中銀香港(控股)有限公司
BOC HONG KONG (HOLDINGS) LIMITED

2017 INTERIM REPORT

中國銀行(香港)
BANK OF CHINA (HONG KONG)

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Stock code: 2388

This version of the 2017 Interim Report will be replaced by the printed version available in mid September 2017.

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FINANCIAL HIGHLIGHTS

For the period	30 June 2017 HK$'m	30 June 2016 HK$'m
Net operating income before impairment allowances[1]	**23,324**	20,511
Operating profit[1]	**16,866**	14,196
Profit before taxation[1]	**17,785**	14,349
Profit for the period[1]	**14,980**	12,061
Profit attributable to the equity holders of the Company[1]	**14,627**	11,749
Per share	**HK$**	HK$
Basic earnings per share[1]	**1.3835**	1.1112
Dividend per share	**0.6400**	1.2550
At period/year end	**30 June 2017 HK$'m**	31 December 2016 HK$'m
Total assets	**2,639,964**	2,336,757
Issued and fully paid up share capital	**52,864**	52,864
Capital and reserves attributable to the equity holders of the Company	**237,455**	226,827
Financial ratios for the period	**30 June 2017 %**	30 June 2016 %
Return on average total assets[2]	**1.33**	2.27
Return on average shareholders' equity[3]	**13.72**	25.39
Cost to income ratio[1]	**26.17**	28.28
Average value of liquidity coverage ratio[4]		
First quarter	**121.41**	112.92
Second quarter	**123.88**	109.70
Financial ratios at period/year end	**30 June 2017 %**	31 December 2016 %
Loan to deposit ratio[5]	**66.78**	64.66
Total capital ratio[6]	**21.76**	22.35

1. The financial information for the period ended 30 June 2017 is from continuing operations and the comparative information has been restated accordingly.

2. Return on average total assets = $\frac{\text{Profit for the period}}{\text{Daily average balance of total assets}}$

3. Return on average shareholders' equity

$$= \frac{\text{Profit attributable to the equity holders of the Company}}{\text{Average of the beginning and ending balance of capital and reserves attributable to the equity holders of the Company}}$$

4. The average value of 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.

5. Loan to deposit ratio is calculated as at period/year end. Loan represents gross advances to customers. Deposit represents deposits from customers including structured deposits reported as "Financial liabilities at fair value through profit or loss".

6. Total capital ratio is computed on the consolidated basis for regulatory purposes that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules.

7. The Group has applied the merger accounting method in the preparation of financial information for the combination with entity under common control in 2017. The comparative information has been restated accordingly.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As a result of the disposal of Chiyu, the Group reported the operating results of Chiyu as profit from discontinued operations in the condensed consolidated income statement with comparative information restated. Assets and liabilities of Chiyu as at 31 December 2016 were presented separately as assets held for sale and liabilities associated with assets held for sale in the condensed consolidated balance sheet. Certain comparative figures in this Management's Discussion and Analysis have been restated to conform with the current period's presentation.

Following the completion of the share acquisition of Bank of China (Malaysia) Berhad ("BOC Malaysia") and Bank of China (Thai) Public Company Limited ("BOC Thailand") on 17 October 2016 and 9 January 2017 respectively, the Group has applied the merger accounting method in the preparation of financial statements for the combination with entities under common control. The comparative information for the year 2016 has been restated accordingly.

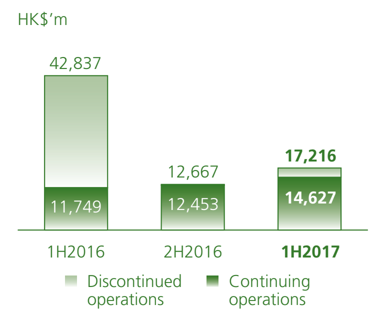
The above transactions are collectively referred as the "disposal and acquisitions" in this Management's Discussion and Analysis.

FINANCIAL PERFORMANCE AND CONDITION AT A GLANCE

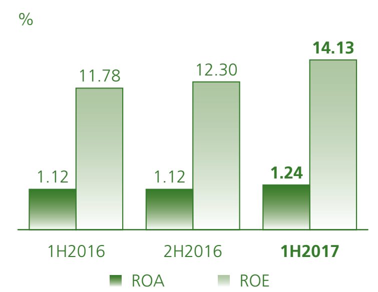
The following table is a summary of the Group's key financial results for the first half of 2017 in comparison with the previous two half-yearly periods. The average value of the liquidity coverage ratio is reported on a quarterly basis.

Key Performance Trends

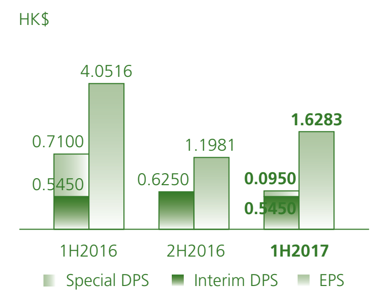
Profit Attributable to the Equity Holders



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



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



Profit attributable to the equity holders

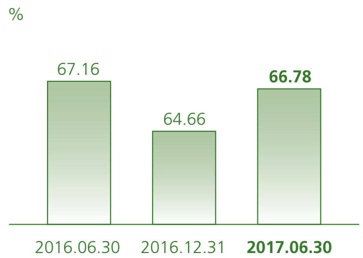
- The Group's profit attributable to the equity holders in the first half of 2017 amounted to HK$17,216 million. Profit attributable to the equity holders from continuing operations increased by 24.5% year-on-year to HK$14,627 million. Profit attributable to the equity holders from discontinued operations was HK$2,589 million, which mainly accounted for the gain on the disposal of Chiyu.

Solid returns to shareholders

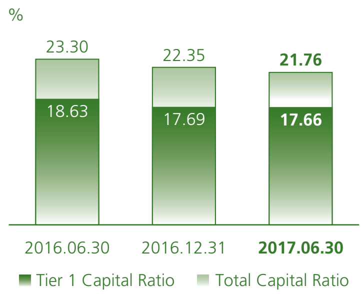
- ROE was 13.72%. ROE on continuing operations was 14.13%, up 2.35 percentage points year-on-year.
- ROA was 1.33%. ROA on continuing operations was 1.24%, up 0.12 percentage point year-on-year.
- EPS was HK$1.6283. The interim dividend per share was HK$0.545 and the special dividend was HK$0.095 per share.

Financial Position

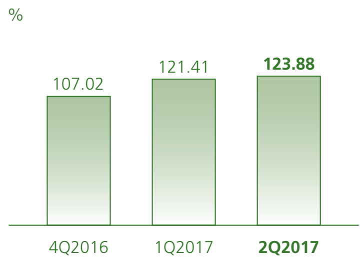
Loan to Deposit Ratio[3]



Capital Ratio



Average value of Liquidity Coverage Ratio



Loan to deposit ratio at a healthy level

- Advances to customers and deposits from customers grew by 12.9% and 9.3% respectively from the end of 2016, outperforming market growth. The loan to deposit ratio was 66.78%, up 2.12 percentage points from 64.66% at the end of 2016.

Strong capital position to support business growth

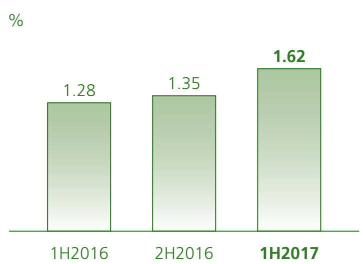
- Tier 1 capital ratio was 17.66%, down 0.03 percentage point from that at the end of 2016. Total capital ratio was 21.76%.

Sound liquidity position

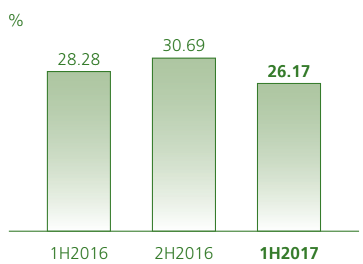
- Average value of liquidity coverage ratio in the first and second quarter of 2017 was 121.41% and 123.88% respectively, well above the regulatory requirement.

Key Operating Ratios

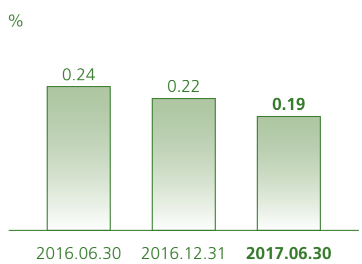
Net Interest Margin ("NIM")[4]



Cost to Income Ratio[4]



Classified or Impaired Loan Ratio[3,5]



Significant improvement in NIM

- NIM was 1.62%, up 34 basis points year-on-year.

Cautious cost control with better operational efficiency

- The cost to income ratio was 26.17%, improved 2.11 percentage points year-on-year, putting cost efficiency at a relatively good level in the industry.

Asset quality remained benign with classified or impaired loan ratio below market average

- The classified or impaired loan ratio was 0.19%, well below the market average.

1. ROE on continuing operations is calculated by dividing profit attributable to the equity holders from continuing operations by the average of the beginning and ending balance of capital and reserves attributable to the equity holders that excludes the impact of profit attributable to the equity holders from discontinued operations and special dividend paid.
2. ROA on continuing operations is calculated by dividing profit for the period from continuing operations by the daily average balance of total assets excluding those of discontinued operations.
3. The financial information for the year 2017 and 2016 excludes assets held for sale and liabilities associated with assets held for sale. The Group has applied the merger accounting method in the preparation of financial statements for the combination with entity under common control in 2017. The comparative information for 31 December 2016 has been restated accordingly. However, the financial information for 30 June 2016 had not been restated as the difference before and after restatement is insignificant.
4. The financial information for the year 2017 is from continuing operations, and the comparative information for 2016 has been restated accordingly.
5. Classified or impaired loans represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.

ECONOMIC BACKGROUND AND OPERATING ENVIRONMENT

In the first half of 2017, there were no signs of notable improvement in a global economy of subdued growth. In the US, the economy continued to grow modestly in anticipation by the market of rising investment and consumption sentiment owing to a fiscal stimulus from the policy reform under the new administration. The US Federal Reserve continued to normalise its stance on monetary policy with the rise in the federal funds target rate in March and June. In Europe, the European Central Bank maintained an easing monetary policy, providing support to stable economic expansion in the Eurozone. In ASEAN, economic growth remained on track. The recovery of the advanced economies and commodity prices, together with increased infrastructure investments in certain countries helped boost industrial production and export growth. In the Mainland of China, growth continued to stabilise with the upward momentum in fixed asset investments, retail sales, imports and exports remaining largely steady.

In Hong Kong, real GDP growth in the first half of 2017 was 4.0% over the same period last year although inbound tourism and retail sales were hindered by structural adjustments. However, there was gradual stabilisation in the global and Mainland economies. Merchandise trade and the labour market recorded improvements. These trends, coupled with rising asset prices, provided strong support to local consumption and the overall economic performance of Hong Kong. In the first half of 2017, the local residential property market was relatively buoyant as transaction volumes and property prices rose, prompting the Government to introduce additional corrective measures. These included the tightening of the stamp duty mechanism and a new round of prudential measures on property mortgage loans to strengthen banks' risk management.

There was abundant liquidity in the Hong Kong banking sector overall but market interest rates rose in line with the US interest rate hike. The average 1-month HIBOR and 1-month LIBOR rose from 0.25% and 0.44% respectively in the first half of 2016 to 0.47% and 0.94% respectively in the first half of 2017.

The offshore RMB business in Hong Kong continued to grow steadily in the first half of 2017. A number of initiatives were introduced to promote capital account convertibility and the internationalisation of the RMB. These included expanding the Free Trade Zones ("FTZs") in seven provinces including Henan, Hubei, Sichuan, Zhejiang, Liaoning, Shanxi and Chongqing; allowing offshore institutional investors to engage in derivative businesses in RMB against foreign currencies with eligible onshore financial institutions; and the launching of Bond Connect. As a result of these initiatives, development opportunities opened up for the financial industry and offshore RMB business in Hong Kong, further reinforcing Hong Kong's position as the major offshore RMB centre.

In the first half of 2017, global economic growth stayed in a low-growth trajectory, while uncertainties over the global political and economic environment, rising trade protectionism, prevailing low interest rates and intensifying market competition created challenges for operations and development of banks in Hong Kong. Nevertheless, these challenges were accompanied by opportunities. New growth drivers for the development of banks in Hong Kong included the enormous demand for infrastructure financing from the Belt and Road Initiative; the demand for financial services arising from the expanded supply-side reforms, industrial upgrades and technological innovation; the launch of Bond Connect; the developing framework of the Guangdong-Hong Kong-Macau Bay Area; the stabilisation of the offshore RMB market; the rising demand for overseas assets deployment from Mainland corporates and individual investors; and Hong Kong's stronger role as a super-connector owing to its membership in the Asian Infrastructure Investment Bank.

CONSOLIDATED FINANCIAL REVIEW

The comparative information for the first and second half of 2016 has been restated as a result of the Group's disposal and acquisitions.

Financial Highlights

HK$'m	**Half-year ended 30 June 2017**	(Restated) Half-year ended 31 December 2016	(Restated) Half-year ended 30 June 2016
FROM CONTINUING OPERATIONS			
Net operating income before impairment allowances	**23,324**	21,411	20,511
Operating expenses	**(6,105)**	(6,570)	(5,801)
Operating profit before impairment allowances	**17,219**	14,841	14,710
Operating profit after impairment allowances	**16,866**	14,769	14,196
Profit before taxation	**17,785**	15,105	14,349
Profit attributable to the equity holders of the Company	**17,216**	12,667	42,837
– from continuing operations	**14,627**	12,453	11,749
– from discontinued operations	**2,589**	214	31,088

In the first half of 2017, the Group adhered to the BOC Group's strategic goal of "Serving Society and Delivering Excellence", and seized market opportunities for development, while effectively responding to the complex operating environment. As a result, the Group achieved satisfactory performance in its core business areas with key financial indicators remaining at solid levels. During the review period, the Group cultivated the local market in Hong Kong and increased collaboration with BOC and strengthened its cross-border business development. At the same time, it accelerated the implementation of its regional development plan and conducted the restructuring of its ASEAN business in an orderly manner. Additionally, the Group sharpened its competitive edge in the financial market business, gathered pace in business diversification and improved the development of key business platforms. It also continued to deepen the channel integration and make advances in financial technology ("FinTech") and introduced more intelligent services and products to support business growth. To ensure its sustainable and healthy development, the Group further strengthened its risk management, internal controls and compliance management.

During the period, the Group stepped up its regional development strategy and carried out the restructuring of its assets in an orderly manner with the completion of the disposal of Chiyu on 27 March 2017. The Group also steadily pushed forward the restructuring of its business in the ASEAN region and completed the share acquisition of BOC Thailand on 9 January 2017. On 28 February 2017, it entered into Asset Purchase Agreements with BOC in relation to the acquisition of the Indonesia Business and the Cambodia Business respectively. The completion of the acquisition of the Indonesia Business subsequently took place on 10 July. The Group further refined the management system and mechanism of its ASEAN entities, while continuing to integrate its operations and promote collaboration for further regional synergy.

In the first half of 2017, profit attributable to the equity holders amounted to HK$17,216 million. Profit attributable to the equity holders from continuing operations amounted to HK$14,627 million, an increase of HK$2,878 million, or 24.5%, year-on-year. Net operating income before impairment allowances was HK$23,324 million, up HK$2,813 million, or 13.7%, year-on-year, mainly contributed by the growth in net interest income resulting from the expansion in average interest-earning assets and the rise in net interest margin. Net fee and commission income grew slightly. The decrease in net trading gain in the first half of 2017, resulting from the net loss in foreign exchange swap contracts, partially offset the above-mentioned growth. Operating expenses rose to support the Group's long-term business expansion. The net charge of loan impairment allowances dropped year-on-year, due to the net reversal of individually assessed impairment allowances following loan repayments by customers. Moreover, a higher net gain from fair value adjustments on investment properties was recorded. Profit attributable to the equity holders from discontinued operations amounted to HK$2,589 million which included the gain on the disposal of Chiyu of HK$2,504 million, representing a drop of HK$28,499 million that included the gain on the disposal of NCB of HK$29,956 million last year.

Compared with the second half of 2016, profit attributable to the equity holders from the Group's continuing operations increased by HK$2,174 million, or 17.5%. Net operating income before impairment allowances rose by HK$1,913 million, or 8.9%, mainly attributable to the increase in net interest income from the rise in net interest margin and the growth in average interest-earning assets. Net fee and commission income also increased. All of the increases were partially offset by the decline in net trading gain. Operating expenses fell, while net charge of loan impairment allowances increased owing to the growth in advances to customers. Net gain from fair value adjustments on investment properties was higher.

INCOME STATEMENT ANALYSIS

The following income statement analysis is based on the Group's continuing operations, and the comparative information has been restated accordingly.

Net Interest Income and Net Interest Margin

HK$'m, except percentages	**Half-year ended 30 June 2017**	(Restated) Half-year ended 31 December 2016	(Restated) Half-year ended 30 June 2016
Interest income	**23,180**	18,490	17,652
Interest expense	**(6,301)**	(4,932)	(5,680)
Net interest income	**16,879**	13,558	11,972
Average interest-earning assets	**2,102,935**	1,989,492	1,868,730
Net interest spread	**1.50%**	1.24%	1.18%
Net interest margin*	**1.62%**	1.35%	1.28%

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

Compared with the first half of 2016, the Group's net interest income increased by HK$4,907 million, or 41.0%. The increase was driven by the growth in average interest-earning assets and the widening of net interest margin.

Average interest-earning assets expanded by HK$234,205 million, or 12.5% year-on-year. The increase in the average balance of deposits from customers led to an increase in the average balances of advances to customers, debt securities investments and balances and placements with banks.

Net interest margin was 1.62%, up 34 basis points. The Group continued to be proactive in managing its assets and liabilities, with increased average balance of higher-yielding assets, such as advances to customers and debt securities investments. The loan and deposit spread widened as a result of the enhancement in the average yield of advances to customers while deposit costs remained stable under cautious management in deposit pricing. In addition, the Group captured opportunities from the interbank market to improve the average yield of balances and placements with banks.

The table below summarises the average balances and average interest rates of individual categories of assets and liabilities:

	Half-year ended 30 June 2017		(Restated) Half-year ended 31 December 2016		(Restated) Half-year ended 30 June 2016	
ASSETS	**Average balance HK$'m**	**Average yield %**	Average balance HK$'m	Average yield %	Average balance HK$'m	Average yield %
Balances and placements with banks and other financial institutions	**418,341**	**2.46**	323,580	1.28	334,016	1.46
Debt securities investments	**643,673**	**1.88**	674,855	1.60	592,317	1.64
Advances to customers	**1,023,604**	**2.36**	968,974	2.22	920,578	2.24
Other interest-earning assets	**17,317**	**1.22**	22,083	0.93	21,819	0.84
Total interest-earning assets	**2,102,935**	**2.22**	1,989,492	1.84	1,868,730	1.89
Non interest-earning assets[1]	**339,380**	**–**	336,429	–	565,551	–
Total assets	**2,442,315**	**1.91**	2,325,921	1.58	2,434,281	1.45
LIABILITIES	**Average balance HK$'m**	**Average rate %**	Average balance HK$'m	Average rate %	Average balance HK$'m	Average rate %
Deposits and balances from banks and other financial institutions	**225,788**	**0.87**	208,743	0.75	250,117	0.78
Current, savings and time deposits	**1,471,264**	**0.64**	1,376,555	0.51	1,298,811	0.64
Subordinated liabilities	**18,885**	**4.63**	19,339	3.38	19,533	2.72
Other interest-bearing liabilities	**37,342**	**1.11**	35,830	1.42	36,003	1.60
Total interest-bearing liabilities	**1,753,279**	**0.72**	1,640,467	0.60	1,604,464	0.71
Shareholders' funds[2] and other non interest-bearing deposits and liabilities[1]	**689,036**	**–**	685,454	–	829,817	–
Total liabilities	**2,442,315**	**0.52**	2,325,921	0.42	2,434,281	0.47

1. Including assets held for sale and liabilities associated with assets held for sale respectively.
2. Shareholders' funds represent capital and reserves attributable to the equity holders of the Company.

Compared with the second half of 2016, net interest income increased by HK$3,321 million, or 24.5%, due to the growth in average interest-earning assets and rise in net interest margin. Average interest-earning assets grew by HK$113,443 million, or 5.7%, which was supported by the increase in the average balance of deposits from customers. Net interest margin was up 27 basis points, which was mainly attributable to the increase in the average balance of advances to customers. Also, the rise in market interest rates led to improvement in the average yield of advances to customers, debt securities investments as well as balances and placements with banks, but this was partially offset by the increase in deposit costs.

Net Fee and Commission Income

HK$'m	**Half-year ended 30 June 2017**	(Restated) Half-year ended 31 December 2016	(Restated) Half-year ended 30 June 2016
Loan commissions	**2,051**	1,309	2,191
Credit card business	**1,536**	1,840	1,863
Securities brokerage	**1,053**	1,102	852
Insurance	**628**	788	842
Funds distribution	**440**	376	359
Bills commissions	**344**	324	338
Payment services	**293**	304	291
Trust and custody services	**254**	245	225
Currency exchange	**195**	170	167
Safe deposit box	**147**	134	143
Others	**561**	503	442
Fee and commission income	**7,502**	7,095	7,713
Fee and commission expense	**(1,840)**	(2,139)	(2,098)
Net fee and commission income	**5,662**	4,956	5,615

In the first half of 2017, net fee and commission income amounted to HK$5,662 million, up 0.8% year-on-year. The Group captured opportunities arising from improved investment sentiment in the market and focused on providing enriched products and promotional campaigns to mid- to high-end and cross-border customers through various channels. As a result, commission income from securities brokerage and funds distribution grew 23.6% and 22.6% year-on-year respectively. The Group also leveraged its diversified business platforms to record healthy growth in a number of areas. Income from currency exchange rose by 16.8%, driven by the higher turnover of banknotes business in Hong Kong and Southeast Asia. With improved market sentiment, there was a year-on-year growth of 12.9% in income from trust and custody services. Fee and commission income from bills commissions, safe deposit box and payment services also recorded growth. However, commission income from the credit card business dropped 17.6% year-on-year as the Group's merchant acquiring business was affected by the decline in cardholder spending from Mainland visitors to Hong Kong. In addition, commission income from insurance and loans also dropped. The decrease in fee and commission expense was mainly due to lower credit card related expenses.

Compared with the second half of 2016, net fee and commission income increased by HK$706 million, or 14.2%. The increase mainly resulted from the growth in fee and commission income from loans, funds distribution, currency exchange, bills, safe deposit box and trust and custody services. Income from credit cards and the insurance business fell. Fee and commission expense decreased, mainly due to lower credit card related expenses.

Net Trading Gain

HK$'m	Half-year ended 30 June 2017	(Restated) Half-year ended 31 December 2016	(Restated) Half-year ended 30 June 2016
Foreign exchange and foreign exchange products	**27**	1,946	1,707
Interest rate instruments and items under fair value hedge	**415**	333	534
Commodities	**107**	(31)	63
Equity and credit derivative instruments	**90**	56	32
Net trading gain	**639**	2,304	2,336

Net trading gain decreased by HK$1,697 million or 72.6% year-on-year, to HK$639 million. Net trading gain from foreign exchange and foreign exchange products decreased by HK$1,680 million, mainly attributable to the net loss from foreign currency swap contracts* in the first half of 2017, as compared with the net gain recorded in the same period of 2016. This was, however, partially offset by the higher net gain from foreign exchange transactions. Net trading gain from interest rate instruments and items under fair value hedge decreased by HK$119 million, primarily due to the mark-to-market changes of certain debt securities investments caused by interest rate movements. The increase in net trading gain from commodities was due to the increased gain in bullion transactions. Net trading gain from equity and credit derivative instruments increased, which included an increase in income from equity-linked products.

Compared with the second half of 2016, net trading gain decreased by HK$1,665 million, or 72.3%. The decrease was mainly attributable to the net loss from foreign currency swap contracts*, comparing to the net gain recorded in the second half of 2016, although this was partially offset by the net gain in foreign exchange and bullion transactions.

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

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

HK$'m	Half-year ended 30 June 2017	(Restated) Half-year ended 31 December 2016	(Restated) Half-year ended 30 June 2016
Net gain/(loss) on financial instruments designated at fair value through profit or loss	**1,188**	(933)	1,034

Net gain on financial instruments designated at fair value through profit or loss increased by HK$154 million, or 14.9%. This was mainly driven by the increase in net gain from the equity securities investments of BOC Life, partially offset by the lower mark-to-market gain of its debt securities investments caused by market interest rate movements. The changes in policy reserves, as reflected in the changes in net insurance benefits and claims, were also attributable to the movement of market interest rates.

The Group recorded a net gain on financial instruments designated at FVTPL in the first half of 2017, as opposed to a net loss recorded in the second half of 2016. The change was mainly attributable to mark-to-market changes of the debt securities investment of BOC Life caused by market interest rate movements.

Operating Expenses

HK$'m	**Half-year ended 30 June 2017**	(Restated) Half-year ended 31 December 2016	(Restated) Half-year ended 30 June 2016
Staff costs	**3,621**	3,692	3,170
Premises and equipment expenses (excluding depreciation)	**811**	836	735
Depreciation on owned fixed assets	**923**	899	898
Other operating expenses	**750**	1,143	998
Total operating expenses	**6,105**	6,570	5,801

	At 30 June 2017	(Restated) At 31 December 2016	(Restated) At 30 June 2016
Staff headcount measured in full-time equivalents*	**12,473**	12,410	12,220

* The comparative information of staff headcounts measured in full-time equivalents at 30 June 2016 and 31 December 2016 has been restated to enable analysis on a comparable basis.

Total operating expenses increased by HK$304 million, or 5.2% year-on-year, as a result of the Group's ongoing investment in its service capabilities, business systems and platforms to support long-term business growth. The Group remained focused on disciplined cost control and the cost to income ratio stayed low at 26.17%, with cost efficiency at a relatively good level in the industry.

Staff costs increased by 14.2%, mainly due to annual salary increment, increased headcount, and the increase in performance-related remuneration.

Premises and equipment expenses were up 10.3%, reflecting higher related expenses associated with enhancements in business systems and platforms, and an increase in rental costs.

Depreciation on owned fixed assets rose by 2.8%, largely due to a larger depreciation charge on IT infrastructure.

Other operating expenses dropped by 24.8%, mainly due to lower business tax and the reversal of certain expenses.

Compared with the second half of 2016, operating expenses decreased by HK$465 million, or 7.1%. The decrease was due to lower staff costs, advertising and marketing expenses, and the reversal of certain expenses in the first half of 2017.

Net Charge of Loan Impairment Allowances

HK$'m	**Half-year ended 30 June 2017**	(Restated) Half-year ended 31 December 2016	(Restated) Half-year ended 30 June 2016
Net reversal/(charge) of allowances before recoveries			
– individually assessed	**137**	138	(213)
– collectively assessed	**(527)**	(291)	(368)
Recoveries	**41**	88	49
Net charge of loan impairment allowances	**(349)**	(65)	(532)

The net charge of loan impairment allowances was HK$349 million, a decrease of HK$183 million or 34.4%, from the same period of 2016. In the first half of 2017, there was a net reversal of individually assessed impairment allowances, mainly due to loan repayments by certain corporate customers. There was a net charge of impairment allowances in the same period of last year. Net charge of collectively assessed impairment allowances increased, mainly attributable to the growth in advances to customers.

Total loan impairment allowances as a percentage of gross advances to customers was 0.31% as at 30 June 2017, down slightly from 0.33% at the end of 2016.

Compared with the second half of 2016, net charge of loan impairment allowances increased by HK$284 million, mainly due to a higher net charge of collectively assessed impairment allowances as a result of the growth in advances to customers.

BALANCE SHEET ANALYSIS

The comparative figures as of 31 December 2016 have been restated to conform with the current period's presentation.

Asset Composition

HK$'m, except percentages	**At 30 June 2017** Amount	**At 30 June 2017** % of total	(Restated) At 31 December 2016 Amount	(Restated) At 31 December 2016 % of total
Cash and balances with banks and other financial institutions	**399,830**	**15.2**	232,546	9.9
Placements with banks and other financial institutions maturing between one and twelve months	**81,856**	**3.1**	70,392	3.0
Hong Kong SAR Government certificates of indebtedness	**135,800**	**5.1**	123,390	5.3
Securities investments[1]	**630,473**	**23.9**	654,557	28.0
Advances and other accounts	**1,135,330**	**43.0**	996,754	42.7
Fixed assets and investment properties	**66,110**	**2.5**	64,017	2.7
Other assets[2]	**190,565**	**7.2**	141,808	6.1
Assets held for sale	**–**	**0.0**	53,293	2.3
Total assets	**2,639,964**	**100.0**	2,336,757	100.0

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

As at 30 June 2017, total assets of the Group amounted to HK$2,639,964 million, an increase of HK$303,207 million, or 13.0%, from the end of 2016. The Group continued to enhance its management of assets and liabilities to ensure its sustainable business development.

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

- Cash and balances with banks and other financial institutions increased by HK$167,284 million, or 71.9%, mainly due to the increase in balances with banks and central banks.

- Advances and other accounts rose by HK$138,576 million, or 13.9%, with the growth in advances to customers by HK$126,146 million, or 12.9%.

- Other assets increased by HK$48,757 million, or 34.4%, mainly due to the increase in other debt instruments designated at fair value through profit or loss, partially offset by the decrease in derivative financial instruments.

- Assets held for sale dropped to zero as the Group completed the disposal of Chiyu.

Advances to Customers

HK$'m, except percentages	**At 30 June 2017**		(Restated) At 31 December 2016	
	Amount	**% of total**	Amount	% of total
Loans for use in Hong Kong	**731,303**	**66.2**	664,030	67.9
Industrial, commercial and financial	**427,436**	**38.7**	375,506	38.4
Individuals	**303,867**	**27.5**	288,524	29.5
Trade finance	**77,199**	**7.0**	72,182	7.4
Loans for use outside Hong Kong	**295,471**	**26.8**	241,615	24.7
Total advances to customers	**1,103,973**	**100.0**	977,827	100.0

In the first half of 2017, the Group continued to capture opportunities arising from national strategies and growth opportunities in the ASEAN region. During this period, it strengthened its collaboration with the BOC Group to provide a comprehensive range of financial services to Mainland enterprises going global as well as leading corporates in the ASEAN region. The Group also developed the local market in Hong Kong with a focus on family-owned businesses, trade associations, and second- and third-tier listed companies. Additionally, it enhanced its services in the SME, residential mortgage and other retail loan businesses. To achieve quality growth, the Group adhered to a prudent credit strategy and maintained benign asset quality. Advances to customers grew by HK$126,146 million, or 12.9%, to HK$1,103,973 million in the first half of 2017.

Loans for use in Hong Kong grew by HK$67,273 million or 10.1%.

- Lending to the industrial, commercial and financial sectors increased by HK$51,930 million or 13.8%, representing broad-based growth in various industry sectors including property development, manufacturing, transport and transport equipment, information technology, wholesale and retail trade as well as financial concerns.

- Lending to individuals increased by HK$15,343 million or 5.3%. Residential mortgage loans (excluding those under the Government-sponsored home purchasing schemes) grew by 3.9% while other individual loans increased by 13.5%.

Trade finance rose by HK$5,017 million or 7.0%, while loans for use outside Hong Kong grew by HK$53,856 million or 22.3%.

Loan Quality

HK$'m, except percentages	**At 30 June 2017**	(Restated) At 31 December 2016
Advances to customers	**1,103,973**	977,827
Classified or impaired loan ratio	**0.19%**	0.22%
Total impairment allowances	**3,447**	3,268
Total impairment allowances as a percentage of advances to customers	**0.31%**	0.33%
Residential mortgage loans[1] – delinquency and rescheduled loan ratio[2]	**0.01%**	0.02%
Card advances – delinquency ratio[2]	**0.20%**	0.24%

	Half-year ended 30 June 2017	Half-year ended 30 June 2016
Card advances – charge-off ratio[3]	**1.70%**	1.48%

1. Residential mortgage loans exclude those under the Home Ownership Scheme and other government-sponsored home purchasing schemes.
2. The delinquency ratio is measured by the ratio of the total amount of overdue advances (more than three months) to total outstanding advances.
3. The charge-off ratio is measured by the ratio of total write-offs made during the period to average card receivables during the period.

The Group maintained benign asset quality during the period. The classified or impaired loan ratio was 0.19% as at 30 June 2017. Classified or impaired advances to customers decreased by HK$119 million, or 5.5%, to HK$2,050 million.

The credit quality of the Group's residential mortgage loans and card advances remained sound. The combined delinquency and rescheduled loan ratio of residential mortgage loans was 0.01% at the end of June 2017. The charge-off ratio of card advances was 1.70%.

*Deposits from Customers**

HK$'m, except percentages	At 30 June 2017 Amount	At 30 June 2017 % of total	(Restated) At 31 December 2016 Amount	(Restated) At 31 December 2016 % of total
Demand deposits and current accounts	**191,513**	**11.6**	173,934	11.5
Savings deposits	**845,593**	**51.1**	796,805	52.7
Time, call and notice deposits	**613,024**	**37.1**	538,142	35.6
	1,650,130	**99.8**	1,508,881	99.8
Structured deposits	**3,072**	**0.2**	3,425	0.2
Deposits from customers	**1,653,202**	**100.0**	1,512,306	100.0

* Including structured deposits

The Group implemented a number of deposit strategic initiatives in the first half of 2017. These included the development of payroll account services, expansion of central bank and supranational clients, and the development of receiving bank business for IPOs, cash management, settlement and custody business to acquire deposits from customers. As at 30 June 2017, total deposits from customers amounted to HK$1,653,202 million, up HK$140,896 million, or 9.3%, from the end of last year. Demand deposits and current accounts grew by 10.1%, saving deposits increased by 6.1%, and time, call and notice deposits were up 13.9%.

Capital and Reserves Attributable to the Equity Holders of the Company

HK$'m	At 30 June 2017	(Restated) At 31 December 2016
Share capital	**52,864**	52,864
Premises revaluation reserve	**35,972**	35,608
Reserve for fair value changes of available-for-sale securities	**1,002**	(592)
Regulatory reserve	**10,109**	9,227
Translation reserve	**(629)**	(935)
Merger reserve	**–**	2,384
Retained earnings	**138,137**	128,271
Reserves	**184,591**	173,963
Capital and reserves attributable to the equity holders of the Company	**237,455**	226,827

Capital and reserves attributable to the equity holders of the Company amounted to HK$237,455 million as at 30 June 2017, an increase of HK$10,628 million, or 4.7%, from the end of 2016. Retained earnings rose by 7.7%, mainly reflecting the profit for the first half of 2017 after the appropriation of the final dividend for 2016. The premises revaluation reserve increased by 1.0%, which was attributable to the increase in property prices in the first half of 2017. This was partially offset by the corresponding amount released to retained earnings upon disposal of discontinued operations. Reserve for fair value changes of available-for-sale securities turned from a deficit into a surplus, mainly reflecting market interest rate movements. The regulatory reserve rose by 9.6%, as the growth in advances to customers was partly offset by the corresponding regulatory reserve released to retained earnings upon the disposal of discontinued operations. Merger reserve was arising on the Group's application of the merger accounting method in relation to its combination with BOC Thailand.

Capital Ratio and Liquidity Coverage Ratio

HK$'m, except percentages	**At 30 June 2017**	At 31 December 2016
Consolidated capital after deductions		
Common Equity Tier 1 capital	**166,259**	158,828
Additional Tier 1 capital	**–**	458
Tier 1 capital	**166,259**	159,286
Tier 2 capital	**38,594**	41,926
Total capital	**204,853**	201,212
Total risk-weighted assets	**941,605**	900,288
Common Equity Tier 1 capital ratio	**17.66%**	17.64%
Tier 1 capital ratio	**17.66%**	17.69%
Total capital ratio	**21.76%**	22.35%

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

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

The Group's capital level was further enhanced by the gain from the disposal of Chiyu. During the course of formulating its internal capital management targets, the Group took into consideration not only the additional regulatory requirements but also its strategic initiatives and short- and long-term capital requirement, with the support of capital replenishment solutions, to ensure the long-term stability of its capital level. The Group also continued to refine its measures for monitoring changes in the risk-weights of its assets. At the same time, the Group made use of stringent and forward-looking stress testing to assess the demand and supply of capital under different stress scenarios, examined management targets for capital adequacy and formulated a capital adjustment solution to ensure the Group's ability to comply with the capital requirement under stress conditions.

At 30 June 2017, both the CET1 capital ratio and Tier 1 capital ratio was 17.66%, up 0.02 and down 0.03 percentage point respectively from the end of 2016. Profits net of dividends for the first half of 2017 drove up CET1 capital and Tier 1 capital by 4.7% and 4.4% respectively. Total RWAs were up 4.6%, driven by the increase in credit RWAs due to the growth in advances to customers in the first half of 2017, partially offset by the reduction in RWAs following the disposal of Chiyu. The total capital ratio of the Group was 21.76%.

The average value of the liquidity coverage ratio ("LCR") is calculated based on the arithmetic mean of the LCR as at the end of each working day in the quarter and the calculation methodology and instructions set out in the HKMA return of liquidity position. The LCR is computed on a consolidated basis, which comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Liquidity) Rules.

The average value of LCR in the first and second quarter of 2017 was 121.41% and 123.88% respectively, which was higher than the regulatory minimum.

BUSINESS REVIEW

Business Segment Performance

Profit/(Loss) before Taxation by Business Segments

HK$'m, except percentages	**Half-year ended 30 June 2017** Amount	**Half-year ended 30 June 2017** % of total	(Restated) Half-year ended 30 June 2016 Amount	(Restated) Half-year ended 30 June 2016 % of total
FROM CONTINUING OPERATIONS				
Personal Banking	**4,071**	**22.9**	3,612	25.2
Corporate Banking	**7,289**	**41.0**	6,382	44.5
Treasury	**4,709**	**26.5**	3,926	27.4
Insurance	**683**	**3.8**	611	4.2
Others	**1,033**	**5.8**	(182)	(1.3)
Total profit before taxation	**17,785**	**100.0**	14,349	100.0

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

PERSONAL BANKING

Financial Results

Personal Banking's profit before taxation was HK$4,071 million in the first half of 2017, an increase of HK$459 million, or 12.7%, year-on-year. The increase in net interest income and net fee and commission income was partially offset by the increase in operating expenses.

Net interest income increased by 15.8%. This was mainly driven by the improvement in the deposit spread along with the increase in the average balance of deposits and loans. Net fee and commission income increased by 8.0% as the Group took advantage of improvements in market sentiment and achieved satisfactory performance in the securities brokerage and funds distribution business with encouraging year-on-year growth in related commission income. Fee income from payment services also grew healthily. Operating expenses rose by 15.1%, mainly due to the increase in staff costs, rental and business-related expenses.

Business operation

Deepening in the branch transformation project and introducing a new concept service model

In the first half of 2017, the Group deepened its branch transformation project and leveraged its branch network – the most extensive in Hong Kong – to transform from its retail-focused service coverage to a more comprehensive service model that better serves personal and corporate customers. The branch transformation project helped the Group penetrate the mid- to high-end customers segment as well as SMEs for more two-way business referrals, enhancing the efficacy of the omni-channel banking service. During the period, operational efficiency was increased across all business areas, resulting in satisfactory growth in deposits from customers, and the number and related asset values of mid- to high-end customers. The Group remained customer-centric, continued to refine its business workflows and service model, and set up new concept service centres to enhance the overall customer experience.

Expansion in cross-border business and implementation of key projects in ASEAN

The Group implemented a joint mechanism and cross-border business strategy to provide better and more professional services to enhance its image as the first choice for cross-border customers. During the period, the Group collaborated further with BOC entities by providing regular staff training and arranging visits. It also optimised procedures for the attestation of cross-border account opening applications and launched a series of promotional campaigns that succeeded in acquiring more cross-border customers. Additionally, the Group improved its overall service capabilities by optimising its cross-border financial services centres with relationship managers dedicated to the cross-border business. Having made good progress in the expansion of its ASEAN business, the Group refined the organisational structure and management model of its ASEAN entities and provided professional support in products and services to achieve steady progress in various key business projects. In recognition of its performance in the cross-border banking business, BOCHK won the Cross-border Financial Services Award from *Sing Tao Daily*.

Expansion of mid- to high-end customer segment with enhanced service levels

During the review period, the Group focused on deepening customer relationships and expanded the mid- to high-end customer segment through multiple channels. Additionally, the Group refined customer segment management, continued to enhance its high-net-worth customer model, enriched its product offering and launched a series of online and offline promotions under the theme of BOCHK's centenary celebration. These initiatives led to satisfactory growth in the total number of Wealth Management and Enrich Banking customers as well as their assets under management ("AUM"). The Group also stepped up cross-selling activities with products that meet customer needs.

The Group further optimised its Private Banking team to enhance service levels. It also upgraded its open product platform, launched customised products and optimised services tailored to clients' needs. With the goal of becoming the Offshore Private Banking Centre of BOC Group and the first choice in Private Banking for cross-border high-net-worth clients, a new business referral scheme was introduced during the period. This was implemented via collaboration with all units within the Group and BOC's Mainland and overseas entities. The Group also organised a number of customer activities to expand its customer base in Hong Kong, the Mainland and Southeast Asian markets. As a result, the total number of Private Banking clients and their AUM grew satisfactorily from the end of last year.

Improvements in the residential mortgage business and other retail loan services

The local residential property market was relatively buoyant in the first half of 2017 with the rise in property prices and transactions. As competition in the residential mortgage market was intense during the period, the Group adopted a flexible sales strategy, optimised the sales team and streamlined the credit assessment approval process to maintain its leading market position. At the same time, the Group reinforced its market position among high-end and cross-border clients and continued to develop its mortgage service in the luxury property market.

In addition, the Group continued to refine its personal lending business and enhanced a range of secured lending products that improved its competitiveness. In recognition of its residential mortgage service, BOCHK won the Mortgage Services Award from *Sing Tao Daily* for the eighth consecutive year and the Hong Kong Leaders' Choice Brand Award in Excellent Brand of Mortgage – Banking from Metro Finance and Metro Finance Digital.

Capturing market trends to expand income from investment products

The Group took advantage of improvements in market sentiment to increase transaction volumes in its securities brokerage business. Among the measures taken was the provision of exclusive stock analysis data and information to targeted mid- to high-end and cross-border customers with the aim of enhancing the customer experience. In addition, the Group continued to launch a range of marketing campaigns aimed at enhancing clients securities brokerage trading. By promoting family securities accounts in social media and the launch of a Smart Investment Contest, the Group reinforced its reputation as a leader in FinTech development. In the funds distribution business, the Group continued to expand its funds business among mid- to high-end customers. During the period, the Group acquired more customers through the introduction of private placements and provision of a wider variety of funds, which were supported by multi-channel promotions and customer activities. In addition, it optimised the funds transaction process to improve the customer experience. With improved market sentiment, the Group was able to achieve satisfactory performance in the securities brokerage and funds distribution business with encouraging year-on-year growth in related commission income.

In the bancassurance business, the Group provided a wide range of products to meet customers' needs at different life stages. During the period, the Group launched a series of customer-centric offers to reach a larger number of customers. It also launched valued-added services for cross-border customers to enhance two-way information and sales in Hong Kong. Additionally, the Group assisted its ASEAN entities to expand their bancassurance business.

Innovation in credit card business to consolidate its competitive edge

In the first half of 2017, retail consumption in Hong Kong remained stagnant and traditional credit card business continued to come under pressure. These trends, coupled with the development of technological innovations such as mobile payments and the arrival of Store Value Facility licensees as new competitors in the market, created more challenges. Under this market situation, the Group's credit card business continued its innovative development and actively furthered its business expansion. Following the launch of Apple Pay with VISA and MasterCard last year, the Group pioneered the launch of Apple Pay with UnionPay credit card and debit card customers and also launched Samsung Pay with VISA and MasterCard to create differentiated competitive edges. At the same time, it co-operated with WeChat Pay Hong Kong and Alipay Hong Kong to expand these payment scenarios and further popularise mobile payment services. With the ongoing progress of the branch transformation project, the Group focused on expanding its customer base by strengthening credit card sales at the branch network level and enhancing cross-selling activities to acquire and activate customers at the same time. During the review period, the Group maintained its leadership in the UnionPay merchant acquiring and card issuing business in Hong Kong.

CORPORATE BANKING

Financial Results

Corporate Banking's profit before taxation was HK$7,289 million, a growth of HK$907 million, or 14.2%, year-on-year. The growth was mainly driven by the increase in net interest income.

Net interest income increased by 16.0%, with the positive impact from the increase in the average balance of loans and deposits, coupled with the improvement in the deposit spread. Operating expenses were up 8.3%, owing to the increase in staff costs. Net charge of impairment allowances decreased by 60.2% as there was a net reversal of individually assessed loan impairment allowances following loan repayments by customers. There was a net charge of impairment allowances in the same period of last year.

Business operation

Opportunities from national strategies, expansion in ASEAN and the cross-border business

The Group captured the opportunities arising out of major national strategic initiatives and expanded its business along the Belt and Road and in the ASEAN region by focusing on mainstream customers, projects, businesses and products. With strengthened collaboration among BOC's branches and a focus on product and service innovation, the Group provided enterprises going global with financing solutions to support their development along the Belt and Road. At the same time, the Group made a concerted effort to acquire major projects in the region and promoted diversified business cooperation with leading local enterprises, which further increased its market influence in the ASEAN region. By capitalising on its competitive edge in marketing, products and services and through coordination with BOC entities in ASEAN, the Group successfully acquired a number of key clients. Moreover, it launched its first cooperative project with the Multilateral Investment Guarantee Agency, a member of the World Bank Group, to develop the telecommunications business and economic development in Myanmar.

Capitalising on its business leadership in the Mainland and Hong Kong, and collaboration with BOC's Mainland and overseas entities, the Group completed a number of cross-border financing and major bilateral financing projects in support of enterprises' overseas expansion and business restructuring. In other initiatives during the period, the Group developed its business in the seven FTZs of the Mainland of China and took advantage of opportunities arising from other related reforms. In the Guangdong-Hong Kong-Macau Bay Area, the Group cooperated with BOC branches to complete a number of business firsts in cross-border financing and cash pooling projects. Acting as BOC's Asia-Pacific Syndicated Loan Centre, the Group successfully arranged a number of significant syndicated loans and remained the top mandated arranger in the Hong Kong & Macau syndicated loan market in the first half of 2017. In recognition of its performance in the cross-border business, BOCHK received the Outstanding Corporate/Commercial Banking – Cross-border All-round Services award from Metro Finance and Hong Kong Ta Kung Wen Wei Media Group.

Promoting local commercial businesses with enlarging customer base

In the first half of 2017, the Group continued to expand its customer base among family-owned businesses, trade associations and second- and third-tier listed companies in the local market, cooperating with these enterprises to establish a convenient and effective financial service platform and help to improve their overall market competitiveness. Capitalising on the competitive edge from its branch network, the Group reinforced its service capabilities for local SME customers. BOCHK won the Best SME's Partner Gold Award 2017 from the Hong Kong General Chamber of Small and Medium Business in recognition of its acquisition of the Best SME's Partner Award for ten years in a row.

Broader coverage in the institutional businesses

In the first half of 2017, the Group continued to collaborate and connect with overseas central banks, sovereign wealth funds and international financial institutions. In Hong Kong, the Group expanded its business relationships with government and public sector entities, further increasing its business coverage. Moreover, it served as the receiving bank for a number of major IPOs in Hong Kong, which consolidated its leading position in the market.

Product innovation in transaction banking

The Group achieved satisfactory growth across various business areas by capturing business opportunities in the local market, FTZs and Southeast Asia as well as providing continuous product innovation and feature enhancements. It leveraged the synergy created by leading products and acquired deposits from customers by offering competitive cash management products while pushing forward with the breakthrough in the regionalisation and globalisation of its cash pooling business. Working closely with BOC entities in the Mainland, it communicated regularly with government departments in the FTZs, stayed up-to-date on related policies and completed a number of cross-border cash pooling projects. The Group also enriched its traditional trade and cash management products, refined its business systems including scenario-based applications of products, and collaborated with ASEAN entities to further expand its transaction banking business. In addition, the Group completed the first application using blockchain technology for trade finance in Hong Kong, which will help to authenticate transactions, expedite the financing process and increase efficiency. In recognition of its outstanding transaction banking services, BOCHK received the Achievement Award for Best Trade Finance Bank in Hong Kong from *The Asian Banker*. A trade finance project in Thailand undertaken by BOCHK was also named the Best Corporate Trade Finance Deal in Thailand. In addition to these accolades, BOCHK was named Hong Kong Domestic Cash Management Bank of the Year for the fourth consecutive year by *Asian Banking and Finance*.

Product diversification in custody services

In the first half of 2017, the active market contributed to a material increase in investment activities from the insurance and pension segments as well as satisfactory growth in assets under custody. Its diversified business platform enabled the Group to acquire a larger range of clients including those in mandates accounts and private fund services. In anticipation of the launch of Bond Connect, the Group actively made preparation with the aim of providing a one-stop service covering custody, currency exchange, bond dealing, cash accounts and cross-border remittance, all of which created new growth drivers for business development. The Group also closely collaborated with its ASEAN entities to explore new opportunities in cross-border business. At the end of June 2017, excluding the RMB fiduciary accounts, total assets under the Group's custody were valued at HK$1,021.5 billion.

Proactive measures to contain risk

In the first half of 2017, the Group continued to adhere to a prudent credit strategy. In view of the uncertain economic environment, the Group carried out close credit monitoring on a more frequent and proactive basis. This included increasing the analysis of industries and clients that could be negatively affected by market volatility. More stringent pre-lending and post-lending monitoring measures were also adopted to allow for timely identification of negative credit situations. With regard to the Belt and Road Initiative, the Group actively expanded its business development and enhanced the related credit risk and compliance controls. Additionally, the Group remained alert to risks in the Mainland market and strictly controlled its credit exposure to Mainland customers in segments under threat of overcapacity. For certain industries, risk management was increased and a trigger point established to review and monitor the concentration risk of Mainland exposures. What's more, the Group conducted regular stress tests to analyse the effects of changes in the economic environment and completed the corresponding preparation work. As regards Mainland enterprises going global and the acquisition of BOC's assets in ASEAN, the Group acted in accordance with its prudent risk management principles. It also guided its overseas entities on the management structure, internal control, regulations and compliance issues pertaining to credit risk, to ensure more efficient and sound risk control measures are in place governing the Group's business development in new markets.

TREASURY

Financial Results

Treasury's profit before taxation was HK$4,709 million, an increase of HK$783 million, or 19.9%, from the same period last year. The growth was driven by the increase in net interest income, which was partially offset by the net trading loss recorded in the first half of 2017.

Net interest income surged by 177.9% as the Group captured opportunities from the rise in market interest rates to improve the average yield on debt securities investments and balances and placements with banks. Treasury recorded a net trading loss in the first half of 2017, caused by the net loss from foreign currency swap contracts. Meanwhile, a net trading gain was recorded in the first half of 2016.

Business Operations

Improved competitiveness in the treasury business

The Group remained alert to changes in the market and responded to any challenges from changes in cross-border policies. Through the professional services and innovative products it offers, the Group was able to meet customers' needs throughout the review period. To enhance its market competitiveness, the Group launched a series of structured products. In the banknotes business, the Group acquired new financial institution clients in Southeast Asia, further consolidating its strategic goal of becoming a regional bank. The Group was the first bank in Hong Kong to include Brunei dollar and South African rand for withdrawal and deposit, which led to the total number of listed currencies for currency exchange at retail counters to 24, further reinforcing the Group's market leadership in local retail notes exchange. In recognition of its performance in the treasury business, BOCHK received the Hong Kong Domestic Foreign Exchange Bank of the Year award by *Asian Banking and Finance*. BOCHK also received the Outstanding Treasury Business – Dim Sum Bond Market Maker at the RMB Business Outstanding Awards organised by Metro Finance and Hong Kong Ta Kung Wen Wei Media Group.

Promoting business development in ASEAN

The Group capitalised on its competitive advantage in funding by meeting the funding needs of ASEAN entities for their business development. During the period, it successfully expanded its institutional and RMB banknotes businesses for ASEAN entities and collaborated with them to explore and market new clients to further develop the treasury business of these entities.

Further enhancement in RMB clearing business

Following the launch of Bond Connect in early July 2017, BOCHK has been acting as the sole account-opening bank for the Hong Kong Central Moneymarkets Unit to provide cross-border fund settlement services for institutions in both Hong Kong and the Mainland, while providing comprehensive services for institutions relating to Bond Connect. With a stable growth in the clearing business conducted through the Cross-border Interbank Payment System, the Group further enhanced its competitive advantage in the global RMB clearing business.

A proactive but risk aware investment strategy

The Group continued to be prudent in managing its banking book investments. It monitored changes in the market and sought investment opportunities to enhance returns. During the review period, the Group proactively adjusted its investment portfolio in response to changes in market interest rates and enhanced its returns from the use of funding.

INSURANCE

Financial Results

Profit before taxation in the Group's Insurance segment was HK$683 million in the first half of 2017, up 11.8%, year-on-year. The growth was mainly attributable to the improved performance of its equity securities investments which recorded a net gain in the first half of 2017 versus a net loss in the same period of 2016. Net insurance premium income rose by 52.4% as the Group continued to adjust its product mix in expanding its regular premium business to ensure a stable stream of renewal premium income for continuous growth.

Business Operations

Product and service innovation, distribution channel expansion

In the first half of 2017, the Group continued to capitalise on its diversified distribution channels to develop innovative new products and value-added services, which further enhanced its market competitiveness. New products included the MaxiGrowth ULife Insurance Plan for customers who want flexibility in financial planning and whole life protection, Target 5 Years Plus Insurance Plan for customers with insurance and savings needs, and Enhanced Hospital and Surgical Ride to supplement additional benefits. Other new products included the BestCare-Pro Critical Illness Plan and SmartUp Wholelife Insurance Plan. The Group used innovative technology to improve the customer experience with the launch of the first online hospital cash claims platform in Hong Kong, namely, Easy Claims for real-time approval and being the first to introduce Electronic Bill Presentment and Payment service for premium payment and the use of Apple Pay and Android Pay. During the period, the Group enhanced its cross-selling activities with a strong focus to high-net-worth and commercial customers through further collaboration within the Group. To increase sales volume from non-banking sources, the Group continued to diversify its distribution channels, including tied agency channel, brokerage, telemarketing and e-Channel. Furthermore, the new concept Customer Service Centres in Central and Tsim Sha Tsui opened in the second quarter to provide a one-stop life insurance and diversified financial services to visitors to Hong Kong and high-end customers.

Leadership in RMB insurance products

In the first half of 2017, the Group continued to provide the broadest range of RMB insurance products in the market and maintained its leading position in the Hong Kong RMB insurance market. In recognition of its outstanding performance, BOC Life was awarded Cross Border Insurance Service – Excellence and Brand of the Year – Excellence awards in the 2017 Financial Institution Awards by *Bloomberg Businessweek*. In the RMB Business Outstanding Awards organised by Metro Finance and Hong Kong Ta Kung Wen Wei Media Group, BOC Life won the Outstanding Insurance Business – Customer Service Award (Hong Kong China) and Outstanding Insurance Business – Universal Life Award (Hong Kong China). It also received the 2016 Market Leadership Award – Market Leadership in Integrated Insurance from the Hong Kong Institute of Marketing.

EIGHT KEY BUSINESS PLATFORMS

In pursuit of business diversification, the Group enhanced its eight key business platforms with satisfactory performance. Business related to credit cards, private banking, cash management, custody and life insurance are discussed under the Personal Banking, Corporate Banking and Insurance segments respectively. Asset management, trust and securities and futures are discussed below.

A wider range of asset management products

BOCHK Asset Management Limited ("BOCHK AM") enriched its product range in the first half of 2017 as part of its ongoing business development. The AUM of funds under management at the end of June 2017 grew over 42% from the end of last year. New business opportunities were explored through collaboration with BOC and participation in the Group's ASEAN expansion. Sales of the northbound fund in the Mainland, the BOCHK All Weather China High Yield Bond Fund, were satisfactory, with strong growth in the related AUM since the end of last year. As part of its commitment to product development, BOCHK AM launched a new public fund, the BOCHK All Weather Asia (ex-Japan) Equity Fund, and a private fund, BOCHK Fixed Maturity Bond Fund, which was tailored to clients' needs and reflected BOCHK AM's flexibility in product design. Following the launch of Bond Connect, BOCHK AM and BOC Shanghai Head Office successfully completed the first buy order on a Chinese government bond and a corporate bond under Bond Connect. It also completed the first CNY spot trade with BOCHK under Bond Connect. BOCHK AM has been granted the QFII qualification by the China Securities and Regulatory Commission, which will further broaden its investment channels in the Mainland market. BOCHK AM is positioned as the Private Banking Product Centre and Overseas Asset Management Centre of the BOC Group, with a mechanism to assist its cross-border business development.

Development of the trustee services business

The Group provides trustee, provident fund, retirement fund and unit trust administration services through its subsidiary company, BOCI-Prudential Trustee Limited ("BOCI-Prudential Trustee"). During the period, BOCI-Prudential Trustee stepped up business referrals, cross-selling activities and new business development by establishing an effective incentive scheme, making functional enhancements to its systems and collaborating with various units of the Group. The Hotline Referral Service continued to enhance the customer experience in enquiries and achieved encouraging results in converting service calls into MPF account consolidation opportunities and creating MPF transfer-in of assets. Moreover, BOCI-Prudential Trustee successfully secured the role of trustee for the Staff MPF scheme of a non-government organisation. It also won the bid to provide MPF services for a large printing house and a major communication service provider in Hong Kong. In recognition of its performance in trustee services, BOCI-Prudential Trustee was awarded Leaders' Choice Brand – Finance and Excellent Brand of MPF Online Platform in The Hong Kong Leaders' Choice Brand Award 2017 organised by Metro Finance and Metro Finance Digital. The My Choice of MPF Scheme also received a number of awards in the Thomson Reuters Lipper Fund Awards 2017.

Expansion of securities and futures brokerage services

The Group engages in the provision of brokerage services for futures and options trading through its subsidiary company, Po Sang Securities and Futures Limited ("Po Sang Securities and Futures"). During the period, Po Sang Securities and Futures continued to carry out its market-oriented business strategy and broaden its product range, which included the introduction of Bloomberg DMA (Direct Market Access) stock trading and trading services for RMB Currency Options Contracts and 5-year China Ministry of Finance Treasury Bond Futures, to satisfy customers' needs. Operating with a new securities trading platform, Po Sang Securities and Futures introduced securities trading services for retail customers and launched a series of promotional campaigns. In addition, it is in the process of introducing a number of new services, including the set-up of an Account Executive team, the expansion of its branch network, the development of a futures business and distribution of fixed income products, in order to achieve a more flexible and competitive operating strategy.

Disposal of Chiyu Banking Corporation Limited

On 22 December 2016, the Group entered into a Sale and Purchase Agreement with Xiamen International Investment Limited ("XIL") and the Committee of Jimei Schools ("CB") and jointly made an announcement with BOC in relation to the Group's disposal of a total of 2,114,773 ordinary shares of Chiyu (representing approximately 70.49%) of the total issued shares of Chiyu (the "Disposal") by BOCHK.

The Disposal was completed on 27 March 2017 (the "Completion Date") in accordance with the terms and conditions of the Sale and Purchase Agreement. Upon completion, Chiyu ceased to be a subsidiary of both BOC and the Group. BOCHK, Chiyu and XIL entered into a Transitional Services Agreement on 22 December 2016, which took effect from the Completion Date, pursuant to which BOCHK provides certain transitional support, information technology and other assistance to Chiyu at service charges mutually agreed for a term of four years from the Completion Date (with an option for Chiyu to extend this term for two consecutive periods of one year each) to facilitate the transition.

For further information on the Disposal, please refer to the joint announcements made by BOC and the Group on 22 December 2016 and 24 March 2017.

The operating results of Chiyu, which are reported as discontinued operations, for the period up to the date of the disposal and the first half of 2016 and the gain on disposal of Chiyu are as follows:

HK$'m	**Half-year ended 30 June 2017**	Half-year ended 30 June 2016
Profit of discontinued operations	**85**	171
Gain on disposal of discontinued operations	**2,504**	–

ASEAN strategy: orderly progress in asset integration

In the first half of 2017, the Group's asset integration in the ASEAN region was conducted in an orderly manner. On 9 January 2017, the Group completed the share acquisition of BOC Thailand, which is the Group's third entity in the ASEAN region following BOC Malaysia and BOCHK Brunei Branch.

On 28 February 2017, BOCHK entered into Asset Purchase Agreements with BOC in relation to the acquisition of the Indonesia Business and the Cambodia Business, respectively. The completion of the acquisition of the Indonesia Business took place on 10 July. Upon completion, the Head Office of Bank of China Limited, Jakarta Branch (and its eight sub-branches) changed from BOC to BOCHK. All the assets and liabilities arising in connection with the Indonesia Business have been transferred to and assumed by BOCHK in accordance with the Asset Purchase Agreement. For further information on the acquisition, please refer to the announcements made by the Group on 28 February and 6 July 2017.

In the first half of 2017, the Group's ASEAN entities achieved satisfactory growth. With the strategic goal of becoming the mainstream bank in local areas of the region, the Group was committed to pushing forward with the upgrade and transformation of the businesses of its ASEAN entities by developing local mainstream projects and businesses as well as accelerating the development of products and distribution channels. The Group also leveraged its international competitive edge, accelerated its cross-border products offerings and built up its brand image to expand its influence in the cross-border markets. At the same time, various business segments capitalised on the synergies within the Group, reinforced regional co-operation and effectively enhanced its financial service capabilities to customers. With respect to the development of distribution channels, the Group advanced its strategy for mobile and an intelligent distribution channel for its ASEAN entities to improve the local customer experience. At the end of June 2017, the total amount of deposits from customers and advances to customers of BOC Malaysia, BOC Thailand and BOCHK Brunei Branch increased by 34.8% and 17.6% respectively from the end of last year.

BOCHK will further enhance the management system and mechanism of its ASEAN entities and accelerate full integration to raise the Group's regional capabilities and service. Additionally, the Group will capitalise on Hong Kong's strong governance and advanced regulations from its status as an international financial centre to strengthen the risk management and compliance control of its ASEAN entities for their healthy and sustainable business development.

Technology and Operations

The Group continued to strengthen its information technology and business operation infrastructure to support its business growth and improve its operational efficiency. In the first half of 2017, the Group stepped up its efforts in innovation to promote the real-life application of FinTech and Online-to-Offline ("O2O") integration, and improve the competitiveness and productivity of e-Finance. Development of the blockchain technology application for property valuation made good progress with the majority of valuation cases of the Group being conducted with this technology. The Group also successfully completed the first application using blockchain technology for trade finance in Hong Kong, paving the way for broader innovative ideas and application examples of FinTech in the industry. Other FinTech applications launched in the first half of the year included the use of Big Data, which enhances customer insight analysis for more effective marketing, and fingerprint authentication for mobile banking logins. The Group also became one of the first banks in Hong Kong to bring Apple Pay to UnionPay debit card cardholders, allowing BOC Card customers to enjoy fast, convenient and secure payments at UnionPay QuickPass terminals in the Mainland of China and Hong Kong with Apple Pay. As a result of these initiatives, the total number of customers using e-channels including Internet and Mobile Banking services in the review period continued to rise, together with the total number of related transactions year-on-year.

As part of its commitment to driving innovation and enhancing its competitiveness in e-Finance, the Group signed a strategic cooperation agreement with China Mobile International and China Mobile Hong Kong. The partnership enabled all parties to develop diversified service platforms, create a core customer base, accelerate regional development and jointly develop the Southeast Asian business. In addition, the Group strived to strengthen its strategic cooperation with some of the largest Internet companies in order to expand its cross-border business and improve overall competitiveness.

As regards to its information technology ("IT") infrastructure, the Group has been working towards the global integration of the information systems of the BOC Group as part of BOC Group's global IT strategic deployment. The relocation of the disaster recovery centre was completed during the review period to improve the operational efficiency and stability of the application systems during disaster recovery, which laid a solid foundation for the Group's long-term sustainable development. In line with the Group's development in the ASEAN region, regional IT governance and processes on overseas entities have been established. The Group also enhanced the operations of ASEAN entities through lowering operating costs, improving operational efficiency and minimising operational risk to achieve more effective management of its ASEAN entities.

For technology risk prevention and control, the Group has adopted international standards and industry best practices, while continuously improving its technology risk management. To combat more frequent and complex cyber-attacks, the Group strengthened its preventive measures and detection capabilities in cybersecurity, while raising staff awareness on cyber security of the need to maintain a high level of vigilance. The Group also implemented the Cyber Resilience Assessment Framework introduced by the HKMA. The Inherent Risk Assessment was completed in May while the Maturity Assessment will be completed by the end of September as planned.

In recognition of its effort to develop blockchain technology and its application in the local banking and finance industry, BOCHK won the Hong Kong ICT Awards 2017: Best FinTech (Emerging Solutions/Payment Innovation) Gold Award. Its finger vein authentication function also won the Best Smart Hong Kong Certificate of Merit in the same award. In its 12th Retail Banking Awards by *Asian Banking and Finance*, BOCHK received the Mobile Banking Initiative of the Year – Hong Kong for the third consecutive year, the Digital Banking Initiative of the Year – Hong Kong for the second consecutive year, and the Online Securities Platform of the Year – Hong Kong, reflecting BOCHK's outstanding performance in e-banking services. As a commendation to BOCHK's IT governance, it was awarded the Gold Medal in the IT Governance Achievement Award in Private Sector presented by ISACA China Hong Kong Chapter.

RISK MANAGEMENT

Banking Group

Overview

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

Risk management governance structure

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

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

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

The Chief Executive ("CE") is responsible for managing the Group's various types of risks, and material risk exposures or transactions within his authority delegated by the Board of Directors. The Deputy Chief Executives ("DCEs") assist the CE in fulfilling his responsibilities on the day-to-day management of various types of risk, and are responsible for approving material risk exposures or transactions within their authorities delegated by the CE. The Chief Risk Officer ("CRO") assists the CE in fulfilling his responsibilities for the day-to-day management of risks. The CRO is responsible for initiating new risk management strategies, projects and measures in response to regulatory changes that will enable the Group to better monitor and manage any risks that may arise from time to time from new businesses, products and changes in the operating environment. The CRO is also responsible for reviewing material risk exposures or transactions within his delegated authority. In accordance with the principle of setting the hierarchy of risk management policies approved by the Board, Senior Management are also responsible for approving the detailed risk management policies of their responsible areas.

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

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

Credit risk management

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

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

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

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

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

Market risk management

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

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

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

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

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

Interest rate risk management

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

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

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

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

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

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

Liquidity risk management

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

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

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

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

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

In the liquidity stress test, institution specific, general market crisis and combined crisis scenarios have been set up, combined crisis scenario is a combination of institution specific and general market crisis to assess the Group's capability to withstand a more severe liquidity crisis, with a more stringent set of assumptions being adopted. Stress test assumptions include the run-off rate of retail, wholesale and interbank deposits; drawdown rate of loan commitments and trade-related contingent liabilities; delinquency ratio and rollover rate of customer loans; and haircut of interbank placement and marketable securities. As at 30 June 2017, the Group was able to maintain a net cash inflow under the three stressed scenarios, indicating the Group has the ability to meet financing needs under stressed conditions. In addition, the Group has a policy in place to maintain a liquidity cushion which includes high quality or comparable quality marketable securities issued or guaranteed by sovereigns, central banks, public sector entities or multilateral development banks with 0% or 20% risk weight or marketable securities issued by non-financial corporate with a corresponding external credit rating of A- or above to ensure funding needs even under stressed scenarios. A contingency plan is being established which details the conditions to trigger the plan based on stress test results and early warning indicators, the action plans and relevant procedures and responsibility of relevant departments.

The LCR is calculated in accordance with the Banking (Liquidity) Rules effective from 1 January 2015, the Group, being classified as category 1 authorised institution by the HKMA, is required to calculate LCR on consolidated basis. During the year of 2017, the Group is required to maintain a LCR not less than 80%.

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

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

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

Operational risk management

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

The Group has implemented the "Three Lines of Defence" for its operational risk management. All departments or functional units as the first line of defence are the first parties responsible for operational risk management, and carry out the duties and functions of self risk control in the process of business operation through self assessment and self enhancement. The Legal & Compliance and Operational Risk Management Department ("LCO"), together with certain specialist functional units in relation to operational risk management within the Group, including the Human Resources Department, Information Technology Department, Corporate Services Department, Financial Crime Compliance Department, Financial Management Department and General Accounting & Accounting Policy Department (collectively known as "specialist functional units"), are the second line of defence. They are responsible for assessing and monitoring the operational risk conditions in the first line of defence, and providing them with guidance. The LCO, being independent from the business units, is responsible for assisting the Management in managing the Group's operational risk, including the establishment and review of the operational risk management policy and framework, designing the operational risk management tools and reporting mechanism, and assessing and reporting the overall operational risk position to the Management and RMC. Specialist functional units are required to carry out their managerial duties of the second line of defence with respect to some specific aspects of operational risk and its related issues. Besides taking charge of operational risk management in their own units, these units are also required to provide other units with professional advice/training in respect of certain operational risk categories and to lead the group-wide operational risk management. Group Audit is the third line of defence which provides independent assessment to the effectiveness and adequacy of the operational risk management framework and is required to conduct periodic audit of the operational risk management activities of various departments or functional units within the Group regarding their compliance and effectiveness and to put forward recommendations for remedial actions.

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

Reputation risk management

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

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

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

Legal and compliance risk management

Legal risk is the risk that unenforceable contracts, lawsuits or adverse judgments may disrupt or otherwise negatively affect the operations or financial conditions of the Group. Compliance risk is the risk of legal or regulatory sanctions, financial losses or losses in reputation the Group may suffer as a result of its failure to comply with applicable laws and regulations. Legal and compliance risks are managed by the LCO, while the risks related to money laundering, terrorist financing and financial crime are independently managed and controlled by the Financial Crime Compliance Department ("FCC"). Both LCO and FCC report directly to the CRO. As part of the Group's corporate governance framework, the policies for the management of legal and compliance risks, and money laundering, terrorist financing and financial crime compliance risks are approved by the RMC as delegated by the Board.

Strategic risk management

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

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

Capital management

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

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

Stress testing

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

BOC Life

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

Insurance risk management

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

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

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

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

Interest rate risk management

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

Liquidity risk management

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

Credit risk management

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

- Default risk associated with bonds, notes and counterparties
- Credit spread widening as a result of credit migration (downgrade)
- Reinsurers' share of insurance unpaid liabilities
- Amounts due from reinsurers in respect of claims already paid
- Amounts due from insurance contract holders
- Amounts due from insurance intermediaries

BOC Life manages credit risk by placing limits on its exposure to each investment counterparty and issuer. Such limits are subject to review by the Management at least once a year.

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

Equity price risk management

Equity price risk refers to the risk of loss due to volatility of market price in equity securities and equity funds. BOC Life's asset and liability framework includes managing the adverse impact due to equity price movement through stress test and exposure limit.

Currency risk management

Currency risk refers to the risk of loss due to volatility of exchange rate. BOC Life's asset and liability framework includes managing the adverse impact due to exchange rate movement through stress test, exposure limit and risk limit.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	(Unaudited) Half-year ended 30 June 2017 HK$'m	(Restated) (Unaudited) Half-year ended 30 June 2016 HK$'m
CONTINUING OPERATIONS			
Interest income		**23,180**	17,652
Interest expense		**(6,301)**	(5,680)
Net interest income	5	**16,879**	11,972
Fee and commission income		**7,502**	7,713
Fee and commission expense		**(1,840)**	(2,098)
Net fee and commission income	6	**5,662**	5,615
Gross earned premiums		**10,530**	9,303
Gross earned premiums ceded to reinsurers		**(5,062)**	(5,719)
Net insurance premium income		**5,468**	3,584
Net trading gain	7	**639**	2,336
Net gain on financial instruments designated at fair value through profit or loss		**1,188**	1,034
Net gain on other financial assets	8	**435**	565
Other operating income	9	**476**	365
Total operating income		**30,747**	25,471
Gross insurance benefits and claims and movement in liabilities		**(13,012)**	(11,173)
Reinsurers' share of benefits and claims and movement in liabilities		**5,589**	6,213
Net insurance benefits and claims and movement in liabilities	10	**(7,423)**	(4,960)
Net operating income before impairment allowances		**23,324**	20,511
Net charge of impairment allowances	11	**(353)**	(514)
Net operating income		**22,971**	19,997
Operating expenses	12	**(6,105)**	(5,801)
Operating profit		**16,866**	14,196
Net gain from disposal of/fair value adjustments on investment properties	13	**887**	114
Net loss from disposal/revaluation of properties, plant and equipment	14	**(2)**	(3)
Share of profits less losses after tax of associates and joint ventures		**34**	42
Profit before taxation		**17,785**	14,349
Taxation	15	**(2,805)**	(2,288)
Profit from continuing operations		**14,980**	12,061
DISCONTINUED OPERATIONS			
Profit from discontinued operations	35	**2,623**	31,190
Profit for the period		**17,603**	43,251
Profit attributable to:			
Equity holders of the Company			
– from continuing operations		**14,627**	11,749
– from discontinued operations		**2,589**	31,088
		17,216	42,837
Non-controlling interests			
– from continuing operations		**353**	312
– from discontinued operations		**34**	102
		387	414
		17,603	43,251
Dividends	16	**6,767**	13,269
		HK$	HK$
Earnings per share for profit attributable to the equity holders of the Company			
Basic and diluted	17		
– profit for the period		**1.6283**	4.0516
– profit from continuing operations		**1.3835**	1.1112

The notes on pages 41 to 116 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	(Unaudited) Half-year ended 30 June 2017 HK$'m	(Restated) (Unaudited) Half-year ended 30 June 2016 HK$'m
Profit for the period		**17,603**	43,251
Items that will not be reclassified subsequently to income statement:			
Premises:			
Revaluation of premises		**1,311**	(470)
Deferred tax		**(196)**	152
		1,115	(318)
Items that may be reclassified subsequently to income statement:			
Available-for-sale securities:			
Change in fair value of available-for-sale securities		**2,393**	2,224
Release upon disposal of available-for-sale securities reclassified to income statement		**(407)**	(630)
Amortisation with respect to available-for-sale securities transferred to held-to-maturity securities reclassified to income statement		**41**	85
Deferred tax		**(252)**	(233)
		1,775	1,446
Currency translation difference		**243**	(3)
Release upon disposal of discontinued operations reclassified to income statement	35	**48**	(370)
		2,066	1,073
Other comprehensive income for the period, net of tax		**3,181**	755
Total comprehensive income for the period		**20,784**	44,006
Total comprehensive income attributable to:			
Equity holders of the Company		**20,232**	43,296
Non-controlling interests		**552**	710
		20,784	44,006

The notes on pages 41 to 116 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	(Unaudited) At 30 June 2017 HK$'m	(Restated) (Audited) At 31 December 2016 HK$'m
ASSETS			
Cash and balances with banks and other financial institutions	19	**399,830**	232,546
Placements with banks and other financial institutions maturing between one and twelve months	20	**81,856**	70,392
Financial assets at fair value through profit or loss	21	**158,087**	67,358
Derivative financial instruments	22	**29,859**	64,314
Hong Kong SAR Government certificates of indebtedness		**135,800**	123,390
Advances and other accounts	23	**1,135,330**	996,754
Investment in securities	24	**554,897**	592,976
Interests in associates and joint ventures		**352**	319
Investment properties	25	**19,191**	18,227
Properties, plant and equipment	26	**46,919**	45,790
Deferred tax assets	32	**24**	77
Other assets	27	**77,819**	71,321
Assets held for sale	35	**–**	53,293
Total assets		**2,639,964**	2,336,757
LIABILITIES			
Hong Kong SAR currency notes in circulation		**135,800**	123,390
Deposits and balances from banks and other financial institutions		**303,802**	194,233
Financial liabilities at fair value through profit or loss	28	**19,329**	13,371
Derivative financial instruments	22	**28,994**	49,289
Deposits from customers	29	**1,650,130**	1,508,881
Debt securities and certificates of deposit in issue	30	**9,251**	1,121
Other accounts and provisions	31	**126,928**	52,573
Current tax liabilities		**4,756**	3,014
Deferred tax liabilities	32	**5,926**	5,590
Insurance contract liabilities	33	**94,212**	86,534
Subordinated liabilities	34	**19,099**	19,014
Liabilities associated with assets held for sale	35	**–**	47,013
Total liabilities		**2,398,227**	2,104,023
EQUITY			
Share capital	36	**52,864**	52,864
Reserves		**184,591**	173,963
Capital and reserves attributable to the equity holders of the Company		**237,455**	226,827
Non-controlling interests		**4,282**	5,907
Total equity		**241,737**	232,734
Total liabilities and equity		**2,639,964**	2,336,757

The notes on pages 41 to 116 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)									
	Attributable to the equity holders of the Company									
		Reserves								
	Share capital HK$'m	Premises revaluation reserve HK$'m	Reserve for fair value changes of available-for-sale securities HK$'m	Regulatory reserve* HK$'m	Translation reserve HK$'m	Merger reserve** HK$'m	Retained earnings HK$'m	Total HK$'m	Non-controlling interests HK$'m	Total equity HK$'m
At 1 January 2016, as previously reported	52,864	40,278	294	10,928	(346)	1,789	88,943	194,750	5,415	200,165
Effect of merger of entity under common control	–	–	2	–	(214)	2,384	2	2,174	–	2,174
At 1 January 2016, as restated	52,864	40,278	296	10,928	(560)	4,173	88,945	196,924	5,415	202,339
Profit for the period	–	–	–	–	–	–	42,837	42,837	414	43,251
Other comprehensive income:										
Premises	–	(308)	–	–	–	–	–	(308)	(10)	(318)
Available-for-sale securities	–	–	1,135	–	–	–	–	1,135	311	1,446
Currency translation difference	–	–	(10)	–	12	–	–	2	(5)	(3)
Release upon disposal of discontinued operations reclassified to income statement	–	–	(167)	–	(203)	–	–	(370)	–	(370)
Total comprehensive income	–	(308)	958	–	(191)	–	42,837	43,296	710	44,006
Transfer from retained earnings	–	–	–	645	–	–	(645)	–	–	–
Release upon disposal of discontinued operations	–	(4,856)	–	(2,240)	–	–	7,096	–	–	–
Dividends	–	–	–	–	–	–	(7,179)	(7,179)	(96)	(7,275)
At 30 June 2016	52,864	35,114	1,254	9,333	(751)	4,173	131,054	233,041	6,029	239,070
Profit for the period	–	–	–	–	–	–	12,667	12,667	406	13,073
Other comprehensive income:										
Premises	–	494	–	–	–	–	–	494	–	494
Available-for-sale securities	–	–	(1,840)	–	–	–	–	(1,840)	(469)	(2,309)
Currency translation difference	–	–	(6)	–	(184)	–	–	(190)	(16)	(206)
Total comprehensive income	–	494	(1,846)	–	(184)	–	12,667	11,131	(79)	11,052
Acquisition of entity under common control	–	–	–	–	–	(4,076)	–	(4,076)	–	(4,076)
Transfer from retained earnings	–	–	–	(106)	–	2,287	(2,181)	–	–	–
Dividends	–	–	–	–	–	–	(13,269)	(13,269)	(43)	(13,312)
At 31 December 2016	52,864	35,608	(592)	9,227	(935)	2,384	128,271	226,827	5,907	232,734

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)									
	Attributable to the equity holders of the Company									
		Reserves								
	Share capital HK$'m	Premises revaluation reserve HK$'m	Reserve for fair value changes of available-for-sale securities HK$'m	Regulatory reserve* HK$'m	Translation reserve HK$'m	Merger reserve** HK$'m	Retained earnings HK$'m	Total HK$'m	Non-controlling interests HK$'m	Total equity HK$'m
At 1 January 2017, as previously reported	52,864	35,608	(592)	9,227	(722)	–	128,268	224,653	5,907	230,560
Effect of merger of entity under common control	–	–	–	–	(213)	2,384	3	2,174	–	2,174
At 1 January 2017, as restated	52,864	35,608	(592)	9,227	(935)	2,384	128,271	226,827	5,907	232,734
Profit for the period	–	–	–	–	–	–	17,216	17,216	387	17,603
Other comprehensive income:										
Premises	–	1,115	–	–	–	–	–	1,115	–	1,115
Available-for-sale securities	–	–	1,616	–	–	–	–	1,616	159	1,775
Currency translation difference	–	1	(32)	–	268	–	–	237	6	243
Release upon disposal of discontinued operations reclassified to income statement	–	–	10	–	38	–	–	48	–	48
Total comprehensive income	–	1,116	1,594	–	306	–	17,216	20,232	552	20,784
Acquisition of entity under common control	–	–	–	–	–	(2,996)	–	(2,996)	–	(2,996)
Transfer from retained earnings	–	–	–	1,041	–	612	(1,653)	–	–	–
Release upon disposal of discontinued operations	–	(752)	–	(159)	–	–	911	–	(2,078)	(2,078)
Dividends	–	–	–	–	–	–	(6,608)	(6,608)	(99)	(6,707)
At 30 June 2017	52,864	35,972	1,002	10,109	(629)	–	138,137	237,455	4,282	241,737

* In accordance with the requirements of the HKMA, the amounts are set aside for general banking risks, including future losses or other unforeseeable risks, in addition to the loan impairment allowances recognised under HKAS 39.

** Merger reserve was arising on the application of merger accounting method in relation to the combination with entity under common control.

The notes on pages 41 to 116 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Notes	(Unaudited) Half-year ended 30 June 2017 HK$'m	(Restated) (Unaudited) Half-year ended 30 June 2016 HK$'m
Cash flows from operating activities			
Operating cash inflow before taxation	37(a)	**235,056**	56,311
Hong Kong profits tax paid		**(1,089)**	(1,191)
Overseas profits tax paid		**(62)**	(251)
Net cash inflow from operating activities		**233,905**	54,869
Cash flows from investing activities			
Purchase of properties, plant and equipment		**(816)**	(366)
Proceeds from disposal of properties, plant and equipment		**7**	1
Purchase of investment properties		**(5)**	–
Proceeds from disposal of investment properties		**2**	–
Dividend received from associates and joint ventures		**1**	2
Acquisition of entity under common control	46	**(2,996)**	–
Net cash inflow from disposal of discontinued operations	35	**810**	26,992
Net cash (outflow)/inflow from investing activities		**(2,997)**	26,629
Cash flows from financing activities			
Dividend paid to the equity holders of the Company		**–**	(7,179)
Dividend paid to non-controlling interests		**(99)**	(96)
Interest paid for subordinated liabilities		**(294)**	(210)
Net cash outflow from financing activities		**(393)**	(7,485)
Increase in cash and cash equivalents		**230,515**	74,013
Cash and cash equivalents at 1 January		**244,433**	315,716
Effect of exchange rate changes on cash and cash equivalents		**11,037**	(1,046)
Cash and cash equivalents at 30 June	37(b)	**485,985**	388,683

The notes on pages 41 to 116 are an integral part of this 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

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.

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.

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).

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.

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

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".

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

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

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

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

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.

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).

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 exposure[1] 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.

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

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

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

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

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.

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							
	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$'m	Total HK$'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

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

	At 30 June 2017							
	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$'m	Total HK$'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

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

	At 31 December 2016							
	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$'m	Total HK$'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	2,336,757

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

	At 31 December 2016							
	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$'m	Total HK$'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.

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".

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:

	At 30 June 2017		At 31 December 2016	
Name	**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

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%

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

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.

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.

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.

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.

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**

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).

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		
	Debt securities and certificates of deposit HK$'m	Debt securities and certificates of deposit HK$'m	Fund HK$'m	Debt securities and certificates of deposit HK$'m	Equity securities HK$'m	Derivative financial instruments HK$'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)

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	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	–	–

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.

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

CONTINUING OPERATIONS	**Half-year ended 30 June 2017 HK$'m**	Half-year ended 30 June 2016 HK$'m
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

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

CONTINUING OPERATIONS	**Half-year ended 30 June 2017 HK$'m**	Half-year ended 30 June 2016 HK$'m
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

7. Net trading gain

CONTINUING OPERATIONS	Half-year ended 30 June 2017 HK$'m	Half-year ended 30 June 2016 HK$'m
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

CONTINUING OPERATIONS	Half-year ended 30 June 2017 HK$'m	Half-year ended 30 June 2016 HK$'m
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

CONTINUING OPERATIONS	Half-year ended 30 June 2017 HK$'m	Half-year ended 30 June 2016 HK$'m
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.

10. Net insurance benefits and claims and movement in liabilities

CONTINUING OPERATIONS	**Half-year ended 30 June 2017 HK$'m**	Half-year ended 30 June 2016 HK$'m
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

CONTINUING OPERATIONS	**Half-year ended 30 June 2017 HK$'m**	Half-year ended 30 June 2016 HK$'m
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)

12. Operating expenses

CONTINUING OPERATIONS	**Half-year ended 30 June 2017 HK$'m**	Half-year ended 30 June 2016 HK$'m
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

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

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

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

15. Taxation

Taxation in the income statement represents:

CONTINUING OPERATIONS	Half-year ended 30 June 2017 HK$'m	Half-year ended 30 June 2016 HK$'m
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:

CONTINUING OPERATIONS	Half-year ended 30 June 2017 HK$'m	Half-year ended 30 June 2016 HK$'m
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%

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.

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

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 HK$'m	At 31 December 2016 HK$'m	**At 30 June 2017 HK$'m**	At 31 December 2016 HK$'m	**At 30 June 2017 HK$'m**	At 31 December 2016 HK$'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

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

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.

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	Fair values 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	Fair values 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)

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).

24. Investment in securities

	At 30 June 2017			
	At fair value	At amortised cost		
	Available-for-sale securities HK$'m	Held-to-maturity securities HK$'m	Loans and receivables HK$'m	Total HK$'m
Treasury bills	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		
	Available-for-sale securities HK$'m	Held-to-maturity securities HK$'m	Loans and receivables HK$'m	Total HK$'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

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	

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

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

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

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.

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

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 HK$'m	Property revaluation HK$'m	Losses HK$'m	Impairment allowances HK$'m	Others HK$'m	Total HK$'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 HK$'m	Property revaluation HK$'m	Losses HK$'m	Impairment allowances HK$'m	Others HK$'m	Total HK$'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

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).

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.

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

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

DISCONTINUED OPERATIONS	**Half-year ended 30 June 2017 HK$'m**	Half-year ended 30 June 2016 HK$'m
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

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

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

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

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

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.

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.

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.

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

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)

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.

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

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		
	Banks HK$'m	**Official sector HK$'m**	**Non-bank financial institutions HK$'m**	**Non-financial private sector HK$'m**	**Total 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		
	Banks HK$'m	Official sector HK$'m	Non-bank financial institutions HK$'m	Non-financial private sector HK$'m	Total 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

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%		

45. Non-bank Mainland exposures (continued)

		At 31 December 2016		
	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	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%		

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 HK$'m	**Entity under common control HK$'m**	**Adjustment HK$'m**	**After combination HK$'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 HK$'m	Entity under common control HK$'m	Adjustment HK$'m	After combination HK$'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

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.

ADDITIONAL INFORMATION

1. Corporate information

Board of Directors

Chairman

CHEN Siqing#	(appointment as Chairman effective from 30 August 2017)
TIAN Guoli#	(resignation effective from 16 August 2017)

Vice Chairman

YUE Yi

Directors

REN Deqi#
GAO Yingxin#
LI Jiuzhong
CHENG Eva*
CHOI Koon Shum*
KOH Beng Seng*
TUNG Savio Wai-Hok*
XU Luode# (resignation effective from 11 June 2017)

Non-executive Directors
* Independent Non-executive Directors

Senior Management

Chief Executive

YUE Yi

Chief Risk Officer

LI Jiuzhong

Deputy Chief Executives

LIN Jingzhen
YUAN Shu

Chief Operating Officer

ZHONG Xiangqun

Chief Financial Officer

SUI Yang

Deputy Chief Executive

KUNG YEUNG Ann Yun Chi

Company Secretary

LUO Nan

Registered Office

24th Floor
Bank of China Tower
1 Garden Road
Hong Kong

Auditor

Ernst & Young

Share Registrar

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

ADR Depositary Bank

Citibank, N.A.
388 Greenwich Street
23rd Floor
New York, NY 10013
United States of America

Credit Ratings (Long Term)

Standard & Poor's	A+
Moody's	Aa3
Fitch	A

Index Constituent

The Company is a constituent of the following indices:
Hang Seng Index Series
Hang Seng Corporate Sustainability Index Series
Hang Seng High Dividend Yield Index Series
MSCI Index Series
FTSE Index Series

Stock Codes

Ordinary shares:

The Stock Exchange of Hong Kong Limited	2388
Reuters	2388.HK
Bloomberg	2388 HK

Level 1 ADR Programme:

CUSIP No.	096813209
OTC Symbol	BHKLY

Website

www.bochk.com

2. Interim dividend, special dividend and closure of register of members

The Board has declared an interim dividend of HK$0.545 per share (2016: HK$0.545) and special dividend of HK$0.095 per share (2016: HK$0.710), payable on Tuesday, 3 October 2017 to shareholders whose names appear on the Register of Members of the Company on Monday, 25 September 2017.

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to the interim dividend and special dividend, from Wednesday, 20 September 2017 to Monday, 25 September 2017 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the interim dividend and special dividend, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Tuesday, 19 September 2017. Shares of the Company will be traded ex-dividend as from Monday, 18 September 2017.

3. Interest of substantial shareholders

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 30 June 2017, the following parties had the following interests (as defined in the SFO) in the Company set opposite their respective names:

Name of Corporation	Number of shares held in the Company	Approximate % of the total issued shares
Central Huijin	6,984,274,213	66.06%
BOC	6,984,274,213	66.06%
BOCHKG	6,984,175,056	66.06%
BOC (BVI)	6,984,175,056	66.06%

Notes:

1. Following the reorganisation of BOC in August 2004, Central Huijin holds the controlling equity capital of BOC on behalf of the State. Accordingly, for the purpose of the SFO, Central Huijin is deemed to have the same interests in the Company as BOC.

2. BOC holds the entire issued shares of BOCHKG, which in turn holds the entire issued shares of BOC (BVI). Accordingly, BOC and BOCHKG are deemed to have the same interests in the Company as BOC (BVI) for the purpose of the SFO. BOC (BVI) beneficially held 6,984,175,056 shares of the Company.

3. BOC holds the entire issued shares of BOCI, which in turn holds the entire issued shares of BOCI Asia Limited and BOCI Financial Products Limited. Accordingly, BOC is deemed to have the same interests in the Company as BOCI Asia Limited and BOCI Financial Products Limited for the purpose of the SFO. BOCI Asia Limited had an interest in 24,479 shares of the Company and an interest in 72,000 shares held under physically settled equity derivatives while BOCI Financial Products Limited had an interest in 2,678 shares of the Company.

All the interests stated above represented long positions. Apart from the disclosure above, according to the register maintained by the Company pursuant to section 336 of the SFO, BOCI Financial Products Limited had an interest in 143,522 shares which represented short positions. BOC and Central Huijin are deemed to be interested in such number of shares for the purpose of the SFO. Save as disclosed, no other interests or short positions were recorded in the register maintained by the Company under section 336 of the SFO as at 30 June 2017.

4. Directors' and Chief Executive's interests in shares, underlying shares and debentures

As at 30 June 2017, the interests and short position of Directors, Chief Executive and their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") are set out below:

Associated corporation of the Company:
Bank of China Limited (H Shares)

	Number of shares/underlying shares held				
Name of director	**Personal interests**	**Family interests**	**Corporate interests**	**Total**	**Approximate % of the total issued H shares**
Choi Koon Shum	4,000,000	40,000 [1]	1,120,000 [2]	5,160,000	0.01%

Notes:

1. Such shares are held by the spouse of Dr Choi Koon Shum.

2. Dr Choi Koon Shum is deemed to be interested in the 1,120,000 shares held through Choi Koon Shum Education Foundation Limited by virtue of the SFO.

All the interests stated above represented long positions. Save as disclosed above, as at 30 June 2017, none of the Directors, Chief Executive or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

5. Changes of information in respect of Directors

In accordance with Rule 13.51B(1) of the Listing Rules, the changes in information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules after the publication of the Company's Annual Report 2016 on 31 March 2017 up to 30 August 2017 (being the approval date of this Interim Report) are set out below:

(a) Dr CHOI Koon Shum, Independent Non-executive Director of the Company, has been appointed as the Chairman of the Remuneration Committee of the Company and BOCHK with effect from 1 April 2017.

(b) Mr TUNG Savio Wai-Hok, Independent Non-executive Director of the Company, ceased to be the Chairman of the Remuneration Committee of the Company and BOCHK with effect from 1 April 2017 but remained as its member.

(c) Mr LI Jiuzhong, Executive Director of the Company, has been appointed as the Chairman of Bank of China (Thai) Public Company Limited, a subsidiary of the Company, with effect from 18 April 2017.

(d) Mr KOH Beng Seng, Independent Non-executive Director of the Company, retired as an Independent Non-executive Director of Singapore Technologies Engineering Ltd, a company listed in Singapore, with effect from 21 April 2017.

(e) Mr XU Luode resigned as Non-executive Director and ceased to be a member of each of the Remuneration Committee and the Strategy and Budget Committee of the Company and BOCHK with effect from 11 June 2017.

(f) Mr REN Deqi, Non-executive Director of the Company, has been appointed as the Chairman of BOC Credit Card (International) Limited, a subsidiary of the Company, with effect from 8 August 2017.

(g) Mr TIAN Guoli resigned as the Chairman and Non-executive Director, and ceased to be the Chairman of the Nomination Committee of the Company and BOCHK with effect from 16 August 2017.

(h) Mr CHEN Siqing resigned as the President of BOC on 16 August 2017 and has been appointed as the Chairman of BOC with effect from 29 August 2017. Mr CHEN has been appointed as the Chairman of the Board and the Chairman of the Nomination Committee of the Company and BOCHK with effect from 30 August 2017.

The biographies of Directors are available under the sub-section "Organisation – Board of Directors" of the section headed "About Us" on the Company's website at www.bochk.com.

6. Purchase, sale or redemption of the Company's shares

During the period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

7. Audit Committee

The Audit Committee consists of Independent Non-executive Directors only. It is chaired by Mr TUNG Savio Wai-Hok. Other members include Madam CHENG Eva, Dr CHOI Koon Shum and Mr KOH Beng Seng.

Based on the principle of independence, the Audit Committee assists the Board in monitoring the financial reports, internal control, internal audit and external audit of the Group.

At the request of the Audit Committee of the Company, the Group's external auditor has carried out a review of the interim financial information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. The Audit Committee has reviewed with the Management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim reports.

8. Compliance with the "Corporate Governance Code and Corporate Governance Report"

The Company is committed to embracing and enhancing good corporate governance principles and practices. During the period under review, the Company has been in full compliance with all code provisions of the Corporate Governance Code and Corporate Governance Report as contained in Appendix 14 of the Listing Rules (the "Corporate Governance Code") except for Code Provision E.1.2. Due to other business arrangement, Mr TIAN Guoli, the former Chairman of the Board, was unable to attend the annual general meeting held on 28 June 2017 and delegated Mr YUE Yi, Vice Chairman and Chief Executive of the Company, to chair the meeting. The Company has also complied with nearly all the recommended best practices set out in the Corporate Governance Code throughout the period. For further details, please refer to the section titled "Corporate Governance" contained in the Annual Report 2016 of the Company.

9. Compliance with the Codes for Securities Transactions by Directors

The Company has established and implemented the "Code for Securities Transactions by Directors" (the "Company's Code") to govern the Directors' dealings in securities transactions of the Company. Terms of the Company's Code are more stringent than the mandatory standards set out in the Model Code. Apart from the securities of the Company, the Company's Code also applies to the Director's dealings in the securities of BOC and its subsidiary, BOC Aviation Limited which have been listed on the Hong Kong Stock Exchange since June 2006 and June 2016 respectively. Upon specific enquiry by the Company, all Directors confirmed that they had strictly complied with the provisions as set out in both the Company's Code and the Model Code throughout the period under review. The Company had undertaken a review of the Company's Code in October 2016. There were no fundamental amendments to the Company's Code and changes were adaptive in nature mainly to refine the Company's Code.

10. Compliance with the Banking (Disclosure) Rules and the Listing Rules

This unaudited Interim Report complies with the applicable requirements set out in the Banking (Disclosure) Rules under the Banking Ordinance and the applicable disclosure provisions of the Listing Rules.

11. Interim Report

This Interim Report is available in both English and Chinese. A copy prepared in the language different from that in which you have received is available by writing to the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or email to bochk.ecom@computershare.com.hk.

This Interim Report is also available (in both English and Chinese) on the Company's website at www.bochk.com and the Stock Exchange's website at www.hkexnews.hk. You are encouraged to access the Interim Report and other corporate communications of the Company through these websites in lieu of receiving printed copies to help protect the environment. We believe that it is also the most efficient and convenient method of communication with our shareholders.

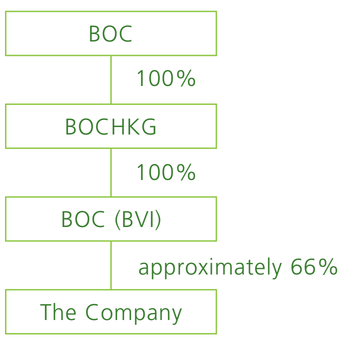
If you have any queries about how to obtain copies of this Interim Report or how to access those corporate communications on the Company's website, please call the Company's hotline at (852) 2846 2700.

12. Reconciliation between HKFRSs vs IFRSs/CASs

The Company understands that BOC, an intermediate holding company as well as controlling shareholder of the Company, will prepare and disclose consolidated financial information in accordance with IFRSs and CASs for which the Company and its subsidiaries will form part of the interim financial information. The requirements of CASs have substantially converged with HKFRSs and IFRSs.

The consolidated financial information of "BOC Hong Kong Group" for the periods disclosed by BOC in its interim financial information is not the same as the consolidated financial information of the Group for the periods published by the Company pursuant to applicable laws and regulations in Hong Kong. There are two reasons for this.

First, the definitions of "BOC Hong Kong Group" (as adopted by BOC for the purpose of its own financial disclosure) and "Group" (as adopted by the Company in preparing and presenting its consolidated financial information) are different: "BOC Hong Kong Group" refers to BOCHKG and its subsidiaries, whereas "Group" refers to the Company and its subsidiaries (see the below organisation chart). Though there is difference in definitions between "BOC Hong Kong Group" and "Group", their financial results for the periods presented are substantially the same. This is because BOCHKG and BOC (BVI) are holding companies only and have no substantive operations of their own.



12. Reconciliation between HKFRSs vs IFRSs/CASs (continued)

Second, the Group has prepared its interim financial information in accordance with HKFRSs; whereas the consolidated financial information reported to BOC is prepared in accordance with IFRSs and CASs respectively. There is a difference in the election of subsequent measurement basis of bank premises by the Group and by BOC respectively.

The Board considers that the best way to ensure that shareholders and the investing public understand the material differences between the consolidated financial information of the Group published by the Company on the one hand, and the consolidated financial information of BOC Hong Kong Group disclosed by BOC in its interim financial information on the other hand, is to present reconciliations of the profit after tax/net assets of the Group prepared under HKFRSs to the profit after tax/net assets of the Group prepared under IFRSs and CASs respectively for the periods presented.

The major differences which arise from the difference in measurement basis relate to the following:

– restatement of carrying value of bank premises; and

– deferred taxation impact arising from the above different measurement basis.

(a) *Restatement of carrying value of bank premises*

The Company has elected for a revaluation model rather than cost model to account for bank premises and investment properties under HKFRSs. On the contrary, BOC has elected for the cost model for bank premises and revaluation model for investment properties under IFRSs and CASs. Therefore, adjustments have been made to the carrying value of bank premises as well as to re-calculate the depreciation charge and disposal gain/loss under IFRSs and CASs, including the gain on disposal of discontinued operations.

(b) *Deferred tax adjustments*

These represent the deferred tax effect of the aforesaid adjustments.

Profit after tax/net assets reconciliation

HKFRSs vs IFRSs/CASs

	Profit after tax		Net assets	
	Half-year ended 30 June 2017 HK$'m	Half-year ended 30 June 2016 HK$'m	**At 30 June 2017 HK$'m**	At 31 December 2016 HK$'m
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs	**17,603**	43,251	**241,737**	232,734
Add: IFRSs/CASs adjustments				
Restatement of carrying value of bank premises	**1,085**	5,814	**(34,079)**	(34,426)
Deferred tax adjustments	**(63)**	(965)	**5,791**	5,843
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRSs/CASs	**18,625**	48,100	**213,449**	204,151

ADDITIONAL INFORMATION

13. Regulatory Disclosures

The Regulatory Disclosures 30 June 2017, prepared in accordance with the Banking (Disclosure) Rules, is available under section "Regulatory Disclosures" on BOCHK's website at www.bochk.com. The details are as follows:

INDEPENDENT REVIEW REPORT

安永

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Report on review of interim financial information
To the board of directors of BOC Hong Kong (Holdings) Limited
(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 35 to 116, which comprises the condensed consolidated balance sheet of BOC Hong Kong (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2017 and the related condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six-month period then ended, and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Ernst & Young
Certified Public Accountants
Hong Kong, 30 August 2017

APPENDIX

Subsidiaries of the Company

The particulars of subsidiaries are as follows:

Name	Place and date of incorporation/ operation	Issued share capital/ registered capital	Interest held	Principal activities
Directly held:				
Bank of China (Hong Kong) Limited	Hong Kong 16 October 1964	Ordinary shares HK$43,042,840,858	100.00%	Banking business
BOC Group Life Assurance Company Limited	Hong Kong 12 March 1997	Ordinary shares HK$3,538,000,000	51.00%	Life insurance business
BOCHK Asset Management (Cayman) Limited	Cayman Islands 7 October 2010	Ordinary shares HK$50,000,000	100.00%	Investment holding
Indirectly held:				
BOC Credit Card (International) Limited	Hong Kong 9 September 1980	Ordinary shares HK$480,000,000	100.00%	Credit card services
BOC Group Trustee Company Limited	Hong Kong 1 December 1997	Ordinary shares HK$200,000,000	66.00%	Trustee services
BOCI-Prudential Trustee Limited	Hong Kong 11 October 1999	Ordinary shares HK$300,000,000	42.24%*	Trustee services
Bank of China (Malaysia) Berhad	Malaysia 14 April 2000	Ordinary shares RM760,518,480	100.00%	Banking business
China Bridge (Malaysia) Sdn. Bhd.	Malaysia 24 April 2009	Ordinary shares RM1,000,000	100.00%	China visa application
Bank of China (Thai) Public Company Limited[1]	Thailand 1 April 2014	Ordinary shares Baht10,000,000,000	100.00%	Banking business
Bank of China (Hong Kong) Nominees Limited	Hong Kong 1 October 1985	Ordinary shares HK$2	100.00%	Nominee services
Bank of China (Hong Kong) Trustees Limited	Hong Kong 6 November 1987	Ordinary shares HK$3,000,000	100.00%	Trustee and agency services
BOCHK Financial Products (Cayman) Ltd.	Cayman Islands 10 November 2006	Ordinary shares US$50,000	100.00%	Issuing structured notes
BOCHK Information Technology (Shenzhen) Co., Ltd.	PRC 16 April 1990	Registered capital HK$70,000,000	100.00%	Property holding and investment
BOCHK Information Technology Services (Shenzhen) Co., Ltd.	PRC 26 May 1993	Registered capital HK$40,000,000	100.00%	Information technology services

Subsidiaries of the Company (continued)

Name	Place and date of incorporation/ operation	Issued share capital/ registered capital	Interest held	Principal activities
Che Hsing (Nominees) Limited	Hong Kong 23 April 1980	Ordinary shares HK$10,000	100.00%	Nominee services
Po Sang Financial Investment Services Company Limited	Hong Kong 23 September 1980	Ordinary shares HK$335,000,000	100.00%	Gold trading and investment holding
Po Sang Securities and Futures Limited	Hong Kong 19 October 1993	Ordinary shares HK$335,000,000	100.00%	Securities and futures brokerage
Sin Chiao Enterprises Corporation, Limited	Hong Kong 13 September 1961	Ordinary shares HK$3,000,000	100.00%	Property holding and investment
Sin Hua Trustee Limited	Hong Kong 27 October 1978	Ordinary shares HK$3,000,000	100.00%	Trustee services
Billion Express Development Inc.[1]	British Virgin Islands 7 February 2014	Ordinary shares US$1	100.00%	Investment holding
Billion Orient Holdings Ltd.[1]	British Virgin Islands 3 February 2014	Ordinary shares US$1	100.00%	Investment holding
Elite Bond Investments Ltd.[1]	British Virgin Islands 7 February 2014	Ordinary shares US$1	100.00%	Investment holding
Express Capital Enterprise Inc.[1]	British Virgin Islands 3 February 2014	Ordinary shares US$1	100.00%	Investment holding
Express Charm Holdings Corp.[1]	British Virgin Islands 7 February 2014	Ordinary shares US$1	100.00%	Investment holding
Express Shine Assets Holdings Corp.[1]	British Virgin Islands 3 January 2014	Ordinary shares US$1	100.00%	Investment holding
Express Talent Investment Ltd.[1]	British Virgin Islands 13 February 2014	Ordinary shares US$1	100.00%	Investment holding
Gold Medal Capital Inc.[1]	British Virgin Islands 3 January 2014	Ordinary shares US$1	100.00%	Investment holding
Gold Tap Enterprises Inc.[1]	British Virgin Islands 13 February 2014	Ordinary shares US$1	100.00%	Investment holding
Maxi Success Holdings Ltd.[1]	British Virgin Islands 7 February 2014	Ordinary shares US$1	100.00%	Investment holding
Smart Linkage Holdings Inc.[1]	British Virgin Islands 13 February 2014	Ordinary shares US$1	100.00%	Investment holding

APPENDIX

Subsidiaries of the Company (continued)

Name	Place and date of incorporation/ operation	Issued share capital/ registered capital	Interest held	Principal activities
Smart Union Capital Investments Ltd.[1]	British Virgin Islands 3 January 2014	Ordinary shares US$1	100.00%	Investment holding
Success Trend Development Ltd.[1]	British Virgin Islands 18 February 2014	Ordinary shares US$1	100.00%	Investment holding
Wise Key Enterprises Corp.[1]	British Virgin Islands 18 February 2014	Ordinary shares US$1	100.00%	Investment holding
BOCHK Asset Management Limited	Hong Kong 28 October 2010	Ordinary shares HK$39,500,000	100.00%	Asset management

* BOCI-Prudential Trustee Limited is a subsidiary of a non-wholly-owned subsidiary of the Company and, accordingly, is accounted for as a subsidiary by virtue of the Company's control over it.

Note 1: The acquisition of Bank of China (Thai) Public Company Limited and the 14 special purpose vehicle companies was completed on 9 January 2017.

Sino Information Services Company Limited was dissolved on 14 February 2017.

The disposal of Chiyu Banking Corporation Limited, Chiyu Banking Corporation (Nominees) Limited, Grace Charter Limited and Seng Sun Development Company, Limited was completed on 27 March 2017.

A wholly-owned investment holding company is in the process of establishment and capitalisation.

DEFINITIONS

In this Interim Report, unless the context otherwise requires, the following terms shall have the meanings set out below:

Terms	Meanings
"ABS"	Asset-backed Securities
"ADR"	American Depositary Receipt
"ALCO"	the Asset and Liability Management Committee
"AT1"	Additional Tier 1
"Associates"	has the meaning ascribed to "associates" in the Listing Rules
"BOC"	Bank of China Limited, a joint stock commercial bank with limited liability established under the laws of the PRC, the H shares and A shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively
"BOC (BVI)"	BOC Hong Kong (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of BOCHKG
"BOCG Insurance"	Bank of China Group Insurance Company Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCHKG"	BOC Hong Kong (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCHK" or "the Bank"	Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of the Company
"BOCI"	BOC International Holdings Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCI-Prudential Manager"	BOCI-Prudential Asset Management Limited, a company incorporated under the laws of Hong Kong, in which BOCI Asset Management Limited, a wholly-owned subsidiary of BOC International Holdings Limited, and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOCI-Prudential Trustee"	BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong, in which BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOC Life"	BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOCG Insurance hold equity interests of 51% and 49% respectively
"BOC Malaysia"	Bank of China (Malaysia) Berhad, a wholly-owned subsidiary of BOCHK
"BOC Thailand"	Bank of China (Thai) Public Company Limited, a wholly-owned subsidiary of BOCHK
"Board" or "Board of Directors"	the Board of Directors of the Company
"CAS"	Chinese Accounting Standard for Business Enterprises

DEFINITIONS

Terms	Meanings
"CE"	Chief Executive
"CET1"	Common Equity Tier 1
"CFO"	Chief Financial Officer
"CIC"	China Investment Corporation
"CRO"	Chief Risk Officer
"CVA"	Credit Valuation Adjustment
"Central Huijin"	Central Huijin Investment Ltd.
"Chiyu"	Chiyu Banking Corporation Limited, a company incorporated under the laws of Hong Kong
"DCE"	Deputy Chief Executive
"DVA"	Debit Valuation Adjustment
"EV"	Economic Value Sensitivity Ratio
"FCC"	the Financial Crime Compliance Department
"FIRB"	Foundation Internal Ratings-based
"Fitch"	Fitch Ratings
"GDP"	Gross Domestic Product
"HIBOR"	Hong Kong Interbank Offered Rate
"HKAS"	Hong Kong Accounting Standard
"HKFRS"	Hong Kong Financial Reporting Standard
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HKMA"	Hong Kong Monetary Authority
"Hong Kong" or "Hong Kong SAR" or "HKSAR"	Hong Kong Special Administrative Region
"ICAAP"	Internal Capital Adequacy Assessment Process
"IFRS"	International Financial Reporting Standard
"IMM"	Internal Models
"IRB"	Internal Ratings-based
"IT"	Information Technology

Terms	Meanings
"LCO"	the Legal & Compliance and Operational Risk Management Department
"LCR"	Liquidity Coverage Ratio
"LIBOR"	London Interbank Offered Rate
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MBS"	Mortgage-backed Securities
"MC"	the Management Committee
"MPF"	Mandatory Provident Fund
"MPF Schemes Ordinance"	the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong, as amended
"Mainland" or "Mainland of China"	the mainland of the PRC
"Moody's"	Moody's Investors Service
"NCB"	Nanyang Commercial Bank, Limited, a company incorporated under the laws of Hong Kong
"ORSO schemes"	the Occupational Retirement Schemes under Occupational Retirement Schemes Ordinance, Chapter 426 of the Laws of Hong Kong
"OTC"	Over-the-counter
"PD"	Probability of Default
"PRC"	the People's Republic of China
"PVBP"	Price Value of a Basis Point
"RMC"	the Risk Committee
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"RMD"	the Risk Management Department
"RWA"	Risk-weighted Assets
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"SME"	Small and Medium-sized Enterprise
"STC"	Standardised (Credit Risk)
"STM"	Standardised (Market Risk)
"STO"	Standardised (Operational Risk)
"Standard & Poor's"	Standard & Poor's Ratings Services

DEFINITIONS

Terms	Meanings
"Stock Exchange" or "Hong Kong Stock Exchange" or "Stock Exchange of Hong Kong"	The Stock Exchange of Hong Kong Limited
"the Company"	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong
"the Group"	the Company and its subsidiaries collectively referred as the Group
"US"	the United States of America
"VAR"	Value at Risk

中銀香港(控股)有限公司
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