



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

# 2022 INTERIM REPORT

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# FINANCIAL HIGHLIGHTS

	30 June 2022 HK\$'m	30 June 2021 HK\$'m
<b>For the period</b>		
Net operating income before impairment allowances	27,232	25,050
Operating profit	17,692	16,286
Profit before taxation	17,389	16,153
Profit for the period	14,417	13,591
Profit attributable to equity holders of the Company and other equity instrument holders	14,165	13,264
<b>Per share</b>	HK\$	HK\$
Basic earnings per share	1.2742	1.1895
Dividend per share	0.447	0.447
	30 June 2022 HK\$'m	31 December 2021 HK\$'m
<b>At period/year end</b>		
Total assets	3,621,134	3,639,430
Issued and fully paid up share capital	52,864	52,864
Capital and reserves attributable to equity holders of the Company	295,741	297,999
	30 June 2022 %	30 June 2021 %
<b>Financial ratios for the period</b>		
Return on average total assets <sup>1</sup>	0.78	0.76
Return on average shareholders' equity <sup>2</sup>	8.84	8.42
Cost to income ratio	28.74	30.27
Average value of liquidity coverage ratio <sup>3</sup>		
First quarter	163.65	134.09
Second quarter	155.02	134.20
	30 June 2022 %	31 December 2021 %
<b>Financial ratios at period/year end</b>		
Loan to deposit ratio <sup>4</sup>	70.03	68.60
Quarter-end value of net stable funding ratio <sup>3</sup>		
First quarter	125.22	124.90
Second quarter	128.53	118.50
Total capital ratio <sup>5</sup>	21.88	21.44

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

2. Return on average shareholders' equity

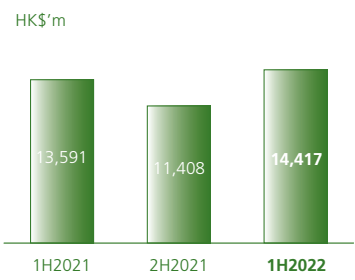
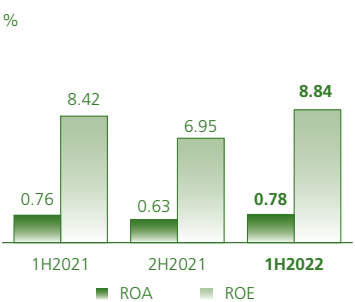
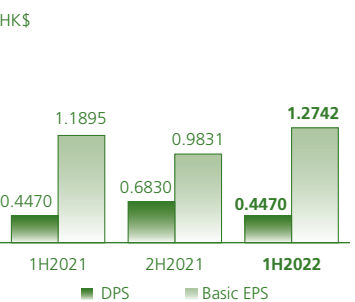
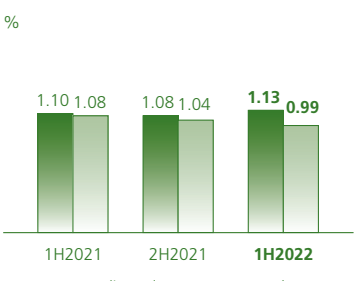
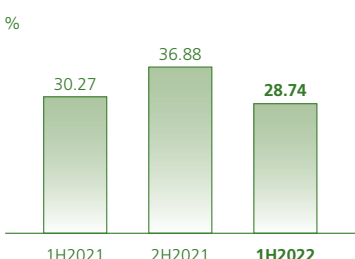
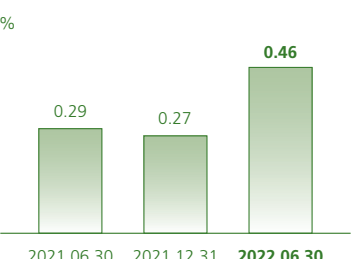
=  $\frac{\text{Profit attributable to equity holders of the Company and other equity instrument holders}}{\text{Average of the beginning and ending balance of capital and reserves attributable to equity holders of the Company and other equity instruments}}$

3. Liquidity coverage ratio and net stable funding ratio are computed on the consolidated basis which comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Liquidity) Rules.
4. Loan to deposit ratio is calculated as at period/year end. Loan represents gross advances to customers.
5. Total capital ratio is computed on the consolidated basis for regulatory purposes that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules.

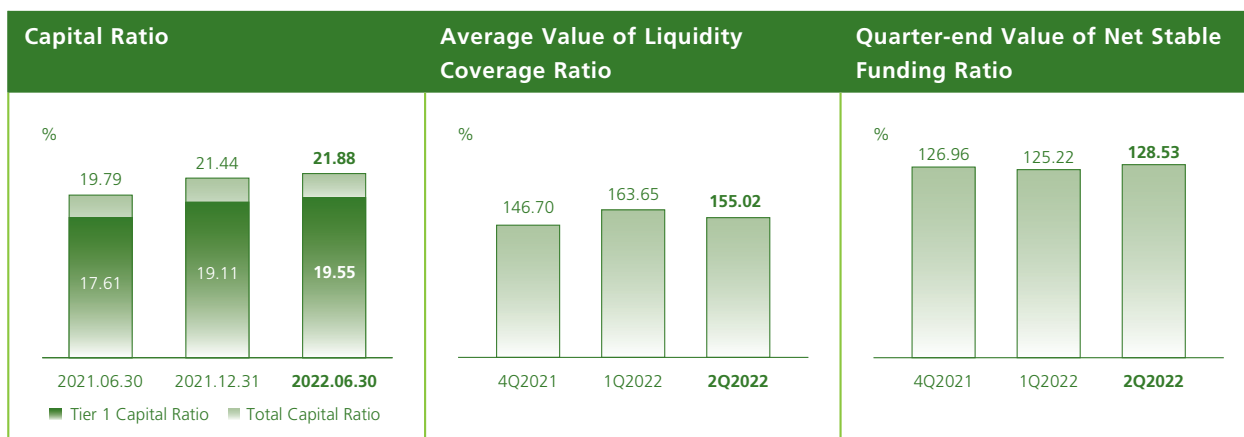
# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL PERFORMANCE AND CONDITIONS AT A GLANCE

The following table is a summary of the Group's key financial results for the first half of 2022 in comparison with the previous two half-year periods of 2021.

Profit for the period	Return on Average Shareholders' Equity <sup>1</sup> ("ROE") and Return on Average Total Assets <sup>1</sup> ("ROA")	Basic Earnings Per Share ("Basic EPS") and Dividend Per Share ("DPS")																																
 <p>HK\$m</p> <table border="1"> <tr><th>Period</th><th>Profit (HK\$m)</th></tr> <tr><td>1H2021</td><td>13,591</td></tr> <tr><td>2H2021</td><td>11,408</td></tr> <tr><td>1H2022</td><td>14,417</td></tr> </table>	Period	Profit (HK\$m)	1H2021	13,591	2H2021	11,408	1H2022	14,417	 <p>%</p> <table border="1"> <tr><th>Period</th><th>ROA (%)</th><th>ROE (%)</th></tr> <tr><td>1H2021</td><td>0.76</td><td>8.42</td></tr> <tr><td>2H2021</td><td>0.63</td><td>6.95</td></tr> <tr><td>1H2022</td><td>0.78</td><td>8.84</td></tr> </table>	Period	ROA (%)	ROE (%)	1H2021	0.76	8.42	2H2021	0.63	6.95	1H2022	0.78	8.84	 <p>HK\$</p> <table border="1"> <tr><th>Period</th><th>DPS (HK\$)</th><th>Basic EPS (HK\$)</th></tr> <tr><td>1H2021</td><td>0.4470</td><td>1.1895</td></tr> <tr><td>2H2021</td><td>0.6830</td><td>0.9831</td></tr> <tr><td>1H2022</td><td>0.4470</td><td>1.2742</td></tr> </table>	Period	DPS (HK\$)	Basic EPS (HK\$)	1H2021	0.4470	1.1895	2H2021	0.6830	0.9831	1H2022	0.4470	1.2742
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<p><b>Profit for the period</b></p> <ul style="list-style-type: none"> <li>In the first half of 2022, profit for the period amounted to HK\$14,417 million, representing an increase of 6.1% compared to the same period of the previous year and an increase of 26.4% compared to the second half of 2021.</li> <li>ROE and ROA were 8.84% and 0.78% respectively.</li> <li>Basic EPS was HK\$1.2742. The interim dividend per share was HK\$0.447.</li> </ul>																																		
Net Interest Margin ("NIM")	Cost to Income Ratio	Classified or Impaired Loan Ratio <sup>2</sup>																																
 <p>%</p> <table border="1"> <tr><th>Period</th><th>Adjusted (%)</th><th>Reported (%)</th></tr> <tr><td>1H2021</td><td>1.10</td><td>1.08</td></tr> <tr><td>2H2021</td><td>1.08</td><td>1.04</td></tr> <tr><td>1H2022</td><td>1.13</td><td>0.99</td></tr> </table>	Period	Adjusted (%)	Reported (%)	1H2021	1.10	1.08	2H2021	1.08	1.04	1H2022	1.13	0.99	 <p>%</p> <table border="1"> <tr><th>Period</th><th>Cost to Income Ratio (%)</th></tr> <tr><td>1H2021</td><td>30.27</td></tr> <tr><td>2H2021</td><td>36.88</td></tr> <tr><td>1H2022</td><td>28.74</td></tr> </table>	Period	Cost to Income Ratio (%)	1H2021	30.27	2H2021	36.88	1H2022	28.74	 <p>%</p> <table border="1"> <tr><th>Period</th><th>Classified or Impaired Loan Ratio (%)</th></tr> <tr><td>2021.06.30</td><td>0.29</td></tr> <tr><td>2021.12.31</td><td>0.27</td></tr> <tr><td>2022.06.30</td><td>0.46</td></tr> </table>	Period	Classified or Impaired Loan Ratio (%)	2021.06.30	0.29	2021.12.31	0.27	2022.06.30	0.46				
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<p><b>Net interest margin ("NIM") expanded amid rising market interest rates</b></p> <ul style="list-style-type: none"> <li>NIM was 0.99%. If the funding income or cost of foreign currency swap contracts<sup>3</sup> were included, NIM would have been 1.13%, an increase of 3 basis points year-on-year. This was primarily due to the Group's efforts to seize market opportunities from rising market interest rates and proactively manage its assets and liabilities, which led to continuous improvement in asset yield.</li> </ul> <p><b>Maintaining satisfactory levels of cost efficiency through the continuous optimisation of resource allocation</b></p> <ul style="list-style-type: none"> <li>Cost to income ratio was 28.74%. The Group strengthened cost management while ensuring ongoing investment in its strategic priorities, optimisation of resource allocation and implementation of low-carbon operational initiatives, thus maintaining its cost to income ratio at a satisfactory level relative to industry peers.</li> </ul> <p><b>Maintaining benign asset quality through prudent risk management</b></p> <ul style="list-style-type: none"> <li>The classified or impaired loan ratio was 0.46%, which remained below the market average.</li> </ul>																																		

# MANAGEMENT DISCUSSION AND ANALYSIS



## Strong capital position to support solid business growth

- The tier 1 capital ratio was 19.55% and the total capital ratio was 21.88%, with both ratios maintained at a solid level.

## Liquidity remained ample

- The average values of liquidity coverage ratio in the first and second quarter of 2022 stood at 163.65% and 155.02% respectively.
- Net stable funding ratio stood at 125.22% at the end of the first quarter of 2022 and 128.53% at the end of the second quarter of 2022.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## ECONOMIC BACKGROUND AND OPERATING ENVIRONMENT

In the first half of 2022, the COVID-19 pandemic situation remained volatile and continued to affect supply chains around the world. The external environment featured a relatively high degree of uncertainty amid persistent geopolitical risks. Against a backdrop of heightened inflation, the Federal Reserve began to increase the benchmark rate and reduce its balance sheet. Meanwhile, the European Central Bank shifted its focus from reducing asset purchases to carrying out interest rate hikes. In the Chinese mainland, the domestic economy was adversely affected by pandemic developments and international issues from the second quarter onwards, and the Chinese Government introduced a range of stimulating measures with an aim of stabilising the economy. Travel restrictions for countries in Southeast Asia were gradually eased, facilitating economic recovery in the region.

The fifth wave of the pandemic impacted Hong Kong's economic growth and domestic consumption levels in the first quarter of 2022. Subsequently, following the gradual relaxation of social distancing measures and the launch of a new phase of the HKSAR Government's Consumption Voucher Scheme, the year-on-year decline in GDP for the second quarter narrowed.

The exchange rate of the Hong Kong dollar against the US dollar repeatedly triggered the weak-side Convertibility Undertaking in the first half of the year, which led the Hong Kong Monetary Authority ("HKMA") to purchase Hong Kong dollars from the market and caused a contraction in the aggregate balance of the banking sector. The 1-month HIBOR increased from 0.16% at the end of 2021 to 0.87% at the end of June 2022. As the Federal Reserve started to increase the benchmark rate, 1-month USD LIBOR was up from 0.10% at the end of 2021 to 1.79% at the end of June 2022, and the 1-month SOFR also increased from 0.05% to 1.69% over the same period. The US treasury yield curve flattened during the period, with the treasury yield spread between 2-year and 10-year tenors narrowing from 78 basis points at the end of 2021 to six basis points at the end of June 2022, and subsequently becoming inverted.

The Hong Kong stock market was affected by weak global market sentiment in the first half of 2022, with anemic levels of IPO activity. The total amount of funds raised and the average daily trading volume of the stock market decreased by 76.6% and 26.5% respectively compared to the same period last year. As at the end of June 2022, the Hang Seng Index was down 6.6% compared with the end of 2021.

In the Hong Kong property market, residential property transaction volumes decreased year-on-year in the first half of 2022 while private residential property prices declined compared with the previous year-end, amid local stock market volatility, the Federal Reserve's rate hike and balance sheet reduction, and tightened social distancing measures owing to the pandemic situation. The HKSAR Government continued to implement demand-side management measures and the HKMA maintained prudent supervisory measures on mortgage loans, notwithstanding the easing of the upper limit on the value of properties eligible for the Mortgage Insurance Programme. In general, the asset quality of banks' mortgage businesses remained stable. The pace of recovery in the commercial property market was slowed by ongoing social distancing measures. Declines were recorded in the rental costs, prices and transaction volumes of retail properties, while the Grade-A office market remained relatively stable.

Despite challenges in the macroeconomic environment, the banking industry continues to enjoy enormous development opportunities. The start of the interest rate hike cycle will boost the profitability in the banking sector. In addition, the 14th Five-Year Plan will further enhance the opening up of the financial sector in the Chinese mainland, as well as promote RMB internationalisation. This, together with other favourable conditions including the further development of the Greater Bay Area, the expansion of mutual financial market access between the Chinese mainland and Hong Kong, the enactment of the Regional Comprehensive Economic Partnership ("RCEP") and the development of the Hong Kong's Northern Metropolis area, will provide tremendous business opportunities for the banking sector in Hong Kong.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CONSOLIDATED FINANCIAL REVIEW

### Financial Highlights

HK\$m	Half-year ended 30 June 2022	Half-year ended 31 December 2021	Half-year ended 30 June 2021
Net operating income before impairment allowances	<b>27,232</b>	23,932	25,050
Operating expenses	<b>(7,826)</b>	(8,825)	(7,582)
Operating profit before impairment allowances	<b>19,406</b>	15,107	17,468
Operating profit after impairment allowances	<b>17,692</b>	14,144	16,286
Profit before taxation	<b>17,389</b>	13,815	16,153
Profit for the period	<b>14,417</b>	11,408	13,591
Profit attributable to equity holders of the Company	<b>13,472</b>	10,394	12,576

In the first half of 2022, the Group's net operating income before impairment allowances amounted to HK\$27,232 million, an increase of HK\$2,182 million or 8.7% year-on-year. If the funding income or cost of foreign currency swap contracts were included, net interest income would have recorded year-on-year growth, owing to the Group's proactive management of assets and liabilities amid rising market interest rates. However, net fee and commission income dropped year-on-year, mainly due to the severity of the pandemic in the beginning of the year, weakened investor sentiment in the market and delays in business activities. Net trading gain increased year-on-year, mainly reflecting changes in the mark-to-market value of certain interest rate instruments caused by market interest rate movements. Operating expenses increased as the Group enhanced its cost structure and explored the utilisation of internal resources to meet additional requirements while at the same time ensuring investment in its key businesses and strategic priorities. Meanwhile, the net charge of impairment allowances increased and a higher

net loss was recorded from fair-value adjustments on investment properties. Profit for the period amounted to HK\$14,417 million, a year-on-year increase of HK\$826 million or 6.1%. Profit attributable to equity holders was HK\$13,472 million, an increase of HK\$896 million or 7.1% year-on-year.

As compared with the second half of 2021, the Group's net operating income before impairment allowances increased by HK\$3,300 million or 13.8%. This was mainly attributable to an increase in net interest income including the funding income or cost of foreign currency swap contracts, an increase in net trading gain as well as a decrease in operating expenses, which more than offset the drop in net fee and commission income and the increase in the net charge of impairment allowances. As a result, the Group's profit for the period increased by HK\$3,009 million or 26.4% compared to the second half of last year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## INCOME STATEMENT ANALYSIS

### Net Interest Income and Net Interest Margin

HK\$m, except percentages	Half-year ended 30 June 2022	Half-year ended 31 December 2021	Half-year ended 30 June 2021
Interest income	22,002	20,450	19,848
Interest expense	(6,621)	(4,451)	(3,906)
Net interest income	15,381	15,999	15,942
Average interest-earning assets	3,139,822	3,052,163	2,977,664
Net interest spread	0.90%	0.97%	1.02%
Net interest margin	0.99%	1.04%	1.08%
Net interest margin (adjusted)*	1.13%	1.08%	1.10%

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

Net interest income amounted to HK\$15,381 million in the first half of 2022. If the funding income or cost of foreign currency swap contracts<sup>#</sup> were included, net interest income would have increased by 8.7% year-on-year to HK\$17,663 million. This was mainly due to growth in average interest-earning assets and improvement in net interest margin. Average interest-earning assets expanded by HK\$162,158 million or 5.4% year-on-year. If the funding income or cost of foreign currency swap contracts were included, net interest margin would have been 1.13%, up 3 basis points year-on-year, as a result of the Group's efforts to seize market opportunities from rising market interest rates while proactively managing its assets

and liabilities, which resulted in improvement in asset yield and an increased contribution from net free funds.

Compared with the second half of 2021, the Group's net interest income would have increased by 5.8% if the funding income or cost of foreign currency swap contracts were included. This was mainly due to growth in average interest-earning assets and improvement in net interest margin. Average interest-earning assets expanded by HK\$87,659 million or 2.9%. Net interest margin widened by 5 basis points, as market interest rates rebounded from a low level, leading to an increase in the asset yield of advances to customers and debt securities investments.

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



# MANAGEMENT DISCUSSION AND ANALYSIS

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

	Half-year ended 30 June 2022		Half-year ended 31 December 2021		Half-year ended 30 June 2021	
	Average balance HK\$'m	Average yield %	Average balance HK\$'m	Average yield %	Average balance HK\$'m	Average yield %
<b>ASSETS</b>						
Balances and placements with banks and other financial institutions	412,493	0.72	382,074	0.83	385,213	0.80
Debt securities investments and other debt instruments	1,082,644	1.30	1,059,290	1.24	970,458	1.27
Advances to customers and other accounts	1,638,263	1.66	1,596,657	1.51	1,604,278	1.52
Other interest-earning assets	6,422	2.53	14,142	0.81	17,715	0.70
Total interest-earning assets	3,139,822	1.41	3,052,163	1.33	2,977,664	1.34
Non interest-earning assets	544,979	–	541,641	–	606,975	–
Total assets	3,684,801	1.20	3,593,804	1.13	3,584,639	1.12
<b>LIABILITIES</b>						
	Average balance HK\$'m	Average rate %	Average balance HK\$'m	Average rate %	Average balance HK\$'m	Average rate %
Deposits and balances from banks and other financial institutions	323,117	0.81	296,539	0.78	203,553	0.44
Current, savings and time deposits	2,254,428	0.46	2,115,003	0.31	2,263,622	0.30
Other interest-bearing liabilities	22,756	1.10	21,434	0.19	18,178	1.09
Total interest-bearing liabilities	2,600,301	0.51	2,432,976	0.36	2,485,353	0.32
Shareholders' funds* and other non interest-bearing deposits and liabilities	1,084,500	–	1,160,828	–	1,099,286	–
Total liabilities	3,684,801	0.36	3,593,804	0.25	3,584,639	0.22

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Net Fee and Commission Income

HK\$'m	Half-year ended 30 June 2022	Half-year ended 31 December 2021	Half-year ended 30 June 2021
Loan commissions	1,769	953	1,793
Securities brokerage	1,388	1,554	2,189
Credit card business	903	1,145	996
Insurance	556	795	734
Payment services	360	377	374
Trust and custody services	341	390	374
Funds distribution	295	307	417
Bills commissions	262	302	321
Safe deposit box	149	155	151
Currency exchange	87	61	58
Funds management	26	60	101
Others	687	588	608
Fee and commission income	6,823	6,687	8,116
Fee and commission expense	(1,679)	(1,472)	(1,459)
Net fee and commission income	5,144	5,215	6,657

In the first half of 2022, net fee and commission income amounted to HK\$5,144 million, down HK\$1,513 million or 22.7% year-on-year. The drop was mainly due to the weakened investor sentiment in the market, which resulted in a decrease in commission income from securities brokerage, insurance and funds distribution of 36.6%, 24.3% and 29.3% respectively. Commission income from funds management decreased by 74.3% year-on-year as capital market volatility affected the performance of fund investments. Commission income from bills, credit card business, trust and custody services, payment services and loans decreased year-on-year owing to delays in business activities and weakening consumer demand. However, commission income from currency exchange rose by 50.0% year-on-year, mainly attributable to increased demand for foreign currency banknotes

following the gradual easing of travel restrictions for countries in Southeast Asia. Fee and commission expenses increased due to a notable uplift in the sales volume of BOC Life's broker and tied agency channels.

Compared with the second half of 2021, net fee and commission income decreased by HK\$71 million or 1.4%, mainly owing to a decrease in commission income from insurance, securities brokerage, credit card business, trust and custody services, funds management, bills, payment services and funds distribution. However, commission income from loans and currency exchange rose. Fee and commission expenses increased due to a significant rise in the sales volume of BOC Life's broker and tied agency channels.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Net Trading Gain

HK\$'m	Half-year ended 30 June 2022	Half-year ended 31 December 2021	Half-year ended 30 June 2021
Foreign exchange and foreign exchange products	4,685	2,561	2,164
Interest rate instruments and items under fair value hedge	4,071	(12)	(48)
Commodities	182	72	103
Equity and credit derivative instruments	20	116	135
Total net trading gain	8,958	2,737	2,354

In the first half of 2022, the Group's net trading gain amounted to HK\$8,958 million, an increase of HK\$6,604 million or 280.5% year-on-year. If the funding income or cost of foreign currency swap contracts were excluded, net trading gain would have increased by 226.9% year-on-year to HK\$6,676 million. This was mainly attributable to the Group recording a net trading gain from interest rate instruments and items under fair value hedge in the first half, as compared with a net trading loss in the same period last year, which resulted from changes in the mark-to-market value of certain interest rate instruments caused by market interest rate movements. Net trading gain from commodities increased, primarily due to a higher gain

from bullion transactions. Net trading gain from equity and credit derivative instruments decreased by HK\$115 million year-on-year, with lower income realised from equity-linked products amid weakened investor sentiment in the market.

Compared with the second half of 2021, net trading gain increased by HK\$6,221 million or 227.3%. If the funding income or cost of foreign currency swap contracts were excluded, net trading gain would have increased by 226.3% from the second half of last year. This was mainly attributable to changes in the mark-to-market value of certain interest rate instruments caused by market interest rate movements.

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

HK\$'m	Half-year ended 30 June 2022	Half-year ended 31 December 2021	Half-year ended 30 June 2021
Net (loss)/gain on other financial instruments at fair value through profit or loss	(1,471)	(1,232)	96

In the first half of 2022, the Group recorded a net loss on other financial instruments at fair value through profit or loss of HK\$1,471 million, as compared with a net gain of HK\$96 million in the same period last year. The change was mainly due to a drop in the mark-to-market value of BOC Life's debt securities investments caused by market interest rate movements. The abovementioned mark-to-market changes of BOC Life's debt securities

investments were offset by changes to its policy reserves, also attributable to market interest rate movements, which were reflected in changes in net insurance benefits and claims as well as movements in liabilities.

Compared with the second half of 2021, the increase in net loss was mainly attributable to a drop in the mark-to-market value of BOC Life's debt securities investments caused by market interest rate movements.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Operating Expenses

HK\$'m	Half-year ended 30 June 2022	Half-year ended 31 December 2021	Half-year ended 30 June 2021
Staff costs	4,605	5,153	4,389
Premises and equipment expenses (excluding depreciation and amortisation)	589	653	579
Depreciation and amortisation	1,526	1,524	1,515
Other operating expenses	1,106	1,495	1,099
Operating expenses	7,826	8,825	7,582

	At 30 June 2022	At 31 December 2021	At 30 June 2021
Staff headcount measured in full-time equivalents	14,220	14,553	14,462

Operating expenses amounted to HK\$7,826 million, an increase of HK\$244 million or 3.2% year-on-year. The Group pursued efficient resource allocation in order to meet its basic operating needs and ensure strategic implementation, while optimising its existing cost base so as to achieve balanced growth in between expenses and income. At the same time, it actively implemented low-carbon operational initiatives. It also explored the utilisation of internal resources to meet additional requirements for enhancing cost efficiency. The cost to income ratio was 28.74%, remaining at a satisfactory level relative to industry peers.

Staff costs increased by 4.9% year-on-year, mainly because of the lower accrual of performance-related remuneration made in the same period last year.

Premises and equipment expenses were up 1.7%, mainly due to increased investment in information technology.

Depreciation and amortisation increased by 0.7%, mainly due to increased amortisation of intangible assets and higher depreciation charges on premises, which more than offset the impact of lower depreciation charges on right-of-use assets and information technology.

Other operating expenses increased by 0.6%, mainly owing to an increase in anti-pandemic supplies, advertising and charitable donation expenses.

Compared with the second half of 2021, operating expenses decreased by HK\$999 million or 11.3%. The decrease was mainly due to lower staff costs and a decrease in business promotion, charitable donation, professional consultation and advertising expenses.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Net Charge of Impairment Allowances on Advances and Other Accounts*

HK\$m	Half-year ended 30 June 2022	Half-year ended 31 December 2021	Half-year ended 30 June 2021
Stage 1	(359)	425	40
Stage 2	(316)	(678)	(504)
Stage 3	(1,051)	(516)	(733)
Net charge of impairment allowances on advances and other accounts	(1,726)	(769)	(1,197)

In the first half of 2022, the Group's net charge of impairment allowances on advances and other accounts amounted to HK\$1,726 million, an increase of HK\$529 million or 44.2% year-on-year. Impairment allowances at Stage 1 recorded a net charge of HK\$359 million, as compared to a net reversal of HK\$40 million in the same period last year. In the first half of 2022, in response to the adverse effects of the fifth wave of the pandemic on Hong Kong's economy, ongoing geopolitical risks and rising inflation around the world, the Group updated the parameter values of its expected credit loss model, which resulted in an increase in the net charge of impairment allowances. By contrast, those parameter values had improved in the same period last year, driven by the gradual recovery of the world's major economies, causing a net reversal of impairment allowances. Impairment allowances at Stage 2 recorded a net charge of HK\$316 million, a decrease of HK\$188 million year-on-year. The change was mainly attributable to the higher impairment allowances made in the same period last year, when the Group took into consideration the potential risks arising

from client exposures under the prevailing pandemic relief measures. Impairment allowances at Stage 3 amounted to a net charge of HK\$1,051 million, an increase of HK\$318 million year-on-year, owing to new impairment allowances being made in response to the downgrading of certain corporate advances this year. The annualised credit cost of advances to customers and other accounts was 0.21%, up 0.06 percentage points from the same period of the previous year. As at 30 June 2022, the Group's total loan impairment allowances as a percentage of advances to customers was 0.67%.

Compared with the second half of 2021, the Group's net charge of impairment allowances on advances and other accounts increased by HK\$957 million or 124.4%, mainly reflecting a higher net charge of impairment allowances arising from the updating of the parameter values of the expected credit loss model, the downgrading of certain corporate advances and higher loan growth in the first half of 2022.

# MANAGEMENT DISCUSSION AND ANALYSIS

## ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the Group's asset composition. Please refer to Note 21 to the Interim Financial Information for the contract/notional amounts and fair values of the Group's derivative financial instruments. Please refer to Note 36 to the Interim Financial Information for the contractual amounts of each significant class of contingent liability and commitment, and the aggregate credit risk-weighted amounts.

### Asset Composition

HK\$m, except percentages	At 30 June 2022		At 31 December 2021	
	Amount	% of total	Amount	% of total
Cash and balances and placements with banks and other financial institutions	436,774	12.1	465,535	12.8
Hong Kong SAR Government certificates of indebtedness	212,660	5.9	203,810	5.6
Securities investments and other debt instruments <sup>1</sup>	1,061,350	29.3	1,167,770	32.1
Advances and other accounts	1,678,660	46.4	1,597,194	43.9
Fixed assets and investment properties	63,393	1.7	64,163	1.8
Other assets <sup>2</sup>	168,297	4.6	140,958	3.8
Total assets	3,621,134	100.0	3,639,430	100.0

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

As at 30 June 2022, the total assets of the Group amounted to HK\$3,621,134 million, a decrease of HK\$18,296 million or 0.5% from the end of last year. Cash and balances and placements with banks and other financial institutions decreased by HK\$28,761 million or 6.2%, mainly due to a decrease in balances with banks. The Group prudently managed its banking

book investments, resulting in a decrease in securities investments and other debt instruments of HK\$106,420 million or 9.1%. Advances and other accounts rose by HK\$81,466 million or 5.1%, with advances to customers growing solidly by HK\$81,966 million or 5.1%, and trade bills increasing by HK\$878 million or 12.1%.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Advances to Customers

HK\$m, except percentages	At 30 June 2022		At 31 December 2021	
	Amount	% of total	Amount	% of total
Loans for use in Hong Kong	<b>1,136,079</b>	<b>67.6</b>	1,083,205	67.7
Industrial, commercial and financial	<b>622,924</b>	<b>37.1</b>	581,799	36.4
Individuals	<b>513,155</b>	<b>30.5</b>	501,406	31.3
Trade financing	<b>81,060</b>	<b>4.8</b>	73,611	4.6
Loans for use outside Hong Kong	<b>463,911</b>	<b>27.6</b>	442,268	27.7
Total advances to customers	<b>1,681,050</b>	<b>100.0</b>	1,599,084	100.0

In the first half of 2022, the Group captured opportunities from its three major markets of Hong Kong, the Greater Bay Area and Southeast Asia while adhering to its customer-centric philosophy of focusing closely on customer needs. It strengthened its support to local commercial and SME customers in Hong Kong by offering exclusive service solutions and launched financial relief initiatives to support SMEs. The Group made concerted efforts to develop its mortgage business by optimising the services available on its Home Expert mobile application and enhancing cooperation with real estate agencies and mortgage intermediaries, with a view to reinforcing its leading market position in mortgages. It also captured development opportunities from regional synergies by enhancing collaboration with its Southeast Asian entities and BOC's entities in the Greater Bay Area and Asia-Pacific region in order to better understand the financial demands of key industries and target customers, thus enhancing its cross-border business advantages. During the period, the Group remained the top mandated arranger in the Hong Kong-Macao syndicated loan market and held the top market position in terms of the total

number of new mortgage loans in Hong Kong. In the first half of 2022, advances to customers grew by HK\$81,966 million, or 5.1%, to HK\$1,681,050 million.

Loans for use in Hong Kong grew by HK\$52,874 million or 4.9%.

- Lending to the industrial, commercial and financial sectors increased by HK\$41,125 million or 7.1%, reflecting loan growth in property development and investment, wholesale and retail trade, manufacturing and information technology.
- Lending to individuals increased by HK\$11,749 million or 2.3%, mainly driven by growth in residential mortgage loans and other individual loans.

Trade financing increased by HK\$7,449 million or 10.1%. Loans for use outside Hong Kong grew by HK\$21,643 million or 4.9%, mainly driven by growth in loans for use in the Chinese mainland.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Loan Quality

HK\$m, except percentages	At 30 June 2022	At 31 December 2021
Advances to customers	<b>1,681,050</b>	1,599,084
Classified or impaired loan ratio	<b>0.46%</b>	0.27%
Total impairment allowances	<b>11,235</b>	9,877
Total impairment allowances as a percentage of advances to customers	<b>0.67%</b>	0.62%
Residential mortgage loans <sup>1</sup> – delinquency and rescheduled loan ratio <sup>2</sup>	<b>0.02%</b>	0.01%
Card advances – delinquency ratio <sup>2</sup>	<b>0.28%</b>	0.23%

	Half-year ended 30 June 2022	Half-year ended 30 June 2021
Card advances – charge-off ratio <sup>3</sup>	<b>1.38%</b>	1.58%

1. Residential mortgage loans exclude those under the Home Ownership Scheme and other government-sponsored home purchasing schemes.
2. The delinquency ratio is the ratio of the total amount of overdue advances (more than three months) to total outstanding advances.
3. The charge-off ratio is the ratio of total write-offs made during the period to average card receivables during the period.

In the first half of 2022, several industries faced stiff challenges in light of the volatile COVID-19 pandemic situation, ongoing geopolitical risks and rising worldwide inflation. The Group proactively strengthened its risk management systems for all types of risks and continuously enhanced its risk management so as to maintain solid asset quality. As at 30 June 2022, the Group's classified or impaired loans amounted to HK\$7,810 million, an

increase of HK\$3,489 million from the end of last year, mainly owing to the downgrading of certain corporate advances. The classified or impaired loan ratio was 0.46%, up 0.19 percentage points from the end of last year. The combined delinquency and rescheduled loan ratio of residential mortgage loans was 0.02%. The charge-off ratio of card advances for the first half of 2022 was 1.38%, down 0.20 percentage points year-on-year.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Deposits from Customers

HK\$'m, except percentages	At 30 June 2022		At 31 December 2021	
	Amount	% of total	Amount	% of total
Demand deposits and current accounts	296,744	12.4	327,234	14.1
Savings deposits	1,184,697	49.3	1,194,094	51.2
Time, call and notice deposits	919,168	38.3	809,827	34.7
Total deposits from customers	2,400,609	100.0	2,331,155	100.0

In the first half of 2022, the Group strengthened cooperation with government authorities, public entities and large corporates, and enhanced its mid to high-end customer base. At the same time, the Group seized market opportunities from cross-boundary wealth management, promoted product innovation by launching online applications and green deposits, and actively expanded its e-payment and e-collection, payroll, cash management,

cash pooling and IPO receiving bank services. As at 30 June 2022, total deposits from customers amounted to HK\$2,400,609 million, an increase of HK\$69,454 million or 3.0% from the end of the previous year. Demand deposits and current accounts decreased by 9.3%. Savings deposits decreased by 0.8%. Time, call and notice deposits increased by 13.5%. The CASA ratio was 61.7%, a decrease of 3.6 percentage points from the end of last year.

## Capital and Reserves Attributable to Equity Holders of the Company

HK\$'m	At 30 June 2022	At 31 December 2021
Share capital	52,864	52,864
Premises revaluation reserve	38,797	38,590
Reserve for financial assets at fair value through other comprehensive income	(8,539)	(413)
Regulatory reserve	6,265	6,073
Translation reserve	(1,581)	(1,000)
Retained earnings	207,935	201,885
Reserves	242,877	245,135
Capital and reserves attributable to equity holders of the Company	295,741	297,999

Capital and reserves attributable to equity holders of the Company amounted to HK\$295,741 million as at 30 June 2022, a decrease of HK\$2,258 million or 0.8% from the end of last year. The premises revaluation reserve increased by 0.5%. The deficit in reserve for financial assets at fair value through other comprehensive income increased, mainly due to the impact of market interest

rate movements. The regulatory reserve increased by 3.2%, mainly driven by growth in advances to customers. The translation reserve decreased, mainly due to the depreciated carrying value of the Southeast Asian entities' local currency net assets caused by the strengthening of the US dollar. Retained earnings rose by 3.0% from the end of last year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Capital Ratio

HK\$m, except percentages	At 30 June 2022	At 31 December 2021
Consolidated capital after deductions		
Common Equity Tier 1 capital	229,606	224,189
Additional Tier 1 capital	23,476	23,476
Tier 1 capital	253,082	247,665
Tier 2 capital	30,185	30,174
Total capital	283,267	277,839
Total risk-weighted assets	1,294,797	1,296,153
Common Equity Tier 1 capital ratio	17.73%	17.30%
Tier 1 capital ratio	19.55%	19.11%
Total capital ratio	21.88%	21.44%

As at 30 June 2022, Common Equity Tier 1 (“CET1”) capital and tier 1 capital had increased by 2.4% and 2.2% respectively from the end of last year, which was primarily attributable to profits recorded for the first half of 2022. Total capital increased by 2.0% from the previous year-end. Total risk-weighted assets (“RWAs”) decreased by 0.1% from the end of last year. The CET1 capital ratio was

17.73% and the tier 1 capital ratio was 19.55%, while the total capital ratio stood at 21.88%. The Group properly managed its capital plan so as to maintain an appropriate capital level for meeting stricter regulatory requirements and supporting sustainable business development while balancing returns to equity holders.

## Liquidity Coverage Ratio and Net Stable Funding Ratio

	2022	2021
Average value of liquidity coverage ratio		
First quarter	163.65%	134.09%
Second quarter	155.02%	134.20%
Third quarter	N/A	134.73%
Fourth quarter	N/A	146.70%

	2022	2021
Quarter-end value of net stable funding ratio		
First quarter	125.22%	124.90%
Second quarter	128.53%	118.50%
Third quarter	N/A	125.92%
Fourth quarter	N/A	126.96%

The Group’s liquidity position remained sound, with the average value of its liquidity coverage ratio and the quarter-

end value of its net stable funding ratio exceeding the regulatory requirement for the first two quarters of 2022.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

In the first half of 2022, the Group thoroughly implemented the “2021-2025 Strategic Development Plan of BOCHK Group”. Reinforcing its strategic commitments, the Group stepped up efforts to capture local business opportunities so as to deeply cultivate the core market of Hong Kong, consolidate its customer base and business foundations, and realise business potential. By capitalising on opportunities arising from the national strategic policies of the Chinese mainland, the Group vigorously developed its cross-border business, unleashed its business advantages in the offshore market, participated in the innovative policies of the Guangdong-Hong Kong-Macao Greater Bay Area, and cultivated new business growth drivers. With the aim of further enhancing its regional service capabilities and expediting the delivery of products and services, the Group kept up with the pace of RMB internationalisation, strengthened regional collaborations across Southeast Asia, and seized major development opportunities arising from the enactment of the Regional

Comprehensive Economic Partnership Agreement (“RCEP”). Meanwhile, the Group actively embedded the concepts of green finance and sustainable development into its business and operations, continuously putting into practice low-carbon and resource efficiency initiatives in its own operations while also taking advantage of the green finance business opportunities brought about by carbon neutrality targets, actively promoting its sustainability-linked loan business and providing diversified low-carbon products and services to meet customers’ needs for green transformation. The Group consolidated the core support capacity of its technological foundations so as to offer an all-round digital banking service, and strengthened the development of its integrated business platforms and collaborative mechanisms to improve its integrated service capabilities. In addition, it adhered to “bottom-line” thinking in its risk management and made constant efforts to improve its human resources, culture and operational procedures in order to provide strong support for the implementation of its strategic plan.

## *Business Segment Performance*

### Profit before Taxation by Business Segment

HK\$m, except percentages	Half-year ended 30 June 2022		Half-year ended 30 June 2021	
	Amount	% of total	Amount	% of total
Personal Banking	3,079	17.7	3,652	22.6
Corporate Banking	5,493	31.6	6,713	41.6
Treasury	7,554	43.5	5,141	31.8
Insurance	371	2.1	513	3.2
Others	892	5.1	134	0.8
Total profit before taxation	17,389	100.0	16,153	100.0

Note: For additional segmental information, see Note 39 to the Interim Financial Information.

# MANAGEMENT DISCUSSION AND ANALYSIS

## PERSONAL BANKING

### Financial Results

Personal Banking achieved a profit before tax of HK\$3,079 million in the first half of 2022, a decrease of HK\$573 million or 15.7% year-on-year, mainly due to a decrease in net fee and commission income and an increase in net charge of impairment allowances, which were partially offset by an increase in net interest income. Net interest income increased by 15.5%, mainly attributable to growth in the average balance of CASA deposits and loans, coupled with an improvement in the deposit spread. Net fee and commission income decreased by 22.2%, mainly due to the weakened investor sentiment in the market, which resulted in lower transaction volumes in the stock market and hence lower commission income from securities brokerage and funds distribution. Commission income from credit card business decreased owing to weakening consumer demand. Net charge of impairment allowances amounted to HK\$111 million, up HK\$44 million year-on-year, mainly due to an increase in impairment allowances caused by an update to the parameter values of the expected credit loss model.

### Business Operations

#### *Pursuing sustainable development and launching diversified green finance products and services*

In line with the market trend towards low-carbon transition, the Group captured opportunities from development of green finance and enriched its green finance products and services suites so as to promote sustainable development and smart living. In response to growing market and customer interest in green investment and ESG products, it fully supported the HKSAR Government's issuance of retail green bonds and introduced Hong Kong's first retail green bond trading platform via mobile banking, ranking first in the market in terms of both subscription volume and number of customers. The Group pioneered the first Green Personal Loan in Hong Kong. At an initial stage, it offered preferential loans to customers intending to purchase electric vehicles so as to encourage the adoption of green transport. It also extended its Green Mortgage Plan to cover first and second-hand purchases of all green buildings accredited with BEAM Plus Platinum or Gold ratings from both private developers and government-subsidised residential projects. In addition, the Group became the first Platinum Patron member of the Hong

Kong Green Building Council in the banking sector, and stepped up its efforts to further promote green buildings, low-carbon living and a greener future.

#### *Giving full play to online and offline advantages and committing to its core market in Hong Kong*

The Group accelerated its development into a digital bank and utilised innovative technology to enhance its online service capabilities, thus ensuring continuous and effective business operations. The number of customers using its electronic platforms as at the end of June 2022 grew as compared to the previous year-end. The Group consolidated the market-leading advantages of its core products, achieving stable growth in customer deposits, maintaining the top market position in terms of total number of new residential mortgage loans, and recording year-on-year growth in the number of transactions conducted through its mobile banking platform, particularly those related to foreign exchange trading, time deposits and transfers which grew satisfactorily. It also maintained its leading market position in online insurance, due to the wide range of products from life insurance companies available on its platform. It enhanced its online investment service capabilities with add-on features enabling overall investment portfolio review and secondary bond trading, with a view to improving customer experience. Its Home Expert mobile application was also optimised through the application of blockchain technology to property valuations, which was used in 99% of its valuation reports during the period. The average number of online mortgage applications received per month in the first half of 2022 increased by approximately 7.3 times compared to that of 2021. At the same time, the Group closely monitored changes in the market during the pandemic and continuously supported and participated in various financial support schemes and relief measures introduced by the HKSAR Government and the HKMA, including further extending the application deadline of its mortgage principal moratorium plan, which helped to alleviate the cash-flow pressures of personal customers affected by the pandemic. During the period, BOCHK was awarded Excellent Brand of Property Purchase Planning and Mortgage Services – Banking Solutions and Excellent Brand of Securities and Investment Banking Services in the Hong Kong Leaders' Choice 2022 awards organised by Metro Finance.

# MANAGEMENT DISCUSSION AND ANALYSIS

## ***Enhancing value-added services and meeting the comprehensive needs of customers***

The Group continued to promote its premium brand and strengthened the range of exclusive products and services offered to its high-end customers, including placement of USD personal green deposits through e-channels, the brand-new “BOC Private Card” and an exclusive one-to-one mortgage consultation service for Private Wealth customers, with the aim of better fulfilling their investment, financial and wealth management needs. As a result, the number of Private Wealth customers at the end of June 2022 recorded double-digit percentage growth as compared to the previous year-end, further expanding its customer base. Meanwhile, the Group introduced “Banking TrendyToo”, a new brand targeting the young customer segment, in May 2022. This aims to assist young customers to meet their financial goals across four dimensions, namely “Chill Banking+”, “Happy Spending+”, “Smart Investing+” and “Cool Living+”, by offering diversified and 24/7 services alongside easy tips for “Trendy Banking”. More than 10,000 new customers had been acquired as at the end of June 2022. The Group also launched “BOC Chill Card”, an eco-friendly credit card, offering young customers with a 10% cash rebate on designated merchant spending, and a 5% cash rebate on mobile payments and online spending to attract them to participate in green consumption. During the period, BOCHK was named the Most Selected Main Retail Bank in Hong Kong by *The Asian Banker*.

The Group’s private banking business maintained steady growth. By enhancing its collaboration with other business units and Southeast Asian entities within the Group, it was able to optimise its service chain by providing high-net-worth clients and family offices with professional private banking services. The Group integrated green finance and ESG standards into product and service design, pushing forward high-quality and sustainable development in its private banking business. In addition,

it continued to promote digital transformation so as to enhance its private banking service and trading platform. At the same time, it accelerated process automation and digitalisation, innovated its service model, and enriched its product range. As at the end of June 2022, the Group’s private banking assets under management increased by 2.4% from the previous year-end.

## ***Consolidating cross-border advantages and strengthening the foundations of its RMB business***

In response to difficulties encountered by Hong Kong customers who were unable to visit mainland branches in person to handle bank account issues during the pandemic, the Group introduced helpful measures to remotely update mainland bank account information and reactivate dormant mainland bank accounts. At the end of June 2022, the cumulative number of GBA Account opened exceeded 185,000, representing steady growth from the end of last year. The Group enhanced the customer experience of its Bank of China Cross-Boundary Wealth Management Connect service by continuously expanding the range of products offered and optimising the related workflows and online service model, with the aggregate number of accounts opened for both Southbound and Northbound services ranking among the top tier in Hong Kong as at the end of June 2022. To satisfy growing demand for RMB products and to meet customers’ investment and wealth management needs, the Group leveraged its prominent position in RMB business by introducing a series of “RMB One” packages featuring comprehensive offers of different RMB products and services such as securities, funds, life insurance, time deposits and foreign exchange. During the period, BOCHK was once again named Best Chinese Bank for the Greater Bay Area by *Asiamoney*, which also recognised it as Best Chinese Bank for the Wealth Management Connect, and was awarded Excellent Brand of Wealth Management Connect Scheme in the Hong Kong Leaders’ Choice 2022 awards organised by Metro Finance.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CORPORATE BANKING

### Financial Results

Corporate Banking achieved a profit before tax of HK\$5,493 million, a decrease of HK\$1,220 million or 18.2% year-on-year, mainly due to a higher net charge of impairment allowances. Net operating income before impairment allowances increased by 1.3%. Net interest income was broadly unchanged from the same period last year, as an improvement in the deposit spread was offset by a narrowing of the loan spread. Net fee and commission income was largely unchanged year-on-year, with commission income from loans and professional services increasing while commission income from bills as well as trust and custody services decreased. Net trading gain rose 14.6%, which was mainly attributable to increased currency exchange income from customer transactions. Net charge of impairment allowances amounted to HK\$1,590 million, up HK\$1,244 million year-on-year, mainly reflecting the higher net charge of impairment allowances owing to the downgrading of certain corporate advances and the updating of the parameter values of the expected credit loss model.

### Business Operations

#### ***Continuously enhancing integrated service capabilities and advancing green and sustainable development***

The Group adhered to its customer-centric business philosophy and continuously promoted the deepening of business transformation with the aim of meeting customers' comprehensive demands for professional and integrated services. It actively responded to changes in the business environment, captured market opportunities and strengthened its support to a number of key projects in Hong Kong, the Greater Bay Area and Southeast Asia. As a result, the Group remained the top mandated arranger bank in the Hong Kong-Macao syndicated loan market and underwrote a number of bond issues with significant market influence. It also maintained the leading market share in IPO main receiving bank business in terms of the number of listings and total funds raised on the Main Board. The Group further promoted the development of its key businesses including trade financing, payment and settlement as well as treasury centre services, and continued to maintain its leading position in the cash

pooling business. In recognition of its outstanding and highly professional services, a number of its customer collaborations were commended by professional media groups, including an overseas treasury centre and global cash pooling project established for a rail transit equipment supplier that was awarded Best Cash Pooling Solution – Highly Commended by *Treasury Management International*, and a domestic cash pooling project in cooperation with a local retail chain enterprise that received the Award for Excellence in Cash Management Solutions from *Ming Pao*.

Cultivating the concept of sustainable development, the Group constantly enriched and refined its green finance products and services suites, which included green advisory services, green loan arrangement, green time deposits, green bond issuance and green cash management services for its corporate clients, so as to assist and encourage its customers to establish sustainable business models and achieve green development goals. As at the end of June 2022, its green and sustainability-linked loan balance increased by 50% compared to the prior year-end, while the volume of newly underwritten ESG-related bond issuance recorded year-on-year growth of 71% in the first half of 2022. The Group issued "sustainable and smart living" themed green bonds for the second consecutive year, with a total issue size of HK\$2 billion and a two-year tenor. The proceeds were used to finance or refinance eligible low-carbon infrastructure projects that facilitate the development of industries such as renewable energy and green buildings. BOCHK and S&P Dow Jones Indices launched the "S&P BOCHK China Hong Kong Greater Bay Area Net Zero 2050 Climate Transition Index", the first climate transition index covering listed companies in the Guangdong-Hong Kong-Macao Greater Bay Area, with a view to encouraging companies in the area to achieve a variety of decarbonisation targets, facilitating their transition to a low-carbon economy, and providing the investment community with a cost-efficient and diversified investment tool to redirect more capital flows towards companies with smaller carbon footprints. In recognition of its efforts in promoting sustainable development, BOCHK was awarded Excellent Brand of Green and Sustainable Corporate Banking Services in the Hong Kong Leaders' Choice 2022 awards organised by Metro Finance.

# MANAGEMENT DISCUSSION AND ANALYSIS

## ***Strengthening financial support for commercial and SME customers and promoting inclusive finance***

The Group remained committed to undertaking its corporate social responsibilities and further strengthening financial support for local commercial and SME customers. It endeavoured to deliver customised financial solutions that pinpoint customer needs through enhanced sectoral and digital servicing capabilities. In response to the fifth wave of the pandemic in Hong Kong, the Group further strengthened its financial service initiatives to help SMEs cope with changes in the operating environment and to navigate difficult times alongside them. This included providing active and continuous support to the credit guarantee products and Special 100% Loan Guarantee Scheme under the Hong Kong Mortgage Corporation Limited's SME Financing Guarantee Scheme, as well as the HKMA's Pre-approved Principal Payment Holiday Scheme. In order to alleviate SME's pain points in raising finance and improve customer experience, the Group also actively engaged in the HKMA's Commercial Data Interchange project, which enables commercial data to be used to facilitate credit assessments, and launched the BOCHK Bill Merchant Loan Programme, which makes use of BoC Bill transaction data in the credit approval process, thus simplifying the loan application process for SMEs and enhancing approval efficiency. The Group's ongoing efforts to provide high-quality SME services won wide acclaim and recognition, receiving the Best SME's Partner Award from the Hong Kong General Chamber of Small and Medium Business for the 15th consecutive year.

## ***Giving full play to synergistic advantages and expediting the development of regional business***

The Group deepened its cooperation with BOC's institutions in the Greater Bay Area and strengthened research and analysis on policies and planning, in order to better understand the financial demands of key industries and target customers and to achieve concrete business synergies. Aligning with opportunities arising from policies, the Group proactively supported the development of innovative technology enterprises based in major regions such as the Guangdong-Hong Kong-Macao Greater Bay Area, the Yangtze River Delta and the Beijing-Tianjin-Hebei region, by offering them diversified products and services. It also actively captured opportunities arising from the HKSAR Government's development

plan for the Northern Metropolis area so as to cultivate new business growth drivers. Seizing opportunities from RMB internationalisation, the Group promoted RMB business under mutual market access schemes, enriched innovative RMB products and strengthened the application functionality of RMB in large blockchain trade financing platforms such as "eTradeConnect", "Contour" and "Effitrade", thus achieving solid progress in its development of key customer segments and regional businesses as well as maintaining its leading position in offshore RMB business.

In terms of its Southeast Asian business, the Group adhered to the concept of business integration and seized opportunities arising from the consolidation of economic and trade partnerships across the Asia-Pacific region following the enactment of RCEP. It strengthened collaborations with BOC's entities in the Asia-Pacific region with an emphasis on developing Belt and Road and "Going Global" projects as well as large corporate customers in the region. It also actively led or participated in regional syndicated projects in Southeast Asia, with solid progress achieved in Southeast Asian industrial park projects. Committed to realising the concept of sustainable development, the Group pushed forward the development of green finance in the Southeast Asian region. The Vientiane Branch successfully launched the first certified green deposits in Laos. Serving as joint lead underwriter and bookrunner, the Manila Branch assisted in the pricing and issuance of the Government of the Philippines' US\$2.25 billion sovereign bond, which included its first global ESG bond, priced at US\$1 billion. The Group continuously optimised its regional product offering, expanding its intelligent Global Transaction Banking ("iGTB") platform to eight Southeast Asian countries in order to support a range of online transactions including transfers within the same bank, domestic interbank transfers and international remittance services. It also continued to provide cross-currency payroll services and supported a variety of distinct payment service gateways in the Southeast Asian region, with a view to providing all-round online services for corporate customers. All of this contributed to significant improvements in the Group's regional management capabilities and the competitiveness of its corporate banking business.



# MANAGEMENT DISCUSSION AND ANALYSIS

## ***Steadily developing custody and trust business***

The Group actively developed new business with financial institution clients and strengthened collaborative marketing efforts with BOC's overseas branches to expand its business. As a result, the number of its custodian clients as at the end of June 2022 recorded a satisfactory growth of 7% compared to the end of last year, with total assets under custody from corporate and institutional clients amounting to over HK\$620 billion. The Group continued to deepen business cooperation with Chinese investment companies on corporate trust and agency services, fully assisting customers to raise funds from bond markets. It was awarded Bond Connect Top Custodian for the fifth consecutive year by Bond Connect Company Limited.

BOCI-Prudential Trustee Limited ("BOCI-Prudential Trustee") made continuous efforts to diversify its income streams and was successfully appointed as administrator to several ORSO schemes by a number of sizable enterprises. It continued to optimise its retirement schemes and asset servicing digital platforms, and rolled out an upgraded BOC-Prudential Easy Choice e-Form mobile application. As at the end of June 2022, MPF assets under its trusteeship amounted to HK\$76 billion, continuing to rank among the top tier in Hong Kong. In respect of its unit trust and fund administration business, BOCI-Prudential Trustee actively assisted the Group's major institutional clients in launching a sizable fund; joined hands with an investment manager to establish a private open-ended fund company; and launched its first non-money market fund, which allows daily dividends accrued to be re-invested into the sub-fund. It actively explored potential business opportunities from Cross-Boundary Wealth Management Connect and provided custody and escrow services for Special Purpose Acquisition Companies ("SPAC"). During the period, BOCI-Prudential Trustee received a number of awards, including seven awards at the 2022 MPF Awards organised by MPF Ratings Limited, Excellent Brand of MPF Online Platform once again at the Hong Kong Leaders' Choice Awards 2022 organised by Metro Finance, and multiple awards for its funds at the Lipper Fund Awards

Hong Kong 2022 organised by *Refinitiv*. It was also named as a "Caring Company" in the Caring Company Scheme organised by the Hong Kong Council of Social Service.

## **TREASURY**

### **Financial Results**

Treasury recorded a profit before tax of HK\$7,554 million, an increase of HK\$2,413 million or 46.9% year-on-year. This was primarily due to an increase in net trading gain, attributable to changes in the mark-to-market value of certain interest rate instruments caused by market interest rate movements as well as an increase in net gain from foreign currency swap contracts, which was partially offset by a net loss on other financial assets and a decrease in net interest income due to higher funding costs.

### **Business Operations**

#### ***Continuously enhancing trading capabilities and steadily promoting global markets business***

The Group actively seized business development opportunities by closely monitoring market trends, thus achieving stable growth in its trading business. It continued to push forward digital transformation and technological advancement in its treasury business, with notable improvements made in its online servicing and transaction processing capabilities, and satisfactory results recorded in client business. Meanwhile, the Group deepened its management-by-business-unit approach across its Southeast Asian entities. It constantly enhanced service quality by expanding the range of treasury products offered in the Southeast Asian region and actively customising product solutions for its clients, thus maintaining satisfactory performance in its regional business. At the same time, the Group continued to collaborate with BOC entities in the Asia-Pacific region. During the period, it helped BOC Tokyo Branch to launch the world's first JPY floating-rate bond referencing the new Tokyo Overnight Average Rate (TONA) benchmark rate, assisted BOC Singapore Branch in a pricing project for a green fixed-rate bond, and executed foreign exchange swap business transactions with BOC Tokyo Branch and BOC Sydney Branch.



# MANAGEMENT DISCUSSION AND ANALYSIS

## ***Expanding the depth and breadth of its cross-border business to reinforce its strong franchise in RMB treasury business***

The total clearing volume of the Hong Kong RMB Clearing Bank in the first half of 2022 reached RMB192 trillion, a year-on-year increase of 7.6%, maintaining strong growth momentum. The Group continuously expedited the innovation and promotion of RMB-related products and placed emphasis on cultivating the offshore RMB market, with its RMB trading business registering a satisfactory growth momentum as a result. It leveraged its advantages in regional synergies and tapped the business potential of local clients. The Ho Chi Minh City Branch completed a sizable USD/CNH exchange and cross-border remittance transaction with its peers in Vietnam. The Vientiane Branch and Brunei Branch each launched their first RMB trade-related business. The Manila Branch achieved year-on-year growth of 10.5% in cross-border RMB clearing volume in the first half of 2022, representing a market share of over 83% in the Philippines market. The Group actively supported the bilateral local currency settlement (“LCS”) agreement between China and Indonesia, with the Jakarta Branch’s LCS-related trading volume and RMB salary direct remittance business volume ranking first among local peers. During the period, BOCHK was named as “Excellent Participant” in multiple business areas by CIPS Company Limited.

## ***Adhering to a solid and risk-aware investment strategy and promoting green finance***

The Group continued to take a cautious approach to managing its banking book investments and closely monitored worldwide interest rate adjustments. It actively responded to market volatility during the interest rate hike cycle and took a pre-emptive approach to managing risk while seeking fixed-income investment opportunities to enhance returns. At the same time, the Group stepped up its efforts to promote innovation in green finance. It executed its first green repo transaction, collateralising a non-green USD-denominated bond with a counterparty

and then linking the Hong Kong dollar funds obtained to a green loan that supports sustainable building projects.

## ***Proactively capturing market opportunities to steadily develop its asset management business***

Despite volatile global capital markets, BOCHK Asset Management Limited (“BOCHK AM”) pushed forward its stable business development by proactively seeking out and capturing investment opportunities for its clients, maintaining proper asset allocation in its portfolios, and strengthening its investment and research capabilities. Fostering ESG concepts for development, BOCHK AM stepped up efforts to refine its internal policies and workflows, and embedded climate-related risks into its risk management framework in order to enhance related risk management. It continued to push forward the digital upgrading of its operating systems and the optimisation of its customer service procedures, with the aim of improving the service system of its middle and back offices so as to provide a better customer experience. In recognition of its professional expertise, BOCHK AM was awarded Best China Fund House and Best RMB Manager in the 2022 Best of the Best Awards by *Asia Asset Management*, while its BOCHK All Weather ESG Multi-Asset Fund was awarded Most Innovative Product – Mutual Fund in the 2021 Offshore China Fund Awards co-organised by the China Asset Management Association of Hong Kong and Bloomberg.

## **INSURANCE**

### **Financial Results**

In the first half of 2022, the Group’s insurance segment recorded a gross premium of HK\$15,388 million, up 10.5% year-on-year. The standard new premium increased by 5.1% year-on-year to HK\$6,604 million. The Group actively promoted new products with higher value-add, leading to an increase in the value of new business of 84.0% year-on-year to HK\$964 million. However, investment income dropped owing to financial market volatility. As a result, profit before tax was down 27.7% year-on-year to HK\$371 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business Operations

### *Developing mid to high-end customers through multiple channels and widening the reach of digital channels*

BOC Life continuously expanded its mid to high-end customer base. Based on its comprehensive three-pronged approach consisting of affluent private banking, brokerage by Chinese banks and large independent financial advisors, BOC Life successfully grasped the opportunities arising from mid to high-end customers' demand for insurance products and achieved steady business development. It took multiple measures to strengthen its multi-channel development strategy, including expanding the tied agent workforce and enhancing the products and services offered through the broker channel. It widened the coverage of its e-channels and helped Livi Bank to obtain an insurance agent licence and launch the 3-Year Savings Insurance Plan through the livi mobile application, which received a positive market response.

### *Proactively promoting ESG and sustainable development initiatives*

BOC Life remained committed to supporting ESG initiatives. It continued to promote its "Live Young" reward programme, with a view to enhancing health and wellness awareness and encouraging customers' healthy lifestyles. It strengthened cooperation with charities, addressing the needs of the community and fulfilling its social responsibilities. During the period, BOC Life organised in-app campaigns known as "Live Young Charity Challenges" to encourage its customers to achieve shared goals for charitable causes, including supporting the social enterprises of Hong Kong Sheng Kung Hui Welfare Council in fighting the pandemic and making donations to families in grassroot communities. BOC Life also donated rapid antigen test kits for COVID-19 to social enterprise St. James' Settlement to help the people in need of anti-pandemic supplies, and offered free life insurance support to over 40,000 qualified frontline staff members of more than 1,000 residential care service centres for the elderly and disabled through a joint taskforce formed by local social welfare organisations. BOC Life stepped up its efforts to create shared value by collaborating with environmental experts and social

enterprises, with a number of its ESG-themed corporate charity initiatives winning industry-wide acclaim as well as awards and accolades.

### *Maintaining market leadership in life insurance and receiving recognition for high-quality services*

BOC Life maintained its leading position in Hong Kong's life insurance sector as well as in sales conducted via e-channels, and remained the market leader in RMB insurance. In recognition of its service excellence and professionalism, BOC Life received a number of local and regional awards, including the Award for Excellence in Community Contribution in the 2022 Awards for Excellence in Finance on Brand Value organised by *Ming Pao*, the Award of Distinction in the 28th Annual Communicator Awards organised by the Academy of Interactive & Visual Arts, and the Employer of Choice Award 2021 from *JobMarket*.

## SOUTHEAST ASIAN BUSINESS

The Group continued to pursue regional integrated development and deepened its management-by-business-unit approach in order to push forward high-quality development in its Southeast Asian business. Seizing opportunities brought about by the enactment of RCEP, the Group actively implemented the synergistic mechanism framework of its regional businesses and reinforced multi-level and cross-departmental business collaborations, with a view to capturing regional business opportunities and developing the Southeast Asian market, which is the world's most populous free trade zone that boasts the largest economic trade scale as well as greatest potential. The year 2022 not only marks the beginning of a comprehensive strategic partnership between China and the ASEAN, but also signifies the starting point of the world's progress towards post-pandemic economic recovery. In the first half of the year, the Group continued to give full play to its synergistic advantages, constantly optimised its product offering in the region and improved its regional management capabilities and competitiveness. Each of its Southeast Asian entities steadily enhanced its service quality and efficiency, with the goal of becoming a mainstream foreign bank in its local market.

# MANAGEMENT DISCUSSION AND ANALYSIS

## ***Enhancing regional business network layout and continuously optimising management of its Southeast Asian entities***

The Group continued to implement its regional management model, enhanced the management of its regional entities, strengthened integrated regional development and adopted market-by-market strategies in order to enhance its Southeast Asian entities' proactiveness in business development. It continuously enhanced its regional service capabilities, with BOC Thailand, BOC Malaysia and the Manila Branch each launching an online RMB salary direct remittance service. It also accelerated digitalisation and efficiency improvements in its Southeast Asian entities while remaining committed to optimising the online payment experience for local customers. The Phnom Penh Branch became the first Chinese bank in Cambodia to support cross-border UnionPay QR payment and launched a cross-border BOCHK personal account opening service. Seizing opportunities arising from the collaborative cross-border QR code payment system jointly launched by The Bank of Thailand and The Central Bank of Malaysia, BOC Thailand rolled out its PromptPay 24/7 real-time fund transfer and QR code remittance services and BOC Malaysia introduced its Real-time Retail Payments Platform (RPP) and the Real-time Financial Process Exchange (FPX) payment service. At the same time, the Group assisted five peer banks in Southeast Asia to apply for indirect participant qualification in the Cross-border Interbank Payment System (CIPS), participated in opening RMB accounts for peer banks in the Philippines and Malaysia, and successfully acquired the custodian business of a local brokerage in Thailand for its Qualified Foreign Institutional Investor (QFII) assets. The Brunei Branch's cross-border finance business and cross-border

RMB settlement volume recorded significant growth, maintaining the leading position among its peers in the local market. During the period, the Group completed the relocation and business commencement of the Central Park Sub-Branch of Jakarta Branch (formerly known as the Melawai Sub-Branch), and proceeded with other branch relocations as planned. In order to further enhance its Southeast Asian regional operations, it steadily centralised and gradually accelerated the relocation of its regional operations to the Regional Operation Centre in Nanning, Guangxi.

The Group's Southeast Asian entities\* recorded steady business growth. As at the end of June 2022, deposits from customers and advances to customers amounted to HK\$67,291 million and HK\$54,349 million respectively, up 6.8% and 3.0% from the end of last year, excluding the impact of foreign exchange rates. Driven by improvement in net interest margin and increase in income from foreign exchange business, net operating income before impairment allowances stood at HK\$1,507 million, an increase of 22.8% year-on-year, excluding the impact of foreign exchange rates. As at the end of June 2022, the non-performing loan ratio was 2.53%, up 0.14 percentage points from the end of 2021.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## ***Adhering to stringent risk management so as to strengthen regional capabilities***

The Group continued to strengthen its regional risk management during the pandemic. It adhered to the implementation of the “Three Lines of Defence” control mechanism and provided professional guidance to its Southeast Asian entities. It closely monitored and regularly evaluated the impact of the ongoing pandemic on its Southeast Asian entities and their respective markets, and adopted responsive counter-measures to ensure robust risk management and maintain safe operations. It further strengthened its Southeast Asian entities’ credit risk management by prudently calibrating their credit schemes, regularly monitoring and optimising the mix and quality of their credit portfolios, and enhancing ad-hoc risk reviews and non-performing loan evaluation, restructuring, collection and recovery, so as to ensure stable asset quality and strengthen the synergistic mechanism between business development and risk management. Moreover, it continuously enhanced its Southeast Asian entities’ risk management capabilities in market risk, interest rate risk and liquidity risk to ensure their operations were in compliance with local regulatory requirements, and made use of system and technical upgrades to further strengthen risk management and control capabilities in compliance, anti-money laundering and anti-fraud.

According to World Bank predictions, most Southeast Asian countries will experience a stronger economic recovery following the increase in vaccination rates and

relaxation of pandemic containment measures. The overall prospects of the Southeast Asian region remain positive, with numerous development opportunities ahead. The establishment of the Bilateral Comprehensive Strategic Partnership will create tremendous business opportunities and great potential for China and Southeast Asian countries to collaborate in different fields, including but not limited to RCEP, infrastructure interconnectivity and the digital economy.

## **DIGITAL TRANSFORMATION DEVELOPMENT**

In the first half of 2022, the Group continuously improved the core support capacity of its technological foundations, pushed forward digital transformation and established a robust mechanism to optimise workflows, so as to promote high-quality and sustainable development. Aligned with its five-year digital transformation plan, the Group upheld its customer-centric philosophy and deepened digital transformation driven by data, intelligence and ecologies. It facilitated the development of ecological, open and scenario-based banking services, integrated its products and services, and provided seamless processes. At the same time, the Group refined its policies and regime related to digitalisation, optimised agile methodologies, deepened technological empowerment, cultivated digital talents and fostered an innovative culture, thus providing its customers with high-quality digital services and experiences while laying a solid foundation for its long-term development.

# MANAGEMENT DISCUSSION AND ANALYSIS

## ***Actively developing open banking and expanding e-payment business***

The Group actively promoted open banking services, drew on different customer groups and ecologies to construct innovative business models, consolidated its open banking ecosystems and accelerated data interconnection, so as to achieve mutual growth through collaboration. It launched the third phase of Open API applications related to corporate and personal customers to meet the requirements of different customers, introducing more than 100 Open APIs with a peak daily usage recording a significant year-on-year growth of 291%. In addition, the Group launched more than 100 corporate APIs for existing corporate customers, covering a range of services and businesses, including payment, supply chain, enquiry, payment collection, treasury and factoring. As a result, it achieved a market-leading position in terms of API quantity and was able to enhance the user experience of corporate customers. It enhanced its financial services reach in the local market through the use of innovative fintech in scenario-based applications, including its major home purchase, education and wellness ecosystems. The Group stepped up its efforts to further promote green buildings and encourage low-carbon living through educational activities jointly organised with the Hong Kong Green Building Council. Its Home Expert mobile application has been downloaded around 150,000 times, up 6.1% from the previous year-end, and the number of instant mortgage applications made through the application during the period reached around 7,000. In respect of its education ecosystem, the Group enhanced stickiness of users and deepened its business relationships with all stakeholders so as to increase its market share. During the period, the number of e-payment transactions at universities reached 180,000, and 17 entities and 21 schools were added as cooperating institutions. Regarding its wellness ecosystem, the total number of “Live Young” reward programme users exceeded 50,000 and external partners reached 50 as at the end of June 2022. The Group continuously used innovative technology and aligned with the latest digitalisation trends in consumer spending and business models to provide customers and merchants with ease and convenience when making and receiving digital payments, thus contributing to the development of mobile payments in the local market. During the period, BoC Pay participated as one of the operators of the HKSAR Government’s Consumption Voucher Scheme (Phase II) (“CVS”), offering customers

a variety of rebates and promotions while providing integrated payment collection services to BoC Bill merchants, thus facilitating SMEs’ digital transformation and helping them to capture business opportunities from the CVS. All of the above contributed to Hong Kong’s economic recovery. During Chinese New Year, the Group optimised its e-LaiSee service, with the total amount of electronic red packets distributed through mobile banking and BoC Pay increasing by nearly 40% year-on-year. As at the end of June 2022, the number of BoC Pay users increased by 9% from the end of the prior year, reaching over a million customers in total. Meanwhile, the Group recorded a year-on-year increase of 9% and 6% in the total transaction volume of BoC Pay and the total settlement amount of BoC Bill respectively.

## ***Facilitating the integration of personal and corporate banking services and products through mobile banking***

The Group strengthened integration between products and services along the value chain, with the aim of providing its customers with one-stop product and service solutions. Grasping the integrated needs of corporate customers that underpin its existing products, it launched an exclusive online loan application service for corporate clients that enables them to submit loan applications by entering information and uploading documents through online platforms, including iGTB NET and iGTB MOBILE. The Group expanded the service coverage of its iGTB platform to eight Southeast Asian countries, including Thailand, Malaysia, Vietnam, the Philippines, Cambodia, Laos, Brunei and Myanmar, and launched more than 70 online products and functions with a view to providing a full range of digital corporate financial services to local enterprises and corporates with business in the region while also enhancing the operational efficiency of its regional businesses. To further enhance service experience for its personal customers, it endeavoured to offer end-to-end services featuring a seamless omnichannel experience. During the period, the Group implemented around 50 functional enhancements to its mobile banking, including new features for trading, registration services and user interface design. In line with young customers’ preference for digital banking, the Group constantly optimised the mobile banking experience and introduced various digital wealth planning, investment and insurance services, with the aim of aligning the financial needs and lifestyles of the younger generation.

# MANAGEMENT DISCUSSION AND ANALYSIS

## ***Moving towards intelligent operations that drive operational efficiency***

The Group accelerated the expansion of intelligent technology applications and further enhanced its Optical Character Recognition (OCR) technology so as to improve data input and processing efficiency. It stepped up efforts to promote digitalised operations and incorporated ESG elements into its business processes, including reinforcing paperless green operations. At the same time, the Group pushed forward the expansion of the Regional Operation Centre in Nanning, Guangxi, so as to achieve a more cost-effective operating model. It introduced a variety of agile tools, including those related to agile project management, content collaboration and automation, to improve staff experience and operational efficiency. It also hosted the “BOCHK Challenge 2021-22” with the theme of “Take the Lead, Drive the Future”. Co-organised by the HKMA and Hong Kong Science and Technology Parks Corporation, this attracted nearly 500 tertiary students and members of start-up companies to participate in groups and explore groundbreaking business models with the aim of enhancing customers’ digital experiences and improving banks’ operational efficiency.

## **RISK MANAGEMENT**

### ***Banking Group***

#### **Overview**

The Group believes that sound risk management is crucial to the success of any organisation. In its daily operation, the Group attaches a high degree of importance to risk management and emphasises that a balance must be struck between risk control and business development. The principal types of risk inherent in the Group’s businesses are credit risk, market risk, interest rate risk, liquidity risk, operational risk, reputation risk, legal and compliance risk, and strategic risk. The Group’s risk management objective is to enhance shareholder value by maintaining risk exposures within acceptable limits. The

Group has a defined risk appetite statement approved by the Board, which is an expression of the types and level of risk that the Group is willing to take in a controllable way in order to achieve its business goals and to meet the expectations of its stakeholders.

#### **Risk management governance structure**

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

## **Credit risk management**

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

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



# MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

For impairment assessment, an impairment model is introduced in compliance with HKFRS 9, it requires the

recognition of Expected Credit Loss ("ECL") for financial instrument held at amortised cost and fair value through other comprehensive income. Under HKFRS 9, ECL is assessed in three stages and the financial assets, loan commitments and financial guarantees are classified in one of the three stages.

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

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

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

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

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



# MANAGEMENT DISCUSSION AND ANALYSIS

## Quantitative criteria

- Failure to make payments of principal or interest 30 days after the contractual due dates;
- At the reporting date, the credit risk is deemed to increase significantly when the remaining lifetime PD rises by more than a certain range from initial recognition, reflected as drop in credit rating by corresponding level according to the different PD at initial recognition.

## Qualitative criteria

- Significant adverse change in debtor's operations or financial status;
- Customers with sign of credit deterioration are put into watchlist for staging review.

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

ECL is measured at an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The Group adopts three economic scenarios

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

Macroeconomic Factor	Bad Scenario	Baseline Scenario	Good Scenario
2022 Hong Kong GDP Growth	-5.88%	+2.00%	+6.77%

The calculation of ECL is affected by macroeconomic factors and economic scenarios. If more pessimistic macroeconomic factors are applied in ECL assessment or a higher probability weight is assigned to the Bad scenario,

in the ECL measurement to meet the requirements of HKFRS 9. The "Baseline" scenario represents a most likely outcome and the other two scenarios, referred to as "Good" scenario and "Bad" scenario, represent less likely outcomes which are more optimistic or more pessimistic compared to Baseline scenario.

The Baseline scenario is prepared by our Economics & Strategic Planning Department. Historical data, economic trend, external forecast from governmental and non-governmental organisation, etc. are also used as benchmarks to ensure the scenario is reasonable and supportable. For the Good and Bad scenarios, the Group makes reference to the historical macroeconomics data.

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

The probability weight assigned for each scenario reflects the Group's view for the economic environment, which implements the Group's prudent and consistent credit strategy of ensuring the adequacy of impairment allowance. A higher probability weight is assigned to the Baseline scenario to reflect the most likely outcome and a lower probability weight is assigned to the Good and Bad scenarios to reflect the less likely outcomes. As of June 2022, the probability weight of the Group's Baseline scenario is higher than the sum of probability weight of Good and Bad scenarios.

it would result in an increase in ECL. The Group reviews the macroeconomic factors used in the ECL model and the probability weight of economic scenarios on a quarterly basis according to the established mechanism.

# MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2022, the ECL will be increased by 4.06% if 5% of the probability weight is shifted from Baseline scenario to Bad scenario; and will be decreased by 2.36% if 5% of the probability weight is shifted from Baseline scenario to Good scenario.

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

## Market risk management

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

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

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Interest rate risk management

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

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

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

The Group sets out interest rate risk indicators and limits to identify, measure, monitor and control interest rate risk on a daily basis. The indicators and limits include, but are not limited to, repricing gap limits, basis risk, duration, price value of a basis point ("PVBP"), net interest income

sensitivity ratio ("NII"), economic value sensitivity ratio ("EVE"), etc. The indicators and limits are classified into different levels, which are approved by the CFO, CRO, ALCO and RMC accordingly. Risk-taking business units are required to conduct their business within the boundary of the interest rate risk limits. Before launching a new product or business in the banking book, the relevant departments are required to go through a risk assessment process, which includes the assessment of underlying interest rate risk and consideration of the adequacy of current risk monitoring mechanism. Any material impact on interest rate risk noted during the risk assessment process will be submitted to the RMC for approval.

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

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

## Liquidity risk management

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

The Group's liquidity risk management objective is to effectively manage the liquidity of on- and off-balance sheet items with a reasonable cost based on the liquidity risk appetite to achieve sound operation and sustainable profitability. Deposits from customers are the Group's primary source of funds. To ensure stable and sufficient sources of funds are in place, the Group actively attracts new deposits, keeps the core deposit and obtains supplementary funding from the interbank market and by issuing bills in the capital market. According to different term maturities and the results of funding needs estimated from stressed scenarios, the Group adjusts its asset structure (including loans, bonds investment, interbank placement, etc.) to maintain sufficient liquid assets which provides adequate funds in support of normal business needs and ensure its ability to raise funds at a reasonable cost to serve external claims in case of emergency. The Group is committed to diversify the sources, tenors and use of funding to avoid excessive concentration of assets and liabilities; and prevent triggering liquidity risk due to the break of funding strand resulting from over-concentration of sources and use of funding in a particular area where problems occur. In order to manage such risk, the Group sets concentration limits on collateral pools and sources of funding such as Tier 1 high-quality readily liquefiable assets to total high-quality readily liquefiable assets ratio, top ten depositors ratio and

large depositors ratio. Whenever necessary, the Group could improve the liquidity position by taking mitigation actions including, but not limited to obtaining funding through interbank borrowings or repos in the money market, selling bonds in the secondary market or retaining existing and attracting new customer deposits. Apart from increasing the funding, the Group would maintain good communication with the counterparties, the parent bank and the regulators to enhance mutual confidence.

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

In accordance with the requirements of Supervisory Policy Manual LM-2 “Sound Systems and controls for Liquidity Risk Management” issued by the HKMA, the Group has implemented a behaviour model and assumptions of cash flow analysis and stress test to enhance the Group’s cash flow analysis under both normal and stressed conditions. In cash flow analysis under normal circumstances, assumptions have been made relating to on-balance sheet items (such as deposits from customers) and off-balance sheet items (such as loan commitments). According to various characteristics of the assets, liabilities and off-balance sheet items, the Group forecasts the future cash flow based on the contractual maturity date and the assumptions of customer behaviour and balance sheet changes. The Group establishes the MCO indicator which predicts the future 30 days maximum cumulative net cash outflow in normal situations based on the above assumptions, to assess if the Group has sufficient financing capacity to meet the cash flow gap in order to achieve the objective of continuing operations.

In the liquidity stress test, institution specific, general market crisis and combined crisis scenarios have been set up, a combined crisis scenario is a combination of institution specific and general market crisis to assess the Group’s capability to withstand a more severe liquidity crisis, with a more stringent set of assumptions being adopted. Stress test assumptions include the run-off rate of retail, wholesale and interbank deposits; the drawdown rate of loan commitments and trade-related contingent liabilities; the delinquency ratio and rollover rate of customer loans; and haircut of interbank placement and marketable securities. As at 30 June 2022, the Group was able to maintain a net cash inflow under the three stressed scenarios, indicating the Group has the ability to meet financing needs under stressed conditions. In addition, the Group has a policy in place to maintain a liquidity cushion which includes high quality or comparable quality marketable securities issued or guaranteed by sovereigns, central banks, public sector entities or multilateral development banks with 0% or 20% risk weight or marketable securities issued by non-financial corporate with a corresponding external credit rating of A- or above to ensure funding needs even under stressed scenarios. A contingency plan is being established

which details the conditions to trigger the plan based on stress test results and early warning indicators, the action plans and relevant procedures and responsibility of relevant departments.

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

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

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

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

## **Operational risk management**

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

The Group has put in place an effective internal control process which requires the establishment of policies

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

## **Reputation risk management**

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Legal and compliance risk management

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

## Strategic risk management

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

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

## Capital management

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

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

## Stress testing

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



# MANAGEMENT DISCUSSION AND ANALYSIS

## **BOC Life**

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

### **Insurance risk management**

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

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

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality, morbidity and persistency. In this regard, BOC Life has conducted relevant experience studies and researches regularly to identify emerging trends. Results would be taken into account in pricing and underwriting management.

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

### **Interest rate risk management**

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

### **Liquidity risk management**

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

### **Credit risk management**

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

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

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



# MANAGEMENT DISCUSSION AND ANALYSIS

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

## **Equity and fund price risk management**

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

## **Currency risk management**

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

# CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	(Unaudited) Half-year ended 30 June 2022 HK\$'m	(Unaudited) Half-year ended 30 June 2021 HK\$'m
Interest income		22,002	19,848
<i>Interest income calculated using the effective interest method</i>		21,462	19,520
<i>Others</i>		540	328
Interest expense		(6,621)	(3,906)
<b>Net interest income</b>	5	<b>15,381</b>	15,942
Fee and commission income		6,823	8,116
Fee and commission expense		(1,679)	(1,459)
<b>Net fee and commission income</b>	6	<b>5,144</b>	6,657
Gross earned premiums		15,378	13,919
Gross earned premiums ceded to reinsurers		(5,532)	(4,902)
<b>Net insurance premium income</b>		<b>9,846</b>	9,017
Net trading gain	7	8,958	2,354
Net (loss)/gain on other financial instruments at fair value through profit or loss	8	(1,471)	96
Net (loss)/gain on other financial instruments	9	(2,048)	451
Other operating income	10	432	503
<b>Total operating income</b>		<b>36,242</b>	35,020
Gross insurance benefits and claims and movement in liabilities		(14,540)	(15,544)
Reinsurers' share of benefits and claims and movement in liabilities		5,530	5,574
<b>Net insurance benefits and claims and movement in liabilities</b>	11	<b>(9,010)</b>	(9,970)
<b>Net operating income before impairment allowances</b>		<b>27,232</b>	25,050
Net charge of impairment allowances	12	(1,714)	(1,182)
<b>Net operating income</b>		<b>25,518</b>	23,868
Operating expenses	13	(7,826)	(7,582)
<b>Operating profit</b>		<b>17,692</b>	16,286
Net loss from disposal of/fair value adjustments on investment properties	14	(142)	(22)
Net loss from disposal/revaluation of properties, plant and equipment	15	(2)	(22)
Share of results after tax of associates and joint ventures		(159)	(89)
<b>Profit before taxation</b>		<b>17,389</b>	16,153
Taxation	16	(2,972)	(2,562)
<b>Profit for the period</b>		<b>14,417</b>	13,591
<b>Profit attributable to:</b>			
Equity holders of the Company and other equity instrument holders		14,165	13,264
Equity holders of the Company		13,472	12,576
Other equity instrument holders		693	688
Non-controlling interests		252	327
		14,417	13,591
<b>Dividends</b>	17	<b>4,726</b>	4,726
		HK\$	HK\$
<b>Earnings per share</b>			
Basic and diluted	18	<b>1.2742</b>	1.1895

The notes on pages 47 to 117 are an integral part of this interim financial information.

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Notes	(Unaudited) Half-year ended 30 June 2022 HK\$'m	(Unaudited) Half-year ended 30 June 2021 HK\$'m
<b>Profit for the period</b>	<b>14,417</b>	13,591
Items that will not be reclassified subsequently to income statement:		
Premises:		
Revaluation of premises	239	420
Deferred tax	(32)	(67)
	<b>207</b>	353
Equity instruments at fair value through other comprehensive income:		
Change in fair value	(331)	(271)
Deferred tax	15	(3)
	<b>(316)</b>	(274)
	<b>(109)</b>	79
Items that may be reclassified subsequently to income statement:		
Advances and other accounts at fair value through other comprehensive income:		
Change in impairment allowances charged to income statement	12      154	–
Debt instruments at fair value through other comprehensive income:		
Change in fair value	(12,101)	(1,322)
Change in impairment allowances credited to income statement	12      (37)	(4)
Release upon disposal/redemption reclassified to income statement	9      2,014	(432)
Amortisation of accumulated amount of fair value hedge adjustment reclassified to income statement	(15)	7
Deferred tax	1,451	307
	<b>(8,688)</b>	(1,444)
Currency translation difference	(696)	(364)
	<b>(9,230)</b>	(1,808)
<b>Other comprehensive income for the period, net of tax</b>	<b>(9,339)</b>	(1,729)
<b>Total comprehensive income for the period</b>	<b>5,078</b>	11,862
<b>Total comprehensive income attributable to:</b>		
Equity holders of the Company and other equity instrument holders	5,656	11,758
Equity holders of the Company	4,963	11,070
Other equity instrument holders	693	688
Non-controlling interests	(578)	104
	<b>5,078</b>	11,862

The notes on pages 47 to 117 are an integral part of this interim financial information.

# CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) At 30 June 2022 HK\$'m	(Audited) At 31 December 2021 HK\$'m
	Notes		
<b>ASSETS</b>			
Cash and balances and placements with banks and other financial institutions	19	436,774	465,535
Financial assets at fair value through profit or loss	20	62,283	73,537
Derivative financial instruments	21	58,773	33,186
Hong Kong SAR Government certificates of indebtedness		212,660	203,810
Advances and other accounts	22	1,678,660	1,597,194
Investment in securities	23	999,067	1,094,233
Interests in associates and joint ventures		1,048	1,215
Investment properties	24	17,627	17,722
Properties, plant and equipment	25	45,766	46,441
Current tax assets		72	93
Deferred tax assets	31	417	192
Other assets	26	107,987	106,272
Total assets		<b>3,621,134</b>	<b>3,639,430</b>
<b>LIABILITIES</b>			
Hong Kong SAR currency notes in circulation		212,660	203,810
Deposits and balances from banks and other financial institutions		314,294	486,062
Financial liabilities at fair value through profit or loss	27	26,465	12,520
Derivative financial instruments	21	36,095	29,757
Deposits from customers	28	2,400,609	2,331,155
Debt securities and certificates of deposit in issue	29	3,733	2,423
Other accounts and provisions	30	138,008	83,041
Current tax liabilities		4,890	3,491
Deferred tax liabilities	31	4,457	5,799
Insurance contract liabilities	32	155,408	153,911
Total liabilities		<b>3,296,619</b>	<b>3,311,969</b>
<b>EQUITY</b>			
Share capital	33	52,864	52,864
Reserves		242,877	245,135
Capital and reserves attributable to equity holders of the Company		295,741	297,999
Other equity instruments	34	23,476	23,476
Non-controlling interests		5,298	5,986
Total equity		<b>324,515</b>	<b>327,461</b>
Total liabilities and equity		<b>3,621,134</b>	<b>3,639,430</b>

The notes on pages 47 to 117 are an integral part of this interim financial information.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)									
	Attributable to equity holders of the Company									
	Reserves									
	Share capital HK\$'m	Premises revaluation reserve HK\$'m	Reserve for financial assets at FVOCI HK\$'m	Regulatory reserve* HK\$'m	Translation reserve HK\$'m	Retained earnings HK\$'m	Total HK\$'m	Other equity instruments HK\$'m	Non- controlling interests HK\$'m	Total equity HK\$'m
At 1 January 2021	52,864	38,048	1,726	4,780	(503)	193,387	290,302	23,476	5,877	319,655
Profit for the period	-	-	-	-	-	13,264	13,264	-	327	13,591
Upon declaration of dividend to other equity instrument holders	-	-	-	-	-	(688)	(688)	688	-	-
	-	-	-	-	-	12,576	12,576	688	327	13,591
Other comprehensive income:										
Premises	-	353	-	-	-	-	353	-	-	353
Equity instruments at fair value through other comprehensive income	-	-	(271)	-	-	-	(271)	-	(3)	(274)
Debt instruments at fair value through other comprehensive income	-	-	(1,224)	-	-	-	(1,224)	-	(220)	(1,444)
Currency translation difference	-	-	-	-	(364)	-	(364)	-	-	(364)
Total comprehensive income	-	353	(1,495)	-	(364)	12,576	11,070	688	104	11,862
Release upon disposal of equity instruments at fair value through other comprehensive income:										
Transfer	-	-	(35)	-	-	35	-	-	-	-
Deferred tax	-	-	6	-	-	-	6	-	6	12
Current tax	-	-	-	-	-	(6)	(6)	-	(6)	(12)
Transfer from retained earnings	-	-	-	1,885	-	(1,885)	-	-	-	-
Dividends	-	-	-	-	-	(8,405)	(8,405)	(688)	(131)	(9,224)
At 30 June 2021	52,864	38,401	202	6,665	(867)	195,702	292,967	23,476	5,850	322,293
Profit for the period	-	-	-	-	-	11,084	11,084	-	324	11,408
Upon declaration of dividend to other equity instrument holders	-	-	-	-	-	(690)	(690)	690	-	-
	-	-	-	-	-	10,394	10,394	690	324	11,408
Other comprehensive income:										
Premises	-	189	-	-	-	-	189	-	-	189
Equity instruments at fair value through other comprehensive income	-	-	(370)	-	-	-	(370)	-	(48)	(418)
Debt instruments at fair value through other comprehensive income	-	-	(236)	-	-	-	(236)	-	(69)	(305)
Currency translation difference	-	-	(86)	-	(133)	-	(219)	-	-	(219)
Total comprehensive income	-	189	(692)	-	(133)	10,394	9,758	690	207	10,655
Release upon disposal of equity instruments at fair value through other comprehensive income:										
Transfer	-	-	93	-	-	(93)	-	-	-	-
Deferred tax	-	-	(16)	-	-	-	(16)	-	(15)	(31)
Current tax	-	-	-	-	-	16	16	-	15	31
Transfer to retained earnings	-	-	-	(592)	-	592	-	-	-	-
Dividends	-	-	-	-	-	(4,726)	(4,726)	(690)	(71)	(5,487)
At 31 December 2021	52,864	38,590	(413)	6,073	(1,000)	201,885	297,999	23,476	5,986	327,461

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)									
	Attributable to equity holders of the Company									
	Reserves									
	Share capital	Premises revaluation reserve	Reserve for financial assets at FVOCI	Regulatory reserve*	Translation reserve	Retained earnings	Total	Other equity instruments	Non-controlling interests	Total equity
HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	
At 1 January 2022	52,864	38,590	(413)	6,073	(1,000)	201,885	297,999	23,476	5,986	327,461
Profit for the period	-	-	-	-	-	14,165	14,165	-	252	14,417
Upon declaration of dividend to other equity instrument holders	-	-	-	-	-	(693)	(693)	693	-	-
Other comprehensive income:	-	-	-	-	-	13,472	13,472	693	252	14,417
Premises	-	207	-	-	-	-	207	-	-	207
Equity instruments at fair value through other comprehensive income	-	-	(310)	-	-	-	(310)	-	(6)	(316)
Advances and other accounts at fair value through other comprehensive income	-	-	154	-	-	-	154	-	-	154
Debt instruments at fair value through other comprehensive income	-	-	(7,864)	-	-	-	(7,864)	-	(824)	(8,688)
Currency translation difference	-	-	(115)	-	(581)	-	(696)	-	-	(696)
Total comprehensive income	-	207	(8,135)	-	(581)	13,472	4,963	693	(578)	5,078
Release upon disposal of equity instruments at fair value through other comprehensive income:	-	-	-	-	-	-	-	-	-	-
Transfer	-	-	11	-	-	(11)	-	-	-	-
Deferred tax	-	-	(2)	-	-	-	(2)	-	(1)	(3)
Current tax	-	-	-	-	-	2	2	-	1	3
Transfer from retained earnings	-	-	-	192	-	(192)	-	-	-	-
Dividends	-	-	-	-	-	(7,221)	(7,221)	(693)	(110)	(8,024)
At 30 June 2022	52,864	38,797	(8,539)	6,265	(1,581)	207,935	295,741	23,476	5,298	324,515

\* In accordance with the requirements of the HKMA, the amounts are set aside for general banking risks, including future losses or other unforeseeable risks, in addition to the loan impairment allowances recognised under HKFRS 9.

The notes on pages 47 to 117 are an integral part of this interim financial information.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Notes	(Unaudited) Half-year ended 30 June 2022 HK\$'m	(Unaudited) Half-year ended 30 June 2021 HK\$'m
<b>Cash flows from operating activities</b>			
Operating cash (outflow)/inflow before taxation	35(a)	(82,962)	133,964
Hong Kong profits tax paid		(1,297)	(1,393)
Outside Hong Kong profits tax paid		(392)	(176)
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(84,651)</b>	132,395
<b>Cash flows from investing activities</b>			
Additions of properties, plant and equipment		(122)	(93)
Proceeds from disposal of properties, plant and equipment		4	6
Additions of investment properties		(2)	(6)
Additions of intangible assets		(362)	(313)
Proceeds from disposal of associates and joint ventures		9	–
Dividend received from associates and joint ventures		2	4
<b>Net cash outflow from investing activities</b>		<b>(471)</b>	(402)
<b>Cash flows from financing activities</b>			
Dividend paid to equity holders of the Company		–	(8,405)
Dividend paid to other equity instrument holders		(693)	(688)
Dividend paid to non-controlling interests		(110)	(131)
Payment of lease liabilities		(362)	(361)
<b>Net cash outflow from financing activities</b>		<b>(1,165)</b>	(9,585)
(Decrease)/increase in cash and cash equivalents		(86,287)	122,408
Cash and cash equivalents at 1 January		531,915	456,058
Effect of exchange rate changes on cash and cash equivalents		(13,024)	131
<b>Cash and cash equivalents at 30 June</b>	35(b)	<b>432,604</b>	578,597

The notes on pages 47 to 117 are an integral part of this interim financial information.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 1. Basis of preparation and significant accounting policies

### (a) Basis of preparation

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

### (b) Significant accounting policies

Except 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 2021 and shall be read in conjunction with the Group’s Annual Report for 2021.

#### **Amendments that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2022**

The Group has initially applied the following amendments for the financial year beginning on 1 January 2022:

- Accounting Guideline 5 (Revised), “Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations” (“AG 5”). The amendments revise to reflect a clearer rationale for why the transaction described in paragraph 5 of AG 5 is not a business combination and why, in practice, those transactions are accounted for by applying a principle similar to that for a reverse acquisition. New disclosure requirements for common control combinations are added to paragraph 19 of AG 5. The accounting for change in non-controlling interests as a result of common control combination is clarified in the example in AG 5. The terminologies and references in AG 5 are updated to align with existing Hong Kong Financial Reporting Standards (“HKFRSs”). The application of the amendments does not have a material impact on the Group’s financial statements.
- HKAS 16 (Amendments), “Property, Plant and Equipment: Proceeds before Intended Use”. The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is ‘testing whether the asset is functioning properly’ when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity’s ordinary activities. The related sales proceeds together with the costs of providing these items as determined by HKAS 2, should be included in profit or loss. The amendments are applied retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The application of the amendments does not have a material impact on the Group’s financial statements.
- HKAS 37 (Amendments), “Onerous Contracts – Cost of Fulfilling a Contract”. The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract. The amendments are applied to contracts for which exist at the date when the amendments are first applied, with the cumulative effect of applying the amendments to be recognised as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated. The application 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)

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

Amendments that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2022 (continued)

- HKFRS 3 (Amendments), "Reference to the Conceptual Framework". The amendments update a reference in HKFRS 3 to the Conceptual Framework for Financial Reporting issued in 2018. The amendments also add to HKFRS 3 an exception to its requirement for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying HKFRS 3 should instead refer to HKAS 37. The exception has been added to avoid an unintended consequence of updating the reference to the Conceptual Framework. The amendments also confirm that contingent assets should not be recognised at the acquisition date. The amendments are applied prospectively. Earlier application is permitted if at the same time or earlier an entity also applies all the amendments made by Amendments to References to the Conceptual Framework in HKFRS Standards, issued in June 2018. The application of the amendments does not have a material impact on the Group's financial statements.

### (c) Standard and amendments issued that are relevant to the Group but not yet mandatorily effective and have not been early adopted by the Group in 2022

Standard/Amendments	Content	Applicable for financial years beginning on/ after
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023
HKAS 8 (Amendments)	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 28 (2011) and HKFRS 10 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
HKFRS 17	Insurance Contracts	1 January 2023

- HKFRS 17, "Insurance Contracts". HKFRS 17 sets the requirements that an entity should apply in accounting for insurance contracts and reinsurance contracts. Please refer to Note 2.1(b) of the Group's Annual Report for 2021 for brief explanations of the standard. The Group is in the process of implementing and assessing the impact of the adoption of HKFRS 17. The Group will quantify the financial impact of the adoption of the standard once it is practicable to make reliable estimates.
- Please refer to Note 2.1(b) of the Group's Annual Report for 2021 for brief explanations of the remaining amendments.

### (d) Improvements to HKFRSs

"Improvements to HKFRSs" contains numerous amendments to HKFRSs which the HKICPA considers not urgent but necessary. It comprises amendments that result in accounting changes for presentation, recognition or measurement purposes 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.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 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 2021.

## 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 2021.

### 3.1 Credit risk

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

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

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

#### (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 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 2022			
	Stage 1 HK\$'m	Stage 2 HK\$'m	Stage 3 HK\$'m	Total HK\$'m
<b>Advances to customers</b>				
Pass	1,643,813	18,520	–	1,662,333
Special mention	3,953	6,135	–	10,088
Substandard or below	–	–	7,810	7,810
	<b>1,647,766</b>	<b>24,655</b>	<b>7,810</b>	<b>1,680,231</b>
<b>Trade bills</b>				
Pass	8,142	–	–	8,142
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	<b>8,142</b>	<b>–</b>	<b>–</b>	<b>8,142</b>
<b>Advances to banks and other financial institutions</b>				
Pass	550	–	–	550
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	<b>550</b>	<b>–</b>	<b>–</b>	<b>550</b>
	<b>1,656,458</b>	<b>24,655</b>	<b>7,810</b>	<b>1,688,923</b>

	At 30 June 2022			
	Stage 1 HK\$'m	Stage 2 HK\$'m	Stage 3 HK\$'m	Total HK\$'m
<b>Impairment allowances</b>				
Advances and other accounts at amortised cost	(5,298)	(1,927)	(3,857)	(11,082)
Advances and other accounts at fair value through other comprehensive income	(154)	–	–	(154)

# 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 2021			
	Stage 1 HK\$m	Stage 2 HK\$m	Stage 3 HK\$m	Total HK\$m
<b>Advances to customers</b>				
Pass	1,558,267	25,138	–	1,583,405
Special mention	3,039	8,319	–	11,358
Substandard or below	–	–	4,321	4,321
	1,561,306	33,457	4,321	1,599,084
<b>Trade bills</b>				
Pass	7,264	–	–	7,264
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	7,264	–	–	7,264
<b>Advances to banks and other financial institutions</b>				
Pass	727	–	–	727
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	727	–	–	727
	1,569,297	33,457	4,321	1,607,075

	At 31 December 2021			
	Stage 1 HK\$m	Stage 2 HK\$m	Stage 3 HK\$m	Total HK\$m
<b>Impairment allowances</b>				
Advances and other accounts at amortised cost	(4,843)	(2,406)	(2,632)	(9,881)
Advances and other accounts at fair value through other comprehensive income	–	–	–	–

As at 30 June 2022, advances and other accounts by internal credit grade and stage classification did not include advances and other accounts mandatorily classified at fair value through profit or loss.

As at 30 June 2022, impairment allowance of advances and other accounts at fair value through other comprehensive income amounted to HK\$154 million (31 December 2021: Nil) and was credited to other comprehensive income.

# 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 2022			
	Stage 1 HK\$'m	Stage 2 HK\$'m	Stage 3 HK\$'m	Total HK\$'m
<b>Impairment allowances</b>				
At 1 January 2022	4,843	2,406	2,632	9,881
Transfer to Stage 1	303	(302)	(1)	–
Transfer to Stage 2	(31)	38	(7)	–
Transfer to Stage 3	(1)	(501)	502	–
Changes arising from transfer of stage	(269)	149	1,033	913
Charge for the period <sup>(i)</sup>	1,904	477	200	2,581
Reversal for the period <sup>(ii)</sup>	(1,430)	(310)	(182)	(1,922)
Write-offs	–	–	(299)	(299)
Recoveries	–	–	37	37
Exchange difference and others	(21)	(30)	(58)	(109)
At 30 June 2022	5,298	1,927	3,857	11,082
Charged to income statement (Note 12)				1,572

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

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

	Year ended 31 December 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	105	(103)	(2)	–
Transfer to Stage 2	(226)	242	(16)	–
Transfer to Stage 3	(14)	(13)	27	–
Changes arising from transfer of stage	(82)	1,062	963	1,943
Charge for the year <sup>(i)</sup>	2,590	682	703	3,975
Reversal for the year <sup>(ii)</sup>	(2,912)	(473)	(375)	(3,760)
Changes in models	5	(65)	(42)	(102)
Write-offs	–	–	(1,247)	(1,247)
Recoveries	–	–	90	90
Exchange difference and others	(28)	(41)	(121)	(190)
At 31 December 2021	4,843	2,406	2,632	9,881

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

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

# 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 2022		At 31 December 2021	
	Impaired HK\$'m	Classified or impaired HK\$'m	Impaired HK\$'m	Classified or impaired HK\$'m
Gross advances to customers	7,810	7,810	4,321	4,321
Percentage of gross advances to customers	0.46%	0.46%	0.27%	0.27%
Impairment allowances made in respect of such advances	3,857	3,857	2,632	2,632

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 2022 HK\$'m	At 31 December 2021 HK\$'m
Current market value of collateral held against the covered portion of impaired advances to customers	4,324	2,260
Covered portion of impaired advances to customers	2,181	1,062
Uncovered portion of impaired advances to customers	5,629	3,259

As at 30 June 2022, there were no impaired trade bills and advances to banks and other financial institutions (31 December 2021: 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 2022		At 31 December 2021	
	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	359	0.02%	245	0.02%
– one year or less but over six months	300	0.02%	1,291	0.08%
– over one year	2,412	0.14%	1,488	0.09%
Advances overdue for over three months	<b>3,071</b>	<b>0.18%</b>	3,024	0.19%
Impairment allowances made in respect of such advances – Stage 3	<b>1,997</b>		1,907	



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

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

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

	At 30 June 2022 HK\$'m	At 31 December 2021 HK\$'m
Current market value of collateral held against the covered portion of such advances to customers	1,092	1,196
Covered portion of such advances to customers	768	814
Uncovered portion of such advances to customers	2,303	2,210

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

As at 30 June 2022, there were no trade bills and advances to banks and other financial institutions overdue for more than three months (31 December 2021: 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 2022		At 31 December 2021	
	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"	157	0.01%	216	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 2022					
	Gross advances to customers HK\$'m	% covered by collateral or other security	Classified or impaired HK\$'m	Overdue HK\$'m	Impairment allowances – Stage 3 HK\$'m	Impairment allowances – Stages 1 and 2 HK\$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	184,971	25.39%	956	–	432	927
– Property investment	85,751	59.06%	813	59	1	239
– Financial concerns	23,824	0.81%	–	–	–	39
– Stockbrokers	1,919	91.80%	–	–	–	1
– Wholesale and retail trade	31,055	44.94%	232	355	113	249
– Manufacturing	46,713	8.32%	29	40	22	230
– Transport and transport equipment	62,610	18.69%	70	1	11	398
– Recreational activities	169	94.28%	–	4	–	–
– Information technology	33,944	0.27%	33	33	20	80
– Others	151,968	42.10%	38	244	29	380
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	35,325	99.58%	34	215	–	22
– Loans for purchase of other residential properties	357,494	99.92%	184	1,179	1	170
– Credit card advances	10,439	–	85	374	49	162
– Others	109,897	95.75%	143	784	67	192
Total loans for use in Hong Kong	1,136,079	60.82%	2,617	3,288	745	3,089
Trade financing	81,060	14.17%	325	353	242	212
Loans for use outside Hong Kong	463,911	4.60%	4,868	2,923	2,870	3,923
Gross advances to customers	1,681,050	43.06%	7,810	6,564	3,857	7,224

# 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 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	166,208	26.82%	–	171	–	899
– Property investment	78,125	62.89%	28	41	1	248
– Financial concerns	23,392	0.83%	–	–	–	39
– Stockbrokers	3,070	80.08%	–	–	–	5
– Wholesale and retail trade	27,281	47.95%	260	304	121	243
– Manufacturing	44,492	9.12%	31	3	20	180
– Transport and transport equipment	62,000	22.79%	–	–	–	368
– Recreational activities	176	97.15%	–	–	–	–
– Information technology	31,753	0.30%	32	32	20	61
– Others	145,302	43.76%	51	266	29	359
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	34,776	99.49%	15	221	–	21
– Loans for purchase of other residential properties	349,645	99.95%	129	1,153	1	129
– Credit card advances	12,079	–	91	419	48	174
– Others	104,906	95.19%	117	469	67	196
Total loans for use in Hong Kong	1,083,205	62.35%	754	3,079	307	2,922
Trade financing	73,611	15.17%	517	498	385	181
Loans for use outside Hong Kong	442,268	4.95%	3,050	2,703	1,940	4,142
Gross advances to customers	1,599,084	44.30%	4,321	6,280	2,632	7,245

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

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

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

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

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

#### Gross advances to customers

	At 30 June 2022 HK\$'m	At 31 December 2021 HK\$'m
Hong Kong	1,412,636	1,332,801
Chinese Mainland	92,951	95,416
Others	175,463	170,867
	<b>1,681,050</b>	<b>1,599,084</b>
<b>Impairment allowances made in respect of the gross advances to customers – Stages 1 and 2</b>		
Hong Kong	4,122	3,830
Chinese Mainland	475	715
Others	2,627	2,700
	<b>7,224</b>	<b>7,245</b>

#### Overdue advances

	At 30 June 2022 HK\$'m	At 31 December 2021 HK\$'m
Hong Kong	4,044	3,954
Chinese Mainland	571	296
Others	1,949	2,030
	<b>6,564</b>	<b>6,280</b>
<b>Impairment allowances made in respect of the overdue advances – Stage 3</b>		
Hong Kong	979	741
Chinese Mainland	82	101
Others	1,345	1,173
	<b>2,406</b>	<b>2,015</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.1 Credit risk (continued)

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

(d) Concentration of advances to customers (continued)

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

#### Classified or impaired advances

	At 30 June 2022 HK\$'m	At 31 December 2021 HK\$'m
Hong Kong	4,813	2,123
Chinese Mainland	209	207
Others	2,788	1,991
	<b>7,810</b>	<b>4,321</b>
<b>Impairment allowances made in respect of the classified or impaired advances – Stage 3</b>		
Hong Kong	1,978	1,111
Chinese Mainland	84	107
Others	1,795	1,414
	<b>3,857</b>	<b>2,632</b>

#### (B) Repossessed assets

The estimated market value of repossessed assets held by the Group as at 30 June 2022 amounted to HK\$457 million (31 December 2021: HK\$274 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 2022 HK\$'m	At 31 December 2021 HK\$'m
<b>Investment in securities at fair value through other comprehensive income</b>		
– Stage 1		
Aaa	56,784	132,445
Aa1 to Aa3	179,945	233,943
A1 to A3	403,117	455,191
Lower than A3	20,892	25,242
Unrated	25,944	24,791
	<b>686,682</b>	871,612
– Stage 2		
Lower than A3	178	208
– Stage 3	–	–
	<b>686,860</b>	871,820
Of which: impairment allowances	<b>(243)</b>	(288)
<b>Investment in securities at amortised cost</b>		
– Stage 1		
Aaa	129,406	61,864
Aa1 to Aa3	30,070	25,404
A1 to A3	106,430	93,571
Lower than A3	33,705	28,761
Unrated	7,134	6,921
	<b>306,745</b>	216,521
– Stage 2		
Lower than A3	405	390
– Stage 3	–	–
	<b>307,150</b>	216,911
Impairment allowances	<b>(144)</b>	(99)
	<b>307,006</b>	216,812
<b>Financial assets at fair value through profit or loss</b>		
Aaa	1,136	2,830
Aa1 to Aa3	21,938	15,439
A1 to A3	9,100	10,814
Lower than A3	2,755	8,545
Unrated	2,323	3,430
	<b>37,252</b>	41,058

As at 30 June 2022, there were no overdue or impaired debt securities and certificates of deposit (31 December 2021: Nil).

# 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 2022, the new wave of local COVID-19 pandemic has put heavy weights on Hong Kong's economy. While the 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 dynamic changes 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	2022	34.5	21.9	61.3	38.3
	2021	26.1	19.0	47.8	28.3
VaR for foreign exchange risk	2022	29.4	14.9	39.9	25.0
	2021	20.8	13.8	41.1	24.7
VaR for interest rate risk in the trading book	2022	16.3	16.2	63.2	30.8
	2021	17.8	6.2	26.4	13.8
VaR for equity risk in the trading book	2022	1.9	0.3	2.5	0.9
	2021	1.5	0.4	2.2	1.0
VaR for commodity risk	2022	1.5	0.1	12.3	5.0
	2021	5.6	0.0	22.7	9.2

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 2022							
	Equivalent in million of HK\$							
	US Dollars	Pound Sterling	Japanese Yen	Euro	Renminbi	Australian Dollars	Other foreign currencies	Total foreign currencies
Spot assets	1,080,461	32,032	226,294	52,142	419,704	35,702	82,132	1,928,467
Spot liabilities	(1,006,598)	(32,362)	(14,554)	(33,685)	(470,537)	(32,478)	(69,693)	(1,659,907)
Forward purchases	967,908	22,159	58,887	45,617	434,792	18,786	71,238	1,619,387
Forward sales	(1,034,348)	(21,856)	(256,127)	(63,921)	(384,968)	(21,930)	(84,216)	(1,867,366)
Net options position	2,276	(7)	13	(69)	(1,063)	(77)	40	1,113
Net long/(short) position	9,699	(34)	14,513	84	(2,072)	3	(499)	21,694

	At 31 December 2021							
	Equivalent in million of HK\$							
	US Dollars	Pound Sterling	Japanese Yen	Euro	Renminbi	Australian Dollars	Other foreign currencies	Total foreign currencies
Spot assets	1,080,487	37,456	183,101	48,897	515,964	38,125	65,868	1,969,898
Spot liabilities	(977,297)	(44,696)	(6,489)	(37,534)	(586,921)	(32,656)	(64,951)	(1,750,544)
Forward purchases	899,315	26,016	13,259	32,049	558,540	15,695	53,741	1,598,615
Forward sales	(990,699)	(18,696)	(186,845)	(43,463)	(486,202)	(21,120)	(55,066)	(1,802,091)
Net options position	1,357	19	(5)	(1)	(1,331)	12	(11)	40
Net long/(short) position	13,163	99	3,021	(52)	50	56	(419)	15,918

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.2 Market risk (continued)

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

	At 30 June 2022					
	Equivalent in million of HK\$					
	US Dollars	Malaysian Baht	Malaysian Ringgit	Philippine Peso	Other foreign currencies	Total foreign currencies
Net structural position	31,054	2,165	2,733	1,765	4,189	41,906

	At 31 December 2021					
	Equivalent in million of HK\$					
	US Dollars	Baht	Malaysian Ringgit	Philippine Peso	Other foreign currencies	Total foreign currencies
Net structural position	30,911	2,225	2,789	1,854	4,054	41,833

# 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 2022 and 31 December 2021. 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 2022						
	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Non-interest bearing HK\$'m	Total HK\$'m
<b>Assets</b>							
Cash and balances and placements with banks and other financial institutions	312,756	24,041	47,765	2,425	-	49,787	436,774
Financial assets at fair value through profit or loss	10,507	15,889	9,232	9,098	2,936	14,621	62,283
Derivative financial instruments	-	-	-	-	-	58,773	58,773
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	212,660	212,660
Advances and other accounts	1,406,624	185,799	31,530	39,650	8,454	6,603	1,678,660
Investment in securities							
– At FVOCI	147,624	132,264	188,376	161,075	57,521	5,201	692,061
– At amortised cost	694	4,883	15,608	194,442	91,379	-	307,006
Interests in associates and joint ventures	-	-	-	-	-	1,048	1,048
Investment properties	-	-	-	-	-	17,627	17,627
Properties, plant and equipment	-	-	-	-	-	45,766	45,766
Other assets (including current and deferred tax assets)	4,638	-	-	-	-	103,838	108,476
<b>Total assets</b>	<b>1,882,843</b>	<b>362,876</b>	<b>292,511</b>	<b>406,690</b>	<b>160,290</b>	<b>515,924</b>	<b>3,621,134</b>
<b>Liabilities</b>							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	212,660	212,660
Deposits and balances from banks and other financial institutions	262,816	6,774	9,549	101	-	35,054	314,294
Financial liabilities at fair value through profit or loss	10,467	4,838	9,993	1,088	79	-	26,465
Derivative financial instruments	-	-	-	-	-	36,095	36,095
Deposits from customers	1,670,750	284,506	218,967	593	-	225,793	2,400,609
Debt securities and certificates of deposit in issue	-	-	-	3,733	-	-	3,733
Other accounts and provisions (including current and deferred tax liabilities)	22,795	4	87	879	234	123,356	147,355
Insurance contract liabilities	-	-	-	-	-	155,408	155,408
<b>Total liabilities</b>	<b>1,966,828</b>	<b>296,122</b>	<b>238,596</b>	<b>6,394</b>	<b>313</b>	<b>788,366</b>	<b>3,296,619</b>
Interest sensitivity gap	(83,985)	66,754	53,915	400,296	159,977	(272,442)	324,515

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.2 Market risk (continued)

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

	At 31 December 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	362,264	17,281	23,108	1,416	-	61,466	465,535
Financial assets at fair value through profit or loss	19,727	11,620	8,995	10,145	8,968	14,082	73,537
Derivative financial instruments	-	-	-	-	-	33,186	33,186
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	203,810	203,810
Advances and other accounts	1,336,894	164,780	35,656	44,032	7,956	7,876	1,597,194
Investment in securities							
– At FVOCI	115,427	309,399	136,185	205,404	105,405	5,601	877,421
– At amortised cost	2,521	7,402	19,723	108,207	78,959	-	216,812
Interests in associates and joint ventures	-	-	-	-	-	1,215	1,215
Investment properties	-	-	-	-	-	17,722	17,722
Properties, plant and equipment	-	-	-	-	-	46,441	46,441
Other assets (including current and deferred tax assets)	11,396	-	-	-	-	95,161	106,557
<b>Total assets</b>	<b>1,848,229</b>	<b>510,482</b>	<b>223,667</b>	<b>369,204</b>	<b>201,288</b>	<b>486,560</b>	<b>3,639,430</b>
<b>Liabilities</b>							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	203,810	203,810
Deposits and balances from banks and other financial institutions	386,399	18,081	714	412	-	80,456	486,062
Financial liabilities at fair value through profit or loss	5,249	4,784	973	1,343	171	-	12,520
Derivative financial instruments	-	-	-	-	-	29,757	29,757
Deposits from customers	1,685,008	279,751	117,181	1,716	-	247,499	2,331,155
Debt securities and certificates of deposit in issue	563	-	-	1,860	-	-	2,423
Other accounts and provisions (including current and deferred tax liabilities)	11,341	7	140	947	224	79,672	92,331
Insurance contract liabilities	-	-	-	-	-	153,911	153,911
<b>Total liabilities</b>	<b>2,088,560</b>	<b>302,623</b>	<b>119,008</b>	<b>6,278</b>	<b>395</b>	<b>795,105</b>	<b>3,311,969</b>
Interest sensitivity gap	(240,331)	207,859	104,659	362,926	200,893	(308,545)	327,461

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.3 Liquidity risk

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

	2022	2021
Average value of liquidity coverage ratio		
– First quarter	<b>163.65%</b>	134.09%
– Second quarter	<b>155.02%</b>	134.20%

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.

	2022	2021
Quarter-end value of net stable funding ratio		
– First quarter	<b>125.22%</b>	124.90%
– Second quarter	<b>128.53%</b>	118.50%

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 2022 and 31 December 2021 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2022							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	301,597	60,944	24,068	47,772	2,393	-	-	436,774
Financial assets at fair value through profit or loss	-	7,399	18,423	7,937	10,033	2,896	15,595	62,283
Derivative financial instruments	14,631	8,188	5,913	9,838	11,646	8,557	-	58,773
Hong Kong SAR Government certificates of indebtedness	212,660	-	-	-	-	-	-	212,660
Advances and other accounts	301,011	55,524	100,809	202,446	634,022	380,791	4,057	1,678,660
Investment in securities								
– At FVOCI	-	137,636	122,418	193,388	167,077	65,249	6,293	692,061
– At amortised cost	-	1,042	4,514	15,457	192,995	90,639	2,359	307,006
Interests in associates and joint ventures	-	-	-	-	-	-	1,048	1,048
Investment properties	-	-	-	-	-	-	17,627	17,627
Properties, plant and equipment	-	-	-	-	-	-	45,766	45,766
Other assets (including current and deferred tax assets)	36,379	29,537	448	4,304	24,260	11,231	2,317	108,476
<b>Total assets</b>	<b>866,278</b>	<b>300,270</b>	<b>276,593</b>	<b>481,142</b>	<b>1,042,426</b>	<b>559,363</b>	<b>95,062</b>	<b>3,621,134</b>
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	212,660	-	-	-	-	-	-	212,660
Deposits and balances from banks and other financial institutions	216,438	81,363	6,304	9,460	729	-	-	314,294
Financial liabilities at fair value through profit or loss	-	10,467	4,844	9,993	1,083	78	-	26,465
Derivative financial instruments	9,916	2,133	2,495	5,742	9,635	6,174	-	36,095
Deposits from customers	1,482,070	414,473	284,506	218,967	593	-	-	2,400,609
Debt securities and certificates of deposit in issue	-	23	10	-	3,700	-	-	3,733
Other accounts and provisions (including current and deferred tax liabilities)	88,031	42,764	221	4,644	7,001	4,694	-	147,355
Insurance contract liabilities	55,959	272	556	4,404	29,993	64,224	-	155,408
<b>Total liabilities</b>	<b>2,065,074</b>	<b>551,495</b>	<b>298,936</b>	<b>253,210</b>	<b>52,734</b>	<b>75,170</b>	<b>-</b>	<b>3,296,619</b>
Net liquidity gap	(1,198,796)	(251,225)	(22,343)	227,932	989,692	484,193	95,062	324,515

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3. Financial risk management (continued)

### 3.3 Liquidity risk (continued)

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

	At 31 December 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	351,826	71,905	17,297	22,727	1,780	-	-	465,535
Financial assets at fair value through profit or loss	-	19,787	11,560	7,720	10,540	8,394	15,536	73,537
Derivative financial instruments	11,944	3,086	4,299	3,895	6,356	3,606	-	33,186
Hong Kong SAR Government certificates of indebtedness	203,810	-	-	-	-	-	-	203,810
Advances and other accounts	259,993	44,548	79,716	235,036	602,050	374,119	1,732	1,597,194
Investment in securities								
– At FVOCI	-	105,135	298,363	142,601	212,683	111,837	6,802	877,421
– At amortised cost	-	3,093	7,964	20,175	105,290	77,855	2,435	216,812
Interests in associates and joint ventures	-	-	-	-	-	-	1,215	1,215
Investment properties	-	-	-	-	-	-	17,722	17,722
Properties, plant and equipment	-	-	-	-	-	-	46,441	46,441
Other assets (including current and deferred tax assets)	43,664	21,400	1,806	2,763	23,750	10,987	2,187	106,557
<b>Total assets</b>	<b>871,237</b>	<b>268,954</b>	<b>421,005</b>	<b>434,917</b>	<b>962,449</b>	<b>586,798</b>	<b>94,070</b>	<b>3,639,430</b>
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	203,810	-	-	-	-	-	-	203,810
Deposits and balances from banks and other financial institutions	292,365	174,423	17,452	1,028	794	-	-	486,062
Financial liabilities at fair value through profit or loss	-	5,249	4,790	974	1,337	170	-	12,520
Derivative financial instruments	7,626	2,321	2,607	3,813	8,576	4,814	-	29,757
Deposits from customers	1,521,727	410,780	279,751	117,181	1,716	-	-	2,331,155
Debt securities and certificates of deposit in issue	-	588	-	-	1,835	-	-	2,423
Other accounts and provisions (including current and deferred tax liabilities)	56,368	18,859	2,005	3,501	7,145	4,453	-	92,331
Insurance contract liabilities	53,766	2,759	2,669	4,064	29,531	61,122	-	153,911
<b>Total liabilities</b>	<b>2,135,662</b>	<b>614,979</b>	<b>309,274</b>	<b>130,561</b>	<b>50,934</b>	<b>70,559</b>	<b>-</b>	<b>3,311,969</b>
Net liquidity gap	(1,264,425)	(346,025)	111,731	304,356	911,515	516,239	94,070	327,461



# 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.

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 2022		At 31 December 2021	
	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	437	593	491
China Bridge (Malaysia) Sdn. Bhd.	9	(8)	12	2
Bank of China (Hong Kong) Nominees Limited	–	–	–	–
Bank of China (Hong Kong) Trustees Limited	8	8	8	8
BOC Financial Services (Nanning) Company Limited	178	43	199	40
BOCHK Information Technology (Shenzhen) Co., Ltd.	392	269	399	275
BOCHK Information Technology Services (Shenzhen) Co., Ltd.	425	362	441	373
Po Sang Financial Investment Services Company Limited	363	345	364	345
Po Sang Securities Limited	925	431	595	415
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.	–	–	–	–

# 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 2022 (31 December 2021: 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 2022 (31 December 2021: 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 2022	At 31 December 2021
CET1 capital ratio	17.73%	17.30%
Tier 1 capital ratio	19.55%	19.11%
Total capital ratio	21.88%	21.44%

# 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 2022 HK\$'m	At 31 December 2021 HK\$'m
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments	43,043	43,043
Retained earnings	207,042	193,800
Disclosed reserves	37,612	45,033
CET1 capital before regulatory deductions	287,697	281,876
CET1 capital: regulatory deductions		
Valuation adjustments	(38)	(66)
Other intangible assets (net of associated deferred tax liabilities)	(1,647)	(1,623)
Deferred tax assets (net of associated deferred tax liabilities)	(218)	(185)
Gains and losses due to changes in own credit risk on fair valued liabilities	(144)	(31)
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	(49,779)	(49,709)
Regulatory reserve for general banking risks	(6,265)	(6,073)
Total regulatory deductions to CET1 capital	(58,091)	(57,687)
CET1 capital	229,606	224,189
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	253,082	247,665
Tier 2 capital: instruments and provisions		
Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	7,784	7,805
Tier 2 capital before regulatory deductions	7,784	7,805
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	22,401	22,369
Total regulatory adjustments to Tier 2 capital	22,401	22,369
Tier 2 capital	30,185	30,174
Total regulatory capital	283,267	277,839

# 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 2022	At 31 December 2021
Capital conservation buffer ratio	2.500%	2.500%
Higher loss absorbency ratio	1.500%	1.500%
Countercyclical capital buffer ratio	0.811%	0.799%

#### (C) Leverage ratio

The leverage ratio is analysed as follows:

	At 30 June 2022 HK\$'m	At 31 December 2021 HK\$'m
Tier 1 capital	253,082	247,665
Leverage ratio exposure	3,295,379	3,357,085
Leverage ratio	7.68%	7.38%

## 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 fund 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 adjustments of certain derivative portfolios that meet those criteria is measured on the basis of the price to be received or paid for net open risk. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of its relative net risk exposure to the portfolio.

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

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

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

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

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

#### *Mortgage backed securities*

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

# 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 2022			
	Level 1 HK\$'m	Level 2 HK\$'m	Level 3 HK\$'m	Total HK\$'m
<b>Financial assets</b>				
Trading assets (Note 20)				
– Debt securities and certificates of deposit	585	28,289	–	28,874
– Equity securities	24	–	–	24
– Fund	1	–	–	1
– Other debt instruments	–	3,000	–	3,000
Other financial assets mandatorily classified at fair value through profit or loss (Note 20)				
– Debt securities and certificates of deposit	–	6,483	710	7,193
– Equity securities	3,360	279	–	3,639
– Fund	3,614	1,139	6,204	10,957
Financial assets designated at fair value through profit or loss (Note 20)				
– Debt securities and certificates of deposit	236	949	–	1,185
– Other debt instruments	–	7,410	–	7,410
Derivative financial instruments (Note 21)	38	58,735	–	58,773
Advances and other accounts at fair value	–	11,442	–	11,442
Investment in securities at FVOCI (Note 23)				
– Debt securities and certificates of deposit	246,650	439,198	1,012	686,860
– Equity securities	2,011	1,353	1,837	5,201
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss (Note 27)				
– Trading liabilities	–	26,384	–	26,384
– Financial liabilities designated at fair value through profit or loss	–	81	–	81
Derivative financial instruments (Note 21)	4	36,091	–	36,095



# 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 2021			
	Level 1 HK\$'m	Level 2 HK\$'m	Level 3 HK\$'m	Total HK\$'m
<b>Financial assets</b>				
Trading assets (Note 20)				
– Debt securities and certificates of deposit	121	23,746	–	23,867
– Equity securities	23	–	–	23
– Fund	–	–	–	–
– Other debt instruments	–	3,201	–	3,201
Other financial assets mandatorily classified at fair value through profit or loss (Note 20)				
– Debt securities and certificates of deposit	1,481	13,433	800	15,714
– Equity securities	2,520	144	193	2,857
– Fund	4,550	1,776	4,876	11,202
Financial assets designated at fair value through profit or loss (Note 20)				
– Debt securities and certificates of deposit	711	766	–	1,477
– Other debt instruments	–	15,196	–	15,196
Derivative financial instruments (Note 21)	20	33,166	–	33,186
Advances and other accounts at fair value	–	2,757	–	2,757
Investment in securities at FVOCI (Note 23)				
– Debt securities and certificates of deposit	291,912	578,691	1,217	871,820
– Equity securities	2,010	1,459	2,132	5,601
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss (Note 27)				
– Trading liabilities	–	12,322	–	12,322
– Financial liabilities designated at fair value through profit or loss	–	198	–	198
Derivative financial instruments (Note 21)	11	29,746	–	29,757

There were no financial asset and liability transfers between level 1 and level 2 for the Group during the period (31 December 2021: Nil).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

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

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

	Half-year ended 30 June 2022				
	Financial assets				
	Other financial assets mandatorily classified at FVPL			Investment in securities at FVOCI	
	Debt securities HK\$'m	Equity securities HK\$'m	Fund HK\$'m	Debt securities HK\$'m	Equity securities HK\$'m
At 1 January 2022	800	193	4,876	1,217	2,132
(Losses)/gains					
– Income statement					
– Net (loss)/gain on other financial instruments at fair value through profit or loss	(90)	(31)	756	-	-
– Other comprehensive income					
– Change in fair value	-	-	-	(205)	(295)
Additions	-	-	572	-	-
Disposals, redemptions and maturity	-	-	-	-	-
Transfer out of level 3	-	(162)	-	-	-
At 30 June 2022	710	-	6,204	1,012	1,837
Total unrealised (losses)/gains for the period included in income statement for financial assets held as at 30 June 2022					
– Net (loss)/gain on other financial instruments at fair value through profit or loss	(90)	(31)	756	-	-

# 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 2021				
	Financial assets				
	Other financial assets mandatorily classified at FVPL			Investment in securities at FVOCI	
	Debt securities HK\$'m	Equity securities HK\$'m	Fund 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 (loss)/gain on other financial instruments at fair value through profit or loss	(46)	(1)	509	–	–
– Other comprehensive income					
– Change in fair value	–	–	–	(69)	(246)
Additions	–	194	1,661	–	11
Disposals, redemptions and maturity	–	–	(18)	(346)	–
Transfer out of level 3	–	–	–	–	–
At 31 December 2021	800	193	4,876	1,217	2,132
Total unrealised (losses)/gains for the year included in income statement for financial assets held as at 31 December 2021					
– Net (loss)/gain on other financial instruments at fair value through profit or loss	(46)	(1)	509	–	–

As at 30 June 2022 and 31 December 2021, financial instruments categorised as level 3 are mainly comprised of debt securities, fund and unlisted equity shares.

For certain illiquid debt securities, equity securities and fund, the Group obtains valuation quotations from counterparties which may be based on unobservable inputs with significant impact on the valuation. Therefore, these instruments have been classified by the Group as level 3. Transfers out of level 3 in 2022 were due to change of valuation input observability. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

# 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)

The fair values of unlisted FVOCI equity investments are determined with reference to (i) multiples of comparable listed companies, including average of the price/earnings ratios and average of the price/book values ratios of the comparables; or (ii) dividend discount model calculation of the underlying equity investments; or (iii) net asset value with fair value adjustments on certain assets or liabilities held (if applicable), if neither appropriate comparables nor dividend discount model calculation is available or applicable. The significant unobservable inputs and their range applied in the fair values measurement of the Group's unlisted FVOCI equity investments includes price/earnings ratios of the comparables of 19.09x – 41.02x, price/book values ratios of the comparables of 0.43x – 1.02x, liquidity discount of 30%, dividend payout ratio of 23.44% – 83.53% and return on shareholders' equity of 10.34% – 12.30%. The fair value is positively correlated to the price/earnings ratios and price/book value ratios of appropriate comparables, forecasted stream of future dividend payout or net asset values, and is negatively correlated to the liquidity discount used in the average of price/earnings ratios and price/book value ratios of comparables or discount rate used in dividend discount model.

Had all of the significant unobservable inputs applied on the valuation techniques favourably changed/unfavourably changed by 5% (31 December 2021: 5%), the Group's other comprehensive income would have increased by HK\$83 million and decreased by HK\$82 million, respectively (31 December 2021: increased by HK\$96 million and decreased by HK\$94 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.

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

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

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

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

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

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

# 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)

#### 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.

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 2022		At 31 December 2021	
	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 23)	307,006	292,233	216,812	219,917
<b>Financial liabilities</b>				
Debt securities and certificates of deposit in issue (Note 29)	3,733	3,729	2,423	2,426

## 5. Net interest income

	Half-year ended 30 June 2022 HK\$'m	Half-year ended 30 June 2021 HK\$'m
<b>Interest income</b>		
Advances to customers, due from banks and other financial institutions	14,961	13,652
Investment in securities and financial assets at fair value through profit or loss	6,961	6,134
Others	80	62
	22,002	19,848
<b>Interest expense</b>		
Deposits from customers, due to banks and other financial institutions	(6,497)	(3,807)
Debt securities and certificates of deposit in issue	(33)	(1)
Lease liabilities	(19)	(22)
Others	(72)	(76)
	(6,621)	(3,906)
<b>Net interest income</b>	15,381	15,942

Included within interest income are HK\$18,057 million (first half of 2021: HK\$15,679 million) and HK\$3,405 million (first half of 2021: HK\$3,841 million) for financial assets measured at amortised cost and at fair value through other comprehensive income respectively.

Included within interest expense are HK\$6,597 million (first half of 2021: HK\$3,899 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 2022 HK\$'m	Half-year ended 30 June 2021 HK\$'m
<b>Fee and commission income</b>		
Loan commissions	1,769	1,793
Securities brokerage	1,388	2,189
Credit card business	903	996
Insurance	556	734
Payment services	360	374
Trust and custody services	341	374
Funds distribution	295	417
Bills commissions	262	321
Safe deposit box	149	151
Currency exchange	87	58
Funds management	26	101
Others	687	608
	<b>6,823</b>	<b>8,116</b>
<b>Fee and commission expense</b>		
Credit card business	(612)	(639)
Insurance	(486)	(258)
Securities brokerage	(182)	(265)
Others	(399)	(297)
	<b>(1,679)</b>	<b>(1,459)</b>
<b>Net fee and commission income</b>	<b>5,144</b>	<b>6,657</b>
Of which arise from:		
Financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	1,933	1,965
– Fee and commission expense	(4)	(8)
	<b>1,929</b>	<b>1,957</b>
Trust and other fiduciary activities		
– Fee and commission income	441	476
– Fee and commission expense	(17)	(19)
	<b>424</b>	<b>457</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 7. Net trading gain

	Half-year ended 30 June 2022 HK\$'m	Half-year ended 30 June 2021 HK\$'m
Net gain/(loss) from:		
Foreign exchange and foreign exchange products	4,685	2,164
Interest rate instruments and items under fair value hedge	4,071	(48)
Commodities	182	103
Equity and credit derivative instruments	20	135
	<b>8,958</b>	<b>2,354</b>

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

	Half-year ended 30 June 2022 HK\$'m	Half-year ended 30 June 2021 HK\$'m
Net (loss)/gain on other financial instruments mandatorily classified at fair value through profit or loss	(1,462)	101
Net loss on financial instruments designated at fair value through profit or loss	(9)	(5)
	<b>(1,471)</b>	<b>96</b>

## 9. Net (loss)/gain on other financial instruments

	Half-year ended 30 June 2022 HK\$'m	Half-year ended 30 June 2021 HK\$'m
Net (loss)/gain on disposal/redemption of investment in securities at FVOCI	(2,014)	432
Net (loss)/gain on disposal/redemption of investment in securities at amortised cost	(38)	10
Others	4	9
	<b>(2,048)</b>	<b>451</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 10. Other operating income

	Half-year ended 30 June 2022 HK\$'m	Half-year ended 30 June 2021 HK\$'m
Dividend income		
– From investment in securities at FVOCI derecognised during the period	8	34
– From investment in securities at FVOCI held at the end of the period	105	134
Gross rental income from investment properties	275	284
Less: Outgoings in respect of investment properties	(22)	(26)
Gain from disposal of associates and joint ventures	3	–
Others	63	77
	<b>432</b>	<b>503</b>

Included in the “Outgoings in respect of investment properties” is HK\$4 million (first half of 2021: HK\$6 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 2022 HK\$'m	Half-year ended 30 June 2021 HK\$'m
<b>Gross insurance benefits and claims and movement in liabilities</b>		
Claims, benefits and surrenders paid	(11,684)	(9,296)
Movement in liabilities	(2,856)	(6,248)
	<b>(14,540)</b>	<b>(15,544)</b>
<b>Reinsurers' share of benefits and claims and movement in liabilities</b>		
Reinsurers' share of claims, benefits and surrenders paid	6,071	6,820
Reinsurers' share of movement in liabilities	(541)	(1,246)
	<b>5,530</b>	<b>5,574</b>
<b>Net insurance benefits and claims and movement in liabilities</b>	<b>(9,010)</b>	<b>(9,970)</b>



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 12. Net charge of impairment allowances

	Half-year ended 30 June 2022 HK\$'m	Half-year ended 30 June 2021 HK\$'m
Net (charge)/reversal of impairment allowances on:		
Advances and other accounts		
– At FVOCI	(154)	–
– At amortised cost	(1,572)	(1,197)
	<b>(1,726)</b>	(1,197)
Investment in securities		
– At FVOCI	37	4
– At amortised cost	(43)	(8)
	<b>(6)</b>	(4)
Others	18	19
Net charge of impairment allowances	<b>(1,714)</b>	(1,182)

## 13. Operating expenses

	Half-year ended 30 June 2022 HK\$'m	Half-year ended 30 June 2021 HK\$'m
Staff costs (including directors' emoluments)		
– Salaries and other costs	4,341	4,114
– Pension cost	264	275
	<b>4,605</b>	4,389
Premises and equipment expenses (excluding depreciation and amortisation)		
– Short-term leases, leases of low-value assets and variable lease payments	6	6
– Others	583	573
	<b>589</b>	579
Depreciation and amortisation	1,526	1,515
Auditor's remuneration		
– Audit services	3	3
– Non-audit services	6	2
Other operating expenses	1,097	1,094
	<b>7,826</b>	7,582

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

	Half-year ended 30 June 2022 HK\$'m	Half-year ended 30 June 2021 HK\$'m
Net loss from fair value adjustments on investment properties	(142)	(22)

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

	Half-year ended 30 June 2022 HK\$'m	Half-year ended 30 June 2021 HK\$'m
Net loss from disposal of equipment, fixtures and fittings	(1)	(2)
Net loss from revaluation of premises	(1)	(20)
	(2)	(22)

## 16. Taxation

Taxation in the income statement represents:

	Half-year ended 30 June 2022 HK\$'m	Half-year ended 30 June 2021 HK\$'m
Current tax		
Hong Kong profits tax		
– Current period taxation	2,864	2,642
– Over-provision in prior periods	(35)	(233)
	2,829	2,409
Taxation outside Hong Kong		
– Current period taxation	294	267
– (Over)/under-provision in prior periods	(11)	20
	3,112	2,696
Deferred tax		
Origination and reversal of temporary differences and unused tax credits	(140)	(134)
	2,972	2,562

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2022. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for the first half of 2022 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:

	<b>Half-year ended 30 June 2022 HK\$'m</b>	Half-year ended 30 June 2021 HK\$'m
Profit before taxation	<b>17,389</b>	16,153
Calculated at a taxation rate of 16.5% (2021: 16.5%)	<b>2,869</b>	2,665
Effect of different taxation rates in other countries/regions	<b>66</b>	99
Income not subject to taxation	<b>(45)</b>	(135)
Expenses not deductible for taxation purposes	<b>157</b>	199
Over-provision in prior periods	<b>(46)</b>	(213)
Withholding tax outside Hong Kong	<b>85</b>	60
Others	<b>(114)</b>	(113)
Taxation charge	<b>2,972</b>	2,562
Effective tax rate	<b>17.1%</b>	15.9%

## 17. Dividends

	<b>Half-year ended 30 June 2022</b>		Half-year ended 30 June 2021	
	<b>Per share HK\$</b>	<b>Total HK\$'m</b>	Per share HK\$	Total HK\$'m
Interim dividend	<b>0.447</b>	<b>4,726</b>	0.447	4,726

At a meeting held on 30 August 2022, the Board declared an interim dividend of HK\$0.447 per ordinary share for the first half of 2022 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 2022.

## 18. Earnings per share

The calculation of basic earnings per share for the first half of 2022 is based on the consolidated profit for the period attributable to equity holders of the Company of approximately HK\$13,472 million (first half of 2021: HK\$12,576 million) and on the ordinary shares in issue of 10,572,780,266 shares (2021: 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 2022 (first half of 2021: Nil).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

	At 30 June 2022 HK\$'m	At 31 December 2021 HK\$'m
Cash	18,341	17,586
Balances with central banks	148,018	142,560
Placements with central banks maturing within one month	12,442	12,882
Placements with central banks maturing between one and twelve months	3,518	4,332
Placements with central banks maturing over one year	1,546	1,156
	<b>165,524</b>	160,930
Balances with other banks and other financial institutions	135,243	191,682
Placements with other banks and other financial institutions maturing within one month	48,526	59,035
Placements with other banks and other financial institutions maturing between one and twelve months	68,341	35,701
Placements with other banks and other financial institutions maturing over one year	847	624
	<b>252,957</b>	287,042
	<b>436,822</b>	465,558
Less: Impairment allowances		
– Stage 1	(48)	(23)
– Stage 2	–	–
– Stage 3	–	–
	<b>436,774</b>	465,535

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

	At 30 June 2022 HK\$'m	At 31 December 2021 HK\$'m
Securities		
Trading assets		
– Treasury bills	17,600	11,548
– Certificates of deposit	451	1,506
– Other debt securities	10,823	10,813
	<b>28,874</b>	23,867
– Equity securities	24	23
– Fund	1	–
	<b>28,899</b>	23,890
Other financial assets mandatorily classified at fair value through profit or loss		
– Treasury bills	–	1,481
– Other debt securities	7,193	14,233
	<b>7,193</b>	15,714
– Equity securities	3,639	2,857
– Fund	10,957	11,202
	<b>21,789</b>	29,773
Financial assets designated at fair value through profit or loss		
– Certificates of deposit	–	–
– Other debt securities	1,185	1,477
	<b>1,185</b>	1,477
Total securities	<b>51,873</b>	55,140
Other debt instruments		
Trading assets	3,000	3,201
Financial assets designated at fair value through profit or loss	7,410	15,196
Total other debt instruments	<b>10,410</b>	18,397
	<b>62,283</b>	73,537

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

Total securities are analysed by place of listing as follows:

	At 30 June 2022 HK\$'m	At 31 December 2021 HK\$'m
Debt securities and certificates of deposit		
– Listed in Hong Kong	5,406	9,199
– Listed outside Hong Kong	3,296	8,212
– Unlisted	28,550	23,647
	<b>37,252</b>	41,058
Equity securities		
– Listed in Hong Kong	3,139	2,234
– Listed outside Hong Kong	362	453
– Unlisted	162	193
	<b>3,663</b>	2,880
Fund		
– Listed in Hong Kong	1,357	1,469
– Listed outside Hong Kong	337	239
– Unlisted	9,264	9,494
	<b>10,958</b>	11,202
Total securities	<b>51,873</b>	55,140

Total securities are analysed by type of issuer as follows:

	At 30 June 2022 HK\$'m	At 31 December 2021 HK\$'m
Sovereigns	25,496	21,713
Public sector entities	406	748
Banks and other financial institutions	20,803	23,806
Corporate entities	5,168	8,873
Total securities	<b>51,873</b>	55,140

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 21. 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

## 21. 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 2022 and 31 December 2021:

	At 30 June 2022		
	Contract/ notional amounts HK\$'m	Fair values	
		Assets HK\$'m	Liabilities HK\$'m
Exchange rate contracts			
Spot, forwards and futures	236,133	14,924	(10,149)
Swaps	1,550,568	23,870	(10,667)
Options	46,746	183	(105)
	<b>1,833,447</b>	<b>38,977</b>	<b>(20,921)</b>
Interest rate contracts			
Futures	99,881	12	–
Swaps	1,307,622	19,305	(14,897)
Options	–	–	–
	<b>1,407,503</b>	<b>19,317</b>	<b>(14,897)</b>
Commodity contracts	22,508	457	(261)
Equity contracts	863	22	(16)
	<b>3,264,321</b>	<b>58,773</b>	<b>(36,095)</b>
	At 31 December 2021		
	Contract/ notional amounts HK\$'m	Fair values	
		Assets HK\$'m	Liabilities HK\$'m
Exchange rate contracts			
Spot, forwards and futures	203,700	11,720	(7,545)
Swaps	1,602,271	11,558	(8,476)
Options	40,382	92	(86)
	<b>1,846,353</b>	<b>23,370</b>	<b>(16,107)</b>
Interest rate contracts			
Futures	2,220	1	(3)
Swaps	1,084,835	9,361	(13,321)
Options	567	–	–
	<b>1,087,622</b>	<b>9,362</b>	<b>(13,324)</b>
Commodity contracts	13,873	388	(265)
Equity contracts	1,470	66	(61)
	<b>2,949,318</b>	<b>33,186</b>	<b>(29,757)</b>



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 22. Advances and other accounts

	At 30 June 2022 HK\$'m	At 31 December 2021 HK\$'m
Personal loans and advances	521,506	509,045
Corporate loans and advances	1,159,544	1,090,039
Advances to customers	1,681,050	1,599,084
Less: Impairment allowances		
– Stage 1	(5,297)	(4,839)
– Stage 2	(1,927)	(2,406)
– Stage 3	(3,857)	(2,632)
	1,669,969	1,589,207
Trade bills	8,142	7,264
Less: Impairment allowances		
– Stage 1	(1)	(1)
– Stage 2	–	–
– Stage 3	–	–
	8,141	7,263
Advances to banks and other financial institutions	550	727
Less: Impairment allowances		
– Stage 1	–	(3)
– Stage 2	–	–
– Stage 3	–	–
	550	724
	<b>1,678,660</b>	<b>1,597,194</b>

As at 30 June 2022, advances to customers included accrued interest of HK\$2,138 million (31 December 2021: HK\$1,890 million).

As at 30 June 2022, advances and other accounts at fair value through other comprehensive income and mandatorily classified at fair value through profit or loss amounted to HK\$10,623 million (31 December 2021: HK\$2,757 million) and HK\$819 million (31 December 2021: Nil) respectively.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 23. Investment in securities

	At 30 June 2022 HK\$'m	At 31 December 2021 HK\$'m
Investment in securities at fair value through other comprehensive income		
– Treasury bills	352,006	410,163
– Certificates of deposit	36,084	38,059
– Other debt securities	298,770	423,598
	<b>686,860</b>	871,820
– Equity securities	5,201	5,601
	<b>692,061</b>	877,421
Investment in securities at amortised cost		
– Treasury bills	4	–
– Certificates of deposit	2,076	2,693
– Other debt securities	305,070	214,218
	<b>307,150</b>	216,911
Less: Impairment allowances		
– Stage 1	(140)	(96)
– Stage 2	(4)	(3)
– Stage 3	–	–
	<b>307,006</b>	216,812
	<b>999,067</b>	1,094,233

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 23. Investment in securities (continued)

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

	At 30 June 2022 HK\$'m	At 31 December 2021 HK\$'m
Investment in securities at fair value through other comprehensive income		
Debt securities and certificates of deposit		
– Listed in Hong Kong	75,037	106,919
– Listed outside Hong Kong	121,602	182,018
– Unlisted	490,221	582,883
	<b>686,860</b>	871,820
Equity securities		
– Listed in Hong Kong	2,354	2,351
– Listed outside Hong Kong	366	455
– Unlisted	2,481	2,795
	<b>5,201</b>	5,601
	<b>692,061</b>	877,421
Investment in securities at amortised cost		
Debt securities and certificates of deposit		
– Listed in Hong Kong	49,900	39,845
– Listed outside Hong Kong	176,821	103,719
– Unlisted	80,285	73,248
	<b>307,006</b>	216,812
	<b>999,067</b>	1,094,233
Market value of listed securities at amortised cost	<b>215,268</b>	145,392

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

	At 30 June 2022 HK\$'m	At 31 December 2021 HK\$'m
Sovereigns	517,932	558,915
Public sector entities	58,510	55,078
Banks and other financial institutions	284,666	306,006
Corporate entities	137,959	174,234
	<b>999,067</b>	1,094,233

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 24. Investment properties

	Half-year ended 30 June 2022 HK\$'m	Year ended 31 December 2021 HK\$'m
At 1 January	17,722	18,441
Additions	2	233
Fair value losses	(142)	(229)
Reclassification from/(to) properties, plant and equipment (Note 25)	45	(723)
At period/year end	<b>17,627</b>	17,722

## 25. 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 2022	43,784	1,338	1,319	46,441
Additions	15	107	229	351
Disposals	(2)	(3)	–	(5)
Revaluation	238	–	–	238
Depreciation for the period	(596)	(262)	(336)	(1,194)
Reclassification to investment properties (Note 24)	(45)	–	–	(45)
Exchange difference	(3)	(7)	(10)	(20)
Net book value at 30 June 2022	<b>43,391</b>	<b>1,173</b>	<b>1,202</b>	<b>45,766</b>
At 30 June 2022				
Cost or valuation	43,391	7,047	2,559	52,997
Accumulated depreciation and impairment	–	(5,874)	(1,357)	(7,231)
Net book value at 30 June 2022	<b>43,391</b>	<b>1,173</b>	<b>1,202</b>	<b>45,766</b>
The analysis of cost or valuation of the above assets is as follows:				
At 30 June 2022				
At cost	–	7,047	2,559	9,606
At valuation	43,391	–	–	43,391
	<b>43,391</b>	<b>7,047</b>	<b>2,559</b>	<b>52,997</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 25. 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 2021	43,548	1,582	1,725	46,855
Additions	40	344	341	725
Disposals	(4)	(11)	(41)	(56)
Revaluation	634	–	–	634
Depreciation for the year	(1,154)	(567)	(700)	(2,421)
Reclassification from investment properties (Note 24)	723	–	–	723
Impairment for the year	–	(4)	–	(4)
Exchange difference	(3)	(6)	(6)	(15)
Net book value at 31 December 2021	43,784	1,338	1,319	46,441
At 31 December 2021				
Cost or valuation	43,784	7,032	2,775	53,591
Accumulated depreciation and impairment	–	(5,694)	(1,456)	(7,150)
Net book value at 31 December 2021	43,784	1,338	1,319	46,441
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2021				
At cost	–	7,032	2,775	9,807
At valuation	43,784	–	–	43,784
	43,784	7,032	2,775	53,591

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 26. Other assets

	At 30 June 2022 HK\$'m	At 31 December 2021 HK\$'m
Repossessed assets	249	151
Precious metals	11,304	10,207
Intangible assets	2,055	2,025
Reinsurance assets	56,795	59,696
Accounts receivable and prepayments	37,584	34,193
	<b>107,987</b>	106,272

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

	At 30 June 2022 HK\$'m	At 31 December 2021 HK\$'m
Trading liabilities		
– Short positions in Exchange Fund Bills and Notes	26,384	12,322
Financial liabilities designated at fair value through profit or loss		
– Repurchase agreements	79	198
– Structured notes	2	–
	<b>26,465</b>	12,520

As at 30 June 2022 and 31 December 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.

## 28. Deposits from customers

	At 30 June 2022 HK\$'m	At 31 December 2021 HK\$'m
Demand deposits and current accounts		
– Corporate	199,053	229,326
– Personal	97,691	97,908
	<b>296,744</b>	327,234
Savings deposits		
– Corporate	515,035	513,556
– Personal	669,662	680,538
	<b>1,184,697</b>	1,194,094
Time, call and notice deposits		
– Corporate	605,630	544,036
– Personal	313,538	265,791
	<b>919,168</b>	809,827
	<b>2,400,609</b>	2,331,155

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

	At 30 June 2022 HK\$'m	At 31 December 2021 HK\$'m
At amortised cost		
– Certificates of deposit	–	563
– Senior notes under the Medium Term Note Programme <sup>(i)</sup>	1,777	1,860
– Senior notes under the Medium Term Note Programme, with fair value hedge adjustment <sup>(ii)</sup>	1,956	–
	<b>3,733</b>	<b>2,423</b>

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

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

## 30. Other accounts and provisions

	At 30 June 2022 HK\$'m	At 31 December 2021 HK\$'m
Dividend payable	7,221	–
Other accounts payable and provisions	128,993	81,080
Lease liabilities	1,204	1,318
Impairment allowances on loan commitments and financial guarantee contracts		
– Stage 1	440	439
– Stage 2	32	51
– Stage 3	118	153
	<b>138,008</b>	<b>83,041</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 31. 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 2022 and the year ended 31 December 2021 are as follows:

	Half-year ended 30 June 2022					
	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 2022	826	6,606	(4)	(1,128)	(693)	5,607
(Credited)/charged to income statement (Note 16)	(12)	(91)	2	(63)	24	(140)
Charged/(credited) to other comprehensive income	–	32	–	–	(1,466)	(1,434)
Release upon disposal of equity instruments at fair value through other comprehensive income	–	–	–	–	3	3
Exchange difference and others	–	–	–	3	1	4
At 30 June 2022	814	6,547	(2)	(1,188)	(2,131)	4,040

	Year ended 31 December 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
Charged/(credited) to income statement	29	(63)	10	23	(22)	(23)
Charged/(credited) to other comprehensive income	–	109	–	–	(401)	(292)
Release upon disposal of equity instruments at fair value through other comprehensive income	–	–	–	–	19	19
Exchange difference and others	–	–	32	2	–	34
At 31 December 2021	826	6,606	(4)	(1,128)	(693)	5,607



# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 31. 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 2022 HK\$'m</b>	At 31 December 2021 HK\$'m
Deferred tax assets	(417)	(192)
Deferred tax liabilities	4,457	5,799
	<b>4,040</b>	<b>5,607</b>

	<b>At 30 June 2022 HK\$'m</b>	At 31 December 2021 HK\$'m
Deferred tax assets to be recovered after more than twelve months	(149)	(153)
Deferred tax liabilities to be settled after more than twelve months	6,307	6,435
	<b>6,158</b>	<b>6,282</b>

As at 30 June 2022 and 31 December 2021, 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.

## 32. Insurance contract liabilities

	<b>Half-year ended 30 June 2022 HK\$'m</b>	Year ended 31 December 2021 HK\$'m
At 1 January	153,911	139,504
Benefits paid	(11,254)	(14,784)
Claims incurred and movement in liabilities	12,751	29,191
At period/year end	<b>155,408</b>	<b>153,911</b>

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK\$46,122 million (31 December 2021: HK\$48,037 million) and the associated reinsurance assets of HK\$56,795 million (31 December 2021: HK\$59,696 million) are included in "Other assets" (Note 26).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 33. Share capital

	<b>At 30 June 2022 HK\$'m</b>	At 31 December 2021 HK\$'m
Issued and fully paid: 10,572,780,266 ordinary shares	<b>52,864</b>	52,864

## 34. Other equity instruments

	<b>At 30 June 2022 HK\$'m</b>	At 31 December 2021 HK\$'m
Undated non-cumulative subordinated Additional Tier 1 capital securities	<b>23,476</b>	23,476

In September 2018, BOCHK issued USD3,000 million undated non-cumulative subordinated Additional Tier 1 capital securities. The capital securities are perpetual securities in respect of which there is no fixed redemption date and are not callable within the first 5 years. They have an initial rate of distribution of 5.90% per annum payable semi-annually which may be cancelled at the sole discretion of BOCHK. Dividend paid to other equity instrument holders in the first half of 2022 amounted to HK\$693 million (first half of 2021: HK\$688 million).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 35. Notes to condensed consolidated cash flow statement

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

	Half-year ended 30 June 2022 HK\$'m	Half-year ended 30 June 2021 HK\$'m
Operating profit	17,692	16,286
Depreciation and amortisation	1,526	1,515
Gain from disposal of associates and joint ventures	(3)	–
Net charge of impairment allowances	1,714	1,182
Unwind of discount on impairment allowances	(25)	(13)
Advances written off net of recoveries	(262)	(94)
Interest expense on lease liabilities	19	22
Change in balances and placements with banks and other financial institutions with original maturity over three months	(14,651)	(715)
Change in financial assets at fair value through profit or loss	7,250	9,214
Change in derivative financial instruments	(19,249)	(7,794)
Change in advances and other accounts	(82,667)	(248,466)
Change in investment in securities	32,770	(83,865)
Change in other assets	(1,693)	(78,824)
Change in deposits and balances from banks and other financial institutions	(171,768)	5,113
Change in financial liabilities at fair value through profit or loss	13,945	(7,306)
Change in deposits from customers	69,454	498,731
Change in debt securities and certificates of deposit in issue	1,310	(348)
Change in other accounts and provisions	47,913	23,231
Change in insurance contract liabilities	1,497	6,637
Effect of changes in exchange rates	12,266	(542)
Operating cash (outflow)/inflow before taxation	<b>(82,962)</b>	133,964
Cash flows from operating activities included		
– interest received	23,309	19,875
– interest paid	5,881	4,270
– dividend received	113	168

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

	At 30 June 2022 HK\$'m	At 30 June 2021 HK\$'m
Cash and balances and placements with banks and other financial institutions with original maturity within three months	381,393	505,375
Treasury bills, certificates of deposit and other debt instruments with original maturity within three months		
– financial assets at fair value through profit or loss	14,457	12,833
– investment in securities	36,754	60,389
	<b>432,604</b>	578,597

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 36. 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 2022 HK\$'m</b>	At 31 December 2021 HK\$'m
Direct credit substitutes	1,199	1,338
Transaction-related contingencies	28,621	30,075
Trade-related contingencies	20,761	25,815
Commitments that are unconditionally cancellable without prior notice	516,152	526,430
Other commitments with an original maturity of		
– up to one year	22,117	15,665
– over one year	154,314	173,623
	<b>743,164</b>	772,946
Credit risk-weighted amount	<b>76,687</b>	83,704

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.

## 37. Capital commitments

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

	<b>At 30 June 2022 HK\$'m</b>	At 31 December 2021 HK\$'m
Authorised and contracted for but not provided for	259	183
Authorised but not contracted for	223	119
	<b>482</b>	302

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

## 38. 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 2022 HK\$'m</b>	At 31 December 2021 HK\$'m
Properties and equipment		
– Not later than one year	<b>408</b>	469
– One to two years	<b>241</b>	241
– Two to three years	<b>85</b>	103
– Three to four years	<b>10</b>	16
– Four to five years	<b>2</b>	5
	<b>746</b>	834

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.

## 39. 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

## 39. 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 2022</b>								
Net interest income/(expense)								
– External	2,063	5,685	4,660	1,967	1,006	15,381	–	15,381
– Inter-segment	1,884	(212)	(1,507)	(10)	(155)	–	–	–
	3,947	5,473	3,153	1,957	851	15,381	–	15,381
Net fee and commission income/(expense)	3,232	2,433	(29)	(846)	588	5,378	(234)	5,144
Net insurance premium income	–	–	–	9,856	–	9,856	(10)	9,846
Net trading gain	511	834	7,211	3	354	8,913	45	8,958
Net loss on other financial instruments at fair value through profit or loss	–	–	(141)	(1,336)	–	(1,477)	6	(1,471)
Net gain/(loss) on other financial instruments	–	4	(2,033)	(19)	–	(2,048)	–	(2,048)
Other operating income	13	1	30	71	915	1,030	(598)	432
<b>Total operating income</b>	<b>7,703</b>	<b>8,745</b>	<b>8,191</b>	<b>9,686</b>	<b>2,708</b>	<b>37,033</b>	<b>(791)</b>	<b>36,242</b>
Net insurance benefits and claims and movement in liabilities	–	–	–	(9,010)	–	(9,010)	–	(9,010)
<b>Net operating income before impairment allowances</b>	<b>7,703</b>	<b>8,745</b>	<b>8,191</b>	<b>676</b>	<b>2,708</b>	<b>28,023</b>	<b>(791)</b>	<b>27,232</b>
Net (charge)/reversal of impairment allowances	(111)	(1,590)	(2)	(17)	6	(1,714)	–	(1,714)
<b>Net operating income</b>	<b>7,592</b>	<b>7,155</b>	<b>8,189</b>	<b>659</b>	<b>2,714</b>	<b>26,309</b>	<b>(791)</b>	<b>25,518</b>
Operating expenses	(4,501)	(1,662)	(637)	(288)	(1,529)	(8,617)	791	(7,826)
<b>Operating profit</b>	<b>3,091</b>	<b>5,493</b>	<b>7,552</b>	<b>371</b>	<b>1,185</b>	<b>17,692</b>	<b>–</b>	<b>17,692</b>
Net loss from disposal of/fair value adjustments on investment properties	–	–	–	–	(142)	(142)	–	(142)
Net loss from disposal/revaluation of properties, plant and equipment	(1)	–	–	–	(1)	(2)	–	(2)
Share of results after tax of associates and joint ventures	(11)	–	2	–	(150)	(159)	–	(159)
<b>Profit before taxation</b>	<b>3,079</b>	<b>5,493</b>	<b>7,554</b>	<b>371</b>	<b>892</b>	<b>17,389</b>	<b>–</b>	<b>17,389</b>
<b>At 30 June 2022</b>								
<b>ASSETS</b>								
Segment assets	546,217	1,101,146	1,634,076	201,741	175,577	3,658,757	(38,671)	3,620,086
Interests in associates and joint ventures	622	–	2	–	424	1,048	–	1,048
	546,839	1,101,146	1,634,078	201,741	176,001	3,659,805	(38,671)	3,621,134
<b>LIABILITIES</b>								
Segment liabilities	1,238,937	1,153,979	640,826	191,451	110,097	3,335,290	(38,671)	3,296,619
<b>Half-year ended 30 June 2022</b>								
<b>Other information</b>								
Capital expenditure	11	5	5	23	671	715	–	715
Depreciation and amortisation	617	152	61	34	682	1,546	(20)	1,526

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 39. 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 instruments	–	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 31 December 2021</b>								
<b>ASSETS</b>								
Segment assets	533,841	1,031,942	1,733,682	197,906	176,059	3,673,430	(35,215)	3,638,215
Interests in associates and joint ventures	633	–	8	–	574	1,215	–	1,215
	534,474	1,031,942	1,733,690	197,906	176,633	3,674,645	(35,215)	3,639,430
<b>LIABILITIES</b>								
Segment liabilities	1,203,126	1,100,321	753,782	186,277	103,678	3,347,184	(35,215)	3,311,969
<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. Assets pledged as security

As at 30 June 2022, the liabilities of the Group amounting to HK\$19,146 million (31 December 2021: HK\$12,788 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK\$63,276 million (31 December 2021: HK\$88,268 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\$86,272 million (31 December 2021: HK\$103,349 million) mainly included in “Financial assets at fair value through profit or loss” and “Investment in securities”.

In addition, the Group also pledges securities for derivative transactions. These assets continue to be recorded on the balance sheet. As there is no direct relationship between the securities pledged and the associated liabilities, the amounts are not disclosed.

## 41. 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 2022, the Group’s related aggregate amounts due from and to BOC were HK\$148,729 million (31 December 2021: HK\$191,806 million) and HK\$133,021 million (31 December 2021: HK\$245,648 million) respectively. The aggregate amounts of income and expenses of the Group arising from these transactions with BOC for the first half of 2022 were HK\$505 million (first half of 2021: HK\$760 million) and HK\$770 million (first half of 2021: HK\$118 million) respectively.

As at 30 June 2022, the related aggregate amounts due from and to subsidiaries of BOC were HK\$1,513 million (31 December 2021: HK\$1,113 million) and HK\$12,109 million (31 December 2021: HK\$10,139 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

## 41. 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 2022 HK\$'m	Half-year ended 30 June 2021 HK\$'m
Income statement items		
Associates and joint ventures		
– Fee and commission income	3	24
– Other operating expenses	36	35
Other related parties		
– Fee and commission income	6	7

	At 30 June 2022 HK\$'m	At 31 December 2021 HK\$'m
Balance sheet items		
Associates and joint ventures		
– Other assets	5	11
– Deposits and balances from banks and other financial institutions	35	77
– Deposits from customers	24	120

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 41. Significant related party transactions (continued)

### (d) Key management personnel

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

The compensation of key management personnel is detailed as follows:

	<b>Half-year ended 30 June 2022 HK\$'m</b>	Half-year ended 30 June 2021 HK\$'m
Salaries and other short-term employee benefits	<b>17</b>	18

## 42. IBOR reform

The Group is exposed to different interbank offered rates, predominantly US Dollar LIBOR. The following table contains details of financial instruments that the Group holds as at 30 June 2022 and 31 December 2021 which reference LIBOR and have not yet transitioned to an alternative interest rate benchmark:

	<b>At 30 June 2022</b>	
	<b>Financial instruments yet to transition to alternative benchmarks</b>	
	<b>USD LIBOR HK\$'m</b>	<b>Others* HK\$'m</b>
Non-derivative financial assets	<b>206,626</b>	–
Non-derivative financial liabilities	<b>628</b>	–
Derivative contract/notional amounts	<b>486,941</b>	–

	<b>At 31 December 2021</b>	
	<b>Financial instruments yet to transition to alternative benchmarks</b>	
	<b>USD LIBOR HK\$'m</b>	<b>Others* HK\$'m</b>
Non-derivative financial assets	183,073	23,227
Non-derivative financial liabilities	626	–
Derivative contract/notional amounts	501,140	–

\* Comprises financial instruments referencing other significant benchmark rates yet to transition to alternative benchmarks (GBP LIBOR and JPY LIBOR).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 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 2022				
	Banks HK\$'m	Official sector HK\$'m	Non-bank private sector		Total HK\$'m
			Non-bank financial institutions HK\$'m	Non-financial private sector HK\$'m	
Chinese Mainland	352,669	158,082	23,744	130,318	664,813
Hong Kong	9,424	4,340	53,478	382,439	449,681
Japan	24,069	196,461	1,933	1,782	224,245
United States	18,787	129,833	17,835	14,440	180,895

	At 31 December 2021				
	Banks HK\$'m	Official sector HK\$'m	Non-bank private sector		Total HK\$'m
			Non-bank financial institutions HK\$'m	Non-financial private sector HK\$'m	
Chinese Mainland	413,327	149,879	29,297	143,351	735,854
Hong Kong	30,507	3,341	50,196	379,250	463,294
Japan	18,517	172,186	1,475	2,340	194,518
United States	18,373	147,258	15,829	19,879	201,339

# 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 2022		
	Items in the HKMA return	On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total exposure HK\$'m
Central government, central government-owned entities and their subsidiaries and joint ventures	1	372,720	35,856	408,576
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	83,815	5,768	89,583
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	129,428	21,461	150,889
Other entities of central government not reported in item 1 above	4	27,147	2,027	29,174
Other entities of local governments not reported in item 2 above	5	1,203	23	1,226
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	75,090	6,524	81,614
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	1,964	–	1,964
Total	8	691,367	71,659	763,026
Total assets after provision	9	3,356,758		
On-balance sheet exposures as percentage of total assets	10	20.60%		

# NOTES TO THE INTERIM FINANCIAL INFORMATION

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

	Items in the HKMA return	At 31 December 2021		
		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	391,272	28,052	419,324
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	78,458	10,669	89,127
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	128,755	26,084	154,839
Other entities of central government not reported in item 1 above	4	28,200	1,333	29,533
Other entities of local governments not reported in item 2 above	5	1,001	7	1,008
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	74,082	12,916	86,998
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	3,713	–	3,713
<b>Total</b>	<b>8</b>	<b>705,481</b>	<b>79,061</b>	<b>784,542</b>
Total assets after provision	9	3,372,961		
On-balance sheet exposures as percentage of total assets	10	20.92%		

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 45. Compliance with HKAS 34

The unaudited interim financial information for the first half of 2022 complies with HKAS 34 “Interim Financial Reporting” issued by the HKICPA.

## 46. Statutory accounts

The financial information relating to the year ended 31 December 2021 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 2021 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.

# ADDITIONAL INFORMATION

## 1. Corporate information

### **Board of Directors**

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#### **Chairman**

LIU Liange<sup>#</sup>

#### **Vice Chairmen**

LIU Jin<sup>#</sup>

SUN Yu

#### **Directors**

LIN Jingzhen<sup>#</sup>

CHENG Eva\*

CHOI Koon Shum\*

FUNG Yuen Mei Anita\* (appointment effective from 3 March 2022)

KOH Beng Seng\*

LAW Yee Kwan Quinn\*

TUNG Savio Wai-Hok\*

<sup>#</sup> Non-executive Directors

\* Independent Non-executive Directors

### **Senior Management**

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#### **Chief Executive**

SUN Yu

#### **Chief Risk Officer**

JIANG Xin

#### **Deputy Chief Executives**

WANG Qi

YUAN Shu

#### **Chief Operating Officer**

ZHONG Xiangqun

#### **Deputy Chief Executives**

WANG Bing

KUNG YEUNG Ann Yun Chi (retirement effective from 1 August 2022)

#### **Chief Financial Officer**

LIU Chenggang (appointment effective from 8 March 2022)

SUI Yang (resignation effective from 26 January 2022)

#### **Deputy Chief Executive**

CHAN Man (appointment effective from 1 August 2022)

### **Company Secretary**

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LUO Nan

### **Registered Office**

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53rd Floor  
Bank of China Tower  
1 Garden Road  
Hong Kong

### **Auditor**

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PricewaterhouseCoopers  
Certified Public Accountants  
Registered Public Interest Entity Auditor

### **Share Registrar**

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

### **ADR Depositary Bank**

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Citibank, N.A.  
390 Greenwich Street  
4th Floor  
New York, NY 10013  
United States of America

### **Credit Ratings (Long Term)**

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Standard & Poor's	A+
Moody's Investors Service	Aa3
Fitch Ratings	A

### **Index Constituent**

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The Company is a constituent of the following indices:

Hang Seng Index Series  
Hang Seng Corporate Sustainability Index Series  
Hang Seng High Dividend Yield Index Series  
HSI ESG Index  
MSCI Index Series  
FTSE Index Series

### **Stock Codes**

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

Level 1 ADR Programme: CUSIP No.	096813209
OTC Symbol	BHKLY

### **Website**

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www.bochk.com

# ADDITIONAL INFORMATION

## 2. Interim dividend and closure of register of members

The Board has declared an interim dividend of HK\$0.447 per share (2021: HK\$0.447), payable on Friday, 30 September 2022 to shareholders whose names appear on the Register of Members of the Company on Thursday, 22 September 2022.

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to the interim dividend, from Monday, 19 September 2022 to Thursday, 22 September 2022 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the interim dividend, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Friday, 16 September 2022. Shares of the Company will be traded ex-dividend as from Thursday, 15 September 2022.

## 3. Interest of substantial shareholders

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 30 June 2022, the following parties had the following interests (as defined in the SFO) in the Company set opposite their respective names:

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

### Notes:

1. Following the reorganisation of BOC in August 2004, Central Huijin holds the controlling equity capital of BOC on behalf of the State. Accordingly, for the purpose of the SFO, Central Huijin is deemed to have the same interests in the Company as BOC.
2. BOC holds the entire issued shares of BOCHKG, which in turn holds the entire issued shares of BOC (BVI). Accordingly, BOC and BOCHKG are deemed to have the same interests in the Company as BOC (BVI) for the purpose of the SFO. BOC (BVI) beneficially held 6,984,175,056 shares of the Company.
3. BOC holds the entire issued shares of BOCI, which in turn holds the entire issued shares of BOCI Asia Limited and BOCI Financial Products Limited. Accordingly, BOC is deemed to have the same interests in the Company as BOCI Asia Limited and BOCI Financial Products Limited for the purpose of the SFO. BOCI Asia Limited had an interest in 24,479 shares of the Company and an interest in 72,000 shares held under physically settled equity derivatives while BOCI Financial Products Limited had an interest in 2,678 shares of the Company.

All the interests stated above represented long positions. Apart from the disclosure above, according to the register maintained by the Company pursuant to section 336 of the SFO, BOCI Financial Products Limited had an interest in 143,522 shares which represented short positions. BOC and Central Huijin are deemed to be interested in such number of shares for the purpose of the SFO. Save as disclosed, no other interests or short positions were recorded in the register maintained by the Company under section 336 of the SFO as at 30 June 2022.



# ADDITIONAL INFORMATION

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

As at 30 June 2022, the interests and short positions of the Directors, Chief Executive and their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") are set out below:

### The Company:

Name of Director	Number of shares/underlying shares held				Approximate % of the total issued shares
	Personal interests	Family interests	Corporate interests	Total	
TUNG Savio Wai-Hok	40,000 <sup>1</sup>	–	–	40,000	0.00% <sup>2</sup>

Notes:

- Mr TUNG Savio Wai-Hok held 2,000 American Depositary Shares ("ADS") of the Company, and each ADS represents 20 ordinary shares of the Company.
- Such shares represent approximately 0.0004% of the total issued shares of the Company.

### Associated corporation of the Company:

#### Bank of China Limited (H Shares)

Name of Director	Number of shares/underlying shares held				Approximate % of the total issued H shares
	Personal interests	Family interests	Corporate interests	Total	
SUN Yu	10,000	–	–	10,000	0.00% <sup>1</sup>
CHOI Koon Shum	4,000,000	40,000 <sup>2</sup>	1,120,000 <sup>3</sup>	5,160,000	0.01%
FUNG Yuen Mei Anita	550,000	–	–	550,000	0.00% <sup>4</sup>

Notes:

- Such shares held by Mr SUN Yu represent approximately 0.00001% of the total issued H shares of BOC.
- Such shares are held by the spouse of Dr CHOI Koon Shum.
- Dr CHOI Koon Shum is deemed to be interested in the 1,120,000 shares held through Choi Koon Shum Education Foundation Limited by virtue of the SFO.
- Such shares held by Madam FUNG Yuen Mei Anita represent approximately 0.0007% of the total issued H shares of BOC.

All the interests stated above represented long positions. Save as disclosed above, as at 30 June 2022, none of the Directors, Chief Executive or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

# ADDITIONAL INFORMATION

## 5. Changes of information in respect of Directors

In accordance with Rule 13.51B(1) of the Listing Rules, the changes in information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules after the publication of the Company's Annual Report 2021 on 29 March 2022 up to 30 August 2022 (being the approval date of this Interim Report) are set out below:

- (a) Mr SUN Yu, Vice Chairman and Chief Executive of the Company, ceased to be Director of Hong Kong Note Printing Limited with effect from 27 June 2022. Mr SUN has been appointed as Co-Chairman of Guangdong-HK-Macao Bay Area Entrepreneurs Union with effect from 22 June 2022, a member of advisory committee of Hong Kong Alliance of Technology and Innovation with effect from 15 July 2022 and a council member of Hong Kong Management Association with effect from 28 July 2022 respectively.
- (b) Mr LIN Jingzhen, Non-executive Director of the Company, ceased to be Chairman of BOC International (China) Co., Ltd with effect from 20 April 2022.
- (c) Madam FUNG Yuen Mei Anita, Independent Non-executive Director of the Company, ceased to be Non-executive Director of The Hong Kong Mortgage Corporation Limited with effect from 27 June 2022. Madam FUNG has been appointed as Director of M Plus Museum Limited with effect from 1 April 2022.

The biographies of Directors are available under the sub-section "Organisation – Board of Directors" of the section headed "About Us" on the Company's website at [www.bochk.com](http://www.bochk.com).

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

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

## 7. Audit Committee

The Audit Committee consists of Independent Non-executive Directors only. It is chaired by Mr TUNG Savio Wai-Hok. Other members include Madam CHENG Eva, Madam FUNG Yuen Mei Anita (appointed as an Independent Non-executive Director and a member of the Audit Committee with effect from 3 March 2022), Mr KOH Beng Seng and Mr LAW Yee Kwan Quinn.

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

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

# ADDITIONAL INFORMATION

## 8. Compliance with the “Corporate Governance Code”

The Company is committed to embracing and enhancing good corporate governance principles and practices. During the period under review, the Company has been in full compliance with all code provisions of the Corporate Governance Code as contained in Appendix 14 of the Listing Rules (the “Corporate Governance Code”). The Company has also complied with nearly all the recommended best practices set out in the Corporate Governance Code throughout the period. For further details, please refer to the section titled “Corporate Governance” contained in the Annual Report 2021 of the Company.

## 9. Compliance with the Codes for Securities Transactions by Directors

The Company has established and implemented the “Code for Securities Transactions by Directors” (the “Company’s Code”) to govern the Directors’ dealings in securities transactions of the Company. Terms of the Company’s Code are more stringent than the mandatory standards set out in the Model Code. Apart from the Directors’ dealings in the securities of the Company, the Company’s Code has also been applied to the Directors’ dealings in the securities of BOC and BOC Aviation Limited (BOC’s subsidiary) since their share listing on the Hong Kong Stock Exchange in June 2006 and June 2016 respectively as well as BOC International (China) Co, Ltd (BOC’s associate) since its share listing on the Shanghai Stock Exchange in February 2020. Upon specific enquiry by the Company, all Directors confirmed that they had strictly complied with the provisions as set out in both the Company’s Code and the Model Code throughout the period under review.

## 10. Compliance with the Banking (Disclosure) Rules and the Listing Rules

This unaudited Interim Report complies with the applicable requirements set out in the Banking (Disclosure) Rules under the Banking Ordinance and the applicable financial disclosure provisions of the Listing Rules.

## 11. Interim Report

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

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

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

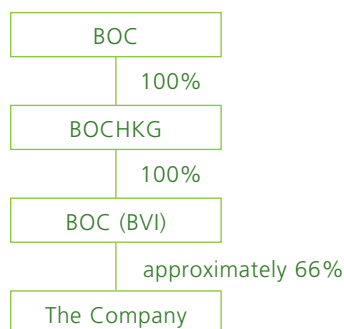
# ADDITIONAL INFORMATION

## 12. Reconciliation between HKFRSs vs IFRSs/CASs

The Company understands that BOC, an intermediate holding company as well as controlling shareholder of the Company, will prepare and disclose consolidated financial information in accordance with IFRSs and CASs for which the Company and its subsidiaries will form part of the interim financial information. The requirements of CASs have substantially converged with HKFRSs and IFRSs.

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

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



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

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

# ADDITIONAL INFORMATION

## 12. Reconciliation between HKFRSs vs IFRSs/CASs (continued)

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

### (a) Restatement of carrying value of bank premises

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

### (b) Deferred tax adjustments

These represent the deferred tax effect of the aforesaid adjustments.

### Profit after tax/net assets reconciliation

#### HKFRSs vs IFRSs/CASs

	Profit after tax		Net assets	
	Half-year ended 30 June 2022 HK\$'m	Half-year ended 30 June 2021 HK\$'m	At 30 June 2022 HK\$'m	At 31 December 2021 HK\$'m
<b>Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs</b>	<b>14,417</b>	13,591	<b>324,515</b>	327,461
Add: IFRSs/CASs adjustments				
Restatement of carrying value of bank premises	<b>447</b>	454	<b>(31,525)</b>	(31,786)
Deferred tax adjustments	<b>(252)</b>	(80)	<b>5,313</b>	5,534
<b>Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRSs/CASs</b>	<b>14,612</b>	13,965	<b>298,303</b>	301,209

## 13. Regulatory Disclosures

The Regulatory Disclosures, together with the disclosures in this Interim Report, contained all the disclosures required by the Banking (Disclosure) Rules and Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules issued by the HKMA. The Regulatory Disclosures is available under the section “Regulatory Disclosures” on BOCHK’s website at [www.bochk.com](http://www.bochk.com).

# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

## To the Board of Directors of BOC Hong Kong (Holdings) Limited

(incorporated in Hong Kong with limited liability)

### Introduction

We have reviewed the interim financial information set out on pages 41 to 117, which comprises the condensed consolidated balance sheet of BOC Hong Kong (Holdings) Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2022 and the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six-month period then ended, and notes, comprising significant accounting policies and other explanatory information. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

### PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 30 August 2022

# APPENDIX

## Subsidiaries of the Company

The particulars of subsidiaries are as follows:

Name	Place and date of incorporation/ operation	Issued share capital	Interest held	Principal activities
<b>Directly held:</b>				
Bank of China (Hong Kong) Limited	Hong Kong 16 October 1964	HK\$43,042,840,858	100.00%	Banking business
BOC Group Life Assurance Company Limited	Hong Kong 12 March 1997	HK\$3,538,000,000	51.00%	Life insurance business
BOCHK Asset Management (Cayman) Limited	Cayman Islands 7 October 2010	HK\$283,000,000	100.00%	Investment holding
BOC Insurance (International) Holdings Company Limited	Hong Kong 6 June 2017	HK\$100	100.00%	Investment holding
<b>Indirectly held:</b>				
BOC Credit Card (International) Limited	Hong Kong 9 September 1980	HK\$565,000,000	100.00%	Credit card services
BOC Group Trustee Company Limited	Hong Kong 1 December 1997	HK\$200,000,000	66.00%	Investment holding
BOCI-Prudential Trustee Limited	Hong Kong 11 October 1999	HK\$300,000,000	42.24%*	Trustee services
Bank of China (Malaysia) Berhad	Malaysia 14 April 2000	RM760,518,480	100.00%	Banking business
China Bridge (Malaysia) Sdn. Bhd.	Malaysia 24 April 2009	RM1,000,000	100.00%	China visa application
Bank of China (Thai) Public Company Limited	Thailand 1 April 2014	Baht10,000,000,000	100.00%	Banking business
Bank of China (Hong Kong) Nominees Limited	Hong Kong 1 October 1985	HK\$2	100.00%	Nominee services
Bank of China (Hong Kong) Trustees Limited	Hong Kong 6 November 1987	HK\$3,000,000	100.00%	Trustee and agency services
BOC Financial Services (Nanning) Company Limited**	PRC 19 February 2019	Registered capital HK\$60,000,000	100.00%	Financial operational services
BOCHK Information Technology (Shenzhen) Co., Ltd.**	PRC 16 April 1990	Registered capital HK\$70,000,000	100.00%	Property holding

## Subsidiaries of the Company (continued)

Name	Place and date of incorporation/ operation	Issued share capital	Interest held	Principal activities
BOCHK Information Technology Services (Shenzhen) Co., Ltd.**	PRC 26 May 1993	Registered capital HK\$40,000,000	100.00%	Information technology services
Po Sang Financial Investment Services Company Limited	Hong Kong 23 September 1980	HK\$335,000,000	100.00%	Gold trading and investment holding
Po Sang Securities Limited	Hong Kong 19 October 1993	HK\$335,000,000	100.00%	Securities brokerage
Sin Hua Trustee Limited	Hong Kong 27 October 1978	HK\$3,000,000	100.00%	Trustee services
Billion Express Development Inc.	British Virgin Islands 7 February 2014	US\$1	100.00%	Investment holding
Billion Orient Holdings Ltd.	British Virgin Islands 3 February 2014	US\$1	100.00%	Investment holding
Elite Bond Investments Ltd.	British Virgin Islands 7 February 2014	US\$1	100.00%	Investment holding
Express Capital Enterprise Inc.	British Virgin Islands 3 February 2014	US\$1	100.00%	Investment holding
Express Charm Holdings Corp.	British Virgin Islands 7 February 2014	US\$1	100.00%	Investment holding
Express Shine Assets Holdings Corp.	British Virgin Islands 3 January 2014	US\$1	100.00%	Investment holding
Express Talent Investment Ltd.	British Virgin Islands 13 February 2014	US\$1	100.00%	Investment holding
Gold Medal Capital Inc.	British Virgin Islands 3 January 2014	US\$1	100.00%	Investment holding
Gold Tap Enterprises Inc.	British Virgin Islands 13 February 2014	US\$1	100.00%	Investment holding
Maxi Success Holdings Ltd.	British Virgin Islands 7 February 2014	US\$1	100.00%	Investment holding
Smart Linkage Holdings Inc.	British Virgin Islands 13 February 2014	US\$1	100.00%	Investment holding
Smart Union Capital Investments Ltd.	British Virgin Islands 3 January 2014	US\$1	100.00%	Investment holding



# APPENDIX

## Subsidiaries of the Company (continued)

Name	Place and date of incorporation/operation	Issued share capital	Interest held	Principal activities
Success Trend Development Ltd.	British Virgin Islands 18 February 2014	US\$1	100.00%	Investment holding
Wise Key Enterprises Corp.	British Virgin Islands 18 February 2014	US\$1	100.00%	Investment holding
BOCHK Asset Management Limited	Hong Kong 28 October 2010	HK\$272,500,000	100.00%	Asset management
BOC Equity Investment Management (Shenzhen) Limited**	PRC 2 April 2019	Registered capital US\$5,000,000	100.00%	Asset management
Greater Bay Area Investment (GP) Limited	Hong Kong 4 February 2021	HK\$1	100.00%	Investment holding

\* BOCI-Prudential Trustee Limited is a subsidiary of a non-wholly-owned subsidiary of the Company and, accordingly, is accounted for as a subsidiary by virtue of the Company's control over it.

\*\* It is registered as limited liability company in the PRC.

# DEFINITIONS

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

Terms	Meanings
"ADR"	American Depositary Receipt
"ADS(s)"	American Depositary Share(s)
"ALCO"	the Asset and Liability Management Committee
"AT1"	Additional Tier 1
"ASEAN"	The Association of Southeast Asian Nations
"Associates"	has the meaning ascribed to "associates" in the Listing Rules
"BOC"	Bank of China Limited, a joint stock commercial bank with limited liability established under the laws of the PRC, the H shares and A shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively
"BOC (BVI)"	BOC Hong Kong (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of BOCHK
"BOCG Insurance"	Bank of China Group Insurance Company Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCHKG"	BOC Hong Kong (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCHK" or "the Bank"	Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of the Company
"BOCI"	BOC International Holdings Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCI-Prudential Trustee"	BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong, in which BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOC Life"	BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOCG Insurance hold equity interests of 51% and 49% respectively
"BOC Malaysia"	Bank of China (Malaysia) Berhad, a wholly-owned subsidiary of BOCHK
"BOC Thailand"	Bank of China (Thai) Public Company Limited, a wholly-owned subsidiary of BOCHK

# DEFINITIONS

Terms	Meanings
"Board" or "Board of Directors"	the Board of Directors of the Company
"CAS"	Chinese Accounting Standard for Business Enterprises
"CE"	Chief Executive
"CET1"	Common Equity Tier 1
"CFO"	Chief Financial Officer
"CIC"	China Investment Corporation
"CRO"	Chief Risk Officer
"CVA"	Credit Valuation Adjustment
"Central Huijin"	Central Huijin Investment Ltd.
"DCE"	Deputy Chief Executive
"DVA"	Debit Valuation Adjustment
"ECL"	Expected Credit Loss
"EVE"	Economic Value Sensitivity Ratio
"FCC"	the Financial Crime Compliance Department
"FIRB"	Foundation Internal Ratings-based
"Fitch"	Fitch Ratings
"FVOCI"	Fair value through other comprehensive income
"FVPL"	Fair value through profit or loss
"GDP"	Gross Domestic Product
"HIBOR"	Hong Kong Interbank Offered Rate
"HKAS"	Hong Kong Accounting Standard
"HKFRS"	Hong Kong Financial Reporting Standard
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HKMA"	Hong Kong Monetary Authority
"Hong Kong" or "Hong Kong SAR" or "HKSAR"	Hong Kong Special Administrative Region of the PRC
"IBOR reform"	Interest Rate Benchmark reform

# DEFINITIONS

Terms	Meanings
"ICAAP"	Internal Capital Adequacy Assessment Process
"IFRS"	International Financial Reporting Standard
"IMM"	Internal Models
"IT"	Information Technology
"LCO"	the Legal & Compliance and Operational Risk Management Department
"LCR"	Liquidity Coverage Ratio
"LIBOR"	London Interbank Offered Rate
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MC"	the Management Committee
"MCO"	Maximum Cumulative Cash Outflow
"MPF"	Mandatory Provident Fund
"Moody's"	Moody's Investors Service
"N/A"	Not applicable
"NII"	Net Interest Income Sensitivity Ratio
"NSFR"	Net Stable Funding Ratio
"ORSO schemes"	the Occupational Retirement Schemes under Occupational Retirement Schemes Ordinance, Chapter 426 of the Laws of Hong Kong
"OTC"	Over-the-counter
"PRC"	the People's Republic of China
"PVBP"	Price Value of a Basis Point
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"RMC"	the Risk Committee
"RMD"	the Risk Management Department
"RWA"	Risk-weighted Assets
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"SME"	Small and Medium-sized Enterprise
"STC"	Standardised (Credit Risk)

# DEFINITIONS

Terms	Meanings
"STM"	Standardised (Market Risk)
"STO"	Standardised (Operational Risk)
"Standard & Poor's"	Standard & Poor's Ratings Services
"Stock Exchange" or "Hong Kong Stock Exchange" or "Stock Exchange of Hong Kong"	The Stock Exchange of Hong Kong Limited
"the Company"	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong
"the Group"	the Company and its subsidiaries collectively referred as the Group
"US"	the United States of America
"VaR"	Value at Risk



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