	92,680	-	-	-	-	-	-	92,680
Advances and other accounts								
– advances to customers	106,225	32,156	72,038	163,240	344,409	223,874	2,268	944,210
– trade bills	35	13,602	21,504	34,354	-	-	-	69,495
Investment in securities								
– available-for-sale								
– debt securities	-	14,039	23,526	61,748	126,579	65,088	-	290,980
– certificates of deposit	-	5,119	8,382	19,823	15,498	201	-	49,023
– held-to-maturity								
– debt securities	-	1,354	1,047	4,488	40,950	23,188	29	71,056
– certificates of deposit	-	-	-	77	-	18	-	95
– loans and receivables								
– debt securities	-	557	1,519	1,684	-	-	-	3,760
– equity securities	-	-	-	-	-	-	4,139	4,139
Interests in associates and a joint venture	-	-	-	-	-	-	303	303
Investment properties	-	-	-	-	-	-	14,298	14,298
Properties, plant and equipment	-	-	-	-	-	-	53,573	53,573
Other assets (including deferred tax assets)	13,768	8,056	129	460	10,395	9,878	75	42,761
Total assets	489,439	145,568	158,110	315,769	555,705	331,322	89,323	2,085,236

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

(B) Maturity analysis (continued)

	At 30 June 2014							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
Liabilities								
Hong Kong SAR currency notes in circulation	92,680	-	-	-	-	-	-	92,680
Deposits and balances from banks and other financial institutions	149,229	22,851	7,320	5,485	-	-	-	184,885
Financial liabilities at fair value through profit or loss	-	6,805	6,364	5,283	513	524	-	19,489
Derivative financial instruments	9,913	1,358	1,309	2,792	2,082	1,051	-	18,505
Deposits from customers	728,559	313,383	210,439	167,480	16,501	-	-	1,436,362
Debt securities and certificates of deposit in issue at amortised cost								
- debt securities	-	1,550	-	1,643	5,762	-	-	8,955
- certificates of deposit	-	155	-	386	-	-	-	541
Other accounts and provisions (including current and deferred tax liabilities)	26,107	11,760	4,054	8,634	7,849	6	-	58,410
Insurance contract liabilities	11,485	438	1,873	5,032	19,278	34,157	-	72,263
Subordinated liabilities	-	-	418	-	-	19,350	-	19,768
Total liabilities	1,017,973	358,300	231,777	196,735	51,985	55,088	-	1,911,858
Net liquidity gap	(528,534)	(212,732)	(73,667)	119,034	503,720	276,234	89,323	173,378

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

(B) Maturity analysis (continued)

	At 31 December 2013							Total HK\$m
	On demand HK\$m	Up to 1 month HK\$m	1 to 3 months HK\$m	3 to 12 months HK\$m	1 to 5 years HK\$m	Over 5 years HK\$m	Indefinite HK\$m	
Assets								
Cash and balances with banks and other financial institutions	246,366	94,800	-	-	-	-	12,575	353,741
Placements with banks and other financial institutions maturing between one and twelve months	-	-	33,801	12,893	-	-	-	46,694
Financial assets at fair value through profit or loss								
– held for trading								
– debt securities	-	2,118	6,166	6,210	6,754	4,967	-	26,215
– certificates of deposit	-	18	13	78	30	-	-	139
– designated at fair value through profit or loss								
– debt securities	-	146	53	2,673	9,788	1,945	-	14,605
– certificates of deposit	-	-	-	103	266	-	-	369
– fund and equity securities	-	-	-	-	-	-	2,165	2,165
Derivative financial instruments	13,672	2,127	1,287	2,789	1,833	3,640	-	25,348
Hong Kong SAR Government certificates of indebtedness	99,190	-	-	-	-	-	-	99,190
Advances and other accounts								
– advances to customers	82,371	29,710	55,130	143,186	317,087	224,648	1,965	854,097
– trade bills	6	16,254	19,003	35,583	-	-	-	70,846
Investment in securities								
– available-for-sale								
– debt securities	-	16,424	24,027	50,782	160,000	81,733	6	332,972
– certificates of deposit	-	10,419	13,950	36,657	16,836	215	-	78,077
– held-to-maturity								
– debt securities	-	632	196	4,049	5,987	6,451	45	17,360
– certificates of deposit	-	-	-	-	77	18	-	95
– loans and receivables								
– debt securities	-	1,660	2,931	3,354	-	-	-	7,945
– equity securities	-	-	-	-	-	-	4,271	4,271
Interests in associates and a joint venture	-	-	-	-	-	-	292	292
Investment properties	-	-	-	-	-	-	14,597	14,597
Properties, plant and equipment	-	-	-	-	-	-	52,358	52,358
Other assets (including deferred tax assets)	13,631	13,884	88	394	10,172	7,303	88	45,560
Total assets	455,236	188,192	156,645	298,751	528,830	330,920	88,362	2,046,936

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

(B) Maturity analysis (continued)

	At 31 December 2013							Total HK\$m
	On demand HK\$m	Up to 1 month HK\$m	1 to 3 months HK\$m	3 to 12 months HK\$m	1 to 5 years HK\$m	Over 5 years HK\$m	Indefinite HK\$m	
Liabilities								
Hong Kong SAR currency notes in circulation	99,190	-	-	-	-	-	-	99,190
Deposits and balances from banks and other financial institutions	222,879	50,955	3,768	671	-	-	-	278,273
Financial liabilities at fair value through profit or loss	-	5,451	5,406	2,071	382	270	-	13,580
Derivative financial instruments	9,276	1,652	1,047	3,258	3,009	670	-	18,912
Deposits from customers	744,335	273,423	169,101	124,664	12,586	39	-	1,324,148
Debt securities in issue at amortised cost	-	-	-	32	5,652	-	-	5,684
Other accounts and provisions (including current and deferred tax liabilities)	25,358	14,003	4,038	6,426	7,819	11	-	57,655
Insurance contract liabilities	8,531	460	427	7,678	21,009	28,532	-	66,637
Subordinated liabilities	-	-	418	-	-	19,431	-	19,849
Total liabilities	1,109,569	345,944	184,205	144,800	50,457	48,953	-	1,883,928
Net liquidity gap	(654,333)	(157,752)	(27,560)	153,951	478,373	281,967	88,362	163,008

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 are remained under the standardised (credit risk) ("STC") approach. The Group has adopted the standardised credit valuation adjustment ("CVA") method to calculate the capital charge for the CVA risk of the counterparty. The Group continues to adopt the internal models ("IMM") approach to calculate the general market risk capital charge for foreign exchange and interest rate exposures and, with the approval from HKMA, exclude its structural FX positions arising from NCB and Chiyu in the calculation of the market risk capital charge. The Group continues to adopt the standardised (market risk) ("STM") approach to calculate the market risk capital charge for the remaining exposures. The Group continues to adopt the standardised (operational risk) ("STO") approach to calculate the operational risk capital charge.

(A) Basis of regulatory consolidation

The consolidation basis for regulatory purposes comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules. For accounting purposes, subsidiaries are consolidated in accordance with the accounting standards issued by the HKICPA pursuant to section 18A of the Professional Accountants Ordinance.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital Management (continued)

(A) Basis of regulatory consolidation (continued)

Subsidiaries which are included within the accounting scope of consolidation but not included within the regulatory scope of consolidation are set out below:

Name of company	At 30 June 2014		At 31 December 2013	
	Total assets	Total equity	Total assets	Total equity
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
BOC Group Life Assurance Company Limited	85,687	5,094	79,579	4,404
BOCHK Asset Management (Cayman) Limited	50	50	50	50
Bank of China (Hong Kong) Nominees Limited	–	–	–	–
Bank of China (Hong Kong) Trustees Limited	10	9	9	9
BNPP Flexi III China Fund	778	778	1,862	1,862
BOC Group Trustee Company Limited	200	200	200	200
BOC Travel Services Limited*	–	–	2	2
BOCHK Asset Management Limited	61	49	49	37
BOCHK Information Technology (Shenzhen) Co., Ltd.	212	183	193	172
BOCHK Information Technology Services (Shenzhen) Ltd.	283	247	281	241
BOCI-Prudential Trustee Limited	438	394	442	414
Che Hsing (Nominees) Limited	1	1	1	1
Chiyu Banking Corporation (Nominees) Limited	112	112	96	96
Grace Charter Limited	–	(11)	–	(11)
G.Z.Y. Microfilm Technology (Shenzhen) Co., Ltd.**	–	–	68	68
Kwong Li Nam Investment Agency Limited	4	4	4	4
Nanyang Commercial Bank (Nominees) Limited	1	1	1	1
Nanyang Commercial Bank Trustee Limited	16	16	17	17
Po Sang Financial Investment Services Company Limited	122	105	121	105
Po Sang Futures Limited	252	178	219	171
Seng Sun Development Company, Limited	40	39	40	37
Sin Chiao Enterprises Corporation, Limited	134	134	135	135
Sin Hua Trustee Limited	5	5	4	4
Sino Information Services Company Limited	20	20	21	20

* BOC Travel Services Limited was dissolved on 5 June 2014.

** G.Z.Y. Microfilm Technology (Shenzhen) Co., Ltd. commenced winding up on 26 December 2011, and returned BOCHK's investment on 23 June 2014.

There are no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation as at 30 June 2014 and 31 December 2013.

There are also no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation but the methods of consolidation differ as at 30 June 2014 and 31 December 2013.

The principal activities of the above subsidiaries are set out in "Appendix – Subsidiaries of the Company" on pages 125 to 126.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital Management (continued)

(B) Capital ratio

	At 30 June 2014	At 31 December 2013
CET1 capital ratio	11.76%	10.57%
Tier 1 capital ratio	11.84%	10.67%
Total capital ratio	16.90%	15.80%

(C) 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 2014 and 31 December 2013 and reported to the HKMA is analysed as follows:

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments	43,043	43,043
Retained earnings	70,417	59,291
Disclosed reserves	46,508	43,025
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)	592	504
CET1 capital before regulatory deductions	160,560	145,863
CET1 capital: regulatory deductions		
Valuation adjustments	(13)	(21)
Deferred tax assets net of deferred tax liabilities	(140)	(164)
Gains and losses due to changes in own credit risk on fair valued liabilities	(120)	(81)
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	(45,515)	(44,491)
Regulatory reserve for general banking risks	(9,801)	(8,994)
Total regulatory deductions to CET1 capital	(55,589)	(53,751)
CET1 capital	104,971	92,112
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)	733	894
AT1 capital	733	894
Tier 1 capital	105,704	93,006

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital Management (continued)

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

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
Tier 2 capital: instruments and provisions Capital instruments subject to phase out arrangements from Tier 2 capital	19,294	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)	246	321
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	5,194	5,047
Tier 2 capital before regulatory deductions	24,734	24,662
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	20,482	20,021
Total regulatory deductions to Tier 2 capital	20,482	20,021
Tier 2 capital	45,216	44,683
Total capital	150,920	137,689

To comply with the Banking (Disclosure) Rules, a section "Regulatory Disclosures" is available on the Company's website at www.bochk.com and includes the following consolidated information of BOCHK:

- A detailed breakdown of the capital base and regulatory deductions, using the standard template as specified by the HKMA.
- A reconciliation of capital components to the 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 issued capital instruments.

NOTES TO THE INTERIM FINANCIAL INFORMATION

4. Fair values of financial assets and liabilities

All financial instruments for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy as defined in HKFRS 13, "Fair value measurement". The categorisation are determined with reference to the observability and significance of the inputs used in the valuation methods and based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: based on quoted prices (unadjusted) in active markets for identical assets or liabilities. This category includes listed equity securities on exchange, debt instruments issued by certain governments and certain exchange-traded derivative contracts.
- Level 2: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly. This category includes majority of the OTC derivative contracts, debt securities and certificates of deposit with quote from pricing services providers and issued structured deposits.
- Level 3: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. This category includes equity investment and debt instruments with significant unobservable components.

For financial instruments that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

4.1 *Financial instruments measured at fair value*

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

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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

4.1 Financial instruments measured at fair value (continued)

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.

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 or using discounted cash flow technique. Discounted cash flow model is a valuation technique that measures present value using estimated expected future cash flows from the instruments and then discounts these flows using a discount rate or discount margin that reflects the credit spreads required by the market for instruments with similar risk. These inputs are observable or can be corroborated by observable or unobservable market data.

Asset backed securities

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

Derivatives

Over-the-counter derivative contracts include forward, swap and option contracts on foreign exchange, interest rate, equity or commodity. The fair values of these contracts are mainly measured using valuation techniques such as discounted cash flow models and option pricing models. The inputs can be observable or unobservable market data. Observable inputs include interest rate, foreign exchange rates, equity and stock prices, commodity prices and volatilities. Unobservable inputs such as volatility surface may be used for less commonly traded option products which are embedded in structured deposits. For certain complex derivatives contracts, the fair values are determined based on broker/dealer price quotations.

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

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

4.1 Financial instruments measured at fair value (continued)

(A) Fair value hierarchy

	At 30 June 2014			
	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 20)				
– Trading securities				
– Debt securities	–	32,433	–	32,433
– Certificates of deposit	–	559	–	559
– Equity securities	6	312	–	318
– Financial assets designated at fair value through profit or loss				
– Debt securities	70	11,278	350	11,698
– Certificates of deposit	–	374	–	374
– Fund	639	–	–	639
– Equity securities	1,162	–	–	1,162
Derivative financial instruments (Note 21)	14,079	13,588	–	27,667
Available-for-sale securities (Note 23)				
– Debt securities	13,580	276,730	670	290,980
– Certificates of deposit	–	46,968	2,055	49,023
– Equity securities	2,741	1,154	244	4,139
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 27)				
– Trading liabilities	–	15,475	–	15,475
– Financial liabilities designated at fair value through profit or loss	–	4,014	–	4,014
Derivative financial instruments (Note 21)	9,931	8,574	–	18,505

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

4.1 Financial instruments measured at fair value (continued)

(A) Fair value hierarchy (continued)

	At 31 December 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 20)				
– Trading securities				
– Debt securities	–	26,215	–	26,215
– Certificates of deposit	–	139	–	139
– Equity securities	3	355	–	358
– Financial assets designated at fair value through profit or loss				
– Debt securities	343	13,877	385	14,605
– Certificates of deposit	–	369	–	369
– Fund	661	–	–	661
– Equity securities	1,146	–	–	1,146
Derivative financial instruments (Note 21)	13,685	11,663	–	25,348
Available-for-sale securities (Note 23)				
– Debt securities	8,422	323,771	779	332,972
– Certificates of deposit	–	72,609	5,468	78,077
– Equity securities	2,801	1,220	250	4,271
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 27)				
– Trading liabilities	–	9,748	–	9,748
– Financial liabilities designated at fair value through profit or loss	–	3,832	–	3,832
Derivative financial instruments (Note 21)	9,358	9,554	–	18,912

During the first half of 2014 and the year ended 31 December 2013, there were no financial asset and liability transfers between level 1 and level 2 for the Group.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

4.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items

	At 30 June 2014			
	Financial assets			
	Financial assets designated at fair value through profit or loss	Available-for-sale securities		
		Debt securities HK\$'m	Debt securities HK\$'m	Certificates of deposit HK\$'m
At 1 January 2014	385	779	5,468	250
(Losses)/gains				
– Income statement				
– Net loss on financial instruments designated at fair value through profit or loss	(14)	–	–	–
– Other comprehensive income				
– Change in fair value of available-for-sale securities	–	13	8	(6)
Purchases	–	78	921	–
Sales	(21)	–	(1,672)	–
Transfers out of level 3	–	(200)	(2,670)	–
At 30 June 2014	350	670	2,055	244
Total unrealised loss for the period included in income statement for financial assets held as at 30 June 2014				
– Net loss on financial instruments designated at fair value through profit or loss	(14)	–	–	–

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

4.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

	At 31 December 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 on financial instruments designated at fair value through profit or loss	25	–	–	–	–
– Other comprehensive income					
– Change in fair value of available-for-sale securities	–	(43)	(1)	24	–
Purchases	192	–	4,947	21	–
Sales	–	–	(506)	–	–
Settlements	–	–	–	–	771
Transfers into level 3	–	–	160	–	–
Transfers out of level 3	(165)	(171)	(320)	–	–
Reclassification	–	(456)	–	–	–
At 31 December 2013	385	779	5,468	250	–
Total unrealised gain for the year included in income statement for financial assets and liabilities held as at 31 December 2013					
– Net gain on financial instruments designated at fair value through profit or loss	22	–	–	–	–

As at 30 June 2014 and 31 December 2013, financial instruments categorised as level 3 are mainly comprised of debt securities, certificates of deposit and unlisted equity shares.

Debt securities and certificates of deposit were transferred into and out of level 3 during the first half of 2014 and in the year of 2013 due to change of valuation observability. For certain illiquid debt securities and certificates of deposit, 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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

4.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

The fair values of unlisted available-for-sale equity shares are determined with reference to multiples of comparable listed companies, such as average of the price/earning ratios of comparables or net asset value, if appropriate comparables are not available. The fair value is positively correlated to the price/earning ratios of appropriate comparables or net asset values. Had the net asset value of the underlying equity investments increased/decreased by 5%, the Group's other comprehensive income would have increased/decreased by HK\$12 million (the year ended 31 December 2013: HK\$13 million).

4.2 Financial instruments not measured at fair value

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

Balances with banks and other financial institutions and trade bills

Substantially all the financial assets and liabilities mature within one year from the balance sheet date and their carrying value approximates fair value.

Advances to customers

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

Held-to-maturity securities

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

Loans and receivables

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

Deposits from customers

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

Debt securities and certificates of deposit in issue at amortised cost

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

Subordinated liabilities

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

4.2 Financial instruments not measured at fair value (continued)

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

	At 30 June 2014	
	Carrying value HK\$m	Fair value HK\$m
Financial assets		
Held-to-maturity securities (Note 23)		
– Debt securities	71,056	72,354
– Certificates of deposit	95	95
Loans and receivables (Note 23)	3,760	3,762
Financial liabilities		
Debt securities and certificates of deposit in issue at amortised cost (Note 29)		
– Debt securities	8,955	9,463
– Certificates of deposit	541	541
Subordinated liabilities (Note 34)	19,768	21,908

	At 31 December 2013	
	Carrying value HK\$m	Fair value HK\$m
Financial assets		
Held-to-maturity securities (Note 23)		
– Debt securities	17,360	17,460
– Certificates of deposit	95	95
Loans and receivables (Note 23)	7,945	7,942
Financial liabilities		
Debt securities in issue at amortised cost (Note 29)	5,684	6,193
Subordinated liabilities (Note 34)	19,849	21,224

NOTES TO THE INTERIM FINANCIAL INFORMATION

5. Net interest income

	Half-year ended 30 June 2014 HK\$'m	Half-year ended 30 June 2013 HK\$'m
Interest income		
Due from banks and other financial institutions	6,709	3,387
Advances to customers	10,872	9,757
Listed investments	2,466	2,382
Unlisted investments	3,159	2,818
Others	98	115
	23,304	18,459
Interest expense		
Due to banks and other financial institutions	(877)	(267)
Deposits from customers	(6,446)	(4,557)
Debt securities and certificates of deposit in issue	(80)	(72)
Subordinated liabilities	(57)	(83)
Others	(188)	(149)
	(7,648)	(5,128)
Net interest income	15,656	13,331

Included within interest income is HK\$3 million (first half of 2013: HK\$9 million) of interest with respect to income accrued on advances classified as impaired for the first half of 2014. Interest income accrued on impaired investment in securities amounted to HK\$2 million (first half of 2013: HK\$3 million).

Included within interest income and interest expense are HK\$23,525 million (first half of 2013: HK\$18,522 million) and HK\$7,974 million (first half of 2013: HK\$5,436 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

6. Net fee and commission income

	Half-year ended 30 June 2014 HK\$'m	Half-year ended 30 June 2013 HK\$'m
Fee and commission income		
Credit card business	1,792	1,734
Securities brokerage	1,180	1,224
Loan commissions	1,134	1,078
Insurance	677	708
Funds distribution	513	441
Bills commissions	413	387
Payment services	300	322
Trust and custody services	206	181
Safe deposit box	136	122
Currency exchange	105	88
Others	259	224
	6,715	6,509
Fee and commission expense		
Credit card business	(1,334)	(1,291)
Securities brokerage	(140)	(150)
Insurance	(114)	(114)
Others	(312)	(273)
	(1,900)	(1,828)
Net fee and commission income	4,815	4,681
Of which arise from		
– financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	1,168	1,125
– Fee and commission expense	(9)	(4)
	1,159	1,121
– trust and other fiduciary activities		
– Fee and commission income	303	272
– Fee and commission expense	(11)	(9)
	292	263

NOTES TO THE INTERIM FINANCIAL INFORMATION

7. Net trading gain

	Half-year ended 30 June 2014 HK\$'m	Half-year ended 30 June 2013 HK\$'m
Net gain/(loss) from:		
– foreign exchange and foreign exchange products	829	1,019
– interest rate instruments and items under fair value hedge	493	197
– commodities	23	42
– equity instruments	(16)	183
	1,329	1,441

8. Net gain on other financial assets

	Half-year ended 30 June 2014 HK\$'m	Half-year ended 30 June 2013 HK\$'m
Net gain on available-for-sale securities	154	101
Others	21	5
	175	106

9. Other operating income

	Half-year ended 30 June 2014 HK\$'m	Half-year ended 30 June 2013 HK\$'m
Dividend income from investment in securities		
– listed investments	58	54
– unlisted investments	22	21
Gross rental income from investment properties	235	238
Less: Outgoings in respect of investment properties	(33)	(27)
Others	126	29
	408	315

Included in the “Outgoings in respect of investment properties” is HK\$4 million (first half of 2013: HK\$2 million) of direct operating expenses related to investment properties that were not let during the period.

NOTES TO THE INTERIM FINANCIAL INFORMATION

10. Net insurance benefits and claims

	Half-year ended 30 June 2014 HK\$'m	Half-year ended 30 June 2013 HK\$'m
Gross insurance benefits and claims		
Claims, benefits and surrenders paid	(5,723)	(4,410)
Movement in liabilities	(6,453)	(5,697)
	(12,176)	(10,107)
Reinsurers' share of benefits and claims		
Claims, benefits and surrenders recovered	248	46
Movement in assets	4,687	5,527
	4,935	5,573
Net insurance benefits and claims	(7,241)	(4,534)

11. Net charge of impairment allowances

	Half-year ended 30 June 2014 HK\$'m	Half-year ended 30 June 2013 HK\$'m
Advances to customers		
Individually assessed		
– new allowances	(500)	(170)
– releases	348	88
– recoveries	82	175
Net (charge)/reversal of individually assessed loan impairment allowances	(70)	93
Collectively assessed		
– new allowances	(348)	(479)
– releases	22	3
– recoveries	19	15
Net charge of collectively assessed loan impairment allowances	(307)	(461)
Net charge of loan impairment allowances	(377)	(368)
Held-to-maturity securities		
Net reversal of impairment allowances on held-to-maturity securities		
– Individually assessed	2	1
Others	(4)	(4)
Net charge of impairment allowances	(379)	(371)

NOTES TO THE INTERIM FINANCIAL INFORMATION

12. Operating expenses

	Half-year ended 30 June 2014 HK\$'m	Half-year ended 30 June 2013 HK\$'m
Staff costs (including directors' emoluments)		
– salaries and other costs	3,226	2,985
– pension cost	263	249
	3,489	3,234
Premises and equipment expenses (excluding depreciation)		
– rental of premises	412	386
– information technology	212	187
– others	190	171
	814	744
Depreciation	900	810
Auditor's remuneration		
– audit services	3	3
– non-audit services	3	1
Other operating expenses	1,007	900
	6,216	5,692

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

	Half-year ended 30 June 2014 HK\$'m	Half-year ended 30 June 2013 HK\$'m
Net gain from fair value adjustments on investment properties	119	203

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

	Half-year ended 30 June 2014 HK\$'m	Half-year ended 30 June 2013 HK\$'m
Net loss from disposal of other fixed assets	(7)	–
Net gain from revaluation of premises	–	4
	(7)	4

NOTES TO THE INTERIM FINANCIAL INFORMATION

15. Taxation

Taxation in the income statement represents:

	Half-year ended 30 June 2014 HK\$'m	Half-year ended 30 June 2013 HK\$'m
Current tax		
Hong Kong profits tax		
– current period taxation	2,197	2,180
– over-provision in prior periods	(57)	–
	2,140	2,180
Overseas taxation		
– current period taxation	603	231
– under-provision in prior periods	4	–
	607	231
Deferred tax		
Origination and reversal of temporary differences	99	(120)
	2,846	2,291

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2014. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2014 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 2014 HK\$'m	Half-year ended 30 June 2013 HK\$'m
Profit before taxation	15,179	13,948
Calculated at a taxation rate of 16.5% (2013: 16.5%)	2,505	2,301
Effect of different taxation rates in other countries	36	9
Income not subject to taxation	(76)	(105)
Expenses not deductible for taxation purposes	213	26
Utilisation of previously unrecognised tax losses	(1)	(82)
Over-provision in prior periods	(53)	–
Foreign withholding tax	222	142
Taxation charge	2,846	2,291
Effective tax rate	18.7%	16.4%

NOTES TO THE INTERIM FINANCIAL INFORMATION

16. Dividends

	Half-year ended 30 June 2014		Half-year ended 30 June 2013	
	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 19 August 2014, the Board declared an interim dividend of HK\$0.545 per ordinary share for the first half of 2014 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 2014.

17. 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 2014 of approximately HK\$12,083 million (first half of 2013: HK\$11,252 million) and on the ordinary shares in issue of 10,572,780,266 shares (2013: 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 2014 (first half of 2013: Nil).

18. 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 and 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 2014 amounted to approximately HK\$179 million (first half of 2013: approximately HK\$175 million), after a deduction of forfeited contributions of approximately HK\$3 million (first half of 2013: approximately HK\$2 million). For the MPF Scheme, the Group contributed approximately HK\$34 million (first half of 2013: approximately HK\$33 million) for the first half of 2014.

NOTES TO THE INTERIM FINANCIAL INFORMATION

19. Cash and balances with banks and other financial institutions

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
Cash	7,382	9,456
Balances with central banks	75,240	139,022
Balances with banks and other financial institutions	192,550	110,463
Placements with banks and other financial institutions maturing within one month	65,345	94,800
	340,517	353,741

20. Financial assets at fair value through profit or loss

	Trading securities		Financial assets designated at fair value through profit or loss		Total	
	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
At fair value						
Debt securities						
– Listed in Hong Kong	7,973	7,811	755	759	8,728	8,570
– Listed outside Hong Kong	5,269	5,007	4,684	7,009	9,953	12,016
	13,242	12,818	5,439	7,768	18,681	20,586
– Unlisted	19,191	13,397	6,259	6,837	25,450	20,234
	32,433	26,215	11,698	14,605	44,131	40,820
Certificates of deposit						
– Unlisted	559	139	374	369	933	508
Fund						
– Unlisted	–	–	639	661	639	661
Equity securities						
– Listed in Hong Kong	6	3	946	880	952	883
– Listed outside Hong Kong	–	–	216	266	216	266
	6	3	1,162	1,146	1,168	1,149
– Unlisted	312	355	–	–	312	355
	318	358	1,162	1,146	1,480	1,504
Total	33,310	26,712	13,873	16,781	47,183	43,493

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

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

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
Sovereigns	21,613	17,966
Public sector entities*	300	172
Banks and other financial institutions	14,742	13,065
Corporate entities	10,528	12,290
	47,183	43,493

* Included financial assets at fair value through profit or loss of HK\$299 million (31 December 2013: HK\$156 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 2014 HK\$'m	At 31 December 2013 HK\$'m
Treasury bills	14,373	9,895
Certificates of deposit	933	508
Others	31,877	33,090
	47,183	43,493

21. 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

21. Derivative financial instruments (continued)

The contract/notional amounts and fair values of derivative financial instruments held by the Group are set out in the following tables. The contract/notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet dates and certain of them provide a basis for comparison with fair value instruments recognised on the 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 2014 and 31 December 2013:

	At 30 June 2014			
	Trading HK\$m	Hedging HK\$m	Not qualified for hedge accounting HK\$m	Total HK\$m
Exchange rate contracts				
Spot, forwards and futures	408,940	–	625	409,565
Swaps	1,087,154	2,531	11,920	1,101,605
Foreign currency options				
– Options purchased	38,513	–	–	38,513
– Options written	37,950	–	–	37,950
	1,572,557	2,531	12,545	1,587,633
Interest rate contracts				
Futures	2,115	–	–	2,115
Swaps	325,243	63,879	3,878	393,000
	327,358	63,879	3,878	395,115
Commodity contracts	10,313	–	–	10,313
Equity contracts	2,312	–	892	3,204
Other contracts	56	–	–	56
Total	1,912,596	66,410	17,315	1,996,321

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

21. Derivative financial instruments (continued)

	At 31 December 2013			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts				
Spot, forwards and futures	302,252	–	641	302,893
Swaps	683,295	2,532	10,691	696,518
Foreign currency options				
– Options purchased	20,982	–	–	20,982
– Options written	23,457	–	–	23,457
	1,029,986	2,532	11,332	1,043,850
Interest rate contracts				
Futures	2,790	–	–	2,790
Swaps	267,140	86,803	4,177	358,120
	269,930	86,803	4,177	360,910
Commodity contracts	5,367	–	–	5,367
Equity contracts	2,099	–	–	2,099
Other contracts	59	–	–	59
Total	1,307,441	89,335	15,509	1,412,285

NOTES TO THE INTERIM FINANCIAL INFORMATION

21. Derivative financial instruments (continued)

The following tables summarise the fair values of each class of derivative financial instrument as at 30 June 2014 and 31 December 2013:

	At 30 June 2014							
	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	15,092	-	10	15,102	(11,185)	-	-	(11,185)
Swaps	4,522	-	4	4,526	(3,802)	(4)	(30)	(3,836)
Foreign currency options								
- Options purchased	3,618	-	-	3,618	-	-	-	-
- Options written	-	-	-	-	(222)	-	-	(222)
	23,232	-	14	23,246	(15,209)	(4)	(30)	(15,243)
Interest rate contracts								
Futures	-	-	-	-	(2)	-	-	(2)
Swaps	1,555	2,525	2	4,082	(2,072)	(925)	(58)	(3,055)
	1,555	2,525	2	4,082	(2,074)	(925)	(58)	(3,057)
Commodity contracts	319	-	-	319	(174)	-	-	(174)
Equity contracts	20	-	-	20	(19)	-	(12)	(31)
Total	25,126	2,525	16	27,667	(17,476)	(929)	(100)	(18,505)

NOTES TO THE INTERIM FINANCIAL INFORMATION

21. Derivative financial instruments (continued)

	At 31 December 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	14,208	–	–	14,208	(10,000)	–	(7)	(10,007)
Swaps	5,275	34	145	5,454	(4,953)	(43)	(167)	(5,163)
Foreign currency options								
– Options purchased	58	–	–	58	–	–	–	–
– Options written	–	–	–	–	(150)	–	–	(150)
	19,541	34	145	19,720	(15,103)	(43)	(174)	(15,320)
Interest rate contracts								
Futures	1	–	–	1	(1)	–	–	(1)
Swaps	1,767	3,359	5	5,131	(2,191)	(1,127)	(64)	(3,382)
	1,768	3,359	5	5,132	(2,192)	(1,127)	(64)	(3,383)
Commodity contracts	472	–	–	472	(185)	–	–	(185)
Equity contracts	24	–	–	24	(24)	–	–	(24)
Total	21,805	3,393	150	25,348	(17,504)	(1,170)	(238)	(18,912)

The table below gives the credit risk-weighted amounts of the above derivative financial instruments and is prepared with reference to the Completion Instructions for the HKMA return of capital adequacy ratio.

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
Exchange rate contracts	6,340	5,425
Interest rate contracts	942	1,542
Commodity contracts	–	4
Equity contracts	124	144
Total	7,406	7,115

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.

The total fair values of derivatives subject to valid bilateral netting agreements for the Group amounted to HK\$7,151 million (31 December 2013: HK\$173 million) and the effect of valid bilateral netting agreements amounted to HK\$3,954 million (31 December 2013: HK\$154 million).

NOTES TO THE INTERIM FINANCIAL INFORMATION

22. Advances and other accounts

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
Personal loans and advances	269,321	254,545
Corporate loans and advances	679,383	603,787
Advances to customers*	948,704	858,332
Loan impairment allowances		
– Individually assessed	(947)	(840)
– Collectively assessed	(3,547)	(3,395)
	944,210	854,097
Trade bills	69,495	70,846
Total	1,013,705	924,943

As at 30 June 2014, advances to customers included accrued interest of HK\$1,513 million (31 December 2013: HK\$1,344 million).

As at 30 June 2014 and 31 December 2013, no impairment allowance was made in respect of trade bills.

* Included advances to customers denominated in HK dollars of HK\$593,170 million (31 December 2013: HK\$552,769 million) and US dollars equivalent to HK\$261,528 million (31 December 2013: HK\$217,702 million).

NOTES TO THE INTERIM FINANCIAL INFORMATION

23. Investment in securities

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
(a) Available-for-sale securities		
Debt securities, at fair value		
– Listed in Hong Kong	24,752	27,134
– Listed outside Hong Kong	108,584	123,369
	133,336	150,503
– Unlisted	157,644	182,469
	290,980	332,972
Certificates of deposit, at fair value		
– Listed in Hong Kong	501	502
– Listed outside Hong Kong	683	686
	1,184	1,188
– Unlisted	47,839	76,889
	49,023	78,077
Equity securities, at fair value		
– Listed in Hong Kong	2,741	2,801
– Unlisted	1,398	1,470
	4,139	4,271
	344,142	415,320
(b) Held-to-maturity securities		
Debt securities, at amortised cost		
– Listed in Hong Kong	1,139	710
– Listed outside Hong Kong	29,633	12,353
	30,772	13,063
– Unlisted	40,285	4,300
	71,057	17,363
Certificates of deposit, at amortised cost		
– Unlisted	95	95
	71,152	17,458
Impairment allowances	(1)	(3)
	71,151	17,455
(c) Loans and receivables		
Unlisted, at amortised cost	3,760	7,945
Total	419,053	440,720
Market value of listed held-to-maturity securities	31,209	13,132

NOTES TO THE INTERIM FINANCIAL INFORMATION

23. Investment in securities (continued)

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

	At 30 June 2014			
	Available-for-sale securities	Held-to-maturity securities	Loans and receivables	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Sovereigns	62,555	3,307	–	65,862
Public sector entities*	21,954	20,892	–	42,846
Banks and other financial institutions	189,206	37,420	1,897	228,523
Corporate entities	70,427	9,532	1,863	81,822
	344,142	71,151	3,760	419,053

	At 31 December 2013			
	Available-for-sale securities	Held-to-maturity securities	Loans and receivables	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Sovereigns	53,060	2,318	–	55,378
Public sector entities*	46,292	137	–	46,429
Banks and other financial institutions	243,746	7,227	7,112	258,085
Corporate entities	72,222	7,773	833	80,828
	415,320	17,455	7,945	440,720

* Included available-for-sale securities of HK\$20,473 million (31 December 2013: HK\$24,530 million) and held-to-maturity securities of HK\$2,489 million (31 December 2013: HK\$58 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 2014	At 31 December 2013	At 30 June 2014	At 31 December 2013
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Treasury bills	45,286	33,975	1,136	585
Certificates of deposit	49,023	78,077	95	95
Others	249,833	303,268	69,920	16,775
	344,142	415,320	71,151	17,455

NOTES TO THE INTERIM FINANCIAL INFORMATION

24. Investment properties

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
At 1 January	14,597	14,364
Additions	–	2
Fair value gains	119	264
Reclassification to properties, plant and equipment (Note 25)	(417)	(34)
Exchange difference	(1)	1
At period/year end	14,298	14,597

25. Properties, plant and equipment

	Premises HK\$'m	Equipment, fixtures and fittings HK\$'m	Total HK\$'m
Net book value at 1 January 2014	49,791	2,567	52,358
Additions	38	244	282
Disposals	–	(8)	(8)
Revaluation	1,443	–	1,443
Depreciation for the period (Note 12)	(514)	(386)	(900)
Reclassification from investment properties (Note 24)	417	–	417
Exchange difference	(12)	(7)	(19)
Net book value at 30 June 2014	51,163	2,410	53,573
At 30 June 2014			
Cost or valuation	51,163	8,430	59,593
Accumulated depreciation and impairment	–	(6,020)	(6,020)
Net book value at 30 June 2014	51,163	2,410	53,573
The analysis of cost or valuation of the above assets is as follows:			
At 30 June 2014			
At cost	–	8,430	8,430
At valuation	51,163	–	51,163
	51,163	8,430	59,593

NOTES TO THE INTERIM FINANCIAL INFORMATION

25. Properties, plant and equipment (continued)

	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	376	720	1,096
Disposals	(1)	(16)	(17)
Revaluation	4,143	–	4,143
Depreciation for the year	(953)	(710)	(1,663)
Reclassification from investment properties (Note 24)	34	–	34
Exchange difference	14	8	22
Net book value at 31 December 2013	49,791	2,567	52,358
At 31 December 2013			
Cost or valuation	49,791	8,275	58,066
Accumulated depreciation and impairment	–	(5,708)	(5,708)
Net book value at 31 December 2013	49,791	2,567	52,358
The analysis of cost or valuation of the above assets is as follows:			
At 31 December 2013			
At cost	–	8,275	8,275
At valuation	49,791	–	49,791
	49,791	8,275	58,066

26. Other assets

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
Repossessed assets	57	64
Precious metals	3,579	5,146
Reinsurance assets	27,988	23,937
Accounts receivable and prepayments	10,991	16,109
	42,615	45,256

NOTES TO THE INTERIM FINANCIAL INFORMATION

27. Financial liabilities at fair value through profit or loss

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
Trading liabilities		
– Short positions in Exchange Fund Bills and Notes	12,452	9,748
– Others	3,023	–
	15,475	9,748
Financial liabilities designated at fair value through profit or loss		
– Structured deposits (Note 28)	4,014	3,832
	19,489	13,580

The carrying amount of financial liabilities designated at fair value through profit or loss as at 30 June 2014 was less than the amount that the Group would be contractually required to pay at maturity to the holders by HK\$6 million (31 December 2013: HK\$6 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 was insignificant.

28. Deposits from customers

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
Current, savings and other deposit accounts (per balance sheet)	1,436,362	1,324,148
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 27)	4,014	3,832
	1,440,376	1,327,980
Analysed by:		
Demand deposits and current accounts		
– corporate	78,261	81,162
– personal	24,772	23,622
	103,033	104,784
Savings deposits		
– corporate	222,715	224,970
– personal	398,798	411,167
	621,513	636,137
Time, call and notice deposits		
– corporate	435,126	350,381
– personal	280,704	236,678
	715,830	587,059
	1,440,376	1,327,980

NOTES TO THE INTERIM FINANCIAL INFORMATION

29. Debt securities and certificates of deposit in issue at amortised cost

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
Debt securities		
– Senior notes under the Medium Term Note Programme	5,618	5,684
– Other debt securities	3,337	–
	8,955	5,684
Certificates of deposit	541	–
	9,496	5,684

30. Other accounts and provisions

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
Other accounts payable	46,286	47,803
Provisions	344	346
	46,630	48,149

31. Assets pledged as security

As at 30 June 2014, liabilities of the Group amounting to HK\$12,421 million (31 December 2013: HK\$11,529 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK\$3,780 million (31 December 2013: HK\$3,394 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\$16,560 million (31 December 2013: HK\$15,031 million) mainly included in "Trading securities", "Available-for-sale securities" and "Trade bills".

NOTES TO THE INTERIM FINANCIAL INFORMATION

32. Deferred taxation

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

The major components of deferred tax (assets)/liabilities recorded in the balance sheet, and the movements during the first half of 2014 and the year ended 31 December 2013 are as follows:

	At 30 June 2014					
	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 2014	581	7,348	(92)	(594)	(603)	6,640
(Credited)/charged to income statement (Note 15)	(6)	94	42	(54)	23	99
Charged to other comprehensive income	–	169	–	–	722	891
Exchange difference	–	(1)	–	4	2	5
At 30 June 2014	575	7,610	(50)	(644)	144	7,635

	At 31 December 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
Charged/(credited) to income statement	17	(91)	52	(100)	(16)	(138)
Charged/(credited) to other comprehensive income	–	666	–	–	(1,203)	(537)
Exchange difference	–	1	–	(2)	(1)	(2)
At 31 December 2013	581	7,348	(92)	(594)	(603)	6,640

NOTES TO THE INTERIM FINANCIAL INFORMATION

32. Deferred taxation (continued)

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

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
Deferred tax assets	(146)	(304)
Deferred tax liabilities	7,781	6,944
	7,635	6,640

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
Deferred tax assets to be recovered after more than twelve months	(108)	(85)
Deferred tax liabilities to be settled after more than twelve months	7,629	7,391
	7,521	7,306

As at 30 June 2014, the Group has not recognised deferred tax assets in respect of tax losses amounting to HK\$4 million (31 December 2013: HK\$7 million). These tax losses do not expire under the current tax legislation.

33. Insurance contract liabilities

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
At 1 January	66,637	53,937
Benefits paid	(5,612)	(5,798)
Claims incurred and movement in liabilities	11,238	18,498
At period/year end	72,263	66,637

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK\$27,943 million (31 December 2013: HK\$23,902 million) and the associated reinsurance assets of HK\$27,988 million (31 December 2013: HK\$23,937 million) are included in "Other assets" (Note 26).

NOTES TO THE INTERIM FINANCIAL INFORMATION

34. Subordinated liabilities

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
Subordinated notes, at amortised cost with fair value hedge adjustment USD2,500m*	19,768	19,849

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

Amounts qualified as Tier 2 capital instruments for regulatory purposes are shown in Note 3.5(C).

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

35. Share capital

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
Issued and fully paid: 10,572,780,266 ordinary shares	52,864	52,864

36. Reserves

The Group's reserves and the movements therein for the current and prior periods are presented in the condensed consolidated statement of changes in equity on pages 42 to 43.

NOTES TO THE INTERIM FINANCIAL INFORMATION

37. Notes to condensed consolidated cash flow statement

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

	Half-year ended 30 June 2014 HK\$'m	Half-year ended 30 June 2013 HK\$'m
Operating profit	15,054	13,728
Depreciation	900	810
Net charge of impairment allowances	379	371
Unwind of discount on impairment allowances	(3)	(9)
Advances written off net of recoveries	(94)	46
Change in subordinated liabilities	128	(1,231)
Change in balances with banks and other financial institutions with original maturity over three months	5,430	1,872
Change in placements with banks and other financial institutions with original maturity over three months	4,055	12,706
Change in financial assets at fair value through profit or loss	(4,290)	(681)
Change in derivative financial instruments	(2,726)	(337)
Change in advances and other accounts	(89,021)	(65,943)
Change in investment in securities	30,176	(1,160)
Change in other assets	2,637	(3,117)
Change in deposits and balances from banks and other financial institutions	(93,388)	(34,539)
Change in financial liabilities at fair value through profit or loss	5,909	(1,090)
Change in deposits from customers	112,214	33,466
Change in debt securities and certificates of deposit in issue at amortised cost	3,812	(157)
Change in other accounts and provisions	(1,519)	120
Change in insurance contract liabilities	5,626	5,979
Effect of changes in exchange rates	7,007	2,641
Operating cash inflow/(outflow) before taxation	2,286	(36,525)
Cash flows from operating activities included:		
– Interest received	21,253	18,077
– Interest paid	6,828	5,148
– Dividend received	80	75

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

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

	At 30 June 2014 HK\$'m	At 30 June 2013 HK\$'m
Cash and balances with banks and other financial institutions with original maturity within three months	322,614	164,885
Placements with banks and other financial institutions with original maturity within three months	12,901	9,344
Treasury bills with original maturity within three months	15,704	13,032
Certificates of deposit with original maturity within three months	149	847
	351,368	188,108

38. Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment and the aggregate credit risk-weighted amount and is prepared with reference to the Completion Instructions for the HKMA return of capital adequacy ratio.

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
Direct credit substitutes	22,030	17,555
Transaction-related contingencies	10,021	12,929
Trade-related and other contingencies	46,761	56,269
Commitments that are unconditionally cancellable without prior notice	387,470	361,772
Other commitments with an original maturity of		
– up to one year	9,172	6,601
– over one year	68,713	67,879
	544,167	523,005
Credit risk-weighted amount	55,090	55,353

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

39. Capital commitments

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

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
Authorised and contracted for but not provided for	318	350
Authorised but not contracted for	11	11
	329	361

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

40. Operating lease commitments

(a) As lessee

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

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
Land and buildings		
– not later than one year	739	714
– later than one year but not later than five years	1,227	1,188
– later than five years	294	323
	2,260	2,225

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.

(b) As lessor

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

	At 30 June 2014 HK\$'m	At 31 December 2013 HK\$'m
Land and buildings		
– not later than one year	414	402
– later than one year but not later than five years	421	416
	835	818

The Group leases its investment properties (Note 24) under operating lease arrangements, with leases typically for a period from one to three years. The terms of the leases generally require the tenants to pay security deposits and provide for rent adjustments according to the prevailing market conditions at the expiration of the lease.

NOTES TO THE INTERIM FINANCIAL INFORMATION

41. Segmental reporting

The Group manages the business mainly from a business segment perspective and over 90% of the Group's revenues, profits before tax and assets are derived from Hong Kong. Currently, four operating segments are identified: Personal Banking, Corporate Banking, Treasury and Insurance. The classification of the Group's operating segments is based on customer segment and product type, which is aligned with the RPC (relationship, product and channel) management model of the Group.

Both Personal Banking and Corporate Banking provide general banking services including various deposit products, overdrafts, loans, credit cards, trade related products and other credit facilities, investment and insurance products, and foreign currency and derivative products. Personal Banking mainly serves retail customers and small enterprises, while Corporate Banking mainly deals with corporate customers. Treasury manages the funding and liquidity, and the interest rate and foreign exchange positions of the Group in addition to proprietary trades. The Insurance segment represents business mainly relating to life insurance products, including individual life insurance and group life insurance products. "Others" mainly represents the Group's holdings of premises, investment properties, equity investments and 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.

In 2014, liquidity term premium was introduced into inter-segment funding. No revision has been made to the comparative figures in the same period of last year. However, if the same mechanism was applied in the same period of last year, it is estimated that the net interest income of Personal Banking, Corporate Banking and Treasury would be HK\$3,589 million, HK\$5,433 million and HK\$3,609 million respectively.

NOTES TO THE INTERIM FINANCIAL INFORMATION

41. Segmental reporting (continued)

	Personal Banking HK\$'m	Corporate Banking HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
Half-year ended 30 June 2014								
Net interest income/(expense)								
– external	793	4,405	9,396	1,060	2	15,656	–	15,656
– inter-segment	3,090	1,682	(4,435)	7	(344)	–	–	–
	3,883	6,087	4,961	1,067	(342)	15,656	–	15,656
Net fee and commission income/(expense)	2,843	1,996	72	(98)	209	5,022	(207)	4,815
Net insurance premium income	–	–	–	6,497	–	6,497	(8)	6,489
Net trading gain/(loss)	215	171	882	65	(12)	1,321	8	1,329
Net (loss)/gain on financial instruments designated at fair value through profit or loss	–	–	(1)	19	–	18	–	18
Net gain on other financial assets	–	21	135	19	–	175	–	175
Other operating income	12	10	5	83	873	983	(575)	408
Total operating income	6,953	8,285	6,054	7,652	728	29,672	(782)	28,890
Net insurance benefits and claims	–	–	–	(7,241)	–	(7,241)	–	(7,241)
Net operating income before impairment allowances	6,953	8,285	6,054	411	728	22,431	(782)	21,649
Net (charge)/reversal of impairment allowances	(203)	(178)	2	–	–	(379)	–	(379)
Net operating income	6,750	8,107	6,056	411	728	22,052	(782)	21,270
Operating expenses	(3,358)	(1,728)	(689)	(133)	(1,090)	(6,998)	782	(6,216)
Operating profit/(loss)	3,392	6,379	5,367	278	(362)	15,054	–	15,054
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	119	119	–	119
Net loss from disposal/revaluation of properties, plant and equipment	(4)	–	–	–	(3)	(7)	–	(7)
Share of profits less losses after tax of associates and a joint venture	–	–	–	–	13	13	–	13
Profit/(loss) before taxation	3,388	6,379	5,367	278	(233)	15,179	–	15,179
At 30 June 2014								
Assets								
Segment assets	302,541	731,581	907,489	85,695	71,347	2,098,653	(13,720)	2,084,933
Interests in associates and a joint venture	–	–	–	–	303	303	–	303
	302,541	731,581	907,489	85,695	71,650	2,098,956	(13,720)	2,085,236
Liabilities								
Segment liabilities	788,683	690,013	352,465	80,600	13,817	1,925,578	(13,720)	1,911,858
Half-year ended 30 June 2014								
Other information								
Capital expenditure	7	1	–	3	271	282	–	282
Depreciation	175	74	33	5	613	900	–	900
Amortisation of securities	–	–	472	114	–	586	–	586

NOTES TO THE INTERIM FINANCIAL INFORMATION

41. Segmental reporting (continued)

	Personal Banking HK\$m	Corporate Banking HK\$m	Treasury HK\$m	Insurance HK\$m	Others HK\$m	Subtotal HK\$m	Eliminations HK\$m	Consolidated HK\$m
Half-year ended 30 June 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 31 December 2013								
Assets								
Segment assets	286,067	662,806	962,077	79,580	70,050	2,060,580	(13,936)	2,046,644
Interests in associates and a joint venture	–	–	–	–	292	292	–	292
	286,067	662,806	962,077	79,580	70,342	2,060,872	(13,936)	2,046,936
Liabilities								
Segment liabilities	738,429	625,842	445,973	75,176	12,444	1,897,864	(13,936)	1,883,928
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

42. Offsetting financial instruments

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

	At 30 June 2014					
	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	12,961	–	12,961	(6,735)	(1,989)	4,237
Other assets	12,035	(9,940)	2,095	–	–	2,095
Total	24,996	(9,940)	15,056	(6,735)	(1,989)	6,332

	At 30 June 2014					
	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	8,306	–	8,306	(6,735)	(369)	1,202
Repurchase agreements	3,023	–	3,023	(3,023)	–	–
Other liabilities	10,313	(9,940)	373	–	–	373
Total	21,642	(9,940)	11,702	(9,758)	(369)	1,575

NOTES TO THE INTERIM FINANCIAL INFORMATION

42. Offsetting financial instruments (continued)

	At 31 December 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	11,450	–	11,450	(6,732)	(1,826)	2,892
Other assets	13,286	(8,532)	4,754	–	–	4,754
Total	24,736	(8,532)	16,204	(6,732)	(1,826)	7,646

	At 31 December 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	9,263	–	9,263	(6,732)	–	2,531
Repurchase agreements	2,100	–	2,100	(2,100)	–	–
Other liabilities	8,784	(8,532)	252	–	–	252
Total	20,147	(8,532)	11,615	(8,832)	–	2,783

For master netting agreements of OTC derivative and sale and repurchase 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

43. Significant related party transactions

The Group is subject to the control of the State Council of the PRC Government through China Investment Corporation (“CIC”), its wholly-owned subsidiary Central Huijin Investment Ltd. (“Central Huijin”), and BOC in which Central Huijin has controlling equity interests.

(a) *Transactions with the parent companies and the other companies controlled by the parent companies*

General information of the parent companies:

The Group is controlled by BOC. Central Huijin is the controlling entity of BOC, and it is a wholly-owned subsidiary of CIC which is a wholly state-owned company engaging in foreign currency investment management.

Central Huijin has controlling equity interests in certain other entities in the PRC.

The Group enters into banking and other transactions with these entities in the normal course of business which include loans, investment securities, money market and reinsurance transactions.

The majority of transactions with BOC arise from money market activities. As at 30 June 2014, the related aggregate amounts due from and to BOC of the Group were HK\$138,863 million (31 December 2013: HK\$130,693 million) and HK\$46,604 million (31 December 2013: HK\$41,263 million) respectively. The aggregate amounts of income and expenses of the Group arising from these transactions with BOC for the first half of 2014 were HK\$2,761 million (first half of 2013: HK\$752 million) and HK\$159 million (first half of 2013: HK\$50 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

43. 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 2014		Half-year ended 30 June 2013	
	Associates and joint venture HK\$'m	Other related parties HK\$'m	Associates and joint venture HK\$'m	Other related parties HK\$'m
Income statement items:				
Administrative services fees received/receivable	–	4	–	4
Other operating expenses	26	–	21	–

	At 30 June 2014		At 31 December 2013	
	Associates and joint venture HK\$'m	Other related parties HK\$'m	Associates and joint venture HK\$'m	Other related parties HK\$'m
Balance sheet items:				
Deposits from customers	1	–	22	–
Other accounts and provisions	33	–	–	–

(d) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, 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 the Company and its holding companies, as well as parties related to them.

The compensation of key management personnel is detailed as follows:

	Half-year ended 30 June 2014 HK\$'m	Half-year ended 30 June 2013 HK\$'m
Salaries and other short-term employee benefits	22	24
Post-employment benefits	1	1
	23	25

NOTES TO THE INTERIM FINANCIAL INFORMATION

44. 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 Authorised 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 2014							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	549,749	2,782	17,533	22,738	7,889	592,013	14,699	1,207,403
Spot liabilities	(408,454)	(4,899)	(14,560)	(23,193)	(10,921)	(500,034)	(17,264)	(979,325)
Forward purchases	710,444	45,236	72,894	39,104	25,930	373,830	38,239	1,305,677
Forward sales	(838,712)	(43,172)	(76,061)	(38,577)	(22,904)	(462,200)	(35,814)	(1,517,440)
Net options position	3,063	1	(3,458)	(43)	(35)	(3,138)	(16)	(3,626)
Net long/(short) position	16,090	(52)	(3,652)	29	(41)	471	(156)	12,689
Net structural position	366	-	-	-	-	9,341	-	9,707

	At 31 December 2013							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	537,034	1,093	11,963	22,583	1,447	589,995	16,566	1,180,681
Spot liabilities	(387,497)	(3,797)	(11,663)	(31,203)	(12,441)	(540,509)	(17,849)	(1,004,959)
Forward purchases	438,862	42,992	49,900	34,026	25,008	197,747	36,646	825,181
Forward sales	(581,245)	(40,424)	(50,197)	(25,635)	(14,046)	(239,842)	(35,547)	(986,936)
Net options position	2,416	-	(1)	(5)	4	(2,991)	(5)	(582)
Net long/(short) position	9,570	(136)	2	(234)	(28)	4,400	(189)	13,385
Net structural position	333	-	-	-	-	9,075	-	9,408

NOTES TO THE INTERIM FINANCIAL INFORMATION

45. Cross-border claims

The below analysis is prepared with reference to the Completion Instructions for the HKMA return of cross-border claims. Cross-border claims are exposures to foreign counterparties on which the ultimate risk lies, and are derived according to the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, the risk will be transferred to the country of the guarantor. For a claim on an overseas branch of a bank whose head office is located in another country, the risk will be transferred to the country where its head office is located. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate cross-border claims are shown as follows:

	At 30 June 2014			
	Public sector			Total HK\$'m
	Banks HK\$'m	entities* HK\$'m	Others HK\$'m	
Asia, other than Hong Kong				
– Mainland of China	406,167	72,768	189,701	668,636
– Others	61,855	7,117	36,463	105,435
Total	468,022	79,885	226,164	774,071

	At 31 December 2013			
	Public sector			Total HK\$'m
	Banks HK\$'m	entities* HK\$'m	Others HK\$'m	
Asia, other than Hong Kong				
– Mainland of China	399,428	128,223	150,889	678,540
– Others	50,034	9,441	31,982	91,457
Total	449,462	137,664	182,871	769,997

* There are no exposures eligible to be classified as public sector entities under the Banking (Capital) Rules in the tables above.

NOTES TO THE INTERIM FINANCIAL INFORMATION

46. Non-bank Mainland exposures

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

	At 30 June 2014			
	On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total exposure HK\$'m	Individually assessed impairment allowances HK\$'m
Mainland entities	419,547	69,524	489,071	468
Companies and individuals outside Mainland where the credit is granted for use in Mainland	55,727	12,364	68,091	249
Other non-bank Mainland exposures	29,927	2,087	32,014	71
	505,201	83,975	589,176	788

	At 31 December 2013			
	On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total exposure HK\$'m	Individually assessed impairment allowances HK\$'m
Mainland entities	373,439	82,774	456,213	234
Companies and individuals outside Mainland where the credit is granted for use in Mainland	52,238	15,745	67,983	135
Other non-bank Mainland exposures	25,375	1,651	27,026	15
	451,052	100,170	551,222	384

47. Compliance with HKAS 34

The unaudited interim financial information for the first half of 2014 complies with HKAS 34 "Interim Financial Reporting" issued by the HKICPA.

48. 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 2013 have been delivered to the Registrar of Companies and the HKMA. The auditor expressed an unqualified opinion on those statutory accounts in the report dated 26 March 2014.