

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBs (AS DEFINED BELOW) UNDER RULE 144A UNDER THE SECURITIES ACT (AS DEFINED BELOW) OR (2) NON-U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) (“REGULATION S”) PURCHASING THE SECURITIES OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN RELIANCE ON REGULATION S.

IMPORTANT: You must read the following before continuing. The following applies to the principal offering circular dated 29 August 2018 (the “**Principal Offering Circular**”) and the supplemental offering circular (the “**Supplemental Offering Circular**”) following this page (the Supplemental Offering Circular, together with the Principal Offering Circular, the “**Offering Circular**”), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE OFFERING CIRCULAR MAY NOT BE DOWNLOADED, FORWARDED OR DISTRIBUTED, IN WHOLE OR IN PART, TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY DOWNLOADING, FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation and your Representation: In order to be eligible to view the following Offering Circular or make an investment decision with respect to the securities, investors must be either (i) qualified institutional buyers (“**QIBs**”) (within the meaning of Rule 144A under the Securities Act) or (ii) addressees who are not U.S. persons (“**U.S. persons**”) (as defined under Regulation S) purchasing the securities from outside the United States in an offshore transaction in reliance on Regulation S. By accepting the e-mail and accessing the following Offering Circular, you shall be deemed to have represented to us and the Joint Lead Managers that (i) you and any customers you represent are either (A) QIBs or (B) non-U.S. persons eligible to purchase the securities outside the United States in an offshore transaction in reliance on Regulation S and that the electronic e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States, and (ii) that you consent to the delivery of such Offering Circular and any amendments or supplements thereto by electronic transmission.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of the Offering Circular to any other person. You should not reply by e-mail to this notice, and you may not purchase any securities by doing so. Any reply by e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected.

The Offering Circular does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers, or any affiliate of the Joint Lead Managers, is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers, or such affiliate on behalf of Bank of China (Hong Kong) Limited in such jurisdiction.

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Bank of China (Hong Kong) Limited and the Joint Lead Managers or the Agents (as defined in the Offering Circular), nor any person who controls any of them, nor any director, officer, employee or agent of any of them, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any such alteration or change to the Offering Circular distributed to you in electronic format or any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and any other item of a destructive nature.



BANK OF CHINA (HONG KONG) LIMITED

(incorporated with limited liability in Hong Kong)

U.S.\$3,000,000,000 5.9 per cent. Undated Non-cumulative Subordinated Additional Tier 1 Capital Securities

**Issued under the
U.S.\$15,000,000,000**

MEDIUM TERM NOTE PROGRAMME

Issue Price: 100 per cent.

Under the U.S.\$15,000,000,000 Medium Term Note Programme (the "Programme") established on 2 September 2011, as described in the offering circular dated 29 August 2018 (the "Principal Offering Circular"), the Bank of China (Hong Kong) Limited (the "Issuer" or the "Bank"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes. The U.S.\$3,000,000,000 5.9 per cent. undated non-cumulative subordinated additional Tier 1 capital securities (the "Capital Securities") described in this Supplemental Offering Circular will be issued by the Issuer under the Programme. This supplemental offering circular (the "Supplemental Offering Circular", together with the Principal Offering Circular, the "Offering Circular") relates only to offers and sales of the Capital Securities (i) in the United States only to qualified institutional buyers in reliance on the exemption from the registration requirements of the U.S. Securities Act of 1933, as amended (the "Securities Act") provided by Rule 144A thereunder ("Rule 144A") and (ii) outside the United States to non-U.S. persons (as defined in Regulation S under the Securities Act ("Regulation S"), in compliance with Regulation S. Terms defined in the Principal Offering Circular have the same meanings when used in this Supplemental Offering Circular. This Supplemental Offering Circular is supplemental to, and should be read in conjunction with, the Principal Offering Circular and any other supplements to the Principal Offering Circular issued by the Issuer. For a general description of terms that may apply to the Capital Securities, please see the Pricing Supplement as contained herein as Appendix A and the terms and conditions of the Capital Securities as set forth in the schedule to the Pricing Supplement, which are deemed to amend and restate the Terms and Conditions of the Notes set forth in the Principal Offering Circular.

An investment in Capital Securities issued under the Programme involves certain risks. For a discussion of the risks relating to an investment in the Capital Securities, please see "Risk Factors" in the Principal Offering Circular and this Supplemental Offering Circular. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information, including the potential occurrence of a Non-Viability Event (as defined herein), contained in the Principal Offering Circular, this Supplemental Offering Circular and the Pricing Supplement (as defined below) and the merits and risks of investing in the Capital Securities in the context of their financial position and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in the Capital Securities. Investors should not purchase the Capital Securities unless they understand and are able to bear risks associated with the Capital Securities.

Application has been made to The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") for the listing of the Capital Securities by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, "Professional Investors") only. This Supplemental Offering Circular is for distribution to Professional Investors only. Investors should not purchase the Capital Securities in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Capital Securities are only suitable for Professional Investors.

The Hong Kong Stock Exchange has not reviewed the contents of this Supplemental Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Supplemental Offering Circular to Professional Investors only, have been reproduced in this document. Listing of the Capital Securities on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Capital Securities or the Issuer or of the quality of disclosure in this Supplemental Offering Circular. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Supplemental Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Supplemental Offering Circular.

This Supplemental Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this Supplemental Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

THE CAPITAL SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. ACCORDINGLY, THE CAPITAL SECURITIES ARE BEING OFFERED AND SOLD ONLY (1) TO QUALIFIED INSTITUTIONAL BUYERS IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144A AND (2) OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS (AS DEFINED UNDER REGULATION S) IN COMPLIANCE WITH REGULATION S. SEE "SUBSCRIPTION AND SALE" AND "TRANSFER RESTRICTIONS" IN THE PRINCIPAL OFFERING CIRCULAR FOR FURTHER DESCRIPTION OF RESTRICTIONS ON TRANSFER.

The Capital Securities to be issued have been rated "Baa2" by Moody's Investors Service, Inc. ("Moody's") and "BBB" by Standard & Poor's Rating Services, a division of S&P Global Inc. ("S&P"). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners

(in alphabetical order)



Joint Lead Managers and Joint Bookrunners

(in alphabetical order)



NOTICE TO INVESTORS

The Issuer, having made all reasonable enquiries, confirms that (i) the Offering Circular contains all information with respect to the Issuer and the Capital Securities, which is material in the context of the issue and offering of the Capital Securities; (ii) the statements contained in the Offering Circular relating to the Issuer are in every material respect true and accurate and not misleading; (iii) the opinions and intentions expressed in the Offering Circular, with regard to the Issuer, are honestly and reasonably held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Issuer or the Capital Securities, the omission of which would, in the context of the issue and offering of the Capital Securities, make any statement, opinion or intention expressed in the Offering Circular, misleading in any material respect; and (v) all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements. The Issuer accepts responsibility for the information contained within this Supplemental Offering Circular. To the best of the knowledge of the Issuer and having taken all reasonable care to ensure that such is the case, the information contained in this Supplemental Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of this Supplemental Offering Circular.

The Capital Securities will be issued on the terms set out herein under the Terms and Conditions of the Capital Securities (the “**Conditions**”) as set forth in the schedule to the pricing supplement (the “**Pricing Supplement**”). This Supplemental Offering Circular must be read and construed together with the Principal Offering Circular, any amendments or supplements hereto or thereto and with any information incorporated by reference herein or therein and must be read and construed together with the Pricing Supplement.

The Offering Circular has been prepared by the Issuer solely for use in connection with the offering of Capital Securities under the Programme. The distribution of the Offering Circular and the Pricing Supplement and the offering of the Capital Securities in certain jurisdictions may be restricted by law. Persons into whose possession the Offering Circular comes are required by the Issuer, Bank of China Limited, Bank of China (Hong Kong) Limited, BOCI Asia Limited, Cinda International Capital Limited, Citigroup Global Markets Limited, Goldman Sachs (Asia) L.L.C., BNP Paribas, Guotai Junan Securities (Hong Kong) Limited and Morgan Stanley & Co. International plc (the “**Joint Lead Managers**”) to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Capital Securities or the distribution of the Offering Circular or the Pricing Supplement in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Capital Securities and the circulation of documents relating thereto, in certain jurisdictions including the United States, the European Economic Area (including the United Kingdom), Hong Kong, Japan and Singapore, to persons connected therewith. For a description of certain further restrictions on offers, sales and resale of the Capital Securities and distribution of the Offering Circular or the Pricing Supplement, see “*Subscription and Sale*”.

PRIIPs/IMPORTANT – EEA RETAIL INVESTORS – The Capital Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a “**retail investor**” means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Capital Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering

or selling the Capital Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

No person has been or is authorised to give any information or to make any representation concerning the Issuer or the Capital Securities other than as contained herein or any other document entered into in relation to the Programme and the sale of Capital Securities and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Joint Lead Managers, the Trustee or the Agents (as defined in the Conditions).

Any information sourced from third parties contained in the Offering Circular has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by that third party. No facts have been omitted which would render the reproduced information inaccurate or misleading.

Neither the Offering Circular nor the Pricing Supplement constitutes an offer of, or an invitation by or on behalf of the Issuer, the Joint Lead Managers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, agents and each person who controls any of them or their respective advisers) to subscribe for or purchase any of the Capital Securities and neither document may be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful. The Offering Circular may not be copied or reproduced in whole or in part. It may be distributed only to, and its contents may be disclosed only to, the prospective investors to whom it is provided. By accepting delivery of the Offering Circular, each investor agrees to these restrictions.

No representation or warranty, express or implied, is made or given by the Joint Lead Managers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, agents and each person who controls any of them or their respective advisers) as to the accuracy, completeness or sufficiency of the information contained or incorporated in the Offering Circular or any other information provided by the Issuer in connection with the Issuer, or the Capital Securities and nothing contained or incorporated in the Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Lead Managers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, agents and each person who controls any of them or their respective advisers). None of the Joint Lead Managers, the Trustee and the Agents (or any of their respective affiliates, directors, officers, employees, representatives, agents and each person who controls any of them or their respective advisers) has independently verified any of the information contained or incorporated in the Offering Circular or any other information provided by the Issuer in connection with the Issuer or the Capital Securities and can give any assurance that such information is accurate, truthful or complete. Neither the Offering Circular nor any other information supplied in connection with any Capital Securities is intended to provide the basis of any credit or other evaluation, nor should it be considered as a recommendation by any of the Issuer, the Joint Lead Managers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, agents and each person who controls any of them or their respective advisers) that any recipient of the Offering Circular should purchase the Capital Securities. Each potential purchaser of the Capital Securities should determine for itself the relevance of the information contained in the Offering Circular, the other information supplied in connection with the Issuer or any Capital Securities, and its purchase of the Capital Securities should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

THE CAPITAL SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. SUBJECT TO CERTAIN EXCEPTIONS, THE CAPITAL SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES.

The Capital Securities are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S and within the United States to QIBs in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Capital Securities may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of Capital Securities and distribution of the Offering Circular, see “*Subscription and Sale*” and “*Transfer Restrictions*” in the Principal Offering Circular.

THE CAPITAL SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UP ON OR ENDORSED THE MERITS OF THE OFFERING OF THE CAPITAL SECURITIES OR THE ACCURACY OR THE ADEQUACY OF THE OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

STABILISATION

IN CONNECTION WITH THE ISSUE OF THE CAPITAL SECURITIES, THE JOINT LEAD MANAGERS (OR ANY PERSON(S) ACTING FOR IT) (THE “STABILISATION MANAGER(S)”), MAY OVER-ALLOT THE CAPITAL SECURITIES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE CAPITAL SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISATION MANAGER(S) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE CAPITAL SECURITIES IS MADE AND, IF BEGUN, MAY BE DISCONTINUED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE CAPITAL SECURITIES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE CAPITAL SECURITIES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISATION MANAGER (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

PRESENTATION OF INFORMATION

In this Offering Circular, unless the context otherwise requires, (i) references to **“BOCHK,”** the **“Issuer”** or the **“Bank”** mean Bank of China (Hong Kong) Limited and, as the context may require, its subsidiaries; (ii) references to **“BOCHK (Holdings)”** mean BOC Hong Kong (Holdings) Limited; (iii) references to **“BOCHK (Holdings) Group”** mean BOC Hong Kong (Holdings) Limited and its subsidiaries (including BOCHK); (iv) references to **“BOC”** mean Bank of China Limited, a joint stock commercial bank with limited liability established under the laws of the PRC; (v) references to **“BOC Group”** mean Bank of China Limited and its subsidiaries; (vi) references to **“BOC Dealer Group”** refer to BOCHK, BOC and BOCI Asia Limited; and (vii) references to the **“Group”** mean Bank of China (Hong Kong) Limited and its subsidiaries.

Unless otherwise specified or the context otherwise requires, references to **“U.S.\$”** and to **“U.S. dollars”** are to lawful currency of the United States of America, references to **“HK\$”** and **“HK dollars”** are to the lawful currency of Hong Kong Special Administrative Region of the PRC (**“Hong Kong”**), references to **“RMB”** and **“Renminbi”** are to the lawful currency of the PRC, references to **“sterling”** and **“£”** are to the lawful currency of the United Kingdom, references to **“€”**, **“EUR”** and **“Euro”** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended from time to time, references to **“Australian dollars”** are to the lawful currency of Commonwealth of Australia, and references to the **“PRC”** and **“the Mainland of China”** are to the People’s Republic of China and, for the purpose of this Offering Circular, except where the context requires, do not include Hong Kong, Macau Special Administrative Region of the PRC (**“Macau”**), or Taiwan, China.

In this Offering Circular, where information has been presented in thousands, millions or billions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items, and actual numbers may differ from those contained herein due to rounding.

FORWARD-LOOKING STATEMENTS

This Supplemental Offering Circular includes statements that are, or may be deemed to be, “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the U.S. Securities and Exchange Act of 1934, as amended (the **“Exchange Act”**). These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “intends”, “may”, “will” or “should” or, in each case, its negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Supplemental Offering Circular and include statements regarding the intentions, beliefs or current expectations of the Issuer concerning, amongst other things, the results of operations, financial condition, liquidity, prospects, growth, strategies and the industries in which the Issuer operates.

By their nature, forward-looking statements are subject to numerous assumptions, risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and the Issuer’s actual results of operations, financial condition and liquidity, and the development of the industries in which the Issuer operates, may differ materially from those made in or suggested by the forward-looking statements contained in this Supplemental Offering Circular. Additionally, even if the results of operations, financial condition and liquidity and the development of the industries in which the Issuer operates are consistent with the forward-looking statements contained in this Supplemental Offering Circular, those results or development may not be indicative of results or that development in subsequent periods.

The cautionary statements set forth above should be considered in connection with any subsequent written or oral forward-looking statements that the Issuer or persons acting on its behalf may issue. The Issuer does not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this Supplemental Offering Circular.

The following list includes some, but not necessarily all, of the factors that may cause actual results to differ from those anticipated or predicted:

- changes in the general operating environment of the Hong Kong banking industry;
- changes in general economic, market and business conditions in Hong Kong, the Mainland of China, the United States and other countries;
- changes in the monetary and credit policies of the United States, Hong Kong and the Mainland of China;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;
- changes in Hong Kong governmental policies, laws or regulations, in particular those affecting the banking industry in Hong Kong;
- the effects of intensifying competition in the banking industry in Hong Kong; and
- the performance of the real property and financial markets in Hong Kong.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “*Risk Factors*” of the Principal Offering Circular and of this Supplemental Offering Circular.

Any forward-looking statements that the Issuer makes in this Supplemental Offering Circular speak only as of the date of such statements, and the Issuer undertakes no obligation to update such statements. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, and should only be viewed as historical data.

AVAILABLE INFORMATION

The Issuer has agreed that, for so long as any Capital Securities are “restricted securities” as defined in Rule 144(a)(3) under the Securities Act, the Issuer will, during any period that the Issuer is neither subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, furnish, upon request, to any holder or beneficial owner of such restricted securities or any prospective purchaser designated by any such holder or beneficial owner or to the Trustee for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or Trustee, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

ENFORCEABILITY OF CIVIL LIABILITIES

The Issuer is incorporated under the laws of Hong Kong. Most of the Issuer's directors and officers and the experts named herein reside outside the United States (principally in Hong Kong). A substantial portion of the Issuer's assets and the assets of such persons are or may be located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Issuer or such persons, or to enforce against the Issuer or such persons judgments obtained in U.S. courts, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States.

PRESENTATION OF FINANCIAL INFORMATION

The Issuer's financial statements are prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**"), which differ in certain respects from generally accepted accounting principles in other countries, including accounting principles generally accepted in the United States ("**U.S. GAAP**"), and such differences might be material to the financial information presented herein. The Issuer has made no attempt to quantify the impact of those differences. In particular, the Issuer has not attempted to reconcile its consolidated financial statements to U.S. GAAP, but had the Issuer done so it may have had a material impact on the financial information contained herein. Potential investors should consult their own professional advisers for an understanding of the difference between HKFRS, U.S. GAAP and certain other jurisdictions, and how those differences might affect the financial information presented herein. In making an investment decision, investors must rely upon their own independent examination of the Issuer, the terms of this offering and the Issuer's recent financial information, including the risks involved. Unless specified or the context otherwise requires, all financial information in the Offering Circular is presented on a consolidated basis.

This Supplemental Offering Circular contains a translation of certain HK dollar amounts into U.S. dollars at specified rates solely for the convenience of the reader. Except as otherwise stated, all translations from HK dollars to U.S. dollars are based on the noon buying rate in the City of New York for cable transfers in HK dollars as certified for customs purposes by the Federal Reserve Bank of New York (the "**Noon Buying Rate**") on 29 June 2018, which was HK\$7.8463 per U.S.\$1.00, as set forth in the weekly H.10 statistical release of the Federal Reserve Board. No representation is made that the HK dollar amounts referred to herein could have been or could be converted into U.S. dollars at such a rate or any other rate. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

CONTENTS

	Page
NOTICE TO INVESTORS	i
RISK FACTORS	1
SUMMARY OF THE OFFERING	6
EXCHANGE RATE INFORMATION	19
SELECTED FINANCIAL INFORMATION	20
CAPITALISATION	26
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	27
RELATED PARTY TRANSACTIONS	68
ASSETS AND LIABILITIES AND SELECTED STATISTICAL DATA	70
PLAN OF DISTRIBUTION	92
LEGAL MATTERS	93
APPENDIX A – PRICING SUPPLEMENT	94
INDEX OF DEFINED TERMS	125

RISK FACTORS

Prospective investors should carefully consider the risks described below, which are not organised in any particular order of importance, together with the risks described in the Principal Offering Circular and other sections of this Supplemental Offering Circular, before making any investment decision relating to the Capital Securities.

Before making an investment decision, prospective investors should also carefully consider all of the information contained in this Supplemental Offering Circular and the Principal Offering Circular, including the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other financial information included in this Supplemental Offering Circular and the Principal Offering Circular.

Prospective investors should carefully take into account the following risks, in addition to the other information contained in this Supplemental Offering Circular and the Principal Offering Circular, before investing in the Capital Securities. As the Capital Securities are designated as Subordinated Notes under the Programme, prospective investors should also carefully consider certain risks applicable to Subordinated Notes as described in the section entitled “Risk Factors – Risks relating to the Notes” in the Principal Offering Circular, including “The terms of Subordinated Notes may contain non-viability loss absorption provisions, which may depend on circumstances and interpretations that are inherently unpredictable and depend on a number of factors that are outside the Issuer’s control”, “Regulations on non-viability loss absorption are new, untested and subject to interpretation and application by regulations in Hong Kong and the PRC”, “The Financial Institutions (Resolution) Ordinance may adversely affect the Notes”, “The Issuer is not restricted from issuing senior or pari passu securities in respect of Subordinated Notes” and “The Issuer’s obligations under Subordinated Notes are subordinated and Subordinated Notes and the Notes have limited rights of acceleration”.

The occurrence of one or more events described below and in the section “Risk Factors” of the Principal Offering Circular could have an adverse effect on the Group’s business, financial condition or results of operations, and could affect the Issuer’s ability to make payments under the Capital Securities.

RISKS RELATING TO THE CAPITAL SECURITIES

The Capital Securities are perpetual securities and investors have no right to require redemption.

The Capital Securities are perpetual and have no maturity date. Securityholders do not have the ability to require the Issuer to redeem their Capital Securities, whereas the Issuer can redeem the Capital Securities in certain circumstances as described in the Conditions. However, the Issuer is under no obligation to redeem the Capital Securities at any time. The ability of the Issuer to redeem Capital Securities is subject to the Issuer obtaining the prior written consent of the Monetary Authority (if then required) to the redemption, to the extent such consent is required under the Banking Ordinance (Cap. 155) of Hong Kong, the Banking (Capital) Rules (Cap. 155L) of Hong Kong, or any successor legislation or regulations made thereunder, or any supervisory guidance issued by the Monetary Authority in relation thereto.

This means that Securityholders do not have the ability to cash in their investment, except if the Issuer exercises its right to redeem the Capital Securities or by selling their Capital Securities. However, there can be no guarantee that the Issuer will be able to meet the conditions for redemption of Capital Securities. Securityholders who wish to sell their Capital Securities may be unable to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Capital Securities.

The Capital Securities may be redeemed at the Issuer's option on the First Call Date and every six months thereafter or on the occurrence of certain other events.

The Capital Securities are redeemable at the option of the Issuer on the First Call Date (as defined in the Conditions) and on any Distribution Payment Date (as defined in the Conditions), thereafter at their principal amount together (if appropriate) with any Distribution accrued to (but excluding) the date fixed for redemption. Additionally, upon the occurrence of a Withholding Tax Event, a Tax Deduction Event or a Capital Event, the Capital Securities may be redeemed at their principal amount together (if appropriate) with any Distribution accrued to (but excluding) the date fixed for redemption, as more particularly described in the Conditions.

The date on which the Issuer elects to redeem the Capital Securities may not accord with the preference of individual Securityholders. This may be disadvantageous to the Securityholders in light of market conditions or the individual circumstances of the Securityholder of the Capital Securities. There can be no assurance that Securityholders will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Capital Securities.

The Conditions contain non-viability loss absorption provisions under which the Capital Securities may be written-off.

Under the Conditions, a Non-Viability Event means the earlier of: (i) the Monetary Authority notifying the Issuer in writing that the Monetary Authority is of the opinion that a Write-off or conversion is necessary, without which the Issuer would become non-viable; and (ii) the Monetary Authority notifying the Issuer in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.

If a Non-Viability Event occurs and is continuing, the Issuer shall, upon the provision of a Non-Viability Event Notice, irrevocably (without the need for the consent of the Securityholders) reduce the then principal amount of, and cancel any accrued but unpaid Distribution in respect of, each Capital Security (in each case in whole or in part) by an amount equal to the Non-Viability Event Write-off Amount per Capital Security. Although the Issuer has agreed to notify the clearing systems and the Securityholders following the occurrence of a Non-Viability Event, there will be a delay between a Non-Viability Event and the time that the clearing systems and the Securityholders via the clearing systems are notified of the occurrence of the relevant Non-Viability Event through their clearing systems accounts or otherwise. Such delay may exceed several days during which trading and settlement in the Capital Securities may continue. Any such delay will not change or delay the effect of a Non-Viability Event on the obligations of the Issuer under the Capital Securities or on the rights of the Securityholders. For additional information, see Condition 5(C) (*Non-Viability Loss Absorption*) of the Conditions. The notification of a Non-Viability Event is at the discretion of the Monetary Authority and beyond the control of the Issuer. The circumstances in which such discretion is exercised are not limited and may include concerns about the Issuer's capital, funding and/or liquidity levels.

Securityholders should note that any amount that is Written-off upon the occurrence of a Non-Viability Event in accordance with the Conditions is permanent and will not be restored under any circumstances, including where the relevant Non-Viability Event ceases to continue. Additionally, a Non-Viability Event may occur on more than one occasion and each Capital Security may be written down on more than one occasion. As the Distribution Rate is calculated on the basis of the principal amount as adjusted following the occurrence of a Non-Viability Event, in the event that such principal amount is permanently reduced by the relevant Write-off, Securityholders will receive less Distributions on their Capital Securities.

Additionally, upon the occurrence of a Non-Viability Event, Securityholders could risk losing up to the full principal amount of the Capital Securities, as well as the cancellation of any accrued (and unpaid) Distributions, without receiving any compensation for such loss or cancellation.

The application of a non-viability loss absorption feature similar to Condition 5(C) (*Non-Viability Loss Absorption*) in the Conditions has not been tested in Hong Kong and some degree of uncertainty may exist in its application.

The establishment of a resolution regime in Hong Kong may override the contractual terms of the Capital Securities.

In Hong Kong, the Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong (the “**FIRO**”) became effective on 7 July 2017. The Monetary Authority is the relevant Hong Kong Resolution Authority in relation to banking sector entities in Hong Kong, such as the Issuer. The Monetary Authority’s powers under FIRO include, but are not limited to, powers to write off or convert all or a part of the principal amount of, or interest on, the Capital Securities, and powers to amend or alter the contractual provisions of the Capital Securities. Whilst the FIRO sets out a framework of the resolution regime in Hong Kong, much of the detail is to be legislated through secondary legislation and supporting rules, and as such the impact of it on the Capital Securities cannot currently be fully accurately assessed. The operation of the resolution regime in Hong Kong may affect the rights of the Securityholders and could result in the Securityholders losing their rights in relation to accrued and future interest without compensation.

The Issuer’s obligations under the Capital Securities are subordinated.

The Issuer’s obligations under the Capital Securities constitute direct, unsecured and subordinated obligations of the Issuer, which rank *pari passu* with Parity Obligations. Subject to the insolvency laws of Hong Kong and other applicable laws, in the event of a Winding-Up of the Issuer (other than pursuant to a Permitted Reorganisation), the rights of the Securityholders to payment of principal and Distributions on the Capital Securities, and any other obligations in respect of the Capital Securities, are expressly subordinated and subject in right of payment to the prior payment in full of all claims of such senior creditors as set out in Condition 3(B) (*Subordination*) of the Conditions and will rank senior to all Junior Obligations. In the event of a shortfall of funds on a Winding-Up, there is a risk that an investor in the Capital Securities will lose all or part of its investment and will not receive a full return of the principal amount or any unpaid amounts due under the Capital Securities. The Capital Securities also do not limit the Issuer’s ability, or the ability of any entity in the Group, to incur additional indebtedness, including indebtedness that ranks senior in priority of payment to the Capital Securities.

Payments of Distribution are discretionary, and Distributions are non-cumulative.

Payment of Distributions on any Distribution Payment Date is at the sole discretion of the Issuer. Subject to the Conditions, the Issuer may elect to or, in certain cases, be required to cancel any Distribution on any Distribution Payment Date. Additionally, the Issuer will not be obliged to pay, and will not pay, any Distribution upon the occurrence of a Mandatory Distribution Cancellation Event or an Optional Distribution Cancellation Event. Cancelled Distributions will not be reinstated and will not constitute an event of default. Additionally, Distributions would only be paid out of such amounts for the time being available to the Issuer for distribution in compliance with Section 297 of the Companies Ordinance (Cap. 622) of Hong Kong, as amended or modified from time to time, as of the date of the Issuer’s audited balance sheet last preceding the relevant Distribution Payment Date, and subject to the Monetary Authority’s then current capital conservation requirements as applicable to the Issuer on the relevant Distribution Payment Date. As of the date of this Offering Circular, pursuant to Section 297(1) of the

Companies Ordinance (Cap. 622) of Hong Kong, the Issuer may only make a distribution out of profits available for distribution. For the purposes of Section 297 of the Companies Ordinance (Cap. 622) of Hong Kong, the Issuer's profits available for distribution are its accumulated, realised profits, so far as not previously utilised by distribution or capitalisation, less its accumulated, realised losses, so far as not previously written off in a reduction or reorganisation of capital.

Any Distributions which are not paid on the applicable Distribution Payment Date following a Mandatory Distribution Cancellation Event, an Optional Distribution Cancellation Event or a Write-off shall not accumulate or be payable at any time thereafter, whether or not funds are or subsequently become available. Securityholders will have no right thereto whether in a bankruptcy or dissolution as a result of the insolvency of the Issuer or otherwise. Therefore, any Distributions not paid following a Mandatory Distribution Cancellation Event, an Optional Distribution Cancellation Event or a Write-off will be lost and the Issuer will have no obligation to make payment of such Distributions or to pay interest thereon.

If Distributions are not paid for whatever reason, the Capital Securities may trade at a lower price. If a Securityholder sells its Capital Securities during such a period, it may not receive the same return on investment as a Securityholder who continues to hold its Capital Securities until Distributions are resumed.

There are limited remedies for non-payment under the Capital Securities.

Any scheduled Distribution will not be due if the Issuer elects not to pay the Distribution pursuant to the Conditions. Notwithstanding any of the provisions relating to non-payment defaults, the right to institute winding-up proceedings is limited to circumstances where payment of principal or any Distributions on any of the Capital Securities has become due and such failure continues for a period of 14 days in the case of Distribution or seven days in the case of principal; or where an order is made or an effective resolution passed for the Winding-Up of the Issuer. The only remedy against the Issuer available to any Securityholders for recovery of amounts in respect of the Capital Securities following the occurrence of a payment default after any sum becomes due in respect of the Capital Securities will be instituting winding-up proceedings and/or proving and/or claiming in winding-up in respect of any of the Issuer's payment obligations arising from the Capital Securities. In such a winding-up, the claims of the Securityholder will be subordinated and subject in right of payment to the prior payment in full of all claims of such senior creditors as set out in Condition 3 (*Status and Subordination of the Capital Securities*) of the Conditions.

The Capital Securities are subject to restrictions on transfer and resale.

The Capital Securities will not be registered under the Securities Act or the securities or blue sky laws of any state of the United States. The Capital Securities are being offered, and may be resold, outside of the United States within the meaning of and in compliance with Regulation S. The Capital Securities are also being offered, and may be resold, within the United States to qualified institutional buyers within the meaning of, and in compliance with, Rule 144A. Consequently, the Capital Securities are subject to restrictions on transfer and resale, which may negatively affect the liquidity of the Capital Securities.

A downgrade in ratings may affect the market price of the Capital Securities.

The Capital Securities have been rated “Baa2” by Moody’s and “BBB” by S&P. These ratings may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above, and other factors that may affect the value of the Capital Securities. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Rating agencies may also revise or replace entirely the methodology applied to derive credit ratings. There is a risk that the credit rating of the Issuer and of the Capital Securities may change as a result of changes in the Issuer’s operating performance or capital structure, or for some other reason. Moreover, no assurance can be given that a credit rating will remain for any given period of time or that a credit rating will not be lowered or withdrawn by the relevant rating agency if, in its judgment, circumstances in the future so warrant or if a different methodology is applied to derive such credit ratings. This could affect the market price and the liquidity of the Capital Securities.

Transfers scheduled to settle through Euroclear and Clearstream (the “ICSDs”) are expected to be rejected if the scheduled settlement is after any suspension by the ICSDs of clearance and settlement of the Capital Securities in connection with a Non-Viability Event Notice. Furthermore, because of time zone differences and the delay between the time when a Non-Viability Event occurs and when the ICSDs receive and process the Non-Viability Event Notice, it is possible that transfers may either (i) fail to settle through the ICSDs even though such transfers were initiated prior to the Non-Viability Event or (ii) are settled through the ICSDs even though such transfers were initiated after the Non-Viability Event.

The ICSDs are expected to suspend all clearance and settlement of transfers of the Capital Securities by Securityholders after receipt of a Non-Viability Event Notice, and any transfer of the Capital Securities that is scheduled to settle after commencement of such suspension is expected to be rejected by the ICSD and will not be settled within the ICSDs.

Although a Non-Viability Event Notice will be sent by the Issuer to the ICSDs and the Securityholders via the ICSDs after the occurrence of a Non-Viability Event, the records of the ICSDs will not be immediately updated to reflect the Non-Viability Event, and a period of time, which may exceed several days, will be required before the clearance and settlement of transfers of the Capital Securities through the ICSDs are suspended. Due to such delay, it is possible that transfers that are initiated prior to such suspension and scheduled to settle on a date after the ICSDs commence such suspension will fail to settle through the ICSDs even though such transfers were initiated prior to the Non-Viability Event. In such circumstances, transfers of the Capital Securities would not receive any consideration through the ICSDs in respect of such intended transfer because the ICSDs will not settle such transfer after commencement of such suspension. Similarly, it is possible that transfers that are initiated prior to such suspension and scheduled to settle on a date before the ICSDs commence such suspension will be settled through the ICSDs even though such transfers were initiated after the Non-Viability Event. In such circumstances, transferees of the Capital Securities may be required to pay consideration through the ICSDs even though, upon the occurrence of a Non-Viability Event, no amounts under the Capital Securities will thereafter become due, and such transferees will have no rights whatsoever under the Trust Deed or the Capital Securities to take any action or enforce any rights or instruct the Trustee to take any action or enforce any rights whatsoever against the Issuer, regardless of whether they have received actual or constructive notice of such fact. The settlement of the Capital Securities following a Non-Viability Event will be subject to procedures of the ICSDs that are in place at such time.

SUMMARY OF THE OFFERING

The following is a brief summary of certain terms of the offering of the Capital Securities. For a more detailed description of the terms of the Capital Securities, see section headed “Pricing Supplement” and the appendix attached thereto headed “Terms and Conditions of the Capital Securities”. Capitalised terms used herein and not defined have the meanings given to them in “Terms and Conditions of the Capital Securities”.

The Issuer	Bank of China (Hong Kong) Limited.
Description	U.S.\$3,000,000,000 5.9 per cent. Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities.
Issue Date	14 September 2018.
Maturity Date	The Capital Securities are perpetual securities in respect of which there is no fixed redemption date. The Capital Securities may not be redeemed at the option of the Issuer other than in accordance with Condition 6 (<i>Redemption and Purchase</i>).
Status of the Capital Securities . .	The Capital Securities constitute direct, unsecured and subordinated obligations of the Issuer and shall at all times rank <i>pari passu</i> and without any preference among themselves. The rights and claims of the Securityholders are subordinated in the manner described below.

Subject to the insolvency laws of Hong Kong and other applicable laws, in the event of a Winding-Up (as defined below) of the Issuer (other than pursuant to a Permitted Reorganisation (as defined below)), the rights of the Securityholders to payment of principal and Distributions on the Capital Securities, and any other obligations in respect of the Capital Securities, shall rank (i) subordinate and junior in right of payment to, and of all claims of (a) all unsubordinated creditors of the Issuer (including its depositors), (b) creditors in respect of Tier 2 Capital Securities of the Issuer, and (c) all other Subordinated Creditors of the Issuer whose claims are stated to rank senior to the Capital Securities or rank senior to the Capital Securities by operation of law or contract; (ii) *pari passu* in right of payment to and of all claims of the holders of Parity Obligations; and (iii) senior in right of payment to and of all claims of the holders of Junior Obligations, in each case, in the manner provided in the Trust Deed.

“**Capital Regulations**” means capital regulations from time to time applicable to the regulatory capital of Authorized Institutions incorporated in Hong Kong as published by the Monetary Authority.

“**Junior Obligation**” means the Shares, and any other class of the Issuer’s share capital and any instrument or other obligation (including without limitation any preference shares) issued or guaranteed by the Issuer that ranks or is expressed to rank junior to the Capital Securities by operation of law or contract.

“**Parity Obligation**” means any instrument or other obligation issued or entered into by the Issuer that constitutes or qualifies as Additional Tier 1 Capital (or its equivalent) under applicable Capital Regulations or any instrument or other obligation issued, entered into, or guaranteed by the Issuer that ranks or is expressed to rank *pari passu* with the Capital Securities by operation of law or contract, which for the avoidance of doubt, excludes any Junior Obligations of the Issuer.

“**Permitted Reorganisation**” means a solvent reconstruction, amalgamation, reorganisation, merger or consolidation whereby all or substantially all the business, undertaking or assets of the Issuer are transferred to a successor entity which assumes all the obligations of the Issuer under the Capital Securities.

“**Subordinated Creditors**” means all creditors the indebtedness of which is subordinated, in the event of the Winding-Up of the Issuer, in right of payment to the claims of depositors and other unsubordinated creditors of the Issuer other than those whose claims rank or is expressed to rank by operation of law or contract *pari passu* with, or junior to, the claims of the Securityholders. For this purpose indebtedness shall include all liabilities, whether actual or contingent.

“**Tier 2 Capital Securities**” means instruments or other obligations issued by the Issuer that constitute or qualify as Tier 2 capital (or its equivalent) pursuant to the Capital Regulations.

No Set-off

“**Winding-Up**” means, with respect to the Issuer, a final and effective order or resolution for the bankruptcy, winding up, liquidation or similar proceeding in respect of the Issuer.

Subject to applicable law, no Securityholder may exercise, claim or plead any right of set-off, counter-claim or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Capital Securities and each Securityholder shall, by virtue of being the Securityholder of any Capital Security be deemed to have waived all such rights of such set-off, counter-claim or retention.

Distributions Subject to Condition 5(B) (*Distribution Restrictions*), the Capital Securities confer a right to receive distributions (each a “**Distribution**”) on their principal amount (subject to adjustments following the occurrence of a Non-Viability Event in accordance with Condition 5(C) (*Non-Viability Loss Absorption*) from, and including the Issue Date at the applicable Distribution Rate, payable semi-annually in arrear on 14 March and 14 September in each year.

Non-Cumulative Distributions . . . Distributions will not be cumulative and Distributions which are not paid in accordance with the Conditions will not accumulate or compound and Securityholders will have no right to receive such Distributions at any time, even if subsequent Distributions are paid in the future, or be entitled to any claim in respect thereof against the Issuer.

Distribution Rate The Distribution Rate applicable to the Capital Securities shall be:

- (i) in respect of the period from, and including, the Issue Date to, but excluding, 14 September 2023 (the “**First Call Date**”), 5.9 per cent. per annum;
- (ii) in respect of the period from, and including, a Distribution Reset Date to, but excluding, the immediately following Distribution Reset Date, the relevant Reset Distribution Rate.

“**Distribution Reset Date**” means the First Call Date and each day falling every five calendar years after the First Call Date.

“**Reset Distribution Rate**” means, in relation to a Reset Distribution Period, a fixed rate per annum (expressed as a percentage) equal to the aggregate of (a) the then-prevailing U.S. Treasury Rate (as defined in Condition 5(A)(ii)) and (b) the Spread.

Optional Distribution Cancellation Event Unless a Distribution has already been cancelled in full pursuant to a Mandatory Distribution Cancellation Event, prior to any Distribution Payment Date the Issuer may, at its sole discretion, elect to cancel any payment of a Distribution, in whole or in part, by giving a notice signed by an Authorised Signatory of the Issuer, as further described in Condition 5(B)(i) (*Optional Distribution Cancellation Event*).

“**Mandatory Distribution Cancellation Event**” means:

- (a) the Distribution scheduled to be paid together with any dividends, distributions or other payments scheduled to be paid or made during the Issuer’s then current fiscal year on any Parity Obligations or any instruments which rank or are expressed to rank *pari passu* with any Parity Obligations shall exceed Distributable Reserves as at such Distribution Determination Date; or
- (b) the Monetary Authority directs the Issuer to cancel such Distribution (in whole or in part) or applicable Hong Kong banking regulations or other requirements of the Monetary Authority prevent the payment in full of dividends or other distributions when due on Parity Obligations.

**Mandatory Distribution
Cancellation Event**

Notwithstanding that a Distribution Cancellation Notice may not have been given, the Issuer shall not be obliged to pay, and shall not pay, any Distribution on the applicable Distribution Payment Date, in whole or in part, as applicable, upon a Mandatory Distribution Cancellation Event, as further described in Condition 5(B)(ii) (*Mandatory Distribution Cancellation Event*).

No Obligation to Pay

The Issuer shall have no obligation to pay a Distribution on any Distribution Payment Date if such non-payment is in accordance with Condition 5(B)(ii) (*Mandatory Distribution Cancellation Event*) and any failure to pay such Distribution shall not constitute an Event of Default. Distributions are non-cumulative and therefore any Distribution which is cancelled in accordance with these Conditions shall not be payable at any time thereafter, whether in a Winding-Up or otherwise.

**No Claim by Securityholders
for Distributions.**

No Securityholder shall have any claim in respect of any Distribution or part thereof cancelled and/or not due or payable as described under Conditions 5(A) (*Distribution Payments*) and 5(B) (*Distribution Restrictions*). Accordingly, such Distribution shall not accumulate for the benefit of Securityholders or entitle the Securityholders to any claim in respect thereof against the Issuer.

Distributable Reserves Any Distribution may only be paid out of Distributable Reserves.

“**Distributable Reserves**” means the amounts for the time being available to the Issuer for distribution as a distribution in compliance with Section 297 of the Companies Ordinance (Cap. 622) of Hong Kong, as amended or modified from time to time, as at the date of the Issuer’s audited balance sheet last preceding the relevant Distribution Payment Date, and subject to the Monetary Authority’s current capital conservation requirements as applicable to the Issuer on the relevant Distribution Payment Date (the “**Available Amount**”); **provided that** if the Issuer reasonably determines that the Available Amount as at any Distribution Determination Date is lower than the Available Amount as at the date of the Issuer’s audited balance sheet last preceding the relevant Distribution Payment Date and is insufficient to pay the Distributions and any payments due on Parity Obligations on the relevant Distribution Payment Date, then on certification by two Authorised Signatories of the Issuer and the auditors of such revised amount, the Distributable Reserves shall for the purposes of Distributions mean the Available Amount as set forth in such certificate.

“**Monetary Authority**” means the Monetary Authority appointed under Section 5A of the Exchange Fund Ordinance (Cap. 66) of Hong Kong or any successor thereto.

As at the date hereof, pursuant to Section 297(1) of the Companies Ordinance (Cap. 622) of Hong Kong, the Issuer may only make a distribution out of profits available for distribution. For the purposes of Section 297 of the Companies Ordinance (Cap. 622) of Hong Kong, the Issuer’s profits available for distribution are its accumulated, realised profits, so far as not previously utilised by distribution or capitalisation, less its accumulated, realised losses, so far as not previously written off in a reduction or reorganisation of capital.

Dividend Stopper If, on any Distribution Payment Date, payment of Distribution scheduled to be paid is not made in full by reason of Condition 5(B) (*Distribution Restrictions*), the Issuer shall not:

- (i) declare or pay in cash any distribution or dividend or make any other payment in cash on, and will procure that no distribution or dividend in cash or other payment in cash is made on, any Shares; or

- (ii) purchase, cancel or otherwise acquire any Shares or permit any of its subsidiaries to do so,

in each case, unless or until the earlier of: (x) the Distribution scheduled to be paid on any subsequent Distribution Payment Date (which, for the avoidance of doubt, shall exclude any Distribution that has been cancelled in accordance with these Conditions prior to such subsequent Distribution Payment Date in respect of a Distribution Payment Date preceding such subsequent Distribution Payment Date) has been paid in full (1) to Securityholders or (2) irrevocably to a designated third party trust account for the benefit of the Securityholders, or (y) the redemption or purchase and cancellation of the Capital Securities in full, or reduction of the principal amount of the Capital Securities to zero in accordance with these Conditions, or (z) the Issuer is permitted to do so by an Extraordinary Resolution of the Securityholders.

See Condition 5(B)(iv) (*Dividend Stopper*) for further information.

Non-Viability Loss Absorption . . . If a Non-Viability Event occurs and is continuing, the Issuer shall, upon the provision of a Non-Viability Event Notice, irrevocably (without the need for the consent of the Securityholders) reduce the then principal amount of, and cancel any accrued but unpaid Distribution in respect of, each Capital Security (in each case in whole or in part) by an amount equal to the Non-Viability Event Write-off Amount per Capital Security (such reduction and cancellation, and the reduction and cancellation or conversion of any other Subordinated Capital Instruments so reduced and cancelled or converted upon the occurrence of a Non-Viability Event, where applicable, being referred to herein as the “**Write-off**”, and “**Written-off**” shall be construed accordingly).

“**Non-Viability Event**” means the earlier of:

- (a) the Monetary Authority notifying the Issuer in writing that the Monetary Authority is of the opinion that a Write-off or conversion is necessary, without which the Issuer would become non viable; and
- (b) the Monetary Authority notifying the Issuer in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.

“Non-Viability Event Notice” means the notice which shall be given by the Issuer not more than two Hong Kong Business Days after the occurrence of a Non-Viability Event, to the Securityholders, in accordance with Condition 16 (*Notices*), and to the Trustee and the Paying Agents, in accordance with the Conditions and which shall state:

- (a) in reasonable detail the nature of the relevant Non-Viability Event; and
- (b) the Non-Viability Event Write-off Amount for (i) each Capital Security and (ii) each other Subordinated Capital Instrument in accordance with its terms.

“Non-Viability Event Write-off Amount” means the amount of distributions and/or principal to be Written-off as the Monetary Authority may direct or, in the absence of such a direction, as the Issuer shall (in consultation with the Monetary Authority) determine to be necessary to satisfy the Monetary Authority that the Non-Viability Event will cease to continue. For the avoidance of doubt, (a) the full amount of the Capital Securities will be Written-off in full in the event that the amount Written-off is not sufficient for the Non-Viability Event to cease to continue and (b) in the case of an event falling within paragraph (b) of the definition of Non-Viability Event, the Write-off will be effected in full before any public sector injection of capital or equivalent support. Further, the Non-Viability Event Write-off Amount in respect of each Capital Security will be calculated based on a percentage of the principal amount of that Capital Security.

**Consequence of Non-Viability
Loss Absorption**

Once the principal amount of, and any accrued but unpaid Distribution under, the Capital Securities has been Written-off, the relevant amount(s) Written-off will not be restored in any circumstances including where the relevant Non-Viability Event ceases to continue. No Securityholder may exercise, claim or plead any right to any amount that has been Written-off, and each Securityholder shall, by virtue of his holding of any Capital Securities, be deemed to have waived all such rights to such amount that has been Written-off.

Hong Kong Resolution

Authority Power.

Notwithstanding any other term of the Capital Securities, including without limitation Condition 5(C) (*Non-Viability Loss Absorption*), or any other agreement or arrangement, each Securityholder and the Trustee shall be subject, and shall be deemed to agree, be bound by and acknowledge that they are each subject, to having the Capital Securities being written off, cancelled, converted or modified, or to having the form of the Capital Securities changed, in the exercise of any Hong Kong Resolution Authority Power (as defined in Condition 5(D) (*Hong Kong Resolution Authority Power*)) by the relevant Hong Kong Resolution Authority (as defined in Condition 5(D) (*Hong Kong Resolution Authority Power*)) without prior notice and which may include (without limitation) and result in any of the following or some combination thereof:

- (a) the reduction or cancellation of all or a part of the principal amount of, or Distributions on, the Capital Securities;
- (b) the conversion of all or a part of the principal amount of, or Distributions on, the Capital Securities into shares or other securities or other obligations of the Issuer or another person (and the issue to or conferral on the holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Capital Securities; and
- (c) the amendment or alteration of the maturity of the Capital Securities or amendment or alteration of the amount of Distributions payable on the Capital Securities, or the date on which the Distributions become payable, including by suspending payment for a temporary period, or any other amendment or alteration of these Conditions.

With respect to (a), (b) and (c) above, references to principal and Distributions shall include payments of principal and Distributions that have become due and payable (including principal that has become due and payable at the maturity date), but which have not been paid, prior to the exercise of any Hong Kong Resolution Authority Power. The rights of the Securityholders and the Trustee under the Capital Securities and the Conditions are subject to, and will be amended and varied, if necessary, solely to give effect to, the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority.

No repayment of the principal amount of the Capital Securities or payment of Distributions on the Capital Securities shall become due and payable or be paid after the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority unless, at the time that such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be permitted to be made by the Issuer under the laws and regulations applicable to the Issuer and the Group (as defined in Condition 5(D) (*Hong Kong Resolution Authority Power*)).

Upon the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Capital Securities, the Issuer shall provide a written notice as soon as practicable regarding such exercise of the Hong Kong Resolution Authority Power to the Securityholders in accordance with Condition 16 (*Notices*) and to the Trustee in writing.

Neither the reduction or cancellation, in part or in full, of the principal amount of, or Distributions on the Capital Securities, the conversion thereof into another security or obligation of the Issuer or another person, or any other amendment or alteration of these Conditions as a result of the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Issuer nor the exercise of the Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Capital Securities shall constitute an Event of Default under Condition 10(A) (*Events of Default and Winding-up Proceedings*).

**Redemption at the Option
of the Issuer**

The Issuer may redeem all but not some only of the Capital Securities then outstanding on the First Call Date or any Distribution Payment Date thereafter, at their outstanding principal amount together (if appropriate) with Distributions accrued to (but excluding) the date of redemption, as further described in Condition 6(E) (*Redemption at the Option of the Issuer*).

Redemption for Tax Reasons Subject to Condition 6(G) (*Conditions for Redemption and Purchase in Respect of the Capital Securities*), the Capital Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 16 (*Notices*), the Trustee and the Issuing and Paying Agent (which notice, in each case, shall be irrevocable and shall specify the date fixed for redemption), if (a) the Issuer satisfies the Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 8 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 11 September 2018 and (b) such obligation will apply on the occasion of the next payment due in respect of the Capital Securities and cannot be avoided by the Issuer taking reasonable measures available to it.

See Condition 6(B) (*Redemption for Tax Reasons*) for further information.

Redemption for Tax Deduction Reasons Subject to Condition 6(G) (*Conditions for Redemption and Purchase in Respect of the Capital Securities*), the Capital Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 16 (*Notices*), the Trustee and the Issuing and Paying Agent (which notice, in each case, shall be irrevocable and shall specify the date fixed for redemption), if:

- (a) in respect of the Distributions payable on the Capital Securities, the Issuer is no longer, or will no longer be, entitled to claim a deduction in respect of computing its taxation liabilities in Hong Kong or any political subdivision or any authority thereof or therein having power to tax as a result of any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 11 September 2018; and
- (b) such non-tax deductibility cannot be avoided by the Issuer taking reasonable measures available to it.

See Condition 6(C) (*Redemption for Tax Deduction Reasons*) for further information.

Redemption for Regulatory

Reasons

Subject to Condition 6(G) (*Conditions for Redemption and Purchase in Respect of the Capital Securities*), the Capital Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time on giving not less than 30 nor more than 60 days’ notice to the Securityholders in accordance with Condition 16 (*Notices*), the Trustee and the Issuing and Paying Agent (which notice, in each case, shall be irrevocable and shall specify the date fixed for redemption) following the occurrence of a Capital Event.

A “**Capital Event**” occurs if the Capital Securities, after having qualified as such, will no longer qualify (in whole or in part) as Additional Tier 1 Capital (or equivalent) of the Issuer, (other than non-qualification solely as a result of any discounting or amortisation requirements as to the eligibility of the Capital Securities for such inclusion pursuant to the relevant legislation and supervisory guidance in force from time to time) as a result of a change or amendment in (or any change in the application or official interpretation of) the relevant provisions of the Banking Ordinance (Cap. 155) of Hong Kong, the Banking (Capital) Rules (Cap. 155L) of Hong Kong, or any successor legislation or regulations made thereunder, or any supervisory guidance issued by the Monetary Authority in relation thereto, **provided, however**, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which it is determined that a Capital Event has occurred.

See Condition 6(D) (*Redemption of the Capital Securities for Regulatory Reasons*) for further information.

Conditions for Redemption and Purchase in respect of Capital Securities

The Issuer shall not redeem any of the Capital Securities (other than pursuant to Condition 10(A) (*Events of Default and Winding-Up Proceedings*)) and neither the Issuer nor any of its Subsidiaries shall purchase any of the Capital Securities unless the prior written consent of the Monetary Authority thereto shall have been obtained, to the extent such consent is required under the Banking Ordinance (Cap. 155) of Hong Kong, the Banking (Capital) Rules (Cap. 155L) of Hong Kong, or any successor legislation or regulations made thereunder, or any supervisory guidance issued by the Monetary Authority in relation thereto, as further described in Condition 6(G) (*Conditions for Redemption and Purchase in Respect of the Capital Securities*).

Payments	All payments of principal and distributions by or on behalf of the Issuer in respect of the Capital Securities shall be made free and clear of, without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Hong Kong, subject as provided in Condition 8 (<i>Taxation</i>). In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8 (<i>Taxation</i>), be required to pay such additional amounts as shall result in receipt by the Securityholders of such amounts as would have been received by them had no such withholding or deduction been required.
Trustee	Citicorp International Limited.
Issuing and Paying Agent and Calculation Agent	Citibank, N.A., London Branch.
Registrar and Transfer Agent	Citicorp Global Markets Europe AG.
Form and Denomination	<p>The Capital Securities will be issued in registered form in the denomination of U.S.\$200,000 each and integral multiples of U.S.\$1,000 in excess thereof. The Capital Securities will initially be represented by the Global Certificate, in registered form, deposited with Citibank, N.A., London Branch, as custodian for, and registered in the name of Cede & Co., as nominee of The Depository Trust Company.</p> <p>Beneficial interests in the Global Certificate will be shown on and transfer thereof will be effected only through the records maintained by The Depository Trust Company and its accountholders. Except as described herein, definitive certificates of Capital Securities will not be issued in exchange for beneficial interests in the Global Certificate. See section headed “<i>Clearance and Settlement</i>” in the Principal Offering Circular.</p>
Ratings	The Capital Securities have been rated “Baa2” by Moody’s and “BBB” by S&P. A rating is not a recommendation to buy, sell or hold the Capital Securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Governing Law	The Capital Securities and the Trust Deed and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law, except that the provisions of the Capital Securities and the Trust Deed relating to subordination shall be governed by Hong Kong law.
Capital Treatment	It is intended that the Capital Securities will qualify in full as Additional Tier 1 capital of the Issuer.

Use of Proceeds	The net proceeds from the issuance of the Capital Securities are intended to be used by the Issuer for general corporate purposes and to improve its Additional Tier 1 capital level in accordance with the requirements of the Banking (Capital) Rules (Cap. 155L).
Listing	Application has been made for the listing of the Capital Securities on the Hong Kong Stock Exchange by way of debt issues to Professional Investors only.
Clearing Systems	The Depository Trust Company.
Selling Restrictions	There are restrictions on the distribution of the Principal Offering Circular and the making of solicitations pursuant thereto in certain jurisdictions, including, among others, the United States, the European Economic Area, the United Kingdom, Hong Kong, Singapore, Taiwan and Japan. See sections headed “ <i>Subscription and sale</i> ” and “ <i>Transfer Restrictions</i> ” in the Principal Offering Circular.

EXCHANGE RATE INFORMATION

The HK dollar is freely convertible into the U.S. dollar. Since 1983, the HK dollar has been linked to the U.S. dollar. Under existing Hong Kong law, (i) there are no foreign exchange controls or other laws, decrees or regulations that affect the remittance of dividend payments to U.S. residents and (ii) there are no limitations on the rights of non-residents or foreign owners to hold the Notes. The Basic Law of the Hong Kong Special Administrative Region of the PRC, which came into effect on 1 July 1997, provides that no foreign exchange control policies may be applied in Hong Kong.

Although the market exchange rate of the HK dollar against the U.S. dollar was and continues to be determined by forces of supply and demand in the foreign exchange market, between 1983 and May 2005, Hong Kong maintained a fixed rate system which fixed the rate of exchange to HK\$7.80 per U.S. dollar (the “**Linked Exchange Rate System**”). However, in May 2005, the Hong Kong Monetary Authority broadened the 22-year trading band from the original rate of HK\$7.80 per U.S. dollar to a new range varying between HK\$7.75 per U.S. dollar and HK\$7.85 per U.S. dollar. The Hong Kong government has indicated its intention to maintain the Linked Exchange Rate System. The Hong Kong government has also stated that it has no intention of imposing exchange controls and that the HK dollar will remain freely convertible into other currencies, including the U.S. dollar. However, no assurance can be given that the Hong Kong government will maintain the trading band at HK\$7.75 to HK\$7.85 per U.S. dollar or at all. As a result of the Linked Exchange Rate System, exchange rates between the HK dollar and other currencies are influenced by the value of the U.S. dollar.

The following table sets forth, for the periods indicated, certain information concerning exchange rates between the HK dollar and U.S. dollar. The exchange rates reflect the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board:

Period	Exchange Rate			
	Period end	Average ⁽¹⁾	High	Low
	(HK\$ per U.S.\$1.00)			
2013	7.7539	7.7565	7.7654	7.7503
2014	7.7531	7.7554	7.7669	7.7495
2015	7.7507	7.7519	7.7686	7.7495
2016	7.7534	7.7618	7.8270	7.7505
2017	7.8128	7.7950	7.8267	7.7540
2018				
January	7.8210	7.8190	7.8230	7.8161
February	7.8262	7.8222	7.8267	7.8183
March	7.8484	7.8413	7.8486	7.8275
April	7.8479	7.8492	7.8499	7.8432
May	7.8439	7.8487	7.8499	7.8439
June	7.8463	7.8471	7.8492	7.8452
July	7.8484	7.8478	7.8493	7.8439
August	7.8486	7.8492	7.8499	7.8482

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

SELECTED FINANCIAL INFORMATION

This section supersedes and replaces the section entitled “Selected Financial Information” in the Principal Offering Circular.

*The following tables present the Issuer’s selected financial information as of and for each of the years ended 31 December 2015, 2016 and 2017 and as of and for each of the six months ended 30 June 2017 and 2018, of which the “Consolidated Income Statement” and “Consolidated Balance Sheet” have been extracted from each of the Issuer’s audited consolidated financial statements as of and for the years ended 31 December 2016 and 2017 (the “**Audited Consolidated Financial Statements**”) and the Issuer’s unaudited condensed consolidated interim financial information as of and for the six months ended 30 June 2018 (the “**Unaudited Consolidated Financial Information**”). Such information should be read in conjunction with (i) the Audited Consolidated Financial Statements and the Unaudited Consolidated Financial Information and the related notes thereto included elsewhere in this Offering Circular, and (ii) the section headed “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Offering Circular. Certain comparative information contained in the Issuer’s Audited Consolidated Financial Statements and Unaudited Financial Information have been restated as a result of certain disposals and acquisitions and may not be directly comparable. For additional information, please refer to the notes to the Issuer’s Audited Consolidated Financial Statements, Unaudited Consolidated Financial Information and “Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer’s Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable.”*

CONSOLIDATED INCOME STATEMENT

	Year ended 31 December			Six months ended 30 June		
	2015 ⁽¹⁾	2016 ⁽¹⁾	2017 ⁽¹⁾	2017 ⁽¹⁾	2018 ⁽²⁾	2018
	(audited)			(unaudited)		
	HK\$ in millions	HK\$ in millions	HK\$ in millions	HK\$ in millions	HK\$ in millions	(U.S.\$ in millions) ⁽³⁾
Interest income	35,248	34,395	46,261	22,242	27,062	3,449
Interest expense	(12,309)	(10,741)	(14,209)	(6,374)	(10,044)	(1,280)
Net interest income	22,939	23,654	32,052	15,868	17,018	2,169
Fee and commission income	15,675	15,132	15,741	7,775	8,757	1,116
Fee and commission expense	(4,221)	(4,019)	(3,570)	(1,711)	(1,983)	(253)
Net fee and commission income	11,454	11,113	12,171	6,064	6,774	863
Net trading gain	2,602	5,010	1,145	356	2,135	272
Net (loss)/gain on other financial instruments at fair value through profit or loss	(6)	(1)	4	8	319	41
Net gain on other financial assets . . .	1,135	618	728	232	41	5
Other operating income	697	537	690	363	365	47
Net operating income before impairment allowances	38,821	40,931	46,790	22,891	26,652	3,397
Net charge of impairment allowances	(755)	(601)	(1,076)	(354)	(338)	(43)
Net operating income	38,066	40,330	45,714	22,537	26,314	3,354
Operating expenses	(11,286)	(12,144)	(13,258)	(6,032)	(6,764)	(862)
Operating profit	26,780	28,186	32,456	16,505	19,550	2,492
Net gain from disposal of/fair value adjustments on investment properties	781	437	1,210	894	931	119
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	(63)	(15)	(24)	(1)	10	1
Share of profits less losses after tax of associates and joint ventures . . .	54	74	98	34	42	5
Profit before taxation	27,552	28,682	33,740	17,432	20,533	2,617
Taxation	(4,183)	(4,588)	(5,834)	(2,791)	(3,252)	(415)
Profit from continuing operations . .	23,369	24,094	27,906	14,641	17,281	2,202
Profit from discontinued operations	3,392	31,493	2,623	2,623	–	–
Profit for the year/period	26,761	55,587	30,529	17,264	17,281	2,202

	Year ended 31 December			Six months ended 30 June		
	2015 ⁽¹⁾	2016 ⁽¹⁾	2017 ⁽¹⁾	2017 ⁽¹⁾	2018 ⁽²⁾	2018
	(audited)			(unaudited)		
	HK\$ in millions	HK\$ in millions	HK\$ in millions	HK\$ in millions	HK\$ in millions	(U.S.\$ in millions) ⁽³⁾
Profit attributable to:						
Equity holders of the Bank						
– from continuing operations	23,243	23,975	27,759	14,574	17,198	2,192
– from discontinued operations . . .	3,225	31,302	2,589	2,589	–	–
	<u>26,468</u>	<u>55,277</u>	<u>30,348</u>	<u>17,163</u>	<u>17,198</u>	<u>2,192</u>
Non-controlling interests						
– from continuing operations	126	119	147	67	83	10
– from discontinued operations . . .	167	191	34	34	–	–
	<u>293</u>	<u>310</u>	<u>181</u>	<u>101</u>	<u>83</u>	<u>10</u>
	<u>26,761</u>	<u>55,587</u>	<u>30,529</u>	<u>17,264</u>	<u>17,281</u>	<u>2,202</u>
Dividends	<u>13,085</u>	<u>19,800</u>	<u>16,959</u>	<u>6,715</u>	<u>5,380</u>	<u>686</u>

- (1) Comparative information contained in the Issuer’s audited consolidated financial statements as of and for the years ended 31 December 2015, 2016 and 2017 and the Issuer’s unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 have been restated as a result of the Issuer’s disposal of Chiyu Banking Corporation Limited (“Chiyu”) and acquisition of businesses in Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam. For additional information on the comparability of information between years and periods, please refer to “Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer’s Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable”.
- (2) The unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 have been prepared under the accounting policies as required by the new and revised HKFRS, with effect from 1 January 2018, which are not consistent with the accounting policies as set out in the comparative information. For additional information, please refer to “Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer’s Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable”.
- (3) Convenience translation of HK dollar amounts to U.S. dollar amounts were made at a rate of HK\$7.8463 to U.S.\$1.00, the Noon Buying Rate on 29 June 2018.

CONSOLIDATED BALANCE SHEET

	As of 31 December			As of 30 June	
	2015 ⁽¹⁾	2016 ⁽¹⁾	2017 ⁽¹⁾	2018 ⁽²⁾	2018
	(audited)			(unaudited)	
	HK\$ in millions	HK\$ in millions	HK\$ in millions	HK\$ in millions	(U.S.\$ in millions) ⁽³⁾
Assets					
Cash and balances and placements with banks and other financial institutions	300,334	308,748	425,567	374,503	47,730
Financial assets at fair value through profit or loss	30,760	37,570	50,198	39,359	5,016
Derivative financial instruments	43,106	64,366	33,618	39,940	5,090
Hong Kong SAR Government certificates of indebtedness	101,950	123,390	146,200	153,370	19,547
Advances and other accounts	928,766	1,006,643	1,189,932	1,268,073	161,614
Investment in securities	485,248	553,092	576,442	663,616	84,577
Interests in associates and joint ventures	376	319	415	455	58
Investment properties	15,400	18,369	19,949	21,050	2,683
Properties, plant and equipment	50,333	45,615	46,919	48,030	6,121
Deferred tax assets	63	28	51	107	14
Other assets	27,198	32,581	30,506	31,804	4,053
Assets held for sale	300,473	53,586	–	–	–
Total assets	2,284,007	2,244,307	2,519,797	2,640,307	336,503
Liabilities					
Hong Kong SAR currency notes in circulation	101,950	123,390	146,200	153,370	19,547
Deposits and balances from banks and other financial institutions	209,526	198,429	222,540	237,183	30,228
Financial liabilities at fair value through profit or loss	10,942	13,371	19,720	15,912	2,028
Derivative financial instruments	40,144	49,225	30,982	31,535	4,019
Deposits from customers	1,416,972	1,522,074	1,778,188	1,861,940	237,302
Debt securities and certificates of deposit in issue	6,976	1,121	21,641	15,577	1,985
Other accounts and provisions	29,369	41,116	40,741	54,083	6,893
Current tax liabilities	2,660	2,978	4,181	5,533	705
Deferred tax liabilities	6,431	5,575	5,658	5,536	705
Subordinated liabilities	19,422	19,093	18,980	20,674	2,635
Liabilities associated with assets held for sale	252,402	47,074	–	–	–
Total liabilities	2,096,794	2,023,446	2,288,831	2,401,343	306,047
Equity					
Share capital	43,043	43,043	43,043	43,043	5,486
Reserves	142,033	175,538	187,652	195,662	24,937
Capital and reserves attributable to equity holders of the Bank	185,076	218,581	230,695	238,705	30,423
Non-controlling interests	2,137	2,280	271	259	33
Total equity	187,213	220,861	230,966	238,964	30,456
Total liabilities and equity	2,284,007	2,244,307	2,519,797	2,640,307	336,503

- (1) Comparative information contained in the Issuer’s audited consolidated financial statements as of and for the years ended 31 December 2015, 2016 and 2017 and the Issuer’s unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 have been restated as a result of the Issuer’s disposal of Chiyu and acquisition of businesses in Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam. For additional information on the comparability of information between years and periods, please refer to “*Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer’s Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable*”.
- (2) The unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 have been prepared under the accounting policies as required by the new and revised HKFRS, with effect from 1 January 2018, which are not consistent with the accounting policies as set out in the comparative information. For additional information, please refer to “*Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer’s Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable*”.
- (3) Convenience translation of HK dollar amounts to U.S. dollar amounts were made at a rate of HK\$7.8463 to U.S.\$1.00, the Noon Buying Rate on 29 June 2018.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2015 ⁽¹⁾	2016 ⁽¹⁾	2017 ⁽¹⁾	2017 ⁽¹⁾	2018 ⁽²⁾
	(audited)			(unaudited)	
	(HK\$ in millions)				
Net cash (outflow)/inflow					
from operating activities.	(73,253)	(74,213)	134,566	241,624	(37,512)
Net cash (outflow)/inflow					
from investing activities.	(792)	21,392	(7,295)	(2,991)	(2,792)
Net cash outflow					
from financing activities.	(13,145)	(20,914)	(16,147)	(9,064)	(5,115)
(Decrease)/increase in cash					
and cash equivalents	(87,190)	(73,735)	111,124	229,569	(45,419)
Cash and cash equivalents at					
1 January	411,441	322,005	249,406	253,997	379,885
Cash and cash equivalents at					
31 December/30 June.	313,017	249,406	376,907	494,599	334,581

- (1) Comparative information contained in the Issuer’s audited consolidated financial statements as of and for the years ended 31 December 2015, 2016 and 2017 and the Issuer’s unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 have been restated as a result of the Issuer’s disposal of Chiyu and acquisition of businesses in Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam. For additional information on the comparability of information between years and periods, please refer to “*Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer’s Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable*”.
- (2) The unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 have been prepared under the accounting policies as required by the new and revised HKFRS, with effect from 1 January 2018, which are not consistent with the accounting policies as set out in the comparative information. For additional information, please refer to “*Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer’s Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable*”.

PROFITABILITY RATIOS AND OTHER DATA

	Year ended 31 December			Six months ended 30 June	
	2015 ⁽¹⁾	2016 ⁽¹⁾	2017 ⁽¹⁾	2017 ⁽¹⁾	2018 ⁽²⁾
Return on average total assets ⁽³⁾ . .	1.20%	2.42%	1.25%	1.36%	1.29%
Return on average equity ⁽⁴⁾	14.91%	27.14%	13.55%	14.18%	14.66%
Dividend payout ratio ⁽⁵⁾	49.79%	36.06%	55.88%	39.12%	31.28%
Net interest spread ⁽⁶⁾	1.29%	1.17%	1.38%	1.46%	1.32%
Net interest margin ⁽⁷⁾	1.37%	1.25%	1.49%	1.55%	1.45%
Cost to income ratio ⁽⁸⁾	29.07%	29.67%	28.34%	26.35%	25.38%
Cost to average assets ratio ⁽⁹⁾	0.51%	0.53%	0.54%	0.51%	0.51%
Loan to deposit ratio ⁽¹⁰⁾	63.30%	64.69%	64.28%	66.45%	65.95%

- (1) Comparative information contained in the Issuer's audited consolidated financial statements as of and for the years ended 31 December 2015, 2016 and 2017 and the Issuer's unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 have been restated as a result of the Issuer's disposal of Chiyu and acquisition of businesses in Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam. For additional information on the comparability of information between years and periods, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".
- (2) The unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 have been prepared under the accounting policies as required by the new and revised HKFRS, with effect from 1 January 2018, which are not consistent with the accounting policies as set out in the comparative information. For additional information, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".
- (3) Profit for the year/period divided by daily average balance of total assets.
- (4) Profit attributable to the equity holders divided by average of the beginning and ending balance of capital and reserves attributable to the equity holders of the Bank. The balances of capital and reserves used in the calculation have been restated to reflect the issuer's acquisition of Southeast Asian entities in a way consistent with the restatement of profit attributable to the equity holders in respective years.
- (5) Dividend divided by profit attributable to the equity holders of the Bank.
- (6) Average interest yield of total interest-earning assets less average interest rate of total interest-bearing liabilities.
- (7) Net interest income divided by daily average balance of interest-earning assets.
- (8) Operating expenses divided by net operating income before impairment allowances.
- (9) Operating expenses divided by daily average balance of total assets.
- (10) Advances to customers divided by customers' deposits (including structured deposits).

CAPITALISATION

The following table sets forth the Issuer’s total capitalisation as of 30 June 2018 as derived from the Issuer’s Unaudited Consolidated Financial Information prepared in accordance with HKFRS and as adjusted to give effect to the issue of the Capital Securities (without taking into account the estimated fees and expenses in connection with the offering of the Capital Securities) but before application of the proceeds therefrom. The following table should be read in conjunction with the Issuer’s Unaudited Consolidated Financial Information and the section headed “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” in this Supplemental Offering Circular. Except as otherwise disclosed herein, there has been no material change in the Issuer’s total capitalisation since 30 June 2018.

	As of 30 June 2018			
	Actual	As Adjusted	Actual	As Adjusted
	(HK\$ in millions)	(HK\$ in millions)	(U.S.\$ in millions) ⁽¹⁾	(U.S.\$ in millions) ⁽¹⁾
Long-term liabilities				
Subordinated liabilities	20,674	20,674	2,635	2,635
Equity				
Share capital	43,043	43,043	5,486	5,486
Reserves	195,662	195,662	24,937	24,937
Capital Securities offered hereby	–	23,539	–	3,000
Non-controlling interests	259	259	33	33
Total equity	238,964	262,503	30,456	33,456
Total capitalisation⁽²⁾	259,638	283,177	33,091	36,091

(1) Convenience translation of HK dollar amounts to U.S. dollar amounts were made at a rate of HK\$7.8463 to U.S.\$1.00, the Noon Buying Rate on 29 June 2018.

(2) For the purpose of this Supplemental Offering Circular, total capitalisation refers to total long-term liabilities plus total equity.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Investors should read the following discussion and analysis of the Issuer's financial condition and results of operations together with the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information, the related notes included elsewhere in this Supplemental Offering Circular, and the sections entitled "Selected Financial Information" and "Assets and Liabilities and Selected Statistical Information". The Issuer's Audited Consolidated Financial Statements have been prepared in accordance with HKFRS, which differs in certain respects from U.S. GAAP. The Issuer has not attempted to reconcile its Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information to U.S. GAAP, but had the Issuer done so, it may have had a material impact on the financial information contained herein.

The discussion below contains forward-looking statements and reflects the Issuer's current views with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of factors such as those set out under "Forward-Looking Statements". Additionally, there are risks associated with any investment. Some of the particular risks are set out in the section entitled "Risk Factors" both in this Supplemental Offering Circular and the Principal Offering Circular. Investors should read that section carefully before they decide to invest in the Capital Securities.

Unless otherwise stated, all financial information below for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017 and 2018 is presented on a consolidated basis. In this section of this Supplemental Offering Circular, unless indicated otherwise, references to "2015", "2016" and "2017" refer to the years ended 31 December 2015, 2016 and 2017, respectively. Certain comparative information contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Financial Information have been restated as a result of certain disposals and acquisitions and may not be directly comparable. For additional information, please refer to the notes to the Issuer's Audited Consolidated Financial Statements, Unaudited Consolidated Financial Information and "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable."

OVERVIEW

In 1917, the Issuer established its operations in Hong Kong, and after more than a century it is now the second largest commercial bank in Hong Kong in terms of asset size, customer deposits and loans. The Issuer's long history and deep roots in Hong Kong is evidenced by its strong market presence in major business segments. Additionally, the Issuer is also one of the three note-issuing banks in Hong Kong and the sole RMB clearing bank in Hong Kong. The Issuer's immediate parent company, BOCHK (Holdings), which in turn is majority-owned by BOC, was incorporated in Hong Kong on 12 October 2001 and listed on the main board of the Hong Kong Stock Exchange on 25 July 2002. BOCHK (Holdings) had a market capitalisation of HK\$390,664 million (U.S.\$49,790 million) as of 30 June 2018.

The Issuer offers a variety of services to its retail and corporate customers. It operates through three principal lines of business: personal banking, corporate banking, and treasury operations. The Issuer provides a comprehensive range of personal banking products and services to its individual customers, such as deposits, mortgages, personal loans, credit cards, investment product services and personal wealth management services. The Issuer provides its corporate and institutional customers with a variety of banking products and services, including corporate deposits and loans, and non-interest income-based products and services, such as syndicated loan arrangements, trade finance arrangements, cash management and custody services. The Issuer also engages in treasury operations, including but not limited to inter-bank money market transactions, the management of its investment portfolio, and sales and distribution services in foreign exchange and derivative transactions.

The Issuer conducts its businesses through a combination of its offline and online distribution networks. The Issuer's offline distribution network includes its extensive local branch network and diverse service platforms in Hong Kong, which as of 30 June 2018, was comprised of approximately 200 branches, more than 250 automated banking centres and over 1,000 self-service machines providing efficient e-channels to customers in Hong Kong. As part of the Issuer's overall strategy to optimise its distribution network and increase its access to customers, the Issuer has launched a number of initiatives to improve its customers' experience, including a branch network transformation initiative, which was implemented to increase the overall service capabilities of the Issuer's extensive branch network, automated self-service machines, efficient virtual banking centres and wealth management centres, which are conveniently located all over Hong Kong.

The Issuer has also expanded its regional footprint to Southeast Asia, including Malaysia, Thailand, Indonesia, Cambodia, Vietnam and the Philippines, through a series of acquisitions as part of BOC's restructuring exercise in Southeast Asia. The Issuer also established its own branch in Brunei. As of 30 June 2018, the Issuer had 34 branches and subsidiaries in these Southeast Asian countries. Leveraging its Southeast Asia regional presence, the Issuer strives to capitalise on the key national initiatives, such as the PRC's Belt and Road initiative, while focusing on serving the Mainland of China enterprises "Going Global", multinational and regional corporations, as well as the local leading enterprises in the region. As of 30 June 2018, the Issuer's lending business in Southeast Asia, totalled HK\$36.4 billion, which resulted in a growth of 11.3 per cent. in the region as compared to 31 December 2017.

FACTORS AFFECTING THE ISSUER'S RESULTS OF OPERATIONS AND FINANCIAL CONDITION

As a commercial bank deeply rooted in Hong Kong, the Issuer's business operations are primarily conducted in Hong Kong, where it generates most of its revenues. The Issuer's results of operations and financial condition are primarily affected by the (i) economic conditions in Hong Kong, the Mainland of China and other key regions; (ii) regulatory environment; (iii) interest rate environment; and (iv) competition in the Hong Kong and Mainland of China banking industry, all of which are external factors beyond the Issuer's control.

Economic Conditions in Hong Kong, the Mainland of China and the Other Key Regions

Being a service-oriented and financially integrated economy, Hong Kong's economic conditions are closely related to the economic conditions of other markets and financial shocks, including the United States, the European countries and its neighbours, the Mainland of China and other Southeast Asian countries. Hong Kong's economy expanded by 3.5 per cent. in real terms in the second quarter of 2018 as compared to the second quarter of 2017, after a growth rate of 4.6 per cent. as compared to the first quarter of 2018. The second quarter of 2018 marked the seventh consecutive quarter that the Hong Kong

economy's growth exceeded the trend growth rate of 2.7 per cent. per annum from the past decade. The growth of the Hong Kong economy is supported by both the global economic recovery and the continued improvement of its domestic market.

Growth in the global economy was supported by (i) demand growth in the advanced economies; (ii) a more balanced economy growth in the Mainland of China; and (iii) accelerated growth in emerging markets such as the Southeast Asia. In second half of 2018, the growth in the U.S. economy led the global recovery process, as evidenced by the U.S. economy's growth to 4.1 per cent. in the second quarter of 2018, which was the largest growth rate for the U.S. since 2014. The Eurozone's economies also continued to improve amid the European Central Bank's accommodative monetary policy, an improving labor market and high investor confidence.

Other than the growth seen in the advanced economies, Hong Kong's economic relationship with the Mainland of China is another key factor affecting its economic conditions, as Hong Kong is an important entrepot for the Mainland of China. According to the HKSAR Government statistics, in 2017, 58.0 per cent. of re-exports originated from the Mainland of China and 54.0 per cent. were destined for the Mainland of China. Hong Kong is also the largest source of overseas direct investment in the Mainland of China. After decades of significant economic development, the PRC economy has become the second largest economy in the world. Since 2012, the PRC economy has also entered into a new and more balanced phase, as its economy has focused more on consumption as opposed to investments. Despite the slowdown in the PRC's economic growth in recent years, its economic growth remains one of the highest by international standards.

The Association of Southeast Asia Nations (the "ASEAN") is an economically dynamic region formed by the Southeast Asian countries that has vast market potential, as its members collectively had an economy size of around U.S.\$2.6 trillion in 2016 and a population exceeding 600 million. Growth in the economies of ASEAN members has been solid, averaging at 5.2 per cent. per annum in the decade from 2007 to 2016. ASEAN has been a close economic partner of Hong Kong, and it was one of the three largest trading partners for Hong Kong in terms of merchandise trade and services trade in 2017. Hong Kong may benefit from the ASEAN's economic rise.

Impact on the Issuer's Business

The Issuer's results of operations and financial performance have been, and will continue to be, affected by the economic conditions of Hong Kong, the Mainland of China, Southeast Asia and other world economies. In the near term, the Issuer believes that it can benefit from the synchronised growth in the world's major economies, which is expected to boost Hong Kong's overall economic performance. In particular:

- Steady progress in the implementation of certain key national initiatives such as the PRC's Belt and Road initiative and the launch of a development framework for the Guangdong-Hong Kong-Macao Greater Bay Area (the "**Greater Bay Area**"). Being the one of the largest commercial banks in Hong Kong with subsidiaries and branches across the Southeast Asia, the Issuer believes that it is well positioned to serve multinational corporates and the Mainland of China's enterprises "Going Global" and seeking to invest in Hong Kong and the other Southeast Asian countries where the Issuer operates. Furthermore, through collaboration with BOC and its affiliates, the Issuer can expand its coverage to the Greater Bay Area effectively to extend its reach to customers in the fast growing and populous cities in the region.

- Solid employment and property market are likely to support private consumption and demand for financial products. Hong Kong recorded its lowest unemployment rate in more than 20 years in June 2018 at 2.8 per cent., whilst the property market hit record high in the past few years despite a short period of correction between September 2015 and March 2016. The continuing increase in disposable income and personal wealth attributable to Hong Kong's overall economic performance is likely to continue to provide support to Hong Kong's overall economic conditions and thereby increase demand for more financial products from the commercial banks.
- Being the largest offshore RMB centre outside Hong Kong, the Issuer believes that it is strategically positioned to grow with the internationalization process of the RMB. The PRC government has launched few initiatives including the expansion of the free trade zones in seven provinces of the Mainland of China allowing offshore institutional investors to engage with qualified onshore financial institution to undertake derivative business in RMB against foreign currencies.
- Capitalise on its position as the sole receiving bank for the Bond Connect, which is a mutual capital market access between Hong Kong and the Mainland of China. Since the launch of Bond Connect in July 2017, the average daily volumes reaching RMB6.55 billion in June 2018, more than double the daily average volumes in the first quarter of the year. As the sole channel for the settlement of cross-border funds, the Issuer believes that it will benefit from the increase in the cross-border bond trades as the Mainland of China bond further liberalizes in the coming years.

Despite the strong outlook, the Issuer remains vigilant that while risks are broadly balanced for now, there remains key risks in the medium term including further market corrections, a shift toward protectionist policies, increase in geopolitics tensions and intensified market competition which might negatively and adversely impact the Issuer's results of operations and financial performance if the Issuer fails to respond appropriately to these external factors. For example, the economic conditions of Hong Kong, Southeast Asia and the Eurozone may be negatively impacted by the rising United States' protectionist trade measures and countermeasures from the PRC, which could undermine consumer and business confidence and thus the Issuer's business prospects.

Regulatory Environment

The banking industry is regulated by the provisions of the Banking Ordinance implemented by the HKMA. In line with global practices, the HKMA's banking regulations are becoming increasingly stringent, which is affecting and shaping the way the Hong Kong banking industry conducts its business. The banking regulatory requirements imposed by the HKMA are largely in line with the international standards, which includes, amongst other things, a loan classification system, a capital adequacy framework (which closely follows the internationally accepted standards published by the Basel Committee on Banking Supervision) and a liquidity risk management framework that is adopted by all banks located in Hong Kong. Please refer to the section "*Supervision and Regulation*" in the Principal Offering Circular for further information on these key rules and regulations. Laws and regulations in Hong Kong are considerably transparent, with a relatively high level of certainty allowing the Issuer to manage its businesses more effectively.

Other than compliance with the regulatory requirements in Hong Kong, the Issuer is also subject to the laws and regulations in the Southeast Asia countries where it operates. The rules and regulations in certain Southeast Asian countries have a higher level of uncertainty as compared to Hong Kong, which provides banks with less clarity and certainty in developing its business in these countries. In areas where there are uncertainties, the Issuer has engaged local counsel to provide technical and legal advices to ensure compliance with the local laws and regulations.

Interest Rate Environment

The Issuer's results of operations and financial performance are sensitive to the monetary policy of the Hong Kong and the market conditions of the currency market, including the level of interest rates, liquidity and the market competition. As some of the Issuer's assets and liabilities are re-priced at different times, the Issuer is vulnerable to fluctuations in interest rates.

Depending on the composition of the Issuer's assets and liabilities, both in terms of the proportion of fixed rate assets and liabilities to floating rate assets and liabilities and the timing of re-pricing of such assets and liabilities, the results of operations and financial performance of the Issuer may be negatively or positively impacted. Furthermore, changes in interest rates also affect the funding costs and overall performance of the Issuer's investment portfolio, in particular its fixed income investment portfolio performance.

Changes in interest rates would therefore require the Issuer to re-balance its assets and liabilities in order to minimise the risk of potential mismatches and maintain its profitability. In the event that the Issuer is unable to rebalance its portfolio in response to the changing market conditions, such changes in interest rates may negatively affect the borrowing costs of the Issuer's borrowers and may require a corresponding proportionate change in the Issuer's lending rates, which may impact its results of operations and financial performance.

Competition in the Hong Kong and the Mainland of China's Banking Industry

The Issuer focuses principally on the Hong Kong market for individual and corporate customers. The banking industry in Hong Kong is a mature market, and the Issuer is subject to increasing competition from many other competitors, including the traditional financial institutions and the technology based financial institutions.

Intensified completion in Hong Kong, the Mainland of China and the Southeast Asian countries where it operates may adversely affect the Issuer's results of operations and financial performance. For example, if the Issuer fails to effectively implement its strategies or that its strategies were inappropriate to the challenges, its market share in the principal products and services that it provides may be reduced and the Issuer may experience difficulty in expanding its loan and deposits base.

The Issuer has implemented a series of measures to maintain its competitive strengths, including measures to ensure it is able to retain and recruit talents to meet its changing needs, upgrading its legacy operating system and increasing investment in innovation. For example, in order to further improve its digital customer's experience, it has adopted biometric vein identification for its mobile banking and redesigned its mobile banking application in 2018. Furthermore, it has redesign its corporate structures over the past few years in order to better service its customers and meet the challenges posed by the rapidly changing market.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Issuer makes estimates and assumptions that affect the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to changes in essential estimates and judgments, which affect the carrying amount of assets and liabilities, are set out below. The effect of changes to either the key assumptions or other estimation uncertainties will be presented below if it is practicable to determine. It is possible that actual results may require material adjustments to the estimates referred to below.

Impairment allowances on financial assets

The Issuer reviews its financial assets classified as amortised cost or fair value through other comprehensive income to assess impairment at least on a quarterly basis. The measurement of impairment losses under HKFRS 9 across all categories of the Issuer's credit assets and financial assets requires judgement, in particular the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Issuer's expected credit loss calculations are outputs of complex models. The choice of variable inputs and their interdependencies involves a series of assumptions. Expected credit loss models are developed by leveraging on existing internal rating models and loss estimates, behavioural models and forecasting factors. Elements of the expected credit loss models that are considered accounting judgements and estimates include: (i) the Issuer's internal credit rating models, which assign Probability of Defaults to the individual ratings; (ii) the Issuer's significant credit deterioration criteria (including internal credit rating downgrade, days past due, drop in Mark-to-Market and qualitative assessment) for assessing whether the financial assets' impairment allowances should be measured on a lifetime expected credit loss basis; (iii) the segmentation of financial assets according to similar risk and default characteristics (portfolios like Sovereign, Bank, Corporates, Retail Small Medium-sized Enterprise, Residential Mortgage Loan, Credit Card etc.) when their expected credit loss is assessed on a collective basis; (iv) development of expected credit loss models, including the determination of macroeconomic factor forecasts (*e.g.*, Gross Domestic Product, Consumer Price Index, Property Price Index etc.) and the effect on Probability of Defaults, Loss Given Defaults and Exposure at Defaults; and (v) selection of forward-looking macroeconomic scenarios (including three independent scenarios *i.e.* good, baseline and downturn) and their probability weightings. It has been the Issuer's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Fair values of derivatives financial instruments

The fair values of derivatives financial instruments that are not quoted in active markets are determined by using valuation techniques. Valuation techniques used include discounted cash flows analysis and models with built-in functions available in externally acquired financial analysis or risk management systems widely used by the industry such as option pricing models. To the extent practical, the models use only observable data. Additionally, valuation adjustments may be adopted if factors such as credit risk are not considered in the valuation models. Management judgment and estimates are required for the selection of appropriate valuation parameters, assumptions and modelling techniques.

Deferred Tax Assets

Deferred tax assets on unused tax losses are recognised to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

Deferred tax assets on unused tax credits are recognised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the estimation of available tax credits and the possibility to recover such deferred tax assets recognised.

RECENT DEVELOPMENTS

Financial Performance

For the six months ended 30 June 2018, the Issuer recorded net operating income before impairment allowances of HK\$26,652 million, up 16.4 per cent. period-on-period as compared to 30 June 2017.

Operating expenses for the six months ended 30 June 2018 were HK\$6,764 million, up 12.1 per cent. period-on-period, which included a net reversal of certain expenses in the first half of 2017. The increase in operating expenses was due primarily to the Issuer's ongoing investment in human resources, business systems and platforms, and e-finance services to enhance overall service capacities and support long-term business growth.

The Issuer's operating profit before impairment allowances for the six months ended 30 June 2018 increased by 18.0 per cent. period-on-period to HK\$19,888 million.

Compared to the six months ended 30 June 2017, the Issuer's net operating income before impairment allowances for the six months ended 30 June 2018 increased by 16.4 per cent. period-on-period. Net interest income increased during this same period as the Issuer benefitted from rising market interest rates and the result of its proactive management on assets and liabilities. Moreover, during the six months ended 30 June 2018, the Issuer captured opportunities arising from improved investor sentiment in the market and focused on expanding targeted customers, while providing diversified investment services and optimising service channels. As a result, net fee and commission income increased. Net trading gain also increased, along with rising foreign exchange income.

Financial Position

As of 30 June 2018, the Issuer's total assets increased by 4.8 per cent. to HK\$2,640,307 million from HK\$2,519,797 million as of 31 December 2017. Deposits from customers increased, which led to an increase in advances to customers and securities investments. Meanwhile, balances with banks decreased. The Issuer's loan quality was benign, while its capital ratio, liquidity coverage ratio and net stable funding ratio remained at healthy levels.

RESULTS OF OPERATIONS

Six months ended 30 June 2018 compared to six months ended 30 June 2017

Net Interest Income

Net interest income has historically been the largest component of the Issuer's net operating income before impairment allowances. Net interest income represented 63.9 per cent. and 69.3 per cent. of the Issuer's net operating income before impairment allowances for the six months ended 30 June 2018 and 2017, respectively. The Issuer's net interest income increased by 7.2 per cent. from HK\$15,868 million in the six months ended 30 June 2017 to HK\$17,018 million in the six months ended 30 June 2018, due primarily to growth in average interest-earning assets.

The following table sets forth, for the periods indicated, the principal components of the Issuer's interest income and interest expense:

	Six months ended 30 June	
	2017	2018
	(unaudited)	
	(HK\$ in millions, except percentages)	
Interest income	22,242	27,062
Interest expense	(6,374)	(10,044)
Net interest income	15,868	17,018
Daily average balance of interest-earning assets	2,060,906	2,361,079
Daily average balance of interest-bearing liabilities	1,772,972	2,035,955
Net interest margin ⁽¹⁾	1.55%	1.45%
Net interest spread ⁽²⁾	1.46%	1.32%

(1) The ratio of net interest income to daily average balance of interest-earning assets.

(2) The difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.

Interest Income

The Issuer's interest income increased by 21.7 per cent. from HK\$22,242 million in the six months ended 30 June 2017 to HK\$27,062 million in the six months ended 30 June 2018, due primarily to growth in the average balance of advances to customers and debt securities investments, coupled with the enhancement in the average yield of related assets.

The following table sets forth, for the periods indicated, the principal components of the Issuer's interest income.

	Six months ended 30 June	
	2017	2018
	(unaudited)	
	(HK\$ in millions)	
Interest income		
Advances to customers, due from banks and other financial institutions	17,453	20,325
Investments in securities and financial assets at fair value through profit or loss	4,684	6,592
Others	105	145
Total interest income	22,242	27,062

Interest income from advances to customers and due from banks and other financial institutions

The largest component of the Issuer's interest income has been interest income from advances to customers and due from banks and other financial institutions, representing 75.1 per cent. and 78.5 per cent. of the Issuer's total interest income in the six months ended 30 June 2018 and 2017, respectively. Interest income from advances to customers and due from banks and other financial institutions increased by 16.5 per cent. from HK\$17,453 million in the six months ended 30 June 2017 to HK\$20,325 million in the six months ended 30 June 2018, due primarily to growth in the average balance of advances to customers and the enhanced average yield.

Interest income from investments in securities and financial assets at fair value through profit or loss

Interest income from investments in securities and financial assets at fair value through profit or loss increased by 40.7 per cent. from HK\$4,684 million in the six months ended 30 June 2017 to HK\$6,592 million in the six months ended 30 June 2018. The increase in interest income from investments in securities and financial assets at fair value through profit or loss was due primarily to growth in the average balance of debt securities investments coupled with enhanced average yields on investments.

Interest Expense

The Issuer's interest expense increased by 57.6 per cent. from HK\$6,374 million in the six months ended 30 June 2017 to HK\$10,044 million in the six months ended 30 June 2018, due primarily to the factors outlined below.

The following table sets forth, for the periods indicated, the principal components of the Issuer's interest expense.

	Six months ended 30 June	
	2017	2018
	(unaudited)	
	(HK\$ in millions)	
Interest expense		
Deposits from customers, due to banks and other financial institutions	5,742	8,911
Debt securities and certificates of deposit in issue	41	308
Subordinated liabilities	434	554
Others	157	271
Total interest expense	6,374	10,044

Interest expense due to deposits from customers and due to banks and other financial institutions

The largest component of the Issuer's interest expense has been interest expense on deposits from customers and due to banks and other financial institutions, representing 90.1 per cent. and 88.7 per cent. of the Issuer's total interest expense in the six months ended 30 June 2017 and 2018, respectively. Interest expense on deposits from customers and due to banks and other financial institutions increased by 55.2 per cent. from HK\$5,742 million in the six months ended 30 June 2017 to HK\$8,911 million in the six months ended 30 June 2018, due primarily to growth in the average balance of time deposit coupled with the rise in deposits costs amid rising market interest rates.

Interest expense on debt securities and certificates of deposit in issue

Interest expense on debt securities and certificates of deposit in issue increased by 651.2 per cent., from HK\$41 million in the six months ended 30 June 2017 to HK\$308 million in the six months ended 30 June 2018, due primarily to Panda bonds and commercial paper issued in 2017.

Interest expense on subordinated liabilities

Interest expense on subordinated liabilities, which relates to interest expense on listed subordinated notes of U.S.\$2,500 million issued in 2010 to replace the U.S. dollar denominated subordinated loan provided by BOC in 2008 and floating-rate subordinated loans of EUR660 million from BOC in 2008, increased by 27.6 per cent., from HK\$434 million in the six months ended 30 June 2017 to HK\$554 million in the six months ended 30 June 2018.

Net Interest Spread and Net Interest Margin

Net interest spread decreased by 14 basis points from 1.46 per cent. in the six months ended 30 June 2017 to 1.32 per cent. in the six months ended 30 June 2018.

Net interest margin decreased by 10 basis points from 1.55 per cent. in the six months ended 30 June 2017 to 1.45 per cent. in the six months ended 30 June 2018. Including the funding income or cost of foreign currency swap contracts, net interest margin would have been 1.48 per cent., up 10 basis points from 1.38 per cent., primarily due to the rise in market interest rates. At the same time, the Issuer continued to proactively manage its assets and liabilities, enhancing the loan and deposit spread, coupled with the improved average yield of debt securities investments.

Net Fee and Commission Income

Net fee and commission income represented 26.5 per cent. and 25.4 per cent. of the Issuer's net operating income before impairment allowances in the six months ended 30 June 2017 and 2018, respectively. The Issuer's net fee and commission income increased by 11.7 per cent. from HK\$6,064 million in the six months ended 30 June 2017 to HK\$6,774 million in the six months ended 30 June 2018, due primarily to the Issuer capturing opportunities arising from improved investor sentiment in the market and its continued focus on the development of mid-to high-end and cross-border customers. The Issuer also optimised its service channels and functionalities, and enriched its product and service offerings.

The following table sets forth, for the periods indicated, the principal components of the Issuer's fee and commission income.

	Six months ended 30 June	
	2017	2018
	(unaudited)	
	(HK\$ in millions)	
Fee and commission income		
Loan commissions	2,086	1,712
Credit card business	1,553	1,758
Securities brokerage	1,054	1,705
Insurance	756	948
Funds distribution	421	520
Bills commissions	393	400
Payment services	323	325
Trust and custody services	257	317
Currency exchange	195	268
Safe deposit box	147	154
Others	590	650
Total	7,775	8,757
Fee and commission expense	(1,711)	(1,983)
Net fee and commission income	6,064	6,774

Fee income from loan commissions decreased by 17.9 per cent. from HK\$2,086 million in the six months ended 30 June 2017 to HK\$1,712 million in the six months ended 30 June 2018, due primarily to a lower amount of commissions received in relation to the Issuer's corporate loans.

Fee income from credit card business increased by 13.2 per cent. from HK\$1,553 million in the six months ended 30 June 2017 to HK\$1,758 million in the six months ended 30 June 2018, as a result of the increase in business volume from the credit card issuances and the Issuer's merchant acquiring business.

Fee income from securities brokerage increased by 61.8 per cent. from HK\$1,054 million in the six months ended 30 June 2017 to HK\$1,705 million in the six months ended 30 June 2018, as the Issuer captured opportunities arising from improved investor sentiment in the market and focused on the continuous development of mid-to high-end and cross-border customers.

Fee income from insurance increased by 25.4 per cent. from HK\$756 million in the six months ended 30 June 2017 to HK\$948 million in the six months ended 30 June 2018, primarily as a result of increased business volume in the Issuer's insurance-related business.

Fee income from funds distribution increased by 23.5 per cent. from HK\$421 million in the six months ended 30 June 2017 to HK\$520 million in the six months ended 30 June 2018, as the Issuer captured opportunities arising from improved investor sentiment in the market and focused on the continuous development of mid-to high-end and cross-border customers.

Fee income from bills commissions increased by 1.8 per cent. from HK\$393 million in the six months ended 30 June 2017 to HK\$400 million in the six months ended 30 June 2018, due primarily to the increase in the volume of customer transactions.

Fee income from trust and custody services increased by 23.3 per cent. from HK\$257 million in the six months ended 30 June 2017 to HK\$317 million in the six months ended 30 June 2018, due primarily to the expansion of the Issuer's relationships and transactions related to the management of trust and custody services.

Fee income from currency exchange increased by 37.4 per cent. from HK\$195 million in the six months ended 30 June 2017 to HK\$268 million in the six months ended 30 June 2018, due primarily to the Issuer's proactive expansion of its bank notes business in the Mainland of China, Hong Kong and Southeast Asia.

The Issuer's fee and commission expense increased by 15.9 per cent. from HK\$1,711 million in the six months ended 30 June 2017 to HK\$1,983 million in the six months ended 30 June 2018, due primarily to the increase in credit card and securities brokerage related expenses associated with higher transaction volumes.

Net Trading Gain

The following table sets forth, for the periods indicated, the principal components of the Issuer's net trading gain.

	<u>Six months ended 30 June</u>	
	<u>2017</u>	<u>2018</u>
	(unaudited)	
	(HK\$ in millions)	
Net (loss)/gain from		
Foreign exchange and foreign exchange products	(256)	1,782
Interest rate instruments and items under fair value hedge.	415	178
Commodities	107	61
Equity and credit derivative instruments.	90	114
Net trading gain	356	2,135

Net trading gain increased by 499.7 per cent. from HK\$356 million in the six months ended 30 June 2017 to HK\$2,135 million in the six months ended 30 June 2018 as further discussed below.

The Issuer had a net trading gain from foreign exchange and foreign exchange products of HK\$1,782 million in the six months ended 30 June 2018 compared to a net trading loss of HK\$256 million in the six months ended 30 June 2017, due primarily to the net gain from foreign currency swap contracts as compared to the net loss in the six months ended 30 June 2017 and the growth in currency exchange income from the increase in customer transactions.

Net trading gain from interest rate instruments and items under fair value hedge decreased by 57.1 per cent. from HK\$415 million in the six months ended 30 June 2017 to HK\$178 million in the six months ended 30 June 2018. This change was mainly attributable to the mark-to-market changes of certain debt securities investments and interest rate instruments caused by interest rate movements in the six months ended 30 June 2018.

Net trading gain from commodities decreased by 43.0 per cent. from HK\$107 million in the six months ended 30 June 2017 to HK\$61 million in the six months ended 30 June 2018, due primarily to lower gains from bullion transactions in the six months ended 30 June 2018 as compared to the six months ended 30 June 2017.

Net trading gain from equity and credit derivative instruments increased by 26.7 per cent. from HK\$90 million in the six months ended 30 June 2017 to HK\$114 million in the six months ended 30 June 2018. The change was mainly attributable to the increase in income generated from equity-linked products.

Net Gain on Other Financial Instruments at Fair Value Through Profit or Loss

The Issuer's net gain on other financial instruments at fair value through profit or loss increased by 3,887.5 per cent. from HK\$8 million in the six months ended 30 June 2017 to HK\$319 million in the six months ended 30 June 2018, primarily due to the mark-to-market gain of subordinated notes caused by interest rate movements.

Net Gain on Other Financial Assets

The Issuer's net gain on other financial assets was HK\$232 million in the six months ended 30 June 2017 compared to a net gain of HK\$41 million in the six months ended 30 June 2018. The higher amount for the six months ended 30 June 2017 was primarily due to the Issuer capturing additional market opportunities to dispose of certain debt securities while recording higher gains during the period as compared to the six months ended 30 June 2018.

Other Operating Income

The Issuer's other operating income increased slightly by 0.6 per cent. from HK\$363 million in the six months ended 30 June 2017 to HK\$365 million in the six months ended 30 June 2018, due primarily to higher rental income received from investment properties for the six months ended 30 June 2018 as compared to the six months ended 30 June 2017.

Net Operating Income Before Impairment Allowances

The Issuer's net operating income before impairment allowances increased by 16.4 per cent. from HK\$22,891 million in the six months ended 30 June 2017 to HK\$26,652 million in the six months ended 30 June 2018. Net interest income increased as the Issuer benefitted from rising market interest rates coupled with positive results attributable to its proactive management on assets and liabilities. It captured opportunities arising from improved investor sentiment in the market and focused on expanding targeted customers, while providing diversified investment services and optimising service channels. As a result, net fee and commission income rose, and net trading gains increased as a result of rising foreign exchange income.

Net Charge of Impairment Allowances

Impairment allowances consist primarily of provisions on loans and other assets. The Issuer's impairment allowances had a net charge of HK\$338 million in the six months ended 30 June 2018, compared to a net charge of HK\$354 million in the six months ended 30 June 2017. The net charge in the six months ended 30 June 2018 mainly reflected the net charge of impairment allowances recognised as Stage 3, which was mainly related to the downgrade of a few corporate advances and in the personal loan portfolio. The net reversal of impairment allowances recognised as Stage 1 mainly reflected the reversal caused by the upgrade of certain customers and the update of the parameter values in the Issuer's expected-loss impairment model. The net charge of impairment allowances recognised as Stage 2 were mainly attributable to the increased credit risk of certain customer advances.

The following table sets forth, for the years indicated, the principal components of the Issuer's impairment allowances.

	Six months ended 30 June	
	2017	2018
	(unaudited)	
	(HK\$ in millions)	
Advances and other accounts		
Stage 1	N/A	462
Stage 2	N/A	(141)
Stage 3	N/A	(585)
Collectively assessed	(501)	N/A
Individually assessed	151	N/A
	(350)	(264)
Investment in securities		
At fair value through other comprehensive income	N/A	(15)
At amortised cost	N/A	1
Held-to-maturity securities	–	N/A
	–	(14)
Others	(4)	(60)
Net charge of impairment allowances	(354)	(338)

Net Operating Income

As a result of the foregoing factors, the Issuer's net operating income increased by 16.8 per cent. from HK\$22,537 million in the six months ended 30 June 2017 to HK\$26,314 million in the six months ended 30 June 2018.

Operating Expenses

The following table sets forth, for the periods indicated, the principal components of the Issuer's total operating expenses.

	Six months ended 30 June	
	2017	2018
	(unaudited)	
	(HK\$ in millions)	
Staff costs (including directors' emoluments)	3,560	3,892
Premises and equipment expenses (excluding depreciation)	806	826
Depreciation	919	986
Auditor's remuneration	5	9
Other operating expenses	742	1,051
Total operating expenses	6,032	6,764

The Issuer's total operating expenses increased from HK\$6,032 million in the six months ended 30 June 2017 to HK\$6,764 million in the six months ended 30 June 2018, due primarily to the Issuer's ongoing investment in human resources, business systems and platforms, and e-finance services to enhance overall service capacities and support long-term business growth.

Operating Profit

As a result of the foregoing factors, the Issuer's operating profit increased by 18.4 per cent. from HK\$16,505 million in the six months ended 30 June 2017 to HK\$19,550 million in the six months ended 30 June 2018.

Net Gain From Disposal of/Fair Value Adjustments on Investment Properties

The Issuer's gain from disposal of/fair value adjustments on investment properties increased by 4.1 per cent. from HK\$894 million in the six months ended 30 June 2017 to HK\$931 million in the six months ended 30 June 2018, due primarily to an increase in the valuation of investment properties during the six months ended 30 June 2018.

Net Gain/(Loss) from disposal/revaluation of properties, plant and equipment

The Issuer recorded a net gain of HK\$10 million from disposal/revaluation of properties, plant and equipment in the six months ended 30 June 2018 as compared to a HK\$1 million net loss in the six months ended 30 June 2017, due primarily to a lower loss from the disposal of equipment, fixtures and fittings coupled with a higher net gain from the revaluation of premises.

Share of profits less losses after tax of associates and joint ventures

The Issuer's share of profits less losses after tax of associates and joint ventures increased by 23.5 per cent. from HK\$34 million in the six months ended 30 June 2017 to HK\$42 million in the six months ended 30 June 2018, due primarily to the increase in profits of its associates during the six months ended 30 June 2018.

Profit before Taxation

As a result of the foregoing factors, the Issuer's profit before taxation increased by 17.8 per cent. from HK\$17,432 million in the six months ended 30 June 2017 to HK\$20,533 million in the six months ended 30 June 2018.

Taxation

The Issuer's taxation increased by 16.5 per cent. from HK\$2,791 million in the six months ended 30 June 2017 to HK\$3,252 million in the six months ended 30 June 2018, due primarily to an increase in Hong Kong profits tax and overseas taxation related to the increase in the Issuer's operating profit during the six months ended 30 June 2018 as compared to the six months ended 30 June 2017.

Profit from Continuing Operations

As a result of the foregoing factors, the Issuer's profit from continuing operations increased by 18.0 per cent. from HK\$14,641 million in the six months ended 30 June 2017 to HK\$17,281 million in the six months ended 30 June 2018.

Profit from Discontinued Operations

The Issuer's profit from discontinued operations decreased from HK\$2,623 million in the six months ended 30 June 2017 to NIL in the six months ended 30 June 2018, due primarily to the gain on disposal of equity interests in Chiyu, which occurred in March 2017.

Profit for the Period

As a result of the foregoing factors, the Issuer's profit increased by 0.1 per cent. from HK\$17,264 million in the six months ended 30 June 2017 to HK\$17,281 million in the six months ended 30 June 2018.

2017 compared to 2016

Net Interest Income

Net interest income has historically been the largest component of the Issuer's net operating income before impairment allowances, representing 57.8 per cent. and 68.5 per cent. of its net operating income before impairment allowances in 2016 and 2017, respectively. The Issuer's net interest income increased by 35.5 per cent. from HK\$23,654 million in 2016 to HK\$32,052 million in 2017, due primarily to growth in the average balance of interest-earning assets and an increase in net interest margin.

The following table sets forth, for the years indicated, the principal components of the Issuer's interest income and interest expense:

	Year ended 31 December	
	2016	2017
	(audited)	
	(HK\$ in millions, except percentages)	
Interest income	34,395	46,261
Interest expense	(10,741)	(14,209)
Net interest income	23,654	32,052
Daily average balance of interest-earning assets ⁽¹⁾	1,889,147	2,150,678
Daily average balance of interest-bearing liabilities ⁽¹⁾	1,639,172	1,852,587
Net interest margin ⁽¹⁾⁽²⁾	1.25%	1.49%
Net interest spread ⁽¹⁾⁽³⁾	1.17%	1.38%

- (1) The Issuer has restated the daily average balance of interest-earning assets and interest-bearing liabilities as well as the net interest margin and spread for the year ended 31 December 2016 due to the Issuer's having applied the merger accounting method in the preparation of financial statements for the combination with entities under common control in 2017.
- (2) The ratio of net interest income to daily average balance of interest-earning assets.
- (3) The difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.

Interest Income

The Issuer's interest income increased by 34.5 per cent. from HK\$34,395 million in 2016 to HK\$46,261 million in 2017, due primarily to growth in the average balance of advances to customers, balances and placements with banks as well as debt securities investments, coupled with the enhancement in the average yield of related assets.

The following table sets forth, for the years indicated, the principal components of the Issuer's interest income:

	Year ended 31 December	
	2016	2017
	(audited)	
	(HK\$ in millions)	
Interest income		
Due from banks and other financial institutions	4,549	9,538
Advances to customers	21,691	25,881
Investments in securities and financial assets at fair value through profit or loss	7,959	10,628
Others	196	214
Total interest income	34,395	46,261

Interest income due from banks and other financial institutions

Interest income due from banks and other financial institutions increased by 109.7 per cent. from HK\$4,549 million in 2016 to HK\$9,538 million in 2017, due primarily to growth in the average balance of balances and placements with banks and the enhanced average yield.

Interest income from advances to customers

The largest component of the Issuer's interest income has been interest income from advances to customers, representing 63.1 per cent. and 55.9 per cent. of the Issuer's total interest income in 2016 and 2017, respectively. Interest income from advances to customers increased by 19.3 per cent. from HK\$21,691 million in 2016 to HK\$25,881 million in 2017, due primarily to growth in the average balance of advances to customers, coupled with the Issuer's proactive management of its assets and liabilities, enhancing the average yield of related assets.

Interest income from investments in securities and financial assets at fair value through profit or loss

Interest income from investments in securities and financial assets at fair value through profit or loss increased by 33.5 per cent. from HK\$7,959 million in 2016 to HK\$10,628 million in 2017. The increase in interest income from investments in securities and financial assets at fair value through profit or loss was due primarily to growth in the average balance of debt securities investments, together with the Issuer's proactive management of its assets and liabilities, enhancing the average yield of related assets.

Interest Expense

The Issuer's interest expense increased by 32.3 per cent. from HK\$10,741 million in 2016 to HK\$14,209 million in 2017, due primarily to the factors outlined below.

The following table sets forth, for the years indicated, the principal components of the Issuer's interest expense.

	Year ended 31 December	
	2016	2017
	(audited)	
	(HK\$ in millions)	
Interest expense		
Due to banks and other financial institutions	1,837	2,054
Deposits from customers	7,776	10,562
Debt securities and certificates of deposit in issue	318	289
Subordinated liabilities	594	932
Others	216	372
Total interest expense	10,741	14,209

Interest expenses due to banks and other financial institutions

Interest expense due to banks and other financial institutions increased by 11.8 per cent. from HK\$1,837 million in 2016 to HK\$2,054 million in 2017, due primarily to rising market interest rates.

Interest expense due to deposits from customers

The largest component of the Issuer's interest expense has been interest expense due to deposits from customers, representing 72.4 per cent. and 74.3 per cent. of the Issuer's total interest expense in 2016 and 2017, respectively. Interest expense due to deposits from customers increased by 35.8 per cent. from HK\$7,776 million in 2016 to HK\$10,562 million in 2017, due primarily to growth in the average balance of customer deposits coupled with the rise in deposit costs amid intensified market competition for customer deposits.

Interest expense on debt securities and certificates of deposit in issue

Interest expense on debt securities and certificates of deposit in issue, which relates to interest expense on notes issued under the Medium Term Note Programme established in 2011, Panda bonds and commercial papers issued in 2017, decreased by 9.1 per cent., from HK\$318 million in 2016 to HK\$289 million in 2017, due primarily to the maturity of notes issued under the Issuer's Medium Term Note Programme in November 2016.

Interest expense on subordinated liabilities

Interest expense on subordinated liabilities, which relates to interest expense on listed subordinated notes of U.S.\$2,500 million issued in 2010 to replace the U.S. dollar denominated subordinated loan provided by BOC in 2008 and floating-rate subordinated loans of EUR660 million from BOC in 2008, increased by 56.9 per cent., from HK\$594 million in 2016 to HK\$932 million in 2017, due primarily to the movement in interest rates during the year.

Net Interest Spread and Net Interest Margin

Net interest spread increased by 21 basis points from 1.17 per cent. in 2016 to 1.38 per cent. in 2017.

Net interest margin grew by 24 basis points from 1.25 per cent. in 2016 to 1.49 per cent. in 2017, due primarily to the Issuer proactively managing its assets and liabilities to enhance the average yield of advances to customers and debt securities investments. Additionally, the Issuer also captured opportunities from the interbank market in order to improve the average yield of balances and placements with banks, which also resulted in a rise in net interest margin. If the funding income or cost of foreign currency swap contracts were included, net interest margin would have been 1.36 per cent. in 2017, up 6 basis points from 1.30 per cent. in 2016.

Net Fee and Commission Income

Net fee and commission income represented 27.2 per cent. and 26.0 per cent. of the Issuer's net operating income before impairment allowances in 2016 and 2017, respectively. The Issuer's net fee and commission income increased 9.5 per cent. from HK\$11,113 million in 2016 to HK\$12,171 million in 2017. The increase was largely attributed to improved investor sentiment in the market and the Issuer's focus on delivering promotional campaigns to mid-to-high end and cross-border customers, translating into higher amounts received from fees and commission income from the Issuer's securities brokerage services and funds distribution.

The following table sets forth, for the years indicated, the principal components of the Issuer's fee and commission income.

	Year ended 31 December	
	2016	2017
	(audited)	
	(HK\$ in millions)	
Fee and commission income		
Loan commissions	3,522	3,559
Credit card business	3,778	3,237
Securities brokerage	1,954	2,624
Insurance	1,747	1,643
Funds distribution	703	926
Bills commissions	724	802
Payment services	631	629
Trust and custody services	476	562
Currency exchange	336	433
Safe deposit box	277	291
Others	984	1,035
Total	15,132	15,741
Fee and commission expense	(4,019)	(3,570)
Net fee and commission income	11,113	12,171

Fee income from loan commissions remained relatively unchanged, increasing slightly by 1.1 per cent. from HK\$3,522 million in 2016 to HK\$3,559 million in 2017.

Fee income from credit card business decreased by 14.3 per cent. from HK\$3,778 million in 2016 to HK\$3,237 million in 2017, due primarily to the decrease in fee income from the Issuer's merchant-acquiring business in Hong Kong, which was affected by the decline in cardholder spending from mainland visitors to Hong Kong, offsetting the growth in commission income from its credit card business in Hong Kong.

Fee income from securities brokerage increased by 34.3 per cent. from HK\$1,954 million in 2016 to HK\$2,624 million in 2017, as the Issuer captured opportunities arising from improved investor sentiment in the market and focused on delivering promotional campaigns to mid to high-end and cross-border customers.

Fee income from insurance decreased by 6.0 per cent. from HK\$1,747 million in 2016 to HK\$1,643 million in 2017, due primarily to the lower customer demand for insurance products amid improved investor sentiment in the market.

Fee income from funds distribution increased by 31.7 per cent. from HK\$703 million in 2016 to HK\$926 million in 2017, as the Issuer captured opportunities arising from improved investor sentiment in the market, and increased its delivery of promotional campaigns to mid to high-end and cross-border customers.

Fee income from bills commissions increased by 10.8 per cent. from HK\$724 million in 2016 to HK\$802 million in 2017, due primarily to the increase in the number of customer transactions.

Fee income from trust and custody services increased by 18.1 per cent. from HK\$476 million in 2016 to HK\$562 million in 2017, due primarily to the Issuer's effectiveness in expanding its customer base for trust and custody services.

Fee income from currency exchange increased by 28.9 per cent. from HK\$336 million in 2016 to HK\$433 million in 2017, due primarily to the Issuer capturing market opportunities to achieve satisfactory growth of its banknote business in Asia.

The Issuer's fee and commission expense decreased by 11.2 per cent. from HK\$4,019 million in 2016 to HK\$3,570 million in 2017, due primarily to lower credit card related expenses in 2017.

Net Trading Gain

The following table sets forth, for the years indicated, the principal components of the Issuer's net trading gain.

	Year ended 31 December	
	2016	2017
	(audited)	
	(HK\$ in millions)	
Net gain/(loss) from		
Foreign exchange and foreign exchange products	4,003	(42)
Interest rate instruments and items under fair value hedge . . .	849	757
Commodities	32	205
Equity and credit derivative instruments	126	225
Net trading gain	5,010	1,145

Net trading gain decreased by 77.1 per cent. from HK\$5,010 million in 2016 to HK\$1,145 million in 2017 as further discussed below. If funding income or costs of foreign currency swap contracts were excluded, net trading gain would have decreased by 1.9 per cent., primarily due to lower mark-to-market gain of certain foreign exchange and lower mark-to-market gains of certain debt securities investments and interest rate instruments, caused by interest rate movements. These drops were partially offset by the higher gain from bullion transactions and an increase in income from equity-linked products.

The Issuer recorded a net trading loss from foreign exchange and foreign exchange products of HK\$42 million in 2017, compared to a net gain of HK\$4,003 million in 2016. The change was mainly due to the funding costs of foreign currency swap contracts recorded in 2017 as compared to the funding income received in 2016.

Net trading gain from interest rate instruments and items under fair value hedge decreased by 10.8 per cent. from HK\$849 million in 2016 to HK\$757 million in 2017. The decrease was mainly as a result of the lower mark-to-market gains of certain debt securities investments and interest rate instruments in 2017 as compared to 2016, caused by interest rate movements.

Net trading gain from commodities increased 540.6 per cent. from HK\$32 million in 2016 to HK\$205 million in 2017. The increase was mainly as a result of a higher gain from bullion transactions in 2017 as compared to 2016.

Net trading gain from equity and credit derivative instruments increased by 78.6 per cent. from HK\$126 million in 2016 to HK\$225 million in 2017. The change was mainly attributable to an increase in income from equity-linked products in 2017 as compared to 2016.

Net Gain/(Loss) on Other Financial Instruments at Fair Value Through Profit or Loss

The Issuer recorded a net gain on other financial instruments at fair value through profit or loss of HK\$4 million in 2017 as compared to a loss of HK\$1 million in 2016, primarily due to the lower net loss recorded in 2017 from interest-linked deposits as compared to 2016.

Net Gain on Other Financial Assets

Net gain on other financial assets increased 17.8 per cent. from HK\$618 million in 2016 to HK\$728 million in 2017, due primarily to a 12.1 per cent. increase in the net gain from disposal of available-for-sale securities from HK\$611 million in 2016 to HK\$685 million in 2017.

Other Operating Income

The Issuer's other operating income increased by 28.5 per cent. from HK\$537 million in 2016 to HK\$690 million in 2017, due primarily to higher services charges from transitional services agreement with NCB and Chiyu and rental income from investment properties.

Net Operating Income Before Impairment Allowances

The Issuer's net operating income before impairment allowances increased by 14.3 per cent. from HK\$40,931 million in 2016 to HK\$46,790 million in 2017. Net interest income increased, due to the growth of the Issuer's average interest-earning assets and a rise in net interest margin. The Issuer captured opportunities from improved investor sentiment in the market and focused on providing diversified investment services, which resulted in a rise in net fee and commission income.

Net Charge of Impairment Allowances

Impairment allowances consist primarily of provisions on loans and other assets. The Issuer's impairment allowances had a net charge of HK\$1,076 million in 2017, compared to a net charge of HK\$601 million in 2016, due primarily to a higher amount of net charges for collectively assessed loan impairment allowances, attributable to growth in advances to customers, and the Issuer has taken a prudent and stable approach to increase impairment for a certain loan portfolio.

The following table sets forth, for the years indicated, the principal components of the Issuer's impairment allowances.

	Year ended 31 December	
	2016	2017
	(audited)	
	(HK\$ in millions)	
Advances to customers		
Individually assessed		
new allowances	(249)	(303)
releases	165	301
recoveries	91	73
Net reversal of individually assessed loan impairment allowances	7	71
Collectively assessed		
new allowances	(707)	(1,204)
releases	40	8
recoveries	46	58
Net charge of collectively assessed loan impairment allowances	(621)	(1,138)
Net charge of loan impairment allowances	(614)	(1,067)
Others	13	(9)
Net charge of impairment allowances	(601)	(1,076)

Net Operating Income

As a result of the foregoing factors, the Issuer's net operating income increased by 13.3 per cent. from HK\$40,330 million in 2016 to HK\$45,714 million in 2017.

Operating Expenses

The following table sets forth, for the years indicated, the principal components of the Issuer's total operating expenses.

	Year ended 31 December	
	2016	2017
	(audited)	
	(HK\$ in millions)	
Staff costs (including directors' emoluments)	6,705	7,516
Premises and equipment expenses (excluding depreciation)	1,552	1,652
Depreciation	1,787	1,928
Auditor's remuneration	37	35
Other operating expenses	2,063	2,127
Total operating expenses	12,144	13,258

The Issuer's total operating expenses increased by 9.2 per cent. from HK\$12,144 million in 2016 to HK\$13,258 million in 2017, due primarily to the Issuer's ongoing investment in the service capabilities, business systems and platforms needed to support long-term business growth.

Operating Profit

As a result of the foregoing factors, the Issuer's operating profit increased by 15.1 per cent. from HK\$28,186 million in 2016 to HK\$32,456 million in 2017.

Net Gain From Disposal of/Fair Value Adjustments on Investment Properties

The Issuer's gain from disposal of/fair value adjustments on investment properties increased by 176.9 per cent. from HK\$437 million in 2016 to HK\$1,210 million in 2017, due primarily to an increase in the valuation of investment properties in 2017.

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

The Issuer's net loss from disposal/revaluation of properties, plant and equipment increased by 60.0 per cent. from HK\$15 million in 2016 to HK\$24 million in 2017, due primarily to higher losses recorded from disposal of equipment, fixtures and fittings in 2017 as compared to 2016.

Share of profits less losses after tax of associates and joint ventures

The Issuer's share of profits less losses after tax of associates and joint ventures increased by 32.4 per cent. from HK\$74 million in 2016 to HK\$98 million in 2017, due primarily to the increase in profits of its associates during 2017.

Profit before Taxation

As a result of the foregoing factors, the Issuer's profit before taxation increased by 17.6 per cent. from HK\$28,682 million in 2016 to HK\$33,740 million in 2017.

Taxation

The Issuer's taxation increased by 27.2 per cent. from HK\$4,588 million in 2016 to HK\$5,834 million in 2017, due primarily to an increase in Hong Kong profits tax and overseas taxation related to an increase in operating profit for 2017.

Profit from Continuing Operations

As a result of the foregoing factors, the Issuer's profit from continuing operations increased by 15.8 per cent. from HK\$24,094 million in 2016 to HK\$27,906 million in 2017.

Profit from Discontinued Operations

The Issuer's profit from discontinued operations decreased by 91.7 per cent. from HK\$31,493 million in 2016 to HK\$2,623 million in 2017, due primarily to the gain on disposal of NCB in 2016 relative to the gain on disposal of Chiyu in 2017.

Profit for the Year

As a result of the foregoing factors, the Issuer's profit for the year decreased by 45.1 per cent. from HK\$55,587 million in 2016 to HK\$30,529 million in 2017.

2016 compared to 2015

Net Interest Income

Net interest income has historically been the largest component of the Issuer's net operating income before impairment allowances, representing 59.1 per cent. and 57.8 per cent. of its net operating income before impairment allowances in 2015 and 2016, respectively. The Issuer's net interest income increased slightly by 3.1 per cent. from HK\$22,939 million in 2015 to HK\$23,654 million in 2016, due primarily to the growth in average interest-earning assets, which was partially offset by a lower net interest margin.

The following table sets forth, for the years indicated, the principal components of the Issuer's interest income and interest expenses:

	Year ended 31 December	
	2015	2016
	(audited)	
	(HK\$ in millions, except percentages)	
Interest income	35,248	34,395
Interest expense	(12,309)	(10,741)
Net interest income	22,939	23,654
Daily average balance of interest-earning assets	1,677,804	1,889,147
Daily average balance of interest-bearing liabilities	1,513,855	1,639,172
Net interest margin ⁽¹⁾	1.37%	1.25%
Net interest spread ⁽²⁾	1.29%	1.17%

(1) The ratio of net interest income to daily average balance of interest-earning assets.

(2) The difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.

Interest Income

The Issuer's interest income decreased by 2.4 per cent. from HK\$35,248 million in 2015 to HK\$34,395 million in 2016, due primarily to lower interest income from banks and other financial institutions.

The following table sets forth, for the years indicated, the principal components of the Issuer's interest income.

	Year ended 31 December	
	2015	2016
	(audited)	
	(HK\$ in millions)	
Interest income		
Due from banks and other financial institutions	8,133	4,549
Advances to customers	18,566	21,691
Investments in securities and financial assets at fair value through profit or loss	8,339	7,959
Others	210	196
Total interest income	35,248	34,395

Interest income due from banks and other financial institutions

Interest income due from banks and other financial institutions decreased by 44.1 per cent. from HK\$8,133 million in 2015 to HK\$4,549 million in 2016, due primarily to the decrease in the average balance of balances and placements with banks together with the decline in average yield.

Interest income from advances to customers

The largest component of the Issuer's interest income has been interest income from advances to customers, representing 52.7 per cent. and 63.1 per cent. of the Issuer's total interest income in 2015 and 2016, respectively. Interest income from advances to customers increased by 16.8 per cent. from HK\$18,566 million in 2015 to HK\$21,691 million in 2016, due primarily to growth in the average balance of advances to customers.

Interest income from investments in securities and financial assets at fair value through profit or loss

Interest income from investments in securities and financial assets at fair value through profit or loss decreased slightly by 4.6 per cent. from HK\$8,339 million in 2015 to HK\$7,959 million in 2016. The decrease in interest income from investments in securities and financial assets at fair value through profit or loss was due primarily to an increase in the average balances of lower-yielding short-term debt securities investments and a decrease in the average balances of RMB debt securities investments.

Interest Expense

The Issuer's interest expense decreased by 12.7 per cent. from HK\$12,309 million in 2015 to HK\$10,741 million in 2016, due primarily to the factors outlined below.

The following table sets forth, for the years indicated, the principal components of the Issuer's interest expense.

	Year ended 31 December	
	2015	2016
	(audited)	
	(HK\$ in millions)	
Interest expense		
Due to banks and other financial institutions	1,896	1,837
Deposits from customers	9,302	7,776
Debt securities and certificates of deposit in issue	308	318
Subordinated liabilities	441	594
Others	362	216
Total interest expense	12,309	10,741

Interest expenses due to banks and other financial institutions

Interest expense due to banks and other financial institutions decreased by 3.1 per cent. from HK\$1,896 million in 2015 to HK\$1,837 million in 2016, due primarily to the decrease in market interest rates.

Interest expense due to deposits from customers

The largest component of the Issuer's interest expense has been interest expense due to deposits from customers, representing 75.6 per cent. and 72.4 per cent. of the Issuer's total interest expense in 2015 and 2016, respectively. Interest expense due to deposits from customers decreased by 16.4 per cent. from HK\$9,302 million in 2015 to HK\$7,776 million in 2016, due primarily to the decrease in the average balance of customer deposits, coupled with the Issuer's effective control on deposit pricing.

Interest expense on debt securities and certificates of deposit in issue

Interest expense on debt securities and certificates of deposit in issue, which relates to interest expense on notes issued under the Medium Term Note Programme established in 2011, increased slightly by 3.2 per cent., from HK\$308 million in 2015 to HK\$318 million in 2016, due primarily to the movement in interest expense on the relevant hedging instruments.

Interest expense on subordinated liabilities

Interest expense on subordinated liabilities, which relates to interest expense on listed subordinated notes of U.S.\$2,500 million issued in 2010 to replace the U.S. dollar denominated subordinated loan provided by BOC in 2008 and floating-rate subordinated loans of EUR660 million from BOC in 2008, increased by 34.7 per cent. from HK\$441 million in 2015 to HK\$594 million in 2016. This increase was primarily attributable to movements in interest rates during 2016.

Net Interest Spread and Net Interest Margin

Net interest spread decreased by 12 basis points from 1.29 per cent. in 2015 to 1.17 per cent. in 2016.

Net interest margin fell by 12 basis points from 1.37 per cent. in 2015 to 1.25 per cent. in 2016, due primarily to the lower average interest spread of the Issuer's RMB business, which was caused by the drop in RMB market interest rates and the increase of RMB funds from the clearing bank business, and the increase in lower-yielding short-term debt securities investments.

Net Fee and Commission Income

Net fee and commission income represented 29.5 per cent. and 27.2 per cent. of the Issuer's net operating income before impairment allowances in 2015 and 2016, respectively. The Issuer's net fee and commission income decreased by 3.0 per cent. from HK\$11,454 million in 2015 to HK\$11,113 million in 2016, due primarily to stock market turnover in 2016 amid weakened investor sentiment, which resulted in a decline of fee and commission income from securities brokerage and funds distribution in 2016.

The following table sets forth, for the years indicated, the principal components of the Issuer's fee and commission income.

	Year ended 31 December	
	2015	2016
	(audited)	
	(HK\$ in millions)	
Fee and commission income		
Loan commissions	3,240	3,522
Credit card business	3,750	3,778
Securities brokerage	3,255	1,954
Insurance	1,539	1,747
Funds distribution	865	703
Bills commissions	561	724
Payment services	561	631
Trust and custody services	478	476
Currency exchange	302	336
Safe deposit box	248	277
Others	876	984
Total	15,675	15,132
Fee and commission expense	(4,221)	(4,019)
Net fee and commission income	11,454	11,113

Fee income from loan commissions increased slightly by 8.7 per cent. from HK\$3,240 million in 2015 to HK\$3,522 million in 2016, due primarily to a satisfactory growth in new loan drawdowns of corporate loans.

Fee income from credit card business remained relatively stable, increasing slightly by 0.7 per cent. from HK\$3,750 million in 2015 to HK\$3,778 million in 2016, due primarily to the increase in fee income from late payments and cross-border transactions.

Fee income from securities brokerage decreased by 40.0 per cent. from HK\$3,255 million in 2015 to HK\$1,954 million in 2016, due primarily to the lower stock market turnover amid the weakened investment sentiment.

Fee income from insurance increased by 13.5 per cent. from HK\$1,539 million in 2015 to HK\$1,747 million in 2016, due primarily to the increase in the volume of transactions in relation to the Issuer's insurance business.

Fee income from funds distribution decreased by 18.7 per cent. from HK\$865 million in 2015 to HK\$703 million in 2016, due primarily to the weakened investor sentiment in the market.

Fee income from bills commissions increased by 29.1 per cent. from HK\$561 million in 2015 to HK\$724 million in 2016, due primarily to the increase in the volume of transactions in 2016 as compared to 2015.

Fee income from currency exchange increased by 11.3 per cent. from HK\$302 million in 2015 to HK\$336 million in 2016, due primarily to higher demand for foreign currency banknotes.

The Issuer's fee and commission expense decreased by 4.8 per cent. from HK\$4,221 million in 2015 to HK\$4,019 million in 2016, due primarily to lower securities brokerage and insurance-related expenses in 2016.

Net Trading Gain

The following table sets forth, for the years indicated, the principal components of the Issuer's net trading gain.

	Year ended 31 December	
	2015	2016
	(audited)	
	(HK\$ in millions)	
Net gain from		
Foreign exchange and foreign exchange products	2,011	4,003
Interest rate instruments and items under fair value hedge . . .	332	849
Commodities	57	32
Equity and credit derivative instruments	202	126
Net trading gain	2,602	5,010

Net trading gain increased by 92.5 per cent. from HK\$2,602 million in 2015 to HK\$5,010 million in 2016 as further discussed below.

Net trading gain from foreign exchange and foreign exchange products increased by 99.1 per cent. from HK\$2,011 million in 2015 to HK\$4,003 million in 2016. This was due primarily to net gains from foreign exchange swap contracts and an increase in currency exchange income derived from customer transactions.

Net trading gain from interest rate instruments and items under fair value hedge increased by 155.7 per cent. to HK\$849 million in 2016, compared to a net trading gain of HK\$332 million in 2015. The increase was mainly attributable to mark-to-market changes of certain debt securities and interest rate instruments caused by interest rate movements.

Net trading gain on commodities decreased 43.9 per cent. from HK\$57 million in 2015 to HK\$32 million in 2016. The decrease was mainly attributable to lower gains from bullion transactions.

Net trading gain from equity and derivative instruments decreased by 37.6 per cent. from HK\$202 million in 2015 to HK\$126 million in 2016, due primarily to decreased income from equity-linked products.

Net Loss on Other Financial Instruments at Fair Value Through Profit or Loss

The Issuer's net loss on other financial instruments at fair value through profit or loss decreased by 83.3 per cent. from a loss of HK\$6 million in 2015 to a loss of HK\$1 million in 2016, primarily due to the lower net loss recorded in 2016 from interest-linked deposits as compared to 2015.

Net Gain on Other Financial Assets

The Issuer's net gain on other financial assets decreased 45.6 per cent. from HK\$1,135 million in 2015 to HK\$618 million in 2016, due primarily to a 45.6 per cent. decrease in gains from disposal of available-for-sale securities of HK\$611 million in 2016 as compared to a net gain of HK\$1,124 million in 2015.

Other Operating Income

The Issuer's other operating income decreased by 23.0 per cent. from HK\$697 million in 2015 to HK\$537 million in 2016, due primarily to the ex-gratia compensation from the HKSAR Government relating to the Issuer's disposal of a property.

Net Operating Income Before Impairment Allowances

The Issuer's net operating income before impairment allowances increased by 5.4 per cent. from HK\$38,821 million in 2015 to HK\$40,931 million in 2016, due primarily to strong growth in net trading gain, mainly due to the net gain from foreign exchange swap contracts in 2016. Net interest income was higher due to the expansion in average interest-earning assets.

Net Charge of Impairment Allowances

Impairment allowances consist primarily of provisions on loans and other assets. The Issuer's impairment allowances had a net charge of HK\$601 million in 2016, compared to a net charge of HK\$755 million in 2015 as further discussed below.

The following table sets forth, for the years indicated, the principal components of the Issuer's impairment allowances.

	Year ended 31 December	
	2015	2016
	(audited)	
	(HK\$ in millions)	
Advances to customers		
Individually assessed		
new allowances	(505)	(249)
releases	93	165
recoveries	98	91
Net (charge)/reversal of individually assessed loan impairment allowances	(314)	7
Collectively assessed		
new allowances	(538)	(707)
releases	1	40
recoveries	45	46
Net charge of collectively assessed loan impairment allowances	(492)	(621)
Net charge of loan impairment allowances	(806)	(614)
Others	51	13
Net charge of impairment allowances	(755)	(601)

The Issuer's net charge of impairment allowances on advances to customers decreased by 23.8 per cent. from HK\$806 million in 2015 to HK\$614 million in 2016. This was due primarily to the decline in new allowances from individual assessment. New allowances from collective assessment were higher due to the higher growth rate of advances to customers in 2016.

Net Operating Income

As a result of the foregoing factors, the Issuer's net operating income increased by 5.9 per cent. from HK\$38,066 million in 2015 to HK\$40,330 million in 2016.

Operating Expenses

The following table sets forth, for the years indicated, the principal components of the Issuer's total operating expenses.

	Year ended 31 December	
	2015	2016
	(audited)	
	(HK\$ in millions)	
Staff costs (including directors' emoluments)	6,231	6,705
Premises and equipment expenses (excluding depreciation)	1,370	1,552
Depreciation	1,699	1,787
Auditor's remuneration	29	37
Other operating expenses	1,957	2,063
Total operating expenses	11,286	12,144

The Issuer's total operating expenses increased by 7.6 per cent. from HK\$11,286 million in 2015 to HK\$12,144 million in 2016, due primarily to ongoing investments in human resources and projects, including enhancements in business systems and platforms, as well as internet finance services, in order to support the Issuer's long-term business growth.

Operating Profit

As a result of the foregoing factors, the Issuer's operating profit increased by 5.3 per cent. from HK\$26,780 million in 2015 to HK\$28,186 million in 2016.

Net Gain From Disposal of/Fair Value Adjustments on Investment Properties

The Issuer's gain from disposal of/fair value adjustments on investment properties decreased by 44.0 per cent. from HK\$781 million in 2015 to HK\$437 million in 2016, due primarily to the decline in valuation of investment properties in 2016.

Net Loss from disposal/revaluation of properties, plant and equipment

The Issuer's net loss from disposal/revaluation of properties, plant and equipment decreased by 76.2 per cent. from HK\$63 million in 2015 to HK\$15 million in 2016, due primarily to the decline in net loss from revaluation of premises in 2016.

Share of profits less losses after tax of associates and joint ventures

The Issuer's share of profits less losses after tax of associates and joint ventures increased by 37.0 per cent. from HK\$54 million in 2015 to HK\$74 million in 2016, due primarily to the increase in profit of its associates during 2016.

Profit before Taxation

As a result of the foregoing factors, the Issuer's profit before taxation increased by 4.1 per cent. from HK\$27,552 million in 2015 to HK\$28,682 million in 2016.

Taxation

The Issuer's taxation increased by 9.7 per cent. from HK\$4,183 million in 2015 to HK\$4,588 million in 2016, due primarily to an increase in Hong Kong profits tax payable as a result of higher operating profit in 2016.

Profit from Continuing Operations

As a result of the foregoing factors, the Issuer's profit from continuing operations increased by 3.1 per cent. from HK\$23,369 million in 2015 to HK\$24,094 million in 2016.

Profit from Discontinued Operations

The Issuer's profit from discontinued operations increased by 828.4 per cent. from HK\$3,392 million in 2015 to HK\$31,493 million in 2016, due primarily to the gain on disposal of NCB in 2016.

Profit for the Year

As a result of the foregoing factors, the Issuer's profit increased by 107.7 per cent. from HK\$26,761 million in 2015 to HK\$55,587 million in 2016.

SUMMARY BUSINESS SEGMENTAL RESULTS

The Issuer categorises its business into three business segments: personal banking, corporate banking and treasury operations. Both personal banking and corporate banking segments provide general banking services. Personal banking mainly serves retail customers and small enterprises, while corporate banking mainly deals with non-individual customers. The treasury segment is responsible for managing the funding and liquidity and the interest rates and foreign exchange positions of the Issuer in addition to proprietary trades.

The following table sets forth, for the periods indicated, the Issuer's net operating income before impairment allowances of the Issuer's principal business segments.

	Year ended 31 December						Six months ended 30 June			
	2015		2016		2017		2017		2018	
	(audited)		(audited)		(audited)		(unaudited)		(unaudited)	
	(in millions, except percentages)									
	(HK\$)	(%)	(HK\$)	(%)	(HK\$)	(%)	(HK\$)	(%)	(HK\$)	(%)
Personal banking . . .	15,845	40.8	14,751	36.0	16,892	36.1	8,094	35.3	9,959	37.4
Corporate banking . .	13,736	35.4	16,243	39.7	18,277	39.1	8,736	38.2	9,439	35.4
Treasury	8,876	22.8	9,695	23.7	11,456	24.5	5,042	22.0	5,575	20.9
Others ⁽¹⁾	1,535	4.0	1,684	4.1	1,742	3.7	1,823	8.0	2,446	9.2
Elimination	(1,171)	(3.0)	(1,442)	(3.5)	(1,577)	(3.4)	(804)	(3.5)	(767)	(2.9)
Net operating income before impairment allowances	38,821	100.0	40,931	100.0	46,790	100.0	22,891	100.0	26,652	100.0

(1) Others primarily include the Issuer's holdings of premises, investment properties, equity investments and interests in associates and joint ventures.

Six months ended 30 June 2018 compared to six months ended 30 June 2017

Net operating income before impairment allowances generated from the Issuer's personal banking segment increased by 23.0 per cent. from HK\$8,094 million in the six months ended 30 June 2017 to HK\$9,959 million in the six months ended 30 June 2018, due primarily to an increase in net interest income and net fee and commission income. The increase in net interest income was mainly due to an improvement in the deposit spread along with an increase in the average balance of deposits and loans. The increase in net fee and commission income was mainly due to satisfactory performance in the Issuer's securities brokerage, insurance and funds distribution business, including encouraging year-on-year growth in commission income.

Net operating income before impairment allowances generated from the Issuer's corporate banking segment increased by 8.0 per cent. from HK\$8,736 million in the six months ended 30 June 2017 to HK\$9,439 million in the six months ended 30 June 2018, due primarily to the increase in net interest income and net trading gain. The increase in net interest income was mainly due to an increase in the average balance of loans and deposits, coupled with an improvement in the Issuer's deposit spread. The increase in net trading gain was mainly due to the growth of currency exchange income from customer transactions.

Net operating income before impairment allowances generated from the Issuer's treasury segment increased by 10.6 per cent. from HK\$5,042 million in the six months ended 30 June 2017 to HK\$5,575 million in the six months ended 30 June 2018, due primarily to an increase in net trading gain, which more than offset the impact from the decrease in net interest income. The decrease in net interest income was mainly due to a drop in the average balance of RMB balances and placements with banks, as well as a decrease in the average yield of related assets caused by a decrease in market interest rates. The treasury business recorded a net trading gain in the first half of 2018, as compared to a net trading loss in the same period last year. This was mainly due to a net gain from foreign currency swap contracts in the first half of 2018, as compared to a net loss in the same period last year, as well as growth in currency exchange income from customer transactions. This was partially offset by the mark-to-market changes of certain debt securities investments and interest rate instruments caused by interest rate movements.

2017 compared to 2016

Net operating income before impairment allowances generated from the Issuer's personal banking segment increased by 14.5 per cent. from HK\$14,751 million in 2016 to HK\$16,892 million in 2017, due primarily to an increase in both net interest income and net fee and commission income. The increase in net interest income was due primarily to an improvement in the deposit spread along with the growth in the Issuer's average balance of loans and deposits. The increase in net fee and commission income was primarily due to an increase in commission from the Issuer's securities brokerage and funds distribution business.

Net operating income before impairment allowances generated from the Issuer's corporate banking segment increased by 12.5 per cent. from HK\$16,243 million in 2016 to HK\$18,277 million in 2017, due primarily to an increase in both net interest income and net fee and commission income. The increase in net interest income was due primarily to the growth in the Issuer's average balances of loans and advances. Net fee and commission income increased primarily due to an increase in commission income from the Issuer's trust, insurance, securities brokerage and bills services.

Net operating income before impairment allowances generated from the Issuer's treasury segment increased by 18.2 per cent. from HK\$9,695 million in 2016 to HK\$11,456 million in 2017, due primarily to an increase in net interest income despite the decrease in net trading gain. The increase in net interest income was due primarily to an increase in the average balance of debt securities investments and balances and placements with banks, and an increase in the average yield of related assets caused by a rise in market interest rates. The decrease in net trading gain in 2017 was primarily due to the funding cost of foreign currency swap contracts recorded in 2017, which was partially offset by an increased gain from currency exchange business and commodities trading.

2016 compared to 2015

Net operating income before impairment allowances generated from the Issuer's personal banking segment decreased by 6.9 per cent. from HK\$15,845 million in 2015 to HK\$14,751 million in 2016, due primarily to a decrease in net fee and commission income, which was partially offset by the increase in net interest income. The decrease in net fee and commission income was mainly attributable to the high stock market turnover in 2015, and the weakening investment sentiment in 2016, which resulted in the sharp decline of income from securities brokerage and fund distribution from 2015. The increase in net interest income was due primarily to the increase in the average balance of deposits and loans.

Net operating income before impairment allowances generated from the Issuer's corporate banking segment increased by 18.3 per cent. from HK\$13,736 million in 2015 to HK\$16,243 million in 2016, due primarily to an increase in net interest income and net fee and commission income. The increase in net

interest income was due primarily to the increase in the average balance of loans and deposits, together with the improvement in deposit spread. The increase in net fee and commission income was due primarily to the increase in loan commissions.

Net operating income before impairment allowances generated from the Issuer's treasury segment increased by 9.2 per cent. from HK\$8,876 million in 2015 to HK\$9,695 million in 2016, due primarily to an increase in net trading gain despite decreased net interest income. The increase in net trading gain was due primarily to the net gain from foreign exchange swap contracts, the increase in currency exchange income from customer transactions as well as the mark-to-market changes of certain debt securities and interest rate instruments. The decrease in net interest income was due primarily to the decline in the average yield.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The Issuer finances its lending and investment operations principally through deposits from customers and deposits and balances from banks and other financial institutions.

The following table sets out the Issuer's statement of cash flows:

	Year ended 31 December			Six months ended 30 June	
	2015 ⁽¹⁾	2016 ⁽¹⁾	2017 ⁽¹⁾	2017 ⁽¹⁾	2018 ⁽²⁾
	(audited)			(unaudited)	
	(HK\$ in millions)				
Net cash (outflow)/inflow from operating activities	(73,253)	(74,213)	134,566	241,624	(37,512)
Net cash (outflow)/inflow from investing activities	(792)	21,392	(7,295)	(2,991)	(2,792)
Net cash outflow from financing activities	(13,145)	(20,914)	(16,147)	(9,064)	(5,115)
(Decrease)/increase in cash and cash equivalents	(87,190)	(73,735)	111,124	229,569	(45,419)
Cash and cash equivalents at 1 January	411,441	322,005	249,406	253,997	379,885
Cash and cash equivalents at 31 December/30 June	313,017	249,406	376,907	494,599	334,581

(1) Comparative information contained in the Issuer's audited consolidated financial statements as of and for the years ended 31 December 2015, 2016 and 2017 and the Issuer's unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 have been restated as a result of the Issuer's disposal of Chiyu and acquisition of businesses in Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam. For additional information on the comparability of information between years and periods, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".

(2) The unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 have been prepared under the accounting policies as required by the new and revised HKFRS, with effect from 1 January 2018, which are not consistent with the accounting policies as set out in the comparative information. For additional information, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".

Cash flows from operating activities

The Issuer's operating activities generated a net cash outflow of HK\$73,253 million, net cash outflow of HK\$74,213 million, net cash inflow of HK\$134,566 million, net cash inflow of HK\$241,624 million and net cash outflow of HK\$37,512 million in 2015, 2016, 2017 and the six months ended 30 June 2017 and 2018, respectively. In 2015, the Issuer's net cash outflow from operating activities was primarily due to changes in advances and other accounts of HK\$73,629 million and changes in investment securities of HK\$133,223 million, though such amounts were partially offset by the increase in cash deposits received from customers amounting to HK\$140,349 million. In 2016, the Issuer's net cash outflow from operating activities was primarily due to changes in advances and other accounts of HK\$89,271 million and changes in investment securities of HK\$72,813 million, though such amounts were partially offset by the increase in cash deposits received from customers amounting to HK\$134,644 million. In 2017, the Issuer's net cash inflow was primarily due to the increase in cash deposits received from customers of HK\$253,383 million, though such amounts were partially offset by changes in advances and other accounts of HK\$182,279 million and changes in investment securities of HK\$28,210 million. In the six months ended 30 June 2017, the Issuer's net cash inflow from operating activities was primarily due to an increase in cash deposits received from customers of HK\$146,041 million and changes in other accounts and provisions of HK\$73,010 million, though such amounts were partially offset by changes in advances and other accounts of HK\$139,260 million. In the six months ended 30 June 2018, the Issuer's net cash outflow from operating activities was primarily due to changes in investment securities of HK\$82,989 million and changes in advances and other accounts of HK\$79,082 million, though such amounts were partially offset by changes in deposits from customers of HK\$83,752 million.

Cash flows from investing activities

The Issuer recorded a net cash outflow from investing activities of HK\$792 million, a net cash inflow of HK\$21,392 million, a net cash outflow of HK\$7,295 million, a net cash outflow of HK\$2,991 million and a net cash outflow of HK\$2,792 million for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively. In 2015, the Issuer's net cash outflow from investing activities was primarily due to the purchase of properties, plant and equipment of HK\$1,214 million, though such amounts were partially offset by the proceeds from the disposal of properties, plant and equipment of HK\$467 million. In 2016, the Issuer's net cash inflow from investing activities was primarily due to the cash inflow from the disposal of discontinued operations of NCB of HK\$26,992 million, though such amounts were partially offset by the acquisition of entities under common control of HK\$4,076 million. In 2017, the Issuer's net cash outflow from investing activities was primarily due to the acquisition of entities under common control of HK\$6,618 million. In the six months ended 30 June 2017, the Issuer's net cash outflow from investing activities was primarily due to the acquisition of entities under common control of HK\$2,996 million. In the six months ended 30 June 2018, the Issuer's net cash outflow from investing activities was primarily due to the acquisition of entities under common control of HK\$2,168 million and the additions of property, plant and equipment of HK\$628 million.

Cash flows from financing activities

The Issuer recorded a net cash outflow from financing activities of HK\$13,145 million in 2015, which was primarily attributable to dividends paid to the equity holders of the Issuer of HK\$12,483 million. The Issuer recorded a net cash outflow from financing activities of HK\$20,914 million in 2016, which was primarily due to dividends paid to the equity holders of the Issuer of HK\$20,316 million. The Issuer recorded a net cash outflow from financing activities of HK\$16,147 million in 2017, which was primarily attributable to dividends paid to the equity holders of the Issuer of HK\$15,409 million. In the six months ended 30 June 2017, the Issuer's net cash outflow of HK\$9,064 million was primarily attributable to dividends paid to the equity holders of the Issuer of HK\$8,695 million. In the six months ended 30 June 2018, the Issuer's net cash outflow of HK\$5,115 million was primarily attributable to dividends paid to the equity holders of the Issuer of HK\$4,477 million.

Financial Condition

30 June 2018 compared to 31 December 2017

Assets

The Issuer's total assets increased by 4.8 per cent. from HK\$2,519,797 million as of 31 December 2017 to HK\$2,640,307 million as of 30 June 2018, due primarily to increases in investments in securities and advances and other accounts.

- Advances and other accounts increased by 6.6 per cent. from HK\$1,189,932 million as of 31 December 2017 to HK\$1,268,073 million as of 30 June 2018, due primarily to the growth of advances to customers in the first half of 2018 as compared to 2017.
- Investment in securities increased by 15.1 per cent. from HK\$576,442 million as of 31 December 2017 to HK\$663,616 million as of 30 June 2018, due primarily to the increase in investments in government-related and high-quality banks and financial institutions bonds.
- Cash and balances and placements with banks and other financial institutions decreased by 12.0 per cent. from HK\$425,567 million as of 31 December 2017 to HK\$374,503 million as of 30 June 2018, due primarily to the reallocation of resources as a result of the decrease in balances with other banks and financial institutions.

Liabilities

- The Issuer's total liabilities increased by 4.9 per cent. from HK\$2,288,831 million as of 31 December 2017 to HK\$2,401,343 million as of 30 June 2018, due primarily to the increase in deposits from customers.
- Deposits from customers (including structured deposits reported as financial liabilities at fair value through profit or loss on the balance sheet) increased by 4.7 per cent. from HK\$1,780,972 million as of 31 December 2017 to HK\$1,864,515 million as of 30 June 2018, due primarily to the Issuer's continuous implementation of several strategic initiatives intended to increase its customer acquisition and deposits.
- Deposits and balances from banks and other financial institutions increased by 6.6 per cent. from HK\$222,540 million as of 31 December 2017 to HK\$237,183 million as of 30 June 2018, due primarily to the increase in deposits from banks relating to the increased activity related to the Issuer's RMB business.

31 December 2017 compared to 31 December 2016

Assets

The Issuer's total assets increased 12.3 per cent. from HK\$2,244,307 million as of 31 December 2016 to HK\$2,519,797 million as of 31 December 2017, due primarily to increases in cash and balances with banks and other financial institutions and advances and other accounts.

- Cash and balances and placements with banks and other financial institutions increased by 37.8 per cent. from HK\$308,748 million as of 31 December 2016 to HK\$425,567 million as of 31 December 2017, due primarily to an increase in balances with banks and central banks.
- Advances and other accounts increased by 18.2 per cent. from HK\$1,006,643 million as of 31 December 2016 to HK\$1,189,932 million as of 31 December 2017, due primarily to the growth in advances to customers in 2017.
- Assets held for sale decreased from HK\$53,586 million as of 31 December 2016 to NIL as of 31 December 2017, due primarily to the Issuer's disposal of its interests in Chiyu on 27 March 2017.

Liabilities

The Issuer's total liabilities increased by 13.1 per cent. from HK\$2,023,446 million as of 31 December 2016 to HK\$2,288,831 million as of 31 December 2017, due primarily to the increases in deposits from customers.

- Deposits and balances from banks and other financial institutions increased by 12.2 per cent. from HK\$198,429 million as of 31 December 2016 to HK\$222,540 million as of 31 December 2017, due primarily to an increase in deposits from banks and other financial institutions.
- Deposits from customers (including structured deposits reported as financial liabilities at fair value through profit or loss) increased by 16.7 per cent. from HK\$1,525,499 million as of 31 December 2016 to HK\$1,780,972 million as of 31 December 2017, due primarily to the Issuer's strategic initiatives in attracting deposits.
- Debt securities and certificates of deposit in issue increased 1,830.5 per cent. from HK\$1,121 million as of 31 December 2016 to HK\$21,641 million as of 31 December 2017, due primarily to the issuance of Panda bonds and commercial paper in 2017.
- Liabilities associated with assets held for sale dropped from HK\$47,074 million as of 31 December 2016 to NIL as of 31 December 2017, due primarily to the Issuer's disposal of its interest in Chiyu on 27 March 2017.

31 December 2016 compared to 31 December 2015

Assets

The Issuer's total assets decreased slightly by 1.7 per cent. from HK\$2,284,007 million as of 31 December 2015 to HK\$2,244,307 million as of 31 December 2016, due primarily to the decrease in assets held for sale following the Issuer's disposal of NCB on 30 May 2016.

- Advances and other accounts increased by 8.4 per cent. from HK\$928,766 million as of 31 December 2015 to HK\$1,006,643 million as of 31 December 2016, due primarily to the growth in advances to customers in 2016.
- Investment in securities increased by 14.0 per cent. from HK\$485,248 million as of 31 December 2015 to HK\$553,092 million as of 31 December 2016, due primarily to increased allocations by the Issuer towards mainly government-related and high-quality banks and financial institution bonds.
- Assets held for sale decreased by 82.2 per cent. from HK\$300,473 million as of 31 December 2015 to HK\$53,586 million as of 31 December 2016, as the Issuer completed its disposal of NCB on 30 May 2016, and as of 31 December 2016, the assets of Chiyu were presented as assets held for sale.

Liabilities

The Issuer's total liabilities decreased slightly by 3.5 per cent. from HK\$2,096,794 million as of 31 December 2015 to HK\$2,023,446 million as of 31 December 2016, due primarily to the decrease in liabilities associated with assets held for sale following the Issuer's disposal of NCB on 30 May 2016.

- Deposits and balances from banks and other financial institutions decreased by 5.3 per cent. from HK\$209,526 million as of 31 December 2015 to HK\$198,429 million as of 31 December 2016, due primarily to a decrease in deposits from banks and other financial institution.
- Deposits from customers (including structured deposits reported as financial liabilities at fair value through profit or loss on the balance sheet) increased by 7.5 per cent. from HK\$1,419,543 million as of 31 December 2015 to HK\$1,525,499 million as of 31 December 2016, due primarily to growth in savings and time deposits.
- Liabilities associated with assets held for sale decreased 81.4 per cent. from HK\$252,402 million as of 31 December 2015 to HK\$47,047 million as of 31 December 2016, due primarily to the decrease in liabilities associated with assets held for sale following the Issuer's disposal of NCB on 30 May 2016.

Capital Adequacy

Since 31 December 1989, locally incorporated banks in Hong Kong have been subject to capital adequacy standards similar to those set out in the Basel Accord. In December 2010 and January 2011, the Basel Committee issued the Basel III requirements to raise the quality, consistency and transparency of banks' capital base to meet new global liquidity standards. Amongst other things, Basel III increases the minimum capital adequacy ratio requirements in relation to risk-weighted assets, with the common equity requirement rising from 2.0 per cent. to 4.5 per cent. and the Tier 1 capital requirement rising from 4.0 per cent. to 6.0 per cent. The Basel III minimum total capital requirement is 8.0 per cent. As of 30 June 2018, the Issuer's common equity tier 1 ("CET1") capital ratio, Tier 1 capital ratio and total capital ratio was 16.62 per cent., 16.62 per cent. and 20.12 per cent., respectively.

The Issuer's Asset and Liability Management Committee ("ALCO") periodically reviews the Issuer'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 Issuer has adopted 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 CET1 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.

The following table sets forth details of the Issuer’s capital base and capital adequacy ratios in accordance with the HKMA’s guidelines as of 31 December 2017 and 30 June 2018.

	As of 31 December	As of 30 June
	2017	2018
	(audited)	(unaudited)
	(HK\$ in millions, except percentages)	
CET1 Capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments	43,043	43,043
Retained earnings	142,208	150,453
Disclosed reserves	43,673	44,667
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)	–	–
CET1 capital before regulatory adjustments	<u>228,924</u>	<u>238,163</u>
CET1 capital: regulatory deductions		
Valuation adjustments	(12)	(18)
Deferred tax assets (net of associated deferred tax liabilities).	(51)	(107)
Gains and losses due to changes in own credit risk on fair valued liabilities	(69)	241
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	(48,556)	(50,831)
Regulatory reserve for general banking risks	(10,224)	(10,746)
Total regulatory deductions to CET1 capital	<u>(58,912)</u>	<u>(61,461)</u>
CET1 capital	<u>170,012</u>	<u>176,702</u>
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)	–	–
AT1 capital	–	–
Tier 1 capital	<u>170,012</u>	<u>176,702</u>
Tier 2 capital: instruments and provisions		
Capital instruments subject to phase out arrangements from Tier 2 capital	11,576	7,717
Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third-parties (amount allowed in Tier 2 capital of the consolidation group)	–	–
Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	6,390	6,546
Tier 2 capital before regulatory deductions	<u>17,966</u>	<u>14,263</u>
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	21,850	22,874
Total regulatory adjustments to Tier 2 capital	<u>21,850</u>	<u>22,874</u>
Tier 2 capital	<u>39,816</u>	<u>37,137</u>
Total regulatory capital	<u>209,828</u>	<u>213,839</u>
Capital adequacy ratios⁽¹⁾		
CET1 capital ratio	16.52%	16.62%
Tier 1 capital ratio	16.52%	16.62%
Total capital ratio	20.39%	20.12%

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

Capital Expenditures

The Issuer's capital expenditures for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018 were HK\$1,146 million, HK\$1,460 million, HK\$1,501 million and HK\$630 million, respectively. The Issuer's capital expenditures generally relate to the acquisition and renovation of premises, purchase of other fixed assets such as motor vehicles, furniture, fixtures, equipment and upgrade of the Issuer's IT systems.

OFF-BALANCE SHEET ITEMS

As of 30 June 2018, the net notional amounts of the Issuer's derivative financial instruments were HK\$3,062,120 million. The Issuer enters into exchange rate, interest rate, commodity, equity and credit related financial instrument contracts for trading and risk management purposes.

CONTINGENT LIABILITIES AND COMMITMENTS

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment and the corresponding aggregate credit risk weighted amount:

	Year ended 31 December			Six months ended
	2015	2016	2017	30 June
		(audited)		2018
				(unaudited)
	(HK\$ in millions)			
Direct credit substitutes	24,360	6,247	8,414	5,855
Transaction-related contingencies	7,600	12,649	30,092	23,871
Trade-related contingencies	31,713	32,269	28,294	32,121
Assets sales with recourse	5,419	–	–	–
Commitments that are unconditionally cancellable without prior notice	472,343	389,307	398,208	428,899
Other commitments with an original maturity of				
– up to one year	10,519	12,095	17,976	16,206
– over one year	114,376	132,488	154,582	144,660
	666,330	585,055	637,566	651,612
Credit risk weighted amount	74,880	60,730	74,844	72,870

DIVIDEND POLICY

The Issuer may pay dividends out of its distributable reserves in accordance with Hong Kong law generally and the Issuer's Articles of Association. The declaration of dividends is subject to the discretion of the Board of Directors and any final dividend for a financial year is subject to shareholders' approval. Whether any dividends will be declared or paid and the amounts of dividends actually paid to holders of Shares will depend upon a number of factors, including:

- the Issuer's financial results;
- regulatory requirements;
- capital requirements;
- shareholders' interests; and
- any other factors considered relevant by the Board of Directors.

Dividends will be declared in HK dollars. The Board of Directors may declare interim dividends at any time in accordance with the Issuer's Articles of Association.

RELATED PARTY TRANSACTIONS

The Issuer enters into a number of transactions with related parties in its ordinary course of business. Please refer to the notes to the Audited Consolidated Financial Statements and the Unaudited Consolidated Financial Information for the aggregate income and expenses arising from related party transactions with (i) immediate and intermediate holding companies, associates (as defined therein) and subsidiaries and associates (as defined therein) of BOC and (ii) key management personnel.

Information concerning some of these transactions with related parties is set out below.

(A) RELATED PARTY TRANSACTIONS WITH THE PARENT COMPANIES OF BOC AND THE OTHER COMPANIES CONTROLLED BY SUCH PARENT COMPANIES

The Issuer 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. The Issuer 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 Issuer enters into banking transactions with these companies in the normal course of business which include loans, investment securities and money market transactions.

The majority of transactions with BOC arise from money market activities. As of 30 June 2018, the related aggregate amounts due from and to BOC of the Issuer were HK\$112,317 million (31 December 2017: HK\$186,548 million) and HK\$57,255 million (31 December 2017: HK\$60,385 million), respectively. The aggregate amounts of income and expenses of the Issuer arising from these transactions with BOC for the six months ended 30 June 2018 were HK\$1,825 million (30 June 2017: HK\$549 million) and HK\$283 million (30 June 2017: HK\$197 million) respectively. Transactions with other companies controlled by BOC are not considered material.

(B) RELATED PARTY TRANSACTIONS WITH GOVERNMENT AUTHORITIES, AGENCIES, AFFILIATES AND OTHER STATE CONTROLLED ENTITIES

The Issuer 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 Issuer 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) LOANS AND OTHER TRANSACTIONS WITH THE GROUP'S KEY MANAGEMENT PERSONNEL

In the ordinary and usual course of the Group's business, the Group grants loans and credit facilities to, accepts deposits from, and issues credit cards to the directors and members of the senior management of the Group and also provides other services available to the Group's customers to such directors, close members of their families and enterprises in which such directors and members of the senior management have a substantial interest or over which they are able to exercise a significant influence. The directors and members of the senior management of the Group who are employees of the Group are also entitled to certain benefits and preferences available to the staff of the Group generally, including the staff housing loan scheme, deposits with preferential interest rates and certain benefits and preferences in relation to credit cards issued by BOC-CC. Save as aforesaid, all such loans, facilities and commercial banking services and products have been and will be offered on normal commercial terms and at market rates.

(D) BALANCES WITH SUBSIDIARIES

As of 31 December 2017, the aggregate sums of amounts due from subsidiaries and amounts due to subsidiaries of the Issuer arising from transactions entered into during the normal course of business at commercial terms are HK\$11,576 million (2016: HK\$8,005 million) and HK\$2,664 million (2016: HK\$3,354 million), respectively.

(E) RELATED PARTY TRANSACTION AND CONNECTED TRANSACTION WITH BOCI ASIA LIMITED AND BOC

As further set out in the "*Plan of Distribution*" section in this Supplemental Offering Circular, subject to the terms and conditions of the Subscription Agreement (defined below) entered into among the Issuer and the Managers (as defined in the "*Plan of Distribution*" section and includes BOC, the Issuer and BOCI Asia Limited), the Issuer has agreed to sell to the Managers and the Managers have severally and not jointly agreed with the Issuer, to purchase the principal amount of Capital Securities. The Managers propose to offer the Capital Securities for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A and Regulations S under the Securities Act. The Issuer will pay the Managers customary fees and commissions in connection with this offering and will reimburse the Managers for certain expenses incurred in connection with the offering.

Each of BOC and BOCI Asia Limited (being an indirect wholly owned subsidiary of BOC) is a "connected person" of the Issuer's immediate holding company, BOCHK (Holdings), pursuant to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange. The entry into, amongst other documents, a Subscription Agreement and an Amended and Restated Dealer Agreement (as described under the "*Plan of Distribution*" section) between the Issuer, the BOC Dealer Group and the other Managers would therefore constitute a "connected transaction" under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange. On the basis of the customary fees and commissions due to be paid to BOC and BOCI Asia Limited under the terms of the Subscription Agreement and considering the potential amount of such fees and commissions, the appointment of BOC and BOCI Asia Limited as Managers and Dealers will not trigger an announcement requirement under Chapter 14A of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

ASSETS AND LIABILITIES AND SELECTED STATISTICAL DATA

This section supersedes and replaces the section entitled “Assets and Liabilities and Selected Statistical Data” in the Principal Offering Circular.

ASSETS

The three principal components of the Issuer’s interest-earning assets consist of loans to banks, interest-earning securities and loans and advances to customers. The following table sets forth, for the periods indicated, the daily average balances of the principal components of the Issuer’s assets:

	Year ended 31 December			Six months ended 30 June
	2015 ⁽¹⁾	2016 ⁽¹⁾	2017 ⁽¹⁾	2018 ⁽²⁾
	(audited)			(unaudited)
(daily average balance, HK\$ in millions)				
Balances and placements with banks and other financial institutions	345,515	332,537	437,630	454,552
Debt securities investments	496,262	578,304	606,102	683,981
Advances to customers	821,041	956,354	1,090,326	1,205,000
Other interest-earning assets	14,986	21,952	16,620	17,546
Total interest-earning assets	1,677,804	1,889,147	2,150,678	2,361,079
Non interest-earning assets	553,350	404,935	293,491	309,166
Total average assets	2,231,154	2,294,082	2,444,169	2,670,245

(1) Comparative information contained in the Issuer’s audited consolidated financial statements as of and for the years ended 31 December 2015, 2016 and 2017 and the Issuer’s unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 have been restated as a result of the Issuer’s disposal of Chiyu and acquisition of businesses in Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam. For additional information on the comparability of information between years and periods, please refer to “*Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer’s Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable*”.

(2) The unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 have been prepared under the accounting policies as required by the new and revised HKFRS, with effect from 1 January 2018, which are not consistent with the accounting policies as set out in the comparative information. For additional information, please refer to “*Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer’s Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable*”.

Foreign Exposure

The Issuer had foreign exposure with respect to each of the three principal components of its assets. The HKMA defines “exposure” as all potential losses which might result should a counterparty default. This includes, amongst other things, claims and contingent liabilities recorded both on and off the Issuer’s balance sheet and any exposure to a counterparty that is liable as a guarantor.

The Issuer believes that, given the generally high credit quality of both the foreign counterparties with respect to its loans to banks and the issuers of its interest-earning securities, its exposure to these entities does not exhibit a significant level of risk. Its exposures to foreign banks were primarily related to high-quality international institutions in both the Mainland of China and elsewhere and the Issuer generally does not consider these entities to present significant credit risks.

The Issuer’s interest-earning debt securities of foreign issuers were largely issued by banks and other financial institutions, and included securities issued by governments and central banks as well as public sector entities in G-7 countries and in Australia, which the Issuer also considers to be low risk.

Additionally, to the above foreign exposure to banks and other financial institutions, the Issuer is also exposed to foreign risk with respect to loans to entities with exposure to the Mainland of China. Its Mainland of China exposure consists of non-bank Mainland of China exposures (“**NBMCEs**”) as defined by the HKMA.

NBMCEs consist of exposures to the following non-bank counterparties:

- Central government, central government-owned entities and their majority-owned subsidiaries and majority-owned joint ventures incorporated in or outside the Mainland of China;
- Local governments, local government-owned entities and their majority owned subsidiaries and majority-owned joint ventures incorporated in or outside the Mainland of China;
- PRC nationals residing in the Mainland of China whether the credit is for use in or outside the Mainland of China or other entities incorporated in the Mainland of China including those that are minority-owned by central or local governments. Majority-owned subsidiaries and majority-owned joint ventures of “other entities incorporated in the Mainland of China” and incorporated outside the Mainland of China should also be included;
- Other entities incorporated outside the Mainland of China and minority-owned by the central government not reported in the first bullet point above;
- Other entities incorporated outside the Mainland of China and minority-owned by the local governments not reported in the second bullet point above;
- PRC nationals residing outside the Mainland of China or entities incorporated outside the Mainland of China other than those reported under the first through fifth bullet point above where the credit is granted for use in the Mainland of China. For avoidance of doubt, credit granted for use outside the Mainland of China to PRC nationals residing outside the Mainland of China is outside the reporting scope of this return; and
- Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland of China exposures.

The following table sets forth the NBMCEs of the Issuer as of 30 June 2018:

	As of 30 June 2018		
	(unaudited)		
	On-balance sheet exposure	Off-balance sheet exposure	Total exposure
	(HK\$ in millions)		
Central government, central government-owned entities and their subsidiaries and joint ventures . . .	282,231	33,284	315,515
Local governments, local government-owned entities and their subsidiaries and joint ventures	59,004	12,342	71,346
PRC nationals residing in the Mainland of China or other entities incorporated in the Mainland of China and their subsidiaries and joint ventures	70,689	10,467	81,156
Other entities of central government not reported in line 1 above	29,452	3,423	32,875
Other entities of local governments not reported in line 2 above	2	1	3
PRC nationals residing outside the Mainland of China or entities incorporated outside the Mainland of China where the credit is granted for use in the Mainland of China	78,125	8,163	86,288
Other counterparties where the exposures are considered to be non-bank Mainland of China exposures	2,775	329	3,104
Total	522,278	68,009	590,287

NBMCEs may be subject to political, regulatory, systemic, operational, and management risks associated with operating in the Mainland of China. As part of its business strategy, the Issuer intends to capitalise on its relationship with BOC to further access the Mainland of China financial markets. This may result in an increase in the volume of its loans to borrowers located in the Mainland of China. However, the Issuer believes that its credit approval, monitoring and evaluation practices will allow it to manage the credit quality of its loans to these borrowers.

The following table illustrates the major foreign currency exposures arising from trading and non-trading positions as of 30 June 2018, and is prepared with reference to the completion instructions for 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.

	As of 30 June 2018							
	(unaudited)							
	U.S. Dollars	Pound Sterling	Japanese Yen	Euro	Renminbi	Australian Dollars	Other foreign currencies	Total foreign currencies
	(HK\$ in millions)							
Spot assets	773,939	24,939	159,510	37,636	262,208	42,749	59,885	1,360,866
Spot liabilities . .	(715,897)	(16,542)	(11,049)	(20,072)	(284,307)	(23,697)	(60,867)	(1,132,431)
Forward purchases	981,978	20,154	22,959	54,219	433,691	18,302	93,004	1,624,307
Forward sales . .	(1,039,499)	(28,594)	(171,267)	(71,566)	(410,282)	(37,309)	(92,362)	(1,850,879)
Net options position	1,521	(3)	(14)	(123)	(111)	(19)	(2)	1,249
Net long/(short) position	2,042	(46)	139	94	1,199	26	(342)	3,112

The following table sets forth, at the dates indicated, gross advances to customers categorised by the locations of the counterparties, after taking into account the transfer of risk in respect of such advances where appropriate:

	As of 31 December			As of 30 June
	2015 ⁽¹⁾	2016 ⁽¹⁾	2017 ⁽¹⁾	2018 ⁽²⁾
	(audited)			(unaudited)
	(HK\$ in millions)			
Hong Kong	727,520	780,013	910,069	965,701
The Mainland of China	119,279	123,517	135,990	139,302
Other locations	51,709	83,281	98,745	124,639
	898,508	986,811	1,144,804	1,229,642

(1) Comparative information contained in the Issuer's audited consolidated financial statements as of and for the years ended 31 December 2015, 2016 and 2017 and the Issuer's unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 have been restated as a result of the Issuer's disposal of Chiyu and acquisition of businesses in Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam. For additional information on the comparability of information between years and periods, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017 may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".

(2) The unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 have been prepared under the accounting policies as required by the new and revised HKFRS, with effect from 1 January 2018, which are not consistent with the accounting policies as set out in the comparative information. For additional information, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".

Gross Loans and Advances to Customers

Concentration of Advances to Customers by Industry Sectors

The following table sets forth, at the dates indicated, gross advances to customers by loans used inside or outside Hong Kong by industry sectors of the borrowers and as a percentage of gross advances to customers:

	As of 31 December						As of 30 June	
	2015 ⁽¹⁾		2016 ⁽¹⁾		2017 ⁽¹⁾		2018 ⁽²⁾	
			(audited)				(unaudited)	
	Amount	% of gross advances to customers	Amount	% of gross advances to customers	Amount	% of gross advances to customers	Amount	% of gross advances to customers
(HK\$ in millions, except percentages)								
Loans for use in Hong Kong								
Industrial, commercial and financial								
Property development	65,148	7.3	73,637	7.5	99,987	8.7	112,874	9.2
Property investment	57,101	6.4	53,908	5.5	53,581	4.7	50,814	4.1
Financial concerns	11,507	1.3	6,285	0.6	14,461	1.3	19,974	1.6
Stockbrokers	1,743	0.2	2,647	0.2	1,027	0.1	7,483	0.6
Wholesale and retail trade	28,633	3.2	35,091	3.6	34,931	3.1	41,572	3.4
Manufacturing	21,798	2.4	26,136	2.6	45,075	3.9	48,086	3.9
Transport and transport equipment	45,616	5.1	53,074	5.4	61,786	5.4	65,110	5.3
Recreational activities	393	0.0	2,510	0.3	2,040	0.2	1,866	0.2
Information technology	13,064	1.5	17,938	1.8	23,900	2.1	20,624	1.7
Others	55,817	6.2	105,127	10.7	100,966	8.8	108,195	8.8
Individuals								
Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	8,523	0.9	8,562	0.9	9,874	0.9	9,992	0.8
Loans for purchase of other residential properties	209,777	23.3	218,426	22.1	234,434	20.5	240,914	19.6
Credit card advances	13,834	1.5	13,819	1.4	14,620	1.2	14,081	1.1
Others	38,428	4.3	45,488	4.6	60,734	5.3	67,802	5.5
Total loans for use in Hong Kong	571,382	63.6	662,648	67.2	757,416	66.2	809,387	65.8
Trade finance	79,305	8.8	72,210	7.3	78,196	6.8	70,492	5.7
Loans for use outside Hong Kong	247,821	27.6	251,953	25.5	309,192	27.0	349,763	28.5
Gross advances to customers	898,508	100.0	986,811	100.0	1,144,804	100.0	1,229,642	100.0

(1) Comparative information contained in the Issuer's audited consolidated financial statements as of and for the years ended 31 December 2015, 2016 and 2017 and the Issuer's unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 have been restated as a result of the Issuer's disposal of Chiyu and acquisition of businesses in Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam. For additional information on the comparability of information between years and periods, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".

(2) The unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 have been prepared under the accounting policies as required by the new and revised HKFRS, with effect from 1 January 2018, which are not consistent with the accounting policies as set out in the comparative information. For additional information, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".

Maturities of Loans

The following table sets forth the maturities of the Issuer's loan portfolio as of 30 June 2018.

As of 30 June 2018							
(unaudited)							
On demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Indefinite	Total
(HK\$ in millions)							
Assets							
Advances and other accounts . . .							
149,781	43,438	67,527	187,184	563,142	255,192	1,809	1,268,073

Distribution by Product Type

The following table sets forth, as of the dates indicated, the Issuer's advances and other accounts before loan impairment allowances categorised by product type:

	As of 31 December			As of 30 June
	2015 ⁽¹⁾	2016 ⁽¹⁾	2017 ⁽¹⁾	2018 ⁽²⁾
(HK\$ in millions)				
Advances to customers				
Personal				
– Mortgages	218,846	228,266	245,951	252,439
– Credit cards	13,833	13,849	14,648	14,107
– Other	42,265	48,366	64,606	72,180
Corporate				
– Commercial loans	544,259	624,120	741,403	820,424
– Trade finance	79,305	72,210	78,196	70,492
	898,508	986,811	1,144,804	1,229,642
Trade bills	32,372	17,245	42,975	39,232
Advances to banks and other financial institutions				
	969	6,016	6,259	4,357
Gross advances and other accounts before impairment allowances				
	931,849	1,010,072	1,194,038	1,273,231

(1) Comparative information contained in the Issuer's audited consolidated financial statements as of and for the years ended 31 December 2015, 2016 and 2017 and the Issuer's unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 have been restated as a result of the Issuer's disposal of Chiyu and acquisition of businesses in Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam. For additional information on the comparability of information between years and periods, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".

(2) The unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 have been prepared under the accounting policies as required by the new and revised HKFRS, with effect from 1 January 2018, which are not consistent with the accounting policies as set out in the comparative information. For additional information, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".

Borrower Concentration

In accordance with the Banking Ordinance and the HKMA's guidelines, the Issuer's credit exposure to any one person or a group of related persons must not exceed 25.0 per cent. of its capital base. Certain types of exposure are exempted from the financial exposure for the purposes of the Banking Ordinance, such as financial exposure to the Hong Kong Government or to other authorized institutions or, subject to the approval of the HKMA, financial exposure secured by a cash deposit, guarantee or certain other specified securities. The Issuer's aggregate non-exempted credit exposures that are equal to or greater than 10.0 per cent. of its capital base must be within the HKMA's clustering limit approved by its Board of Directors and agreed with the HKMA. Further, the Issuer must be in compliance with the HKMA's Supervisory Policy Manual with respect to large exposure and risk concentrations.

Classified or Impaired Loans

Loan Impairment Policies

For the Years Ended 31 December 2015, 2016 and 2017

For the years ended 31 December 2015, 2016 and 2017 the Issuer first assessed whether objective evidence of impairment existed individually for loans that are individually significant. If the Issuer determined that no objective evidence of impairment existed for an individually assessed loan, it included the asset in a group of loans with similar credit risk characteristics and collectively assessed them for impairment together with all other loans that were not individually significant or for which impairment has not yet been identified. Loans that were individually assessed for impairment and for which an impairment loss was to be recognised were not included in a collective assessment of impairment.

If there was objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the loan's original effective interest rate. The carrying amount of the loan was reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised loan reflected the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective assessment of impairment, loans were grouped on the basis of similar and relevant credit risk characteristics. Those characteristics that were relevant to the estimation of future cash flows for groups of such loans were indicative of the debtors' ability to pay all amounts due according to the contractual terms of the loans being evaluated.

Future cash flows in a group of loans that were collectively evaluated for impairment were estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience was adjusted on the basis of then current observable data to reflect the effects of then current conditions that did not affect the period on which the historical loss experience was based and to remove the effects of conditions in the historical period.

When a loan was uncollectible, it was written off against the related allowance for impairment losses. Such loans were written off after all the necessary procedures have been completed and the amount of the loss had been determined. Subsequent recoveries of amounts previously written off decreased the amount of impairment losses in the income statement.

If, in a subsequent period, the amount of allowance for impairment losses decreased and the decrease was related objectively to an event occurring after the impairment loss was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss was reversed by adjusting the allowance account. The amount of the reversal was recognised in the income statement.

Loans whose terms had been renegotiated with substantial difference in the terms were no longer considered to be past due but are treated as new loans.

For the Six Months Ended 30 June 2018

Since 1 January 2018, the Issuer has adopted and implemented the new expected-loss impairment model under HKFRS 9. The Issuer accounts for expected credit losses within the next 12 months as Stage 1 when those financial instruments are initially recognised. If there have been significant increases in credit risk since the initial recognition, the Issuer will recognise full lifetime expected credit losses as Stage 2. Full lifetime expected credit losses for credit-impaired financial instruments will be recognised as Stage 3 if objective evidence of impairment has occurred and interest accrual will then be net of the impairment amount of associated Stage 3 financial assets.

Loan Grading System

As of 30 June 2018, the Issuer continued to adopt loan grading criteria which divide credit assets into five categories with reference to HKMA's guidelines, as below:

“Pass” represents loans where the borrower is current in meeting its repayment obligations and full repayment of interest and principal is not in doubt.

“Special Mention” represents loans where the borrower is experiencing difficulties which may threaten the Issuer's position. Ultimate loss is not expected at this stage but could occur if adverse conditions persist.

“Substandard” represents loans where the borrower displays a definable weakness that is likely to jeopardise repayment.

“Doubtful” represents loans where collection in full is improbable and the Issuer expects to sustain a loss of principal and/or interest, taking into account the net realisable value of the collateral.

“Loss” represents loans which are considered uncollectible after all collection options (such as the realisation of collateral or the institution of legal proceedings) have been exhausted.

Impairment Allowances

The following table sets forth, at the dates indicated, the Issuer's individually and collectively assessed impairment allowances by loans used inside or outside Hong Kong by industry sectors of the borrowers.

	As of 31 December						As of 30 June	
	2015 ⁽¹⁾		2016 ⁽¹⁾		2017 ⁽¹⁾		2018 ⁽²⁾	
	Individually assessed impairment allowances	Collectively assessed impairment allowances	Individually assessed impairment allowances	Collectively assessed impairment allowances	Individually assessed impairment allowances	Collectively assessed impairment allowances	Impairment allowances – Stage 3	Impairment allowances – Stages 1 and 2
	(audited)						(unaudited)	
	(HK\$ in millions)							
Loans for use in Hong Kong								
Industrial, commercial and financial								
Property development	–	224	–	248	–	336	–	451
Property investment	–	205	–	180	–	180	–	41
Financial concerns	–	64	–	45	–	68	–	38
Stockbrokers	–	6	–	9	–	3	–	1
Wholesale and retail trade	24	109	29	127	20	131	18	101
Manufacturing	7	83	7	100	4	159	2	80
Transport and transport equipment	360	159	289	186	44	213	2	166
Recreational activities	–	1	–	8	–	6	–	2
Information technology	–	42	–	58	–	79	–	97
Others	7	186	10	341	5	336	8	253
Individuals								
Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	–	5	–	5	–	6	–	3
Loans for purchase of other residential properties	1	99	2	101	1	128	–	51
Credit card advances	–	101	–	123	–	124	118	196
Others	7	67	3	68	20	429	324	531
Total loans for use in Hong Kong	406	1,351	340	1,599	94	2,198	472	2,011
Trade finance	103	281	28	256	32	287	137	151
Loans for use outside Hong Kong	69	873	282	924	365	1,130	656	1,723
Gross advances to customers	578	2,505	650	2,779	491	3,615	1,265	3,885

(1) Comparative information contained in the Issuer's audited consolidated financial statements as of and for the years ended 31 December 2015, 2016 and 2017 and the Issuer's unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 have been restated as a result of the Issuer's disposal of Chiyu and acquisition of businesses in Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam. For additional information on the comparability of information between years and periods, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".

- (2) The unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 have been prepared under the accounting policies as required by the new and revised HKFRS, with effect from 1 January 2018, which are not consistent with the accounting policies as set out in the comparative information. For additional information, please refer to “Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer’s Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable”.

The following table sets forth, at the dates indicated, the new impairment allowances charged to income statement, and classified or impaired loans written off during the year by loans used inside or outside Hong Kong by industry sectors of the borrowers.

	As of 31 December					
	2015 ⁽¹⁾		2016 ⁽¹⁾		2017 ⁽¹⁾	
	(audited)					
New impairment allowances	Classified or impaired loans ⁽²⁾ written-off	New impairment allowances	Classified or impaired loans ⁽²⁾ written-off	New impairment allowances	Classified or impaired loans ⁽²⁾ written-off	
(HK\$ in millions)						
Loans for use in Hong Kong						
Industrial, commercial and financial						
Property development	45	–	25	–	80	–
Property investment	–	1	–	–	4	–
Financial concerns	21	–	–	–	20	–
Stockbrokers	1	–	2	–	–	–
Wholesale and retail trade . . .	24	3	50	18	9	13
Manufacturing	13	1	19	2	55	3
Transport and transport equipment	361	–	50	1	25	1
Recreational activities	–	–	5	–	–	–
Information technology	3	–	11	–	18	–
Others	15	3	125	8	8	8
Individuals						
Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme . .	–	–	–	–	1	–
Loans for purchase of other residential properties	–	–	6	–	26	–
Credit card advances	222	214	248	228	223	220
Others	173	166	190	182	544	171
Total loans for use in						
Hong Kong	878	388	731	439	1,013	416
Trade finance	169	159	21	62	31	10
Loans for use outside						
Hong Kong	208	203	204	–	463	141
Gross advances to customers	1,255	750	956	501	1,507	567

(1) Comparative information contained in the Issuer’s audited consolidated financial statements as of and for the years ended 31 December 2015, 2016 and 2017 and the Issuer’s unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 have been restated as a result of the Issuer’s disposal of Chiyu and acquisition of businesses in Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam. For additional information on the comparability of information between years and periods, please refer to “Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer’s Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable”.

(2) Classified or impaired loans represent advances which are either classified as “substandard”, “doubtful” or “loss” under the Issuer’s classification of loan quality, or individually assessed to be impaired.

Classified or Impaired and Overdue Loans

The following table shows the distribution of the Issuer's (i) classified or impaired and (ii) overdue loans to customers as of the dates indicated, by loans used inside or outside Hong Kong by industry sectors of the borrowers.

	As of 31 December						As of 30 June	
	2015 ⁽¹⁾		2016 ⁽¹⁾		2017 ⁽¹⁾		2018 ⁽²⁾	
			(audited)				(unaudited)	
	Classified or impaired ⁽³⁾	Overdue ⁽⁴⁾	Classified or impaired ⁽³⁾	Overdue ⁽⁴⁾	Classified or impaired ⁽³⁾	Overdue ⁽⁴⁾	Classified or impaired ⁽³⁾	Overdue ⁽⁴⁾
(HK\$ in millions)								
Loans for use in Hong Kong								
Industrial, commercial and financial								
Property development	1	1	–	1	–	5	–	–
Property investment	4	93	27	133	19	68	26	92
Financial concerns	–	1	–	–	–	–	–	–
Stockbrokers	–	–	–	–	–	1	–	–
Wholesale and retail trade	62	268	42	186	26	160	25	153
Manufacturing	24	32	49	51	32	25	5	25
Transport and transport equipment	1,478	4	1,239	17	1,062	27	955	14
Recreational activities	–	–	–	–	–	–	–	–
Information technology	–	1	–	–	–	–	–	7
Others	16	123	15	89	18	132	20	565
Individuals								
Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	16	180	10	170	12	147	16	131
Loans for purchase of other residential properties	67	1,728	89	1,812	75	1,520	88	1,293
Credit card advances	39	487	41	524	39	549	134	504
Others	36	440	36	495	53	508	336	808
Total loans for use in								
Hong Kong	1,743	3,358	1,548	3,478	1,336	3,142	1,605	3,592
Trade finance	195	255	87	52	55	25	155	85
Loans for use outside								
Hong Kong	238	354	647	1,021	688	1,003	907	1,157
Gross advances to customers	2,176	3,967	2,282	4,551	2,079	4,170	2,667	4,834

(1) Comparative information contained in the Issuer's audited consolidated financial statements as of and for the years ended 31 December 2015, 2016 and 2017 and the Issuer's unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 have been restated as a result of the Issuer's disposal of Chiyu and acquisition of businesses in Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam. For additional information on the comparability of information between years and periods, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".

- (2) The unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 have been prepared under the accounting policies as required by the new and revised HKFRS, with effect from 1 January 2018, which are not consistent with the accounting policies as set out in the comparative information. For additional information, please refer to “*Risk Factors – Certain amounts presented in this Offering Circular for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer’s Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable*”.
- (3) Classified or impaired advances to customers represent advances which are either classified as “substandard”, “doubtful” or “loss” under the Issuer’s classification of loan quality, or classified as Stage 3/individually assessed to be impaired.
- (4) Advances with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid.

Summary of Loan Impairment Allowances

The following table sets forth an analysis of the Issuer’s loan impairment allowances as of the dates indicated:

	As of 31 December					
	2015 ⁽¹⁾		2016 ⁽¹⁾		2017 ⁽¹⁾	
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Individual assessment	Collective assessment
As of 1 January	1,098	3,569	722	2,639	650	2,779
Charged/(credited) to income statement	1,266	372	30	648	(71)	1,138
Loans written off during the year as uncollectible	(1,400)	(498)	(110)	(413)	(168)	(399)
Recoveries	130	45	98	46	73	58
Unwind of discount on impairment allowances	(15)	–	(6)	–	(3)	–
Exchange difference	(68)	(31)	(1)	(2)	10	17
Classified as assets held for sale	(433)	(952)	(83)	(139)	–	–
As of 31 December	578	2,505	650	2,779	491	3,593

- (1) Comparative information contained in the Issuer’s audited consolidated financial statements as of and for the years ended 31 December 2015, 2016 and 2017 and the Issuer’s unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 have been restated as a result of the Issuer’s disposal of Chiyu and acquisition of businesses in Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam. For additional information on the comparability of information between years and periods, please refer to “*Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer’s Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable*”.

Collateral

The Issuer collateralises its loans primarily with real property mortgages. Additionally, to a lesser extent, the Issuer secures loans with general fixed and floating charges on assets and obtain guarantees from borrowers and related entities.

Under the Issuer's existing policies and practices, acceptable collateral should have the following characteristics:

- liquid resale market;
- market value that can be easily determined;
- clear and unencumbered title; and
- likelihood of recovery through specific performance without significant legal or other obstacles.

Security interests in real property in Hong Kong are perfected by the registration of a deed of mortgage or legal charge with the Hong Kong Land Registry; security interests in equity securities and certain property and undertakings of Hong Kong companies may need to be perfected by registration with the Hong Kong Companies Registry.

In Hong Kong, foreclosure on real property or current assets generally requires a written application to a court, which may result in delays. The sale of equity securities and other property pursuant to a security interest does not usually require court proceedings. The Issuer generally sells collateral through private sales, tenders or public auctions.

Collateral held against overdue or impaired loans is primarily covered by charges over assets such as commercial, residential premises and vessels for corporate loans and mortgages over residential properties for personal loans. The Hong Kong property market is cyclical, and property prices in general have been volatile in the past decade, with the result that the security coverage of the Issuer's loans may be affected.

The Issuer's policy is to revalue collateral of its loans on an annual basis for pass loans, on a semi-annual basis for special mention, and on a quarterly basis for substandard, doubtful and loss loans. The Issuer immediately revalues the collateral of a loan once the loan has been overdue for more than three months. Additionally, the Issuer revalues collateral when it determines that an event has occurred that could affect the value of the collateral or when the Issuer otherwise determines that a revaluation is appropriate. The Issuer establishes a mechanism to update the value of collateral including using an independent appraiser or using publicly available property indices on a portfolio basis. Before accepting a guarantee, the Issuer evaluates the financial condition of the guarantor and the performance of other loans guaranteed by the guarantor.

The Issuer occasionally encounters difficulties in realising the full value of its collateral in respect of real property due to, amongst other things, delays in forced sale proceedings, defects in the perfection of collateral, fraudulent transfers by borrowers and unfavourable market conditions.

Administrative or other delays generally do not result in significant decreases in the value of the assets collateralising the Issuer's loans.

For syndicated loans, the Issuer has consortium banking arrangements with other banks, and the risk of each borrower is limited to the amount of the Issuer's participation. The agent of a syndicate will arrange for an independent valuation of the collateral to be provided to each of the participants when necessary.

Securities Investments

The Issuer's securities investments consist of listed and unlisted debt and equity securities issued primarily by sovereigns, public sector entities, banks and other financial institutions, and corporate entities.

The following table sets forth, as of the dates indicated, information as to the carrying value of the Issuer's investment securities at fair value through other comprehensive income and amortised cost or available-for-sale and being held-to-maturity as well as loans and receivables.

	As of 31 December			As of
	2015 ⁽¹⁾	2016 ⁽¹⁾	2017 ⁽¹⁾	30 June
		(audited)		2018 ⁽²⁾
	(HK\$ in millions)			(unaudited)
Investment in securities at fair value through other comprehensive income	–	–	–	604,986
Investment in securities at amortised cost . .	–	–	–	58,630
Available-for-sale securities	416,782	506,165	546,340	–
Held-to-maturity securities	65,300	45,992	29,603	–
Loans and receivables	3,166	935	499	–
Total securities	485,248	553,092	576,442	663,616
Securities investments issued by:				
Sovereigns	156,735	188,731	233,492	311,896
Public sector entities	37,509	41,427	45,374	44,402
Banks and other financial institutions	200,838	223,357	193,628	192,372
Corporate entities	90,166	99,577	103,948	114,946
Total securities	485,248	553,092	576,442	663,616

(1) Comparative information contained in the Issuer's audited consolidated financial statements as of and for the years ended 31 December 2015, 2016 and 2017 and the Issuer's unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 have been restated as a result of the Issuer's disposal of Chiyu and acquisition of businesses in Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam. For additional information on the comparability of information between years and periods, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".

(2) The unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 have been prepared under the accounting policies as required by the new and revised HKFRS, with effect from 1 January 2018, which are not consistent with the accounting policies as set out in the comparative information. For additional information, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".

The following table sets forth the carrying values and maturities of the Issuer's investment securities at fair value through other comprehensive income and amortised cost, as of 30 June 2018.

	As of 30 June 2018						
	(unaudited)						
	Up to one month	One to three months	Three to 12 months	One to five years	Over five years	Indefinite	Total
	(HK\$ in millions)						
Assets							
Investment in securities							
– at fair value through other comprehensive income	59,126	142,499	134,901	201,846	65,395	1,219	604,986
– at amortised cost	824	855	5,641	39,541	11,769	–	58,630
Total	59,950	143,354	140,542	241,387	77,164	1,219	663,616

The Issuer had significant exposure to banks and other financial institutions in the form of:

- balances with central banks;
- balances with banks and other financial institutions;
- placements (maturing within one month);
- placements (maturing between one and 12 months);
- advances to banks and other financial institutions; and
- trade bills.

The following table sets forth, at the dates indicated, the amount of the Issuer's loans to banks and other financial institutions by loan type:

	As of 31 December			As of
	2015 ⁽¹⁾	2016 ⁽¹⁾	2017 ⁽¹⁾	30 June
		(audited)		2018 ⁽²⁾
	(HK\$ in millions)			(unaudited)
Balances with central banks	110,473	72,022	88,886	99,781
Balances with other banks and other financial institutions	64,978	43,153	152,975	85,006
Placements with central banks maturing within one month	2,056	8,371	9,691	13,370
Placements with other banks and other financial institutions maturing within one month	48,734	99,703	100,545	101,347
Placement with central banks maturing between one and twelve months	–	1,964	1,486	1,632
Placement with other banks and other financial institutions maturing between one and twelve months.	66,140	70,646	57,741	58,340
Advances to banks and other financial institutions	969	6,016	6,259	4,357
Trade bills	32,372	17,245	42,975	39,232
Total loans to banks and other financial institutions	325,722	319,120	460,558	403,065
Total loans to banks and other financial institutions (net)⁽³⁾	116,196	120,691	238,018	165,882

(1) Comparative information contained in the Issuer's audited consolidated financial statements as of and for the years ended 31 December 2015, 2016 and 2017 and the Issuer's unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 have been restated as a result of the Issuer's disposal of Chiyu and acquisition of businesses in Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam. For additional information on the comparability of information between years and periods, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".

(2) The unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 have been prepared under the accounting policies as required by the new and revised HKFRS, with effect from 1 January 2018, which are not consistent with the accounting policies as set out in the comparative information. For additional information, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".

(3) Net of deposits and balances from banks and other financial institutions.

LIABILITIES AND SOURCES OF FUNDS

The Issuer's funding operations are designed to ensure both a stable source of funds and effective liquidity management. The Issuer continuously adjusts its funding operations to minimise funding costs and, to the extent necessary, match currencies and maturities with those of its asset portfolio.

The Issuer funds its customer loan and securities investment operations principally through customer deposits and short term deposits of banks and other financial institutions, which are primarily short term in nature. The Issuer's customer deposits consist of retail savings, time and current deposit accounts, as well as specialised fixed, foreign currency and other deposit products.

A significant majority of the Issuer's deposits mature in three months or less. The Issuer believes that its core deposit base is stable. The following table sets forth the exposure to interest rate risk of the Issuer's liabilities as of 30 June 2018 categorised by the earlier of contractual re-pricing or maturity dates:

	As of 30 June 2018						
	(unaudited)						
	Up to 1 month	1 to 3 months	3 to 12 months	-1 to 5 years	Over 5 years	Non- interest bearing	Total
	(HK\$ in millions)						
Liabilities							
Hong Kong SAR currency							
notes in circulation	–	–	–	–	–	153,370	153,370
Deposits and balances from banks and other financial institutions . .	210,695	1,681	875	460	–	23,472	237,183
Financial liabilities at fair value							
through profit or loss	5,422	5,875	2,797	1,319	499	–	15,912
Derivative financial instruments . .	–	–	–	–	–	31,535	31,535
Deposits from customers	1,294,853	229,357	161,512	1,133	–	175,085	1,861,940
Debt securities and certificates of deposit in issue	1,390	13,813	374	–	–	–	15,577
Other accounts and provisions (including current and deferred tax liabilities)	19,664	–	–	–	–	45,488	65,152
Subordinated liabilities	–	63	–	20,611	–	–	20,674
Total liabilities	1,532,024	250,789	165,558	23,523	499	428,950	2,401,343
Interest sensitivity gap	(197,597)	180,285	50,857	223,794	86,396	(104,771)	238,964

AVERAGE BALANCE SHEETS AND AVERAGE RATES

The following table sets forth, for the periods indicated, the Issuer's average balances and average interest rates. Average balances are based on a daily average, which are considered to be representative of the Issuer's operations.

	Year ended 31 December						Six months ended 30 June	
	2015 ⁽¹⁾		2016 ⁽¹⁾		2017 ⁽¹⁾		2018 ⁽²⁾	
	(audited)		(audited)		(audited)		(unaudited)	
	Average balance (Restated previously)	Average yield (%) (Restated previously)	Average balance	Average yield (%)	Average balance	Average yield (%)	Average balance	Average yield (%)
(HK\$ in millions, except percentages)								
Balances and placements with banks and other financial institutions	345,515	2.35	332,537	1.36	437,630	2.18	454,552	1.95
Debt securities investments	496,262	1.68	578,304	1.37	606,102	1.75	683,981	1.94
Advances to customers	821,041	2.26	956,354	2.26	1,090,326	2.37	1,205,000	2.67
Other interest-earning assets	14,986	1.40	21,952	0.89	16,620	1.29	17,546	1.66
Total interest- earning assets	1,677,804	2.10	1,889,147	1.82	2,150,678	2.15	2,361,079	2.31
Non interest-earning assets	553,350	–	404,935	–	293,491	–	309,166	–
Total assets	2,231,154	1.58	2,294,082	1.50	2,444,169	1.89	2,670,245	2.04

(1) Comparative information contained in the Issuer's audited consolidated financial statements as of and for the years ended 31 December 2015, 2016 and 2017 and the Issuer's unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 have been restated as a result of the Issuer's disposal of Chiyu and acquisition of businesses in Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam. For additional information on the comparability of information between years and periods, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".

(2) The unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 have been prepared under the accounting policies as required by the new and revised HKFRS, with effect from 1 January 2018, which are not consistent with the accounting policies as set out in the comparative information. For additional information, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".

	Year ended 31 December						Six months ended 30 June	
	2015 ⁽¹⁾		2016 ⁽¹⁾		2017 ⁽¹⁾		2018 ⁽²⁾	
			(audited)				(unaudited)	
	Average balance (Restated previously)	Average rate (%) (Restated previously)	Average balance	Average rate (%)	Average balance	Average rate (%)	Average balance	Average rate (%)
(HK\$ in millions, except percentages)								
Deposits and balances from banks and other financial institutions	209,497	0.91	233,632	0.78	223,935	0.92	227,357	1.04
Current, savings, time and other deposits of customers	1,246,074	0.75	1,350,015	0.57	1,560,364	0.68	1,727,101	0.90
Subordinated liabilities	19,560	2.25	19,513	3.04	20,568	4.53	20,458	5.46
Other interest- bearing liabilities	38,724	1.73	36,012	1.48	47,720	1.39	61,039	1.91
Total interest- bearing liabilities	1,513,855	0.81	1,639,172	0.65	1,852,587	0.77	2,035,955	0.99
Non interest-bearing deposits	83,162	–	105,422	–	125,531	–	142,764	–
Shareholders' funds and other non interest- bearing liabilities	634,137	–	549,488	–	466,051	–	491,526	–
Total liabilities	2,231,154	0.55	2,294,082	0.47	2,444,169	0.58	2,670,245	0.76

(1) Comparative information contained in the Issuer's audited consolidated financial statements as of and for the years ended 31 December 2015, 2016 and 2017 and the Issuer's unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 have been restated as a result of the Issuer's disposal of Chiyu and acquisition of businesses in Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam. For additional information on the comparability of information between years and periods, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".

(2) The unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 have been prepared under the accounting policies as required by the new and revised HKFRS, with effect from 1 January 2018, which are not consistent with the accounting policies as set out in the comparative information. For additional information, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".

Analysis of Net Interest Income

The following table sets forth the Issuer's net interest income by changes in volume and by changes in rate for 2016 compared to 2015, 2017 compared to 2016 and the six months ended 30 June 2018 compared to the six months ended 30 June 2017. Information is provided with respect to: (i) effects attributable to changes in volume (changes in volume multiplied by prior rate); and (ii) effects attributable to changes in rate, and variances caused by changes in both volume and rate have been allocated to rate.

	2015 ⁽¹⁾⁽²⁾ vs. 2016 ⁽²⁾			2016 ⁽²⁾ vs. 2017 ⁽²⁾			30 June 2017 ⁽²⁾ vs. 30 June 2018 ⁽³⁾		
	(audited)			(audited)			(unaudited)		
	Change in average volume ⁽⁴⁾	Change in average rate ⁽⁵⁾	Net change	Change in average volume ⁽⁴⁾	Change in average rate ⁽⁵⁾	Net change	Change in average volume ⁽⁴⁾	Change in average rate ⁽⁵⁾	Net change
(a)	(b)	(a)+(b)	(a)	(b)	(a)+(b)	(a)	(b)	(a)+(b)	
(HK\$ in millions)									
Balances and placements with banks and other financial institutions	(305)	(3,279)	(3,584)	1,434	3,555	4,989	678	(1,446)	(768)
Debt securities investments	1,379	(1,759)	(380)	382	2,287	2,669	1,667	241	1,908
Advances to customers	3,060	65	3,125	3,030	1,160	4,190	4,057	(417)	3,640
Other interest-earning assets	97	(111)	(14)	(47)	65	18	3	37	40
Total interest-earning assets	4,231	(5,084)	(853)	4,799	7,067	11,866	6,405	(1,585)	4,820
Deposits and balances from banks and other financial institutions	218	(277)	(59)	(76)	293	217	(17)	174	157
Current, savings, time and other deposits of customers	(656)	(870)	(1,526)	1,510	1,276	2,786	2,044	935	3,012
Subordinated liabilities	(1)	154	153	32	306	338	69	51	120
Other interest-bearing liabilities	(47)	(89)	(136)	173	(46)	127	251	130	381
Total interest-bearing liabilities	(486)	(1,082)	(1,568)	1,639	1,829	3,468	2,347	1,323	3,670

(1) Comparative information contained in the Issuer's audited consolidated financial statements as of and for the years ended 31 December 2015, 2016 and 2017 and the Issuer's unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 have been restated as a result of the Issuer's disposal of Chiyu and acquisition of businesses in Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam. For additional information on the comparability of information between years and periods, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".

(2) The unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 have been prepared under the accounting policies as required by the new and revised HKFRS, with effect from 1 January 2018, which are not consistent with the accounting policies as set out in the comparative information. For additional information, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".

(3) Changes in volume multiplied by prior rate.

(4) Variances caused by changes in both volume and rate have been allocated to rate.

DEPOSITS

The following table sets forth the daily average balances of the Issuer's deposits and the average rates paid on its deposits for the periods indicated:

	Year ended 31 December						Six months ended 30 June	
	2015 ⁽¹⁾		2016 ⁽¹⁾		2017 ⁽¹⁾		2018 ⁽²⁾	
			(audited)				(unaudited)	
	Average balance (Restated previously)	Average rate (%) (Restated previously)	Average balance	Average rate (%)	Average balance	Average rate (%)	Average balance	Average rate (%)
(HK\$ in millions, except percentages)								
Demand deposits and current accounts	48,421	0.60	72,269	0.72	101,173	0.79	111,511	0.97
Savings deposits	632,442	0.06	770,340	0.11	855,694	0.16	900,808	0.20
Time, call and notice deposits	565,211	1.53	507,406	1.26	603,497	1.40	714,782	1.78
Total interest-bearing deposits	1,246,074	0.75	1,350,015	0.57	1,560,364	0.68	1,727,101	0.90
Non interest-bearing deposits	83,162		105,422		125,531		142,764	
Total deposits.	1,329,236		1,455,437		1,685,895		1,869,865	

(1) Comparative information contained in the Issuer's audited consolidated financial statements as of and for the years ended 31 December 2015, 2016 and 2017 and the Issuer's unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 have been restated as a result of the Issuer's disposal of Chiyu and acquisition of businesses in Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam. For additional information on the comparability of information between years and periods, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".

(2) The unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 have been prepared under the accounting policies as required by the new and revised HKFRS, with effect from 1 January 2018, which are not consistent with the accounting policies as set out in the comparative information. For additional information, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".

Maturities of Deposits From Customers

The following table sets forth the remaining maturities of the Issuer's total deposits from customers as of 30 June 2018.

	Total Deposits (unaudited) (HK\$ in millions)
On demand	1,068,904
Up to one month	401,034
One to three months	229,357
Three to 12 months	161,512
Over 12 months	1,133
Total	1,861,940

PROFITABILITY RATIOS AND OTHER DATA

	Year ended 31 December			Six months ended 30 June	
	2015 ⁽¹⁾	2016 ⁽¹⁾	2017 ⁽¹⁾	2017 ⁽¹⁾	2018 ⁽²⁾
Return on average total assets ⁽³⁾ . .	1.20%	2.42%	1.25%	1.36%	1.29%
Return on average equity ⁽⁴⁾	14.91%	27.14%	13.55%	14.18%	14.66%
Dividend payout ratio ⁽⁵⁾	49.79%	36.06%	55.88%	39.12%	31.28%
Net interest spread ⁽⁶⁾	1.29%	1.17%	1.38%	1.46%	1.32%
Net interest margin ⁽⁷⁾	1.37%	1.25%	1.49%	1.55%	1.45%
Cost to income ratio ⁽⁸⁾	29.07%	29.67%	28.34%	26.35%	25.38%
Cost to average assets ratio ⁽⁹⁾	0.51%	0.53%	0.54%	0.51%	0.51%
Loan to deposit ratio ⁽¹⁰⁾	63.30%	64.69%	64.28%	66.45%	65.95%

- (1) Comparative information contained in the Issuer's audited consolidated financial statements as of and for the years ended 31 December 2015, 2016 and 2017 and the Issuer's unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 have been restated as a result of the Issuer's disposal of Chiyu and acquisition of businesses in Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam. For additional information on the comparability of information between years and periods, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".
- (2) The unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 have been prepared under the accounting policies as required by the new and revised HKFRS, with effect from 1 January 2018, which are not consistent with the accounting policies as set out in the comparative information. For additional information, please refer to "Risk Factors – Certain amounts presented in this Offering Circular as of and for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017, may be different from amounts contained in the Issuer's Audited Consolidated Financial Statements and Unaudited Consolidated Financial Information attached elsewhere in this Offering Circular and may not be directly comparable".
- (3) Profit for the year/period divided by daily average balance of total assets.
- (4) Profit attributable to the equity holders divided by average of the beginning and ending balance of capital and reserves attributable to the equity holders of the Bank. The balances of capital and reserves used in the calculation have been restated to reflect the issuer's acquisition of Southeast Asian entities in a way consistent with the restatement of profit attributable to the equity holders in respective years.
- (5) Dividend divided by profit attributable to the equity holders of the Bank.
- (6) Average interest yield of total interest-earning assets less average interest rate of total interest-bearing liabilities.
- (7) Net interest income divided by daily average balance of interest-earning assets.
- (8) Operating expenses divided by net operating income before impairment allowances.
- (9) Operating expenses divided by daily average balance of total assets.
- (10) Advances to customers divided by customers' deposits (including structured deposits).

PLAN OF DISTRIBUTION

Pursuant to the Amended and Restated Dealer Agreement dated 29 August 2018 among the Issuer, the BOC Dealer Group, Cinda International Capital Limited, Citigroup Global Markets Limited and Goldman Sachs (Asia) L.L.C. as the arrangers and dealers, the Issuer entered into a Subscription Agreement dated 11 September 2018 (the “**Subscription Agreement**”) with the BOC Dealer Group, Cinda International Capital Limited, Citigroup Global Markets Limited, Goldman Sachs (Asia) L.L.C., BNP Paribas, Guotai Junan Securities (Hong Kong) Limited and Morgan Stanley & Co. International plc (together, the “**Managers**”). Subject to the terms and conditions of the Subscription Agreement, the Issuer has agreed to sell to the Managers and the Managers have severally and not jointly agreed with the Issuer to purchase the principal amount of Capital Securities, in the amounts set out opposite their names in the following table.

Managers	Principal amount of the Capital Securities
BOC Dealer Group ⁽¹⁾	U.S.\$900,000,000
Cinda International Capital Limited	U.S.\$600,000,000
Citigroup Global Markets Limited	U.S.\$600,000,000
Goldman Sachs (Asia) L.L.C.	U.S.\$600,000,000
BNP Paribas	U.S.\$100,000,000
Guotai Junan Securities (Hong Kong) Limited	U.S.\$100,000,000
Morgan Stanley & Co. International plc	U.S.\$100,000,000
Total	U.S.\$3,000,000,000

(1) The obligation of each member of the BOC Dealer Group to purchase the principal amount of Capital Securities disclosed above is several and not joint. BOCHK, in its capacity as a Joint Lead Manager, shall only procure subscribers to subscribe and pay for the Capital Securities, and it will not subscribe for any of the Capital Securities.

LEGAL MATTERS

Certain legal matters with respect to the issue and sale of the Capital Securities as to U.S. federal law, English law and Hong Kong law will be passed upon for the Issuer by Clifford Chance. Certain legal matters with respect to the issue and sale of the Capital Securities as to U.S. federal law and English law will be passed upon for the Joint Lead Managers by Linklaters.

APPENDIX A – PRICING SUPPLEMENT

PRIIPs Regulation – PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Capital Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or (ii) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the “**PRIIPs Regulation**”) for offering or selling the Capital Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Capital Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT (CHAPTER 289 OF SINGAPORE) – In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the “**SFA**”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “**CMP Regulations 2018**”), the Issuer has determined the classification of the Capital Securities as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

This Pricing Supplement is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**SEHK**”) and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, “**Professional Investors**”) only. **Investors should not purchase the Capital Securities in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Capital Securities are only suitable for Professional Investors.**

SEHK has not reviewed the contents of this Pricing Supplement, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Pricing Supplement to Professional Investors only have been reproduced in this Pricing Supplement. Listing of the Programme and the Capital Securities on SEHK is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Capital Securities or the Issuer or quality of disclosure in this Pricing Supplement. Hong Kong Exchanges and Clearing Limited and SEHK take no responsibility for the contents of this Pricing Supplement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Pricing Supplement.

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purposes of giving information with regard to the Issuer and the Group. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Pricing Supplement dated 11 September 2018

Bank of China (Hong Kong) Limited
中國銀行(香港)有限公司

Issue of U.S.\$3,000,000,000 5.9 per cent. undated non-cumulative subordinated Additional Tier 1 capital securities (the “**Capital Securities**”)

under the U.S.\$15,000,000,000 Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Capital Securities described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Capital Securities (the “**Conditions**”) as set forth in the schedule to this Pricing Supplement. This Pricing Supplement contains the final terms of the Capital Securities and the Conditions scheduled hereto are deemed to amend and restate the Terms and Conditions of the Notes set forth in the Offering Circular dated 29 August 2018 (the “**Offering Circular**”). This Pricing Supplement contains the final terms of the Capital Securities and must be read in conjunction with the Offering Circular and the Supplemental Offering Circular dated 11 September 2018 (the “**Supplemental Offering Circular**”). Full information on the Issuer and the offer of the Capital Securities is only available on the basis of the combination of the Offering Circular, the Supplemental Offering Circular and this Pricing Supplement.

1	Issuer:	Bank of China (Hong Kong) Limited (Legal Entity Identifier: KNPC1X7GHDZW8U2ZSF89)
2	(i) Series Number:	2
	(ii) Tranche Number:	1
3	Specified Currency or Currencies:	United States Dollars (“ US\$ ”)
4	Aggregate Nominal Amount:	
	(i) Series:	U.S.\$3,000,000,000
	(ii) Tranche:	U.S.\$3,000,000,000
5	(i) Issue Price:	100 per cent. of the Aggregate Nominal Amount
	(ii) Gross Proceeds:	U.S.\$3,000,000,000
6	(i) Specified Denominations:	U.S.\$200,000 per Capital Security, with integral multiples of US\$1,000 in excess thereof
	(ii) Calculation Amount:	U.S.\$1,000
7	(i) Issue Date:	14 September 2018
	(ii) Interest Commencement Date:	Not Applicable
8	Maturity Date:	Not Applicable
9	Interest Basis:	As set out in the Conditions scheduled hereto

10	Redemption/Payment Basis:	As set out in the Conditions scheduled hereto
11	Change of Interest or Redemption/Payment Basis:	Not Applicable
12	Put/Call Options:	Issuer Call – As set out in the Conditions scheduled hereto
13	(i) Status of the Capital Securities:	Subordinated – As set out in the Conditions scheduled hereto
	(ii) Date of regulatory approval for issuance of Capital Securities obtained:	<p>NDRC pre-issuance registration: Pursuant to the Approval by the NDRC on the Administration of Enterprises Foreign Debt Scale of 2018 Foreign Debt Scale (《國家發展改革委關於2018年度外債規模管理企業外債規模的批覆》(發改外資[2018]307號)) issued by the NDRC on 9 February 2018 and a quota of foreign debt to be issued up to 31 March 2019 (the “Quota”) granted by the NDRC on 9 February 2018, the Issuer is not required to complete the pre-issuance registration in respect of the Capital Securities with the NDRC as the Capital Securities will be issued within the Quota</p> <p>Approval from Hong Kong Monetary Authority: 28 August 2018</p>
	(iii) Date of Board approval for issuance of Capital Securities obtained:	27 August 2018
14	Listing and admission to trading:	Listing of the Capital Securities on the Hong Kong Stock Exchange is expected to be effective on 17 September 2018
15	Method of distribution:	Syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16	Fixed Rate Note Provisions:	As set out in the Conditions scheduled hereto
17	Floating Rate Note Provisions:	Not Applicable
18	Zero Coupon Note Provisions:	Not Applicable
19	Index-Linked Interest Note Provisions:	Not Applicable
20	Dual Currency Note Provisions:	Not Applicable

PROVISIONS RELATING TO REDEMPTION

21	Call Option:	As set out in the Conditions scheduled hereto
22	Put Option:	Not Applicable
23	Final Redemption Amount of each Note:	Not Applicable
24	Early Redemption Amount of each Note:	Not Applicable

GENERAL PROVISIONS APPLICABLE TO THE CAPITAL SECURITIES

25	Form of Capital Securities:	Registered: Global Certificate exchangeable for Individual Certificates in the limited circumstances described in the Global Certificate
26	Financial Centre(s) or other special provisions relating to Payment Dates:	Not Applicable
27	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	Not Applicable
28	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	Not Applicable
29	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	Not Applicable
30	Redenomination, renominalization and reconventioning provisions:	Not Applicable
31	Consolidation provisions:	Not Applicable
32	Details relating to Subordinated Notes:	
	(i) Write-off	As set out in the Conditions scheduled hereto
	(ii) Non-Viability	Applicable
	(iii) Hong Kong Resolution	Applicable
	(iv) Others	As set out in the Conditions scheduled hereto
33	Other terms or special conditions:	As set out in the Conditions scheduled hereto

DISTRIBUTION

34	(i) If syndicated, names of Managers:	Bank of China Limited, Bank of China (Hong Kong) Limited, BOCI Asia Limited, Cinda International Capital Limited, Citigroup Global Markets Limited, Goldman Sachs (Asia) L.L.C., BNP Paribas, Guotai Junan Securities (Hong Kong) Limited and Morgan Stanley & Co. International plc (together, the “ Joint Lead Managers ”)
	(ii) Date of Subscription Agreement:	11 September 2018
	(iii) Stabilisation Manager(s) (if any):	The Joint Lead Managers
35	If non-syndicated, name and address of Dealer:	Not Applicable
36	U.S. Selling Restrictions:	144A
37	Additional selling restrictions:	Not Applicable

OPERATIONAL INFORMATION

38	ISIN Code:	144A Tranche: US06428JAA79 Reg S Tranche: US06428YAA47
39	Common Code:	144A Tranche: 188046614 Reg S Tranche: 188046649
40	CMU Instrument Number:	Not Applicable
41	CUSIP Number:	144A Tranche: 06428JAA7 Reg S Tranche: 06428YAA4
42	Any clearing system(s) other than Euroclear/Clearstream and the relevant identification number(s):	Not Applicable
43	Delivery:	Free of payment
44	Additional Paying Agent(s) (if any):	Not Applicable

GENERAL

45	The aggregate principal amount of Capital Securities issued has been translated into U.S. dollars at the rate of exchange, producing a sum of (for Capital Securities not denominated in U.S. dollars):	Not Applicable
46	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	Not Applicable
47	In the case of Bearer Notes, specify the location of the office of the Issuing and Paying Agent if other than Dublin, Ireland:	Not Applicable
48	Ratings:	The Capital Securities to be issued have been rated: Standard & Poor's Rating Services, a division of the S&P Global Inc.: BBB Moody's Investor Service, Inc.: Baa2
49	Prohibition of Sales to EEA Retail Investors:	Applicable

USE OF PROCEEDS

The net proceeds from the issuance of the Capital Securities are intended to be used by the Issuer for general corporate purposes and to improve its Additional Tier 1 capital level in accordance with the requirements of the Banking (Capital) Rules (Cap. 155L).

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to trading on the SEHK of the Capital Securities described herein pursuant to the U.S.\$15,000,000,000 Medium Term Note Programme.

STABILISATION

In connection with this issue, the Joint Lead Managers (each a “**Stabilisation Manager**”) (or persons acting on behalf of any Stabilising Manager) may over-allot Capital Securities or effect transactions with a view to supporting the market price of the Capital Securities at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager (or persons acting on behalf of a Stabilisation Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Capital Securities is made and, if begun, may be discontinued at any time, but it must end no later than the earlier of 30 days after the issue date of the Capital Securities and 60 days after the date of the allotment of the Capital Securities. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager) in accordance with all applicable laws and rules.

INVESTMENT CONSIDERATIONS

There are significant risks associated with the Capital Securities including, but not limited to, counterparty risk, country risk, price risk and liquidity risk. Investors should contact their own financial, legal, accounting and tax advisers about the risks associated with an investment in these Capital Securities, the appropriate tools to analyse that investment, and the suitability of the investment in each investor’s particular circumstances. No investor should purchase the Capital Securities unless that investor understands and has sufficient financial resources to bear the price, market liquidity, structure and other risks associated with an investment in these Capital Securities.

Before entering into any transaction, investors should ensure that they fully understand the potential risks and rewards of that transaction and independently determine that the transaction is appropriate given their objectives, experience, financial and operational resources and other relevant circumstances. Investors should consider consulting with such advisers as they deem necessary to assist them in making these determinations.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of Bank of China (Hong Kong) Limited:

By: _____ /S/
Duly authorised

Schedule

Terms and Conditions of the Capital Securities

The following is the text of the Terms and Conditions of the Capital Securities (subject to completion and modification and excluding italicised text) which will be endorsed on each definitive certificate evidencing the Capital Securities. The Terms and Conditions of the Capital Securities as set out herein are deemed to amend and restate the Terms and Conditions of the Notes set forth in the Principal Offering Circular dated 29 August 2018.

The U.S.\$3,000,000,000 5.9 per cent. undated non-cumulative subordinated Additional Tier 1 capital securities (each a “**Capital Security**” and together, the “**Capital Securities**”) of Bank of China (Hong Kong) Limited (the “**Issuer**”) are constituted by a trust deed (as amended and/or supplemented from time to time, the “**Trust Deed**”) dated 29 August 2018 between the Issuer and Citicorp International Limited (the “**Trustee**”, which expression shall include all Persons (as defined below) for the time being the trustee or trustees under the Trust Deed) as trustee for the Securityholders (as defined below). These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Certificates referred to below. An agency agreement (as amended and/or supplemented from time to time, the “**Agency Agreement**”) dated 29 August 2018 has been entered into between the Issuer, the Trustee, Citibank, N.A., London Branch as the initial issuing and paying agent and the other agents named in it. The issuing and paying agent, the other paying agents, the registrar, the transfer agent(s) and the calculation agent(s) for the time being (if any) are referred to below respectively as the “**Issuing and Paying Agent**”, the “**Paying Agents**” (which expression shall include the Issuing and Paying Agent), the “**Registrar**”, the “**Transfer Agents**” and the “**Calculation Agent(s)**” (such Issuing and Paying Agent, Paying Agents, Registrar, Transfer Agent(s) and Calculation Agent(s) being together referred to as the “**Agents**”). Copies of the Trust Deed and the Agency Agreement are available for inspection at all reasonable times during usual business hours at the principal office of the Trustee (being on 14 September 2018, the date of issue of the Capital Securities (the “**Issue Date**”), at 39th Floor, Champion Tower, Three Garden Road, Central, Hong Kong) following written request and proof of holding satisfactory to the Trustee.

The Securityholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

As used in these Conditions, “**Person**” means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organisation, government or any agency of political subdivision thereof or any other entity.

For the purposes of the Trust Deed and the Agency Agreement, the provisions relating to the “**Notes**”, the “**Subordinated Notes**” and the “**Registered Notes**” shall apply and be deemed to refer to the Capital Securities and provisions relating to “**Noteholders**” and/or “**holders**” in respect of any Notes shall apply and be deemed to refer to the Securityholders and holders of any Capital Securities respectively. References to the “**Terms and Conditions of the Notes**” refer to the terms and conditions of the Notes as set out in the Principal Offering Circular dated 29 August 2018.

1 FORM, DENOMINATION AND TITLE

(A) Form and Denomination

The Capital Securities are issued in registered form in the denomination of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof (referred to as the “**principal amount**” of a

Capital Security). The principal amount of a Capital Security is subject to adjustment following the occurrence of a Non-Viability Event (as defined in Condition 5(C)) in accordance with Condition 5(C) and references in these Conditions to the “**principal amount**” of a Capital Security shall mean the principal amount of a Capital Security as so adjusted. The Capital Securities are represented by registered certificates (“**Certificates**”) and each Certificate shall represent the entire holding of Capital Securities by the same holder. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Securityholders which the Issuer will procure to be kept by the Registrar (the “**Register**”).

The Capital Securities are not issuable in bearer form.

(B) Title

Title to the Capital Securities passes only by registration in the Register that the Issuer shall procure to be kept by the Registrar outside the United Kingdom in accordance with the provisions of the Agency Agreement. Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Capital Security shall be deemed to be and may be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate)) and no person shall be liable for so treating the Securityholder.

In these Conditions, reference to “**Securityholders**” or “**holders**” in relation to any Capital Securities shall mean the persons in whose name the Capital Securities are registered.

2 TRANSFERS OF THE CAPITAL SECURITIES

(A) Transfers of Interests in Capital Securities

One or more Capital Securities may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Capital Securities to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may require to prove the title of the transferor and the authority of the individuals that have executed the form of transfer. In the case of a transfer of part only of a holding of Capital Securities represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Capital Securities and entries on the Register will be made subject to the detailed regulations concerning transfers of Capital Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee, and by the Registrar, with the prior written approval of the Trustee. A copy of the current regulations will be made available by the Registrar to any Securityholder following written request and proof of holding satisfactory to the Registrar.

(B) Delivery of New Certificates

Each new Certificate to be issued pursuant to Condition 2(A) or Condition 2(E) shall be available for delivery within seven business days of receipt of a duly completed form of transfer and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Registrar or any Transfer Agent (as the case may be) to whom delivery or surrender of such form of transfer or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the Registrar or the relevant Transfer Agent (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(B), “**business day**” means a day, other than a Saturday, Sunday or public holiday, on which banks are open for business in the place of the specified office of the Registrar or the relevant Transfer Agent (as the case may be).

(C) Transfers Free of Charge

Transfers of Capital Securities and the issuance of new Certificates on registration or transfer shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax, duty or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security and/or pre-funding as the Registrar or the relevant Transfer Agent may require) in respect of taxes or charges.

(D) Closed Periods

No Securityholder may require the transfer of a Capital Security to be registered (i) during the period of 15 days ending on the due date for redemption of that Capital Security, (ii) after any such Capital Security has been called for redemption, (iii) during the period of seven days ending on (and including) any Record Date and (iv) during the period commencing on the date of a Non-Viability Event Notice (as defined in Condition 5(C) below) and ending on (and including) the close of business in Hong Kong on the effective date of the related Write-off (as defined in Condition 5(C) below).

*So long as the Capital Securities are represented by one or more Global Certificates and such Global Certificates are held on behalf of Euroclear, Clearstream, DTC or any other clearing system, no holder may require the transfer of a Capital Securities to be registered during the period of five Clearing System Business Days (or such other period as the relevant clearing systems shall determine in accordance with their rules and procedures) commencing on the Clearing System Business Day immediately following the date on which the Non-Viability Event Notice has been received by the relevant clearing systems (the “**Suspension Period**”). “**Clearing System Business Day**” means a weekday (Monday to Friday, inclusive except 25 December and 1 January).*

(E) Exercise of Options or Partial Write-off in Respect of Capital Securities in Definitive Form

In the case of an exercise of the Issuer’s option in respect of, or a partial Write-off of (as the case may be), Capital Securities, and where a holding of Capital Securities is represented by a single Certificate, a new Certificate shall be issued to the relevant Securityholder to reflect

the exercise of such option, or such partial Write-off, or in respect of the balance of the holding not redeemed or Written-off (as the case may be). New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent.

3 STATUS AND SUBORDINATION OF THE CAPITAL SECURITIES

(A) Status of the Capital Securities

The Capital Securities constitute direct, unsecured and subordinated obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The rights and claims of the Securityholders are subordinated in the manner described below in this Condition 3.

(B) Subordination

Subject to the insolvency laws of Hong Kong and other applicable laws, in the event of a Winding-Up (as defined below) of the Issuer (other than pursuant to a Permitted Reorganisation (as defined below)), the rights of the Securityholders to payment of principal and Distributions on the Capital Securities, and any other obligations in respect of the Capital Securities, shall rank (i) subordinate and junior in right of payment to, and of all claims of (a) all unsubordinated creditors of the Issuer (including its depositors), (b) creditors in respect of Tier 2 Capital Securities of the Issuer, and (c) all other Subordinated Creditors of the Issuer whose claims are stated to rank senior to the Capital Securities or rank senior to the Capital Securities by operation of law or contract; (ii) *pari passu* in right of payment to and of all claims of the holders of Parity Obligations; and (iii) senior in right of payment to and of all claims of the holders of Junior Obligations, in each case, present and future.

In the event of a Winding-Up that requires the Securityholders or the Trustee to provide evidence of their claim to principal or Distribution under the Capital Securities, such claims of the Securityholders will only be satisfied after all senior ranking obligations of the Issuer have been satisfied in whole. No amount may be claimed in respect of any Distribution that has been cancelled pursuant to a Mandatory Distribution Cancellation Event or an Optional Distribution Cancellation Event.

For the purposes of these Conditions:

“**Additional Tier 1 Capital**” means instruments or other obligations issued by the Issuer that constitute or qualify as additional tier 1 capital (or its equivalent) pursuant to the applicable Capital Regulations.

“**Authorized Institution**” has the meaning given to that term in the Banking Ordinance (Cap. 155) of Hong Kong.

“**Capital Regulations**” means capital regulations from time to time applicable to the regulatory capital of Authorized Institutions incorporated in Hong Kong as published by the Monetary Authority.

“**Junior Obligation**” means the Shares, and any other class of the Issuer’s share capital and any instrument or other obligation (including without limitation any preference shares) issued or guaranteed by the Issuer that ranks or is expressed to rank junior to the Capital Securities by operation of law or contract.

“**Monetary Authority**” means the Monetary Authority appointed under section 5A of the Exchange Fund Ordinance (Cap. 66) of Hong Kong or any successor thereto.

“**Parity Obligation**” means any instrument or other obligation issued or entered into by the Issuer that constitutes or qualifies as Additional Tier 1 Capital (or its equivalent) under applicable Capital Regulations or any instrument or other obligation issued, entered into, or guaranteed by the Issuer that ranks or is expressed to rank *pari passu* with the Capital Securities by operation of law or contract, which for the avoidance of doubt, excludes any Junior Obligations of the Issuer.

“**Permitted Reorganisation**” means a solvent reconstruction, amalgamation, reorganisation, merger or consolidation whereby all or substantially all the business, undertaking or assets of the Issuer are transferred to a successor entity which assumes all the obligations of the Issuer under the Capital Securities.

“**Shares**” means the ordinary share capital of the Issuer.

“**Subordinated Creditors**” means all creditors the indebtedness of which is subordinated, in the event of the Winding-Up of the Issuer, in right of payment to the claims of depositors and other unsubordinated creditors of the Issuer other than those whose claims rank or is expressed to rank by operation of law or contract *pari passu* with, or junior to, the claims of the Securityholders. For this purpose indebtedness shall include all liabilities, whether actual or contingent.

“**Tier 2 Capital Securities**” means instruments or other obligations issued by the Issuer that constitute or qualify as Tier 2 capital (or its equivalent) pursuant to the Capital Regulations.

“**Winding-Up**” means, with respect to the Issuer, a final and effective order or resolution for the bankruptcy, winding up, liquidation or similar proceeding in respect of the Issuer.

(C) Set-off

Subject to applicable law, no Securityholder may exercise, claim or plead any right of set-off, counter-claim or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Capital Securities and each Securityholder shall, by virtue of being the Securityholder of any Capital Security be deemed to have waived all such rights of such set-off, counter-claim or retention.

In the event that any Securityholder nevertheless receives (whether by set-off or otherwise) directly in a Winding-Up Proceeding (as defined in Condition 10(A)) in respect of the Issuer any payment by, or distribution of assets of, the Issuer of any kind or character, whether in cash, property or securities, in respect of any amount owing to it by the Issuer arising under or in connection with the Capital Securities, other than in accordance with this Condition 3(C), such Securityholder shall, subject to applicable law, immediately pay an amount equal to the amount of such payment to the liquidator for the time being in the Winding-up of the Issuer for distribution and each Securityholder, by virtue of becoming a Securityholder of any Capital Security, shall be deemed to have so agreed and undertaken with and to the Issuer and all depositors and other unsubordinated creditors of the Issuer for good consideration.

4 DISAPPLICATION OF NEGATIVE PLEDGE AND NDRC UNDERTAKING

(A) Negative Pledge

Condition 4 of the Terms and Conditions of the Notes does not apply to the Capital Securities.

(B) NDRC Undertaking

The Issuer undertakes to provide or cause to be provided a notification to the National Development and Reform Commission (the “NDRC”) of the requisite information and documents within the prescribed timeframe after the Issue Date in accordance with the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) issued by the NDRC and which came into effect on 14 September 2015, and any implementation rules or policies as may be issued by the NDRC prior to the completion of such notification.

5 DISTRIBUTIONS, HONG KONG RESOLUTION AUTHORITY POWER AND NON-VIABILITY LOSS ABSORPTION

(A) Distribution Payments

(i) *Non-Cumulative Distribution*

Subject to Condition 5(B) below, the Capital Securities confer a right to receive distributions (each a “**Distribution**”) on their principal amount (subject to adjustments following the occurrence of a Non-Viability Event in accordance with Condition 5(C)) from, and including, the Issue Date at the applicable Distribution Rate, payable semi-annually in arrear on 14 March and 14 September in each year (each a “**Distribution Payment Date**”).

Distributions will not be cumulative and Distributions which are not paid in accordance with these Conditions will not accumulate or compound and Securityholders will have no right to receive such Distributions at any time, even if subsequent Distributions are paid in the future, or be entitled to any claim in respect thereof against the Issuer. Unless otherwise provided in these Conditions, each Capital Security will cease to confer the right to receive any Distribution from the due date for redemption unless, upon surrender of the Certificate representing such Capital Security, payment of principal is improperly withheld or refused. In such event Distribution shall continue to accrue at such rate (both before and after judgment) until whichever is the earlier of (a) the date on which all amounts due in respect of such Capital Security have been paid; and (b) three days after the date on which the full amount of moneys payable in respect of such Capital Security has been received by the Trustee or the Issuing and Paying Agent and notice to that effect has been given to the Securityholders in accordance with Condition 16.

No Securityholder shall have any claim in respect of any Distribution or part thereof cancelled and/or not due or payable pursuant to Conditions 5(A) and 5(B) below. Accordingly, such Distribution shall not accumulate for the benefit of the Securityholders or entitle the Securityholders to any claim in respect thereof against the Issuer.

(ii) *Distribution Rate*

The rate of distribution (the “**Distribution Rate**”) applicable to the Capital Securities shall be:

- (a) in respect of the period from, and including, the Issue Date to, but excluding, 14 September 2023 (the “**First Call Date**”), 5.9 per cent. per annum; and
- (b) in respect of a Reset Distribution Period, the relevant Reset Distribution Rate.

For the purposes of these Conditions:

“**Calculation Agent**” means the Issuing and Paying Agent and shall include any successor as calculation agent.

“**Calculation Business Day**” means any day, excluding a Saturday and a Sunday, on which banks are open for general business (including dealings in foreign currencies) in New York City and Hong Kong.

“**Calculation Date**” means, in relation to a Reset Distribution Period, the third Calculation Business Day immediately preceding the relevant Distribution Reset Date on which such Reset Distribution Period commences.

“**Comparable Treasury Issue**” means the U.S. Treasury security selected by an independent bank of international repute (selected by the Issuer) as having a maturity of five years that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity of five years.

“**Comparable Treasury Price**” means, with respect to any Calculation Date, the average of three Reference Treasury Dealer Quotations for the Calculation Date.

“**Distribution Determination Date**” means the day falling two Calculation Business Days prior to a Distribution Payment Date.

“**Distributable Reserves**” means the amounts for the time being available to the Issuer for distribution as a distribution in compliance with section 297 of the Companies Ordinance (Cap. 622) of Hong Kong, as amended or modified from time to time, as at the date of the Issuer’s audited balance sheet last preceding the relevant Distribution Payment Date, and subject to the Monetary Authority’s current capital conservation requirements as applicable to the Issuer on the relevant Distribution Payment Date (the “**Available Amount**”); provided that if the Issuer reasonably determines that the Available Amount as at any Distribution Determination Date is lower than the Available Amount as at the date of the Issuer’s audited balance sheet last preceding the relevant Distribution Payment Date and is insufficient to pay the Distributions and any payments due on Parity Obligations on the relevant Distribution Payment Date, then on certification by two Authorised Signatories of the Issuer and the auditors of such revised amount, the Distributable Reserves shall for the purposes of Distributions mean the Available Amount as set forth in such certificate.

As at the date hereof, pursuant to section 297(1) of the Companies Ordinance (Cap. 622) of Hong Kong, the Issuer may only make a distribution out of profits available for distribution. For the purposes of section 297 of the Companies Ordinance (Cap. 622) of Hong Kong, the Issuer's profits available for distribution are its accumulated, realised profits, so far as not previously utilised by distribution or capitalisation, less its accumulated, realised losses, so far as not previously written off in a reduction or reorganisation of capital.

“Distribution Reset Date” means the First Call Date and each day falling every five calendar years after the First Call Date.

“Reference Treasury Dealer” means each of the three nationally recognised investment banking firms selected by the Issuer that are primary U.S. Government securities dealers.

“Reference Treasury Dealer Quotations” means with respect to each Reference Treasury Dealer, the average, as determined by the Calculation Agent, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the Calculation Agent at the request of the Issuer by such Reference Treasury Dealer at 5:00 p.m. (New York City time), on the Calculation Date and such average then notified in writing to the Issuer and the Trustee by the Calculation Agent.

“Reset Distribution Rate” means, in relation to a Reset Distribution Period, a fixed rate per annum (expressed as a percentage) equal to the aggregate of (a) the then-prevailing U.S. Treasury Rate (as determined as set out below) and (b) the Spread.

“Reset Distribution Period” means the period from, and including, a Distribution Reset Date to, but excluding, the immediately following Distribution Reset Date.

“Spread” means 3.036 per cent. per annum.

“U.S. Treasury Rate” means the rate in percentage per annum notified by the Calculation Agent to the Issuer and the Trustee equal to the yield on U.S. Treasury securities having a maturity of five years as set forth in the most recently published statistical release designated “H.15(519)” under the caption “Treasury constant maturities” (or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption “Treasury constant maturities” for the maturity of five years) at 5:00 p.m. (New York time) on the Calculation Date. If such release (or any successor release) does not display the relevant yield at 5:00 p.m. (New York time) on the Calculation Date, **“U.S. Treasury Rate”** shall mean the rate in percentage per annum as notified by the Calculation Agent to the Issuer and the Trustee equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the Calculation Date. If there is no Comparable Treasury Price on the Calculation Date for whatever reason, **“U.S. Treasury Rate”** means the rate in percentage per annum as notified by the Calculation Agent to the Issuer and the Trustee equal to the yield on U.S. Treasury securities having a maturity of five years as set forth in the most recently published statistical release designated “H.15(519)” under the caption “Treasury constant maturities” (or any

successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption “Treasury constant maturities” for the maturity of five years) at 5:00 p.m. (New York time) on the last available date preceding the Calculation Date on which such rate was set forth in such release (or any successor release).

(iii) Calculation of Distribution and Relevant Reset Distribution Rate

The Calculation Agent will calculate the amount of Distribution in respect of any period by applying the applicable Distribution Rate to the Calculation Amount. If Distribution is required to be paid in respect of a Capital Security on any date other than the Distribution Payment Date, it shall be calculated by applying the applicable Distribution Rate to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the principal amount of such Capital Security divided by the Calculation Amount, where:

- (a) “**Calculation Amount**” means U.S.\$1,000, subject to adjustment following occurrence of a Non-Viability Event; and
- (b) “**Day Count Fraction**” means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with twelve 30-day months).

The Calculation Agent will on the Calculation Date prior to each Distribution Reset Date, calculate the applicable Reset Distribution Rate payable in respect of each Capital Security. The Calculation Agent will cause the Distribution and applicable Reset Distribution Rate determined by it to be promptly notified to the Issuing and Paying Agent. Notice thereof shall also promptly be given by the Calculation Agent to the Issuer, the Trustee and the Registrar.

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 5(A) by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Issuing and Paying Agent, the Trustee and the Securityholders and no liability to any such person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes unless caused directly by the fraud, gross negligence or wilful default of the Calculation Agent.

(iv) Publication of Relevant Reset Distribution Rate

The Issuer shall cause notice of the then applicable Reset Distribution Rate to be notified to the Securityholders as soon as practicable in accordance with Condition 16 after determination thereof.

(v) ***Determination or Calculation by Successor Calculation Agent***

If the Calculation Agent does not at any time for any reason so determine the applicable Reset Distribution Rate, the Issuer shall as soon as practicable appoint a reputable financial institution of good standing as a successor calculation agent to do so and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the successor calculation agent shall apply the foregoing provisions of this Condition 5(A), with any necessary consequential amendments, to the extent that, in the opinion of the successor calculation agent, it can do so and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(B) Distribution Restrictions

(i) ***Optional Distribution Cancellation Event***

Unless a Distribution has already been cancelled in full pursuant to a Mandatory Distribution Cancellation Event (as defined below), prior to any Distribution Payment Date the Issuer may, at its sole discretion, elect to cancel any payment of a Distribution, in whole or in part, by giving a notice to the Securityholders signed by an Authorised Signatory of the Issuer which shall be conclusive and binding on the Securityholders (a “**Distribution Cancellation Notice**”) at least 10 Payment Business Days prior to the relevant Distribution Payment Date. The Issuer shall have no obligation to pay any Distribution on any Distribution Payment Date if it validly elects not to do so in accordance with this Condition 5(B)(i) and any failure to pay such Distribution shall not constitute an Event of Default. Distributions are non-cumulative and any Distribution that is cancelled shall therefore not be payable at any time thereafter, whether in a Winding-Up or otherwise.

(ii) ***Mandatory Distribution Cancellation Event***

Notwithstanding that a Distribution Cancellation Notice may not have been given, the Issuer shall not be obliged to pay, and shall not pay, any Distribution on the applicable Distribution Payment Date, in whole or in part, as applicable, if and to the extent that:

- (a) the Distribution scheduled to be paid together with any dividends, distributions or other payments scheduled to be paid or made during the Issuer’s then current fiscal year on any Parity Obligations or any instruments which rank or are expressed to rank *pari passu* with any Parity Obligations shall exceed Distributable Reserves as at such Distribution Determination Date; or
- (b) the Monetary Authority directs the Issuer to cancel such Distribution (in whole or in part) or applicable Hong Kong banking regulations or other requirements of the Monetary Authority prevent the payment in full of dividends or other distributions when due on Parity Obligations,

(each a “**Mandatory Distribution Cancellation Event**”).

The Issuer shall have no obligation to pay any Distribution on any Distribution Payment Date if such non-payment is in accordance with this Condition 5(B)(ii) and any failure to pay such Distribution shall not constitute an Event of Default. Distributions are non-cumulative and any Distribution which is cancelled in accordance with these Conditions shall not be payable at any time thereafter, whether in a Winding-Up or otherwise.

(iii) Distributable Reserves

Any Distribution may only be paid out of Distributable Reserves.

(iv) Dividend Stopper

If, on any Distribution Payment Date, payment of Distribution scheduled to be paid is not made in full by reason of this Condition 5(B), the Issuer shall not:

- (a) declare or pay in cash any distribution or dividend or make any other payment in cash on, and will procure that no distribution or dividend in cash or other payment in cash is made on, any Shares; or
- (b) purchase, cancel or otherwise acquire any Shares or permit any of its Subsidiaries to do so,

in each case, unless or until the earlier of: (x) the Distribution scheduled to be paid on any subsequent Distribution Payment Date (which, for the avoidance of doubt, shall exclude any Distribution that has been cancelled in accordance with these Conditions prior to such subsequent Distribution Payment Date in respect of a Distribution Payment Date preceding such subsequent Distribution Payment Date) has been paid in full (1) to Securityholders or (2) irrevocably to a designated third party trust account for the benefit of the Securityholders, or (y) the redemption or purchase and cancellation of the Capital Securities in full, or reduction of the principal amount of the Capital Securities to zero in accordance with these Conditions, or (z) the Issuer is permitted to do so by an Extraordinary Resolution of the Securityholders.

(v) No Default

Notwithstanding any other provision in these Conditions, the cancellation or non-payment of any Distribution in accordance with this Condition 5(B) shall not constitute a default for any purpose (including, without limitation, pursuant to Condition 10(A)) on the part of the Issuer.

(C) Non-Viability Loss Absorption

If a Non-Viability Event occurs and is continuing, the Issuer shall, upon the provision of a Non-Viability Event Notice, irrevocably (without the need for the consent of the Securityholders) reduce the then principal amount of, and cancel any accrued but unpaid Distribution in respect of, each Capital Security (in each case in whole or in part) by an amount equal to the Non-Viability Event Write-off Amount per Capital Security (such reduction and cancellation, and the reduction and cancellation or conversion of any other Subordinated Capital Instruments so reduced and cancelled or converted upon the occurrence of a Non-Viability Event, where applicable, being referred to herein as the “**Write-off**”, and “**Written-off**” shall be construed accordingly).

Concurrently with the giving of the notice of a Non-Viability Event, the Issuer shall procure unless otherwise directed by the Monetary Authority that (i) a similar notice be given in respect of other Subordinated Capital Instruments in accordance with their terms and (ii) concurrently and rateably with the Write-off of the Capital Securities, the aggregate principal amount of such other Parity Capital Instruments is subject to a Write-off on a *pro-rata* basis with the Capital Securities.

Any Write-off pursuant to this provision will not constitute an Event of Default under the Capital Securities.

Any Capital Security may be subject to one or more Write-offs in part (as the case may be), except where such Capital Security has been Written-off in its entirety. Any references in these Conditions to principal in respect of the Capital Securities shall thereafter refer to the principal amount of the Capital Securities reduced by any applicable Write-off(s).

Once the principal amount of, and any accrued but unpaid Distribution under, the Capital Securities has been Written-off, the relevant amount(s) Written-off will not be restored in any circumstances including where the relevant Non-Viability Event ceases to continue. No Securityholder may exercise, claim or plead any right to any amount that has been Written-off, and each Securityholder shall, by virtue of his holding of any Capital Securities, be deemed to have waived all such rights to such amount that has been Written-off.

Each Securityholder shall be deemed to have authorised, ratified, directed (in the case of the Trustee only) and consented to the Trustee and the Agents to take any and all necessary action to give effect to any Write-off following the occurrence of the Non-Viability Event.

The Trustee and the Agents shall not be: (a) responsible or liable to any Securityholder for monitoring or determining whether a Non-Viability Event has occurred or not, (b) responsible for verifying or calculating any amount in connection with a Non-Viability Event or for any Write-off of Capital Securities made pursuant to the Issuer's directions, (c) responsible for preparing any Non-Viability Event Notice or (d) liable to the Securityholders or to any other person or the clearing systems (or its participants, members, broker-dealers or any other third parties) with respect to the notification and/or implementation of any Non-Viability Event by any of them in respect of such Capital Securities.

The ability to operationally effect any Write-off of any Capital Securities under this Condition 5(C) with respect to the clearing and/or settlement of any Capital Securities in or through the relevant clearing system(s) is subject to the availability of procedures to effect any such Write-off in such clearing system(s). However, any Write-off of any Capital Securities with respect to the Issuer under this Condition 5(C) will be effective upon the date that the Issuer specifies in the Non-Viability Event Notice notwithstanding any inability to operationally effect any such Write-off in the relevant clearing system(s).

Following the receipt of a Non-Viability Event Notice by Euroclear, Clearstream and/or DTC and the commencement of the Suspension Period, Euroclear, Clearstream and/or DTC shall suspend all clearance and settlement of the Capital Securities. As a result, Securityholders will not be able to settle the transfer of any Capital Securities from the commencement of the Suspension Period, and any sale or other transfer of the Capital Securities that a Securityholder may have initiated prior to the commencement of the Suspension Period that is scheduled to settle during the Suspension Period will be rejected by Euroclear, Clearstream

and/or DTC and will not be settled within Euroclear, Clearstream and/or DTC. See “Investment Considerations – Considerations Relating to the Notes – Transfers scheduled to settle through Euroclear, Clearstream and DTC (the “ICSDs”) are expected to be rejected if the scheduled settlement is after any suspension by the ICSDs of clearance and settlement of the Notes in connection with a Non-Viability Event Notice or the exercise of the Hong Kong Resolution Authority Power. Furthermore, because of time zone differences and the delay between the time when a Non-Viability Event occurs or the Hong Kong Resolution Authority Power is exercised and when the ICSDs receive and process the Non-Viability Event Notice or the notice that the Hong Kong Resolution Authority Power has been exercised, it is possible that transfers may either (i) fail to settle through the ICSDs even though such transfers were initiated prior to the Non-Viability Event or the relevant cut-off time specified in the Hong Kong Resolution Authority Power Instrument or (ii) are settled through the ICSDs even though such transfers were initiated after the Non-Viability Event or the relevant cut-off time specified in the Hong Kong Resolution Authority Power Instrument”.

If a Non-Viability Event Notice has been given in respect of the Capital Securities in accordance with this Condition 5(C), transfers of the Capital Securities shall not be permitted during the Suspension Period (as defined in Condition 2(D)). From the date on which a Non-Viability Event Notice in respect of the Capital Securities in accordance with this Condition 5(C) is provided by the Issuer to the end of the Suspension Period, the Registrar shall not register any attempted transfer of any Capital Securities. As a result, such an attempted transfer of the Capital Securities will not be effective.

The Trustee and the Agents have no responsibility for nor liability with respect to actions taken or not taken by the clearing systems or its participants or members or any broker-dealers with respect to the notification or implementation of the Write-off, nor any application of funds or delivery of notices prior to a Write-off, or with respect to the return of any amount that was paid to any Securityholder following a Non-Viability Event in excess of the amount that should have been paid to such Securityholder.

For the purposes of this Condition 5(C):

“**Non-Viability Event**” means the earlier of:

- (a) the Monetary Authority notifying the Issuer in writing that the Monetary Authority is of the opinion that a Write-off or conversion is necessary, without which the Issuer would become non-viable; and
- (b) the Monetary Authority notifying the Issuer in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.

“**Non-Viability Event Notice**” means the notice which shall be given by the Issuer not more than two Hong Kong Business Days after the occurrence of a Non-Viability Event, to the Securityholders, in accordance with Condition 16, and to the Trustee and the Paying Agents in writing and which shall state:

- (a) in reasonable detail the nature of the relevant Non-Viability Event; and
- (b) the Non-Viability Event Write-off Amount for (i) each Capital Security and (ii) each other Subordinated Capital Instrument in accordance with its terms.

“Non-Viability Event Write-off Amount” means the amount of distributions and/or principal to be Written-off as the Monetary Authority may direct or, in the absence of such a direction, as the Issuer shall (in consultation with the Monetary Authority) determine to be necessary to satisfy the Monetary Authority that the Non-Viability Event will cease to continue. For the avoidance of doubt, (a) the full amount of the Capital Securities will be Written-off in full in the event that the amount Written-off is not sufficient for the Non-Viability Event to cease to continue and (b) in the case of an event falling within paragraph (b) of the definition of Non-Viability Event, the Write-off will be effected in full before any public sector injection of capital or equivalent support. Further, the Non-Viability Event Write-off Amount in respect of each Capital Security will be calculated based on a percentage of the principal amount of that Capital Security.

“Parity Capital Instrument” means any Parity Obligation which contains provisions relating to a write-down or conversion into ordinary shares in respect of its principal amount on the occurrence, or as a result, of a Non-Viability Event and in respect of which the conditions (if any) to the operation of such provisions are (or with the giving of any certificate or notice which is capable of being given by the Issuer, would be) satisfied.

“Subordinated Capital Instrument” means any Junior Obligation or Parity Obligation which contain provisions relating to a write-down or conversion into ordinary shares in respect of its principal amount on the occurrence, or as a result, of a Non-Viability Event and in respect of which the conditions (if any) to the operation of such provisions are (or with the giving of any certificate or notice which is capable of being given by the Issuer, would be) satisfied.

(D) Hong Kong Resolution Authority Power

Notwithstanding any other term of the Capital Securities, including without limitation Condition 5(C), or any other agreement or arrangement, each Securityholder and the Trustee shall be subject, and shall be deemed to agree, be bound by and acknowledge that they are each subject, to having the Capital Securities being written off, cancelled, converted or modified, or to having the form of the Capital Securities changed, in the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority without prior notice and which may include (without limitation) and result in any of the following or some combination thereof:

- (a) the reduction or cancellation of all or a part of the principal amount of, or Distributions on, the Capital Securities;
- (b) the conversion of all or a part of the principal amount of, or Distributions on, the Capital Securities into shares or other securities or other obligations of the Issuer or another person (and the issue to or conferral on the holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Capital Securities; and
- (c) the amendment or alteration of the maturity of the Capital Securities or amendment or alteration of the amount of Distributions payable on the Capital Securities, or the date on which the Distributions become payable, including by suspending payment for a temporary period, or any other amendment or alteration of these Conditions.

With respect to (a), (b) and (c) above of this Condition 5(D), references to principal and Distributions shall include payments of principal and Distributions that have become due and payable (including principal that has become due and payable at the redemption date), but which have not been paid, prior to the exercise of any Hong Kong Resolution Authority Power. The rights of the Securityholders and the Trustee under the Capital Securities and these Conditions are subject to, and will be amended and varied, if necessary, solely to give effect to, the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority.

No repayment of the principal amount of the Capital Securities or payment of Distributions on the Capital Securities shall become due and payable or be paid after the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority unless, at the time that such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be permitted to be made by the Issuer under the laws and regulations applicable to the Issuer and the Group.

Upon the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Capital Securities, the Issuer shall provide a written notice as soon as practicable regarding such exercise of the Hong Kong Resolution Authority Power to the Securityholders in accordance with Condition 16 and to the Trustee.

Neither the reduction or cancellation, in part or in full, of the principal amount of, or Distributions on the Capital Securities, the conversion thereof into another security or obligation of the Issuer or another person, or any other amendment or alteration of these Conditions as a result of the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Issuer nor the exercise of the Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Capital Securities shall constitute an Event of Default under Condition 10(A).

The Financial Institutions (Resolution) Ordinance (the “Ordinance”) was passed by the Legislative Council of Hong Kong and published in the gazette of the Hong Kong Special Administrative Region Government in June 2016. The Ordinance has become effective on 7 July 2017 and all licensed banks in Hong Kong are subject to the Ordinance.

For the purposes of these Conditions:

“**Group**” means the Issuer and its Subsidiaries.

“**Hong Kong Resolution Authority Power**” means any power which may exist from time to time under the Ordinance relating to financial institutions (including licensed banks, deposit-taking companies, restricted licence banks, banking group companies, insurance companies and/or investment firms incorporated in or authorised, designated, recognised or licensed to conduct regulated financial activities in Hong Kong) in effect and applicable in Hong Kong to the Issuer or other members of the Group (including, for the avoidance of doubt, powers under Part 4 and Part 5 of the Ordinance) or any other laws, regulations, rules or requirements relating thereto, as the same may be amended from time to time (whether pursuant to the Ordinance or otherwise), and pursuant to which obligations of a licensed bank, deposit-taking company, restricted licence bank, banking group company, insurance company or investment firm or any of its affiliates can be reduced, cancelled, transferred, modified and/or converted into shares or other securities or obligations of the obligor or any other person.

“**relevant Hong Kong Resolution Authority**” means any authority with the ability to exercise a Hong Kong Resolution Authority Power in relation to the Issuer from time to time.

“**Subsidiary**” of the Issuer means any entity whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be consolidated with those of the Issuer.

6 REDEMPTION AND PURCHASE

(A) No Fixed Redemption Date

The Capital Securities are perpetual securities in respect of which there is no fixed redemption date. The Capital Securities may not be redeemed at the option of the Issuer other than in accordance with this Condition.

(B) Redemption for Tax Reasons

Subject to Condition 6(G), the Capital Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice to the Securityholders in accordance with Condition 16, the Trustee and the Issuing and Paying Agent (which notice, in each case, shall be irrevocable and shall specify the date fixed for redemption), if

- (a) the Issuer satisfies the Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 8 as a result of any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 11 September 2018; and
- (b) such obligation will apply on the occasion of the next payment due in respect of the Capital Securities and cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Capital Securities then due.

Prior to giving any notice of redemption pursuant to this Condition 6(B), the Issuer shall deliver to the Trustee (i) a certificate signed by two Authorised Signatories of the Issuer stating that the obligation referred to in (a) above of this Condition 6(B) cannot be avoided by the Issuer taking reasonable measures available to it, together with an opinion of independent legal or tax advisors of recognised international standing to the effect that such change or amendment has occurred (irrespective of whether such amendment or change is then effective) and (ii) a copy of the written consent of the Monetary Authority as referred to in Condition 6(G); and the Trustee shall be entitled without further enquiry to accept such certificate and consent as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event the same shall be conclusive and binding on the Securityholders.

Capital Securities redeemed pursuant to this Condition 6(B) will be redeemed at their outstanding principal amount together (if appropriate) with Distributions accrued to (but excluding) the date of redemption, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 5(C).

(C) Redemption for Tax Deduction Reasons

Subject to Condition 6(G), the Capital Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 16, the Trustee and the Issuing and Paying Agent (which notice, in each case, shall be irrevocable and shall specify the date fixed for redemption), following the occurrence of a Tax Deduction Event.

For the purposes of this Condition 6(C), a "**Tax Deduction Event**" occurs if:

- (a) in respect of the Distributions payable on the Capital Securities, the Issuer is no longer, or will no longer be, entitled to claim a deduction in respect of computing its taxation liabilities in Hong Kong or any political subdivision or any authority thereof or therein having power to tax as a result of any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 11 September 2018; and
- (b) such non tax deductibility cannot be avoided by the Issuer taking reasonable measures available to it,

provided that: (i) the conditions for Redemption set out in Condition 6(G) have been satisfied and (ii) no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would cease to be able to claim a tax deduction in respect of the Distribution payable on the Capital Securities as provided in paragraph (a) above of this Condition 6(C).

Prior to giving any notice of redemption pursuant to this Condition 6(C), the Issuer shall deliver to the Trustee (I) a certificate signed by two Authorised Signatories of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that: (1) the conditions precedent to the right of the Issuer so to redeem have occurred, and (2) such non tax deductibility cannot be avoided by the Issuer taking reasonable measures available to it and (II) a copy of the written consent of the Monetary Authority as referred to in Condition 6(G); and the Trustee shall be entitled without further enquiry and without liability to Securityholders or any other person to accept such certificate and consent as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event the same shall be conclusive and binding on the Securityholders.

Capital Securities redeemed pursuant to this Condition 6(C) will be redeemed at their outstanding principal amount together (if appropriate) with Distributions accrued to (but excluding) the date of redemption, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 5(C).

(D) Redemption of the Capital Securities for Regulatory Reasons

Subject to Condition 6(G), the Capital Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time on giving not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 16, the Trustee and the Issuing and Paying Agent (which notice, in each case, shall be irrevocable and shall specify the date fixed for redemption) following the occurrence of a Capital Event.

For the purposes of this Condition 6(D), a “**Capital Event**” occurs if the Capital Securities, after having qualified as such, will no longer qualify (in whole or in part) as Additional Tier 1 Capital (or equivalent) of the Issuer, (other than non-qualification solely as a result of any discounting or amortisation requirements as to the eligibility of the Capital Securities for such inclusion pursuant to the relevant legislation and supervisory guidance in force from time to time) as a result of a change or amendment in (or any change in the application or official interpretation of) the relevant provisions of the Banking Ordinance (Cap. 155) of Hong Kong, the Banking (Capital) Rules (Cap. 155L) of Hong Kong, or any successor legislation or regulations made thereunder, or any supervisory guidance issued by the Monetary Authority in relation thereto, provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which it is determined that a Capital Event has occurred.

Prior to giving any notice of redemption pursuant to this Condition 6(D), the Issuer shall deliver to the Trustee (i) a certificate signed by two Authorised Signatories of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer to redeem have occurred and (ii) a copy of the written consent of the Monetary Authority referred to in Condition 6(G); and the Trustee shall be entitled without further enquiry to accept such certificate and consent as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Securityholders.

Capital Securities redeemed pursuant to this Condition 6(D) will be redeemed at their outstanding principal amount together (if appropriate) with Distributions accrued to (but excluding) the date of redemption, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 5(C).

(E) Redemption at the Option of the Issuer

Subject to Condition 6(G), the Issuer may, having given:

- (i) not less than 15 nor more than 60 days' notice to the Securityholders in accordance with Condition 16; and
- (ii) not less than 5 days before the giving of the notice referred to in (i) above of this Condition 6(E), notice to the Trustee, the Principal Paying Agent and the Registrar,

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all but not some only of the Capital Securities then outstanding on the First Call Date or any Distribution Payment Date thereafter, at their outstanding principal amount together (if appropriate) with Distributions accrued to (but excluding) the date of redemption, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 5(C).

The Issuer does not provide any undertaking that it will redeem the Capital Securities at any time.

(F) Purchase and Cancellation

Subject to Condition 6(G), the Issuer and any of its Subsidiaries may, at any time, purchase Capital Securities in the open market or otherwise at any price. The Capital Securities so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the Securityholder to vote at any meetings of Securityholders and shall not be deemed to be outstanding for, among other things, the purposes of calculation quorums at meetings of the Securityholders or for the purposes of Condition 11.

Any Certificates representing Capital Securities purchased by or on behalf of the Issuer and any of its Subsidiaries shall be surrendered for cancellation to a Transfer Agent and, upon surrender thereof, all such Capital Securities shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Capital Securities shall be discharged.

(G) Conditions for Redemption and Purchase in Respect of the Capital Securities

Notwithstanding any other provision in these Conditions, the Issuer shall not redeem any of the Capital Securities (other than pursuant to Condition 10(A)) and neither the Issuer nor any of its Subsidiaries shall purchase any of the Capital Securities unless the prior written consent of the Monetary Authority thereto shall have been obtained, to the extent such consent is required under the Banking Ordinance (Cap. 155) of Hong Kong, the Banking (Capital) Rules (Cap. 155L) of Hong Kong, or any successor legislation or regulations made thereunder, or any supervisory guidance issued by the Monetary Authority in relation thereto.

This provision shall not apply to the Issuer or any of its Subsidiaries holding the Capital Securities in a purely nominee capacity.

7 PAYMENTS

(A) Payments in Respect of the Capital Securities

- (i) Payments of principal in respect of Capital Securities shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in Condition 7(A)(ii).
- (ii) Distributions shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of Distributions in respect of each Capital Security shall be made in U.S. dollars by cheque drawn on a bank and mailed to the holder (or to the first named of joint holders) of such Capital Security at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, or at the option of the relevant Agent, such payment of Distributions may be made by transfer to an account in the relevant currency maintained by the payee with a bank.
- (iii) Securityholders will not be entitled to any Distribution or other payment for any delay after the due date in receiving the amount due on a Capital Security if the due date is not a Payment Business Day, if the Securityholder is late in surrendering or cannot surrender its Certificate (if required to do so) or if a cheque mailed in accordance with Condition 7(A)(ii) arrives after the due date for payment.

(B) Payments subject to Fiscal Laws

Payments will be subject in all cases, to (i) any fiscal or other laws and regulations applicable thereto, but without prejudice to the provisions of Condition 8, in the place of payment, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “**Internal Revenue Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Internal Revenue Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto.

(C) Appointment of Agents

The Issuing and Paying Agent, the Registrar, the Transfer Agent and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Issuing and Paying Agent, the other Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Securityholder. The Issuer reserves the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent and to appoint additional or other Paying Agents or Transfer Agents, in each case in accordance with the Agency Agreement, provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, (iv) one or more Calculation Agent(s) and (v) such other agents as may be required by any other stock exchange on which the Capital Securities may be listed in each case, as approved in writing by the Trustee.

Notice of any such change or any change of any specified office shall promptly be given by the Issuer to the Securityholders.

(D) Payment on Business Days

If any date for payment in respect of any Capital Security is not a Payment Business Day, the holder shall not be entitled to payment until the next following Payment Business Day nor to any distribution or other sum in respect of such postponed payment. In these Conditions, “**Payment Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation (if presentation and/or surrender of such Capital Security is required) and in New York City.

8 TAXATION

All payments of principal and distributions by or on behalf of the Issuer in respect of the Capital Securities shall be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Hong Kong or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. If the Issuer is required to make a deduction or withholding by or within Hong Kong, the Issuer shall pay such additional amounts as shall result in receipt by the Securityholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Capital Security:

- (i) *Other connection:* to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Capital Securities by reason of his having some connection with Hong Kong other than the mere holding of the Capital Securities; or

- (ii) *Presentation more than 30 days after the Relevant Date*: presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day.

Notwithstanding any other provision of these Conditions or the Trust Deed, any amounts to be paid on the Capital Securities by or on behalf of the Issuer, will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in the Internal Revenue Code, or otherwise imposed pursuant to Sections 1471 through 1474 of the Internal Revenue Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a “**FATCA Withholding**”). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

As used in these Conditions, “**Relevant Date**” in respect of any Capital Security means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Securityholders that, upon further presentation of the Capital Security (or relative Certificate) being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such presentation.

References in these Conditions to (a) “**principal**” shall be deemed to include any premium payable in respect of the Capital Securities, and all amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (b) “**distributions**” shall be deemed to include all Distributions and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (c) “**principal**” and/or “**distributions**” shall be deemed to include any additional amounts that may be payable under this Condition 8 or any undertaking given in addition to or in substitution for it under the Trust Deed.

9 PRESCRIPTION

Claims against the Issuer for payment in respect of the Capital Securities shall be prescribed and will become void unless made within a period of 10 years (in the case of principal) or five years (in the case of Distribution) from the Relevant Date (as defined in Condition 8).

10 EVENTS OF DEFAULT AND ENFORCEMENT

(A) Events of Default and Winding-Up Proceedings

- (i) If default is made in the payment of any amount of principal or Distributions in respect of the Capital Securities on the due date for payment thereof and such failure continues for a period of seven days in the case of principal or 14 days in the case of Distribution (each, an “**Event of Default**”) then in order to enforce the obligations of the Issuer, the Trustee at its sole discretion may and, if so requested in writing by holders of at least 25 per cent. in principal amount of the outstanding Capital Securities or if so directed by an Extraordinary Resolution (as defined in the Trust Deed), shall (subject to the Trustee in any such case having been indemnified and/or provided with security and/or put in funds to its satisfaction) institute Winding-Up Proceedings against the Issuer. Any Write-off pursuant to these Conditions will not constitute an Event of Default under the Capital Securities.

- (ii) If an order is made or an effective resolution is passed for the Winding-Up of the Issuer (whether or not an Event of Default has occurred and is continuing) then the Trustee at its sole discretion may and, if so requested in writing by holders of at least 25 per cent. in principal amount of the outstanding Capital Securities or if so directed by an Extraordinary Resolution, shall (subject to the Trustee in any such case having been indemnified and/or provided with security and/or put in funds to its satisfaction) give written notice to the Issuer declaring the Capital Securities to be immediately due and payable, whereupon they shall become immediately due and payable at their outstanding principal amount together (if appropriate) with Distributions accrued to (but excluding) the date of actual payment, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 5(C), without further action or formality.

In these Conditions, “**Winding-Up Proceedings**” means, with respect to the Issuer, proceedings for the bankruptcy, liquidation, winding-up or other similar proceeding of the Issuer.

(B) Enforcement

Without prejudice to Condition 10(A), the Trustee may subject as provided below, at its discretion and without further notice, institute such proceedings against the Issuer if the Issuer fails to perform, observe or comply with any obligation, condition or provision relating to the Capital Securities binding on it under these Conditions or the Trust Deed (other than any obligation of the Issuer for the payment of any principal or Distributions in respect of the Capital Securities), provided that the Issuer shall not as a consequence of such proceedings be obliged to pay any sum or sums representing or measured by reference to principal or Distributions in respect of the Capital Securities sooner than the same would otherwise have been payable by it.

The Trustee shall not be bound to take action as referred to in Condition 10(A) and this Condition 10(B) or any other action under these Conditions or the Trust Deed unless (a) it shall have been so requested in writing by Securityholders holding at least 25 per cent. in principal amount of the Capital Securities then outstanding or if so directed by an Extraordinary Resolution of the Securityholders and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

Subject to applicable laws, no remedy (including the exercise of any right of set-off or analogous event) other than those provided for in Condition 10(A) and this Condition 10(B) or submitting a claim in the Winding-Up of the Issuer will be available to the Trustee or the Securityholders.

No Securityholders shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing.

No Securityholder shall be entitled either to institute proceedings for the Winding-Up of the Issuer or to submit a claim in such Winding-Up, except that if the Trustee, having become bound to institute such proceedings as aforesaid, fails to do so, or, being able and bound to submit a claim in such Winding-Up, fails to do so, in each case within a reasonable period and such failure is continuing, then any such Securityholder may, on giving an indemnity and/or security and/or pre-funding satisfactory to the Trustee in its discretion, in the name of the Trustee (but not otherwise), himself institute Winding-Up Proceedings and/or submit a claim in the Winding-Up of the Issuer to the same extent (but not further or otherwise) that the Trustee would have been entitled to do.

11 MEETINGS OF SECURITYHOLDERS, MODIFICATIONS AND CONSOLIDATIONS

(A) Meetings of Securityholders

The Trust Deed contains provisions for convening meetings of Securityholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee upon request in writing from Securityholders holding not less than 10 per cent. in aggregate principal amount of the Capital Securities for the time being outstanding and subject to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. The quorum for any meeting convened to consider an Extraordinary Resolution shall be one or more Persons holding or representing more than 50 per cent. in aggregate principal amount of the Capital Securities for the time being outstanding, or at any adjourned meeting one or more Persons being or representing Securityholders whatever the principal amount of the Capital Securities held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to change any date scheduled for payment of principal or Distribution in respect of the Capital Securities, (ii) to reduce or cancel the amount of principal or Distribution payable on any date in respect of the Capital Securities, or to reduce the Distribution Rate(s) or to vary the method of or basis for calculating the Distribution Rate(s) or the method of or basis for calculating the amount of any payment in respect of the Capital Securities or the date for any such payment, (iii) to effect the exchange, conversion or substitution of the Capital Securities for, or the conversion of the Capital Securities into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed, (iv) to change the currency of payments under or the denomination of the Capital Securities, (v) to amend the subordination or loss absorption provisions of the Conditions or (vi) to modify the provisions concerning the quorum required at any meeting of Securityholders or the majority required to pass the Extraordinary Resolution, in which case the necessary quorum shall be two or more Persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in aggregate principal amount of the Capital Securities for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on all Securityholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of the Securityholders of not less than 90 per cent. in aggregate principal amount of the Capital Securities for the time being outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Securityholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Securityholders.

(B) Modifications of the Trust Deed

The Trustee may agree, without the consent of the Securityholders, to (a) any modification of any of the provisions of the Trust Deed that is in the opinion of the Trustee of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provision of law, and (b) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Securityholders. Any such modification, authorisation or waiver shall be binding on the Securityholders and, unless the Trustee otherwise agrees, such modification, authorisation or waiver shall be notified to the Securityholders as soon as practicable.

(C) Substitution

Condition 11(C) of the Terms and Conditions of the Notes does not apply to the Capital Securities.

(D) Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Securityholders as a class and shall not have regard to the consequences of such exercise for individual Securityholders and the Trustee, acting for and on behalf of Securityholders, shall not be entitled to require, nor shall any Securityholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Securityholders.

12 INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The Trustee may rely without liability to Securityholders on any report, confirmation or certificate from or any opinion or advice of any legal advisers, accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled without liability to rely on any such report, confirmation, certificate, opinion or advice and, in such event, such report, confirmation, certificate, opinion or advice shall be binding on the Issuer and the Securityholders.

13 REPLACEMENT OF CERTIFICATES

If a Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Registrar and any Transfer Agent, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Certificate is subsequently presented for payment, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Certificates) and otherwise as the Issuer may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

14 FURTHER ISSUES

Condition 14 of the Terms and Conditions of the Notes does not apply to the Capital Securities.

15 CURRENCY INDEMNITY

Condition 15 of the Terms and Conditions of the Notes does not apply to the Capital Securities.

16 NOTICES

Notices to the Securityholders shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing.

So long as the Capital Securities are represented by one or more Global Certificates and such Global Certificate(s) are held on behalf of Euroclear, Clearstream, DTC or any other clearing system, notices to the Securityholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions.

17 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Capital Securities under the Contracts (Rights of Third Parties) Act 1999.

18 GOVERNING LAW AND SUBMISSION TO JURISDICTION

(A) Governing Law

The Trust Deed, the Capital Securities and any non-contractual obligations arising out of or in connection with the them are governed by, and shall be construed in accordance with, English law, save that the subordination provisions set out in Condition 3(B) shall be governed by, and construed in accordance with, the laws of Hong Kong.

(B) Submission to Jurisdiction

The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Capital Securities and accordingly any legal action or proceedings arising out of or in connection with any Capital Securities (“**Proceedings**”) may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of such courts.

(C) Service of Process

The Issuer has in the Trust Deed irrevocably appointed an agent in England to receive, for it and on its behalf, service of process in any Proceedings in England.

(D) Waiver of immunity

The Issuer irrevocably agrees that no immunity (to the extent that it may now or hereafter exist, whether on the grounds of sovereignty or otherwise) from any Proceedings or from execution of judgment shall be claimed by or on behalf of it or with respect to its assets, any such immunity being irrevocably waived by the Issuer, and the Issuer irrevocably consents generally in respect of any such Proceedings to the giving of any relief or the issue of any process in connection with any such Proceedings including, without limitation, the making, enforcement or execution against any property whatsoever of any order or judgment which may be made or given in such Proceedings.

INDEX OF DEFINED TERMS

HK dollars	iv	Mainland China	iv
£	iv	Managers	92
Audited Consolidated Financial Statements	20	Mandatory Distribution Cancellation Event	9
Australian dollars	iv	Monetary Authority	10
Available Amount	10	Moody's	cover
Bank	iv	Non-Viability Event	11
BOC	iv	Non-Viability Event Notice	12
BOC Group	iv	Non-Viability Event Write-off Amount	12
BOCHK	iv	Noon Buying Rate	vi
BOCHK (Holdings)	iv	Notes	100
BOCHK (Holdings) Group	iv	Parity Obligation	7
Capital Event	16	Permitted Reorganisation	7
Capital Regulations	6	PRC	iv
Distributable Reserves	10	Programme	cover
Distribution	8	Renminbi	iv
Distribution Reset Date	8	Reset Distribution Rate	8
EUR	iv	RMB	iv
Euro	iv	S&P	cover
Exchange Act	iv	sterling	iv
First Call Date	8	Subordinated Creditors	7
Group	iv	Subscription Agreement	92
HK\$.	iv	Supplemental Offering Circular	95
HKFRS	vi	Tier 2 Capital Securities	7
Hong Kong	iv	U.S. dollars	iv
Hong Kong Stock Exchange	cover	U.S. GAAP	vi
Issuer	iv	U.S.\$	iv
Junior Obligation	7	Unaudited Consolidated Financial Information	20
Macau	iv	Winding-Up	7

ISSUER

Bank of China (Hong Kong) Limited

14/F Bank of China Tower
1 Garden Road
Central
Hong Kong

AUDITOR OF THE ISSUER

Ernst & Young

22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

TRUSTEE

Citicorp International Limited

39/F, Champion Tower
3 Garden Road
Central
Hong Kong

**ISSUING AND PAYING AGENT,
TRANSFER AGENT
AND CALCULATION AGENT**

Citibank, N.A., London Branch

1 North Wall Quay
Dublin 1
Ireland

REGISTRAR

Citigroup Global Markets

Europe AG
Reuterweg 16
60323 Frankfurt
Germany

LEGAL ADVISERS

To the Issuer

*in respect of United States,
English and Hong Kong law*

Clifford Chance

27/F Jardine House
One Connaught Place
Central
Hong Kong

To the Joint Lead Managers

*in respect of United States and
English law*

Linklaters

10th Floor, Alexandra House
Chater Road
Central
Hong Kong

To the Trustee

*in respect of United States and
English law*

Linklaters

10th Floor, Alexandra House
Chater Road
Central
Hong Kong