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

2014 INTERIM REPORT

Stock code: 2388

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FINANCIAL HIGHLIGHTS

For the period/year	30 June 2014 HK$'m	30 June 2013 HK$'m	31 December 2013 HK$'m
Net operating income before impairment allowances	**21,649**	19,791	40,313
Operating profit	**15,054**	13,728	27,493
Profit before taxation	**15,179**	13,948	27,793
Profit for the period/year	**12,333**	11,657	23,075
Profit attributable to the equity holders of the Company	**12,083**	11,252	22,252
Per share	**HK$**	HK$	HK$
Basic earnings per share	**1.1428**	1.0642	2.1046
Dividend per share	**0.5450**	0.5450	1.0100
At period/year end	**HK$'m**	HK$'m	HK$'m
Capital and reserves attributable to the equity holders of the Company	**168,865**	151,806	158,813
Issued and fully paid share capital	**52,864**	52,864	52,864
Total assets	**2,085,236**	1,834,661	2,046,936
Financial ratios	**%**	%	%
Return on average total assets[1]	**1.20**	1.27	1.22
Return on average shareholders' equity[2]	**14.75**	14.87	14.37
Cost to income ratio	**28.71**	28.76	29.97
Loan to deposit ratio[3]	**65.87**	65.71	64.63
Average liquidity ratio[4]	**39.58**	38.70	37.93
Total capital ratio[5]	**16.90**	16.40	15.80

1. Return on average total assets = $\dfrac{\text{Profit for the period/year}}{\text{Daily average balance of total assets}}$

2. Return on average shareholders' equity

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

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

4. Average liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of BOCHK for the period/year.

5. Total capital ratio is computed on the consolidated basis that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA for its regulatory purposes and in accordance with the Banking (Capital) Rules. The bases of regulatory capital calculation for credit risk, market risk and operational risk are described in Note 3.5 to the Interim Financial Information in this Interim Report.

CHAIRMAN'S STATEMENT

The first half of 2014 saw the continuation of a modest growth trend in the global economy. In Hong Kong, the pace of economic growth decelerated with stagnant external trade and weakening private consumption. On the positive side, the strong local labour market, stabilisation of economic development on the Mainland and further Mainland policy relaxation of cross-border activities lent support to the increasing financing needs of enterprises in the Mainland and Hong Kong, driving a solid credit expansion in the local market. Meanwhile, banks in Hong Kong still faced various challenges, such as sluggish property transaction volume and intense competition. During the period, the Group stepped up efforts to manage capital and optimise asset structure. We capitalised on opportunities to drive growth on all fronts and witnessed encouraging results in key business areas.

It is with great pleasure that I report the Group's profitability once again achieved an interim record high in the first six months of 2014, mainly driven by the sustained good performance of core revenue. Net operating income before impairment allowances grew by 9.4% year-on-year to HK$21,649 million. Operating profit before impairment allowances rose by 9.5% year-on-year to HK$15,433 million. Compared with the same period last year, profit attributable to the equity holders increased by 7.4% to HK$12,083 million, translating into an earnings per share of HK$1.1428. The Board has declared an interim dividend of HK$0.545 per share, representing a payout ratio of 47.7%.

As at 30 June 2014, the Group's total assets reached HK$2,085.2 billion, representing a growth of 1.9% from the end of last year. During the period, we took advantage of business opportunities while adhering to stringent risk control. Our advances to customers increased by 10.5%. We managed to grow our syndicated loan and trade finance at a favourable pace. In view of the market changes, we launched a mobile application offering one-stop mortgage service, strengthening our position as a "mortgage expert" and enhancing customer experiences. We increased cooperation with property developers to offer different mortgage products for new residential projects, reinforcing our leading position in the underwriting of new mortgage loans. In order to balance loan and deposit growth, we grew our deposits from customers by 8.5% which supported solid loan expansion and maintained a healthy increase in loan to deposit ratio. While continuing to optimise asset structure, the Group strived to deploy its assets in a more efficient manner. This, coupled with proactive control of funding cost, helped improve our net interest margin to 1.74%.

In the first half, we adopted various measures to manage our risk-weighted assets, focusing on risk-adjusted return in order to effectively strike a balance among growth, risk and return. Both our capital strength and deployment efficiency were further enhanced. As at end June 2014, the Group's total capital ratio and Tier 1 capital ratio were 16.90% and 11.84% respectively. Deploying effective liquidity management, we achieved an average liquidity ratio at a solid level of 39.58%. During the period, we ensured the effectiveness of lending procedures and strengthened risk management in industries that required closer monitoring. Our asset quality remained benign with a classified or impaired loan ratio of 0.31%.

With continuous enhancements to our business platforms over the years, we met the emerging demands of customers. This was accomplished by providing high quality service to address the needs of different customer segments and pursuing potential business opportunities. We further optimised the brand propositions of "Enrich Banking" and "Wealth Management", which led to promising growth in both customer base and total relationship balance. In addition to offering a diversified range of products, the Group also caters to customer needs with tailor-made investment products. The transaction volume of our funds distribution and the asset size of our asset management platform both increased steadily. We also solidified the market positioning of our insurance business and remained among the top insurers in Hong Kong in terms of market share, with the implementation of effective sales and marketing campaigns and broader distribution channels. Meanwhile, we continued to expand our customer coverage by establishing new business relationships with financial institutions and central banks in overseas countries and territories.

So far this year the usage of the RMB in global trade, investment and financing has risen significantly, reflecting a wider international acceptance of the RMB. In the same period, the China (Shanghai) Pilot Free Trade Zone ("Shanghai Free Trade Zone") expanded its scope of services, bringing new momentum to the development of offshore RMB and cross-border business. Recently, Mainland regulatory authorities issued new policies to simplify the process for cross-border borrowings and guarantees, which will also benefit cross-border financing transactions going forward. This April, China Securities Regulatory Commission on the Mainland and Securities and Futures Commission in Hong Kong jointly announced the pilot program "Shanghai-Hong Kong Stock Connect" to establish mutual stock market access between the two cities. These new developments will continuously expand the deployment channels of offshore RMB funds and bolster Hong Kong's position as an offshore RMB centre.

CHAIRMAN'S STATEMENT

The Group continued to enhance the competitiveness of its offshore RMB service capabilities, further reinforcing its market leadership in this business. During the period, our offshore RMB loans and deposits maintained healthy growth. Capitalising on opportunities created by the Shanghai Free Trade Zone, we successfully introduced cross-border cash pooling services to a number of corporate customers. With emerging customer demand for management of RMB exchange rate and interest rate movements, we launched relevant products to the market on a timely basis and achieved noteworthy growth in transaction volume. We also made good progress in extending our footprint in providing custody services to non-Hong Kong based Renminbi Qualified Foreign Institutional Investors institutions. As the sole RMB clearing bank in Hong Kong, BOCHK has continuously improved its clearing infrastructure. During the first half of this year, we focused on providing system support to BOC's overseas units, reinforcing the BOC Group's position as a leading provider of clearing services for offshore RMB business in a global context.

Our collaboration with parent bank, BOC, and its overseas branches has continued to deepen as we capitalised on opportunities that arose from Mainland enterprises going global and foreign enterprises investing in China. The strength of the product and service proposition provided by the whole of BOC Group is apparent. During the period, we participated with Bank of China in various syndicated loans meeting the financing needs of Mainland corporate customers in mergers and acquisitions projects. We broke new ground in the development of centralised RMB cross-border transaction management solutions with innovative cash management products and services for sizable multinational corporations. Through stronger business cooperation, the number of successful private banking customer acquisitions through business referrals recorded meaningful growth. In addition, we strengthened our collaborative mechanism to foster closer partnership with the Guangdong Branch, Shenzhen Branch and Macau Branch of Bank of China, embracing the business opportunities arising from increasing demand for cross-border financing within the region.

During the first half, Mr LI Lihui resigned from his post as the Vice Chairman of the Company, Mr ZHOU Zaiqun retired from his post as a Non-executive Director, and Dr FUNG Victor Kwok King retired as an Independent Non-executive Director of the Company at the 2014 Annual General Meeting. On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to them for their valuable contributions to the Group in the past years and wish them well. In addition, I would like to welcome Mr CHEN Siqing, who has assumed his role as the Vice Chairman, and Mr ZHU Shumin and Mr YUE Yi, who have joined as Non-executive Directors of the Company. With their wealth of banking experience, I believe that they will bring new thinking to the Group. I would also like to extend my appreciation to our Board Members for their tireless contributions as well as our entire staff force for their remarkable effort, without which it would not be possible for the Group to consistently deliver promising results. Last but not least, I thank our customers and shareholders for their long term support and trust in us.

For the remainder of the year, we expect the global economic recovery to proceed at a moderate pace. The impact of fine-tuning of economic policy by the Chinese government will be gradually felt, creating further headroom for Hong Kong's economy to grow. Against this backdrop, more business opportunities are forthcoming from the continuous development of the offshore RMB market, the official operation of the pilot program of "Shanghai-Hong Kong Stock Connect" as well as continued progress with regional financial pilot schemes in China. Nevertheless, we need to stay aware of uncertainties associated with the local property market, the impact of industrial structure adjustment in the Mainland and rising domestic funding costs.

Whilst there have been abundant opportunities in the market, regulatory requirements and competition are escalating too. In an increasingly complex operating environment, the Group maintains an ongoing commitment to proactively manage capital, assets and liabilities as well as liquidity, while strengthening control on all types of risk in order to generate quality business growth. Adhering to our corporate culture of "Be Passionate, Stay Committed and Pursue Excellence" and supported by solid financial capability and increasingly stronger and deeper collaboration with our parent bank, we will strive to explore new business areas and build new business platforms with an aim to achieving greater strides in customer and geographical coverage. We will continue to offer quality products and premium services to our customers to sustain the growth of the Group and to maximise value for our shareholders.

TIAN Guoli
Chairman

Hong Kong, 19 August 2014

CHIEF EXECUTIVE'S REPORT

For the first six months of 2014, the Group's revenues and profits reached new interim heights. The financial results reflected our proactive asset allocation strategy and consistent progress in building our franchise in core businesses. During the period, we stayed alert to the changing market conditions while grasping opportunities to grow our business. The Group maintained its proactive yet prudent approach in managing its balance sheet to support its growth strategy. We recorded encouraging growth in both loans and deposits. All key financial ratios were maintained at sound levels. We also made satisfactory progress in the execution of our business strategy with positive feedback from customers. These promising developments lay a good foundation to support our future growth.

The moderate growth momentum of major economies continued in the first half of the year. Overall liquidity in the banking sector stayed abundant and market interest rates remained low. For the banking industry in Hong Kong, the operating environment was mixed. On one hand, the local stock and property markets saw reduced activities which negatively affected the securities and mortgage businesses. On the other hand, banks captured business opportunities from strong loan demand and further policy relaxation in the offshore RMB business.

Performance Highlights

Proactive balance sheet management

- **Enhanced capital strength.** Maintaining a solid capital position remains our top priority as it gives us the flexibility to manage and grow our business at all times. Total capital ratio at 30 June 2014 was 16.90%, up 1.10 percentage points from that at the end of 2013. Tier 1 capital ratio improved to 11.84%, up 1.17 percentage points. We achieved this improvement through our conscious efforts to reserve capital and optimise the management of risk-weighted assets.

- **Focused on quality loan growth.** Our overall loan portfolio grew by 10.5% as at the end of June 2014. We continued to adopt stringent risk management and credit control to deliver quality growth. Overall loan quality remained healthy with classified or impaired loan ratio staying at a low level of 0.31%.

  Our corporate portfolio did particularly well with a growth of 12.5% as we acutely seized the business opportunities amid strong market demand. Trade finance increased by 8.6%. During the period, the Group actively participated in a number of significant syndicated loans. We also arranged cross-border direct loans for leading Mainland corporates to support their overseas expansion.

  The Group's personal loan book grew by 5.8%, of which residential mortgage loans grew by 2.0%. The Group remained the market leader in new mortgage loans despite the reduced activities in local property market and keen competition. We continued to provide an extensive range of products and services and participated in joint promotions of primary property development projects.

- **Effective deposit strategy.** In view of the strong loan demand, we expanded our deposit base by 8.5% to support the expansion of our lending business. The Group's loan to deposit ratio stayed at a solid level of 65.87%, up 1.24 percentage points from the end of 2013. Our deposit strategy did not just rely on pricing but was also integrated with our customer acquisition strategy. We launched successful marketing campaigns to bundle deposit product with other products or services for targeted customer segments. As a result, this not only helped expand our deposit pool but also acquire new customers.

- **Optimised asset allocation.** During the period, we continued to optimise our asset mix to ensure efficient use of funds. We allocated more funds to loan business and RMB business in view of the market opportunities. Meanwhile, we closely monitored market changes and adjusted our investment portfolio to enhance return. We increased our holdings in certain government bonds and high-quality corporate bonds. Average yield of the Group's total interest-earning assets improved by 27 basis points year-on-year which helped drive improvement in net interest margin.

Consistent progress in business development

- **Solid progress in offshore RMB business.** The Group further upgraded its competitive edge in each business line and maintained its leadership in major offshore RMB businesses. Riding on the opportunities from the Shanghai Free Trade Zone, the Group successfully helped corporates to set up cross-border funding pools in RMB and other foreign currencies and provided cross-border RMB loans to corporates established in the Shanghai Free Trade Zone. The Group underwrote the largest offshore RMB corporate bond issuance during the period as the sole global coordinator and joint bookrunner. In the Hong Kong RMB insurance market, the Group maintained its leading position with popular RMB insurance products launched.

  As the Clearing Bank for offshore RMB business in Hong Kong, BOCHK continued to enhance its clearing services in both Hong Kong and overseas regions. We also worked closely with BOC's overseas entities to reinforce the BOC Group's position as the leading provider of clearing services for offshore RMB business in different parts of the world.

- **Enhanced wealth management proposition.** We delivered encouraging performance in our wealth management business riding on the success of our customer segmentation strategy and comprehensive product offerings. Our customer segmentation strategy aims to promote total relationship management by providing more targeted products and services to meet customers' needs. With the launch of Enrich Banking and enhancement of Wealth Management Service, we successfully acquired new customers and increased product penetration for the mid- and high-end segments. Targeting affluent private customers in need of more tailor-made services, our Private Banking business advanced well in expanding its customer base, further strengthening its business platform and increasing its brand awareness.

  In addition, we continued to deepen and broaden our wealth management products and services, covering investment products, family wealth management, financing, retirement solutions and insurance products. Sales of funds and insurance products did particularly well as we broadened our product range to meet customers' investment needs. We continued to strengthen our stock brokerage services and enriched our Monthly Stocks Savings Plan with more stock choices including RMB-denominated stocks. Our comprehensive online securities services continued to provide customers with the utmost convenience. In recognition of its service performance, BOCHK was granted the "Online Securities Platform of the Year – Hong Kong" by Asian Banking and Finance.

- **More convenient and efficient servicing platform.** To better serve our target corporate customers, we set up a Corporate Services Centre last year. We received positive customer feedback on our enhanced service efficiency and quality.

We also streamlined the application process and launched the 1-hour preliminary approval service to offer a prompt and flexible financing solution to small businesses. Our cash management services introduced same-day online payroll service, which significantly reduces the time gap between processing and payment. To enhance SME customer services, we also optimised our Business Integrated Account service to provide different products and business privileges. Over the past few years, we have been making solid progress in developing our cash management platform to provide efficient and convenient services to our customers. In recognition of its outstanding performance, BOCHK was presented the "Achievement Award for Best Cash Management Bank in Hong Kong" by Asian Banker and the "Hong Kong Domestic Cash Management Bank of the Year" by Asian Banking and Finance.

As a market leader in the mortgage business, the Group introduced the Mortgage Expert mobile application to facilitate a more convenient home-buying process for our customers. The application pioneered the property valuation price alert function plus other features, including mortgage budget planner and online appointment for mortgage application.

The BOCHK e-Wallet – Mobile Payment Services introduced in 2013 were further extended to support UnionPay QuickPass payment, which was the first-of-its-kind in the market, allowing customers to enjoy cross-border dual-currency mobile payment. The Group also launched the first 3-in-1 Contactless Payment Service in the market, allowing merchants to accept Visa payWave, MasterCard PayPass and UnionPay QuickPass with one reader.

- **Close collaboration with BOC.** Cross-border business and offshore RMB business are the two key strategic focuses of the BOC Group. We recognised a lot of synergies and captured new business opportunities in these areas through our joint efforts with BOC. During the period, we continued to deepen and expand our scope of cooperation. Together, we grew our cross-border lending business to support the financing needs of the BOC Group's major customers. In addition, we set up a regional cooperation mechanism among the Guangdong, Hong Kong and Macau operations of the BOC Group, further expanding our service capabilities in these three regions.

Financial Highlights

- Net operating income before impairment allowances increased by 9.4% year-on-year to HK$21,649 million, which was mainly driven by the increase in net interest income.
- Operating expenses increased by 9.2% to HK$6,216 million with an industry low cost to income ratio of 28.71%. Operating profit before impairment allowances increased by 9.5% to HK$15,433 million compared to the same period last year.
- Profit attributable to the equity holders increased by 7.4% year-on-year to HK$12,083 million, mainly driven by the sustainable growth in core income but partly offset by lower net gain from fair value adjustments on investment properties. Return on average total assets (ROA) and return on average shareholders' equity (ROE) were 1.20% and 14.75% respectively.

- Net interest income rose by 17.4% year-on-year to HK$15,656 million, driven by the expansion in both average interest-earning assets and net interest margin. Net interest margin widened by 7 basis points to 1.74%.

- Net fee and commission income grew by 2.9% to HK$4,815 million, mainly driven by commission income from funds distribution and loans. Commission income from credit cards, bills, trust and custody services as well as currency exchange also recorded satisfactory growth.

- Net trading gain decreased by 7.8% to HK$1,329 million. The decrease was mainly attributable to the mark-to-market changes of certain foreign exchange products and equity instruments.

- As at 30 June 2014, total assets amounted to HK$2,085.2 billion, up 1.9% compared to the end of 2013. The growth was driven by higher deposits from customers, which rose by 8.5%, but was largely offset by the lower deposit balance the participating banks placed with the RMB Clearing Bank.

Business Review

Personal Banking marked steady growth during the period. Net operating income before impairment allowances grew year-on-year by 1.7% to HK$6,953 million. Due to higher expense growth, profit before taxation dropped by 5.2% to HK$3,388 million.

The Group continued to maintain market leadership in its core businesses including residential mortgage, UnionPay International merchant acquiring business and card issuing business in Hong Kong. Credit card business sustained its growth momentum in the first half of 2014. During the period, we launched various promotional campaigns to acquire new customers and encourage securities transactions. Commission income from securities brokerage business dropped on the back of lower transaction volume. Funds distribution business recorded encouraging growth as we continued to broaden our product offerings.

Corporate Banking business did well in developing its business and captured opportunities from strong loan demand during the period. Net operating income before impairment allowances increased by 6.6% to HK$8,285 million. Profit before taxation grew by 8.6% to HK$6,379 million.

The Group further enhanced its position as a prominent loan arranger in Hong Kong and recorded satisfactory loan growth. Riding on its strong franchise in the RMB business, the Group also expanded its customer coverage to overseas financial institutions and central banks. We continued to enhance our competitive edge in cross-border business and provided a full range of innovative cross-border financial services to meet the diverse needs of SMEs. Our custody business successfully enlarged its institutional customer base and established business relationships with a number of new RQFII applicants from the Mainland of China, Hong Kong, the Taiwan region and other overseas countries. Our cash management service continued to expand its service coverage.

Treasury segment recorded a strong performance in the first half of 2014. Net operating income before impairment allowances grew by 36.1% to HK$6,054 million. Profit before taxation increased by 37.0% to HK$5,367 million.

The Group took a proactive but prudent approach in managing its banking book investments and to enhance return. In view of the RMB exchange rate fluctuation, we provided value-preservation solutions to customers and received positive response. In bond underwriting business, the business volume soared as we successfully captured opportunities from increasing market demand. In banknotes business, the Group successfully completed the first banknotes transaction for a central bank in Central America.

Mainland business maintained satisfactory growth amid the challenging operating environment. Net operating income increased by 35.8% year-on-year, driven by the strong growth in net interest income and net fee income. Deposits from customers and loans grew 0.2% and 4.5% respectively from the end of last year. The slower economic growth on the Mainland posed pressure on certain industries, resulting in an increase in the amount of new classified or impaired loans in the first half of 2014. The Group remained focused on managing its asset quality through strict adherence to prudent credit policy and close monitoring on the credit situation. For our business development, we continued to enrich product offerings and enhance distribution channels. During the period, NCB (China) obtained approval to establish the Suzhou Branch and Shanghai Free Trade Zone Sub-branch in addition to the Group's existing 41 outlets. These two outlets have already commenced business in July.

Insurance business recorded robust growth in net insurance premiums in the first half of the year. However, net operating income before impairment allowances and profit before taxation dropped year-on-year by 40.3% and 50.7% to HK$411 million and HK$278 million respectively. The decline was mainly caused by a higher provision for insurance liabilities as a result of declining market interest rates.

The Group maintained its leading position in the RMB insurance market. We launched new products to meet customers' needs. The Group also actively explored new distribution channels and established partnerships with brokerage houses to promote insurance products. In recognition of the Group's outstanding performance in RMB services, BOCG Life won accolades in all of the RMB insurance product categories in the "RMB Business Outstanding Awards 2014" organised by local media.

Outlook

Looking ahead, we expect the global economy to continue its moderate pace of recovery. Nevertheless, we need to be cautious of the potential downside risks in the market, arising from uncertainty over the pace of US monetary policy normalisation and growth momentum of major economies. We expect that the Mainland economy will be stable which will continue to support Hong Kong's economic growth. As the Mainland economy is adjusting its growth model, we also need to closely monitor the changes in the operating environment, which may directly or indirectly affect our customers.

During the first half, a number of regulatory initiatives were introduced to promote the further development of the offshore RMB markets. RMB internationalisation has advanced at a rapid pace, as measured by continuous growth in offshore RMB deposits, increased RMB portfolio flows and the surging issuance in the offshore RMB bond market. This success reflects the effectiveness of a combination of policy initiatives in enhancing the importance of the RMB globally and increasing attractiveness of RMB-denominated assets.

In the second half, one of the key market focuses will be the launch of the "Shanghai-Hong Kong Stock Connect". In this ground-breaking initiative, both Mainland and Hong Kong investors will, for the first time, have mutual market access to make their investments. Riding on this unique opportunity, the Group has set up a task force for the formal launch of A-share trading service. To help customers get prepared, we organised an investment seminar to provide first-hand information about "Shanghai-Hong Kong Stock Connect" and relevant investment strategies. We also launched a new web page in our website which provides comprehensive A shares information and analytical tools, assisting customers in grasping market dynamics. While staying on top of the latest development, we will provide suitable securities services to help customers capture potential investment opportunities.

In May 2014, the implementation rules for the free trade account system in the Shanghai Free Trade Zone were announced. This will help further promote the development of the cross-border business in the free trade zone. The Group has captured the emerging opportunities and helped customers with the arrangement of cross-border funding pools and loans. To better serve our customers, through our Mainland arm, NCB (China), a sub-branch was set up in July in the Shanghai Free Trade Zone to provide comprehensive cross-border financial services to companies in the zone.

The development of the offshore RMB market has provided the Group with favourable conditions to further diversify its business by customer, geography and product. We have been making remarkable progress riding on our strong franchise and close collaboration with BOC. We will continue to work closely with BOC to further deepen and expand our collaboration to create more opportunities across the BOC Group. Apart from offshore RMB business, we jointly provide total solution services to our customers, covering cash management, custody service, wealth management, private banking and cross-border services.

Over the past few years, we have taken significant steps to build new business capabilities and enhance operating efficiency to better serve customer needs. We are pleased that our improvements were well recognised by our customers, who entrusted us with more of their assets and business. We will continue to invest in our franchise, including business platform and people. Investing in technology upgrades will also be our key focus to drive innovation and enhance customer experience. At the same time, we recognise the importance of disciplined spending. Going forward, we will continue to focus our investments on the Group's key strategic areas to support sustainable growth while ensuring efficient use of our resources.

Banks are now facing a much tighter regulatory environment, especially with regard to the capital, liquidity and risk management. While striving to capture market opportunities, we will continue to exercise stringent risk management to safeguard asset quality. We will also focus on ensuring that we are allocating capital efficiently to support our business needs, meet the regulatory requirements and generate solid returns for our shareholders. The major objective of the Group's capital management is to maximise total shareholders' return while maintaining a capital adequacy position in relation to the Group's overall risk profile. Factors including business needs, risk appetites, regulatory requirements (both existing and future) and market environment, will be thoroughly considered in our capital planning to ensure efficient use of our capital for the Group's sustainable development.

Lastly, on behalf of the Group, I would like to take this opportunity to express our sincere gratitude for the valuable contributions of three retired board directors, Mr LI Lihui, Mr ZHOU Zaiqun and Dr FUNG Victor Kwok King. I would like to welcome Mr CHEN Siqing, who joined the Company as Vice Chairman, and Mr ZHU Shumin and Mr YUE Yi, who joined as Non-executive Directors of the Company. I also wish to thank our customers and shareholders for their continuous support, the Board for their wisdom and counsel, and last but not least, every member of the Group for their dedicated efforts. By capitalising on our unique competitive edge in offshore RMB and cross-border businesses, we will continue to enhance our total solution capabilities to better serve our customers in Hong Kong, the Mainland of China and other parts of the world. With our strong franchise and financial position, I truly believe that the Group will continue to be well positioned to capture quality growth opportunities ahead.

HE Guangbei
Vice Chairman & Chief Executive

Hong Kong, 19 August 2014

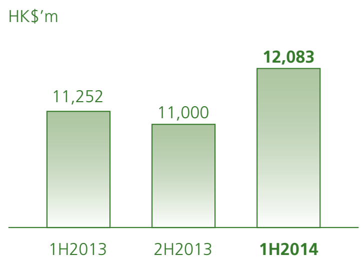
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE AND CONDITION AT A GLANCE

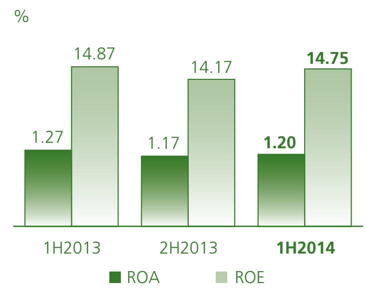
The following table is a summary of the Group's key financial results for the first half of 2014 in comparison with the previous two half-yearly periods.

Key Performance Trends

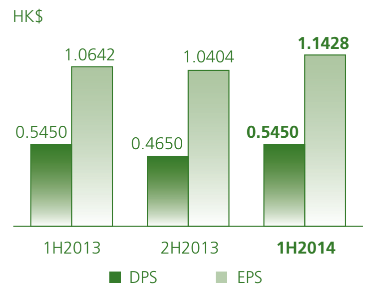
Profit Attributable to the Equity Holders



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



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



Profit attributable to the equity holders

- Profit attributable to the equity holders increased by 7.4% year-on-year to HK$12,083 million. Operating profit after impairment allowances rose by 9.7%, driven by the growth of core income.

Solid return with sustainable growth in core income

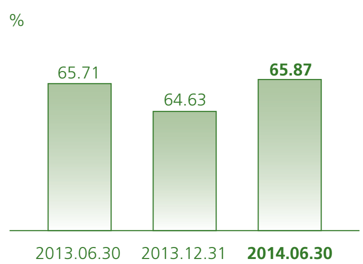
- ROE was 14.75%, down 0.12 percentage point year-on-year, as the increase in average equity outpaced that of the profit. Higher average equity was mainly caused by increment in average retained earnings and premises revaluation reserve.
- ROA was 1.20%.

Return to shareholders

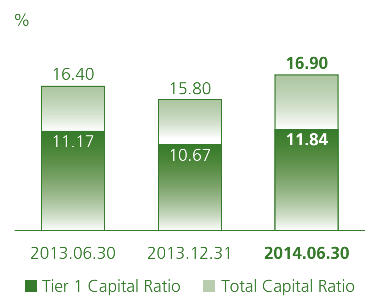
- EPS was HK$1.1428. Interim dividend per share was HK$0.545.

Financial Position

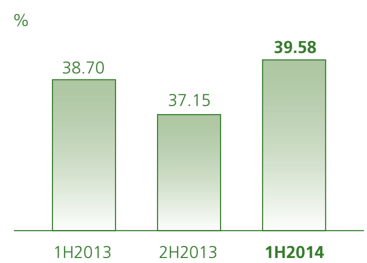
Loan to Deposit Ratio[3]



Capital Ratio[4]



Average Liquidity Ratio[5]



Balanced growth in loans and deposits

- Advances to customers increased by 10.5% while deposits from customers grew by 8.5% from the end of 2013. Loan to deposit ratio was 65.87%.

Enhanced capital position to support business growth

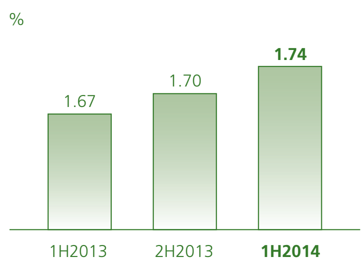
- The Group adopted proactive capital management to meet more stringent regulatory requirements and capture long-term business opportunities. Total capital ratio was 16.90% while Tier 1 capital ratio improved to 11.84%.

Sound liquidity position

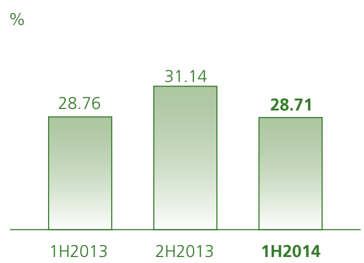
- Average liquidity ratio stood at a sound level at 39.58%.

Key Operating Ratios

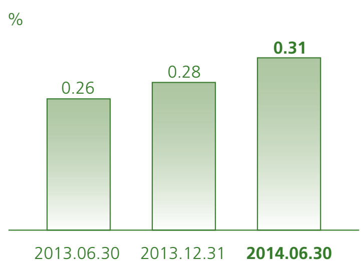
Net Interest Margin ("NIM")



Cost to Income Ratio



Classified or Impaired Loan Ratio[6]



Improvement in NIM with optimised asset mix

- NIM was 1.74%, up 7 basis points year-on-year and 4 basis points half-on-half. The increase was mainly attributable to the growth in higher-yielding assets, partly offset by the narrowing of loan and deposit spread.

Cautious cost control

- Cost to income ratio was 28.71%, down 0.05 percentage point year-on-year, among the lowest in the industry.

Classified or impaired loan ratio stayed at a low level

- Classified or impaired loan ratio remained low at 0.31%, below the market average.

1. Return on Average Shareholders' Equity as defined in "Financial Highlights".
2. Return on Average Total Assets as defined in "Financial Highlights".
3. The deposit base also includes structured deposits reported as "Financial liabilities at fair value through profit or loss".
4. The capital ratios are computed on the consolidated basis that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA for its regulatory purposes and in accordance with the Banking (Capital) Rules. The Banking (Capital) (Amendment) Rules 2012 and the Banking (Capital) (Amendment) Rules 2013 came into operation on 1 January 2013 and 30 June 2013 respectively. The bases of regulatory capital calculation for credit risk, market risk and operational risk are described in Note 3.5 to the Interim Financial Information.
5. The average liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of BOCHK for the period.
6. Classified or impaired loans represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC BACKGROUND AND OPERATING ENVIRONMENT

In the first half of 2014, recovery in major economies remained broadly on track although growth momentum was modest. While the US economic recovery stayed intact, further monetary easing by other major central banks, notably the European Central Bank, suggested that the path of recovery in other advanced economies remained challenging. In the Mainland of China, economic expansion slowed down in the first quarter of 2014 before gradually moving upwards in the second quarter. The headwinds in the property market posed downside risk to economic development. Nevertheless, targeted measures introduced by the Central Government have helped stabilise the growth momentum.

Domestic demand continued to provide support to the Hong Kong economy but GDP growth receded in the first quarter of the year due to weak external demand and eased private consumption. The local residential property market remained static in the first half of the year although transaction volumes picked up gradually in the second quarter. Meanwhile, volatility of the local stock market increased resulting from concerns over the prospects of the Mainland economy and the normalisation of US monetary policy.

Overall liquidity in the banking sector stayed abundant and market interest rates remained low. Average 1-month HIBOR and USD LIBOR fell from 0.22% and 0.20% in June 2013 to 0.21% and 0.15% respectively in June 2014. Meanwhile, long-term interest rates rose. The average 10-year HKD Swap rate and USD Swap rate rose from 2.29% and 2.49% in June 2013 to 2.58% and 2.69% respectively in June 2014.

In the first half of 2014, the offshore RMB business continued to grow steadily. The turnover of Hong Kong's RMB Real Time Gross Settlement system substantially increased as compared to same period of last year, reflecting considerable growth in the use of RMB in trade, investment and financing activities. A number of initiatives were introduced to promote the use of RMB globally. These included widening the range of RMB daily price volatility, the announcement of the launch of a direct share-dealing scheme between Hong Kong and Shanghai, namely the "Shanghai-Hong Kong Stock Connect", the release of detailed rules for the free trade account system in the China (Shanghai) Pilot Free Trade Zone ("Shanghai Free Trade Zone") and the signing of Memorandum of Understanding by the People's Bank of China with other central banks regarding the establishment of the clearing and settlement arrangement of RMB payments in different countries. These initiatives boosted the development of the cross-border and offshore RMB businesses.

The banking industry in Hong Kong continued to operate in a mixed environment in the first half of 2014. Weak external demand and keen market competition restricted banks' growth and profitability. The upward trend in non-performing loans on the Mainland also placed pressure on banks' Mainland exposures. Nevertheless, the introduction of new financial policies by the Mainland would provide opportunities to banks for expanding their business and capturing new customers.

CONSOLIDATED FINANCIAL REVIEW

Financial Highlights

HK$'m	**Half-year ended 30 June 2014**	Half-year ended 31 December 2013	Half-year ended 30 June 2013
Net operating income before impairment allowances	**21,649**	20,522	19,791
Operating expenses	**(6,216)**	(6,391)	(5,692)
Operating profit before impairment allowances	**15,433**	14,131	14,099
Operating profit after impairment allowances	**15,054**	13,765	13,728
Profit before taxation	**15,179**	13,845	13,948
Profit attributable to the equity holders of the Company	**12,083**	11,000	11,252

In the first half of 2014, the Group built on its diversified platforms and fully capitalised on its strong franchise to solidify its market leadership. It continued to work more closely with BOC to capture business opportunities and maintained disciplined cost control. At the same time, it maintained prudent risk management principles to safeguard its asset quality. As a result, the Group achieved encouraging financial results in the first half of 2014 with key financial ratios staying at healthy levels.

The Group's net operating income before impairment allowances rose by HK$1,858 million or 9.4% year-on-year to HK$21,649 million in the first half of 2014. The increase was driven by the strong growth in net interest income, which was attributable to the growth in customer loan and deposit balances as well as an increase in higher-yielding RMB assets. Net fee and commission income also rose. The increases were partially offset by the lower mark-to-market gain from certain treasury products and the decline in income from the Group's insurance segment. Operating expenses rose, as the Group continued to invest to support its long-term growth. Net charge of impairment allowances increased moderately. Operating profit after impairment allowances increased by HK$1,326 million, or 9.7%. Meanwhile, the net gain from fair value adjustments on investment properties declined on a year-on-year basis. Profit attributable to the equity holders rose by HK$831 million, or 7.4%.

As compared to the second half of 2013, the Group's net operating income before impairment allowances increased by HK$1,127 million, or 5.5%. The growth in income was mainly driven by the increase in net interest income and net fee and commission income. The increases were partly offset by the lower mark-to-market gain from the banking business and the decline in income from the Group's insurance segment. Operating expenses fell while net gain from fair value adjustments on investment properties rose. Profit attributable to the equity holders increased by HK$1,083 million, or 9.8%, on a half-on-half basis.

INCOME STATEMENT ANALYSIS

Net Interest Income and Margin

HK$'m, except percentages	**Half-year ended 30 June 2014**	Half-year ended 31 December 2013	Half-year ended 30 June 2013
Interest income	**23,304**	20,920	18,459
Interest expense	**(7,648)**	(6,335)	(5,128)
Net interest income	**15,656**	14,585	13,331
Average interest-earning assets	**1,814,625**	1,706,560	1,607,052
Net interest spread	**1.62%**	1.59%	1.58%
Net interest margin*	**1.74%**	1.70%	1.67%

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

Compared to the first half of 2013, the Group's net interest income increased by HK$2,325 million or 17.4%. The increase was driven by both the growth in average interest-earning assets and the widening of net interest margin.

Average interest-earning assets expanded by HK$207,573 million or 12.9% year-on-year, with growth in loans to customers as well as balances and placements with banks. These were supported by the increases in customer deposits and deposits and balances from banks.

Net interest margin widened by 7 basis points to 1.74%. The increase was mainly attributable to the increase in higher-yielding assets such as loans to customers, RMB bonds as well as balances and placements with banks. Higher RMB market interest rates resulted an increase in the average yield of balances and placements with banks, which also contributed to the widening of net interest margin. The positive impact was partly offset by the narrowing of loan and deposit spread as the average yield of customers' loans lowered while deposit costs rose, both of which were affected by intense market competition.

The summary below shows the average balances and average interest rates of individual categories of assets and liabilities:

	Half-year ended 30 June 2014		Half-year ended 31 December 2013		Half-year ended 30 June 2013	
ASSETS	**Average balance HK$'m**	**Average yield %**	Average balance HK$'m	Average yield %	Average balance HK$'m	Average yield %
Balances and placements with banks and other financial institutions	**434,892**	**3.11**	368,980	2.80	291,332	2.34
Debt securities investments	**455,880**	**2.49**	486,874	2.24	510,305	2.06
Loans and advances to customers	**907,670**	**2.42**	836,095	2.40	791,467	2.49
Other interest-earning assets	**16,183**	**1.21**	14,611	1.31	13,948	1.66
Total interest-earning assets	**1,814,625**	**2.59**	1,706,560	2.43	1,607,052	2.32
Non interest-earning assets	**246,667**	**–**	237,049	–	229,264	–
Total assets	**2,061,292**	**2.28**	1,943,609	2.14	1,836,316	2.03
LIABILITIES	**Average balance HK$'m**	**Average rate %**	Average balance HK$'m	Average rate %	Average balance HK$'m	Average rate %
Deposits and balances from banks and other financial institutions	**207,172**	**0.85**	191,646	0.80	119,554	0.45
Current, savings and time deposits	**1,306,950**	**0.99**	1,225,221	0.86	1,187,636	0.77
Certificates of deposit issued	**149**	**0.78**	–	–	–	–
Subordinated liabilities	**19,704**	**0.59**	20,188	0.35	28,178	0.59
Other interest-bearing liabilities	**51,086**	**1.05**	50,193	0.97	54,593	0.82
Total interest-bearing liabilities	**1,585,061**	**0.97**	1,487,248	0.84	1,389,961	0.74
Non interest-bearing deposits	**89,080**	**–**	88,169	–	84,812	–
Shareholders' funds* and non interest-bearing liabilities	**387,151**	**–**	368,192	–	361,543	–
Total liabilities	**2,061,292**	**0.75**	1,943,609	0.65	1,836,316	0.56

* Shareholders' funds represent capital and reserves attributable to the equity holders of the Company.

Compared to the second half of 2013, net interest income increased by HK$1,071 million or 7.3%, driven by higher average interest-earning assets and net interest margin. Average interest-earning assets grew by HK$108,065 million or 6.3%, which was supported by the increases in customer deposits as well as deposits and balances from banks. Net interest margin was up 4 basis points. This was mainly attributable to the increase in higher-yielding assets such as loans to customers as well as balances and placements with banks. However, the increase in deposit costs limited the growth of net interest margin.

Net Fee and Commission Income

HK$'m	**Half-year ended 30 June 2014**	Half-year ended 31 December 2013	Half-year ended 30 June 2013
Credit card business	**1,792**	1,782	1,734
Securities brokerage	**1,180**	1,208	1,224
Loan commissions	**1,134**	822	1,078
Insurance	**677**	577	708
Funds distribution	**513**	380	441
Bills commissions	**413**	432	387
Payment services	**300**	343	322
Trust and custody services	**206**	206	181
Safe deposit box	**136**	122	122
Currency exchange	**105**	109	88
Others	**259**	226	224
Fee and commission income	**6,715**	6,207	6,509
Fee and commission expense	**(1,900)**	(1,923)	(1,828)
Net fee and commission income	**4,815**	4,284	4,681

Net fee and commission income grew by HK$134 million, or 2.9%, year-on-year to HK$4,815 million. Commission income from funds distribution increased by 16.3% as the Group rolled out products and themed marketing campaigns to meet targeted customers' needs. Loan commissions rose by 5.2%, due mainly to higher commission income from corporate loans. Commission income from credit cards, bills, trust and custody services as well as currency exchange also recorded healthy growth. Meanwhile, commission income from securities brokerage decreased by 3.6% in a sluggish local stock market. Commission income from insurance and payment services also declined. The increase in fee and commission expense was mainly caused by higher credit cards related expenses.

Compared to the second half of 2013, net fee and commission income grew by HK$531 million or 12.4%. There was an increase in commission income from loans, funds distribution and insurance. Fee and commission income from payment services, securities brokerage and bills declined.

Net Trading Gain/(Loss)

HK$'m	**Half-year ended 30 June 2014**	Half-year ended 31 December 2013	Half-year ended 30 June 2013
Foreign exchange and foreign exchange products	**829**	933	1,019
Interest rate instruments and items under fair value hedge	**493**	376	197
Commodities	**23**	49	42
Equity instruments	**(16)**	158	183
Net trading gain	**1,329**	1,516	1,441

Net trading gain was HK$1,329 million, decreasing by HK$112 million, or 7.8% from the first half of 2013. Net trading gain from foreign exchange and foreign exchange products dropped by HK$190 million, primarily due to the mark-to-market losses on certain foreign exchange products. Net trading gain from interest rate instruments and items under fair value hedge rose by HK$296 million, mainly attributable to the mark-to-market changes of certain debt securities, caused by market interest rate movements. There was a net trading loss from equity instruments as opposed to a net gain in the first half of 2013, mainly due to the mark-to-market changes and lower net gain from certain equity securities.

Compared to the second half of 2013, net trading gain decreased by HK$187 million or 12.3%. The decrease was mainly attributable to the mark-to-market changes of certain foreign exchange products and equity securities, offset by the mark-to-market gain of certain debt securities.

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

HK$'m	**Half-year ended 30 June 2014**	Half-year ended 31 December 2013	Half-year ended 30 June 2013
Net gain/(loss) on financial instruments designated at fair value through profit or loss	**18**	361	(520)

The Group recorded a net gain of HK$18 million on financial instruments designated at FVTPL in the first half of 2014, compared to a net loss of HK$520 million in the first half of 2013. The change was mainly attributable to the mark-to-market changes of debt securities of BOCG Life, caused by market interest rate movements. The changes in market value of its securities portfolio were offset by the corresponding changes in policy reserves, as reflected in the changes in net insurance benefits and claims which were attributable to the movement of market interest rates.

Compared to the second half of 2013, net gain on financial instruments designated at FVTPL was down by HK$343 million or 95.0%. The decline was mainly due to the higher net gain from equity investments of BOCG Life recorded in the second half of 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Expenses

HK$'m	**Half-year ended 30 June 2014**	Half-year ended 31 December 2013	Half-year ended 30 June 2013
Staff costs	**3,489**	3,585	3,234
Premises and equipment expenses (excluding depreciation)	**814**	832	744
Depreciation on owned fixed assets	**900**	853	810
Other operating expenses	**1,013**	1,121	904
Total operating expenses	**6,216**	6,391	5,692

	At 30 June 2014	At 31 December 2013	At 30 June 2013
Staff headcount measured in full-time equivalents	**14,623**	14,647	14,416

Total operating expenses increased by HK$524 million, or 9.2%, to HK$6,216 million year-on-year, reflecting the Group's continuous investment in servicing capabilities and new business platforms. Meanwhile, the Group remained focused on disciplined cost control.

Staff costs increased by 7.9%, mainly due to higher salaries following the annual salary increment and the increase in performance-related remuneration.

Premises and equipment expenses were up 9.4% with higher rental for branches in Hong Kong and the Mainland of China, as well as higher IT costs.

Depreciation on owned fixed assets rose by 11.1%, due to larger depreciation charge on premises following the upward property revaluation in Hong Kong and on IT equipment as the Group continued to invest in its IT infrastructure.

Other operating expenses were up 12.1%, mainly due to higher expenses in connection with the increasing business volume and higher business taxes of NCB (China).

Compared to the second half of 2013, operating expenses declined by HK$175 million, or 2.7%. The decrease was due to lower staff costs, promotion and maintenance expenses in the first half of 2014.

Net Charge of Loan Impairment Allowances

HK$'m	**Half-year ended 30 June 2014**	Half-year ended 31 December 2013	Half-year ended 30 June 2013
Net charge of allowances before recoveries			
– individual assessment	**(152)**	(231)	(82)
– collective assessment	**(326)**	(229)	(476)
Recoveries	**101**	98	190
Net charge of loan impairment allowances	**(377)**	(362)	(368)

The net charge of loan impairment allowances was HK$377 million in the first half of 2014, increasing mildly by HK$9 million or 2.4% year-on-year. Net charge of individually assessed impairment allowances amounted to HK$152 million, mainly caused by the downgrade of a few corporate loans. The lower net charge of collectively assessed impairment allowances was primarily due to the periodic review of the parameter values in the assessment model in the first half of 2014. Meanwhile, recoveries amounted to HK$101 million, down HK$89 million, or 46.8%.

Compared to the second half of 2013, net charge of loan impairment allowances increased by HK$15 million, or 4.1%. The higher net charge of collectively assessed impairment allowances as a result of higher loan growth was partly offset by the lower net charge of individually assessed impairment allowances.

BALANCE SHEET ANALYSIS

Asset Deployment

HK$'m, except percentages	**At 30 June 2014 Amount**	**At 30 June 2014 % of total**	At 31 December 2013 Amount	At 31 December 2013 % of total
Cash and balances with banks and other financial institutions	**340,517**	**16.3**	353,741	17.3
Placements with banks and other financial institutions maturing between one and twelve months	**33,496**	**1.6**	46,694	2.3
Hong Kong SAR Government certificates of indebtedness	**92,680**	**4.4**	99,190	4.8
Securities investments[1]	**466,236**	**22.4**	484,213	23.6
Advances and other accounts	**1,013,705**	**48.6**	924,943	45.2
Fixed assets and investment properties	**67,871**	**3.3**	66,955	3.3
Other assets[2]	**70,731**	**3.4**	71,200	3.5
Total assets	**2,085,236**	**100.0**	2,046,936	100.0

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

As at 30 June 2014, the Group's total assets amounted to HK$2,085,236 million, increasing by HK$38,300 million or 1.9% from the end of 2013. The Group continued to optimise asset allocation to enhance profitability.

Key changes in the Group's total assets include:

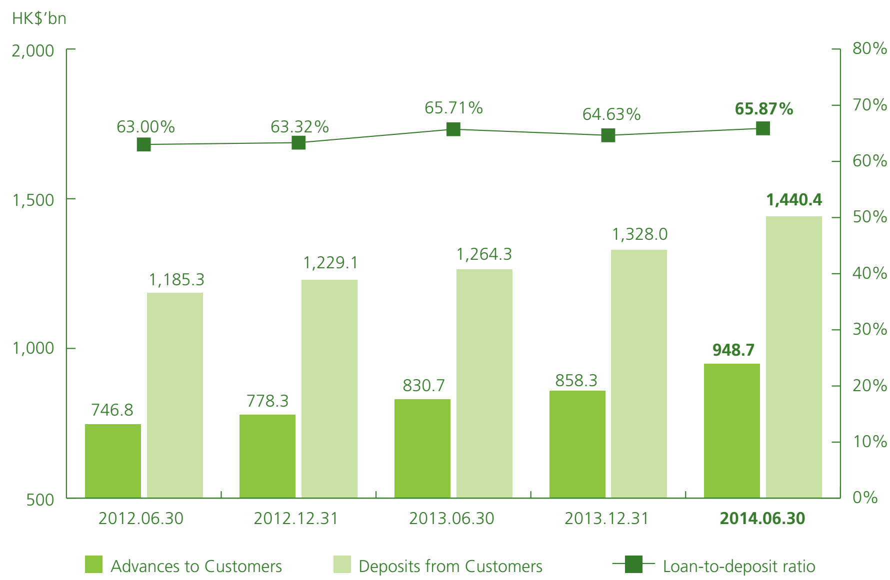
- Cash and balances with banks and other financial institutions decreased by 3.7%, mainly due to the decrease in RMB funds placed with the People's Bank of China by BOCHK's clearing business as participating banks decreased their RMB deposits with the clearing bank.

- Placements with banks and other financial institutions maturing between one and twelve months decreased by 28.3% as the Group redeployed its funds in higher-yielding assets such as advances to customers.

- Securities investments decreased by 3.7% as the Group proactively reduced its exposure to lower-yielding securities to optimise portfolio mix. Meanwhile, it increased its holdings in high-quality corporate bonds and RMB-denominated securities.

- Advances and other accounts rose by 9.6%, mainly attributable to the growth in advances to customers by 10.5%.

Advances to customers and deposits from customers*



* Deposits from customers include structured deposits

Advances to Customers

	At 30 June 2014		At 31 December 2013	
HK$'m, except percentages	**Amount**	**% of total**	Amount	% of total
Loans for use in Hong Kong	**562,418**	**59.3**	507,971	59.2
Industrial, commercial and financial	**310,341**	**32.7**	267,632	31.2
Individuals	**252,077**	**26.6**	240,339	28.0
Trade finance	**92,749**	**9.8**	85,413	9.9
Loans for use outside Hong Kong	**293,537**	**30.9**	264,948	30.9
Total advances to customers	**948,704**	**100.0**	858,332	100.0

The Group's proactive strategies to pursue quality growth over the years have put it in a strong position to benefit from business opportunities. Notwithstanding this, it continued to adopt stringent lending policy and focus on customer selection to achieve sustainable loan growth. Advances to customers grew by HK$90,372 million or 10.5% to HK$948,704 million in the first half of 2014.

Loans for use in Hong Kong grew by HK$54,447 million or 10.7%.

- Lending to the industrial, commercial and financial sectors increased by HK$42,709 million, or 16.0%. Loans to the manufacturing, wholesale and retail trade, transport and transport equipment as well as information technology grew by 28.6%, 13.4%, 11.1% and 30.9% respectively.

- Lending to individuals increased by HK$11,738 million, or 4.9%. Residential mortgage loans (excluding those under the Government-sponsored home purchasing schemes) grew by 2.0%.

Trade finance increased by HK$7,336 million, or 8.6%. Meanwhile, loans for use outside Hong Kong grew by HK$28,589 million, or 10.8%.

Loan Quality

HK$'m, except percentage amounts	**At 30 June 2014**	At 31 December 2013
Advances to customers	**948,704**	858,332
Classified or impaired loan ratio	**0.31%**	0.28%
Impairment allowances	**4,494**	4,235
Regulatory reserve for general banking risks	**9,801**	8,994
Total allowances and regulatory reserve	**14,295**	13,229
Total allowances as a percentage of advances to customers	**0.47%**	0.49%
Impairment allowances[1] on classified or impaired loan ratio	**34.03%**	36.09%
Residential mortgage loans[2] – delinquency and rescheduled loan ratio[3]	**0.02%**	0.02%
Card advances – delinquency ratio[3]	**0.23%**	0.18%

	Half-year ended 30 June 2014	Half-year ended 30 June 2013
Card advances – charge-off ratio[4]	**1.45%**	1.43%

1. Referring to impairment allowances on loans classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.
2. Residential mortgage loans exclude those under the Home Ownership Scheme and other government-sponsored home purchasing schemes.
3. Delinquency ratio is measured by a ratio of total amount of overdue loans (more than three months) to total outstanding loans.
4. Charge-off ratio is measured by a ratio of total write-offs made during the period to average card receivables during the period.

The Group's loan quality remained solid. The classified or impaired loan ratio was at 0.31%. Classified or impaired loans rose by HK$497 million, or 20.4%, to HK$2,930 million, due to the downgrade of a few corporate loans. Formation of new classified or impaired loans in the first half of 2014 represented approximately 0.23% of total loans outstanding.

Total impairment allowances, including both individual assessment and collective assessment, amounted to HK$4,494 million. Total impairment allowances on classified or impaired loans as a percentage of total classified or impaired loans was at 34.03%.

The credit quality of the Group's residential mortgage loans and credit cards remained sound. The combined delinquency and rescheduled loan ratio of residential mortgage loans stood at 0.02% at the end of June 2014. The charge-off ratio of card advances remained low at 1.45% in the first half of 2014, amid an upward trend in the market.

*Deposits from Customers**

HK$'m, except percentages	At 30 June 2014 Amount	% of total	At 31 December 2013 Amount	% of total
Demand deposits and current accounts	**103,033**	**7.2**	104,784	7.9
Savings deposits	**621,513**	**43.1**	636,137	47.9
Time, call and notice deposits	**711,816**	**49.4**	583,227	43.9
	1,436,362	**99.7**	1,324,148	99.7
Structured deposits	**4,014**	**0.3**	3,832	0.3
Deposits from customers	**1,440,376**	**100.0**	1,327,980	100.0

* Including structured deposits

The Group maintained a flexible deposit strategy to support business growth. Its deposit base was up HK$112,396 million, or 8.5%, to HK$1,440,376 million in the first half of 2014, driven by the increase of 22.0% in time, call and notice deposits in response to market changes. Demand deposits and current accounts decreased by 1.7% while savings deposits fell by 2.3%. The Group's loan to deposit ratio was 65.87% at the end of June 2014, up 1.24 percentage points from the end of 2013.

Capital and Reserves Attributable to the Equity Holders of the Company

HK$'m	At 30 June 2014	At 31 December 2013
Share capital	**52,864**	52,864
Premises revaluation reserve	**35,944**	34,682
Reserve for fair value changes of available-for-sale securities	**2,360**	488
Regulatory reserve	**9,801**	8,994
Translation reserve	**803**	1,051
Retained earnings	**67,093**	60,734
Reserves	**116,001**	105,949
Capital and reserves attributable to the equity holders of the Company	**168,865**	158,813

Capital and reserves attributable to the equity holders increased by HK$10,052 million, or 6.3% to HK$168,865 million at 30 June 2014. Retained earnings rose by 10.5%, reflecting the profit for the first half of 2014 after the appropriation of final dividend of 2013. Premises revaluation reserve increased by 3.6%, which was attributable to the increase in property prices in the first half of 2014. Regulatory reserve rose by 9.0%, mainly due to loan growth. Reserve for fair value changes of available-for-sale securities increased strongly, due to lowering market interest rates.

Capital and Liquidity Ratio

HK$'m, except percentages	**At 30 June 2014**	At 31 December 2013
Consolidated capital after deductions		
Common Equity Tier 1 capital	**104,971**	92,112
Additional Tier 1 capital	**733**	894
Tier 1 capital	**105,704**	93,006
Tier 2 capital	**45,216**	44,683
Total capital	**150,920**	137,689
Total risk-weighted assets	**892,942**	871,618
Common Equity Tier 1 capital ratio	**11.76%**	10.57%
Tier 1 capital ratio	**11.84%**	10.67%
Total capital ratio	**16.90%**	15.80%

	Half-year ended 30 June 2014	Half-year ended 30 June 2013
Average liquidity ratio	**39.58%**	38.70%

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

In view of the capital needs for meeting more stringent regulatory requirements and capturing business opportunities in the future, the Group adopted proactive measures to manage its capital for sustainable growth. From 2013, the Group adjusted its target dividend payout range to strengthen its capital base through internal retention. At the same time, the Group continued to optimise the risk-weights of its assets.

Total capital ratio at 30 June 2014 was 16.90%, up 1.10 percentage points from that at the end of 2013. Total capital expanded by 9.6% to HK$150,920 million, mainly due to the increase in retained earnings and reserve for fair value changes of available-for-sale securities. Total risk-weighted assets edged up by 2.4%, mainly from changes in credit risk-weighted assets in the first half of 2014.

The average liquidity ratio in the first half of 2014 stayed sound at 39.58%.

BUSINESS REVIEW

Business Segment Performance

Profit/(Loss) before Taxation by Business Segments

HK$'m, except percentages	**Half-year ended 30 June 2014** **Amount**	**% of total**	Half-year ended 30 June 2013 Amount	% of total
Personal Banking	**3,388**	**22.3**	3,572	25.6
Corporate Banking	**6,379**	**42.0**	5,873	42.1
Treasury	**5,367**	**35.4**	3,918	28.1
Insurance	**278**	**1.8**	564	4.0
Others	**(233)**	**(1.5)**	21	0.2
Total profit before taxation	**15,179**	**100.0**	13,948	100.0

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

PERSONAL BANKING

Financial Results

Personal Banking recorded a decrease of HK$184 million, or 5.2%, in profit before taxation. Net interest income and net fee and commission income increased. The increase was, however, offset by the lower net trading gain and the higher operating expenses.

Net interest income increased by 5.1%. This was mainly driven by the increase in average balance of loans and deposits coupled with the improvement in deposit spread. The growth was partly offset by the decrease in loan spread. Personal loans and deposits grew by 5.8% and 4.9% respectively from the end of 2013.

Net fee and commission income increased by 1.6%. The growth was attributable to the higher income from funds distribution, insurance and credit cards. However, the growth was partially offset by the decrease in income from securities brokerage and payment services.

Net trading gain decreased by 36.0%, caused by the mark-to-market changes of equity securities and the lower net gain from foreign exchange related products.

Operating expenses were up 6.5%, mainly due to increase in staff costs and rental expenses for branches.

Business operation

The Group's Personal Banking business saw steady growth in the first half of 2014. It maintained its leading position in new mortgage loans and continued to optimise the securities brokerage business amid a challenging investment environment. The credit card business enhanced its service offerings and strengthened its market leadership in UnionPay card business. The Group's enhanced customer segmentation strategy, especially the launch of Enrich Banking, enabled it to better cater for the diverse needs of customers and to attract new customers, resulting in the building of stronger customer relationships. The Group also tailored targeted sales and promotions to different customer segments and developed an edge in cross-border services, resulting in a satisfactory expansion of client base in both wealth management and private banking.

Residential mortgages – reinforcing market leadership

Residential property market activity remained low in the first quarter of the year and gradually picked up in the second quarter. During the period, the Group launched the Mortgage Expert mobile application, a one-stop mortgage service which provides customers with the convenience of property valuation upper and lower price alert function, the first time this has been available in the market, and other features including mortgage budget planner and online appointment booking for mortgage applications. The Group also worked in close partnership with major property developers and participated in joint promotions of primary property development projects. The Group continued its mortgage top-up and re-financing promotion efforts to provide an extensive range of products and services across all channels. As a result, the Group maintained its leadership position in new mortgage loans.

Investment and insurance businesses – continuous growth in funds distribution business

The local stock market lost direction in the first half of 2014 as market sentiment turned gloomy due to uncertainty about economic growth on the Mainland. Nevertheless, the Group made continuous efforts to increase securities brokerage business volume. The Group's Monthly Stocks Savings Plan was enhanced with more diversified choices of stocks and the introduction of RMB-denominated stocks to further enhance the Group's competitive edge in RMB services. The Securities Club offered high-net-worth customers with differentiated services to foster customer loyalty. Riding on the opportunities arising from the expected commencement of Shanghai-Hong Kong Stock Connect in the second half of the year, the Group has set up a task force for the formal launch of A-share trading service. Meanwhile, various promotional campaigns were launched to acquire new customers and encourage securities transactions.

In the funds distribution business, the Group continued to broaden its product offerings. A number of currency-hedged funds including RMB and AUD were introduced to meet customers' investment needs. The Group continued to deepen relationships with existing customers and actively pursued new customers. It conducted themed marketing campaigns and investment seminars to help customers further diversify their investment portfolios.

With regards to the Bancassurance business, the Group maintained its leading position in the Hong Kong RMB insurance market by offering a diversified range of products. It also ran a series of marketing campaigns to reinforce the Group's brand image.

Credit card business – recognised leader in UnionPay card business

The Group's credit card business sustained its growth momentum in the first half of 2014. It maintained its leadership in the UnionPay merchant acquiring business and card issuing business in Hong Kong. The BOCHK e-Wallet – Mobile Payment Services introduced in 2013 were further extended to support UnionPay QuickPass payment. This was the first such service in the market, allowing customers to enjoy cross-border dual-currency mobile payment. The Group also launched the first 3-in-1 Contactless Payment Service in the market, allowing merchants to accept Visa payWave, MasterCard PayPass as well as UnionPay QuickPass with one reader.

Wealth management service – satisfactory growth of customer base

The Group aims to provide personalised services and professional financial solutions to meet customers' wealth management needs. It rolled out a series of marketing programmes to enhance brand image and increase penetration with targeted customers. The implementation of a customer re-segmentation strategy enabled the Group to explore and expand business opportunities based on the needs and growth potential of various customer groups. Both the Wealth Management and the newly introduced Enrich Banking brands contributed to satisfactory growth in terms of number of customers and the related Total Relationship Balance.

The Group's Private Banking business continued to make good progress. It continued to develop designated private banking products and services, optimise the business platform and raise brand awareness. The Group captured market opportunities and introduced RMB-related products, which were well received by clients. Exclusive investment seminars, charitable activities and exhibitions helped to foster client relationships. Furthermore, the Group stepped up its collaboration with BOC to reach out to high-net-worth customers with cross-border wealth management needs. As a result, it achieved encouraging growth in both the number of Private Banking clients and their assets under management.

Distribution channels – strengthening automated banking channels

The Group continued to optimise its distribution channels to meet the needs of customers. At the end of June 2014, the Group's service network in Hong Kong comprised 262 branches, including 133 wealth management centres. Automated banking channels were expanded in terms of coverage points and facilities. Call center services were enhanced with the 24-hour Online Chat service being extended to Wealth Management customers.

CORPORATE BANKING

Financial Results

Corporate Banking recorded a growth of HK$506 million, or 8.6%, in profit before taxation. This was mainly attributable to the increase in net interest income as well as net fee and commission income.

Net interest income rose by 6.0%, mainly driven by the increase in average balance of loans and deposits together with the improvement in deposit spread. The growth was largely offset by the decrease in loan spread. Corporate loans and deposits grew by 12.5% and 12.1% respectively compared with the end of 2013.

Net fee and commission income increased by 7.1%, largely led by the growth in commission income from loans, bills and trust services.

Business operation

The Group's Corporate Banking business continued to make important headway in the first half of 2014. Working more closely with BOC in various business areas, the Group successfully expanded its customer base and captured new business opportunities with leading enterprises, financial institutions and banks from the Mainland and overseas. It arranged cross-border direct loans for Mainland corporates to support their overseas expansions. In the custody business, the Group continued to expand its business coverage over different geographical locations. It further leveraged its competitive advantages and strengthened its service capabilities in the cash management business.

Corporate lending business – a prominent loan arranger in Hong Kong

The Group expanded its customer base and enhanced its position as a prominent loan arranger in Hong Kong. The two-way information exchange and business referral channel established with BOC continued to serve its major purpose. The Group also set up a regional co-operation mechanism with BOC Group's offices in Guangdong, Hong Kong and Macau, further raising the BOC Group's service capabilities for customers in these three regions. Through collaboration with BOC, the Group captured new business opportunities with leading enterprises in certain major industries on the Mainland and overseas. It actively participated in a number of significant syndicated loans. The Group also arranged cross-border direct loans for Mainland corporates to support their overseas expansions. Riding on its strong franchise in RMB business, the Group secured relationships with financial institutions and central banks from different overseas regions. Meanwhile, the Group successfully conducted the Shanghai Free Trade Zone Seminar which received overwhelming response. Capitalising on business opportunities from the Shanghai Free Trade Zone, the Group successfully helped corporates set up cross-border funding pools in RMB and other foreign currencies and underwrote cross-border RMB loans to corporates established in the Shanghai Free Trade Zone. At the end of June 2014, the Group's balance of corporate loans grew by 12.5% from the end of 2013.

SME business – providing a full range of innovative cross-border financial services

The Group strives to enhance the customer experience for SME customers. The Business Integrated Account was optimised to provide different segments of customers with various products and business privileges. The Group continued to enhance its competitive edge in cross-border business through close collaboration with BOC and provided a full range of innovative cross-border financial services to meet the diverse needs of SMEs. The Group also maintained contact with local trade associations and provided them with the latest market information through various economic and business seminars on a regular basis. The BOC Small Business Loan was enhanced with a streamlined application process and a 1-hour preliminary approval service to offer a prompt and flexible financing solution to small businesses. In recognition of its long-standing support of SMEs in Hong Kong, the Group received for the seventh consecutive year the "Best SME's Partner Award" from the Hong Kong General Chamber of Small and Medium Business.

Custody service – further increase of customer base

The Group successfully enlarged its institutional customer base and established business relationships with a number of new RQFII applicants from the Mainland of China, Hong Kong, the Taiwan region and other overseas countries and regions. It also secured mandates from

RQFII-ETFs and various types of RQFII and QDII products. Meanwhile, it further enhanced its service capability through closer collaboration with BOC branches. At the end of June 2014, excluding the RMB fiduciary account for participating banks, total assets under the Group's custody were valued at HK$712 billion.

Cash management service – expanding service coverage

The Group continued to expand its cash management service capabilities. To solidify its competitive advantage in RMB businesses, the Group launched indirect clearing services for UnionPay RMB card issuing institutions, becoming the first bank to provide such services in Hong Kong. In recognition of its outstanding cash management services, BOCHK was presented with the "Achievement Award for Best Cash Management Bank in Hong Kong" by Asian Banker for the second consecutive year. In addition, BOCHK was also awarded the "Hong Kong Domestic Cash Management Bank of the Year" in 2014 by Asian Banking and Finance.

Risk management – proactive measures to contain risks

The Group continued to focus on managing its asset quality by adhering to a prudent credit policy under the principle of "Know Your Customers". It closely monitors the credit position of customers and industries that could be adversely affected by the volatile economic environment, including the possible slowdown of economic growth in the Mainland and withdrawal of stimulus in the US. With regards to the Mainland exposures, the Group maintains vigilance in monitoring customers in certain vulnerable industries with over-capacities. In the trade finance business, the Group focused only on doing business with companies that had a genuine trade background. Rigorous pre- and post-lending monitoring measures were put in place to track early negative signs.

MAINLAND BUSINESS

Financial performance – maintaining healthy growth

The Group's Mainland business maintained healthy growth amid the challenging operating environment. Net operating income increased by 35.8% year-on-year, driven by the strong growth in net interest income and net fee income. Customer deposits and loans registered growth of 0.2% and 4.5% respectively from the end of last year. Slower economic growth on the Mainland placed pressure on certain industries, resulting in an increase in new classified or impaired loans in the first half of 2014. The Group remained focused on managing its asset quality through strict adherence to prudent credit policy and close monitoring of the credit situation.

Product and service offerings – launch of new products in funds distribution and credit card business

The Group continued to enrich its product and service offerings. It enhanced the SME business platform with the launch of Supply Chain Finance, which enables the Group to provide financing services to both upstream and downstream companies in the supply chain. During the period, the Group rolled out QDII-Overseas Fund Products to allow Mainland customers to capture overseas investment opportunities by leveraging the cross-border synergy between Hong Kong and the Mainland of China. Furthermore, it expanded credit card business with the introduction of platinum co-branded credit cards.

Distribution channels – building up electronic platforms

The Group enhanced both its personal and corporate e-Banking platforms with the introduction of new services. It also pressed ahead with the development of several e-platforms to further improve online services and customer experience. The Group's total number of branches and sub-branches in the Mainland of China was 41 at the end June 2014. Meanwhile, the Group continued to expand its branch network in the Mainland of China. NCB (China)'s Suzhou Branch and Shanghai Free Trade Zone Sub-branch commenced business in July 2014.

TREASURY

Financial Results

Treasury recorded a strong increase of 37.0% in profit before taxation.

Net interest income increased by 55.3%, mainly due to the improved average yield on interbank placements coupled with the increase in the related average balance and the improved average yield on debt securities investments. The increase was partly offset by the lower average balance of debt securities investments.

Net trading gain was down 22.4%. The decrease was mainly caused by the mark-to-market changes of certain foreign exchange products and interest rate instruments, which were partly offset by the increased gain from currency exchange transactions.

Net gain on other financial assets was up 39.2% as the Group captured market opportunities to realise gains on certain debt securities investments in the first half of the year.

Business Operation

Proactive investment strategy – enhanced portfolio return while staying attuned to risk

The Group takes a proactive but prudent approach in managing its banking book investments. It closely monitored market changes and adjusted its investment portfolio to enhance return. During the period, the Group increased investments in certain government bonds and selectively increased its holdings in corporate bonds issued by high-quality Mainland and Hong Kong enterprises to improve return. In addition, the Group successfully captured the market opportunity to increase holdings in RMB-denominated bonds issued by policy banks.

Product sales – good growth in RMB foreign exchange related businesses

During the period, the Group took advantage of RMB exchange rate fluctuation to provide value-preservation solutions to its customers. Leveraging its competitive edge in RMB business, the Group launched Preferential RMB structured deposits, which were well received by customers. To provide customers with more potential investment opportunities from the Hong Kong stock market, the Group also launched Basket Equity Linked Investment. This allows customers to enhance their potential return by linking their investment to more than one underlying Hong Kong stock. In bond underwriting business, the business volume soared as the Group successfully captured opportunities from increasing market demand. The Group underwrote the largest offshore RMB corporate bond issuance during the period as the sole global coordinator and joint bookrunner.

Banknotes business – global network expansion

The Group achieved a respectable result in the banknotes business and made progress in enhancing the global banknote distribution network. It completed the first banknotes transaction for a central bank in Central America, marking its success in tapping the banknotes business market in this continent. Meanwhile, the Group continued to establish banknotes business relationships with central banks and BOC's branches in other overseas countries and regions.

RMB clearing business – continuous clearing support

The Group continued to develop better infrastructure to ensure the stable development and continuous improvement of RMB clearing services in both Hong Kong and overseas regions. During the period, the focus was on providing support to BOC's overseas entities, reinforcing the BOC Group's position as the leading provider of clearing services for offshore RMB business in the world.

INSURANCE

Financial Results

The Group's Insurance segment's profit before taxation was HK$278 million in the first half of 2014, down by 50.7%. The decline was mainly caused by a higher provision for insurance liabilities as a result of declining market interest rates. This outweighed the mark-to-market changes of debt securities which were attributable to market interest rate movements.

Net insurance premiums grew robustly by 30.5% as a result of the Group's continuous efforts in product enhancement as well as marketing and promotional campaigns to boost sales volume.

Net interest income grew by 16.9%, which was mainly driven by the expansion of securities investments acquired with the new premiums received.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Operation

Driving growth through product enhancement and diversified distribution channels

The Group continued to broaden its product range and actively diversified its distribution channels to reach out to different customer segments. It established partnerships with brokerage firms and launched new products including Wealth-Protector Refundable Accident Insurance Plan, Good Year Cash Coupon Insurance Plan and Plenteous Life Coupon Plan through the Group's different distribution channels. The solid performance enabled BOCG Life to uplift its market ranking to number 1 in the first quarter of 2014, in terms of new business standard premium.

RMB insurance products – a prominent provider

The Group maintained its leading position in the Hong Kong RMB insurance market through product optimisation and innovation. Popular RMB insurance products such as the IncomeGrowth Annuity Insurance Plan, Target 5 Years Insurance Plan Series, RMB Universal Life Insurance Plan, and the recently launched whole life product Plenteous Life Coupon Plan were the major driving force behind the number 1 market ranking BOCG Life attained in RMB insurance business in the first quarter of 2014.

BOCG Life was honoured to receive all the awards in the RMB insurance product category in "RMB Business Outstanding Awards 2014 – Outstanding Insurance Business", organised by Metro Finance, Metro Finance Digital and Hong Kong Wen Wei Po.

OTHERS

Asset management service – making solid progress

BOCHK Asset Management Limited ("BOCHK AM") continued to establish a footprint in the first half of 2014. After obtaining RQFII status and quota in 2013, BOCHK AM received approval from the Securities and Futures Commission of Hong Kong in June and plans to launch RQFII fund investing in onshore equity securities, reinforcing its professional expertise in RMB investment products. The BOCHK All Weather HK & China Equity Fund, a retail fund launched in 2013, performed strongly in terms of asset growth and investment return.

RISK MANAGEMENT

Banking Group

Overview

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

Risk Management Governance Structure

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

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

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

The Chief Executive ("CE") is responsible for managing the Group's various types of risks, approving detailed risk management policies, and material risk exposures or transactions within his authority delegated by the Board of Directors. The Chief Risk Officer ("CRO") assists the CE in fulfilling his responsibilities for the day-to-day management of risks. The CRO is responsible for initiating new risk management strategies, projects and measures that will enable the Group to better monitor and manage new risk issues or areas that may arise from time to time from new businesses, products and changes in the operating environment. The CRO will also take appropriate initiatives in response to regulatory changes. The CRO is also responsible for reviewing material risk exposures or transactions within his delegated authority and exercising his power of veto if he believes that any transaction should not proceed.

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

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

Credit Risk Management

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

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

The Group also uses loan grades, obligor ratings and loss estimates (if applicable) to support credit monitoring, reporting and analysis of credit risk information. For non-retail exposures, more frequent rating review and closer monitoring are required for higher-risk customers. For retail exposures, monthly updated internal ratings and loss estimates are used for credit monitoring on a portfolio basis. More comprehensive review is required for obligors being identified under high-risk pools. In the first half of 2014, the Group continues to adopt loan grading criteria which divide credit assets into five categories with reference to HKMA's guidelines. The Risk Management Department ("RMD") provides regular credit management information reports and ad hoc reports to the Management Committee ("MC"), RC and Board of Directors to facilitate their continuous monitoring of credit risk. In addition, the Group identifies credit concentration risk by industry, geography, customer and counterparty. The Group monitors changes to counterparties credit risk, quality of the credit portfolio and risk concentrations, and reports regularly to the Group's Management.

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

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

Market Risk Management

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

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

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

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

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

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

Interest Rate Risk Management

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

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

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

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

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

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

Liquidity Risk Management

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

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

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

The Group established liquidity risk management indicators and limits to identify, measure, monitor and control liquidity risk on daily basis. These indicators and limits include, but are not limited to liquidity ratio, loan to deposit ratio, Maximum Cumulative Cash Outflow ("MCO") and liquidity buffer asset portfolio. The Group applies cash flow analysis to assess the Group's liquidity condition under normal conditions and also performs a liquidity stress test (including institution specific, general market crisis and combined crisis) and other methods at least on monthly basis to assess the Group's capability to withstand various severe liquidity crises. Also, the

Assets and Liabilities Management System is developed to provide data and the preparation for regular management reports to facilitate liquidity risk management duties.

In accordance with the requirements of Supervisory Policy Manual LM-2 "Sound Systems and controls for Liquidity Risk Management" issued by the HKMA in 2011, the Group has implemented in 2013 the refinement on the behaviour model and assumptions of cash flow analysis and stress test to enhance the Group's cash flow analysis under both normal and stressed conditions. In cash flow analysis under normal circumstances, refinements have been made to assumptions relating to on-balance sheet items (such as customer deposits) and off-balance sheet items (such as loan commitments). According to various characteristics of the assets, liabilities and off-balance sheet items, the Group forecasts the future cash flow based on contractual maturity date and the assumptions of customer behaviour and balance sheet changes. In the liquidity stress test, a new combined scenario which is a combination of institution specific and general market crisis has been set up in 2013 to assess the Group's capability to withstand a more severe liquidity crisis, with a more stringent set of assumptions being adopted. Stress test assumptions include the run-off rate of retail, wholesale and interbank deposits; drawdown rate of loan commitments and trade-related contingent liabilities; delinquency ratio and rollover rate of customer loans; and haircut of interbank placement and marketable securities. In addition, the Group has a policy in place to maintain an asset buffer portfolio which includes high quality marketable securities to ensure funding needs even under stressed scenarios. A contingency plan is being established which details the conditions to trigger the plan based on stress test results and early warning indicators, the action plans and relevant procedures and responsibility of various departments.

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

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

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

Operational Risk Management

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

The Group has implemented the "Three Lines of Defence" for its operational risk management. All departments or functional units as the first line of defence are the first parties responsible for operational risk management, and carry out the duties and functions of self risk control in the process of business operation through self assessment and self enhancement. The Operational Risk and Compliance Department ("OR&CD"), together with certain specialist functional units in relation to operational risk management within the Group, including the Human Resources Department, Information Technology Department, Corporate Services Department, Financial Management Department and General Accounting & Accounting Policy Department (collectively known as "specialist functional units"), are the second line of defence. They are responsible for assessing and monitoring the operational risk conditions in the first line of defence, and providing them with guidance. The

OR&CD, being independent from the business units, is responsible for assisting the Management in managing the Group's operational risk, including the establishment and review of the operational risk management policy and framework, designing the operational risk management tools and reporting mechanism, and assessing and reporting the overall operational risk position to the Management and RC. Specialist functional units are required to carry out their managerial duties of the second line of defence with respect to some specific aspects of operational risk and its related issues. Besides taking charge of operational risk management in their own units, these units are also required to provide other units with professional advice/training in respect of certain operational risk categories and to lead the group-wide operational risk management. Group Audit is the third line of defence which provides independent assessment to the effectiveness and adequacy of the operational risk management framework and is required to conduct periodic audit of the operational risk management activities of various departments or functional units within the Group regarding their compliance and effectiveness and to put forward recommendations for remedial actions.

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

Reputation Risk Management

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

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

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

Legal and Compliance Risk Management

Legal risk is the risk that unenforceable contracts, lawsuits or adverse judgments may disrupt or otherwise negatively affect the operations or financial conditions of the Group. Compliance risk is the risk of legal or regulatory sanctions, financial losses or losses in reputation the Group may suffer as a result of its failure to comply with all applicable laws and regulations. Legal and compliance risks are managed by the OR&CD, which reports directly to the CRO. All legal matters are handled by the Legal Services Centre ("LSC"), which reports to the Chief Operating Officer. The OR&CD is responsible for legal risk management of the Group with support rendered by the LSC. As part of the Group's corporate governance framework, the policy for the management of legal and compliance risk is approved by the RC as delegated by the Board.

Strategic Risk Management

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

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

Capital Management

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

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

Stress Testing

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

BOCG Life

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

Insurance Risk Management

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

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

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

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

Interest Rate Risk Management

An increase in interest rates may result in the depreciation of the value of BOCG Life's bond portfolio. It may also result in customers accelerating surrenders. A decrease in interest rates may result in an increase in insurance liability and an inability to adequately match guarantees or lower returns leading to customer dissatisfaction. BOCG Life manages the matching of assets and liabilities of its portfolios within an asset liability management framework that has been developed to achieve investment returns that match its obligations under insurance contracts.

Liquidity Risk Management

Liquidity risk is the risk of not being able to fund increases in assets or meet obligations as they fall due without incurring unacceptable loss. BOCG Life's asset and liability management framework includes cash flow management to preserve liquidity to match policy payout from time to time. In the normal course of BOCG Life's business, new business and in-force policies premiums generate constant cash inflows and, as a result, the portfolios also grow gradually to meet future liquidity requirements.

Credit Risk Management

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

- Default risk of bond issuers or the counterparties of structured products
- Credit spread widening as a result of credit migration (downgrade)
- Reinsurers' share of insurance unpaid liabilities
- Amounts due from reinsurers in respect of claims already paid
- Amounts due from insurance contract holders
- Amounts due from insurance intermediaries

BOCG Life manages credit risk by placing limits on its exposure to each investment counterparty or group of counterparties. Such limits are subject to annual or more frequent review by the Management.

In order to enhance its credit risk management, BOCG Life has strengthened its communication with the Investment Management of the Group while closely monitoring and updating the established Bonds Issuers Disposal and Watch Lists to ensure consistency with the Group's credit risk management and investment strategy.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	**(Unaudited) Half-year ended 30 June 2014 HK$'m**	(Unaudited) Half-year ended 30 June 2013 HK$'m
Interest income		**23,304**	18,459
Interest expense		**(7,648)**	(5,128)
Net interest income	5	**15,656**	13,331
Fee and commission income		**6,715**	6,509
Fee and commission expense		**(1,900)**	(1,828)
Net fee and commission income	6	**4,815**	4,681
Gross earned premiums		**11,069**	10,500
Gross earned premiums ceded to reinsurers		**(4,580)**	(5,529)
Net insurance premium income		**6,489**	4,971
Net trading gain	7	**1,329**	1,441
Net gain/(loss) on financial instruments designated at fair value through profit or loss		**18**	(520)
Net gain on other financial assets	8	**175**	106
Other operating income	9	**408**	315
Total operating income		**28,890**	24,325
Gross insurance benefits and claims		**(12,176)**	(10,107)
Reinsurers' share of benefits and claims		**4,935**	5,573
Net insurance benefits and claims	10	**(7,241)**	(4,534)
Net operating income before impairment allowances		**21,649**	19,791
Net charge of impairment allowances	11	**(379)**	(371)
Net operating income		**21,270**	19,420
Operating expenses	12	**(6,216)**	(5,692)
Operating profit		**15,054**	13,728
Net gain from disposal of/fair value adjustments on investment properties	13	**119**	203
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	14	**(7)**	4
Share of profits less losses after tax of associates and a joint venture		**13**	13
Profit before taxation		**15,179**	13,948
Taxation	15	**(2,846)**	(2,291)
Profit for the period		**12,333**	11,657
Profit attributable to:			
Equity holders of the Company		**12,083**	11,252
Non-controlling interests		**250**	405
		12,333	11,657
Dividends	16	**5,762**	5,762
		HK$	HK$
Earnings per share for profit attributable to the equity holders of the Company			
Basic and diluted	17	**1.1428**	1.0642

The notes on pages 45 to 117 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited) Half-year ended 30 June 2014 HK$'m	(Unaudited) Half-year ended 30 June 2013 HK$'m
Profit for the period	**12,333**	11,657
Items that will not be reclassified subsequently to income statement:		
Premises:		
Revaluation of premises	**1,443**	1,490
Deferred tax	**(169)**	(236)
	1,274	1,254
Items that may be reclassified subsequently to income statement:		
Available-for-sale securities:		
Change in fair value of available-for-sale securities	**2,817**	(5,690)
Release upon disposal of available-for-sale securities reclassified to income statement	**(154)**	(101)
Amortisation with respect to available-for-sale securities transferred to held-to-maturity securities reclassified to income statement	**140**	–
Deferred tax	**(722)**	906
	2,081	(4,885)
Change in fair value of hedging instruments under net investment hedges	**46**	(29)
Currency translation difference	**(264)**	164
	1,863	(4,750)
Other comprehensive income for the period, net of tax	**3,137**	(3,496)
Total comprehensive income for the period	**15,470**	8,161
Total comprehensive income attributable to:		
Equity holders of the Company	**14,969**	8,164
Non-controlling interests	**501**	(3)
	15,470	8,161

The notes on pages 45 to 117 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**(Unaudited) At 30 June 2014 HK$'m**	(Audited) At 31 December 2013 HK$'m
ASSETS			
Cash and balances with banks and other financial institutions	19	**340,517**	353,741
Placements with banks and other financial institutions maturing between one and twelve months		**33,496**	46,694
Financial assets at fair value through profit or loss	20	**47,183**	43,493
Derivative financial instruments	21	**27,667**	25,348
Hong Kong SAR Government certificates of indebtedness		**92,680**	99,190
Advances and other accounts	22	**1,013,705**	924,943
Investment in securities	23	**419,053**	440,720
Interests in associates and a joint venture		**303**	292
Investment properties	24	**14,298**	14,597
Properties, plant and equipment	25	**53,573**	52,358
Deferred tax assets	32	**146**	304
Other assets	26	**42,615**	45,256
Total assets		**2,085,236**	2,046,936
LIABILITIES			
Hong Kong SAR currency notes in circulation		**92,680**	99,190
Deposits and balances from banks and other financial institutions		**184,885**	278,273
Financial liabilities at fair value through profit or loss	27	**19,489**	13,580
Derivative financial instruments	21	**18,505**	18,912
Deposits from customers	28	**1,436,362**	1,324,148
Debt securities and certificates of deposit in issue at amortised cost	29	**9,496**	5,684
Other accounts and provisions	30	**46,630**	48,149
Current tax liabilities		**3,999**	2,562
Deferred tax liabilities	32	**7,781**	6,944
Insurance contract liabilities	33	**72,263**	66,637
Subordinated liabilities	34	**19,768**	19,849
Total liabilities		**1,911,858**	1,883,928
EQUITY			
Share capital	35	**52,864**	52,864
Reserves	36	**116,001**	105,949
Capital and reserves attributable to the equity holders of the Company		**168,865**	158,813
Non-controlling interests		**4,513**	4,195
Total equity		**173,378**	163,008
Total liabilities and equity		**2,085,236**	2,046,936

The notes on pages 45 to 117 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)								
	Attributable to the equity holders of the Company								
	Share capital HK$'m	Premises revaluation reserve HK$'m	Reserve for fair value changes of available-for-sale securities HK$'m	Regulatory reserve* HK$'m	Translation reserve HK$'m	Retained earnings HK$'m	Total HK$'m	Non-controlling interests HK$'m	Total equity HK$'m
At 1 January 2013	52,864	31,259	5,510	7,754	771	52,811	150,969	4,105	155,074
Profit for the period	–	–	–	–	–	11,252	11,252	405	11,657
Other comprehensive income:									
Premises	–	1,242	–	–	–	–	1,242	12	1,254
Available-for-sale securities	–	–	(4,461)	–	–	–	(4,461)	(424)	(4,885)
Change in fair value of hedging instruments under net investment hedges	–	–	–	–	(27)	–	(27)	(2)	(29)
Currency translation difference	–	2	(19)	–	175	–	158	6	164
Total comprehensive income	–	1,244	(4,480)	–	148	11,252	8,164	(3)	8,161
Transfer from retained earnings	–	–	–	391	–	(391)	–	–	–
Dividends	–	–	–	–	–	(7,327)	(7,327)	(206)	(7,533)
At 30 June 2013	52,864	32,503	1,030	8,145	919	56,345	151,806	3,896	155,702
At 1 July 2013	52,864	32,503	1,030	8,145	919	56,345	151,806	3,896	155,702
Profit for the period	–	–	–	–	–	11,000	11,000	418	11,418
Other comprehensive income:									
Premises	–	2,178	–	–	–	–	2,178	31	2,209
Available-for-sale securities	–	–	(548)	–	–	–	(548)	(50)	(598)
Change in fair value of hedging instruments under net investment hedges	–	–	–	–	(23)	–	(23)	(2)	(25)
Currency translation difference	–	1	6	–	155	–	162	5	167
Total comprehensive income	–	2,179	(542)	–	132	11,000	12,769	402	13,171
Transfer from retained earnings	–	–	–	849	–	(849)	–	–	–
Dividends	–	–	–	–	–	(5,762)	(5,762)	(103)	(5,865)
At 31 December 2013	52,864	34,682	488	8,994	1,051	60,734	158,813	4,195	163,008

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)								
	Attributable to the equity holders of the Company								
	Share capital HK$'m	Premises revaluation reserve HK$'m	Reserve for fair value changes of available-for-sale securities HK$'m	Regulatory reserve* HK$'m	Translation reserve HK$'m	Retained earnings HK$'m	Total HK$'m	Non-controlling interests HK$'m	Total equity HK$'m
At 1 January 2014	52,864	34,682	488	8,994	1,051	60,734	158,813	4,195	163,008
Profit for the period	–	–	–	–	–	12,083	12,083	250	12,333
Other comprehensive income:									
Premises	–	1,265	–	–	–	–	1,265	9	1,274
Available-for-sale securities	–	–	1,833	–	–	–	1,833	248	2,081
Change in fair value of hedging instruments under net investment hedges	–	–	–	–	43	–	43	3	46
Currency translation difference	–	(3)	39	–	(291)	–	(255)	(9)	(264)
Total comprehensive income	–	1,262	1,872	–	(248)	12,083	14,969	501	15,470
Transfer from retained earnings	–	–	–	807	–	(807)	–	–	–
Dividends	–	–	–	–	–	(4,917)	(4,917)	(183)	(5,100)
At 30 June 2014	52,864	35,944	2,360	9,801	803	67,093	168,865	4,513	173,378
Representing:									
2014 interim dividend (Note 16)						5,762			
Others						61,331			
Retained earnings as at 30 June 2014						67,093			

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

The notes on pages 45 to 117 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Notes	**(Unaudited) Half-year ended 30 June 2014 HK$'m**	(Unaudited) Half-year ended 30 June 2013 HK$'m
Cash flows from operating activities			
Operating cash inflow/(outflow) before taxation	37(a)	**2,286**	(36,525)
Hong Kong profits tax paid		**(910)**	(917)
Overseas profits tax paid		**(400)**	(168)
Net cash inflow/(outflow) from operating activities		**976**	(37,610)
Cash flows from investing activities			
Purchase of properties, plant and equipment		**(282)**	(252)
Proceeds from disposal of properties, plant and equipment		**1**	3
Dividend received from associates and a joint venture		**2**	2
Net cash outflow from investing activities		**(279)**	(247)
Cash flows from financing activities			
Dividend paid to the equity holders of the Company		**(4,917)**	(7,327)
Dividend paid to non-controlling interests		**(183)**	(206)
Repayment of subordinated loans		**–**	(6,668)
Interest paid for subordinated liabilities		**(209)**	(279)
Net cash outflow from financing activities		**(5,309)**	(14,480)
Decrease in cash and cash equivalents		**(4,612)**	(52,337)
Cash and cash equivalents at 1 January		**363,201**	242,955
Effect of exchange rate changes on cash and cash equivalents		**(7,221)**	(2,510)
Cash and cash equivalents at 30 June	37(b)	**351,368**	188,108

The notes on pages 45 to 117 are an integral part of this interim financial information.

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. Basis of preparation and significant accounting policies

(a) Basis of preparation

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

(b) Significant accounting policies

Except as described below, the significant accounting policies adopted and methods of computation used in the preparation of the unaudited interim financial information are consistent with those adopted and used in the Group's annual financial statements for the year ended 31 December 2013 and should be read in conjunction with the Group's Annual Report for 2013.

Amendments and interpretation to standards that are relevant to the Group and mandatory for the first time for the financial year beginning on 1 January 2014

- HKAS 32 (Amendment), "Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities". The amendment addresses inconsistencies in current practice when applying the offsetting criteria and clarifies the meaning of "currently has a legally enforceable right of set-off"; and the application of offsetting criteria to some gross settlement systems (such as central clearing house systems) that may be considered equivalent to net settlement. The adoption of this amendment does not have a material impact on the Group's financial statements.

- HKAS 36 (Amendment), "Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets". The amendment aligns the disclosure requirements with its original intention which does not intend to disclose at level of cash generating unit. It also requires additional disclosure about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. The adoption of this amendment does not affect the disclosure of the Group's financial statements.

- HKAS 39 (Amendment), "Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting". The amendment introduces a relief to allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation. The adoption of this amendment does not have a material impact on the Group's financial statements.

- HK(IFRIC) – Int 21, "Levies". The interpretation addresses how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. For a levy that is triggered upon reaching a minimum threshold, no liability should be anticipated before the specified minimum threshold is reached. The adoption of this interpretation does not have a material impact on the Group's financial statements.

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

(c) Standards and amendment issued that are relevant to the Group but not yet effective and have not been early adopted by the Group in 2014

Standards/ Amendment	Content	Applicable for financial years beginning on/after
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Transition to HKFRS 9	1 January 2015
HKFRS 9	Financial Instruments	To be determined
HKFRS 15	Revenue from Contracts with Customers	1 January 2017

- HKFRS 15, "Revenue from Contracts with Customers". HKFRS 15 applies a single model and specifies the accounting treatment for all revenue arising from contracts with customers. The new standard is based on the core principle that revenue is recognised to reflect the consideration expected to be entitled when control of promised good or service transfers to customer, it is also applicable to the recognition and measurement of gains or losses on the sale of some non-financial assets such as properties or equipments that are not an output of ordinary activities. HKFRS 15 also includes a set of disclosure requirements about revenue from customer contracts. The new standard will replace the separate models for goods, services and construction contracts stipulated in different standards under the current HKFRS. The Group is considering the financial impact of the standard and the timing of its application.

- The IASB published the final version of IFRS 9 "Financial Instruments" in July 2014 which will be mandatorily effective on or after 1 January 2018 with early application in its entirety is permitted except for own credit risk, which can be early adopted in isolation. In this final version, expected credit losses were introduced to replace the existing "incurred loss" impairment model, accompanied by improved disclosures, in order to cope with the issue of delayed recognition of credit losses on financial assets. The expected loss model is forward-looking, and future conditions are needed to be considered together with past and current conditions. The model requires an entity to recognise expected credit losses at all time, including at initial recognition.

  Besides the expected credit loss model, the fair value through other comprehensive income classification was also added for debt instruments. Financial assets categorised in this classification should be held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. All fair value change other than interest accrual, amortisation and impairment will be recognised in other comprehensive income, which would be subsequently reclassified into profit and loss upon disposal.

  It is expected the HKICPA will soon pronounce an equivalent standard with an identical mandatory effective date. The Group will consider the financial impact and the timing of its application.

- Please refer to Note 2.1(b) of the Group's Annual Report for 2013 for brief explanations of the rest of the above-mentioned standard and amendment.

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

(c) Standards and amendment issued that are relevant to the Group but not yet effective and have not been early adopted by the Group in 2014 (continued)

Improvements to HKFRSs

"Improvements to HKFRSs" contains numerous amendments to HKFRSs which the HKICPA considers not urgent but necessary. It comprises amendments that result in accounting changes for presentation, recognition or measurement purpose as well as terminology or editorial amendments related to a variety of individual HKFRSs. The amendments are effective and adopted for annual periods beginning on or after 1 July 2014. The adoption of these improvements does not have a material impact on the Group's financial statements.

2. Critical accounting estimates and judgements in applying accounting policies

The nature and assumptions related to the Group's accounting estimates are consistent with those used in the Group's financial statements for the year ended 31 December 2013.

3. Financial risk management

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

3.1 Credit Risk

(A) Gross advances and other accounts

(a) Impaired advances

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

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

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(a) Impaired advances (continued)

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Gross impaired advances to customers	**2,601**	2,128
Individually assessed impairment allowances made in respect of such advances	**947**	840
Current market value of collateral held against the covered portion of such advances to customers	**2,449**	1,779
Covered portion of such advances to customers	**1,865**	1,550
Uncovered portion of such advances to customers	**736**	578
Gross impaired advances to customers as a percentage of gross advances to customers	**0.27%**	0.25%

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

As at 30 June 2014 and 31 December 2013, there were no impaired trade bills.

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(a) Impaired advances (continued)

Classified or impaired advances to customers are analysed as follows:

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Gross classified or impaired advances to customers	**2,930**	2,433
Gross classified or impaired advances to customers as a percentage of gross advances to customers	**0.31%**	0.28%

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

(b) Advances overdue for more than three months

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

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

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

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

	At 30 June 2014		At 31 December 2013	
	Amount HK$'m	**% of gross advances to customers**	Amount HK$'m	% of gross advances to customers
Gross advances to customers which have been overdue for:				
– six months or less but over three months	**777**	**0.08%**	266	0.03%
– one year or less but over six months	**331**	**0.04%**	97	0.01%
– over one year	**301**	**0.03%**	314	0.04%
Advances overdue for over three months	**1,409**	**0.15%**	677	0.08%
Individually assessed impairment allowances made in respect of such advances	**650**		406	

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Current market value of collateral held against the covered portion of such advances to customers	**1,303**	723
Covered portion of such advances to customers	**727**	245
Uncovered portion of such advances to customers	**682**	432

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

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

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

As at 30 June 2014 and 31 December 2013, there were no trade bills overdue for more than three months.

(c) Rescheduled advances

	At 30 June 2014		At 31 December 2013	
	Amount HK$'m	**% of gross advances to customers**	Amount HK$'m	% of gross advances to customers
Rescheduled advances to customers net of amounts included in "Advances overdue for more than three months"	**35**	**–**	1,012	0.12%

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

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers

(i) Sectoral analysis of gross advances to customers

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

	At 30 June 2014					
	Gross advances to customers HK$'m	% Covered by collateral or other security	Classified or impaired HK$'m	Overdue HK$'m	Individually assessed impairment allowances HK$'m	Collectively assessed impairment allowances HK$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	41,393	38.26%	1	1	–	157
– Property investment	80,349	87.05%	34	169	6	399
– Financial concerns	7,725	8.85%	–	13	–	39
– Stockbrokers	4,647	37.82%	–	–	–	18
– Wholesale and retail trade	37,238	43.67%	180	261	47	208
– Manufacturing	24,479	29.16%	76	155	35	120
– Transport and transport equipment	38,124	31.34%	33	2	1	203
– Recreational activities	461	8.91%	–	–	–	1
– Information technology	14,210	1.31%	2	5	1	45
– Others	61,715	38.05%	31	151	25	257
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	9,565	99.97%	24	222	–	6
– Loans for purchase of other residential properties	193,775	99.96%	68	1,688	–	99
– Credit card advances	11,845	–	31	309	–	70
– Others	36,892	67.55%	48	556	7	84
Total loans for use in Hong Kong	562,418	66.76%	528	3,532	122	1,706
Trade finance	92,749	11.62%	157	177	97	405
Loans for use outside Hong Kong	293,537	26.53%	2,245	1,398	728	1,436
Gross advances to customers	948,704	48.92%	2,930	5,107	947	3,547

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

	At 31 December 2013					
	Gross advances to customers HK$'m	% Covered by collateral or other security	Classified or impaired HK$'m	Overdue HK$'m	Individually assessed impairment allowances HK$'m	Collectively assessed impairment allowances HK$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	40,596	37.02%	1	1	–	173
– Property investment	79,103	87.88%	54	275	4	416
– Financial concerns	7,748	11.42%	–	2	–	46
– Stockbrokers	4,215	50.25%	–	–	–	15
– Wholesale and retail trade	32,846	49.28%	95	237	34	173
– Manufacturing	19,031	36.22%	57	112	31	103
– Transport and transport equipment	34,327	31.95%	971	4	271	157
– Recreational activities	492	10.99%	–	1	–	2
– Information technology	10,852	1.55%	2	2	1	37
– Others	38,422	38.08%	42	164	24	172
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	9,773	99.97%	26	241	–	7
– Loans for purchase of other residential properties	190,031	99.98%	59	2,006	–	105
– Credit card advances	12,223	–	28	455	–	84
– Others	28,312	63.53%	36	354	10	50
Total loans for use in Hong Kong	507,971	69.73%	1,371	3,854	375	1,540
Trade finance	85,413	13.84%	266	285	122	375
Loans for use outside Hong Kong	264,948	28.35%	796	1,108	343	1,480
Gross advances to customers	858,332	51.39%	2,433	5,247	840	3,395

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

(ii) Geographical analysis of gross advances to customers

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

Gross advances to customers

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Hong Kong	**705,391**	666,602
Mainland of China	**195,711**	153,201
Others	**47,602**	38,529
	948,704	858,332
Collectively assessed impairment allowances in respect of the gross advances to customers		
Hong Kong	**2,266**	2,232
Mainland of China	**1,032**	946
Others	**249**	217
	3,547	3,395

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

Overdue advances

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Hong Kong	**3,537**	4,010
Mainland of China	**1,496**	1,084
Others	**74**	153
	5,107	5,247
Individually assessed impairment allowances in respect of the overdue advances		
Hong Kong	**177**	209
Mainland of China	**468**	323
Others	**19**	28
	664	560
Collectively assessed impairment allowances in respect of the overdue advances		
Hong Kong	**91**	80
Mainland of China	**9**	6
Others	**1**	2
	101	88

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(A) Gross advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

Classified or impaired advances

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Hong Kong	**698**	1,743
Mainland of China	**1,753**	586
Others	**479**	104
	2,930	2,433
Individually assessed impairment allowances in respect of the classified or impaired advances		
Hong Kong	**199**	488
Mainland of China	**601**	324
Others	**147**	28
	947	840
Collectively assessed impairment allowances in respect of the classified or impaired advances		
Hong Kong	**47**	35
Mainland of China	**3**	1
Others	**–**	2
	50	38

(B) Repossessed assets

The estimated market value of repossessed assets held by the Group as at 30 June 2014 amounted to HK$103 million (31 December 2013: HK$118 million). They comprise properties in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the proprietors concerned) for release in full or in part of the obligations of the borrowers.

3. Financial risk management (continued)

3.1 Credit Risk (continued)

(C) Debt securities and certificates of deposit

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

	At 30 June 2014					
	Aaa HK$'m	**Aa1 to Aa3 HK$'m**	**A1 to A3 HK$'m**	**Lower than A3 HK$'m**	**Unrated HK$'m**	**Total HK$'m**
Available-for-sale securities	**69,996**	**120,626**	**101,629**	**21,544**	**26,208**	**340,003**
Held-to-maturity securities	**25,320**	**31,705**	**7,528**	**3,344**	**3,254**	**71,151**
Loans and receivables	**–**	**–**	**2,252**	**–**	**1,508**	**3,760**
Financial assets at fair value through profit or loss	**15,991**	**14,646**	**9,307**	**2,142**	**2,978**	**45,064**
Total	**111,307**	**166,977**	**120,716**	**27,030**	**33,948**	**459,978**

	At 31 December 2013					
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m
Available-for-sale securities	73,321	150,393	133,961	28,205	25,169	411,049
Held-to-maturity securities	2,315	4,267	5,225	2,960	2,688	17,455
Loans and receivables	–	–	7,270	–	675	7,945
Financial assets at fair value through profit or loss	8,276	17,137	9,960	2,205	3,750	41,328
Total	83,912	171,797	156,416	33,370	32,282	477,777

3. Financial risk management (continued)

3.1 Credit Risk (continued)

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

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

	At 30 June 2014						
	Carrying values						Of which accumulated impairment allowances
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m	HK$'m
Available-for-sale securities	–	–	–	–	–	–	–
Held-to-maturity securities	28	–	1	–	–	29	1
Total	28	–	1	–	–	29	1
Of which accumulated impairment allowances	1	–	–	–	–	1	

	At 31 December 2013						
	Carrying values						Of which accumulated impairment allowances
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m	HK$'m
Available-for-sale securities	–	6	–	–	–	6	–
Held-to-maturity securities	44	–	1	–	–	45	3
Total	44	6	1	–	–	51	3
Of which accumulated impairment allowances	3	–	–	–	–	3	

As at 30 June 2014 and 31 December 2013, there were no impaired certificates of deposit and no overdue debt securities and certificates of deposit.

3. Financial risk management (continued)

3.2 Market Risk

(A) VAR

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

The following table sets out the VAR for all general market risk exposure[1] of the Group.

	Year	At 30 June HK$'m	Minimum for the first half of year HK$'m	Maximum for the first half of year HK$'m	Average for the first half of year HK$'m
VAR for all market risk	2014	21.0	18.2	35.1	26.4
	2013	21.6	13.9	27.0	20.5
VAR for foreign exchange risk	2014	10.5	9.6	19.5	14.3
	2013	15.4	10.3	27.6	14.8
VAR for interest rate risk	2014	21.4	16.8	39.5	27.5
	2013	18.7	8.8	21.7	16.2
VAR for equity risk	2014	0.2	0.1	0.7	0.2
	2013	1.7	0.0	2.4	1.0
VAR for commodity risk	2014	0.6	0.0	1.3	0.3
	2013	0.1	0.0	0.7	0.2

Note:

1. Structural FX positions have been excluded. In the first half of 2014, all general market risk exposure are presented on the Group basis, comparative amounts are presented on the same basis accordingly.

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

– the use of historical market data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;

– the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;

– the use of a 99% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and

– VAR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

3. Financial risk management (continued)

3.2 Market Risk (continued)

(A) VAR (continued)

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

(B) Currency risk

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

3. Financial risk management (continued)

3.2 Market Risk (continued)

(B) Currency risk (continued)

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 30 June 2014 and 31 December 2013. Included in the tables are the assets and liabilities at carrying amounts in HK dollars equivalent, categorised by the original currency.

	At 30 June 2014							
	Renminbi HK$'m	US Dollars HK$'m	HK Dollars HK$'m	Euro HK$'m	Japanese Yen HK$'m	Pound Sterling HK$'m	Others HK$'m	Total HK$'m
Assets								
Cash and balances with banks and other financial institutions	283,728	35,483	13,836	3,417	1,320	488	2,245	340,517
Placements with banks and other financial institutions maturing between one and twelve months	22,876	6,780	3,475	117	–	92	156	33,496
Financial assets at fair value through profit or loss	9,634	9,941	27,441	–	–	–	167	47,183
Derivative financial instruments	223	7,461	19,959	–	2	–	22	27,667
Hong Kong SAR Government certificates of indebtedness	–	–	92,680	–	–	–	–	92,680
Advances and other accounts	98,427	309,882	590,151	6,936	699	422	7,188	1,013,705
Investment in securities								
– Available-for-sale securities	80,167	163,748	67,376	6,678	306	6,239	19,628	344,142
– Held-to-maturity securities	24,779	40,562	2,388	–	–	209	3,213	71,151
– Loans and receivables	1,863	1,547	350	–	–	–	–	3,760
Interests in associates and a joint venture	–	–	303	–	–	–	–	303
Investment properties	130	–	14,168	–	–	–	–	14,298
Properties, plant and equipment	812	3	52,758	–	–	–	–	53,573
Other assets (including deferred tax assets)	27,882	1,039	12,706	136	463	131	404	42,761
Total assets	550,521	576,446	897,591	17,284	2,790	7,581	33,023	2,085,236
Liabilities								
Hong Kong SAR currency notes in circulation	–	–	92,680	–	–	–	–	92,680
Deposits and balances from banks and other financial institutions	98,958	43,652	39,602	170	56	79	2,368	184,885
Financial liabilities at fair value through profit or loss	1,590	2,821	13,561	–	–	7	1,510	19,489
Derivative financial instruments	291	2,486	15,484	179	2	1	62	18,505
Deposits from customers	333,861	304,340	740,607	13,485	3,035	9,971	31,063	1,436,362
Debt securities and certificates of deposit in issue at amortised cost	–	7,709	–	–	1,714	–	73	9,496
Other accounts and provisions (including current and deferred tax liabilities)	15,959	10,641	29,493	658	101	555	1,003	58,410
Insurance contract liabilities	32,805	6,677	32,781	–	–	–	–	72,263
Subordinated liabilities	–	19,768	–	–	–	–	–	19,768
Total liabilities	483,464	398,094	964,208	14,492	4,908	10,613	36,079	1,911,858
Net on-balance sheet position	67,057	178,352	(66,617)	2,792	(2,118)	(3,032)	(3,056)	173,378
Off-balance sheet net notional position*	(55,989)	(156,708)	215,518	(3,098)	2,046	2,805	1,565	6,139
Contingent liabilities and commitments	68,781	162,162	309,450	1,967	546	39	1,222	544,167

3. Financial risk management (continued)

3.2 Market Risk (continued)

(B) Currency risk (continued)

	At 31 December 2013							
	Renminbi HK$'m	US Dollars HK$'m	HK Dollars HK$'m	Euro HK$'m	Japanese Yen HK$'m	Pound Sterling HK$'m	Others HK$'m	Total HK$'m
Assets								
Cash and balances with banks and other financial institutions	296,496	38,476	14,273	1,264	230	259	2,743	353,741
Placements with banks and other financial institutions maturing between one and twelve months	35,264	10,442	476	107	–	–	405	46,694
Financial assets at fair value through profit or loss	7,261	11,508	24,563	–	–	–	161	43,493
Derivative financial instruments	722	4,598	20,006	2	–	–	20	25,348
Hong Kong SAR Government certificates of indebtedness	–	–	99,190	–	–	–	–	99,190
Advances and other accounts	105,008	259,236	549,916	3,792	459	205	6,327	924,943
Investment in securities								
– Available-for-sale securities	84,103	211,684	89,717	6,024	296	515	22,981	415,320
– Held-to-maturity securities	4,334	9,956	1,646	–	–	–	1,519	17,455
– Loans and receivables	833	4,039	3,073	–	–	–	–	7,945
Interests in associates and a joint venture	–	–	292	–	–	–	–	292
Investment properties	135	–	14,462	–	–	–	–	14,597
Properties, plant and equipment	865	3	51,490	–	–	–	–	52,358
Other assets (including deferred tax assets)	24,821	1,287	18,367	487	111	10	477	45,560
Total assets	559,842	551,229	887,471	11,676	1,096	989	34,633	2,046,936
Liabilities								
Hong Kong SAR currency notes in circulation	–	–	99,190	–	–	–	–	99,190
Deposits and balances from banks and other financial institutions	167,166	58,511	50,607	381	89	106	1,413	278,273
Financial liabilities at fair value through profit or loss	1,590	16	10,842	–	–	7	1,125	13,580
Derivative financial instruments	894	2,433	15,323	187	1	–	74	18,912
Deposits from customers	311,506	272,761	674,425	9,965	3,563	11,270	40,658	1,324,148
Debt securities in issue at amortised cost	–	5,684	–	–	–	–	–	5,684
Other accounts and provisions (including current and deferred tax liabilities)	14,382	9,974	30,276	981	148	600	1,294	57,655
Insurance contract liabilities	28,428	6,867	31,342	–	–	–	–	66,637
Subordinated liabilities	–	19,849	–	–	–	–	–	19,849
Total liabilities	523,966	376,095	912,005	11,514	3,801	11,983	44,564	1,883,928
Net on-balance sheet position	35,876	175,134	(24,534)	162	(2,705)	(10,994)	(9,931)	163,008
Off-balance sheet net notional position*	(23,168)	(162,157)	167,162	(17)	2,573	10,966	9,465	4,824
Contingent liabilities and commitments	73,056	146,235	293,677	4,069	501	1,244	4,223	523,005

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

3. Financial risk management (continued)

3.2 Market Risk (continued)

(C) Interest rate risk

The tables below summarise the Group's exposure to interest rate risk as at 30 June 2014 and 31 December 2013. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	At 30 June 2014						
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Non-interest bearing HK$'m	Total HK$'m
Assets							
Cash and balances with banks and other financial institutions	330,350	–	–	–	–	10,167	340,517
Placements with banks and other financial institutions maturing between one and twelve months	–	23,237	10,259	–	–	–	33,496
Financial assets at fair value through profit or loss	4,061	5,500	13,324	16,142	6,037	2,119	47,183
Derivative financial instruments	–	–	–	–	–	27,667	27,667
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	92,680	92,680
Advances and other accounts	700,420	199,171	92,278	15,064	1,048	5,724	1,013,705
Investment in securities							
– Available-for-sale securities	38,095	50,682	72,113	115,986	63,127	4,139	344,142
– Held-to-maturity securities	1,838	1,129	4,049	41,168	22,967	–	71,151
– Loans and receivables	557	1,519	1,684	–	–	–	3,760
Interests in associates and a joint venture	–	–	–	–	–	303	303
Investment properties	–	–	–	–	–	14,298	14,298
Properties, plant and equipment	–	–	–	–	–	53,573	53,573
Other assets (including deferred tax assets)	1,120	–	–	–	–	41,641	42,761
Total assets	1,076,441	281,238	193,707	188,360	93,179	252,311	2,085,236
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	92,680	92,680
Deposits and balances from banks and other financial institutions	153,325	7,320	5,485	–	–	18,755	184,885
Financial liabilities at fair value through profit or loss	6,805	6,364	5,283	513	524	–	19,489
Derivative financial instruments	–	–	–	–	–	18,505	18,505
Deposits from customers	975,434	209,633	165,878	14,153	–	71,264	1,436,362
Debt securities and certificates of deposit in issue at amortised cost	1,705	–	1,997	5,794	–	–	9,496
Other accounts and provisions (including current and deferred tax liabilities)	13,655	3,607	3,794	217	1	37,136	58,410
Insurance contract liabilities	–	–	–	–	–	72,263	72,263
Subordinated liabilities	–	–	–	–	19,768	–	19,768
Total liabilities	1,150,924	226,924	182,437	20,677	20,293	310,603	1,911,858
Interest sensitivity gap	(74,483)	54,314	11,270	167,683	72,886	(58,292)	173,378

3. Financial risk management (continued)

3.2 Market Risk (continued)

(C) Interest rate risk (continued)

	At 31 December 2013						
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Non-interest bearing HK$'m	Total HK$'m
Assets							
Cash and balances with banks and other financial institutions	336,303	–	–	–	–	17,438	353,741
Placements with banks and other financial institutions maturing between one and twelve months	–	33,801	12,893	–	–	–	46,694
Financial assets at fair value through profit or loss	2,691	6,211	10,244	15,198	6,984	2,165	43,493
Derivative financial instruments	–	–	–	–	–	25,348	25,348
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	99,190	99,190
Advances and other accounts	699,423	121,716	78,275	18,082	1,004	6,443	924,943
Investment in securities							
– Available-for-sale securities	47,934	58,235	78,309	146,099	80,472	4,271	415,320
– Held-to-maturity securities	1,325	460	4,009	5,250	6,411	–	17,455
– Loans and receivables	1,660	2,931	3,354	–	–	–	7,945
Interests in associates and a joint venture	–	–	–	–	–	292	292
Investment properties	–	–	–	–	–	14,597	14,597
Properties, plant and equipment	–	–	–	–	–	52,358	52,358
Other assets (including deferred tax assets)	608	–	–	–	–	44,952	45,560
Total assets	1,089,944	223,354	187,084	184,629	94,871	267,054	2,046,936
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	99,190	99,190
Deposits and balances from banks and other financial institutions	240,026	3,768	671	–	–	33,808	278,273
Financial liabilities at fair value through profit or loss	5,451	5,406	2,071	382	270	–	13,580
Derivative financial instruments	–	–	–	–	–	18,912	18,912
Deposits from customers	951,236	169,169	124,513	10,589	39	68,602	1,324,148
Debt securities in issue at amortised cost	–	–	–	5,684	–	–	5,684
Other accounts and provisions (including current and deferred tax liabilities)	12,198	2,588	4,106	397	–	38,366	57,655
Insurance contract liabilities	–	–	–	–	–	66,637	66,637
Subordinated liabilities	–	–	–	–	19,849	–	19,849
Total liabilities	1,208,911	180,931	131,361	17,052	20,158	325,515	1,883,928
Interest sensitivity gap	(118,967)	42,423	55,723	167,577	74,713	(58,461)	163,008

3. Financial risk management (continued)

3.3 Liquidity Risk

(A) Liquidity ratio

	Half-year ended 30 June 2014	Half-year ended 30 June 2013
Average liquidity ratio	**39.58%**	38.70%

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

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

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

(B) Maturity analysis

Tables below analyse assets and liabilities of the Group as at 30 June 2014 and 31 December 2013 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2014							
	On demand HK$'m	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Indefinite HK$'m	Total HK$'m
Assets								
Cash and balances with banks and other financial institutions	262,653	65,345	–	–	–	–	12,519	340,517
Placements with banks and other financial institutions maturing between one and twelve months	–	–	23,237	10,259	–	–	–	33,496
Financial assets at fair value through profit or loss								
– held for trading								
– debt securities	–	4,023	5,089	11,141	7,778	4,402	–	32,433
– certificates of deposit	–	–	292	177	90	–	–	559
– designated at fair value through profit or loss								
– debt securities	–	77	58	1,603	8,385	1,575	–	11,698
– certificates of deposit	–	–	–	109	265	–	–	374
– fund and equity securities	–	–	–	–	–	–	2,119	2,119
Derivative financial instruments	14,078	1,240	1,289	6,606	1,356	3,098	–	27,667
Hong Kong SAR Government certificates of indebtedness	92,680	–	–	–	–	–	–	92,680
Advances and other accounts								
– advances to customers	106,225	32,156	72,038	163,240	344,409	223,874	2,268	944,210
– trade bills	35	13,602	21,504	34,354	–	–	–	69,495
Investment in securities								
– available-for-sale								
– debt securities	–	14,039	23,526	61,748	126,579	65,088	–	290,980
– certificates of deposit	–	5,119	8,382	19,823	15,498	201	–	49,023
– held-to-maturity								
– debt securities	–	1,354	1,047	4,488	40,950	23,188	29	71,056
– certificates of deposit	–	–	–	77	–	18	–	95
– loans and receivables								
– debt securities	–	557	1,519	1,684	–	–	–	3,760
– equity securities	–	–	–	–	–	–	4,139	4,139
Interests in associates and a joint venture	–	–	–	–	–	–	303	303
Investment properties	–	–	–	–	–	–	14,298	14,298
Properties, plant and equipment	–	–	–	–	–	–	53,573	53,573
Other assets (including deferred tax assets)	13,768	8,056	129	460	10,395	9,878	75	42,761
Total assets	489,439	145,568	158,110	315,769	555,705	331,322	89,323	2,085,236

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

(B) Maturity analysis (continued)

	At 30 June 2014							
	On demand HK$'m	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Indefinite HK$'m	Total HK$'m
Liabilities								
Hong Kong SAR currency notes in circulation	92,680	–	–	–	–	–	–	92,680
Deposits and balances from banks and other financial institutions	149,229	22,851	7,320	5,485	–	–	–	184,885
Financial liabilities at fair value through profit or loss	–	6,805	6,364	5,283	513	524	–	19,489
Derivative financial instruments	9,913	1,358	1,309	2,792	2,082	1,051	–	18,505
Deposits from customers	728,559	313,383	210,439	167,480	16,501	–	–	1,436,362
Debt securities and certificates of deposit in issue at amortised cost								
– debt securities	–	1,550	–	1,643	5,762	–	–	8,955
– certificates of deposit	–	155	–	386	–	–	–	541
Other accounts and provisions (including current and deferred tax liabilities)	26,107	11,760	4,054	8,634	7,849	6	–	58,410
Insurance contract liabilities	11,485	438	1,873	5,032	19,278	34,157	–	72,263
Subordinated liabilities	–	–	418	–	–	19,350	–	19,768
Total liabilities	1,017,973	358,300	231,777	196,735	51,985	55,088	–	1,911,858
Net liquidity gap	(528,534)	(212,732)	(73,667)	119,034	503,720	276,234	89,323	173,378

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

(B) Maturity analysis (continued)

	At 31 December 2013							
	On demand HK$'m	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Indefinite HK$'m	Total HK$'m
Assets								
Cash and balances with banks and other financial institutions	246,366	94,800	–	–	–	–	12,575	353,741
Placements with banks and other financial institutions maturing between one and twelve months	–	–	33,801	12,893	–	–	–	46,694
Financial assets at fair value through profit or loss								
– held for trading								
– debt securities	–	2,118	6,166	6,210	6,754	4,967	–	26,215
– certificates of deposit	–	18	13	78	30	–	–	139
– designated at fair value through profit or loss								
– debt securities	–	146	53	2,673	9,788	1,945	–	14,605
– certificates of deposit	–	–	–	103	266	–	–	369
– fund and equity securities	–	–	–	–	–	–	2,165	2,165
Derivative financial instruments	13,672	2,127	1,287	2,789	1,833	3,640	–	25,348
Hong Kong SAR Government certificates of indebtedness	99,190	–	–	–	–	–	–	99,190
Advances and other accounts								
– advances to customers	82,371	29,710	55,130	143,186	317,087	224,648	1,965	854,097
– trade bills	6	16,254	19,003	35,583	–	–	–	70,846
Investment in securities								
– available-for-sale								
– debt securities	–	16,424	24,027	50,782	160,000	81,733	6	332,972
– certificates of deposit	–	10,419	13,950	36,657	16,836	215	–	78,077
– held-to-maturity								
– debt securities	–	632	196	4,049	5,987	6,451	45	17,360
– certificates of deposit	–	–	–	–	77	18	–	95
– loans and receivables								
– debt securities	–	1,660	2,931	3,354	–	–	–	7,945
– equity securities	–	–	–	–	–	–	4,271	4,271
Interests in associates and a joint venture	–	–	–	–	–	–	292	292
Investment properties	–	–	–	–	–	–	14,597	14,597
Properties, plant and equipment	–	–	–	–	–	–	52,358	52,358
Other assets (including deferred tax assets)	13,631	13,884	88	394	10,172	7,303	88	45,560
Total assets	455,236	188,192	156,645	298,751	528,830	330,920	88,362	2,046,936

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

(B) Maturity analysis (continued)

	At 31 December 2013							
	On demand HK$'m	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Indefinite HK$'m	Total HK$'m
Liabilities								
Hong Kong SAR currency notes in circulation	99,190	–	–	–	–	–	–	99,190
Deposits and balances from banks and other financial institutions	222,879	50,955	3,768	671	–	–	–	278,273
Financial liabilities at fair value through profit or loss	–	5,451	5,406	2,071	382	270	–	13,580
Derivative financial instruments	9,276	1,652	1,047	3,258	3,009	670	–	18,912
Deposits from customers	744,335	273,423	169,101	124,664	12,586	39	–	1,324,148
Debt securities in issue at amortised cost	–	–	–	32	5,652	–	–	5,684
Other accounts and provisions (including current and deferred tax liabilities)	25,358	14,003	4,038	6,426	7,819	11	–	57,655
Insurance contract liabilities	8,531	460	427	7,678	21,009	28,532	–	66,637
Subordinated liabilities	–	–	418	–	–	19,431	–	19,849
Total liabilities	1,109,569	345,944	184,205	144,800	50,457	48,953	–	1,883,928
Net liquidity gap	(654,333)	(157,752)	(27,560)	153,951	478,373	281,967	88,362	163,008

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

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

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

3. Financial risk management (continued)

3.4 Insurance Risk

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

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

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

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

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

3.5 Capital Management

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

(A) Basis of regulatory consolidation

The consolidation basis for regulatory purposes comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules. For accounting purposes, subsidiaries are consolidated in accordance with the accounting standards issued by the HKICPA pursuant to section 18A of the Professional Accountants Ordinance.

3. Financial risk management (continued)

3.5 Capital Management (continued)

(A) Basis of regulatory consolidation (continued)

Subsidiaries which are included within the accounting scope of consolidation but not included within the regulatory scope of consolidation are set out below:

	At 30 June 2014		At 31 December 2013	
Name of company	Total assets HK$'m	Total equity HK$'m	Total assets HK$'m	Total equity HK$'m
BOC Group Life Assurance Company Limited	85,687	5,094	79,579	4,404
BOCHK Asset Management (Cayman) Limited	50	50	50	50
Bank of China (Hong Kong) Nominees Limited	–	–	–	–
Bank of China (Hong Kong) Trustees Limited	10	9	9	9
BNPP Flexi III China Fund	778	778	1,862	1,862
BOC Group Trustee Company Limited	200	200	200	200
BOC Travel Services Limited*	–	–	2	2
BOCHK Asset Management Limited	61	49	49	37
BOCHK Information Technology (Shenzhen) Co., Ltd.	212	183	193	172
BOCHK Information Technology Services (Shenzhen) Ltd.	283	247	281	241
BOCI-Prudential Trustee Limited	438	394	442	414
Che Hsing (Nominees) Limited	1	1	1	1
Chiyu Banking Corporation (Nominees) Limited	112	112	96	96
Grace Charter Limited	–	(11)	–	(11)
G.Z.Y. Microfilm Technology (Shenzhen) Co., Ltd.**	–	–	68	68
Kwong Li Nam Investment Agency Limited	4	4	4	4
Nanyang Commercial Bank (Nominees) Limited	1	1	1	1
Nanyang Commercial Bank Trustee Limited	16	16	17	17
Po Sang Financial Investment Services Company Limited	122	105	121	105
Po Sang Futures Limited	252	178	219	171
Seng Sun Development Company, Limited	40	39	40	37
Sin Chiao Enterprises Corporation, Limited	134	134	135	135
Sin Hua Trustee Limited	5	5	4	4
Sino Information Services Company Limited	20	20	21	20

* BOC Travel Services Limited was dissolved on 5 June 2014.

** G.Z.Y. Microfilm Technology (Shenzhen) Co., Ltd. commenced winding up on 26 December 2011, and returned BOCHK's investment on 23 June 2014.

There are no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation as at 30 June 2014 and 31 December 2013.

There are also no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation but the methods of consolidation differ as at 30 June 2014 and 31 December 2013.

The principal activities of the above subsidiaries are set out in "Appendix – Subsidiaries of the Company" on pages 125 to 126.

3. Financial risk management (continued)

3.5 Capital Management (continued)

(B) Capital ratio

	At 30 June 2014	At 31 December 2013
CET1 capital ratio	**11.76%**	10.57%
Tier 1 capital ratio	**11.84%**	10.67%
Total capital ratio	**16.90%**	15.80%

(C) Components of capital base after deductions

The consolidated capital base after deductions used in the calculation of the above capital ratios as at 30 June 2014 and 31 December 2013 and reported to the HKMA is analysed as follows:

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments	**43,043**	43,043
Retained earnings	**70,417**	59,291
Disclosed reserves	**46,508**	43,025
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)	**592**	504
CET1 capital before regulatory deductions	**160,560**	145,863
CET1 capital: regulatory deductions		
Valuation adjustments	**(13)**	(21)
Deferred tax assets net of deferred tax liabilities	**(140)**	(164)
Gains and losses due to changes in own credit risk on fair valued liabilities	**(120)**	(81)
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	**(45,515)**	(44,491)
Regulatory reserve for general banking risks	**(9,801)**	(8,994)
Total regulatory deductions to CET1 capital	**(55,589)**	(53,751)
CET1 capital	**104,971**	92,112
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)	**733**	894
AT1 capital	**733**	894
Tier 1 capital	**105,704**	93,006

3. Financial risk management (continued)

3.5 Capital Management (continued)

(C) Components of capital base after deductions (continued)

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Tier 2 capital: instruments and provisions		
Capital instruments subject to phase out arrangements from Tier 2 capital	**19,294**	19,294
Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	**246**	321
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**5,194**	5,047
Tier 2 capital before regulatory deductions	**24,734**	24,662
Tier 2 capital: regulatory deductions		
Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	**20,482**	20,021
Total regulatory deductions to Tier 2 capital	**20,482**	20,021
Tier 2 capital	**45,216**	44,683
Total capital	**150,920**	137,689

To comply with the Banking (Disclosure) Rules, a section "Regulatory Disclosures" is available on the Company's website at www.bochk.com and includes the following consolidated information of BOCHK:

– A detailed breakdown of the capital base and regulatory deductions, using the standard template as specified by the HKMA.

– A reconciliation of capital components to the balance sheet, using the standard template as specified by the HKMA.

– A description of the main features and the full terms and conditions of the issued capital instruments.

4. Fair values of financial assets and liabilities

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

– Level 1: based on quoted prices (unadjusted) in active markets for identical assets or liabilities. This category includes listed equity securities on exchange, debt instruments issued by certain governments and certain exchange-traded derivative contracts.

– Level 2: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly. This category includes majority of the OTC derivative contracts, debt securities and certificates of deposit with quote from pricing services providers and issued structured deposits.

– Level 3: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. This category includes equity investment and debt instruments with significant unobservable components.

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

4.1 Financial instruments measured at fair value

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

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

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

4.1 Financial instruments measured at fair value (continued)

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

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

Debt securities and certificates of deposit

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

Asset backed securities

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

Derivatives

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

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

Financial liabilities designated at fair value through profit or loss

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

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

4.1 Financial instruments measured at fair value (continued)

(A) Fair value hierarchy

	At 30 June 2014			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Financial assets				
Financial assets at fair value through profit or loss (Note 20)				
– Trading securities				
– Debt securities	–	32,433	–	32,433
– Certificates of deposit	–	559	–	559
– Equity securities	6	312	–	318
– Financial assets designated at fair value through profit or loss				
– Debt securities	70	11,278	350	11,698
– Certificates of deposit	–	374	–	374
– Fund	639	–	–	639
– Equity securities	1,162	–	–	1,162
Derivative financial instruments (Note 21)	14,079	13,588	–	27,667
Available-for-sale securities (Note 23)				
– Debt securities	13,580	276,730	670	290,980
– Certificates of deposit	–	46,968	2,055	49,023
– Equity securities	2,741	1,154	244	4,139
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 27)				
– Trading liabilities	–	15,475	–	15,475
– Financial liabilities designated at fair value through profit or loss	–	4,014	–	4,014
Derivative financial instruments (Note 21)	9,931	8,574	–	18,505

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

4.1 Financial instruments measured at fair value (continued)

(A) Fair value hierarchy (continued)

	At 31 December 2013			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Financial assets				
Financial assets at fair value through profit or loss (Note 20)				
– Trading securities				
– Debt securities	–	26,215	–	26,215
– Certificates of deposit	–	139	–	139
– Equity securities	3	355	–	358
– Financial assets designated at fair value through profit or loss				
– Debt securities	343	13,877	385	14,605
– Certificates of deposit	–	369	–	369
– Fund	661	–	–	661
– Equity securities	1,146	–	–	1,146
Derivative financial instruments (Note 21)	13,685	11,663	–	25,348
Available-for-sale securities (Note 23)				
– Debt securities	8,422	323,771	779	332,972
– Certificates of deposit	–	72,609	5,468	78,077
– Equity securities	2,801	1,220	250	4,271
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 27)				
– Trading liabilities	–	9,748	–	9,748
– Financial liabilities designated at fair value through profit or loss	–	3,832	–	3,832
Derivative financial instruments (Note 21)	9,358	9,554	–	18,912

During the first half of 2014 and the year ended 31 December 2013, there were no financial asset and liability transfers between level 1 and level 2 for the Group.

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

4.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items

	At 30 June 2014			
	Financial assets			
	Financial assets designated at fair value through profit or loss	Available-for-sale securities		
	Debt securities HK$'m	Debt securities HK$'m	Certificates of deposit HK$'m	Equity securities HK$'m
At 1 January 2014	385	779	5,468	250
(Losses)/gains				
– Income statement				
– Net loss on financial instruments designated at fair value through profit or loss	(14)	–	–	–
– Other comprehensive income				
– Change in fair value of available-for-sale securities	–	13	8	(6)
Purchases	–	78	921	–
Sales	(21)	–	(1,672)	–
Transfers out of level 3	–	(200)	(2,670)	–
At 30 June 2014	350	670	2,055	244
Total unrealised loss for the period included in income statement for financial assets held as at 30 June 2014				
– Net loss on financial instruments designated at fair value through profit or loss	(14)	–	–	–

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

4.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

	At 31 December 2013				
	Financial assets				Financial liabilities
	Financial assets designated at fair value through profit or loss	Available-for-sale securities			Financial liabilities designated at fair value through profit or loss
	Debt securities HK$'m	Debt securities HK$'m	Certificates of deposit HK$'m	Equity securities HK$'m	HK$'m
At 1 January 2013	333	1,449	1,188	205	(771)
Gains/(losses)					
– Income statement					
– Net gain on financial instruments designated at fair value through profit or loss	25	–	–	–	–
– Other comprehensive income					
– Change in fair value of available-for-sale securities	–	(43)	(1)	24	–
Purchases	192	–	4,947	21	–
Sales	–	–	(506)	–	–
Settlements	–	–	–	–	771
Transfers into level 3	–	–	160	–	–
Transfers out of level 3	(165)	(171)	(320)	–	–
Reclassification	–	(456)	–	–	–
At 31 December 2013	385	779	5,468	250	–
Total unrealised gain for the year included in income statement for financial assets and liabilities held as at 31 December 2013					
– Net gain on financial instruments designated at fair value through profit or loss	22	–	–	–	–

As at 30 June 2014 and 31 December 2013, financial instruments categorised as level 3 are mainly comprised of debt securities, certificates of deposit and unlisted equity shares.

Debt securities and certificates of deposit were transferred into and out of level 3 during the first half of 2014 and in the year of 2013 due to change of valuation observability. For certain illiquid debt securities and certificates of deposit, the Group obtains valuation quotations from counterparties which may be based on unobservable inputs with significant impact on the valuation. Therefore, these instruments have been classified by the Group as level 3. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

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

4.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

The fair values of unlisted available-for-sale equity shares are determined with reference to multiples of comparable listed companies, such as average of the price/earning ratios of comparables or net asset value, if appropriate comparables are not available. The fair value is positively correlated to the price/earning ratios of appropriate comparables or net asset values. Had the net asset value of the underlying equity investments increased/decreased by 5%, the Group's other comprehensive income would have increased/decreased by HK$12 million (the year ended 31 December 2013: HK$13 million).

4.2 Financial instruments not measured at fair value

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

Balances with banks and other financial institutions and trade bills

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

Advances to customers

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

Held-to-maturity securities

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

Loans and receivables

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

Deposits from customers

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

Debt securities and certificates of deposit in issue at amortised cost

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

Subordinated liabilities

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

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

4.2 Financial instruments not measured at fair value (continued)

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

	At 30 June 2014	
	Carrying value HK$'m	**Fair value HK$'m**
Financial assets		
Held-to-maturity securities (Note 23)		
– Debt securities	**71,056**	**72,354**
– Certificates of deposit	**95**	**95**
Loans and receivables (Note 23)	**3,760**	**3,762**
Financial liabilities		
Debt securities and certificates of deposit in issue at amortised cost (Note 29)		
– Debt securities	**8,955**	**9,463**
– Certificates of deposit	**541**	**541**
Subordinated liabilities (Note 34)	**19,768**	**21,908**

	At 31 December 2013	
	Carrying value HK$'m	Fair value HK$'m
Financial assets		
Held-to-maturity securities (Note 23)		
– Debt securities	17,360	17,460
– Certificates of deposit	95	95
Loans and receivables (Note 23)	7,945	7,942
Financial liabilities		
Debt securities in issue at amortised cost (Note 29)	5,684	6,193
Subordinated liabilities (Note 34)	19,849	21,224

5. Net interest income

	Half-year ended 30 June 2014 HK$'m	Half-year ended 30 June 2013 HK$'m
Interest income		
Due from banks and other financial institutions	**6,709**	3,387
Advances to customers	**10,872**	9,757
Listed investments	**2,466**	2,382
Unlisted investments	**3,159**	2,818
Others	**98**	115
	23,304	18,459
Interest expense		
Due to banks and other financial institutions	**(877)**	(267)
Deposits from customers	**(6,446)**	(4,557)
Debt securities and certificates of deposit in issue	**(80)**	(72)
Subordinated liabilities	**(57)**	(83)
Others	**(188)**	(149)
	(7,648)	(5,128)
Net interest income	**15,656**	13,331

Included within interest income is HK$3 million (first half of 2013: HK$9 million) of interest with respect to income accrued on advances classified as impaired for the first half of 2014. Interest income accrued on impaired investment in securities amounted to HK$2 million (first half of 2013: HK$3 million).

Included within interest income and interest expense are HK$23,525 million (first half of 2013: HK$18,522 million) and HK$7,974 million (first half of 2013: HK$5,436 million), before hedging effect, for financial assets and financial liabilities that are not recognised at fair value through profit or loss respectively.

6. Net fee and commission income

	Half-year ended 30 June 2014 HK$'m	Half-year ended 30 June 2013 HK$'m
Fee and commission income		
Credit card business	**1,792**	1,734
Securities brokerage	**1,180**	1,224
Loan commissions	**1,134**	1,078
Insurance	**677**	708
Funds distribution	**513**	441
Bills commissions	**413**	387
Payment services	**300**	322
Trust and custody services	**206**	181
Safe deposit box	**136**	122
Currency exchange	**105**	88
Others	**259**	224
	6,715	6,509
Fee and commission expense		
Credit card business	**(1,334)**	(1,291)
Securities brokerage	**(140)**	(150)
Insurance	**(114)**	(114)
Others	**(312)**	(273)
	(1,900)	(1,828)
Net fee and commission income	**4,815**	4,681
Of which arise from		
– financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	**1,168**	1,125
– Fee and commission expense	**(9)**	(4)
	1,159	1,121
– trust and other fiduciary activities		
– Fee and commission income	**303**	272
– Fee and commission expense	**(11)**	(9)
	292	263

7. Net trading gain

	Half-year ended 30 June 2014 HK$'m	Half-year ended 30 June 2013 HK$'m
Net gain/(loss) from:		
– foreign exchange and foreign exchange products	**829**	1,019
– interest rate instruments and items under fair value hedge	**493**	197
– commodities	**23**	42
– equity instruments	**(16)**	183
	1,329	1,441

8. Net gain on other financial assets

	Half-year ended 30 June 2014 HK$'m	Half-year ended 30 June 2013 HK$'m
Net gain on available-for-sale securities	**154**	101
Others	**21**	5
	175	106

9. Other operating income

	Half-year ended 30 June 2014 HK$'m	Half-year ended 30 June 2013 HK$'m
Dividend income from investment in securities		
– listed investments	**58**	54
– unlisted investments	**22**	21
Gross rental income from investment properties	**235**	238
Less: Outgoings in respect of investment properties	**(33)**	(27)
Others	**126**	29
	408	315

Included in the "Outgoings in respect of investment properties" is HK$4 million (first half of 2013: HK$2 million) of direct operating expenses related to investment properties that were not let during the period.

10. Net insurance benefits and claims

	Half-year ended 30 June 2014 HK$'m	Half-year ended 30 June 2013 HK$'m
Gross insurance benefits and claims		
Claims, benefits and surrenders paid	**(5,723)**	(4,410)
Movement in liabilities	**(6,453)**	(5,697)
	(12,176)	(10,107)
Reinsurers' share of benefits and claims		
Claims, benefits and surrenders recovered	**248**	46
Movement in assets	**4,687**	5,527
	4,935	5,573
Net insurance benefits and claims	**(7,241)**	(4,534)

11. Net charge of impairment allowances

	Half-year ended 30 June 2014 HK$'m	Half-year ended 30 June 2013 HK$'m
Advances to customers		
Individually assessed		
– new allowances	**(500)**	(170)
– releases	**348**	88
– recoveries	**82**	175
Net (charge)/reversal of individually assessed loan impairment allowances	**(70)**	93
Collectively assessed		
– new allowances	**(348)**	(479)
– releases	**22**	3
– recoveries	**19**	15
Net charge of collectively assessed loan impairment allowances	**(307)**	(461)
Net charge of loan impairment allowances	**(377)**	(368)
Held-to-maturity securities		
Net reversal of impairment allowances on held-to-maturity securities		
– Individually assessed	**2**	1
Others	**(4)**	(4)
Net charge of impairment allowances	**(379)**	(371)

12. Operating expenses

	Half-year ended 30 June 2014 HK$'m	Half-year ended 30 June 2013 HK$'m
Staff costs (including directors' emoluments)		
– salaries and other costs	**3,226**	2,985
– pension cost	**263**	249
	3,489	3,234
Premises and equipment expenses (excluding depreciation)		
– rental of premises	**412**	386
– information technology	**212**	187
– others	**190**	171
	814	744
Depreciation	**900**	810
Auditor's remuneration		
– audit services	**3**	3
– non-audit services	**3**	1
Other operating expenses	**1,007**	900
	6,216	5,692

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

	Half-year ended 30 June 2014 HK$'m	Half-year ended 30 June 2013 HK$'m
Net gain from fair value adjustments on investment properties	**119**	203

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

	Half-year ended 30 June 2014 HK$'m	Half-year ended 30 June 2013 HK$'m
Net loss from disposal of other fixed assets	**(7)**	–
Net gain from revaluation of premises	**–**	4
	(7)	4

15. Taxation

Taxation in the income statement represents:

	Half-year ended 30 June 2014 HK$'m	Half-year ended 30 June 2013 HK$'m
Current tax		
Hong Kong profits tax		
– current period taxation	**2,197**	2,180
– over-provision in prior periods	**(57)**	–
	2,140	2,180
Overseas taxation		
– current period taxation	**603**	231
– under-provision in prior periods	**4**	–
	607	231
Deferred tax		
Origination and reversal of temporary differences	**99**	(120)
	2,846	2,291

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2014. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2014 at the rates of taxation prevailing in the countries in which the Group operates.

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

	Half-year ended 30 June 2014 HK$'m	Half-year ended 30 June 2013 HK$'m
Profit before taxation	**15,179**	13,948
Calculated at a taxation rate of 16.5% (2013: 16.5%)	**2,505**	2,301
Effect of different taxation rates in other countries	**36**	9
Income not subject to taxation	**(76)**	(105)
Expenses not deductible for taxation purposes	**213**	26
Utilisation of previously unrecognised tax losses	**(1)**	(82)
Over-provision in prior periods	**(53)**	–
Foreign withholding tax	**222**	142
Taxation charge	**2,846**	2,291
Effective tax rate	**18.7%**	16.4%

16. Dividends

	Half-year ended 30 June 2014		Half-year ended 30 June 2013	
	Per share HK$	**Total HK$'m**	Per share HK$	Total HK$'m
Interim dividend	**0.545**	**5,762**	0.545	5,762

At a meeting held on 19 August 2014, the Board declared an interim dividend of HK$0.545 per ordinary share for the first half of 2014 amounting to approximately HK$5,762 million. This declared dividend is not reflected as a dividend payable in this interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2014.

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

The calculation of basic earnings per share is based on the consolidated profit attributable to the equity holders of the Company for the first half of 2014 of approximately HK$12,083 million (first half of 2013: HK$11,252 million) and on the ordinary shares in issue of 10,572,780,266 shares (2013: 10,572,780,266 ordinary shares).

There was no dilution of earnings per share as no potential ordinary shares were in issue for the first half of 2014 (first half of 2013: Nil).

18. Retirement benefit costs

The principal defined contribution schemes for the Group's employees are ORSO schemes exempted under the MPF Schemes Ordinance and the BOC-Prudential Easy Choice MPF Scheme. Under the ORSO schemes, employees make monthly contributions to the ORSO schemes equal to 5% of their basic salaries, while the employer makes monthly contributions equal to 5% to 15% of the employees' monthly basic salaries, depending on years of service. The employees are entitled to receive 100% of the employer's contributions upon termination of employment after completing 10 years of service, or at a scale ranging from 30% to 90% for employees who have completed between 3 and 10 years of service, on conditions of retirement, early retirement, permanent incapacity and ill-health or termination of employment other than summary dismissal.

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

The Group's total contributions made to the ORSO schemes for the first half of 2014 amounted to approximately HK$179 million (first half of 2013: approximately HK$175 million), after a deduction of forfeited contributions of approximately HK$3 million (first half of 2013: approximately HK$2 million). For the MPF Scheme, the Group contributed approximately HK$34 million (first half of 2013: approximately HK$33 million) for the first half of 2014.

19. Cash and balances with banks and other financial institutions

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Cash	**7,382**	9,456
Balances with central banks	**75,240**	139,022
Balances with banks and other financial institutions	**192,550**	110,463
Placements with banks and other financial institutions maturing within one month	**65,345**	94,800
	340,517	353,741

20. Financial assets at fair value through profit or loss

	Trading securities		Financial assets designated at fair value through profit or loss		Total	
	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
At fair value						
Debt securities						
– Listed in Hong Kong	**7,973**	7,811	**755**	759	**8,728**	8,570
– Listed outside Hong Kong	**5,269**	5,007	**4,684**	7,009	**9,953**	12,016
	13,242	12,818	**5,439**	7,768	**18,681**	20,586
– Unlisted	**19,191**	13,397	**6,259**	6,837	**25,450**	20,234
	32,433	26,215	**11,698**	14,605	**44,131**	40,820
Certificates of deposit						
– Unlisted	**559**	139	**374**	369	**933**	508
Fund						
– Unlisted	**–**	–	**639**	661	**639**	661
Equity securities						
– Listed in Hong Kong	**6**	3	**946**	880	**952**	883
– Listed outside Hong Kong	**–**	–	**216**	266	**216**	266
	6	3	**1,162**	1,146	**1,168**	1,149
– Unlisted	**312**	355	**–**	–	**312**	355
	318	358	**1,162**	1,146	**1,480**	1,504
Total	**33,310**	26,712	**13,873**	16,781	**47,183**	43,493

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

Financial assets at fair value through profit or loss are analysed by type of issuer as follows:

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Sovereigns	**21,613**	17,966
Public sector entities*	**300**	172
Banks and other financial institutions	**14,742**	13,065
Corporate entities	**10,528**	12,290
	47,183	43,493

* Included financial assets at fair value through profit or loss of HK$299 million (31 December 2013: HK$156 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

Financial assets at fair value through profit or loss are analysed as follows:

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Treasury bills	**14,373**	9,895
Certificates of deposit	**933**	508
Others	**31,877**	33,090
	47,183	43,493

21. Derivative financial instruments

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

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

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

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

21. Derivative financial instruments (continued)

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

The following tables summarise the contract/notional amounts of each class of derivative financial instrument as at 30 June 2014 and 31 December 2013:

	At 30 June 2014			
	Trading HK$'m	Hedging HK$'m	Not qualified for hedge accounting HK$'m	Total HK$'m
Exchange rate contracts				
Spot, forwards and futures	408,940	–	625	409,565
Swaps	1,087,154	2,531	11,920	1,101,605
Foreign currency options				
– Options purchased	38,513	–	–	38,513
– Options written	37,950	–	–	37,950
	1,572,557	2,531	12,545	1,587,633
Interest rate contracts				
Futures	2,115	–	–	2,115
Swaps	325,243	63,879	3,878	393,000
	327,358	63,879	3,878	395,115
Commodity contracts	10,313	–	–	10,313
Equity contracts	2,312	–	892	3,204
Other contracts	56	–	–	56
Total	1,912,596	66,410	17,315	1,996,321

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

21. Derivative financial instruments (continued)

	At 31 December 2013			
	Trading HK$'m	Hedging HK$'m	Not qualified for hedge accounting HK$'m	Total HK$'m
Exchange rate contracts				
Spot, forwards and futures	302,252	–	641	302,893
Swaps	683,295	2,532	10,691	696,518
Foreign currency options				
– Options purchased	20,982	–	–	20,982
– Options written	23,457	–	–	23,457
	1,029,986	2,532	11,332	1,043,850
Interest rate contracts				
Futures	2,790	–	–	2,790
Swaps	267,140	86,803	4,177	358,120
	269,930	86,803	4,177	360,910
Commodity contracts	5,367	–	–	5,367
Equity contracts	2,099	–	–	2,099
Other contracts	59	–	–	59
Total	1,307,441	89,335	15,509	1,412,285

21. Derivative financial instruments (continued)

The following tables summarise the fair values of each class of derivative financial instrument as at 30 June 2014 and 31 December 2013:

	At 30 June 2014							
	Fair value assets				Fair value liabilities			
	Trading HK$'m	Hedging HK$'m	Not qualified for hedge accounting HK$'m	Total HK$'m	Trading HK$'m	Hedging HK$'m	Not qualified for hedge accounting HK$'m	Total HK$'m
Exchange rate contracts								
Spot, forwards and futures	15,092	–	10	15,102	(11,185)	–	–	(11,185)
Swaps	4,522	–	4	4,526	(3,802)	(4)	(30)	(3,836)
Foreign currency options								
– Options purchased	3,618	–	–	3,618	–	–	–	–
– Options written	–	–	–	–	(222)	–	–	(222)
	23,232	–	14	23,246	(15,209)	(4)	(30)	(15,243)
Interest rate contracts								
Futures	–	–	–	–	(2)	–	–	(2)
Swaps	1,555	2,525	2	4,082	(2,072)	(925)	(58)	(3,055)
	1,555	2,525	2	4,082	(2,074)	(925)	(58)	(3,057)
Commodity contracts	319	–	–	319	(174)	–	–	(174)
Equity contracts	20	–	–	20	(19)	–	(12)	(31)
Total	25,126	2,525	16	27,667	(17,476)	(929)	(100)	(18,505)

21. Derivative financial instruments (continued)

	At 31 December 2013							
	Fair value assets				Fair value liabilities			
	Trading HK$'m	Hedging HK$'m	Not qualified for hedge accounting HK$'m	Total HK$'m	Trading HK$'m	Hedging HK$'m	Not qualified for hedge accounting HK$'m	Total HK$'m
Exchange rate contracts								
Spot, forwards and futures	14,208	–	–	14,208	(10,000)	–	(7)	(10,007)
Swaps	5,275	34	145	5,454	(4,953)	(43)	(167)	(5,163)
Foreign currency options								
– Options purchased	58	–	–	58	–	–	–	–
– Options written	–	–	–	–	(150)	–	–	(150)
	19,541	34	145	19,720	(15,103)	(43)	(174)	(15,320)
Interest rate contracts								
Futures	1	–	–	1	(1)	–	–	(1)
Swaps	1,767	3,359	5	5,131	(2,191)	(1,127)	(64)	(3,382)
	1,768	3,359	5	5,132	(2,192)	(1,127)	(64)	(3,383)
Commodity contracts	472	–	–	472	(185)	–	–	(185)
Equity contracts	24	–	–	24	(24)	–	–	(24)
Total	21,805	3,393	150	25,348	(17,504)	(1,170)	(238)	(18,912)

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

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Exchange rate contracts	**6,340**	5,425
Interest rate contracts	**942**	1,542
Commodity contracts	**–**	4
Equity contracts	**124**	144
Total	**7,406**	7,115

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

The total fair values of derivatives subject to valid bilateral netting agreements for the Group amounted to HK$7,151 million (31 December 2013: HK$173 million) and the effect of valid bilateral netting agreements amounted to HK$3,954 million (31 December 2013: HK$154 million).

22. Advances and other accounts

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Personal loans and advances	**269,321**	254,545
Corporate loans and advances	**679,383**	603,787
Advances to customers*	**948,704**	858,332
Loan impairment allowances		
– Individually assessed	**(947)**	(840)
– Collectively assessed	**(3,547)**	(3,395)
	944,210	854,097
Trade bills	**69,495**	70,846
Total	**1,013,705**	924,943

As at 30 June 2014, advances to customers included accrued interest of HK$1,513 million (31 December 2013: HK$1,344 million).

As at 30 June 2014 and 31 December 2013, no impairment allowance was made in respect of trade bills.

* Included advances to customers denominated in HK dollars of HK$593,170 million (31 December 2013: HK$552,769 million) and US dollars equivalent to HK$261,528 million (31 December 2013: HK$217,702 million).

23. Investment in securities

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
(a) Available-for-sale securities		
Debt securities, at fair value		
– Listed in Hong Kong	**24,752**	27,134
– Listed outside Hong Kong	**108,584**	123,369
	133,336	150,503
– Unlisted	**157,644**	182,469
	290,980	332,972
Certificates of deposit, at fair value		
– Listed in Hong Kong	**501**	502
– Listed outside Hong Kong	**683**	686
	1,184	1,188
– Unlisted	**47,839**	76,889
	49,023	78,077
Equity securities, at fair value		
– Listed in Hong Kong	**2,741**	2,801
– Unlisted	**1,398**	1,470
	4,139	4,271
	344,142	415,320
(b) Held-to-maturity securities		
Debt securities, at amortised cost		
– Listed in Hong Kong	**1,139**	710
– Listed outside Hong Kong	**29,633**	12,353
	30,772	13,063
– Unlisted	**40,285**	4,300
	71,057	17,363
Certificates of deposit, at amortised cost		
– Unlisted	**95**	95
	71,152	17,458
Impairment allowances	**(1)**	(3)
	71,151	17,455
(c) Loans and receivables		
Unlisted, at amortised cost	**3,760**	7,945
Total	**419,053**	440,720
Market value of listed held-to-maturity securities	**31,209**	13,132

23. Investment in securities (continued)

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

	At 30 June 2014			
	Available-for-sale securities HK$'m	**Held-to-maturity securities HK$'m**	**Loans and receivables HK$'m**	**Total HK$'m**
Sovereigns	**62,555**	**3,307**	**–**	**65,862**
Public sector entities*	**21,954**	**20,892**	**–**	**42,846**
Banks and other financial institutions	**189,206**	**37,420**	**1,897**	**228,523**
Corporate entities	**70,427**	**9,532**	**1,863**	**81,822**
	344,142	**71,151**	**3,760**	**419,053**

	At 31 December 2013			
	Available-for-sale securities HK$'m	Held-to-maturity securities HK$'m	Loans and receivables HK$'m	Total HK$'m
Sovereigns	53,060	2,318	–	55,378
Public sector entities*	46,292	137	–	46,429
Banks and other financial institutions	243,746	7,227	7,112	258,085
Corporate entities	72,222	7,773	833	80,828
	415,320	17,455	7,945	440,720

* Included available-for-sale securities of HK$20,473 million (31 December 2013: HK$24,530 million) and held-to-maturity securities of HK$2,489 million (31 December 2013: HK$58 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

Available-for-sale and held-to-maturity securities are analysed as follows:

	Available-for-sale securities		**Held-to-maturity securities**	
	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m	**At 30 June 2014 HK$'m**	At 31 December 2013 HK$'m
Treasury bills	**45,286**	33,975	**1,136**	585
Certificates of deposit	**49,023**	78,077	**95**	95
Others	**249,833**	303,268	**69,920**	16,775
	344,142	415,320	**71,151**	17,455

24. Investment properties

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
At 1 January	**14,597**	14,364
Additions	**–**	2
Fair value gains	**119**	264
Reclassification to properties, plant and equipment (Note 25)	**(417)**	(34)
Exchange difference	**(1)**	1
At period/year end	**14,298**	14,597

25. Properties, plant and equipment

	Premises HK$'m	Equipment, fixtures and fittings HK$'m	Total HK$'m
Net book value at 1 January 2014	**49,791**	**2,567**	**52,358**
Additions	**38**	**244**	**282**
Disposals	**–**	**(8)**	**(8)**
Revaluation	**1,443**	**–**	**1,443**
Depreciation for the period (Note 12)	**(514)**	**(386)**	**(900)**
Reclassification from investment properties (Note 24)	**417**	**–**	**417**
Exchange difference	**(12)**	**(7)**	**(19)**
Net book value at 30 June 2014	**51,163**	**2,410**	**53,573**
At 30 June 2014			
Cost or valuation	**51,163**	**8,430**	**59,593**
Accumulated depreciation and impairment	**–**	**(6,020)**	**(6,020)**
Net book value at 30 June 2014	**51,163**	**2,410**	**53,573**
The analysis of cost or valuation of the above assets is as follows:			
At 30 June 2014			
At cost	**–**	**8,430**	**8,430**
At valuation	**51,163**	**–**	**51,163**
	51,163	**8,430**	**59,593**

25. Properties, plant and equipment (continued)

	Premises HK$'m	Equipment, fixtures and fittings HK$'m	Total HK$'m
Net book value at 1 January 2013	46,178	2,565	48,743
Additions	376	720	1,096
Disposals	(1)	(16)	(17)
Revaluation	4,143	–	4,143
Depreciation for the year	(953)	(710)	(1,663)
Reclassification from investment properties (Note 24)	34	–	34
Exchange difference	14	8	22
Net book value at 31 December 2013	49,791	2,567	52,358
At 31 December 2013			
Cost or valuation	49,791	8,275	58,066
Accumulated depreciation and impairment	–	(5,708)	(5,708)
Net book value at 31 December 2013	49,791	2,567	52,358
The analysis of cost or valuation of the above assets is as follows:			
At 31 December 2013			
At cost	–	8,275	8,275
At valuation	49,791	–	49,791
	49,791	8,275	58,066

26. Other assets

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Repossessed assets	**57**	64
Precious metals	**3,579**	5,146
Reinsurance assets	**27,988**	23,937
Accounts receivable and prepayments	**10,991**	16,109
	42,615	45,256

NOTES TO THE INTERIM FINANCIAL INFORMATION

27. Financial liabilities at fair value through profit or loss

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Trading liabilities		
– Short positions in Exchange Fund Bills and Notes	**12,452**	9,748
– Others	**3,023**	–
	15,475	9,748
Financial liabilities designated at fair value through profit or loss		
– Structured deposits (Note 28)	**4,014**	3,832
	19,489	13,580

The carrying amount of financial liabilities designated at fair value through profit or loss as at 30 June 2014 was less than the amount that the Group would be contractually required to pay at maturity to the holders by HK$6 million (31 December 2013: HK$6 million). The amount of change in the fair values of financial liabilities at fair value through profit or loss, during the period and cumulatively, attributable to changes in own credit risk was insignificant.

28. Deposits from customers

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Current, savings and other deposit accounts (per balance sheet)	**1,436,362**	1,324,148
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 27)	**4,014**	3,832
	1,440,376	1,327,980
Analysed by:		
Demand deposits and current accounts		
– corporate	**78,261**	81,162
– personal	**24,772**	23,622
	103,033	104,784
Savings deposits		
– corporate	**222,715**	224,970
– personal	**398,798**	411,167
	621,513	636,137
Time, call and notice deposits		
– corporate	**435,126**	350,381
– personal	**280,704**	236,678
	715,830	587,059
	1,440,376	1,327,980

29. Debt securities and certificates of deposit in issue at amortised cost

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Debt securities		
– Senior notes under the Medium Term Note Programme	**5,618**	5,684
– Other debt securities	**3,337**	–
	8,955	5,684
Certificates of deposit	**541**	–
	9,496	5,684

30. Other accounts and provisions

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Other accounts payable	**46,286**	47,803
Provisions	**344**	346
	46,630	48,149

31. Assets pledged as security

As at 30 June 2014, liabilities of the Group amounting to HK$12,421 million (31 December 2013: HK$11,529 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK$3,780 million (31 December 2013: HK$3,394 million) were secured by debt securities and bills related to sale and repurchase arrangements. The amount of assets pledged by the Group to secure these liabilities was HK$16,560 million (31 December 2013: HK$15,031 million) mainly included in "Trading securities", "Available-for-sale securities" and "Trade bills".

32. Deferred taxation

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

The major components of deferred tax (assets)/liabilities recorded in the balance sheet, and the movements during the first half of 2014 and the year ended 31 December 2013 are as follows:

	At 30 June 2014					
	Accelerated tax depreciation HK$'m	**Property revaluation HK$'m**	**Losses HK$'m**	**Impairment allowance HK$'m**	**Other temporary differences HK$'m**	**Total HK$'m**
At 1 January 2014	**581**	**7,348**	**(92)**	**(594)**	**(603)**	**6,640**
(Credited)/charged to income statement (Note 15)	**(6)**	**94**	**42**	**(54)**	**23**	**99**
Charged to other comprehensive income	**–**	**169**	**–**	**–**	**722**	**891**
Exchange difference	**–**	**(1)**	**–**	**4**	**2**	**5**
At 30 June 2014	**575**	**7,610**	**(50)**	**(644)**	**144**	**7,635**

	At 31 December 2013					
	Accelerated tax depreciation HK$'m	Property revaluation HK$'m	Losses HK$'m	Impairment allowance HK$'m	Other temporary differences HK$'m	Total HK$'m
At 1 January 2013	564	6,772	(144)	(492)	617	7,317
Charged/(credited) to income statement	17	(91)	52	(100)	(16)	(138)
Charged/(credited) to other comprehensive income	–	666	–	–	(1,203)	(537)
Exchange difference	–	1	–	(2)	(1)	(2)
At 31 December 2013	581	7,348	(92)	(594)	(603)	6,640

32. Deferred taxation (continued)

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

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Deferred tax assets	**(146)**	(304)
Deferred tax liabilities	**7,781**	6,944
	7,635	6,640

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Deferred tax assets to be recovered after more than twelve months	**(108)**	(85)
Deferred tax liabilities to be settled after more than twelve months	**7,629**	7,391
	7,521	7,306

As at 30 June 2014, the Group has not recognised deferred tax assets in respect of tax losses amounting to HK$4 million (31 December 2013: HK$7 million). These tax losses do not expire under the current tax legislation.

33. Insurance contract liabilities

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
At 1 January	**66,637**	53,937
Benefits paid	**(5,612)**	(5,798)
Claims incurred and movement in liabilities	**11,238**	18,498
At period/year end	**72,263**	66,637

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK$27,943 million (31 December 2013: HK$23,902 million) and the associated reinsurance assets of HK$27,988 million (31 December 2013: HK$23,937 million) are included in "Other assets" (Note 26).

34. Subordinated liabilities

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Subordinated notes, at amortised cost with fair value hedge adjustment		
USD2,500m*	**19,768**	19,849

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

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

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

35. Share capital

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Issued and fully paid:		
10,572,780,266 ordinary shares	**52,864**	52,864

36. Reserves

The Group's reserves and the movements therein for the current and prior periods are presented in the condensed consolidated statement of changes in equity on pages 42 to 43.

37. Notes to condensed consolidated cash flow statement

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

	Half-year ended 30 June 2014 HK$'m	Half-year ended 30 June 2013 HK$'m
Operating profit	**15,054**	13,728
Depreciation	**900**	810
Net charge of impairment allowances	**379**	371
Unwind of discount on impairment allowances	**(3)**	(9)
Advances written off net of recoveries	**(94)**	46
Change in subordinated liabilities	**128**	(1,231)
Change in balances with banks and other financial institutions with original maturity over three months	**5,430**	1,872
Change in placements with banks and other financial institutions with original maturity over three months	**4,055**	12,706
Change in financial assets at fair value through profit or loss	**(4,290)**	(681)
Change in derivative financial instruments	**(2,726)**	(337)
Change in advances and other accounts	**(89,021)**	(65,943)
Change in investment in securities	**30,176**	(1,160)
Change in other assets	**2,637**	(3,117)
Change in deposits and balances from banks and other financial institutions	**(93,388)**	(34,539)
Change in financial liabilities at fair value through profit or loss	**5,909**	(1,090)
Change in deposits from customers	**112,214**	33,466
Change in debt securities and certificates of deposit in issue at amortised cost	**3,812**	(157)
Change in other accounts and provisions	**(1,519)**	120
Change in insurance contract liabilities	**5,626**	5,979
Effect of changes in exchange rates	**7,007**	2,641
Operating cash inflow/(outflow) before taxation	**2,286**	(36,525)
Cash flows from operating activities included:		
– Interest received	**21,253**	18,077
– Interest paid	**6,828**	5,148
– Dividend received	**80**	75

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

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

	At 30 June 2014 HK$'m	At 30 June 2013 HK$'m
Cash and balances with banks and other financial institutions with original maturity within three months	**322,614**	164,885
Placements with banks and other financial institutions with original maturity within three months	**12,901**	9,344
Treasury bills with original maturity within three months	**15,704**	13,032
Certificates of deposit with original maturity within three months	**149**	847
	351,368	188,108

38. Contingent liabilities and commitments

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

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Direct credit substitutes	**22,030**	17,555
Transaction-related contingencies	**10,021**	12,929
Trade-related and other contingencies	**46,761**	56,269
Commitments that are unconditionally cancellable without prior notice	**387,470**	361,772
Other commitments with an original maturity of		
– up to one year	**9,172**	6,601
– over one year	**68,713**	67,879
	544,167	523,005
Credit risk-weighted amount	**55,090**	55,353

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

39. Capital commitments

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

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Authorised and contracted for but not provided for	**318**	350
Authorised but not contracted for	**11**	11
	329	361

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

40. Operating lease commitments

(a) As lessee

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

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Land and buildings		
– not later than one year	**739**	714
– later than one year but not later than five years	**1,227**	1,188
– later than five years	**294**	323
	2,260	2,225

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

(b) As lessor

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

	At 30 June 2014 HK$'m	At 31 December 2013 HK$'m
Land and buildings		
– not later than one year	**414**	402
– later than one year but not later than five years	**421**	416
	835	818

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

41. Segmental reporting

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

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

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

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

In 2014, liquidity term premium was introduced into inter-segment funding. No revision has been made to the comparative figures in the same period of last year. However, if the same mechanism was applied in the same period of last year, it is estimated that the net interest income of Personal Banking, Corporate Banking and Treasury would be HK$3,589 million, HK$5,433 million and HK$3,609 million respectively.

41. Segmental reporting (continued)

	Personal Banking HK$'m	Corporate Banking HK$'m	Treasury HK$'m	Insurance HK$'m	Others HK$'m	Subtotal HK$'m	Eliminations HK$'m	Consolidated HK$'m
Half-year ended 30 June 2014								
Net interest income/(expense)								
– external	793	4,405	9,396	1,060	2	15,656	–	15,656
– inter-segment	3,090	1,682	(4,435)	7	(344)	–	–	–
	3,883	6,087	4,961	1,067	(342)	15,656	–	15,656
Net fee and commission income/(expense)	2,843	1,996	72	(98)	209	5,022	(207)	4,815
Net insurance premium income	–	–	–	6,497	–	6,497	(8)	6,489
Net trading gain/(loss)	215	171	882	65	(12)	1,321	8	1,329
Net (loss)/gain on financial instruments designated at fair value through profit or loss	–	–	(1)	19	–	18	–	18
Net gain on other financial assets	–	21	135	19	–	175	–	175
Other operating income	12	10	5	83	873	983	(575)	408
Total operating income	6,953	8,285	6,054	7,652	728	29,672	(782)	28,890
Net insurance benefits and claims	–	–	–	(7,241)	–	(7,241)	–	(7,241)
Net operating income before impairment allowances	6,953	8,285	6,054	411	728	22,431	(782)	21,649
Net (charge)/reversal of impairment allowances	(203)	(178)	2	–	–	(379)	–	(379)
Net operating income	6,750	8,107	6,056	411	728	22,052	(782)	21,270
Operating expenses	(3,358)	(1,728)	(689)	(133)	(1,090)	(6,998)	782	(6,216)
Operating profit/(loss)	3,392	6,379	5,367	278	(362)	15,054	–	15,054
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	119	119	–	119
Net loss from disposal/revaluation of properties, plant and equipment	(4)	–	–	–	(3)	(7)	–	(7)
Share of profits less losses after tax of associates and a joint venture	–	–	–	–	13	13	–	13
Profit/(loss) before taxation	3,388	6,379	5,367	278	(233)	15,179	–	15,179
At 30 June 2014								
Assets								
Segment assets	302,541	731,581	907,489	85,695	71,347	2,098,653	(13,720)	2,084,933
Interests in associates and a joint venture	–	–	–	–	303	303	–	303
	302,541	731,581	907,489	85,695	71,650	2,098,956	(13,720)	2,085,236
Liabilities								
Segment liabilities	788,683	690,013	352,465	80,600	13,817	1,925,578	(13,720)	1,911,858
Half-year ended 30 June 2014								
Other information								
Capital expenditure	7	1	–	3	271	282	–	282
Depreciation	175	74	33	5	613	900	–	900
Amortisation of securities	–	–	472	114	–	586	–	586

41. Segmental reporting (continued)

	Personal Banking HK$'m	Corporate Banking HK$'m	Treasury HK$'m	Insurance HK$'m	Others HK$'m	Subtotal HK$'m	Eliminations HK$'m	Consolidated HK$'m
Half-year ended 30 June 2013								
Net interest income/(expense)								
– external	849	4,982	6,591	908	1	13,331	–	13,331
– inter-segment	2,846	759	(3,396)	5	(214)	–	–	–
	3,695	5,741	3,195	913	(213)	13,331	–	13,331
Net fee and commission income/(expense)	2,797	1,863	55	(28)	136	4,823	(142)	4,681
Net insurance premium income	–	–	–	4,979	–	4,979	(8)	4,971
Net trading gain/(loss)	336	161	1,136	(163)	(35)	1,435	6	1,441
Net loss on financial instruments designated at fair value through profit or loss	–	–	(34)	(486)	–	(520)	–	(520)
Net gain on other financial assets	–	5	97	4	–	106	–	106
Other operating income	12	1	–	3	826	842	(527)	315
Total operating income	6,840	7,771	4,449	5,222	714	24,996	(671)	24,325
Net insurance benefits and claims	–	–	–	(4,534)	–	(4,534)	–	(4,534)
Net operating income before impairment allowances	6,840	7,771	4,449	688	714	20,462	(671)	19,791
Net (charge)/reversal of impairment allowances	(115)	(257)	1	–	–	(371)	–	(371)
Net operating income	6,725	7,514	4,450	688	714	20,091	(671)	19,420
Operating expenses	(3,153)	(1,641)	(532)	(124)	(913)	(6,363)	671	(5,692)
Operating profit/(loss)	3,572	5,873	3,918	564	(199)	13,728	–	13,728
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	203	203	–	203
Net gain from disposal/revaluation of properties, plant and equipment	–	–	–	–	4	4	–	4
Share of profits less losses after tax of associates and a joint venture	–	–	–	–	13	13	–	13
Profit before taxation	3,572	5,873	3,918	564	21	13,948	–	13,948
At 31 December 2013								
Assets								
Segment assets	286,067	662,806	962,077	79,580	70,050	2,060,580	(13,936)	2,046,644
Interests in associates and a joint venture	–	–	–	–	292	292	–	292
	286,067	662,806	962,077	79,580	70,342	2,060,872	(13,936)	2,046,936
Liabilities								
Segment liabilities	738,429	625,842	445,973	75,176	12,444	1,897,864	(13,936)	1,883,928
Half-year ended 30 June 2013								
Other information								
Capital expenditure	6	1	–	–	245	252	–	252
Depreciation	166	89	38	5	512	810	–	810
Amortisation of securities	–	–	298	134	–	432	–	432

42. Offsetting financial instruments

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

	At 30 June 2014					
				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial assets HK$'m	Gross amounts of recognised financial liabilities set off in the balance sheet HK$'m	Net amounts of financial assets presented in the balance sheet HK$'m	Financial instruments HK$'m	Cash collateral received HK$'m	Net amount HK$'m
Assets						
Derivative financial instruments	12,961	–	12,961	(6,735)	(1,989)	4,237
Other assets	12,035	(9,940)	2,095	–	–	2,095
Total	24,996	(9,940)	15,056	(6,735)	(1,989)	6,332

	At 30 June 2014					
				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial liabilities HK$'m	Gross amounts of recognised financial assets set off in the balance sheet HK$'m	Net amounts of financial liabilities presented in the balance sheet HK$'m	Financial instruments HK$'m	Cash collateral pledged HK$'m	Net amount HK$'m
Liabilities						
Derivative financial instruments	8,306	–	8,306	(6,735)	(369)	1,202
Repurchase agreements	3,023	–	3,023	(3,023)	–	–
Other liabilities	10,313	(9,940)	373	–	–	373
Total	21,642	(9,940)	11,702	(9,758)	(369)	1,575

42. Offsetting financial instruments (continued)

	At 31 December 2013					
				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial assets HK$'m	Gross amounts of recognised financial liabilities set off in the balance sheet HK$'m	Net amounts of financial assets presented in the balance sheet HK$'m	Financial instruments HK$'m	Cash collateral received HK$'m	Net amount HK$'m
Assets						
Derivative financial instruments	11,450	–	11,450	(6,732)	(1,826)	2,892
Other assets	13,286	(8,532)	4,754	–	–	4,754
Total	24,736	(8,532)	16,204	(6,732)	(1,826)	7,646

	At 31 December 2013					
				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial liabilities HK$'m	Gross amounts of recognised financial assets set off in the balance sheet HK$'m	Net amounts of financial liabilities presented in the balance sheet HK$'m	Financial instruments HK$'m	Cash collateral pledged HK$'m	Net amount HK$'m
Liabilities						
Derivative financial instruments	9,263	–	9,263	(6,732)	–	2,531
Repurchase agreements	2,100	–	2,100	(2,100)	–	–
Other liabilities	8,784	(8,532)	252	–	–	252
Total	20,147	(8,532)	11,615	(8,832)	–	2,783

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

43. Significant related party transactions

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

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

General information of the parent companies:

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

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

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

The majority of transactions with BOC arise from money market activities. As at 30 June 2014, the related aggregate amounts due from and to BOC of the Group were HK$138,863 million (31 December 2013: HK$130,693 million) and HK$46,604 million (31 December 2013: HK$41,263 million) respectively. The aggregate amounts of income and expenses of the Group arising from these transactions with BOC for the first half of 2014 were HK$2,761 million (first half of 2013: HK$752 million) and HK$159 million (first half of 2013: HK$50 million) respectively. Transactions with other companies controlled by BOC are not considered material.

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

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

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

– lending, provision of credits and guarantees, and deposit taking;

– inter-bank balance taking and placing;

– sales, purchase, underwriting and redemption of bonds issued by other state controlled entities;

– rendering of foreign exchange, remittance and investment related services;

– provision of fiduciary activities; and

– purchase of utilities, transport, telecommunication and postage services.

43. Significant related party transactions (continued)

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

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

	Half-year ended 30 June 2014		Half-year ended 30 June 2013	
	Associates and joint venture HK$'m	**Other related parties HK$'m**	Associates and joint venture HK$'m	Other related parties HK$'m
Income statement items:				
Administrative services fees received/receivable	**–**	**4**	–	4
Other operating expenses	**26**	**–**	21	–

	At 30 June 2014		At 31 December 2013	
	Associates and joint venture HK$'m	**Other related parties HK$'m**	Associates and joint venture HK$'m	Other related parties HK$'m
Balance sheet items:				
Deposits from customers	**1**	**–**	22	–
Other accounts and provisions	**33**	**–**	–	–

(d) Key management personnel

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

The compensation of key management personnel is detailed as follows:

	Half-year ended 30 June 2014 HK$'m	Half-year ended 30 June 2013 HK$'m
Salaries and other short-term employee benefits	**22**	24
Post-employment benefits	**1**	1
	23	25

44. Currency concentrations

The following is a summary of the major foreign currency exposures arising from trading, non-trading and structural positions and is prepared with reference to the Completion Instructions for the prudential return "Foreign Currency Position of an Authorised Institution" issued by the HKMA. The net options position is calculated based on the basis of delta-weighted positions of all foreign exchange options contracts.

	At 30 June 2014							
	Equivalent in million of HK$							
	US Dollars	**Japanese Yen**	**Euro**	**Australian Dollars**	**Pound Sterling**	**Renminbi**	**Other foreign currencies**	**Total foreign currencies**
Spot assets	**549,749**	**2,782**	**17,533**	**22,738**	**7,889**	**592,013**	**14,699**	**1,207,403**
Spot liabilities	**(408,454)**	**(4,899)**	**(14,560)**	**(23,193)**	**(10,921)**	**(500,034)**	**(17,264)**	**(979,325)**
Forward purchases	**710,444**	**45,236**	**72,894**	**39,104**	**25,930**	**373,830**	**38,239**	**1,305,677**
Forward sales	**(838,712)**	**(43,172)**	**(76,061)**	**(38,577)**	**(22,904)**	**(462,200)**	**(35,814)**	**(1,517,440)**
Net options position	**3,063**	**1**	**(3,458)**	**(43)**	**(35)**	**(3,138)**	**(16)**	**(3,626)**
Net long/(short) position	**16,090**	**(52)**	**(3,652)**	**29**	**(41)**	**471**	**(156)**	**12,689**
Net structural position	**366**	**–**	**–**	**–**	**–**	**9,341**	**–**	**9,707**

	At 31 December 2013							
	Equivalent in million of HK$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	537,034	1,093	11,963	22,583	1,447	589,995	16,566	1,180,681
Spot liabilities	(387,497)	(3,797)	(11,663)	(31,203)	(12,441)	(540,509)	(17,849)	(1,004,959)
Forward purchases	438,862	42,992	49,900	34,026	25,008	197,747	36,646	825,181
Forward sales	(581,245)	(40,424)	(50,197)	(25,635)	(14,046)	(239,842)	(35,547)	(986,936)
Net options position	2,416	–	(1)	(5)	4	(2,991)	(5)	(582)
Net long/(short) position	9,570	(136)	2	(234)	(28)	4,400	(189)	13,385
Net structural position	333	–	–	–	–	9,075	–	9,408

45. Cross-border claims

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

	At 30 June 2014			
	Banks HK$'m	**Public sector entities* HK$'m**	**Others HK$'m**	**Total HK$'m**
Asia, other than Hong Kong				
– Mainland of China	**406,167**	**72,768**	**189,701**	**668,636**
– Others	**61,855**	**7,117**	**36,463**	**105,435**
Total	**468,022**	**79,885**	**226,164**	**774,071**

	At 31 December 2013			
	Banks HK$'m	Public sector entities* HK$'m	Others HK$'m	Total HK$'m
Asia, other than Hong Kong				
– Mainland of China	399,428	128,223	150,889	678,540
– Others	50,034	9,441	31,982	91,457
Total	449,462	137,664	182,871	769,997

* There are no exposures eligible to be classified as public sector entities under the Banking (Capital) Rules in the tables above.

46. Non-bank Mainland exposures

The analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties and the type of direct exposures with reference to the Completion Instructions for the HKMA return of non-bank Mainland exposures. The Group's Mainland exposures arising from non-bank counterparties are summarised as follows:

	At 30 June 2014			
	On-balance sheet exposure HK$'m	**Off-balance sheet exposure HK$'m**	**Total exposure HK$'m**	**Individually assessed impairment allowances HK$'m**
Mainland entities	**419,547**	**69,524**	**489,071**	**468**
Companies and individuals outside Mainland where the credit is granted for use in Mainland	**55,727**	**12,364**	**68,091**	**249**
Other non-bank Mainland exposures	**29,927**	**2,087**	**32,014**	**71**
	505,201	**83,975**	**589,176**	**788**

	At 31 December 2013			
	On-balance sheet exposure HK$'m	Off-balance sheet exposure HK$'m	Total exposure HK$'m	Individually assessed impairment allowances HK$'m
Mainland entities	373,439	82,774	456,213	234
Companies and individuals outside Mainland where the credit is granted for use in Mainland	52,238	15,745	67,983	135
Other non-bank Mainland exposures	25,375	1,651	27,026	15
	451,052	100,170	551,222	384

47. Compliance with HKAS 34

The unaudited interim financial information for the first half of 2014 complies with HKAS 34 "Interim Financial Reporting" issued by the HKICPA.

48. Statutory accounts

The information in this interim report is unaudited and does not constitute statutory accounts. The statutory accounts for the year ended 31 December 2013 have been delivered to the Registrar of Companies and the HKMA. The auditor expressed an unqualified opinion on those statutory accounts in the report dated 26 March 2014.

ADDITIONAL INFORMATION

1. Corporate information

Board of Directors

Chairman
TIAN Guoli#

Vice Chairmen

CHEN Siqing#	(appointment as Vice Chairman effective from 25 March 2014)
HE Guangbei	
LI Lihui#	(resignation effective from 25 March 2014)

Directors

LI Zaohang#	
ZHU Shumin#	(appointment effective from 22 May 2014)
YUE Yi#	(appointment effective from 22 May 2014)
GAO Yingxin	
KOH Beng Seng*	
NING Gaoning*	
SHAN Weijian*	
TUNG Savio Wai-Hok*	
ZHOU Zaiqun#	(retirement effective from 25 March 2014)
FUNG Victor Kwok King*	(retirement effective from 11 June 2014)

Non-executive Directors
* Independent Non-executive Directors

Senior Management

Chief Executive	HE Guangbei
Deputy Chief Executive	GAO Yingxin
Chief Financial Officer	ZHUO Chengwen
Deputy Chief Executive	YEUNG Jason Chi Wai
Chief Risk Officer	LI Jiuzhong
Chief Operating Officer	LEE Alex Wing Kwai
Deputy Chief Executives	ZHU Yanlai HUANG Hong

Company Secretary

CHAN Chun Ying

Registered Office

52nd Floor
Bank of China Tower
1 Garden Road
Hong Kong

Auditor

Ernst & Young

Share Registrar

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

ADR Depositary Bank

Citibank, N.A.
388 Greenwich Street
14th Floor
New York, NY 10013
United States of America

Credit Ratings (Long Term)

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

Index Constituent

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

Stock Codes

Ordinary shares:

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

Level 1 ADR Programme:

CUSIP No.	096813209
OTC Symbol	BHKLY

Website

www.bochk.com

2. Dividend and closure of register of members

The Board has declared an interim dividend of HK$0.545 per share (2013: HK$0.545), payable on Thursday, 25 September 2014 to shareholders whose names appear on the Register of Members of the Company on Thursday, 18 September 2014.

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to the interim dividend, from Monday, 15 September 2014 to Thursday, 18 September 2014 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the interim dividend, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Friday, 12 September 2014. Shares of the Company will be traded ex-dividend as from Thursday, 11 September 2014.

3. Substantial interests in share capital

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 30 June 2014, the following parties had the following interests (as defined in the SFO) in the Company set opposite their respective names:

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

Notes:

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

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

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

All the interests stated above represented long positions. Apart from the disclosure above, according to the register maintained by the Company pursuant to section 336 of the SFO, BOCI Financial Products Limited had an interest in 143,522 shares which represented short positions. BOC and Central Huijin are deemed to be interested in such number of shares for the purpose of the SFO. Save as disclosed, no other interests or short positions were recorded in the register maintained by the Company under section 336 of the SFO as at 30 June 2014.

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

As at 30 June 2014, the Directors, the Chief Executive and their respective associates had the following interests in the shares and underlying shares of the Company, as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"):

Name of Director	Number of shares/underlying shares held					Approximate % of the total issued shares
	Personal interests	Family interests	Corporate interests	Other interests	Total	
HE Guangbei	100,000	–	–	–	100,000	0.0009%
NING Gaoning	–	25,000[Note]	–	–	25,000	0.0002%
Total	100,000	25,000	–	–	125,000	0.0011%

Note: Such shares are held by the spouse of Mr NING Gaoning.

Save as disclosed above, as at 30 June 2014, none of the Directors or the Chief Executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

5. Changes of information in respect of Directors

In accordance with Rule 13.51B(1) of the Listing Rules, the changes in information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules after the publication of the Company's Annual Report 2013 on 26 March 2014 up to 19 August 2014 (being the approval date of this Interim Report) are set out below:

Experience including other directorships

(a) Mr CHEN Siqing, Vice Chairman of the Company, has been appointed as a Director of BOC (BVI) and BOCHKG (both are controlling shareholders of the Company) with effect from 25 March 2014. Mr CHEN has also been appointed as Vice Chairman and Executive Director of BOC with effect from 4 April 2014.

(b) Mr GAO Yingxin, Deputy Chief Executive of the Company, has been appointed as the Chairman of NCB with effect from 23 April 2014.

(c) Mr ZHU Shumin and Mr YUE Yi have been appointed as Non-executive Directors, members of each of the Risk Committee and the Strategy and Budget Committee of the Company and the Bank with effect from 22 May 2014.

(d) Dr FUNG Victor Kwok King has been retired as an Independent Non-executive Director of the Company and the Bank with effect from the conclusion of their respective annual general meetings held on 11 June 2014 ("AGM"). On the same day, Dr FUNG also ceased to be member of each of the Audit Committee and the Strategy and Budget Committee of the Company and the Bank.

(e) Mr TUNG Savio Wai-Hok, Independent Non-executive Director of the Company, ceased as a board member of the Committee of 100 since July 2013.

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

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

7. Audit Committee

The Audit Committee consists only of Non-executive Directors, the majority of whom are Independent Non-executive Directors. It is chaired by Independent Non-executive Director Mr SHAN Weijian. Other members include Mr ZHOU Zaiqun[1], Dr FUNG Victor Kwok King[2], Mr KOH Beng Seng and Mr TUNG Savio Wai-Hok.

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

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

Notes:

1. Mr ZHOU Zaiqun retired as Non-executive Director and ceased to be a member of the Audit Committee with effect from 25 March 2014.

2. Dr FUNG Victor Kwok King retired as Independent Non-executive Director and ceased to be a member of the Audit Committee with effect from 11 June 2014.

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

The Company is committed to embracing and enhancing good corporate governance principles and practices. During the period under review, the Company has been in full compliance with all code provisions of the Corporate Governance Code and Corporate Governance Report as contained in Appendix 14 of the Listing Rules (the "Corporate Governance Code"). The Company has also complied with nearly all the recommended best practices set out in the Corporate Governance Code throughout the period. For further details, please refer to the section titled "Corporate Governance" contained in the Annual Report 2013 of the Company.

9. Constitutional Documents

During the period under review, shareholders of the Company approved the adoption of new articles of association (the "Articles") at the AGM, of which the new Articles incorporated (among other things) certain key changes under the new Companies Ordinance which came into effect on 3 March 2014. For details of the amendments to the Articles, please refer to the circular of the Company dated 14 April 2014.

10. Compliance with the Codes for Securities Transactions by Directors

The Company has established and implemented the "Code for Securities Transactions by Directors" (the "Company's Code") to govern the Directors' dealings in securities transactions of the Company. Terms of the Company's Code are more stringent than the mandatory standards set out in the Model Code. Apart from the securities of the Company, the Company's Code also applies to the Directors' dealings in the securities of BOC which has been listing on the Hong Kong Stock Exchange in June 2006. In this connection, the Company had made specific enquiry of all Directors, who confirmed that they had strictly complied with the provisions set out in both the Company's Code and the Model Code throughout the period under review. The Company had undertaken a review of the Company's Code in October 2013. There were no fundamental amendments to the Company's Code and changes were in adaptive nature mainly to refine the Company's Code.

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

The unaudited interim report complies with the applicable requirements set out in the Banking (Disclosure) Rules under the Banking Ordinance and the applicable disclosure provisions of the Listing Rules.

12. Interim Report

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

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

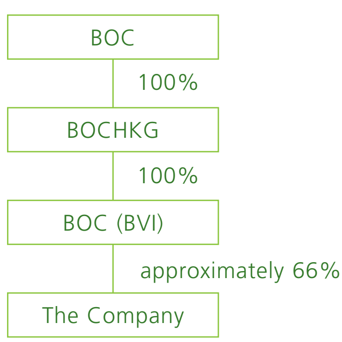
If you have any queries about how to obtain copies of this Interim Report or how to access those corporate communications on the Company's website, please call the Company's hotline at (852) 2846 2700.

13. Reconciliation between HKFRSs vs IFRS/CAS

The Company understands that BOC, an intermediate holding company as well as controlling shareholder of the Company, will prepare and disclose consolidated financial information in accordance with IFRS and CAS for which the Company and its subsidiaries will form part of the interim financial information. CAS is the new set of PRC accounting standards that has been effective for annual periods beginning on or after 1 January 2007 for companies publicly listed in PRC. The requirements of CAS have substantially converged with HKFRSs and IFRS.

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

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



13. Reconciliation between HKFRSs vs IFRS/CAS (continued)

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

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

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

– restatement of carrying value of bank premises; and

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

(a) Restatement of carrying value of bank premises

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

(b) Deferred tax adjustments

These represent the deferred tax effect of the aforesaid adjustments.

Profit after tax/net assets reconciliation

HKFRSs vs IFRS/CAS

	Profit after tax		Net assets	
	Half-year ended 30 June 2014 HK$'m	Half-year ended 30 June 2013 HK$'m	**At 30 June 2014 HK$'m**	At 31 December 2013 HK$'m
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs	**12,333**	11,657	**173,378**	163,008
Add: IFRS/CAS adjustments				
Restatement of carrying value of bank premises	**398**	354	**(39,045)**	(38,515)
Deferred tax adjustments	**(60)**	(43)	**6,489**	6,383
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRS/CAS	**12,671**	11,968	**140,822**	130,876

INDEPENDENT REVIEW REPORT

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

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

Introduction

We have reviewed the interim financial information set out on pages 39 to 117, which comprises the condensed consolidated balance sheet of BOC Hong Kong (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2014 and the related condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six-month period then ended, and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

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

Ernst & Young

Ernst & Young
Certified Public Accountants
Hong Kong, 19 August 2014

APPENDIX

Subsidiaries of the Company

The particulars of our subsidiaries are as follows:

Name of company	Place and date of incorporation/ operation/ registration	Issued and fully paid up share capital/ registered capital/ units in issue	Interest held	Principal activities
Directly held:				
Bank of China (Hong Kong) Limited	Hong Kong 16 October 1964	Ordinary shares HK$43,042,840,858	100.00%	Banking business
BOC Group Life Assurance Company Limited	Hong Kong 12 March 1997	Ordinary shares HK$3,038,000,000	51.00%	Life insurance business
BOCHK Asset Management (Cayman) Limited	Cayman Islands 7 October 2010	Ordinary shares HK$50,000,000	100.00%	Investment holding
Indirectly held:				
Nanyang Commercial Bank, Limited	Hong Kong 2 February 1948	Ordinary shares HK$3,144,517,396	100.00%	Banking business
Chiyu Banking Corporation Limited	Hong Kong 24 April 1947	Ordinary shares HK$300,000,000	70.49%	Banking business
BOC Credit Card (International) Limited	Hong Kong 9 September 1980	Ordinary shares HK$480,000,000	100.00%	Credit card services
Bank of China (Hong Kong) Nominees Limited	Hong Kong 1 October 1985	Ordinary shares HK$2	100.00%	Nominee services
Bank of China (Hong Kong) Trustees Limited	Hong Kong 6 November 1987	Ordinary shares HK$3,000,000	100.00%	Trustee and agency services
BNPP Flexi III China Fund	Luxembourg 15 December 2009	Units in issue HK$778,161,108	51.00%	Investment
BOC Group Trustee Company Limited	Hong Kong 1 December 1997	Ordinary shares HK$200,000,000	64.20%	Trustee services
BOCHK Asset Management Limited	Hong Kong 28 October 2010	Ordinary shares HK$39,500,000	100.00%	Asset management
BOCHK Financial Products (Cayman) Limited	Cayman Islands 10 November 2006	Ordinary shares US$50,000	100.00%	Issuing structured notes
BOCHK Information Technology (Shenzhen) Co., Ltd.	PRC 16 April 1990	Registered capital HK$70,000,000	100.00%	Property holding and investment
BOCHK Information Technology Services (Shenzhen) Ltd.	PRC 26 May 1993	Registered capital HK$40,000,000	100.00%	Information technology services
BOCI-Prudential Trustee Limited	Hong Kong 11 October 1999	Ordinary shares HK$300,000,000	41.10%	Trustee services
Che Hsing (Nominees) Limited	Hong Kong 23 April 1980	Ordinary shares HK$10,000	100.00%	Nominee services

Subsidiaries of the Company (continued)

Name of company	Place and date of incorporation/ operation/ registration	Issued and fully paid up share capital/ registered capital/ units in issue	Interest held	Principal activities
Chiyu Banking Corporation (Nominees) Limited	Hong Kong 3 November 1981	Ordinary shares HK$100,000	70.49%	Investment holding
Grace Charter Limited	Hong Kong 4 May 2001	Ordinary shares HK$2	70.49%	Investment holding
G.Z.Y. Microfilm Technology (Shenzhen) Co., Ltd.	PRC 24 September 1993	Registered capital HK$40,000,000	100.00%	Property holding and investment
Kwong Li Nam Investment Agency Limited	Hong Kong 25 May 1984	Ordinary shares HK$3,050,000	100.00%	Investment agency
Nanyang Commercial Bank (China), Limited	PRC 14 December 2007	Registered capital RMB6,500,000,000	100.00%	Banking business
Nanyang Commercial Bank (Nominees) Limited	Hong Kong 22 August 1980	Ordinary shares HK$50,000	100.00%	Nominee services
Nanyang Commercial Bank Trustee Limited	Hong Kong 22 October 1976	Ordinary shares HK$3,000,000	100.00%	Trustee services
Po Sang Financial Investment Services Company Limited	Hong Kong 23 September 1980	Ordinary shares HK$95,000,000	100.00%	Gold trading and investment holding
Po Sang Futures Limited	Hong Kong 19 October 1993	Ordinary shares HK$95,000,000	100.00%	Securities and futures brokerage
Seng Sun Development Company, Limited	Hong Kong 11 December 1961	Ordinary shares HK$2,800,000	70.49%	Investment holding
Sin Chiao Enterprises Corporation, Limited	Hong Kong 13 September 1961	Ordinary shares HK$3,000,000	100.00%	Property holding and investment
Sin Hua Trustee Limited	Hong Kong 27 October 1978	Ordinary shares HK$3,000,000	100.00%	Trustee services
Sino Information Services Company Limited	Hong Kong 11 February 1993	Ordinary shares HK$7,000,000	100.00%	Information services

BOC Travel Services Limited was dissolved on 5 June 2014.

G.Z.Y. Microfilm Technology (Shenzhen) Co., Ltd. commenced winding up on 26 December 2011, and returned BOCHK's investment on 23 June 2014.

Pursuant to the new Companies Ordinance (Chapter 622, Laws of Hong Kong) which has commenced operation on 3 March 2014, all shares issued by a company incorporated in Hong Kong before, on and after that commencement date shall have no par value and the relevant concept of authorised share capital is abolished, the balance of Nanyang Commercial Bank, Limited's share premium account as at 3 March 2014 has been transferred to share capital.

DEFINITIONS

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

Terms	Meanings
"ABS"	Asset-backed Securities
"ADR"	American Depositary Receipt
"ALCO"	the Asset and Liability Management Committee
"AT1"	Additional Tier 1
"Associates"	has the meaning ascribed to "associates" in the Listing Rules
"BOC"	Bank of China Limited, a joint stock commercial bank with limited liability established under the laws of the PRC, the H shares and A shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively
"BOC (BVI)"	BOC Hong Kong (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of BOCHKG
"BOCG Insurance"	Bank of China Group Insurance Company Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCHKG"	BOC Hong Kong (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCHK" or "the Bank"	Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of the Company
"BOCI"	BOC International Holdings Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCI-Prudential Manager"	BOCI-Prudential Asset Management Limited, a company incorporated under the laws of Hong Kong, in which BOCI Asset Management Limited, a wholly-owned subsidiary of BOC International Holdings Limited, and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOCI-Prudential Trustee"	BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong, in which BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOCG Life"	BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOCG Insurance hold equity interests of 51% and 49% respectively
"Board" or "Board of Directors"	the Board of Directors of the Company
"CAS"	China Accounting Standards for Business Enterprises
"CE"	Chief Executive
"CET1"	Common Equity Tier 1
"CFO"	Chief Financial Officer
"CIC"	China Investment Corporation

DEFINITIONS

Terms	Meanings
"CRO"	Chief Risk Officer
"CVA"	Credit Valuation Adjustment
"Central Huijin"	Central Huijin Investment Ltd.
"Chiyu"	Chiyu Banking Corporation Limited, a company incorporated under the laws of Hong Kong, in which BOCHK holds an equity interest of 70.49%
"DCE"	Deputy Chief Executive
"DVA"	Debit Valuation Adjustment
"ETF"	Exchange Traded Fund
"EV"	Economic Value Sensitivity Ratio
"Fitch"	Fitch Ratings
"GDP"	Gross Domestic Product
"HIBOR"	Hong Kong Interbank Offered Rate
"HKAS(s)"	Hong Kong Accounting Standard(s)
"HKFRS(s)"	Hong Kong Financial Reporting Standard(s)
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HK(IFRIC)-Int"	Hong Kong (IFRIC) Interpretation
"HKMA"	Hong Kong Monetary Authority
"Hong Kong" or "Hong Kong SAR" or "HKSAR"	Hong Kong Special Administrative Region
"ICAAP"	Internal Capital Adequacy Assessment Process
"IFRS"	International Financial Reporting Standards
"IT"	Information Technology
"LIBOR"	London Interbank Offered Rate
"LSC"	Legal Services Centre
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MBS"	Mortgage-backed Securities
"MC"	the Management Committee
"MPF"	Mandatory Provident Fund

Terms	Meanings
"MPF Schemes Ordinance"	the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong, as amended
"Mainland" or "Mainland of China"	the mainland of the PRC
"Medium Term Note Programme"	the medium term note programme was established by BOCHK on 2 September 2011
"Moody's"	Moody's Investors Service
"NCB"	Nanyang Commercial Bank, Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK
"NCB (China)"	Nanyang Commercial Bank (China), Limited, a company incorporated under the laws of the PRC and a wholly-owned subsidiary of NCB
"OR&CD"	the Operational Risk & Compliance Department
"ORSO schemes"	the Occupational Retirement Schemes under Occupational Retirement Schemes Ordinance, Chapter 426 of the Laws of Hong Kong
"OTC"	Over-the-counter
"PRC"	the People's Republic of China
"PVBP"	Price Value of a Basis Point
"QDII"	Qualified Domestic Institutional Investors
"RC"	the Risk Committee
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"RMD"	the Risk Management Department
"RQFII"	Renminbi Qualified Foreign Institutional Investors
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"SME(s)"	Small and Medium-sized Enterprise(s)
"Standard & Poor's"	Standard & Poor's Ratings Services
"Stock Exchange" or "Hong Kong Stock Exchange" or "Stock Exchange of Hong Kong"	The Stock Exchange of Hong Kong Limited
"the Company"	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong
"the Group"	the Company and its subsidiaries collectively referred as the Group
"US"	the United States of America
"VAR"	Value at Risk

中銀香港(控股)有限公司
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