

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 1. Basis of preparation and significant accounting policies

### (a) Basis of preparation

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

### (b) Significant accounting policies

Except for the initial adoption of the below mentioned amendments, the significant accounting policies adopted and methods of computation used in the preparation of the unaudited interim financial information are consistent with those adopted and used in the Group’s annual financial statements for the year ended 31 December 2020 and shall be read in conjunction with the Group’s Annual Report for 2020.

#### **Amendments that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2021**

The Group has initially applied the following amendments for the financial year beginning on 1 January 2021:

- HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendments), “Interest Rate Benchmark Reform – Phase 2”. The amendments address issues that might affect financial reporting when an entity replaces the old interest rate benchmark with alternative benchmark rates as a result of the IBOR Reform. The amendments complement those issued in 2019 and relate to:
  - changes to contractual cash flows – an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes that are direct consequence of the reform and occur on an economically equivalent basis, but will instead update the effective interest rate to reflect the change to the alternative benchmark rates;
  - hedge accounting – an entity will not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge meets other hedge accounting criteria; furthermore, if an entity reasonably expects that alternative benchmark rates will be separately identifiable within a period of 24 months, it can designate the alternative benchmark rates as a non-contractually specified risk component even if it is not separately identifiable at the designation date; and
  - disclosures – an entity will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates.

The amendments have been applied retrospectively. There is no material impact on the Group’s financial statements.

- HKFRS 16 (Amendments), “COVID-19-Related Rent Concessions”. The amendments provide an optional practical expedient allowing lessees to elect not to evaluate whether qualifying rent concessions are lease modifications and, instead, account for those rent concessions as if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic.

The amendments were effective on 1 June 2020 and applicable to COVID-19-related rent concessions that reduce lease payments from 1 January 2020 to 30 June 2021. In April 2021, further amendment to HKFRS 16 was announced to extend the availability of the practical expedient so that it applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The Group has adopted the amendments and applied the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the interim reporting period. The adoption of the amendments does not have a material impact on the Group’s financial statements.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

### (c) Standard, amendments and interpretation issued that are relevant to the Group but not yet mandatorily effective and have not been early adopted by the Group in 2021

Standard/ Amendments/ Interpretation	Content	Applicable for financial years beginning on/ after
HKAS 1 (Amendments)	Classification of Current or Non-current Liabilities	1 January 2023
HKAS 1 and HKAS 8 (Amendments)	Disclosure of Accounting Policies and Definition of Accounting Estimates	1 January 2023
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
HKAS 28 (2011) and HKFRS 10 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
HKFRS 17	Insurance Contracts	1 January 2023
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 2023

- HKAS 1 and HKAS 8 (Amendments), “Disclosure of Accounting Policies and Definition of Accounting Estimates”. The amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. It is also clarified that accounting policy information is expected to be material, if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. Further, the amendments to HKAS 1 clarifies that immaterial accounting policy information are not required to be disclosed. If it is disclosed, it should not obscure material accounting policy information. To support the amendment, HKFRS Practice Statement 2 “Making Materiality Judgements” is also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The amendments to HKAS 8 clarify how companies should distinguish changes in accounting policies from changes in accounting estimates.

The amendments are applied prospectively. The application of the amendments will not have a material impact on the Group’s financial statements.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

### (c) *Standard, amendments and interpretation issued that are relevant to the Group but not yet mandatorily effective and have not been early adopted by the Group in 2021 (continued)*

- HKAS 12 (Amendments), “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”. The amendments narrow the scope of the initial recognition exemption of deferred tax assets and deferred tax liabilities in HKAS 12 so that an entity no longer applies the initial recognition exemption to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The amendments are applied by recognising deferred tax for all temporary differences related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, and are applied prospectively for other transactions. The application of the amendments will not have a material impact on the Group’s financial statements.
- Please refer to Note 2.1(b) of the Group’s Annual Report for 2020 for brief explanations of the remaining standard, amendments and interpretation.

### (d) *Improvements to HKFRSs*

“Improvements to HKFRSs” contains numerous amendments to HKFRSs which HKICPA considers not urgent but necessary. It comprises amendments that result in accounting changes for presentation, recognition or measurement purpose as well as terminology or editorial amendments related to a variety of individual HKFRSs. These improvements will not have a material impact on the Group’s financial statements.

### (e) *Comparative figures*

Certain comparative figures in the notes have been adjusted to conform with presentation in the current period, including the classification in Note 21 financial assets at fair value through profit or loss and Note 24 investment in securities.

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

The nature and assumptions related to the Group’s accounting estimates in this reporting period are consistent with those used in the Group’s financial statements for the year ended 31 December 2020.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management

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

A summary of the Group's objectives, risk management governance structure, policies and processes for managing and the methods used to measure these risks is set out in Note 4 to the Financial Statements of the Group's Annual Report for 2020.

### 3.1 Credit risk

#### (A) Advances and other accounts

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

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

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

- Significant financial difficulty incurred by the borrower;
- A breach of contract, such as a default or delinquency in principal or interest payment;
- For economic or 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;  
or
- Other observable data indicating that there is a measurable decrease in the estimated future cash flows from such advances.

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

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

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

	At 30 June 2021			
	Stage 1 HK\$'m	Stage 2 HK\$'m	Stage 3 HK\$'m	Total HK\$'m
<b>Advances to customers</b>				
Pass	1,706,445	26,463	–	1,732,908
Special mention	3,170	3,798	–	6,968
Substandard or below	–	–	5,077	5,077
	<b>1,709,615</b>	<b>30,261</b>	<b>5,077</b>	<b>1,744,953</b>
<b>Trade bills</b>				
Pass	11,746	–	–	11,746
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	<b>11,746</b>	<b>–</b>	<b>–</b>	<b>11,746</b>
<b>Advances to banks and other financial institutions</b>				
Pass	1,355	–	–	1,355
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	<b>1,355</b>	<b>–</b>	<b>–</b>	<b>1,355</b>
	<b>1,722,716</b>	<b>30,261</b>	<b>5,077</b>	<b>1,758,054</b>
Impairment allowances	(5,357)	(1,599)	(3,246)	(10,202)
	<b>1,717,359</b>	<b>28,662</b>	<b>1,831</b>	<b>1,747,852</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

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

	At 31 December 2020			
	Stage 1 HK\$m	Stage 2 HK\$m	Stage 3 HK\$m	Total HK\$m
<b>Advances to customers</b>				
Pass	1,466,646	20,352	–	1,486,998
Special mention	3,846	3,026	–	6,872
Substandard or below	–	–	3,994	3,994
	1,470,492	23,378	3,994	1,497,864
<b>Trade bills</b>				
Pass	9,826	–	–	9,826
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	9,826	–	–	9,826
<b>Advances to banks and other financial institutions</b>				
Pass	1,898	–	–	1,898
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	1,898	–	–	1,898
	1,482,216	23,378	3,994	1,509,588
Impairment allowances	(5,405)	(1,115)	(2,652)	(9,172)
	1,476,811	22,263	1,342	1,500,416

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

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

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

	Half-year ended 30 June 2021			
	Stage 1 HK\$'m	Stage 2 HK\$'m	Stage 3 HK\$'m	Total HK\$'m
<b>Impairment allowances</b>				
At 1 January 2021	5,405	1,115	2,652	9,172
Transfer to Stage 1	103	(101)	(2)	–
Transfer to Stage 2	(84)	91	(7)	–
Transfer to Stage 3	(12)	(7)	19	–
Changes arising from transfer of stage	(69)	483	715	1,129
Charge for the period	1,693	343	187	2,223
Reversal for the period	(1,664)	(322)	(169)	(2,155)
Write-offs	–	–	(139)	(139)
Recoveries	–	–	45	45
Exchange difference and others	(15)	(3)	(55)	(73)
At 30 June 2021	5,357	1,599	3,246	10,202
Charged to income statement (Note 12)				1,197

	Year ended 31 December 2020			
	Stage 1 HK\$'m	Stage 2 HK\$'m	Stage 3 HK\$'m	Total HK\$'m
<b>Impairment allowances</b>				
At 1 January 2020	4,564	297	2,175	7,036
Transfer to Stage 1	96	(94)	(2)	–
Transfer to Stage 2	(166)	177	(11)	–
Transfer to Stage 3	(8)	(19)	27	–
Changes arising from transfer of stage	(76)	782	772	1,478
Charge for the year	2,894	104	300	3,298
Reversal for the year	(1,920)	(132)	(235)	(2,287)
Write-offs	–	–	(561)	(561)
Recoveries	–	–	136	136
Exchange difference and others	21	–	51	72
At 31 December 2020	5,405	1,115	2,652	9,172

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

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

##### (a) Impaired advances

Impaired advances to customers are analysed as follows:

	At 30 June 2021		At 31 December 2020	
	Impaired HK\$'m	Classified or impaired HK\$'m	Impaired HK\$'m	Classified or impaired HK\$'m
Gross advances to customers	5,077	5,077	3,994	3,994
Percentage of gross advances to customers	0.29%	0.29%	0.27%	0.27%
Impairment allowances made in respect of such advances	3,246	3,246	2,652	2,652

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.

	At 30 June 2021 HK\$'m	At 31 December 2020 HK\$'m
Current market value of collateral held against the covered portion of impaired advances to customers	2,904	3,046
Covered portion of impaired advances to customers	1,544	1,558
Uncovered portion of impaired advances to customers	3,533	2,436

As at 30 June 2021, there were no impaired trade bills and advances to banks and other financial institutions (31 December 2020: Nil).



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

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

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

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

	At 30 June 2021		At 31 December 2020	
	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	113	0.01%	174	0.01%
– one year or less but over six months	177	0.01%	718	0.05%
– over one year	2,698	0.15%	2,137	0.14%
Advances overdue for over three months	2,988	0.17%	3,029	0.20%
Impairment allowances made in respect of such advances – Stage 3	2,281		2,332	

	At 30 June 2021 HK\$'m	At 31 December 2020 HK\$'m
Current market value of collateral held against the covered portion of such advances to customers	1,448	1,312
Covered portion of such advances to customers	1,006	913
Uncovered portion of such advances to customers	1,982	2,116

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

As at 30 June 2021, there were no trade bills and advances to banks and other financial institutions overdue for more than three months (31 December 2020: Nil).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

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

##### (c) Rescheduled advances

	At 30 June 2021		At 31 December 2020	
	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"	192	0.01%	178	0.01%

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".

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

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

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

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

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

	At 30 June 2021					
	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	155,058	25.77%	–	–	–	809
– Property investment	83,542	59.72%	113	152	32	254
– Financial concerns	25,558	0.68%	–	–	–	54
– Stockbrokers	111,359	7.43%	–	–	–	12
– Wholesale and retail trade	31,533	43.42%	195	258	108	342
– Manufacturing	45,164	9.44%	2	18	2	187
– Transport and transport equipment	73,872	21.37%	160	2	–	476
– Recreational activities	185	96.45%	–	–	–	–
– Information technology	28,980	0.66%	100	100	28	56
– Others	188,430	60.23%	28	257	14	449
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	28,475	99.29%	16	205	–	20
– Loans for purchase of other residential properties	326,062	99.94%	133	1,098	1	154
– Credit card advances	10,591	–	106	386	95	157
– Others	103,829	95.16%	122	499	74	334
Total loans for use in Hong Kong	1,212,638	57.63%	975	2,975	354	3,304
Trade financing	83,850	12.59%	803	688	630	208
Loans for use outside Hong Kong	448,465	5.02%	3,299	3,105	2,262	3,442
Gross advances to customers	1,744,953	41.95%	5,077	6,768	3,246	6,954

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

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

(d) Concentration of advances to customers (continued)

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

	At 31 December 2020					
	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	132,966	27.12%	–	1	–	803
– Property investment	64,768	67.95%	111	184	15	186
– Financial concerns	24,110	0.74%	–	–	–	54
– Stockbrokers	1,656	78.86%	–	–	–	3
– Wholesale and retail trade	30,523	43.12%	198	239	109	411
– Manufacturing	53,629	8.05%	8	9	4	290
– Transport and transport equipment	74,633	23.05%	260	–	–	598
– Recreational activities	198	9.90%	–	–	–	2
– Information technology	25,579	0.81%	97	99	13	33
– Others	131,571	47.23%	18	200	4	409
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	27,809	99.33%	18	183	–	17
– Loans for purchase of other residential properties	311,070	99.92%	140	1,332	1	137
– Credit card advances	10,959	–	106	366	95	151
– Others	101,986	94.43%	126	537	81	384
Total loans for use in Hong Kong	991,457	61.86%	1,082	3,150	322	3,478
Trade financing	66,497	15.36%	569	573	372	202
Loans for use outside Hong Kong	439,910	5.29%	2,343	2,217	1,958	2,840
Gross advances to customers	1,497,864	43.18%	3,994	5,940	2,652	6,520

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

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

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

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

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

#### Gross advances to customers

	<b>At 30 June 2021 HK\$'m</b>	At 31 December 2020 HK\$'m
Hong Kong	<b>1,487,507</b>	1,218,633
Chinese Mainland	<b>90,645</b>	112,527
Others	<b>166,801</b>	166,704
	<b>1,744,953</b>	1,497,864
<b>Impairment allowances made in respect of the gross advances to customers – Stages 1 and 2</b>		
Hong Kong	<b>4,379</b>	4,551
Chinese Mainland	<b>612</b>	656
Others	<b>1,963</b>	1,313
	<b>6,954</b>	6,520

#### Overdue advances

	<b>At 30 June 2021 HK\$'m</b>	At 31 December 2020 HK\$'m
Hong Kong	<b>4,917</b>	4,115
Chinese Mainland	<b>475</b>	567
Others	<b>1,376</b>	1,258
	<b>6,768</b>	5,940
<b>Impairment allowances made in respect of the overdue advances – Stage 3</b>		
Hong Kong	<b>1,701</b>	1,308
Chinese Mainland	<b>312</b>	320
Others	<b>889</b>	908
	<b>2,902</b>	2,536

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

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

(d) Concentration of advances to customers (continued)

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

#### Classified or impaired advances

	At 30 June 2021 HK\$'m	At 31 December 2020 HK\$'m
Hong Kong	2,973	2,194
Chinese Mainland	403	404
Others	1,701	1,396
	<b>5,077</b>	<b>3,994</b>
<b>Impairment allowances made in respect of the classified or impaired advances – Stage 3</b>		
Hong Kong	1,822	1,410
Chinese Mainland	310	331
Others	1,114	911
	<b>3,246</b>	<b>2,652</b>

#### (B) Repossessed assets

The estimated market value of repossessed assets held by the Group as at 30 June 2021 amounted to HK\$57 million (31 December 2020: HK\$67 million). The repossessed assets comprise properties in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the proprietors concerned) for release in full or in part of the obligations of the borrowers.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

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

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

	At 30 June 2021 HK\$'m	At 31 December 2020 HK\$'m
<b>Investment in securities at fair value through other comprehensive income</b>		
– Stage 1		
Aaa	91,958	115,426
Aa1 to Aa3	231,965	153,601
A1 to A3	438,460	438,994
Lower than A3	26,155	26,555
Unrated	16,161	19,596
	<b>804,699</b>	754,172
– Stage 2		
Lower than A3	158	–
– Stage 3	–	–
	<b>804,857</b>	754,172
Of which: impairment allowances	<b>(257)</b>	(261)
<b>Investment in securities at amortised cost</b>		
– Stage 1		
Aaa	55,928	43,082
Aa1 to Aa3	23,120	6,730
A1 to A3	70,497	39,864
Lower than A3	25,637	23,923
Unrated	6,621	6,894
	<b>181,803</b>	120,493
– Stage 2		
Lower than A3	397	–
– Stage 3	–	–
	<b>182,200</b>	120,493
Impairment allowances	<b>(70)</b>	(62)
	<b>182,130</b>	120,431
<b>Financial assets at fair value through profit or loss</b>		
Aaa	2,339	1,095
Aa1 to Aa3	15,787	22,573
A1 to A3	12,097	8,412
Lower than A3	9,748	9,846
Unrated	2,569	2,070
	<b>42,540</b>	43,996

As at 30 June 2021, there were no overdue or impaired debt securities and certificates of deposit (31 December 2020: Nil). The preparation basis of the current period disclosure above has been refined to align with the credit risk management policy of the Group.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

#### (D) Credit risk management in response to COVID-19 pandemic

In the first half of 2021, the vaccination programme has rolled out in various countries, economic activities are expected to recover gradually. While the COVID-19 pandemic is still evolving and recurring, the operating environment and financial situations of borrowers remain challenging. The Group has taken a series of risk control measures in response to the adverse impact and the uncertainty from the pandemic:

- The Group coordinated with the HKMA in launching various relief measures for individuals and commercial borrowers, in order to alleviate the financial pressure and the impact of the pandemic. The terms of the payment holidays under relief measures are granted on commercial basis, therefore the extension of relief measures to the concerned borrowers do not automatically trigger the migration to Stage 2 and Stage 3, and are not classified as rescheduled advances.
- The implementation of quarantine measures severely hit several industries, including Trading, Retail, Aviation, Tourism (including hospitality), Catering, Entertainment etc. The Group continues to conduct risk-based assessments on the borrowers within these industries. The impacts of the pandemic on the affected borrowers, their respective mitigation measures and short-term refinancing plans are also assessed to identify the vulnerable borrowers, who are put into the watchlist for on-going close monitoring. The loan classification and internal ratings of these borrowers are timely reviewed according to their latest situation.
- The Group performed stress tests of different scenarios of containment of COVID-19 pandemic regularly to assess the potential impacts on credit loss and asset quality.
- The Group reviews the forward looking macroeconomic factors used in ECL model on a quarterly basis to reflect the progressive improvement of economic outlook. While the relief measures implemented by the governments of various countries have alleviated the default pressure of the affected borrowers under COVID-19 pandemic, the Group continues its close monitoring on those borrowers with multiple extensions of relief measures being granted, and additional impairment allowances have been made to address the potential higher default risk of this portfolio upon expiration of the relief measures.

The Group continues to closely monitor the situation brought by the COVID-19 pandemic on the economy and adopt prudent asset quality management to avoid significant deterioration in asset quality.



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.2 Market risk

#### (A) VaR

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

The following table sets out the VaR for all general market risk exposures<sup>1</sup> of the Group.

	Year	At 30 June HK\$'m	Minimum for the first half of year HK\$'m	Maximum for the first half of year HK\$'m	Average for the first half of year HK\$'m
VaR for all market risk	2021	26.1	19.0	47.8	28.3
	2020	38.7	17.5	44.1	30.6
VaR for foreign exchange risk	2021	20.8	13.8	41.1	24.7
	2020	27.5	6.5	29.3	14.8
VaR for interest rate risk in the trading book	2021	17.8	6.2	26.4	13.8
	2020	26.0	13.2	35.6	24.7
VaR for equity risk in the trading book	2021	1.5	0.4	2.2	1.0
	2020	0.8	0.3	2.9	0.8
VaR for commodity risk	2021	5.6	0.0	22.7	9.2
	2020	0.4	0.0	2.5	0.6

Note:

1. Structural FX positions have been excluded.

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

- the use of historical market data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a 99% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.2 Market risk (continued)

#### (A) VaR (continued)

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

#### (B) Currency risk

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

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

	At 30 June 2021							
	Equivalent in million of HK\$							
	US Dollars	Pound Sterling	Japanese Yen	Euro	Renminbi	Australian Dollars	Other foreign currencies	Total foreign currencies
Spot assets	1,052,563	33,005	177,256	76,576	413,227	39,107	60,697	1,852,431
Spot liabilities	(922,537)	(25,629)	(6,517)	(39,020)	(416,460)	(28,215)	(60,652)	(1,499,030)
Forward purchases	743,383	23,021	10,147	41,472	300,489	19,284	58,223	1,196,019
Forward sales	(854,183)	(30,236)	(180,072)	(79,282)	(297,669)	(30,061)	(58,433)	(1,529,936)
Net options position	58	(31)	-	(10)	(420)	(41)	(35)	(479)
Net long/(short) position	19,284	130	814	(264)	(833)	74	(200)	19,005

	At 31 December 2020							
	Equivalent in million of HK\$							
	US Dollars	Pound Sterling	Japanese Yen	Euro	Renminbi	Australian Dollars	Other foreign currencies	Total foreign currencies
Spot assets	1,017,375	30,074	160,779	45,926	427,394	36,620	62,008	1,780,176
Spot liabilities	(877,494)	(25,986)	(8,006)	(27,974)	(412,245)	(30,815)	(60,400)	(1,442,920)
Forward purchases	617,715	23,737	18,050	39,254	365,271	15,063	54,352	1,133,442
Forward sales	(734,480)	(27,641)	(170,914)	(57,474)	(382,383)	(20,758)	(56,136)	(1,449,786)
Net options position	650	7	-	(2)	(406)	(1)	(1)	247
Net long/(short) position	23,766	191	(91)	(270)	(2,369)	109	(177)	21,159

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.2 Market risk (continued)

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

	At 30 June 2021					
	Equivalent in million of HK\$					
	US Dollars	Baht	Malaysian Ringgit	Philippine Peso	Other foreign currencies	Total foreign currencies
Net structural position	30,841	2,506	2,877	1,912	4,346	42,482

	At 31 December 2020					
	Equivalent in million of HK\$					
	US Dollars	Baht	Malaysian Ringgit	Philippine Peso	Other foreign currencies	Total foreign currencies
Net structural position	30,042	2,697	3,024	1,881	4,677	42,321

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.2 Market risk (continued)

#### (C) Interest rate risk

The tables below summarise the Group's on-balance sheet exposure to interest rate risk as at 30 June 2021 and 31 December 2020. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing date and maturity date.

	At 30 June 2021						
	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Non-interest bearing HK\$'m	Total HK\$'m
<b>Assets</b>							
Cash and balances and placements with banks and other financial institutions	400,071	14,824	28,033	1,417	-	101,892	546,237
Financial assets at fair value through profit or loss	6,276	11,508	9,494	8,883	11,130	13,239	60,530
Derivative financial instruments	-	-	-	-	-	37,263	37,263
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	197,650	197,650
Advances and other accounts	1,460,960	201,985	33,502	38,306	6,778	6,321	1,747,852
Investment in securities							
– At FVOCI	108,956	224,377	166,848	196,481	108,195	6,534	811,391
– At amortised cost	4,317	2,883	19,472	86,547	68,911	-	182,130
Interests in associates and joint ventures	-	-	-	-	-	1,389	1,389
Investment properties	-	-	-	-	-	18,451	18,451
Properties, plant and equipment	-	-	-	-	-	46,224	46,224
Other assets (including current and deferred tax assets)	13,561	-	-	-	-	172,192	185,753
<b>Total assets</b>	<b>1,994,141</b>	<b>455,577</b>	<b>257,349</b>	<b>331,634</b>	<b>195,014</b>	<b>601,155</b>	<b>3,834,870</b>
<b>Liabilities</b>							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	197,650	197,650
Deposits and balances from banks and other financial institutions	241,716	6,755	1,469	1,188	-	80,480	331,608
Financial liabilities at fair value through profit or loss	4,774	5,145	2,182	864	65	-	13,030
Derivative financial instruments	-	-	-	-	-	36,926	36,926
Deposits from customers	2,054,765	263,124	92,291	1,973	-	270,287	2,682,440
Debt securities and certificates of deposit in issue	-	78	-	-	-	-	78
Other accounts and provisions (including current and deferred tax liabilities)	12,608	4	99	1,047	361	90,585	104,704
Insurance contract liabilities	-	-	-	-	-	146,141	146,141
<b>Total liabilities</b>	<b>2,313,863</b>	<b>275,106</b>	<b>96,041</b>	<b>5,072</b>	<b>426</b>	<b>822,069</b>	<b>3,512,577</b>
Interest sensitivity gap	(319,722)	180,471	161,308	326,562	194,588	(220,914)	322,293

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.2 Market risk (continued)

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

	At 31 December 2020						
	Up to 1 month HK\$m	1 to 3 months HK\$m	3 to 12 months HK\$m	1 to 5 years HK\$m	Over 5 years HK\$m	Non-interest bearing HK\$m	Total HK\$m
<b>Assets</b>							
Cash and balances and placements with banks and other financial institutions	338,539	25,591	12,516	1,101	–	85,964	463,711
Financial assets at fair value through profit or loss	4,404	17,991	4,962	7,362	12,695	12,800	60,214
Derivative financial instruments	–	–	–	–	–	52,856	52,856
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	189,550	189,550
Advances and other accounts	1,247,621	163,297	36,230	40,454	6,438	6,376	1,500,416
Investment in securities							
– At FVOCI	130,866	213,464	100,434	192,840	116,568	5,882	760,054
– At amortised cost	5,253	3,836	14,834	37,825	58,683	–	120,431
Interests in associates and joint ventures	–	–	–	–	–	1,485	1,485
Investment properties	–	–	–	–	–	18,441	18,441
Properties, plant and equipment	–	–	–	–	–	46,855	46,855
Other assets (including current and deferred tax assets)	20,813	–	–	–	–	86,155	106,968
<b>Total assets</b>	<b>1,747,496</b>	<b>424,179</b>	<b>168,976</b>	<b>279,582</b>	<b>194,384</b>	<b>506,364</b>	<b>3,320,981</b>
<b>Liabilities</b>							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	189,550	189,550
Deposits and balances from banks and other financial institutions	226,861	565	1,322	1,243	–	96,504	326,495
Financial liabilities at fair value through profit or loss	11,551	4,346	3,690	387	362	–	20,336
Derivative financial instruments	–	–	–	–	–	60,313	60,313
Deposits from customers	1,575,155	246,117	110,992	1,715	–	249,730	2,183,709
Debt securities and certificates of deposit in issue	233	–	193	–	–	–	426
Other accounts and provisions (including current and deferred tax liabilities)	11,065	4	94	1,165	447	68,218	80,993
Insurance contract liabilities	–	–	–	–	–	139,504	139,504
<b>Total liabilities</b>	<b>1,824,865</b>	<b>251,032</b>	<b>116,291</b>	<b>4,510</b>	<b>809</b>	<b>803,819</b>	<b>3,001,326</b>
Interest sensitivity gap	(77,369)	173,147	52,685	275,072	193,575	(297,455)	319,655

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.3 Liquidity risk

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

	2021	2020
Average value of liquidity coverage ratio		
– First quarter	<b>134.09%</b>	150.45%
– Second quarter	<b>134.20%</b>	131.38%

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.

	2021	2020
Quarter-end value of net stable funding ratio		
– First quarter	<b>124.90%</b>	116.60%
– Second quarter	<b>118.50%</b>	117.49%

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.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.3 Liquidity risk (continued)

#### (B) Maturity analysis

The tables below analyse the Group's assets and liabilities as at 30 June 2021 and 31 December 2020 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2021							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
<b>Assets</b>								
Cash and balances and placements with banks and other financial institutions	344,293	157,671	14,452	28,037	1,784	-	-	546,237
Financial assets at fair value through profit or loss	-	3,360	14,530	7,928	9,596	10,728	14,388	60,530
Derivative financial instruments	13,557	3,150	2,657	4,820	8,710	4,369	-	37,263
Hong Kong SAR Government certificates of indebtedness	197,650	-	-	-	-	-	-	197,650
Advances and other accounts	313,901	166,247	79,550	218,002	615,663	352,577	1,912	1,747,852
Investment in securities								
– At FVOCI	-	100,740	212,941	174,512	203,904	111,628	7,666	811,391
– At amortised cost	-	4,692	3,170	19,748	83,510	68,585	2,425	182,130
Interests in associates and joint ventures	-	-	-	-	-	-	1,389	1,389
Investment properties	-	-	-	-	-	-	18,451	18,451
Properties, plant and equipment	-	-	-	-	-	-	46,224	46,224
Other assets (including current and deferred tax assets)	48,614	97,513	1,349	6,631	19,602	10,142	1,902	185,753
<b>Total assets</b>	<b>918,015</b>	<b>533,373</b>	<b>328,649</b>	<b>459,678</b>	<b>942,769</b>	<b>558,029</b>	<b>94,357</b>	<b>3,834,870</b>
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	197,650	-	-	-	-	-	-	197,650
Deposits and balances from banks and other financial institutions	235,811	86,385	6,755	1,469	1,188	-	-	331,608
Financial liabilities at fair value through profit or loss	-	4,774	5,148	2,182	862	64	-	13,030
Derivative financial instruments	9,288	2,270	2,114	4,729	12,020	6,505	-	36,926
Deposits from customers	1,967,725	357,327	263,124	92,291	1,973	-	-	2,682,440
Debt securities and certificates of deposit in issue	-	-	78	-	-	-	-	78
Other accounts and provisions (including current and deferred tax liabilities)	58,608	30,290	407	5,652	7,084	2,663	-	104,704
Insurance contract liabilities	51,782	449	1,171	8,842	25,147	58,750	-	146,141
<b>Total liabilities</b>	<b>2,520,864</b>	<b>481,495</b>	<b>278,797</b>	<b>115,165</b>	<b>48,274</b>	<b>67,982</b>	<b>-</b>	<b>3,512,577</b>
Net liquidity gap	(1,602,849)	51,878	49,852	344,513	894,495	490,047	94,357	322,293

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.3 Liquidity risk (continued)

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

	At 31 December 2020							
	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
<b>Assets</b>								
Cash and balances and placements with banks and other financial institutions	368,078	56,425	25,217	12,134	1,857	-	-	463,711
Financial assets at fair value through profit or loss	-	4,490	17,863	4,459	7,241	12,114	14,047	60,214
Derivative financial instruments	15,506	3,614	6,190	8,887	12,101	6,558	-	52,856
Hong Kong SAR Government certificates of indebtedness	189,550	-	-	-	-	-	-	189,550
Advances and other accounts	225,736	40,664	82,601	183,549	622,363	344,001	1,502	1,500,416
Investment in securities								
– At FVOCI	-	125,613	199,644	108,713	201,587	116,176	8,321	760,054
– At amortised cost	-	5,575	4,119	14,620	36,100	58,219	1,798	120,431
Interests in associates and joint ventures	-	-	-	-	-	-	1,485	1,485
Investment properties	-	-	-	-	-	-	18,441	18,441
Properties, plant and equipment	-	-	-	-	-	-	46,855	46,855
Other assets (including current and deferred tax assets)	50,984	15,340	3,263	5,498	17,717	12,275	1,891	106,968
<b>Total assets</b>	<b>849,854</b>	<b>251,721</b>	<b>338,897</b>	<b>337,860</b>	<b>898,966</b>	<b>549,343</b>	<b>94,340</b>	<b>3,320,981</b>
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	189,550	-	-	-	-	-	-	189,550
Deposits and balances from banks and other financial institutions	269,742	53,625	564	1,322	1,242	-	-	326,495
Financial liabilities at fair value through profit or loss	-	11,552	4,348	3,690	386	360	-	20,336
Derivative financial instruments	11,253	5,064	7,058	9,461	16,758	10,719	-	60,313
Deposits from customers	1,459,907	364,978	246,117	110,992	1,715	-	-	2,183,709
Debt securities and certificates of deposit in issue	-	233	-	193	-	-	-	426
Other accounts and provisions (including current and deferred tax liabilities)	49,267	16,950	1,960	2,988	7,146	2,682	-	80,993
Insurance contract liabilities	57,335	1,296	1,194	5,832	22,214	51,633	-	139,504
<b>Total liabilities</b>	<b>2,037,054</b>	<b>453,698</b>	<b>261,241</b>	<b>134,478</b>	<b>49,461</b>	<b>65,394</b>	<b>-</b>	<b>3,001,326</b>
Net liquidity gap	(1,187,200)	(201,977)	77,656	203,382	849,505	483,949	94,340	319,655



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.3 Liquidity risk (continued)

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

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

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

### 3.4 Insurance risk

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

The underwriting strategy is intended to set premium pricing at an appropriate level that corresponds with the underlying exposure of the risks underwritten and the Group's underwriting procedures include 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 of insurance liability which include an appropriate level of prudential margins.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.5 Capital management

The 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 Group has adopted the foundation internal ratings-based (“FIRB”) approach to calculate the credit risk capital charge for the majority of its non-securitisation exposures. Small residual credit exposures are remained under the standardised (credit risk) (“STC”) approach. The Group has adopted the standardised credit valuation adjustment (“CVA”) method to calculate the capital charge for the CVA risk of the counterparty.

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

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

#### (A) Basis of regulatory consolidation

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

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.5 Capital management (continued)

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

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

Name	At 30 June 2021		At 31 December 2020	
	Total assets HK\$'m	Total equity HK\$'m	Total assets HK\$'m	Total equity HK\$'m
BOC Group Trustee Company Limited	200	200	200	200
BOCI-Prudential Trustee Limited	547	467	553	498
China Bridge (Malaysia) Sdn. Bhd.	10	4	13	9
Bank of China (Hong Kong) Nominees Limited	–	–	–	–
Bank of China (Hong Kong) Trustees Limited	11	11	11	11
BOC Financial Services (Nanning) Company Limited	206	46	248	43
BOCHK Information Technology (Shenzhen) Co., Ltd.	393	270	387	265
BOCHK Information Technology Services (Shenzhen) Co., Ltd.	430	363	421	360
Che Hsing (Nominees) Limited*	N/A	N/A	–	–
Po Sang Financial Investment Services Company Limited	362	345	364	345
Po Sang Securities and Futures Limited	877	402	952	375
Sin Hua Trustee Limited	5	5	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.	–	–	–	–

\* Che Hsing (Nominees) Limited was dissolved on 16 February 2021.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.5 Capital management (continued)

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

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

There were no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation as at 30 June 2021 (31 December 2020: Nil).

There were also no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation where the methods of consolidation differ as at 30 June 2021 (31 December 2020: Nil).

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

#### (B) Capital ratio

The capital ratios are analysed as follows:

	At 30 June 2021	At 31 December 2020
CET1 capital ratio	15.95%	17.75%
Tier 1 capital ratio	17.61%	19.67%
Total capital ratio	19.79%	22.10%

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.5 Capital management (continued)

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

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

	At 30 June 2021 HK\$'m	At 31 December 2020 HK\$'m
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments	43,043	43,043
Retained earnings	194,696	184,230
Disclosed reserves	45,881	45,100
CET1 capital before regulatory deductions	283,620	272,373
CET1 capital: regulatory deductions		
Valuation adjustments	(33)	(24)
Other intangible assets (net of associated deferred tax liabilities)	(1,510)	(1,502)
Deferred tax assets (net of associated deferred tax liabilities)	(102)	(91)
Gains and losses due to changes in own credit risk on fair valued liabilities	(23)	(21)
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	(49,736)	(49,413)
Regulatory reserve for general banking risks	(6,665)	(4,780)
Total regulatory deductions to CET1 capital	(58,069)	(55,831)
CET1 capital	225,551	216,542
AT1 capital: instruments		
Qualifying AT1 capital instruments classified as equity under applicable accounting standards	23,476	23,476
AT1 capital	23,476	23,476
Tier 1 capital	249,027	240,018
Tier 2 capital: instruments and provisions		
Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	8,405	7,322
Tier 2 capital before regulatory deductions	8,405	7,322
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	22,381	22,236
Total regulatory adjustments to Tier 2 capital	22,381	22,236
Tier 2 capital	30,786	29,558
Total regulatory capital	279,813	269,576

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.5 Capital management (continued)

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

The capital buffer ratios are analysed as follows:

	At 30 June 2021	At 31 December 2020
Capital conservation buffer ratio	2.500%	2.500%
Higher loss absorbency ratio	1.500%	1.500%
Countercyclical capital buffer ratio	0.820%	0.790%

#### (C) Leverage ratio

The leverage ratio is analysed as follows:

	At 30 June 2021 HK\$'m	At 31 December 2020 HK\$'m
Tier 1 capital	249,027	240,018
Leverage ratio exposure	3,546,256	3,036,425
Leverage ratio	7.02%	7.90%

## 4. Fair values of financial assets and liabilities

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

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

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

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

The Group has an established governance structure and controls framework to ensure that fair values are either determined or validated by control units independent of the front offices. Control units have overall responsibility for independent verification of valuation results from front line businesses and all other significant fair value measurements. 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 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.

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

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

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

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

#### *Asset backed securities*

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

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

#### Derivatives

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

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

#### (A) Fair value hierarchy

	At 30 June 2021			
	Level 1 HK\$’m	Level 2 HK\$’m	Level 3 HK\$’m	Total HK\$’m
<b>Financial assets</b>				
Trading assets (Note 21)				
– Debt securities and certificates of deposit	14	24,996	–	25,010
– Equity securities	41	–	–	41
– Other debt instruments	–	3,200	–	3,200
Other financial assets mandatorily classified at fair value through profit or loss (Note 21)				
– Debt securities and certificates of deposit	1,164	14,118	949	16,231
– Equity securities	3,491	147	–	3,638
– Fund	4,600	1,582	3,378	9,560
Financial assets designated at fair value through profit or loss (Note 21)				
– Debt securities and certificates of deposit	715	584	–	1,299
– Other debt instruments	–	1,551	–	1,551
Derivative financial instruments (Note 22)	97	37,166	–	37,263
Investment in securities at FVOCI (Note 24)				
– Debt securities and certificates of deposit	243,973	559,305	1,579	804,857
– Equity securities	2,809	1,460	2,265	6,534
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss (Note 28)				
– Trading liabilities	–	12,931	–	12,931
– Financial liabilities designated at fair value through profit or loss	–	99	–	99
Derivative financial instruments (Note 22)	6	36,920	–	36,926



# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

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

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

	At 31 December 2020			
	Level 1 HK\$'m	Level 2 HK\$'m	Level 3 HK\$'m	Total HK\$'m
<b>Financial assets</b>				
Trading assets (Note 21)				
– Debt securities and certificates of deposit	–	26,817	–	26,817
– Equity securities	49	–	–	49
– Other debt instruments	–	3,300	–	3,300
Other financial assets mandatorily classified at fair value through profit or loss (Note 21)				
– Debt securities and certificates of deposit	–	15,026	846	15,872
– Equity securities	3,910	–	–	3,910
– Fund	4,934	1,183	2,724	8,841
Financial assets designated at fair value through profit or loss (Note 21)				
– Debt securities and certificates of deposit	720	587	–	1,307
– Other debt instruments	–	118	–	118
Derivative financial instruments (Note 22)	33	52,823	–	52,856
Investment in securities at FVOCI (Note 24)				
– Debt securities and certificates of deposit	258,764	493,776	1,632	754,172
– Equity securities	2,441	1,074	2,367	5,882
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss (Note 28)				
– Trading liabilities	–	20,336	–	20,336
– Financial liabilities designated at fair value through profit or loss	–	–	–	–
Derivative financial instruments (Note 22)	35	60,278	–	60,313

There were no financial asset and liability transfers between level 1 and level 2 for the Group during the first half of 2021 (31 December 2020: There were transfers of derivative financial assets of HK\$15,498 million and derivative financial liabilities of HK\$11,227 million from level 1 to level 2 for the Group during 2020 as a result of calibrations of market observable inputs on certain financial instruments. The impact arising from such calibrations was insignificant to the fair value measurement of the relevant financial instruments).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

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

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

	Half-year ended 30 June 2021				
	Financial assets				
	Other financial assets mandatorily classified at FVPL			Investment in securities at FVOCI	
	Debt securities HK\$'m	Fund HK\$'m	Derivative financial instruments HK\$'m	Debt securities HK\$'m	Equity securities HK\$'m
At 1 January 2021	846	2,724	-	1,632	2,367
(Losses)/gains					
- Income statement					
- Net trading gain	-	-	-	-	-
- Net (loss)/gain on other financial instruments at fair value through profit or loss	(52)	234	-	-	-
- Other comprehensive income					
- Change in fair value	-	-	-	(53)	(113)
Additions	155	438	-	-	11
Disposals, redemptions and maturity	-	(18)	-	-	-
Transfer out of level 3	-	-	-	-	-
At 30 June 2021	949	3,378	-	1,579	2,265
Total unrealised (losses)/gains for the period included in income statement for financial assets held as at 30 June 2021					
- Net (loss)/gain on other financial instruments at fair value through profit or loss	(52)	234	-	-	-
	(52)	234	-	-	-

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

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

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

	Year ended 31 December 2020				
	Financial assets				
	Other financial assets mandatorily classified at FVPL			Investment in securities at FVOCI	
	Debt securities HK\$'m	Fund HK\$'m	Derivative financial instruments HK\$'m	Debt securities HK\$'m	Equity securities HK\$'m
At 1 January 2020	2,252	1,474	11	1,867	2,154
Gains					
– Income statement					
– Net trading gain	–	–	146	–	–
– Net gain on other financial instruments at fair value through profit or loss	223	107	–	–	–
– Other comprehensive income					
– Change in fair value	–	–	–	191	213
Additions	194	1,143	–	–	–
Disposals, redemptions and maturity	(1,823)	–	–	(426)	–
Transfer out of level 3	–	–	(157)	–	–
At 31 December 2020	846	2,724	–	1,632	2,367
Total unrealised gains for the year included in income statement for financial assets held as at 31 December 2020					
– Net gain on other financial instruments at fair value through profit or loss	49	107	–	–	–
	49	107	–	–	–

As at 30 June 2021 and 31 December 2020, financial instruments categorised as level 3 are mainly comprised of debt securities, fund and unlisted equity shares.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

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

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

For certain illiquid debt securities and fund, the Group obtains valuation quotations from counterparties which may be based on unobservable inputs with significant impact on the valuation. For certain OTC derivative contracts, the counterparty credit spreads used in valuation techniques are unobservable inputs with significant impact on valuation. Therefore, these instruments have been classified by the Group as level 3. Transfers out of level 3 in 2020 were due to change of valuation observability. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

The fair values of unlisted FVOCI equity investments are determined with reference to (i) multiples of comparable listed companies, such as average of the price/earnings ratios or 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.

Had all of the significant unobservable inputs applied on the valuation techniques favourably changed/unfavourably changed by 5% (31 December 2020: 5%), the Group's other comprehensive income would have increased/decreased by HK\$104 million and HK\$102 million, respectively (31 December 2020: increased/decreased by HK\$55 million and HK\$54 million, respectively).

### 4.2 Financial instruments not measured at fair value

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

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

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

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

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

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

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

#### *Deposits from customers*

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

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

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

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

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

	At 30 June 2021		At 31 December 2020	
	Carrying value HK\$'m	Fair value HK\$'m	Carrying value HK\$'m	Fair value HK\$'m
<b>Financial assets</b>				
Investment in securities at amortised cost (Note 24)	182,130	186,690	120,431	127,060
<b>Financial liabilities</b>				
Debt securities and certificates of deposit in issue (Note 30)	78	78	426	426

## 5. Net interest income

	Half-year ended 30 June 2021 HK\$'m	Half-year ended 30 June 2020 HK\$'m
<b>Interest income</b>		
Advances to customers, due from banks and other financial institutions	13,652	20,228
Investment in securities and financial assets at fair value through profit or loss	6,134	8,558
Others	62	150
	19,848	28,936
<b>Interest expense</b>		
Deposits from customers, due to banks and other financial institutions	(3,807)	(9,964)
Debt securities and certificates of deposit in issue	(1)	(1)
Subordinated liabilities	–	(80)
Lease liabilities	(22)	(28)
Others	(76)	(227)
	(3,906)	(10,300)
<b>Net interest income</b>	15,942	18,636

Included within interest income are HK\$15,679 million (first half of 2020: HK\$22,204 million) and HK\$3,841 million (first half of 2020: HK\$5,998 million), for financial assets measured at amortised cost and at fair value through other comprehensive income respectively.

Included within interest expense are HK\$3,899 million (first half of 2020: HK\$10,070 million) for financial liabilities that are not measured at fair value through profit or loss.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 6. Net fee and commission income

	Half-year ended 30 June 2021 HK\$'m	Half-year ended 30 June 2020 HK\$'m
<b>Fee and commission income</b>		
Securities brokerage	2,189	1,567
Loan commissions	1,793	1,389
Credit card business	996	924
Insurance	734	713
Funds distribution	518	442
Payment services	374	358
Trust and custody services	374	322
Bills commissions	321	278
Safe deposit box	151	153
Currency exchange	58	157
Others	608	495
	<b>8,116</b>	6,798
<b>Fee and commission expense</b>		
Credit card business	(639)	(588)
Securities brokerage	(265)	(178)
Insurance	(258)	(233)
Others	(297)	(364)
	<b>(1,459)</b>	(1,363)
<b>Net fee and commission income</b>	<b>6,657</b>	5,435
Of which arise from:		
Financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	1,965	1,501
– Fee and commission expense	(8)	(3)
	<b>1,957</b>	1,498
Trust and other fiduciary activities		
– Fee and commission income	476	421
– Fee and commission expense	(19)	(14)
	<b>457</b>	407

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 7. Net trading gain

	Half-year ended 30 June 2021 HK\$'m	Half-year ended 30 June 2020 HK\$'m
Net gain/(loss) from:		
Foreign exchange and foreign exchange products	2,164	2,863
Interest rate instruments and items under fair value hedge	(48)	(787)
Commodities	103	250
Equity and credit derivative instruments	135	4
	<b>2,354</b>	<b>2,330</b>

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

	Half-year ended 30 June 2021 HK\$'m	Half-year ended 30 June 2020 HK\$'m
Net gain on other financial instruments mandatorily classified at fair value through profit or loss	101	71
Net (loss)/gain on financial instruments designated at fair value through profit or loss	(5)	131
	<b>96</b>	<b>202</b>

## 9. Net gain on other financial assets

	Half-year ended 30 June 2021 HK\$'m	Half-year ended 30 June 2020 HK\$'m
Net gain on disposal/redemption of investment in securities at FVOCI	432	2,513
Net gain on disposal/redemption of investment in securities at amortised cost	10	48
Others	9	10
	<b>451</b>	<b>2,571</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 10. Other operating income

	Half-year ended 30 June 2021 HK\$'m	Half-year ended 30 June 2020 HK\$'m
Dividend income		
– From investment in securities at FVOCI derecognised during the period	34	21
– From investment in securities at FVOCI held at the end of the period	134	103
Gross rental income from investment properties	284	301
Less: Outgoings in respect of investment properties	(26)	(20)
Others	77	59
	<b>503</b>	<b>464</b>

Included in the “Outgoings in respect of investment properties” is HK\$6 million (first half of 2020: HK\$2 million) of direct operating expenses related to investment properties that were not let during the period.

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

	Half-year ended 30 June 2021 HK\$'m	Half-year ended 30 June 2020 HK\$'m
<b>Gross insurance benefits and claims and movement in liabilities</b>		
Claims, benefits and surrenders paid	(9,296)	(7,413)
Movement in liabilities	(6,248)	(9,310)
	<b>(15,544)</b>	<b>(16,723)</b>
<b>Reinsurers' share of benefits and claims and movement in liabilities</b>		
Reinsurers' share of claims, benefits and surrenders paid	6,820	4,851
Reinsurers' share of movement in liabilities	(1,246)	3,061
	<b>5,574</b>	<b>7,912</b>
<b>Net insurance benefits and claims and movement in liabilities</b>	<b>(9,970)</b>	<b>(8,811)</b>



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 12. Net charge of impairment allowances

	Half-year ended 30 June 2021 HK\$'m	Half-year ended 30 June 2020 HK\$'m
Net (charge)/reversal of impairment allowances on:		
Advances and other accounts	<b>(1,197)</b>	(1,311)
Investment in securities		
– At FVOCI	<b>4</b>	(75)
– At amortised cost	<b>(8)</b>	(7)
	<b>(4)</b>	(82)
Others	<b>19</b>	27
Net charge of impairment allowances	<b>(1,182)</b>	(1,366)

## 13. Operating expenses

	Half-year ended 30 June 2021 HK\$'m	Half-year ended 30 June 2020 HK\$'m
Staff costs (including directors' emoluments)		
– Salaries and other costs	<b>4,114</b>	4,114
– Pension cost	<b>275</b>	270
	<b>4,389</b>	4,384
Premises and equipment expenses (excluding depreciation and amortisation)		
– Short-term leases, leases of low-value assets and variable lease payments	<b>6</b>	–
– Others	<b>573</b>	550
	<b>579</b>	550
Depreciation and amortisation	<b>1,515</b>	1,529
Auditor's remuneration		
– Audit services	<b>3</b>	3
– Non-audit services	<b>2</b>	3
Other operating expenses	<b>1,094</b>	1,120
	<b>7,582</b>	7,589

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

	Half-year ended 30 June 2021 HK\$'m	Half-year ended 30 June 2020 HK\$'m
Net loss from fair value adjustments on investment properties	(22)	(507)

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

	Half-year ended 30 June 2021 HK\$'m	Half-year ended 30 June 2020 HK\$'m
Net loss from disposal of equipment, fixtures and fittings	(2)	(1)
Net loss from revaluation of premises	(20)	(2)
	(22)	(3)

## 16. Taxation

Taxation in the income statement represents:

	Half-year ended 30 June 2021 HK\$'m	Half-year ended 30 June 2020 HK\$'m
Current tax		
Hong Kong profits tax		
– Current period taxation	2,642	3,028
– (Over)/under-provision in prior periods	(233)	2
	2,409	3,030
Overseas taxation		
– Current period taxation	267	259
– Under/(over)-provision in prior periods	20	(7)
	2,696	3,282
Deferred tax		
Origination and reversal of temporary differences and unused tax credits	(134)	(219)
	2,562	3,063

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2021. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2021 at the rates of taxation prevailing in the countries/regions in which the Group operates.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 16. Taxation (continued)

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

	Half-year ended 30 June 2021 HK\$'m	Half-year ended 30 June 2020 HK\$'m
Profit before taxation	16,153	19,224
Calculated at a taxation rate of 16.5% (2020: 16.5%)	2,665	3,172
Effect of different taxation rates in other countries/regions	99	56
Income not subject to taxation	(135)	(317)
Expenses not deductible for taxation purposes	199	284
Over-provision in prior periods	(213)	(5)
Foreign withholding tax	60	(13)
Others	(113)	(114)
Taxation charge	2,562	3,063
Effective tax rate	15.9%	15.9%

## 17. Dividends

	Half-year ended 30 June 2021		Half-year ended 30 June 2020	
	Per share HK\$	Total HK\$'m	Per share HK\$	Total HK\$'m
Interim dividend	0.447	4,726	0.447	4,726

At a meeting held on 30 August 2021, the Board declared an interim dividend of HK\$0.447 per ordinary share for the first half of 2021 amounting to approximately HK\$4,726 million. This declared interim dividend is not reflected as a dividend payable in this interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2021.

## 18. Earnings per share

The calculation of basic earnings per share for the first half of 2021 is based on the consolidated profit for the period attributable to equity holders of the Company of approximately HK\$12,576 million (first half of 2020: HK\$15,209 million) and on the ordinary shares in issue of 10,572,780,266 shares (2020: 10,572,780,266 ordinary shares).

There was no dilution of earnings per share as no potential ordinary shares were in issue for the first half of 2021 (first half of 2020: Nil).

## 19. Retirement benefit costs

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 19. Retirement benefit costs (continued)

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

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

The Group's total contributions made to the ORSO schemes for the first half of 2021 amounted to approximately HK\$186 million (first half of 2020: approximately HK\$188 million), after a deduction of forfeited contributions of approximately HK\$6 million (first half of 2020: approximately HK\$4 million). For the MPF Scheme, the Group contributed approximately HK\$67 million (first half of 2020: approximately HK\$66 million) for the first half of 2021.

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

	At 30 June 2021 HK\$'m	At 31 December 2020 HK\$'m
Cash	19,107	38,187
Balances with central banks	158,224	141,803
Placements with central banks maturing within one month	18,778	36,842
Placements with central banks maturing between one and twelve months	5,139	3,379
Placements with central banks maturing over one year	1,163	1,547
	<b>183,304</b>	183,571
Balances with other banks and other financial institutions	166,962	188,089
Placements with other banks and other financial institutions maturing within one month	138,898	19,588
Placements with other banks and other financial institutions maturing between one and twelve months	37,354	33,974
Placements with other banks and other financial institutions maturing over one year	621	310
	<b>343,835</b>	241,961
	<b>546,246</b>	463,719
Less: Impairment allowances		
– Stage 1	(9)	(8)
– Stage 2	–	–
– Stage 3	–	–
	<b>546,237</b>	463,711

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

	At 30 June 2021 HK\$'m	At 31 December 2020 HK\$'m
Securities		
Trading assets		
– Treasury bills	12,367	19,491
– Certificates of deposit	1,840	171
– Other debt securities	10,803	7,155
	<b>25,010</b>	26,817
– Equity securities	41	49
	<b>25,051</b>	26,866
Other financial assets mandatorily classified at fair value through profit or loss		
– Treasury bills	1,164	–
– Other debt securities	15,067	15,872
	<b>16,231</b>	15,872
– Equity securities	3,638	3,910
– Fund	9,560	8,841
	<b>29,429</b>	28,623
Financial assets designated at fair value through profit or loss		
– Certificates of deposit	–	–
– Other debt securities	1,299	1,307
	<b>1,299</b>	1,307
Total securities	<b>55,779</b>	56,796
Other debt instruments		
Trading assets	3,200	3,300
Financial assets designated at fair value through profit or loss	1,551	118
Total other debt instruments	<b>4,751</b>	3,418
	<b>60,530</b>	60,214

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

Total securities are analysed by place of listing as follows:

	At 30 June 2021 HK\$'m	At 31 December 2020 HK\$'m
Debt securities and certificates of deposit		
– Listed in Hong Kong	22,221	26,306
– Listed outside Hong Kong	8,513	8,133
– Unlisted	11,806	9,557
	<b>42,540</b>	43,996
Equity securities		
– Listed in Hong Kong	2,874	2,610
– Listed outside Hong Kong	805	1,265
– Unlisted	–	84
	<b>3,679</b>	3,959
Fund		
– Listed in Hong Kong	476	–
– Listed outside Hong Kong	231	491
– Unlisted	8,853	8,350
	<b>9,560</b>	8,841
Total securities	<b>55,779</b>	56,796

Total securities are analysed by type of issuer as follows:

	At 30 June 2021 HK\$'m	At 31 December 2020 HK\$'m
Sovereigns	20,343	26,207
Public sector entities	744	535
Banks and other financial institutions	23,971	20,935
Corporate entities	10,721	9,119
Total securities	<b>55,779</b>	56,796

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 22. Derivative financial instruments

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

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

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

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

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 22. Derivative financial instruments (continued)

The following tables summarise the contract/notional amounts and fair values of each class of derivative financial instrument as at 30 June 2021 and 31 December 2020:

	At 30 June 2021		
	Contract/ notional amounts HK\$'m	Fair values	
		Assets HK\$'m	Liabilities HK\$'m
Exchange rate contracts			
Spot, forwards and futures	214,145	11,172	(7,061)
Swaps	1,303,596	10,780	(8,497)
Options	18,906	45	(37)
	<b>1,536,647</b>	<b>21,997</b>	<b>(15,595)</b>
Interest rate contracts			
Futures	1,458	2	(2)
Swaps	1,046,101	12,401	(18,680)
Options	1,148	–	–
	<b>1,048,707</b>	<b>12,403</b>	<b>(18,682)</b>
Commodity contracts	<b>49,686</b>	<b>2,769</b>	<b>(2,555)</b>
Equity contracts	<b>3,512</b>	<b>94</b>	<b>(94)</b>
	<b>2,638,552</b>	<b>37,263</b>	<b>(36,926)</b>

	At 31 December 2020		
	Contract/ notional amounts HK\$'m	Fair values	
		Assets HK\$'m	Liabilities HK\$'m
Exchange rate contracts			
Spot, forwards and futures	250,999	13,496	(9,914)
Swaps	1,157,985	18,667	(20,759)
Options	21,443	147	(136)
	<b>1,430,427</b>	<b>32,310</b>	<b>(30,809)</b>
Interest rate contracts			
Futures	488	–	–
Swaps	1,152,857	17,211	(26,218)
Options	5,845	–	–
	<b>1,159,190</b>	<b>17,211</b>	<b>(26,218)</b>
Commodity contracts	<b>42,819</b>	<b>3,282</b>	<b>(3,246)</b>
Equity contracts	<b>2,526</b>	<b>53</b>	<b>(40)</b>
	<b>2,634,962</b>	<b>52,856</b>	<b>(60,313)</b>



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 23. Advances and other accounts

	At 30 June 2021 HK\$'m	At 31 December 2020 HK\$'m
Personal loans and advances	524,256	458,577
Corporate loans and advances	1,220,697	1,039,287
Advances to customers	1,744,953	1,497,864
Less: Impairment allowances		
– Stage 1	(5,355)	(5,405)
– Stage 2	(1,599)	(1,115)
– Stage 3	(3,246)	(2,652)
	1,734,753	1,488,692
Trade bills	11,746	9,826
Advances to banks and other financial institutions	1,355	1,898
Less: Impairment allowances		
– Stage 1	(2)	–
– Stage 2	–	–
– Stage 3	–	–
	1,353	1,898
	<b>1,747,852</b>	<b>1,500,416</b>

As at 30 June 2021, advances to customers included accrued interest of HK\$1,875 million (31 December 2020: HK\$1,958 million).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 24. Investment in securities

	At 30 June 2021 HK\$'m	At 31 December 2020 HK\$'m
Investment in securities at fair value through other comprehensive income		
– Treasury bills	359,829	334,480
– Certificates of deposit	28,132	46,029
– Other debt securities	416,896	373,663
	<b>804,857</b>	754,172
– Equity securities	6,534	5,882
	<b>811,391</b>	760,054
Investment in securities at amortised cost		
– Certificates of deposit	2,205	984
– Other debt securities	179,995	119,509
	<b>182,200</b>	120,493
Less: Impairment allowances		
– Stage 1	(68)	(62)
– Stage 2	(2)	–
– Stage 3	–	–
	<b>(70)</b>	(62)
	<b>182,130</b>	120,431
	<b>993,521</b>	880,485

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 24. Investment in securities (continued)

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

	At 30 June 2021 HK\$'m	At 31 December 2020 HK\$'m
Investment in securities at fair value through other comprehensive income		
Debt securities and certificates of deposit		
– Listed in Hong Kong	289,032	195,380
– Listed outside Hong Kong	190,817	158,283
– Unlisted	325,008	400,509
	<b>804,857</b>	754,172
Equity securities		
– Listed in Hong Kong	3,153	2,777
– Listed outside Hong Kong	501	496
– Unlisted	2,880	2,609
	<b>6,534</b>	5,882
	<b>811,391</b>	760,054
Investment in securities at amortised cost		
Debt securities and certificates of deposit		
– Listed in Hong Kong	34,189	28,050
– Listed outside Hong Kong	89,738	59,685
– Unlisted	58,203	32,696
	<b>182,130</b>	120,431
	<b>993,521</b>	880,485
Market value of listed securities at amortised cost	<b>126,996</b>	92,341

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

	At 30 June 2021 HK\$'m	At 31 December 2020 HK\$'m
Sovereigns	498,225	426,384
Public sector entities	44,120	26,363
Banks and other financial institutions	287,422	270,645
Corporate entities	163,754	157,093
	<b>993,521</b>	880,485

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 25. Investment properties

	Half-year ended 30 June 2021 HK\$'m	Year ended 31 December 2020 HK\$'m
At 1 January	18,441	20,110
Additions	6	9
Fair value losses	(22)	(1,622)
Reclassification from/(to) properties, plant and equipment (Note 26)	26	(56)
At period/year end	<b>18,451</b>	18,441

## 26. Properties, plant and equipment

	Premises HK\$'m	Equipment, fixtures and fittings HK\$'m	Right-of-use assets* HK\$'m	Total HK\$'m
Net book value at 1 January 2021	43,548	1,582	1,725	46,855
Additions	6	87	147	240
Disposals	(1)	(7)	(8)	(16)
Revaluation	400	–	–	400
Depreciation for the period	(572)	(281)	(359)	(1,212)
Reclassification to investment properties (Note 25)	(26)	–	–	(26)
Impairment for the period	–	(4)	–	(4)
Exchange difference	(3)	(4)	(6)	(13)
Net book value at 30 June 2021	<b>43,352</b>	<b>1,373</b>	<b>1,499</b>	<b>46,224</b>
At 30 June 2021				
Cost or valuation	43,352	6,961	2,969	53,282
Accumulated depreciation and impairment	–	(5,588)	(1,470)	(7,058)
Net book value at 30 June 2021	<b>43,352</b>	<b>1,373</b>	<b>1,499</b>	<b>46,224</b>
The analysis of cost or valuation of the above assets is as follows:				
At 30 June 2021				
At cost	–	6,961	2,969	9,930
At valuation	43,352	–	–	43,352
	<b>43,352</b>	<b>6,961</b>	<b>2,969</b>	<b>53,282</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 26. 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 2020	46,342	3,331	1,929	51,602
Additions	91	1,232	561	1,884
Disposals	(2)	(13)	(10)	(25)
Revaluation	(1,766)	–	–	(1,766)
Depreciation for the year	(1,173)	(1,107)	(760)	(3,040)
Reclassification from investment properties (Note 25)	56	–	–	56
Transfer to other assets (Note 27)	–	(1,862)	–	(1,862)
Exchange difference	–	1	5	6
Net book value at 31 December 2020	43,548	1,582	1,725	46,855
At 31 December 2020				
Cost or valuation	43,548	7,006	3,001	53,555
Accumulated depreciation and impairment	–	(5,424)	(1,276)	(6,700)
Net book value at 31 December 2020	43,548	1,582	1,725	46,855
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2020				
At cost	–	7,006	3,001	10,007
At valuation	43,548	–	–	43,548
	43,548	7,006	3,001	53,555

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

There was no transfer of application software to other assets during the first half of 2021 (2020: Application software with net book value of HK\$1,862 million, representing cost of HK\$5,101 million and accumulated amortisation of HK\$3,239 million, was transferred to other assets and presented as intangible assets on 31 December 2020).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 27. Other assets

	At 30 June 2021 HK\$'m	At 31 December 2020 HK\$'m
Reposessed assets	24	23
Precious metals	10,227	10,697
Intangible assets	1,872	1,862
Reinsurance assets	57,142	55,672
Accounts receivable and prepayments	116,293	38,481
	<b>185,558</b>	<b>106,735</b>

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

	At 30 June 2021 HK\$'m	At 31 December 2020 HK\$'m
Trading liabilities		
– Short positions in Exchange Fund Bills and Notes	12,931	20,336
Financial liabilities designated at fair value through profit or loss		
– Repurchase agreements	99	–
	<b>13,030</b>	<b>20,336</b>

As at 30 June 2021, the carrying amount of financial liabilities designated at fair value through profit or loss was approximately the same as the amount that the Group would be contractually required to pay at maturity to the holders.

## 29. Deposits from customers

	At 30 June 2021 HK\$'m	At 31 December 2020 HK\$'m
Demand deposits and current accounts		
– Corporate	685,211	222,286
– Personal	91,155	87,940
	<b>776,366</b>	<b>310,226</b>
Savings deposits		
– Corporate	520,267	499,740
– Personal	670,511	649,295
	<b>1,190,778</b>	<b>1,149,035</b>
Time, call and notice deposits		
– Corporate	445,813	454,852
– Personal	269,483	269,596
	<b>715,296</b>	<b>724,448</b>
	<b>2,682,440</b>	<b>2,183,709</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

	At 30 June 2021 HK\$'m	At 31 December 2020 HK\$'m
At amortised cost		
– Certificates of deposit	–	233
– Other debt securities	78	193
	<b>78</b>	<b>426</b>

## 31. Other accounts and provisions

	At 30 June 2021 HK\$'m	At 31 December 2020 HK\$'m
Other accounts payable	91,913	68,682
Lease liabilities	1,510	1,710
Impairment allowances on loan commitments and financial guarantee contracts		
– Stage 1	507	594
– Stage 2	68	44
– Stage 3	42	20
	<b>94,040</b>	<b>71,050</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 32. Deferred taxation

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

The major components of deferred tax (assets)/liabilities recorded in the balance sheet, and the movements during the first half of 2021 and the year ended 31 December 2020 are as follows:

	Half-year ended 30 June 2021					
	Accelerated tax depreciation	Property revaluation	Losses	Impairment allowances	Others	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1 January 2021	797	6,560	(46)	(1,153)	(289)	5,869
(Credited)/charged to income statement (Note 16)	(18)	(89)	8	13	(48)	(134)
Charged/(credited) to other comprehensive income	-	67	-	-	(304)	(237)
Release upon disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	(12)	(12)
Exchange difference and others	-	-	31	2	1	34
At 30 June 2021	779	6,538	(7)	(1,138)	(652)	5,520

  

	Year ended 31 December 2020					
	Accelerated tax depreciation	Property revaluation	Losses	Impairment allowances	Others	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1 January 2020	756	6,997	-	(804)	(532)	6,417
Charged/(credited) to income statement	41	(140)	(15)	(349)	(48)	(511)
(Credited)/charged to other comprehensive income	-	(297)	-	-	253	(44)
Release upon disposal of equity instruments at fair value through other comprehensive income	-	-	(31)	-	32	1
Release upon redemption of financial liabilities designated at fair value through profit or loss	-	-	-	-	6	6
At 31 December 2020	797	6,560	(46)	(1,153)	(289)	5,869



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 32. Deferred taxation (continued)

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

	<b>At 30 June 2021 HK\$'m</b>	At 31 December 2020 HK\$'m
Deferred tax assets	<b>(106)</b>	(95)
Deferred tax liabilities	<b>5,626</b>	5,964
	<b>5,520</b>	5,869

	<b>At 30 June 2021 HK\$'m</b>	At 31 December 2020 HK\$'m
Deferred tax assets to be recovered after more than twelve months	<b>(86)</b>	(112)
Deferred tax liabilities to be settled after more than twelve months	<b>6,237</b>	6,244
	<b>6,151</b>	6,132

As at 30 June 2021 and 31 December 2020, the Group has no unrecognised deferred tax assets in respect of tax losses. All of the amount for the Group has no expiry date under the current tax legislation in different countries/regions.

## 33. Insurance contract liabilities

	<b>Half-year ended 30 June 2021 HK\$'m</b>	Year ended 31 December 2020 HK\$'m
At 1 January	<b>139,504</b>	117,269
Benefits paid	<b>(8,885)</b>	(13,288)
Claims incurred and movement in liabilities	<b>15,522</b>	35,523
At period/year end	<b>146,141</b>	139,504

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK\$44,645 million (31 December 2020: HK\$45,615 million) and the associated reinsurance assets of HK\$57,142 million (31 December 2020: HK\$55,672 million) are included in "Other assets" (Note 27).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 34. Share capital

	At 30 June 2021 HK\$'m	At 31 December 2020 HK\$'m
Issued and fully paid: 10,572,780,266 ordinary shares	52,864	52,864

## 35. Other equity instruments

	At 30 June 2021 HK\$'m	At 31 December 2020 HK\$'m
Undated non-cumulative subordinated Additional Tier 1 capital securities	23,476	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 the first half of 2021 amounted to HK\$688 million (first half of 2020: HK\$689 million).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 36. Notes to condensed consolidated cash flow statement

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

	Half-year ended 30 June 2021 HK\$'m	Half-year ended 30 June 2020 HK\$'m
Operating profit	16,286	19,788
Depreciation and amortisation	1,515	1,529
Net charge of impairment allowances	1,182	1,366
Unwind of discount on impairment allowances	(13)	(4)
Advances written off net of recoveries	(94)	(229)
Interest expense on lease liabilities	22	28
Change in balances and placements with banks and other financial institutions with original maturity over three months	(715)	(6,858)
Change in financial assets at fair value through profit or loss	9,214	28,839
Change in derivative financial instruments	(7,794)	6,916
Change in advances and other accounts	(248,466)	(98,424)
Change in investment in securities	(83,865)	(9,465)
Change in other assets	(78,824)	(36,728)
Change in deposits and balances from banks and other financial institutions	5,113	2,595
Change in financial liabilities at fair value through profit or loss	(7,306)	(8,348)
Change in deposits from customers	498,731	131,163
Change in debt securities and certificates of deposit in issue	(348)	(116)
Change in other accounts and provisions	23,231	34,132
Change in insurance contract liabilities	6,637	8,469
Effect of changes in exchange rates	(542)	2,799
Operating cash inflow before taxation	133,964	77,452
Cash flows from operating activities included		
– interest received	19,875	30,958
– interest paid	4,270	11,495
– dividend received	168	124

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

	At 30 June 2021 HK\$'m	At 30 June 2020 HK\$'m
Cash and balances and placements with banks and other financial institutions with original maturity within three months	505,375	358,862
Treasury bills, certificates of deposit and other debt instruments with original maturity within three months		
– financial assets at fair value through profit or loss	12,833	8,248
– investment in securities	60,389	19,287
	578,597	386,397

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 37. 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.

	<b>At 30 June 2021 HK\$'m</b>	At 31 December 2020 HK\$'m
Direct credit substitutes	2,406	2,487
Transaction-related contingencies	32,941	30,215
Trade-related contingencies	28,162	27,830
Commitments that are unconditionally cancellable without prior notice	470,215	511,975
Other commitments with an original maturity of		
– up to one year	19,448	20,416
– over one year	173,712	173,475
	<b>726,884</b>	766,398
Credit risk-weighted amount	<b>88,466</b>	87,517

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.

## 38. Capital commitments

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

	<b>At 30 June 2021 HK\$'m</b>	At 31 December 2020 HK\$'m
Authorised and contracted for but not provided for	238	274
Authorised but not contracted for	173	70
	<b>411</b>	344

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 39. Operating lease commitments

### *As lessor*

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

	<b>At 30 June 2021 HK\$'m</b>	At 31 December 2020 HK\$'m
Properties and equipment		
– Not later than one year	<b>489</b>	520
– One to two years	<b>273</b>	313
– Two to three years	<b>102</b>	101
– Three to four years	<b>13</b>	14
– Four to five years	<b>4</b>	10
– Later than five years	–	–
	<b>881</b>	958

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.

## 40. Segmental reporting

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

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

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

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 40. Segmental reporting (continued)

	Personal Banking HK\$'m	Corporate Banking HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
<b>Half-year ended 30 June 2021</b>								
Net interest income/(expense)								
– External	2,034	6,133	5,104	1,791	880	15,942	–	15,942
– Inter-segment	1,382	(669)	(583)	(6)	(124)	–	–	–
	3,416	5,464	4,521	1,785	756	15,942	–	15,942
Net fee and commission income/(expense)	4,152	2,436	103	(410)	654	6,935	(278)	6,657
Net insurance premium income	–	–	–	9,028	–	9,028	(11)	9,017
Net trading gain	585	728	711	69	223	2,316	38	2,354
Net gain on other financial instruments at fair value through profit or loss	–	–	–	91	–	91	5	96
Net gain on other financial assets	–	6	384	51	10	451	–	451
Other operating income	24	1	29	123	967	1,144	(641)	503
<b>Total operating income</b>	<b>8,177</b>	<b>8,635</b>	<b>5,748</b>	<b>10,737</b>	<b>2,610</b>	<b>35,907</b>	<b>(887)</b>	<b>35,020</b>
Net insurance benefits and claims and movement in liabilities	–	–	–	(9,970)	–	(9,970)	–	(9,970)
<b>Net operating income before impairment allowances</b>	<b>8,177</b>	<b>8,635</b>	<b>5,748</b>	<b>767</b>	<b>2,610</b>	<b>25,937</b>	<b>(887)</b>	<b>25,050</b>
Net (charge)/reversal of impairment allowances	(67)	(346)	(11)	3	(761)	(1,182)	–	(1,182)
<b>Net operating income</b>	<b>8,110</b>	<b>8,289</b>	<b>5,737</b>	<b>770</b>	<b>1,849</b>	<b>24,755</b>	<b>(887)</b>	<b>23,868</b>
Operating expenses	(4,503)	(1,576)	(598)	(257)	(1,535)	(8,469)	887	(7,582)
<b>Operating profit</b>	<b>3,607</b>	<b>6,713</b>	<b>5,139</b>	<b>513</b>	<b>314</b>	<b>16,286</b>	<b>–</b>	<b>16,286</b>
Net loss from disposal of/fair value adjustments on investment properties	–	–	–	–	(22)	(22)	–	(22)
Net loss from disposal/revaluation of properties, plant and equipment	(1)	–	–	–	(21)	(22)	–	(22)
Share of results after tax of associates and joint ventures	46	–	2	–	(137)	(89)	–	(89)
<b>Profit before taxation</b>	<b>3,652</b>	<b>6,713</b>	<b>5,141</b>	<b>513</b>	<b>134</b>	<b>16,153</b>	<b>–</b>	<b>16,153</b>
<b>At 30 June 2021</b>								
<b>ASSETS</b>								
Segment assets	554,239	1,164,349	1,784,549	190,041	170,400	3,863,578	(30,097)	3,833,481
Interests in associates and joint ventures	646	–	6	–	737	1,389	–	1,389
	554,885	1,164,349	1,784,555	190,041	171,137	3,864,967	(30,097)	3,834,870
<b>LIABILITIES</b>								
Segment liabilities	1,187,177	1,478,853	602,941	178,658	95,045	3,542,674	(30,097)	3,512,577
<b>Half-year ended 30 June 2021</b>								
<b>Other information</b>								
Capital expenditure	9	–	–	73	477	559	–	559
Depreciation and amortisation	635	147	57	32	661	1,532	(17)	1,515

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 40. Segmental reporting (continued)

	Personal Banking HK\$'m	Corporate Banking HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
<b>Half-year ended 30 June 2020</b>								
Net interest income/(expense)								
– External	373	8,363	7,205	1,701	994	18,636	–	18,636
– Inter-segment	5,375	(1,755)	(3,045)	(8)	(567)	–	–	–
	5,748	6,608	4,160	1,693	427	18,636	–	18,636
Net fee and commission income/(expense)	3,339	1,960	115	(308)	528	5,634	(199)	5,435
Net insurance premium income	–	–	–	7,927	–	7,927	(11)	7,916
Net trading gain/(loss)	465	721	916	(26)	219	2,295	35	2,330
Net gain/(loss) on other financial instruments at fair value through profit or loss	–	–	151	49	(3)	197	5	202
Net gain on other financial assets	–	10	2,496	65	–	2,571	–	2,571
Other operating income	16	4	23	73	1,040	1,156	(692)	464
<b>Total operating income</b>	<b>9,568</b>	<b>9,303</b>	<b>7,861</b>	<b>9,473</b>	<b>2,211</b>	<b>38,416</b>	<b>(862)</b>	<b>37,554</b>
Net insurance benefits and claims and movement in liabilities	–	–	–	(8,811)	–	(8,811)	–	(8,811)
<b>Net operating income before impairment allowances</b>	<b>9,568</b>	<b>9,303</b>	<b>7,861</b>	<b>662</b>	<b>2,211</b>	<b>29,605</b>	<b>(862)</b>	<b>28,743</b>
Net charge of impairment allowances	(630)	(561)	(84)	(23)	(68)	(1,366)	–	(1,366)
<b>Net operating income</b>	<b>8,938</b>	<b>8,742</b>	<b>7,777</b>	<b>639</b>	<b>2,143</b>	<b>28,239</b>	<b>(862)</b>	<b>27,377</b>
Operating expenses	(4,609)	(1,584)	(562)	(247)	(1,449)	(8,451)	862	(7,589)
<b>Operating profit</b>	<b>4,329</b>	<b>7,158</b>	<b>7,215</b>	<b>392</b>	<b>694</b>	<b>19,788</b>	<b>–</b>	<b>19,788</b>
Net loss from disposal of/fair value adjustments on investment properties	–	–	–	–	(507)	(507)	–	(507)
Net loss from disposal/revaluation of properties, plant and equipment	(2)	–	–	–	(1)	(3)	–	(3)
Share of results after tax of associates and joint ventures	25	–	2	–	(81)	(54)	–	(54)
<b>Profit before taxation</b>	<b>4,352</b>	<b>7,158</b>	<b>7,217</b>	<b>392</b>	<b>105</b>	<b>19,224</b>	<b>–</b>	<b>19,224</b>
<b>At 31 December 2020</b>								
<b>ASSETS</b>								
Segment assets	491,213	985,638	1,538,239	179,865	159,589	3,354,544	(35,048)	3,319,496
Interests in associates and joint ventures	603	–	9	–	873	1,485	–	1,485
	491,816	985,638	1,538,248	179,865	160,462	3,356,029	(35,048)	3,320,981
<b>LIABILITIES</b>								
Segment liabilities	1,159,255	1,013,145	601,497	168,463	94,014	3,036,374	(35,048)	3,001,326
<b>Half-year ended 30 June 2020</b>								
<b>Other information</b>								
Capital expenditure	3	1	–	36	647	687	–	687
Depreciation and amortisation	651	137	54	31	674	1,547	(18)	1,529

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 41. Assets pledged as security

As at 30 June 2021, the liabilities of the Group amounting to HK\$10,888 million (31 December 2020: HK\$15,293 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK\$39,448 million (31 December 2020: HK\$210 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\$50,388 million (31 December 2020: HK\$15,570 million) mainly included in “Financial assets at fair value through profit or loss” and “Investment in securities”.

## 42. Significant related party transactions

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

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

General information of the parent companies:

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

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

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

The majority of transactions with BOC arise from money market activities. As at 30 June 2021, the related aggregate amounts due from and to BOC were HK\$163,113 million (31 December 2020: HK\$188,781 million) and HK\$170,401 million (31 December 2020: HK\$110,389 million) respectively. The aggregate amounts of income and expenses of the Group arising from these transactions with BOC for the first half of 2021 were HK\$760 million (first half of 2020: HK\$493 million) and HK\$118 million (first half of 2020: HK\$119 million) respectively.

As at 30 June 2021, the related aggregate amounts due from and to subsidiaries of BOC were HK\$1,559 million (31 December 2020: HK\$405 million) and HK\$7,112 million (31 December 2020: HK\$5,657 million) respectively.

Other transactions with companies controlled by BOC are not considered material.

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

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



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 42. Significant related party transactions (continued)

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

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

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

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

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

	Half-year ended 30 June 2021 HK\$'m	Half-year ended 30 June 2020 HK\$'m
Income statement items		
Associates and joint ventures		
– Fee and commission income	24	20
– Other operating expenses	35	40
Other related parties		
– Fee and commission income	7	6

	At 30 June 2021 HK\$'m	At 31 December 2020 HK\$'m
Balance sheet items		
Associates and joint ventures		
– Other assets	23	11
– Deposits and balances from banks and other financial institutions	33	38
– Deposits from customers	111	124
– Other accounts and provisions	–	7

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 42. Significant related party transactions (continued)

### (d) Key management personnel

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

The compensation of key management personnel is detailed as follows:

	Half-year ended 30 June 2021 HK\$'m	Half-year ended 30 June 2020 HK\$'m
Salaries and other short-term employee benefits	18	20

## 43. 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 period/year end are shown as follows:

	At 30 June 2021				
	Non-bank private sector				Total HK\$'m
	Banks HK\$'m	Official sector HK\$'m	Non-bank financial institutions		
			HK\$'m	Non-financial private sector HK\$'m	
Chinese Mainland	369,637	123,460	25,877	143,783	662,757
Hong Kong	26,036	1,960	48,371	393,854	470,221
United States	18,934	102,400	17,673	20,570	159,577

	At 31 December 2020				
	Non-bank private sector				Total HK\$'m
	Banks HK\$'m	Official sector HK\$'m	Non-bank financial institutions		
			HK\$'m	Non-financial private sector HK\$'m	
Chinese Mainland	384,517	134,057	24,283	151,545	694,402
Hong Kong	7,263	185	46,394	341,442	395,284
United States	10,575	136,361	16,957	21,578	185,471

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 44. 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.

		At 30 June 2021		
	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	401,940	43,072	445,012
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	70,994	8,388	79,382
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	146,670	31,846	178,516
Other entities of central government not reported in item 1 above	4	30,161	5,102	35,263
Other entities of local governments not reported in item 2 above	5	1,084	18	1,102
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	77,972	7,862	85,834
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	1,488	2	1,490
Total	8	730,309	96,290	826,599
Total assets after provision	9	3,579,692		
On-balance sheet exposures as percentage of total assets	10	20.40%		

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

	Items in the HKMA return	At 31 December 2020		
		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	349,405	36,110	385,515
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	69,104	11,230	80,334
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	109,921	23,386	133,307
Other entities of central government not reported in item 1 above	4	32,628	4,765	37,393
Other entities of local governments not reported in item 2 above	5	1,002	–	1,002
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	83,664	8,477	92,141
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	1,849	10	1,859
<b>Total</b>	<b>8</b>	<b>647,573</b>	<b>83,978</b>	<b>731,551</b>
Total assets after provision	9	3,067,224		
On-balance sheet exposures as percentage of total assets	10	21.11%		

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 45. Event after the balance sheet date

On 9 July 2021, the Group issued RMB1.5 billion “sustainable and smart living” themed green bonds, which was listed on The Stock Exchange of Hong Kong Limited, as part of the Group’s USD15 billion Medium Term Note Programme. The themed green bonds are denominated in RMB, have a maturity of 2 years due in 2023, and bear a fixed interest rate of 2.8% per annum payable semi-annually in arrear. The issuance details had been set out in BOCHK’s announcement dated 9 July 2021 and 12 July 2021.

## 46. Compliance with HKAS 34

The unaudited interim financial information for the first half of 2021 complies with HKAS 34 “Interim Financial Reporting” issued by the HKICPA.

## 47. Statutory accounts

The financial information relating to the year ended 31 December 2020 that is included in this Interim Report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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