

# 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 for the initial adoption of the below mentioned standard, amendment and interpretation, 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 2018 and shall be read in conjunction with the Group’s Annual Report for 2018.

#### **Standard, amendment and interpretation that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2019**

The Group has initially applied HKFRS 16 “Leases” and other amendment and interpretation from 1 January 2019 onwards. Except for HKFRS 16, of which the impacts to the Group’s financial statements being significant, the application of other amendment and interpretation does not have material effects on the Group’s financial statements. Details are disclosed as below:

- HKFRS 16, “Leases”. HKFRS 16 supersedes the existing standard and interpretations related to leases. Significant changes to lessees’ accounting are introduced, with the distinction between operating and finance leases removed. Lessees account for all leases in a similar way as the finance lease accounting under HKAS 17, i.e. the lessees recognise and measure the corresponding “right-of-use” asset and lease liability at the commencement date (the date when the underlying asset is available for use by lessees) of the lease by discounting the total future lease payment. Subsequently, the lessees recognise interest expense through the unwinding of the lease liability, and the expense on the depreciation of the right-of-use asset, instead of recognising as rental expenses under operating leases before the implementation of HKFRS 16. As a practical expedient, the lessees can elect not to apply this accounting model to short-term leases not more than 12 months and leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term. There are no significant changes to the lessors’ accounting requirements as compared with HKAS 17. The requirements of HKFRS 16 are summarised as follows:

Lease liabilities are the discounted present value of the future cash flows of the non-cancellable lease payments of the lease contracts, after taking into account payments to be made in optional period if the extension option is reasonably certain to be exercised, using the lessees’ incremental borrowing rates at the commencement date of leases as discount rate.

Right-of-use assets are generally measured at the amount of the lease liabilities plus initial direct costs, estimated dismantling or restoring cost and adjusted by prepaid lease payments. Right-of-use assets are subsequently measured at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any remeasurement of the lease liability.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

### (b) Significant accounting policies (continued)

**Standard, amendment and interpretation that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2019 (continued)**

After the commencement date, the carrying value of lease liability will be increased to reflect the unwinding of discount through interest expense and will be reduced to reflect the lease payments made. The lease liability will also be remeasured if there is any modification to the lease contracts. Right-of-use assets are depreciated by straight-line method from commencement date to the end of lease term. In case there is a purchase option that is expected to be exercised, then the right-of-use asset will be depreciated to the end of the useful life of the underlying asset.

The Group has elected to use the modified retrospective approach and the practical expedient on short-term and low-value assets leases for the adoption of HKFRS 16 and recognised the cumulative effect of the initial application by initially recognising the opening balances of the right-of-use assets and lease liabilities at 1 January 2019 with no restatement of the comparative information. The initial application has affected lease contracts that previously classified as operating leases.

The first time application of HKFRS 16 resulted in the initial recognition of lease liabilities (recorded under "Other accounts and provisions" in the balance sheet) of HK\$1,743 million and right-of-use assets (recorded under "Properties, plant and equipment" in the balance sheet) of HK\$1,757 million respectively, mainly related to lease of properties. The difference between lease liabilities and right-of-use assets is related to the adjustment arising from prepaid or accrued rent as at the initial adoption date. Initial direct costs were not included in the opening adjustment of right-of-use assets as permitted by the transition requirements of the standard.

The Group also holds interests in government land leases in Hong Kong and Mainland of China of which the lease payments have been paid, and had been classified as finance lease and capitalised before the adoption of HKFRS 16. So far as the impact on the adoption of HKFRS 16 is concerned, the Group is not required to make any adjustments or reclassification at the date of initial application of HKFRS 16 on leasehold lands and the properties located there, other than identifying their carrying amounts in the disclosure notes of the corresponding assets. There is no impact on the opening balance of equity.

- HKAS 28 (2011) (Amendments), "Long-term Interests in Associates and Joint Ventures". The amendments clarify that long-term interests such as preference shares or shareholder's loans, to which the equity method shall not be applied, are in the scope of both HKFRS 9 and HKAS 28 and explain that HKFRS 9 is applied independently before the allocation of losses under the equity method. The amendments are applied retrospectively. The application of the amendments does not have a material impact on the Group's financial statements.
- HK(IFRIC) – Int 23, "Uncertainty over Income Tax Treatments". The interpretation specifies how an entity should reflect and measure the effects of uncertainty in accounting for income taxes by determining how probable that a taxation authority will accept an uncertain tax treatment. The interpretation is applied on a modified retrospective basis. The application of this interpretation does not have a material impact on the Group's financial statements.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

### (c) *Standard and amendments issued that are relevant to the Group but not yet mandatorily effective and have not been early adopted by the Group in 2019*

Standard/ Amendments	Content	Applicable for financial years beginning on/after
HKAS 1 and HKAS 8 (Amendments)	Definition of Material	1 January 2020
HKAS 28 (2011) and HKFRS 10 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
HKFRS 3 (Amendments)	Definition of a Business	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021

- Please refer to Note 2.1(b) of the Group's Annual Report for 2018 for brief explanations of the above-mentioned standard and amendments.

### (d) *Improvements to HKFRSs*

"Improvements to HKFRSs" contains numerous amendments to HKFRSs which HKICPA considers not urgent but necessary. The amendments comprise of clarification to changes in presentation, recognition or measurement purpose, amendments to the basis for conclusions as well as terminology or editorial amendments related to each HKFRS. These improvements do not have a material impact on the Group's financial statements.

## 2. Critical accounting estimates and judgements in applying accounting policies

The nature and assumptions related to the Group's accounting estimates in this reporting period are consistent with those used in the Group's financial statements for the year ended 31 December 2018.

## 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) **Advances and other accounts**

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 to exceed the approved limit that was advised to the borrower.

Advances are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred such as past due for more than 90 days or the borrower is unlikely to pay in full for the credit obligations to the Group. Credit-impaired advances are classified as Stage 3 and lifetime expected credit losses will be recognised.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

#### (A) Advances and other accounts (continued)

Evidence that an advance is credit-impaired include observable data about the following events:

- Significant financial difficulty incurred by the borrower;
- A breach of contract, such as a default or delinquency in principal or interest payment;
- For economic or legal reasons related to the borrower's financial difficulty, the Group has granted to the borrower a concession that it would not otherwise consider;
- Probable that the borrower will become bankrupt or undergo other financial reorganisation; or
- Other observable data indicating that there is a measurable decrease in the estimated future cash flows from such advances.

Advances classified as Stage 3 may not necessarily result in impairment loss where the advances are fully collateralised.

Gross advances and other accounts before impairment allowances are analysed by internal credit grade and stage classification as follows:

	At 30 June 2019			
	Stage 1 HK\$'m	Stage 2 HK\$'m	Stage 3 HK\$'m	Total HK\$'m
<b>Advances to customers</b>				
Pass	1,340,752	3,921	–	1,344,673
Special mention	2,629	2,584	–	5,213
Substandard or below	–	–	2,652	2,652
	<b>1,343,381</b>	<b>6,505</b>	<b>2,652</b>	<b>1,352,538</b>
<b>Trade bills</b>				
Pass	20,530	–	–	20,530
Special mention	–	–	–	–
Substandard or below	–	–	4	4
	<b>20,530</b>	<b>–</b>	<b>4</b>	<b>20,534</b>
<b>Advances to banks and other financial institutions</b>				
Pass	3,248	–	–	3,248
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	<b>3,248</b>	<b>–</b>	<b>–</b>	<b>3,248</b>
	<b>1,367,159</b>	<b>6,505</b>	<b>2,656</b>	<b>1,376,320</b>
Impairment allowances	(4,089)	(313)	(1,637)	(6,039)
	<b>1,363,070</b>	<b>6,192</b>	<b>1,019</b>	<b>1,370,281</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

#### (A) Advances and other accounts (continued)

	At 31 December 2018			
	Stage 1 HK\$m	Stage 2 HK\$m	Stage 3 HK\$m	Total HK\$m
<b>Advances to customers</b>				
Pass	1,254,766	5,019	–	1,259,785
Special mention	1,934	3,133	–	5,067
Substandard or below	–	–	2,383	2,383
	1,256,700	8,152	2,383	1,267,235
<b>Trade bills</b>				
Pass	17,357	–	–	17,357
Special mention	–	–	–	–
Substandard or below	–	–	4	4
	17,357	–	4	17,361
<b>Advances to banks and other financial institutions</b>				
Pass	3,822	–	–	3,822
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	3,822	–	–	3,822
	1,277,879	8,152	2,387	1,288,418
Impairment allowances	(3,748)	(546)	(1,130)	(5,424)
	1,274,131	7,606	1,257	1,282,994

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

#### (A) Advances and other accounts (continued)

Reconciliation of impairment allowances for advances and other accounts is as follows:

	At 30 June 2019			
	Stage 1 HK\$'m	Stage 2 HK\$'m	Stage 3 HK\$'m	Total HK\$'m
<b>Impairment allowances</b>				
At 1 January 2019, as previously reported	3,740	546	1,130	5,416
Effect of merger of entity under common control	8	–	–	8
At 1 January 2019, as restated	3,748	546	1,130	5,424
Transfer to Stage 1	102	(91)	(11)	–
Transfer to Stage 2	(32)	48	(16)	–
Transfer to Stage 3	(3)	(176)	179	–
Changes arising from transfer of stage	(87)	83	494	490
Other changes (including new assets and derecognised assets)	363	(95)	(41)	227
Write-offs	–	–	(206)	(206)
Recoveries	–	–	100	100
Unwind of discount on impairment allowances	–	–	–	–
Exchange difference	(2)	(2)	8	4
At 30 June 2019	4,089	313	1,637	6,039
Charged to income statement (Note 12)				717

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

#### (A) Advances and other accounts (continued)

	At 31 December 2018			
	Stage 1 HK\$m	Stage 2 HK\$m	Stage 3 HK\$m	Total HK\$m
<b>Impairment allowances</b>				
At 1 January 2018, as previously reported	3,689	651	618	4,958
Effect of merger of entity under common control	3	–	–	3
At 1 January 2018, as restated	3,692	651	618	4,961
Transfer to Stage 1	267	(253)	(14)	–
Transfer to Stage 2	(38)	53	(15)	–
Transfer to Stage 3	(7)	(240)	247	–
Changes arising from transfer of stage	(241)	293	815	867
Other changes (including new assets and derecognised assets)	79	43	194	316
Write-offs	–	–	(834)	(834)
Recoveries	–	–	120	120
Unwind of discount on impairment allowances	–	–	(1)	(1)
Exchange difference	(4)	(1)	–	(5)
At 31 December 2018	3,748	546	1,130	5,424

#### (a) Impaired advances

Impaired advances to customers are analysed as follows:

	At 30 June 2019		At 31 December 2018	
	Impaired HK\$m	Classified or impaired HK\$m	Impaired HK\$m	Classified or impaired HK\$m
Gross advances to customers	2,652	2,652	2,383	2,383
Percentage of gross advances to customers	0.20%	0.20%	0.19%	0.19%
Impairment allowances made in respect of such advances	1,633	1,633	1,126	1,126

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 classified as Stage 3.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

#### (A) Advances and other accounts (continued)

##### (a) Impaired advances (continued)

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

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
Current market value of collateral held against the covered portion of impaired advances to customers	1,636	2,988
Covered portion of impaired advances to customers	878	1,511
Uncovered portion of impaired advances to customers	1,774	872

As at 30 June 2019, gross impaired trade bills amounted to HK\$4 million (31 December 2018: HK\$4 million), and there were no impaired advances to banks and other financial institutions (31 December 2018: Nil).

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

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

	At 30 June 2019		At 31 December 2018	
	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	769	0.06%	443	0.04%
– one year or less but over six months	438	0.03%	309	0.02%
– over one year	594	0.04%	310	0.02%
Advances overdue for over three months	1,801	0.13%	1,062	0.08%
Impairment allowances made in respect of such advances				
– Stage 3	1,334		828	



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

#### (A) Advances and other accounts (continued)

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

	<b>At 30 June 2019 HK\$'m</b>	At 31 December 2018 HK\$'m
Current market value of collateral held against the covered portion of such advances to customers	<b>527</b>	849
Covered portion of such advances to customers	<b>313</b>	349
Uncovered portion of such advances to customers	<b>1,488</b>	713

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

As at 30 June 2019, gross trade bills overdue for more than three months amounted to HK\$4 million (31 December 2018: HK\$4 million) and there were no advances to banks and other financial institutions overdue for more than three months (31 December 2018: Nil).

(c) *Rescheduled advances*

	<b>At 30 June 2019</b>		At 31 December 2018	
	<b>Amount HK\$'m</b>	<b>% of gross advances to customers</b>	Amount HK\$'m	% of gross advances to customers
Rescheduled advances to customers net of amounts included in "Advances overdue for more than three months"	<b>258</b>	<b>0.02%</b>	280	0.02%

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

#### (A) 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 2019					
	Gross advances to customers HK\$'m	% covered by collateral or other security	Classified or impaired HK\$'m	Overdue HK\$'m	Impairment allowances – Stage 3 HK\$'m	Impairment allowances – Stages 1 and 2 HK\$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	134,293	20.09%	–	–	–	610
– Property investment	50,528	83.00%	27	52	–	52
– Financial concerns	26,710	0.79%	–	–	–	47
– Stockbrokers	2,407	45.95%	–	–	–	2
– Wholesale and retail trade	41,497	35.27%	10	38	4	206
– Manufacturing	48,743	11.79%	129	170	129	168
– Transport and transport equipment	67,935	28.47%	371	18	–	145
– Recreational activities	1,750	1.53%	–	–	–	2
– Information technology	20,760	0.94%	2	7	2	121
– Others	128,244	45.83%	10	496	6	284
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	14,453	99.81%	21	132	–	4
– Loans for purchase of other residential properties	255,698	99.94%	63	1,159	1	60
– Credit card advances	14,362	–	122	527	108	147
– Others	84,522	88.99%	67	514	61	320
Total loans for use in Hong Kong	891,902	57.65%	822	3,113	311	2,168
Trade financing	80,517	15.14%	283	253	247	191
Loans for use outside Hong Kong	380,119	7.95%	1,547	2,315	1,075	2,040
Gross advances to customers	1,352,538	41.15%	2,652	5,681	1,633	4,399

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

#### (A) Advances and other accounts (continued)

##### (d) Concentration of advances to customers (continued)

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

	At 31 December 2018					
	Gross advances to customers HK\$m	% covered by collateral or other security	Classified or impaired HK\$m	Overdue HK\$m	Impairment allowances – Stage 3 HK\$m	Impairment allowances – Stages 1 and 2 HK\$m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	126,328	20.51%	–	–	–	543
– Property investment	50,223	80.51%	37	117	–	44
– Financial concerns	21,239	0.91%	–	–	–	37
– Stockbrokers	1,171	95.73%	–	–	–	1
– Wholesale and retail trade	38,147	34.46%	21	127	3	179
– Manufacturing	51,093	10.57%	136	148	134	87
– Transport and transport equipment	66,256	27.37%	867	17	9	150
– Recreational activities	1,675	1.90%	–	–	–	2
– Information technology	18,006	1.27%	1	220	1	107
– Others	118,574	38.43%	9	166	7	269
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	11,150	99.80%	18	166	–	4
– Loans for purchase of other residential properties	243,963	99.92%	65	1,534	–	58
– Credit card advances	15,613	–	135	558	118	150
– Others	78,282	86.84%	60	634	52	397
Total loans for use in Hong Kong	841,720	56.20%	1,349	3,687	324	2,028
Trade financing	65,437	19.37%	206	232	194	124
Loans for use outside Hong Kong	360,078	8.80%	828	970	608	2,141
Gross advances to customers	1,267,235	40.83%	2,383	4,889	1,126	4,293

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

#### (A) Advances and other accounts (continued)

##### (d) Concentration of advances to customers (continued)

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

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

#### Gross advances to customers

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
Hong Kong	1,081,560	1,008,102
Mainland of China	133,855	127,348
Others	137,123	131,785
	<b>1,352,538</b>	<b>1,267,235</b>
<b>Impairment allowances made in respect of the gross advances to customers – Stages 1 and 2</b>		
Hong Kong	2,878	2,798
Mainland of China	597	529
Others	924	966
	<b>4,399</b>	<b>4,293</b>

#### Overdue advances

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
Hong Kong	3,714	3,752
Mainland of China	325	257
Others	1,642	880
	<b>5,681</b>	<b>4,889</b>
<b>Impairment allowances made in respect of the overdue advances – Stage 3</b>		
Hong Kong	780	407
Mainland of China	158	84
Others	502	445
	<b>1,440</b>	<b>936</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

#### (A) 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 2019 HK\$'m	At 31 December 2018 HK\$'m
Hong Kong	1,597	1,485
Mainland of China	277	197
Others	778	701
	<b>2,652</b>	<b>2,383</b>
<b>Impairment allowances made in respect of the classified or impaired advances – Stage 3</b>		
Hong Kong	849	490
Mainland of China	181	107
Others	603	529
	<b>1,633</b>	<b>1,126</b>

#### (B) Repossessed assets

The estimated market value of repossessed assets held by the Group as at 30 June 2019 amounted to HK\$22 million (31 December 2018: HK\$23 million). The repossessed assets comprise properties in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the proprietors concerned) for release in full or in part of the obligations of the borrowers.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

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

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

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
<b>Investment in securities at fair value through other comprehensive income</b>		
– Stage 1		
Aaa	101,407	87,036
Aa1 to Aa3	169,259	148,944
A1 to A3	358,905	206,957
Lower than A3	31,095	28,482
Unrated	19,145	14,195
	<b>679,811</b>	485,614
– Stage 2	–	–
– Stage 3	–	–
	<b>679,811</b>	485,614
Of which: impairment allowances	<b>(186)</b>	(140)
<b>Investment in securities at amortised cost</b>		
– Stage 1		
Aaa	59,319	55,745
Aa1 to Aa3	4,176	4,628
A1 to A3	27,197	29,833
Lower than A3	12,790	12,271
Unrated	6,917	7,048
	<b>110,399</b>	109,525
– Stage 2	–	–
– Stage 3	–	–
	<b>110,399</b>	109,525
Impairment allowances	<b>(34)</b>	(29)
	<b>110,365</b>	109,496
<b>Financial assets at fair value through profit or loss</b>		
Aaa	3,410	3,846
Aa1 to Aa3	27,007	24,326
A1 to A3	20,069	17,538
Lower than A3	8,857	7,514
Unrated	2,994	1,850
	<b>62,337</b>	55,074

As at 30 June 2019, there were no impaired or overdue debt securities and certificates of deposit (31 December 2018: Nil).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.2 Market risk

#### (A) VaR

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

The following table sets out the VaR for all general market risk exposures<sup>1</sup> 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	<b>2019</b>	<b>48.1</b>	<b>23.2</b>	<b>48.1</b>	<b>30.5</b>
	2018	30.0	24.1	45.7	32.7
VaR for foreign exchange risk	<b>2019</b>	<b>11.7</b>	<b>7.7</b>	<b>21.1</b>	<b>14.6</b>
	2018	18.0	10.7	20.2	15.3
VaR for interest rate risk in the trading book	<b>2019</b>	<b>20.7</b>	<b>9.8</b>	<b>24.5</b>	<b>17.6</b>
	2018	23.6	18.7	43.0	28.7
VaR for equity risk in the trading book	<b>2019</b>	<b>0.6</b>	<b>0.2</b>	<b>2.5</b>	<b>0.5</b>
	2018	1.7	1.2	7.0	2.7
VaR for commodity risk	<b>2019</b>	<b>41.5</b>	<b>10.4</b>	<b>42.1</b>	<b>22.2</b>
	2018	3.1	0.8	3.4	1.7

Note:

1. Structural FX positions have been excluded.

Although there is 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.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

The following is a summary of the Group's major foreign currency exposures arising from trading, non-trading and structural positions and is prepared with reference to the completion instructions for the HKMA return of foreign currency position. The net options position is calculated based on the basis of delta-weighted positions of all foreign exchange options contracts.

	At 30 June 2019							
	Equivalent in million of HK\$							
	US Dollars	Pound Sterling	Japanese Yen	Euro	Renminbi	Australian Dollars	Other foreign currencies	Total foreign currencies
Spot assets	935,400	26,447	128,045	41,615	320,494	39,121	67,019	1,558,141
Spot liabilities	(842,670)	(16,543)	(11,725)	(23,342)	(311,936)	(25,508)	(66,192)	(1,297,916)
Forward purchases	1,097,811	21,768	42,768	52,129	605,419	18,232	76,713	1,914,840
Forward sales	(1,190,348)	(31,584)	(158,980)	(70,478)	(611,999)	(31,770)	(77,884)	(2,173,043)
Net options position	(439)	-	(30)	(68)	(614)	(25)	135	(1,041)
Net long/(short) position	(246)	88	78	(144)	1,364	50	(209)	981

	At 31 December 2018							
	Equivalent in million of HK\$							
	US Dollars	Pound Sterling	Japanese Yen	Euro	Renminbi	Australian Dollars	Other foreign currencies	Total foreign currencies
Spot assets	867,526	26,486	23,821	33,069	560,809	38,679	63,410	1,613,800
Spot liabilities	(879,874)	(16,358)	(7,125)	(17,729)	(320,961)	(23,991)	(63,990)	(1,330,028)
Forward purchases	1,121,467	22,996	54,990	55,338	454,667	14,107	74,958	1,798,523
Forward sales	(1,107,713)	(33,076)	(71,582)	(70,369)	(693,728)	(28,786)	(73,864)	(2,079,118)
Net options position	1,312	(9)	(66)	(217)	(696)	(33)	4	295
Net long/(short) position	2,718	39	38	92	91	(24)	518	3,472



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.2 Market risk (continued)

#### (B) Currency risk (continued)

	At 30 June 2019					
	Equivalent in million of HK\$					
	US Dollars	Baht	Malaysian Ringgit	Philippine Peso	Other foreign currencies	Total foreign currencies
Net structural position	28,929	2,511	2,839	1,684	2,570	38,533

	At 31 December 2018					
	Equivalent in million of HK\$					
	US Dollars	Baht	Malaysian Ringgit	Philippine Peso	Other foreign currencies	Total foreign currencies
Net structural position	28,122	2,301	2,769	1,608	1,812	36,612

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.2 Market risk (continued)

#### (C) Interest rate risk

The tables below summarise the Group's on-balance sheet exposure to interest rate risk as at 30 June 2019 and 31 December 2018. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing date and maturity date.

	At 30 June 2019						
	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
<b>Assets</b>							
Cash and balances and placements with banks and other financial institutions	250,958	32,053	35,974	-	-	66,372	385,357
Financial assets at fair value through profit or loss	9,896	13,614	9,965	13,180	18,197	13,425	78,277
Derivative financial instruments	-	-	-	-	-	28,887	28,887
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	163,860	163,860
Advances and other accounts	1,083,023	210,582	31,903	32,731	4,538	7,504	1,370,281
Investment in securities							
– At FVOCI	78,464	139,629	185,409	176,684	99,625	4,965	684,776
– At amortised cost	1,747	3,775	13,926	52,366	38,551	-	110,365
Interests in associates and joint ventures	-	-	-	-	-	1,627	1,627
Investment properties	-	-	-	-	-	20,625	20,625
Properties, plant and equipment	-	-	-	-	-	51,779	51,779
Other assets (including current and deferred tax assets)	15,611	-	-	-	-	76,995	92,606
<b>Total assets</b>	<b>1,439,699</b>	<b>399,653</b>	<b>277,177</b>	<b>274,961</b>	<b>160,911</b>	<b>436,039</b>	<b>2,988,440</b>
<b>Liabilities</b>							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	163,860	163,860
Deposits and balances from banks and other financial institutions	214,973	1,340	-	694	-	26,331	243,338
Financial liabilities at fair value through profit or loss	6,595	6,360	4,642	1,052	426	-	19,075
Derivative financial instruments	-	-	-	-	-	33,304	33,304
Deposits from customers	1,410,006	267,704	165,541	3,297	-	171,675	2,018,223
Debt securities and certificates of deposit in issue	20	133	639	-	-	-	792
Other accounts and provisions (including current and deferred tax liabilities)	8,046	-	71	1,026	856	76,814	86,813
Insurance contract liabilities	-	-	-	-	-	113,000	113,000
Subordinated liabilities	-	-	13,168	-	-	-	13,168
<b>Total liabilities</b>	<b>1,639,640</b>	<b>275,537</b>	<b>184,061</b>	<b>6,069</b>	<b>1,282</b>	<b>584,984</b>	<b>2,691,573</b>
Interest sensitivity gap	(199,941)	124,116	93,116	268,892	159,629	(148,945)	296,867

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.2 Market risk (continued)

#### (C) Interest rate risk (continued)

	At 31 December 2018						
	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
<b>Assets</b>							
Cash and balances and placements with banks and other financial institutions	305,438	36,385	20,853	-	-	70,623	433,299
Financial assets at fair value through profit or loss	245,659	11,264	8,178	12,187	15,897	7,744	300,929
Derivative financial instruments	-	-	-	-	-	34,912	34,912
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	156,300	156,300
Advances and other accounts	1,041,818	165,225	27,422	34,612	5,482	8,435	1,282,994
Investment in securities							
– At FVOCI	53,051	81,555	110,700	159,917	80,391	3,928	489,542
– At amortised cost	751	1,676	11,099	58,406	37,564	-	109,496
Interests in associates and joint ventures	-	-	-	-	-	483	483
Investment properties	-	-	-	-	-	19,684	19,684
Properties, plant and equipment	-	-	-	-	-	49,435	49,435
Other assets (including current and deferred tax assets)	7,491	-	-	-	-	71,439	78,930
<b>Total assets</b>	<b>1,654,208</b>	<b>296,105</b>	<b>178,252</b>	<b>265,122</b>	<b>139,334</b>	<b>422,983</b>	<b>2,956,004</b>
<b>Liabilities</b>							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	156,300	156,300
Deposits and balances from banks and other financial institutions	356,095	6,206	118	460	-	14,101	376,980
Financial liabilities at fair value through profit or loss	3,274	8,820	1,761	1,160	520	-	15,535
Derivative financial instruments	-	-	-	-	-	30,880	30,880
Deposits from customers	1,321,733	235,953	166,630	5,284	-	166,196	1,895,796
Debt securities and certificates of deposit in issue	3,480	4,813	1,160	-	-	-	9,453
Other accounts and provisions (including current and deferred tax liabilities)	9,406	-	-	-	-	58,312	67,718
Insurance contract liabilities	-	-	-	-	-	104,723	104,723
Subordinated liabilities	-	-	-	13,246	-	-	13,246
<b>Total liabilities</b>	<b>1,693,988</b>	<b>255,792</b>	<b>169,669</b>	<b>20,150</b>	<b>520</b>	<b>530,512</b>	<b>2,670,631</b>
Interest sensitivity gap	(39,780)	40,313	8,583	244,972	138,814	(107,529)	285,373

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.3 Liquidity risk

#### (A) Liquidity coverage ratio and net stable funding ratio

	2019	2018
Average value of liquidity coverage ratio		
– First quarter	<b>183.00%</b>	134.33%
– Second quarter	<b>156.57%</b>	146.39%

Average value of liquidity coverage ratio is calculated based on the arithmetic mean of the liquidity coverage ratio as at the end of each working day in the quarter and the calculation methodology and instructions set out in the HKMA return of liquidity position.

	2019	2018
Quarter-end value of net stable funding ratio		
– First quarter	<b>121.36%</b>	118.98%
– Second quarter	<b>119.15%</b>	118.82%

Quarter-end value of net stable funding ratio is calculated based on the calculation methodology and instructions set out in the HKMA return of stable funding position.

Liquidity coverage ratio and net stable funding ratio are computed on the consolidated basis which comprise the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Liquidity) Rules.

The additional information of liquidity coverage ratio and net stable funding ratio disclosures is available under the section "Regulatory Disclosures" on BOCHK's website at [www.bochk.com](http://www.bochk.com).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.3 Liquidity risk (continued)

#### (B) Maturity analysis

The tables below analyse the Group's assets and liabilities as at 30 June 2019 and 31 December 2018 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2019							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
<b>Assets</b>								
Cash and balances and placements with banks and other financial institutions	262,668	54,662	31,660	35,583	784	-	-	385,357
Financial assets at fair value through profit or loss	-	8,145	12,533	10,356	14,405	18,080	14,758	78,277
Derivative financial instruments	11,556	2,532	1,728	4,558	5,345	3,168	-	28,887
Hong Kong SAR Government certificates of indebtedness	163,860	-	-	-	-	-	-	163,860
Advances and other accounts	216,249	54,548	60,343	168,694	594,670	274,642	1,135	1,370,281
Investment in securities								
- At FVOCI	-	68,853	110,904	195,575	203,232	101,026	5,186	684,776
- At amortised cost	-	1,519	4,024	13,310	52,729	38,278	505	110,365
Interests in associates and joint ventures	-	-	-	-	-	-	1,627	1,627
Investment properties	-	-	-	-	-	-	20,625	20,625
Properties, plant and equipment	-	-	-	-	-	-	51,779	51,779
Other assets (including current and deferred tax assets)	45,070	14,740	430	2,455	16,816	13,087	8	92,606
<b>Total assets</b>	<b>699,403</b>	<b>204,999</b>	<b>221,622</b>	<b>430,531</b>	<b>887,981</b>	<b>448,281</b>	<b>95,623</b>	<b>2,988,440</b>
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	163,860	-	-	-	-	-	-	163,860
Deposits and balances from banks and other financial institutions	162,816	78,488	1,340	-	694	-	-	243,338
Financial liabilities at fair value through profit or loss	-	6,595	6,363	4,643	1,051	423	-	19,075
Derivative financial instruments	9,776	3,145	2,888	5,113	7,476	4,906	-	33,304
Deposits from customers	1,118,149	463,532	267,704	165,541	3,297	-	-	2,018,223
Debt securities and certificates of deposit in issue	-	20	133	639	-	-	-	792
Other accounts and provisions (including current and deferred tax liabilities)	43,340	28,898	254	5,992	8,135	194	-	86,813
Insurance contract liabilities	38,919	169	504	2,717	21,810	48,881	-	113,000
Subordinated liabilities	-	-	274	12,894	-	-	-	13,168
<b>Total liabilities</b>	<b>1,536,860</b>	<b>580,847</b>	<b>279,460</b>	<b>197,539</b>	<b>42,463</b>	<b>54,404</b>	<b>-</b>	<b>2,691,573</b>
Net liquidity gap	(837,457)	(375,848)	(57,838)	232,992	845,518	393,877	95,623	296,867

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.3 Liquidity risk (continued)

#### (B) Maturity analysis (continued)

	At 31 December 2018							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
<b>Assets</b>								
Cash and balances and placements with banks and other financial institutions	300,427	75,634	36,385	20,457	396	-	-	433,299
Financial assets at fair value through profit or loss	-	243,201	8,448	8,495	15,956	16,323	8,506	300,929
Derivative financial instruments	11,303	3,282	4,025	5,909	6,965	3,428	-	34,912
Hong Kong SAR Government certificates of indebtedness	156,300	-	-	-	-	-	-	156,300
Advances and other accounts	178,403	53,549	51,931	158,880	579,083	259,797	1,351	1,282,994
Investment in securities								
– At FVOCI	-	44,818	52,143	115,304	192,058	81,110	4,109	489,542
– At amortised cost	-	508	1,921	10,500	58,768	37,292	507	109,496
Interests in associates and joint ventures	-	-	-	-	-	-	483	483
Investment properties	-	-	-	-	-	-	19,684	19,684
Properties, plant and equipment	-	-	-	-	-	-	49,435	49,435
Other assets (including current and deferred tax assets)	32,098	17,389	446	1,595	13,193	14,195	14	78,930
<b>Total assets</b>	<b>678,531</b>	<b>438,381</b>	<b>155,299</b>	<b>321,140</b>	<b>866,419</b>	<b>412,145</b>	<b>84,089</b>	<b>2,956,004</b>
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	156,300	-	-	-	-	-	-	156,300
Deposits and balances from banks and other financial institutions	241,851	128,345	6,206	118	460	-	-	376,980
Financial liabilities at fair value through profit or loss	-	3,274	8,823	1,762	1,159	517	-	15,535
Derivative financial instruments	8,260	4,081	3,181	5,836	6,560	2,962	-	30,880
Deposits from customers	1,062,147	425,782	235,953	166,630	5,284	-	-	1,895,796
Debt securities and certificates of deposit in issue	-	3,480	4,813	1,160	-	-	-	9,453
Other accounts and provisions (including current and deferred tax liabilities)	39,040	18,443	1,896	1,276	7,056	7	-	67,718
Insurance contract liabilities	36,873	566	686	1,994	17,692	46,912	-	104,723
Subordinated liabilities	-	-	275	-	12,971	-	-	13,246
<b>Total liabilities</b>	<b>1,544,471</b>	<b>583,971</b>	<b>261,833</b>	<b>178,776</b>	<b>51,182</b>	<b>50,398</b>	<b>-</b>	<b>2,670,631</b>
Net liquidity gap	(865,940)	(145,590)	(106,534)	142,364	815,237	361,747	84,089	285,373

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.3 Liquidity risk (continued)

#### (B) Maturity analysis (continued)

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 based on contractual maturity date. 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.

### 3.4 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 strategy, reinsurance arrangements and regular experience monitoring.

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

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

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

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality, morbidity and persistency. In this regard, the Group has conducted relevant experience studies and researches regularly to identify emerging trends. Results would be taken into account in pricing and underwriting management. The results of such studies are also considered in determining the assumptions of insurance liability which include an appropriate level of prudential margins.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 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. Small residual credit exposures are remained under the standardised (credit risk) (“STC”) approach. The Group has adopted the standardised credit valuation adjustment (“CVA”) method to calculate the capital charge for the CVA risk of the counterparty.

The Group continues to adopt the internal models (“IMM”) approach to calculate the general market risk capital charge for foreign exchange and interest rate exposures and, with the approval from the HKMA, exclude its structural FX positions in the calculation of the market risk capital charge. The Group continues to adopt the standardised (market risk) (“STM”) approach to calculate the market risk capital charge for the remaining exposures.

The Group continues to adopt the standardised (operational risk) (“STO”) approach to calculate the operational risk capital charge.

#### (A) Basis of regulatory consolidation

The consolidation basis for regulatory purposes comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules. For accounting purposes, subsidiaries are consolidated in accordance with HKFRSs and the list of subsidiaries is set out in “Appendix – Subsidiaries of the Company”.

The Company, its subsidiaries of BOC Group Life Assurance Company Limited, BOCHK Asset Management (Cayman) Limited and BOC Insurance (International) Holdings Company Limited (including their subsidiaries), and certain subsidiaries of BOCHK are included within the accounting scope of consolidation but not included within the regulatory scope of consolidation.



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.5 Capital management (continued)

#### (A) Basis of regulatory consolidation (continued)

The particulars of the above-mentioned subsidiaries of BOCHK are as follows:

Name	At 30 June 2019		At 31 December 2018	
	Total assets HK\$'m	Total equity HK\$'m	Total assets HK\$'m	Total equity HK\$'m
BOC Group Trustee Company Limited	200	200	200	200
BOCI-Prudential Trustee Limited	534	441	506	464
China Bridge (Malaysia) Sdn. Bhd.	29	16	38	31
Bank of China (Hong Kong) Nominees Limited	–	–	–	–
Bank of China (Hong Kong) Trustees Limited	16	16	15	15
BOC Financial Services (Nanning) Company Limited	149	57	N/A	N/A
BOCHK Information Technology (Shenzhen) Co., Ltd.	371	251	377	242
BOCHK Information Technology Services (Shenzhen) Co., Ltd.	414	349	377	336
Che Hsing (Nominees) Limited	1	1	1	1
Po Sang Financial Investment Services Company Limited	362	346	364	346
Po Sang Securities and Futures Limited	821	573	657	553
Sin Chiao Enterprises Corporation, Limited	6	6	6	6
Sin Hua Trustee Limited	5	5	7	6
Billion Express Development Inc.	–	–	–	–
Billion Orient Holdings Ltd.	–	–	–	–
Elite Bond Investments Ltd.	–	–	–	–
Express Capital Enterprise Inc.	–	–	–	–
Express Charm Holdings Corp.	–	–	–	–
Express Shine Assets Holdings Corp.	–	–	–	–
Express Talent Investment Ltd.	–	–	–	–
Gold Medal Capital Inc.	–	–	–	–
Gold Tap Enterprises Inc.	–	–	–	–
Maxi Success Holdings Ltd.	–	–	–	–
Smart Linkage Holdings Inc.	–	–	–	–
Smart Union Capital Investments Ltd.	–	–	–	–
Success Trend Development Ltd.	–	–	–	–
Wise Key Enterprises Corp.	–	–	–	–

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.5 Capital management (continued)

#### (A) Basis of regulatory consolidation (continued)

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

There were no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation as at 30 June 2019 (31 December 2018: Nil).

There were also no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation where the methods of consolidation differ as at 30 June 2019 (31 December 2018: Nil).

The Group operates subsidiaries in different countries/regions where capital is governed by local rules and there may be restrictions on the transfer of funds or regulatory capital between the members of the Group.

#### (B) Capital ratio

The capital ratios are analysed as follows:

	At 30 June 2019	At 31 December 2018
CET1 capital ratio	17.85%	17.48%
Tier 1 capital ratio	20.01%	19.76%
Total capital ratio	23.00%	23.10%

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.5 Capital management (continued)

#### (B) Capital ratio (continued)

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

	<b>At 30 June 2019 HK\$'m</b>	At 31 December 2018 HK\$'m
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments	<b>43,043</b>	43,043
Retained earnings	<b>165,024</b>	153,501
Disclosed reserves	<b>49,533</b>	45,367
CET1 capital before regulatory deductions	<b>257,600</b>	241,911
CET1 capital: regulatory deductions		
Valuation adjustments	<b>(46)</b>	(9)
Deferred tax assets (net of associated deferred tax liabilities)	<b>(63)</b>	(82)
Gains and losses due to changes in own credit risk on fair valued liabilities	<b>214</b>	141
Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	<b>(6)</b>	N/A
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	<b>(52,835)</b>	(51,263)
Regulatory reserve for general banking risks	<b>(10,877)</b>	(10,496)
Total regulatory deductions to CET1 capital	<b>(63,613)</b>	(61,709)
CET1 capital	<b>193,987</b>	180,202
AT1 capital: instruments		
Qualifying AT1 capital instruments classified as equity under applicable accounting standards	<b>23,476</b>	23,476
AT1 capital before regulatory deductions	<b>23,476</b>	23,476
AT1 capital: regulatory deductions		
Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	<b>(13)</b>	N/A
Total regulatory deductions to AT1 capital	<b>(13)</b>	N/A
AT1 capital	<b>23,463</b>	23,476
Tier 1 capital	<b>217,450</b>	203,678

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.5 Capital management (continued)

#### (B) Capital ratio (continued)

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
Tier 2 capital: instruments and provisions		
Capital instruments subject to phase out arrangements from Tier 2 capital	2,505	5,010
Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	6,629	6,315
Tier 2 capital before regulatory deductions	9,134	11,325
Tier 2 capital: regulatory deductions		
Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	(345)	N/A
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	23,776	23,068
Total regulatory adjustments to Tier 2 capital	23,431	23,068
Tier 2 capital	32,565	34,393
Total regulatory capital	250,015	238,071

The capital buffer ratios are analysed as follows:

	At 30 June 2019	At 31 December 2018
Capital conservation buffer ratio	2.500%	1.875%
Higher loss absorbency ratio	1.500%	1.125%
Countercyclical capital buffer ratio	1.907%	1.418%

The additional information of capital ratio disclosures is available under the section "Regulatory Disclosures" on BOCHK's website at [www.bochk.com](http://www.bochk.com).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.5 Capital management (continued)

#### (C) Leverage ratio

The leverage ratio is analysed as follows:

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
Tier 1 capital	217,450	203,678
Leverage ratio exposure	2,756,823	2,733,653
Leverage ratio	7.89%	7.45%

The additional information of leverage ratio disclosures is available under the section "Regulatory Disclosures" on BOCHK's website at [www.bochk.com](http://www.bochk.com).

## 4. Fair values of financial assets and liabilities

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

- Level 1: based on quoted prices (unadjusted) in active markets for identical assets or liabilities. This category includes equity securities listed on exchange, debt instruments issued by certain governments and certain exchange-traded derivative contracts.
- Level 2: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly. This category includes majority of the over-the-counter ("OTC") derivative contracts, debt securities and certificates of deposit with quote from pricing services vendors, issued structured deposits and other debt instruments.
- Level 3: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. This category includes equity investment, debt instruments and certain OTC derivative contracts with significant unobservable components.

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

### 4.1 *Financial instruments measured at fair value*

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

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

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

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

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

#### *Debt securities and certificates of deposit and other debt instruments*

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

#### *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.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

### 4.1 Financial instruments measured at fair value (continued)

#### *Derivatives*

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

Credit valuation adjustments (“CVAs”) and debit valuation adjustments (“DVAs”) are applied to the Group’s OTC derivatives. These adjustments reflect market factors movement, expectations of counterparty creditworthiness and the Group’s own credit spread respectively. They are mainly determined for each counterparty and are dependent on expected future values of exposures, default probabilities and recovery rates.

#### *Financial liabilities designated at fair value through profit or loss*

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

#### *Subordinated liabilities*

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

### 4.1 Financial instruments measured at fair value (continued)

#### (A) Fair value hierarchy

	At 30 June 2019			
	Level 1 HK\$'m	Level 2 HK\$'m	Level 3 HK\$'m	Total HK\$'m
<b>Financial assets</b>				
Trading assets (Note 21)				
– Debt securities and certificates of deposit	75	37,377	–	37,452
– Equity securities	54	–	–	54
– Fund	3	–	–	3
– Other debt instruments	–	2,515	–	2,515
Other financial assets mandatorily classified at fair value through profit or loss (Note 21)				
– Debt securities and certificates of deposit	–	19,234	2,366	21,600
– Equity securities	4,619	–	–	4,619
– Fund	5,318	2,324	1,107	8,749
Financial assets designated at fair value through profit or loss (Note 21)				
– Debt securities and certificates of deposit	708	2,577	–	3,285
– Other debt instruments	–	–	–	–
Derivative financial instruments (Note 22)	11,547	17,340	–	28,887
Investment in securities at FVOCI (Note 24)				
– Debt securities and certificates of deposit	192,645	485,362	1,804	679,811
– Equity securities	3,026	732	1,207	4,965
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss (Note 28)				
– Trading liabilities	–	19,062	–	19,062
– Financial liabilities designated at fair value through profit or loss	–	13	–	13
Derivative financial instruments (Note 22)	10,079	23,225	–	33,304
Subordinated liabilities (Note 34)				
– Subordinated notes	–	13,168	–	13,168



# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

### 4.1 Financial instruments measured at fair value (continued)

#### (A) Fair value hierarchy (continued)

	At 31 December 2018			
	Level 1 HK\$'m	Level 2 HK\$'m	Level 3 HK\$'m	Total HK\$'m
<b>Financial assets</b>				
Trading assets (Note 21)				
– Debt securities and certificates of deposit	334	31,783	–	32,117
– Equity securities	2	–	–	2
– Fund	3	–	–	3
– Other debt instruments	–	4,634	–	4,634
Other financial assets mandatorily classified at fair value through profit or loss (Note 21)				
– Debt securities and certificates of deposit	–	17,877	1,909	19,786
– Equity securities	1,010	–	–	1,010
– Fund	3,477	2,337	915	6,729
Financial assets designated at fair value through profit or loss (Note 21)				
– Debt securities and certificates of deposit	691	2,480	–	3,171
– Other debt instruments	–	233,477	–	233,477
Derivative financial instruments (Note 22)	11,356	23,549	7	34,912
Investment in securities at FVOCI (Note 24)				
– Debt securities and certificates of deposit	68,013	415,983	1,618	485,614
– Equity securities	2,599	185	1,144	3,928
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss (Note 28)				
– Trading liabilities	–	13,336	–	13,336
– Financial liabilities designated at fair value through profit or loss	–	2,199	–	2,199
Derivative financial instruments (Note 22)	8,417	22,463	–	30,880
Subordinated liabilities (Note 34)				
– Subordinated notes	–	13,246	–	13,246

There were no significant financial asset and liability transfers between level 1 and level 2 for the Group during the period (31 December 2018: Nil).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

### 4.1 Financial instruments measured at fair value (continued)

#### (B) Reconciliation of level 3 items

	At 30 June 2019				
	Financial assets				
	Other financial assets mandatorily classified at FVPL			Investment in securities at FVOCI	
	Debt securities and certificates of deposit HK\$'m	Fund HK\$'m	Derivative financial instruments HK\$'m	Debt securities and certificates of deposit HK\$'m	Equity securities HK\$'m
At 1 January 2019	1,909	915	7	1,618	1,144
Gains					
– Income statement					
– Net trading gain	-	-	-	-	-
– Net gain on other financial instruments at fair value through profit or loss	299	41	-	-	-
– Other comprehensive income					
– Change in fair value	-	-	-	186	63
Additions	158	84	-	-	-
Disposals, redemptions and maturity	-	-	-	-	-
Transfer into level 3	-	67	-	-	-
Transfer out of level 3	-	-	(7)	-	-
At 30 June 2019	2,366	1,107	-	1,804	1,207
Total unrealised gains for the period included in income statement for financial assets held as at 30 June 2019					
– Net trading gain	-	-	-	-	-
– Net gain on other financial instruments at fair value through profit or loss	299	41	-	-	-
	299	41	-	-	-

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

### 4.1 Financial instruments measured at fair value (continued)

#### (B) Reconciliation of level 3 items (continued)

	At 31 December 2018				
	Financial assets				
	Other financial assets mandatorily classified at FVPL			Investment in securities at FVOCI	
	Debt securities and certificates of deposit HK\$'m	Fund HK\$'m	Derivative financial instruments HK\$'m	Debt securities and certificates of deposit HK\$'m	Equity securities HK\$'m
At 1 January 2018	1,982	513	-	1,674	812
Gains/(losses)					
- Income statement					
- Net trading gain	-	-	7	-	-
- Net (loss)/gain on other financial instruments at fair value through profit or loss	(73)	37	-	-	-
- Other comprehensive income					
- Change in fair value	-	-	-	(56)	296
Additions	-	489	-	-	36
Disposals, redemptions and maturity	-	(124)	-	-	-
Transfer into level 3	-	-	-	-	-
Transfer out of level 3	-	-	-	-	-
At 31 December 2018	1,909	915	7	1,618	1,144
Total unrealised gains/(losses) for the year included in income statement for financial assets held as at 31 December 2018					
- Net trading gain	-	-	7	-	-
- Net (loss)/gain on other financial instruments at fair value through profit or loss	(73)	37	-	-	-
	(73)	37	7	-	-

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

### 4.1 Financial instruments measured at fair value (continued)

#### (B) Reconciliation of level 3 items (continued)

As at 30 June 2019 and 31 December 2018, financial instruments categorised as level 3 are mainly comprised of debt securities and certificates of deposit, fund, unlisted equity shares and certain OTC derivative contracts.

For certain illiquid debt securities and certificates of deposit and fund, the Group obtains valuation quotations from counterparties which may be based on unobservable inputs with significant impact on the valuation. For certain OTC derivative contracts, the counterparty credit spreads used in valuation techniques are unobservable inputs with significant impact on valuation. Therefore, these instruments have been classified by the Group as level 3. Transfers into and out of level 3 in the first half of 2019 were due to change of valuation observability. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

The fair values of unlisted FVOCI 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\$60 million (31 December 2018: HK\$57 million).

### 4.2 Financial instruments not measured at fair value

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

#### *Balances with/from banks and other financial institutions and trade bills*

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

#### *Advances to customers and banks and other financial institutions*

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

#### *Investment in securities at amortised cost*

The fair value of securities at amortised cost 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. Besides, a discounted cash flow model is used for certain securities at amortised cost based on a current yield curve appropriate for the remaining term to maturity.

#### *Deposits from customers*

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

#### *Debt securities and certificates of deposit in issue*

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

### 4.2 Financial instruments not measured at fair value (continued)

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 2019		At 31 December 2018	
	Carrying value HK\$'m	Fair value HK\$'m	Carrying value HK\$'m	Fair value HK\$'m
<b>Financial assets</b>				
Investment in securities at amortised cost (Note 24)	110,365	112,937	109,496	108,352
<b>Financial liabilities</b>				
Debt securities and certificates of deposit in issue (Note 30)	792	794	9,453	9,454

## 5. Net interest income

	Half-year ended 30 June 2019 HK\$'m	Half-year ended 30 June 2018 HK\$'m
<b>Interest income</b>		
Advances to customers, due from banks and other financial institutions	22,924	20,388
Investment in securities and financial assets at fair value through profit or loss	10,422	8,067
Others	259	146
	33,605	28,601
<b>Interest expense</b>		
Deposits from customers, due to banks and other financial institutions	(12,974)	(8,930)
Debt securities and certificates of deposit in issue	(68)	(308)
Subordinated liabilities	(360)	(554)
Lease liabilities	(27)	N/A
Others	(273)	(270)
	(13,702)	(10,062)
<b>Net interest income</b>	19,903	18,539

Included within interest income are HK\$24,949 million (first half of 2018: HK\$22,309 million) and HK\$6,674 million (first half of 2018: HK\$5,491 million), before hedging effect, for financial assets measured at amortised cost and at fair value through other comprehensive income respectively.

Included within interest expense are HK\$13,178 million (first half of 2018: HK\$9,401 million), before hedging effect, for financial liabilities that are not measured at fair value through profit or loss.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 6. Net fee and commission income

	Half-year ended 30 June 2019 HK\$'m	Half-year ended 30 June 2018 HK\$'m
<b>Fee and commission income</b>		
Credit card business	1,635	1,734
Loan commissions	1,623	1,712
Insurance	1,160	865
Securities brokerage	1,093	1,705
Funds distribution	464	552
Bills commissions	352	401
Payment services	339	326
Currency exchange	323	268
Trust and custody services	309	313
Safe deposit box	144	154
Others	678	636
	<b>8,120</b>	<b>8,666</b>
<b>Fee and commission expense</b>		
Credit card business	(1,158)	(1,281)
Insurance	(302)	(198)
Securities brokerage	(133)	(196)
Others	(481)	(515)
	<b>(2,074)</b>	<b>(2,190)</b>
<b>Net fee and commission income</b>	<b>6,046</b>	<b>6,476</b>
Of which arise from:		
Financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	1,889	1,954
– Fee and commission expense	(6)	(20)
	<b>1,883</b>	<b>1,934</b>
Trust and other fiduciary activities		
– Fee and commission income	403	406
– Fee and commission expense	(13)	(14)
	<b>390</b>	<b>392</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 7. Net trading gain

	Half-year ended 30 June 2019 HK\$'m	Half-year ended 30 June 2018 HK\$'m
Net gain/(loss) from:		
Foreign exchange and foreign exchange products	2,135	1,700
Interest rate instruments and items under fair value hedge	(489)	175
Commodities	126	61
Equity and credit derivative instruments	57	114
	<b>1,829</b>	<b>2,050</b>

## 8. Net gain/(loss) on other financial instruments at fair value through profit or loss

	Half-year ended 30 June 2019 HK\$'m	Half-year ended 30 June 2018 HK\$'m
Net gain/(loss) on other financial instruments mandatorily classified at fair value through profit or loss	2,141	(1,538)
Net gain on financial instruments designated at fair value through profit or loss	74	356
	<b>2,215</b>	<b>(1,182)</b>

## 9. Net gain on other financial assets

	Half-year ended 30 June 2019 HK\$'m	Half-year ended 30 June 2018 HK\$'m
Net gain on disposal/redemption of investment in securities at FVOCI	736	77
Net (loss)/gain on disposal/redemption of investment in securities at amortised cost	(18)	11
Others	(2)	(2)
	<b>716</b>	<b>86</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 10. Other operating income

	Half-year ended 30 June 2019 HK\$'m	Half-year ended 30 June 2018 HK\$'m
Dividend income		
– From investment in securities at FVOCI derecognised during the period	2	4
– From investment in securities at FVOCI held at the end of the period	122	123
Gross rental income from investment properties	329	328
Less: Outgoings in respect of investment properties	(29)	(33)
Others	77	76
	<b>501</b>	<b>498</b>

Included in the “Outgoings in respect of investment properties” is HK\$1 million (first half of 2018: HK\$1 million) of direct operating expenses related to investment properties that were not let during the period.

## 11. Net insurance benefits and claims and movement in liabilities

	Half-year ended 30 June 2019 HK\$'m	Half-year ended 30 June 2018 HK\$'m
<b>Gross insurance benefits and claims and movement in liabilities</b>		
Claims, benefits and surrenders paid	(9,218)	(9,458)
Movement in liabilities	(8,487)	(1,926)
	<b>(17,705)</b>	<b>(11,384)</b>
<b>Reinsurers' share of benefits and claims and movement in liabilities</b>		
Reinsurers' share of claims, benefits and surrenders paid	3,450	4,285
Reinsurers' share of movement in liabilities	2,818	865
	<b>6,268</b>	<b>5,150</b>
<b>Net insurance benefits and claims and movement in liabilities</b>	<b>(11,437)</b>	<b>(6,234)</b>



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 12. Net charge of impairment allowances

	Half-year ended 30 June 2019 HK\$'m	Half-year ended 30 June 2018 HK\$'m
Net charge of impairment allowances on:		
Advances and other accounts	(717)	(266)
Investment in securities		
– At FVOCI	(46)	(12)
– At amortised cost	(4)	(5)
	(50)	(17)
Others	(26)	(61)
Net charge of impairment allowances	<b>(793)</b>	<b>(344)</b>

## 13. Operating expenses

	Half-year ended 30 June 2019 HK\$'m	Half-year ended 30 June 2018 HK\$'m
Staff costs (including directors' emoluments)		
– Salaries and other costs	4,010	3,829
– Pension cost	254	232
	4,264	4,061
Premises and equipment expenses (excluding depreciation)		
– Rental of premises	N/A	363
– Short-term leases, leases of low-value assets and variable lease payments	117	N/A
– Information technology	318	286
– Others	217	208
	652	857
Depreciation	1,402	998
Auditor's remuneration		
– Audit services	3	3
– Non-audit services	4	6
Other operating expenses	1,203	1,087
	<b>7,528</b>	<b>7,012</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

	Half-year ended 30 June 2019 HK\$'m	Half-year ended 30 June 2018 HK\$'m
Net gain from fair value adjustments on investment properties	657	918

## 15. Net gain from disposal/revaluation of properties, plant and equipment

	Half-year ended 30 June 2019 HK\$'m	Half-year ended 30 June 2018 HK\$'m
Net loss from disposal of equipment, fixtures and fittings	(1)	(2)
Net gain from revaluation of premises	2	12
	<b>1</b>	<b>10</b>

## 16. Taxation

Taxation in the income statement represents:

	Half-year ended 30 June 2019 HK\$'m	Half-year ended 30 June 2018 HK\$'m
Current tax		
Hong Kong profits tax		
– Current period taxation	3,035	2,975
Overseas taxation		
– Current period taxation	360	390
– Over-provision in prior periods	(25)	(20)
	<b>3,370</b>	3,345
Deferred tax		
Origination and reversal of temporary differences and unused tax credits	(94)	(28)
	<b>3,276</b>	3,317

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2019. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2019 at the rates of taxation prevailing in the countries/regions in which the Group operates.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 16. Taxation (continued)

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 2019 HK\$m	Half-year ended 30 June 2018 HK\$m
Profit before taxation	21,552	21,228
Calculated at a taxation rate of 16.5% (2018: 16.5%)	3,556	3,503
Effect of different taxation rates in other countries/regions	132	46
Income not subject to taxation	(798)	(430)
Expenses not deductible for taxation purposes	327	118
Utilisation of previously unrecognised tax losses	(1)	–
Over-provision in prior periods	(25)	(20)
Foreign withholding tax	85	100
Taxation charge	3,276	3,317
Effective tax rate	15.2%	15.6%

## 17. Dividends

	Half-year ended 30 June 2019		Half-year ended 30 June 2018	
	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 30 August 2019, the Board declared an interim dividend of HK\$0.545 per ordinary share for the first half of 2019 amounting to approximately HK\$5,762 million. This declared interim 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 2019.

## 18. Earnings per share

The calculation of basic earnings per share for the first half of 2019 is based on the consolidated profit for the period attributable to equity holders of the Company of approximately HK\$17,254 million (first half of 2018: HK\$17,561 million) and on the ordinary shares in issue of 10,572,780,266 shares (2018: 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 2019 (first half of 2018: Nil).

## 19. Retirement benefit costs

Retirement benefits are provided to eligible employees of the Group. In Hong Kong, defined contribution schemes for the Group's employees are ORSO schemes exempted under the MPF Schemes Ordinance and the BOC-Prudential Easy Choice MPF Scheme.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 19. Retirement benefit costs (continued)

Under the ORSO schemes, employees make monthly contributions to the ORSO schemes equal to 5% of their basic salaries, while the employer makes monthly contributions equal to 5% to 15% of the employees' monthly basic salaries, depending on years of service. The employees are entitled to receive 100% of the employer's contributions upon retirement, early retirement or termination of employment after completing 10 years of service. Employees with 3 to 9 years of service are entitled to receive the employer's contributions at a scale ranging from 30% to 90% upon termination of employment for other reasons other than summary dismissal. All employer's contributions received by employee are subject to MPF Schemes Ordinance.

With the implementation of the MPF Schemes Ordinance on 1 December 2000, the Group also launched the MPF Scheme according to the regulatory requirement. Since 2019, employees with 5 years of service or above are entitled to employer's voluntary contribution. The trustee of the Scheme 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 2019 amounted to approximately HK\$178 million (first half of 2018: approximately HK\$171 million), after a deduction of forfeited contributions of approximately HK\$4 million (first half of 2018: approximately HK\$4 million). For the MPF Scheme, the Group contributed approximately HK\$58 million (first half of 2018: approximately HK\$46 million) for the first half of 2019.

## 20. Cash and balances and placements with banks and other financial institutions

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
Cash	15,936	21,992
Balances with central banks	142,484	158,355
Placements with central banks maturing within one month	8,661	9,572
Placements with central banks maturing between one and twelve months	1,054	2,697
Placements with central banks maturing over one year	784	396
	<b>152,983</b>	171,020
Balances with other banks and other financial institutions	104,248	120,084
Placements with other banks and other financial institutions maturing within one month	46,002	66,064
Placements with other banks and other financial institutions maturing between one and twelve months	66,198	54,154
	<b>216,448</b>	240,302
	<b>385,367</b>	433,314
Impairment allowances		
– Stage 1	(10)	(15)
– Stage 2	–	–
– Stage 3	–	–
	<b>385,357</b>	433,299

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 21. Financial assets at fair value through profit or loss

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
Securities		
Trading assets		
– Treasury bills	19,210	16,301
– Certificates of deposit	1,265	623
– Other debt securities	16,977	15,193
	<b>37,452</b>	32,117
– Equity securities	54	2
– Fund	3	3
	<b>37,509</b>	32,122
Other financial assets mandatorily classified at fair value through profit or loss		
– Certificates of deposit	2	2
– Other debt securities	21,598	19,784
	<b>21,600</b>	19,786
– Equity securities	4,619	1,010
– Fund	8,749	6,729
	<b>34,968</b>	27,525
Financial assets designated at fair value through profit or loss		
– Certificates of deposit	–	–
– Other debt securities	3,285	3,171
	<b>3,285</b>	3,171
Total securities	<b>75,762</b>	62,818
Other debt instruments		
Trading assets	2,515	4,634
Financial assets designated at fair value through profit or loss	–	233,477
Total other debt instruments	<b>2,515</b>	238,111
	<b>78,277</b>	300,929

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

Total securities are analysed by place of listing as follows:

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
Debt securities and certificates of deposit		
– Listed in Hong Kong	13,684	13,556
– Listed outside Hong Kong	13,709	14,436
– Unlisted	34,944	27,082
	<b>62,337</b>	55,074
Equity securities		
– Listed in Hong Kong	3,730	468
– Listed outside Hong Kong	943	544
	<b>4,673</b>	1,012
Fund		
– Listed in Hong Kong	3	339
– Listed outside Hong Kong	64	–
– Unlisted	8,685	6,393
	<b>8,752</b>	6,732
Total securities	<b>75,762</b>	62,818

Total securities are analysed by type of issuer as follows:

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
Sovereigns	29,672	26,397
Public sector entities	1,852	1,720
Banks and other financial institutions	32,119	26,385
Corporate entities	12,119	8,316
Total securities	<b>75,762</b>	62,818

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 22. Derivative financial instruments

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

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

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

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

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 22. Derivative financial instruments (continued)

The following tables summarise the contract/notional amounts and fair values of each class of derivative financial instrument as at 30 June 2019 and 31 December 2018:

	At 30 June 2019		
	Contract/ notional amounts HK\$'m	Fair values	
		Assets HK\$'m	Liabilities HK\$'m
Exchange rate contracts			
Spot, forwards and futures	357,326	12,347	(8,620)
Swaps	1,738,692	8,044	(9,966)
Options	55,070	149	(82)
	<b>2,151,088</b>	<b>20,540</b>	<b>(18,668)</b>
Interest rate contracts			
Futures	10,699	3	(5)
Swaps	1,171,060	7,726	(11,640)
Options	4,223	–	(6)
	<b>1,185,982</b>	<b>7,729</b>	<b>(11,651)</b>
Commodity contracts	<b>48,293</b>	<b>524</b>	<b>(2,883)</b>
Equity contracts	<b>3,014</b>	<b>94</b>	<b>(95)</b>
Credit derivative contracts	<b>390</b>	<b>–</b>	<b>(7)</b>
	<b>3,388,767</b>	<b>28,887</b>	<b>(33,304)</b>

	At 31 December 2018		
	Contract/ notional amounts HK\$'m	Fair values	
		Assets HK\$'m	Liabilities HK\$'m
Exchange rate contracts			
Spot, forwards and futures	363,072	12,711	(8,901)
Swaps	1,721,302	12,373	(12,143)
Options	29,715	158	(64)
	<b>2,114,089</b>	<b>25,242</b>	<b>(21,108)</b>
Interest rate contracts			
Futures	20,242	1	(39)
Swaps	1,047,515	9,312	(8,428)
Options	1,566	1	(1)
	<b>1,069,323</b>	<b>9,314</b>	<b>(8,468)</b>
Commodity contracts	<b>28,782</b>	<b>239</b>	<b>(1,184)</b>
Equity contracts	<b>2,998</b>	<b>117</b>	<b>(119)</b>
Credit derivative contracts	<b>392</b>	<b>–</b>	<b>(1)</b>
	<b>3,215,584</b>	<b>34,912</b>	<b>(30,880)</b>



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 23. Advances and other accounts

	<b>At 30 June 2019 HK\$'m</b>	At 31 December 2018 HK\$'m
Personal loans and advances	<b>375,110</b>	354,619
Corporate loans and advances	<b>977,428</b>	912,616
Advances to customers	<b>1,352,538</b>	1,267,235
Less: Impairment allowances		
– Stage 1	<b>(4,086)</b>	(3,747)
– Stage 2	<b>(313)</b>	(546)
– Stage 3	<b>(1,633)</b>	(1,126)
	<b>1,346,506</b>	1,261,816
Trade bills	<b>20,534</b>	17,361
Less: Impairment allowances		
– Stage 1	<b>(3)</b>	(1)
– Stage 2	<b>–</b>	–
– Stage 3	<b>(4)</b>	(4)
	<b>20,527</b>	17,356
Advances to banks and other financial institutions	<b>3,248</b>	3,822
	<b>1,370,281</b>	1,282,994

As at 30 June 2019, advances to customers included accrued interest of HK\$2,635 million (31 December 2018: HK\$2,338 million).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 24. Investment in securities

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
Investment in securities at fair value through other comprehensive income		
– Treasury bills	225,316	122,462
– Certificates of deposit	58,979	34,849
– Other debt securities	395,516	328,303
	<b>679,811</b>	485,614
– Equity securities	4,965	3,928
	<b>684,776</b>	489,542
Investment in securities at amortised cost		
– Certificates of deposit	18	18
– Other debt securities	110,381	109,507
	<b>110,399</b>	109,525
– Impairment allowances		
Stage 1	(34)	(29)
Stage 2	–	–
Stage 3	–	–
	<b>110,365</b>	109,496
	<b>795,141</b>	599,038

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 24. Investment in securities (continued)

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

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
Investment in securities at fair value through other comprehensive income		
Debt securities and certificates of deposit		
– Listed in Hong Kong	74,011	67,888
– Listed outside Hong Kong	208,608	187,903
	<b>282,619</b>	255,791
– Unlisted	397,192	229,823
	<b>679,811</b>	485,614
Equity securities		
– Listed in Hong Kong	3,241	2,599
– Listed outside Hong Kong	517	185
– Unlisted	1,207	1,144
	<b>4,965</b>	3,928
	<b>684,776</b>	489,542
Investment in securities at amortised cost		
Debt securities and certificates of deposit		
– Listed in Hong Kong	19,104	19,249
– Listed outside Hong Kong	52,675	54,225
	<b>71,779</b>	73,474
– Unlisted	38,586	36,022
	<b>110,365</b>	109,496
	<b>795,141</b>	599,038
Market value of listed securities at amortised cost	<b>73,904</b>	73,086

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

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
Sovereigns	334,758	185,331
Public sector entities	49,729	44,984
Banks and other financial institutions	239,386	208,060
Corporate entities	171,268	160,663
	<b>795,141</b>	599,038

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 25. Investment properties

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
At 1 January	19,684	19,669
Additions	24	13
Fair value gains	657	906
Reclassification from/(to) properties, plant and equipment (Note 26)	260	(904)
At period/year end	<b>20,625</b>	19,684

## 26. Properties, plant and equipment

	Premises HK\$'m	Equipment, fixtures and fittings HK\$'m	Right-of-use assets HK\$'m	Total HK\$'m
Net book value at 1 January 2019, as previously reported	46,390	3,040	–	49,430
Effect of merger of entity under common control	–	5	–	5
Net book value at 1 January 2019, as restated	46,390	3,045	–	49,435
Effect of adoption of HKFRS 16	–	–	1,757	1,757
At 1 January 2019, after adoption of HKFRS 16	46,390	3,045	1,757	51,192
Additions	31	521	621	1,173
Disposals	–	(2)	–	(2)
Revaluation	1,071	–	–	1,071
Depreciation for the period (Note 13)	(572)	(497)	(333)	(1,402)
Reclassification to investment properties (Note 25)	(260)	–	–	(260)
Exchange difference	–	4	3	7
Net book value at 30 June 2019	<b>46,660</b>	<b>3,071</b>	<b>2,048</b>	<b>51,779</b>
At 30 June 2019				
Cost or valuation	46,660	10,910	2,381	59,951
Accumulated depreciation and impairment	–	(7,839)	(333)	(8,172)
Net book value at 30 June 2019	<b>46,660</b>	<b>3,071</b>	<b>2,048</b>	<b>51,779</b>
The analysis of cost or valuation of the above assets is as follows:				
At 30 June 2019				
At cost	–	10,910	2,381	13,291
At valuation	46,660	–	–	46,660
	<b>46,660</b>	<b>10,910</b>	<b>2,381</b>	<b>59,951</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 26. Properties, plant and equipment (continued)

	Premises HK\$'m	Equipment, fixtures and fittings HK\$'m	Total HK\$'m
Net book value at 1 January 2018, as previously reported	44,329	2,939	47,268
Effect of merger of entity under common control	–	7	7
Net book value at 1 January 2018, as restated	44,329	2,946	47,275
Additions	94	1,081	1,175
Disposals	(4)	(8)	(12)
Revaluation	2,160	–	2,160
Depreciation for the year	(1,092)	(974)	(2,066)
Reclassification from investment properties (Note 25)	904	–	904
Exchange difference	(1)	–	(1)
Net book value at 31 December 2018	46,390	3,045	49,435
At 31 December 2018			
Cost or valuation	46,390	10,511	56,901
Accumulated depreciation and impairment	–	(7,466)	(7,466)
Net book value at 31 December 2018	46,390	3,045	49,435
The analysis of cost or valuation of the above assets is as follows:			
At 31 December 2018			
At cost	–	10,511	10,511
At valuation	46,390	–	46,390
	46,390	10,511	56,901

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 27. Other assets

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
Repossessed assets	4	10
Precious metals	9,253	6,602
Reinsurance assets	47,574	45,898
Accounts receivable and prepayments	35,632	26,085
	<b>92,463</b>	<b>78,595</b>

## 28. Financial liabilities at fair value through profit or loss

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
Trading liabilities		
– Short positions in Exchange Fund Bills and Notes	19,062	13,336
Financial liabilities designated at fair value through profit or loss		
– Structured deposits (Note 29)	13	2,199
	<b>19,075</b>	<b>15,535</b>

As at 30 June 2019 and 31 December 2018, the carrying amount of financial liabilities designated at fair value through profit or loss was approximately the same as the amount that the Group would be contractually required to pay at maturity to the holders.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 29. Deposits from customers

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
Current, savings and other deposit accounts (per balance sheet)	2,018,223	1,895,796
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 28)	13	2,199
	<b>2,018,236</b>	<b>1,897,995</b>
Analysed by:		
Demand deposits and current accounts		
– Corporate	149,350	144,985
– Personal	67,967	62,827
	<b>217,317</b>	<b>207,812</b>
Savings deposits		
– Corporate	376,649	337,932
– Personal	523,931	516,185
	<b>900,580</b>	<b>854,117</b>
Time, call and notice deposits		
– Corporate	538,017	487,934
– Personal	362,322	348,132
	<b>900,339</b>	<b>836,066</b>
	<b>2,018,236</b>	<b>1,897,995</b>

## 30. Debt securities and certificates of deposit in issue

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
Debt securities, at amortised cost	792	9,453

## 31. Other accounts and provisions

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
Other accounts payable	72,661	58,999
Lease liabilities	1,953	N/A
Impairment allowances on loan commitments and financial guarantee contracts		
– Stage 1	408	375
– Stage 2	29	20
– Stage 3	24	43
	<b>75,075</b>	<b>59,437</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 32. Deferred taxation

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

The major components of deferred tax (assets)/liabilities recorded in the balance sheet, and the movements during the first half of 2019 and the year ended 31 December 2018 are as follows:

	At 30 June 2019				
	Accelerated tax depreciation HK\$'m	Property revaluation HK\$'m	Impairment allowances HK\$'m	Others HK\$'m	Total HK\$'m
At 1 January 2019	706	6,991	(724)	(1,478)	5,495
Charged/(credited) to income statement (Note 16)	10	(78)	(50)	24	(94)
Charged to other comprehensive income	–	136	–	700	836
Release upon disposal of equity instruments at fair value through other comprehensive income	–	–	–	2	2
At 30 June 2019	716	7,049	(774)	(752)	6,239

  

	At 31 December 2018				
	Accelerated tax depreciation HK\$'m	Property revaluation HK\$'m	Impairment allowances HK\$'m	Others HK\$'m	Total HK\$'m
At 1 January 2018	693	6,649	(739)	(977)	5,626
Charged to income statement	13	44	15	11	83
Charged/(credited) to other comprehensive income	–	298	–	(519)	(221)
Release upon disposal of equity instruments at fair value through other comprehensive income	–	–	–	7	7
At 31 December 2018	706	6,991	(724)	(1,478)	5,495



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 32. Deferred taxation (continued)

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

	<b>At 30 June 2019 HK\$'m</b>	At 31 December 2018 HK\$'m
Deferred tax assets	<b>(63)</b>	(270)
Deferred tax liabilities	<b>6,302</b>	5,765
	<b>6,239</b>	5,495

	<b>At 30 June 2019 HK\$'m</b>	At 31 December 2018 HK\$'m
Deferred tax assets to be recovered after more than twelve months	<b>(52)</b>	(60)
Deferred tax liabilities to be settled after more than twelve months	<b>7,029</b>	7,011
	<b>6,977</b>	6,951

As at 30 June 2019, the Group has not recognised deferred tax assets in respect of tax losses amounting to HK\$22 million (31 December 2018: HK\$23 million). Of the amount, HK\$9 million (31 December 2018: HK\$9 million) for the Group has no expiry date and HK\$13 million (31 December 2018: HK\$14 million) for the Group is scheduled to expire within six years under the current tax legislation in different countries/regions.

## 33. Insurance contract liabilities

	<b>At 30 June 2019 HK\$'m</b>	At 31 December 2018 HK\$'m
At 1 January	<b>104,723</b>	103,229
Benefits paid	<b>(8,543)</b>	(17,479)
Claims incurred and movement in liabilities	<b>16,820</b>	18,973
At period/year end	<b>113,000</b>	104,723

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK\$40,605 million (31 December 2018: HK\$37,940 million) and the associated reinsurance assets of HK\$47,574 million (31 December 2018: HK\$45,898 million) are included in "Other assets" (Note 27).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 34. Subordinated liabilities

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
Subordinated notes – designated at fair value through profit or loss	<b>13,168</b>	13,246

In 2010, BOCHK issued listed subordinated notes with an aggregate amount of USD2,500 million, interest rate at 5.55% per annum payable semi-annually, due February 2020. In September 2018, USD877 million in principal amount of subordinated notes were purchased and redeemed by BOCHK and cancelled pursuant to the terms and conditions of the notes. USD1,623 million of the aggregate principal amount of subordinated notes remain outstanding. Amounts qualified as Tier 2 capital instruments for regulatory purposes are shown in Note 3.5(B). The carrying amount of subordinated notes designated at fair value through profit or loss as at 30 June 2019 was more than the amount that the Group would be contractually required to pay at maturity to the holders by HK\$221 million (31 December 2018: HK\$260 million).

## 35. Share capital

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
Issued and fully paid: 10,572,780,266 ordinary shares	<b>52,864</b>	52,864

## 36. Other equity instruments

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
Undated non-cumulative subordinated Additional Tier 1 capital securities	<b>23,476</b>	23,476

In September 2018, BOCHK issued USD3,000 million undated non-cumulative subordinated Additional Tier 1 capital securities. The capital securities are perpetual securities in respect of which there is no fixed redemption date and are not callable within the first 5 years. They have an initial rate of distribution of 5.90% per annum payable semi-annually. Dividend paid to other equity instrument holders in the first half of 2019 amounted to HK\$695 million.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 37. Notes to condensed consolidated cash flow statement

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

	Half-year ended 30 June 2019 HK\$'m	Half-year ended 30 June 2018 HK\$'m
Operating profit	20,848	20,258
Depreciation	1,402	998
Net charge of impairment allowances	793	344
Advances written off net of recoveries	(106)	(150)
Interest expense on lease liabilities	27	N/A
Change in subordinated liabilities	227	176
Change in balances and placements with banks and other financial institutions with original maturity over three months	(11,380)	(10,684)
Change in financial assets at fair value through profit or loss	(13,061)	26,391
Change in derivative financial instruments	8,449	(5,668)
Change in advances and other accounts	(87,902)	(78,377)
Change in investment in securities	(181,429)	(90,586)
Change in other assets	(13,900)	(4,061)
Change in deposits and balances from banks and other financial institutions	(133,642)	14,378
Change in financial liabilities at fair value through profit or loss	3,540	(3,808)
Change in deposits from customers	122,427	78,924
Change in debt securities and certificates of deposit in issue	(8,661)	(6,064)
Change in other accounts and provisions	13,527	15,977
Change in insurance contract liabilities	8,277	1,685
Effect of changes in exchange rates	(3,617)	(231)
Operating cash outflow before taxation	<b>(274,181)</b>	<b>(40,498)</b>
Cash flows from operating activities included		
– interest received	33,813	27,644
– interest paid	12,679	8,390
– dividend received	124	127

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

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

	At 30 June 2019 HK\$'m	At 30 June 2018 HK\$'m
Cash and balances and placements with banks and other financial institutions with original maturity within three months	320,755	306,555
Treasury bills, certificates of deposit and other debt instruments with original maturity within three months		
– financial assets at fair value through profit or loss	3,307	2,651
– investment in securities	17,578	27,567
	<b>341,640</b>	<b>336,773</b>

## 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 2019 HK\$'m	At 31 December 2018 HK\$'m
Direct credit substitutes	6,989	6,533
Transaction-related contingencies	28,318	29,292
Trade-related contingencies	31,316	26,269
Commitments that are unconditionally cancellable without prior notice	405,096	404,337
Other commitments with an original maturity of		
– up to one year	17,560	10,189
– over one year	141,701	131,268
	<b>630,980</b>	<b>607,888</b>
Credit risk-weighted amount	<b>71,370</b>	<b>68,508</b>

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 39. Capital commitments

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

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
Authorised and contracted for but not provided for	302	215
Authorised but not contracted for	63	35
	<b>365</b>	<b>250</b>

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

### *As lessor*

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

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
Land and buildings		
– Not later than one year	566	540
– One to two years	364	300
– Two to three years	147	114
– Three to four years	21	1
– Four to five years	6	–
	<b>1,104</b>	<b>955</b>

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 41. Segmental reporting

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

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

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.

Several products/businesses have been reclassified among operating segments in accordance with the latest management model of the Group. Comparative amounts have been restated to conform with current period presentation.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 41. Segmental reporting (continued)

	Personal Banking HK\$'m	Corporate Banking HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
<b>Half-year ended 30 June 2019</b>								
Net interest income/(expense)								
– External	4	7,564	9,547	1,580	1,208	19,903	–	19,903
– Inter-segment	6,881	(226)	(5,943)	(8)	(704)	–	–	–
	6,885	7,338	3,604	1,572	504	19,903	–	19,903
Net fee and commission income/(expense)	3,620	2,247	228	(440)	583	6,238	(192)	6,046
Net insurance premium income	–	–	–	9,406	–	9,406	(10)	9,396
Net trading gain/(loss)	386	713	979	(438)	162	1,802	27	1,829
Net (loss)/gain on other financial instruments at fair value through profit or loss	(1)	–	136	2,075	1	2,211	4	2,215
Net (loss)/gain on other financial assets	–	(2)	729	(11)	–	716	–	716
Other operating income	28	–	11	65	1,068	1,172	(671)	501
<b>Total operating income</b>	<b>10,918</b>	<b>10,296</b>	<b>5,687</b>	<b>12,229</b>	<b>2,318</b>	<b>41,448</b>	<b>(842)</b>	<b>40,606</b>
Net insurance benefits and claims and movement in liabilities	–	–	–	(11,437)	–	(11,437)	–	(11,437)
<b>Net operating income before impairment allowances</b>	<b>10,918</b>	<b>10,296</b>	<b>5,687</b>	<b>792</b>	<b>2,318</b>	<b>30,011</b>	<b>(842)</b>	<b>29,169</b>
Net (charge)/reversal of impairment allowances	(88)	(675)	(44)	(2)	16	(793)	–	(793)
<b>Net operating income</b>	<b>10,830</b>	<b>9,621</b>	<b>5,643</b>	<b>790</b>	<b>2,334</b>	<b>29,218</b>	<b>(842)</b>	<b>28,376</b>
Operating expenses	(4,430)	(1,556)	(570)	(239)	(1,575)	(8,370)	842	(7,528)
<b>Operating profit</b>	<b>6,400</b>	<b>8,065</b>	<b>5,073</b>	<b>551</b>	<b>759</b>	<b>20,848</b>	<b>–</b>	<b>20,848</b>
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	657	657	–	657
Net gain from disposal/revaluation of properties, plant and equipment	–	–	–	–	1	1	–	1
Share of profits less losses after tax of associates and joint ventures	54	–	1	–	(9)	46	–	46
<b>Profit before taxation</b>	<b>6,454</b>	<b>8,065</b>	<b>5,074</b>	<b>551</b>	<b>1,408</b>	<b>21,552</b>	<b>–</b>	<b>21,552</b>
<b>At 30 June 2019</b>								
<b>ASSETS</b>								
Segment assets	403,026	948,779	1,367,764	146,273	151,699	3,017,541	(30,728)	2,986,813
Interests in associates and joint ventures	475	–	–	–	1,152	1,627	–	1,627
	403,501	948,779	1,367,764	146,273	152,851	3,019,168	(30,728)	2,988,440
<b>LIABILITIES</b>								
Segment liabilities	1,070,509	930,364	496,999	136,477	87,952	2,722,301	(30,728)	2,691,573
<b>Half-year ended 30 June 2019</b>								
<b>Other information</b>								
Capital expenditure	35	1	1	21	1,139	1,197	–	1,197
Depreciation	561	110	50	27	654	1,402	–	1,402
Amortisation of securities	–	–	925	30	(34)	921	–	921

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 41. Segmental reporting (continued)

	Personal Banking HK\$m	Corporate Banking HK\$m	Treasury HK\$m	Insurance HK\$m	Others HK\$m	Subtotal HK\$m	Eliminations HK\$m	Consolidated HK\$m
<b>Half-year ended 30 June 2018</b>								
Net interest income/(expense)								
– External	1,087	7,360	7,311	1,494	1,287	18,539	–	18,539
– Inter-segment	4,554	(831)	(3,209)	(22)	(492)	–	–	–
	5,641	6,529	4,102	1,472	795	18,539	–	18,539
Net fee and commission income/(expense)	3,871	2,329	195	(306)	570	6,659	(183)	6,476
Net insurance premium income	–	–	–	7,390	–	7,390	(9)	7,381
Net trading gain/(loss)	464	843	687	(123)	147	2,018	32	2,050
Net gain/(loss) on other financial instruments at fair value through profit or loss	4	–	312	(1,502)	–	(1,186)	4	(1,182)
Net (loss)/gain on other financial assets	–	(2)	43	45	–	86	–	86
Other operating income	12	1	6	84	1,044	1,147	(649)	498
<b>Total operating income</b>	9,992	9,700	5,345	7,060	2,556	34,653	(805)	33,848
Net insurance benefits and claims and movement in liabilities	–	–	–	(6,234)	–	(6,234)	–	(6,234)
<b>Net operating income before impairment allowances</b>	9,992	9,700	5,345	826	2,556	28,419	(805)	27,614
Net charge of impairment allowances	(30)	(49)	(1)	(4)	(260)	(344)	–	(344)
<b>Net operating income</b>	9,962	9,651	5,344	822	2,296	28,075	(805)	27,270
Operating expenses	(4,095)	(1,497)	(537)	(225)	(1,463)	(7,817)	805	(7,012)
<b>Operating profit</b>	5,867	8,154	4,807	597	833	20,258	–	20,258
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	918	918	–	918
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	(1)	–	–	–	11	10	–	10
Share of profits less losses after tax of associates and joint ventures	45	–	–	–	(3)	42	–	42
<b>Profit before taxation</b>	5,911	8,154	4,807	597	1,759	21,228	–	21,228
<b>At 31 December 2018</b>								
<b>ASSETS</b>								
Segment assets	379,233	887,900	1,438,436	132,417	140,682	2,978,668	(23,147)	2,955,521
Interests in associates and joint ventures	422	–	1	–	60	483	–	483
	379,655	887,900	1,438,437	132,417	140,742	2,979,151	(23,147)	2,956,004
<b>LIABILITIES</b>								
Segment liabilities	1,038,805	839,505	616,437	124,085	74,946	2,693,778	(23,147)	2,670,631
<b>Half-year ended 30 June 2018</b>								
<b>Other information</b>								
Capital expenditure	3	–	–	5	627	635	–	635
Depreciation	260	69	54	8	607	998	–	998
Amortisation of securities	–	–	386	94	(6)	474	–	474



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 42. Assets pledged as security

As at 30 June 2019, the liabilities of the Group amounting to HK\$17,389 million (31 December 2018: HK\$11,891 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK\$61,208 million (31 December 2018: HK\$65,617 million) were secured by debt securities related to sale and repurchase arrangements. The amount of assets pledged by the Group to secure these liabilities was HK\$78,908 million (31 December 2018: HK\$78,230 million) mainly included in “Financial assets at fair value through profit or loss” and “Investment in securities”.

## 43. Significant related party transactions

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

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

General information of the parent companies:

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

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

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

The majority of transactions with BOC arise from money market activities. As at 30 June 2019, the related aggregate amounts due from and to BOC of the Group were HK\$118,071 million (31 December 2018: HK\$158,881 million) and HK\$32,032 million (31 December 2018: HK\$137,562 million) respectively. The aggregate amounts of income and expenses of the Group arising from these transactions with BOC for the first half of 2019 were HK\$1,160 million (first half of 2018: HK\$1,825 million) and HK\$347 million (first half of 2018: HK\$283 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 or indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other state controlled entities. The Group enters into banking transactions with government authorities, agencies, affiliates and other state controlled entities in the normal course of business at commercial terms.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 43. Significant related party transactions (continued)

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

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

- lending, provision of credits and guarantees, and deposit taking;
- inter-bank balance taking and placing;
- sales, purchases, underwriting and redemption of bonds issued by other state controlled entities;
- rendering of foreign exchange, remittance and investment related services;
- provision of fiduciary activities; and
- purchase of utilities, transport, telecommunication and postage services.

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

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

	Half-year ended 30 June 2019 HK\$'m	Half-year ended 30 June 2018 HK\$'m
Income statement items		
Associates		
– Fee and commission expenses	4	6
– Other operating expenses	41	39
Joint ventures		
– Interest expenses	2	–
Other related parties		
– Fee and commission income	5	5

	At 30 June 2019 HK\$'m	At 31 December 2018 HK\$'m
Balance sheet items		
Associates		
– Other accounts and provisions	47	7
Joint ventures		
– Deposits from customers	2,486	–

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 43. Significant related party transactions (continued)

### (d) Key management personnel

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

The compensation of key management personnel is detailed as follows:

	<b>Half-year ended 30 June 2019 HK\$'m</b>	Half-year ended 30 June 2018 HK\$'m
Salaries and other short-term employee benefits	<b>18</b>	16

## 44. International claims

The below analysis is prepared with reference to the completion instructions for the HKMA return of international banking statistics. International claims are exposures to counterparties on which the ultimate risk lies based on the locations of the counterparties after taking into account the transfer of risk, and represent the sum of cross-border claims in all currencies and local claims in foreign currencies. For a claim guaranteed by a party situated in a location different from the counterparty, the risk will be transferred to the location of the guarantor. For a claim on an overseas branch of a bank whose head office is located in another location, the risk will be transferred to the location where its head office is located.

Claims on individual countries/regions, after risk transfer, amounting to 10% or more of the aggregate international claims of the Group are shown as follows:

	<b>At 30 June 2019</b>				
	<b>Non-bank private sector</b>				<b>Total HK\$'m</b>
	<b>Banks HK\$'m</b>	<b>Official sector HK\$'m</b>	<b>Non-bank financial institutions HK\$'m</b>	<b>Non-financial private sector HK\$'m</b>	
Mainland of China	<b>328,540</b>	<b>116,723</b>	<b>19,460</b>	<b>160,296</b>	<b>625,019</b>
Hong Kong	<b>10,955</b>	<b>67</b>	<b>42,385</b>	<b>347,454</b>	<b>400,861</b>
United States	<b>19,442</b>	<b>100,481</b>	<b>24,407</b>	<b>21,274</b>	<b>165,604</b>

	<b>At 31 December 2018</b>				
	<b>Non-bank private sector</b>				<b>Total HK\$'m</b>
	<b>Banks HK\$'m</b>	<b>Official sector HK\$'m</b>	<b>Non-bank financial institutions HK\$'m</b>	<b>Non-financial private sector HK\$'m</b>	
Mainland of China	333,781	362,253	22,430	143,578	862,042
Hong Kong	8,084	–	37,312	315,370	360,766
United States	18,044	79,573	25,133	21,818	144,568

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 45. Non-bank Mainland exposures

The analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties and the types of direct exposures with reference to the completion instructions for the HKMA return of Mainland activities, which includes the Mainland exposures extended by BOCHK's Hong Kong office only.

	Items in the HKMA return	At 30 June 2019		
		On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total exposure HK\$'m
Central government, central government-owned entities and their subsidiaries and joint ventures	1	324,312	39,180	363,492
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	62,884	16,654	79,538
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	104,018	22,220	126,238
Other entities of central government not reported in item 1 above	4	28,650	1,222	29,872
Other entities of local governments not reported in item 2 above	5	561	–	561
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	74,470	10,089	84,559
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	2,439	287	2,726
<b>Total</b>	<b>8</b>	<b>597,334</b>	<b>89,652</b>	<b>686,986</b>
Total assets after provision	9	<b>2,779,920</b>		
On-balance sheet exposures as percentage of total assets	10	<b>21.49%</b>		

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 45. Non-bank Mainland exposures (continued)

	Items in the HKMA return	At 31 December 2018		
		On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total exposure HK\$'m
Central government, central government-owned entities and their subsidiaries and joint ventures	1	292,682	37,793	330,475
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	60,506	13,060	73,566
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	93,286	18,961	112,247
Other entities of central government not reported in item 1 above	4	27,618	630	28,248
Other entities of local governments not reported in item 2 above	5	88	–	88
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	70,926	8,677	79,603
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	2,214	379	2,593
<b>Total</b>	<b>8</b>	<b>547,320</b>	<b>79,500</b>	<b>626,820</b>
Total assets after provision	9	2,752,643		
On-balance sheet exposures as percentage of total assets	10	19.88%		

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 46. Application of merger accounting

On 21 January 2019, the Branch Interests in Bank of China Limited, Vientiane Branch in Laos was transferred from BOC to BOCHK for a total consideration of HK\$728 million in cash. BOC Vientiane Branch and BOCHK are both under the common control of BOC before and after the combination. The Group has applied the merger accounting method in accordance with the Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA in the preparation of financial statements. The comparative amounts have been restated accordingly as if the business of BOC Vientiane Branch had always been carried out by the Group.

The statements of the adjustments to the consolidated equity as at 30 June 2019 and 31 December 2018 are as follows:

	At 30 June 2019			
	Before combination	Entity under common control	Adjustment	After combination
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Share capital	52,864	350	(350)	52,864
Merger reserve	–	–	(378)	(378)
Retained earnings and other reserves	215,688	160	–	215,848
	<b>268,552</b>	<b>510</b>	<b>(728)</b>	<b>268,334</b>
Other equity instruments	23,476	–	–	23,476
Non-controlling interests	5,057	–	–	5,057
	<b>297,085</b>	<b>510</b>	<b>(728)</b>	<b>296,867</b>

	At 31 December 2018			
	Before combination	Entity under common control	Adjustment	After combination
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Share capital	52,864	350	(350)	52,864
Merger reserve	–	–	350	350
Retained earnings and other reserves	204,206	116	–	204,322
	257,070	466	–	257,536
Other equity instruments	23,476	–	–	23,476
Non-controlling interests	4,361	–	–	4,361
	<b>284,907</b>	<b>466</b>	<b>–</b>	<b>285,373</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 47. Comparative amounts

In respect of the transfer of the Branch Interests in Bank of China Limited, Vientiane Branch in Laos from BOC on 21 January 2019 as explained in Note 46, the Group has applied merger accounting method for the business combination under common control. Comparative amounts in the interim financial information have been restated as if the business of BOC Vientiane Branch had always been carried out by the Group.

## 48. Compliance with HKAS 34

The unaudited interim financial information for the first half of 2019 complies with HKAS 34 “Interim Financial Reporting” issued by the HKICPA.

## 49. Statutory accounts

The financial information relating to the year ended 31 December 2018 that is included in this Interim Report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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