

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 2016 and should be read in conjunction with the Group’s Annual Report for 2016.

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 2017

- HKAS 7 (Amendment), “Statement of Cash Flows: Disclosure Initiative”. The amendments are part of the Disclosure Initiative project and require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. No comparative information is required for first time application of these amendments. The amendments will result in additional disclosure to be provided in the financial statements.

(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 2017

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
HKAS 28 (2011) (Amendments)	Measuring an Associate or Joint Venture at Fair Value	1 January 2018
HKAS 40 (Amendments)	Transfer of Investment Property	1 January 2018
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 16	Leases	1 January 2019
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments	1 January 2019

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 2017 (continued)

- HKAS 28 (2011) (Amendments), “Measuring an Associate or Joint Venture at Fair Value”. The amendments are part of the Annual Improvements to HKFRSs 2014-2016 Cycle and clarify that an entity has an investment-by-investment choice for measuring its investment in an associate or a joint venture held by a venture capital, or a mutual fund, a unit trust or similar entities including investment-linked insurance funds. The entity may elect to measure that investments at fair value through profit or loss in accordance with HKFRS 9. This election shall be made separately for each associate or joint venture at initial recognition. These amendments shall be applied retrospectively for annual periods beginning on or after 1 January 2018. The application of these amendments will not have a material impact on the Group’s financial statements.

- HKAS 40 (Amendments), “Transfer of Investment Property”. The amendments clarify that there must be a change in use when a property is transferred to or from investment properties. A change in use would involve an assessment of whether a property meets, or has ceased to meet, the definition of investment property; and supporting evidence that a change in use has occurred. The amendments are effective for annual periods beginning on or after 1 January 2018. The application of these amendments will not have a material impact on the Group’s financial statements.

- HKFRS 4 (Amendments), “Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts”. The amendments address concerns arising from the different effective dates of HKFRS 9 and the forthcoming insurance contracts standard. The amendments introduce the following two approaches:
 - Deferral approach – Temporary exemption from HKFRS 9
Entities whose activities are predominantly connected with insurance may choose to defer the application of HKFRS 9 until 2021. Entities that defer the application of HKFRS 9 will continue to apply HKAS 39.

 - Overlay approach
All entities that issue insurance contracts may choose to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when HKFRS 9 is applied before the new insurance contracts standard is issued.

The Group assessed the financial impact and decided to apply HKFRS 9 consistently to all entities in the Group.

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 2017 (continued)*

- HKFRS 9, “Financial Instruments”. Please refer to Note 2.1(b) of the Group’s Annual Report for 2016 for brief explanations of the Standard. The Group has established a Steering Committee to oversee the implementation of the Standard and is at a later stage of implementing the expected credit losses (ECL) models. Parallel run will be performed during the second half of 2017 to enable the Group a better understanding of the potential effect of HKFRS 9 and to be familiar with the new governance and operational processes. The Group will quantify the potential impact of the Standard once it is practicable to make reliable estimates, which will be no later than the publication of the Annual Report for 2017.
- HK(IFRIC) – Int 22, “Foreign Currency Transactions and Advance Consideration”. The interpretation specifies that the exchange rate on the date of cash payment or receipt is used for transactions that involve advance consideration paid or received in a foreign currency. The interpretation can either be applied retrospectively or prospectively to all assets, expenses and income. The application of this interpretation will not have a material impact on the Group’s financial statements.
- HK(IFRIC) – Int 23, “Uncertainty over Income Tax Treatments”. The interpretation specifies how an entity should reflect and measure the effects of uncertainty in accounting for income taxes by determining how probable that a taxation authority will accept an uncertain tax treatment. The interpretation can either be applied on a fully retrospective basis or on a modified retrospective basis. Earlier application is permitted. The application of this interpretation will not have a material impact on the Group’s financial statements.
- Please refer to Note 2.1(b) of the Group’s Annual Report for 2016 for brief explanations of the rest of the above-mentioned standards and amendments.

(d) *Improvements to HKFRSs*

- “Improvements to HKFRSs” contains numerous amendments to HKFRSs which the HKICPA considers not urgent but necessary. It comprises amendments that result in accounting changes for presentation, recognition or measurement purpose as well as terminology or editorial amendments related to a variety of individual HKFRSs. Except for above mentioned, these improvements do not have a material impact on the Group’s financial statements.

2. Critical accounting estimates and judgements in applying accounting policies

The nature and assumptions related to the Group’s accounting estimates are consistent with those used in the Group’s financial statements for the year ended 31 December 2016.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management

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

3.1 Credit risk

(A) Gross advances and other accounts

(a) Impaired advances

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

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

	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
Gross impaired advances to customers	1,325	1,386
Impairment allowances made in respect of such advances	443	600
Current market value of collateral held against the covered portion of such advances to customers	1,236	1,098
Covered portion of such advances to customers	998	921
Uncovered portion of such advances to customers	327	465

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

As at 30 June 2017, there were no impaired trade bills and advances to banks and other financial institutions (31 December 2016: Nil).

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Gross advances and other accounts (continued)

(a) Impaired advances (continued)

Classified or impaired advances to customers are analysed as follows:

	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
Gross classified or impaired advances to customers	2,050	2,169
Gross classified or impaired advances to customers as a percentage of gross advances to customers	0.19%	0.22%
Individually assessed impairment allowances made in respect of such advances	395	547

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 2017		At 31 December 2016	
	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	156	0.01%	93	0.01%
– one year or less but over six months	114	0.01%	81	0.01%
– over one year	274	0.03%	219	0.02%
Advances overdue for over three months	544	0.05%	393	0.04%
Individually assessed impairment allowances made in respect of such advances	244		147	

	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
Current market value of collateral held against the covered portion of such advances to customers	567	427
Covered portion of such advances to customers	292	223
Uncovered portion of such advances to customers	252	170

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 2017, there were no trade bills and advances to banks and other financial institutions overdue for more than three months (31 December 2016: Nil).

(c) Rescheduled advances

	At 30 June 2017		At 31 December 2016	
	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"	133	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 2017					
	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	96,185	19.73%	–	–	–	319
– Property investment	53,729	80.48%	21	114	–	173
– Financial concerns	7,611	4.05%	–	–	–	43
– Stockbrokers	1,657	49.90%	–	–	–	5
– Wholesale and retail trade	38,436	35.36%	45	191	27	136
– Manufacturing	39,422	15.37%	57	92	6	139
– Transport and transport equipment	61,504	28.60%	1,132	5	80	207
– Recreational activities	2,296	1.61%	–	–	–	7
– Information technology	21,875	1.01%	–	–	–	70
– Others	104,721	42.09%	11	157	6	335
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	9,537	99.87%	12	158	–	6
– Loans for purchase of other residential properties	226,972	99.92%	62	1,152	1	112
– Credit card advances	13,193	–	36	506	–	119
– Others	54,165	79.35%	61	495	30	70
Total loans for use in Hong Kong	731,303	58.01%	1,437	2,870	150	1,741
Trade finance	77,199	14.06%	60	44	29	275
Loans for use outside Hong Kong	295,471	8.86%	553	1,496	216	1,036
Gross advances to customers	1,103,973	41.78%	2,050	4,410	395	3,052

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 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	73,637	22.82%	–	1	–	248
– Property investment	53,908	81.58%	27	133	–	180
– Financial concerns	5,438	3.53%	–	–	–	45
– Stockbrokers	2,647	95.17%	–	–	–	9
– Wholesale and retail trade	35,091	37.14%	42	186	29	127
– Manufacturing	26,136	17.49%	49	51	7	100
– Transport and transport equipment	53,074	31.31%	1,239	17	289	186
– Recreational activities	2,510	1.59%	–	–	–	8
– Information technology	17,938	1.30%	–	–	–	58
– Others	105,127	24.95%	15	89	10	341
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	8,562	99.84%	10	170	–	5
– Loans for purchase of other residential properties	218,426	99.93%	89	1,812	2	101
– Credit card advances	13,819	–	41	524	–	123
– Others	47,717	71.08%	36	495	3	68
Total loans for use in Hong Kong	664,030	57.97%	1,548	3,478	340	1,599
Trade finance	72,182	13.99%	87	52	28	256
Loans for use outside Hong Kong	241,615	13.50%	534	410	179	866
Gross advances to customers	977,827	43.74%	2,169	3,940	547	2,721

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 2017 HK\$'m	At 31 December 2016 HK\$'m
Hong Kong	890,347	781,395
Mainland of China	134,041	121,195
Others	79,585	75,237
	1,103,973	977,827
Collectively assessed impairment allowances in respect of the gross advances to customers		
Hong Kong	2,304	2,022
Mainland of China	424	389
Others	324	310
	3,052	2,721

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 2017 HK\$'m	At 31 December 2016 HK\$'m
Hong Kong	2,848	3,418
Mainland of China	470	162
Others	1,092	360
	4,410	3,940
Individually assessed impairment allowances in respect of the overdue advances		
Hong Kong	105	112
Mainland of China	5	8
Others	142	86
	252	206
Collectively assessed impairment allowances in respect of the overdue advances		
Hong Kong	84	96
Mainland of China	5	2
Others	7	5
	96	103

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 2017 HK\$'m	At 31 December 2016 HK\$'m
Hong Kong	1,515	1,716
Mainland of China	80	75
Others	455	378
	2,050	2,169
Individually assessed impairment allowances in respect of the classified or impaired advances		
Hong Kong	193	411
Mainland of China	31	11
Others	171	125
	395	547
Collectively assessed impairment allowances in respect of the classified or impaired advances		
Hong Kong	47	52
Mainland of China	1	1
Others	2	2
	50	55

(B) Repossessed assets

The estimated market value of repossessed assets held by the Group as at 30 June 2017 amounted to HK\$68 million (31 December 2016: HK\$72 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 2017					
	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	156,378	67,936	201,336	44,445	15,069	485,164
Held-to-maturity securities	19,531	8,444	23,185	5,313	5,123	61,596
Loans and receivables	–	150	603	–	1,993	2,746
Financial assets at fair value through profit or loss	23,290	12,847	20,598	6,480	2,516	65,731
	199,199	89,377	245,722	56,238	24,701	615,237

	At 31 December 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	106,276	171,851	186,790	41,867	20,654	527,438
Held-to-maturity securities	19,805	21,671	12,365	4,434	1,919	60,194
Loans and receivables	–	149	786	–	–	935
Financial assets at fair value through profit or loss	14,927	16,615	14,817	6,501	3,456	56,316
	141,008	210,286	214,758	52,802	26,029	644,883

The impaired debt securities are analysed as follows:

	At 30 June 2017 HK\$m	At 31 December 2016 HK\$m
Held-to-maturity securities	–	1

As at 30 June 2017, there were no impaired certificates of deposit and no overdue debt securities and certificates of deposit (31 December 2016: 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 RMC 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	2017	46.1	38.0	80.9	57.3
	2016	30.3	30.1	58.6	42.9
VAR for foreign exchange risk	2017	23.6	23.6	54.1	38.4
	2016	26.8	25.5	42.1	33.3
VAR for interest rate risk	2017	38.2	27.6	82.4	52.9
	2016	20.0	15.3	57.4	26.5
VAR for equity risk	2017	1.4	0.7	5.3	2.6
	2016	3.1	0.0	3.1	0.9
VAR for commodity risk	2017	1.6	1.2	2.0	1.6
	2016	0.1	0.0	0.1	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 2017							
	Equivalent in million of HK\$							
	US Dollars	Pound Sterling	Japanese Yen	Euro	Renminbi	Australian Dollars	Other foreign currencies	Total foreign currencies
Spot assets	823,393	21,397	25,515	46,259	503,097	39,427	44,261	1,503,349
Spot liabilities	(762,150)	(15,989)	(4,615)	(30,007)	(373,260)	(20,076)	(44,744)	(1,250,841)
Forward purchases	1,096,598	23,060	47,736	70,280	510,157	24,162	68,717	1,840,710
Forward sales	(1,149,693)	(28,625)	(68,630)	(86,526)	(674,082)	(43,385)	(68,317)	(2,119,258)
Net options position	79	(19)	(2)	39	(39)	(34)	(2)	22
Net long/(short) position	8,227	(176)	4	45	(34,127)	94	(85)	(26,018)

	At 31 December 2016							
	Equivalent in million of HK\$							
	US Dollars	Pound Sterling	Japanese Yen	Euro	Renminbi	Australian Dollars	Other foreign currencies	Total foreign currencies
Spot assets	729,472	20,711	128,359	40,591	260,636	22,537	28,637	1,230,943
Spot liabilities	(617,520)	(14,351)	(9,056)	(28,397)	(250,559)	(19,823)	(32,101)	(971,807)
Forward purchases	1,095,599	26,200	58,711	56,669	579,902	28,125	55,743	1,900,949
Forward sales	(1,196,764)	(32,618)	(178,070)	(68,865)	(588,688)	(30,925)	(52,907)	(2,148,837)
Net options position	1,123	2	1	1	(733)	(3)	1	392
Net long/(short) position	11,910	(56)	(55)	(1)	558	(89)	(627)	11,640

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market risk (continued)

(B) Currency risk (continued)

	At 30 June 2017				
	Equivalent in million of HK\$				
	Renminbi	Malaysian Ringgit	Baht	Other foreign currencies	Total foreign currencies
Net structural position	–	2,406	2,271	164	4,841

	At 31 December 2016				
	Equivalent in million of HK\$				
	Renminbi	Malaysian Ringgit	Baht	Other foreign currencies	Total foreign currencies
Net structural position	791	2,175	–	160	3,126

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 2017 and 31 December 2016. 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 2017						
	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	379,226	-	-	-	-	20,604	399,830
Placements with banks and other financial institutions maturing between one and twelve months	-	28,140	53,716	-	-	-	81,856
Financial assets at fair value through profit or loss	83,328	14,441	13,753	14,331	22,389	9,845	158,087
Derivative financial instruments	-	-	-	-	-	29,859	29,859
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	135,800	135,800
Advances and other accounts	767,504	279,626	43,201	34,083	4,134	6,782	1,135,330
Investment in securities							
– Available-for-sale securities	32,526	89,809	101,062	161,196	100,571	5,391	490,555
– Held-to-maturity securities	4,787	4,218	12,315	24,007	16,269	-	61,596
– Loans and receivables	-	150	2,596	-	-	-	2,746
Interests in associates and joint ventures	-	-	-	-	-	352	352
Investment properties	-	-	-	-	-	19,191	19,191
Properties, plant and equipment	-	-	-	-	-	46,919	46,919
Other assets (including deferred tax assets)	6,684	-	-	-	-	71,159	77,843
Total assets	1,274,055	416,384	226,643	233,617	143,363	345,902	2,639,964
Liabilities							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	135,800	135,800
Deposits and balances from banks and other financial institutions	226,331	7,705	385	476	-	68,905	303,802
Financial liabilities at fair value through profit or loss	3,308	8,056	6,550	908	507	-	19,329
Derivative financial instruments	-	-	-	-	-	28,994	28,994
Deposits from customers	1,218,238	189,947	121,744	675	-	119,526	1,650,130
Debt securities and certificates of deposit in issue	7,343	303	425	1,180	-	-	9,251
Other accounts and provisions (including current and deferred tax liabilities)	11,369	-	-	-	-	126,241	137,610
Insurance contract liabilities	-	-	-	-	-	94,212	94,212
Subordinated liabilities	-	-	-	19,099	-	-	19,099
Total liabilities	1,466,589	206,011	129,104	22,338	507	573,678	2,398,227
Interest sensitivity gap	(192,534)	210,373	97,539	211,279	142,856	(227,776)	241,737

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market risk (continued)

(C) Interest rate risk (continued)

	At 31 December 2016						
	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	213,919	-	-	-	-	18,627	232,546
Placements with banks and other financial institutions maturing between one and twelve months	-	28,195	42,197	-	-	-	70,392
Financial assets at fair value through profit or loss	5,510	8,217	13,224	15,326	19,816	5,265	67,358
Derivative financial instruments	-	-	-	-	-	64,314	64,314
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	123,390	123,390
Advances and other accounts	780,789	108,644	54,871	40,204	4,807	7,439	996,754
Investment in securities							
– Available-for-sale securities	54,940	119,259	106,325	142,154	104,760	4,409	531,847
– Held-to-maturity securities	779	3,979	17,001	23,982	14,453	-	60,194
– Loans and receivables	-	-	935	-	-	-	935
Interests in associates and joint ventures	-	-	-	-	-	319	319
Investment properties	-	-	-	-	-	18,227	18,227
Properties, plant and equipment	-	-	-	-	-	45,790	45,790
Other assets (including deferred tax assets)	3,383	-	-	-	-	68,015	71,398
Assets held for sale	32,358	6,837	6,394	5,197	4	2,503	53,293
Total assets	1,091,678	275,131	240,947	226,863	143,840	358,298	2,336,757
Liabilities							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	123,390	123,390
Deposits and balances from banks and other financial institutions	152,060	15,236	7,031	394	-	19,512	194,233
Financial liabilities at fair value through profit or loss	3,705	5,578	2,161	1,335	592	-	13,371
Derivative financial instruments	-	-	-	-	-	49,289	49,289
Deposits from customers	1,135,973	184,799	80,255	398	-	107,456	1,508,881
Debt securities and certificates of deposit in issue	-	-	-	1,121	-	-	1,121
Other accounts and provisions (including current and deferred tax liabilities)	15,803	-	-	-	-	45,374	61,177
Insurance contract liabilities	-	-	-	-	-	86,534	86,534
Subordinated liabilities	-	-	-	19,014	-	-	19,014
Liabilities associated with assets held for sale	28,917	7,428	7,145	67	-	3,456	47,013
Total liabilities	1,336,458	213,041	96,592	22,329	592	435,011	2,104,023
Interest sensitivity gap	(244,780)	62,090	144,355	204,534	143,248	(76,713)	232,734

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity risk

(A) Liquidity coverage ratio

	2017	2016
Average value of liquidity coverage ratio		
– First quarter	121.41%	112.92%
– Second quarter	123.88%	109.70%

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 BOCHK’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 2017 and 31 December 2016 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2017							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	343,177	44,238	-	-	-	-	12,415	399,830
Placements with banks and other financial institutions maturing between one and twelve months	-	-	28,140	53,716	-	-	-	81,856
Financial assets at fair value through profit or loss								
– Held for trading								
– Debt securities	-	1,785	9,692	10,628	12,248	5,266	-	39,619
– Certificates of deposit	-	492	115	204	372	-	-	1,183
– Designated at fair value through profit or loss								
– Debt securities	-	136	1,329	2,486	3,941	16,881	-	24,773
– Certificates of deposit	-	1	-	4	151	-	-	156
– Equity securities and fund	-	-	-	-	-	-	9,845	9,845
– Other debt instruments	80,557	99	1,855	-	-	-	-	82,511
Derivative financial instruments	11,117	2,037	3,233	6,684	4,562	2,226	-	29,859
Hong Kong SAR Government certificates of indebtedness	135,800	-	-	-	-	-	-	135,800
Advances and other accounts								
– Advances to customers	129,008	31,415	50,095	144,855	512,656	230,272	2,225	1,100,526
– Trade bills	-	4,332	5,595	17,050	-	-	-	26,977
– Advances to banks and other financial institutions	-	8	1	1,439	6,379	-	-	7,827
Investment in securities								
– Available-for-sale								
– Debt securities	-	17,283	51,280	85,002	190,309	100,850	319	445,043
– Certificates of deposit	-	1,766	7,413	22,209	8,516	217	-	40,121
– Held-to-maturity								
– Debt securities	-	4,895	4,439	12,473	23,660	16,111	-	61,578
– Certificates of deposit	-	-	-	-	18	-	-	18
– Loans and receivables								
– Debt securities	-	-	150	2,596	-	-	-	2,746
– Equity securities and fund	-	-	-	-	-	-	5,391	5,391
Interests in associates and joint ventures	-	-	-	-	-	-	352	352
Investment properties	-	-	-	-	-	-	19,191	19,191
Properties, plant and equipment	-	-	-	-	-	-	46,919	46,919
Other assets (including deferred tax assets)	32,203	19,298	148	1,899	7,741	16,511	43	77,843
Total assets	731,862	127,785	163,485	361,245	770,553	388,334	96,700	2,639,964

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

	At 30 June 2017							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	135,800	-	-	-	-	-	-	135,800
Deposits and balances from banks and other financial institutions	239,761	55,475	7,705	385	476	-	-	303,802
Financial liabilities at fair value through profit or loss	-	3,308	8,058	6,550	908	505	-	19,329
Derivative financial instruments	7,118	3,676	4,073	7,870	3,747	2,510	-	28,994
Deposits from customers	1,037,499	300,265	189,947	121,744	675	-	-	1,650,130
Debt securities and certificates of deposit in issue - Debt securities	-	7,343	333	425	1,150	-	-	9,251
Other accounts and provisions (including current and deferred tax liabilities)	31,119	94,333	571	4,786	6,801	-	-	137,610
Insurance contract liabilities	30,803	84	192	3,075	13,727	46,331	-	94,212
Subordinated liabilities	-	-	421	-	18,678	-	-	19,099
Total liabilities	1,482,100	464,484	211,300	144,835	46,162	49,346	-	2,398,227
Net liquidity gap	(750,238)	(336,699)	(47,815)	216,410	724,391	338,988	96,700	241,737

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

	At 31 December 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	112,048	107,815	-	-	-	-	12,683	232,546
Placements with banks and other financial institutions maturing between one and twelve months	-	-	28,195	42,197	-	-	-	70,392
Financial assets at fair value through profit or loss								
– Held for trading								
– Debt securities	-	1,415	3,723	9,430	13,083	3,417	-	31,068
– Certificates of deposit	-	-	1,140	412	591	-	-	2,143
– Designated at fair value through profit or loss								
– Debt securities	-	109	281	3,339	3,054	16,174	-	22,957
– Certificates of deposit	-	2	-	2	144	-	-	148
– Equity securities and fund	-	-	-	-	-	-	5,265	5,265
– Other debt instruments	-	4,097	1,680	-	-	-	-	5,777
Derivative financial instruments	14,662	8,962	10,104	21,369	6,533	2,684	-	64,314
Hong Kong SAR Government certificates of indebtedness	123,390	-	-	-	-	-	-	123,390
Advances and other accounts								
– Advances to customers	93,218	22,472	62,202	133,612	438,755	222,184	2,116	974,559
– Trade bills	6	4,868	3,831	7,474	-	-	-	16,179
– Advances to banks and other financial institutions	-	3	1	577	5,435	-	-	6,016
Investment in securities								
– Available-for-sale								
– Debt securities	-	37,531	80,722	79,913	167,355	105,014	-	470,535
– Certificates of deposit	-	2,985	16,078	30,274	7,357	209	-	56,903
– Held-to-maturity								
– Debt securities	-	865	3,958	17,329	23,712	14,311	1	60,176
– Certificates of deposit	-	-	-	-	-	18	-	18
– Loans and receivables								
– Debt securities	-	-	-	935	-	-	-	935
– Equity securities and fund	-	-	-	-	-	-	4,409	4,409
Interests in associates and joint ventures	-	-	-	-	-	-	319	319
Investment properties	-	-	-	-	-	-	18,227	18,227
Properties, plant and equipment	-	-	-	-	-	-	45,790	45,790
Other assets (including deferred tax assets)	30,971	15,436	585	935	7,620	15,806	45	71,398
Assets held for sale	6,097	6,304	4,791	9,851	18,486	5,684	2,080	53,293
Total assets	380,392	212,864	217,291	357,649	692,125	385,501	90,935	2,336,575

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

	At 31 December 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	123,390	-	-	-	-	-	-	123,390
Deposits and balances from banks and other financial institutions	152,078	19,494	15,136	7,031	494	-	-	194,233
Financial liabilities at fair value through profit or loss	-	3,705	5,582	2,238	1,257	589	-	13,371
Derivative financial instruments	10,511	3,390	7,364	20,140	5,218	2,666	-	49,289
Deposits from customers	970,959	272,470	184,799	80,255	398	-	-	1,508,881
Debt securities and certificates of deposit in issue								
- Debt securities	-	-	-	10	1,111	-	-	1,121
Other accounts and provisions (including current and deferred tax liabilities)	36,162	14,166	1,682	2,523	6,644	-	-	61,177
Insurance contract liabilities	26,730	284	476	1,146	13,969	43,929	-	86,534
Subordinated liabilities	-	-	418	-	18,596	-	-	19,014
Liabilities associated with assets held for sale	24,404	7,694	7,467	7,186	262	-	-	47,013
Total liabilities	1,344,234	321,203	222,924	120,529	47,949	47,184	-	2,104,023
Net liquidity gap	(963,842)	(108,339)	(5,633)	237,120	644,176	338,317	90,935	232,734

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. In this regard, the Group has conducted relevant experience studies. The results of such 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 which includes the credit exposures of oversea subsidiaries and branches 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 2017		At 31 December 2016	
	Total assets HK\$'m	Total equity HK\$'m	Total assets HK\$'m	Total equity HK\$'m
BOC Group Trustee Company Limited	200	200	200	200
BOCI-Prudential Trustee Limited	458	417	457	429
China Bridge (Malaysia) Sdn. Bhd.	19	12	27	23
Bank of China (Hong Kong) Nominees Limited	–	–	–	–
Bank of China (Hong Kong) Trustees Limited	11	10	10	10
BOCHK Information Technology (Shenzhen) Co., Ltd.	315	216	309	204
BOCHK Information Technology Services (Shenzhen) Co., Ltd.	338	292	313	269
Che Hsing (Nominees) Limited	1	1	1	1
Po Sang Financial Investment Services Company Limited	364	346	365	346
Po Sang Securities and Futures Limited	799	473	603	466
Sin Chiao Enterprises Corporation, Limited	7	7	6	6
Sin Hua Trustee Limited	4	4	4	4
Billion Express Development Inc. ¹	–	–	–	–
Billion Orient Holdings Ltd. ¹	–	–	–	–
Elite Bond Investments Ltd. ¹	–	–	–	–
Express Capital Enterprise Inc. ¹	–	–	–	–
Express Charm Holdings Corp. ¹	–	–	–	–
Express Shine Assets Holdings Corp. ¹	–	–	–	–
Express Talent Investment Ltd. ¹	–	–	–	–
Gold Medal Capital Inc. ¹	–	–	–	–
Gold Tap Enterprises Inc. ¹	–	–	–	–
Maxi Success Holdings Ltd. ¹	–	–	–	–
Smart Linkage Holdings Inc. ¹	–	–	–	–
Smart Union Capital Investments Ltd. ¹	–	–	–	–
Success Trend Development Ltd. ¹	–	–	–	–
Wise Key Enterprises Corp. ¹	–	–	–	–
Sino Information Services Company Limited ²	–	–	–	–
Chiyu Banking Corporation (Nominees) Limited ³	–	–	139	139
Grace Charter Limited ³	–	–	–	(11)
Seng Sun Development Company, Limited ³	–	–	41	41

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital management (continued)

(A) Basis of regulatory consolidation (continued)

Notes:

1. The acquisition of the 14 special purpose vehicle companies was completed on 9 January 2017.
2. Sino Information Services Company Limited was dissolved on 14 February 2017.
3. The disposal of Chiyu Banking Corporation (Nominees) Limited, Grace Charter Limited and Seng Sun Development Company, Limited was completed on 27 March 2017.

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 2017 (31 December 2016: 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 2017 (31 December 2016: Nil).

(B) Capital ratio

The capital ratios are analysed as follows:

	At 30 June 2017	At 31 December 2016
CET1 capital ratio	17.66%	17.64%
Tier 1 capital ratio	17.66%	17.69%
Total capital ratio	21.76%	22.35%

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital management (continued)

(B) Capital ratio (continued)

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

	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments	43,043	43,043
Retained earnings	137,197	129,644
Disclosed reserves	43,880	41,446
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)	–	722
CET1 capital before regulatory deductions	224,120	214,855
CET1 capital: regulatory deductions		
Valuation adjustments	(74)	(78)
Deferred tax assets net of deferred tax liabilities	(22)	(77)
Gains and losses due to changes in own credit risk on fair valued liabilities	(110)	(202)
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	(47,546)	(46,443)
Regulatory reserve for general banking risks	(10,109)	(9,227)
Total regulatory deductions to CET1 capital	(57,861)	(56,027)
CET1 capital	166,259	158,828
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)	–	458
AT1 capital	–	458
Tier 1 capital	166,259	159,286

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital management (continued)

(B) Capital ratio (continued)

	At 30 June 2017 HK\$m	At 31 December 2016 HK\$m
Tier 2 capital: instruments and provisions Capital instruments subject to phase out arrangements from Tier 2 capital	11,576	15,435
Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	–	221
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	5,622	5,371
Tier 2 capital before regulatory deductions	17,198	21,027
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	21,396	20,899
Total regulatory deductions to Tier 2 capital	21,396	20,899
Tier 2 capital	38,594	41,926
Total capital	204,853	201,212

The capital buffer ratios are analysed as follows:

	At 30 June 2017	At 31 December 2016
Capital conservation buffer ratio	1.250%	0.625%
Higher loss absorbency ratio	0.750%	0.375%
Countercyclical capital buffer ratio	0.953%	0.484%

The additional information of capital disclosures and countercyclical capital buffer ratio disclosures is available under section "Regulatory Disclosures" on BOCHK'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 2017 HK\$'m	At 31 December 2016 HK\$'m
Tier 1 capital	166,259	159,286
Leverage ratio exposure	2,455,809	2,155,889
Leverage ratio	6.77%	7.39%

The additional information of leverage ratio disclosures is available under section "Regulatory Disclosures" on BOCHK'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, issued structured deposits and other debt instruments.
- 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 and other debt instruments

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 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 (“CVAs”) and debit valuation adjustments (“DVAs”) 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 2017			
	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 21)				
– Trading assets				
– Debt securities and certificates of deposit	1,626	39,176	–	40,802
– Equity securities	80	–	–	80
– Other debt instruments	–	1,954	–	1,954
– Financial assets designated at fair value through profit or loss				
– Debt securities and certificates of deposit	–	21,818	3,111	24,929
– Equity securities	3,899	–	–	3,899
– Fund	5,337	471	58	5,866
– Other debt instruments	–	80,557	–	80,557
Derivative financial instruments (Note 22)	11,296	18,563	–	29,859
Available-for-sale securities (Note 24)				
– Debt securities and certificates of deposit	36,830	446,833	1,501	485,164
– Equity securities	3,943	311	794	5,048
– Fund	343	–	–	343
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 28)				
– Trading liabilities	–	16,257	–	16,257
– Financial liabilities designated at fair value through profit or loss	–	3,072	–	3,072
Derivative financial instruments (Note 22)	7,139	21,851	4	28,994

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 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 21)				
– Trading assets				
– Debt securities and certificates of deposit	587	32,462	162	33,211
– Equity securities	76	–	–	76
– Other debt instruments	–	5,777	–	5,777
– Financial assets designated at fair value through profit or loss				
– Debt securities and certificates of deposit	–	20,227	2,878	23,105
– Equity securities	2,008	–	–	2,008
– Fund	3,181	–	–	3,181
– Other debt instruments	–	–	–	–
Derivative financial instruments (Note 22)	14,658	49,656	–	64,314
Available-for-sale securities (Note 24)				
– Debt securities and certificates of deposit	122,789	402,914	1,735	527,438
– Equity securities	3,304	237	718	4,259
– Fund	150	–	–	150
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 28)				
– Trading liabilities	–	9,946	–	9,946
– Financial liabilities designated at fair value through profit or loss	–	3,425	–	3,425
Derivative financial instruments (Note 22)	10,775	38,514	–	49,289

There were no financial asset and liability transfers between level 1 and level 2 for the Group during the period (31 December 2016: 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 2017					
	Financial assets					Financial liabilities
	Trading assets	Financial assets designated at fair value through profit or loss			Available-for-sale securities	Derivative financial instruments
		Debt securities and certificates of deposit	Debt securities and certificates of deposit	Fund		
	HK\$'m	HK\$'m	HK\$'m	Debt securities and certificates of deposit	Equity securities	HK\$'m
HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	
At 1 January 2017	162	2,878	-	1,735	718	-
(Losses)/gains						
- Income statement						
- Net trading loss	(23)	-	-	-	-	(4)
- Net gain on financial instruments designated at fair value through profit or loss	-	155	4	-	-	-
- Other comprehensive income						
- Change in fair value of available-for-sale securities	-	-	-	112	76	-
Purchases	-	78	54	-	-	-
Sales	(58)	-	-	-	-	-
Transfer into level 3	-	-	-	242	-	-
Transfer out of level 3	(81)	-	-	(232)	-	-
Reclassification	-	-	-	(356)	-	-
At 30 June 2017	-	3,111	58	1,501	794	(4)
Total unrealised (losses)/gains for the period included in income statement for financial assets and liabilities held as at 30 June 2017						
- Net trading loss	-	-	-	-	-	(4)
- Net gain on financial instruments designated at fair value through profit or loss	-	155	4	-	-	-
	-	155	4	-	-	(4)

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 2016			
	Financial assets			
	Trading assets	Financial assets designated at fair value through profit or loss		Available-for-sale securities
		Debt securities and certificates of deposit HK\$'m	Debt securities and certificates of deposit HK\$'m	
			Equity securities HK\$'m	
At 1 January 2016	–	1,829	1,095	287
(Losses)/gains				
– Income statement				
– Net trading loss	(8)	–	–	–
– Net gain on financial instruments designated at fair value through profit or loss	–	20	–	–
– Other comprehensive income				
– Change in fair value of available-for-sale securities	–	–	(40)	17
Purchases	170	1,029	1,265	419
Sales	–	–	–	–
Transfer into level 3	–	–	–	–
Transfer out of level 3	–	–	–	–
Reclassification	–	–	–	–
Classified as assets held for sale	–	–	(585)	(5)
At 31 December 2016	162	2,878	1,735	718
Total unrealised (losses)/gains for the year included in income statement for financial assets held as at 31 December 2016				
– Net trading loss	(8)	–	–	–
– Net gain on financial instruments designated at fair value through profit or loss	–	20	–	–
	(8)	20	–	–

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 2017 and 31 December 2016, financial instruments categorised as level 3 are mainly comprised of debt securities and certificates of deposit, fund, unlisted equity shares and certain OTC derivative contracts.

Debt securities and certificates of deposit were transferred into and out of level 3 during the first half of 2017 due to change of valuation observability. For certain illiquid debt securities and certificates of deposit and fund, the Group obtains valuation quotations from counterparties which may be based on unobservable inputs with significant impact on the valuation. For certain OTC derivative contracts, the counterparty credit spreads used in valuation techniques are unobservable inputs with significant impact on valuation. Therefore, these instruments have been classified by the Group as level 3. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

The fair values of unlisted available-for-sale equity shares are determined with reference to multiples of comparable listed companies, such as average of the price/earning ratios of comparables, or net asset value, if appropriate comparables are not available. The fair value is positively correlated to the price/earning ratios of appropriate comparables or net asset values. Had the net asset value of the underlying equity investments increased/decreased by 5%, the Group's other comprehensive income would have increased/decreased by HK\$40 million (31 December 2016: HK\$36 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.

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.

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)

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 2017		At 31 December 2016	
	Carrying value HK\$'m	Fair value HK\$'m	Carrying value HK\$'m	Fair value HK\$'m
Financial assets				
Held-to-maturity securities (Note 24)	61,596	62,367	60,194	60,623
Loans and receivables (Note 24)	2,746	2,746	935	935
Financial liabilities				
Debt securities and certificates of deposit in issue (Note 30)	9,251	9,238	1,121	1,126
Subordinated liabilities (Note 34)	19,099	21,342	19,014	21,143

5. Net interest income

	Half-year ended 30 June 2017 HK\$'m	Half-year ended 30 June 2016 HK\$'m
CONTINUING OPERATIONS		
Interest income		
Due from banks and other financial institutions	5,108	2,424
Advances to customers	11,975	10,293
Investment in securities and financial assets at fair value through profit or loss	5,992	4,843
Others	105	92
	23,180	17,652
Interest expense		
Due to banks and other financial institutions	(978)	(976)
Deposits from customers	(4,685)	(4,152)
Debt securities and certificates of deposit in issue	(41)	(179)
Subordinated liabilities	(434)	(265)
Others	(163)	(108)
	(6,301)	(5,680)
Net interest income	16,879	11,972

NOTES TO THE INTERIM FINANCIAL INFORMATION

5. Net interest income (continued)

Included within interest income is HK\$1 million (first half of 2016: HK\$3 million) of interest with respect to income accrued on advances classified as impaired for the first half of 2017. There was no interest income accrued on impaired investment in securities for the first half of 2017 (first half of 2016: HK\$1 million).

Included within interest income and interest expense are HK\$22,814 million (first half of 2016: HK\$17,544 million) and HK\$6,480 million (first half of 2016: HK\$5,944 million), before hedging effect, for financial assets and financial liabilities that are not recognised at fair value through profit or loss respectively.

6. Net fee and commission income

	Half-year ended 30 June 2017 HK\$'m	Half-year ended 30 June 2016 HK\$'m
CONTINUING OPERATIONS		
Fee and commission income		
Loan commissions	2,051	2,191
Credit card business	1,536	1,863
Securities brokerage	1,053	852
Insurance	628	842
Funds distribution	440	359
Bills commissions	344	338
Payment services	293	291
Trust and custody services	254	225
Currency exchange	195	167
Safe deposit box	147	143
Others	561	442
	7,502	7,713
Fee and commission expense		
Credit card business	(1,107)	(1,415)
Insurance	(139)	(132)
Securities brokerage	(128)	(114)
Others	(466)	(437)
	(1,840)	(2,098)
Net fee and commission income	5,662	5,615
Of which arise from:		
Financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	2,169	2,353
– Fee and commission expense	(24)	(14)
	2,145	2,339
Trust and other fiduciary activities		
– Fee and commission income	345	317
– Fee and commission expense	(10)	(11)
	335	306

NOTES TO THE INTERIM FINANCIAL INFORMATION

7. Net trading gain

	Half-year ended 30 June 2017 HK\$'m	Half-year ended 30 June 2016 HK\$'m
CONTINUING OPERATIONS		
Net gain from:		
Foreign exchange and foreign exchange products	27	1,707
Interest rate instruments and items under fair value hedge	415	534
Commodities	107	63
Equity and credit derivative instruments	90	32
	639	2,336

8. Net gain on other financial assets

	Half-year ended 30 June 2017 HK\$'m	Half-year ended 30 June 2016 HK\$'m
CONTINUING OPERATIONS		
Net gain on available-for-sale securities	407	557
Net gain on held-to-maturity securities	13	6
Others	15	2
	435	565

9. Other operating income

	Half-year ended 30 June 2017 HK\$'m	Half-year ended 30 June 2016 HK\$'m
CONTINUING OPERATIONS		
Dividend income from investment in securities		
– Listed investments	40	51
– Unlisted investments	29	22
Gross rental income from investment properties	293	248
Less: Outgoings in respect of investment properties	(41)	(31)
Others	155	75
	476	365

Included in the "Outgoings in respect of investment properties" is HK\$6 million (first half of 2016: HK\$1 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 2017 HK\$'m	Half-year ended 30 June 2016 HK\$'m
CONTINUING OPERATIONS		
Gross insurance benefits and claims and movement in liabilities		
Claims, benefits and surrenders paid	(6,504)	(10,204)
Movement in liabilities	(6,508)	(969)
	(13,012)	(11,173)
Reinsurers' share of benefits and claims and movement in liabilities		
Reinsurers' share of claims, benefits and surrenders paid	3,501	7,495
Reinsurers' share of movement in liabilities	2,088	(1,282)
	5,589	6,213
Net insurance benefits and claims and movement in liabilities	(7,423)	(4,960)

11. Net charge of impairment allowances

	Half-year ended 30 June 2017 HK\$'m	Half-year ended 30 June 2016 HK\$'m
CONTINUING OPERATIONS		
Advances to customers		
Individually assessed		
– New allowances	(91)	(238)
– Releases	228	25
– Recoveries	15	26
Net reversal/(charge) of individually assessed loan impairment allowances	152	(187)
Collectively assessed		
– New allowances	(527)	(398)
– Releases	–	30
– Recoveries	26	23
Net charge of collectively assessed loan impairment allowances	(501)	(345)
Net charge of loan impairment allowances	(349)	(532)
Others	(4)	18
Net charge of impairment allowances	(353)	(514)

NOTES TO THE INTERIM FINANCIAL INFORMATION

12. Operating expenses

	Half-year ended 30 June 2017 HK\$'m	Half-year ended 30 June 2016 HK\$'m
CONTINUING OPERATIONS		
Staff costs (including directors' emoluments)		
– Salaries and other costs	3,404	2,962
– Pension cost	217	208
	3,621	3,170
Premises and equipment expenses (excluding depreciation)		
– Rental of premises	342	323
– Information technology	263	221
– Others	206	191
	811	735
Depreciation	923	898
Auditor's remuneration		
– Audit services	3	3
– Non-audit services	2	3
Other operating expenses	745	992
	6,105	5,801

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

	Half-year ended 30 June 2017 HK\$'m	Half-year ended 30 June 2016 HK\$'m
CONTINUING OPERATIONS		
Net gain from fair value adjustments on investment properties	887	114

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

	Half-year ended 30 June 2017 HK\$'m	Half-year ended 30 June 2016 HK\$'m
CONTINUING OPERATIONS		
Net loss from disposal of equipment, fixtures and fittings	(8)	(1)
Net gain/(loss) from revaluation of premises	6	(2)
	(2)	(3)

NOTES TO THE INTERIM FINANCIAL INFORMATION

15. Taxation

Taxation in the income statement represents:

	Half-year ended 30 June 2017 HK\$'m	Half-year ended 30 June 2016 HK\$'m
CONTINUING OPERATIONS		
Current tax		
Hong Kong profits tax		
– Current period taxation	2,722	2,210
– Over-provision in prior periods	–	(2)
	2,722	2,208
Overseas taxation		
– Current period taxation	137	227
	2,859	2,435
Deferred tax		
Origination and reversal of temporary differences and unused tax credits	(54)	(147)
	2,805	2,288

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2017. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2017 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 2017 HK\$'m	Half-year ended 30 June 2016 HK\$'m
CONTINUING OPERATIONS		
Profit before taxation	17,785	14,349
Calculated at a taxation rate of 16.5% (2016: 16.5%)	2,935	2,368
Effect of different taxation rates in other countries	10	10
Income not subject to taxation	(247)	(68)
Expenses not deductible for taxation purposes	86	56
Tax losses not recognised	2	–
Over-provision in prior periods	–	(2)
Foreign withholding tax	19	(76)
Taxation charge	2,805	2,288
Effective tax rate	15.8%	15.9%

NOTES TO THE INTERIM FINANCIAL INFORMATION

16. Dividends

	Half-year ended 30 June 2017		Half-year ended 30 June 2016	
	Per share HK\$	Total HK\$'m	Per share HK\$	Total HK\$'m
Interim dividend	0.545	5,762	0.545	5,762
Special dividend	0.095	1,005	0.710	7,507
	0.640	6,767	1.255	13,269

At a meeting held on 30 August 2017, the Board declared an interim dividend of HK\$0.545 per ordinary share for the first half of 2017 amounting to approximately HK\$5,762 million and a special dividend of HK\$0.095 per ordinary share amounting to approximately HK\$1,005 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 2017.

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 2017 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\$17,216 million and HK\$14,627 million (first half of 2016: HK\$42,837 million and HK\$11,749 million) respectively and on the ordinary shares in issue of 10,572,780,266 shares (2016: 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 2017 (first half of 2016: Nil).

18. Retirement benefit costs

Retirement benefits are provided to eligible employees of the Group. In Hong Kong, 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 2017 amounted to approximately HK\$170 million (first half of 2016: approximately HK\$185 million), after a deduction of forfeited contributions of approximately HK\$4 million (first half of 2016: approximately HK\$4 million). For the MPF Scheme, the Group contributed approximately HK\$42 million (first half of 2016: approximately HK\$46 million) for the first half of 2017.

NOTES TO THE INTERIM FINANCIAL INFORMATION

19. Cash and balances with banks and other financial institutions

	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
Cash	10,773	12,740
Balances with central banks	250,618	69,157
Balances with other banks and other financial institutions	94,201	42,834
Placements with central banks maturing within one month	7,321	7,352
Placements with other banks and other financial institutions maturing within one month	36,917	100,463
	399,830	232,546

20. Placements with banks and other financial institutions maturing between one and twelve months

	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
Placements with central banks maturing between one and twelve months	182	156
Placements with other banks and other financial institutions maturing between one and twelve months	81,674	70,236
	81,856	70,392

NOTES TO THE INTERIM FINANCIAL INFORMATION

21. 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 2017	At 31 December 2016	At 30 June 2017	At 31 December 2016	At 30 June 2017	At 31 December 2016
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At fair value						
Treasury bills	17,490	10,448	–	–	17,490	10,448
Other debt securities	22,129	20,620	24,773	22,957	46,902	43,577
	39,619	31,068	24,773	22,957	64,392	54,025
Certificates of deposit	1,183	2,143	156	148	1,339	2,291
Total debt securities and certificates of deposit	40,802	33,211	24,929	23,105	65,731	56,316
Equity securities	80	76	3,899	2,008	3,979	2,084
Fund	–	–	5,866	3,181	5,866	3,181
Total securities	40,882	33,287	34,694	28,294	75,576	61,581
Other debt instruments	1,954	5,777	80,557	–	82,511	5,777
	42,836	39,064	115,251	28,294	158,087	67,358

NOTES TO THE INTERIM FINANCIAL INFORMATION

21. 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 2017 HK\$'m	At 31 December 2016 HK\$'m	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
Debt securities and certificates of deposit				
– Listed in Hong Kong	10,253	10,913	6,571	5,861
– Listed outside Hong Kong	3,379	4,096	10,461	9,953
	13,632	15,009	17,032	15,814
– Unlisted	27,170	18,202	7,897	7,291
	40,802	33,211	24,929	23,105
Equity securities				
– Listed in Hong Kong	80	76	2,727	1,624
– Listed outside Hong Kong	–	–	1,172	384
	80	76	3,899	2,008
Fund				
– Unlisted	–	–	5,866	3,181
Total securities	40,882	33,287	34,694	28,294

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 2017 HK\$'m	At 31 December 2016 HK\$'m	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
Sovereigns	30,890	21,473	993	1,247
Public sector entities	146	660	–	–
Banks and other financial institutions	7,549	7,720	23,459	18,421
Corporate entities	2,297	3,434	10,242	8,626
Total securities	40,882	33,287	34,694	28,294

NOTES TO THE INTERIM FINANCIAL INFORMATION

22. Derivative financial instruments

The Group enters into exchange rate, interest rate, commodity, equity and credit 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 commodity 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 the fair values of 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, commodity 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

22. Derivative financial instruments (continued)

The following tables summarise the contract/notional amounts and fair values of each class of derivative financial instrument as at 30 June 2017 and 31 December 2016:

	At 30 June 2017		
	Contract/ notional amounts HK\$'m	Fair values	
		Assets HK\$'m	Liabilities HK\$'m
Exchange rate contracts			
Spot, forwards and futures	315,168	11,909	(8,404)
Swaps	1,797,442	11,220	(14,669)
Options	99,125	198	(118)
	2,211,735	23,327	(23,191)
Interest rate contracts			
Futures	11,162	16	(2)
Swaps	961,570	5,864	(5,310)
Options	624	–	(2)
	973,356	5,880	(5,314)
Commodity contracts	32,350	587	(419)
Equity contracts	5,431	62	(67)
Credit derivative contracts	976	3	(3)
	3,223,848	29,859	(28,994)

	At 31 December 2016		
	Contract/ notional amounts HK\$'m	Fair values	
		Assets HK\$'m	Liabilities HK\$'m
Exchange rate contracts			
Spot, forwards and futures	326,280	17,619	(11,509)
Swaps	1,839,613	38,469	(31,305)
Options	42,029	349	(391)
	2,207,922	56,437	(43,205)
Interest rate contracts			
Futures	2,543	1	(8)
Swaps	875,810	6,555	(5,320)
Options	–	–	–
	878,353	6,556	(5,328)
Commodity contracts	26,091	1,240	(675)
Equity contracts	4,628	78	(81)
Credit derivative contracts	388	3	–
	3,117,382	64,314	(49,289)

NOTES TO THE INTERIM FINANCIAL INFORMATION

23. Advances and other accounts

	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
Personal loans and advances	308,204	292,209
Corporate loans and advances	795,769	685,618
Advances to customers	1,103,973	977,827
Loan impairment allowances		
– Individually assessed	(395)	(547)
– Collectively assessed	(3,052)	(2,721)
	1,100,526	974,559
Trade bills	26,977	16,179
Advances to banks and other financial institutions	7,827	6,016
	1,135,330	996,754

As at 30 June 2017, advances to customers included accrued interest of HK\$1,341 million (31 December 2016: HK\$1,333 million).

As at 30 June 2017, no impairment allowance was made in respect of trade bills and advances to banks and other financial institutions (31 December 2016: Nil).

NOTES TO THE INTERIM FINANCIAL INFORMATION

24. Investment in securities

	At 30 June 2017			
	At fair value	At amortised cost		Total HK\$'m
	Available- for-sale securities HK\$'m	Held-to- maturity securities HK\$'m	Loans and receivables HK\$'m	
Treasury bills	102,378	–	–	102,378
Other debt securities	342,665	61,578	2,746	406,989
	445,043	61,578	2,746	509,367
Certificates of deposit	40,121	18	–	40,139
Total debt securities and certificates of deposit	485,164	61,596	2,746	549,506
Equity securities	5,048	–	–	5,048
Fund	343	–	–	343
	490,555	61,596	2,746	554,897

	At 31 December 2016			
	At fair value	At amortised cost		Total HK\$'m
	Available- for-sale securities HK\$'m	Held-to- maturity securities HK\$'m	Loans and receivables HK\$'m	
Treasury bills	142,263	–	–	142,263
Other debt securities	328,272	60,176	935	389,383
	470,535	60,176	935	531,646
Certificates of deposit	56,903	18	–	56,921
Total debt securities and certificates of deposit	527,438	60,194	935	588,567
Equity securities	4,259	–	–	4,259
Fund	150	–	–	150
	531,847	60,194	935	592,976

NOTES TO THE INTERIM FINANCIAL INFORMATION

24. Investment in securities (continued)

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

	At 30 June 2017		
	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	68,315	10,483	–
– Listed outside Hong Kong	186,569	25,154	–
	254,884	35,637	–
– Unlisted	230,280	25,959	2,746
	485,164	61,596	2,746
Equity securities			
– Listed in Hong Kong	3,162	–	–
– Listed outside Hong Kong	1,092	–	–
– Unlisted	794	–	–
	5,048	–	–
Fund			
– Unlisted	343	–	–
	490,555	61,596	2,746
Market value of listed held-to-maturity securities		36,193	

	At 31 December 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	55,218	8,214	–
– Listed outside Hong Kong	169,052	24,040	–
	224,270	32,254	–
– Unlisted	303,168	27,940	935
	527,438	60,194	935
Equity securities			
– Listed in Hong Kong	2,906	–	–
– Listed outside Hong Kong	635	–	–
– Unlisted	718	–	–
	4,259	–	–
Fund			
– Unlisted	150	–	–
	531,847	60,194	935
Market value of listed held-to-maturity securities		32,483	

NOTES TO THE INTERIM FINANCIAL INFORMATION

24. Investment in securities (continued)

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

	At 30 June 2017		
	Available-for-sale securities HK\$'m	Held-to-maturity securities HK\$'m	Loans and receivables HK\$'m
Sovereigns	144,163	340	–
Public sector entities	32,656	12,088	–
Banks and other financial institutions	212,504	26,160	2,746
Corporate entities	101,232	23,008	–
	490,555	61,596	2,746

	At 31 December 2016		
	Available-for-sale securities HK\$'m	Held-to-maturity securities HK\$'m	Loans and receivables HK\$'m
Sovereigns	187,870	498	–
Public sector entities	29,819	11,608	–
Banks and other financial institutions	214,576	27,248	935
Corporate entities	99,582	20,840	–
	531,847	60,194	935

25. Investment properties

	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
At 1 January	18,227	15,262
Additions	5	6
Disposals	(2)	–
Fair value gains	887	415
Reclassification from properties, plant and equipment (Note 26)	74	2,748
Classified as assets held for sale	–	(204)
At period/year end	19,191	18,227

NOTES TO THE INTERIM FINANCIAL INFORMATION

26. Properties, plant and equipment

	Premises HK\$'m	Equipment, fixtures and fittings HK\$'m	Total HK\$'m
Net book value at 1 January 2017, as previously reported	43,357	2,375	45,732
Effect of merger of entity under common control	–	58	58
Net book value at 1 January 2017, as restated	43,357	2,433	45,790
Additions	25	788	813
Disposals	(4)	(11)	(15)
Revaluation	1,317	–	1,317
Depreciation for the period (Note 12)	(502)	(421)	(923)
Reclassification to investment properties (Note 25)	(74)	–	(74)
Exchange difference	4	7	11
Net book value at 30 June 2017	44,123	2,796	46,919
At 30 June 2017			
Cost or valuation	44,123	8,955	53,078
Accumulated depreciation and impairment	–	(6,159)	(6,159)
Net book value at 30 June 2017	44,123	2,796	46,919
The analysis of cost or valuation of the above assets is as follows:			
At 30 June 2017			
At cost	–	8,955	8,955
At valuation	44,123	–	44,123
	44,123	8,955	53,078

NOTES TO THE INTERIM FINANCIAL INFORMATION

26. Properties, plant and equipment (continued)

	Premises HK\$'m	Equipment, fixtures and fittings HK\$'m	Total HK\$'m
Net book value at 1 January 2016, as previously reported	48,244	2,273	50,517
Effect of merger of entity under common control	–	39	39
Net book value at 1 January 2016, as restated	48,244	2,312	50,556
Additions	560	944	1,504
Disposals	(1)	(8)	(9)
Revaluation	(144)	–	(144)
Depreciation for the year	(1,060)	(765)	(1,825)
Reclassification to investment properties (Note 25)	(2,748)	–	(2,748)
Exchange difference	(4)	(6)	(10)
Classified as assets held for sale	(1,490)	(44)	(1,534)
Net book value at 31 December 2016	43,357	2,433	45,790
At 31 December 2016			
Cost or valuation	43,357	8,280	51,637
Accumulated depreciation and impairment	–	(5,847)	(5,847)
Net book value at 31 December 2016	43,357	2,433	45,790
The analysis of cost or valuation of the above assets is as follows:			
At 31 December 2016			
At cost	–	8,280	8,280
At valuation	43,357	–	43,357
	43,357	8,280	51,637

NOTES TO THE INTERIM FINANCIAL INFORMATION

27. Other assets

	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
Repossessed assets	30	38
Precious metals	6,889	5,633
Reinsurance assets	41,129	38,605
Accounts receivable and prepayments	29,771	27,045
	77,819	71,321

28. Financial liabilities at fair value through profit or loss

	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
Trading liabilities		
– Short positions in Exchange Fund Bills and Notes	16,257	9,946
Financial liabilities designated at fair value through profit or loss		
– Structured deposits (Note 29)	3,072	3,425
	19,329	13,371

The carrying amount of financial liabilities designated at fair value through profit or loss as at 30 June 2017 was less than the amount that the Group would be contractually required to pay at maturity to the holders by HK\$2 million (31 December 2016: HK\$9 million). The amount of change in the fair values of financial liabilities at fair value through profit or loss, during the period and cumulatively, attributable to changes in own credit risk was insignificant.

NOTES TO THE INTERIM FINANCIAL INFORMATION

29. Deposits from customers

	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
Current, savings and other deposit accounts (per balance sheet)	1,650,130	1,508,881
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 28)	3,072	3,425
	1,653,202	1,512,306
Analysed by:		
Demand deposits and current accounts		
– Corporate	138,186	128,178
– Personal	53,327	45,756
	191,513	173,934
Savings deposits		
– Corporate	334,238	319,129
– Personal	511,355	477,676
	845,593	796,805
Time, call and notice deposits		
– Corporate	404,799	362,378
– Personal	211,297	179,189
	616,096	541,567
	1,653,202	1,512,306

30. Debt securities and certificates of deposit in issue

	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
Debt securities, at amortised cost	9,251	1,121

31. Other accounts and provisions

	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
Dividend payable	6,608	–
Other accounts payable	120,303	52,331
Provisions	17	242
	126,928	52,573

NOTES TO THE INTERIM FINANCIAL INFORMATION

32. Deferred taxation

Deferred tax is recognised in respect of the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in this interim financial information 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 2017 and the year ended 31 December 2016 are as follows:

	At 30 June 2017					
	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 2017, as previously reported	612	6,467	–	(430)	(1,132)	5,517
Effect of merger of entity under common control	–	–	–	–	(4)	(4)
At 1 January 2017, as restated	612	6,467	–	(430)	(1,136)	5,513
Charged/(credited) to income statement (Note 15)	68	(59)	(1)	(51)	(11)	(54)
Charged to other comprehensive income	–	196	–	–	248	444
Exchange difference	–	–	–	–	(1)	(1)
At 30 June 2017	680	6,604	(1)	(481)	(900)	5,902

	At 31 December 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, as previously reported	597	7,192	–	(459)	(936)	6,394
Effect of merger of entity under common control	–	–	(2)	–	(2)	(4)
At 1 January 2016, as restated	597	7,192	(2)	(459)	(938)	6,390
Charged/(credited) to income statement	29	(206)	2	(63)	(67)	(305)
Credited to other comprehensive income	–	(311)	–	–	(164)	(475)
Exchange difference	–	–	–	2	–	2
Classified as assets held for sale and liabilities associated with assets held for sale	(14)	(208)	–	90	33	(99)
At 31 December 2016	612	6,467	–	(430)	(1,136)	5,513

NOTES TO THE INTERIM FINANCIAL INFORMATION

32. Deferred taxation (continued)

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

	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
Deferred tax assets	(24)	(77)
Deferred tax liabilities	5,926	5,590
	5,902	5,513

	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
Deferred tax assets to be recovered after more than twelve months	(11)	(10)
Deferred tax liabilities to be settled after more than twelve months	6,770	6,605
	6,759	6,595

As at 30 June 2017, the Group has not recognised deferred tax assets in respect of tax losses amounting to HK\$22 million (31 December 2016: HK\$13 million). Of the amount, HK\$9 million (31 December 2016: HK\$9 million) for the Group has no expiry date and HK\$13 million (31 December 2016: HK\$4 million) for the Group is scheduled to expire within six years under the current tax legislation in different countries.

33. Insurance contract liabilities

	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
At 1 January	86,534	82,645
Benefits paid	(6,051)	(14,935)
Claims incurred and movement in liabilities	13,729	18,824
At period/year end	94,212	86,534

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK\$36,406 million (31 December 2016: HK\$33,471 million) and the associated reinsurance assets of HK\$41,129 million (31 December 2016: HK\$38,605 million) are included in "Other assets" (Note 27).

NOTES TO THE INTERIM FINANCIAL INFORMATION

34. Subordinated liabilities

	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
Subordinated notes, at amortised cost with fair value hedge adjustment USD2,500m*	19,099	19,014

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

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

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

35. Discontinued operations and assets held for sale

(a) Disposal of NCB

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

All the conditions precedent set out in the sale and purchase agreement were satisfied, and completion of the disposal took place on 30 May 2016 in accordance with the terms and conditions of the sale and purchase agreement. Upon completion, NCB ceased to be a subsidiary of BOCHK.

(b) Disposal of Chiyu

On 22 December 2016, BOCHK (as seller) entered into a sale and purchase agreement with Xiamen International Investment Limited and the Committee of Jimei Schools (each as a buyer) in relation to the disposal of a total of 2,114,773 ordinary shares of Chiyu. The completion of the disposal was conditional upon the satisfaction of all the conditions precedent set out in the sale and purchase agreement.

All the conditions precedent set out in the sale and purchase agreement were satisfied, and completion of the disposal took place on 27 March 2017 in accordance with the terms and conditions of the sale and purchase agreement. Upon completion, Chiyu 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 2016.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

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

	Half-year ended 30 June 2017 HK\$'m	Half-year ended 30 June 2016 HK\$'m
DISCONTINUED OPERATIONS		
Interest income	268	3,451
Interest expense	(75)	(1,257)
Net interest income	193	2,194
Fee and commission income	39	636
Fee and commission expense	–	(13)
Net fee and commission income	39	623
Net trading gain	2	3
Net gain/(loss) on financial instruments designated at fair value through profit or loss	1	(3)
Net gain on other financial assets	–	108
Other operating income	–	5
Net operating income before impairment allowances	235	2,930
Net charge of impairment allowances	(7)	(375)
Net operating income	228	2,555
Operating expenses	(87)	(1,073)
Operating profit	141	1,482
Net loss from disposal of/fair value adjustments on investment properties	–	(10)
Net loss from disposal/revaluation of properties, plant and equipment	–	(2)
Profit before taxation	141	1,470
Taxation	(22)	(236)
Profit after taxation	119	1,234
Gain on disposal of discontinued operations	2,504	29,956
Profit from discontinued operations	2,623	31,190
Profit attributable to:		
Equity holders of the Company	2,589	31,088
Non-controlling interests	34	102
	2,623	31,190
	HK\$	HK\$
Earnings per share for profit attributable to the equity holders of the Company		
Basic and diluted		
– profit from discontinued operations	0.2448	2.9404

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

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

	Half-year ended 30 June 2017 HK\$'m	Half-year ended 30 June 2016 HK\$'m
Operating activities	2,000	(15,549)
Investing activities	(3)	(28)
Financing activities	–	–
Net cash inflow/(outflow) incurred by discontinued operations	1,997	(15,577)

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

	Half-year ended 30 June 2017 HK\$'m	Half-year ended 30 June 2016 HK\$'m
Total consideration	7,685	68,000
Net assets disposed	(7,044)	(38,048)
Non-controlling interests	2,078	–
Cumulative translation reserve and reserve for fair value changes of available-for-sale securities reclassified to income statement	(48)	370
Transaction costs incurred in connection with the disposal	(167)	(366)
Gain on disposal of discontinued operations	2,504	29,956

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

The net assets of discontinued operations at the dates of disposal are as follows:

	Chiyu HK\$'m	NCB HK\$'m
Cash and balances with banks and other financial institutions	7,029	45,126
Placements with banks and other financial institutions maturing between one and twelve months	1,215	6,394
Financial assets at fair value through profit or loss	351	5,560
Derivative financial instruments	95	517
Advances and other accounts	31,411	168,185
Investment in securities	14,541	56,934
Investment properties	204	354
Properties, plant and equipment	1,537	7,049
Current tax assets	–	64
Deferred tax assets	63	71
Other assets	582	2,745
Deposits and balances from banks and other financial institutions	(2,765)	(18,495)
Financial liabilities at fair value through profit or loss	–	(4,579)
Derivative financial instruments	(8)	(229)
Deposits from customers	(46,277)	(215,253)
Other accounts and provisions	(725)	(15,346)
Current tax liabilities	(45)	(236)
Deferred tax liabilities	(164)	(813)
Net assets disposed	7,044	38,048

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

	Half-year ended 30 June 2017 HK\$'m	Half-year ended 30 June 2016 HK\$'m
Total consideration received, satisfied by cash	7,685	68,000
Transaction costs incurred in connection with the disposal	(167)	(366)
Cash and cash equivalents disposed	(6,708)	(40,642)
Net cash inflow from disposal of discontinued operations	810	26,992

NOTES TO THE INTERIM FINANCIAL INFORMATION

35. 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 2017 HK\$'m	At 31 December 2016 HK\$'m
ASSETS HELD FOR SALE		
Cash and balances with banks and other financial institutions	–	5,233
Placements with banks and other financial institutions maturing between one and twelve months	–	1,038
Financial assets at fair value through profit or loss	–	654
Derivative financial instruments	–	98
Advances and other accounts	–	30,844
Investment in securities	–	13,387
Investment properties	–	204
Properties, plant and equipment	–	1,534
Deferred tax assets	–	61
Other assets	–	240
Total assets held for sale	–	53,293
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE		
Deposits and balances from banks and other financial institutions	–	977
Derivative financial instruments	–	12
Deposits from customers	–	45,370
Other accounts and provisions	–	438
Current tax liabilities	–	56
Deferred tax liabilities	–	160
Total liabilities associated with assets held for sale	–	47,013
	–	6,280

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

	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
Cumulative income recognised in other comprehensive income	–	1,014

36. Share capital

	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
Issued and fully paid: 10,572,780,266 ordinary shares	52,864	52,864

NOTES TO THE INTERIM FINANCIAL INFORMATION

37. Notes to condensed consolidated cash flow statement

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

	Half-year ended 30 June 2017 HK\$'m	Half-year ended 30 June 2016 HK\$'m
Operating profit		
– from continuing operations	16,866	14,196
– from discontinued operations	141	1,482
	17,007	15,678
Depreciation	923	912
Net charge of impairment allowances	360	889
Unwind of discount on impairment allowances	(1)	(6)
Advances written off net of recoveries	(186)	(256)
Change in subordinated liabilities	379	542
Change in balances with banks and other financial institutions with original maturity over three months	4,133	(20,793)
Change in placements with banks and other financial institutions with original maturity over three months	(2,370)	2,477
Change in financial assets at fair value through profit or loss	(8,153)	(8,896)
Change in derivative financial instruments	14,159	9,590
Change in advances and other accounts	(139,328)	(91,105)
Change in investment in securities	22,455	(32,958)
Change in other assets	(6,844)	(18,627)
Change in deposits and balances from banks and other financial institutions	111,357	91,533
Change in financial liabilities at fair value through profit or loss	5,958	2,929
Change in deposits from customers	142,156	68,905
Change in debt securities and certificates of deposit in issue	8,130	1,673
Change in other accounts and provisions	68,034	32,158
Change in insurance contract liabilities	7,678	625
Effect of changes in exchange rates	(10,791)	1,041
Operating cash inflow before taxation	235,056	56,311
Cash flows from operating activities included		
– interest received	22,381	21,741
– interest paid	5,658	6,729
– dividend received	69	75

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

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

	At 30 June 2017 HK\$'m	At 30 June 2016 HK\$'m
Cash and balances with banks and other financial institutions with original maturity within three months	386,912	351,633
Placements with banks and other financial institutions with original maturity within three months	16,038	23,692
Treasury bills, certificates of deposit and other debt instruments with original maturity within three months		
– financial assets at fair value through profit or loss	82,337	4,702
– investment in securities	698	8,656
	485,985	388,683

38. Contingent liabilities and commitments

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

	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
Direct credit substitutes	7,214	6,247
Transaction-related contingencies	14,418	12,649
Trade-related contingencies	25,243	32,269
Commitments that are unconditionally cancellable without prior notice	388,393	388,739
Other commitments with an original maturity of		
– up to one year	9,314	12,095
– over one year	131,219	132,488
	575,801	584,487
Credit risk-weighted amount	64,687	60,730

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

39. Capital commitments

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

	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
Authorised and contracted for but not provided for	439	404
Authorised but not contracted for	17	11
	456	415

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

40. Operating lease commitments

(a) As lessee

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

	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
Land and buildings		
– Not later than one year	606	630
– Later than one year but not later than five years	696	750
– Later than five years	10	4
	1,312	1,384

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 2017 HK\$'m	At 31 December 2016 HK\$'m
Land and buildings		
– Not later than one year	518	396
– Later than one year but not later than five years	480	392
	998	788

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

41. Segmental reporting

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

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

41. Segmental reporting (continued)

	Personal Banking HK\$'m	Corporate Banking HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
Half-year ended 30 June 2017								
CONTINUING OPERATIONS								
Net interest income/(expense)								
– External	1,750	6,073	7,714	1,340	2	16,879	–	16,879
– Inter-segment	3,041	(86)	(2,531)	(12)	(412)	–	–	–
	4,791	5,987	5,183	1,328	(410)	16,879	–	16,879
Net fee and commission income/(expense)	2,824	2,797	112	(284)	392	5,841	(179)	5,662
Net insurance premium income	–	–	–	5,477	–	5,477	(9)	5,468
Net trading gain/(loss)	393	88	(182)	311	–	610	29	639
Net gain on financial instruments designated at fair value through profit or loss	6	–	3	1,176	–	1,185	3	1,188
Net gain on other financial assets	–	15	217	203	–	435	–	435
Other operating income	39	6	15	95	1,012	1,167	(691)	476
Total operating income	8,053	8,893	5,348	8,306	994	31,594	(847)	30,747
Net insurance benefits and claims and movement in liabilities	–	–	–	(7,423)	–	(7,423)	–	(7,423)
Net operating income before impairment allowances	8,053	8,893	5,348	883	994	24,171	(847)	23,324
Net charge of impairment allowances	(217)	(136)	–	–	–	(353)	–	(353)
Net operating income	7,836	8,757	5,348	883	994	23,818	(847)	22,971
Operating expenses	(3,760)	(1,468)	(638)	(200)	(886)	(6,952)	847	(6,105)
Operating profit	4,076	7,289	4,710	683	108	16,866	–	16,866
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	887	887	–	887
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	(5)	–	(1)	–	4	(2)	–	(2)
Share of profits less losses after tax of associates and joint ventures	–	–	–	–	34	34	–	34
Profit before taxation	4,071	7,289	4,709	683	1,033	17,785	–	17,785
At 30 June 2017								
ASSETS								
Segment assets	337,613	825,967	1,295,292	121,838	72,751	2,653,461	(13,849)	2,639,612
Interests in associates and joint ventures	–	–	–	–	352	352	–	352
	337,613	825,967	1,295,292	121,838	73,103	2,653,813	(13,849)	2,639,964
LIABILITIES								
Segment liabilities	882,379	800,592	595,789	113,597	19,719	2,412,076	(13,849)	2,398,227
Half-year ended 30 June 2017								
CONTINUING OPERATIONS								
Other information								
Capital expenditure	3	1	–	13	801	818	–	818
Depreciation	229	78	47	8	561	923	–	923
Amortisation of securities	–	–	16	5	–	21	–	21

NOTES TO THE INTERIM FINANCIAL INFORMATION

41. Segmental reporting (continued)

	Personal Banking HK\$m	Corporate Banking HK\$m	Treasury HK\$m	Insurance HK\$m	Others HK\$m	Subtotal HK\$m	Eliminations HK\$m	Consolidated HK\$m
Half-year ended 30 June 2016								
CONTINUING OPERATIONS								
Net interest income/(expense)								
– External	1,595	4,996	4,211	1,168	2	11,972	–	11,972
– Inter-segment	2,541	164	(2,346)	(3)	(356)	–	–	–
	4,136	5,160	1,865	1,165	(354)	11,972	–	11,972
Net fee and commission income/(expense)	2,614	2,849	57	(95)	323	5,748	(133)	5,615
Net insurance premium income	–	–	–	3,593	–	3,593	(9)	3,584
Net trading gain/(loss)	318	72	2,112	(176)	1	2,327	9	2,336
Net (loss)/gain on financial instruments designated at fair value through profit or loss	–	–	(5)	1,039	–	1,034	–	1,034
Net gain on other financial assets	–	2	416	147	–	565	–	565
Other operating income	6	2	–	63	939	1,010	(645)	365
Total operating income	7,074	8,085	4,445	5,736	909	26,249	(778)	25,471
Net insurance benefits and claims and movement in liabilities	–	–	–	(4,960)	–	(4,960)	–	(4,960)
Net operating income before impairment allowances	7,074	8,085	4,445	776	909	21,289	(778)	20,511
Net (charge)/reversal of impairment allowances	(195)	(342)	23	–	–	(514)	–	(514)
Net operating income	6,879	7,743	4,468	776	909	20,775	(778)	19,997
Operating expenses	(3,266)	(1,355)	(542)	(165)	(1,251)	(6,579)	778	(5,801)
Operating profit/(loss)	3,613	6,388	3,926	611	(342)	14,196	–	14,196
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	114	114	–	114
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	(1)	(6)	–	–	4	(3)	–	(3)
Share of profits less losses after tax of associates and joint ventures	–	–	–	–	42	42	–	42
Profit/(loss) before taxation	3,612	6,382	3,926	611	(182)	14,349	–	14,349
At 31 December 2016								
ASSETS								
Segment assets	318,391	702,687	1,094,863	111,186	67,948	2,295,075	(11,930)	2,283,145
Interests in associates and joint ventures	–	–	–	–	319	319	–	319
Assets held for sale	9,299	23,999	19,142	–	1,660	54,100	(807)	53,293
	327,690	726,686	1,114,005	111,186	69,927	2,349,494	(12,737)	2,336,757
LIABILITIES								
Segment liabilities	794,718	739,254	418,502	103,783	13,283	2,069,540	(12,530)	2,057,010
Liabilities associated with assets held for sale	35,820	10,823	288	–	289	47,220	(207)	47,013
	830,538	750,077	418,790	103,783	13,572	2,116,760	(12,737)	2,104,023
Half-year ended 30 June 2016								
CONTINUING OPERATIONS								
Other information								
Capital expenditure	3	–	–	3	331	337	–	337
Depreciation	190	77	37	6	588	898	–	898
Amortisation of securities	–	–	(345)	15	–	(330)	–	(330)

NOTES TO THE INTERIM FINANCIAL INFORMATION

42. Assets pledged as security

As at 30 June 2017, the liabilities of the Group amounting to HK\$13,414 million (31 December 2016: HK\$10,686 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK\$8,126 million (31 December 2016: HK\$19,260 million) were secured by debt securities related to sale and repurchase arrangements. The amount of assets pledged by the Group to secure these liabilities was HK\$21,861 million (31 December 2016: HK\$30,903 million) mainly included in “Trading assets” and “Investment in securities”.

43. Significant related party transactions

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

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

General information of the parent companies:

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

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

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

The majority of transactions with BOC arise from money market activities. As at 30 June 2017, the related aggregate amounts due from and to BOC of the Group were HK\$97,779 million (31 December 2016: HK\$106,281 million) and HK\$128,745 million (31 December 2016: HK\$58,654 million) respectively. The aggregate amounts of income and expenses of the Group arising from these transactions with BOC for the first half of 2017 were HK\$549 million (first half of 2016: HK\$751 million) and HK\$197 million (first half of 2016: HK\$192 million) respectively.

BOCHK acquired the entire issued share capital of BOC Thailand from BOC on 9 January 2017. The details of the transaction are disclosed in Note 46.

Transactions with other companies controlled by BOC are not considered material.

NOTES TO THE INTERIM FINANCIAL INFORMATION

43. 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, joint ventures and other related parties

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

	Half-year ended 30 June 2017 HK\$'m	Half-year ended 30 June 2016 HK\$'m
Income statement items		
Associates		
– Fee and commission expenses	20	–
– Other operating expenses	37	35
Other related parties		
– Fee and commission income	5	5
	At 30 June 2017 HK\$'m	At 31 December 2016 HK\$'m
Balance sheet item		
Associates		
– Other accounts and provisions	7	3

NOTES TO THE INTERIM FINANCIAL INFORMATION

43. 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 and senior management. 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 2017 HK\$'m	Half-year ended 30 June 2016 HK\$'m
Salaries and other short-term employee benefits	17	17

44. 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 2017				
	Non-bank private sector				Total HK\$'m
	Banks HK\$'m	Official sector HK\$'m	Non-bank financial institutions		
			HK\$'m	Non-financial private sector HK\$'m	
Mainland of China	319,683	338,102	27,026	137,717	822,528
Hong Kong	8,037	–	21,974	301,087	331,098

	At 31 December 2016				
	Non-bank private sector				Total HK\$'m
	Banks HK\$'m	Official sector HK\$'m	Non-bank financial institutions		
			HK\$'m	Non-financial private sector HK\$'m	
Mainland of China	317,073	83,649	19,218	130,223	550,163
Hong Kong	4,557	3,516	16,287	271,107	295,467

NOTES TO THE INTERIM FINANCIAL INFORMATION

45. 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 local banking subsidiaries.

		At 30 June 2017		
	Items in the HKMA return	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	266,573	35,327	301,900
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	66,250	9,025	75,275
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	52,044	11,927	63,971
Other entities of central government not reported in item 1 above	4	28,721	2,213	30,934
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	76,100	12,856	88,956
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	2,314	423	2,737
Total	8	492,002	71,771	563,773
Total assets after provision	9	2,466,867		
On-balance sheet exposures as percentage of total assets	10	19.94%		

NOTES TO THE INTERIM FINANCIAL INFORMATION

45. Non-bank Mainland exposures (continued)

	Items in the HKMA return	At 31 December 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	247,107	47,259	294,366
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	65,980	10,126	76,106
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	51,955	11,584	63,539
Other entities of central government not reported in item 1 above	4	26,874	1,812	28,686
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	60,043	11,796	71,839
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	4,144	199	4,343
Total	8	456,103	82,776	538,879
Total assets after provision	9	2,176,247		
On-balance sheet exposures as percentage of total assets	10	20.96%		

NOTES TO THE INTERIM FINANCIAL INFORMATION

46. Application of merger accounting

On 9 January 2017, BOCHK acquired the entire issued share capital of BOC Thailand from BOC (0.01% of which was owned through the acquisition of the 14 special purpose vehicle companies incorporated in the British Virgin Islands) for a total consideration of HK\$2,996 million in cash. BOC Thailand and BOCHK are both under the common control of BOC before and after the combination. The Group has applied the merger accounting method in accordance with the Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA in the preparation of financial statements. The comparative amounts have been restated accordingly as if the business of BOC Thailand had always been carried out by the Group.

The statements of the adjustments to the consolidated equity as at 30 June 2017 and 31 December 2016 are as follows:

	At 30 June 2017			
	Before combination	Entity under common control	Adjustment	After combination
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Share capital	52,864	2,384	(2,384)	52,864
Merger reserve	–	–	(612)	(612)
Retained earnings and other reserves	185,278	(75)	–	185,203
	238,142	2,309	(2,996)	237,455
Non-controlling interests	4,282	–	–	4,282
	242,424	2,309	(2,996)	241,737

	At 31 December 2016			
	Before combination	Entity under common control	Adjustment	After combination
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Share capital	52,864	2,384	(2,384)	52,864
Merger reserve	–	–	2,384	2,384
Retained earnings and other reserves	171,789	(210)	–	171,579
	224,653	2,174	–	226,827
Non-controlling interests	5,907	–	–	5,907
	230,560	2,174	–	232,734

NOTES TO THE INTERIM FINANCIAL INFORMATION

47. Comparative amounts

As explained in Note 35, the disposal of Chiyu was classified as a discontinued operation in the second half of 2016. Comparative amounts relating to the discontinued operation have been restated in the condensed consolidated income statement and relevant notes in accordance with HKFRS 5, “Non-current Assets Held for Sale and Discontinued Operations”.

In respect of the acquisition of BOC Malaysia from BOC on 17 October 2016, the Group has applied merger accounting method for the business combination under common control. Comparative amounts in the condensed consolidated income statement and relevant notes have been restated as if the business of BOC Malaysia had always been carried out by the Group.

In respect of the acquisition of BOC Thailand from BOC on 9 January 2017, as explained in Note 46, the Group has applied merger accounting method for the business combination under common control. Comparative amounts in the interim financial information have been restated as if the business of BOC Thailand had always been carried out by the Group.

48. Events after the balance sheet date

All the conditions precedent set out in the Indonesia Asset Purchase Agreement entered into between BOCHK and BOC were satisfied and completion of the acquisition of the Indonesia Business took place on 10 July 2017 in accordance with the terms and conditions of the Indonesia Asset Purchase Agreement. Upon completion, the Head Office of Bank of China Limited, Jakarta Branch (and its eight sub-branches) was changed from BOC to BOCHK and all the assets and liabilities arising in connection with the Indonesia Business were transferred to and assumed by BOCHK in accordance with the Indonesia Asset Purchase Agreement.

49. Compliance with HKAS 34

The unaudited interim financial information for the first half of 2017 complies with HKAS 34 “Interim Financial Reporting” issued by the HKICPA.

50. Statutory accounts

The financial information relating to the year ended 31 December 2016 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 2016 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 auditor’s 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.