

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 2015 and should be read in conjunction with the Group’s Annual Report for 2015.

Standards and amendments to standards that are relevant to the Group and mandatory for the first time for the financial year beginning on 1 January 2016

- 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. The adoption of this amendment does not have a material impact on the Group’s financial statements.
- HKAS 27 (2011) (Amendment), “Equity Method in Separate Financial Statements”. The amendment restores the option to allow an entity to apply the equity method to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. Entities electing to change to the equity method in its separate financial statements shall have to apply the same accounting for each category of investments so elected and are required to apply this change retrospectively. The adoption of this amendment does not have a material impact on the Group’s financial statements.
- “Improvements to HKFRSs” contains numerous amendments to HKFRSs which the HKICPA considers not urgent but necessary. It comprises amendments that result in accounting changes for presentation, recognition or measurement purpose as well as terminology or editorial amendments related to a variety of individual HKFRSs. The amendments are already effective for annual periods beginning on 1 January 2016. The adoption of these improvements does not have a material impact on the Group’s financial statements.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

(c) Standards and amendments issued that are relevant to the Group but not yet effective and have not been early adopted by the Group in 2016

Standards/ Amendments	Content	Applicable for financial years beginning on/after
HKAS 28 (2011) and HKFRS 10 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 16	Leases	1 January 2019

- HKFRS 16, "Leases". HKFRS 16 supersedes the existing standard and interpretations related to leases. It applies a single control model to identify leases and distinguish between leases and service contracts. Significant changes to lessee accounting are introduced, with the distinction between operating and finance leases removed and the right-of-use assets and lease liabilities recognised except under short term and low value leases. There are no significant changes to the lessor accounting requirements. The standard is applied retrospectively. Early application is permitted for entities that have also adopted HKFRS 15 "Revenue from Contracts with Customers". The Group is considering the financial impact of the standard and the timing of its application.
- Please refer to Note 2.1(a) of the Group's Annual Report for 2015 for brief explanations of the rest of the above-mentioned standards and amendments.

2. Critical accounting estimates and judgements in applying accounting policies

The nature and assumptions related to the Group's accounting estimates are consistent with those used in the Group's financial statements for the year ended 31 December 2015.

3. Financial risk management

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

3.1 Credit risk

(A) Gross advances and other accounts

(a) Impaired advances

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Gross advances and other accounts (continued)

(a) Impaired advances (continued)

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Gross impaired advances to customers	1,672	1,299
Impairment allowances made in respect of such advances	763	610
Current market value of collateral held against the covered portion of such advances to customers	1,410	987
Covered portion of such advances to customers	1,145	848
Uncovered portion of such advances to customers	527	451

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

As at 30 June 2016, there were no impaired trade bills and advances to banks and other financial institutions (31 December 2015: Nil).

Classified or impaired advances to customers are analysed as follows:

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Gross classified or impaired advances to customers	2,440	2,096
Gross classified or impaired advances to customers as a percentage of gross advances to customers	0.25%	0.24%
Individually assessed impairment allowances made in respect of such advances	711	564

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 2016		At 31 December 2015	
	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	142	0.01%	128	0.02%
– one year or less but over six months	85	0.01%	169	0.02%
– over one year	163	0.02%	211	0.02%
Advances overdue for over three months	390	0.04%	508	0.06%
Individually assessed impairment allowances made in respect of such advances	144		161	

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Current market value of collateral held against the covered portion of such advances to customers	441	676
Covered portion of such advances to customers	197	339
Uncovered portion of such advances to customers	193	169

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, residential premises and vessels for corporate loans and mortgages over residential properties for personal loans.

As at 30 June 2016, there were no trade bills and advances to banks and other financial institutions overdue for more than three months (31 December 2015: Nil).

(c) Rescheduled advances

	At 30 June 2016		At 31 December 2015	
	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"	117	0.01%	–	–

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 2016					
	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	73,171	23.53%	–	–	–	240
– Property investment	60,390	80.72%	9	118	–	206
– Financial concerns	5,738	5.36%	–	–	–	46
– Stockbrokers	2,906	76.18%	–	–	–	11
– Wholesale and retail trade	29,491	51.96%	53	200	23	106
– Manufacturing	27,980	22.17%	22	108	6	108
– Transport and transport equipment	52,816	27.82%	1,680	2	438	181
– Recreational activities	2,642	2.37%	–	–	–	8
– Information technology	18,242	1.04%	–	–	–	56
– Others	111,173	21.94%	16	458	11	349
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	8,569	99.84%	13	149	–	5
– Loans for purchase of other residential properties	212,061	99.91%	84	1,320	1	97
– Credit card advances	12,935	–	44	485	–	112
– Others	42,229	74.51%	35	392	4	70
Total loans for use in Hong Kong	660,343	57.74%	1,956	3,232	483	1,595
Trade finance	84,578	12.27%	183	189	107	277
Loans for use outside Hong Kong	244,287	12.98%	301	53	121	787
Gross advances to customers	989,208	42.80%	2,440	3,474	711	2,659

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 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	65,148	26.15%	1	1	–	224
– Property investment	57,101	88.21%	4	93	–	205
– Financial concerns	11,453	3.57%	–	1	–	64
– Stockbrokers	1,743	81.56%	–	–	–	6
– Wholesale and retail trade	28,633	53.04%	62	268	24	109
– Manufacturing	21,798	26.70%	24	32	7	83
– Transport and transport equipment	45,616	33.07%	1,478	4	360	159
– Recreational activities	393	18.84%	–	–	–	1
– Information technology	13,064	0.72%	–	1	–	42
– Others	55,817	42.91%	16	123	7	186
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	8,523	99.94%	16	180	–	5
– Loans for purchase of other residential properties	209,777	99.92%	67	1,728	1	99
– Credit card advances	13,834	–	39	487	–	101
– Others	38,587	72.76%	36	440	7	67
Total loans for use in Hong Kong	571,487	65.73%	1,743	3,358	406	1,351
Trade finance	79,108	12.93%	195	255	103	280
Loans for use outside Hong Kong	239,648	15.71%	158	161	55	814
Gross advances to customers	890,243	47.58%	2,096	3,774	564	2,445

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 locations of the counterparties, after taking into account the transfer of risk. For an advance to customer guaranteed by a party situated in a country different from the customer, the risk will be transferred to the country of the guarantor.

Gross advances to customers

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Hong Kong	802,685	727,413
Mainland of China	125,492	118,546
Others	61,031	44,284
	989,208	890,243
Collectively assessed impairment allowances in respect of the gross advances to customers		
Hong Kong	2,073	1,911
Mainland of China	374	373
Others	212	161
	2,659	2,445

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 2016 HK\$'m	At 31 December 2015 HK\$'m
Hong Kong	3,260	3,289
Mainland of China	173	400
Others	41	85
	3,474	3,774
Individually assessed impairment allowances in respect of the overdue advances		
Hong Kong	133	126
Mainland of China	23	78
Others	–	–
	156	204
Collectively assessed impairment allowances in respect of the overdue advances		
Hong Kong	91	84
Mainland of China	4	5
Others	1	1
	96	90

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 2016 HK\$'m	At 31 December 2015 HK\$'m
Hong Kong	2,002	1,699
Mainland of China	387	393
Others	51	4
	2,440	2,096
Individually assessed impairment allowances in respect of the classified or impaired advances		
Hong Kong	520	407
Mainland of China	165	157
Others	26	–
	711	564
Collectively assessed impairment allowances in respect of the classified or impaired advances		
Hong Kong	52	45
Mainland of China	2	3
Others	–	–
	54	48

(B) Repossessed assets

The estimated market value of repossessed assets held by the Group as at 30 June 2016 amounted to HK\$101 million (31 December 2015: HK\$55 million). The repossessed assets 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 2016					
	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	59,242	127,685	233,037	36,634	21,949	478,547
Held-to-maturity securities	23,322	24,800	12,145	4,575	1,704	66,546
Loans and receivables	–	302	1,055	–	–	1,357
Financial assets at fair value through profit or loss	6,127	36,458	13,482	6,559	3,610	66,236
	88,691	189,245	259,719	47,768	27,263	612,686

	At 31 December 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	84,691	88,062	207,071	28,073	22,286	430,183
Held-to-maturity securities	29,958	30,602	12,181	4,717	3,668	81,126
Loans and receivables	–	–	3,166	–	–	3,166
Financial assets at fair value through profit or loss	8,943	21,953	12,344	5,250	4,612	53,102
	123,592	140,617	234,762	38,040	30,566	567,577

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 2016						
	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	2	-	-	-	-	2	-
Of which accumulated impairment allowances	-	-	-	-	-	-	-

	At 31 December 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	-	-	-	-	-	-	-

As at 30 June 2016, there were no impaired certificates of deposit and no overdue debt securities and certificates of deposit (31 December 2015: 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 one-day holding period with a 99% confidence level, and sets up the VAR limit of the Group and subsidiaries.

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

	Year	At 30 June HK\$'m	Minimum for the first half of year HK\$'m	Maximum for the first half of year HK\$'m	Average for the first half of year HK\$'m
VAR for all market risk	2016	30.3	30.1	58.6	42.9
	2015	21.9	17.9	38.4	28.3
VAR for foreign exchange risk	2016	26.8	25.5	42.1	33.3
	2015	10.0	9.8	18.4	12.5
VAR for interest rate risk	2016	20.0	15.3	57.4	26.5
	2015	21.7	15.3	37.6	24.8
VAR for equity risk	2016	3.1	0.0	3.1	0.9
	2015	0.3	0.1	0.4	0.3
VAR for commodity risk	2016	0.1	0.0	0.1	0.0
	2015	0.0	0.0	0.2	0.0

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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market risk (continued)

(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.

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 2016							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	690,494	95,766	37,426	22,468	13,111	469,744	10,399	1,339,408
Spot liabilities	(579,519)	(8,277)	(23,021)	(18,739)	(15,603)	(389,686)	(14,712)	(1,049,557)
Forward purchases	1,283,605	70,394	71,425	34,262	31,780	736,990	46,995	2,275,451
Forward sales	(1,381,626)	(157,901)	(85,896)	(38,081)	(29,063)	(815,793)	(42,479)	(2,550,839)
Net options position	2,051	(1)	1	6	(27)	(1,588)	(6)	436
Net long/(short) position	15,005	(19)	(65)	(84)	198	(333)	197	14,899
Net structural position	-	-	-	-	-	828	-	828

	At 31 December 2015							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	666,562	94,198	25,741	22,886	7,829	484,356	10,131	1,311,703
Spot liabilities	(512,219)	(13,853)	(23,822)	(21,357)	(14,534)	(467,809)	(16,722)	(1,070,316)
Forward purchases	1,239,554	53,057	90,200	30,789	43,772	805,959	41,144	2,304,475
Forward sales	(1,380,890)	(133,356)	(92,281)	(32,412)	(36,962)	(822,094)	(34,042)	(2,532,037)
Net options position	1,518	(1)	2	26	(13)	(1,425)	1	108
Net long/(short) position	14,525	45	(160)	(68)	92	(1,013)	512	13,933
Net structural position	293	-	-	-	-	9,355	-	9,648

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 2016 and 31 December 2015. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing date and maturity date.

	At 30 June 2016						Total 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	Non-interest bearing HK\$'m	
Assets							
Cash and balances with banks and other financial institutions	330,863	-	-	-	-	31,926	362,789
Placements with banks and other financial institutions maturing between one and twelve months	-	37,061	26,919	-	-	-	63,980
Financial assets at fair value through profit or loss	10,062	11,530	12,862	15,247	18,192	4,359	72,252
Derivative financial instruments	-	-	-	-	-	44,066	44,066
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	108,570	108,570
Advances and other accounts	790,169	145,208	33,143	36,896	2,178	6,501	1,014,095
Investment in securities							
– Available-for-sale securities	30,727	95,411	129,796	139,071	83,542	4,107	482,654
– Held-to-maturity securities	2,927	1,946	12,139	35,021	14,513	-	66,546
– Loans and receivables	906	-	451	-	-	-	1,357
Interests in associates and a joint venture	-	-	-	-	-	416	416
Investment properties	-	-	-	-	-	15,910	15,910
Properties, plant and equipment	-	-	-	-	-	48,838	48,838
Other assets (including deferred tax assets)	20,877	-	-	-	-	61,882	82,759
Total assets	1,186,531	291,156	215,310	226,235	118,425	326,575	2,364,232
Liabilities							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	108,570	108,570
Deposits and balances from banks and other financial institutions	267,268	1,444	533	-	-	30,323	299,568
Financial liabilities at fair value through profit or loss	1,943	4,976	4,841	1,071	1,037	-	13,868
Derivative financial instruments	-	-	-	-	-	50,447	50,447
Deposits from customers	1,082,371	168,868	121,854	516	-	98,072	1,471,681
Debt securities and certificates of deposit in issue	854	798	5,803	1,194	-	-	8,649
Other accounts and provisions (including current and deferred tax liabilities)	9,029	-	-	-	-	64,781	73,810
Insurance contract liabilities	-	-	-	-	-	83,270	83,270
Subordinated liabilities	-	-	-	19,754	-	-	19,754
Total liabilities	1,361,465	176,086	133,031	22,535	1,037	435,463	2,129,617
Interest sensitivity gap	(174,934)	115,070	82,279	203,700	117,388	(108,888)	234,615

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market risk (continued)

(C) Interest rate risk (continued)

	At 31 December 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
Assets							
Cash and balances with banks and other financial institutions	195,806	-	-	-	-	34,924	230,730
Placements with banks and other financial institutions maturing between one and twelve months	-	37,920	26,288	-	-	-	64,208
Financial assets at fair value through profit or loss	1,742	6,980	9,223	18,895	16,442	4,495	57,777
Derivative financial instruments	-	-	-	-	-	43,207	43,207
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	101,950	101,950
Advances and other accounts	711,095	107,459	61,028	32,770	943	6,919	920,214
Investment in securities							
– Available-for-sale securities	39,481	124,945	86,792	119,560	59,405	2,746	432,929
– Held-to-maturity securities	440	3,481	13,109	43,088	21,008	-	81,126
– Loans and receivables	-	1,005	2,161	-	-	-	3,166
Interests in associates and a joint venture	-	-	-	-	-	376	376
Investment properties	-	-	-	-	-	15,262	15,262
Properties, plant and equipment	-	-	-	-	-	50,433	50,433
Other assets (including deferred tax assets)	3,024	-	-	-	-	62,989	66,013
Assets held for sale	168,400	44,587	49,217	25,704	528	12,037	300,473
Total assets	1,119,988	326,377	247,818	240,017	98,326	335,338	2,367,864
Liabilities							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	101,950	101,950
Deposits and balances from banks and other financial institutions	160,049	27,936	2,343	-	-	17,278	207,606
Financial liabilities at fair value through profit or loss	2,583	4,446	1,968	1,479	466	-	10,942
Derivative financial instruments	-	-	-	-	-	40,072	40,072
Deposits from customers	1,054,648	182,898	79,013	611	-	87,819	1,404,989
Debt securities and certificates of deposit in issue	59	-	5,728	1,189	-	-	6,976
Other accounts and provisions (including current and deferred tax liabilities)	8,782	-	-	-	-	34,682	43,464
Insurance contract liabilities	-	-	-	-	-	82,645	82,645
Subordinated liabilities	-	-	-	19,422	-	-	19,422
Liabilities associated with assets held for sale	149,045	40,917	40,634	5,967	19	15,223	251,805
Total liabilities	1,375,166	256,197	129,686	28,668	485	379,669	2,169,871
Interest sensitivity gap	(255,178)	70,180	118,132	211,349	97,841	(44,331)	197,993

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity risk

(A) Liquidity coverage ratio

	2016	2015
Average value of liquidity coverage ratio		
– First quarter	112.92%	101.90%
– Second quarter	109.70%	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.

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 2016 and 31 December 2015 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2016							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
Assets								
Cash and balances with banks and other financial institutions	260,694	81,708	-	-	-	-	20,387	362,789
Placements with banks and other financial institutions maturing between one and twelve months	-	-	37,061	26,919	-	-	-	63,980
Financial assets at fair value through profit or loss								
- Held for trading								
- Debt securities	-	8,668	9,856	9,246	11,669	2,919	-	42,358
- Certificates of deposit	-	22	138	1,264	253	-	-	1,677
- Designated at fair value through profit or loss								
- Debt securities	-	96	158	1,422	5,292	15,088	-	22,056
- Certificates of deposit	-	1	-	6	138	-	-	145
- Equity securities and fund	-	-	-	-	-	-	4,359	4,359
- Others	-	1,424	233	-	-	-	-	1,657
Derivative financial instruments	13,838	3,177	5,598	13,524	5,227	2,702	-	44,066
Hong Kong SAR Government certificates of indebtedness	108,570	-	-	-	-	-	-	108,570
Advances and other accounts								
- Advances to customers	117,408	18,275	48,954	165,852	417,798	215,388	2,163	985,838
- Trade bills	21	7,782	10,610	4,426	-	-	-	22,839
- Advances to banks and other financial institutions	-	2	2	-	5,414	-	-	5,418
Investment in securities								
- Available-for-sale								
- Debt securities	-	13,713	63,822	79,852	158,822	84,242	-	400,451
- Certificates of deposit	-	1,727	11,668	52,075	12,407	219	-	78,096
- Held-to-maturity								
- Debt securities	-	3,048	2,064	12,474	34,543	14,397	2	66,528
- Certificates of deposit	-	-	-	-	-	18	-	18
- Loans and receivables								
- Debt securities	-	906	-	451	-	-	-	1,357
- Equity securities and fund	-	-	-	-	-	-	4,107	4,107
Interests in associates and a joint venture	-	-	-	-	-	-	416	416
Investment properties	-	-	-	-	-	-	15,910	15,910
Properties, plant and equipment	-	-	-	-	-	-	48,838	48,838
Other assets (including deferred tax assets)	40,889	17,249	968	1,108	6,056	16,405	84	82,759
Total assets	541,420	157,798	191,132	368,619	657,619	351,378	96,266	2,364,232

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

	At 30 June 2016							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
Liabilities								
Hong Kong SAR currency notes in circulation	108,570	-	-	-	-	-	-	108,570
Deposits and balances from banks and other financial institutions	214,211	83,380	1,444	533	-	-	-	299,568
Financial liabilities at fair value through profit or loss	-	1,943	4,978	4,843	1,069	1,035	-	13,868
Derivative financial instruments	10,008	6,690	6,234	16,585	5,019	5,911	-	50,447
Deposits from customers	943,015	237,428	168,868	121,854	516	-	-	1,471,681
Debt securities and certificates of deposit in issue – Debt securities	-	854	829	5,803	1,163	-	-	8,649
Other accounts and provisions (including current and deferred tax liabilities)	23,211	38,905	282	4,182	7,230	-	-	73,810
Insurance contract liabilities	23,840	350	921	1,306	12,610	44,243	-	83,270
Subordinated liabilities	-	-	419	-	19,335	-	-	19,754
Total liabilities	1,322,855	369,550	183,975	155,106	46,942	51,189	-	2,129,617
Net liquidity gap	(781,435)	(211,752)	7,157	213,513	610,677	300,189	96,266	234,615

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

	At 31 December 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	
Assets								
Cash and balances with banks and other financial institutions	182,319	48,108	-	-	-	-	303	230,730
Placements with banks and other financial institutions maturing between one and twelve months	-	-	37,920	26,288	-	-	-	64,208
Financial assets at fair value through profit or loss								
- Held for trading								
- Debt securities	-	1,020	5,782	6,800	12,708	3,494	-	29,804
- Certificates of deposit	-	190	80	1,810	137	6	-	2,223
- Designated at fair value through profit or loss								
- Debt securities	-	89	307	770	6,498	12,770	-	20,434
- Certificates of deposit	-	372	-	1	268	-	-	641
- Equity securities and fund	-	-	-	-	-	-	4,495	4,495
- Others	-	180	-	-	-	-	-	180
Derivative financial instruments	12,489	2,723	2,711	18,994	5,504	786	-	43,207
Hong Kong SAR Government certificates of indebtedness	101,950	-	-	-	-	-	-	101,950
Advances and other accounts								
- Advances to customers	104,814	25,975	44,039	135,015	360,990	214,384	2,017	887,234
- Trade bills	1	7,970	8,330	15,710	-	-	-	32,011
- Advances to banks and other financial institutions	-	-	1	-	968	-	-	969
Investment in securities								
- Available-for-sale								
- Debt securities	-	19,917	83,105	59,304	137,708	60,283	-	360,317
- Certificates of deposit	-	2,305	23,450	35,571	8,328	212	-	69,866
- Held-to-maturity								
- Debt securities	-	520	3,558	13,436	42,769	20,822	3	81,108
- Certificates of deposit	-	-	-	-	-	18	-	18
- Loans and receivables								
- Debt securities	-	-	1,005	2,161	-	-	-	3,166
- Equity securities	-	-	-	-	-	-	2,746	2,746
Interests in associates and a joint venture	-	-	-	-	-	-	376	376
Investment properties	-	-	-	-	-	-	15,262	15,262
Properties, plant and equipment	-	-	-	-	-	-	50,433	50,433
Other assets (including deferred tax assets)	28,508	11,394	705	4,051	5,333	15,969	53	66,013
Assets held for sale	18,598	52,792	31,823	65,034	85,341	29,495	17,390	300,473
Total assets	448,679	173,555	242,816	384,945	666,552	358,239	93,078	2,367,864

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

	At 31 December 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	
Liabilities								
Hong Kong SAR currency notes in circulation	101,950	-	-	-	-	-	-	101,950
Deposits and balances from banks and other financial institutions	166,711	10,616	27,936	2,343	-	-	-	207,606
Financial liabilities at fair value through profit or loss	-	2,583	4,447	1,970	1,477	465	-	10,942
Derivative financial instruments	8,813	3,358	2,743	18,851	4,525	1,782	-	40,072
Deposits from customers	852,823	289,644	182,898	79,013	611	-	-	1,404,989
Debt securities and certificates of deposit in issue								
- Debt securities	-	59	-	5,739	1,178	-	-	6,976
Other accounts and provisions (including current and deferred tax liabilities)	20,246	11,751	1,479	2,663	7,322	3	-	43,464
Insurance contract liabilities	21,746	788	786	4,154	12,407	42,764	-	82,645
Subordinated liabilities	-	-	418	-	19,004	-	-	19,422
Liabilities associated with assets held for sale	93,390	68,292	40,563	42,451	7,083	26	-	251,805
Total liabilities	1,265,679	387,091	261,270	157,184	53,607	45,040	-	2,169,871
Net liquidity gap	(817,000)	(213,536)	(18,454)	227,761	612,945	313,199	93,078	197,993

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, universal life, 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 of insurance liability 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 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".

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 2016		At 31 December 2015	
	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	10	9	9
BOC Group Trustee Company Limited	200	200	200	200
BOCHK Information Technology (Shenzhen) Co., Ltd.	300	203	220	199
BOCHK Information Technology Services (Shenzhen) Ltd.	323	281	314	270
BOCI-Prudential Trustee Limited	438	398	462	432
Che Hsing (Nominees) Limited	1	1	1	1
Chiyu Banking Corporation (Nominees) Limited	139	139	134	134
Grace Charter Limited	–	(11)	–	(11)
Kwong Li Nam Investment Agency Limited*	–	–	4	4
Nanyang Commercial Bank (Nominees) Limited*	–	–	1	1
Nanyang Commercial Bank Trustee Limited*	–	–	16	16
Po Sang Financial Investment Services Company Limited	366	346	363	345
Po Sang Futures Limited	673	460	496	454
Seng Sun Development Company, Limited	40	40	41	41
Sin Chiao Enterprises Corporation, Limited	7	7	7	7
Sin Hua Trustee Limited	5	5	5	5
Sino Information Services Company Limited	8	8	8	8

* The disposal of Kwong Li Nam Investment Agency Limited, Nanyang Commercial Bank (Nominees) Limited and Nanyang Commercial Bank Trustee Limited was completed on 30 May 2016.

The principal activities of the above subsidiaries are set out in "Appendix – Subsidiaries of the Company".

There were no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation as at 30 June 2016 (31 December 2015: Nil).

There were also no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation where the methods of consolidation differ as at 30 June 2016 (31 December 2015: Nil).

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital management (continued)

(B) Capital ratio

The capital ratios are analysed as follows:

	At 30 June 2016	At 31 December 2015
CET1 capital ratio	18.58%	12.83%
Tier 1 capital ratio	18.63%	12.89%
Total capital ratio	23.30%	17.86%

The consolidated capital base after deductions used in the calculation of the above capital ratios is analysed as follows:

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments	43,043	43,043
Retained earnings	133,160	89,915
Disclosed reserves	43,081	49,438
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)	733	733
CET1 capital before regulatory deductions	220,017	183,129
CET1 capital: regulatory deductions		
Valuation adjustments	(36)	(20)
Deferred tax assets net of deferred tax liabilities	(56)	(69)
Gains and losses due to changes in own credit risk on fair valued liabilities	(208)	(198)
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	(45,637)	(50,874)
Regulatory reserve for general banking risks	(9,278)	(10,879)
Total regulatory deductions to CET1 capital	(55,215)	(62,040)
CET1 capital	164,802	121,089
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)	445	561
AT1 capital	445	561
Tier 1 capital	165,247	121,650

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital management (continued)

(B) Capital ratio (continued)

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Tier 2 capital: instruments and provisions Capital instruments subject to phase out arrangements from Tier 2 capital	15,435	18,230
Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	224	226
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	5,150	5,537
Tier 2 capital before regulatory deductions	20,809	23,993
Tier 2 capital: regulatory deductions Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	20,537	22,893
Total regulatory deductions to Tier 2 capital	20,537	22,893
Tier 2 capital	41,346	46,886
Total capital	206,593	168,536

The capital buffer ratios are analysed as follows:

	At 30 June 2016
Capital conservation buffer ratio	0.625%
Higher loss absorbency ratio	0.375%
Countercyclical capital buffer ratio	0.491%

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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital management (continued)

(C) Leverage ratio

The leverage ratio is analysed as follows:

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Tier 1 capital	165,247	121,650
Leverage ratio exposure	2,208,301	2,268,203
Leverage ratio	7.48%	5.36%

The additional information of leverage ratio disclosures is available under section "Regulatory Disclosures" on the Bank's website at www.bochk.com.

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 equity securities listed 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, debt instruments and certain OTC derivative contracts 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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

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.

Generally, the unit of account for a financial instrument is the individual instrument. HKFRS 13 permits a portfolio exception, through an accounting policy election, to measure the fair value of a portfolio of financial assets and financial liabilities on the basis of the net open risk position when certain criteria are met. The Group applies valuation adjustments at an individual instrument level, consistent with that unit of account. According to its risk management policies and systems to manage derivative financial instruments, the fair value of certain derivative portfolios that meet those criteria is measured on the basis of the price to be received or paid for net open risk. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative size of each of the individual instruments in the portfolio.

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, commodity prices, volatilities, counterparty credit spreads and others, which are mostly observable and obtainable from open market.

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

Debt securities and certificates of deposit

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

4.1 Financial instruments measured at fair value (continued)

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 market factors movement, 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 2016			
	Level 1 HK\$'m	Level 2 HK\$'m	Level 3 HK\$'m	Total HK\$'m
Financial assets				
Financial assets at fair value through profit or loss (Note 20)				
– Trading assets				
– Debt securities and certificates of deposit	1,526	42,509	–	44,035
– Equity securities	5	–	–	5
– Others	–	1,657	–	1,657
– Financial assets designated at fair value through profit or loss				
– Debt securities and certificates of deposit	–	19,716	2,485	22,201
– Equity securities	1,728	–	–	1,728
– Fund	2,626	–	–	2,626
Derivative financial instruments (Note 21)	13,861	30,196	9	44,066
Available-for-sale securities (Note 23)				
– Debt securities and certificates of deposit	96,483	380,337	1,727	478,547
– Equity securities	3,272	89	601	3,962
– Fund	145	–	–	145
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 27)				
– Trading liabilities	–	11,220	–	11,220
– Financial liabilities designated at fair value through profit or loss	–	2,648	–	2,648
Derivative financial instruments (Note 21)	10,038	40,409	–	50,447

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 2015			
	Level 1 HK\$'m	Level 2 HK\$'m	Level 3 HK\$'m	Total HK\$'m
Financial assets				
Financial assets at fair value through profit or loss (Note 20)				
– Trading assets				
– Debt securities and certificates of deposit	1	32,026	–	32,027
– Others	–	180	–	180
– Financial assets designated at fair value through profit or loss				
– Debt securities and certificates of deposit	75	19,171	1,829	21,075
– Equity securities	1,995	–	–	1,995
– Fund	2,500	–	–	2,500
Derivative financial instruments (Note 21)	12,493	30,714	–	43,207
Available-for-sale securities (Note 23)				
– Debt securities and certificates of deposit	95,982	333,106	1,095	430,183
– Equity securities	2,459	–	287	2,746
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 27)				
– Trading liabilities	–	8,371	–	8,371
– Financial liabilities designated at fair value through profit or loss	–	2,571	–	2,571
Derivative financial instruments (Note 21)	8,936	31,136	–	40,072

There were no financial asset and liability transfers between level 1 and level 2 for the Group during the period (31 December 2015: 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 2016			
	Financial assets			
	Financial assets designated at fair value through profit or loss			
			Available-for-sale securities	
	Debt securities and certificates of deposit HK\$'m	Derivative financial instruments HK\$'m	Debt securities and certificates of deposit HK\$'m	Equity securities HK\$'m
At 1 January 2016	1,829	–	1,095	287
Gains				
– Income statement				
– Net trading gain	–	9	–	–
– Net gain on financial instruments designated at fair value through profit or loss	255	–	–	–
– Other comprehensive income				
– Change in fair value of available-for-sale securities	–	–	70	24
Purchases	401	–	562	290
At 30 June 2016	2,485	9	1,727	601
Total unrealised gains for the period included in income statement for financial assets held as at 30 June 2016				
– Net trading gain	–	9	–	–
– Net gain on financial instruments designated at fair value through profit or loss	255	–	–	–

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 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	(1)	–	–
– Other comprehensive income			
– Change in fair value of available-for-sale securities	–	2	17
Purchases	901	808	8
Sales	(151)	(78)	–
Transfer out of level 3	–	(544)	–
Classified as assets held for sale	–	–	(5)
At 31 December 2015	1,829	1,095	287
Total unrealised losses for the year included in income statement for financial assets held as at 31 December 2015			
– Net loss on financial instruments designated at fair value through profit or loss	(1)	–	–

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 2016 and 31 December 2015, financial instruments categorised as level 3 are mainly comprised of debt securities, certificates of deposit, certain OTC derivative contracts and unlisted equity shares.

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.

For certain OTC derivative contracts, the counterparty credit spreads used in valuation techniques are unobservable inputs with significant impact on valuation. Therefore, these OTC derivative contracts have been categorised by the Group as level 3.

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\$30 million (31 December 2015: HK\$14 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 and banks and other financial institutions

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

Held-to-maturity securities

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 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 2016		At 31 December 2015	
	Carrying value HK\$'m	Fair value HK\$'m	Carrying value HK\$'m	Fair value HK\$'m
Financial assets				
Held-to-maturity securities (Note 23)	66,546	68,351	81,126	83,037
Loans and receivables (Note 23)	1,357	1,359	3,166	3,171
Financial liabilities				
Debt securities and certificates of deposit in issue (Note 29)	8,649	8,767	6,976	7,222
Subordinated liabilities (Note 33)	19,754	21,825	19,422	21,507

NOTES TO THE INTERIM FINANCIAL INFORMATION

5. Net interest income

	Half-year ended 30 June 2016 HK\$'m	(Restated) Half-year ended 30 June 2015 HK\$'m
CONTINUING OPERATIONS		
Interest income		
Due from banks and other financial institutions	2,402	4,902
Advances to customers	10,330	9,098
Investment in securities and financial assets at fair value through profit or loss	4,941	5,401
Others	94	141
	17,767	19,542
Interest expense		
Due to banks and other financial institutions	(925)	(714)
Deposits from customers	(4,115)	(5,087)
Debt securities and certificates of deposit in issue	(179)	(146)
Subordinated liabilities	(265)	(206)
Others	(111)	(97)
	(5,595)	(6,250)
Net interest income	12,172	13,292

Included within interest income is HK\$3 million (first half of 2015: HK\$10 million) of interest with respect to income accrued on advances classified as impaired for the first half of 2016. Interest income accrued on impaired investment in securities amounted to HK\$1 million (first half of 2015: HK\$1 million).

Included within interest income and interest expense are HK\$17,644 million (first half of 2015: HK\$19,467 million) and HK\$5,859 million (first half of 2015: HK\$6,532 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 2016 HK\$'m	(Restated) Half-year ended 30 June 2015 HK\$'m
CONTINUING OPERATIONS		
Fee and commission income		
Loan commissions	2,216	1,217
Credit card business	1,863	1,798
Insurance	896	740
Securities brokerage	887	2,144
Funds distribution	362	572
Bills commissions	310	254
Payment services	291	272
Trust and custody services	225	237
Currency exchange	167	149
Safe deposit box	151	127
Others	385	354
	7,753	7,864
Fee and commission expense		
Credit card business	(1,414)	(1,338)
Insurance	(132)	(159)
Securities brokerage	(119)	(251)
Others	(421)	(391)
	(2,086)	(2,139)
Net fee and commission income	5,667	5,725
Of which arise from:		
Financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	2,342	1,283
– Fee and commission expense	(14)	(10)
	2,328	1,273
Trust and other fiduciary activities		
– Fee and commission income	321	330
– Fee and commission expense	(11)	(14)
	310	316

NOTES TO THE INTERIM FINANCIAL INFORMATION

7. Net trading gain

	Half-year ended 30 June 2016 HK\$'m	(Restated) Half-year ended 30 June 2015 HK\$'m
CONTINUING OPERATIONS		
Net gain from:		
Foreign exchange and foreign exchange products	1,679	316
Interest rate instruments and items under fair value hedge	531	207
Commodities	63	29
Equity and credit derivative instruments	32	153
	2,305	705

8. Net gain on other financial assets

	Half-year ended 30 June 2016 HK\$'m	(Restated) Half-year ended 30 June 2015 HK\$'m
CONTINUING OPERATIONS		
Net gain on available-for-sale securities	570	796
Net gain on held-to-maturity securities	6	3
Others	2	17
	578	816

9. Other operating income

	Half-year ended 30 June 2016 HK\$'m	(Restated) Half-year ended 30 June 2015 HK\$'m
CONTINUING OPERATIONS		
Dividend income from investment in securities		
– Listed investments	51	58
– Unlisted investments	23	21
Gross rental income from investment properties	249	215
Less: Outgoings in respect of investment properties	(31)	(29)
Others	75	208
	367	473

Included in the "Outgoings in respect of investment properties" is HK\$1 million (first half of 2015: HK\$3 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 2016 HK\$'m	Half-year ended 30 June 2015 HK\$'m
CONTINUING OPERATIONS		
Gross insurance benefits and claims and movement in liabilities		
Claims, benefits and surrenders paid	(10,204)	(7,246)
Movement in liabilities	(969)	(8,889)
	(11,173)	(16,135)
Reinsurers' share of benefits and claims and movement in liabilities		
Reinsurers' share of claims, benefits and surrenders paid	7,495	2,506
Reinsurers' share of movement in liabilities	(1,282)	4,640
	6,213	7,146
Net insurance benefits and claims and movement in liabilities	(4,960)	(8,989)

11. Net charge of impairment allowances

	Half-year ended 30 June 2016 HK\$'m	(Restated) Half-year ended 30 June 2015 HK\$'m
CONTINUING OPERATIONS		
Advances to customers		
Individually assessed		
– New allowances	(206)	(319)
– Releases	21	80
– Recoveries	33	67
Net charge of individually assessed loan impairment allowances	(152)	(172)
Collectively assessed		
– New allowances	(416)	(314)
– Releases	1	–
– Recoveries	23	21
Net charge of collectively assessed loan impairment allowances	(392)	(293)
Net charge of loan impairment allowances	(544)	(465)
Others	18	(3)
Net charge of impairment allowances	(526)	(468)

NOTES TO THE INTERIM FINANCIAL INFORMATION

12. Operating expenses

	Half-year ended 30 June 2016 HK\$'m	(Restated) Half-year ended 30 June 2015 HK\$'m
CONTINUING OPERATIONS		
Staff costs (including directors' emoluments)		
– Salaries and other costs	2,981	2,861
– Pension cost	211	204
	3,192	3,065
Premises and equipment expenses (excluding depreciation)		
– Rental of premises	328	315
– Information technology	219	190
– Others	194	183
	741	688
Depreciation	903	851
Auditor's remuneration		
– Audit services	3	3
– Non-audit services	3	1
Other operating expenses	978	895
	5,820	5,503

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

	Half-year ended 30 June 2016 HK\$'m	(Restated) Half-year ended 30 June 2015 HK\$'m
CONTINUING OPERATIONS		
Net gain from fair value adjustments on investment properties	104	349

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

	Half-year ended 30 June 2016 HK\$'m	(Restated) Half-year ended 30 June 2015 HK\$'m
CONTINUING OPERATIONS		
Net gain from disposal of premises	–	95
Net loss from disposal of equipment, fixtures and fittings	(1)	(10)
Net loss from revaluation of premises	(4)	–
	(5)	85

NOTES TO THE INTERIM FINANCIAL INFORMATION

15. Taxation

Taxation in the income statement represents:

	Half-year ended 30 June 2016 HK\$'m	(Restated) Half-year ended 30 June 2015 HK\$'m
CONTINUING OPERATIONS		
Current tax		
Hong Kong profits tax		
– Current period taxation	2,262	2,409
– Over-provision in prior periods	(2)	(4)
	2,260	2,405
Overseas taxation		
– Current period taxation	195	446
– Over-provision in prior periods	–	(2)
	2,455	2,849
Deferred tax		
Origination and reversal of temporary differences and unused tax credits	(143)	(123)
	2,312	2,726

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2016. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2016 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 2016 HK\$'m	(Restated) Half-year ended 30 June 2015 HK\$'m
CONTINUING OPERATIONS		
Profit before taxation	14,540	15,216
Calculated at a taxation rate of 16.5% (2015: 16.5%)	2,399	2,511
Effect of different taxation rates in other countries	2	(19)
Income not subject to taxation	(65)	(238)
Expenses not deductible for taxation purposes	54	56
Over-provision in prior periods	(2)	(6)
Foreign withholding tax	(76)	422
Taxation charge	2,312	2,726
Effective tax rate	15.9%	17.9%

NOTES TO THE INTERIM FINANCIAL INFORMATION

16. Dividends

	Half-year ended 30 June 2016		Half-year ended 30 June 2015	
	Per share HK\$	Total HK\$m	Per share HK\$	Total HK\$m
Interim dividend	0.545	5,762	0.545	5,762
Special dividend	0.710	7,507	–	–
	1.255	13,269	0.545	5,762

At a meeting held on 30 August 2016, the Board declared an interim dividend of HK\$0.545 per ordinary share for the first half of 2016 amounting to approximately HK\$5,762 million and a special dividend of HK\$0.710 per ordinary share amounting to approximately HK\$7,507 million. These declared dividends are 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 2016.

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

The calculation of basic earnings per share for the first half of 2016 is based on the consolidated profit for the period and profit from continuing operations attributable to the equity holders of the Company of approximately HK\$42,731 million and HK\$11,814 million (first half of 2015: HK\$13,387 million and HK\$12,086 million) respectively and on the ordinary shares in issue of 10,572,780,266 shares (2015: 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 2016 (first half of 2015: 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 2016 amounted to approximately HK\$185 million (first half of 2015: approximately HK\$183 million), after a deduction of forfeited contributions of approximately HK\$4 million (first half of 2015: approximately HK\$4 million). For the MPF Scheme, the Group contributed approximately HK\$46 million (first half of 2015: approximately HK\$41 million) for the first half of 2016.

NOTES TO THE INTERIM FINANCIAL INFORMATION

19. Cash and balances with banks and other financial institutions

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Cash	7,221	7,923
Balances with central banks	157,592	110,225
Balances with banks and other financial institutions	116,268	64,474
Placements with banks and other financial institutions maturing within one month	81,708	48,108
	362,789	230,730

20. Financial assets at fair value through profit or loss

	Trading assets		Financial assets designated at fair value through profit or loss		Total	
	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
At fair value						
Treasury bills	16,972	9,504	–	–	16,972	9,504
Other debt securities	25,386	20,300	22,056	20,434	47,442	40,734
	42,358	29,804	22,056	20,434	64,414	50,238
Certificates of deposit	1,677	2,223	145	641	1,822	2,864
Total debt securities and certificates of deposit	44,035	32,027	22,201	21,075	66,236	53,102
Equity securities	5	–	1,728	1,995	1,733	1,995
Fund	–	–	2,626	2,500	2,626	2,500
Total securities	44,040	32,027	26,555	25,570	70,595	57,597
Others	1,657	180	–	–	1,657	180
	45,697	32,207	26,555	25,570	72,252	57,777

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 2016 HK\$'m	At 31 December 2015 HK\$'m	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Debt securities and certificates of deposit				
– Listed in Hong Kong	8,966	11,650	5,800	5,841
– Listed outside Hong Kong	2,914	3,993	9,840	8,570
	11,880	15,643	15,640	14,411
– Unlisted	32,155	16,384	6,561	6,664
	44,035	32,027	22,201	21,075
Equity securities				
– Listed in Hong Kong	5	–	1,352	1,436
– Listed outside Hong Kong	–	–	376	559
	5	–	1,728	1,995
Fund				
– Unlisted	–	–	2,626	2,500
Total securities	44,040	32,027	26,555	25,570

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 2016 HK\$'m	At 31 December 2015 HK\$'m	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Sovereigns	34,481	18,802	1,343	1,529
Public sector entities*	200	607	–	–
Banks and other financial institutions	5,226	6,914	16,107	15,447
Corporate entities	4,133	5,704	9,105	8,594
Total securities	44,040	32,027	26,555	25,570

* Included trading assets of HK\$200 million (31 December 2015: HK\$607 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 2016 and 31 December 2015:

	At 30 June 2016			
	Trading HK\$m	Hedging HK\$m	Not qualified for hedge accounting HK\$m	Total HK\$m
Exchange rate contracts				
Spot, forwards and futures	326,157	–	4,973	331,130
Swaps	2,243,855	–	15,219	2,259,074
Foreign currency options				
– Options purchased	34,035	–	–	34,035
– Options written	34,072	–	–	34,072
	2,638,119	–	20,192	2,658,311
Interest rate contracts				
Forwards and futures	2,306	–	–	2,306
Swaps	516,930	117,576	3,707	638,213
Interest rate options				
– Options written	1,113	–	–	1,113
	520,349	117,576	3,707	641,632
Commodity contracts	13,507	–	–	13,507
Equity contracts	3,757	–	–	3,757
Credit derivative contracts	970	–	–	970
	3,176,702	117,576	23,899	3,318,177

NOTES TO THE INTERIM FINANCIAL INFORMATION

21. Derivative financial instruments (continued)

	At 31 December 2015			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts				
Spot, forwards and futures	321,212	–	4,675	325,887
Swaps	2,063,424	–	15,863	2,079,287
Foreign currency options				
– Options purchased	31,947	–	–	31,947
– Options written	32,821	–	–	32,821
	2,449,404	–	20,538	2,469,942
Interest rate contracts				
Futures	2,700	–	–	2,700
Swaps	397,099	77,144	2,416	476,659
	399,799	77,144	2,416	479,359
Commodity contracts	6,905	–	–	6,905
Equity contracts	3,348	–	–	3,348
	2,859,456	77,144	22,954	2,959,554

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)

The following tables summarise the fair values of each class of derivative financial instrument as at 30 June 2016 and 31 December 2015:

	At 30 June 2016							
	Fair value assets				Fair value liabilities			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts								
Spot, forwards and futures	15,551	–	16	15,567	(10,696)	–	(7)	(10,703)
Swaps	21,178	–	26	21,204	(29,627)	–	(68)	(29,695)
Foreign currency options								
– Options purchased	271	–	–	271	–	–	–	–
– Options written	–	–	–	–	(320)	–	–	(320)
	37,000	–	42	37,042	(40,643)	–	(75)	(40,718)
Interest rate contracts								
Forwards and futures	2	–	–	2	(7)	–	–	(7)
Swaps	4,320	2,055	–	6,375	(4,758)	(4,473)	(29)	(9,260)
Interest rate options								
– Options written	–	–	–	–	(8)	–	–	(8)
	4,322	2,055	–	6,377	(4,773)	(4,473)	(29)	(9,275)
Commodity contracts	605	–	–	605	(411)	–	–	(411)
Equity contracts	31	–	–	31	(35)	–	–	(35)
Credit derivative contracts	11	–	–	11	(8)	–	–	(8)
	41,969	2,055	42	44,066	(45,870)	(4,473)	(104)	(50,447)

NOTES TO THE INTERIM FINANCIAL INFORMATION

21. Derivative financial instruments (continued)

	At 31 December 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	15,777	-	20	15,797	(9,687)	-	-	(9,687)
Swaps	22,817	-	87	22,904	(25,870)	-	-	(25,870)
Foreign currency options								
- Options purchased	513	-	-	513	-	-	-	-
- Options written	-	-	-	-	(487)	-	-	(487)
	39,107	-	107	39,214	(36,044)	-	-	(36,044)
Interest rate contracts								
Futures	3	-	-	3	(1)	-	-	(1)
Swaps	1,640	1,877	-	3,517	(2,108)	(1,516)	(27)	(3,651)
	1,643	1,877	-	3,520	(2,109)	(1,516)	(27)	(3,652)
Commodity contracts	392	-	-	392	(294)	-	-	(294)
Equity contracts	81	-	-	81	(82)	-	-	(82)
	41,223	1,877	107	43,207	(38,529)	(1,516)	(27)	(40,072)

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

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Exchange rate contracts	12,141	13,212
Interest rate contracts	1,196	657
Commodity contracts	33	2
Equity contracts	174	181
Credit derivative contracts	32	-
	13,576	14,052

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\$27,138 million (31 December 2015: HK\$11,332 million) and the effect of valid bilateral netting agreements amounted to HK\$21,499 million (31 December 2015: HK\$9,682 million).

NOTES TO THE INTERIM FINANCIAL INFORMATION

22. Advances and other accounts

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Personal loans and advances	278,616	273,464
Corporate loans and advances	710,592	616,779
Advances to customers	989,208	890,243
Loan impairment allowances		
– Individually assessed	(711)	(564)
– Collectively assessed	(2,659)	(2,445)
	985,838	887,234
Trade bills	22,839	32,011
Advances to banks and other financial institutions	5,418	969
	1,014,095	920,214

As at 30 June 2016, advances to customers included accrued interest of HK\$1,306 million (31 December 2015: HK\$1,409 million).

As at 30 June 2016, no impairment allowance was made in respect of trade bills and advances to banks and other financial institutions (31 December 2015: Nil).

NOTES TO THE INTERIM FINANCIAL INFORMATION

23. Investment in securities

	At 30 June 2016			
	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	108,065	–	–	108,065
Other debt securities	292,386	66,528	1,357	360,271
	400,451	66,528	1,357	468,336
Certificates of deposit	78,096	18	–	78,114
Total debt securities and certificates of deposit	478,547	66,546	1,357	546,450
Equity securities	3,962	–	–	3,962
Fund	145	–	–	145
	482,654	66,546	1,357	550,557

	At 31 December 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	124,306	–	–	124,306
Other debt securities	236,011	81,108	3,166	320,285
	360,317	81,108	3,166	444,591
Certificates of deposit	69,866	18	–	69,884
Total debt securities and certificates of deposit	430,183	81,126	3,166	514,475
Equity securities	2,746	–	–	2,746
	432,929	81,126	3,166	517,221

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 2016		
	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	57,028	7,619	–
– Listed outside Hong Kong	157,966	28,005	–
	214,994	35,624	–
– Unlisted	263,553	30,922	1,357
	478,547	66,546	1,357
Equity securities			
– Listed in Hong Kong	3,001	–	–
– Listed outside Hong Kong	360	–	–
	3,361	–	–
– Unlisted	601	–	–
	3,962	–	–
Fund			
– Unlisted	145	–	–
	482,654	66,546	1,357
Market value of listed held-to-maturity securities		36,410	

	At 31 December 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	39,490	6,974	–
– Listed outside Hong Kong	112,363	32,087	–
	151,853	39,061	–
– Unlisted	278,330	42,065	3,166
	430,183	81,126	3,166
Equity securities			
– Listed in Hong Kong	2,459	–	–
– Unlisted	287	–	–
	2,746	–	–
	432,929	81,126	3,166
Market value of listed held-to-maturity securities		39,299	

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 2016		
	Available-for-sale securities	Held-to-maturity securities	Loans and receivables
	HK\$'m	HK\$'m	HK\$'m
Sovereigns	149,594	267	–
Public sector entities*	23,938	14,164	–
Banks and other financial institutions	211,842	30,052	1,357
Corporate entities	97,280	22,063	–
	482,654	66,546	1,357

	At 31 December 2015		
	Available-for-sale securities	Held-to-maturity securities	Loans and receivables
	HK\$'m	HK\$'m	HK\$'m
Sovereigns	155,327	840	–
Public sector entities*	18,498	19,011	–
Banks and other financial institutions	177,429	33,871	3,166
Corporate entities	81,675	27,404	–
	432,929	81,126	3,166

* Included available-for-sale securities of HK\$22,670 million (31 December 2015: HK\$17,491 million) and held-to-maturity securities of HK\$4,492 million (31 December 2015: HK\$4,614 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

24. Investment properties

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
At 1 January	15,262	14,559
Additions	–	47
Fair value gains	104	826
Reclassification from properties, plant and equipment (Note 25)	544	245
Exchange difference	–	(1)
Classified as assets held for sale	–	(414)
At period/year end	15,910	15,262

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 2016	48,187	2,246	50,433
Additions	109	219	328
Disposals	(1)	(1)	(2)
Revaluation	(474)	–	(474)
Depreciation for the period (Note 12)	(533)	(370)	(903)
Reclassification to investment properties (Note 24)	(544)	–	(544)
Net book value at 30 June 2016	46,744	2,094	48,838
At 30 June 2016			
Cost or valuation	46,744	7,699	54,443
Accumulated depreciation and impairment	–	(5,605)	(5,605)
Net book value at 30 June 2016	46,744	2,094	48,838
The analysis of cost or valuation of the above assets is as follows:			
At 30 June 2016			
At cost	–	7,699	7,699
At valuation	46,744	–	46,744
	46,744	7,699	54,443
Net book value at 1 January 2015	52,639	2,568	55,207
Additions	423	771	1,194
Disposals	(371)	(27)	(398)
Revaluation	3,516	–	3,516
Depreciation for the year	(1,070)	(773)	(1,843)
Reclassification to investment properties (Note 24)	(245)	–	(245)
Exchange difference	(27)	(11)	(38)
Classified as assets held for sale	(6,678)	(282)	(6,960)
Net book value at 31 December 2015	48,187	2,246	50,433
At 31 December 2015			
Cost or valuation	48,187	7,598	55,785
Accumulated depreciation and impairment	–	(5,352)	(5,352)
Net book value at 31 December 2015	48,187	2,246	50,433
The analysis of cost or valuation of the above assets is as follows:			
At 31 December 2015			
At cost	–	7,598	7,598
At valuation	48,187	–	48,187
	48,187	7,598	55,785

NOTES TO THE INTERIM FINANCIAL INFORMATION

26. Other assets

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Reposessed assets	74	44
Precious metals	3,515	3,673
Reinsurance assets	39,469	38,514
Accounts receivable and prepayments	39,645	23,724
	82,703	65,955

27. Financial liabilities at fair value through profit or loss

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Trading liabilities		
– Short positions in Exchange Fund Bills and Notes	11,213	8,371
– Others	7	–
	11,220	8,371
Financial liabilities designated at fair value through profit or loss		
– Structured deposits (Note 28)	2,648	2,571
	13,868	10,942

The carrying amount of financial liabilities designated at fair value through profit or loss as at 30 June 2016 was more than the amount that the Group would be contractually required to pay at maturity to the holders by HK\$1 million, and it was less than the amount that the Group would be contractually required to pay at maturity to the holders by HK\$5 million as at 31 December 2015. 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 2016 HK\$'m	At 31 December 2015 HK\$'m
Current, savings and other deposit accounts (per balance sheet)	1,471,681	1,404,989
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 27)	2,648	2,571
	1,474,329	1,407,560
Analysed by:		
Demand deposits and current accounts		
– Corporate	108,634	99,951
– Personal	38,551	34,118
	147,185	134,069
Savings deposits		
– Corporate	348,771	304,593
– Personal	446,764	413,154
	795,535	717,747
Time, call and notice deposits		
– Corporate	330,539	344,205
– Personal	201,070	211,539
	531,609	555,744
	1,474,329	1,407,560

29. Debt securities and certificates of deposit in issue

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Debt securities, at amortised cost		
– Senior notes under the Medium Term Note Programme	5,803	5,728
– Other debt securities	2,846	1,248
	8,649	6,976

30. Other accounts and provisions

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Other accounts payable	63,138	33,957
Provisions	268	268
	63,406	34,225

NOTES TO THE INTERIM FINANCIAL INFORMATION

31. Deferred taxation

Deferred tax is recognised in respect of the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in this interim financial information and unused tax credits 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 2016 and the year ended 31 December 2015 are as follows:

	At 30 June 2016					
	Accelerated tax depreciation	Property revaluation	Losses	Impairment allowances	Others	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1 January 2016	596	7,192	–	(459)	(930)	6,399
Credited to income statement (Note 15)	(12)	(67)	–	(32)	(32)	(143)
(Credited)/charged to other comprehensive income	–	(152)	–	–	248	96
Exchange difference	–	–	–	1	–	1
At 30 June 2016	584	6,973	–	(490)	(714)	6,353

	At 31 December 2015					
	Accelerated tax depreciation	Property revaluation	Losses	Impairment allowances	Others	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1 January 2015	607	7,858	–	(645)	94	7,914
Charged/(credited) to income statement	7	(112)	(35)	40	(702)	(802)
Charged/(credited) to other comprehensive income	–	483	–	–	(416)	67
Exchange difference	–	(3)	2	9	–	8
Classified as assets held for sale	(18)	(1,034)	33	137	94	(788)
At 31 December 2015	596	7,192	–	(459)	(930)	6,399

NOTES TO THE INTERIM FINANCIAL INFORMATION

31. Deferred taxation (continued)

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

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Deferred tax assets	(56)	(58)
Deferred tax liabilities	6,409	6,457
	6,353	6,399

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Deferred tax assets to be recovered after more than twelve months	(56)	(58)
Deferred tax liabilities to be settled after more than twelve months	7,072	7,284
	7,016	7,226

As at 30 June 2016, the Group has not recognised deferred tax assets in respect of tax losses amounting to HK\$8 million (31 December 2015: HK\$8 million). These tax losses do not expire under the current tax legislation.

32. Insurance contract liabilities

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
At 1 January	82,645	73,796
Benefits paid	(9,951)	(12,807)
Claims incurred and movement in liabilities	10,576	21,656
At period/year end	83,270	82,645

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK\$34,495 million (31 December 2015: HK\$36,071 million) and the associated reinsurance assets of HK\$39,469 million (31 December 2015: HK\$38,514 million) are included in "Other assets" (Note 26).

NOTES TO THE INTERIM FINANCIAL INFORMATION

33. Subordinated liabilities

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Subordinated notes, at amortised cost with fair value hedge adjustment USD2,500m*	19,754	19,422

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.

34. Discontinued operations and assets held for sale

According to the announcement made on 14 July 2015, 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 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 the Beijing Financial Assets Exchange on 15 July 2015.

On 18 December 2015, BOCHK (as seller) entered into a Sale and Purchase Agreement with Cinda Financial Holdings Co., Limited ("Cinda Financial") (as buyer) and China Cinda (HK) Holdings Company Limited (as buyer's guarantor) in relation to the sale and purchase of all the issued shares of NCB. The completion of the disposal is conditional upon the satisfaction of the conditions precedent set out in the Sale and Purchase Agreement.

On 30 May 2016, all the conditions precedent set out in the Sale and Purchase Agreement have been satisfied, and the disposal was completed in accordance with the terms and conditions of the Sale and Purchase Agreement. Upon completion, NCB ceased to be a subsidiary of BOCHK.

The comparative amounts of condensed consolidated income statement have been restated as if the discontinued operations had been discontinued at the beginning of year 2015.

NOTES TO THE INTERIM FINANCIAL INFORMATION

34. Discontinued operations and assets held for sale (continued)

The results of discontinued operations for the period are as follows:

	Half-year ended 30 June 2016* HK\$'m	Half-year ended 30 June 2015 HK\$'m
DISCONTINUED OPERATIONS		
Interest income	2,883	4,318
Interest expense	(1,090)	(1,938)
Net interest income	1,793	2,380
Fee and commission income	513	622
Fee and commission expense	(6)	(22)
Net fee and commission income	507	600
Net trading loss	(24)	(97)
Net loss on financial instruments designated at fair value through profit or loss	(1)	(1)
Net gain on other financial assets	95	63
Other operating income	3	13
Net operating income before impairment allowances	2,373	2,958
Net charge of impairment allowances	(356)	(341)
Net operating income	2,017	2,617
Operating expenses	(884)	(1,073)
Operating profit	1,133	1,544
Net gain from disposal of/fair value adjustments on investment properties	–	20
Net gain from disposal/revaluation of properties, plant and equipment	–	2
Profit before taxation	1,133	1,566
Taxation	(172)	(265)
Profit after taxation	961	1,301
Gain on disposal of discontinued operations	29,956	–
Profit from discontinued operations	30,917	1,301
	HK\$	HK\$
Earnings per share for profit attributable to the equity holders of the Company		
Basic and diluted		
– profit from discontinued operations	2.9242	0.1231

* Up to the date of disposal.

NOTES TO THE INTERIM FINANCIAL INFORMATION

34. Discontinued operations and assets held for sale (continued)

The net cash flows incurred by discontinued operations are as follows:

	Half-year ended 30 June 2016* HK\$'m	Half-year ended 30 June 2015 HK\$'m
Operating activities	(13,447)	(7,863)
Investing activities	(27)	(25)
Financing activities	–	(543)
Net cash outflow incurred by discontinued operations	(13,474)	(8,431)

* Up to the date of disposal.

The gain on disposal of discontinued operations is analysed as follows:

	Half-year ended 30 June 2016 HK\$'m
Total consideration	68,000
Net assets disposed	(38,048)
Cumulative translation reserve and reserve for fair value changes of available-for-sale securities reclassified to income statement	370
Transaction costs incurred in connection with the disposal	(366)
Gain on disposal of discontinued operations	29,956

NOTES TO THE INTERIM FINANCIAL INFORMATION

34. Discontinued operations and assets held for sale (continued)

The net assets of NCB at the date of disposal are as follows:

	At the date of disposal HK\$'m
Cash and balances with banks and other financial institutions	45,126
Placements with banks and other financial institutions maturing between one and twelve months	6,394
Financial assets at fair value through profit or loss	5,560
Derivative financial instruments	517
Advances and other accounts	168,185
Investment in securities	56,934
Investment properties	354
Properties, plant and equipment	7,049
Current tax assets	64
Deferred tax assets	71
Other assets	2,745
Deposits and balances from banks and other financial institutions	(18,495)
Financial liabilities at fair value through profit or loss	(4,579)
Derivative financial instruments	(229)
Deposits from customers	(215,253)
Other accounts and provisions	(15,346)
Current tax liabilities	(236)
Deferred tax liabilities	(813)
Net assets disposed	38,048

The net cash inflow from disposal of discontinued operations is analysed as follows:

	Half-year ended 30 June 2016 HK\$'m
Total consideration received, satisfied by cash	68,000
Transaction costs incurred in connection with the disposal	(366)
Cash and cash equivalents disposed	(40,642)
Net cash inflow from disposal of discontinued operations	26,992

NOTES TO THE INTERIM FINANCIAL INFORMATION

34. Discontinued operations and assets held for sale (continued)

The major classes of assets held for sale and liabilities associated with assets held for sale are as follows:

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
ASSETS HELD FOR SALE		
Cash and balances with banks and other financial institutions	–	53,124
Placements with banks and other financial institutions maturing between one and twelve months	–	7,057
Financial assets at fair value through profit or loss	–	7,263
Derivative financial instruments	–	653
Advances and other accounts	–	168,924
Investment in securities	–	55,107
Investment properties	–	414
Properties, plant and equipment	–	6,960
Current tax assets	–	47
Deferred tax assets	–	11
Other assets	–	913
Total assets held for sale	–	300,473
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE		
Deposits and balances from banks and other financial institutions	–	18,040
Financial liabilities at fair value through profit or loss	–	4,576
Derivative financial instruments	–	284
Deposits from customers	–	215,311
Other accounts and provisions	–	12,607
Current tax liabilities	–	188
Deferred tax liabilities	–	799
Total liabilities associated with assets held for sale	–	251,805
	–	48,668

The cumulative income recognised in other comprehensive income relating to assets held for sale is as follows:

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Cumulative income recognised in other comprehensive income	–	5,963

35. Share capital

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Issued and fully paid: 10,572,780,266 ordinary shares	52,864	52,864

NOTES TO THE INTERIM FINANCIAL INFORMATION

36. Notes to condensed consolidated cash flow statement

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

	Half-year ended 30 June 2016 HK\$'m	Half-year ended 30 June 2015 HK\$'m
Operating profit		
– from continuing operations	14,399	14,759
– from discontinued operations	1,133	1,544
	15,532	16,303
Depreciation	903	961
Net charge of impairment allowances	882	809
Unwind of discount on impairment allowances	(6)	(10)
Advances written off net of recoveries	(256)	(963)
Change in subordinated liabilities	542	93
Change in balances with banks and other financial institutions with original maturity over three months	(20,793)	204
Change in placements with banks and other financial institutions with original maturity over three months	1,642	(4,871)
Change in financial assets at fair value through profit or loss	(8,896)	(10,989)
Change in derivative financial instruments	9,597	4,320
Change in advances and other accounts	(93,779)	(64,538)
Change in investment in securities	(32,652)	(124,668)
Change in other assets	(18,585)	(15,726)
Change in deposits and balances from banks and other financial institutions	92,417	(30,176)
Change in financial liabilities at fair value through profit or loss	2,929	8,926
Change in deposits from customers	66,634	132,218
Change in debt securities and certificates of deposit in issue	1,673	(4,830)
Change in other accounts and provisions	31,920	39,095
Change in insurance contract liabilities	625	8,983
Effect of changes in exchange rates	1,037	112
Operating cash inflow/(outflow) before taxation	51,366	(44,747)
Cash flows from operating activities included		
– interest received	21,280	23,934
– interest paid	6,440	8,253
– dividend received	75	80

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

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

	At 30 June 2016 HK\$'m	At 30 June 2015 HK\$'m
Cash and balances with banks and other financial institutions with original maturity within three months	340,809	316,136
Placements with banks and other financial institutions with original maturity within three months	22,350	19,056
Treasury bills with original maturity within three months	13,327	21,698
Certificates of deposit with original maturity within three months	31	283
	376,517	357,173

37. Contingent liabilities and commitments

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

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Direct credit substitutes	6,641	24,360
Transaction-related contingencies	7,545	7,600
Trade-related contingencies	24,462	31,713
Asset sales with recourse	–	5,419
Commitments that are unconditionally cancellable without prior notice	397,273	471,092
Other commitments with an original maturity of		
– up to one year	8,135	10,519
– over one year	110,108	114,376
	554,164	665,079
Credit risk-weighted amount	48,599	74,880

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

38. Capital commitments

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

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Authorised and contracted for but not provided for	654	223
Authorised but not contracted for	73	16
	727	239

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

39. Operating lease commitments

(a) As lessee

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

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Land and buildings		
– Not later than one year	562	787
– Later than one year but not later than five years	722	1,394
– Later than five years	13	112
	1,297	2,293

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

(b) As lessor

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

	At 30 June 2016 HK\$'m	At 31 December 2015 HK\$'m
Land and buildings		
– Not later than one year	442	421
– Later than one year but not later than five years	405	330
	847	751

The Group leases its investment properties 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

40. Segmental reporting

The Group manages the business mainly from a business segment perspective and over 90% of the Group's revenues, profits before tax and assets are derived from Hong Kong. Currently, four operating segments are identified: 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

40. Segmental reporting (continued)

	Personal Banking HK\$'m	Corporate Banking HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
Half-year ended 30 June 2016								
CONTINUING OPERATIONS								
Net interest income/(expense)								
– External	1,587	5,085	4,330	1,168	2	12,172	–	12,172
– Inter-segment	2,657	123	(2,421)	(3)	(356)	–	–	–
	4,244	5,208	1,909	1,165	(354)	12,172	–	12,172
Net fee and commission income/(expense)	2,685	2,860	57	(95)	323	5,830	(163)	5,667
Net insurance premium income	–	–	–	3,593	–	3,593	(9)	3,584
Net trading gain/(loss)	327	81	2,052	(176)	12	2,296	9	2,305
Net (loss)/gain on financial instruments designated at fair value through profit or loss	–	–	(7)	1,039	–	1,032	–	1,032
Net gain on other financial assets	–	2	429	147	–	578	–	578
Other operating income	6	2	–	63	956	1,027	(660)	367
Total operating income	7,262	8,153	4,440	5,736	937	26,528	(823)	25,705
Net insurance benefits and claims and movement in liabilities	–	–	–	(4,960)	–	(4,960)	–	(4,960)
Net operating income before impairment allowances	7,262	8,153	4,440	776	937	21,568	(823)	20,745
Net (charge)/reversal of impairment allowances	(196)	(353)	23	–	–	(526)	–	(526)
Net operating income	7,066	7,800	4,463	776	937	21,042	(823)	20,219
Operating expenses	(3,373)	(1,309)	(520)	(165)	(1,276)	(6,643)	823	(5,820)
Operating profit/(loss)	3,693	6,491	3,943	611	(339)	14,399	–	14,399
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	104	104	–	104
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	(1)	(6)	–	–	2	(5)	–	(5)
Share of profits less losses after tax of associates and a joint venture	–	–	–	–	42	42	–	42
Profit/(loss) before taxation	3,692	6,485	3,943	611	(191)	14,540	–	14,540
At 30 June 2016								
ASSETS								
Segment assets	306,355	727,418	1,171,168	104,313	68,222	2,377,476	(13,660)	2,363,816
Interests in associates and a joint venture	–	–	–	–	416	416	–	416
	306,355	727,418	1,171,168	104,313	68,638	2,377,892	(13,660)	2,364,232
LIABILITIES								
Segment liabilities	783,402	715,132	536,111	96,519	12,113	2,143,277	(13,660)	2,129,617
Half-year ended 30 June 2016								
CONTINUING OPERATIONS								
Other information								
Capital expenditure	3	–	–	3	322	328	–	328
Depreciation	190	75	35	6	597	903	–	903
Amortisation of securities	–	–	(349)	15	–	(334)	–	(334)

NOTES TO THE INTERIM FINANCIAL INFORMATION

40. Segmental reporting (continued)

	Personal Banking HK\$m	Corporate Banking HK\$m	Treasury HK\$m	Insurance HK\$m	Others HK\$m	Subtotal HK\$m	Eliminations HK\$m	Consolidated HK\$m
Half-year ended 30 June 2015 (Restated)								
CONTINUING OPERATIONS								
Net interest income/(expense)								
– External	1,106	3,535	7,561	1,087	3	13,292	–	13,292
– Inter-segment	2,888	1,075	(3,641)	5	(327)	–	–	–
	3,994	4,610	3,920	1,092	(324)	13,292	–	13,292
Net fee and commission income/(expense)	3,861	1,848	56	(156)	255	5,864	(139)	5,725
Net insurance premium income	–	–	–	8,884	–	8,884	(9)	8,875
Net trading gain	336	115	211	33	2	697	8	705
Net loss on financial instruments designated at fair value through profit or loss	–	–	(11)	(156)	–	(167)	–	(167)
Net gain on other financial assets	641	17	45	113	–	816	–	816
Other operating income	13	3	–	10	959	985	(512)	473
Total operating income	8,845	6,593	4,221	9,820	892	30,371	(652)	29,719
Net insurance benefits and claims and movement in liabilities	–	–	–	(8,989)	–	(8,989)	–	(8,989)
Net operating income before impairment allowances	8,845	6,593	4,221	831	892	21,382	(652)	20,730
Net (charge)/reversal of impairment allowances	(98)	(372)	1	–	1	(468)	–	(468)
Net operating income	8,747	6,221	4,222	831	893	20,914	(652)	20,262
Operating expenses	(3,137)	(1,165)	(462)	(177)	(1,214)	(6,155)	652	(5,503)
Operating profit/(loss)	5,610	5,056	3,760	654	(321)	14,759	–	14,759
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	349	349	–	349
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	(3)	–	(1)	(5)	94	85	–	85
Share of profits less losses after tax of associates and a joint venture	–	–	–	–	23	23	–	23
Profit before taxation	5,607	5,056	3,759	649	145	15,216	–	15,216
At 31 December 2015								
ASSETS								
Segment assets	301,551	638,386	985,051	98,282	68,425	2,091,695	(24,680)	2,067,015
Interests in associates and a joint venture	–	–	–	–	376	376	–	376
Assets held for sale	39,480	134,506	123,419	–	7,541	304,946	(4,473)	300,473
	341,031	772,892	1,108,470	98,282	76,342	2,397,017	(29,153)	2,367,864
LIABILITIES								
Segment liabilities	752,284	675,095	400,515	91,593	11,631	1,931,118	(13,052)	1,918,066
Liabilities associated with assets held for sale	91,705	138,603	35,993	–	1,605	267,906	(16,101)	251,805
	843,989	813,698	436,508	91,593	13,236	2,199,024	(29,153)	2,169,871
Half-year ended 30 June 2015 (Restated)								
CONTINUING OPERATIONS								
Other information								
Capital expenditure	9	–	–	22	504	535	–	535
Depreciation	182	70	35	5	559	851	–	851
Amortisation of securities	–	–	421	(48)	–	373	–	373

NOTES TO THE INTERIM FINANCIAL INFORMATION

41. Assets pledged as security

As at 30 June 2016, the liabilities of the Group amounting to HK\$9,905 million (31 December 2015: HK\$11,650 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK\$22,310 million (31 December 2015: HK\$9,111 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\$32,730 million (31 December 2015: HK\$22,594 million) mainly included in "Trading assets", "Investment in securities" and "Trade bills".

42. Significant related party transactions

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

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

General information of the parent companies:

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

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

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

The majority of transactions with BOC arise from money market activities. As at 30 June 2016, the related aggregate amounts due from and to BOC of the Group were HK\$126,973 million (31 December 2015: HK\$102,324 million) and HK\$80,499 million (31 December 2015: HK\$55,448 million) respectively. The aggregate amounts of income and expenses of the Group arising from these transactions with BOC for the first half of 2016 were HK\$751 million (first half of 2015: HK\$2,074 million) and HK\$192 million (first half of 2015: HK\$287 million) respectively. Transactions with other companies controlled by BOC are not considered material.

NOTES TO THE INTERIM FINANCIAL INFORMATION

42. Significant related party transactions (continued)

(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, purchases, 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.

(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 2016 HK\$'m	Half-year ended 30 June 2015 HK\$'m
Income statement items		
Associates		
– Other operating expenses	35	32
Other related parties		
– Administrative services fees received/receivable	5	5
Balance sheet item		
Associates		
– Other accounts and provisions	9	–

NOTES TO THE INTERIM FINANCIAL INFORMATION

42. Significant related party transactions (continued)

(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 2016 HK\$'m	Half-year ended 30 June 2015 HK\$'m
Salaries and other short-term employee benefits	17	17
Post-employment benefits	–	1
	17	18

NOTES TO THE INTERIM FINANCIAL INFORMATION

43. 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 on which the ultimate risk lies based on the locations of the counterparties after taking into account the transfer of risk, and represent the sum of cross-border claims in all currencies and local claims in foreign currencies. 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 2016				
	Non-bank private sector				Total HK\$'m
	Banks HK\$'m	Official sector HK\$'m	Non-bank	Non-financial	
			financial institutions HK\$'m	private sector HK\$'m	
Mainland of China	399,269	178,059	11,595	137,461	726,384
Hong Kong	5,689	466	14,971	274,183	295,309

	At 31 December 2015				
	Non-bank private sector				Total HK\$'m
	Banks HK\$'m	Official sector HK\$'m	Non-bank	Non-financial	
			financial institutions HK\$'m	private sector HK\$'m	
Mainland of China	329,425	110,765	8,795	157,064	606,049
Hong Kong	7,916	25	10,379	286,594	304,914

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44. Non-bank Mainland exposures

The analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties and the types 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 2016		
		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	268,994	34,084	303,078
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	73,338	11,751	85,089
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	50,085	8,946	59,031
Other entities of central government not reported in item 1 above	4	25,217	171	25,388
Other entities of local governments not reported in item 2 above	5	–	–	–
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	54,318	12,113	66,431
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	5,142	298	5,440
Total	8	477,094	67,363	544,457
Total assets after provision	9	2,228,365		
On-balance sheet exposures as percentage of total assets	10	21.41%		

NOTES TO THE INTERIM FINANCIAL INFORMATION

44. Non-bank Mainland exposures (continued)

	Items in the HKMA return	At 31 December 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	269,836	26,994	296,830
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	84,329	15,508	99,837
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	85,364	37,350	122,714
Other entities of central government not reported in item 1 above	4	16,899	157	17,056
Other entities of local governments not reported in item 2 above	5	83	–	83
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	59,033	15,253	74,286
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	7,272	–	7,272
Total	8	522,816	95,262	618,078
Total assets after provision	9	<u>2,282,058</u>		
On-balance sheet exposures as percentage of total assets	10	<u>22.91%</u>		

45. Compliance with HKAS 34

The unaudited interim financial information for the first half of 2016 complies with HKAS 34 “Interim Financial Reporting” issued by the HKICPA.

NOTES TO THE INTERIM FINANCIAL INFORMATION

46. Statutory accounts

The financial information relating to the year ended 31 December 2015 that is included in this Interim Report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditors' report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.