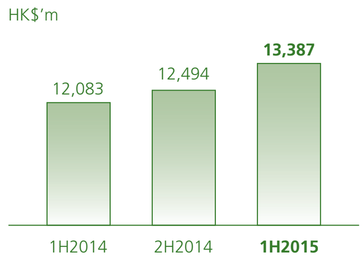
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE AND CONDITION AT A GLANCE

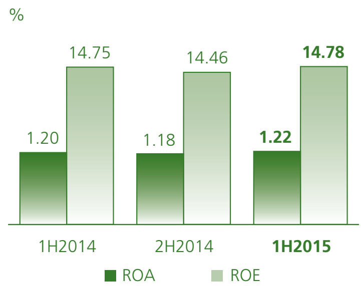
The Group achieved respectable financial results in the first half of 2015 with interim record highs in revenue and profits. Its financial position remained strong with key financial ratios staying at healthy levels. The following table is a summary of the Group's key financial results for the first half of 2015 in comparison with the previous two half-yearly periods. Meanwhile, the average value of liquidity coverage ratio was reported for the quarter ended 31 March and 30 June 2015.

Key Performance Trends

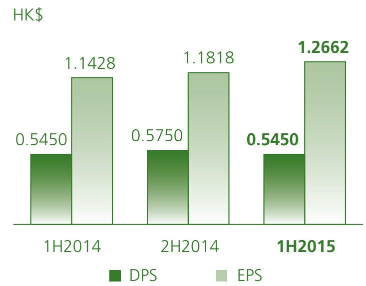
Profit Attributable to the Equity Holders



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



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



Profit attributable to the equity holders

- Profit attributable to the equity holders increased by 10.8% year-on-year to HK$13,387 million. Operating profit after impairment allowances rose by 8.3%, with satisfactory growth in core businesses.

Solid return with sustainable growth

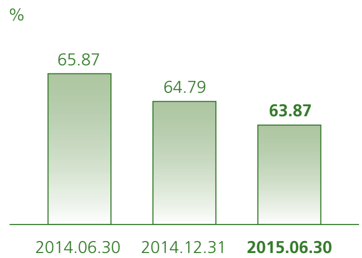
- ROE was 14.78%, up 0.03 percentage point year-on-year, as the increase in profit outpaced that of average equity.
- ROA was 1.22%.

Return to shareholders

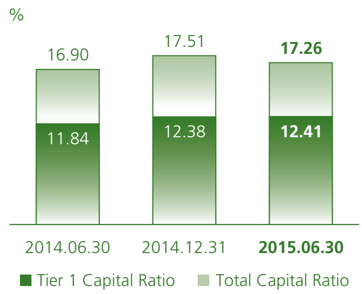
- EPS was HK$1.2662. Interim dividend per share was HK$0.545.

Financial Position

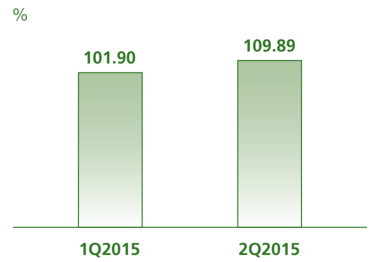
Loan to Deposit Ratio[3]



Capital Ratio[4]



Average Value of Liquidity Coverage Ratio[5]



Loan to deposit ratio at a healthy level

- Advances to customers increased by 7.3% while deposits from customers grew by 8.9% from the end of 2014. Loan to deposit ratio was 63.87%.

Solid capital position to support business growth

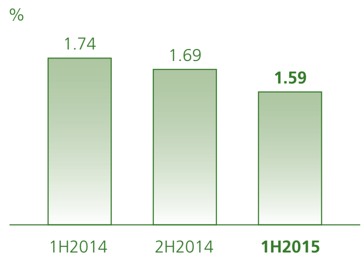
- The Group adopted proactive capital management to meet more stringent regulatory requirements and capture long-term business opportunities. The total capital ratio was 17.26% while the Tier 1 capital ratio was 12.41%.

Stable liquidity position

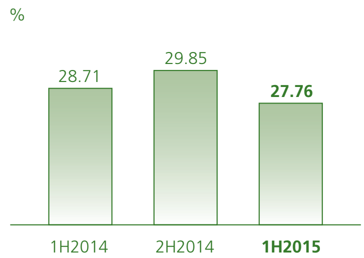
- Average value of liquidity coverage ratio in the first and second quarter of 2015 was 101.90% and 109.89% respectively, well above the regulatory requirement.

Key Operating Ratios

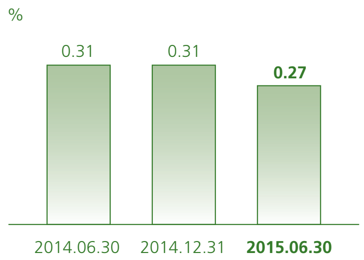
Net Interest Margin ("NIM")



Cost to Income Ratio



Classified or Impaired Loan Ratio[6]



Narrowing NIM with expanded asset size

- NIM was 1.59%, down 15 basis points year-on-year and 10 basis points half-on-half. The decrease was mainly attributable to the diluting impact from an increase in short-term debt securities investments and the lower average interest spread of RMB assets with the decline in market interest rates.

Cautious cost control

- The cost to income ratio was 27.76%, down 0.95 percentage point year-on-year, which was still among the lowest in the industry.

Classified or impaired loan ratio stayed at a low level

- The classified or impaired loan ratio remained low at 0.27%.

1. Return on Average Shareholders' Equity as defined in "Financial Highlights".
2. Return on Average Total Assets as defined in "Financial Highlights".
3. Loan represents gross advances to customers while deposits from customers include structured deposits reported as "Financial liabilities at fair value through profit or loss".
4. The capital ratios are computed on a consolidated basis for regulatory purposes that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules.
5. The implementation of the Basel III liquidity coverage ratio came into effect on 1 January 2015. The average value of liquidity coverage ratio is calculated based on the arithmetic mean of the liquidity coverage ratio as at the end of each working day in the quarter and is computed on a consolidated basis, which comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Liquidity) Rules.
6. Classified or impaired loans 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC BACKGROUND AND OPERATING ENVIRONMENT

In the first half of 2015, growth in major economies remained modest. In the US, the recovery remained broadly on track with rising employment and higher levels of business activity. Further monetary easing by the European Central Bank provided support to the economic improvement in the Eurozone but growth momentum remained weak and was further held back by the Greek debt crisis. In the Mainland of China, strong headwinds remained with subdued external demand and slowing internal growth. The Central Government introduced a series of stimulus measures to manage economic growth under what is being termed the "new normal".

The Hong Kong economy continued to grow moderately, supported by domestic demand and solid labour market conditions. However, sluggish external demand and weaker inbound tourism affected net exports and retail sales. The local residential property market showed some signs of consolidation following the introduction of further prudential measures for property mortgage loans by the government in February. The local stock market turned buoyant in the second quarter of 2015 with transaction volumes increasing significantly in April and May.

Overall liquidity in the Hong Kong banking sector stayed abundant and market interest rates remained at low levels. The average 1-month HIBOR and 1-month LIBOR were 0.24% and 0.18% respectively in the first half of 2015. The average 10-year HKD swap rate and USD swap rate fell from 2.71% and 2.79% in the first half of 2014 to 1.98% and 2.16% respectively in the first half of 2015.

Meanwhile, the offshore RMB business continued to grow steadily. A number of initiatives were introduced to promote capital account convertibility and the global use of RMB. These included the further expansion of the Free Trade Zones ("FTZs") in Guangdong, Tianjin and Fujian; a relaxation of the policy to allow offshore RMB clearing banks and participating banks to take part in repo transactions in the onshore interbank bond market; and the announcement of the launch of the Mainland-Hong Kong Mutual Recognition of Funds.

The operating environment for banks in Hong Kong remained highly challenging in the first half of 2015 owing to the uncertain global recovery. Interest rate cuts in the Mainland of China put pressure on offshore loan pricing. Slower economic growth on the Mainland further dampened already softened loan demand and negatively affected certain industries, which put pressure on asset quality. Nevertheless, the Mainland's strategic initiatives and deepening economic reform continued to present banks with opportunities for acquiring new customers and expanding their business coverage.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL REVIEW

Financial Highlights

HK$'m	**Half-year ended 30 June 2015**	Half-year ended 31 December 2014	Half-year ended 30 June 2014
Net operating income before impairment allowances	**23,688**	22,633	21,649
Operating expenses	**(6,576)**	(6,756)	(6,216)
Operating profit before impairment allowances	**17,112**	15,877	15,433
Operating profit after impairment allowances	**16,303**	15,206	15,054
Profit before taxation	**16,782**	15,484	15,179
Profit attributable to the equity holders of the Company	**13,387**	12,494	12,083

In the first half of 2015, the Group captured market opportunities and focused on a variety of growth strategies to achieve a respectable set of financial results. It was proactive in managing its balance sheet and responded swiftly to market changes while continuing to work closely with BOC to capture business opportunities. It also maintained stringent risk management and credit control to safeguard asset quality. As a result, in the first half of 2015 the Group achieved interim record highs in revenue and profits with key financial ratios staying at healthy levels.

The Group's net operating income before impairment allowances rose by HK$2,039 million, or 9.4% year-on-year, to HK$23,688 million in the first half of 2015. The increase was driven by the strong growth in net fee and commission income, the higher net operating income of the Group's insurance segment and the net gain from the disposal of certain equity instruments, partially offset by the lower net trading gain. Net interest income was broadly unchanged with the growth in average interest-earning assets, partially offset by the lower net interest margin. Operating expenses increased as the Group continued to invest in long-term growth. The net charge of loan impairment allowances rose as did the net gain from fair value adjustments on investment properties, which increased year-on-year. Profit attributable to the equity holders grew by HK$1,304 million, or 10.8%.

As compared with the second half of 2014, the Group's net operating income before impairment allowances increased by HK$1,055 million, or 4.7%. The growth in income was mainly driven by the increase in net fee and commission income. The net gain from the disposal of certain equity instruments and the higher net operating income of the Group's insurance segment also contributed to the increase in its net operating income. The increases were partially offset by the decline in net interest income, resulting from the narrowing of net interest margin, and the lower net trading gain. Operating expenses fell while net gain from fair value adjustments on investment properties rose. Profit attributable to the equity holders increased by HK$893 million, or 7.1%, on a half-on-half basis.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INCOME STATEMENT ANALYSIS

Net Interest Income and Margin

HK$'m, except percentages	**Half-year ended 30 June 2015**	Half-year ended 31 December 2014	Half-year ended 30 June 2014
Interest income	**23,860**	24,648	23,304
Interest expense	**(8,188)**	(8,385)	(7,648)
Net interest income	**15,672**	16,263	15,656
Average interest-earning assets	**1,993,548**	1,905,864	1,814,625
Net interest spread	**1.46%**	1.57%	1.62%
Net interest margin*	**1.59%**	1.69%	1.74%

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

Compared with the first half of 2014, the Group's net interest income increased moderately by HK$16 million or 0.1%. The increase was driven by the growth in average interest-earning assets, offset by the lower net interest margin.

Average interest-earning assets expanded by HK$178,923 million, or 9.9% year-on-year, mainly supported by the increase in deposits from customers.

Net interest margin was 1.59%, down 15 basis points, due to the increase in lower-yielding assets in short-term debt securities investments and interbank placements. The narrowing of net interest margin was also due to the decrease in the average interest spread of RMB assets, caused by the drop in RMB market interest rates and increase in RMB deposit costs. Nevertheless, the Group continued to be proactive in managing its assets and liabilities and was effective in controlling its deposit pricing. The loan and deposit spread widened. The Group also increased higher-yielding RMB balances and placements with banks, RMB bonds as well as advances to customers. All these partially offset the above negative impact.

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

	Half-year ended 30 June 2015		Half-year ended 31 December 2014		Half-year ended 30 June 2014	
ASSETS	**Average balance HK$'m**	**Average yield %**	Average balance HK$'m	Average yield %	Average balance HK$'m	Average yield %
Balances and placements with banks and other financial institutions	**442,478**	**2.67**	460,059	3.05	434,892	3.11
Debt securities investments	**572,082**	**2.15**	493,881	2.38	455,880	2.49
Advances to customers	**962,511**	**2.46**	937,071	2.44	907,670	2.42
Other interest-earning assets	**16,477**	**1.85**	14,853	1.61	16,183	1.21
Total interest-earning assets	**1,993,548**	**2.41**	1,905,864	2.57	1,814,625	2.59
Non interest-earning assets	**276,334**	**–**	257,250	–	246,667	–
Total assets	**2,269,882**	**2.12**	2,163,114	2.26	2,061,292	2.28
LIABILITIES	**Average balance HK$'m**	**Average rate %**	Average balance HK$'m	Average rate %	Average balance HK$'m	Average rate %
Deposits and balances from banks and other financial institutions	**193,663**	**0.94**	173,982	0.89	207,172	0.85
Current, savings and time deposits	**1,460,105**	**0.92**	1,416,125	0.99	1,306,950	0.99
Certificates of deposit issued	**–**	**–**	328	1.11	149	0.78
Subordinated liabilities	**19,628**	**2.11**	19,525	2.18	19,704	0.59
Other interest-bearing liabilities	**57,459**	**1.39**	52,490	1.31	51,086	1.05
Total interest-bearing liabilities	**1,730,855**	**0.95**	1,662,450	1.00	1,585,061	0.97
Non interest-bearing deposits	**102,918**	**–**	106,572	–	89,080	–
Shareholders' funds* and other non interest-bearing liabilities	**436,109**	**–**	394,092	–	387,151	–
Total liabilities	**2,269,882**	**0.73**	2,163,114	0.77	2,061,292	0.75

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

Compared with the second half of 2014, net interest income decreased by HK$591 million, or 3.6%, due to the lower net interest margin. Average interest-earning assets grew by HK$87,684 million, or 4.6%, which was supported by the increases in deposits from customers as well as deposits and balances from banks. Net interest margin was down 10 basis points. This was mainly due to the increase in short-term debt securities investments and the decrease in the average interest spread of RMB assets. The decrease was partially offset by the improved loan and deposit spread.

Net Fee and Commission Income

HK$'m	**Half-year ended 30 June 2015**	Half-year ended 31 December 2014	Half-year ended 30 June 2014
Securities brokerage	**2,335**	1,496	1,180
Credit card business	**1,849**	1,881	1,792
Loan commissions	**1,330**	1,051	1,134
Insurance	**818**	885	677
Funds distribution	**676**	522	513
Bills commissions	**353**	397	413
Payment services	**305**	304	300
Trust and custody services	**241**	244	206
Currency exchange	**150**	126	105
Safe deposit box	**140**	128	136
Others	**289**	256	259
Fee and commission income	**8,486**	7,290	6,715
Fee and commission expense	**(2,161)**	(1,983)	(1,900)
Net fee and commission income	**6,325**	5,307	4,815

Net fee and commission income rose strongly by HK$1,510 million, or 31.4% year-on-year, to HK$6,325 million. This increase was broad-based. Fee and commission income from securities brokerage, loans, funds distribution, insurance and currency exchange grew strongly. Income from securities brokerage rose substantially by 97.9%, as the Group successfully captured opportunities from increased transactions in the local stock market. Loan commissions grew by 17.3%, due mainly to higher commission income from corporate loans. Income from funds distribution increased by 31.8%, as a result of the Group's enriched product offerings that met customers' needs. Income from insurance grew by 20.8% with the rise in business volume. Income from currency exchange rose by 42.9%, driven by the higher demand for foreign currency banknotes in the Mainland of China. Commission income from credit cards, trust and custody services also recorded healthy growth. Meanwhile, bills commissions decreased, reflecting the subdued trade-related activities. The increase in fee and commission expense was mainly caused by higher securities brokerage and insurance related expenses.

Compared with the second half of 2014, net fee and commission income grew by HK$1,018 million, or 19.2%. The increase was mainly driven by an increase in commission income from securities brokerage, loans, funds distribution and currency exchange. Fee and commission expense rose, mainly due to higher securities brokerage and insurance related expenses.

Net Trading Gain/(Loss)

HK$'m	**Half-year ended 30 June 2015**	Half-year ended 31 December 2014	Half-year ended 30 June 2014
Foreign exchange and foreign exchange products	**217**	575	829
Interest rate instruments and items under fair value hedge	**208**	234	493
Commodities	**30**	37	23
Equity and credit derivative instruments	**153**	(13)	(16)
Net trading gain	**608**	833	1,329

Net trading gain was HK$608 million, a decrease of HK$721 million, or 54.3%, from the first half of 2014. Net trading gain from foreign exchange and foreign exchange products dropped by HK$612 million, due to the higher net loss on foreign exchange swap contracts*, partially offset by the net gain from foreign exchange transactions. Net trading gain from interest rate instruments and items under fair value hedge dropped by HK$285 million, mainly attributable to the mark-to-market changes of certain debt securities. There was a net trading gain from equity and credit derivative instruments as opposed to a net trading loss in the first half of 2014, mainly due to the increased income from equity-linked products in the first half of 2015 versus the mark-to-market loss of certain equity securities in the first half of 2014.

Compared with the second half of 2014, the net trading gain decreased by HK$225 million, or 27.0%. The decrease was mainly attributable to the higher net loss on foreign exchange swap contracts*, partially offset by the increased income from equity-linked products and the lower net trading loss from certain equity securities investments in the first half of 2015.

* Foreign exchange swap contracts are usually used for the Group's liquidity management and funding activities. Under the foreign exchange swap contracts, the Group exchanges one currency (original currency) for another (swapped currency) at the spot exchange rate (spot transaction) and commits to reverse the spot transaction by exchanging the same currency pair at a future maturity date at a predetermined rate (forward transaction). In this way, surplus funds in the original currency are swapped into another currency for liquidity and funding purposes with minimal foreign exchange risk. The exchange difference between the spot and forward contracts is recognised as a foreign exchange gain or loss (as included in "net trading gain/(loss)"), while the corresponding interest differential between the surplus funds in the original currency and swapped currency is reflected in net interest income.

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

HK$'m	**Half-year ended 30 June 2015**	Half-year ended 31 December 2014	Half-year ended 30 June 2014
Net (loss)/gain on financial instruments designated at fair value through profit or loss	**(168)**	7	18

The Group recorded a net loss of HK$168 million on financial instruments designated at FVTPL in the first half of 2015, compared with a net gain of HK$18 million in the first half of 2014. The change was mainly attributable to the mark-to-market loss of debt securities investments of BOCG Life, which was caused by market interest rate movements. This was partially offset by the higher net gain from its equity securities investments. The changes in market value of its debt securities portfolio were offset by the corresponding changes in policy reserves, as reflected in the changes in net insurance benefits and claims attributable to the movement of market interest rates.

The net gain in the second half of 2014 was mainly attributable to the net gain of BOCG Life's debt securities investments.

Operating Expenses

HK$'m	**Half-year ended 30 June 2015**	Half-year ended 31 December 2014	Half-year ended 30 June 2014
Staff costs	**3,687**	3,779	3,489
Premises and equipment expenses (excluding depreciation)	**847**	865	814
Depreciation on owned fixed assets	**961**	929	900
Other operating expenses	**1,081**	1,183	1,013
Total operating expenses	**6,576**	6,756	6,216

	At 30 June 2015	At 31 December 2014	At 30 June 2014
Staff headcount measured in full-time equivalents	**14,986**	14,926	14,623

Total operating expenses increased by HK$360 million, or 5.8%, to HK$6,576 million year-on-year, as the Group continued to invest in its service capabilities and new businesses to enhance its long-term competitiveness. During this period, the Group remained focused on disciplined cost control.

Staff costs increased by 5.7%, mainly due to higher salaries as a result of the annual salary increment and the increase in performance-related remuneration.

Premises and equipment expenses were up 4.1% owing to higher rental and maintenance costs.

Depreciation on owned fixed assets rose by 6.8% as a result of a larger depreciation charge on premises and IT equipment as the Group continued to upgrade its IT infrastructure.

Other operating expenses rose by 6.7%, mainly due to higher expenses in connection with the increasing business volume.

Compared with the second half of 2014, operating expenses declined by HK$180 million, or 2.7%. The decrease was mainly attributable to lower staff costs and advertising expenditure in the first half of 2015.

Net Charge of Loan Impairment Allowances

HK$'m	**Half-year ended 30 June 2015**	Half-year ended 31 December 2014	Half-year ended 30 June 2014
Net charge of allowances before recoveries			
– individual assessment	**(812)**	(596)	(152)
– collective assessment	**(89)**	(159)	(326)
Recoveries	**95**	101	101
Net charge of loan impairment allowances	**(806)**	(654)	(377)

The net charge of loan impairment allowances was HK$806 million in the first half of 2015, increasing by HK$429 million or 113.8% year-on-year. Net charge of individually assessed impairment allowances amounted to HK$812 million, mainly caused by the downgrade of a few corporate advances due to the worsening asset quality situation in the Mainland of China. The lower net charge of collectively assessed impairment allowances was primarily due to the periodic update of the parameter values in the assessment model. During the period, recoveries amounted to HK$95 million.

Compared with the second half of 2014, net charge of loan impairment allowances increased by HK$152 million, or 23.2%. The increase was mainly caused by the higher net charge of individually assessed impairment allowances.

BALANCE SHEET ANALYSIS

Asset Deployment

	At 30 June 2015		At 31 December 2014	
HK$'m, except percentages	**Amount**	**% of total**	Amount	% of total
Cash and balances with banks and other financial institutions	**329,274**	**13.9**	398,673	18.2
Placements with banks and other financial institutions maturing between one and twelve months	**50,867**	**2.1**	37,436	1.7
Hong Kong SAR Government certificates of indebtedness	**93,530**	**4.0**	90,770	4.2
Securities investments[1]	**642,205**	**27.1**	492,820	22.5
Advances and other accounts	**1,078,831**	**45.6**	1,014,129	46.3
Fixed assets and investment properties	**71,194**	**3.0**	69,766	3.2
Other assets[2]	**101,784**	**4.3**	85,773	3.9
Total assets	**2,367,685**	**100.0**	2,189,367	100.0

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

As at 30 June 2015, the Group's total assets amounted to HK$2,367,685 million, an increase of HK$178,318 million or 8.1% from the end of 2014. The Group continued to proactively manage its assets and liabilities to enhance profitability.

Key changes in the Group's total assets include the following:

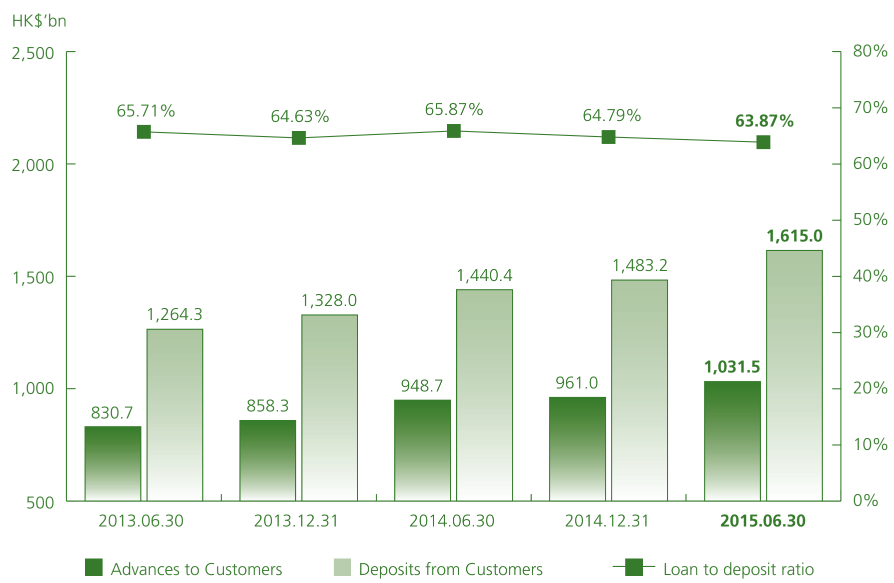
- Cash and balances with banks and other financial institutions decreased by 17.4%, as funds were deployed to securities investments and advances to customers.

- Securities investments increased by 30.3%, with increases mainly in government-related and high-quality corporate bonds.

- Advances and other accounts rose by 6.4%, with the growth in advances to customers by 7.3%.

- Other assets grew by 18.7%, which was led by the increase in account receivables and reinsurance assets.

Advances to customers and deposits from customers*



* Deposits from customers include structured deposits

Advances to Customers

	At 30 June 2015		At 31 December 2014	
HK$'m, except percentages	**Amount**	**% of total**	Amount	% of total
Loans for use in Hong Kong	**625,371**	**60.6**	575,401	59.9
Industrial, commercial and financial	**347,408**	**33.7**	308,141	32.1
Individuals	**277,963**	**26.9**	267,260	27.8
Trade finance	**87,365**	**8.5**	86,316	9.0
Loans for use outside Hong Kong	**318,788**	**30.9**	299,272	31.1
Total advances to customers	**1,031,524**	**100.0**	960,989	100.0

The Group continued to adopt a stringent lending policy and focused on customer selection to achieve quality and sustainable loan growth. Advances to customers grew by HK$70,535 million, or 7.3%, to HK$1,031,524 million in the first half of 2015.

Loans for use in Hong Kong grew by HK$49,970 million or 8.7%.

- Lending to the industrial, commercial and financial sectors increased by HK$39,267 million, or 12.7%. Lending to financial concerns, and for property development, transport and transport equipment as well as manufacturing sectors grew by 260.7%, 21.6%, 20.1% and 20.9% respectively.

- Lending to individuals increased by HK$10,703 million, or 4.0%. Residential mortgage loans (excluding those under the Government-sponsored home purchasing schemes) grew by 4.5%.

Trade finance rose by HK$1,049 million, or 1.2%. Loans for use outside Hong Kong grew by HK$19,516 million, or 6.5%.

Loan Quality

HK$'m, except percentage amounts	**At 30 June 2015**	At 31 December 2014
Advances to customers	**1,031,524**	960,989
Classified or impaired loan ratio	**0.27%**	0.31%
Impairment allowances	**4,452**	4,616
Regulatory reserve for general banking risks	**10,686**	10,011
Total allowances and regulatory reserve	**15,138**	14,627
Total allowances as a percentage of advances to customers	**0.43%**	0.48%
Impairment allowances[1] as a percentage of classified or impaired advances	**41.17%**	38.20%
Residential mortgage loans[2] – delinquency and rescheduled loan ratio[3]	**0.03%**	0.02%
Card advances – delinquency ratio[3]	**0.19%**	0.17%

	Half-year ended 30 June 2015	Half-year ended 30 June 2014
Card advances – charge-off ratio[4]	**1.40%**	1.45%

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

The Group's loan quality remained solid. The classified or impaired loan ratio was 0.27%. Classified or impaired advances to customers decreased by HK$244 million, or 8.1%, to HK$2,764 million.

Total impairment allowances, including both individual assessment and collective assessment, amounted to HK$4,452 million. Total impairment allowances on classified or impaired advances as a percentage of total classified or impaired advances was 41.17%.

The credit quality of the Group's residential mortgage loans and card advances remained sound. The combined delinquency and rescheduled loan ratio of residential mortgage loans was 0.03% at the end of June 2015. The charge-off ratio of card advances remained low at 1.40% in the first half of 2015.

Deposits from Customers*

HK$'m, except percentages	At 30 June 2015 Amount	At 30 June 2015 % of total	At 31 December 2014 Amount	At 31 December 2014 % of total
Demand deposits and current accounts	**166,589**	**10.3**	116,361	7.8
Savings deposits	**691,527**	**42.8**	672,826	45.4
Time, call and notice deposits	**754,211**	**46.7**	690,922	46.6
	1,612,327	**99.8**	1,480,109	99.8
Structured deposits	**2,672**	**0.2**	3,115	0.2
Deposits from customers	**1,614,999**	**100.0**	1,483,224	100.0

- Including structured deposits

The Group continued to leverage its strong customer base and maintain a flexible deposit strategy to support business growth while actively managing deposit pricing. Total deposits from customers were up HK$131,775 million, or 8.9%, to HK$1,614,999 million as at 30 June 2015. Demand deposits and current accounts grew strongly by 43.2% while savings deposits increased by 2.8%. Time, call and notice deposits also increased by 9.2%. The loan to deposit ratio was 63.87% at the end of June 2015, down 0.92 percentage point from the end of 2014.

Capital and Reserves Attributable to the Equity Holders of the Company

HK$'m	At 30 June 2015	At 31 December 2014
Share capital	**52,864**	52,864
Premises revaluation reserve	**38,748**	37,510
Reserve for fair value changes of available-for-sale securities	**1,874**	1,930
Regulatory reserve	**10,686**	10,011
Translation reserve	**798**	778
Retained earnings	**80,604**	73,621
Reserves	**132,710**	123,850
Capital and reserves attributable to the equity holders of the Company	**185,574**	176,714

Capital and reserves attributable to the equity holders of the Company increased by HK$8,860 million, or 5.0%, to HK$185,574 million as at 30 June 2015. Retained earnings rose by 9.5%, reflecting the profit for the first half of 2015 after appropriation of the final dividend for 2014. The premises revaluation reserve increased by 3.3%, which was attributable to the increase in property prices in the first half of 2015. The regulatory reserve rose by 6.7%, mainly due to growth in advances to customers.

Capital and Liquidity Coverage Ratio

HK$'m, except percentages	**At 30 June 2015**	At 31 December 2014
Consolidated capital after deductions		
Common Equity Tier 1 capital	**117,304**	110,440
Additional Tier 1 capital	**592**	733
Tier 1 capital	**117,896**	111,173
Tier 2 capital	**45,999**	46,035
Total capital	**163,895**	157,208
Total risk-weighted assets	**949,666**	897,812
Common Equity Tier 1 capital ratio	**12.35%**	12.30%
Tier 1 capital ratio	**12.41%**	12.38%
Total capital ratio	**17.26%**	17.51%

	Quarter ended 31 March 2015	**Quarter ended 30 June 2015**
Average value of liquidity coverage ratio	**101.90%**	**109.89%**

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

In order to meet extra capital requirements following the Group's designation as one of the domestic systemically important banks in Hong Kong and to capture future business opportunities, the Group continued to adopt proactive measures to manage its capital and optimise the risk-weights of its assets. The Group's aim is to maintain a solid capital adequacy level to support its sustainable growth strategy.

The Group's capital position stayed solid to support its business growth. At 30 June 2015, common equity tier 1 ("CET1") capital ratio was 12.35% and tier 1 capital ratio was 12.41%, up 0.05 percentage point and 0.03 percentage point respectively from that at the end of 2014. Profits net of dividends paid for the half year of 2015 drove up CET1 capital and tier 1 capital by 6.2% and 6.0% respectively. The increase in total risk-weighted assets ("RWA") was mainly from increase in credit RWA due to the growth in advances to customers in the first half of 2015. Total capital ratio was 17.26%.

The average value of liquidity coverage ratio ("LCR") is calculated based on the arithmetic mean of the LCR as at the end of each working day in the quarter and the calculation methodology and instructions set out in the HKMA return of liquidity position. The LCR is computed on a consolidated basis, which comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Liquidity) Rules. The average value of LCR in the first and second quarter of 2015 was 101.90% and 109.89% respectively. For details on the LCR, please refer to Note 3.3(A) to the Interim Financial Information.

BUSINESS REVIEW

Business Segment Performance

Profit/(Loss) before Taxation by Business Segments

HK$'m, except percentages	Half-year ended 30 June 2015 Amount	Half-year ended 30 June 2015 % of total	Half-year ended 30 June 2014 Amount	Half-year ended 30 June 2014 % of total
Personal Banking	**6,024**	**35.9**	3,388	22.3
Corporate Banking	**5,854**	**34.9**	6,379	42.0
Treasury	**4,134**	**24.6**	5,367	35.4
Insurance	**649**	**3.9**	278	1.8
Others	**121**	**0.7**	(233)	(1.5)
Total profit before taxation	**16,782**	**100.0**	15,179	100.0

Note: For additional segmental information, see Note 41 to the Interim Financial Information.

PERSONAL BANKING

Financial Results

Personal Banking recorded a strong increase of HK$2,636 million, or 77.8%, in profit before taxation. The growth was mainly driven by the strong growth in net fee and commission income. Net interest income also grew satisfactorily. The net gain from the disposal of certain equity instruments further contributed to the increase in profit.

Net interest income increased by 15.1%. This was mainly driven by the improvement in the loan spread coupled with the increase in the average balance of deposits and loans. The growth was partially offset by the decrease in the deposit spread.

Net fee and commission income increased strongly by 50.2%. The growth was broad-based and mainly attributable to the higher income from securities brokerage, funds distribution, insurance and credit cards.

During the period, the Group captured market opportunities to dispose of certain equity instruments and realised a net gain.

Operating expenses were up 6.9%, mainly due to the increase in staff costs.

Business operation

The Group's Personal Banking business delivered solid growth in the first half of 2015. It remained the market leader in the underwriting of new mortgage loans and the UnionPay card business. It continuously expanded the product offerings of the investment and insurance businesses with encouraging growth in related commission income. Its refined customer segmentation strategy laid a solid foundation for stronger customer relationships. The Group also provided targeted sales and promotions to different customer segments, which resulted in the satisfactory growth of its client base in both wealth management and private banking. In addition, the Group collaborated with BOC and its overseas branches to recruit new customers from the Mainland of China and overseas. In recognition of its outstanding performance in retail banking, BOCHK was named the Best Retail Bank 2015 in Hong Kong by The Asian Banker in its International Excellence in Retail Financial Services Programme.

Reinforcing its market leadership in residential mortgages

Market activities in the local residential property market slowed somewhat in the second quarter of the year following the introduction of further prudential measures by the government. To capture new business opportunities, the Group focused on enriching its mortgage service portfolios and providing innovative products across all channels. During the period, the Group added a Mortgage eAssessment function to the Mortgage Expert mobile application, allowing home buyers to obtain preliminary approval amount for their mortgage loan applications within one minute. The Group also supported The Hong Kong Mortgage Corporation Limited by enhancing the features of the Reverse Mortgage Programme and Home Ownership Scheme mortgage plans to offer greater product flexibility. At the same time, the Group continued to work in close partnership with major local property developers and participated in joint promotions with primary property development projects. At the end of June 2015, the balance of the Group's mortgage loans grew by 4.5% compared with the end of last year, and it maintained its leadership position in new residential mortgage loans.

Encouraging growth in the investment and insurance businesses

The investment and insurance businesses registered satisfactory growth in commission income from securities brokerage, funds distribution and insurance during the review period, when the Group stepped up its marketing efforts to acquire new customers and promote more securities dealing services. These included the promotion of its mobile banking securities services and enhanced collaboration with BOC through customer referral incentive schemes. As ties between the Hong Kong and Mainland stock markets grew closer, the Group extended its A-shares trading services to mobile banking. It also invested in customer education with a series of customer seminars and launched the Virtual Securities Investment Competition – BOCHK Investment Championship. As a result, commission income from securities brokerage grew strongly by 97.9%.

In the funds distribution business, the Group continued to broaden its product offerings to satisfy the diverse needs of its customers. Following the announcement of the launch of Mainland-Hong Kong Mutual Recognition of Funds, the Group worked closely with BOC to fully prepare for the provision of a full-range of fund investment services to customers. It selected a number of eligible funds, including Mainland funds with growth potential for local customers and Hong Kong funds with unique features appealing to Mainland customers. To keep local customers abreast of the market information related to Mainland funds and help them identify investment opportunities, the Group launched an education webpage featuring a series of upcoming customer seminars. It also conducted themed marketing campaigns and investment seminars to deepen its relationships with customers, which led to an encouraging 31.8% year-on-year growth in commission income from funds distribution.

With regards to the Bancassurance business, the Group maintained its leading position in the Hong Kong RMB insurance market. During the review period, it continued to provide a diversified range of products and optimised its sales distribution channels. It also held a series of marketing campaigns to reinforce the Group's brand image. As a result, insurance commission income grew satisfactorily by 20.8%.

A recognised leader in the UnionPay card business

The Group's credit card business sustained its growth momentum in the first half of 2015 in terms of cardholder spending volume despite the year-on-year decline in the value of total retail sales in Hong Kong over the same period. It also maintained its leadership in the UnionPay merchant acquiring business and card issuing business in Hong Kong. The BOCHK Credit Card WeChat official account was upgraded to include new functions that improve the customer experience.

Satisfactory growth of customer base in wealth management services

The Group continued to focus on providing customised products and services that meet customers' needs. During the first half of 2015, it launched a series of marketing programmes, including Family Banking-themed promotions. It also introduced tailored product solutions through its Wealth Management, Enrich Banking and i-Free Banking platforms, to provide customers with a wider range of quality banking services. As a result, satisfactory growth was recorded in terms of the number of customers acquired and their related Total Relationship Balance.

The Group's Private Banking business continued to make satisfactory progress owing to the enriched products and services it provided. During the period, it broadened its range of tailored products and services for investment management and estate planning in order to meet the needs of Private Banking clients. The Group also increased its collaboration with BOC to appeal to affluent clients from the Mainland and overseas through a series of client acquisition and referral activities. In order to target overseas clients and capture growing business opportunities from Southeast Asia, it expanded its sales team which helped it to achieve encouraging growth in both the number of Private Banking clients and their assets under management.

A well-recognised electronic banking platform

The Group continued to optimise its distribution channels during the review period. At the end of June 2015, the Group's service network in Hong Kong comprised 260 branches, including 134 wealth management centres. To enhance the customer experience, its overall sales and service capabilities, and the Group's brand image, the Group continued to roll out its new concept branch in strategic areas of Hong Kong. Automated banking channels were further upgraded in terms of coverage points and facilities. Together with TransUnion, the Group also launched the first-ever Online Loan 360 Service in Hong Kong, an Online-to-Offline (O2O) platform to provide customers with online loan services for enhanced protection of customers' data. Other service improvements included functional enhancements to internet banking, mobile banking and its call centre. In recognition of its well-received electronic platforms and outstanding services, BOCHK was presented with the Best Multi-channel Project Award in the Technology Implementation Awards 2015 by The Asian Banker as well as a number of other industry awards during the period.

CORPORATE BANKING

Financial Results

Corporate Banking recorded a decline of HK$525 million, or 8.2%, in profit before taxation. The decrease was mainly due to the drop in net interest income and the increase in the net charge of loan impairment allowances, partially offset by the increase in net fee and commission income.

Net interest income decreased by 3.4%, mainly due to the decrease in deposit spread. The decrease was partially offset by the increase in the average balance of deposits and loans.

Net fee and commission income grew by 7.3%, largely led by the increase in loan commissions.

Net charge of loan impairment allowances was up 278.7%, mainly due to the higher net charge of individually assessed impairment allowances incurred by the Group's Mainland business.

Business operation

The Group's Corporate Banking business made strong headway in the first half of 2015. Through deepened collaboration with BOC, the Group was able to capture the increasing demand for cross-border banking services from customers expanding into countries along the One Belt, One Road and ASEAN countries. The Group also captured opportunities arising from the development of FTZs and extended its geographical presence by securing relationships with overseas financial institutions and central banks. In the custody business, the Group strived to enlarge its customer base and captured opportunities in new client segments. The Group also leveraged its competitive advantage and enhanced its service capabilities in the cash management business.

Capturing opportunities from major national strategic initiatives

The Group was active in capturing opportunities from major national strategic initiatives. These include the One Belt, One Road initiative, the further development of FTZs, Mainland enterprises going global and foreign enterprises expanding into the Mainland. The Group succeeded in expanding its customer base and capturing new business opportunities with leading enterprises in Hong Kong, the Mainland and overseas. Moreover, it formulated differentiated strategies that brought tailored services to customers and provided them with funding solutions that support their expansion into ASEAN. In addition to this, it established working groups to drive product innovation and spur the Group's business development in countries along the One Belt, One Road and in ASEAN. To capture opportunities made possible by the development of the FTZ policy, it took the lead in signing the strategic cooperation agreements or loan contracts with a number of enterprises in new FTZs in Guangdong, Fujian and Tianjin and successfully provided cross-border direct loans to these enterprises.

Developing overseas businesses

Riding on its strong franchise in the RMB business, the Group continued to secure relationships with overseas financial institutions and central banks. Acting as the Asia-Pacific Syndicated Loan Centre of BOC Group, the Group worked closely with BOC's overseas branches and participated in a number of significant syndicated loans for corporates expanding in Asia-Pacific and Europe. In the same vein, during the review period the Group acted as the receiving bank for a number of major IPOs in Hong Kong, which consolidated its leading position in the market. At the end of June 2015, the Group's balance of corporate advances and deposits grew by 8.8% and 13.2% respectively from the end of 2014.

An industry segmentation to better serve SMEs

The Group strives to enhance the customer experience for SME customers. During the period, it improved the segmentation of SME customers by industries, which not only further enhanced its service and sales capabilities but also helped expanded its customer base. The Group also added a streamlined application and One-hour Preliminary Approval Service to its BOC Small Business Loan service that improved its operational efficiency and the customer experience. It continued to maintain its contacts with local trade associations by co-organising and sponsoring various business activities. In recognition of its long-standing support of SMEs in Hong Kong, BOCHK received the Best SME's Partner Award from the Hong Kong General Chamber of Small and Medium Business for the eighth year in a row.

Enlarging its customer base for custody services

In the first half of 2015, the Group strived to enlarge its institutional customer base and capture rising opportunities from its new client segments for custody services. It built on its relationships with QDII and RQFII applicants and maintained its status as one of the largest RQFII service providers in Hong Kong. At the same time, it collaborated more closely with BOC and its branches in order to enhance its service capabilities. Significant progress was also made in the preparation for the launch of the Mainland-Hong Kong Mutual Recognition of Funds. At the end of June 2015, excluding the RMB fiduciary account for participating banks, total assets under the Group's custody were valued at HK$826.6 billion.

Further expansion of cross-border cash management services

The Group further enhanced its cross-border cash management service capabilities. It worked closely with BOC to establish cross-border cash pooling solutions for large corporate clients and helped them to maximise their cash liquidity through onshore and offshore two-way cash sweeping. With the further development of FTZs in China, the Group deepened its collaboration with BOC to provide comprehensive cash management solutions that helped key customers meet their business needs. In recognition of its outstanding cash management services, BOCHK received the Achievement Award for the Best Cash Management Bank in Hong Kong by The Asian Banker for the third consecutive year. It also received the Hong Kong Domestic Cash Management Bank of the Year award by Asian Banking and Finance for the second consecutive year.

Proactive measures to contain risks

The Group adhered to a prudent credit policy with further refinement in "Know Your Customers" and risk management on key industries. It put in place more stringent pre- and post-lending monitoring measures to track early negative signs. Additionally, it closely monitored the credit positions of customers and industries that could be adversely affected by the volatile economic environment surrounding the Greek debt crisis, slower economic growth in the Mainland, and the expectation of a US interest rate hike. The Group also remained alert to risks from its Mainland exposures and established a trigger point to review and manage those risks. Finally, the Group maintained vigilance in monitoring customers in certain vulnerable industries with the threat of overcapacity.

MAINLAND BUSINESS

Financial performance adversely affected by economic slowdown and weakening credit conditions

The economic slowdown and weakening credit conditions in the Mainland of China adversely affected the Group's Mainland business in the first half of 2015. Net operating income decreased by 14.0% year-on-year, mainly due to the decrease in net interest income as a result of the decline in market interest rates. Slowing economic growth and the need to adjust for excess production capacity in certain industrial sectors created a more challenging credit environment, resulting in an increase in the Group's new classified or impaired advances and hence a higher net charge of loan impairment allowances. The Group remained highly vigilant against risks and conducted more stringent risk management and credit control to safeguard asset quality. Deposits from customers increased by 2.6% while advances to customers grew by 6.8% from the end of last year.

Continuous enrichment of new products and services

During the period, the Group provided free trade accounts to customers in the Shanghai FTZ and completed its first offshore financial service transaction with the relevant requirements for separate accounting services. It also introduced several China Securities Index 300 linked products to meet increasing customer demand for treasury products. To capture cross-border business opportunities, the Group enhanced its service capabilities in the trade finance business by launching new products with innovative features. In addition, the Group broadened its product offerings in the funds distribution business to satisfy the diverse needs of customers and continued to expand its e-banking capabilities for easy access to banking services. These enhanced capabilities included the launch of WeChat platform for wealth management products and mobile banking service. It also improved its call centre service by extending its operating hours to 24 hours, 7 days a week. At the end of June 2015, the total number of branches and sub-branches operated by the Group in the Mainland remained at 42.

TREASURY

Financial Results

Treasury recorded a decrease of 23.0% in profit before taxation.

Net interest income decreased by 8.2%, mainly due to the decline in the average yield on interbank placements and debt securities investments. The decrease was partially offset by the higher average balance of both related assets.

Net trading gain was down 94.6%. The decrease was mainly caused by a higher net loss on foreign exchange swap contracts and the mark-to-market changes of certain debt securities, which were partially offset by the increased income from equity-linked products.

Net gain on other financial assets was down 44.4% as the Group recorded higher gains from disposal of certain debt securities investments in the first half of last year.

Business Operation

A proactive but risk aware investment strategy

The Group continued to manage its banking book investments carefully throughout the period. It closely monitored changes in the market and acted swiftly to adjust its investment portfolio in order to enhance returns while remaining alert to risks. During the period, the Group adjusted its investment portfolio in response to increased two-way fluctuations in onshore RMB interest rates and growing expectations of a US interest rate hike. In addition to this, the Group increased its investments in government-related and high quality corporate bonds to optimise its investment portfolio.

Enhancing the customer experience

In line with its customer-centric approach, the Group provided time-to-market products and the latest market information to customers. Themed and bundled marketing campaigns along with enhanced support to customers resulted in an overall improvement in the Group's sales capabilities. Among the products and services the Group promoted, currency exchange, FX margin, precious metals and structural products were particularly well-received by customers. In the bond underwriting business, the Group achieved satisfactory results, particularly in the USD and EUR bond underwriting business. During the review period, BOCHK was appointed the sole settlement bank for Shanghai-Hong Kong Gold Connect by Shanghai International Gold Exchange Co. Ltd. ("SGEI"), a wholly-owned subsidiary of Shanghai Gold Exchange, to provide SGEI with funds settlement and cross-border payment services for cross-border gold trading related transactions. In recognition of its outstanding service in treasury products, BOCHK received the Hong Kong Domestic Foreign Exchange Bank of the Year award in the Asian Banking and Finance Wholesale Banking Awards 2015. The Group also successfully established relationships with banks in the ASEAN region for banknotes business.

Continuous support of the RMB business

The Group continued to strengthen its clearing capabilities during the first half of the year by enhancing the functionality of its products and services and offering more efficient infrastructure. This ensured the stable development and continuous improvement of its RMB clearing services in Hong Kong and overseas.

The Group also reinforced its leading position in the offshore RMB market. When the offshore RMB market underwent a volatile period at the beginning of 2015, it acted as an active Primary Liquidity Provider with additional RMB liquidity to stabilise the market. In June, the PBOC enacted a policy that allows offshore RMB clearing and participating banks to take part in the onshore bond repo market, following which the Group completed the first repo transaction conducted by an offshore participating bank.

INSURANCE

Financial Results

Profit before taxation in the Group's Insurance segment was HK$649 million in the first half of 2015, a rise of 133.5% from the same period in 2014. The growth was mainly driven by improved underwriting income derived from higher premium income and higher returns from its equity investments portfolio.

Net insurance premium income grew robustly by 36.7% as a result of the Group's ongoing efforts to enhance its products as well as marketing and promotional campaigns to increase sales volume.

Net gain on other financial assets amounted to HK$113 million, up from the HK$19 million of the same period last year, following the disposal of certain debt securities.

Business Operation

Growth through product enhancement and diversification of distribution channels

The Group continued to broaden its product offerings to meet the diverse needs of customers and to diversify its distribution channels in order to reach different customer segments. During the period, the Group launched a new annuity product, the IncomeRich Annuity Insurance Plan, for senior customers and a new whole life product, the IncomeShine Whole Life Coupon Plan, for customers who require savings and wealth management. Increasing the number of broker partners and adding new products in the insurance brokers channel helped the Group improve its sales performance. By optimising the broker and tied agency channel and launching a new e-Channel, the Group was able to give customers a broader choice of services.

Continued leadership in RMB insurance products

The Group maintained its leading position in the Hong Kong RMB insurance market by focusing on product optimisation and innovation amid a slowdown in the RMB insurance business. In addition to rolling out innovative new products, the Group optimised the features of its existing products in order to align with the development of multi-distribution channels.

OTHERS

Solid progress in asset management service

BOCHK Asset Management Limited ("BOCHK AM") continued to make progress in the first half of 2015. During the period, the Group launched a new retail fund, the BOCHK All Weather CNY Equity Fund, which was well received by customers. This fund aims to achieve long-term capital growth by investing primarily in China A-shares in the Shenzhen stock market through RQFII. After the BOCHK RMB High Yield Bond Fund was redomiciled to Luxemburg in September 2014, the Group expanded its distribution channel for this fund in Europe and also made preparation for its distribution in Asia. In addition, BOCHK AM established partnerships with BOC's branches in certain Asian countries for fund distribution and customer referrals as well as the promotion of BOCHK AM's services. Following the announcement of the launch of Mainland-Hong Kong Mutual Recognition of Funds, BOCHK AM worked closely with BOC to fully prepare for the provision of a full-range of fund investment services for customers.

Review of the business and assets portfolio of Bank of China Group ("BOC Group")

On 14 July 2015, Bank of China ("BOC") and BOC Hong Kong (Holdings) Limited ("BOCHK (Holdings)") jointly made an announcement in relation to the potential disposal of Nanyang Commercial Bank, Limited ("NCB"), an indirect wholly-owned subsidiary of BOCHK (Holdings) (the "Potential Disposal"). BOC obtained the in-principle approval from the Ministry of Finance of the People's Republic of China for the undertaking of the disposal of 100% interest in NCB in accordance with the relevant regulations of the Administrative Measures for the Transfer of State-owned Assets of Financial Enterprises, by way of public bidding via a legally established assets exchange at the provincial level or above ("Bidding Process"). The Bidding Process via the Beijing Financial Assets Exchange in relation to the potential disposal commenced on 15 July 2015. On 21 May 2015, BOC and BOCHK (Holdings) also jointly announced that both entities have been reviewing their overall business strategies for their respective banking businesses in Hong Kong and the ASEAN region and examining the strategic value and viability of undertaking a restructuring exercise in relation to their banking businesses in the region, including a potential restructuring and transfer of banking businesses and assets owned by BOC in certain ASEAN countries to BOCHK (Holdings) or Bank of China (Hong Kong) Limited ("BOCHK") (the "Potential Restructuring").

The potential disposal and restructuring align with the long-term development strategy of BOC and BOCHK (Holdings). This will help to optimise the resources allocation of the BOC Group and allow it to focus its efforts and enhance its competitiveness in capturing the opportunities arising from the major national strategies including One Belt, One Road, RMB internationalisation and Mainland corporates going global, which will expand its scope for growth. The potential restructuring will also facilitate the development of the BOC Group's business, customer service enhancements, product innovation, marketing capabilities and competitive edge of the BOC Group in the ASEAN region and would be consistent with the long-term development strategy of the BOC Group as a whole in the ASEAN region.

For further information of the potential disposal and restructuring, please refer to the joint announcements made by BOC and BOCHK (Holdings) on 21 May 2015 and 14 July 2015.

RISK MANAGEMENT

Banking Group

Overview

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

Risk Management Governance Structure

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

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

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

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

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

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

Credit Risk Management

Credit risk is the risk of loss that a customer or counterparty is unable to or unwilling to meet its contractual obligations. Credit risk exists in the trading book and banking book, as well as from on- and off-balance sheet transactions of the Group. It arises principally from lending, trade finance and treasury businesses. The Chief Credit Officer, who reports directly to the CRO, takes charge of credit risk management and is also responsible for the control of credit risk exposures of subsidiaries in line with the credit risk management principles and requirements set by the Group.

For advances, different credit approval and control procedures are adopted according to the level of risk associated with the customer, counterparty or transaction. The Credit Risk Assessment Committee, comprising experts from credit and other functions, is responsible for making an independent assessment of material credit which requires the approval of Deputy Chief Executives ("DCE") or above. Credit applications for non-retail exposures are independently reviewed and objectively assessed by risk management units. Obligor ratings (in terms of probability of default) and facility ratings (in terms of loss given default) are assigned to these portfolios to support credit approval. Retail internal rating systems are deployed in the risk assessment of retail credit transactions, including small business retail exposures, residential mortgage loans, personal loans and credit cards. Loan grades, obligor and facility ratings as well as loss estimates (if applicable) are used to support credit approval.

The Group also uses loan grades, obligor ratings and loss estimates (if applicable) to support credit monitoring, reporting and analysis of credit risk information. For non-retail exposures, more frequent rating review and closer monitoring are required for higher-risk customers. For retail exposures, monthly updated internal ratings and loss estimates are used for credit monitoring on a portfolio basis. More comprehensive review is required for obligors being identified under high-risk pools. In the first half of 2015, the Group adopts loan grading criteria which divides credit assets into five categories with reference to the HKMA's guidelines. The Risk Management Department ("RMD") provides regular credit management information reports and ad hoc reports to the Management Committee ("MC"), RC and Board of Directors to facilitate their continuous monitoring of credit risk. In addition, the

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

The Group employs an internal master rating scale that can be mapped to Standard & Poor's external credit ratings. The structure of internal master rating scale is in compliance with the requirement of the Banking (Capital) Rules under the Hong Kong Banking Ordinance.

For investments in debt securities and securitisation assets, the obligor ratings or external credit ratings, assessment of the underlying assets and credit limits setting on customer/security issuer basis are used for managing credit risk associated with the investment. For derivatives, the Group sets customer limits to manage the credit risk involved and follows the same approval and control processes as applied for advances. On-going monitoring and stop-loss procedures are established. The methodology and assumptions used for impairment assessments are reviewed regularly. In evaluating impairment of asset backed securities ("ABS") and mortgage backed securities ("MBS"), the Group continued to use a significant decline in market price and credit deterioration of the underlying assets to be the key indicators of impairment. The Group also considered other objective evidence of impairment, taking into account the impact of liquidity on market prices and the movement in loss coverage ratios of individual ABS and MBS held by the Group.

Market Risk Management

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

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

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

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

The Group uses the VAR to measure and report general market risks to the 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 Group adopts back-testing to measure the accuracy of VAR model results. The back-testing compares the calculated VAR figure of market risk positions of each business day with the actual and hypothetical revenues arising from those positions on the next business day. Generally speaking, the number of back-testing exceptions in a rolling 12-month period will not exceed four times, given a 99% confidence level.

Interest Rate Risk Management

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

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

The Group's risk management framework applies also to interest rate risk management. The Asset and Liability Management Committee ("ALCO") exercises its oversight of interest rate risk in accordance with the "BOCHK Group Banking Book Interest Rate Risk Management Policy" approved by RC. RMD (Interest Rate and Liquidity Risk Management) is responsible for interest rate risk management. With the cooperation of the Asset and Liability Management Division of Financial Management Department and Investment Management, RMD assists the ALCO to perform day-to-day interest rate risk management. Its roles include, but are not limited to, the formulation of management policies, selection of methodologies, setting of risk indicators and limits, assessment of target balance sheet, monitoring of the compliance with policies and limits, and submission of interest rate risk management reports to the senior management and RC, etc.

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

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

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

Liquidity Risk Management

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

The Group's liquidity risk management objective is to effectively manage the liquidity of on- and off-balance sheet items with reasonable cost based on the liquidity risk appetite to achieve sound operation and sustainable profitability. Deposits from customers are the Group's primary source of funds. To ensure stable and sufficient source of funds are in place, the Group actively attracts new deposits, keeps the core deposit and obtains supplementary funding from the interbank market or by issuing bills in the capital market. According to different term maturities and the results of funding needs estimated from stressed scenarios, the Group adjusts its asset structure (including loans, bonds investment, interbank placement, etc.) to maintain sufficient liquid assets which provides adequate funds in support of normal business needs and ensure its ability to raise funds at a reasonable cost to serve external claims in case of emergency. The Group is committed to diversify the source of funds and the use of funds to avoid excessive concentration of assets and liabilities and prevent triggering liquidity risk due to the break of funding strand when problem occurred in one concentrated funding source. The Group has established intra-group liquidity risk management guideline to manage the liquidity funding among different entities within the Group, and to restrict their reliance of funding on each other. The Group also pays attention to manage liquidity risk created by off-balance sheet activities, such as loan commitments, derivatives, options and other complex structured products. The Group has an overall liquidity risk management strategy to cover the liquidity management of foreign currency assets and liabilities, collateral, intra-day liquidity, intra-group liquidity, the liquidity risk arising from other risks, etc., and has formulated corresponding contingency plan.

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

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

In accordance with the requirements of Supervisory Policy Manual LM-2 "Sound Systems and controls for Liquidity Risk Management" issued by the HKMA in 2011, the Group has implemented in 2013 the refinement on the behaviour model and assumptions of cash flow analysis and stress test to enhance the Group's cash flow analysis under both normal and stressed conditions. In cash flow analysis under normal circumstances, refinements have been made to assumptions relating to on-balance sheet items (such as deposits from customers) and off-balance sheet items (such as loan commitments). According to various characteristics of the assets, liabilities and off-balance sheet items, the Group forecasts the future cash flow based on contractual maturity date and the assumptions of customer behaviour and balance sheet changes. The Group establishes MCO indicator which predicts the future 30 days maximum cumulative net cash outflow in normal situations based on the above assumptions, to assess if the Group has sufficient financing capacity to meet the cash flow gap in order to achieve the objective of continuing operation.

In the liquidity stress test, a new combined scenario which is a combination of institution specific and general market crisis has been set up in 2013 to assess the Group's capability to withstand a more severe liquidity crisis, with a more stringent set of assumptions being adopted. Stress test assumptions include the run-off rate of retail, wholesale and interbank deposits; drawdown rate of loan commitments and trade-related contingent liabilities; delinquency ratio and rollover rate of customer loans; and haircut of interbank placement and marketable securities. In addition, the Group has a policy in place to maintain a liquidity cushion which includes high quality marketable securities to ensure funding needs even under stressed scenarios. A contingency plan is being established which details the conditions to trigger the plan based on stress test results and early warning indicators, the action plans and relevant procedures and responsibility of various departments.

The LCR is calculated in accordance with the Banking (Liquidity) Rules effective from 1 January 2015, the Group, being classified as category 1 authorised institution by the HKMA, is required to calculate LCR on consolidated basis. During the year of 2015, the Group is required to maintain a LCR not less than 60%.

In certain derivative contracts, the counterparties have right to request from the Group additional collateral if they have concerns about the Group's creditworthiness.

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

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

Operational Risk Management

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

The Group has implemented the "Three Lines of Defence" for its operational risk management. All departments or functional units as the first line of defence are the first parties responsible for operational risk management, and carry out the duties and functions of self risk control in the process of business operation through self assessment and self enhancement. The Compliance and Operational Risk Management Department ("CORMD"), together with certain specialist functional units in relation to operational risk management within the Group, including the Human Resources Department, Information Technology Department, Corporate Services Department, Financial Management Department and General Accounting &

Accounting Policy Department (collectively known as "specialist functional units"), are the second line of defence. They are responsible for assessing and monitoring the operational risk conditions in the first line of defence, and providing them with guidance. The CORMD, being independent from the business units, is responsible for assisting the Management in managing the Group's operational risk, including the establishment and review of the operational risk management policy and framework, designing the operational risk management tools and reporting mechanism, and assessing and reporting the overall operational risk position to the Management and RC. Specialist functional units are required to carry out their managerial duties of the second line of defence with respect to some specific aspects of operational risk and its related issues. Besides taking charge of operational risk management in their own units, these units are also required to provide other units with professional advice/training in respect of certain operational risk categories and to lead the group-wide operational risk management. Group Audit is the third line of defence which provides independent assessment to the effectiveness and adequacy of the operational risk management framework and is required to conduct periodic audit of the operational risk management activities of various departments or functional units within the Group regarding their compliance and effectiveness and to put forward recommendations for remedial actions.

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

Reputation Risk Management

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

In order to mitigate reputation risk, the Group has formulated and duly followed its Reputation Risk Management Policy. The policy aims to identify and prevent reputation risk proactively at an early stage when an incident occurs. Since reputation risk is often caused by various types of operational and strategic issues that negatively impact the trust and perception of the Group, all operational and key risks identified are assessed through the established Key Control Self-Assessment framework, including risk assessment tools, to evaluate the severity of their impact on the Group, including the damage to reputation.

In addition, the Group has put in place a comprehensive framework to continuously monitor reputation risk incidents in the financial industry. This continuous monitoring enables the Group to effectively manage, control and mitigate any potential adverse impact from an incident. The Group also adopts robust disclosure practices to keep our stakeholders informed at all times, which helps build confidence in the Group and establish a strong public image.

Legal and Compliance Risk Management

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

Strategic Risk Management

Strategic risk generally refers to the risks that may cause current or future negative impacts on the earnings, or capital or reputation or market position of the Group because of poor business decisions, improper implementation of strategies and inadequacies in the response to the changing market condition. The Board reviews and approves the strategic risk management policy. Key strategic issues have to be fully evaluated and properly endorsed by the senior management and the Board.

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

Capital Management

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

To comply with the HKMA's requirements as stated in the Supervisory Policy Manual "Supervisory Review Process", the Group adopts the internal capital adequacy assessment process ("ICAAP") and reviews it annually. Based on the HKMA's guidelines on Pillar II, ICAAP has been initiated to assess the extra capital needed to cover the material risks not captured or not adequately captured under Pillar I, and therefore minimum Common Equity Tier 1 capital ratio, minimum Tier 1 capital ratio and minimum Total capital ratio are determined. Meanwhile, operating ranges for the aforementioned capital ratios have also been established which enable the flexibility for future business growth and efficiency of capital utilisation.

Stress Testing

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

BOCG Life

BOCG Life's principal business is the underwriting of long-term insurance business in life and annuity (Class A), linked long term business (Class C), retirement scheme management category I (Class G) and retirement scheme management category III (Class I) in Hong Kong. Major types of risk arising from BOCG Life's insurance business are insurance risk, interest rate risk, liquidity risk and credit risk. BOCG Life closely monitors these risks and reports to its Risk Management Committee on a regular basis. The key risks of its insurance business and related risk control process are as follows:

Insurance Risk Management

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

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

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

Interest Rate Risk Management

An increase in interest rates may result in the depreciation of the value of BOCG Life's bond portfolio. It might induce in customers surrender. A decrease in interest rates may result in an increase in insurance liability and an inability to adequately match guarantees or lower returns leading to customer dissatisfaction. BOCG Life manages the matching of assets and liabilities of its portfolios within an asset liability management framework that has been developed to achieve investment returns that match its obligations under insurance contracts; and to manage the adverse impact due to interest rate movement.

Liquidity Risk Management

Liquidity risk is the risk of not being able to meet obligations as they fall due without incurring unacceptable loss. BOCG Life's asset and liability management framework includes cash flow management to preserve liquidity to match policy payout from time to time.

Credit Risk Management

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

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

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

In order to enhance its credit risk management, BOCG Life has strengthened its communication with the Group while closely monitoring and updating internal control to ensure consistency with the Group's credit risk management and investment strategy.