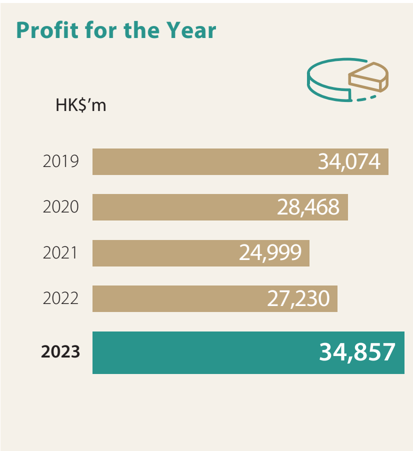
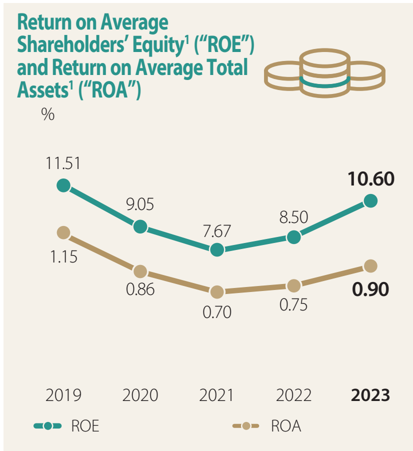
Management Discussion and Analysis

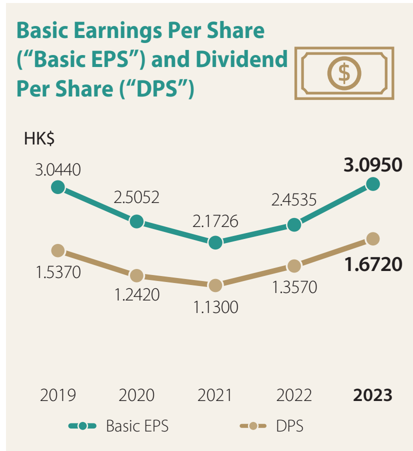
Financial Performance and Conditions at a Glance

The Group has adopted Hong Kong Financial Reporting Standard ("HKFRS") 17, "Insurance Contracts", effective from 1 January 2023. The requirements of HKFRS 17 have been applied retrospectively, with comparative information restated for the financial year of 2022 (previously published under HKFRS 4).

The following table is a summary of the Group's key financial results for 2023 in comparison with the previous four years. The average value of the Group's liquidity coverage ratio and net stable funding ratio for 2023 are reported on a quarterly basis.

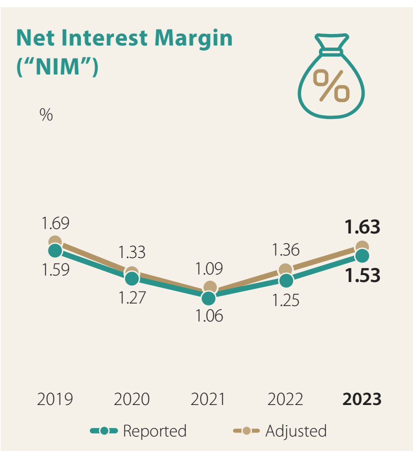


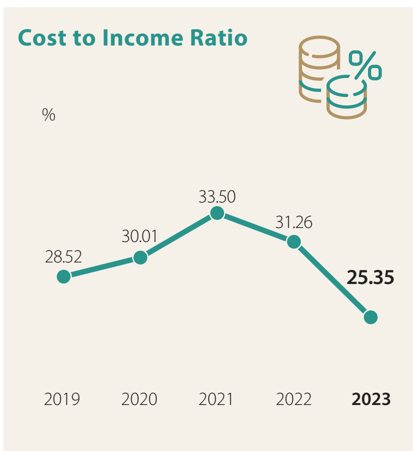


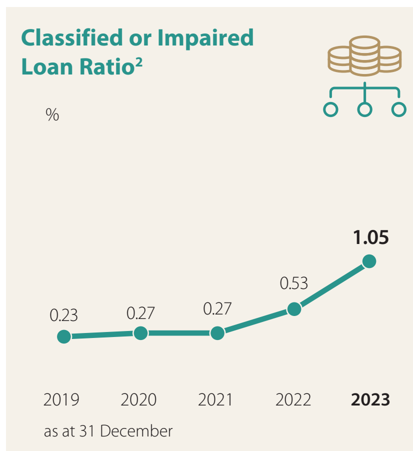


Profit for the year recorded steady growth

- Profit for the year increased by 28.0% year-on-year to HK$34,857 million.
- ROE and ROA were 10.60% and 0.90% respectively, up 2.10 percentage points and 0.15 percentage points respectively year-on-year.
- Basic EPS was HK$3.0950. DPS was HK$1.6720.







Seizing opportunities from rising market interest rates, leading to a notable widening in NIM

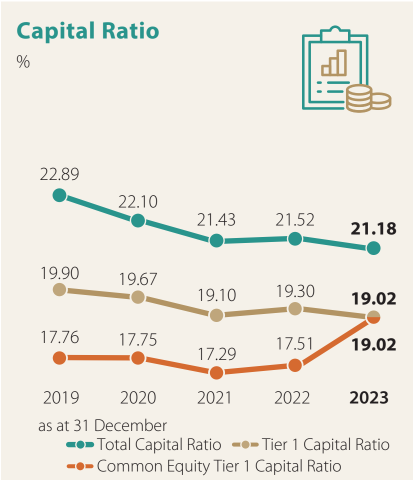
- NIM was 1.53%. If the funding income or cost of foreign currency swap contracts[3] were included, NIM would have been 1.63%, up 27 basis points year-on-year. This was primarily due to the Group's efforts to seize opportunities from rising market interest rates while proactively managing its assets and liabilities, which resulted in a widening of the loan and deposit spread and an increase in the contribution from net free funds.

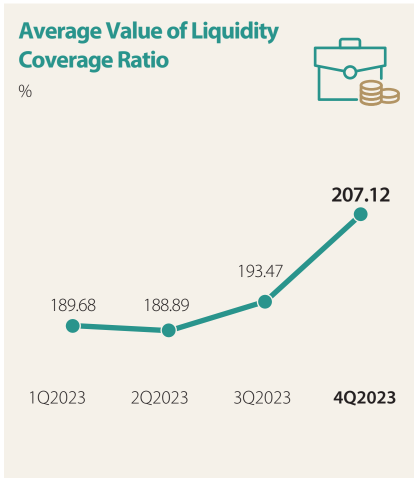
Continuously enhancing operational efficiency by optimising resource allocation

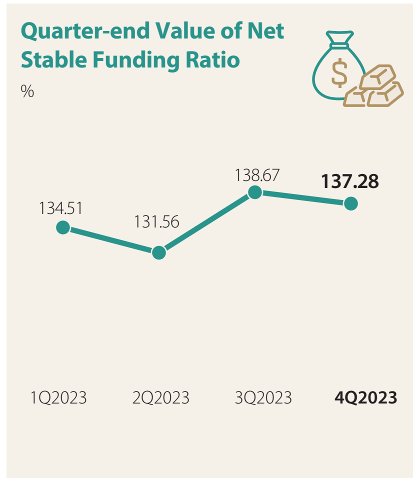
- Operating expenses decreased by 2.0% year-on-year, while net operating income before impairment allowances grew by 20.8% compared to last year. As a result, cost to income ratio improved by 5.91 percentage points year-on-year to 25.35%, remaining at a satisfactory level compared to industry peers.

Maintaining benign asset quality through enhanced risk management

- The classified or impaired loan ratio was 1.05%, which remained below the market average.







Prudently managed risk assets and continued to improve capital management

- The total capital ratio was 21.18%. Tier 1 capital ratio and Common Equity Tier 1 capital ratio both stood at 19.02%. During the year, total risk-weighted assets decreased by 1.0% to HK$1,298,956 million.

Liquidity remained ample

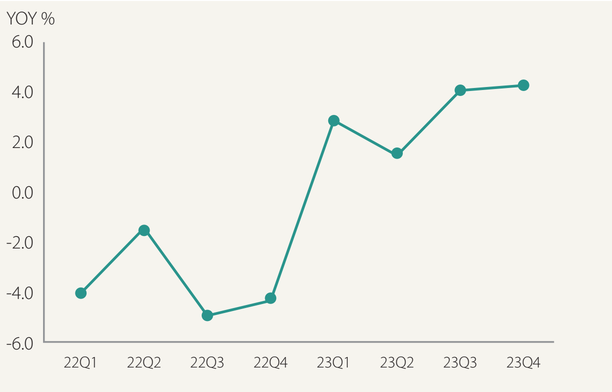
- The average value of the Group's liquidity coverage ratio and the quarter-end value of its net stable funding ratio in each quarter of 2023 met regulatory requirements.

1. Return on average shareholders' equity and return on average total assets as defined in "Financial Highlights".
2. 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.
3. Foreign exchange swap contracts are normally used for the Group's liquidity management and funding activities. In foreign exchange swap contracts, the Group exchanges one currency (original currency) for another (swapped currency) at the spot exchange rate (spot transaction) and commits to reverse the spot transaction by exchanging the same currency pair at a future maturity date at a predetermined rate (forward transaction). In this way, surplus funds in the original currency are swapped into another currency for liquidity and funding purposes with minimal foreign exchange risk. The exchange difference (funding income or cost) between the spot and forward contracts is recognised as a foreign exchange gain or loss (as included in "net trading gain"), while the corresponding interest differential between the surplus funds in the original currency and swapped currency is reflected in net interest income.

Economic Background and Operating Environment

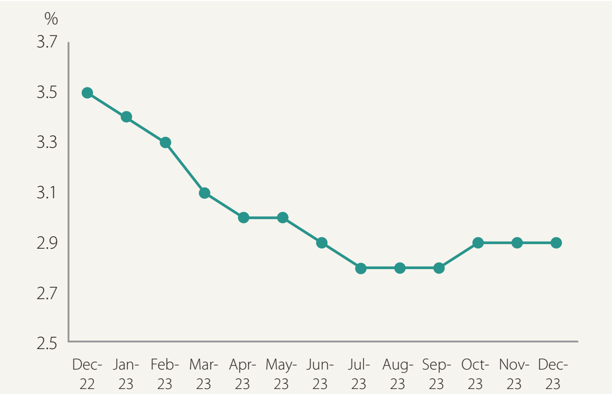
In 2023, global economic growth slowed as the operating environment grew increasingly complex and challenging amid uncertainties stemming from elevated interest rates and geopolitical risks. The US economy remained resilient. Headline US inflation rates eased in comparison to 2022, but remained at a relatively high level with limited progress made in reducing core inflationary pressures. The Federal Reserve continued to incrementally raise the benchmark interest rate to curb inflation, albeit at a slower pace, signalling in December that the benchmark rate was near its peak level. In contrast, the Euro area experienced a decline in inflation amid an economic downturn, prompting the European Central Bank to pause further rate increases in October, pending developments in economic growth and price levels. In the Chinese mainland, consumer demand improved alongside a stabilisation in the employment rate and price levels, while effective monetary policies were in place with reasonable and abundant liquidity maintained in the banking system. In Southeast Asia, the primary drivers of economic growth shifted from external demand to domestic demand, with economies in the region adopting diverging fiscal policies.

Hong Kong GDP Growth Rate



Source: HKSAR Census and Statistics Department

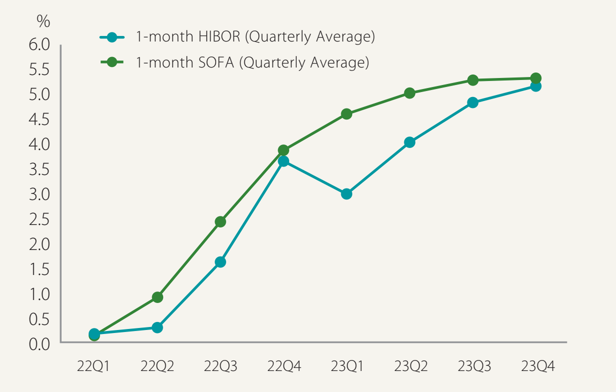
Hong Kong Unemployment Rate



Source: HKSAR Census and Statistics Department

Hong Kong maintained positive economic growth for the full year 2023, underpinned by a relatively robust labour market. As the external environment gradually improved, the year-on-year growth in merchandise imports and exports switched from negative to positive starting in October, while retail performance remained satisfactory.

HIBOR and SOFA



Source: Bloomberg

Financial markets remained stable. Under the Linked Exchange Rate System, the exchange rate of the Hong Kong dollar against the US dollar triggered the weak-side Convertibility Undertaking several times, with the aggregate balance of the banking sector falling to HK$44.950 billion at the end of 2023. The tightening of Hong Kong dollar liquidity and the deceleration of US rate hikes led to a narrowing in the interest rate differential between Hong Kong and the US. Meanwhile, Hong Kong's banking system remained robust.

The Hong Kong stock market experienced volatility, influenced by the global tightening of monetary policies by various central banks. As at the end of 2023, the Hang Sang Index had declined by 13.8% compared to the end of the prior year. The total funds raised and the average daily trading volume of the stock market fell by 40.7% and 15.9% respectively year-on-year.

The performance of the Hong Kong property market in 2023 was variable. Residential property prices initially rebounded at the start of the year due to the reopening of borders and a positive forecast for local economic growth, but subsequently entered a period of sustained decline from May onwards. However, the asset quality of banks' mortgage businesses remained generally stable. The global economic slowdown and persistently high interest rates adversely affected the commercial property market, with sale prices falling from the end of 2022 and transaction volumes declining year-on-year. The retail property market's performance remained relatively stable, benefitting from border reopening.

Consolidated Financial Review

Financial Highlights

HK$'m, except percentages	2023	(Restated) 2022	Change (%)
Net operating income before impairment allowances	**65,498**	54,215	20.8
Operating expenses	**(16,607)**	(16,950)	(2.0)
Operating profit before impairment allowances	**48,891**	37,265	31.2
Operating profit after impairment allowances	**42,558**	34,917	21.9
Profit before taxation	**40,914**	33,162	23.4
Profit for the year	**34,857**	27,230	28.0
Profit attributable to equity holders of the Company	**32,723**	25,940	26.1

In 2023, the banking sector continued to face pressure from a complex and challenging operating environment, characterised by elevated market interest rates, a downturn in global economic growth, persistent geopolitical risks and financial market volatility. In response, the Group upheld "bottom-line" thinking in its risk management. It actively seized major business opportunities presented by the Chinese mainland and Hong Kong economies' return to normalcy, the development of the Guangdong-Hong Kong-Macao Greater Bay Area, the growth of mutual financial market access between the Chinese mainland and Hong Kong, RMB internationalisation, and the Regional Comprehensive Economic Partnership ("RCEP"), thus bolstering its capacity for high-quality development. The Group recorded continuous improvement in its financial indicators and steady enhancement in shareholder returns. In 2023, the Group's net operating income before impairment allowances amounted to HK$65,498 million, an increase of HK$11,283 million or 20.8% year-on-year. If the funding income or cost of foreign currency swap contracts were included, net interest income would have recorded year-on-year growth. This was due to the Group's efforts to capture opportunities from rising market interest rates and proactively manage its assets and liabilities, which led to a widening of the loan and deposit spread and an increase in the contribution from net free funds, driving a year-on-year rise in net interest margin. Net fee and commission income decreased year-on-year, mainly due to weakened investor sentiment in the market, a decline in imports and exports, and dampened trade levels and credit demand. Operating expenses fell year-on-year, with the Group continuing to optimise its resource allocation and cost structure, while implementing low-carbon operational initiatives. Meanwhile, the net charge of impairment allowances increased. Profit for the year amounted to HK$34,857 million, an increase of HK$7,627 million or 28.0% year-on-year. Profit attributable to equity holders was HK$32,723 million, an increase of HK$6,783 million or 26.1% year-on-year.

Second Half Performance

In the second half of 2023, the Group's net operating income before impairment allowances increased by HK$3,822 million or 12.4%, compared to the first half of 2023. This was mainly attributable to an increase in net interest income, including the funding income or cost of foreign currency swap contracts, which more than offset the decrease in net fee and commission income. However, operating expenses and the net charge of impairment allowances rose from the first half of the year. As a result, the Group's profit after taxation decreased by HK$1,307 million or 7.2% on a half-on-half basis.

Income Statement Analysis

Net Interest Income and Net Interest Margin

HK$'m, except percentages	2023	(Restated) 2022	Change (%)
Interest income	128,489	63,770	101.5
Interest expense	(77,411)	(25,020)	209.4
Net interest income	51,078	38,750	31.8
Average interest-earning assets	3,334,799	3,104,952	7.4
Net interest spread	1.12%	1.08%	
Net interest margin	1.53%	1.25%	
Net interest margin (adjusted)*	1.63%	1.36%	

* Including the funding income or cost of foreign currency swap contracts.

Net interest income amounted to HK$51,078 million in 2023. If the funding income or cost of foreign currency swap contracts# were included, net interest income would have increased by 28.8% year-on-year to HK$54,487 million. This was mainly due to growth in average interest-earning assets and a widening of net interest margin. Average interest-earning assets expanded by HK$229,847 million or 7.4% year-on-year. If the funding income or cost of foreign currency swap contracts were included, net interest margin would have been 1.63%, up 27 basis points year-on-year. This was mainly attributable to the Group's efforts to seize opportunities from rising market interest rates while proactively managing its assets and liabilities, which led to a widening of the loan and deposit spread and an increase in the contribution from net free funds.

Second Half Performance

Compared with the first half of 2023, net interest income would have increased by HK$4,511 million or 18.1% if the funding income or cost of foreign currency swap contracts were included. This was mainly due to improvement in net interest margin. Net interest margin widened by 14 basis points to 1.70% as market interest rates rose in the second half of the year, leading to a widening of the loan and deposit spread, as well as an increase in the average yield of debt securities investments.

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

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

	2023		(Restated) 2022	
ASSETS	Average balance HK$'m	Average yield %	Average balance HK$'m	Average yield %
Balances and placements with banks and other financial institutions	**430,345**	**2.03**	403,002	1.07
Debt securities investments and other debt instruments	**1,208,912**	**3.37**	1,043,987	1.75
Advances to customers and other accounts	**1,682,932**	**4.65**	1,647,603	2.47
Other interest-earning assets	**12,610**	**6.80**	10,360	3.77
Total interest-earning assets	**3,334,799**	**3.85**	3,104,952	2.05
Non interest-earning assets	**528,473**	**–**	531,548	–
Total assets	**3,863,272**	**3.33**	3,636,500	1.75

LIABILITIES	Average balance HK$'m	Average rate %	Average balance HK$'m	Average rate %
Deposits and balances from banks and other financial institutions	**267,957**	**1.89**	284,175	0.84
Current, savings and time deposits	**2,403,303**	**2.78**	2,234,610	0.95
Subordinated liabilities	**76,571**	**3.28**	9,607	3.45
Other interest-bearing liabilities	**91,343**	**3.24**	54,444	1.83
Total interest-bearing liabilities	**2,839,174**	**2.73**	2,582,836	0.97
Shareholders' funds* and other non interest-bearing deposits and liabilities	**1,024,098**	**–**	1,053,664	–
Total liabilities	**3,863,272**	**2.00**	3,636,500	0.69

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

Net Fee and Commission Income

HK$'m, except percentages	2023	(Restated) 2022	Change (%)
Credit card business	2,430	1,991	22.0
Loan commissions	2,413	2,547	(5.3)
Securities brokerage	1,826	2,491	(26.7)
Trust and custody services	790	723	9.3
Payment services	714	724	(1.4)
Insurance	651	912	(28.6)
Bills commissions	481	514	(6.4)
Funds distribution	431	541	(20.3)
Currency exchange	398	210	89.5
Safe deposit box	290	299	(3.0)
Funds management	28	49	(42.9)
Others	1,735	1,359	27.7
Fee and commission income	12,187	12,360	(1.4)
Fee and commission expense	(3,020)	(2,560)	18.0
Net fee and commission income	9,167	9,800	(6.5)

In 2023, net fee and commission income amounted to HK$9,167 million, down HK$633 million or 6.5% year-on-year. The drop was mainly due to weakened investor sentiment in the market, which resulted in a year-on-year decrease in commission income from securities brokerage, funds distribution and funds management of 26.7%, 20.3% and 42.9% respectively, alongside a decrease in commission income from insurance of 28.6% compared to last year. Commission income from loans, bills and payment services also decreased year-on-year, owing to a decline in imports and exports, and dampened trade levels and credit demand. However, commission income from credit card business and currency exchange rose by 22.0% and 89.5% year-on-year respectively, mainly due to the full resumption of normal travel, which boosted consumer confidence and tourism. Commission income from trust and custody services also recorded a year-on-year increase. Fee and commission expenses increased, mainly due to higher credit card business volume leading to an increase in related expenses.

Second Half Performance

Compared with the first half of 2023, net fee and commission income decreased by HK$661 million or 13.5%, mainly owing to a decrease in commission income from loans, securities brokerage and funds distribution.

Net Trading Gain

HK$'m, except percentages	2023	(Restated) 2022	Change (%)
Foreign exchange and foreign exchange products	8,028	7,635	5.1
Interest rate instruments and items under fair value hedge	3	4,957	(99.9)
Commodities	274	173	58.4
Equity and credit derivative instruments	10	74	(86.5)
Total net trading gain	8,315	12,839	(35.2)

Net trading gain amounted to HK$8,315 million, a decrease of HK$4,524 million or 35.2% year-on-year. If the funding income or cost of foreign currency swap contracts were excluded, net trading gain would have decreased by 47.2% year-on-year to HK$4,906 million. This was mainly attributable to the Group further optimising the investment mix of its banking book portfolio, which led to reduced volatility in the mark-to-market value of certain interest rate instruments. This, in turn, led to a year-on-year decrease in the net trading gain from interest rate instruments and items under fair value hedge. Net trading gain from foreign exchange and foreign exchange products as well as commodities increased compared to the previous year, driven in part by year-on-year growth in income from customer transactions. Net trading gain from equity and credit derivative instruments decreased by HK$64 million, with less income realised from equity-linked products amid weakened investor sentiment in the market in 2023.

Second Half Performance

Compared with the first half of 2023, net trading gain increased by HK$229 million or 5.7%. If the funding income or cost of foreign currency swap contracts were excluded, net trading gain would have increased by 16.8% from the first half of the year to HK$2,643 million. This was mainly attributable to growth in net trading gain from foreign exchange and foreign exchange products as well as commodities.

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

HK$'m, except percentages	2023	(Restated) 2022	Change (%)
Net gain/(loss) on other financial instruments at fair value through profit or loss	2,277	(11,864)	N/A

The Group recorded a net gain of HK$2,277 million on other financial instruments at fair value through profit or loss in 2023, compared to a net loss of HK$11,864 million in 2022. The change was primarily due to a rise in the mark-to-market value of BOC Life's debt securities investments this year, caused by market interest rate movements. However, this rise in the mark-to-market value of debt securities investments related to BOC Life's participating policies was offset by changes to its insurance contract liabilities, also caused by market interest rate movements, which have been reflected in changes in insurance finance (expenses)/income.

Second Half Performance

Compared with the first half of 2023, net gain on other financial instruments at fair value through profit or loss decreased by HK$745 million or 49.3% to HK$766 million, which was mainly attributable to a drop in the mark-to-market value of BOC Life's investments caused by market interest rate movements.

Operating Expenses

HK$'m, except percentages	2023	(Restated) 2022	Change (%)
Staff costs	**10,725**	9,946	7.8
Premises and equipment expenses (excluding depreciation and amortisation)	**1,394**	1,273	9.5
Depreciation and amortisation	**2,919**	3,001	(2.7)
Other operating expenses	**2,721**	3,624	(24.9)
Less: Costs directly attributable to insurance contracts	**(1,152)**	(894)	28.9
Operating expenses	**16,607**	16,950	(2.0)

	At 31 December 2023	At 31 December 2022	Change (%)
Staff headcount measured in full-time equivalents	**14,916**	14,832	0.6

Operating expenses amounted to HK$16,607 million, a decrease of HK$343 million or 2.0% year-on-year. The Group remained committed to allocating resources efficiently and dynamically to meet its basic operating needs and support strategic implementation. To ensure safety and compliance in its operations, the Group continuously implemented low-carbon operational initiatives and prioritised key projects and business growth. At the same time, it refined cost management mechanisms and explored the utilisation of internal resources to meet additional requirements. The cost to income ratio was 25.35%, remaining at a satisfactory level relative to industry peers.

Staff costs increased by 7.8% year-on-year, mainly due to the annual salary increment and increased headcount, as well as an increased performance-related remuneration driven by improved earnings.

Premises and equipment expenses were up 9.5%, primarily due to increased investment in information technology, and a lower base for comparison in terms of rental expenses in the previous year.

Depreciation and amortisation decreased by 2.7%, mainly due to lower depreciation charges on right-of-use assets and the completion of depreciation on certain computer systems.

Other operating expenses decreased by 24.9%, including a decrease in anti-pandemic and other one-off expenses. In 2023, the Group seized opportunities from an uplift in the market environment brought about by the reopening of borders, and made concerted efforts to enhance brand promotion and marketing. Meanwhile, in light of the gradual resumption of economic activities, it incurred higher day-to-day operating and business related expenses such as business promotion, advertising and communication expenses.

Second Half Performance

Compared with the first half of 2023, operating expenses increased by HK$903 million or 11.5%. The increase was mainly due to higher staff costs, investment in information technology, advertising, business promotion, professional consultancy fees, communication expenses and charitable donation expenses.

Net Charge of Impairment Allowances on Advances and Other Accounts

HK$'m, except percentages	2023	(Restated) 2022	Change (%)
Net (charge)/reversal of impairment allowances on advances and other accounts			
Stage 1	**(53)**	816	N/A
Stage 2	**(2,475)**	(1,340)	84.7
Stage 3	**(3,891)**	(2,021)	92.5
Net charge of impairment allowances on advances and other accounts	**(6,419)**	(2,545)	152.2

Total Loan Impairment Allowances as a Percentage of Advances to Customers

	At 31 December 2023	At 31 December 2022
Total loan impairment allowances as a percentage of advances to customers	**0.87%**	0.70%

In 2023, the Group's net charge of impairment allowances on advances and other accounts amounted to HK$6,419 million, an increase of HK$3,874 million year-on-year. Impairment allowances at Stage 1 recorded a net charge of HK$53 million, which was mainly driven by loan growth during the year. In 2023, the impact on the net charge of impairment allowances from changes to the parameter values of the Group's expected credit loss model was insignificant, as compared to the net reversal of HK$816 million recorded in the previous year as a result of the Group revising its expected credit loss model in the second half of 2022. Impairment allowances at Stage 2 recorded a net charge of HK$2,475 million, while impairment allowances at Stage 3 amounted to a net charge of HK$3,891 million, an increase of HK$1,135 million and HK$1,870 million respectively year-on-year. In both cases, this was mainly attributable to higher impairment allowances being made in response to the downgrading of certain customers and clients under prevailing pandemic relief measures, and an increase of impairment allowances made in relation to certain non-performing customers. The credit cost of advances to customers and other accounts was 0.38%, up 0.23 percentage points year-on-year. As at 31 December 2023, the Group's total loan impairment allowances as a percentage of advances to customers was 0.87%.

Second Half Performance

Compared with the first half of 2023, the Group's net charge of impairment allowances on advances and other accounts increased by HK$3,969 million, mainly owing to the downgrading of certain customers and an increase in impairment allowances made in relation to certain non-performing customers in the second half of 2023.

Analysis of Assets and Liabilities

The table below summarises the Group's asset composition. Please refer to Note 24 to the Financial Statements for the contract/notional amounts and fair values of the Group's derivative financial instruments. Please refer to Note 42 to the Financial Statements for the contractual amounts of each significant class of contingent liability and commitment, and the aggregate credit risk-weighted amounts.

Asset Composition

	At 31 December 2023		(Restated) At 31 December 2022		
HK$'m, except percentages	Balance	% of total	Balance	% of total	Change (%)
Cash and balances and placements with banks and other financial institutions	**406,571**	**10.5**	535,194	14.6	(24.0)
Hong Kong SAR Government certificates of indebtedness	**213,000**	**5.5**	208,770	5.7	2.0
Securities investments and other debt instruments[1]	**1,351,730**	**34.9**	1,068,226	29.1	26.5
Advances and other accounts	**1,693,144**	**43.8**	1,644,113	44.8	3.0
Fixed assets and investment properties	**56,613**	**1.5**	60,330	1.7	(6.2)
Other assets[2]	**147,725**	**3.8**	149,872	4.1	(1.4)
Total assets	**3,868,783**	**100.0**	3,666,505	100.0	5.5

1. Securities investments and other debt instruments comprise investment in securities and financial assets at fair value through profit or loss.
2. Other assets comprise derivative financial instruments, interests in associates and joint ventures, current tax assets and deferred tax assets.

As at the end of 2023, the total assets of the Group amounted to HK$3,868,783 million, an increase of HK$202,278 million or 5.5% compared with the prior year-end. Cash and balances and placements with banks and other financial institutions decreased by HK$128,623 million or 24.0%, mainly due to a decrease in balances with banks and central banks. Securities investments and other debt instruments increased by HK$283,504 million or 26.5%, as the Group increased its investments in public sector entities-related bonds, high-quality financial institutions bonds and other debt instruments. Advances and other accounts rose by HK$49,031 million or 3.0%, with advances to customers growing by HK$54,033 million or 3.3%, and trade bills decreasing by HK$2,578 million or 40.7%.

Advances to Customers

	At 31 December 2023		(Restated) At 31 December 2022		
HK$'m, except percentages	Balance	% of total	Balance	% of total	Change (%)
Loans for use in Hong Kong	**1,253,163**	**73.6**	1,172,466	71.1	6.9
Industrial, commercial and financial	**683,604**	**40.1**	641,206	38.9	6.6
Individuals	**569,559**	**33.5**	531,260	32.2	7.2
Trade financing	**47,691**	**2.8**	51,879	3.2	(8.1)
Loans for use outside Hong Kong	**401,448**	**23.6**	423,924	25.7	(5.3)
Total advances to customers	**1,702,302**	**100.0**	1,648,269	100.0	3.3

The Group continued to capture opportunities in the Hong Kong, Greater Bay Area, Southeast Asian and key overseas markets. Adhering to its customer-centric philosophy, it deepened cross-departmental collaboration and strengthened service capabilities across its entire product line, aiming to meet customers' comprehensive business needs with professional services. It strengthened cooperation with blue-chip enterprises in Hong Kong, industry leaders and financial institutions by offering them diversified financing solutions. In addition, the Group met the financing needs of high-quality SME customers by enriching its digital products and enhancing its service capabilities. By refining the functionality of its Home Expert mobile application, including optimising the online approval process, the Group was able to provide customers with comprehensive homebuying planning and online mortgage services. It strengthened collaboration with BOC's branches in the Greater Bay Area to serve the cross-border investment and financing needs of customers from key industries. It capitalised on development opportunities arising from regional synergies by enhancing collaboration with its Southeast Asian entities and BOC's entities in the Asia-Pacific region. These collaborations focused on Belt and Road and "Going Global" projects, as well as serving large corporate customers in the region with integrated financing solutions such as syndicated loans, project financing and green loans. The Group remained the top mandated arranger in the Hong Kong-Macao syndicated loan market and held the top market position in terms of total number of new residential mortgage loans in Hong Kong. In 2023, advances to customers grew by HK$54,033 million, or 3.3%, to HK$1,702,302 million.

Loans for use in Hong Kong grew by HK$80,697 million or 6.9%.

- Lending to the industrial, commercial and financial sectors increased by HK$42,398 million or 6.6%, reflecting loan growth in property development and investment, manufacturing, information technology and wholesale and retail trade.

- Lending to individuals increased by HK$38,299 million, or 7.2%, mainly driven by growth in residential mortgage loans and other individual loans.

Trade financing decreased by HK$4,188 million or 8.1%. Loans for use outside Hong Kong decreased by HK$22,476 million or 5.3%, mainly due to a decrease in loans for use in the Chinese mainland.

Loan Quality

HK$'m, except percentages	At 31 December 2023	(Restated) At 31 December 2022
Advances to customers	**1,702,302**	1,648,269
Classified or impaired loan ratio	**1.05%**	0.53%
Total impairment allowances[1]	**14,750**	11,575
Total impairment allowances as a percentage of advances to customers	**0.87%**	0.70%
Residential mortgage loans[2] – delinquency and rescheduled loan ratio[3]	**0.02%**	0.02%
Card advances – delinquency ratio[3]	**0.32%**	0.28%

	2023	2022
Card advances – charge-off ratio[4]	**1.39%**	1.38%

1. Total impairment allowances include those for advances at fair value through other comprehensive income.
2. Residential mortgage loans exclude those under the Home Ownership Scheme and other government-sponsored home purchasing schemes.
3. The delinquency ratio is the ratio of the total amount of overdue advances (more than three months) to total outstanding advances.
4. The charge-off ratio is the ratio of total write-offs made during the year to average card receivables during the year.

In 2023, the Hong Kong economy steadily recovered amid an increase in visitor arrivals and a boost in consumer confidence following the full reopening of the city's borders. However, the pace of global economic growth was dampened by a number of factors, including rising geopolitical risks, monetary policy tightening by central banks around the world, and persistently high interest rates. Faced with a complex market environment, the Group proactively strengthened its risk management systems for all types of risks and continuously improved its risk management practices in order to maintain solid asset quality. As at 31 December 2023, the Group's classified or impaired loans increased by HK$9,073 million from the prior year-end to HK$17,797 million, owing to the downgrading of certain customers and clients under prevailing pandemic relief measures. The classified or impaired loan ratio was 1.05%, up 0.52 percentage points from the end of 2022. The combined delinquency and rescheduled loan ratio of the Group's residential mortgage loans was 0.02%. The charge-off ratio of card advances stood at 1.39%, up 0.01 percentage points year-on-year.

Deposits from Customers*

HK$'m, except percentages	At 31 December 2023		At 31 December 2022		
	Balance	% of total	Balance	% of total	Change (%)
Demand deposits and current accounts	**216,366**	**8.6**	236,115	9.9	(8.4)
Savings deposits	**971,113**	**38.8**	993,689	41.8	(2.3)
Time, call and notice deposits (excluding structured deposits)	**1,314,203**	**52.5**	1,147,403	48.3	14.5
	2,501,682	**99.9**	2,377,207	100.0	5.2
Structured deposits	**2,159**	**0.1**	–	–	N/A
Total deposits from customers	**2,503,841**	**100.0**	2,377,207	100.0	5.3

* Including structured deposits

In 2023, persistently high market interest rates continued to drive customer migration from CASA deposits to time deposits. The Group maintained a balance between scale and cost control, and implemented multiple measures to consolidate its mid to high-end customer base. It seized market opportunities from the reopening of Hong Kong's borders, actively promoted its Cross-boundary Wealth Management Connect service and introduced more online applications and products as well as rolling out innovative products such as green deposits. Furthermore, the Group enhanced collaboration among its business units, strengthened cooperation with government authorities, large corporates and major central banks, and actively expanded its e-payment, e-collection, payroll, cash management and cash pooling businesses. As at the end of 2023, total deposits from customers amounted to HK$2,503,841 million, an increase of HK$126,634 million or 5.3% from the prior year-end. Time, call and notice deposits increased by 14.5%. Savings deposits decreased by 2.3%. Demand deposits and current accounts decreased by 8.4%. The CASA ratio was 47.4%, down 4.3 percentage points from the end of 2022.

Capital and Reserves Attributable to Equity Holders of the Company

HK$'m, except percentages	At 31 December 2023	(Restated) At 31 December 2022	Change (%)
Share capital	**52,864**	52,864	–
Premises revaluation reserve	**36,899**	37,683	(2.1)
Reserve for financial assets at fair value through other comprehensive income	**(6,470)**	(11,008)	41.2
Regulatory reserve	**7,974**	6,655	19.8
Translation reserve	**(1,883)**	(1,683)	(11.9)
Insurance finance reserve	**1,637**	2,288	(28.5)
Retained earnings	**229,124**	212,989	7.6
Reserves	**267,281**	246,924	8.2
Capital and reserves attributable to equity holders of the Company	**320,145**	299,788	6.8

Capital and reserves attributable to equity holders of the Company amounted to HK$320,145 million as at 31 December 2023, an increase of HK$20,357 million or 6.8% from the end of 2022. The premises revaluation reserve decreased by 2.1%. The deficit in the reserve for financial assets at fair value through other comprehensive income decreased by 41.2%, driven by an increase in the mark-to-market value of debt securities investments owing to a decline in market interest rates. The regulatory reserve increased by 19.8%, mainly driven by growth in advances to customers and a change in the net charge of impairment allowances. Retained earnings rose by 7.6% from the end of 2022.

Capital Ratio*

HK$'m, except percentages	At 31 December 2023	At 31 December 2022
Consolidated capital after deductions		
Common Equity Tier 1 capital	247,109	229,798
Additional Tier 1 capital	–	23,476
Tier 1 capital	247,109	253,274
Tier 2 capital	28,036	29,048
Total capital	275,145	282,322
Total risk-weighted assets	1,298,956	1,312,199
Common Equity Tier 1 capital ratio	19.02%	17.51%
Tier 1 capital ratio	19.02%	19.30%
Total capital ratio	21.18%	21.52%

* The comparative figures have been restated to conform with current year presentation

As at 31 December 2023, the Group's Common Equity Tier 1 ("CET1") capital increased by 7.5% from the prior year-end, which was primarily attributable to profits recorded for 2023. Tier 1 capital and total capital decreased by 2.4% and 2.5% respectively from the end of 2022, as the Group redeemed US$3 billion of undated non-cumulative subordinated Additional Tier 1 capital securities during the third quarter of 2023. Total risk-weighted assets ("RWAs") decreased by 1.0% from the end of 2022. Total capital ratio was 21.18%. The CET1 capital ratio and the Tier 1 capital ratio both stood at 19.02%. The Group continued to strengthen its capital management so as to advance business development, properly manage its RWAs and improve its return on capital within the context of a high interest rate environment, with a view to maintaining an appropriate capital level for meeting regulatory requirements and balancing sustainable business development with returns to equity holders.

Liquidity Coverage Ratio and Net Stable Funding Ratio

	2023	2022
Average value of liquidity coverage ratio		
First quarter	189.68%	159.16%
Second quarter	188.89%	149.49%
Third quarter	193.47%	149.00%
Fourth quarter	207.12%	178.49%

	2023	2022
Quarter-end value of net stable funding ratio		
First quarter	134.51%	123.86%
Second quarter	131.56%	126.87%
Third quarter	138.67%	127.98%
Fourth quarter	137.28%	131.56%

The Group's liquidity position remained sound, with the average value of its liquidity coverage ratio and the quarter-end value of its net stable funding ratio meeting regulatory requirements for all four quarters of 2023.

Business Review

In 2023, the Group deeply cultivated its core market of Hong Kong with a view to consolidating its customer and business foundations. It vigorously developed its cross-border business by seizing opportunities arising from national policies and the full resumption of normal travel between the Chinese mainland and Hong Kong, as well as by participating in policy innovation within the Guangdong-Hong Kong-Macao Greater Bay Area. To further enhance its regional service capabilities and accelerate product and service delivery, the Group remained at the forefront of RMB internationalisation, strengthened regional collaborations in Southeast Asia and capitalised on major development opportunities from the RCEP. It also actively integrated sustainable development concepts into its business and operations, adopting low-carbon, highly efficient operations while taking advantages of green finance opportunities related to "carbon neutrality" goals to provide a range of low-carbon products and services. The Group reinforced its core technological foundations so as to offer comprehensive digital banking services and actively developed integrated business platforms and collaboration mechanisms to enhance its integrated servicing capabilities. In addition, the Group adhered to the "risk bottom line" and continued to improve its human resources, culture and operational procedures to provide robust support for the implementation of its strategy.

Business Segment Performance

Profit/(Loss) before Taxation by Business Segment

HK$'m, except percentages	2023	% of total	(Restated) 2022	% of total	Change (%)
Personal Banking	**14,681**	**35.9**	7,429	22.4	97.6%
Corporate Banking	**15,866**	**38.8**	11,400	34.4	39.2%
Treasury	**6,968**	**17.0**	14,933	45.0	(53.3%)
Insurance	**1,198**	**2.9**	(397)	(1.2)	N/A
Others	**2,201**	**5.4**	(203)	(0.6)	N/A
Total profit before taxation	**40,914**	**100.0**	33,162	100.0	23.4%

Note: For additional segmental information, see Note 46 to the Financial Statements.

Personal Banking

Financial Results

Personal Banking achieved a profit before tax of HK$14,681 million in 2023, an increase of HK$7,252 million or 97.6% year-on-year. This growth was mainly attributable to an increase in net interest income, which was partially offset by a drop in non-interest income and an increase in operating expenses. Net interest income increased by 86.8%, which was mainly attributable to improvement in the deposit spread resulting from a rise in market interest rates along with an increase in the average balance of deposits. Net fee and commission income decreased by 17.4%, mainly due to weakened investor sentiment in the market, which resulted in lower commission income from securities brokerage, funds distribution and insurance. Operating expenses rose by 5.6%, mainly due to higher staff costs and an increase in business-related expenses.

Business Operations

Enriching green finance products and services and boosting sustainable development

In line with market and customer trends towards low-carbon transition, the Group actively implemented its sustainable development strategy. It enriched its green finance products and services, supporting customers to adopt green and low-carbon lifestyles. In light of growing market interests in ESG matters, the Group offered new green investment opportunities to retail investors, providing a diverse range of investment options that combine growth and income elements, including a sustainable income strategy fund. To support a more sustainable environment, the Group promoted the HKSAR Government's second issuance of green bonds, including ESG-themed promotional draws to encourage customers to subscribe through digital channels, and ranked first in the market in terms of total subscribed amount. It also continued to promote its Green Mortgage Plan to encourage homebuyers to support green buildings. As at the end of 2023, the Group's balance of green mortgage loans was approximately 2.7 times higher than that of the previous year-end, further promoting carbon reduction, environmental protection and smart living.

Accelerating the development of a digital bank and enhancing core product competitiveness

The Group integrated a data-centric approach into its product design and service delivery, safeguarding effective and continuous business operations. As at the end of 2023, the number of customers using its digital platforms recorded steady growth as compared with the end of 2022. The Group saw a consistent increase in both the number of mobile banking users and transaction volumes, particularly in insurance, time deposits and foreign exchange trading. To meet surging demand for online insurance products, it expanded the range of insurance products offered on its mobile banking platform and sought to optimise the digital application process for customers. The proportion of life insurance business transacted via e-channels grew steadily, with the Group ranking first in the market in standard new premiums from online channels. It also enhanced the mobile banking experience and expanded its product range by launching "FX Smart", a brand-new intelligent tool for foreign exchange that analyses foreign currency trends using "big data"-driven analysis functions, allowing customers to capture investment opportunities. Another new feature, "My Pick", was added to its mobile banking platform, employing data analysis to tailor the most suitable functional interface for customers, helping them to craft a personalised space for financial management. The Group also advanced the digitalisation of approval procedures by optimising eligibility criteria for its automated approval processes and credit approval systems, so as to further enhance credit approval efficiency and capacity. In line with the "HKD-RMB Dual Counter Model" launched by the Hong Kong Exchange and Clearing Limited, the Group introduced a cross-counter securities trading service on its mobile banking platform. This allowed customers to flexibly conduct cross-counter transactions after selecting designated securities according to their various funding needs. To improve operational efficiency, the Group utilised blockchain technology to optimise its property valuation process. To improve its remote service capabilities and expand its customer coverage, it upgraded its RM Chat service platform to enhance customer interactions and services, thereby strengthening customer acquisition and retention. In addition, it optimised its Home Expert mobile application to provide comprehensive property purchase planning and online mortgage services, with a special module set up within the application to coordinate with the "Hospital Authority Enhanced Home Loan Interest Subsidy Scheme". As at the end of 2023, the Home Expert mobile application had been cumulatively downloaded more than 174,000 times. During the year, the proportion of online mortgage applications to total mortgage applications was 59%, representing year-on-year growth of 12 percentage points. The Group maintained its top market position in terms of total number of new residential mortgage loans in Hong Kong. It grew its mid to high-end customer base by launching the "BOC Cheers Card", which offers extra gift points for spending on dining and travel, and attracted more young customers by reinvigorating its "BOC Chill Card" through various new marketing promotions and entertainment rewards aimed at young people. It also strengthened intra-group collaborations and synergies to cultivate new growth drivers. In 2023, the total transaction volume of the Group's retail cardholder spending and merchant acquiring business increased by 23.0% and 28.8% respectively year-on-year. During the year, BOCHK was awarded Excellent Brand of Securities and Investment Services and Excellent Brand of Property Purchase Planning and Mortgage Services – Banking Solutions at the Hong Kong Leaders' Choice 2023 awards organised by Metro Finance.

Developing a tailored service experience to satisfy the needs of diverse customer segments

The Group made concerted efforts to promote its "Private Wealth" premium brand. It broadened the range of exclusive products and premier services on offer, providing Private Wealth professional investors with a variety of trading channels, such as corporate bond trading via mobile banking, and introducing curated, private bank-level investment plans and bonds denominated in USD, HKD and RMB. The inauguration of additional Private Wealth centres facilitated face-to-face wealth management services for high net-worth customers, enhancing their bespoke banking experience. As a result, the Group's Private Wealth business grew steadily, driven by continuous expansion in the number of Private Wealth customers since launch. As at the end of 2023, the number of Private Wealth customers increased further as compared to the end of previous year. The Group also continued to develop its "Trendy Too" brand, which targets the young customer segment, and actively explored innovative service channels and products to help more young customers to gradually accumulate wealth. To celebrate the first anniversary of TrendyToo, it introduced a number of themed promotional offers covering various wealth management and investment instruments as well as spending and payment tools. The Group also collaborated with Ocean Park to organise a water concert, attracting over a thousand young customers who completed wealth management challenges to win entry tickets. Since the brand's launch, there has been a steady rise in the number of young customer accounts. To expand its high-end family household customer base, the Group launched a brand-new family financial planning programme, "Wealth Management FamilyMAX", to meet the demand of high-end customers for family financial services and help affluent families to comprehensively prepare for their future. As a result, the number of new accounts opened by younger generations in the family household segment increased 1.4 times year-on-year. During the year, BOCHK was awarded Best Retail Bank in Hong Kong at the Global Excellence in Retail Financial Services Awards 2023 organised by *The Asian Banker*.

The Group's private banking business maintained steady growth by comprehensively serving the sophisticated needs of high-net-worth clients. By enhancing its collaboration with other business units within the Group, its Southeast Asian entities and BOC, it dedicated itself to optimising its service chain and providing professional and diversified services to high-end clients and family offices. At the same time, the Group actively integrated green finance and ESG elements into product and service design so as to promote high-quality and sustainable development in its private banking business. It also organised a series of exclusive events to strengthen private banking client relationships and retention. In addition, it intensified digital transformation efforts, accelerating business process automation and digitalisation while enhancing its private banking service and trading platforms. The Group introduced new service models and provided tailor-made and exclusive products and professional wealth management services to its clients, thus enriching their customer experience. As at the end of 2023, the Group's private banking assets under management recorded double-digit growth compared to the previous year-end.

Seizing cross-border market opportunities and developing RMB business

With Hong Kong's economic and commercial activity restored to normalcy, the Group implemented a number of initiatives to help cross-border customers capture wealth management opportunities. It launched a series of convenient offline services, carried out brand promotion and themed marketing campaigns, and utilised its cross-border mobile banking module to strengthen online investment guidance and offer exclusive investment options with special complementary discounts. The Group capitalised on its new "BOCHK Cross-border GO" brand, which focuses on the Chinese mainland, Southeast Asia and other overseas countries, to provide one-stop cross-border financial services to customers travelling around the globe. At the same time, it optimised its GBA Account Opening and BOCHK Cross-boundary Wealth Management Connect service systems and processes by enhancing online appointments for account opening and introducing a "QR e-brochure" banking services directory at its branches to improve the account opening experience of southbound Chinese mainland customers. As at the end of 2023, the coverage of its attestation service had been extended to 14 countries and regions. Regarding cross-border financial services in the Chinese mainland, BOCHK strived to become the first-choice bank for Hong Kong customers travelling north and Chinese mainland customers travelling south by providing them with a suite of financial services in the Greater Bay Area, including account opening, property purchase, wealth management, payment and insurance protection. As at the end of 2023, the number of BOCHK's cross-border customers had steadily increased and revenue from its cross-border life insurance business recorded satisfactory year-on-year growth. Meanwhile, the cumulative number of GBA accounts opened increased by 70% compared with the end of last year. To support Chinese mainland customers' demand for global asset allocation, the Group remained committed to optimising its cross-border products and services, offering more than 160 investment products under the Southbound scheme of the BOCHK Cross-boundary Wealth Management Connect service, including funds, retail bonds, deposits and foreign exchange products. The aggregate number of accounts opened and the total amount of funds remitted or transferred under Southbound and Northbound services ranked among the top tier in Hong Kong. Capitalising on business opportunities from Hong Kong residents travelling north for cross-border consumer spending, it collaborated with BOC and UnionPay to launch cross-border promotion campaigns, bridging consumer spending between the Chinese mainland and Hong Kong. In response to the "Northbound Travel for Hong Kong Vehicles" scheme announced by the HKSAR Government and the People's Government of Guangdong Province, the Group launched "Hong Kong-Guangdong Cross Border Motor Insurance (Unilateral Recognition Extended Cover)" to facilitate Hong Kong residents' cross-border car travel. To further promote RMB internationalisation, BOCHK leveraged its prominent position in RMB business to satisfy customers' investment and financial needs through its comprehensive "RMB One" package, which offered a wide range of RMB products and services covering securities, funds, life insurance, time deposits and foreign exchange trading. The Group further consolidated its leading position in RMB insurance and maintained its market leadership in new RMB insurance standard premiums for the 11th consecutive year. During the year, BOCHK was once again named Best Chinese Bank for the Greater Bay Area 2023 and recognised as Best Chinese Bank for the Wealth Management Connect of the Greater Bay Area 2023 by *Asiamoney*.

Improving regional brand development and enhancing service capabilities in Southeast Asia

The Group accelerated the development of its personal banking product and service suite in Southeast Asia, with its personal banking services now available in eight Southeast Asian countries. It remained committed to developing a wealth management business and offering comprehensive financial services that meet the needs of local markets, with its "Wealth Management" brand now established in BOC Thailand, BOC Malaysia, the Jakarta Branch and Phnom Penh Branch. It optimised regional brand building and customer referral services. Having successfully launched a Hong Kong Jockey Club Visitor Box Reservation Service at the Phnom Penh Branch, the Group extended this service to Wealth Management customers at BOC Thailand and the Jakarta Branch. It also introduced a two-way referral service among BOC Thailand, BOC Tokyo Branch and BOC's entities in the Greater Bay Area (including Hong Kong, Shenzhen, Guangdong and Macao) to enhance the customer experience. Meanwhile, it advanced digital innovation and enriched the functions of its multi-faceted mobile banking platform to optimise the online payment experience for local customers. During the year, the Group actively participated in UnionPay International's Global Payment Interconnection Programme, supported BOC Malaysia and the Phnom Penh Branch to enable the mutual recognition of UnionPay QR code payments using the two countries' local certified blockchain payment system, and became one of the first banks in Southeast Asia to join the cross-border QR payment linkage partnership between UnionPay and the Chinese mainland version of WeChat Pay. It fully supported the connection between Hong Kong's Faster Payment System ("FPS") and Thailand's "PromptPay", with the BoC Pay app adding a new function for scanning PromptPay QR codes. The Vientiane Branch successfully launched the China-Laos Railway Online Payment Project, the Phnom Penh Branch and Vientiane Branch both unveiled online RMB salary direct remittance services, and BOC Malaysia introduced functions for facilitating overseas QR code payment and domestic collection codes via the "DuitNow QR" payment system. At the same time, the Group continued to expand its local insurance business, with the Jakarta Branch launching the "Rupiah CLII Excellent Insurance Plan". Taken together, these advances contributed to the steady development of a scenario-based financial services ecosystem in Southeast Asia.

Corporate Banking

Financial Results

Corporate Banking achieved a profit before tax of HK$15,866 million, an increase of HK$4,466 million or 39.2% year-on-year. This was mainly attributable to an increase in net interest income. Net operating income before impairment allowances increased by 52.7% year-on-year. Net interest income increased by 76.5% year-on-year, primarily due to improvement in the deposit spread resulting from a rise in market interest rates. Net trading gain rose 9.3%, mainly owing to increased income from customer transactions on treasury products. The net charge of impairment allowances was up HK$4,204 million year-on-year, mainly reflecting the higher net charge of impairment allowances related to the downgrading of certain corporate advances.

Business Operations

Refining integrated product and service capabilities to constantly sharpen business advantages

Pursuing high-quality development, the Group deepened its business transformation and delivered professional services to meet the integrated financial demands of corporate customers from Hong Kong, the Chinese mainland and Southeast Asia. The Group remained the top mandated arranger bank in the Hong Kong-Macao syndicated loan market for the 19th consecutive year. It also maintained its market leadership as an IPO main receiving bank in terms of the number of listings and total funds raised on the Main Board. Finding opportunity in Chinese corporates' overseas treasury management needs, it promoted its cash pooling business to help customers achieve more efficient capital utilisation. It further advanced the development of its key businesses, including trade finance, payment and settlement services, and continuously improved its online servicing capabilities. Capitalising on RMB internationalisation, the Group engaged deeply in the optimisation and innovation of mutual financial market access schemes between the Chinese mainland and Hong Kong, and became the main custodian bank for Swap Connect as well as one of its leading overseas investors. It also remained market leader in transaction volumes for the Bond Connect, Stock Connect and Cross-boundary Wealth Management Connect. To further enrich scenario-based applications for offshore RMB, it successfully completed its first dividend payment service for an H-share listed corporate. BOCHK is committed to providing Hong Kong and overseas participating banks with efficient and professional RMB clearing services. The total clearing volume of the Hong Kong RMB Clearing Bank in 2023 maintained its growth momentum, with clearing turnover increasing 25% year-on-year. In recognition of its excellence in professional services, BOCHK was named Best Cash Management Bank (Hong Kong) by *Corporate Treasurer*, and the Best Cash Management Bank in Hong Kong for the ninth time and Best Transaction Bank in Hong Kong for the fifth time by *The Asian Banker*. Moreover, it was awarded Hong Kong Domestic Cash Management Bank of the Year for the tenth consecutive year by *Asian Banking & Finance*, received the Best Global Treasury Service Award and Best Global Cash Management Bank Award from *Treasury China*, and was named the Best Renminbi Bank in Hong Kong by *The Asset*.

Giving full play to synergistic advantages and further expanding regional business

In its cross-border business, the Group continually deepened its collaboration with BOC's entities in the Greater Bay Area, Yangtze River Delta and Beijing-Tianjin-Hebei region to jointly explore the financing needs of key sectors and target customers and enhance its competitive edge in cross-border financial services. It closely followed the HKSAR Government's development plan for the Northern Metropolis area and provided integrated financial service solutions to the government entities and enterprises involved in its construction. The Group enhanced its service capabilities for innovative technology enterprises, growing the innovative technology customer base by 17.6% as compared to the end of last year. It also launched a brand-new series of cross-border financial service solutions to help cross-border enterprises capture business opportunities in the Greater Bay Area.

In its Southeast Asian business, the Group advanced regional integrated collaboration and deepened cooperation with BOC's entities in the Asia-Pacific region and Chinese mainland in order to capture opportunities arising from the transfer of regional industrial chains. It prioritised the development of Belt and Road and "Going Global" projects as well as large corporate customers in the region, with a view to continuously enhancing its market competitiveness. The Group continued to leverage its business advantages to provide customers with professional financing solutions. BOC Thailand successfully handled its first accounts receivable financing business related to engineering, procurement and construction (EPC) infrastructure for a local Chinese-funded enterprise, achieving a breakthrough in supply chain financing, while the Jakarta Branch completed the first refinancing syndicate for a local sovereign entity in Indonesia. The Group is also committed to promoting sustainability and developing diversified green financial products and services. During the year, the Manila Branch and Phnom Penh Branch respectively launched the Group's first bilateral green loan and social responsibility loan certified by independent third parties in the Southeast Asian region. The Group constantly optimised its regional product offering by enhancing the functionality of its intelligent Global Transaction Banking (iGTB) platform with a number of new features catering to market needs in Southeast Asia, including the launch of BOC Thailand's iGTB e-commerce service, thus improving service capabilities and customer experience.

Promoting inclusive finance and strengthening support for commercial and SME customers

The Group deepened its business cooperation with commercial and SME customers and improved its sectoral and digital servicing capabilities, with the aim of delivering customised financial solutions that enhance customer experience. It spared no effort to support the business development and improve the competitiveness of SMEs in Hong Kong, cooperating with the Hong Kong Productivity Council to organise a series of industry-specific seminars on the restructuring and upgrading of SMEs in line with "new industrialisation". It continued to build an online ecosystem for enterprises through its "BOC Connect" mobile application, which offers comprehensive and free-of-charge business advice, supports match-making with strategic partners, and provides direct connection to online banking services. The Group also collaborated with a third-party online payment platform in Hong Kong to simplify the loan approval process and provide convenient digital banking loan services for SMEs by utilising transaction data from e-wallets provided by merchants. The Group's high-quality and innovative digital services for SMEs won wide acclaim and recognition. It received the Best SME's Partner Award from the Hong Kong General Chamber of Small and Medium Business for the 16th consecutive year, SME Bank of the Year – Hong Kong and Digital Business Banking Initiative of the Year – Hong Kong from *Asian Banking and Finance*, Award of Excellence – SME Banking Service at the Financial Services Awards of Excellence organised by *Hong Kong Economic Journal* for the fifth consecutive year, as well as Outstanding Innovative SME Banking Services at the FinTech Awards organised by *etnet* for the second consecutive year.

Cultivating sustainable development concepts and advancing green finance development

In line with market trends in green development, the Group constantly refined its green finance product and service offerings to enhance its support for clients' low-carbon transitions, with a view to helping Hong Kong become a green finance hub for the Asia-Pacific region. As at the end of 2023, the balance of the Group's green and sustainability-linked loans to corporate customers grew by 76% compared with the end of 2022, while the amount of green deposits taken during the year increased by 20% compared to 2022. The Group also assisted clients in issuing various types of ESG bonds, including green bonds, blue bonds, sustainability bonds and social-responsibility bonds. In addition, it served as a green financial advisor and provided innovative green cash management services for its clients. Its professional contributions to promoting sustainable development were well recognised by the market. The Group received three awards from the Hong Kong Quality Assurance Agency, namely Outstanding Award for Green and Sustainable Bond Lead Manager (Financial Institution) - Visionary Green, Social, Blue and Sustainable Bond Framework, Outstanding Award for Green and Sustainable Bond Lead Manager (Financial Investment Industry) - Largest Amount of Green Bonds, and Outstanding Award for Green and Sustainable Bond Lead Manager (Local Government Financing Project) - Largest Single Social Renminbi Bond.

Steadily developing custody and trust business

The Group seized market opportunities and enhanced joint marketing efforts with BOC's branches in the Chinese mainland and overseas to proactively develop the businesses of its key financial institution clients. It successfully acquired a number of portfolio mandates via transfer to the Group. During the year, it offered custody services for the HKSAR Government's first tokenised green bond issuance and was among the first cohort of participants in HKEX's transaction clearing acceleration platform "HKEX Synapse", thus driving progress in financial interconnectivity. As at the end of 2023, the number of its custodian clients increased by 5%, with total assets under custody from corporate and institutional clients rising by 28% as compared with the end of 2022. It was awarded Bond Connect Top Custodian for the sixth consecutive year by Bond Connect Company Limited.

BOCI-Prudential Trustee Limited ("BOCI-Prudential Trustee") recorded steady business growth. As at the end of 2023, MPF assets under its trusteeship amounted to HK$82.7 billion, ranking among the top tier in Hong Kong. It successfully engaged in a number of significant projects, including ORSO schemes and private employee benefits schemes. In terms of fund trust and administration business, BOCI-Prudential Trustee was appointed as trustee, fund administrator or custodian for 29 new funds or investment portfolios, and helped its clients to launch 22 funds or portfolios during the year. In 2023, the number of new Hong Kong SFC authorised funds onboarded by BOCI-Prudential Trustee accounted for 23% of total new authorised funds in the market. BOCI-Prudential Trustee received multiple accolades in recognition of its professional service capabilities, including a number of awards at the 2023 MPF Awards organised by MPF Ratings Ltd and the 2023 Lipper Hong Kong Fund Awards organised by *Refinitiv*, as well as Best Fund Administrator, Retail Funds – Highly Commended in the Triple A Sustainable Investing Awards for Institutional Investors, ETFs, and Asset Servicing Providers 2023 organised by *The Asset*.

Treasury

Financial Results

Treasury recorded a profit before tax of HK$6,968 million, a decrease of HK$7,965 million or 53.3% year-on-year. This decline was primarily due to a decrease in net interest income owing to a rise in funding costs. Net trading gain also decreased year-on-year as the Group optimised the investment mix of its banking book portfolio, resulting in reduced volatility in the mark-to-market value of certain interest rate instruments. However, this decline was partially offset by a decrease in net loss on other financial instruments.

Business Operations

Continuously enhancing trading capability and steadily promoting global markets business

The Group proactively seized market opportunities by adapting to market changes and strictly monitoring and controlling risks, leading to stable growth in its trading business and reinforcing its position as a key market maker in the HKD and RMB markets. Ongoing digital advance enabled the Group to improve its online servicing and transaction processing capabilities. By developing varied products and integrated services, coupled with refined management practices, the Group effectively met diverse client needs for investment, financing and risk hedging, achieving satisfactory results in client business. It fully enhanced its RMB service capabilities and focused on cultivating the offshore RMB market, consistently providing corresponding support to the offshore bond market. At the same time, the Group actively participated in various infrastructure enhancements to offshore RMB mutual market access schemes, and was appointed as the designated clearing broker for Swap Connect. It also enhanced its RMB trading capabilities in Southeast Asia, improved related products and services, and bolstered risk management in the region. The Phnom Penh Branch successfully handled its first foreign exchange forward transaction between RMB and Cambodian Riel for a local customer, a milestone in bilateral currency cooperation between China and Cambodia. The Vientiane Branch successfully implemented its foreign exchange swap business and actively marketed its treasury services to customers. The Brunei Branch promoted its RMB Bond Connect business so as to enrich local banking products. The Group received a number of awards in recognition of its professional expertise, including Best G10 Currency Pairs Market Member from China Foreign Exchange Trade System, Top Clearing Member – Offshore RMB OTC Derivatives and Top Clearing Member – HKD OTC Derivatives from Hong Kong Exchanges and Clearing Limited, and the CIBM Direct Access – Outstanding Offshore Investment Institutional Investor from China Central Depository & Clearing Co., Ltd. for the second consecutive year.

Maintaining a solid and risk-aware investment strategy and promoting green finance development

The Group adopted a cautious approach to managing its banking book investments and closely monitored worldwide interest rate adjustments. It took a pre-emptive approach to managing risk while seeking fixed-income investment opportunities to enhance returns. It also enriched its product mix to meet market demand for diversified green finance solutions. The Group promoted green finance innovation during the year, including executing its first green RMB reverse repo transaction, with the funds obtained used to support sustainable development projects.

Steadily developing its asset management business and launching innovative products to meet customer demand

BOCHK Asset Management Limited ("BOCHK AM") stepped up its efforts to steadily develop the Group's asset management business, leveraging its professional investment service capabilities to capture investment opportunities for customers and offering a diverse range of asset management products to meet their investment needs. In 2023, BOCHK AM seized opportunities from rising market interest rates and launched the BOCHK All Weather HKD Money Market Fund and BOCHK All Weather USD Money Market Fund to provide investors with new cash management options. In addition, BOCHK AM served as the investment advisor of the BOCHK Greater Bay Area Climate Transition ETF, which was listed on the main board of The Stock Exchange of Hong Kong Limited and is the first exchange-traded fund in the Hong Kong market to track an ESG index with investments in the Guangdong-Hong Kong-Macao Greater Bay Area. In recognition of its professional expertise, BOCHK AM was awarded Best RMB Manager at the Best of the Best Awards – Hong Kong in 2023 by *Asia Asset Management*, as well as Outstanding Achiever of Asia Fixed Income, Outstanding Achiever of China Fixed Income, Outstanding Achiever of High Yield Fixed Income and Outstanding Achiever of Flexible Mixed Asset in the house award category at the Fund of the Year Awards 2023 organised by *BENCHMARK*.

Insurance

Financial results

In 2023, the Group's insurance segment continued to expand its distribution channels, enrich its product range and focused on promoting sales of high-value insurance products. As a result, the value of new business grew by 37.1% year-on-year to HK$1,884 million, while standard new premium increased by 32.7% over the same period to HK$11,567 million. Profit before tax amounted to HK$1,198 million, compared to a loss before tax of HK$397 million last year. This was mainly attributable to a rise in the mark-to-market value of debt securities investments this year caused by market interest rate movements.

Business Operations

Constantly enriching multi-channel strategies to capture business opportunities

BOC Life proactively broadened its multiple distribution channels and strengthened collaboration with different units within the Group. To generate more business referrals, it established a sales referral model with the Corporate Banking segment and launched competitive products and services targeting the Private Banking market, meeting high-net-worth customers' needs for wealth inheritance and diversified asset allocation. BOC Life expanded its brokerage partnerships by adding brokerage firms with banking backgrounds and Chinese mainland business networks, and strengthened and expanded its tied agent workforce by launching new financial support packages. In addition, BOC Life continued to launch various innovative products, including "Star Legacy Private Wealth Whole Life Plan", providing Private Wealth customers with a one-stop insurance solution covering life insurance protection, wealth appreciation and wealth inheritance. It also introduced two well-received multi-currency products, namely "Glamorous Glow Global Whole Life Insurance Plan" and "Eternal Fortune Global Whole Life Insurance Plan". Meanwhile, it carried out a series of promotional campaigns to capture business opportunities from the reopening of Hong Kong's borders, driving business volumes higher than pre-pandemic levels. During the year, BOC Life developed its wellness ecosystem and launched the second phase of the "Live Young Rewards App", which has accumulated over 100,000 users and 74 third-party partners. It advanced the implementation of its silver ecosystem by collaborating with third-party consultants to develop elderly care blueprints informed by macro perspectives, design silver ecosystem scenarios and seek cross-industry partnerships. BOC Life was widely commended for its service and performance excellence, receiving the Outstanding Insurance Business – Annuity Award and Outstanding Insurance Business – Saving Insurance Award for the third consecutive year in the 2023 RMB Business Outstanding Awards co-organised by Metro Finance and Hong Kong Ta Kung Wen Wei Media Group. It was also awarded the top tier Insurance Sector – Online Platform – Excellence Award at the Financial Institution Awards 2023 organised by *Bloomberg Businessweek (Chinese Edition)*, as well as receiving three awards in 10Life 5-Star Insurance Award 2022, and achieving top three rankings in five categories of the Hong Kong Insurance Awards 2023 organised by the Hong Kong Federation of Insurers.

Proactively cultivating sustainable development to achieve mutual gain

BOC Life fostered a sustainability-centric corporate culture and played an active role in launching a number of CSR programmes through cross-sectoral collaboration, encompassing such themes as education, technological innovation, sports and culture. These efforts contributed to Hong Kong's development as a sustainable smart city, benefitting the community as a whole. During the year, BOC Life organised a comprehensive series of sustainability events. It sponsored the inaugural Bank of China (Hong Kong) Hong Kong-Zhuhai-Macao Bridge (Hong Kong Section) Half Marathon, promoting a major sporting event in the Greater Bay Area. Its flagship charitable programme, the "BOC Life New Generation Financial and Technology Designers' Programme", offers fully subsidised coding classes and competitions focusing on STEAM and environmental protection for underprivileged students. The programme enables students to learn and practise through fun and creative activities. The programme has benefitted over 300 students since its launch in 2021, injecting new vitality into Hong Kong's STEAM education and nurturing young innovation and technology talent. Furthermore, BOC Life continued its partnership with the Business School of the University of Hong Kong by launching the "Future Leader Scholarship Programme" to offer exceptional students a wide range of opportunities for extracurricular learning and internships in the business sector, thus cultivating Hong Kong's future leaders. BOC Life is also committed to nurturing the next generation of athletes, driving sports development in Hong Kong as title sponsor of the Hong Kong Premier League and the FIFAe Hong Kong eFootball Team Tournament. In collaboration with the World Green Organisation, it pioneered Hong Kong's first WGO ESG Accelerator Programme for Start-ups to support local start-ups in developing green and sustainable businesses. BOC Life served as title sponsor of the HKMA/BOC Life Sustainability Summit, organised by the Hong Kong Management Association, for the second consecutive year. It also sponsored the ESG for Climate Action International Conference 2023, co-organised by the World Green Organisation and the United Nations Economic and Social Commission for Asia and the Pacific, which connected global cross-sector efforts to push forward sustainable social development. BOC Life's dedication to sustainability earned wide recognition from society. It received the Excellence in Social Sustainability (Good Health and Well-Being) award at the GBA Corporate Sustainability Awards from Metro Finance for the third year in a row and the Brand Value – Award for Excellence in Community Contribution at the Awards for Excellence in Finance organised by *Ming Pao*.

Southeast Asian business

The Group continued to blend integrated regional development with market-by-market strategies to inform a differentiated management approach across its regional entities, and gradually developing its Southeast Asian entities into mainstream foreign banks in their local markets. With the RCEP entering its second year, comprehensive strategic partnerships between China and the ASEAN were further consolidated, with deeper cooperation across various fields. China and the ASEAN are expected to deliver further landmark economic and trade collaborations, including the high-quality implementation of RCEP, the construction of the Belt and Road, further advancements in infrastructure interconnectivity and the development of the digital economy.

Optimising regional business network layout and enhancing management of its Southeast Asian entities

The Group actively promoted the optimisation and integration of its regional network and continued to enhance the effective management of its Southeast Asian entities. During the year, it completed the relocation of BOC Thailand's Loei Branch and the business commencement of the Kelapa Gading Sub-Branch of the Jakarta Branch. The Group continued to improve its Southeast Asian RMB clearing network, with the Phnom Penh Branch authorised by the People's Bank of China to serve as the RMB clearing bank in Cambodia, following in the footsteps of BOC Malaysia and the Manila Branch. Together, these three RMB clearing banks continued to enhance Southeast Asia's regional RMB infrastructure. In addition, the Jakarta Branch officially launched its services as the first direct participating bank of the Cross-border Interbank Payment System in the Indonesian market. The Group steadily promoted the centralisation of its Southeast Asian entities' operations and deepened service migration, including lending, customer due diligence and customer service functions. It also continued to strengthen the business operation capacity of its Regional Operation Centre in Nanning to further enhance its regionalised operations. The Group's regional brand influence continued to grow, with the Jakarta Branch awarded the Best Foreign Bank of the Year 2023 by *INFOBANK*, an authoritative financial magazine in Indonesia, and the Manila Branch recognised as the Best Renminbi Bank in the Philippines by *The Asset*.

The Group's Southeast Asian entities* recorded steady business growth. As at the end of 2023, deposits from customers and advances to customers amounted to HK$75,398 million and HK$54,045 million respectively, up 9.5% and 4.6% from the end of 2022, excluding the impact of foreign exchange rates. Driven by an improvement in net interest margin, net operating income before impairment allowances stood at HK$4,348 million, an increase of 39.1% year-on-year, excluding the impact of foreign exchange rates. As at the end of 2023, the non-performing loan ratio was 2.86%, up 0.37 percentage points from the end of 2022.

* Referring to the nine Southeast Asian entities of BOC Thailand, BOC Malaysia, Ho Chi Minh City Branch, Manila Branch, Jakarta Branch, Phnom Penh Branch, Vientiane Branch, Brunei Branch and Yangon Branch. Net operating income before impairment allowances and the balances of deposits from customers and advances to customers represent the consolidated data which were prepared in accordance with Hong Kong Financial Reporting Standards. The non-performing loan ratio was calculated in accordance with local regulatory requirements.

Strictly adhering to the risk "bottom line" and comprehensively strengthening regional risk management capabilities

The Group continued to improve regional risk management, stringently adhered to the risk "bottom line", implemented the "Three Lines of Defence" control mechanism, and firmly upheld the principle of strict control over its Southeast Asian entities. It comprehensively strengthened the credit risk management and control capabilities of its Southeast Asian entities, conducted in-depth research on Southeast Asian markets and industries, carried out risk screening with a focus on key customers and major projects, and optimised its regional credit portfolio structure to flexibly manage and mitigate risks. It strictly managed new non-performing loans to achieve high-quality development. The Group strengthened its internal control management capabilities in compliance and closely monitored developments in market risk, interest rate risk and liquidity risk to ensure compliance with local regulatory requirements. It continued to strengthen its risk management infrastructure, leveraging its system coverage and technological advantages to further strengthen its Southeast Asian entities' risk control capabilities in compliance, anti-money laundering and anti-fraud.

Digital Transformation

In 2023, the Group remained committed to its "BOCHK 2021-2025 Digital Transformation Strategy", working diligently towards the goal of "adopting digital transformation to empower business development". It continuously refined its work mechanisms and workflows, strengthened the support capacity of its information technology function and enhanced the integration of business and technology to accomplish high-quality and sustainable development. Upholding its customer-centric approach, the Group continuously deepened digital transformation through data, business intelligence and ecological approaches. It developed ecological, open and scenario-based banking services, offering customers integrated products and services alongside a seamless process experience. Focusing on its three core markets, the Group deepened technological empowerment, fostered an innovative corporate culture and nurtured digital talents, thus providing its customers and staff with high-quality digital services and experiences while laying a solid foundation for its long-term development.

Developing ecological, open and scenario-based banking services

The Group harnessed the potential of different customer segments and ecosystems to develop digital services, providing customers with high-quality and efficient e-payment options for daily consumption and travelling. It expanded the business scope of BoC Pay to cover different smart travel scenarios, including HKeToll top-up service, all parking meters and routes of the main bus and tram services in Hong Kong, and the shuttle bus ticketing service at the Hong Kong-Zhuhai-Macao Bridge port. The Group continued to create new drivers for business growth through brand marketing promotions with various strategic partners, as well as by capitalising on the HKSAR Government's Consumption Voucher Scheme. As a result, it successfully expanded its business coverage among local and cross-border SME merchants and increased its customer penetration rate. As at the end of 2023, the number of BoC Pay users increased by 20.8% compared with the previous year-end, while total transaction volumes in 2023 recorded year-on-year growth of 10.2%. Meanwhile, the Group continued to develop BoC Bill's payment ecosystem and made inroads into mass transit projects, including supporting VISA's NFC fare payment project at MTR entry/exit gates, further enriching local smart travel scenarios. The total transaction amount of BoC Bill in 2023 grew by 28.8% year-on-year. The Group also built a brand-new and robust ecosystem for prepaid consumption. As one of the first banks participating in the HKMA's e-HKD Pilot Programme, BOCHK's hypothetical e-HKD pilot achieved significant progress in simulating digital Hong Kong dollar prepayment services, opening the door to new business models and enhanced fund security for retail SMEs. To refine its education ecosystem, the Group continued to enrich the content of its integrated education platform by adding information on academic and career development in the Greater Bay Area, as well as special topics on financial education. To enhance its home purchase ecosystem, the Group added a page to its Home Expert mobile application featuring a one-day express approval service for the "Hospital Authority Enhanced Home Loan Interest Subsidy Scheme", optimised the overall design of the application and reshaped the customer journey, which significantly improve the user experience.

Promoting integrated products and services

The Group fostered interconnectivity between financial markets in the Chinese mainland and Hong Kong by developing high-quality integrated financial products and services. By advancing product and service integration along the value chain and focusing on enhancing personal customers' experience, it enriched the comprehensive service capabilities of its mobile banking platform and optimised over 160 functions, including "IPO Easy", a brand-new one-stop IPO function. Furthermore, the Group responded to the comprehensive needs of corporate customers by building on its existing product foundations. This included launching an electronic "e-Laisee" service, continuously enriching its iGTB platform's online integrated service capabilities and launching iGTB regional e-commerce services, which allowed customers to handle letters of credit and guarantees through internet banking. It also provided various account and transaction information for corporate customers, including real-time inquiries, electronic receipts for batch download based on customised rules, and customised reports, so as to meet their financial management needs. The Group pushed forward the digital transformation of SMEs. It upgraded the functions of its "BOC Connect" mobile application by adding new features such as real-time wire transfer pricing and pop-up windows to remind new users to register, and optimising search functions to improve user experience and strengthen product competitiveness. In terms of treasury services, the Group expanded its electronic foreign exchange trading business to the China Foreign Exchange Trade System, enabling it to successfully complete transactions with onshore counterparties and serving as an officially recognised foreign currency market maker.

Providing a seamless process experience

The Group worked with its frontline units to optimise and innovate its processes, achieving end-to-end process digitalisation with the aim of providing customers with seamless cross-regional and omni-channel services. It promoted the cross-boundary use of e-CNY, collaborating with BOC to launch the "Cross-border Shopping Festival", enabling customers to make e-CNY payments in the Chinese mainland and Hong Kong. It also actively supported e-CNY services during the Hangzhou Asian Games, providing an e-CNY wallet FPS top-up service for the Hong Kong athletic delegation. To realise end-to-end process digitalisation in Southeast Asia, the Group became one of the first financial institutions to offer an "FPS x PromptPay QR Payment" service, which bridges Hong Kong's FPS and Thailand's electronic payment system PromptPay, allowing customers to pay Thailand merchants via FPS and enjoy a seamless payment experience. In addition, to provide seamless banking experiences for customers of its Southeast Asian entities, the Group extended its online RMB salary direct remittance services to the Phnom Penh Branch and Vientiane Branch, and rolled out its UnionPay debit card contactless transaction functions to the Manila Branch and Vientiane Branch, further optimising customer experience and enhancing those entities' competitive advantages in financial payments.

Deepening technological empowerment to enhance operational efficiency

The Group accelerated the use of intelligent technology applications and pushed forward process automation and operational centralisation to achieve highly efficient operational processing of back office, with the aim of improving operational management as well as customer and staff experience. It increased the application of robotic process automation (RPA) to enhance internal process efficiency, and reinforced process optimisation and innovation to realise end-to-end process digitalisation and transformation. The Group further expanded its Regional Operation Centre in Nanning, Guangxi to realise a more cost-effective operating model. It comprehensively promoted the construction of a resilient technology infrastructure, introducing a distributed architecture to improve flexibility in business support and enriching shared application components. The scale of the Group's daily transactions processed by its distributed architecture steadily increased, providing strong support for business development while ensuring smooth and stable operations. The Group refined its dashboard management tools and optimised manual operation processes to improve internal operational efficiency. To enhance intelligent risk control and fraud prevention management, the Group applied AI models and automatic process to monitor credit card and electronic transactions and improve accuracy in fraud detection cases. In addition, it reinforced its automated risk management capabilities to ensure compliance with automation requirements under Basel III. It also strengthened its ESG risk identification tools for climate risks to improve the efficiency of its green loan services. During the year, BOCHK's "Credit Card Fraud Detection – Technology Enables Good Customer Experience" project received the Silver Award in the Hong Kong ICT Awards 2023: FinTech (Regulatory Technology and Risk Management) Award presented by the Office of the Government Chief Information Officer of the HKSAR Government. BOCHK was also awarded Best Big Data and Analytics Initiative at the Global Excellence in Retail Financial Services Awards 2023 organised by *The Asian Banker* and Mobile Banking & Payment Initiative of the Year – Hong Kong by *Asian Banking & Finance*.

Building an innovative culture and cultivating digital-savvy talent

The Group refined its digital transformation policies and systems and deepened technological empowerment through various ways. At the same time, it dedicated itself to enhancing its culture of innovation and cultivating digital talent, thus providing skilled support for strategy implementation and laying a solid foundation for the Group's long-term development. In terms of talent acquisition, the Group proactively acquired digital-savvy and IT-related talent to meet its business development needs through various channels, such as market and campus recruitment, cross-industry hiring, collaboration with external organisations and academic institutions, specialised internships, and technology and innovation competitions. In terms of talent cultivation, the Group launched specialised and stratified training programmes to enhance employees' digital awareness and competency, including various digital-themed training sessions and workshops and a digital transformation resources gallery for supporting self-directed study according to individual learning needs to safeguard the talent development of digital professionals across the Group. It supported potential staff members to take part in the "Enhanced Competency Framework for Banking Practitioners – Fintech model" launched by the HKMA to enhance practitioners' standards of competence. The Group organised "BOCHK Challenge 2023", covering five of the most popular fields of emerging technology, to encourage students from higher education institutions in Hong Kong and working professionals in start-up enterprises to fully unleash their potential. The competition aimed to explore novel business models by adopting cross-boundary technologies, strengthening BOCHK's growing brand reputation in digital banking. Internally, the Group organised the innovation competition "BOCHK Ideation Contest 2023", which attracted participations from nearly 140 staff members. This event featured brand-new AI photo generation games and "digital human" solutions to allow staff to experience innovative technology, thus stimulating enthusiasm for innovation.

Outlook and Business Focus for 2024

Looking ahead to 2024, the global economy is expected to continue its slow recovery as monetary policies shifted direction. The US economy will experience a "soft landing" while remaining at risk of recession, coupled with uncertainty brought about by the presidential election. The Eurozone economy is expected to grow slightly. In the Chinese mainland, domestic demand will continue to rebound and the RMB-USD interest rate differential will narrow, allowing further room for monetary policy adjustments. Policies for stabilising growth will continue to yield concrete results. The Hong Kong economy will continue to recover from the previous year, with the labour market remaining sound and merchandise trade gradually improving. Furthermore, the Central Work Financial Conference's goals of "promoting high-standard financial opening up" and "steadily and cautiously pushing forward the internationalisation of RMB", coupled with the further development of the Guangdong-Hong Kong-Macao Greater Bay Area, the expansion of mutual financial market access between the Chinese mainland and Hong Kong, and the enactment of RCEP, will continue to serve as a new growth engine for Hong Kong's economy. In Southeast Asia, improvements in global trade cycles will boost the region's economic recovery in terms of exports.

The Group will assess the situation, actively coordinate with the HKSAR Government's plans and policies for the Northern Metropolis Area and the Chinese mainland's 14th Five-Year Plan, capitalise on the favourable conditions created by RCEP in Southeast Asia, and continue to capture opportunities from the strategic market development of Hong Kong, the Greater Bay Area and Southeast Asia. The Group will deeply cultivate the Hong Kong market to tap the potential of target customers, seize key market opportunities in the Greater Bay Area to develop its cross-border businesses, and stimulate new momentum in Southeast Asia while formulating a new regional development footprint. It will enhance its RMB business capabilities in a precise and coordinated manner. At the same time, the Group will steadily advance its sustainability strategies to promote an ESG-led transition to high-quality development. It will improve its integrated service capabilities and strengthen internal and external collaboration. The Group will enhance its digital transformation strategy and increase the penetration rate of its digital services. It will also adhere to the risk "bottom line" and strengthen staffing, cultural and operational support.

Credit Ratings

As at 31 December 2023	Long-term	Short-term
Standard & Poor's	A+	A-1
Moody's	Aa3	P-1
Fitch	A	F1+

RISK MANAGEMENT

Banking Group

Overview

The Group believes that sound risk management is crucial to the success of any organisation. In its daily operation, the Group attaches a high degree of importance to risk management and emphasises that a balance must be struck between risk control and business development. The principal types of risk inherent in the Group's businesses are credit risk, market risk, interest rate risk, liquidity risk, operational risk, reputation risk, legal and compliance risk, and strategic risk. The Group's risk management objective is to enhance shareholder value by maintaining risk exposures within acceptable limits. The Group has a defined risk appetite statement approved by the Board, which is an expression of the types and level of risk that the Group is willing to take in a controllable way in order to achieve its business goals and to meet the expectations of its stakeholders. For details of the Group's risk management governance structure, please refer to Note 4 to the Financial Statements.

Credit risk management

Credit risk is the risk of loss that a customer or counterparty is unable to or unwilling to meet its contractual obligations. Credit risk exists in the trading book and banking book, as well as from on – and off-balance sheet transactions of the Group. It arises principally from lending, trade finance and treasury businesses. For details of the Group's Credit Risk Management, please refer to Note 4.1 to the Financial Statements.

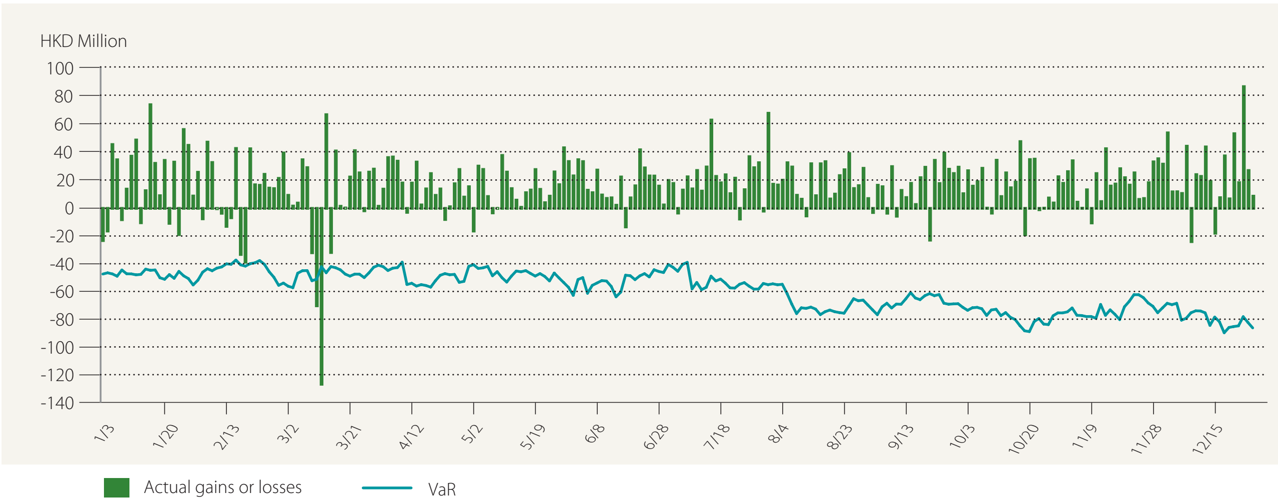
Market risk management

Market risk refers to the risk of loss arising from movements in the value of foreign exchange, interest rate, equity and commodity positions held by the Group due to the volatility of financial market price (foreign exchange rate, interest rate, credit spreads, equity price, commodity price). The Group adopts a moderate market risk appetite to achieve a balance between risk and return. For details of the Group's Market Risk Management, please refer to Note 4.2 to the Financial Statements.

The Group uses the VaR to measure and report general market risks to the Risk Committee ("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 Group adopts back-testing to measure the accuracy of VaR model results. The back-testing compares the calculated VaR figure of market risk positions of each business day with the actual and hypothetical gains or losses arising from those positions on the next business day. Generally speaking, the number of back-testing exceptions in a rolling 12-month period will not exceed four times, given a 99% confidence level. The graph below shows the back-testing result of the VaR against actual gains or losses of the Group.

Daily Back-testing in 2023



There were two actual losses exceeding the VaR for the Group in 2023 as shown in the back-testing results. The exceptions were driven by unexpected market movements.

Interest rate risk management

Interest rate risk means the risks to a bank's earnings and economic value arising from movements in interest rate and term structures of the bank's asset and liability positions. The Group's interest rate risk exposures are mainly from structural positions. The major types of interest rate risk from structural positions are gap risk, basis risk and option risk. For details of the Group's Interest Rate Risk Management, please refer to Note 4.2 to the Financial Statements.

Liquidity risk management

Liquidity risk is the risk that banks may not be able to obtain sufficient and timely funding at a reasonable cost to meet their obligations as they fall due. The Group maintains a sound liquidity risk appetite to provide stable, reliable and adequate sources of cash to meet liquidity needs under normal circumstances and stressed scenarios. For details of the Group's Liquidity Risk Management, please refer to Note 4.3 to the Financial Statements.

Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal process, people and system, or from external events. The risk is inherent in all banking products, activities, processes and systems and confronted by the Group in its day-to-day operational activities.

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

The Group has put in place an effective internal control process which requires the establishment of policies and control procedures for all the key activities. The Group adheres to the fundamental principle of proper segregation of duties and authorisation. The Group adopts various operational risk management tools or methodologies such as key risk indicators, self-assessment, operational risk events reporting and review to identify, assess, monitor and control the risks inherent in business activities and products, as well as purchase of insurance, etc. to mitigate unforeseeable operational risks. In addition, each new product/service initiative and outsourcing arrangement is subject to a risk assessment and governance process, where risks are firstly identified and assessed by business unit, and reviewed and challenged by relevant second lines of defence, in accordance with the risk-based principle. Subsequent changes on the existing products, services and outsourcing arrangements are also subject to a similar process. Business continuity plans are established to support business operations in the event of an emergency or disaster. Adequate backup facilities are maintained and periodic drills are conducted.

Reputation risk management

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

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

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

Legal and compliance risk management

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

Strategic risk management

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

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

Capital management

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

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

The HKMA has classified BOCHK as a material subsidiary of the BOC resolution group and required BOCHK to comply with the applicable internal loss-absorbing capacity requirements under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules ("LAC Rules"), with compliance period starting from 1 January 2023.

Stress testing

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

BOC Life

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

Insurance risk management

BOC Life is in the business of insuring against the risk of mortality, morbidity, disability, critical illness, accidents and related risks. These risks are managed through the application of underwriting 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 BOC Life's underwriting procedures include screening processes, such as the review of health condition and family medical history, to ensure alignment with the underwriting strategy.

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, BOC Life has conducted relevant experience studies and researches regularly to identify emerging trends. Results would be taken into account in pricing and underwriting management.

For details of the Group's Insurance Risk Management, please refer to Note 4.4 to the Financial Statements.

Interest rate risk management

An increase in interest rates may result in the depreciation of the value of BOC Life's investment assets. A decrease in interest rates may result in an increase in insurance liability and customer dissatisfaction due to decrease in returns. BOC Life manages the matching of assets and liabilities of its portfolios within an asset liability management framework that has been developed to achieve investment returns that match its obligations under insurance contracts; and to manage the adverse impact due to interest rate movement.

Liquidity risk management

BOC Life's liquidity risk is the risk of not being able to meet payment obligations as they fall due. BOC Life's asset and liability management framework includes stress tests and cash flow management to preserve liquidity to fulfil policy payment obligations from time to time.

Credit risk management

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

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

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

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

Equity and fund price risk management

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

Currency risk management

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


Green Finance
Building a Better Future