Notes to the Financial Statements

1. Principal activities

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of banking and related financial services.

The Company is a limited liability company incorporated and listed in Hong Kong. The address of its registered office is 53/F, Bank of China Tower, 1 Garden Road, Hong Kong.

2. Material accounting policies

The material accounting policies applied in the preparation of these consolidated financial statements are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (HKFRSs is a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA and requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, precious metals at fair value, investment properties which are carried at fair value and premises which are carried at fair value or revalued amount less accumulated depreciation and accumulated impairment losses. Repossessed assets held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in Note 2.24.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical estimates. It also requires the Management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are critical to the consolidated financial statements are disclosed in Note 3.

2. Material accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standard and amendments that are initially adopted for the financial year beginning on 1 January 2023

Standard/ Amendments	Content	Applicable for financial years beginning on/after	Currently relevant to the Group
HKFRS 17	Insurance Contracts	1 January 2023	Yes
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023	Yes
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023	Yes
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023	Yes
HKAS 12 (Amendments)	International Tax Reform – Pillar Two Model Rules	1 January 2023	Yes

- HKFRS 17, "Insurance Contracts". The issuance of HKFRS 17 replaces HKFRS 4 for annual periods beginning on or after 1 January 2023. On 1 January 2023, the Group adopted the requirements of HKFRS 17 retrospectively with comparatives restated from the transition date, 1 January 2022. These include comparative data presented in the consolidated financial statements, Note 4.1, Note 4.2(B), Note 4.2(C), Note 4.3(B), Note 4.3(C), Note 4.4, Note 5 to Note 14, Note 17, Note 19, Note 23, Note 25, Note 26, Note 30, Note 35 to Note 37, Note 41, Note 46, Note 54 and Note 57. The changes introduced in HKFRS 17 are highlighted as follows:

(i) Changes to recognition and measurement

Unlike HKFRS 4, which is an interim Standard without prescribing the recognition and measurement of insurance contracts, HKFRS 17 establishes specific principles for the recognition and measurement of insurance contracts issued and reinsurance contracts held by the Group.

The Group measures the groups of insurance contracts with the general measurement model ("GMM") which is applicable to insurance contracts without direct participation features, the variable fee approach ("VFA") which is applicable to insurance contracts with direct participation features and the premium allocation approach ("PAA") which is applicable to insurance contracts with a coverage period of one year or less or other eligible insurance contracts.

For a description of how the Group recognises and measures insurance contracts under HKFRS 17, please refer to the respective accounting policy in Note 2.19.

2. Material accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standard and amendments that are initially adopted for the financial year beginning on 1 January 2023 (continued)

(ii) Changes to presentation

For presentation in the balance sheet, the Group aggregates portfolios of insurance contracts issued and reinsurance contracts held and presents separately as insurance contracts liabilities, insurance contract assets and reinsurance contracts assets included in other assets, and reinsurance contracts liabilities included in other accounts and provisions.

The line item descriptions in the income statement have been changed significantly under HKFRS 17 compared with HKFRS 4. HKFRS 17 requires separate presentation of insurance revenue, insurance service expense, insurance finance income or expenses, net income from reinsurance contracts held, and other comprehensive income from insurance contracts issued and reinsurance contracts held.

(iii) Transition approach

The Group has applied the full retrospective approach on transition to all contracts issued on or after 1 January 2022. For contracts issued prior to 2022 and measured other than the PAA, the fair value approach was applied as obtaining reasonable and supportable information (e.g. assumptions that would have been made in an earlier period and information is only available at higher levels of aggregation) to apply the full retrospective approach was impracticable without undue cost or effort.

The Group has determined the contractual service margin of the liability for remaining coverage at the transition date, as the difference between the fair value of the group of insurance contracts and the fulfilment cash flows measured at that date. In determining fair value, the Group has applied the requirements of HKFRS 13, "Fair Value Measurement" except for the requirement that the fair value of a financial liability with a demand feature cannot less than the amount payable on demand.

2. Material accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standard and amendments that are initially adopted for the financial year beginning on 1 January 2023 (continued)

(iv) Impact of reclassification of financial assets

Upon transition to HKFRS 17, the Group has performed a detailed analysis for each class of the Group's financial assets on 1 January 2023, and re-designated certain financial assets. The Group reassessed classification of financial assets if they are connected with contracts within the scope of HKFRS 17 at the date of initial application of HKFRS 17 and restated the comparative information for 2022. The following table shows the measurement category and carrying amount of certain financial assets before and after the adoption of HKFRS 17 as at 1 January 2023.

Classification as at 31 December 2022 before adoption of HKFRS 17	Classification as at 1 January 2023 after adoption of HKFRS 17	Note	Carrying amount as at 31 December 2022 before adoption of HKFRS 17 HK$'m	Carrying amount as at 1 January 2023 after adoption of HKFRS 17 HK$'m
Fair value through other comprehensive income ("FVOCI")	Fair value through profit or loss ("FVPL")	(a)	4,612	4,612
Amortised cost ("AC")	FVPL	(b)	47,570	41,447
AC	FVOCI	(c)	45,887	40,254
			98,069	86,313

Note:

(a) Debt and equity instruments are reclassified to FVPL out of FVOCI category as for eliminating accounting mismatch on connected insurance contract liabilities that are measured under the VFA.

(b) Debt instruments are reclassified to FVPL out of AC category as for eliminating accounting mismatch on connected insurance contract liabilities that are measured under the VFA.

(c) Debt instruments are reclassified to FVOCI out of AC category as a result of reassessment on their business model on the basis of facts and circumstances that exist on 1 January 2023.

For financial assets derecognised between the transition date and date of initial application of HKFRS 17, the Group has applied classification overlay for the purpose of presenting comparative information. The classification overlay is based on how the Group expects the financial assets would be designated at the date of initial application of HKFRS 17.

2. Material accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standard and amendments that are initially adopted for the financial year beginning on 1 January 2023 (continued)

(v) Overall impact of adoption of HKFRS 17

The following table summarises the impact, net of tax, arising from transition to HKFRS 17 on the opening balances of the balance sheet at the transition date (i.e. 1 January 2022):

	31 December 2021 Under HKFRS 4 HK$'m	Removal of HKFRS 4 balances HK$'m	Reclassification and remeasurement of financial assets HK$'m	Remeasurement of insurance and reinsurance contracts HK$'m	Related tax effect HK$'m	Related non-controlling interests HK$'m	Total movements HK$'m	1 January 2022 Under HKFRS 17 HK$'m
ASSETS								
Financial assets at fair value through profit or loss	73,537	–	45,128	–	–	–	45,128	118,665
Advances and other accounts	1,597,194	(1,466)	–	–	–	–	(1,466)	1,595,728
Investment in securities	1,094,233	–	(41,956)	–	–	–	(41,956)	1,052,277
Deferred tax assets	192	–	–	–	588	–	588	780
Other assets	106,272	(59,803)	–	54,718	–	–	(5,085)	101,187
All other assets	768,002	–	–	–	–	–	–	768,002
Total assets	3,639,430	(61,269)	3,172	54,718	588	–	(2,791)	3,636,639
LIABILITIES								
Other accounts and provisions	83,041	(29,819)	–	463	–	–	(29,356)	53,685
Deferred tax liabilities	5,799	–	–	–	(66)	–	(66)	5,733
Insurance contract liabilities	153,911	(153,911)	–	183,705	–	–	29,794	183,705
All other liabilities	3,069,218	–	–	–	–	–	–	3,069,218
Total liabilities	3,311,969	(183,730)	–	184,168	(66)	–	372	3,312,341
EQUITY								
Capital and reserves attributable to equity holders of the Company	297,999	122,461	3,172	(129,450)	654	1,550	(1,613)	296,386
Other equity instruments	23,476	–	–	–	–	–	–	23,476
Non-controlling interests	5,986	–	–	–	–	(1,550)	(1,550)	4,436
Total equity	327,461	122,461	3,172	(129,450)	654	–	(3,163)	324,298
Total liabilities and equity	3,639,430	(61,269)	3,172	54,718	588	–	(2,791)	3,636,639

2. Material accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standard and amendments that are initially adopted for the financial year beginning on 1 January 2023 (continued)

- HKAS 1 (Amendments), "Disclosure of Accounting Policies". The amendments aim to require entities to disclose their material rather than their significant accounting policies. The amendments define what is "material accounting policy information" and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting policy information.

  To support this amendment, the HKICPA also amended HKFRS Practice Statement 2 "Making Materiality Judgements" to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The application of the amendments does not have a material impact on the Group's financial statements.

- HKAS 8 (Amendments), "Definition of Accounting Estimates". The amendments clarify how entities should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period. The application of the amendments does not have a material impact on the Group's financial statements.

- HKAS 12 (Amendments), "Deferred Tax related to Assets and Liabilities arising from a Single Transaction". The amendments require entities to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities when there is any temporary difference. The application of the amendments does not have a material impact on the Group's financial statements.

- HKAS 12 (Amendments), "International Tax Reform – Pillar Two Model Rules". The amendments provide entities with temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's Pillar Two model rules. The amendments also introduce targeted disclosure requirements to help investors understand an entity's exposure to income taxes arising from the rules. The application of the amendments does not have a material impact on the Group's financial statements.

2. Material accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Amendments and interpretation issued that are not yet mandatorily effective and have not been early adopted by the Group in 2023

Amendments/ Interpretation	Content	Applicable for financial years beginning on/after	Currently relevant to the Group
HKAS 1 (Amendments)	Classification of Current or Non-current Liabilities	1 January 2024	No
HKAS 1 (Amendments)	Non-current Liabilities with Covenants	1 January 2024	No
HKAS 28 (2011) and HKFRS 10 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined	Yes
HKFRS 16 (Amendments)	Lease Liability in a Sale and Leaseback	1 January 2024	No
HKAS 7 and HKFRS 7 (Amendments)	Supplier Finance Arrangements	1 January 2024	No
HK Int 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024	No
HKAS 21 (Amendments)	Lack of Exchangeability	1 January 2025	No

Further information about those amendments that are expected to be applicable to the Group is as follows:

- HKAS 28 (2011) and HKFRS 10 (Amendments), "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture". The amendments address an acknowledged inconsistency between the requirements in HKAS 28 (2011) and those in HKFRS 10, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments are to be applied prospectively and early application is permitted. The application of the amendments will not have a material impact on the Group's financial statements.

2. Material accounting policies (continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31 December 2023.

(1) Subsidiaries

Subsidiaries are entities (including structured entities), directly or indirectly, controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Group the current ability to direct the relevant activities of the investee). When the Group has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including: (a) the contractual arrangement with the other vote holders of the investee; (b) rights arising from other contractual or non-contractual arrangements; and (c) the Group's voting rights and potential voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interests; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment in that former subsidiary retained; reclassifies the amounts previously recognised in other comprehensive income to the income statement or retained earnings, as appropriate, on the same basis as directly disposed of the related assets or liabilities; recognises any resulting differences as gain or loss in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable. Dividend income from subsidiaries is recognised in the income statement when the right to receive payment is established.

(2) Changes in ownership interests

The Group treats transactions with non-controlling interests without change of control as transactions with equity owners of the Group. For purchases from non-controlling interests of equity interest, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recognised in equity. Gains or losses on disposals to non-controlling interests are also recognised in equity.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. Amounts previously recognised in other comprehensive income are reclassified to the income statement or retained earnings, as appropriate.

2. Material accounting policies (continued)

2.2 Consolidation (continued)

(3) Associates and joint ventures

An associate is the entity over which the Group has significant influence but not control or joint control, generally accompanying of between 20% and 50% of the voting rights.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The Group's investments in associates and joint ventures include goodwill, net of accumulated impairment loss and any related accumulated foreign currency translation difference.

The Group's share of the post-acquisition profits or losses of associates or joint ventures is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The accumulated post-acquisition movements are adjusted against the cost of the investment. When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognise further losses unless the Group has incurred obligations or made payments on behalf of the associates or joint ventures.

Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

If the ownership interest in an associate or a joint venture is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to the income statement or retained earnings, where appropriate.

2.3 Segmental reporting

The operating result of segments are reported in a manner consistent with the internal reporting provided to the Management Committee, which is the chief operating decision maker of the Group, that allocates resources and assesses the performance of operating segments. Income and expenses directly associated with each segment are included in determining operating segment performance.

2. Material accounting policies (continued)

2.4 Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or exchange rates at the end of the reporting period for items that are remeasured. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions using the exchange rates prevailing at the dates of the transactions and monetary assets and liabilities denominated in foreign currencies translated at the exchange rate at the end of the reporting period are recognised directly in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on monetary securities held at fair value through profit or loss are reported as part of the fair value gain or loss. Changes in the fair value of monetary securities denominated in foreign currency classified as fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the securities and other changes in the carrying amount of the securities. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as fair value through other comprehensive income are included in other comprehensive income.

The results and financial position of all the group entities that have a functional currency different from Hong Kong dollars are translated into Hong Kong dollars as follows:

- assets and liabilities are translated at the closing rate at the end of the reporting period;

- income and expenses are translated at average exchange rates; and

- all resulting exchange differences are recognised in the currency translation reserve in equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, borrowings and other currency instruments designated as hedges of such investments are taken to other comprehensive income and are accumulated separately in the translation reserve. When a foreign entity is disposed, such exchange differences are reclassified from equity to the income statement, as part of the gain or loss on sale.

2. Material accounting policies (continued)

2.5 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and through the use of valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in financial liabilities are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

Derivatives are categorised as held for trading and changes in their fair value are recognised immediately in the income statement unless they are designated as hedges and are effective hedging instruments, then they are subject to measurement under the hedge accounting requirements.

For derivative instruments being designated as hedging instrument in an effective hedge, the method of recognising the resulting fair value gain or loss depends on the nature of the item being hedged. The Group designates certain derivatives as either:

(a) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or

(b) hedges of a particular risk associated with a highly probable future cash flow attributable to a recognised asset or liability, or a highly probable forecast transaction (cash flow hedge); or

(c) hedges of a net investment in a foreign operation (net investment hedges).

The Group documents at inception the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of the economic relationship, credit risks, the hedge ratio and an evaluation of the effectiveness of the hedging instruments in offsetting changes in fair values or cash flows of hedged items. These criteria should be met before a hedge can be qualified to be accounted for under hedge accounting. Hedge accounting may become ineffective if the hedging instrument and the hedged item lose economic relationship, or a significant change of the counterparties' credit risks that dominates the fair value change of the hedging instruments or the hedged items.

2. Material accounting policies (continued)

2.5 Derivative financial instruments and hedge accounting (continued)

Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as effective fair value hedges are recognised in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

When fair value hedge accounting is applied to financial instruments carried at amortised cost, the carrying values of the hedged items are adjusted for changes in fair value that are attributable to the risk being hedged with the derivative instruments rather than carried at amortised cost, such carrying value adjustment is recognised in the income statement together with the changes in fair value of the hedging derivatives.

If the hedge relationship no longer meets the criteria for hedge accounting or is terminated for reasons other than derecognition, e.g. due to repayment of the hedged item, the unamortised carrying value adjustment (the difference between the carrying value of the hedged item at the time of termination and the value at which it would have been carried had the hedge never existed) to the hedged item is amortised to the income statement over the remaining life of the hedged item by the effective interest method. If the hedged item is derecognised, the unamortised carrying value adjustment is recognised immediately in the income statement.

For fair value hedge relationships where the hedged items are debt instruments carried at FVOCI, changes in fair value are recorded in the income statement whilst hedge accounting is in place. When the hedge relationship no longer meets the criteria for hedge accounting or is terminated for reasons other than derecognition, the cumulative effective hedged portion of fair value change recognised in the income statement is amortised by the effective interest method back to the equity. If the hedged item is derecognised, the unamortised cumulative effective hedged portion of fair value change recognised in the income statement is reclassified to equity immediately.

2.6 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2. Material accounting policies (continued)

2.7 Income and expense

(1) Interest income and expense

Interest income and expense are recognised in the income statement for all financial assets carried at amortised cost and fair value through other comprehensive income, and financial liabilities using the effective interest method. Similar interest income and expense arising from non-derivative financial assets and liabilities carried at fair value through profit or loss are determined using similar method, but excluding their transaction costs.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument (e.g. prepayment options or incentives relating to residential mortgage loans) but does not consider future credit losses. The calculation includes fees, premiums or discounts and basis points paid or received between parties to the contract, and directly attributable origination fees and costs which represent an integral part of the effective yield.

For all hedge transactions where interest rate is the hedged risk, interest income or interest expense from hedged instruments such as fixed rate debt securities or fixed rate subordinated notes are disclosed on a net basis together with net interest income/expense arising from the hedging instrument such as interest rate swap.

(2) Non-interest income and expense

Income from service is recognised when the Group fulfils its performance obligation, either over time or at a point in time on a basis when a customer obtains control of the service.

Fee income from services are recognised over time at a fixed or variable price on a systematic basis over the life of the agreement when the contract requires services to be provided over time such as account service and credit card fees, or recognised at a point in time under transaction-based arrangements when service has been fully provided to the customer such as broking services and loan syndication arrangement.

Dividend income from financial asset is recognised when the right to receive payment is established.

Non-interest expenses are charged to profit or loss during the reporting period in which they are incurred.

2. Material accounting policies (continued)

2.7 Income and expense (continued)

(3) Insurance revenue and expenses

The Group recognises insurance revenue as it satisfies its performance obligations (i.e. as it provides insurance services) during the coverage period. In addition, investment components will not be included in insurance revenue or insurance service expenses.

Directly attributable insurance acquisition cash flows will be reclassified as part of the fulfilment cash flows ("FCFs") and will be amortised to insurance revenue and insurance service expenses over its coverage period.

The Group elected to present income or expenses from reinsurance contract held as a single amount in net income from reinsurance contracts held.

In addition, the Group elected the other comprehensive income option for certain portfolios of insurance contracts without direct participation features to disaggregate insurance finance income or expenses between amounts included in the income statement and amounts included in other comprehensive income.

2.8 Financial assets

The Group classifies its financial assets into one of the following measurement categories at initial recognition as subsequently measured at: fair value through profit or loss ("FVPL"), amortised cost and fair value through other comprehensive income ("FVOCI"). The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instruments, or the election of fair value option. All financial assets are recognised initially at fair value. Except for financial assets carried at FVPL, all transaction costs of financial assets are included in their initial carrying amounts.

(1) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets designated at fair value through profit or loss at inception, or financial assets mandatorily required to be measured at fair value through profit or loss, including those held for trading.

A financial asset which has been acquired or incurred principally for the purpose of selling in the short term or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking is classified as held for trading. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

A financial asset, other than those held for trading or mandatorily measured at fair value, will be designated as a financial asset at FVPL, if it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring the financial assets or recognising the gains and losses on them on different bases, and is so designated by the Management.

2. Material accounting policies (continued)

2.8 Financial assets (continued)

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

These assets are recognised initially at fair value, with transaction costs taken directly to the income statement, and are subsequently remeasured at fair value.

Gains and losses from changes in the fair value of such assets (excluding the interest component) are reported in net trading gain/loss or net gain/loss on other financial instruments designated at FVPL. The interest component is reported as part of the interest income. Dividends on equity instruments of this category are also recognised in net trading gain/loss or net gain/loss on financial instruments at FVPL when the Group's right to receive payment is established.

(2) Financial assets at amortised cost

Financial assets are classified as subsequently measured at amortised cost if both of the following conditions are met: (i) the financial assets are held within a business model with the objective to hold financial assets in order to collect contractual cash flows ("hold-to-collect" business model), and (ii) the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates. They are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method less allowances for impairment losses. Interest income which includes the amortisation of premium or discount is calculated using the effective interest method and is recognised in the income statement. Any gains or losses are recognised in the income statement when the asset is derecognised, modified or impaired.

(3) Financial assets at fair value through other comprehensive income

Debt instruments are classified as subsequently measured at FVOCI if both of the following conditions are met: (i) the financial assets are held within a business model with the objective of both holding to collect contractual cash flows and selling, and (ii) the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

Financial assets at FVOCI are initially recognised at fair value plus any directly attributable transaction costs, and are subsequently measured at fair value. Unrealised gains or losses arising from changes in the fair value of the financial assets are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired at which time the accumulated gain or loss previously recognised in equity should be transferred to the income statement. However, interest income which includes the amortisation of premium or discount is calculated using the effective interest method and is recognised in the income statement.

For equity investments, an irrevocable election can be made at initial recognition to recognise unrealised and realised fair value gains or losses in other comprehensive income without subsequent reclassification of fair value gains or losses to the income statement even upon disposal. Dividends on equity instruments classified as FVOCI are recognised in other operating income when the Group's right to receive payment is established. Equity instruments designated at FVOCI are not subject to impairment assessment.

The treatment of translation differences on FVOCI securities is dealt with in Note 2.4.

2. Material accounting policies (continued)

2.9 Financial liabilities

The Group classifies its financial liabilities under the following classes: trading liabilities, financial liabilities designated at fair value through profit or loss, deposits, debt securities and certificates of deposit in issue, other accounts and provisions and subordinated liabilities. All financial liabilities are classified at inception and recognised initially at fair value, and in the case of financial liability not at fair value through profit or loss, plus or minus transaction costs.

(1) Trading liabilities

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the short term. It is measured at fair value and any gains and losses from changes in fair value are recognised in the income statement, with interest component being reported as part of the interest expenses.

(2) Financial liabilities designated at fair value through profit or loss

A financial liability can be designated at fair value through profit or loss if it is so designated at inception. A financial liability is so designated if it meets one of the following criteria:

- eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring the financial liabilities or recognising the gains and losses on them on different bases; or
- applies to a group of financial assets, financial liabilities or both that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management; or
- relates to financial liabilities containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial liabilities.

Financial liabilities designated at fair value through profit or loss are measured at fair value and any gains and losses from changes in fair value are recognised in the income statement, except for fair value changes arising from own credit risks are recognised as other comprehensive income and subsequently reclassified to the retained earnings upon derecognition, unless such would create or enlarge an accounting mismatch in the income statement, then all gains and losses from changes in fair value are recognised in the income statement.

(3) Deposits, debt securities and certificates of deposit in issue, other accounts and provisions and subordinated liabilities

Deposits, debt securities and certificates of deposit in issue, other accounts and provisions and subordinated liabilities, other than those classified as trading liabilities or designated at fair value through profit or loss are carried at amortised cost. Any difference (if available) between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period using the effective interest method.

2. Material accounting policies (continued)

2.10 Financial guarantee contracts and undrawn loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a contract between the holder and the debtor.

Financial guarantee contracts are initially recognised as financial liabilities at fair value on the date the guarantees were given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of (i) an ECL provision as set out in Note 2.14 and (ii) the amount initially recognised less, where appropriate, accumulated amortisation recognised over the life of the guarantee on a straight-line basis. Any changes in the liability relating to financial guarantee contracts are taken to the income statement.

Undrawn loan commitments are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. These contracts are in the scope of the ECL requirements as set out in Note 2.14.

The ECL provision for financial guarantees and loan commitments are reported under "Other accounts and provisions" in the financial statements.

2.11 Recognition, derecognition and modification of financial instruments

Purchases and sales of financial assets subsequently measured at FVPL, securities measured at FVOCI and amortised cost are recognised on the trade date, the date on which the Group purchases or sells the assets. Loans and advances and other financial assets are recognised when cash is advanced to the counterparties. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group either continues to recognise the transferred financial asset to the extent of its continuing involvement if control remains or derecognise it if there is no retained control. If the financial instrument measured at amortised cost or FVOCI is renegotiated or modified with substantially different terms, the original financial instrument should be derecognised and then a new financial instrument should be recognised at fair value. Otherwise, the difference is adjusted to the original carrying value and accounted for in the income statement.

Trading liabilities, financial liabilities designated at FVPL and debt securities and certificates of deposit in issue are recognised on the trade date. Deposits that are not designated at FVPL are recognised when money is received from customers, other liabilities are recognised when such obligations arise. Financial liabilities are derecognised from the balance sheet when and only when the obligation specified in the contract is discharged, cancelled or expires. If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of a liability and the consideration paid is included in the income statement, except the own credit risk component for those designated at FVPL.

2. Material accounting policies (continued)

2.11 Recognition, derecognition and modification of financial instruments (continued)

Securities and bills sold to a counterparty with an obligation to repurchase at a pre-determined price on a specified future date under a repurchase agreement are referred to as repos. Securities and bills purchased from a counterparty with an obligation to re-sell to the counterparty at a pre-determined price on a specified future date under a resale agreement are referred to as reverse repos.

Repos or securities lending are initially recognised as deposits and balances from banks and other financial institutions, or designated as financial liabilities measured at FVPL at the actual amount of cash received from the counterparty which is generally the fair value of these financial liabilities at initial recognition. Financial assets given as collateral for repurchase agreements are not derecognised and are recorded as investment in securities or financial assets at FVPL. Reverse repos or securities borrowings with a "hold-to-collect" business model and contractual cash flow of solely payments of principal and interest on the principal outstanding are initially recognised as cash and balances and placements with banks and other financial institutions, or reverse repos or securities borrowing designated as financial assets measured at FVPL are measured at the actual amount of cash paid to the counterparty which is generally the fair value of these financial assets at initial recognition. Financial assets received as collateral under reverse repurchase agreements are not recognised on the balance sheet.

2.12 Fair value measurement

The Group measures its premises and investment properties, precious metals and certain financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in its principal market or the most advantageous market accessible by the Group at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The Group uses the price within the bid-offer spread that is most representative of the fair value of financial instruments, where appropriate, includes using on the residual of the net offsetting risk position of portfolios of financial assets and financial liabilities in cases the Group manages such groups of financial assets and liabilities according to their net market risk exposures. Despite the Group measures the fair value of these groups of financial instruments on a net basis, the underlying financial assets and financial liabilities are separately presented in the financial statements unless the offsetting criteria stated in Note 2.6 are fulfilled.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

If the market for assets or liabilities is not active, the Group uses valuation techniques, including the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants, that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2. Material accounting policies (continued)

2.13 Precious metals

Precious metals comprise gold, silver and other precious metals. Precious metals are initially recognised and subsequently remeasured at fair value. Mark-to-market gains or losses on precious metals are included in net trading gain/loss.

2.14 Impairment of financial assets

The Group recognises a loss allowance for expected credit losses ("ECLs") on the following items:

- financial assets measured at amortised cost;
- debt securities measured at FVOCI; and
- loan commitments and financial guarantees issued, which are not measured at FVPL.

Financial assets measured at FVPL and equity securities designated at FVOCI (non-recycling) are not subject to the ECL assessment.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

For undrawn loan commitments and financial guarantees outstanding, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder/beneficiary of the loan commitment/financial guarantee draws down/claims on the loan/financial guarantee and (ii) the cash flows that the Group expects to receive if the loan is drawn down/financial guarantee is claimed.

The expected cash shortfalls are discounted where the effect of discounting is material. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk. Where the financial instrument such as revolving credit facilities includes both a drawn and undrawn commitment, ECL is measured over the period that the Group remains exposed to credit risk that is not mitigated by management actions in respect of credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within 12 months after the reporting date; or
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

2. Material accounting policies (continued)

2.14 Impairment of financial assets (continued)

The Group will account for expected credit losses within the next 12 months as Stage 1 when those financial instruments are initially recognised; and to recognise lifetime expected credit losses as Stage 2 when there have been significant increases in credit risk since initial recognition. Lifetime expected credit losses will be recognised for credit-impaired financial instruments as Stage 3 if the future cash flows of that financial instruments are adversely affected by one or more events and interest income will then be accrued net of the impairment amount of the respective Stage 3 financial assets.

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest 30 days after their contractually due dates;
- an actual or expected significant deterioration in a financial instrument’s external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor’s ability to meet its obligation to the Group.

For loan commitments and financial guarantees, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the Group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment or a financial guarantee, the Group considers changes in the risk of default occurring on the loans and advances to which the loan commitment/financial guarantee relates.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

Financial instruments are considered to be in default when one or more events that have a detrimental impact on the estimated future cash flows occurred such as past due for more than 90 days or the debtor is unlikely to pay in full for the credit obligations to the Group.

2. Material accounting policies (continued)

2.14 Impairment of financial assets (continued)

The Group considers that a financial instrument is credit-impaired when there is observable data about:

- significant financial difficulty incurred by the debtor;
- a breach of contract, such as a default or delinquency in principal or interest payment;
- for economic or legal reasons related to the debtor's financial difficulty, the Group has granted to the debtor a concession that it would not otherwise consider;
- probable that the debtor will become bankrupt or undergo other financial reorganisation;
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses; or
- other observable data indicating that there is a measurable decrease in the estimated future cash flows from such advances.

The Group considers on an individual basis both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in the income statement. The Group recognises an impairment gain or loss for all relevant financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI, for which the loss allowance is recorded in the fair value reserve.

Interest income recognised in accordance with Note 2.7 is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired (Stage 3), in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. The determination of credit-impaired financial asset is further explained in Note 4.1.

When a financial asset is uncollectible, it is written off against the gross carrying amount of the financial asset and the related allowance for impairment losses. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. The assets written off are still subject to enforcement activity. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses in the income statement.

2. Material accounting policies (continued)

2.15 Impairment of investments in subsidiaries, associates, joint ventures and non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Potential indications of impairment may include significant adverse changes in the technological, market, economic or legal environment in which the assets operate or whether there has been a significant or prolonged decline in value below their cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impaired assets are reviewed for possible reversal of the impairment at each reporting date.

In the Company's balance sheet, impairment testing of investments in subsidiaries, associates or joint ventures is also required upon receiving dividend from that entity if the dividend exceeds the total comprehensive income of that entity concerned in the period the dividend is declared or if the carrying amount of that entity in the Company's balance sheet exceeds the carrying amount of that entity's net assets including goodwill in its consolidated balance sheet.

2.16 Investment properties

Properties (including right-of-use assets arising from leases over leasehold land on which properties are situated), that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the companies in the Group, are classified as investment properties. Properties leased out within group companies are classified as investment properties in individual companies' financial statements and as premises in consolidated financial statements.

Investment properties are recognised initially at cost, including related transaction costs. After initial recognition, investment properties are measured at fair value.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The work in progress item is measured at fair value. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Any changes in fair value are recognised directly in the income statement.

If an investment property becomes owner-occupied, it is reclassified as premises, and its fair value at the date of reclassification becomes its cost for accounting purposes. If an item of premises becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in other comprehensive income or profit or loss in the same way as a revaluation of premises under HKAS 16 "Property, Plant and Equipment" as set out in Note 2.17.

2. Material accounting policies (continued)

2.17 Properties, plant and equipment

Properties (including right-of-use assets arising from leases over leasehold land on which properties are situated) are mainly branches and office premises. Premises are stated at fair value based on periodic, at least annually, valuations by external independent valuers less any subsequent accumulated depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. In the intervening periods, the directors review the carrying amount of premises, by reference to the open market value of similar properties, and adjustments are made when there has been a material change.

Increases in the carrying amount arising on revaluation of premises are credited to the premises revaluation reserve through other comprehensive income. Decreases that offset previous increases of the same individual asset are charged against premises revaluation reserve through other comprehensive income; all other decreases are expensed in the income statement. Any subsequent increases are credited to the income statement up to the amount previously debited, and then to the premises revaluation reserve. Upon disposal of premises, the relevant portion of the premises revaluation reserve realised in respect of previous valuations is released and transferred from the premises revaluation reserve to retained earnings.

All plant and equipment and right-of-use assets other than leasehold land (see Note 2.18) are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition and installation of the items.

Subsequent costs are included in an asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The item is stated at cost less impairment until it begins to generate economic benefits, then the item is subsequently measured according to the measurement basis of its respective assets class. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred or provided for.

Depreciation is calculated on the straight-line method to write down the cost or revalued amount of such assets over their estimated useful lives as follows:

• Properties	Over the life of government land leases
• Plant and equipment	2 to 15 years
• Right-of-use assets	Shorter of useful lives and lease terms

The useful lives of assets are reviewed, and adjusted if appropriate, as at the end of each reporting period.

2. Material accounting policies (continued)

2.17 Properties, plant and equipment (continued)

At the end of each reporting period, both internal and external sources of information are considered to determine whether there is any indication that properties, plant and equipment are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such an impairment loss is recognised in the income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a decrease in the revaluation surplus. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Impairment loss is reversed through the premises revaluation reserve or the income statement as appropriate.

Gains or losses on disposals are determined as the difference between the net disposal proceeds and the carrying amount, relevant taxes and expenses. These are recognised in the income statement on the date of disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained earnings and is not reclassified to the income statement.

2.18 Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use over the contract period.

(1) As a lessee

On the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to recognise the lease as a right-of-use asset and a lease liability on a lease-by-lease basis. The lease payments associated with those leases which are not recognised as right-of-use assets and lease liabilities are recognised as an expense on a systematic basis over the lease term.

The lease liability is initially recognised at the present value of the lease payments payable over the lease term, after taking into account payments to be made in the optional period if the extension option is reasonably certain to be exercised, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate.

After initial recognition, interest expense is calculated using a constant periodic rate of interest. Variable lease payments that do not depend on an index or a rate are not included in the measurement of the lease liability and hence are charged to the income statement in the accounting period in which they are incurred.

2. Material accounting policies (continued)

2.18 Leases (continued)

(1) As a lessee (continued)

The right-of-use asset recognised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, then discounted to its present value, and less any lease incentives received.

Payments associated with short-term leases of equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in the income statement.

The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment losses (see Note 2.17), and adjusted when the lease liabilities are remeasured, except for the following types of right-of-use asset:

– right-of-use assets that meet the definition of investment property are carried at fair value in accordance with Note 2.16; and

– right-of-use assets related to leasehold land and buildings that do not meet the definition of investment property and where the Group is the registered owner of the leasehold interest are carried at revalued amount in accordance with Note 2.17.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or a rate used to determine those payments, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change of lease terms, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the income statement if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in "Properties, plant and equipment" and presents lease liabilities in "Other accounts and provisions".

2. Material accounting policies (continued)

2.18 Leases (continued)

(2) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying asset to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised on a straight-line basis over the lease term.

2.19 Insurance and investment contracts

(1) Classification of contracts

The Group issues insurance contracts which are contracts that transfer significant insurance risk and may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefit payable if the insured event did not occur and if there is a scenario that has commercial substance in which the issuer has a possibility of a loss on a present value basis.

The Group also issues certain insurance contracts that are substantially investment-related service contracts where the return on the underlying items is shared with policyholders. Underlying items comprise specified portfolios of investment assets that determine amounts payable to policyholders.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Due to the contractual discretion of the Group over the investment return to the policyholders, these investment contracts contain a discretionary participation feature ("DPF"). Investment contracts with DPF are accounted for using the same accounting policies as those applied for insurance contracts.

(2) Level of aggregation

Insurance contracts subject to similar risks and managed together are grouped as a portfolio of insurance contracts. Each portfolio is further divided into groups of contracts mainly based on profitability, extent of loss or possibility of becoming onerous contract subsequent to initial recognition. Insurance contracts issued more than one year apart should not be included in the same group. The unit of account for the recognition and measurement of insurance contracts is each individual group of contracts.

2. Material accounting policies (continued)

2.19 Insurance and investment contracts (continued)

(3) Initial recognition – Groups of contracts measured under the GMM and the VFA

Under the GMM and the VFA, the Group measures groups of insurance contracts based on certain FCFs and contractual service margin ("CSM") on initial recognition. FCFs include the estimates of present value of future cash flows and risk adjustment for non-financial risk.

– The estimates of present value of future cash flows represent explicit, unbiased and probability-weighted estimates (i.e. expected value) of the present value of the net future cash flows that will arise as the Group fulfils insurance contracts.

– Risk adjustment for non-financial risk is applied to the estimates of present value of future cash flows and reflects the compensation the Group requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the Group fulfils insurance contracts.

– CSM, which represents the unearned profits that the Group will recognise as it provides insurance contract services in the future, is a component of insurance contract liabilities and will be amortised and recognised as insurance revenue over the remaining coverage period based on coverage units as the services are provided.

On initial recognition, if the sum of cash flows related to the group of insurance contracts results in a net cash outflow, then the group of contracts is onerous. The amount of the net cash outflow is recognised in the income statement and a loss component of the liability for remaining coverage ("LRC") is established upon initial recognition.

(4) Subsequent measurement – Groups of contracts measured under the GMM and the VFA

At each of the subsequent reporting dates, the carrying amount of a group of insurance contracts issued is the sum of (i) the LRC, comprising the FCFs related to future service and the CSM of that group; and (ii) the liability for incurred claims ("LIC"), comprising the FCFs related to past service allocated to the group of insurance contracts.

Subsequent changes in the FCFs are accounted for differently under the GMM and the VFA. Changes in the amount of the Group's share of the fair value of the underlying items and changes in the effect of the time value of money and financial risks including the effect of options and guarantees embedded in the insurance contracts would adjust the CSM under the VFA, whereas such changes would recognise in the income statement under the GMM. In addition, changes in the obligation to pay the policyholder the amount equal to the fair value of the underlying items do not adjust the CSM but directly recognise in the income statement under the VFA.

2. Material accounting policies (continued)

2.19 Insurance and investment contracts (continued)

(4) Subsequent measurement – Groups of contracts measured under the GMM and the VFA (continued)

A group of contracts that has a CSM on initial recognition can become onerous in subsequent periods. The excess of the carrying amount of the CSM is the loss component of the LRC and is recognised in the income statement. Subsequent decreases in FCFs arising from changes in estimates of expected cash flows relating to future service and, for contracts with direct participation features, any subsequent increases in the amount of the entity's share of fair value of the underlying items are allocated solely to the loss component, until it is reduced to zero. After the loss component has reached zero, a CSM is created for the excess of the decrease over the amount allocated.

(5) Initial recognition and subsequent measurement – Groups of contracts measured under the PAA

On initial recognition, the Group measures the LRC at the amount of premiums received, less any acquisition cash flows paid and any amounts arising from the derecognition of the insurance acquisition cash flows asset and the derecognition of any other relevant pre-recognition cash flows. At each of the subsequent reporting dates, the LRC is: (i) increased for premiums received in the period; (ii) decreased for insurance acquisition cash flows paid in the period; (iii) decreased for the amounts of expected premium receipts recognised as insurance revenue for the services provided in the period; and (iv) increased for the amortisation of insurance acquisition cash flows in the period recognised as insurance service expenses.

If facts and circumstances indicate that a group of insurance contracts measured under the PAA is onerous on initial recognition or becomes onerous subsequently, the Group increases the carrying amount of the LRC to the amounts of the FCFs determined under the GMM with the amount of such an increase recognised in insurance service expenses, and a loss component is established for the amount of the loss recognised.

2.20 Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise balances with original maturity less than three months from the date of acquisition, including cash, balances with banks and other financial institutions, short-term bills and notes classified as investment securities and certificates of deposit.

2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2. Material accounting policies (continued)

2.22 Employee benefits

(1) Retirement benefit costs

The Group contributes to defined contribution retirement schemes under either recognised ORSO schemes or MPF schemes that are available to the Group's employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries for the ORSO schemes and in accordance with the MPF rules for MPF schemes. The retirement benefit scheme costs are charged to the income statement as incurred and represent contributions payable by the Group to the schemes. Contributions made by the Group that are forfeited by those employees who leave the ORSO scheme prior to the full vesting of their entitlement to the contributions are used by the Group to reduce the existing level of contributions or to meet its expenses under the trust deed of the ORSO schemes.

The assets of the schemes are held in independently-administered funds separate from those of the Group.

(2) Leave entitlements

Employee entitlements to annual leave and sick leave are recognised when they accrue to employees. A provision is made for the estimated liability for unused annual leave and the amount of sick leave expected to be paid as a result of services rendered by employees up to the end of the reporting period.

Compensated absences other than sick leave and special approved annual leave are non-accumulating; they lapse if the current period's entitlement is not used in full. Except for unexpired annual leave, they do not entitle employees to a cash payment for unused entitlement on leaving the Group.

(3) Bonus plans

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans that are expected to be settled longer than twelve months will be discounted if the amounts are significant.

2.23 Current and deferred income taxes

Tax expenses for the period comprise current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income. In this case, the tax is also recognised in other comprehensive income.

Income tax payable on profits, based on the applicable tax law enacted or substantially enacted at the end of the reporting period in each jurisdiction where the Company and its subsidiaries, associates and joint ventures operate and generate taxable income, is recognised as a current income tax expense in the period in which profits arise.

2. Material accounting policies (continued)

2.23 Current and deferred income taxes (continued)

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

The principal temporary differences arise from asset impairment provisions, depreciation of premises and equipment, and revaluation of certain assets including securities at FVOCI and premises. However, the deferred income tax is not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences.

Deferred tax liabilities are provided in full on all taxable temporary differences. Deferred tax assets are recognised on deductible temporary differences, the carry forward of any unused tax credits and unused tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised.

Deferred income tax is charged or credited in the income statement except for deferred income tax relating to fair value remeasurement of securities at FVOCI and revaluation of premises which are charged or credited to other comprehensive income, in which case the deferred income tax is also credited or charged to other comprehensive income and is subsequently recognised in the income statement together with the realisation of the deferred gain and loss.

Deferred tax liability or deferred tax asset arising from an investment property is determined based on the presumption that the revaluation amount of such investment property will be recovered through sale with the relevant tax rate applied.

2.24 Repossessed assets

Repossessed assets are initially recognised at the lower of their fair value less costs to sell and the amortised cost of the related outstanding loans on the date of repossession, and the related loans and advances together with the related impairment allowances are derecognised from the balance sheet. Subsequently, repossessed assets are measured at the lower of their cost and fair values less costs to sell and are reported as "non-current assets held for sale" included in "Other assets".

2. Material accounting policies (continued)

2.25 Fiduciary activities

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are excluded from these financial statements, as they are not assets of the Group.

2.26 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised as a provision but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When the inflow is virtually certain, it will be recognised as an asset.

2.27 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if that party (i) controls, jointly controls or has significant influence over the Group; (ii) is a member of the same financial reporting group, such as parents, subsidiaries and fellow subsidiaries; (iii) is an associate or a joint venture of the Group or parent reporting group; (iv) is a key management personnel of the Group or parents; (v) is subject to common control with the Group; (vi) is an entity in which a person identified in (iv) controls; and (vii) provides key management personnel services to the Group or its parent. Related parties may be individuals or entities.

3. Critical estimates and judgements in applying accounting policies

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

3.1 Impairment losses on advances to customers

The Group reviews its credit portfolios to assess impairment at least on a quarterly basis. Under HKFRS 9, the measurement of impairment losses across all categories of financial asset requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes of which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models. The choice of variable inputs and their interdependencies involves a series of assumptions. ECL models for stage 1 and stage 2 exposures are developed by leveraging on the parameters implemented under Note 4.1, where feasible and available. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit rating models, which assign Probability of Defaults to the individual ratings;
- The Group's significant credit deterioration criteria (including internal credit rating downgrade, days past due, drop in Mark-to-Market and qualitative assessment) for assessing whether the financial assets' impairment allowances should be measured on a lifetime ECL basis;
- The segmentation of financial assets according to credit risk characteristics (portfolios including Sovereign, Bank, Corporates, Retail Small Medium-sized Enterprise, Residential Mortgage Loan and Credit Card) when their ECLs are assessed on a collective basis;
- Development of ECL models, including the determination of macroeconomic factor forecasts (including Gross Domestic Product growth, Consumer Price Index, Property Price Index and Unemployment Rate) and the effect on Probability of Defaults, Loss Given Defaults and Exposure at Defaults; and
- Selection of forward-looking macroeconomic scenarios (including four independent scenarios i.e. good, baseline, bad and alternative) and their probability weightings.

3. Critical estimates and judgements in applying accounting policies (continued)

3.1 Impairment losses on advances to customers (continued)

In respect of credit-impaired exposures, expected credit losses are measured on an individual basis by estimating the future recoverable cash flows. Factors affecting this estimate include, among other things, the granularity of financial information related to specific borrowers and their guarantors, the availability of meaningful information of competitors and the relevance of sector trends to the future performance of specific borrowers and cash flows from the sale of collateral.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Carrying amounts of advances to customers as at 31 December 2023 are shown in Note 25.

3.2 Fair values of financial instruments

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

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date. Further details will be discussed in Note 5.

3.3 Insurance contract liabilities

(a) Estimate of future benefit payments and premiums arising from long term insurance contracts

Assumptions including mortality and morbidity rates, lapse rates and expenses are used when estimating future cash flows. The present value of future cash flows is estimated using deterministic scenarios, except where stochastic modelling is used to measure options and guarantees embedded in the insurance contracts. The assumptions used in the deterministic scenarios are derived to approximate the probability-weighted mean of a full range of scenarios.

3. Critical estimates and judgements in applying accounting policies (continued)

3.3 Insurance contract liabilities (continued)

(b) Determining coverage units

The Group uses the amount that indicates the sum which policyholders are able to validly claim, such as the contractual cover in each period or number of policies with consideration of policy size subject to certain scenarios as the basis for the quantity of benefits for all insurance coverages, investment-return and investment-related services.

The total number of coverage units in a group is the quantity of service provided by the contracts in the group over the expected coverage period. The coverage units are determined at the end of each reporting period prospectively by considering the following items:

- the quantity of benefits provided by contracts in the group;
- the expected coverage period of contracts in the group; and
- the likelihood of insured events occurring, only to the extent that they affect the expected coverage period of contracts in the group.

In performing the above determination, management applied judgement that might impact the CSM carrying values and amounts of the CSM allocation recognised in the income statement for the period.

(c) Discount rates

Life insurance contract liabilities are calculated by discounting expected future cash flows at a risk-free rate, plus an illiquidity premium where applicable. Risk free rates are determined by reference to relevant market yield information. The illiquidity premium is based on market observable liquidity premiums in financial assets, adjusted to reflect the illiquidity characteristics of the liability cash flows.

The yield curves used to discount expected future cash flows denominated in USD range from 3.79% to 5.62% as at 31 December 2023 (2022: 3.81% to 5.87%), 2.07% to 4.03% as at 31 December 2023 (2022: 2.09% to 4.11%) for expected future cash flows denominated in RMB, and 3.27% to 5.20% as at 31 December 2023 (2022: 3.78% to 6.11%) for expected future cash flows denominated in HKD.

(d) Risk adjustment for non-financial risk

The risk adjustment for non-financial risk represents the compensation that the Group requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts and covers insurance risk, lapse risk and expense risk. The Group has estimated the risk adjustment using confidence level technique.

The risk adjustment for life insurance and reinsurance contracts corresponds to 75% confidence level (2022: 75%).

3. Critical estimates and judgements in applying accounting policies (continued)

3.4 Deferred tax assets

Deferred tax assets on unused tax losses and unused tax credits are recognised and the determination of the amount to be recognised requires significant management judgement. Deferred tax asset on unused tax losses are recognised to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits. For deferred tax assets on unused tax credits, judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the estimation of available tax credits and the possibility to recover such deferred tax assets recognised.

3.5 Determination of lease terms of leases

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to renew the leases for additional terms of three to nine years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option on the lease commencement date. During the evaluation, the Group considers all relevant factors that create an economic incentive for it to exercise the renewal option. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

Carrying amounts of right-of-use assets as at 31 December 2023 are shown in Note 29.

4. Financial risk management

The Group is exposed to financial risks as a result of engaging in a variety of business activities. The principal financial risks are credit risk, market risk (including currency risk and interest rate risk) and liquidity risk. This note summarises the Group's exposures to these risks, as well as its objectives, risk management governance structure, policies and processes for managing and the methods used to measure these risks.

Financial risk management framework

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

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

The RMC, a standing committee established by the Board of Directors, is responsible for overseeing the Group's comprehensive risk and various types of risks, approving Level I risk management policies and monitoring their implementation, and approving significant or high risk exposures or transactions. The Audit Committee assists the Board in fulfilling its role in overseeing the internal control system.

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

4. Financial risk management (continued)

Financial risk management framework (continued)

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

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

The Group has put in place appropriate internal control systems, including the establishment of an organisation structure that sets clear lines of authority and responsibility for monitoring compliance with policies, procedures and limits. Proper reporting lines also provide sufficient independence of the control functions from the business areas, as well as adequate segregation of duties throughout the organisation which helps to promote an appropriate internal control environment.

Product development and risk monitoring

To ensure the effectiveness of risk assessment and monitoring, the Group has a comprehensive product development and risk monitoring system where roles and responsibilities of all related units are clearly defined and proper due diligence processes on product development are in place.

In accordance with the strategic objectives set by the Board and the Management, respective product management units are responsible for formulating business and product development plans, and proceeding to specific product development activities. The department of strategic development shall ensure the plans are aligned with the Group's overall strategies. Departments that are responsible for risk management, legal, compliance and finance, etc. are accountable for review of the risk assessment results.

Apart from product development, respective product management units shall work closely with relevant risk evaluating departments to identify and assess the risks of new products. Risk evaluating departments shall conduct independent review on the risk assessment results and the corresponding risk management measures. Products can only be launched upon completion of the product due diligence process to the satisfaction of all risk evaluating departments.

A prudent approach is adopted in offering treasury products to our clients. All new treasury products require approval from a dedicated committee before launching.

4. Financial risk management (continued)

4.1 Credit risk

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.

Credit risk management framework

The Group has formulated a comprehensive set of credit risk management policies and procedures, and appropriate credit risk limits to manage and control credit risk that may arise. These policies, procedures and credit risk limits are regularly reviewed and updated to cope with changes in market conditions and business strategies.

The Group's organisation structure establishes a clear set of authority and responsibility for monitoring compliance with policies, procedures and limits.

The Chief Credit Officer, who reports directly to the CRO, takes charge of credit risk management and is also responsible for the control of credit risk exposures of subsidiaries in line with the credit risk management principles and requirements set by the Group. Various units of the Group have their respective credit risk management responsibilities. Business units act as the first line of defence in risk management. The Risk Management Department ("RMD"), which is independent from the business units, is responsible for the day-to-day management of credit risks and provides an independent due diligence through identifying, measuring, monitoring and controlling credit risk to ensure an effective checks and balances, as well as drafting, reviewing and updating credit risk management policies and procedures. It is also responsible for the design, development and maintenance of the Group's internal rating system and ensures the system complies with the relevant regulatory requirements. Back offices are responsible for credit administration, providing operations support and supervision on the implementation of prerequisite terms and conditions of credit facilities.

In accordance with the Group's operating principle, the Group's principal subsidiaries have to formulate their own credit risk policies that are consistent with those of the Group's core principle. These subsidiaries are required to submit their risk management reports to the Group's Management on a regular basis.

The Board of Directors delegates credit approval authority to the CE. The CE can further delegate to the subordinates within his limit authorised by the Board of Directors. The Group sets the limits of credit approval authority according to the credit business nature, rating, the level of transaction risk, and the extent of the credit exposure.

4. Financial risk management (continued)

4.1 Credit risk (continued)

Credit risk measurement and control

In view of the rapidly changing market conditions, the Group has been continuously revisiting its credit strategies and conducting rigorous reviews on the concerned portfolios.

Advances

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

The Group also uses loan grades, obligor ratings and loss estimates (if applicable) to support credit monitoring, reporting and analysis of credit risk information. For non-retail exposures, more frequent rating review and closer monitoring are required for higher-risk customers. For retail exposures, monthly updated internal ratings and loss estimates are used for credit monitoring on a portfolio basis. More comprehensive review is required for obligors being identified under high-risk pools.

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

The RMD provides regular credit management information reports and ad hoc reports to the Management Committee ("MC"), the RMC and Board of Directors to facilitate their continuous monitoring of credit risk.

In addition, the Group identifies credit concentration risk by industry, geography, customer or counterparty. The Group monitors changes to every counterparties credit risk, quality of the credit portfolio and credit risk concentrations, and reports regularly to the Group's Management.

4. Financial risk management (continued)

4.1 Credit risk (continued)

Credit risk measurement and control (continued)

Advances (continued)

The Group adopts loan grading criteria which divide credit assets into five categories with reference to the HKMA's guidelines, as below:

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

"Special Mention" represents loans where the borrower is experiencing difficulties which may threaten the Group's recoverability of the loan principal and interest. Ultimate loss is not expected at this stage but could occur if adverse conditions persist.

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

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

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

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery may include (i) ceasing enforcement activities and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The Group may write off financial assets that are still subject to enforcement activity.

Debt securities and derivatives

For investments in debt securities, the obligor ratings or external credit ratings and credit limits setting on customer/security issuer basis are used for managing credit risk associated with the investment. For derivatives, the Group sets customer limits to manage the credit risk involved and follows the same approval and control processes as applied for advances. On-going monitoring and stop-loss procedures are established.

Settlement risk arises mainly from foreign exchange transactions with counterparties and also from derivative transactions in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty or customer to cover all settlement risks arising from the Group's market transactions on any single day.

4. Financial risk management (continued)

4.1 Credit risk (continued)

Credit risk measurement and control (continued)

Financial instruments are considered to be in default when one or more events that have a detrimental impact on the estimated future cash flows occurred such as past due for more than 90 days or the borrower is unlikely to pay in full for the credit obligations to the Group.

Credit-impaired financial instruments are classified as Stage 3 and lifetime expected credit losses will be recognised. Evidence that a financial instrument is credit-impaired include observable data about the following events:

– Significant financial difficulty incurred by the borrower;

– A breach of contract, such as a default or delinquency in principal or interest payment;

– For economic or contractual reasons related to the borrower's financial difficulty, the Group has granted to the borrower a concession that it would not otherwise consider;

– Probable that the borrower will become bankrupt or undergo other financial reorganisation;

– The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses; or

– Other observable data indicating that there is a measurable decrease in the estimated future cash flows from such financial instruments.

Expected Credit Loss ("ECL") Methodology

For impairment assessment, an impairment model is introduced in compliance with HKFRS 9, it requires the recognition of ECL for financial instrument held at amortised cost and fair value through other comprehensive income. Under HKFRS 9, ECL is assessed in three stages and the financial assets, loan commitments and financial guarantees are classified in one of the three stages.

Stage 1: if the financial instruments are not credit-impaired during origination and their credit risk has not increased significantly since origination, and the impairment allowance is measured at an amount up to 12-month ECL;

Stage 2: if the financial instruments are not credit-impaired during origination but their credit risk has increased significantly since origination, and the impairment allowance is measured at an amount equal to the lifetime ECL;

Stage 3: if the financial instruments are credit-impaired and their future cash flows of that financial instruments are adversely affected by one or more events, and the impairment allowance is also measured at an amount equal to the lifetime ECL.

4. Financial risk management (continued)

4.1 Credit risk (continued)

Expected Credit Loss ("ECL") Methodology (continued)

The Group has established the significant credit deterioration criteria framework to determine the stage of the financial instrument. The framework incorporates both quantitative and qualitative assessment, taking into account of factors such as number of days past due, change in IRB rating, low credit risk threshold and the watchlist.

The customer credit ratings in the internal model are classified into 27 grades. The lowest (27th) credit grading equates to defaulted customers while the others are assigned to non-defaulted customers. The quantitative and qualitative criteria considered in determining significant credit deterioration include:

Quantitative criteria

– Failure to make payments of principal or interest 30 days after the contractual due dates;

– At the reporting date, the credit risk is deemed to increase significantly when the remaining lifetime PD rises by more than a certain range from initial recognition, and reflected as a drop in customer's credit rating by corresponding level according to the different PD at initial recognition. In majority cases, there is a significant increase in credit risk when the customer's credit rating drops by 5 grades.

Qualitative criteria

– Significant adverse change in debtor's operations or financial status;

– Customers with sign of credit deterioration are put into watchlist for staging review.

The Group leverages the parameters implemented under Basel II IRB models and internal models where feasible and available to assess ECL. For the portfolios without models, all other reasonable and supportable information such as historical information, relevant loss experience or proxies are utilised. The measurement of ECL is the product of the financial instrument's probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") discounted at the effective interest rate to the reporting date.

4. Financial risk management (continued)

4.1 Credit risk (continued)

Expected Credit Loss ("ECL") Methodology (continued)

ECL is measured at an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The Group adopts four economic scenarios in the ECL measurement, including "Good", "Baseline", "Bad" and "Alternative" scenarios, to meet the requirements of HKFRS 9. The "Baseline" scenario represents a most likely outcome. "Good" and "Bad" scenarios represent the estimated deviations of the "Baseline" scenario, which are either more optimistic or more pessimistic as compared with "Baseline" scenario. The "Alternative" scenario represents a more pessimistic scenario than the "Bad" scenario, to reflect the Management's view on severe downside risks of the idiosyncratic events that may have severe impact on the performance and asset quality of the credit portfolio, when the Management considers the risk cannot be fully reflected in the three scenarios (i.e. "Good", "Baseline" and "Bad" scenarios) derived from forecasts and historical data.

The "Baseline" and "Alternative" scenarios are prepared by the Group's Economics & Strategic Planning Department. Historical data, economic trend, external economic forecast from governmental and non-governmental organisation, etc. are also used as reference benchmarks to ensure the "Baseline" scenario is reasonable and supportable. For the "Good" and "Bad" scenarios, the Group makes reference to the historical macroeconomics data for estimating the deviations. The "Alternative" scenario reflects the Management's review of the tail of the economic distribution, incorporating a number of risk events, including further escalation of geopolitical tensions coupled with other uncertainties, worsening of global supply chains, rising global inflation rate, the monetary tightening policy of Central Banks and interest rate hikes which eventually pose a significant pressure on economy.

The core macroeconomic factors in the major countries/regions where the Group operates such as GDP growth, and other key macroeconomic factors such as Consumer Price Index, Property Price Index and Unemployment Rate are applied in the economic scenarios. These macroeconomic factors are considered to be important to the Group's ECL in statistical analysis and business opinion.

The probability weight assigned for each scenario reflects the Group's view for the economic environment, following the Group's prudent and consistent credit strategy of ensuring the adequacy of impairment allowance. A higher probability weight is assigned to the "Baseline" scenario to reflect the most likely outcome and a lower probability weight is assigned to the "Good", "Bad" and "Alternative" scenarios to reflect the less likely outcomes. As of December 2023, the probability weight of the Group's "Baseline" scenario is higher than the sum of probability weight of "Good", "Bad" and "Alternative" scenarios.

4. Financial risk management (continued)

4.1 Credit risk (continued)

Expected Credit Loss ("ECL") Methodology (continued)

The core macroeconomic factor used by the Group to assess ECL:

Macroeconomic Factor	Good Scenario	Baseline Scenario	Bad Scenario	Alternative Scenario
2024 Hong Kong GDP Growth	6.50%	3.00%	-0.50%	-5.50%

The calculation of ECL is affected by macroeconomic factors and economic scenarios. In principle, an increase in ECL would be resulted if more pessimistic macroeconomic factors are applied in ECL assessment or a higher probability weight is assigned to the "Bad" scenario. The Group reviews the macroeconomic factors used in the ECL model and the probability weight of economic scenarios on a quarterly basis according to the established mechanism.

RMC is responsible for approving ECL methodology and the Management is responsible for the ECL model implementation. Credit Risk Management is responsible for the maintenance of ECL methodology including models review and parameters update on a regular basis. Independent Model Validation Team is responsible for the annual validation of ECL models. If there is any change in ECL methodology, the Group will follow the proper approval process.

As at 31 December 2023, the ECL will be increased by 1.21% (2022: 1.67%) if 5% of the probability weight is shifted from "Baseline" scenario to "Bad" scenario; and will be decreased by 0.59% (2022: 0.83%) if 5% of the probability weight is shifted from "Baseline" scenario to "Good" scenario.

Collateral held as security and other credit enhancements

The valuation and management of collateral have been documented in the credit risk management policies and procedures which cover acceptance criteria, validity of collateral, loan-to-value ratio, haircut ratio, valuation and insurance, etc. The collateral is revalued on a regular basis, though the frequency and the method used varies with the type of collateral involved and the nature and the risk of the underlying credit. The Group has established a mechanism to update the value of its main type of collateral, property collateral including the use of public indices on a portfolio basis. Collateral is insured with the Group as the primary beneficiary. In the personal sector, the main types of collateral are real estate, cash deposits and securities. In the commercial and industrial sector, the types of collateral include real estate, securities, cash deposits, vessels, aircraft, etc.

For loans guaranteed by a third party, the Group will assess the guarantor's financial condition, credit history and ability to meet obligations.

As at 31 December 2023, the fair value of collateral held by the Group that was permitted to sell or re-pledge in the absence of default by the borrower amounted to HK$27,532 million (2022: HK$23,999 million). The fair value of the collateral that the Group had sold or re-pledged, has an obligation to return, amounted to HK$703 million (2022: Nil). These transactions are conducted under terms that are usual and customary to reverse repurchase and securities borrowing agreements.

4. Financial risk management (continued)

4.1 Credit risk (continued)

(A) Credit exposures

The maximum credit exposure is the worst case scenario of exposure to the Group without taking into account any collateral held or other credit enhancements. For on-balance sheet assets, the maximum exposure to credit risk equals their carrying amount. For letters of guarantee issued, the maximum exposure to credit risk is the maximum amount that the Group could be required to pay if the guarantees are called upon. For loan commitment and other credit related liabilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The nature of the collateral held and other credit enhancements and their financial effect to the different classes of the Group's financial assets are as follows.

Balances and placements with banks and other financial institutions

These exposures are generally considered to be low risk due to the nature of the counterparties. Collateral is generally not sought on these assets.

Financial assets at fair value through profit or loss and investment in securities

Collateral is generally not sought on debt securities.

Derivative financial instruments

The Master Agreement published by the International Swaps and Derivatives Association, Inc. ("ISDA Master Agreement") is the preferred agreement for documenting derivative activities of the Group. It provides the contractual framework under which dealing activities of over-the-counter ("OTC") transactions are conducted, and sets out close-out netting provisions upon termination following the occurrence of an event of default or a termination event. In addition, if deemed necessary, Credit Support Annexes will be included to form part of the Schedule to the ISDA Master Agreement. Under the Credit Support Annexes, collateral is passed from one counterparty to another, as appropriate, to mitigate the credit exposures.

Advances and other accounts, loan commitments and financial guarantee contracts

The general types of collateral are disclosed on page 179. Advances and other accounts, loan commitments and financial guarantee contracts are collateralised to the extent considered appropriate by the Group taking account of the risk assessment of individual exposures. The collateral coverage of advances to customers is analysed on pages 189 to 190. The components and nature of loan commitments and financial guarantee contracts are disclosed in Note 42. Regarding the commitments that are unconditionally cancellable without prior notice, the Group would assess the necessity to withdraw the credit line in case where the credit quality of a borrower deteriorates. For loan commitments and financial guarantee contracts, 11.58% (2022: 12.23%) were covered by collateral as at 31 December 2023.

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts

Gross advances and other accounts before impairment allowances are summarised by product type as follows:

	2023 HK$'m	2022 HK$'m
Advances to customers		
Personal		
– Mortgages	**435,515**	405,467
– Credit cards	**12,683**	11,977
– Others	**152,615**	133,842
Corporate		
– Commercial loans	**1,053,798**	1,045,104
– Trade finance	**47,691**	51,879
	1,702,302	1,648,269
Trade bills	**3,751**	6,329
Advances to banks and other financial institutions	**1,815**	1,015
	1,707,868	1,655,613

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

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

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

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

	2023			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Advances to customers				
Pass	1,659,557	16,721	–	1,676,278
Special mention	3,039	4,325	–	7,364
Substandard or below	–	–	17,797	17,797
	1,662,596	21,046	17,797	1,701,439
Trade bills				
Pass	3,751	–	–	3,751
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	3,751	–	–	3,751
Advances to banks and other financial institutions				
Pass	1,815	–	–	1,815
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	1,815	–	–	1,815
	1,668,162	21,046	17,797	1,707,005

	2023			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Impairment allowances				
Advances and other accounts at amortised cost	(4,113)	(1,056)	(9,555)	(14,724)
Advances and other accounts at fair value through other comprehensive income	(29)	–	–	(29)

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

	2022			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Advances to customers				
Pass	1,594,869	31,210	–	1,626,079
Special mention	3,680	8,954	–	12,634
Substandard or below	–	–	8,724	8,724
	1,598,549	40,164	8,724	1,647,437
Trade bills				
Pass	6,329	–	–	6,329
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	6,329	–	–	6,329
Advances to banks and other financial institutions				
Pass	1,015	–	–	1,015
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	1,015	–	–	1,015
	1,605,893	40,164	8,724	1,654,781

	2022			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Impairment allowances				
Advances and other accounts at amortised cost	(3,997)	(2,511)	(4,992)	(11,500)
Advances and other accounts at fair value through other comprehensive income	(77)	–	–	(77)

As at 31 December 2023 and 2022, advances and other accounts by internal credit grade and stage classification did not include advances and other accounts mandatorily classified at fair value through profit or loss.

As at 31 December 2023, impairment allowance of advances and other accounts at fair value through other comprehensive income amounted to HK$29 million (2022: HK$77 million) and was credited to other comprehensive income.

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

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

	2023			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Impairment allowances				
At 1 January 2023	3,997	2,511	4,992	11,500
Transfer to Stage 1	174	(163)	(11)	–
Transfer to Stage 2	(153)	155	(2)	–
Transfer to Stage 3	(4)	(3,936)	3,940	–
Changes arising from transfer of stage	(156)	1,061	1,979	2,884
Charge for the year(i)	2,318	2,311	2,556	7,185
Reversal for the year(ii)	(2,061)	(897)	(644)	(3,602)
Write-offs	–	–	(3,088)	(3,088)
Recoveries	–	–	133	133
Exchange difference and others	(2)	14	(300)	(288)
At 31 December 2023	4,113	1,056	9,555	14,724
Charged to income statement (Note 13)				6,467

	2023			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Gross amount				
At 1 January 2023	1,605,893	40,164	8,724	1,654,781
Transfer to Stage 1	10,840	(10,827)	(13)	–
Transfer to Stage 2	(8,680)	8,689	(9)	–
Transfer to Stage 3	(362)	(12,026)	12,388	–
Net change in exposures	59,522	(4,935)	(185)	54,402
Write-offs	–	–	(3,088)	(3,088)
Exchange difference and others	949	(19)	(20)	910
At 31 December 2023	1,668,162	21,046	17,797	1,707,005

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

	2022			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Impairment allowances				
At 1 January 2022	4,843	2,406	2,632	9,881
Transfer to Stage 1	268	(266)	(2)	–
Transfer to Stage 2	(179)	185	(6)	–
Transfer to Stage 3	(1)	(1,092)	1,093	–
Changes arising from transfer of stage	(249)	783	1,271	1,805
Charge for the year(i)	2,579	331	1,330	4,240
Reversal for the year(ii)	(2,113)	(600)	(580)	(3,293)
Changes in models	(1,110)	826	–	(284)
Write-offs	–	–	(677)	(677)
Recoveries	–	–	117	117
Exchange difference and others	(41)	(62)	(186)	(289)
At 31 December 2022	3,997	2,511	4,992	11,500
Charged to income statement (Note 13)				2,468

	2022			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Gross amount				
At 1 January 2022	1,567,831	33,457	4,321	1,605,609
Transfer to Stage 1	4,090	(4,076)	(14)	–
Transfer to Stage 2	(20,310)	20,351	(41)	–
Transfer to Stage 3	(1,155)	(3,799)	4,954	–
Net change in exposures	60,179	(5,524)	242	54,897
Write-offs	–	–	(677)	(677)
Exchange difference and others	(4,742)	(245)	(61)	(5,048)
At 31 December 2022	1,605,893	40,164	8,724	1,654,781

(i) Charge for the year comprises the impairment losses attributable to new loans, remaining loans without stage transfers, and changes to risk parameters, etc.

(ii) Reversal for the year comprises reversal of impairment losses attributable to loan repaid, remaining loans without stage transfers, and changes to risk parameters, etc.

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

(a) Impaired advances

Impaired advances to customers are analysed as follows:

	2023		2022	
	Impaired HK$'m	**Classified or impaired HK$'m**	Impaired HK$'m	Classified or impaired HK$'m
Gross advances to customers	**17,797**	**17,797**	8,724	8,724
Percentage of gross advances to customers	**1.05%**	**1.05%**	0.53%	0.53%
Impairment allowances made in respect of such advances	**9,555**	**9,555**	4,992	4,992

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.

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

	2023 HK$'m	2022 HK$'m
Current market value of collateral held against the covered portion of impaired advances to customers	**9,331**	4,440
Covered portion of impaired advances to customers	**6,204**	2,387
Uncovered portion of impaired advances to customers	**11,593**	6,337

As at 31 December 2023, there were no impaired trade bills and advances to banks and other financial institutions (2022: Nil).

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

(b) Advances overdue for more than three months

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

	2023		2022	
	Amount HK$'m	**% of gross advances to customers**	Amount HK$'m	% of gross advances to customers
Gross advances to customers which have been overdue for:				
– six months or less but over three months	**4,000**	**0.24%**	2,858	0.17%
– one year or less but over six months	**4,101**	**0.24%**	601	0.04%
– over one year	**2,447**	**0.14%**	1,860	0.11%
Advances overdue for over three months	**10,548**	**0.62%**	5,319	0.32%
Impairment allowances made in respect of such advances – Stage 3	**5,342**		3,110	

	2023 HK$'m	2022 HK$'m
Current market value of collateral held against the covered portion of such advances to customers	**5,891**	2,739
Covered portion of such advances to customers	**4,518**	1,643
Uncovered portion of such advances to customers	**6,030**	3,676

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

As at 31 December 2023, there were no trade bills and advances to banks and other financial institutions overdue for more than three months (2022: Nil).

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

(c) Rescheduled advances

	2023		2022	
	Amount HK$'m	**% of gross advances to customers**	Amount HK$'m	% of gross advances to customers
Rescheduled advances to customers net of amounts included in "Advances overdue for more than three months"	**1,722**	**0.10%**	509	0.03%

Rescheduled advances are those advances that have been restructured and renegotiated between the bank and borrowers because of deterioration in the financial position of the borrower or the inability of the borrower to meet the original repayment schedule, and the revised repayment terms, either of interest or the repayment period, are "non-commercial" to the Group. Rescheduled advances, which have been overdue for more than three months under the revised repayment terms, are included in "Advances overdue for more than three months".

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

(d) Concentration of advances to customers

(i) Sectoral analysis of gross advances to customers

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

	2023					
	Gross advances to customers HK$'m	% covered by collateral or other security	Classified or impaired HK$'m	Overdue HK$'m	Impairment allowances – Stage 3 HK$'m	Impairment allowances – Stages 1 and 2 HK$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	188,115	24.32%	357	357	258	724
– Property investment	95,384	61.42%	1,716	934	544	289
– Financial concerns	16,506	1.04%	–	–	–	34
– Stockbrokers	1,196	97.48%	–	–	–	–
– Wholesale and retail trade	33,992	34.98%	138	140	51	111
– Manufacturing	58,991	6.85%	46	73	33	173
– Transport and transport equipment	51,971	18.17%	100	13	80	95
– Recreational activities	63	21.14%	–	–	–	–
– Information technology	38,989	0.26%	20	21	20	50
– Others	198,397	42.89%	3,712	4,844	712	513
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	45,079	99.70%	45	461	–	27
– Loans for purchase of other residential properties	388,178	99.21%	227	1,935	7	442
– Credit card advances	12,668	–	97	476	63	182
– Others	123,634	95.26%	119	683	45	212
Total loans for use in Hong Kong	1,253,163	60.97%	6,577	9,937	1,813	2,852
Trade financing	47,691	18.77%	466	315	299	88
Loans for use outside Hong Kong	401,448	4.37%	10,754	10,819	7,443	2,226
Gross advances to customers	1,702,302	46.44%	17,797	21,071	9,555	5,166

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

	2022					
	Gross advances to customers HK$'m	% covered by collateral or other security	Classified or impaired HK$'m	Overdue HK$'m	Impairment allowances – Stage 3 HK$'m	Impairment allowances – Stages 1 and 2 HK$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	171,614	26.29%	948	967	495	818
– Property investment	91,525	58.03%	827	862	–	484
– Financial concerns	25,197	2.04%	–	–	–	26
– Stockbrokers	1,110	68.14%	–	–	–	–
– Wholesale and retail trade	31,704	40.34%	109	207	36	97
– Manufacturing	48,891	6.64%	41	43	23	140
– Transport and transport equipment	62,411	17.74%	164	71	85	268
– Recreational activities	154	96.92%	–	–	–	–
– Information technology	34,274	0.29%	34	35	21	68
– Others	174,326	43.00%	99	1,118	63	560
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	35,879	99.61%	32	452	–	19
– Loans for purchase of other residential properties	367,502	99.82%	176	1,975	1	252
– Credit card advances	11,962	–	91	480	54	181
– Others	115,917	95.36%	133	933	60	223
Total loans for use in Hong Kong	1,172,466	60.98%	2,654	7,143	838	3,136
Trade financing	51,879	18.38%	238	234	164	113
Loans for use outside Hong Kong	423,924	4.85%	5,832	4,699	3,990	3,257
Gross advances to customers	1,648,269	45.20%	8,724	12,076	4,992	6,506

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

For those industry sectors constituting not less than 10% of the Group's gross advances to customers, the amounts of new impairment allowances charged to the income statement, and classified or impaired loans written off during the year are shown below:

	2023		2022	
	New impairment allowances HK\$'m	**Classified or impaired loans written off HK\$'m**	New impairment allowances HK\$'m	Classified or impaired loans written off HK\$'m
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	**713**	**953**	928	–
– Others	**969**	**7**	398	5
Individuals				
– Loans for purchase of other residential properties	**233**	**–**	160	–

(ii) Geographical analysis of gross advances to customers

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

Gross advances to customers

	2023 HK\$'m	2022 HK\$'m
Hong Kong	**1,454,475**	1,399,434
Chinese Mainland	**85,131**	86,546
Others	**162,696**	162,289
	1,702,302	1,648,269
Impairment allowances made in respect of the gross advances to customers – Stages 1 and 2		
Hong Kong	**3,405**	3,954
Chinese Mainland	**271**	357
Others	**1,490**	2,195
	5,166	6,506

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

Overdue advances

	2023 HK$'m	2022 HK$'m
Hong Kong	**16,001**	9,359
Chinese Mainland	**303**	353
Others	**4,767**	2,364
	21,071	12,076
Impairment allowances made in respect of the overdue advances		
– Stage 3		
Hong Kong	**5,988**	2,457
Chinese Mainland	**51**	42
Others	**2,513**	1,555
	8,552	4,054

Classified or impaired advances

	2023 HK$'m	2022 HK$'m
Hong Kong	**13,016**	5,198
Chinese Mainland	**295**	171
Others	**4,486**	3,355
	17,797	8,724
Impairment allowances made in respect of the classified or impaired advances		
– Stage 3		
Hong Kong	**6,367**	2,694
Chinese Mainland	**165**	48
Others	**3,023**	2,250
	9,555	4,992

4. Financial risk management (continued)

4.1 Credit risk (continued)

(C) Repossessed assets

During the year, the Group obtained assets by taking possession of collateral held as security. The nature and carrying value of these assets held as at 31 December are summarised as follows:

	2023 HK$'m	2022 HK$'m
Car park	**7**	10
Commercial properties	**16**	160
Industrial properties	**15**	17
Residential properties	**124**	147
	162	334

The estimated market value of repossessed assets held by the Group as at 31 December 2023 amounted to HK$282 million (2022: HK$546 million). The repossessed assets comprise properties in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the proprietors concerned) for release in full or in part of the obligations of the borrowers.

When the repossessed assets are not readily convertible into cash, the Group may consider the following alternatives:

– adjusting the selling prices

– selling the loans together with the assets

– arranging loan restructuring

4. Financial risk management (continued)

4.1 Credit risk (continued)

(D) Balances and placements with banks and other financial institutions

Balances and placements with banks and other financial institutions before impairment allowances are analysed by internal credit grade and stage classification as follows:

	2023			
	Stage 1 HK$'m	**Stage 2 HK$'m**	**Stage 3 HK$'m**	**Total HK$'m**
Central banks				
Pass	**159,777**	**–**	**–**	**159,777**
Special mention	**–**	**–**	**–**	**–**
Substandard or below	**–**	**–**	**–**	**–**
	159,777	**–**	**–**	**159,777**
Other banks and other financial institutions				
Pass	**227,585**	**–**	**–**	**227,585**
Special mention	**–**	**–**	**–**	**–**
Substandard or below	**–**	**–**	**33**	**33**
	227,585	**–**	**33**	**227,618**
	387,362	**–**	**33**	**387,395**
Impairment allowances	**(48)**	**–**	**(33)**	**(81)**
	387,314	**–**	**–**	**387,314**

	2022			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Central banks				
Pass	198,387	–	–	198,387
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	198,387	–	–	198,387
Other banks and other financial institutions				
Pass	319,097	–	–	319,097
Special mention	–	–	–	–
Substandard or below	–	–	34	34
	319,097	–	34	319,131
	517,484	–	34	517,518
Impairment allowances	(43)	–	(16)	(59)
	517,441	–	18	517,459

4. Financial risk management (continued)

4.1 Credit risk (continued)

(D) Balances and placements with banks and other financial institutions (continued)

Reconciliation of impairment allowances for balances and placements with banks and other financial institutions is as follows:

	2023			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
At 1 January 2023	**43**	**–**	**16**	**59**
Changes arising from transfer of stage	**–**	**–**	**–**	**–**
Net charge for the year	**5**	**–**	**17**	**22**
Changes in models	**–**	**–**	**–**	**–**
At 31 December 2023	**48**	**–**	**33**	**81**
Charged to income statement (Note 13)				**22**

	2022			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
At 1 January 2022	23	–	–	23
Changes arising from transfer of stage	–	–	–	–
Net (reversal)/charge for the year	(2)	–	15	13
Changes in models	22	–	1	23
At 31 December 2022	43	–	16	59
Charged to income statement (Note 13)				36

As at 31 December 2023, gross overdue or impaired balances and placements with banks and other financial institutions amounted to HK$33 million (2022: HK$34 million). The aforesaid balances and placements have been overdue for more than one year as at 31 December 2023 (2022: overdue for less than 3 months).

4. Financial risk management (continued)

4.1 Credit risk (continued)

(E) Debt securities and certificates of deposit

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

	2023 HK$'m	2022 HK$'m
Investment in securities at fair value through other comprehensive income		
– Stage 1		
Aaa	**129,180**	82,235
Aa1 to Aa3	**318,116**	221,612
A1 to A3	**260,343**	328,065
Lower than A3	**26,404**	26,386
Unrated	**31,139**	35,504
	765,182	693,802
– Stage 2		
Lower than A3	**474**	498
– Stage 3	**–**	–
	765,656	694,300
Of which: impairment allowances	**(198)**	(187)
Investment in securities at amortised cost		
– Stage 1		
Aaa	**114,597**	148,951
Aa1 to Aa3	**25,055**	24,487
A1 to A3	**58,358**	55,499
Lower than A3	**8,456**	8,820
Unrated	**1,659**	1,501
	208,125	239,258
– Stage 2	**–**	–
– Stage 3	**–**	–
	208,125	239,258
Impairment allowances	**(47)**	(62)
	208,078	239,196
Financial assets at fair value through profit or loss		
Aaa	**3,148**	1,761
Aa1 to Aa3	**44,165**	21,031
A1 to A3	**71,040**	59,299
Lower than A3	**12,562**	12,950
Unrated	**4,185**	2,191
	135,100	97,232

4. Financial risk management (continued)

4.1 Credit risk (continued)

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

Reconciliation of impairment allowances for debt securities and certificates of deposit is as follows:

	2023			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Investment in securities at fair value through other comprehensive income				
At 1 January 2023	183	4	–	187
Changes arising from transfer of stage	–	–	–	–
Net charge/(reversal) for the year	14	(1)	–	13
Changes in models	–	–	–	–
Exchange difference and others	(2)	–	–	(2)
At 31 December 2023	195	3	–	198
Charged to income statement (Note 13)				13
Investment in securities at amortised cost				
At 1 January 2023	62	–	–	62
Changes arising from transfer of stage	–	–	–	–
Net reversal for the year	(15)	–	–	(15)
Changes in models	–	–	–	–
Exchange difference and others	–	–	–	–
At 31 December 2023	47	–	–	47
Credited to income statement (Note 13)				(15)

4. Financial risk management (continued)

4.1 Credit risk (continued)

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

	2022			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Investment in securities at fair value through other comprehensive income				
At 1 January 2022	313	4	–	317
Changes arising from transfer of stage	–	–	–	–
Net reversal for the year	(78)	–	–	(78)
Changes in models	(42)	–	–	(42)
Exchange difference and others	(10)	–	–	(10)
At 31 December 2022	183	4	–	187
Credited to income statement (Note 13)				(120)
Investment in securities at amortised cost				
At 1 January 2022	37	–	–	37
Changes arising from transfer of stage	–	–	–	–
Net charge for the year	19	–	–	19
Changes in models	5	–	–	5
Exchange difference and others	1	–	–	1
At 31 December 2022	62	–	–	62
Charged to income statement (Note 13)				24

As at 31 December 2023, there were no impaired debt securities and certificates of deposit (2022: Nil). Debt securities and certificates of deposit which have been overdue for six months or less but over three months amounted to HK$51 million and were measured at fair value through profit or loss (2022: Nil).

4. Financial risk management (continued)

4.1 Credit risk (continued)

(F) Loan commitments and financial guarantee contracts

Loan commitments and financial guarantee contracts are analysed by internal credit grade and stage classification as follows:

	2023			
	Stage 1 HK$'m	**Stage 2 HK$'m**	**Stage 3 HK$'m**	**Total HK$'m**
Loan commitments and financial guarantee contracts				
Pass	**854,175**	**2,790**	**–**	**856,965**
Special mention	**744**	**955**	**–**	**1,699**
Substandard or below	**–**	**–**	**67**	**67**
	854,919	**3,745**	**67**	**858,731**

	2022			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Loan commitments and financial guarantee contracts				
Pass	767,103	4,321	–	771,424
Special mention	2,305	1,062	–	3,367
Substandard or below	–	–	256	256
	769,408	5,383	256	775,047

4. Financial risk management (continued)

4.1 Credit risk (continued)

(F) Loan commitments and financial guarantee contracts (continued)

Reconciliation of impairment allowances for loan commitments and financial guarantee contracts is as follows:

	2023			
	Stage 1 HK$'m	**Stage 2 HK$'m**	**Stage 3 HK$'m**	**Total HK$'m**
At 1 January 2023	**326**	**36**	**128**	**490**
Transfer to Stage 1	**7**	**(7)**	**–**	**–**
Transfer to Stage 2	**(4)**	**4**	**–**	**–**
Transfer to Stage 3	**–**	**–**	**–**	**–**
Changes arising from transfer of stage	**(6)**	**7**	**–**	**1**
Net reversal for the year	**(4)**	**(10)**	**(107)**	**(121)**
Changes in models	**–**	**–**	**–**	**–**
Exchange difference and others	**–**	**–**	**–**	**–**
At 31 December 2023	**319**	**30**	**21**	**370**
Credited to income statement (Note 13)				**(120)**

	2022			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
At 1 January 2022	439	51	153	643
Transfer to Stage 1	6	(6)	–	–
Transfer to Stage 2	(4)	4	–	–
Transfer to Stage 3	–	(1)	1	–
Changes arising from transfer of stage	(5)	5	26	26
Net charge/(reversal) for the year	20	(14)	(52)	(46)
Changes in models	(129)	(2)	–	(131)
Exchange difference and others	(1)	(1)	–	(2)
At 31 December 2022	326	36	128	490
Credited to income statement (Note 13)				(151)

Majority of credit risk exposures of loan commitments and financial guarantee contracts are classified as Stage 1 and categorised as "Pass" in the internal credit grade throughout the year.

4. Financial risk management (continued)

4.2 Market risk

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. The Group's objective in managing market risk is to secure healthy growth of the treasury business, by the effective management of potential market risk in the Group's business, according to the Group's overall risk appetite and strategy of the treasury business on the basis of a well-established risk management regime and related management measures.

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

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

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

(A) VaR

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

4. Financial risk management (continued)

4.2 Market risk (continued)

(A) VaR (continued)

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

	Year	At 31 December HK$'m	Minimum for the year HK$'m	Maximum for the year HK$'m	Average for the year HK$'m
VaR for all market risk	**2023**	**84.3**	**35.7**	**87.8**	**57.3**
	2022	46.3	21.9	61.3	37.7
VaR for foreign exchange risk	**2023**	**39.7**	**16.5**	**48.4**	**28.9**
	2022	20.3	14.6	39.9	23.7
VaR for interest rate risk	**2023**	**74.6**	**32.1**	**81.4**	**51.3**
in the trading book	2022	39.8	15.6	63.2	31.5
VaR for equity risk	**2023**	**8.1**	**0.3**	**8.5**	**5.4**
in the trading book	2022	1.1	0.2	4.5	2.0
VaR for commodity risk	**2023**	**0.2**	**0.0**	**24.8**	**4.6**
	2022	4.1	0.0	12.3	4.4

Note:
1. Structural FX positions have been excluded.

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

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

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

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

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

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

4. Financial risk management (continued)

4.2 Market risk (continued)

(B) Currency risk

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

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

	2023							
	Equivalent in million of HK$							
	US Dollars	**Pound Sterling**	**Japanese Yen**	**Euro**	**Renminbi**	**Australian Dollars**	**Other foreign currencies**	**Total foreign currencies**
Spot assets	**1,062,469**	**23,210**	**70,841**	**44,422**	**736,181**	**24,025**	**69,379**	**2,030,527**
Spot liabilities	**(1,115,545)**	**(29,783)**	**(27,849)**	**(35,573)**	**(509,114)**	**(33,301)**	**(62,675)**	**(1,813,840)**
Forward purchases	**1,446,407**	**26,178**	**78,221**	**76,557**	**744,856**	**41,025**	**61,036**	**2,474,280**
Forward sales	**(1,377,946)**	**(19,611)**	**(117,473)**	**(84,815)**	**(965,216)**	**(31,657)**	**(68,879)**	**(2,665,597)**
Net options position	**1,923**	**(35)**	**59**	**(121)**	**(165)**	**(54)**	**45**	**1,652**
Net long/(short) position	**17,308**	**(41)**	**3,799**	**470**	**6,542**	**38**	**(1,094)**	**27,022**

	2022							
	Equivalent in million of HK$							
	US Dollars	Pound Sterling	Japanese Yen	Euro	Renminbi	Australian Dollars	Other foreign currencies	Total foreign currencies
Spot assets	1,046,552	25,728	107,461	64,552	536,342	33,695	67,514	1,881,844
Spot liabilities	(1,002,755)	(33,831)	(19,120)	(32,649)	(509,612)	(37,840)	(61,223)	(1,697,030)
Forward purchases	917,681	29,024	47,522	84,569	419,521	27,865	59,524	1,585,706
Forward sales	(963,555)	(21,039)	(135,669)	(115,911)	(443,379)	(23,811)	(66,850)	(1,770,214)
Net options position	1,208	(11)	11	(42)	(563)	85	(11)	677
Net (short)/long position	(869)	(129)	205	519	2,309	(6)	(1,046)	983

4. Financial risk management (continued)

4.2 Market risk (continued)

(B) Currency risk (continued)

	2023						
	Equivalent in million of HK$						
	US Dollars	Baht	Malaysian Ringgit	Philippine Peso	Rupiah	Other foreign currencies	Total foreign currencies
Net structural position	**8,017**	**2,648**	**3,140**	**1,926**	**3,474**	**1,948**	**21,153**

	2022						
	Equivalent in million of HK$						
	US Dollars	Baht	Malaysian Ringgit	Philippine Peso	Rupiah	Other foreign currencies	Total foreign currencies
Net structural position	31,172	2,285	2,905	1,717	2,361	2,010	42,450

The comparative figures in the note have been restated to conform with current year presentation.

(C) Interest rate risk

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: mismatches in the maturity or repricing periods of assets and liabilities that may affect net interest income and economic value;

– Basis risk: different pricing basis for different transactions resulting that the yield on assets and cost of liabilities may change by different amounts within the same repricing period; and

– Option risk: exercise of the options embedded in assets, liabilities or off-balance sheet items that can cause a change in the cash flows of assets and liabilities.

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

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

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

NII and EVE assess the impact of interest rate movement on the Group's net interest income and capital base. They are the Group's key interest rate risk indicators. The former assesses the impact of interest rate movement on net interest income as a percentage to the projected net interest income for the year. The latter assesses the impact of interest rate movement on economic value (i.e. the net present value of cash flows of assets, liabilities and off-balance sheet items discounted using the market interest rate) as a percentage to the latest Tier 1 capital. Limits are set by the RMC on these two indicators to monitor and control the Group's banking book interest rate risk.

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

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

The Group is principally exposed to HK Dollar, US Dollar and Renminbi in terms of interest rate risk. As at 31 December 2023, if market interest rates had a 100 basis point parallel shift of the yield curve with other variables held constant, the sensitivities on net interest income over a twelve-month period and on reserves for the Group would have been as follows:

	Impact on net interest income over the next twelve months at 31 December		Impact on reserves at 31 December	
	2023 HK$'m	2022 HK$'m	**2023 HK$'m**	2022 HK$'m
100 basis point parallel up of yield curve				
Total	**2,125**	2,639	**(11,477)**	(6,923)
Of which:				
HK Dollar	**3,902**	4,370	**(726)**	(413)
US Dollar	**(779)**	(670)	**(8,063)**	(3,327)
Renminbi	**(960)**	(972)	**(2,424)**	(2,797)
100 basis point parallel down of yield curve				
Total	**(2,123)**	(2,639)	**11,477**	6,923
Of which:				
HK Dollar	**(3,902)**	(4,370)	**726**	413
US Dollar	**779**	670	**8,063**	3,327
Renminbi	**963**	972	**2,424**	2,797

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

In a parallel shift up of 100 basis points of yield curve, the overall impact on net interest income of the above currencies is positive in 2023. Reserves of the Group would have been reduced because of the expected reduction in valuation of the debt securities portfolio and relevant interest rate derivatives under hedge accounting due to a parallel shift up of 100 basis points in the yield curve. The positive impact on net interest income decreased compared with 2022 as the size of debt securities portfolio in capital market with longer tenor increased and the average remaining tenor of customer time deposits shortened, and the reduction of impact on reserves rose compared with 2022 as the duration of debt securities portfolio increased.

In a parallel shift down of 100 basis points of yield curve, the overall impact on net interest income of the above currencies is negative in 2023. Reserves of the Group would have been increased because of the expected increase in valuation of the debt securities portfolio and relevant interest rate derivatives under hedge accounting due to a parallel shift down of 100 basis points in the yield curve. The negative impact on net interest income decreased compared with 2022 as the size of debt securities portfolio in capital market with longer tenor increased and the average remaining tenor of customer time deposits shortened, and the increase of impact on reserves rose compared with 2022 as the duration of debt securities portfolio increased.

The sensitivities above are for illustration only and are based on several assumptions, including, but not limited to, the change in the correlation between interest rates of relevant currencies, parallel movement of interest rates, the absence of actions that would be taken to mitigate the impact of interest rate risk, the effectiveness of hedge accounting, all positions being assumed to run to maturity, behavioural assumptions of products in which the actual repricing date differs from the contractual repricing date or products without contractual maturity. The above exposures form only a part of the Group's overall interest rate risk exposures.

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

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

	2023						
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Non-interest bearing HK$'m	Total HK$'m
Assets							
Cash and balances and placements with banks and other financial institutions	297,147	25,365	29,830	2,466	–	51,763	406,571
Financial assets at fair value through profit or loss	219,681	35,740	20,715	28,454	51,909	16,791	373,290
Derivative financial instruments	–	–	–	–	–	54,211	54,211
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	213,000	213,000
Advances and other accounts	1,437,380	132,698	66,235	40,492	8,498	7,841	1,693,144
Investment in securities							
– At FVOCI	145,275	142,874	143,240	247,264	87,003	4,706	770,362
– At amortised cost	9,482	32,487	30,140	103,471	32,498	–	208,078
Interests in associates and joint ventures	–	–	–	–	–	1,275	1,275
Investment properties	–	–	–	–	–	14,875	14,875
Properties, plant and equipment	–	–	–	–	–	41,738	41,738
Other assets (including current and deferred tax assets)	6,669	–	–	–	–	85,570	92,239
Total assets	2,115,634	369,164	290,160	422,147	179,908	491,770	3,868,783
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	213,000	213,000
Deposits and balances from banks and other financial institutions	342,692	916	101	–	–	29,964	373,673
Financial liabilities at fair value through profit or loss	18,297	30,827	15,652	1,255	172	–	66,203
Derivative financial instruments	–	–	–	–	–	41,553	41,553
Deposits from customers	1,540,154	458,625	327,879	1,844	–	173,180	2,501,682
Debt securities and certificates of deposit in issue	–	1,999	–	–	–	–	1,999
Other accounts and provisions (including current and deferred tax liabilities)	22,628	4	106	745	352	70,213	94,048
Insurance contract liabilities	–	–	–	–	–	177,873	177,873
Subordinated liabilities	–	–	–	75,323	–	–	75,323
Total liabilities	1,923,771	492,371	343,738	79,167	524	705,783	3,545,354
Interest sensitivity gap	191,863	(123,207)	(53,578)	342,980	179,384	(214,013)	323,429

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

	2022						
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Non-interest bearing HK$'m	Total HK$'m
Assets							
Cash and balances and placements with banks and other financial institutions	425,459	28,550	29,556	2,285	–	49,344	535,194
Financial assets at fair value through profit or loss	18,478	19,897	11,949	24,797	40,748	15,344	131,213
Derivative financial instruments	–	–	–	–	–	61,832	61,832
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	208,770	208,770
Advances and other accounts	1,435,507	133,216	26,411	34,107	7,448	7,424	1,644,113
Investment in securities							
– At FVOCI	112,829	163,477	177,549	176,407	64,038	3,517	697,817
– At amortised cost	2,181	1,921	67,010	146,749	21,335	–	239,196
Interests in associates and joint ventures	–	–	–	–	–	843	843
Investment properties	–	–	–	–	–	16,069	16,069
Properties, plant and equipment	–	–	–	–	–	44,261	44,261
Other assets (including current and deferred tax assets)	7,943	–	–	–	–	79,254	87,197
Total assets	2,002,397	347,061	312,475	384,345	133,569	486,658	3,666,505
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	208,770	208,770
Deposits and balances from banks and other financial institutions	275,903	1,545	5,700	101	–	33,377	316,626
Financial liabilities at fair value through profit or loss	19,496	15,538	21,541	1,451	1,425	2	59,453
Derivative financial instruments	–	–	–	–	–	50,266	50,266
Deposits from customers	1,480,966	381,657	324,513	1,735	–	188,336	2,377,207
Debt securities and certificates of deposit in issue	–	–	1,702	1,934	–	–	3,636
Other accounts and provisions (including current and deferred tax liabilities)	19,419	10	31	851	406	58,356	79,073
Insurance contract liabilities	–	–	–	–	–	169,246	169,246
Subordinated liabilities	–	–	–	76,393	–	–	76,393
Total liabilities	1,795,784	398,750	353,487	82,465	1,831	708,353	3,340,670
Interest sensitivity gap	206,613	(51,689)	(41,012)	301,880	131,738	(221,695)	325,835

Assets and liabilities in the tables, including insurance contract liabilities, are measured in accordance with relevant accounting standards as described in Note 2 material accounting policies.

4. Financial risk management (continued)

4.3 Liquidity risk

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.

In accordance with the Group's corporate governance principles in respect of risk management, the Board and the RMC, senior management and functional departments/units perform their duties and responsibilities to manage the Group's liquidity risk. The RMC is the decision-making authority of liquidity risk management, and assumes the ultimate responsibility of liquidity risk management. As authorised by the RMC, ALCO exercises its oversight of liquidity risk and ensures the daily operations of the Group are in accordance with the risk appetite and policies as set by the RMC. The RMD is responsible for the Group's liquidity risk management. It cooperates with the Financial Management Department and Investment Management, etc. to assist the ALCO to perform liquidity management functions according to their specific responsibilities.

The Group's liquidity risk management objective is to effectively manage the liquidity of on-and off-balance sheet items with a reasonable cost based on the liquidity risk appetite to achieve sound operation and sustainable profitability. Deposits from customers are the Group's primary source of funds. To ensure stable and sufficient sources of funds are in place, the Group actively attracts new deposits, keeps the core deposit and obtains supplementary funding from the interbank market and by issuing bills in the capital market. According to different term maturities and the results of funding needs estimated from stressed scenarios, the Group adjusts its asset structure (including loans, bonds investment, interbank placement, etc.) to maintain sufficient liquid assets which provides adequate funds in support of normal business needs and ensure its ability to raise funds at a reasonable cost to serve external claims in case of emergency. The Group is committed to diversify the sources, tenors and use of funding to avoid excessive concentration of assets and liabilities; and prevent triggering liquidity risk due to the break of funding strand resulting from over-concentration of sources and use of funding in a particular area where problems occur. In order to manage such risk, the Group sets concentration limits on collateral pools and sources of funding such as Tier 1 high-quality readily liquefiable assets to total high-quality readily liquefiable assets ratio, top ten depositors ratio and large depositors ratio. Whenever necessary, the Group could improve the liquidity position by taking mitigation actions including, but not limited to obtaining funding through interbank borrowings or repos in the money market, selling bonds in the secondary market or retaining existing and attracting new customer deposits. Apart from increasing the funding, the Group would maintain good communication with the counterparties, the parent bank and the regulators to enhance mutual confidence.

The Group has established intra-group liquidity risk management guidelines to manage the liquidity funding among different entities within the Group, and to restrict their reliance of funding on each other. The Group also pays attention to manage liquidity risk created by off-balance sheet activities, such as loan commitments, derivatives, options and other complex structured products. The Group has an overall liquidity risk management strategy to cover the liquidity management of foreign currency assets and liabilities, collateral, intra-day liquidity, intra-group liquidity, the liquidity risk arising from other risks, etc., and has formulated corresponding contingency plan.

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

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

In accordance with the requirements of Supervisory Policy Manual LM-2 "Sound Systems and controls for Liquidity Risk Management" issued by the HKMA, the Group has implemented a behaviour model and assumptions of cash flow analysis and stress test to enhance the Group's cash flow analysis under both normal and stressed conditions. In cash flow analysis under normal circumstances, assumptions have been made relating to on-balance sheet items (such as deposits from customers) and off-balance sheet items (such as loan commitments). According to various characteristics of the assets, liabilities and off-balance sheet items, the Group forecasts the future cash flow based on the contractual maturity date and the assumptions of customer behaviour and balance sheet changes. The Group establishes the MCO indicator which predicts the future 30 days maximum cumulative net cash outflow in normal situations based on the above assumptions, to assess if the Group has sufficient financing capacity to meet the cash flow gap in order to achieve the objective of continuing operations. As at 31 December 2023, before taking the cash inflow through the sale of outstanding marketable securities into consideration, BOCHK's 30-day cumulative cash flow was a net cash inflow, amounting to HK$357,676 million (2022: HK$159,722 million) and was in compliance with the internal limit requirements.

In the liquidity stress test, institution specific, general market crisis and combined crisis scenarios have been set up, a combined crisis scenario is a combination of institution specific and general market crisis to assess the Group's capability to withstand a more severe liquidity crisis, with a more stringent set of assumptions being adopted. Stress test assumptions include the run-off rate of retail, wholesale and interbank deposits; the drawdown rate of loan commitments and trade-related contingent liabilities; the delinquency ratio and rollover rate of customer loans; and haircut of interbank placement and marketable securities. As at 31 December 2023, the Group was able to maintain a net cash inflow under the three stressed scenarios, indicating the Group has the ability to meet financing needs under stressed conditions. In addition, the Group has a policy in place to maintain a liquidity cushion which includes high quality or comparable quality marketable securities issued or guaranteed by sovereigns, central banks, public sector entities or multilateral development banks with 0% or 20% risk weight or marketable securities issued by non-financial corporate with a corresponding external credit rating of A- or above to ensure funding needs even under stressed scenarios. As at 31 December 2023, the liquidity cushion (before haircut) of BOCHK was HK$743,636 million (2022: HK$717,272 million). A contingency plan is being established which details the conditions to trigger the plan based on stress test results and early warning indicators, the action plans and relevant procedures and responsibility of relevant departments.

The Group, being classified as a category 1 authorised institution by the HKMA, is required to calculate the LCR and NSFR on a consolidated basis in accordance with the Banking (Liquidity) Rules. The Group is required to maintain a LCR and NSFR not less than 100%.

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

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

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

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

(A) 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%

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

	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%

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

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

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(B) Maturity analysis

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

	2023							
	On demand HK$'m	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Indefinite HK$'m	Total HK$'m
Assets								
Cash and balances and placements with banks and other financial institutions	297,469	51,439	25,387	29,845	2,431	–	–	406,571
Financial assets at fair value through profit or loss	–	213,013	39,977	21,083	30,653	51,253	17,311	373,290
Derivative financial instruments	15,765	4,487	5,904	7,645	14,242	6,168	–	54,211
Hong Kong SAR Government certificates of indebtedness	213,000	–	–	–	–	–	–	213,000
Advances and other accounts	338,621	60,133	60,907	240,526	555,023	429,575	8,359	1,693,144
Investment in securities								
– At FVOCI	–	148,500	123,488	146,344	251,076	95,926	5,028	770,362
– At amortised cost	–	9,131	32,817	30,468	103,432	32,230	–	208,078
Interests in associates and joint ventures	–	–	–	–	–	–	1,275	1,275
Investment properties	–	–	–	–	–	–	14,875	14,875
Properties, plant and equipment	–	–	–	–	–	–	41,738	41,738
Other assets (including current and deferred tax assets)	20,949	22,716	1,277	4,438	13,115	27,178	2,566	92,239
Total assets	885,804	509,419	289,757	480,349	969,972	642,330	91,152	3,868,783
Liabilities								
Hong Kong SAR currency notes in circulation	213,000	–	–	–	–	–	–	213,000
Deposits and balances from banks and other financial institutions	199,392	173,263	605	413	–	–	–	373,673
Financial liabilities at fair value through profit or loss	–	21,672	27,462	15,653	1,245	171	–	66,203
Derivative financial instruments	11,062	3,650	4,142	6,730	11,655	4,314	–	41,553
Deposits from customers	1,188,522	524,812	458,625	327,879	1,844	–	–	2,501,682
Debt securities and certificates of deposit in issue	–	–	1,999	–	–	–	–	1,999
Other accounts and provisions (including current and deferred tax liabilities)	50,592	31,001	2,406	2,640	6,847	562	–	94,048
Insurance contract liabilities	–	1,264	3,688	10,963	47,100	103,179	–	166,194
Subordinated liabilities	–	–	–	344	74,979	–	–	75,323
Total liabilities	1,662,568	755,662	498,927	364,622	143,670	108,226	–	3,533,675
Net liquidity gap	(776,764)	(246,243)	(209,170)	115,727	826,302	534,104	91,152	335,108

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

	2022							
	On demand HK$'m	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Indefinite HK$'m	Total HK$'m
Assets								
Cash and balances and placements with banks and other financial institutions	406,490	68,294	28,573	29,566	2,253	–	18	535,194
Financial assets at fair value through profit or loss	–	15,347	20,848	10,317	27,229	40,438	17,034	131,213
Derivative financial instruments	14,493	4,788	4,130	8,053	20,138	10,230	–	61,832
Hong Kong SAR Government certificates of indebtedness	208,770	–	–	–	–	–	–	208,770
Advances and other accounts	303,647	71,820	58,491	174,615	637,249	394,365	3,926	1,644,113
Investment in securities								
– At FVOCI	–	104,175	156,815	181,051	181,778	70,208	3,790	697,817
– At amortised cost	–	2,326	1,737	67,437	146,454	21,242	–	239,196
Interests in associates and joint ventures	–	–	–	–	–	–	843	843
Investment properties	–	–	–	–	–	–	16,069	16,069
Properties, plant and equipment	–	–	–	–	–	–	44,261	44,261
Other assets (including current and deferred tax assets)	21,159	12,728	819	4,687	15,461	29,780	2,563	87,197
Total assets	954,559	279,478	271,413	475,726	1,030,562	566,263	88,504	3,666,505
Liabilities								
Hong Kong SAR currency notes in circulation	208,770	–	–	–	–	–	–	208,770
Deposits and balances from banks and other financial institutions	259,214	49,990	997	5,700	725	–	–	316,626
Financial liabilities at fair value through profit or loss	–	19,496	15,557	21,547	1,441	1,410	2	59,453
Derivative financial instruments	9,833	3,385	5,769	7,362	16,499	7,418	–	50,266
Deposits from customers	1,230,065	439,237	381,657	324,513	1,735	–	–	2,377,207
Debt securities and certificates of deposit in issue	–	22	10	1,679	1,925	–	–	3,636
Other accounts and provisions (including current and deferred tax liabilities)	51,046	14,229	2,238	3,829	7,171	560	–	79,073
Insurance contract liabilities	–	624	1,414	10,636	48,868	96,359	–	157,901
Subordinated liabilities	–	–	–	332	76,061	–	–	76,393
Total liabilities	1,758,928	526,983	407,642	375,598	154,425	105,747	2	3,329,325
Net liquidity gap	(804,369)	(247,505)	(136,229)	100,128	876,137	460,516	88,502	337,180

The analysis of debt securities by remaining period to maturity is based on contractual maturity date. The disclosure does not imply that the securities will be held to maturity.

The above analysis in respect of insurance contract liabilities represents the estimated timing of net cash outflows resulting from recognised insurance contract liabilities on the balance sheet and excludes the contractual service margin and risk adjustment for non-financial risk.

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(C) Analysis of undiscounted cash flows by contractual maturities

(a) Non-derivative cash flows

The tables below summarise the cash flows of the Group as at 31 December for non-derivative financial liabilities by remaining contractual maturity.

	2023					
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Total HK$'m
Financial liabilities						
Hong Kong SAR currency notes in circulation	**213,000**	**–**	**–**	**–**	**–**	**213,000**
Deposits and balances from banks and other financial institutions	**372,818**	**608**	**416**	**–**	**–**	**373,842**
Financial liabilities at fair value through profit or loss	**21,704**	**27,630**	**15,971**	**1,334**	**193**	**66,832**
Deposits from customers	**1,714,116**	**462,150**	**334,723**	**1,986**	**–**	**2,512,975**
Debt securities and certificates of deposit in issue	**–**	**2,014**	**–**	**–**	**–**	**2,014**
Subordinated liabilities	**–**	**–**	**2,590**	**77,569**	**–**	**80,159**
Lease liabilities	**49**	**91**	**359**	**675**	**122**	**1,296**
Other financial liabilities	**77,452**	**197**	**248**	**16**	**4**	**77,917**
Total financial liabilities	**2,399,139**	**492,690**	**354,307**	**81,580**	**319**	**3,328,035**

	2022					
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Total HK$'m
Financial liabilities						
Hong Kong SAR currency notes in circulation	208,770	–	–	–	–	208,770
Deposits and balances from banks and other financial institutions	309,212	1,003	5,748	731	–	316,694
Financial liabilities at fair value through profit or loss	19,505	15,619	22,101	1,691	1,769	60,685
Deposits from customers	1,669,823	384,203	331,898	1,824	–	2,387,748
Debt securities and certificates of deposit in issue	23	13	1,717	2,014	–	3,767
Subordinated liabilities	–	–	2,509	80,586	–	83,095
Lease liabilities	47	86	347	736	92	1,308
Other financial liabilities	61,700	270	1,418	47	5	63,440
Total financial liabilities	2,269,080	401,194	365,738	87,629	1,866	3,125,507

As at 31 December 2023, the amounts payable on demand of insurance contracts liabilities is HK$43,456 million (2022: HK$51,083 million).

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(C) Analysis of undiscounted cash flows by contractual maturities (continued)

(b) Derivative cash flows

The tables below summarise the cash flows of the Group by remaining contractual maturity as at 31 December for derivative financial liabilities that will be settled on a net basis, together with all derivative financial instruments that will be settled on a gross basis regardless of whether the contract is in an asset or liability position. The amounts disclosed in the tables are the contractual undiscounted cash flows, except for certain derivatives which are disclosed at fair value.

The Group's derivative financial instruments that will be settled on a net basis mainly include interest rate swaps whereas derivative financial instruments that will be settled on a gross basis mainly include currency forwards and currency swaps.

	2023					
	Up to 1 month HK$'m	**1 to 3 months HK$'m**	**3 to 12 months HK$'m**	**1 to 5 years HK$'m**	**Over 5 years HK$'m**	**Total HK$'m**
Derivative financial liabilities settled on a net basis	**(11,517)**	**(1,764)**	**(6,439)**	**(7,753)**	**(1,412)**	**(28,885)**
Derivative financial instruments settled on a gross basis						
Total inflow	**1,452,917**	**420,065**	**727,835**	**247,718**	**12,154**	**2,860,689**
Total outflow	**(1,451,315)**	**(414,410)**	**(726,123)**	**(247,768)**	**(11,750)**	**(2,851,366)**

	2022					
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Total HK$'m
Derivative financial liabilities settled on a net basis	(10,333)	(1,774)	(7,599)	(13,350)	(2,165)	(35,221)
Derivative financial instruments settled on a gross basis						
Total inflow	635,746	379,653	566,376	202,148	10,973	1,794,896
Total outflow	(635,217)	(376,902)	(563,672)	(202,119)	(10,647)	(1,788,557)

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(C) Analysis of undiscounted cash flows by contractual maturities (continued)

(c) Off-balance sheet items

Loan commitments

The contractual amounts of the Group's off-balance sheet financial instruments as at 31 December 2023 that the Group commits to extend credit to customers and other facilities amounted to HK$813,414 million (2022: HK$732,484 million). Majority of those loan commitments can be drawn within one year.

Financial guarantee contracts

Majority of financial guarantees and other financial facilities of the Group as at 31 December 2023 amounting to HK$45,317 million (2022: HK$42,563 million) are maturing no later than one year.

4.4 Insurance risk

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

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

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

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

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

4. Financial risk management (continued)

4.4 Insurance risk (continued)

(A) Change in assumptions

The Group has updated the assumptions for lapse, expense and discount rates to reflect the changes in Group's experience and market conditions.

(B) Sensitivity analysis

The following table presents the sensitivity analysis of the key assumptions used in the estimation of insurance contracts:

	2023			2022		
	Increase/ (decrease) in profit before taxation HK$'m	Increase/ (decrease) in equity before taxation HK$'m	Increase/ (decrease) in CSM HK$'m	Increase/ (decrease) in profit before taxation HK$'m	Increase/ (decrease) in equity before taxation HK$'m	Increase/ (decrease) in CSM HK$'m
+10% mortality rate and morbidity rate	(93)	(87)	(481)	(75)	(54)	(769)
+10% lapse/surrender rate	37	(50)	(105)	15	(131)	(340)
+10% expense	(49)	(46)	(339)	(33)	(27)	(302)
+50 basis points shift in yield curves*	(26)	(892)	454	(147)	(904)	417
−10% mortality rate and morbidity rate	84	77	518	55	33	723
−10% lapse/surrender rate	(36)	61	120	(24)	136	316
−10% expense	31	28	218	24	18	245
−50 basis points shift in yield curves*	26	950	(503)	155	970	(454)

* Sensitivities presented includes insurance contracts and reinsurance contracts held and financial instruments.

The above analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated, for example, changes in lapses, in future mortality and morbidity.

4. Financial risk management (continued)

4.5 Capital management

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

The Group has developed and maintained a sound framework of policies and controls on capital management to support the development of the Group's business and to meet the statutory capital adequacy ratio and loss-absorbing capacity requirements.

The Group has complied with all the statutory capital requirements and loss-absorbing capacity requirements of the HKMA for the reported periods in respect of banking operation. The HKMA supervises BOCHK and certain subsidiaries specified by the HKMA on a consolidated and solo basis and, as such, receives information on the capital adequacy of, and sets capital requirements for those companies as a whole. Individual overseas banking subsidiaries and branches are directly regulated by their local banking supervisors, who set and monitor their capital adequacy requirements. Certain non-banking financial subsidiaries are also subject to the supervision and capital requirements of local regulatory authorities.

The ALCO monitors the Group's capital adequacy and adjusts the capital mix where appropriate. The Group has adopted the foundation internal ratings-based ("FIRB") approach to calculate the credit risk capital charge for the majority of its non-securitisation exposures. Small residual credit exposures are remained under the standardised (credit risk) ("STC") approach. The Group has adopted the standardised credit valuation adjustment ("CVA") method to calculate the capital charge for the CVA risk of the counterparty.

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

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

The Group has continued to adopt an internal capital adequacy assessment process ("ICAAP") to comply with the HKMA's requirements in the Supervisory Policy Manual "Supervisory Review Process" in 2023. 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 Group considers this ICAAP as an on-going process for capital management and periodically reviews and adjusts its capital structure where appropriate in relation to the overall risk profile.

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.

4. Financial risk management (continued)

4.5 Capital management (continued)

In addition, the capital plan of the Group is drawn up annually and then submitted to the Board for approval after endorsement of the ALCO. The plan is built up by assessing the implications of various factors upon capital adequacy such as the business strategies, return on equity, risk appetite, credit rating, as well as regulatory requirements. Hence, the future capital requirement is determined and capital sources are identified also. The plan is to ensure the Group maintains adequate capital and appropriate capital structure which align with its business development needs, thereby achieving an optimal balance among risk, return and capital adequacy.

(A) Basis of regulatory consolidation

The consolidation basis for regulatory purposes comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules. For accounting purposes, subsidiaries are consolidated in accordance with HKFRSs.

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

4. Financial risk management (continued)

4.5 Capital management (continued)

(A) Basis of regulatory consolidation (continued)

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

Name	2023 Total assets HK$'m	2023 Total equity HK$'m	2022 Total assets HK$'m	2022 Total equity HK$'m
BOC Group Trustee Company Limited	**200**	**200**	200	200
BOCI-Prudential Trustee Limited	**627**	**499**	626	478
China Bridge (Malaysia) Sdn. Bhd.	**13**	**(1)**	20	(12)
Bank of China (Hong Kong) Nominees Limited	**–**	**–**	–	–
Bank of China (Hong Kong) Trustees Limited	**8**	**8**	8	8
BOC Financial Services (Nanning) Company Limited*	**118**	**47**	152	43
BOCHK Information Technology (Shenzhen) Co., Ltd.	**374**	**263**	372	258
BOCHK Information Technology Services (Shenzhen) Co., Ltd.	**408**	**349**	401	342
Po Sang Financial Investment Services Company Limited	**361**	**346**	366	345
Po Sang Securities Limited	**605**	**384**	570	402
Sin Hua Trustee Limited	**3**	**3**	5	5
Billion Express Development Inc.	**–**	**–**	–	–
Billion Orient Holdings Ltd.	**–**	**–**	–	–
Elite Bond Investments Ltd.	**–**	**–**	–	–
Express Capital Enterprise Inc.	**–**	**–**	–	–
Express Charm Holdings Corp.	**–**	**–**	–	–
Express Shine Assets Holdings Corp.	**–**	**–**	–	–
Express Talent Investment Ltd.	**–**	**–**	–	–
Gold Medal Capital Inc.	**–**	**–**	–	–
Gold Tap Enterprises Inc.	**–**	**–**	–	–
Maxi Success Holdings Ltd.	**–**	**–**	–	–
Smart Linkage Holdings Inc.	**–**	**–**	–	–
Smart Union Capital Investments Ltd.	**–**	**–**	–	–
Success Trend Development Ltd.	**–**	**–**	–	–
Wise Key Enterprises Corp.	**–**	**–**	–	–

* BOC Financial Services (Nanning) Company Limited has changed company's name to BOC Digital Services (Nanning) Company Limited on 12 January 2024.

4. Financial risk management (continued)

4.5 Capital management (continued)

(A) Basis of regulatory consolidation (continued)

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

There were no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation as at 31 December 2023 (2022: Nil).

There were also no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation where the methods of consolidation differ as at 31 December 2023 (2022: Nil).

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

(B) Capital ratio

The capital ratios are analysed as follows:

	2023	2022
CET1 capital ratio	**19.02%**	17.51%
Tier 1 capital ratio	**19.02%**	19.30%
Total capital ratio	**21.18%**	21.52%

4. Financial risk management (continued)

4.5 Capital management (continued)

(B) Capital ratio (continued)

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

	2023 HK$'m	2022 HK$'m
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments	**43,043**	43,043
Retained earnings	**219,744**	206,222
Disclosed reserves	**40,947**	36,914
CET1 capital before regulatory deductions	**303,734**	286,179
CET1 capital: regulatory deductions		
Valuation adjustments	**(28)**	(33)
Other intangible assets (net of associated deferred tax liabilities)	**(1,894)**	(1,760)
Deferred tax assets (net of associated deferred tax liabilities)	**(328)**	(286)
Gains and losses due to changes in own credit risk on fair valued liabilities	**(62)**	(159)
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	**(45,398)**	(47,488)
Regulatory reserve for general banking risks	**(7,974)**	(6,655)
Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	**(941)**	–
Total regulatory deductions to CET1 capital	**(56,625)**	(56,381)
CET1 capital	**247,109**	229,798
AT1 capital: instruments		
Qualifying AT1 capital instruments classified as equity under applicable accounting standards	**–**	23,476
AT1 capital before regulatory deductions	**–**	23,476
AT1 capital: regulatory deductions		
Significant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	**(941)**	–
Total regulatory deductions to AT1 capital	**(941)**	–
AT1 capital	**–**	23,476
Tier 1 capital	**247,109**	253,274

4. Financial risk management (continued)

4.5 Capital management (continued)

(B) Capital ratio (continued)

	2023 HK$'m	2022 HK$'m
Tier 2 capital: instruments and provisions		
Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**7,607**	7,678
Tier 2 capital before regulatory deductions	**7,607**	7,678
Tier 2 capital: regulatory deductions		
Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	**20,429**	21,370
Total regulatory adjustments to Tier 2 capital	**20,429**	21,370
Tier 2 capital	**28,036**	29,048
Total regulatory capital	**275,145**	282,322

The capital buffer ratios are analysed as follows:

	2023	2022
Capital conservation buffer ratio	**2.500%**	2.500%
Higher loss absorbency ratio	**1.500%**	1.500%
Countercyclical capital buffer ratio	**0.813%**	0.817%

The comparative figures in the note have been restated to conform with current year presentation.

(C) Leverage ratio

The leverage ratio is analysed as follows:

	2023 HK$'m	2022 HK$'m
Tier 1 capital	**247,109**	253,274
Leverage ratio exposure	**3,602,432**	3,370,353
Leverage ratio	**6.86%**	7.51%

5. Fair values of assets and liabilities

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

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

– Level 2: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly. This category includes majority of the OTC derivative contracts, debt securities and certificates of deposit with quote from pricing services vendors, issued structured deposits, advances and other accounts and other debt instruments. It also includes certain foreign exchange contracts, precious metals and properties with insignificant adjustments or calibrations made to observable market inputs.

– Level 3: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. This category includes equity investments, funds, advances and other accounts and other debt instruments with significant unobservable inputs. It also includes properties with significant adjustments made to observable market inputs.

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

5.1 Financial instruments measured at fair value

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

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

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

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

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

The techniques used to calculate the fair value of the following financial instruments are as below:

Debt securities and certificates of deposit, advances and other accounts and other debt instruments

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

Mortgage backed securities

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

Derivatives

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

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

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(A) Fair value hierarchy

	2023			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Financial assets				
Trading assets (Note 23)				
– Debt securities and certificates of deposit	1	66,477	–	66,478
– Equity securities	69	–	–	69
– Fund	–	–	–	–
– Other debt instruments	–	3,800	–	3,800
Other financial assets mandatorily classified at fair value through profit or loss (Note 23)				
– Debt securities and certificates of deposit	88	48,799	70	48,957
– Equity securities	4,133	–	–	4,133
– Fund	3,421	1,479	7,689	12,589
Financial assets designated at fair value through profit or loss (Note 23)				
– Debt securities and certificates of deposit	1,780	17,885	–	19,665
– Other debt instruments	–	217,599	–	217,599
Derivative financial instruments (Note 24)	19	54,192	–	54,211
Advances and other accounts at fair value	–	4,512	863	5,375
Investment in securities at FVOCI (Note 26)				
– Debt securities and certificates of deposit	130,681	634,975	–	765,656
– Equity securities	822	622	3,262	4,706
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 32)				
– Trading liabilities	805	59,045	–	59,850
– Financial liabilities designated at fair value through profit or loss	–	6,353	–	6,353
Derivative financial instruments (Note 24)	195	41,358	–	41,553

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(A) Fair value hierarchy (continued)

	2022			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Financial assets				
Trading assets (Note 23)				
– Debt securities and certificates of deposit	82	36,724	–	36,806
– Equity securities	59	–	–	59
– Fund	1	–	–	1
– Other debt instruments	–	3,400	–	3,400
Other financial assets mandatorily classified at fair value through profit or loss (Note 23)				
– Debt securities and certificates of deposit	88	56,268	1,815	58,171
– Equity securities	3,957	658	–	4,615
– Fund	2,699	1,105	6,865	10,669
Financial assets designated at fair value through profit or loss (Note 23)				
– Debt securities and certificates of deposit	859	1,396	–	2,255
– Other debt instruments	–	15,237	–	15,237
Derivative financial instruments (Note 24)	97	61,735	–	61,832
Advances and other accounts at fair value	–	8,884	832	9,716
Investment in securities at FVOCI (Note 26)				
– Debt securities and certificates of deposit	162,629	530,936	735	694,300
– Equity securities	806	851	1,860	3,517
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 32)				
– Trading liabilities	6	59,445	–	59,451
– Financial liabilities designated at fair value through profit or loss	–	2	–	2
Derivative financial instruments (Note 24)	291	49,975	–	50,266

There were no financial asset and liability transfers between level 1 and level 2 for the Group during the year (2022: Nil).

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items

	2023					
	Financial assets					
	Other financial assets mandatorily classified at FVPL			Advances and other accounts at fair value	Investment in securities at FVOCI	
	Debt securities HK$'m	Equity securities HK$'m	Fund HK$'m	HK$'m	Debt securities HK$'m	Equity securities HK$'m
At 1 January 2023	1,815	–	6,865	832	735	1,860
(Losses)/gains						
– Income statement						
– Net (loss)/gain on other financial instruments at fair value through profit or loss	(40)	–	392	–	–	–
– Other comprehensive income						
– Change in fair value	–	–	–	–	–	602
Additions	110	–	502	–	–	800
Disposals, redemptions and maturity	(62)	–	(70)	–	–	–
Transfer into level 3	–	–	–	–	–	–
Transfer out of level 3	(1,753)	–	–	–	(735)	–
Exchange difference	–	–	–	31	–	–
At 31 December 2023	70	–	7,689	863	–	3,262
Total unrealised (losses)/gains for the year included in income statement for financial assets held as at 31 December 2023						
– Net (loss)/gain on other financial instruments at fair value through profit or loss	(40)	–	392	–	–	–

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

	2022					
	Financial assets					
	Other financial assets mandatorily classified at FVPL			Advances and other accounts at fair value	Investment in securities at FVOCI	
	Debt securities	Equity securities	Fund		Debt securities	Equity securities
	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m
At 1 January 2022	4,028	193	4,876	–	1,108	2,132
(Losses)/gains						
– Income statement						
– Net (loss)/gain on other financial instruments at fair value through profit or loss	(466)	(147)	914	–	–	–
– Other comprehensive income						
– Change in fair value	–	–	–	–	(207)	(295)
Additions	104	–	1,076	–	–	23
Disposals, redemptions and maturity	–	–	(1)	–	–	–
Transfer into level 3	–	–	–	832	–	–
Transfer out of level 3	(1,851)	(46)	–	–	(166)	–
At 31 December 2022	1,815	–	6,865	832	735	1,860
Total unrealised (losses)/gains for the year included in income statement for financial assets held as at 31 December 2022						
– Net (loss)/gain on other financial instruments at fair value through profit or loss	(466)	(147)	914	–	–	–

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

As at 31 December 2023 and 2022, financial instruments categorised as level 3 are mainly comprised of certain debt and equity securities, fund, certain advances and other accounts and unlisted equity shares.

For certain illiquid debt securities and fund, the Group obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value, including discounted cash flow analysis, net asset value and market comparison approach, which may be based on unobservable inputs with significant impact on valuation. For certain equity securities, advances and other accounts, the credit spreads of comparables used in valuation techniques are unobservable inputs with significant impact on valuation. Therefore, these instruments have been classified by the Group as level 3. Transfers into and out of level 3 during 2023 and 2022 were due to change of valuation input observability. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

The fair values of unlisted FVOCI equity investments are determined with reference to (i) multiples of comparable listed companies, including average of the price/earnings ratios and average of the price/book values ratios of the comparables; or (ii) dividend discount model calculation of the underlying equity investments; or (iii) net asset value with fair value adjustments on certain assets or liabilities held (if applicable), if neither appropriate comparables nor dividend discount model calculation is available or applicable. The significant unobservable inputs and their range applied in the fair values measurement of the Group's unlisted equity investments includes price/earnings ratios of the comparables of 23.83x – 50.45x, price/book values ratios of the comparables of 0.25x – 0.82x, liquidity discount of 20% – 30%, dividend payout ratio of 23.44% – 83.91% and discount rate of 12.18% – 14.81%. The fair value is positively correlated to the price/earnings ratios and price/book value ratios of appropriate comparables, forecasted stream of future dividend payout or net asset values, and is negatively correlated to the liquidity discount used in the average of price/earnings ratios and price/book value ratios of comparables or discount rate used in dividend discount model.

Had all of the significant unobservable inputs applied on the valuation techniques favourably changed/unfavourably changed by 5% (2022: 5%), the Group's other comprehensive income would have increased by HK$64 million and decreased by HK$63 million, respectively (2022: increased by HK$84 million and decreased by HK$83 million, respectively).

5. Fair values of assets and liabilities (continued)

5.2 Financial instruments not measured at fair value

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

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

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

Hong Kong SAR Government certificates of indebtedness and Hong Kong SAR currency notes in circulation

The carrying value of Hong Kong SAR Government certificates of indebtedness and Hong Kong SAR currency notes in circulation approximates their fair value.

Advances to customers and banks and other financial institutions

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

Investment in securities at amortised cost

The fair value of securities at amortised cost is determined by using the same approach as those debt securities and certificates of deposit and mortgage backed securities measured at fair value as described in Note 5.1.

Deposits from customers

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

Debt securities and certificates of deposit in issue

The fair value of these instruments is determined by using the same approach as those debt securities and certificates of deposit measured at fair value as described in Note 5.1.

Subordinated liabilities

The fair value of subordinated liabilities is determined by using the same approach as those debt securities and certificates of deposit measured at fair value as described in Note 5.1 and their carrying value approximates fair value.

5. Fair values of assets and liabilities (continued)

5.2 Financial instruments not measured at fair value (continued)

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

	2023		2022	
	Carrying value HK$'m	**Fair value HK$'m**	Carrying value HK$'m	Fair value HK$'m
Financial assets				
Investment in securities at amortised cost (Note 26)	**208,078**	**202,952**	239,196	229,448
Financial liabilities				
Debt securities and certificates of deposit in issue (Note 34)	**1,999**	**2,001**	3,636	3,634

The following tables show the fair value hierarchy for financial instruments with fair values disclosed.

	2023			
	Level 1 HK$'m	**Level 2 HK$'m**	**Level 3 HK$'m**	**Total HK$'m**
Financial assets				
Investment in securities at amortised cost	**31,942**	**170,998**	**12**	**202,952**
Financial liabilities				
Debt securities and certificates of deposit in issue	**–**	**2,001**	**–**	**2,001**

	2022			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Financial assets				
Investment in securities at amortised cost	71,948	157,494	6	229,448
Financial liabilities				
Debt securities and certificates of deposit in issue	–	3,634	–	3,634

5. Fair values of assets and liabilities (continued)

5.3 Non-financial instruments measured at fair value

The Group uses valuation techniques or quoted market prices in active market to determine the fair value of non-financial instruments.

Investment properties and premises

The Group's properties can be divided into investment properties and premises. All of the Group's investment properties and premises were revalued as at year end. This year, the valuations were carried out by an independent firm of chartered surveyors, Knight Frank Petty Limited, who have among their staff Fellow and Members of The Hong Kong Institute of Surveyors with recent experience in the locations and categories of properties being valued. The Group's Management had discussions with the surveyors on the valuation methods, valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date. There has been no change in valuation methods during the year and the methods used are consistent with last year.

(i) Valuation methods and inputs used in level 2 fair value measurements

The fair value of properties classified as level 2 is determined using either the market comparison approach by reference to recent sales price of comparable properties or the income capitalisation approach by reference to market rent and capitalisation rate, with appropriate adjustments to reflect the differences between the comparable properties and the subject properties. These adjustments are considered as insignificant to the measurement.

The Group's properties are located in Hong Kong, certain major cities in the mainland, Thailand and Malaysia where the property markets are considered active and transparent. Sales price, market rent and capitalisation rate of comparable properties are generally observable either directly or indirectly in these markets.

(ii) Information about level 3 fair value measurements

The fair value of all of the Group's properties classified as level 3, except for the bank vault, is determined using either the market comparison approach or the income capitalisation approach, adjusted for a premium or a discount specific to the features of the Group's properties compared to the comparable properties.

The fair value of the bank vault is determined using the depreciated replacement cost approach as no direct comparable is available given the specialised nature of the property. The major inputs are the market value of the existing land, the current cost of replacing the property and the depreciation rate. Appropriate adjustments are made to reflect the specialised nature of the property.

5. Fair values of assets and liabilities (continued)

5.3 Non-financial instruments measured at fair value (continued)

Investment properties and premises (continued)

(ii) Information about level 3 fair value measurements (continued)

The valuation methods and significant unobservable inputs used in the fair value measurement of the Group's properties classified as level 3 are as follows:

	Valuation method	Significant unobservable inputs	Weighted average	Relationship of unobservable inputs to fair value
Bank vault	Depreciated replacement cost approach	Depreciation rate	2% (2022: 2%) per year	The higher the depreciation rate, the lower the fair value.
		Premium on specialised nature of the property	+15% (2022: +15%) to building cost	The higher the premium, the higher the fair value.
Other properties	Market comparison approach or income capitalisation approach	Premium/(discount) on features of the property compared to comparable properties	-6.8% (2022: -10.7%)	The higher the premium, the higher the fair value. The higher the discount, the lower the fair value.

Premium/(discount) on features of a property is determined after taken into account various factors, such as time for market movement, location, accessibility, building age/condition, floor level, size, layout, etc., with reference to the differences in features with comparable properties.

For the fair value of the investment property with a redevelopment plan, it is measured on a redevelopment basis by adopting residual approach which is a valuation method generally used to value development of lands. Gross Development Value ("GDV") is first determined using market comparison approach by reference to recent transactions of comparable properties and adjusted for a premium or a discount specific to the quality of the Group's development compared to the comparable properties. The ultimate fair value of the redevelopment is the residual value after deducting the present value of the development costs (including professional fees, demolition cost, constructions cost etc.) and developer's profit from the present value of the GDV. The higher the GDV, the higher the fair value; the higher the development costs and the discount rate, the lower is the fair value.

Precious metals

The fair values of precious metals are determined by obtaining quoted market prices in active market or market quote with certain adjustments.

5. Fair values of assets and liabilities (continued)

5.3 Non-financial instruments measured at fair value (continued)

(A) Fair value hierarchy

	2023			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'m	**HK$'m**	**HK$'m**	**HK$'m**
Non-financial assets				
Investment properties (Note 28)	**–**	**308**	**14,567**	**14,875**
Properties, plant and equipment (Note 29)				
– Premises	**–**	**1,075**	**38,380**	**39,455**
Other assets (Note 30)				
– Precious metals	**–**	**11,627**	**–**	**11,627**

	2022			
	Level 1	Level 2	Level 3	Total
	HK$'m	HK$'m	HK$'m	HK$'m
Non-financial assets				
Investment properties (Note 28)	–	323	15,746	16,069
Properties, plant and equipment (Note 29)				
– Premises	–	976	40,806	41,782
Other assets (Note 30)				
– Precious metals	–	11,507	–	11,507

There were no non-financial asset transfers between level 1 and level 2 for the Group during the year (2022: Nil).

5. Fair values of assets and liabilities (continued)

5.3 Non-financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items

	2023	
	Non-financial assets	
		Properties, plant and equipment
	Investment properties	Premises
	HK$'m	HK$'m
At 1 January 2023	15,746	40,806
Losses		
– Income statement		
– Net loss from fair value adjustments on investment properties	(1,259)	–
– Net loss from revaluation of premises	–	(130)
– Other comprehensive income		
– Revaluation of premises	–	(970)
Depreciation	–	(1,164)
Additions	26	27
Transfer into level 3	–	41
Transfer out of level 3	–	(176)
Reclassification	54	(54)
At 31 December 2023	14,567	38,380
Total unrealised losses for the year included in income statement for non-financial assets held as at 31 December 2023		
– Net loss from fair value adjustments on investment properties	(1,259)	–
– Net loss from revaluation of premises	–	(130)
	(1,259)	(130)

5. Fair values of assets and liabilities (continued)

5.3 Non-financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

	2022	
	Non-financial assets	
		Properties, plant and equipment
	Investment properties	Premises
	HK$'m	HK$'m
At 1 January 2022	17,245	40,482
Losses		
– Income statement		
– Net loss from fair value adjustments on investment properties	(1,289)	–
– Net loss from revaluation of premises	–	(113)
– Other comprehensive income		
– Revaluation of premises	–	(954)
Depreciation	–	(1,148)
Additions	8	50
Transfer into level 3	182	2,089
Transfer out of level 3	–	–
Reclassification	(400)	400
At 31 December 2022	15,746	40,806
Total unrealised losses for the year included in income statement for non-financial assets held as at 31 December 2022		
– Net loss from fair value adjustments on investment properties	(1,289)	–
– Net loss from revaluation of premises	–	(113)
	(1,289)	(113)

The transfer of properties into and out of level 3 is due to change in the premium/(discount) on features applied between the subject and comparable properties during the year. Premium/(discount) on features is determined with reference to differences in features between the subject properties and the comparable properties recently transacted in the market. As comparable properties that come from recent market transactions may be different in each year, the premium/(discount) on features applied between the subject and comparable properties would change from year to year accordingly. As a result, the significance of adjustments made to observable market inputs may vary and lead to the transfer of properties into and out of level 3.

6. Net interest income

	2023 HK$'m	2022 HK$'m
Interest income		
Advances to customers, due from banks and other financial institutions	**86,940**	45,102
Investment in securities and financial assets at fair value through profit or loss	**40,691**	18,278
Others	**858**	390
	128,489	63,770
Interest expense		
Deposits from customers, due to banks and other financial institutions	**(71,940)**	(23,692)
Debt securities and certificates of deposit in issue	**(116)**	(84)
Subordinated liabilities	**(2,509)**	(332)
Lease liabilities	**(41)**	(34)
Others	**(2,805)**	(878)
	(77,411)	(25,020)
Net interest income	**51,078**	38,750

Included within interest income are HK$94,206 million (2022: HK$49,617 million) and HK$27,253 million (2022: HK$11,337 million) for financial assets measured at amortised cost and at fair value through other comprehensive income respectively.

Included within interest expense are HK$76,174 million (2022: HK$24,709 million) for financial liabilities that are not measured at fair value through profit or loss.

7. Net fee and commission income

	2023 HK$'m	2022 HK$'m
Fee and commission income		
Credit card business	**2,430**	1,991
Loan commissions	**2,413**	2,547
Securities brokerage	**1,826**	2,491
Trust and custody services	**790**	723
Payment services	**714**	724
Insurance	**651**	912
Bills commissions	**481**	514
Funds distribution	**431**	541
Currency exchange	**398**	210
Safe deposit box	**290**	299
Funds management	**28**	49
Others	**1,735**	1,359
	12,187	12,360
Fee and commission expense		
Credit card business	**(1,790)**	(1,419)
Securities brokerage	**(281)**	(333)
Others	**(949)**	(808)
	(3,020)	(2,560)
Net fee and commission income	**9,167**	9,800
Of which arise from:		
Financial assets or financial liabilities that are not measured at fair value through profit or loss		
– Fee and commission income	**2,663**	2,848
– Fee and commission expense	**(9)**	(10)
	2,654	2,838
Trust and other fiduciary activities		
– Fee and commission income	**987**	922
– Fee and commission expense	**(41)**	(39)
	946	883

8. Net trading gain

	2023 HK$'m	2022 HK$'m
Net gain from:		
Foreign exchange and foreign exchange products	**8,028**	7,635
Interest rate instruments and items under fair value hedge	**3**	4,957
Commodities	**274**	173
Equity and credit derivative instruments	**10**	74
	8,315	12,839

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

	2023 HK$'m	2022 HK$'m
Net gain/(loss) on other financial instruments mandatorily classified at fair value through profit or loss	**2,026**	(11,848)
Net gain/(loss) on financial instruments designated at fair value through profit or loss	**251**	(16)
	2,277	(11,864)

10. Net loss on other financial instruments

	2023 HK$'m	2022 HK$'m
Net loss on disposal/redemption of investment in securities at FVOCI	**(1,457)**	(3,816)
Net loss on redemption of investment in securities at amortised cost	**(21)**	(52)
Others	**10**	12
	(1,468)	(3,856)

11. Insurance finance (expenses)/income

	2023 HK$'m	2022 HK$'m
Finance (expenses)/income from insurance contracts issued		
Interest accreted	**(2,760)**	(2,562)
The effect of and changes in financial risk	**(2,285)**	6,286
Exchange difference	**903**	3,942
Changes in fair value of underlying items of contracts under variable fee approach	**(3,948)**	7,666
	(8,090)	15,332
Finance income/(expenses) from reinsurance contracts held		
Interest accreted	**1,155**	1,109
The effect of and changes in financial risk	**696**	(1,072)
Exchange difference	**(721)**	(3,434)
	1,130	(3,397)
	(6,960)	11,935
Amount recognised in income statement	**(5,430)**	6,561
Amount recognised in other comprehensive income	**(1,530)**	5,374
	(6,960)	11,935

12. Other operating income

	2023 HK$'m	2022 HK$'m
Dividend income		
– From investment in securities at FVOCI derecognised during the year	**–**	114
– From investment in securities at FVOCI held at the end of the year	**108**	156
Gross rental income from investment properties	**465**	524
Less: Outgoings in respect of investment properties	**(71)**	(49)
Gain from disposal of associates and joint ventures	**–**	3
Others	**111**	100
	613	848

Included in the "Outgoings in respect of investment properties" is HK$9 million (2022: HK$7 million) of direct operating expenses related to investment properties that were not let during the year.

13. Net charge of impairment allowances

	2023 HK$'m	2022 HK$'m
Net (charge)/reversal of impairment allowances on:		
Advances and other accounts		
– At FVOCI	**48**	(77)
– At amortised cost	**(6,467)**	(2,468)
	(6,419)	(2,545)
Balances and placements with banks and other financial institutions	**(22)**	(36)
Investment in securities		
– At FVOCI	**(13)**	120
– At amortised cost	**15**	(24)
	2	96
Loan commitments and financial guarantee contracts	**120**	151
	(6,319)	(2,334)
Others	**(14)**	(14)
Net charge of impairment allowances	**(6,333)**	(2,348)

14. Operating expenses

	2023 HK$'m	2022 HK$'m
Staff costs (including directors' emoluments)		
– Salaries and other costs	**10,143**	9,412
– Pension cost	**582**	534
	10,725	9,946
Premises and equipment expenses (excluding depreciation and amortisation)		
– Short-term leases, leases of low-value assets and variable lease payments	**56**	10
– Others	**1,338**	1,263
	1,394	1,273
Depreciation and amortisation	**2,919**	3,001
Auditor's remuneration		
– Audit services	**30**	25
– Non-audit services	**2**	14
Other operating expenses	**2,689**	3,585
	17,759	17,844
Less: Costs directly attributable to insurance contracts	**(1,152)**	(894)
	16,607	16,950

15. Net loss from disposal of/fair value adjustments on investment properties

	2023 HK$'m	2022 HK$'m
Net loss from fair value adjustments on investment properties (Note 28)	**(1,270)**	(1,305)

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

	2023 HK$'m	2022 HK$'m
Net loss from disposal of equipment, fixtures and fittings	**(5)**	(1)
Net loss from revaluation of premises (Note 29)	**(130)**	(110)
	(135)	(111)

17. Taxation

Taxation in the income statement represents:

	2023 HK$'m	2022 HK$'m
Current tax		
Hong Kong profits tax		
– Current year taxation	**5,848**	5,742
– Over-provision in prior years	**(158)**	(315)
	5,690	5,427
Taxation outside Hong Kong		
– Current year taxation	**970**	597
– Over-provision in prior years	**(267)**	(1)
	6,393	6,023
Deferred tax		
Origination and reversal of temporary differences and unused tax credits (Note 36)	**(336)**	(91)
	6,057	5,932

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries/regions in which the Group operates.

17. Taxation (continued)

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

	2023 **HK$'m**	2022 HK$'m
Profit before taxation	**40,914**	33,162
Calculated at a taxation rate of 16.5% (2022: 16.5%)	**6,751**	5,472
Effect of different taxation rates in other countries/regions	**171**	99
Income not subject to taxation	**(2,052)**	(214)
Expenses not deductible for taxation purposes	**1,562**	999
Over-provision in prior years	**(425)**	(316)
Withholding tax outside Hong Kong	**335**	146
Others	**(285)**	(254)
Taxation charge	**6,057**	5,932
Effective tax rate	**14.8%**	17.9%

Organisation for Economic Co-operation and Development's ("OECD") Global Minimum Tax ("Pillar Two") model rules

The Group is within the scope of the OECD's Pillar Two model rules. Pillar Two legislation was enacted in Vietnam and Malaysia, among the jurisdictions in which the Group operates, and will come into effect from 1 January 2024 and 1 January 2025 respectively. Since the Pillar Two legislation was not effective at the reporting date, the Group has no related current tax expense. The Group applies the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to HKAS 12 "Income Taxes" issued in July 2023.

Under the Pillar Two legislation enacted in Vietnam and Malaysia, the Group is liable to pay a top-up tax for the difference between the Global Anti-Base Erosion ("GloBE") effective tax rate for Vietnam and Malaysia, and the 15% minimum rate.

The Group has assessed the average effective tax rate (calculated in accordance with HKAS 12) for the Group entities operated in Vietnam and Malaysia for the year ended 31 December 2023 exceeds 15% minimum rate.

Due to the complexities in applying the Pillar Two legislation and calculating GloBE income, the Group is currently assessing the quantitative impact of the enacted or substantively enacted legislation. Therefore, even for those Group entities with an accounting effective tax rate above 15%, there may still be Pillar Two tax implications.

18. Dividends

	2023		2022	
	Per share HK$	**Total HK$'m**	Per share HK$	Total HK$'m
Interim dividend paid	**0.527**	**5,572**	0.447	4,726
Proposed final dividend	**1.145**	**12,106**	0.910	9,621
	1.672	**17,678**	1.357	14,347

The final dividend of HK$0.910 per ordinary share for the year ended 31 December 2022 amounting to approximately HK$9,621 million was approved at the Annual General Meeting held on 29 June 2023 and was paid on 14 July 2023.

At a meeting held on 30 August 2023, the Board declared an interim dividend of HK$0.527 per ordinary share for the first half of 2023 amounting to approximately HK$5,572 million.

At a meeting held on 28 March 2024, the Board proposed to recommend to the Annual General Meeting on 27 June 2024 a final dividend of HK$1.145 per ordinary share for the year ended 31 December 2023 amounting to approximately HK$12,106 million. This proposed final dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2024.

19. Earnings per share

The calculation of basic earnings per share for the year ended 31 December 2023 is based on the consolidated profit for the year attributable to equity holders of the Company of approximately HK$32,723 million (2022: HK$25,940 million) and on the ordinary shares in issue of 10,572,780,266 shares (2022: 10,572,780,266 ordinary shares).

There was no dilution of earnings per share as no potential ordinary shares were in issue for the year ended 31 December 2023 (2022: Nil).

20. Retirement benefit costs

Retirement benefits are provided to eligible employees of the Group.

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

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

With the implementation of the MPF Schemes Ordinance on 1 December 2000, the Group also launched the MPF Scheme according to the regulatory requirement. Since 2019, employees with 5 years of service or above are entitled to employer's voluntary contribution. The trustee of the Scheme is BOCI-Prudential Trustee and the investment manager is BOCI-Prudential Asset Management, which are related parties of the Company.

The Group's total contributions made to the ORSO scheme for the year ended 31 December 2023 amounted to approximately HK$375 million (2022: approximately HK$357 million), after a deduction of forfeited contributions of approximately HK$15 million (2022: approximately HK$20 million). For the MPF Scheme, the Group contributed approximately HK$151 million (2022: approximately HK$137 million) for the year ended 31 December 2023.

All eligible employees of institutions in other countries and regions participate in the local defined contribution schemes or defined benefit plans in accordance with local regulations and market practices.

21. Directors', senior management's and key personnel's emoluments

(a) Directors' and senior management's emoluments

(i) Directors' emoluments

Details of the emoluments paid to or receivable by the directors of the Company in respect of their services rendered for the Company and managing the subsidiaries within the Group during the year are as follows:

	2023				
	Directors' fee HK$'000	Basic salaries, allowances and benefits in kind HK$'000	Bonus HK$'000	Other payments# HK$'000	Total HK$'000
Executive Director					
SUN Yu (Chief Executive)	–	6,313	3,320	–	9,633
Non-executive Directors					
GE Haijao [Note 1]	–	–	–	–	–
LIU Jin	–	–	–	–	–
LIN Jingzhen	–	–	–	–	–
CHENG Eva*	600	–	–	–	600
CHOI Koon Shum*	600	–	–	–	600
FUNG Yuen Mei Anita*	651	–	–	–	651
LAW Yee Kwan Quinn*	550	–	–	–	550
LEE Sunny Wai Kwong*	626	–	–	–	626
LIP Sai Wo* [Note 1]	331	–	–	–	331
MA Si Hang Frederick* [Note 1]	110	–	–	–	110
KOH Beng Seng* [Note 2]	321	–	–	–	321
TUNG Savio Wai-Hok* [Note 2]	345	–	–	–	345
	4,134	–	–	–	4,134
	4,134	6,313	3,320	–	13,767

Note 1: Appointed during the year.
Note 2: Resigned during the year.

21. Directors', senior management's and key personnel's emoluments (continued)

(a) Directors' and senior management's emoluments (continued)

(i) Directors' emoluments (continued)

	2022				
	Directors' fee HK$'000	Basic salaries, allowances and benefits in kind HK$'000	Bonus HK$'000	Other payments# HK$'000	Total HK$'000
Executive Director					
SUN Yu (Chief Executive)	–	5,532	3,320	–	8,852
Non-executive Directors					
LIU Jin	–	–	–	–	–
LIN Jingzhen	–	–	–	–	–
CHENG Eva*	600	–	–	–	600
CHOI Koon Shum*	600	–	–	–	600
FUNG Yuen Mei Anita*	500	–	–	–	500
KOH Beng Seng*	650	–	–	–	650
LAW Yee Kwan Quinn*	550	–	–	–	550
LEE Sunny Wai Kwong*	179	–	–	–	179
TUNG Savio Wai-Hok*	700	–	–	–	700
	3,779	–	–	–	3,779
	3,779	5,532	3,320	–	12,631

* Independent Non-executive Directors

\# Including the contributions to pension scheme for directors, inducement to join the Group and the compensation for the loss of office paid to or receivable by directors.

Except as disclosed in above tables, director resigned during the year received no emoluments.

There were no directors waived emoluments for the year ended 31 December 2023 (2022: Nil).

21. Directors', senior management's and key personnel's emoluments (continued)

(a) Directors' and senior management's emoluments (continued)

(ii) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2022: one) director whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining four (2022: four) individuals during the year are as follows:

	2023 HK$'m	2022 HK$'m
Basic salaries and allowances	**18**	20
Bonus	**14**	12
Contributions to pension schemes	**1**	1
	33	33

Emoluments paid to or receivable by individuals during the year with reference to their tenure are within the following bands:

	Number of individuals	
	2023	2022
HK$6,500,001 to HK$7,000,000	**–**	2
HK$7,000,001 to HK$7,500,000	**1**	–
HK$7,500,001 to HK$8,000,000	**1**	–
HK$8,000,001 to HK$8,500,000	**1**	–
HK$8,500,001 to HK$9,000,000	**–**	1
HK$9,000,001 to HK$9,500,000	**1**	–
HK$10,000,001 to HK$10,500,000	**–**	1

21. Directors', senior management's and key personnel's emoluments (continued)

(a) Directors' and senior management's emoluments (continued)

(iii) Senior management's emoluments

Emoluments paid to or receivable by individuals during the year with reference to their tenure as senior management are within the following bands:

	Number of individuals	
	2023	2022
HK$0 to HK$500,000	**–**	2
HK$500,001 to HK$1,000,000	**1**	–
HK$2,500,001 to HK$3,000,000	**1**	1
HK$3,500,001 to HK$4,000,000	**–**	1
HK$4,000,001 to HK$4,500,000	**1**	–
HK$4,500,001 to HK$5,000,000	**2**	3
HK$5,000,001 to HK$5,500,000	**–**	1
HK$6,000,001 to HK$6,500,000	**–**	2
HK$6,500,001 to HK$7,000,000	**1**	–
HK$8,500,001 to HK$9,000,000	**–**	1
HK$9,500,001 to HK$10,000,000	**1**	–

(b) Remuneration for Senior Management and Key Personnel under CG-5

For the purpose of disclosure, Senior Management and Key Personnel are defined as follows:

- Senior Management: The senior executives designated by the Board who are responsible for oversight of the firm-wide strategy or activities or material business lines, including the Chief Executive, Deputy Chief Executives, Chief Financial Officer, Chief Risk Officer, Board Secretary and General Manager of Group Audit.

- Key Personnel: The employees whose duties or activities involve the assumption of material risk, or those who take on material exposures on behalf of the Group, or whose individual responsibilities are directly and materially linked to the risk management, or those who have direct influence to the profit, including heads of material business lines, heads of major subsidiaries and Southeast Asian entities, head of trading, heads of risk control functions, general managers who report directly to the Chief Executive, as well as "managers" appointed by the Group according to the Banking Ordinance.

21. Directors', senior management's and key personnel's emoluments (continued)

(b) Remuneration for Senior Management and Key Personnel under CG-5 (continued)

Details of the remuneration for Senior Management and Key Personnel of the Group during the year are as follows:

(i) Remuneration awarded during financial year

	2023		2022	
	Senior Management HK$'m	Key Personnel HK$'m	Senior Management HK$'m	Key Personnel HK$'m
Fixed remuneration				
Cash-based	**30**	**120**	41	113
Of which: deferred	**–**	**–**	–	–
Variable remuneration				
Cash-based	**14**	**70**	17	61
Of which: deferred	***5***	***28***	*7*	*24*
Total remuneration	**44**	**190**	58	174
Number of employees				
Fixed remuneration	**9**	**47**	13	43
Variable remuneration	**9**	**47**	12	41

(ii) Special payments

	2023		2022	
	Senior Management HK$'000	Key Personnel HK$'000	Senior Management HK$'000	Key Personnel HK$'000
Sign-on awards	**–**	**1,240**	–	280
Number of employees	**–**	**2**	–	1

There were no guaranteed bonuses and severance payments to Senior Management and Key Personnel for the year ended 31 December 2023 (2022: Nil).

21. Directors', senior management's and key personnel's emoluments (continued)

(b) Remuneration for Senior Management and Key Personnel under CG-5 (continued)

(iii) Deferred remuneration

	2023				
	Total amount of outstanding deferred remuneration HK$'m	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment HK$'m	Total amount of amendment during the year due to ex post explicit adjustments HK$'m	Total amount of amendment during the year due to ex post implicit adjustments HK$'m	Total amount of deferred remuneration paid out in the financial year HK$'m
Senior Management					
Cash	**11**	**11**	**–**	**–**	**(5)**
Key Personnel					
Cash	**48**	**48**	**–**	**–**	**(14)**
Total	**59**	**59**	**–**	**–**	**(19)**

	2022				
	Total amount of outstanding deferred remuneration HK$'m	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment HK$'m	Total amount of amendment during the year due to ex post explicit adjustments HK$'m	Total amount of amendment during the year due to ex post implicit adjustments HK$'m	Total amount of deferred remuneration paid out in the financial year HK$'m
Senior Management					
Cash	11	11	–	–	(5)
Key Personnel					
Cash	34	34	–	(1)	(12)
Total	45	45	–	(1)	(17)

22. Cash and balances and placements with banks and other financial institutions

	2023 HK$'m	2022 HK$'m
Cash	**19,257**	17,735
Balances with central banks	**141,310**	175,993
Placements with central banks maturing within one month	**13,595**	17,834
Placements with central banks maturing between one and twelve months	**3,052**	3,063
Placements with central banks maturing over one year	**1,820**	1,497
	159,777	198,387
Balances with other banks and other financial institutions	**136,944**	212,800
Placements with other banks and other financial institutions maturing within one month	**37,872**	50,489
Placements with other banks and other financial institutions maturing between one and twelve months	**52,191**	55,086
Placements with other banks and other financial institutions maturing over one year	**611**	756
	227,618	319,131
	406,652	535,253
Less: Impairment allowances		
– Stage 1	**(48)**	(43)
– Stage 2	**–**	–
– Stage 3	**(33)**	(16)
	406,571	535,194

23. Financial assets at fair value through profit or loss

	2023 HK$'m	2022 HK$'m
Securities		
Trading assets		
– Treasury bills	**32,892**	12,270
– Certificates of deposit	**7,449**	3,578
– Other debt securities	**26,137**	20,958
	66,478	36,806
– Equity securities	**69**	59
– Fund	**–**	1
	66,547	36,866
Other financial assets mandatorily classified at fair value through profit or loss		
– Certificates of deposit	**401**	397
– Other debt securities	**48,556**	57,774
	48,957	58,171
– Equity securities	**4,133**	4,615
– Fund	**12,589**	10,669
	65,679	73,455
Financial assets designated at fair value through profit or loss		
– Treasury bills	**375**	624
– Certificates of deposit	**35**	355
– Other debt securities	**19,255**	1,276
	19,665	2,255
Total securities	**151,891**	112,576
Other debt instruments		
Trading assets	**3,800**	3,400
Financial assets designated at fair value through profit or loss	**217,599**	15,237
Total other debt instruments	**221,399**	18,637
	373,290	131,213

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

Total securities are analysed by place of listing as follows:

	2023 HK$'m	2022 HK$'m
Debt securities and certificates of deposit		
– Listed in Hong Kong	**17,709**	20,831
– Listed outside Hong Kong	**44,657**	23,232
– Unlisted	**72,734**	53,169
	135,100	97,232
Equity securities		
– Listed in Hong Kong	**2,819**	3,961
– Listed outside Hong Kong	**1,383**	713
	4,202	4,674
Fund		
– Listed in Hong Kong	**3,421**	1,476
– Listed outside Hong Kong	**–**	337
– Unlisted	**9,168**	8,857
	12,589	10,670
Total securities	**151,891**	112,576

Total securities are analysed by type of issuer as follows:

	2023 HK$'m	2022 HK$'m
Sovereigns	**59,456**	35,728
Public sector entities	**1,762**	186
Banks and other financial institutions	**56,235**	49,890
Corporate entities	**34,438**	26,772
Total securities	**151,891**	112,576

24. Derivative financial instruments and hedge accounting

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

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

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

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

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

(a) Derivative financial instruments

The Group trades derivative products (both exchange-traded and OTC) mainly for customer business. The Group strictly follows risk management policies and requirements in providing derivative products to our customers and in trading of derivative products in the interbank market.

Derivatives are also used to manage the interest rate risk of the banking book. A derivative instrument must be included in the approved product list before any transactions for that instrument can be made. There are limits to control the notional amount of exposure arising from derivative transactions, and the maximum tenor of the deal is set. Every derivative transaction must be input into the relevant system for settlement, mark-to-market revaluation, reporting and control.

24. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

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

	2023		
	Contract/ notional amounts	Fair values	
		Assets	Liabilities
	HK$'m	HK$'m	HK$'m
Exchange rate contracts			
Spot, forwards and futures	**307,690**	**15,566**	**(11,035)**
Swaps	**2,098,292**	**16,176**	**(13,000)**
Options	**52,950**	**469**	**(194)**
	2,458,932	**32,211**	**(24,229)**
Interest rate contracts			
Futures	**24,339**	**10**	**(19)**
Swaps	**1,810,768**	**21,461**	**(16,684)**
	1,835,107	**21,471**	**(16,703)**
Commodity contracts	**16,627**	**497**	**(594)**
Equity contracts	**1,196**	**32**	**(27)**
	4,311,862	**54,211**	**(41,553)**

24. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

	2022		
	Contract/ notional amounts HK$'m	Fair values Assets HK$'m	Fair values Liabilities HK$'m
Exchange rate contracts			
Spot, forwards and futures	268,839	15,806	(10,068)
Swaps	1,426,428	15,226	(16,189)
Options	28,566	374	(156)
	1,723,833	31,406	(26,413)
Interest rate contracts			
Futures	99,719	75	(52)
Swaps	1,500,924	29,972	(23,326)
	1,600,643	30,047	(23,378)
Commodity contracts	14,501	361	(456)
Equity contracts	863	18	(19)
	3,339,840	61,832	(50,266)

(b) Hedge accounting

Fair value hedges

The Group uses interest rate swaps to hedge against change in fair value of financial assets and liabilities arising from movements in market interest rates. Interest rate risk to which the Group applies hedge accounting arises from fixed-rate debt securities and senior notes, whose fair value fluctuates when benchmark interest rates change. The Group only designates interest rate risks to the extent of benchmark interest rates as the hedged risks because the changes in fair value of the fixed-rate debt securities and senior notes are significantly influenced by the changes in the benchmark interest rates. Hedge accounting is applied where economic hedging relationships meet the hedge accounting criteria.

Possible sources of ineffectiveness are as follows:

– Notional and timing differences between the hedged items and hedging instruments;

– Significant changes in counterparties' credit risk.

24. Derivative financial instruments and hedge accounting (continued)

(b) Hedge accounting (continued)

Fair value hedges (continued)

The table below summarises the contract/notional amounts and average fixed interest rate of the hedging instruments as at 31 December by remaining contractual maturity.

	2023					
	Up to 1 month HK$'m	**1 to 3 months HK$'m**	**3 to 12 months HK$'m**	**1 to 5 years HK$'m**	**Over 5 years HK$'m**	**Total HK$'m**
Interest rate swaps						
Contract/notional amounts	**1,388**	**4,712**	**16,446**	**56,610**	**22,668**	**101,824**
Average fixed interest rate	**3.40%**	**3.48%**	**2.90%**	**3.22%**	**3.02%**	**N/A**

	2022					
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Total HK$'m
Interest rate swaps						
Contract/notional amounts	2,665	2,664	7,736	76,874	27,928	117,867
Average fixed interest rate	3.47%	3.29%	3.22%	3.07%	2.86%	N/A

24. Derivative financial instruments and hedge accounting (continued)

(b) Hedge accounting (continued)

Fair value hedges (continued)

The amounts relating to items designated as hedging instruments are as follows:

	2023			
		Fair values		
	Contract/ notional amounts HK$'m	**Assets HK$'m**	**Liabilities HK$'m**	**Change in fair value used for recognising hedge ineffectiveness HK$'m**
Derivative financial instruments				
Interest rate swaps	**101,824**	**5,022**	**(142)**	**(2,480)**

	2022			
		Fair values		
	Contract/ notional amounts HK$'m	Assets HK$'m	Liabilities HK$'m	Change in fair value used for recognising hedge ineffectiveness HK$'m
Derivative financial instruments				
Interest rate swaps	117,867	7,290	(169)	9,762

24. Derivative financial instruments and hedge accounting (continued)

(b) Hedge accounting (continued)

Fair value hedges (continued)

The amounts relating to hedged items are as follows:

	2023				
	Carrying amounts		Accumulated amount of fair value hedge adjustment included in the carrying amounts		Change in value used for recognising hedge ineffectiveness
	Assets HK$'m	Liabilities HK$'m	Assets HK$'m	Liabilities HK$'m	HK$'m
Investment in securities					
Debt securities	**94,612**	**–**	**(5,833)**	**–**	**2,195**
Debt securities and certificates of deposit in issue					
Senior notes	**–**	**(1,999)**	**–**	**10**	**(63)**
	94,612	**(1,999)**	**(5,833)**	**10**	**2,132**

	2022				
	Carrying amounts		Accumulated amount of fair value hedge adjustment included in the carrying amounts		Change in value used for recognising hedge ineffectiveness
	Assets HK$'m	Liabilities HK$'m	Assets HK$'m	Liabilities HK$'m	HK$'m
Investment in securities					
Debt securities	107,364	–	(9,412)	–	(9,959)
Debt securities and certificates of deposit in issue					
Senior notes	–	(1,934)	–	73	73
	107,364	(1,934)	(9,412)	73	(9,886)

Hedge ineffectiveness recognised is as follows:

	2023 HK$'m	2022 HK$'m
Net trading loss	**(348)**	(124)

25. Advances and other accounts

	2023 HK$'m	2022 HK$'m
Personal loans and advances	**600,813**	551,286
Corporate loans and advances	**1,101,489**	1,096,983
Advances to customers	**1,702,302**	1,648,269
Less: Impairment allowances		
– Stage 1	**(4,110)**	(3,995)
– Stage 2	**(1,056)**	(2,511)
– Stage 3	**(9,555)**	(4,992)
	1,687,581	1,636,771
Trade bills	**3,751**	6,329
Less: Impairment allowances		
– Stage 1	**(1)**	(1)
– Stage 2	**–**	–
– Stage 3	**–**	–
	3,750	6,328
Advances to banks and other financial institutions	**1,815**	1,015
Less: Impairment allowances		
– Stage 1	**(2)**	(1)
– Stage 2	**–**	–
– Stage 3	**–**	–
	1,813	1,014
	1,693,144	1,644,113

As at 31 December 2023, advances to customers included accrued interest of HK$5,731 million (2022: HK$3,980 million).

As at 31 December 2023, advances and other accounts at fair value through other comprehensive income and mandatorily classified at fair value through profit or loss amounted to HK$4,512 million (2022: HK$8,884 million) and HK$863 million (2022: HK$832 million) respectively.

26. Investment in securities

	2023 **HK$'m**	2022 HK$'m
Investment in securities at fair value through other comprehensive income		
– Treasury bills	**305,168**	287,961
– Certificates of deposit	**25,910**	42,144
– Other debt securities	**434,578**	364,195
	765,656	694,300
– Equity securities	**4,706**	3,517
	770,362	697,817
Investment in securities at amortised cost		
– Treasury bills	**12**	6
– Certificates of deposit	**1,214**	4,630
– Other debt securities	**206,899**	234,622
	208,125	239,258
Less: Impairment allowances		
– Stage 1	**(47)**	(62)
– Stage 2	**–**	–
– Stage 3	**–**	–
	208,078	239,196
	978,440	937,013

26. Investment in securities (continued)

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

	2023 HK$'m	2022 HK$'m
Investment in securities at fair value through other comprehensive income		
Debt securities and certificates of deposit		
– Listed in Hong Kong	**88,869**	86,572
– Listed outside Hong Kong	**174,722**	141,484
– Unlisted	**502,065**	466,244
	765,656	694,300
Equity securities		
– Listed in Hong Kong	**1,040**	1,060
– Unlisted	**3,666**	2,457
	4,706	3,517
	770,362	697,817
Investment in securities at amortised cost		
Debt securities and certificates of deposit		
– Listed in Hong Kong	**15,827**	13,839
– Listed outside Hong Kong	**122,043**	158,462
– Unlisted	**70,208**	66,895
	208,078	239,196
	978,440	937,013
Market value of listed securities at amortised cost	**134,598**	165,092

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

	2023 HK$'m	2022 HK$'m
Sovereigns	**490,733**	506,386
Public sector entities	**109,128**	60,900
Banks and other financial institutions	**286,490**	268,507
Corporate entities	**92,089**	101,220
	978,440	937,013

26. Investment in securities (continued)

The movements in investment in securities are summarised as follows:

	2023	
	At fair value through other comprehensive income HK$'m	**At amortised cost HK$'m**
At 1 January 2023	**697,817**	**239,196**
Additions	**1,316,600**	**40,655**
Disposals, redemptions and maturity	**(1,243,340)**	**(71,516)**
Amortisation	**3,460**	**617**
Change in fair value/fair value hedge adjustment	**6,888**	**213**
Net reversal of impairment allowances	**–**	**15**
Exchange difference	**(11,063)**	**(1,102)**
At 31 December 2023	**770,362**	**208,078**

	2022	
	At fair value through other comprehensive income HK$'m	At amortised cost HK$'m
At 1 January 2022	916,774	135,503
Additions	1,296,203	136,941
Disposals, redemptions and maturity	(1,453,974)	(29,429)
Amortisation	1,024	1,331
Change in fair value/fair value hedge adjustment	(30,225)	(741)
Net charge of impairment allowances	–	(24)
Exchange difference	(31,985)	(4,385)
At 31 December 2022	697,817	239,196

The Group has designated certain equity securities as equity securities at fair value through other comprehensive income. The fair value through other comprehensive income designation was made because these are held for strategic investments. Investments include subordinated Additional Tier 1 securities, listed and unlisted equity shares.

The Group derecognised certain equity securities at fair value through other comprehensive income with fair value of HK$233 million (2022: HK$2,796 million) during the year. The derecognition was made because of portfolio rebalancing and the redemption by issuer.

27. Interests in associates and joint ventures

	2023 HK$'m	2022 HK$'m
At 1 January	**843**	1,215
Addition/(disposal) of associates and joint ventures	**1,102**	(6)
Share of results	**(215)**	(330)
Share of tax	**(13)**	(9)
Dividend received	**(431)**	(27)
Exchange difference and others	**(11)**	–
At 31 December	**1,275**	843

The particulars of the Group's associates and joint ventures, all of which are unlisted, are as follows:

Name	Place of incorporation and operation	Issued share capital	Interest held	Principal activities
BOC Services Company Limited	PRC	Registered capital RMB50,000,000	45%	Credit card back-end service support
FutureX Innovation Limited	Cayman Islands	US$1	20%	Investment holding
Golden Harvest (Cayman) Limited	Cayman Islands	US$100	49%	Investment holding
Joint Electronic Teller Services Limited	Hong Kong	HK$10,025,200	19.96%	Operation of a private inter-bank message switching network in respect of ATM services
Livi Bank Limited	Hong Kong	HK$3,792,000,000	49.91%	Banking business
Sunac Realtor Capital Limited	Cayman Islands	US$1	20%	Investment holding
Black Spade Asia Acquisition Co.	Cayman Islands	HK$195,000	10%	Investment holding
GBA Equity Fund II LPF	Hong Kong	N/A	10.20%	Fund

None of the above associates and joint ventures is considered individually or in aggregate material to the Group.

28. Investment properties

	2023 HK$'m	2022 HK$'m
At 1 January	**16,069**	17,722
Additions	**26**	13
Fair value losses (Note 15)	**(1,270)**	(1,305)
Reclassification from/(to) properties, plant and equipment (Note 29)	**50**	(361)
At 31 December	**14,875**	16,069

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	2023 HK$'m	2022 HK$'m
Held in Hong Kong		
On long-term lease (over 50 years)	**4,619**	4,773
On medium-term lease (10 to 50 years)	**9,937**	10,975
Held outside Hong Kong		
On medium-term lease (10 to 50 years)	**261**	235
On short-term lease (less than 10 years)	**58**	86
	14,875	16,069

As at 31 December 2023, investment properties were included in the balance sheet at valuation carried out at 31 December 2023 on the basis of their fair value by an independent firm of chartered surveyors, Knight Frank Petty Limited. The fair value represents the price that would be received to sell each investment property in an orderly transaction with market participants at the measurement date.

29. Properties, plant and equipment

	Premises HK$'m	Equipment, fixtures and fittings HK$'m	Right-of-use assets* HK$'m	Total HK$'m
Net book value at 1 January 2023	**41,782**	**1,155**	**1,324**	**44,261**
Additions	**51**	**337**	**481**	**869**
Disposals	**(30)**	**(6)**	**–**	**(36)**
Revaluation	**(1,115)**	**–**	**–**	**(1,115)**
Depreciation for the year	**(1,181)**	**(433)**	**(569)**	**(2,183)**
Reclassification to investment properties (Note 28)	**(50)**	**–**	**–**	**(50)**
Exchange difference	**(2)**	**(2)**	**(4)**	**(8)**
Net book value at 31 December 2023	**39,455**	**1,051**	**1,232**	**41,738**
At 31 December 2023				
Cost or valuation	**39,455**	**6,557**	**2,814**	**48,826**
Accumulated depreciation and impairment	**–**	**(5,506)**	**(1,582)**	**(7,088)**
Net book value at 31 December 2023	**39,455**	**1,051**	**1,232**	**41,738**
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2023				
At cost	**–**	**6,557**	**2,814**	**9,371**
At valuation	**39,455**	**–**	**–**	**39,455**
	39,455	**6,557**	**2,814**	**48,826**

29. Properties, plant and equipment (continued)

	Premises HK$'m	Equipment, fixtures and fittings HK$'m	Right-of-use assets* HK$'m	Total HK$'m
Net book value at 1 January 2022	43,784	1,338	1,319	46,441
Additions	57	331	645	1,033
Disposals	(6)	(3)	–	(9)
Revaluation	(1,214)	–	–	(1,214)
Depreciation for the year	(1,196)	(500)	(627)	(2,323)
Reclassification from investment properties (Note 28)	361	–	–	361
Exchange difference	(4)	(11)	(13)	(28)
Net book value at 31 December 2022	41,782	1,155	1,324	44,261
At 31 December 2022				
Cost or valuation	41,782	7,163	2,497	51,442
Accumulated depreciation and impairment	–	(6,008)	(1,173)	(7,181)
Net book value at 31 December 2022	41,782	1,155	1,324	44,261
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2022				
At cost	–	7,163	2,497	9,660
At valuation	41,782	–	–	41,782
	41,782	7,163	2,497	51,442

* The right-of-use assets of the Group are mainly related to lease of properties.

29. Properties, plant and equipment (continued)

The carrying value of premises is analysed based on the remaining terms of the leases as follows:

	2023 HK$'m	2022 HK$'m
Held in Hong Kong		
On long-term lease (over 50 years)	**11,608**	12,034
On medium-term lease (10 to 50 years)	**27,542**	29,437
Held outside Hong Kong		
On long-term lease (over 50 years)	**56**	64
On medium-term lease (10 to 50 years)	**217**	214
On short-term lease (below 10 years)	**32**	33
	39,455	41,782

As at 31 December 2023, premises were included in the balance sheet at valuation carried out at 31 December 2023 on the basis of their fair value by an independent firm of chartered surveyors, Knight Frank Petty Limited. The fair value represents the price that would be received to sell each premise in an orderly transaction with market participants at the measurement date.

As a result of the above-mentioned revaluations, changes in value of the premises were recognised as follows:

	2023 HK$'m	2022 HK$'m
Decrease in valuation charged to income statement (Note 16)	**(130)**	(110)
Decrease in valuation charged to other comprehensive income	**(985)**	(1,104)
	(1,115)	(1,214)

As at 31 December 2023, the net book value of premises that would have been included in the Group's balance sheet had the premises been carried at cost less accumulated depreciation and impairment losses was HK$9,181 million (2022: HK$9,457 million).

30. Other assets

	2023 HK$'m	2022 HK$'m
Repossessed assets	**162**	334
Precious metals	**11,627**	11,507
Intangible assets	**2,382**	2,213
Accounts receivable and prepayments	**32,719**	23,048
Insurance contract assets	**2**	3
Reinsurance contract assets	**43,792**	48,815
	90,684	85,920

The movements in intangible assets are summarised as follows:

	2023 HK$'m	2022 HK$'m
Net book value at 1 January	**2,213**	2,025
Additions	**905**	866
Amortisation for the year	**(736)**	(678)
Net book value at 31 December	**2,382**	2,213
At 31 December		
Cost	**6,938**	6,727
Accumulated amortisation and impairment	**(4,556)**	(4,514)
Net book value at 31 December	**2,382**	2,213

31. Hong Kong SAR currency notes in circulation

The Hong Kong SAR currency notes in circulation are secured by deposit of funds in respect of which the Hong Kong SAR Government certificates of indebtedness are held.

32. Financial liabilities at fair value through profit or loss

	2023 HK$'m	2022 HK$'m
Trading liabilities		
– Short positions in securities	**59,850**	59,451
Financial liabilities designated at fair value through profit or loss		
– Repurchase agreements	**4,194**	–
– Structured notes	**–**	2
– Structured deposits (Note 33)	**2,159**	–
	6,353	2
	66,203	59,453

As at 31 December 2023 and 2022, the difference between the carrying amount of financial liabilities designated at fair value through profit or loss and the amount that the Group would be contractually required to pay at maturity to the holders was not significant.

33. Deposits from customers

	2023 HK$'m	2022 HK$'m
Current, savings and other deposit accounts (per balance sheet)	**2,501,682**	2,377,207
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 32)	**2,159**	–
	2,503,841	2,377,207
Analysed by:		
Demand deposits and current accounts		
– Corporate	**153,646**	165,006
– Personal	**62,720**	71,109
	216,366	236,115
Savings deposits		
– Corporate	**519,868**	472,248
– Personal	**451,245**	521,441
	971,113	993,689
Time, call and notice deposits		
– Corporate	**620,576**	616,829
– Personal	**695,786**	530,574
	1,316,362	1,147,403
	2,503,841	2,377,207

34. Debt securities and certificates of deposit in issue

	2023 HK$'m	2022 HK$'m
At amortised cost		
– Senior notes under the Medium Term Note Programme (i)	**–**	1,702
– Senior notes under the Medium Term Note Programme, with fair value hedge adjustment (ii)	**1,999**	1,934
	1,999	3,636

(i) In July 2021, BOCHK issued RMB1.5 billion senior notes, interest rate at 2.80% per annum payable semi-annually, due in 2023.

(ii) In February 2022, BOCHK issued HK$2 billion senior notes, interest rate at 1.33% per annum payable semi-annually, due in 2024.

35. Other accounts and provisions

	2023 HK$'m	2022 HK$'m
Other accounts payable and provisions	**82,404**	67,134
Lease liabilities	**1,206**	1,298
Impairment allowances on loan commitments and financial guarantee contracts		
– Stage 1	**319**	326
– Stage 2	**30**	36
– Stage 3	**21**	128
Reinsurance contract liabilities	**714**	766
	84,694	69,688

36. Deferred taxation

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

The major components of deferred tax (assets)/liabilities recorded in the balance sheet, and the movements during the year are as follows:

	2023					
	Accelerated tax depreciation HK$'m	**Property revaluation HK$'m**	**Losses HK$'m**	**Impairment allowances HK$'m**	**Others HK$'m**	**Total HK$'m**
At 1 January 2023	**841**	**6,278**	**(831)**	**(1,128)**	**(1,976)**	**3,184**
Charged/(credited) to income statement (Note 17)	**24**	**(165)**	**(87)**	**109**	**(217)**	**(336)**
(Credited)/charged to other comprehensive income	**–**	**(202)**	**–**	**–**	**614**	**412**
Release upon disposal of equity instruments at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**
Exchange difference and others	**–**	**–**	**–**	**–**	**2**	**2**
At 31 December 2023	**865**	**5,911**	**(918)**	**(1,019)**	**(1,577)**	**3,262**

	2022					
	Accelerated tax depreciation HK$'m	Property revaluation HK$'m	Losses HK$'m	Impairment allowances HK$'m	Others HK$'m	Total HK$'m
At 1 January 2022, as previously reported	826	6,606	(4)	(1,128)	(693)	5,607
Effect of adoption of HKFRS 17	–	–	(866)	–	212	(654)
At 1 January 2022, after adoption of HKFRS 17	826	6,606	(870)	(1,128)	(481)	4,953
Charged/(credited) to income statement (Note 17)	15	(128)	63	(11)	(30)	(91)
Credited to other comprehensive income	–	(200)	–	–	(1,511)	(1,711)
Release upon disposal of equity instruments at fair value through other comprehensive income	–	–	–	–	45	45
Exchange difference and others	–	–	(24)	11	1	(12)
At 31 December 2022	841	6,278	(831)	(1,128)	(1,976)	3,184

36. Deferred taxation (continued)

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

	2023 HK$'m	2022 HK$'m
Deferred tax assets	**(1,480)**	(1,162)
Deferred tax liabilities	**4,742**	4,346
	3,262	3,184

	2023 HK$'m	2022 HK$'m
Deferred tax assets to be recovered after more than twelve months	**(1,453)**	(1,107)
Deferred tax liabilities to be settled after more than twelve months	**5,977**	6,182
	4,524	5,075

As at 31 December 2023, the Group has no unrecognised deferred tax assets in respect of tax losses (2022: Nil).

37. Insurance contracts

(a) Reconciliation of remaining coverage and incurred claims for insurance contracts issued

	2023			
	Liabilities for remaining coverage			
	Excluding loss component HK$'m	Loss component HK$'m	Liabilities for incurred claims HK$'m	Total HK$'m
At 1 January	**168,674**	**160**	**409**	**169,243**
Insurance revenue	**(1,897)**	**–**	**–**	**(1,897)**
Insurance service expenses				
Incurred claims and other directly attributable expenses	**–**	**(6)**	**478**	**472**
Amortisation of insurance acquisition cash flows	**177**	**–**	**–**	**177**
Changes that relate to past service – changes in the fulfilment cash flow relating to the liabilities for incurred claims	**–**	**–**	**(13)**	**(13)**
Losses on onerous contracts and reversals of those losses	**–**	**354**	**–**	**354**
Losses for the net outflow recognised on initial recognition	**–**	**69**	**–**	**69**
	177	**417**	**465**	**1,059**
Insurance finance expenses/(income)	**8,047**	**48**	**(5)**	**8,090**
Investment components	**(22,342)**	**–**	**22,342**	**–**
Cash flows				
Premiums received	**25,743**	**–**	**–**	**25,743**
Claims and other directly attributable expenses paid	**–**	**–**	**(22,877)**	**(22,877)**
Insurance acquisition cash flows	**(1,490)**	**–**	**–**	**(1,490)**
	24,253	**–**	**(22,877)**	**1,376**
At 31 December	**176,912**	**625**	**334**	**177,871**
Insurance contract liabilities	**176,917**	**625**	**331**	**177,873**
Insurance contract assets	**(5)**	**–**	**3**	**(2)**
	176,912	**625**	**334**	**177,871**

37. Insurance contracts (continued)

(a) Reconciliation of remaining coverage and incurred claims for insurance contracts issued (continued)

	2022			
	Liabilities for remaining coverage			
	Excluding loss component HK$'m	Loss component HK$'m	Liabilities for incurred claims HK$'m	Total HK$'m
At 1 January	183,480	–	221	183,701
Insurance revenue	(1,694)	–	–	(1,694)
Insurance service expenses				
Incurred claims and other directly attributable expenses	–	(2)	446	444
Amortisation of insurance acquisition cash flows	76	–	–	76
Changes that relate to past service – changes in the fulfilment cash flow relating to the liabilities for incurred claims	–	–	–	–
Losses on onerous contracts and reversals of those losses	–	(43)	–	(43)
Losses for the net outflow recognised on initial recognition	–	160	–	160
	76	115	446	637
Insurance finance (income)/expenses	(15,383)	45	6	(15,332)
Investment components	(19,070)	–	19,070	–
Cash flows				
Premiums received	22,530	–	–	22,530
Claims and other directly attributable expenses paid	–	–	(19,334)	(19,334)
Insurance acquisition cash flows	(1,265)	–	–	(1,265)
	21,265	–	(19,334)	1,931
At 31 December	168,674	160	409	169,243
Insurance contract liabilities	168,677	160	409	169,246
Insurance contract assets	(3)	–	–	(3)
	168,674	160	409	169,243

37. Insurance contracts (continued)

(b) Reconciliation of the measurement components of insurance contracts not measured under the premium allocation approach

	2023			
		Contractual service margin		
	Present value of future cash flows and risk adjustment for non-financial risk HK$'m	Contracts recognised after transition date HK$'m	Contracts measured under the fair value approach at transition HK$'m	Total HK$'m
At 1 January	**158,233**	**1,750**	**9,256**	**169,239**
Changes that relate to current service				
Contractual service margin recognised for the service provided	**–**	**(246)**	**(895)**	**(1,141)**
Change in the risk adjustment for non-financial risk for the risk expired	**(23)**	**–**	**–**	**(23)**
Experience adjustments	**(91)**	**–**	**–**	**(91)**
	(114)	**(246)**	**(895)**	**(1,255)**
Changes that relate to future service				
Changes in estimates that adjust the contractual service margin	**1,599**	**(8)**	**(1,591)**	**–**
Changes in estimates that result in onerous contract losses and reversals of those losses	**354**	**–**	**–**	**354**
Contracts initially recognised	**(2,926)**	**2,995**	**–**	**69**
	(973)	**2,987**	**(1,591)**	**423**
Changes that relate to past service				
Changes in the fulfilment cash flow relating to the liabilities for incurred claims	**(13)**	**–**	**–**	**(13)**
Experience adjustments	**–**	**–**	**–**	**–**
	(13)	**–**	**–**	**(13)**
Insurance finance expenses/(income)	**8,018**	**(21)**	**93**	**8,090**
Cash flows				
Premiums received	**25,736**	**–**	**–**	**25,736**
Claims and other directly attributable expenses paid	**(22,869)**	**–**	**–**	**(22,869)**
Insurance acquisition cash flows	**(1,490)**	**–**	**–**	**(1,490)**
	1,377	**–**	**–**	**1,377**
At 31 December	**166,528**	**4,470**	**6,863**	**177,861**
Insurance contract liabilities	**166,529**	**4,470**	**6,863**	**177,862**
Insurance contract assets	**(1)**	**–**	**–**	**(1)**
	166,528	**4,470**	**6,863**	**177,861**

37. Insurance contracts (continued)

(b) Reconciliation of the measurement components of insurance contracts not measured under the premium allocation approach (continued)

	2022			
		Contractual service margin		
	Present value of future cash flows and risk adjustment for non-financial risk HK$'m	Contracts recognised after transition date HK$'m	Contracts measured under the fair value approach at transition HK$'m	Total HK$'m
At 1 January	176,350	–	7,337	183,687
Changes that relate to current service				
Contractual service margin recognised for the service provided	–	(92)	(981)	(1,073)
Change in the risk adjustment for non-financial risk for the risk expired	(10)	–	–	(10)
Experience adjustments	(121)	–	–	(121)
	(131)	(92)	(981)	(1,204)
Changes that relate to future service				
Changes in estimates that adjust the contractual service margin	(3,039)	605	2,434	–
Changes in estimates that result in onerous contract losses and reversals of those losses	(43)	–	–	(43)
Contracts initially recognised	(1,167)	1,327	–	160
	(4,249)	1,932	2,434	117
Changes that relate to past service				
Changes in the fulfilment cash flow relating to the liabilities for incurred claims	–	–	–	–
Experience adjustments	–	–	–	–
	–	–	–	–
Insurance finance (income)/expenses	(15,708)	(90)	466	(15,332)
Cash flows				
Premiums received	22,529	–	–	22,529
Claims and other directly attributable expenses paid	(19,295)	–	–	(19,295)
Insurance acquisition cash flows	(1,263)	–	–	(1,263)
	1,971	–	–	1,971
At 31 December	158,233	1,750	9,256	169,239
Insurance contract liabilities	158,234	1,750	9,256	169,240
Insurance contract assets	(1)	–	–	(1)
	158,233	1,750	9,256	169,239

37. Insurance contracts (continued)

(c) Impact of insurance contracts recognised in the year

	2023		
	Non-onerous contracts originated HK$'m	**Onerous contracts originated HK$'m**	**Total HK$'m**
Estimates of the present value of future cash outflows			
Insurance acquisition cash flows	**1,661**	**227**	**1,888**
Claims and other directly attributable expenses	**15,473**	**4,310**	**19,783**
	17,134	**4,537**	**21,671**
Estimates of the present value of future cash inflows	**(20,167)**	**(4,474)**	**(24,641)**
Risk adjustment for non-financial risk	**38**	**6**	**44**
Contractual service margin	**2,995**	**–**	**2,995**
Loss component on initial recognition	**–**	**69**	**69**

	2022		
	Non-onerous contracts originated HK$'m	Onerous contracts originated HK$'m	Total HK$'m
Estimates of the present value of future cash outflows			
Insurance acquisition cash flows	1,179	185	1,364
Claims and other directly attributable expenses	11,781	4,167	15,948
	12,960	4,352	17,312
Estimates of the present value of future cash inflows	(14,306)	(4,192)	(18,498)
Risk adjustment for non-financial risk	19	–	19
Contractual service margin	1,327	–	1,327
Loss component on initial recognition	–	160	160

37. Insurance contracts (continued)

(d) Expected release of the contractual service margin

An analysis of the expected release of the contractual service margin remaining at the end of the reporting period charge to income statement after the reporting date is provided in the following table:

	2023			
	Less than 1 year HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Total HK$'m
Insurance contracts issued	**837**	**2,729**	**7,767**	**11,333**

	2022			
	Less than 1 year HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Total HK$'m
Insurance contracts issued	700	2,386	7,920	11,006

The amounts disclosed in the table include projections of the contractual service margin recognition for the services that will be provided or received in the future for the contracts in force as at the reporting date, but do not take account of future interest accretion under the general measurement model and future adjustments of the contractual service margin reflecting changes in the variable fee for contracts under the variable fee approach.

38. Subordinated liabilities

	2023 HK$'m	2022 HK$'m
Subordinated loans, at amortised cost		
RMB20 billion(i)	–	22,499
RMB10 billion(ii)	11,018	11,255
USD1 billion(iii)	7,869	7,860
USD1 billion(iv)	7,853	7,846
RMB17 billion(v)	18,704	19,107
USD1 billion(vi)	7,836	7,826
RMB20 billion(vii)	22,043	–
	75,323	76,393

In compliance with the applicable internal loss-absorbing capacity requirements under LAC rules, BOCHK early repaid non-capital loss-absorbing capacity debt instrument totalling RMB20 billion in 2023. On the same day, BOC has granted this instrument totalling RMB20 billion to BOCHK.

(i) Interest rate at 2.20% per annum payable annually, due in 2024 with early repayment option.

(ii) Interest rate at 2.47% per annum payable annually, due in 2025 with early repayment option.

(iii) Interest rate at 5.30% per annum payable annually, due in 2025 with early repayment option.

(iv) Interest rate at 5.02% per annum payable annually, due in 2025 with early repayment option.

(v) Interest rate at 2.85% per annum payable annually, due in 2025 with early repayment option.

(vi) Interest rate at 4.99% per annum payable annually, due in 2025 with early repayment option.

(vii) Interest rate at 2.67% per annum payable annually, due in 2025 with early repayment option.

39. Share capital

	2023 HK$'m	2022 HK$'m
Issued and fully paid:		
10,572,780,266 ordinary shares	52,864	52,864

40. Other equity instruments

	2023 HK$'m	2022 HK$'m
Undated non-cumulative subordinated Additional Tier 1 capital securities	–	23,476

In September 2018, BOCHK issued USD3,000 million undated non-cumulative subordinated Additional Tier 1 capital securities. The capital securities are perpetual securities in respect of which there is no fixed redemption date and are not callable within the first 5 years. They have an initial rate of distribution of 5.90% per annum payable semi-annually which may be cancelled at the sole discretion of BOCHK. Dividend paid to other equity instrument holders in 2023 amounted to HK$1,392 million (2022: HK$1,390 million). BOCHK has redeemed all of the capital securities in September 2023.

41. Notes to consolidated cash flow statement

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

	2023 HK$'m	2022 HK$'m
Operating profit	**42,558**	34,917
Depreciation and amortisation	**2,919**	3,001
Gain from disposal of associates and joint ventures	**–**	(3)
Net charge of impairment allowances	**6,333**	2,348
Unwind of discount on impairment allowances	**(143)**	(81)
Advances written off net of recoveries	**(2,955)**	(560)
Interest expense on lease liabilities	**41**	34
Change in subordinated liabilities	**1,413**	1,877
Change in balances and placements with banks and other financial institutions with original maturity over three months	**(5,111)**	(15,325)
Change in financial assets at fair value through profit or loss	**(21,460)**	(22,435)
Change in derivative financial instruments	**(1,092)**	(8,137)
Change in advances and other accounts	**(52,255)**	(50,004)
Change in investment in securities	**23,960**	62,540
Change in other assets	**(9,793)**	9,497
Change in deposits and balances from banks and other financial institutions	**57,047**	(169,436)
Change in financial liabilities at fair value through profit or loss	**6,750**	46,933
Change in deposits from customers	**124,475**	46,052
Change in debt securities and certificates of deposit in issue	**(1,637)**	1,213
Change in other accounts and provisions	**15,263**	15,852
Change in insurance and reinsurance contract assets/liabilities	**12,069**	(2,865)
Effect of changes in exchange rates	**5,495**	23,234
Operating cash inflow/(outflow) before taxation	**203,877**	(21,348)

41. Notes to consolidated cash flow statement (continued)

(b) Reconciliation of liabilities arising from financing activities

	2023 HK$'m	2022 HK$'m
Subordinated liabilities		
At 1 January	**76,393**	–
Cash flows:		
Payment for redemption of subordinated liabilities	**(21,937)**	–
Interest paid for subordinated liabilities	**(2,483)**	–
Proceeds from subordinated liabilities	**21,937**	74,516
Non-cash changes:		
Exchange difference	**(1,096)**	1,545
Other changes	**2,509**	332
At 31 December	**75,323**	76,393

	2023 HK$'m	2022 HK$'m
Lease liabilities		
At 1 January	**1,298**	1,318
Cash flows:		
Payment of lease liabilities	**(613)**	(699)
Non-cash changes:		
Additions	**480**	645
Disposal	**–**	–
Other changes	**41**	34
At 31 December	**1,206**	1,298

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

	2023 HK$'m	2022 HK$'m
Cash and balances and placements with banks and other financial institutions with original maturity within three months	**345,438**	479,150
Treasury bills, certificates of deposit and other debt instruments with original maturity within three months		
– financial assets at fair value through profit or loss	**229,191**	8,574
– investment in securities	**112,301**	53,201
	686,930	540,925

42. Contingent liabilities and commitments

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

	2023 HK$'m	2022 HK$'m
Direct credit substitutes	**1,117**	1,069
Transaction-related contingencies	**28,132**	25,586
Trade-related contingencies	**16,068**	15,908
Commitments that are unconditionally cancellable without prior notice	**628,682**	533,304
Other commitments with an original maturity of		
– up to one year	**16,520**	21,905
– over one year	**168,212**	177,275
	858,731	775,047
Credit risk-weighted amount	**78,102**	79,122

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

43. Capital commitments

The Group has the following outstanding capital commitments not provided for in the financial statements:

	2023 HK$'m	2022 HK$'m
Authorised and contracted for but not provided for	**592**	211
Authorised but not contracted for	**49**	233
	641	444

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

44. Operating lease commitments

As lessor

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

	2023 HK$'m	2022 HK$'m
Properties and equipment		
– Not later than one year	**385**	431
– One to two years	**228**	289
– Two to three years	**73**	132
– Three to four years	**–**	6
– Four to five years	**–**	–
	686	858

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

45. Litigation

The Group has been served a number of claims and counterclaims by various independent parties. These claims and counterclaims are in relation to the normal commercial activities of the Group.

No material provision was made against these claims and counterclaims because the directors believe that the Group has meritorious defences against the claimants or the amounts involved in these claims are not expected to be material.

46. Segmental reporting

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

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

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

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

46. Segmental reporting (continued)

	Personal Banking HK$'m	Corporate Banking HK$'m	Treasury HK$'m	Insurance HK$'m	Others HK$'m	Subtotal HK$'m	Eliminations HK$'m	Consolidated HK$'m
Year ended 31 December 2023								
Net interest (expense)/income								
– External	(11,050)	19,864	34,195	4,499	3,570	51,078	–	51,078
– Inter-segment	30,784	438	(30,764)	(100)	(358)	–	–	–
	19,734	20,302	3,431	4,399	3,212	51,078	–	51,078
Net fee and commission income/(expense)								
– External	6,393	3,820	185	(2,054)	823	9,167	–	9,167
– Inter-segment	(2,005)	4	125	2,043	577	744	(744)	–
	4,388	3,824	310	(11)	1,400	9,911	(744)	9,167
Insurance service result	–	–	–	828	–	828	118	946
Net trading gain/(loss)	515	1,752	6,113	(734)	657	8,303	12	8,315
Net gain/(loss) on other financial instruments at fair value through profit or loss	39	–	(142)	2,379	–	2,276	1	2,277
Net gain/(loss) on other financial instruments	–	10	(1,322)	(151)	(5)	(1,468)	–	(1,468)
Insurance finance (expenses)/income	–	–	–	(5,430)	–	(5,430)	–	(5,430)
Other operating income	27	1	31	16	1,743	1,818	(1,205)	613
Net operating income before impairment allowances	24,703	25,889	8,421	1,296	7,007	67,316	(1,818)	65,498
Net (charge)/reversal of impairment allowances	(392)	(6,212)	(1)	(1)	273	(6,333)	–	(6,333)
Net operating income	24,311	19,677	8,420	1,295	7,280	60,983	(1,818)	59,165
Operating expenses	(9,607)	(3,811)	(1,457)	(97)	(3,453)	(18,425)	1,818	(16,607)
Operating profit	14,704	15,866	6,963	1,198	3,827	42,558	–	42,558
Net loss from disposal of/fair value adjustments on investment properties	–	–	–	–	(1,270)	(1,270)	–	(1,270)
Net loss from disposal/revaluation of properties, plant and equipment	(1)	–	–	–	(134)	(135)	–	(135)
Share of results after tax of associates and joint ventures	(22)	–	5	–	(222)	(239)	–	(239)
Profit before taxation	14,681	15,866	6,968	1,198	2,201	40,914	–	40,914
At 31 December 2023								
ASSETS								
Segment assets	629,699	1,041,554	1,884,129	187,152	189,328	3,931,862	(64,354)	3,867,508
Interests in associates and joint ventures	113	–	3	309	850	1,275	–	1,275
	629,812	1,041,554	1,884,132	187,461	190,178	3,933,137	(64,354)	3,868,783
LIABILITIES								
Segment liabilities	1,366,745	1,120,307	819,223	182,912	120,521	3,609,708	(64,354)	3,545,354
Year ended 31 December 2023								
Other information								
Capital expenditure	41	19	1	52	1,681	1,794	–	1,794
Depreciation and amortisation	1,088	324	127	81	1,340	2,960	(41)	2,919

46. Segmental reporting (continued)

	Personal Banking HK$'m	Corporate Banking HK$'m	Treasury HK$'m	Insurance HK$'m	Others HK$'m	Subtotal HK$'m	Eliminations HK$'m	Consolidated HK$'m
Year ended 31 December 2022								
Net interest income/(expense)								
– External	2,533	15,528	14,238	4,011	2,440	38,750	–	38,750
– Inter-segment	8,032	(4,027)	(2,806)	(54)	(1,145)	–	–	–
	10,565	11,501	11,432	3,957	1,295	38,750	–	38,750
Net fee and commission income/(expense)								
– External	6,140	3,829	(74)	(874)	779	9,800	–	9,800
– Inter-segment	(828)	6	81	854	453	566	(566)	–
	5,312	3,835	7	(20)	1,232	10,366	(566)	9,800
Insurance service result	–	–	–	1,041	–	1,041	96	1,137
Net trading gain/(loss)	1,011	1,603	10,196	(560)	585	12,835	4	12,839
Net loss on other financial instruments at fair value through profit or loss	–	–	(604)	(11,260)	–	(11,864)	–	(11,864)
Net gain/(loss) on other financial instruments	–	12	(3,709)	(165)	6	(3,856)	–	(3,856)
Insurance finance (expenses)/income	–	–	–	6,561	–	6,561	–	6,561
Other operating income	30	5	80	101	1,831	2,047	(1,199)	848
Net operating income/(expense) before impairment allowances	16,918	16,956	17,402	(345)	4,949	55,880	(1,665)	54,215
Net (charge)/reversal of impairment allowances	(344)	(2,008)	71	14	(81)	(2,348)	–	(2,348)
Net operating income/(expense)	16,574	14,948	17,473	(331)	4,868	53,532	(1,665)	51,867
Operating expenses	(9,096)	(3,548)	(2,544)	(66)	(3,361)	(18,615)	1,665	(16,950)
Operating profit/(loss)	7,478	11,400	14,929	(397)	1,507	34,917	–	34,917
Net loss from disposal of/fair value adjustments on investment properties	–	–	–	–	(1,305)	(1,305)	–	(1,305)
Net loss from disposal/revaluation of properties, plant and equipment	(1)	–	–	–	(110)	(111)	–	(111)
Share of results after tax of associates and joint ventures	(48)	–	4	–	(295)	(339)	–	(339)
Profit/(loss) before taxation	7,429	11,400	14,933	(397)	(203)	33,162	–	33,162
At 31 December 2022								
ASSETS								
Segment assets	580,155	1,040,621	1,734,391	177,505	173,197	3,705,869	(40,207)	3,665,662
Interests in associates and joint ventures	563	–	1	–	279	843	–	843
	580,718	1,040,621	1,734,392	177,505	173,476	3,706,712	(40,207)	3,666,505
LIABILITIES								
Segment liabilities	1,280,379	1,075,631	746,103	173,218	105,546	3,380,877	(40,207)	3,340,670
Year ended 31 December 2022								
Other information								
Capital expenditure	46	26	10	85	1,745	1,912	–	1,912
Depreciation and amortisation	1,175	307	122	73	1,365	3,042	(41)	3,001

47. Offsetting financial instruments

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

	2023					
				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial assets HK$'m	Gross amounts of recognised financial liabilities set off in the balance sheet HK$'m	Net amounts of financial assets presented in the balance sheet HK$'m	Financial instruments* HK$'m	Cash collateral received HK$'m	Net amount HK$'m
Assets						
Derivative financial instruments	37,191	–	37,191	(23,668)	(12,310)	1,213
Reverse repurchase agreements	21,771	–	21,771	(21,771)	–	–
Securities borrowing agreements	3,800	–	3,800	(3,800)	–	–
Other assets	15,689	(11,684)	4,005	–	–	4,005
	78,451	(11,684)	66,767	(49,239)	(12,310)	5,218

	2023					
				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial liabilities HK$'m	Gross amounts of recognised financial assets set off in the balance sheet HK$'m	Net amounts of financial liabilities presented in the balance sheet HK$'m	Financial instruments* HK$'m	Cash collateral pledged HK$'m	Net amount HK$'m
Liabilities						
Derivative financial instruments	28,454	–	28,454	(23,614)	(2,288)	2,552
Repurchase agreements	44,495	–	44,495	(44,495)	–	–
Other liabilities	14,964	(11,684)	3,280	–	–	3,280
	87,913	(11,684)	76,229	(68,109)	(2,288)	5,832

47. Offsetting financial instruments (continued)

	2022					
				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial assets HK$'m	Gross amounts of recognised financial liabilities set off in the balance sheet HK$'m	Net amounts of financial assets presented in the balance sheet HK$'m	Financial instruments HK$'m	Cash collateral received HK$'m	Net amount HK$'m
Assets						
Derivative financial instruments	45,254	–	45,254	(31,824)	(12,534)	896
Reverse repurchase agreements	17,576	–	17,576	(17,576)	–	–
Securities borrowing agreements	3,400	–	3,400	(3,400)	–	–
Other assets	11,364	(9,222)	2,142	(6)	–	2,136
	77,594	(9,222)	68,372	(52,806)	(12,534)	3,032

	2022					
				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial liabilities HK$'m	Gross amounts of recognised financial assets set off in the balance sheet HK$'m	Net amounts of financial liabilities presented in the balance sheet HK$'m	Financial instruments HK$'m	Cash collateral pledged HK$'m	Net amount HK$'m
Liabilities						
Derivative financial instruments	37,117	–	37,117	(31,824)	(2,527)	2,766
Repurchase agreements	31,757	–	31,757	(31,757)	–	–
Other liabilities	10,562	(9,222)	1,340	(6)	–	1,334
	79,436	(9,222)	70,214	(63,587)	(2,527)	4,100

* Including non-cash collateral.

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

48. Assets pledged as security

As at 31 December 2023, the liabilities of the Group amounting to HK$38,253 million (2022: HK$27,986 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK$84,241 million (2022: HK$46,757 million) were secured by debt securities related to sale and repurchase arrangements. The amount of assets pledged by the Group to secure these liabilities was HK$122,929 million (2022: HK$75,346 million) mainly included in "Financial assets at fair value through profit or loss" and "Investment in securities".

In addition, the Group pledges securities amounting to HK$3,271 million (2022: HK$2,709 million) as initial margin of derivative transactions.

49. Transfers of financial assets

Transferred financial assets that do not qualify for derecognition include debt securities held by counterparties as collateral under sale and repurchase agreements. The counterparties are allowed to sell or re-pledge these securities in the absence of default by the Group, but have an obligation to return the securities upon maturity of the contract. These securities are not derecognised since the Group retains substantially all the risks and rewards. Amounts received under sale and repurchase agreements are recognised as financial liabilities.

The following table analyses the carrying amount of the financial assets transferred to counterparties that do not qualify for derecognition and their associated financial liabilities:

	2023		2022	
	Carrying amount of transferred assets HK$'m	**Carrying amount of associated liabilities HK$'m**	Carrying amount of transferred assets HK$'m	Carrying amount of associated liabilities HK$'m
Repurchase agreements	**44,389**	**43,866**	32,189	31,757

50. Interests in unconsolidated structured entities

The Group involves a number of fund investments in the normal course of business, which meet the definition of unconsolidated structured entities, and earns management fee and trustee fee from those sponsored by the Group. The Group's investment holding interests in the unconsolidated structured entities were recognised in financial assets measured at FVPL. As at 31 December 2023, the total net asset value of unconsolidated structured entities sponsored by the Group amounted to HK$187,435 million (2022: HK$159,172 million). Interests in unconsolidated structured entities sponsored by the Group amounted to HK$511 million (2022: HK$607 million) and interests in those sponsored by other financial institutions amounted to HK$12,078 million (2022: HK$10,062 million). For the year ended 31 December 2023, the above-mentioned management fee and trustee fee amounted to HK$660 million (2022: HK$581 million). The maximum exposure to loss from Group's interests in these fund investments is equal to the total fair value of its investments in these funds.

51. Loans to directors

Particulars of loans made to directors of the Company pursuant to section 383 of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2023 HK$'m	2022 HK$'m
Aggregate amount of relevant transactions outstanding at year end	**5**	5
Maximum aggregate amount of relevant transactions outstanding during the year	**5**	6

52. Significant related party transactions

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

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

General information of the parent companies:

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

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

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

52. Significant related party transactions (continued)

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

The majority of transactions with BOC arise from money market activities. Related party transactions with BOC as disclosed below constitute connected transactions as defined in Chapter 14A of the Listing Rules but under exemption from its disclosure requirement.

	2023 HK$'m	2022 HK$'m
Income statement items		
– Interest income	**2,520**	1,242
– Interest expenses	**4,240**	1,580
Balance sheet items		
– Cash and balances and placements with banks and other financial institutions	**134,248**	206,631
– Other assets	**3,727**	5,478
– Investment in securities	**8,009**	27,450
– Deposits and balances from banks and other financial institutions	**75,445**	95,344

Related party transactions with subsidiaries of BOC are summarised as below:

	2023 HK$'m	2022 HK$'m
Balance sheet items		
– Cash and balances and placements with banks and other financial institutions	**516**	2,209
– Advances and other accounts	**2,416**	1,000
– Deposits and balances from banks and other financial institutions	**19,238**	12,218

For details of subordinated liabilities granted by BOC, please refer to Note 38 to the Financial Statements.

Except as disclosed above, other transactions with BOC and with companies controlled by BOC are not considered material.

52. Significant related party transactions (continued)

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

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

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

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

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

The Group enters into banking and other transactions with associates, joint ventures and other related parties which include but are not limited to loans, investment securities and money market transactions. The aggregate income/expenses and balances arising from related party transactions with these entities are summarised as follows:

	2023 HK$'m	2022 HK$'m
Income statement items		
Associates and joint ventures		
– Fee and commission income	**20**	29
– Other operating expenses	**70**	71
Balance sheet items		
Associates and joint ventures		
– Investment in securities	**941**	–
– Deposits and balances from banks and other financial institutions	**406**	47

52. Significant related party transactions (continued)

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

The related party transactions in respect of the other operating expenses arising from associates and joint ventures above constitute connected transactions as defined in Chapter 14A of the Listing Rules and the required disclosures are provided in "Connected transactions" on pages 304 to 305.

Except as disclosed above, other transactions with associates, joint ventures and other related parties of the Group are not considered material.

(d) Key management personnel

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

The compensation of key management personnel for the year ended 31 December is detailed as follows:

	2023 HK$'m	2022 HK$'m
Salaries and other short-term employee benefits	**38**	52

53. IBOR reform

The Group manages risks related to IBOR reform, continuously monitors the risk exposure of IBOR reform and converts existing contracts.

The following table contains details of financial instruments that the Group holds as at 31 December which reference synthetic USD LIBOR/USD LIBOR and have not yet transitioned to an alternative interest rate benchmark:

	2023 HK$'m	2022 HK$'m
Financial instruments yet to transition to alternative benchmarks		
Non-derivative financial assets	**2,773**	178,040
Non-derivative financial liabilities	**–**	624
Derivative contract/notional amounts	**–**	469,213

54. International claims

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

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

	2023				
			Non-bank private sector		
	Banks HK$'m	Official sector HK$'m	Non-bank financial institutions HK$'m	Non-financial private sector HK$'m	Total HK$'m
Chinese Mainland	**330,222**	**391,169**	**12,064**	**116,644**	**850,099**
Hong Kong	**8,439**	**16,902**	**43,698**	**357,831**	**426,870**
United States	**29,635**	**146,302**	**14,412**	**24,334**	**214,683**

	2022				
			Non-bank private sector		
	Banks HK$'m	Official sector HK$'m	Non-bank financial institutions HK$'m	Non-financial private sector HK$'m	Total HK$'m
Chinese Mainland	408,109	223,505	17,001	119,710	768,325
Hong Kong	14,938	3,578	54,417	323,167	396,100
United States	32,072	161,031	16,539	14,796	224,438

55. Non-bank Mainland exposures

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

		2023		
	Items in the HKMA return	On-balance sheet exposure HK$'m	Off-balance sheet exposure HK$'m	Total exposure HK$'m
Central government, central government-owned entities and their subsidiaries and joint ventures	1	**348,102**	**23,154**	**371,256**
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	**84,392**	**4,981**	**89,373**
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	**125,112**	**20,785**	**145,897**
Other entities of central government not reported in item 1 above	4	**27,853**	**2,460**	**30,313**
Other entities of local governments not reported in item 2 above	5	**1,406**	**162**	**1,568**
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	**56,366**	**10,321**	**66,687**
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	**2,917**	**–**	**2,917**
Total	8	**646,148**	**61,863**	**708,011**
Total assets after provision	9	**3,621,071**		
On-balance sheet exposures as percentage of total assets	10	**17.84%**		

55. Non-bank Mainland exposures (continued)

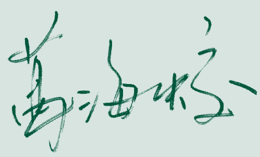
	2022			
	Items in the HKMA return	On-balance sheet exposure HK$'m	Off-balance sheet exposure HK$'m	Total exposure HK$'m
Central government, central government-owned entities and their subsidiaries and joint ventures	1	369,448	28,067	397,515
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	80,046	6,753	86,799
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	129,723	18,635	148,358
Other entities of central government not reported in item 1 above	4	28,976	1,630	30,606
Other entities of local governments not reported in item 2 above	5	1,362	205	1,567
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	67,098	6,968	74,066
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	1,856	86	1,942
Total	8	678,509	62,344	740,853
Total assets after provision	9	3,422,169		
On-balance sheet exposures as percentage of total assets	10	19.83%		

56. Balance sheet and statement of changes in equity

(a) Balance sheet

As at 31 December	**2023 HK$'m**	2022 HK$'m
ASSETS		
Bank balances with a subsidiary	**1,147**	476
Investment in securities	**822**	807
Investment in subsidiaries	**55,422**	55,322
Amounts due from a subsidiary	**12,095**	10,287
Investment in associates and joint ventures	**928**	1,100
Other assets	**2**	2
Total assets	**70,416**	67,994
LIABILITIES		
Amounts due to a subsidiary	**5**	3
Total liabilities	**5**	3
EQUITY		
Share capital	**52,864**	52,864
Reserves	**17,547**	15,127
Total equity	**70,411**	67,991
Total liabilities and equity	**70,416**	67,994

Approved by the Board of Directors on 28 March 2024 and signed on behalf of the Board by:



GE Haijiao
Director

SUN Yu
Director

56. Balance sheet and statement of changes in equity (continued)

(b) Statement of changes in equity

		Reserves		
	Share capital HK$'m	Reserve for financial assets at FVOCI HK$'m	Retained earnings HK$'m	Total equity HK$'m
At 1 January 2022	52,864	(3,031)	15,149	64,982
Profit for the year	–	–	15,105	15,105
Other comprehensive income:				
Equity instruments at fair value through other comprehensive income	–	(149)	–	(149)
Total comprehensive income	–	(149)	15,105	14,956
Dividends	–	–	(11,947)	(11,947)
At 31 December 2022	52,864	(3,180)	18,307	67,991
At 1 January 2023	**52,864**	**(3,180)**	**18,307**	**67,991**
Profit for the year	**–**	**–**	**17,598**	**17,598**
Other comprehensive income:				
Equity instruments at fair value through other comprehensive income	**–**	**15**	**–**	**15**
Total comprehensive income	**–**	**15**	**17,598**	**17,613**
Dividends	**–**	**–**	**(15,193)**	**(15,193)**
At 31 December 2023	**52,864**	**(3,165)**	**20,712**	**70,411**

57. Principal subsidiaries

The following is a list of principal subsidiaries as at 31 December 2023:

Name	Place of incorporation and operation	Issued share capital	Interest held	Principal activities
Bank of China (Hong Kong) Limited	Hong Kong	HK$43,042,840,858	*100%	Banking business
BOC Group Life Assurance Company Limited	Hong Kong	HK$3,538,000,000	*51%	Life insurance business
BOC Credit Card (International) Limited	Hong Kong	HK$565,000,000	100%	Credit card services
Bank of China (Malaysia) Berhad	Malaysia	RM760,518,480	100%	Banking business
Bank of China (Thai) Public Company Limited	Thailand	Baht10,000,000,000	100%	Banking business

* Shares held directly by the Company

The particulars of a subsidiary with significant non-controlling interests are as follows:

BOC Group Life Assurance Company Limited

	2023	2022
Proportion of ownership interests and voting rights held by non-controlling interests	**49%**	49%

	2023 HK$'m	2022 HK$'m
Profit/(loss) attributable to non-controlling interests	**557**	(263)
Accumulated non-controlling interests	**2,993**	2,292
Summarised financial information:		
– total assets	**187,153**	177,427
– total liabilities	**181,046**	172,749
– profit/(loss) for the year	**1,136**	(537)
– total comprehensive income for the year	**1,429**	(3,788)

58. Ultimate and immediate holding companies

The Group is subject to the control of the State Council of the PRC Government through China Investment Corporation, its wholly-owned subsidiary Central Huijin Investment Ltd. ("Central Huijin"), and BOC in which Central Huijin has controlling equity interests. The immediate holding company of the Group is BOC Hong Kong (BVI) Limited, an indirect wholly-owned subsidiary of BOC.

59. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 28 March 2024.