

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 1. Basis of preparation and significant accounting policies

### (a) Basis of preparation

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

### (b) Significant accounting policies

The significant accounting policies adopted and methods of computation used in the preparation of the unaudited interim financial information are consistent with those adopted and used in the Group’s annual financial statements for the year ended 31 December 2014 and should be read in conjunction with the Group’s Annual Report for 2014.

### (c) Standards and amendments issued that are relevant to the Group but not yet effective and have not been early adopted by the Group in 2015

Standards/ Amendments	Content	Applicable for financial years beginning on/after
HKAS 1 (Amendment)	Disclosure Initiative	1 January 2016
HKAS 27 (2011) (Amendment)	Equity Method in Separate Financial Statements	1 January 2016
HKAS 28 (2011) and HKFRS 10 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
HKAS 28 (2011), HKFRS 10 and HKFRS 12 (Amendment)	Investment Entities: Applying the Consolidation Exception	1 January 2016
HKFRS 9 (2014)	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2017

- HKAS 1 (Amendment), “Disclosure Initiative”. The amendments to HKAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.
- HKAS 28 (2011), HKFRS 10 and HKFRS 12 (Amendment), “Investment Entities: Applying the Consolidation Exception”. The narrow-scope amendments to HKAS 28 (2011), HKFRS 10 and HKFRS 12 (Amendment) introduce clarifications to the requirements when accounting for investment entities (i.e. exception on applying equity method/consolidation in relation to investment entities). The amendments also provide relief in particular circumstances. The application of these amendments will not have a material impact on the Group’s financial statements.
- Please refer to Note 2.1(b) of the Group’s Annual Report for 2014 for brief explanations of the rest of the above-mentioned standards and amendments.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

### (c) *Standards and amendments issued that are relevant to the Group but not yet effective and have not been early adopted by the Group in 2015 (continued)*

#### Improvements to HKFRSs

"Improvements to HKFRSs" contains numerous amendments to HKFRSs which the HKICPA considers not urgent but necessary. It comprises amendments that result in accounting changes for presentation, recognition or measurement purpose as well as terminology or editorial amendments related to a variety of individual HKFRSs. The amendments will be effective for annual periods beginning on or after 1 January 2016. The adoption of these improvements does not have a material impact on the Group's financial statements.

## 2. Critical accounting estimates and judgements in applying accounting policies

The nature and assumptions related to the Group's accounting estimates are consistent with those used in the Group's financial statements for the year ended 31 December 2014.

## 3. Financial risk management

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

### 3.1 Credit Risk

#### (A) Gross advances and other accounts

##### (a) Impaired advances

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

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit Risk (continued)

#### (A) Gross advances and other accounts (continued)

##### (a) Impaired advances (continued)

	<b>At 30 June 2015 HK\$'m</b>	At 31 December 2014 HK\$'m
Gross impaired advances to customers	<b>1,763</b>	2,024
Impairment allowances made in respect of such advances	<b>1,085</b>	1,145
Current market value of collateral held against the covered portion of such advances to customers	<b>1,009</b>	1,554
Covered portion of such advances to customers	<b>816</b>	1,204
Uncovered portion of such advances to customers	<b>947</b>	820

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

As at 30 June 2015, there were no impaired trade bills (31 December 2014: Nil).

Classified or impaired advances to customers are analysed as follows:

	<b>At 30 June 2015 HK\$'m</b>	At 31 December 2014 HK\$'m
Gross classified or impaired advances to customers	<b>2,764</b>	3,008
Gross classified or impaired advances to customers as a percentage of gross advances to customers	<b>0.27%</b>	0.31%
Individually assessed impairment allowances made in respect of such advances	<b>1,035</b>	1,096

Classified or impaired advances to customers represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit Risk (continued)

#### (A) Gross advances and other accounts (continued)

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

Advances with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid. Advances repayable by regular instalments are classified as overdue when an instalment payment is past due and remains unpaid. Advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction or when the advances have remained continuously exceeded the approved limit that was advised to the borrower.

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

	At 30 June 2015		At 31 December 2014	
	Amount HK\$'m	% of gross advances to customers	Amount HK\$'m	% of gross advances to customers
Gross advances to customers which have been overdue for:				
– six months or less but over three months	535	0.05%	512	0.05%
– one year or less but over six months	478	0.05%	555	0.06%
– over one year	413	0.04%	240	0.03%
Advances overdue for over three months	<b>1,426</b>	<b>0.14%</b>	<b>1,307</b>	<b>0.14%</b>
Individually assessed impairment allowances made in respect of such advances	<b>648</b>		<b>768</b>	

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Current market value of collateral held against the covered portion of such advances to customers	<b>1,308</b>	1,230
Covered portion of such advances to customers	<b>808</b>	749
Uncovered portion of such advances to customers	<b>618</b>	558

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit Risk (continued)

#### (A) Gross advances and other accounts (continued)

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

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

As at 30 June 2015, there were no trade bills overdue for more than three months (31 December 2014: Nil).

##### (c) Rescheduled advances

	At 30 June 2015		At 31 December 2014	
	Amount HK\$m	% of gross advances to customers	Amount HK\$m	% of gross advances to customers
Rescheduled advances to customers net of amounts included in "Advances overdue for more than three months"	14	–	25	–

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit Risk (continued)

#### (A) Gross advances and other accounts (continued)

##### (d) Concentration of advances to customers

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

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

	At 30 June 2015					
	Gross advances to customers HK\$'m	% Covered by collateral or other security	Classified or impaired HK\$'m	Overdue HK\$'m	Individually assessed impairment allowances HK\$'m	Collectively assessed impairment allowances HK\$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	58,442	29.05%	1	1	1	198
– Property investment	71,202	89.64%	22	145	3	338
– Financial concerns	17,163	6.81%	–	1	–	72
– Stockbrokers	5,714	50.59%	–	–	–	19
– Wholesale and retail trade	40,291	48.20%	153	349	93	193
– Manufacturing	29,126	25.66%	57	90	20	118
– Transport and transport equipment	49,250	32.79%	676	5	–	204
– Recreational activities	462	16.25%	–	–	–	1
– Information technology	9,418	1.26%	3	3	1	29
– Others	66,340	41.43%	60	167	46	247
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	9,117	99.96%	18	190	–	5
– Loans for purchase of other residential properties	213,002	99.94%	102	1,616	1	103
– Credit card advances	12,639	–	37	490	–	91
– Others	43,205	69.32%	49	411	8	66
Total loans for use in Hong Kong	625,371	65.16%	1,178	3,468	173	1,684
Trade finance	87,365	15.33%	419	442	246	333
Loans for use outside Hong Kong	318,788	22.94%	1,167	1,724	616	1,400
Gross advances to customers	1,031,524	47.89%	2,764	5,634	1,035	3,417

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit Risk (continued)

#### (A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

	At 31 December 2014					
	Gross advances to customers HK\$m	% Covered by collateral or other security	Classified or impaired HK\$m	Overdue HK\$m	Individually assessed	Collectively assessed
					impairment allowances HK\$m	impairment allowances HK\$m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	48,044	31.88%	1	3	–	158
– Property investment	74,110	87.92%	26	413	2	372
– Financial concerns	4,758	22.51%	–	11	–	31
– Stockbrokers	2,051	64.01%	–	–	–	9
– Wholesale and retail trade	38,014	47.71%	149	592	54	187
– Manufacturing	24,097	26.69%	57	145	31	100
– Transport and transport equipment	40,999	33.37%	735	15	13	192
– Recreational activities	454	11.49%	–	–	–	1
– Information technology	13,334	1.02%	2	5	1	41
– Others	62,280	40.54%	26	98	16	252
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	9,363	99.92%	25	229	–	6
– Loans for purchase of other residential properties	203,744	99.92%	71	2,036	1	104
– Credit card advances	13,021	–	37	534	–	93
– Others	41,132	66.70%	43	405	7	66
Total loans for use in Hong Kong	575,401	67.24%	1,172	4,486	125	1,612
Trade finance	86,316	13.88%	353	376	181	334
Loans for use outside Hong Kong	299,272	24.96%	1,483	1,623	790	1,574
Gross advances to customers	960,989	49.28%	3,008	6,485	1,096	3,520

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit Risk (continued)

#### (A) Gross advances and other accounts (continued)

##### (d) Concentration of advances to customers (continued)

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

The following geographical analysis of advances to customers is based on the location of the counterparties, after taking into account the transfer of risk. For an advance to customer guaranteed by a party situated in a country different from the customer, the risk will be transferred to the country of the guarantor.

#### Gross advances to customers

	<b>At 30 June 2015 HK\$'m</b>	At 31 December 2014 HK\$'m
Hong Kong	<b>791,763</b>	711,795
Mainland of China	<b>195,563</b>	200,208
Others	<b>44,198</b>	48,986
	<b>1,031,524</b>	960,989
<b>Collectively assessed impairment allowances in respect of the gross advances to customers</b>		
Hong Kong	<b>2,298</b>	2,151
Mainland of China	<b>913</b>	1,142
Others	<b>206</b>	227
	<b>3,417</b>	3,520



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit Risk (continued)

#### (A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

#### Overdue advances

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Hong Kong	3,524	4,459
Mainland of China	2,028	1,945
Others	82	81
	<b>5,634</b>	<b>6,485</b>
<b>Individually assessed impairment allowances in respect of the overdue advances</b>		
Hong Kong	215	227
Mainland of China	677	642
Others	1	1
	<b>893</b>	<b>870</b>
<b>Collectively assessed impairment allowances in respect of the overdue advances</b>		
Hong Kong	113	108
Mainland of China	60	12
Others	2	1
	<b>175</b>	<b>121</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit Risk (continued)

#### (A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

#### Classified or impaired advances

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Hong Kong	1,356	1,523
Mainland of China	1,402	1,328
Others	6	157
	<b>2,764</b>	<b>3,008</b>
<b>Individually assessed impairment allowances in respect of the classified or impaired advances</b>		
Hong Kong	225	260
Mainland of China	809	771
Others	1	65
	<b>1,035</b>	<b>1,096</b>
<b>Collectively assessed impairment allowances in respect of the classified or impaired advances</b>		
Hong Kong	48	48
Mainland of China	54	5
Others	1	–
	<b>103</b>	<b>53</b>

#### (B) Repossessed assets

The estimated market value of repossessed assets held by the Group as at 30 June 2015 amounted to HK\$53 million (31 December 2014: HK\$28 million). They comprise properties in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the proprietors concerned) for release in full or in part of the obligations of the borrowers.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit Risk (continued)

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

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

	At 30 June 2015					
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m
Available-for-sale securities	85,520	132,769	194,486	27,302	32,027	472,104
Held-to-maturity securities	34,510	37,524	12,410	3,805	3,995	92,244
Loans and receivables	–	–	6,521	–	1,180	7,701
Financial assets at fair value through profit or loss	11,161	28,032	13,245	3,997	5,233	61,668
<b>Total</b>	<b>131,191</b>	<b>198,325</b>	<b>226,662</b>	<b>35,104</b>	<b>42,435</b>	<b>633,717</b>

	At 31 December 2014					
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m
Available-for-sale securities	64,216	116,869	123,885	21,770	26,720	353,460
Held-to-maturity securities	27,263	30,444	12,763	3,151	3,227	76,848
Loans and receivables	–	–	2,856	–	2,012	4,868
Financial assets at fair value through profit or loss	14,075	19,158	11,844	2,871	3,446	51,394
<b>Total</b>	<b>105,554</b>	<b>166,471</b>	<b>151,348</b>	<b>27,792</b>	<b>35,405</b>	<b>486,570</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit Risk (continued)

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

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

	At 30 June 2015						
	Carrying values						Of which accumulated impairment allowances
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m	
Held-to-maturity securities	3	-	-	-	-	3	-
Of which accumulated impairment allowances	-	-	-	-	-	-	-

	At 31 December 2014						
	Carrying values						Of which accumulated impairment allowances
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m	
Held-to-maturity securities	26	-	1	-	-	27	1
Of which accumulated impairment allowances	1	-	-	-	-	1	-

As at 30 June 2015, there were no impaired certificates of deposit and no overdue debt securities and certificates of deposit (31 December 2014: Nil).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.2 Market Risk

#### (A) VAR

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

The following table sets out the VAR for all general market risk exposure<sup>1</sup> of the Group.

	Year	At 30 June HK\$'m	Minimum for the first half of year HK\$'m	Maximum for the first half of year HK\$'m	Average for the first half of year HK\$'m
VAR for all market risk	2015	21.9	17.9	38.4	28.3
	2014	21.0	18.2	35.1	26.4
VAR for foreign exchange risk	2015	10.0	9.8	18.4	12.5
	2014	10.5	9.6	19.5	14.3
VAR for interest rate risk	2015	21.7	15.3	37.6	24.8
	2014	21.4	16.8	39.5	27.5
VAR for equity risk	2015	0.3	0.1	0.4	0.3
	2014	0.2	0.1	0.7	0.2
VAR for commodity risk	2015	0.0	0.0	0.2	0.0
	2014	0.6	0.0	1.3	0.3

Note:

1. Structural FX positions have been excluded.

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

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

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

#### (B) Currency risk

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.2 Market Risk (continued)

#### (B) Currency risk (continued)

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 30 June 2015 and 31 December 2014. Included in the tables are the assets and liabilities at carrying amounts in HK dollars equivalent, categorised by the original currency.

	At 30 June 2015							
	Renminbi HK\$'m	US Dollars HK\$'m	HK Dollars HK\$'m	Euro HK\$'m	Japanese Yen HK\$'m	Pound Sterling HK\$'m	Others HK\$'m	Total HK\$'m
<b>Assets</b>								
Cash and balances with banks and other financial institutions	257,964	29,941	32,586	566	3,810	822	3,585	329,274
Placements with banks and other financial institutions maturing between one and twelve months	28,597	19,152	2,180	23	-	-	915	50,867
Financial assets at fair value through profit or loss	14,898	22,156	29,737	168	21	7	3	66,990
Derivative financial instruments	483	4,654	28,438	12	1	11	32	33,631
Hong Kong SAR Government certificates of indebtedness	-	-	93,530	-	-	-	-	93,530
Advances and other accounts	139,616	268,055	650,882	13,338	674	136	6,130	1,078,831
Investment in securities								
- Available-for-sale securities	97,413	190,176	96,998	7,873	59,162	4,254	19,394	475,270
- Held-to-maturity securities	33,184	53,786	2,149	-	-	747	2,378	92,244
- Loans and receivables	1,502	6,199	-	-	-	-	-	7,701
Interests in associates and a joint venture	-	-	345	-	-	-	-	345
Investment properties	80	-	14,908	-	-	-	-	14,988
Properties, plant and equipment	824	2	55,380	-	-	-	-	56,206
Other assets (including deferred tax assets)	34,819	6,558	25,031	318	291	94	697	67,808
<b>Total assets</b>	<b>609,380</b>	<b>600,679</b>	<b>1,032,164</b>	<b>22,298</b>	<b>63,959</b>	<b>6,071</b>	<b>33,134</b>	<b>2,367,685</b>
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	-	-	93,530	-	-	-	-	93,530
Deposits and balances from banks and other financial institutions	122,716	51,184	30,738	152	47	63	704	205,604
Financial liabilities at fair value through profit or loss	3,712	47	16,204	-	-	6	1,217	21,186
Derivative financial instruments	678	2,651	21,897	101	1	8	49	25,385
Deposits from customers	332,927	308,957	902,787	17,302	8,084	11,930	30,340	1,612,327
Debt securities and certificates of deposit in issue	-	6,441	-	-	570	-	60	7,071
Other accounts and provisions (including current and deferred tax liabilities)	45,489	11,948	47,555	841	1,567	475	1,733	109,608
Insurance contract liabilities	38,569	7,385	36,825	-	-	-	-	82,779
Subordinated liabilities	-	19,565	-	-	-	-	-	19,565
<b>Total liabilities</b>	<b>544,091</b>	<b>408,178</b>	<b>1,149,536</b>	<b>18,396</b>	<b>10,269</b>	<b>12,482</b>	<b>34,103</b>	<b>2,177,055</b>
Net on-balance sheet position	65,289	192,501	(117,372)	3,902	53,690	(6,411)	(969)	190,630
Off-balance sheet net notional position*	(51,105)	(179,545)	287,528	(4,063)	(53,688)	6,320	69	5,516
Contingent liabilities and commitments	77,304	185,168	300,523	2,335	793	17	595	566,735

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.2 Market Risk (continued)

#### (B) Currency risk (continued)

	At 31 December 2014							
	Renminbi HK\$'m	US Dollars HK\$'m	HK Dollars HK\$'m	Euro HK\$'m	Japanese Yen HK\$'m	Pound Sterling HK\$'m	Others HK\$'m	Total HK\$'m
<b>Assets</b>								
Cash and balances with banks and other financial institutions	320,073	37,932	31,296	3,120	1,031	803	4,418	398,673
Placements with banks and other financial institutions maturing between one and twelve months	23,299	9,613	3,393	90	-	97	944	37,436
Financial assets at fair value through profit or loss	14,220	15,440	24,260	-	-	-	74	53,994
Derivative financial instruments	207	8,070	25,034	5	2	9	26	33,353
Hong Kong SAR Government certificates of indebtedness	-	-	90,770	-	-	-	-	90,770
Advances and other accounts	108,107	285,080	603,715	8,013	389	117	8,708	1,014,129
Investment in securities								
– Available-for-sale securities	82,252	155,625	88,070	5,713	-	7,362	18,088	357,110
– Held-to-maturity securities	28,961	42,254	2,317	-	-	649	2,667	76,848
– Loans and receivables	2,075	294	2,499	-	-	-	-	4,868
Interests in associates and a joint venture	-	-	324	-	-	-	-	324
Investment properties	88	-	14,471	-	-	-	-	14,559
Properties, plant and equipment	831	2	54,374	-	-	-	-	55,207
Other assets (including deferred tax assets)	30,106	4,464	16,705	520	20	23	258	52,096
<b>Total assets</b>	<b>610,219</b>	<b>558,774</b>	<b>957,228</b>	<b>17,461</b>	<b>1,442</b>	<b>9,060</b>	<b>35,183</b>	<b>2,189,367</b>
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	-	-	90,770	-	-	-	-	90,770
Deposits and balances from banks and other financial institutions	132,829	63,638	37,170	59	42	16	2,026	235,780
Financial liabilities at fair value through profit or loss	937	15	10,078	-	-	6	1,224	12,260
Derivative financial instruments	334	2,567	17,664	151	2	8	61	20,787
Deposits from customers	342,345	310,232	768,896	13,285	3,388	10,637	31,326	1,480,109
Debt securities and certificates of deposit in issue	-	9,780	-	-	1,993	-	128	11,901
Other accounts and provisions (including current and deferred tax liabilities)	16,220	11,800	32,375	1,099	69	418	835	62,816
Insurance contract liabilities	35,796	6,083	31,917	-	-	-	-	73,796
Subordinated liabilities	-	19,676	-	-	-	-	-	19,676
<b>Total liabilities</b>	<b>528,461</b>	<b>423,791</b>	<b>988,870</b>	<b>14,594</b>	<b>5,494</b>	<b>11,085</b>	<b>35,600</b>	<b>2,007,895</b>
Net on-balance sheet position	81,758	134,983	(31,642)	2,867	(4,052)	(2,025)	(417)	181,472
Off-balance sheet net notional position*	(67,792)	(118,871)	193,742	(2,740)	3,831	1,869	(508)	9,531
Contingent liabilities and commitments	67,295	179,433	311,018	1,937	423	14	1,007	561,127

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.2 Market Risk (continued)

#### (C) Interest rate risk

The tables below summarise the Group's on-balance sheet exposure to interest rate risk as at 30 June 2015 and 31 December 2014. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	At 30 June 2015						
	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Non-interest bearing HK\$'m	Total HK\$'m
<b>Assets</b>							
Cash and balances with banks and other financial institutions	312,333	-	-	-	-	16,941	329,274
Placements with banks and other financial institutions maturing between one and twelve months	-	31,095	19,772	-	-	-	50,867
Financial assets at fair value through profit or loss	6,400	11,062	11,886	17,655	15,208	4,779	66,990
Derivative financial instruments	-	-	-	-	-	33,631	33,631
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	93,530	93,530
Advances and other accounts	757,360	196,588	93,817	23,346	1,244	6,476	1,078,831
Investment in securities							
– Available-for-sale securities	38,968	102,785	103,935	167,467	58,949	3,166	475,270
– Held-to-maturity securities	591	1,272	12,054	55,391	22,936	-	92,244
– Loans and receivables	219	3,598	3,884	-	-	-	7,701
Interests in associates and a joint venture	-	-	-	-	-	345	345
Investment properties	-	-	-	-	-	14,988	14,988
Properties, plant and equipment	-	-	-	-	-	56,206	56,206
Other assets (including deferred tax assets)	4,585	-	-	-	-	63,223	67,808
<b>Total assets</b>	<b>1,120,456</b>	<b>346,400</b>	<b>245,348</b>	<b>263,859</b>	<b>98,337</b>	<b>293,285</b>	<b>2,367,685</b>
<b>Liabilities</b>							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	93,530	93,530
Deposits and balances from banks and other financial institutions	161,363	3,080	3,313	-	-	37,848	205,604
Financial liabilities at fair value through profit or loss	6,487	9,418	4,073	714	494	-	21,186
Derivative financial instruments	-	-	-	-	-	25,385	25,385
Deposits from customers	1,131,216	212,425	137,352	12,209	1,273	117,852	1,612,327
Debt securities and certificates of deposit in issue	865	8	525	5,673	-	-	7,071
Other accounts and provisions (including current and deferred tax liabilities)	15,126	2,820	5,980	509	-	85,173	109,608
Insurance contract liabilities	-	-	-	-	-	82,779	82,779
Subordinated liabilities	-	-	-	19,565	-	-	19,565
<b>Total liabilities</b>	<b>1,315,057</b>	<b>227,751</b>	<b>151,243</b>	<b>38,670</b>	<b>1,767</b>	<b>442,567</b>	<b>2,177,055</b>
Interest sensitivity gap	(194,601)	118,649	94,105	225,189	96,570	(149,282)	190,630



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.2 Market Risk (continued)

#### (C) Interest rate risk (continued)

	At 31 December 2014						
	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Non-interest bearing HK\$'m	Total HK\$'m
<b>Assets</b>							
Cash and balances with banks and other financial institutions	376,437	-	-	-	-	22,236	398,673
Placements with banks and other financial institutions maturing between one and twelve months	-	17,730	19,706	-	-	-	37,436
Financial assets at fair value through profit or loss	2,721	7,691	12,173	20,180	8,629	2,600	53,994
Derivative financial instruments	-	-	-	-	-	33,353	33,353
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	90,770	90,770
Advances and other accounts	768,749	154,044	66,747	16,279	1,438	6,872	1,014,129
Investment in securities							
– Available-for-sale securities	40,227	52,220	80,734	122,738	57,541	3,650	357,110
– Held-to-maturity securities	943	2,498	4,241	44,823	24,343	-	76,848
– Loans and receivables	2,499	915	1,454	-	-	-	4,868
Interests in associates and a joint venture	-	-	-	-	-	324	324
Investment properties	-	-	-	-	-	14,559	14,559
Properties, plant and equipment	-	-	-	-	-	55,207	55,207
Other assets (including deferred tax assets)	1,604	-	-	-	-	50,492	52,096
<b>Total assets</b>	<b>1,193,180</b>	<b>235,098</b>	<b>185,055</b>	<b>204,020</b>	<b>91,951</b>	<b>280,063</b>	<b>2,189,367</b>
<b>Liabilities</b>							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	90,770	90,770
Deposits and balances from banks and other financial institutions	201,704	6,277	2,705	-	-	25,094	235,780
Financial liabilities at fair value through profit or loss	3,428	4,643	3,190	483	516	-	12,260
Derivative financial instruments	-	-	-	-	-	20,787	20,787
Deposits from customers	1,061,875	210,280	120,810	14,698	-	72,446	1,480,109
Debt securities and certificates of deposit in issue	2,316	2,811	1,074	5,700	-	-	11,901
Other accounts and provisions (including current and deferred tax liabilities)	16,572	2,685	4,055	194	-	39,310	62,816
Insurance contract liabilities	-	-	-	-	-	73,796	73,796
Subordinated liabilities	-	-	-	-	19,676	-	19,676
<b>Total liabilities</b>	<b>1,285,895</b>	<b>226,696</b>	<b>131,834</b>	<b>21,075</b>	<b>20,192</b>	<b>322,203</b>	<b>2,007,895</b>
Interest sensitivity gap	(92,715)	8,402	53,221	182,945	71,759	(42,140)	181,472

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.3 Liquidity Risk

#### (A) Liquidity coverage ratio/liquidity ratio

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

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 the calculation methodology and instructions set out in the HKMA return of liquidity position.

The liquidity coverage ratio is computed on the consolidated basis which comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Liquidity) Rules.

The additional information of liquidity coverage ratio disclosures is available under section "Regulatory Disclosures" on the Bank's website at [www.bochk.com](http://www.bochk.com).

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

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

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.3 Liquidity Risk (continued)

#### (B) Maturity analysis

The tables below analyse the Group's assets and liabilities as at 30 June 2015 and 31 December 2014 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2015							Total HK\$m
	On demand HK\$m	Up to 1 month HK\$m	1 to 3 months HK\$m	3 to 12 months HK\$m	1 to 5 years HK\$m	Over 5 years HK\$m	Indefinite HK\$m	
<b>Assets</b>								
Cash and balances with banks and other financial institutions	246,128	72,037	-	-	-	-	11,109	329,274
Placements with banks and other financial institutions maturing between one and twelve months	-	-	31,095	19,772	-	-	-	50,867
Financial assets at fair value through profit or loss								
- held for trading								
- debt securities	-	5,775	9,234	11,114	9,631	3,739	-	39,493
- certificates of deposit	-	1	716	705	128	8	-	1,558
- designated at fair value through profit or loss								
- debt securities	-	538	307	455	7,739	11,305	-	20,344
- certificates of deposit	-	-	-	6	267	-	-	273
- equity securities and fund	-	-	-	-	-	-	4,779	4,779
- others	-	188	355	-	-	-	-	543
Derivative financial instruments	12,546	3,020	6,155	6,483	4,632	795	-	33,631
Hong Kong SAR Government certificates of indebtedness	93,530	-	-	-	-	-	-	93,530
Advances and other accounts								
- advances to customers	123,747	33,607	65,370	174,166	391,082	236,733	2,367	1,027,072
- trade bills	2	10,538	15,837	25,382	-	-	-	51,759
Investment in securities								
- available-for-sale								
- debt securities	-	17,132	75,053	70,531	182,313	59,248	-	404,277
- certificates of deposit	-	3,163	8,075	43,999	12,377	213	-	67,827
- held-to-maturity								
- debt securities	-	243	1,467	12,887	54,864	22,762	3	92,226
- certificates of deposit	-	-	-	-	-	18	-	18
- loans and receivables								
- debt securities	-	219	3,598	3,884	-	-	-	7,701
- equity securities	-	-	-	-	-	-	3,166	3,166
Interests in associates and a joint venture	-	-	-	-	-	-	345	345
Investment properties	-	-	-	-	-	-	14,988	14,988
Properties, plant and equipment	-	-	-	-	-	-	56,206	56,206
Other assets (including deferred tax assets)	20,151	21,418	923	4,622	5,562	15,058	74	67,808
<b>Total assets</b>	<b>496,104</b>	<b>167,879</b>	<b>218,185</b>	<b>374,006</b>	<b>668,595</b>	<b>349,879</b>	<b>93,037</b>	<b>2,367,685</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.3 Liquidity Risk (continued)

#### (B) Maturity analysis (continued)

	At 30 June 2015							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	93,530	-	-	-	-	-	-	93,530
Deposits and balances from banks and other financial institutions	158,054	41,157	3,080	3,313	-	-	-	205,604
Financial liabilities at fair value through profit or loss	-	6,487	9,418	4,073	714	494	-	21,186
Derivative financial instruments	8,586	2,357	3,458	6,406	3,372	1,206	-	25,385
Deposits from customers	858,545	386,891	214,866	137,968	12,784	1,273	-	1,612,327
Debt securities and certificates of deposit in issue - debt securities	-	865	8	557	5,641	-	-	7,071
Other accounts and provisions (including current and deferred tax liabilities)	26,714	59,743	3,386	11,239	8,524	2	-	109,608
Insurance contract liabilities	21,032	950	1,170	5,245	12,632	41,750	-	82,779
Subordinated liabilities	-	-	418	-	19,147	-	-	19,565
<b>Total liabilities</b>	<b>1,166,461</b>	<b>498,450</b>	<b>235,804</b>	<b>168,801</b>	<b>62,814</b>	<b>44,725</b>	<b>-</b>	<b>2,177,055</b>
Net liquidity gap	(670,357)	(330,571)	(17,619)	205,205	605,781	305,154	93,037	190,630

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.3 Liquidity Risk (continued)

#### (B) Maturity analysis (continued)

	At 31 December 2014							Total HK\$m
	On demand HK\$m	Up to 1 month HK\$m	1 to 3 months HK\$m	3 to 12 months HK\$m	1 to 5 years HK\$m	Over 5 years HK\$m	Indefinite HK\$m	
<b>Assets</b>								
Cash and balances with banks and other financial institutions	326,887	60,109	-	-	-	-	11,677	398,673
Placements with banks and other financial institutions maturing between one and twelve months	-	-	17,730	19,706	-	-	-	37,436
Financial assets at fair value through profit or loss								
- held for trading								
- debt securities	-	2,627	6,572	10,606	12,530	3,287	-	35,622
- certificates of deposit	-	142	642	393	251	-	-	1,428
- designated at fair value through profit or loss								
- debt securities	-	45	129	1,109	7,534	5,263	-	14,080
- certificates of deposit	-	-	-	-	264	-	-	264
- equity securities and fund	-	-	-	-	-	-	2,600	2,600
Derivative financial instruments	10,880	3,502	2,813	11,619	1,852	2,687	-	33,353
Hong Kong SAR Government certificates of indebtedness	90,770	-	-	-	-	-	-	90,770
Advances and other accounts								
- advances to customers	113,635	28,987	60,630	171,511	347,232	231,875	2,503	956,373
- trade bills	32	12,779	20,973	23,972	-	-	-	57,756
Investment in securities								
- available-for-sale								
- debt securities	-	8,624	27,253	65,814	135,098	58,323	-	295,112
- certificates of deposit	-	13,284	6,072	24,598	14,187	207	-	58,348
- held-to-maturity								
- debt securities	-	434	2,503	5,111	44,481	24,197	27	76,753
- certificates of deposit	-	-	77	-	-	18	-	95
- loans and receivables								
- debt securities	-	2,499	915	1,454	-	-	-	4,868
- equity securities	-	-	-	-	-	-	3,650	3,650
Interests in associates and a joint venture	-	-	-	-	-	-	324	324
Investment properties	-	-	-	-	-	-	14,559	14,559
Properties, plant and equipment	-	-	-	-	-	-	55,207	55,207
Other assets (including deferred tax assets)	15,705	11,999	149	4,157	7,757	12,301	28	52,096
<b>Total assets</b>	<b>557,909</b>	<b>145,031</b>	<b>146,458</b>	<b>340,050</b>	<b>571,186</b>	<b>338,158</b>	<b>90,575</b>	<b>2,189,367</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.3 Liquidity Risk (continued)

#### (B) Maturity analysis (continued)

	At 31 December 2014							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	90,770	-	-	-	-	-	-	90,770
Deposits and balances from banks and other financial institutions	203,379	23,419	6,277	2,705	-	-	-	235,780
Financial liabilities at fair value through profit or loss	-	3,428	4,643	3,190	483	516	-	12,260
Derivative financial instruments	6,976	3,029	2,455	4,500	2,532	1,295	-	20,787
Deposits from customers	793,425	338,722	209,587	122,979	15,396	-	-	1,480,109
Debt securities and certificates of deposit in issue - debt securities	-	2,316	2,811	1,106	5,668	-	-	11,901
Other accounts and provisions (including current and deferred tax liabilities)	29,145	14,175	4,294	7,054	8,148	-	-	62,816
Insurance contract liabilities	12,417	1,099	1,733	6,199	14,807	37,541	-	73,796
Subordinated liabilities	-	-	418	-	-	19,258	-	19,676
<b>Total liabilities</b>	<b>1,136,112</b>	<b>386,188</b>	<b>232,218</b>	<b>147,733</b>	<b>47,034</b>	<b>58,610</b>	<b>-</b>	<b>2,007,895</b>
Net liquidity gap	(578,203)	(241,157)	(85,760)	192,317	524,152	279,548	90,575	181,472

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

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

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.4 Insurance Risk

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

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

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

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

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

### 3.5 Capital Management

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

#### (A) Basis of regulatory consolidation

The consolidation basis for regulatory purposes comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules. For accounting purposes, subsidiaries are consolidated in accordance with HKFRSs and the list of subsidiaries is set out in "Appendix – Subsidiaries of the Company" on pages 118 to 119.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.5 Capital Management (continued)

#### (A) Basis of regulatory consolidation (continued)

The Company, its subsidiaries of BOC Group Life Assurance Company Limited and BOCHK Asset Management (Cayman) Limited (including their subsidiaries), and certain subsidiaries of BOCHK are included within the accounting scope of consolidation but not included within the regulatory scope of consolidation.

The particulars of the above-mentioned subsidiaries of BOCHK are as follows:

Name	At 30 June 2015		At 31 December 2014	
	Total assets HK\$'m	Total equity HK\$'m	Total assets HK\$'m	Total equity HK\$'m
Bank of China (Hong Kong) Nominees Limited	–	–	–	–
Bank of China (Hong Kong) Trustees Limited	10	9	9	9
BOC Group Trustee Company Limited	200	200	200	200
BOCHK Information Technology (Shenzhen) Co., Ltd.	220	197	214	186
BOCHK Information Technology Services (Shenzhen) Ltd.	313	267	303	260
BOCI-Prudential Trustee Limited	462	414	458	430
Che Hsing (Nominees) Limited	1	1	1	1
Chiyu Banking Corporation (Nominees) Limited	131	131	115	115
Grace Charter Limited	–	(11)	–	(11)
Kwong Li Nam Investment Agency Limited	4	4	4	4
Nanyang Commercial Bank (Nominees) Limited	1	1	1	1
Nanyang Commercial Bank Trustee Limited	16	16	16	16
Po Sang Financial Investment Services Company Limited	122	105	121	105
Po Sang Futures Limited	468	188	597	188
Seng Sun Development Company, Limited	42	41	40	40
Sin Chiao Enterprises Corporation, Limited	7	7	7	7
Sin Hua Trustee Limited	5	5	5	5
Sino Information Services Company Limited	8	8	20	20

There are no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation as at 30 June 2015 (31 December 2014: Nil).

There are also no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation but the methods of consolidation differ as at 30 June 2015 (31 December 2014: Nil).

The principal activities of the above subsidiaries are set out in “Appendix – Subsidiaries of the Company” on pages 118 to 119.



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.5 Capital Management (continued)

#### (B) Capital ratio

	At 30 June 2015	At 31 December 2014
CET1 capital ratio	12.35%	12.30%
Tier 1 capital ratio	12.41%	12.38%
Total capital ratio	17.26%	17.51%

The consolidated capital base after deductions used in the calculation of the above capital ratios as at 30 June 2015 and 31 December 2014 and reported to the HKMA is analysed as follows:

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments	43,043	43,043
Retained earnings	84,080	76,649
Disclosed reserves	49,454	47,803
Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	693	614
CET1 capital before regulatory deductions	177,270	168,109
CET1 capital: regulatory deductions		
Valuation adjustments	(31)	(19)
Deferred tax assets net of deferred tax liabilities	(157)	(167)
Gains and losses due to changes in own credit risk on fair valued liabilities	(194)	(160)
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	(48,898)	(47,312)
Regulatory reserve for general banking risks	(10,686)	(10,011)
Total regulatory deductions to CET1 capital	(59,966)	(57,669)
CET1 capital	117,304	110,440
AT1 capital: instruments		
AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	592	733
AT1 capital	592	733
Tier 1 capital	117,896	111,173

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.5 Capital Management (continued)

#### (B) Capital ratio (continued)

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Tier 2 capital: instruments and provisions Capital instruments subject to phase out arrangements from Tier 2 capital	18,230	19,294
Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	213	256
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	5,552	5,195
Tier 2 capital before regulatory deductions	23,995	24,745
Tier 2 capital: regulatory deductions Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	22,004	21,290
Total regulatory deductions to Tier 2 capital	22,004	21,290
Tier 2 capital	45,999	46,035
<b>Total capital</b>	<b>163,895</b>	<b>157,208</b>

The capital conservation buffer ratio, higher loss absorbency ratio, countercyclical capital buffer ratio ("CCyB ratio") and the applicable JCCyB ratios for Hong Kong and non-Hong Kong jurisdictions for 2015 are 0% in accordance with the Banking (Capital) Rules.

The additional information of capital disclosures is available under section "Regulatory Disclosures" on the Bank's website at [www.bochk.com](http://www.bochk.com).

#### (C) Leverage ratio

	At 30 June 2015 HK\$'m
Tier 1 capital	117,896
Leverage ratio exposure	2,251,075
Leverage ratio	5.24%

The additional information of leverage ratio disclosures is available under section "Regulatory Disclosures" on the Bank's website at [www.bochk.com](http://www.bochk.com).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 4. Fair values of financial assets and liabilities

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

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

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

### 4.1 *Financial instruments measured at fair value*

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

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

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

### 4.1 Financial instruments measured at fair value (continued)

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

#### *Debt securities and certificates of deposit*

The fair value of these instruments is determined by obtaining quoted market prices from exchange, dealer or independent pricing service vendors or using discounted cash flow technique. Discounted cash flow model is a valuation technique that measures present value using estimated expected future cash flows from the instruments and then discounts these flows using a discount rate or discount margin that reflects the credit spreads required by the market for instruments with similar risk. These inputs are observable or can be corroborated by observable or unobservable market data.

#### *Asset backed securities*

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

#### *Derivatives*

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

Credit valuation adjustments (“CVA”) and debit valuation adjustments (“DVA”) are applied to the Group’s OTC derivatives. These adjustments reflect interest rates, expectations of counterparty creditworthiness and the Group’s own credit spread respectively. They are mainly determined for each counterparty and are dependent on expected future values of exposures, default probabilities and recovery rates.

#### *Financial liabilities designated at fair value through profit or loss*

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

### 4.1 Financial instruments measured at fair value (continued)

#### (A) Fair value hierarchy

	At 30 June 2015			
	Level 1 HK\$'m	Level 2 HK\$'m	Level 3 HK\$'m	Total HK\$'m
<b>Financial assets</b>				
Financial assets at fair value through profit or loss (Note 20)				
– Trading assets				
– Debt securities and certificates of deposit	3	41,048	–	41,051
– Equity securities	7	–	–	7
– Others	–	543	–	543
– Financial assets designated at fair value through profit or loss				
– Debt securities and certificates of deposit	73	18,828	1,716	20,617
– Equity securities	2,106	–	–	2,106
– Fund	2,666	–	–	2,666
Derivative financial instruments (Note 21)	12,551	21,080	–	33,631
Available-for-sale securities (Note 23)				
– Debt securities and certificates of deposit	83,700	387,768	636	472,104
– Equity securities	2,890	–	276	3,166
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss (Note 27)				
– Trading liabilities	–	18,514	–	18,514
– Financial liabilities designated at fair value through profit or loss	–	2,672	–	2,672
Derivative financial instruments (Note 21)	8,592	16,793	–	25,385

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

### 4.1 Financial instruments measured at fair value (continued)

#### (A) Fair value hierarchy (continued)

	At 31 December 2014			
	Level 1 HK\$'m	Level 2 HK\$'m	Level 3 HK\$'m	Total HK\$'m
<b>Financial assets</b>				
Financial assets at fair value through profit or loss (Note 20)				
– Trading assets				
– Debt securities and certificates of deposit	189	36,861	–	37,050
– Equity securities	3	–	–	3
– Financial assets designated at fair value through profit or loss				
– Debt securities and certificates of deposit	78	13,186	1,080	14,344
– Equity securities	1,641	–	–	1,641
– Fund	956	–	–	956
Derivative financial instruments (Note 21)	10,885	22,468	–	33,353
Available-for-sale securities (Note 23)				
– Debt securities and certificates of deposit	8,374	344,179	907	353,460
– Equity securities	2,664	719	267	3,650
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss (Note 27)				
– Trading liabilities	–	9,145	–	9,145
– Financial liabilities designated at fair value through profit or loss	–	3,115	–	3,115
Derivative financial instruments (Note 21)	6,979	13,808	–	20,787

There were no financial asset and liability transfers between level 1 and level 2 for the Group during the period (31 December 2014: Nil).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

### 4.1 Financial instruments measured at fair value (continued)

#### (B) Reconciliation of level 3 items

	At 30 June 2015		
	Financial assets		
	Financial assets designated at fair value through profit or loss	Available-for-sale securities	
		Debt securities and certificates of deposit HK\$'m	Debt securities and certificates of deposit HK\$'m
At 1 January 2015	1,080	907	267
(Losses)/gains			
– Income statement			
– Net loss on financial instruments designated at fair value through profit or loss	(24)	–	–
– Other comprehensive income			
– Change in fair value of available-for-sale securities	–	2	9
Purchases	660	38	–
Sales	–	(79)	–
Transfers out of level 3	–	(232)	–
At 30 June 2015	1,716	636	276
Total unrealised loss for the period included in income statement for financial assets held as at 30 June 2015			
– Net loss on financial instruments designated at fair value through profit or loss	(24)	–	–

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

### 4.1 Financial instruments measured at fair value (continued)

#### (B) Reconciliation of level 3 items (continued)

	At 31 December 2014		
	Financial assets		
	Financial assets designated at fair value through profit or loss		
	Available-for-sale securities		
	Debt securities and certificates of deposit HK\$'m	Debt securities and certificates of deposit HK\$'m	Equity securities HK\$'m
At 1 January 2014	385	6,247	250
(Losses)/gains			
– Income statement			
– Net loss on financial instruments designated at fair value through profit or loss	(9)	–	–
– Other comprehensive income			
– Change in fair value of available-for-sale securities	–	22	17
Purchases	725	78	–
Sales	(21)	(3,410)	–
Transfers out of level 3	–	(2,030)	–
At 31 December 2014	1,080	907	267
Total unrealised loss for the year included in income statement for financial assets held as at 31 December 2014			
– Net loss on financial instruments designated at fair value through profit or loss	(9)	–	–



# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

### 4.1 Financial instruments measured at fair value (continued)

#### (B) Reconciliation of level 3 items (continued)

As at 30 June 2015 and 31 December 2014, financial instruments categorised as level 3 are mainly comprised of debt securities, certificates of deposit and unlisted equity shares.

Debt securities and certificates of deposit were transferred out of level 3 during the first half of 2015 and in the year of 2014 due to improvement of valuation observability. For certain illiquid debt securities and certificates of deposit, the Group obtains valuation quotations from counterparties which may be based on unobservable inputs with significant impact on the valuation. Therefore, these instruments have been classified by the Group as level 3. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

The fair values of unlisted available-for-sale equity shares are determined with reference to multiples of comparable listed companies, such as average of the price/earning ratios of comparables, or net asset value, if appropriate comparables are not available. The fair value is positively correlated to the price/earning ratios of appropriate comparables or net asset values. Had the net asset value of the underlying equity investments increased/decreased by 5%, the Group's other comprehensive income would have increased/decreased by HK\$14 million (31 December 2014: HK\$13 million).

### 4.2 Financial instruments not measured at fair value

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

#### *Balances with/from banks and other financial institutions and trade bills*

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

#### *Advances to customers*

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

#### *Held-to-maturity securities*

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

### 4.2 Financial instruments not measured at fair value (continued)

#### *Loans and receivables*

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

#### *Deposits from customers*

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

#### *Debt securities and certificates of deposit in issue*

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

#### *Subordinated liabilities*

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

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

	At 30 June 2015		At 31 December 2014	
	Carrying value HK\$'m	Fair value HK\$'m	Carrying value HK\$'m	Fair value HK\$'m
<b>Financial assets</b>				
Held-to-maturity securities (Note 23)	92,244	94,147	76,848	78,515
Loans and receivables (Note 23)	7,701	7,715	4,868	4,867
<b>Financial liabilities</b>				
Debt securities and certificates of deposit in issue (Note 29)	7,071	7,440	11,901	12,315
Subordinated liabilities (Note 34)	19,565	21,693	19,676	21,624

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 5. Net interest income

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
<b>Interest income</b>		
Due from banks and other financial institutions	5,856	6,709
Advances to customers	11,740	10,872
Listed investments	2,194	2,466
Unlisted investments	3,919	3,159
Others	151	98
	<b>23,860</b>	23,304
<b>Interest expense</b>		
Due to banks and other financial institutions	(906)	(877)
Deposits from customers	(6,681)	(6,446)
Debt securities and certificates of deposit in issue	(146)	(80)
Subordinated liabilities	(206)	(57)
Others	(249)	(188)
	<b>(8,188)</b>	(7,648)
<b>Net interest income</b>	<b>15,672</b>	15,656

Included within interest income is HK\$10 million (first half of 2014: HK\$3 million) of interest with respect to income accrued on advances classified as impaired for the first half of 2015. Interest income accrued on impaired investment in securities amounted to HK\$1 million (first half of 2014: HK\$2 million).

Included within interest income and interest expense are HK\$23,777 million (first half of 2014: HK\$23,525 million) and HK\$8,469 million (first half of 2014: HK\$7,974 million), before hedging effect, for financial assets and financial liabilities that are not recognised at fair value through profit or loss respectively.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 6. Net fee and commission income

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
<b>Fee and commission income</b>		
Securities brokerage	2,335	1,180
Credit card business	1,849	1,792
Loan commissions	1,330	1,134
Insurance	818	677
Funds distribution	676	513
Bills commissions	353	413
Payment services	305	300
Trust and custody services	241	206
Currency exchange	150	105
Safe deposit box	140	136
Others	289	259
	<b>8,486</b>	6,715
<b>Fee and commission expense</b>		
Credit card business	(1,341)	(1,334)
Securities brokerage	(273)	(140)
Insurance	(158)	(114)
Others	(389)	(312)
	<b>(2,161)</b>	(1,900)
<b>Net fee and commission income</b>	<b>6,325</b>	4,815
Of which arise from		
– financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	1,383	1,168
– Fee and commission expense	(10)	(9)
	<b>1,373</b>	1,159
– trust and other fiduciary activities		
– Fee and commission income	340	303
– Fee and commission expense	(15)	(11)
	<b>325</b>	292

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 7. Net trading gain

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
Net gain/(loss) from:		
– foreign exchange and foreign exchange products	217	829
– interest rate instruments and items under fair value hedge	208	493
– commodities	30	23
– equity and credit derivative instruments	153	(16)
	<b>608</b>	<b>1,329</b>

## 8. Net gain on other financial assets

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
Net gain on available-for-sale securities	826	154
Net gain on held-to-maturity securities	3	–
Others	50	21
	<b>879</b>	<b>175</b>

## 9. Other operating income

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
Dividend income from investment in securities		
– listed investments	58	58
– unlisted investments	22	22
Gross rental income from investment properties	227	235
Less: Outgoings in respect of investment properties	(31)	(33)
Others	210	126
	<b>486</b>	<b>408</b>

Included in the “Outgoings in respect of investment properties” is HK\$3 million (first half of 2014: HK\$4 million) of direct operating expenses related to investment properties that were not let during the period.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 10. Net insurance benefits and claims and movement in liabilities

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
<b>Gross insurance benefits and claims and movement in liabilities</b>		
Claims, benefits and surrenders paid	(7,246)	(5,723)
Movement in liabilities	(8,889)	(6,453)
	(16,135)	(12,176)
<b>Reinsurers' share of benefits and claims and movement in liabilities</b>		
Reinsurers' share of claims, benefits and surrenders paid	2,506	248
Reinsurers' share of movement in liabilities	4,640	4,687
	7,146	4,935
<b>Net insurance benefits and claims and movement in liabilities</b>	<b>(8,989)</b>	<b>(7,241)</b>

## 11. Net charge of impairment allowances

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
<b>Advances to customers</b>		
Individually assessed		
– new allowances	(915)	(500)
– releases	103	348
– recoveries	74	82
Net charge of individually assessed loan impairment allowances	(738)	(70)
Collectively assessed		
– new allowances	(346)	(348)
– releases	257	22
– recoveries	21	19
Net charge of collectively assessed loan impairment allowances	(68)	(307)
Net charge of loan impairment allowances	(806)	(377)
<b>Held-to-maturity securities</b>		
Net reversal of individually assessed impairment allowances on held-to-maturity securities	1	2
<b>Others</b>	(4)	(4)
<b>Net charge of impairment allowances</b>	<b>(809)</b>	<b>(379)</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 12. Operating expenses

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
Staff costs (including directors' emoluments)		
– salaries and other costs	3,409	3,226
– pension cost	278	263
	<b>3,687</b>	3,489
Premises and equipment expenses (excluding depreciation)		
– rental of premises	427	412
– information technology	211	212
– others	209	190
	<b>847</b>	814
Depreciation	961	900
Auditor's remuneration		
– audit services	4	3
– non-audit services	1	3
Other operating expenses	1,076	1,007
	<b>6,576</b>	6,216

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

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
Net gain from fair value adjustments on investment properties	369	119

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

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
Net gain from disposal of premises	96	–
Net loss from disposal of other fixed assets	(10)	(7)
Net gain from revaluation of premises	1	–
	<b>87</b>	(7)

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 15. Taxation

Taxation in the income statement represents:

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
Current tax		
Hong Kong profits tax		
– current period taxation	2,616	2,197
– over-provision in prior periods	(4)	(57)
	2,612	2,140
Overseas taxation		
– current period taxation	463	603
– (over)/under-provision in prior periods	(7)	4
	3,068	2,747
Deferred tax		
Origination and reversal of temporary differences	(77)	99
	2,991	2,846

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2015. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2015 at the rates of taxation prevailing in the countries in which the Group operates.

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

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
Profit before taxation	16,782	15,179
Calculated at a taxation rate of 16.5% (2014: 16.5%)	2,769	2,505
Effect of different taxation rates in other countries	(7)	36
Income not subject to taxation	(275)	(76)
Expenses not deductible for taxation purposes	71	213
Utilisation of previously unrecognised tax losses	–	(1)
Over-provision in prior periods	(11)	(53)
Foreign withholding tax	444	222
Taxation charge	2,991	2,846
Effective tax rate	17.8%	18.7%



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 16. Dividends

	Half-year ended 30 June 2015		Half-year ended 30 June 2014	
	Per share HK\$	Total HK\$m	Per share HK\$	Total HK\$m
Interim dividend	0.545	5,762	0.545	5,762

At a meeting held on 28 August 2015, the Board declared an interim dividend of HK\$0.545 per ordinary share for the first half of 2015 amounting to approximately HK\$5,762 million. This declared interim dividend is not reflected as a dividend payable in this interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2015.

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

The calculation of basic earnings per share is based on the consolidated profit attributable to the equity holders of the Company for the first half of 2015 of approximately HK\$13,387 million (first half of 2014: HK\$12,083 million) and on the ordinary shares in issue of 10,572,780,266 shares (2014: 10,572,780,266 ordinary shares).

There was no dilution of earnings per share as no potential ordinary shares were in issue for the first half of 2015 (first half of 2014: Nil).

## 18. Retirement benefit costs

Defined contribution schemes for the Group's employees are ORSO schemes exempted under the MPF Schemes Ordinance and the BOC-Prudential Easy Choice MPF Scheme. Under the ORSO schemes, employees make monthly contributions to the ORSO schemes equal to 5% of their basic salaries, while the employer makes monthly contributions equal to 5% to 15% of the employees' monthly basic salaries, depending on years of service. The employees are entitled to receive 100% of the employer's contributions upon retirement, early retirement or termination of employment after completing 10 years of service. Employees with 3 to 9 years of service are entitled to receive the employer's contributions at a scale ranging from 30% to 90% upon termination of employment for other reasons other than summary dismissal. All employer's contributions received by employee are subject to MPF Schemes Ordinance.

With the implementation of the MPF Schemes Ordinance on 1 December 2000, the Group also participates in the BOC-Prudential Easy Choice MPF Scheme, of which the trustee is BOCI-Prudential Trustee and the investment manager is BOCI-Prudential Manager, which are related parties of the Company.

The Group's total contributions made to the ORSO schemes for the first half of 2015 amounted to approximately HK\$183 million (first half of 2014: approximately HK\$179 million), after a deduction of forfeited contributions of approximately HK\$4 million (first half of 2014: approximately HK\$3 million). For the MPF Scheme, the Group contributed approximately HK\$41 million (first half of 2014: approximately HK\$34 million) for the first half of 2015.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 19. Cash and balances with banks and other financial institutions

	<b>At 30 June 2015 HK\$'m</b>	At 31 December 2014 HK\$'m
Cash	<b>7,995</b>	9,749
Balances with central banks	<b>79,345</b>	104,317
Balances with banks and other financial institutions	<b>169,897</b>	224,498
Placements with banks and other financial institutions maturing within one month	<b>72,037</b>	60,109
	<b>329,274</b>	398,673

## 20. Financial assets at fair value through profit or loss

	Trading assets		Financial assets designated at fair value through profit or loss		Total	
	<b>At 30 June 2015 HK\$'m</b>	At 31 December 2014 HK\$'m	<b>At 30 June 2015 HK\$'m</b>	At 31 December 2014 HK\$'m	<b>At 30 June 2015 HK\$'m</b>	At 31 December 2014 HK\$'m
At fair value						
Treasury bills	<b>18,204</b>	11,990	–	–	<b>18,204</b>	11,990
Other debt securities	<b>21,289</b>	23,632	<b>20,344</b>	14,080	<b>41,633</b>	37,712
	<b>39,493</b>	35,622	<b>20,344</b>	14,080	<b>59,837</b>	49,702
Certificates of deposit	<b>1,558</b>	1,428	<b>273</b>	264	<b>1,831</b>	1,692
Total debt securities and certificates of deposit	<b>41,051</b>	37,050	<b>20,617</b>	14,344	<b>61,668</b>	51,394
Equity securities	<b>7</b>	3	<b>2,106</b>	1,641	<b>2,113</b>	1,644
Fund	–	–	<b>2,666</b>	956	<b>2,666</b>	956
Total securities	<b>41,058</b>	37,053	<b>25,389</b>	16,941	<b>66,447</b>	53,994
Others	<b>543</b>	–	–	–	<b>543</b>	–
Total	<b>41,601</b>	37,053	<b>25,389</b>	16,941	<b>66,990</b>	53,994

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

Total securities are analysed by place of listing as follows:

	Trading assets		Financial assets designated at fair value through profit or loss	
	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Debt securities and certificates of deposit				
– Listed in Hong Kong	9,858	10,756	4,768	2,852
– Listed outside Hong Kong	4,328	5,567	9,089	5,419
	14,186	16,323	13,857	8,271
– Unlisted	26,865	20,727	6,760	6,073
	41,051	37,050	20,617	14,344
Equity securities				
– Listed in Hong Kong	7	3	1,445	1,516
– Listed outside Hong Kong	–	–	661	125
	7	3	2,106	1,641
Fund				
– Unlisted	–	–	2,666	956
Total securities	41,058	37,053	25,389	16,941

Total securities are analysed by type of issuer as follows:

	Trading assets		Financial assets designated at fair value through profit or loss	
	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Sovereigns	24,613	19,102	1,494	273
Public sector entities*	379	465	–	–
Banks and other financial institutions	9,336	11,581	15,582	10,332
Corporate entities	6,730	5,905	8,313	6,336
Total securities	41,058	37,053	25,389	16,941

\* Included trading assets of HK\$379 million (31 December 2014: HK\$465 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 21. Derivative financial instruments

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

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

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

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

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 21. Derivative financial instruments (continued)

The following tables summarise the contract/notional amounts of each class of derivative financial instrument as at 30 June 2015 and 31 December 2014:

	At 30 June 2015			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts				
Spot, forwards and futures	383,915	–	2,548	386,463
Swaps	1,515,351	233	16,319	1,531,903
Foreign currency options				
– Options purchased	40,863	–	–	40,863
– Options written	43,712	–	–	43,712
	1,983,841	233	18,867	2,002,941
Interest rate contracts				
Futures	2,526	–	–	2,526
Swaps	339,329	96,041	3,848	439,218
	341,855	96,041	3,848	441,744
Commodity contracts	8,503	–	–	8,503
Equity contracts	7,739	–	–	7,739
Total	2,341,938	96,274	22,715	2,460,927

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 21. Derivative financial instruments (continued)

	At 31 December 2014			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts				
Spot, forwards and futures	345,227	–	2,047	347,274
Swaps	1,118,201	644	14,098	1,132,943
Foreign currency options				
– Options purchased	35,101	–	–	35,101
– Options written	33,654	–	–	33,654
	1,532,183	644	16,145	1,548,972
Interest rate contracts				
Futures	4,156	–	–	4,156
Swaps	334,572	74,405	3,848	412,825
	338,728	74,405	3,848	416,981
Commodity contracts	6,547	–	–	6,547
Equity contracts	4,253	–	–	4,253
Credit derivative contracts	78	–	–	78
Total	1,881,789	75,049	19,993	1,976,831

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 21. Derivative financial instruments (continued)

The following tables summarise the fair values of each class of derivative financial instrument as at 30 June 2015 and 31 December 2014:

	At 30 June 2015							
	Fair value assets				Fair value liabilities			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts								
Spot, forwards and futures	13,736	–	1	13,737	(9,810)	–	(1)	(9,811)
Swaps	14,250	–	54	14,304	(11,675)	–	(2)	(11,677)
Foreign currency options								
– Options purchased	1,158	–	–	1,158	–	–	–	–
– Options written	–	–	–	–	(201)	–	–	(201)
	<b>29,144</b>	<b>–</b>	<b>55</b>	<b>29,199</b>	<b>(21,686)</b>	<b>–</b>	<b>(3)</b>	<b>(21,689)</b>
Interest rate contracts								
Futures	3	–	–	3	(4)	–	–	(4)
Swaps	1,607	2,346	–	3,953	(1,794)	(1,466)	(54)	(3,314)
	<b>1,610</b>	<b>2,346</b>	<b>–</b>	<b>3,956</b>	<b>(1,798)</b>	<b>(1,466)</b>	<b>(54)</b>	<b>(3,318)</b>
Commodity contracts	217	–	–	217	(119)	–	–	(119)
Equity contracts	259	–	–	259	(259)	–	–	(259)
<b>Total</b>	<b>31,230</b>	<b>2,346</b>	<b>55</b>	<b>33,631</b>	<b>(23,862)</b>	<b>(1,466)</b>	<b>(57)</b>	<b>(25,385)</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 21. Derivative financial instruments (continued)

	At 31 December 2014							
	Fair value assets				Fair value liabilities			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts								
Spot, forwards and futures	12,208	-	-	12,208	(7,386)	-	(4)	(7,390)
Swaps	12,462	-	12	12,474	(9,823)	(1)	(21)	(9,845)
Foreign currency options								
- Options purchased	4,676	-	-	4,676	-	-	-	-
- Options written	-	-	-	-	(207)	-	-	(207)
	29,346	-	12	29,358	(17,416)	(1)	(25)	(17,442)
Interest rate contracts								
Futures	2	-	-	2	(3)	-	-	(3)
Swaps	1,311	2,270	2	3,583	(1,881)	(1,128)	(50)	(3,059)
	1,313	2,270	2	3,585	(1,884)	(1,128)	(50)	(3,062)
Commodity contracts	328	-	-	328	(202)	-	-	(202)
Equity contracts	82	-	-	82	(81)	-	-	(81)
Total	31,069	2,270	14	33,353	(19,583)	(1,129)	(75)	(20,787)

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

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Exchange rate contracts	8,492	8,167
Interest rate contracts	583	729
Commodity contracts	-	-
Equity contracts	477	208
Total	9,552	9,104

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

The total fair values of derivatives subject to valid bilateral netting agreements for the Group amounted to HK\$12,468 million (31 December 2014: HK\$10,928 million) and the effect of valid bilateral netting agreements amounted to HK\$8,524 million (31 December 2014: HK\$7,154 million).



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 22. Advances and other accounts

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Personal loans and advances	294,804	284,007
Corporate loans and advances	736,720	676,982
Advances to customers*	1,031,524	960,989
Loan impairment allowances		
– Individually assessed	(1,035)	(1,096)
– Collectively assessed	(3,417)	(3,520)
	1,027,072	956,373
Trade bills	51,759	57,756
<b>Total</b>	<b>1,078,831</b>	<b>1,014,129</b>

As at 30 June 2015, advances to customers included accrued interest of HK\$1,684 million (31 December 2014: HK\$1,570 million).

As at 30 June 2015, no impairment allowance was made in respect of trade bills (31 December 2014: Nil).

\* Included advances to customers denominated in HK dollars of HK\$653,967 million (31 December 2014: HK\$606,590 million) and US dollars equivalent to HK\$246,265 million (31 December 2014: HK\$251,565 million).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 23. Investment in securities

	At 30 June 2015			
	At fair value	At amortised cost		
	Available- for-sale securities HK\$'m	Held-to- maturity securities HK\$'m	Loans and receivables HK\$'m	Total HK\$'m
Treasury bills	116,006	2,373	–	118,379
Other debt securities	288,271	89,853	7,701	385,825
	404,277	92,226	7,701	504,204
Certificates of deposit	67,827	18	–	67,845
Total debt securities and certificates of deposit	472,104	92,244	7,701	572,049
Equity securities	3,166	–	–	3,166
<b>Total</b>	<b>475,270</b>	<b>92,244</b>	<b>7,701</b>	<b>575,215</b>

	At 31 December 2014			
	At fair value	At amortised cost		
	Available- for-sale securities HK\$'m	Held-to- maturity securities HK\$'m	Loans and receivables HK\$'m	Total HK\$'m
Treasury bills	48,079	2,375	–	50,454
Other debt securities	247,033	74,378	4,868	326,279
	295,112	76,753	4,868	376,733
Certificates of deposit	58,348	95	–	58,443
Total debt securities and certificates of deposit	353,460	76,848	4,868	435,176
Equity securities	3,650	–	–	3,650
<b>Total</b>	<b>357,110</b>	<b>76,848</b>	<b>4,868</b>	<b>438,826</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 23. Investment in securities (continued)

Investment in securities is analysed by place of listing as follows:

	At 30 June 2015		
	Available-for-sale securities HK\$'m	Held-to-maturity securities HK\$'m	Loans and receivables HK\$'m
Debt securities and certificates of deposit			
– Listed in Hong Kong	36,342	6,001	–
– Listed outside Hong Kong	104,975	32,183	–
	141,317	38,184	–
– Unlisted	330,787	54,060	7,701
	472,104	92,244	7,701
Equity securities			
– Listed in Hong Kong	2,890	–	–
– Unlisted	276	–	–
	3,166	–	–
Total	475,270	92,244	7,701
Market value of listed held-to-maturity securities		38,568	
	At 31 December 2014		
	Available-for-sale securities HK\$'m	Held-to-maturity securities HK\$'m	Loans and receivables HK\$'m
Debt securities and certificates of deposit			
– Listed in Hong Kong	30,720	5,050	–
– Listed outside Hong Kong	98,874	22,238	–
	129,594	27,288	–
– Unlisted	223,866	49,560	4,868
	353,460	76,848	4,868
Equity securities			
– Listed in Hong Kong	2,664	–	–
– Unlisted	986	–	–
	3,650	–	–
Total	357,110	76,848	4,868
Market value of listed held-to-maturity securities		27,697	

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 23. Investment in securities (continued)

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

	At 30 June 2015		
	Available- for-sale securities HK\$'m	Held-to- maturity securities HK\$'m	Loans and receivables HK\$'m
	Sovereigns	153,016	2,623
Public sector entities*	18,526	23,377	–
Banks and other financial institutions	203,733	38,955	6,199
Corporate entities	99,995	27,289	1,502
	<b>475,270</b>	<b>92,244</b>	<b>7,701</b>

  

	At 31 December 2014		
	Available- for-sale securities HK\$'m	Held-to- maturity securities HK\$'m	Loans and receivables HK\$'m
	Sovereigns	67,251	2,917
Public sector entities*	20,227	22,710	–
Banks and other financial institutions	191,867	31,775	2,793
Corporate entities	77,765	19,446	2,075
	<b>357,110</b>	<b>76,848</b>	<b>4,868</b>

\* Included available-for-sale securities of HK\$17,681 million (31 December 2014: HK\$18,567 million) and held-to-maturity securities of HK\$4,767 million (31 December 2014: HK\$2,762 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

## 24. Investment properties

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
At 1 January	14,559	14,597
Additions	35	–
Fair value gains	369	393
Reclassification from/(to) properties, plant and equipment (Note 25)	25	(431)
At period/year end	<b>14,988</b>	<b>14,559</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 25. Properties, plant and equipment

	Premises HK\$'m	Equipment, fixtures and fittings HK\$'m	Total HK\$'m
Net book value at 1 January 2015	52,639	2,568	55,207
Additions	208	322	530
Disposals	(369)	(11)	(380)
Revaluation	1,833	–	1,833
Depreciation for the period (Note 12)	(559)	(402)	(961)
Reclassification to investment properties (Note 24)	(25)	–	(25)
Exchange difference	1	1	2
Net book value at 30 June 2015	53,728	2,478	56,206
At 30 June 2015			
Cost or valuation	53,728	8,188	61,916
Accumulated depreciation and impairment	–	(5,710)	(5,710)
Net book value at 30 June 2015	53,728	2,478	56,206
The analysis of cost or valuation of the above assets is as follows:			
At 30 June 2015			
At cost	–	8,188	8,188
At valuation	53,728	–	53,728
	53,728	8,188	61,916
Net book value at 1 January 2014	49,791	2,567	52,358
Additions	211	814	1,025
Disposals	(43)	(27)	(70)
Revaluation	3,311	–	3,311
Depreciation for the year	(1,050)	(779)	(1,829)
Reclassification from investment properties (Note 24)	431	–	431
Exchange difference	(12)	(7)	(19)
Net book value at 31 December 2014	52,639	2,568	55,207
At 31 December 2014			
Cost or valuation	52,639	8,308	60,947
Accumulated depreciation and impairment	–	(5,740)	(5,740)
Net book value at 31 December 2014	52,639	2,568	55,207
The analysis of cost or valuation of the above assets is as follows:			
At 31 December 2014			
At cost	–	8,308	8,308
At valuation	52,639	–	52,639
	52,639	8,308	60,947

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 26. Other assets

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Repossessed assets	36	18
Precious metals	3,194	3,682
Reinsurance assets	37,869	32,525
Accounts receivable and prepayments	26,552	15,704
	<b>67,651</b>	<b>51,929</b>

## 27. Financial liabilities at fair value through profit or loss

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Trading liabilities		
– Short positions in Exchange Fund Bills and Notes	15,342	9,145
– Others	3,172	–
	<b>18,514</b>	<b>9,145</b>
Financial liabilities designated at fair value through profit or loss		
– Structured deposits (Note 28)	2,672	3,115
	<b>21,186</b>	<b>12,260</b>

The carrying amount of financial liabilities designated at fair value through profit or loss as at 30 June 2015 was less than the amount that the Group would be contractually required to pay at maturity to the holders by HK\$2 million (31 December 2014: HK\$4 million). The amount of change in the fair values of financial liabilities at fair value through profit or loss, during the period and cumulatively, attributable to changes in own credit risk was insignificant.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 28. Deposits from customers

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Current, savings and other deposit accounts (per balance sheet)	1,612,327	1,480,109
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 27)	2,672	3,115
	<b>1,614,999</b>	<b>1,483,224</b>
Analysed by:		
Demand deposits and current accounts		
– corporate	133,056	87,585
– personal	33,533	28,776
	<b>166,589</b>	<b>116,361</b>
Savings deposits		
– corporate	231,406	252,515
– personal	460,121	420,311
	<b>691,527</b>	<b>672,826</b>
Time, call and notice deposits		
– corporate	499,046	422,536
– personal	257,837	271,501
	<b>756,883</b>	<b>694,037</b>
	<b>1,614,999</b>	<b>1,483,224</b>

## 29. Debt securities and certificates of deposit in issue

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Debt securities, at amortised cost		
– Senior notes under the Medium Term Note Programme	5,673	5,636
– Other debt securities	1,398	6,265
	<b>7,071</b>	<b>11,901</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 30. Other accounts and provisions

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Dividend payable	6,080	–
Other accounts payable	90,715	51,603
Provisions	337	354
	<b>97,132</b>	<b>51,957</b>

## 31. Assets pledged as security

As at 30 June 2015, the liabilities of the Group amounting to HK\$18,072 million (31 December 2014: HK\$16,309 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK\$23,148 million (31 December 2014: HK\$5,860 million) were secured by debt securities and bills related to sale and repurchase arrangements. The amount of assets pledged by the Group to secure these liabilities was HK\$42,492 million (31 December 2014: HK\$22,423 million) mainly included in "Trading assets", "Investment in securities" and "Trade bills".

## 32. Deferred taxation

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

The major components of deferred tax (assets)/liabilities recorded in the balance sheet, and the movements during the first half of 2015 and the year ended 31 December 2014 are as follows:

	At 30 June 2015					Total HK\$'m
	Accelerated tax depreciation HK\$'m	Property revaluation HK\$'m	Losses HK\$'m	Impairment allowance HK\$'m	Other temporary differences HK\$'m	
At 1 January 2015	607	7,858	–	(645)	94	7,914
(Credited)/charged to income statement (Note 15)	–	(52)	(44)	(2)	21	(77)
Charged/(credited) to other comprehensive income	–	228	–	–	(187)	41
Exchange difference	–	–	–	(1)	–	(1)
At 30 June 2015	<b>607</b>	<b>8,034</b>	<b>(44)</b>	<b>(648)</b>	<b>(72)</b>	<b>7,877</b>



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 32. Deferred taxation (continued)

	At 31 December 2014					
	Accelerated tax depreciation HK\$'m	Property revaluation HK\$'m	Losses HK\$'m	Impairment allowance HK\$'m	Other temporary differences HK\$'m	Total HK\$'m
At 1 January 2014	581	7,348	(92)	(594)	(603)	6,640
Charged/(credited) to income statement	26	60	92	(55)	(11)	112
Charged to other comprehensive income	–	451	–	–	706	1,157
Exchange difference	–	(1)	–	4	2	5
At 31 December 2014	607	7,858	–	(645)	94	7,914

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

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Deferred tax assets	(157)	(167)
Deferred tax liabilities	8,034	8,081
	<b>7,877</b>	<b>7,914</b>

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Deferred tax assets to be recovered after more than twelve months	(104)	(129)
Deferred tax liabilities to be settled after more than twelve months	7,960	7,928
	<b>7,856</b>	<b>7,799</b>

As at 30 June 2015, the Group has not recognised deferred tax assets in respect of tax losses amounting to HK\$11 million (31 December 2014: HK\$10 million). These tax losses do not expire under the current tax legislation.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 33. Insurance contract liabilities

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
At 1 January	73,796	66,637
Benefits paid	(7,104)	(10,795)
Claims incurred and movement in liabilities	16,087	17,954
At period/year end	<b>82,779</b>	73,796

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK\$37,103 million (31 December 2014: HK\$32,320 million) and the associated reinsurance assets of HK\$37,869 million (31 December 2014: HK\$32,525 million) are included in "Other assets" (Note 26).

## 34. Subordinated liabilities

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
<b>Subordinated notes, at amortised cost with fair value hedge adjustment</b> USD2,500m*	<b>19,565</b>	19,676

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

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

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

## 35. Share capital

	At 30 June 2015 HK\$'m	At 31 December 2014 HK\$'m
Issued and fully paid: 10,572,780,266 ordinary shares	<b>52,864</b>	52,864

## 36. Reserves

The Group's reserves and the movements therein for the current and prior periods are presented in the condensed consolidated statement of changes in equity on pages 35 to 36.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 37. Notes to condensed consolidated cash flow statement

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

	Half-year ended 30 June 2015 HK\$'m	Half-year ended 30 June 2014 HK\$'m
Operating profit	16,303	15,054
Depreciation	961	900
Net charge of impairment allowances	809	379
Unwind of discount on impairment allowances	(10)	(3)
Advances written off net of recoveries	(963)	(94)
Change in subordinated liabilities	93	128
Change in balances with banks and other financial institutions with original maturity over three months	204	5,430
Change in placements with banks and other financial institutions with original maturity over three months	(4,871)	4,055
Change in financial assets at fair value through profit or loss	(10,989)	(4,290)
Change in derivative financial instruments	4,320	(2,726)
Change in advances and other accounts	(64,538)	(89,021)
Change in investment in securities	(124,668)	30,176
Change in other assets	(15,726)	2,637
Change in deposits and balances from banks and other financial institutions	(30,176)	(93,388)
Change in financial liabilities at fair value through profit or loss	8,926	5,909
Change in deposits from customers	132,218	112,214
Change in debt securities and certificates of deposit in issue	(4,830)	3,812
Change in other accounts and provisions	39,095	(1,519)
Change in insurance contract liabilities	8,983	5,626
Effect of changes in exchange rates	112	7,007
Operating cash (outflow)/inflow before taxation	<b>(44,747)</b>	2,286
Cash flows from operating activities included:		
– Interest received	23,934	21,253
– Interest paid	8,253	6,828
– Dividend received	80	80

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

	At 30 June 2015 HK\$'m	At 30 June 2014 HK\$'m
Cash and balances with banks and other financial institutions with original maturity within three months	316,136	322,614
Placements with banks and other financial institutions with original maturity within three months	19,056	12,901
Treasury bills with original maturity within three months	21,698	15,704
Certificates of deposit with original maturity within three months	283	149
	<b>357,173</b>	351,368

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 38. Contingent liabilities and commitments

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

	<b>At 30 June 2015 HK\$'m</b>	At 31 December 2014 HK\$'m
Direct credit substitutes	<b>25,500</b>	22,621
Transaction-related contingencies	<b>8,081</b>	9,225
Trade-related contingencies	<b>37,378</b>	36,016
Asset sales with recourse	<b>10,690</b>	4,741
Commitments that are unconditionally cancellable without prior notice	<b>416,199</b>	407,681
Other commitments with an original maturity of		
– up to one year	<b>7,755</b>	9,974
– over one year	<b>61,132</b>	70,869
	<b>566,735</b>	561,127
Credit risk-weighted amount	<b>53,207</b>	49,572

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

## 39. Capital commitments

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

	<b>At 30 June 2015 HK\$'m</b>	At 31 December 2014 HK\$'m
Authorised and contracted for but not provided for	<b>382</b>	448
Authorised but not contracted for	<b>8</b>	4
	<b>390</b>	452

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 40. Operating lease commitments

### (a) *As lessee*

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

	<b>At 30 June 2015 HK\$'m</b>	At 31 December 2014 HK\$'m
Land and buildings		
– not later than one year	749	756
– later than one year but not later than five years	1,279	1,300
– later than five years	197	265
	<b>2,225</b>	<b>2,321</b>

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

### (b) *As lessor*

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

	<b>At 30 June 2015 HK\$'m</b>	At 31 December 2014 HK\$'m
Land and buildings		
– not later than one year	416	404
– later than one year but not later than five years	372	421
	<b>788</b>	<b>825</b>

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 41. Segmental reporting

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

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

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

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 41. Segmental reporting (continued)

	Personal Banking HK\$'m	Corporate Banking HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
<b>Half-year ended 30 June 2015</b>								
Net interest income/(expense)								
– external	1,005	4,762	8,816	1,087	2	15,672	–	15,672
– inter-segment	3,465	1,117	(4,261)	5	(326)	–	–	–
	4,470	5,879	4,555	1,092	(324)	15,672	–	15,672
Net fee and commission income/(expense)	4,270	2,141	71	(156)	195	6,521	(196)	6,325
Net insurance premium income	–	–	–	8,884	–	8,884	(9)	8,875
Net trading gain	359	154	48	33	6	600	8	608
Net loss on financial instruments designated at fair value through profit or loss	–	–	(12)	(156)	–	(168)	–	(168)
Net gain on other financial assets	641	50	75	113	–	879	–	879
Other operating income	13	3	–	10	1,044	1,070	(584)	486
<b>Total operating income</b>	<b>9,753</b>	<b>8,227</b>	<b>4,737</b>	<b>9,820</b>	<b>921</b>	<b>33,458</b>	<b>(781)</b>	<b>32,677</b>
Net insurance benefits and claims and movement in liabilities	–	–	–	(8,989)	–	(8,989)	–	(8,989)
<b>Net operating income before impairment allowances</b>	<b>9,753</b>	<b>8,227</b>	<b>4,737</b>	<b>831</b>	<b>921</b>	<b>24,469</b>	<b>(781)</b>	<b>23,688</b>
Net (charge)/reversal of impairment allowances	(137)	(674)	1	–	1	(809)	–	(809)
<b>Net operating income</b>	<b>9,616</b>	<b>7,553</b>	<b>4,738</b>	<b>831</b>	<b>922</b>	<b>23,660</b>	<b>(781)</b>	<b>22,879</b>
Operating expenses	(3,589)	(1,699)	(603)	(177)	(1,289)	(7,357)	781	(6,576)
<b>Operating profit/(loss)</b>	<b>6,027</b>	<b>5,854</b>	<b>4,135</b>	<b>654</b>	<b>(367)</b>	<b>16,303</b>	<b>–</b>	<b>16,303</b>
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	369	369	–	369
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	(3)	–	(1)	(5)	96	87	–	87
Share of profits less losses after tax of associates and a joint venture	–	–	–	–	23	23	–	23
<b>Profit before taxation</b>	<b>6,024</b>	<b>5,854</b>	<b>4,134</b>	<b>649</b>	<b>121</b>	<b>16,782</b>	<b>–</b>	<b>16,782</b>
<b>At 30 June 2015</b>								
<b>Assets</b>								
Segment assets	335,647	773,857	1,098,960	97,593	80,720	2,386,777	(19,437)	2,367,340
Interests in associates and a joint venture	–	–	–	–	345	345	–	345
	335,647	773,857	1,098,960	97,593	81,065	2,387,122	(19,437)	2,367,685
<b>Liabilities</b>								
Segment liabilities	845,114	820,061	419,034	91,666	20,617	2,196,492	(19,437)	2,177,055
<b>Half-year ended 30 June 2015</b>								
<b>Other information</b>								
Capital expenditure	9	–	–	22	534	565	–	565
Depreciation	189	74	35	5	658	961	–	961
Amortisation of securities	–	–	463	(48)	–	415	–	415

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 41. Segmental reporting (continued)

	Personal Banking HK\$'m	Corporate Banking HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
<b>Half-year ended 30 June 2014</b>								
Net interest income/(expense)								
– external	793	4,405	9,396	1,060	2	15,656	–	15,656
– inter-segment	3,090	1,682	(4,435)	7	(344)	–	–	–
	3,883	6,087	4,961	1,067	(342)	15,656	–	15,656
Net fee and commission income/(expense)	2,843	1,996	72	(98)	209	5,022	(207)	4,815
Net insurance premium income	–	–	–	6,497	–	6,497	(8)	6,489
Net trading gain/(loss)	215	171	882	65	(12)	1,321	8	1,329
Net (loss)/gain on financial instruments designated at fair value through profit or loss	–	–	(1)	19	–	18	–	18
Net gain on other financial assets	–	21	135	19	–	175	–	175
Other operating income	12	10	5	83	873	983	(575)	408
<b>Total operating income</b>	<b>6,953</b>	<b>8,285</b>	<b>6,054</b>	<b>7,652</b>	<b>728</b>	<b>29,672</b>	<b>(782)</b>	<b>28,890</b>
Net insurance benefits and claims and movement in liabilities	–	–	–	(7,241)	–	(7,241)	–	(7,241)
<b>Net operating income before impairment allowances</b>	<b>6,953</b>	<b>8,285</b>	<b>6,054</b>	<b>411</b>	<b>728</b>	<b>22,431</b>	<b>(782)</b>	<b>21,649</b>
Net (charge)/reversal of impairment allowances	(203)	(178)	2	–	–	(379)	–	(379)
<b>Net operating income</b>	<b>6,750</b>	<b>8,107</b>	<b>6,056</b>	<b>411</b>	<b>728</b>	<b>22,052</b>	<b>(782)</b>	<b>21,270</b>
Operating expenses	(3,358)	(1,728)	(689)	(133)	(1,090)	(6,998)	782	(6,216)
<b>Operating profit/(loss)</b>	<b>3,392</b>	<b>6,379</b>	<b>5,367</b>	<b>278</b>	<b>(362)</b>	<b>15,054</b>	<b>–</b>	<b>15,054</b>
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	119	119	–	119
Net loss from disposal/revaluation of properties, plant and equipment	(4)	–	–	–	(3)	(7)	–	(7)
Share of profits less losses after tax of associates and a joint venture	–	–	–	–	13	13	–	13
<b>Profit/(loss) before taxation</b>	<b>3,388</b>	<b>6,379</b>	<b>5,367</b>	<b>278</b>	<b>(233)</b>	<b>15,179</b>	<b>–</b>	<b>15,179</b>
<b>At 31 December 2014</b>								
<b>Assets</b>								
Segment assets	319,722	718,063	1,002,485	87,942	72,827	2,201,039	(11,996)	2,189,043
Interests in associates and a joint venture	–	–	–	–	324	324	–	324
	319,722	718,063	1,002,485	87,942	73,151	2,201,363	(11,996)	2,189,367
<b>Liabilities</b>								
Segment liabilities	808,673	716,585	398,264	82,496	13,873	2,019,891	(11,996)	2,007,895
<b>Half-year ended 30 June 2014</b>								
<b>Other information</b>								
Capital expenditure	7	1	–	3	271	282	–	282
Depreciation	175	74	33	5	613	900	–	900
Amortisation of securities	–	–	472	114	–	586	–	586



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 42. Offsetting financial instruments

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

	At 30 June 2015					
	Gross amounts of recognised financial assets HK\$m	Gross amounts of recognised financial liabilities set off in the balance sheet HK\$m	Net amounts of financial assets presented in the balance sheet HK\$m	Related amounts not set off in the balance sheet		Net amount HK\$m
				Financial instruments HK\$m	Cash collateral received HK\$m	
<b>Assets</b>						
Derivative financial instruments	20,627	-	20,627	(11,395)	(1,939)	7,293
Reverse repurchase agreements	714	-	714	(714)	-	-
Other assets	15,371	(12,882)	2,489	-	-	2,489
Total	36,712	(12,882)	23,830	(12,109)	(1,939)	9,782

	At 30 June 2015					
	Gross amounts of recognised financial liabilities HK\$m	Gross amounts of recognised financial assets set off in the balance sheet HK\$m	Net amounts of financial liabilities presented in the balance sheet HK\$m	Related amounts not set off in the balance sheet		Net amount HK\$m
				Financial instruments HK\$m	Cash collateral pledged HK\$m	
<b>Liabilities</b>						
Derivative financial instruments	16,532	-	16,532	(11,395)	(1,690)	3,447
Repurchase agreements	3,172	-	3,172	(3,172)	-	-
Other liabilities	19,715	(12,882)	6,833	-	-	6,833
Total	39,419	(12,882)	26,537	(14,567)	(1,690)	10,280

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 42. Offsetting financial instruments (continued)

	At 31 December 2014					
	Gross amounts of recognised financial assets HK\$'m	Gross amounts of recognised financial liabilities set off in the balance sheet HK\$'m	Net amounts of financial assets presented in the balance sheet HK\$'m	Related amounts not set off in the balance sheet		Net amount HK\$'m
				Financial instruments HK\$'m	Cash collateral received HK\$'m	
<b>Assets</b>						
Derivative financial instruments	21,769	–	21,769	(8,768)	(2,057)	10,944
Other assets	14,794	(11,586)	3,208	–	–	3,208
Total	36,563	(11,586)	24,977	(8,768)	(2,057)	14,152

	At 31 December 2014					
	Gross amounts of recognised financial liabilities HK\$'m	Gross amounts of recognised financial assets set off in the balance sheet HK\$'m	Net amounts of financial liabilities presented in the balance sheet HK\$'m	Related amounts not set off in the balance sheet		Net amount HK\$'m
				Financial instruments HK\$'m	Cash collateral pledged HK\$'m	
<b>Liabilities</b>						
Derivative financial instruments	13,668	–	13,668	(8,768)	(1,128)	3,772
Repurchase agreements	3,751	–	3,751	(3,751)	–	–
Other liabilities	11,867	(11,586)	281	–	–	281
Total	29,286	(11,586)	17,700	(12,519)	(1,128)	4,053

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 43. Significant related party transactions

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

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

General information of the parent companies:

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

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

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

The majority of transactions with BOC arise from money market activities. As at 30 June 2015, the related aggregate amounts due from and to BOC of the Group were HK\$115,753 million (31 December 2014: HK\$157,501 million) and HK\$75,444 million (31 December 2014: HK\$61,844 million) respectively. The aggregate amounts of income and expenses of the Group arising from these transactions with BOC for the first half of 2015 were HK\$2,074 million (first half of 2014: HK\$2,761 million) and HK\$287 million (first half of 2014: HK\$159 million) respectively. Transactions with other companies controlled by BOC are not considered material.

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

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

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

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 43. Significant related party transactions (continued)

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

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

	Half-year ended 30 June 2015		Half-year ended 30 June 2014	
	Associates and joint venture HK\$m	Other related parties HK\$m	Associates and joint venture HK\$m	Other related parties HK\$m
Income statement items:				
Administrative services fees received/receivable	–	5	–	4
Other operating expenses	32	–	26	–

	At 30 June 2015		At 31 December 2014	
	Associates and joint venture HK\$m	Other related parties HK\$m	Associates and joint venture HK\$m	Other related parties HK\$m
Balance sheet items:				
Deposits from customers	–	–	1	–
Other accounts and provisions	44	–	–	–

### (d) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, senior management and company secretary. The Group accepts deposits from and grants loans and credit facilities to key management personnel in the ordinary course of business. During both the current and prior periods, no material transaction was conducted with key management personnel of the Company and its holding companies, as well as parties related to them.

The compensation of key management personnel is detailed as follows:

	Half-year ended 30 June 2015 HK\$m	Half-year ended 30 June 2014 HK\$m
Salaries and other short-term employee benefits	17	22
Post-employment benefits	1	1
	18	23

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 44. Currency concentrations

The following is a summary of the Group's major foreign currency exposures arising from trading, non-trading and structural positions and is prepared with reference to the completion instructions for the HKMA return of foreign currency position. The net options position is calculated based on the basis of delta-weighted positions of all foreign exchange options contracts.

	At 30 June 2015							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	596,078	63,946	22,772	25,581	6,623	635,447	10,886	1,361,333
Spot liabilities	(420,423)	(10,255)	(18,796)	(21,810)	(13,036)	(565,733)	(15,596)	(1,065,649)
Forward purchases	916,801	65,440	105,697	49,774	57,669	438,208	46,059	1,679,648
Forward sales	(1,078,134)	(119,117)	(109,731)	(53,697)	(51,283)	(506,206)	(41,298)	(1,959,466)
Net options position	1,628	1	(985)	15	(1)	(1,286)	(7)	(635)
Net long/(short) position	15,950	15	(1,043)	(137)	(28)	430	44	15,231
Net structural position	293	-	-	-	-	9,727	-	10,020

	At 31 December 2014							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	538,300	1,466	18,063	22,392	9,688	645,120	16,360	1,251,389
Spot liabilities	(429,963)	(5,518)	(15,050)	(22,256)	(11,715)	(547,552)	(16,883)	(1,048,937)
Forward purchases	729,002	67,974	57,895	41,806	32,445	329,654	38,306	1,297,082
Forward sales	(828,777)	(63,934)	(60,757)	(41,870)	(30,334)	(422,850)	(37,897)	(1,486,419)
Net options position	2,613	(1)	(4,463)	12	(4)	(2,625)	(31)	(4,499)
Net long/(short) position	11,175	(13)	(4,312)	84	80	1,747	(145)	8,616
Net structural position	277	-	-	-	-	9,308	-	9,585

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 45. International claims

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

	At 30 June 2015				
	Non-bank private sector				Total HK\$m
	Banks HK\$m	Official sector HK\$m	Non-bank financial institutions		
Non-financial private sector HK\$m					
Mainland of China	396,167	74,430	8,997	188,711	668,305
Hong Kong	11,256	1,922	9,386	253,375	275,939
<b>Total</b>	<b>407,423</b>	<b>76,352</b>	<b>18,383</b>	<b>442,086</b>	<b>944,244</b>

	(Restated) At 31 December 2014				
	Non-bank private sector				Total HK\$m
	Banks HK\$m	Official sector HK\$m	Non-bank financial institutions		
Non-financial private sector HK\$m					
Mainland of China	431,908	97,111	7,121	175,610	711,750
Hong Kong	4,243	2,318	6,605	222,116	235,282
<b>Total</b>	<b>436,151</b>	<b>99,429</b>	<b>13,726</b>	<b>397,726</b>	<b>947,032</b>

The comparative amounts have been restated to conform with the current period's presentation.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 46. Non-bank Mainland exposures

The analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties and the type of direct exposures with reference to the completion instructions for the HKMA return of Mainland activities, which includes the Mainland exposures extended by BOCHK and its banking subsidiaries.

	Items in the HKMA return	At 30 June 2015		
		On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total exposure HK\$'m
Central government, central government-owned entities and their subsidiaries and joint ventures	1	314,907	16,562	331,469
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	80,804	12,806	93,610
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	92,074	40,824	132,898
Other entities of central government not reported in item 1 above	4	12,346	1,494	13,840
Other entities of local governments not reported in item 2 above	5	78	–	78
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	57,995	11,397	69,392
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	6,629	–	6,629
<b>Total</b>	<b>8</b>	<b>564,833</b>	<b>83,083</b>	<b>647,916</b>
Total assets after provision	9	<b>2,294,146</b>		
On-balance sheet exposures as percentage of total assets	10	<b>24.62%</b>		

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 46. Non-bank Mainland exposures (continued)

	Items in the HKMA return	At 31 December 2014		
		On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total exposure HK\$'m
Central government, central government-owned entities and their subsidiaries and joint ventures	1	271,241	32,428	303,669
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	68,812	11,438	80,250
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	86,029	36,298	122,327
Other entities of central government not reported in item 1 above	4	3,306	1,894	5,200
Other entities of local governments not reported in item 2 above	5	39	–	39
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	55,345	10,193	65,538
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	6,857	6	6,863
<b>Total</b>	<b>8</b>	<b>491,629</b>	<b>92,257</b>	<b>583,886</b>
Total assets after provision	9	2,121,908		
On-balance sheet exposures as percentage of total assets	10	23.17%		



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 47. Events after the balance sheet date

BOC has obtained the in-principle approval from the Ministry of Finance of the People's Republic of China (the "Ministry of Finance") for the undertaking of the disposal of 100% interest in NCB held by BOCHK (the "Potential Disposal") in accordance with the relevant regulations of the Administrative Measures for the Transfer of State-owned Assets of Financial Enterprises (No. 54 Decree of the Ministry of Finance), by way of public bidding via a legally established assets exchange at the provincial level or above (the "Bidding Process").

The Bidding Process via the Beijing Financial Assets Exchange in relation to the Potential Disposal commenced on 15 July 2015. BOCHK published an announcement on 15 July 2015 in relation to the Bidding Process on China Securities Journal and the website of the Beijing Financial Assets Exchange.

On 21 May 2015, BOC and the Company also jointly announced the potential restructuring and transfer of banking businesses and assets owned by BOC in certain ASEAN countries to the Company or BOCHK (the "Potential Restructuring").

No binding agreement has been entered into with respect to the Potential Disposal and the Potential Restructuring.

At present, the financial impact of the Potential Disposal and the Potential Restructuring cannot be reliably estimated.

## 48. Compliance with HKAS 34

The unaudited interim financial information for the first half of 2015 complies with HKAS 34 "Interim Financial Reporting" issued by the HKICPA.

## 49. Statutory accounts

The information in this Interim Report is unaudited and does not constitute statutory accounts. The statutory accounts for the year ended 31 December 2014 have been delivered to the Registrar of Companies and the HKMA. The auditor expressed an unqualified opinion on those statutory accounts in the report dated 25 March 2015.