

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
Advances to customers				
Pass	1,643,813	18,520	–	1,662,333
Special mention	3,953	6,135	–	10,088
Substandard or below	–	–	7,810	7,810
	1,647,766	24,655	7,810	1,680,231
Trade bills				
Pass	8,142	–	–	8,142
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	8,142	–	–	8,142
Advances to banks and other financial institutions				
Pass	550	–	–	550
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	550	–	–	550
	1,656,458	24,655	7,810	1,688,923

	At 30 June 2022			
	Stage 1 HK\$'m	Stage 2 HK\$'m	Stage 3 HK\$'m	Total HK\$'m
Impairment allowances				
Advances and other accounts at amortised cost	(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
Advances to customers				
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
Trade bills				
Pass	7,264	–	–	7,264
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	7,264	–	–	7,264
Advances to banks and other financial institutions				
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
Impairment allowances				
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
Impairment allowances				
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 ⁽ⁱ⁾	1,904	477	200	2,581
Reversal for the period ⁽ⁱⁱ⁾	(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
Impairment allowances				
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 ⁽ⁱ⁾	2,590	682	703	3,975
Reversal for the year ⁽ⁱⁱ⁾	(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	3,071	0.18%	3,024	0.19%
Impairment allowances made in respect of such advances – Stage 3	1,997		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
	1,681,050	1,599,084
Impairment allowances made in respect of the gross advances to customers – Stages 1 and 2		
Hong Kong	4,122	3,830
Chinese Mainland	475	715
Others	2,627	2,700
	7,224	7,245

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
	6,564	6,280
Impairment allowances made in respect of the overdue advances – Stage 3		
Hong Kong	979	741
Chinese Mainland	82	101
Others	1,345	1,173
	2,406	2,015

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
	7,810	4,321
Impairment allowances made in respect of the classified or impaired advances – Stage 3		
Hong Kong	1,978	1,111
Chinese Mainland	84	107
Others	1,795	1,414
	3,857	2,632

(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
Investment in securities at fair value through other comprehensive income		
– 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
	686,682	871,612
– Stage 2		
Lower than A3	178	208
– Stage 3	–	–
	686,860	871,820
Of which: impairment allowances	(243)	(288)
Investment in securities at amortised cost		
– 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
	306,745	216,521
– Stage 2		
Lower than A3	405	390
– Stage 3	–	–
	307,150	216,911
Impairment allowances	(144)	(99)
	307,006	216,812
Financial assets at fair value through profit or loss		
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
	37,252	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 exposures¹ 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	Malaysian 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						Total 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	Non-interest bearing HK\$'m	
Assets							
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
Total assets	1,882,843	362,876	292,511	406,690	160,290	515,924	3,621,134
Liabilities							
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
Total liabilities	1,966,828	296,122	238,596	6,394	313	788,366	3,296,619
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
Assets							
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
Total assets	1,848,229	510,482	223,667	369,204	201,288	486,560	3,639,430
Liabilities							
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
Total liabilities	2,088,560	302,623	119,008	6,278	395	795,105	3,311,969
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	163.65%	134.09%
– Second quarter	155.02%	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	125.22%	124.90%
– Second quarter	128.53%	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	
Assets								
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
Total assets	866,278	300,270	276,593	481,142	1,042,426	559,363	95,062	3,621,134
Liabilities								
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
Total liabilities	2,065,074	551,495	298,936	253,210	52,734	75,170	-	3,296,619
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	
Assets								
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
Total assets	871,237	268,954	421,005	434,917	962,449	586,798	94,070	3,639,430
Liabilities								
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
Total liabilities	2,135,662	614,979	309,274	130,561	50,934	70,559	-	3,311,969
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
Financial assets				
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
Financial liabilities				
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
Financial assets				
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
Financial liabilities				
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
Financial assets				
Investment in securities at amortised cost (Note 23)	307,006	292,233	216,812	219,917
Financial liabilities				
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
Interest income		
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
Interest expense		
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)
Net interest income	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
Fee and commission income		
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
	6,823	8,116
Fee and commission expense		
Credit card business	(612)	(639)
Insurance	(486)	(258)
Securities brokerage	(182)	(265)
Others	(399)	(297)
	(1,679)	(1,459)
Net fee and commission income	5,144	6,657
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)
	1,929	1,957
Trust and other fiduciary activities		
– Fee and commission income	441	476
– Fee and commission expense	(17)	(19)
	424	457

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
	8,958	2,354

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)
	(1,471)	96

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
	(2,048)	451

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
	432	503

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
Gross insurance benefits and claims and movement in liabilities		
Claims, benefits and surrenders paid	(11,684)	(9,296)
Movement in liabilities	(2,856)	(6,248)
	(14,540)	(15,544)
Reinsurers' share of benefits and claims and movement in liabilities		
Reinsurers' share of claims, benefits and surrenders paid	6,071	6,820
Reinsurers' share of movement in liabilities	(541)	(1,246)
	5,530	5,574
Net insurance benefits and claims and movement in liabilities	(9,010)	(9,970)

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)
	(1,726)	(1,197)
Investment in securities		
– At FVOCI	37	4
– At amortised cost	(43)	(8)
	(6)	(4)
Others	18	19
Net charge of impairment allowances	(1,714)	(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
	4,605	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
	589	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
	7,826	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:

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

17. Dividends

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

At a meeting held on 30 August 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
	165,524	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
	252,957	287,042
	436,822	465,558
Less: Impairment allowances		
– Stage 1	(48)	(23)
– Stage 2	–	–
– Stage 3	–	–
	436,774	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
	28,874	23,867
– Equity securities	24	23
– Fund	1	–
	28,899	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
	7,193	15,714
– Equity securities	3,639	2,857
– Fund	10,957	11,202
	21,789	29,773
Financial assets designated at fair value through profit or loss		
– Certificates of deposit	–	–
– Other debt securities	1,185	1,477
	1,185	1,477
Total securities	51,873	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	10,410	18,397
	62,283	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
	37,252	41,058
Equity securities		
– Listed in Hong Kong	3,139	2,234
– Listed outside Hong Kong	362	453
– Unlisted	162	193
	3,663	2,880
Fund		
– Listed in Hong Kong	1,357	1,469
– Listed outside Hong Kong	337	239
– Unlisted	9,264	9,494
	10,958	11,202
Total securities	51,873	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	51,873	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)
	1,833,447	38,977	(20,921)
Interest rate contracts			
Futures	99,881	12	–
Swaps	1,307,622	19,305	(14,897)
Options	–	–	–
	1,407,503	19,317	(14,897)
Commodity contracts	22,508	457	(261)
Equity contracts	863	22	(16)
	3,264,321	58,773	(36,095)
	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)
	1,846,353	23,370	(16,107)
Interest rate contracts			
Futures	2,220	1	(3)
Swaps	1,084,835	9,361	(13,321)
Options	567	–	–
	1,087,622	9,362	(13,324)
Commodity contracts	13,873	388	(265)
Equity contracts	1,470	66	(61)
	2,949,318	33,186	(29,757)

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
	1,678,660	1,597,194

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
	686,860	871,820
– Equity securities	5,201	5,601
	692,061	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
	307,150	216,911
Less: Impairment allowances		
– Stage 1	(140)	(96)
– Stage 2	(4)	(3)
– Stage 3	–	–
	307,006	216,812
	999,067	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
	686,860	871,820
Equity securities		
– Listed in Hong Kong	2,354	2,351
– Listed outside Hong Kong	366	455
– Unlisted	2,481	2,795
	5,201	5,601
	692,061	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
	307,006	216,812
	999,067	1,094,233
Market value of listed securities at amortised cost	215,268	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
	999,067	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	17,627	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	43,391	1,173	1,202	45,766
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	43,391	1,173	1,202	45,766
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
	43,391	7,047	2,559	52,997

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
Reposessed 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
	107,987	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	–
	26,465	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
	296,744	327,234
Savings deposits		
– Corporate	515,035	513,556
– Personal	669,662	680,538
	1,184,697	1,194,094
Time, call and notice deposits		
– Corporate	605,630	544,036
– Personal	313,538	265,791
	919,168	809,827
	2,400,609	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 ⁽ⁱ⁾	1,777	1,860
– Senior notes under the Medium Term Note Programme, with fair value hedge adjustment ⁽ⁱⁱ⁾	1,956	–
	3,733	2,423

(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
	138,008	83,041

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:

	At 30 June 2022 HK\$'m	At 31 December 2021 HK\$'m
Deferred tax assets	(417)	(192)
Deferred tax liabilities	4,457	5,799
	4,040	5,607

	At 30 June 2022 HK\$'m	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
	6,158	6,282

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

	Half-year ended 30 June 2022 HK\$'m	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	155,408	153,911

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

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

34. Other equity instruments

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

In September 2018, BOCHK issued USD3,000 million undated non-cumulative subordinated Additional Tier 1 capital securities. The capital securities are perpetual securities in respect of which there is no fixed redemption date and are not callable within the first 5 years. They have an initial rate of distribution of 5.90% per annum payable semi-annually which may be cancelled at the sole discretion of BOCHK. Dividend paid to other equity instrument holders in the first half of 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	(82,962)	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
	432,604	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.

	At 30 June 2022 HK\$'m	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
	743,164	772,946
Credit risk-weighted amount	76,687	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:

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

	At 30 June 2022 HK\$'m	At 31 December 2021 HK\$'m
Properties and equipment		
– Not later than one year	408	469
– One to two years	241	241
– Two to three years	85	103
– Three to four years	10	16
– Four to five years	2	5
	746	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
Half-year ended 30 June 2022								
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
Total operating income	7,703	8,745	8,191	9,686	2,708	37,033	(791)	36,242
Net insurance benefits and claims and movement in liabilities	–	–	–	(9,010)	–	(9,010)	–	(9,010)
Net operating income before impairment allowances	7,703	8,745	8,191	676	2,708	28,023	(791)	27,232
Net (charge)/reversal of impairment allowances	(111)	(1,590)	(2)	(17)	6	(1,714)	–	(1,714)
Net operating income	7,592	7,155	8,189	659	2,714	26,309	(791)	25,518
Operating expenses	(4,501)	(1,662)	(637)	(288)	(1,529)	(8,617)	791	(7,826)
Operating profit	3,091	5,493	7,552	371	1,185	17,692	–	17,692
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)
Profit before taxation	3,079	5,493	7,554	371	892	17,389	–	17,389
At 30 June 2022								
ASSETS								
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
LIABILITIES								
Segment liabilities	1,238,937	1,153,979	640,826	191,451	110,097	3,335,290	(38,671)	3,296,619
Half-year ended 30 June 2022								
Other information								
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
Half-year ended 30 June 2021								
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
Total operating income	8,177	8,635	5,748	10,737	2,610	35,907	(887)	35,020
Net insurance benefits and claims and movement in liabilities	–	–	–	(9,970)	–	(9,970)	–	(9,970)
Net operating income before impairment allowances	8,177	8,635	5,748	767	2,610	25,937	(887)	25,050
Net (charge)/reversal of impairment allowances	(67)	(346)	(11)	3	(761)	(1,182)	–	(1,182)
Net operating income	8,110	8,289	5,737	770	1,849	24,755	(887)	23,868
Operating expenses	(4,503)	(1,576)	(598)	(257)	(1,535)	(8,469)	887	(7,582)
Operating profit	3,607	6,713	5,139	513	314	16,286	–	16,286
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)
Profit before taxation	3,652	6,713	5,141	513	134	16,153	–	16,153
At 31 December 2021								
ASSETS								
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
LIABILITIES								
Segment liabilities	1,203,126	1,100,321	753,782	186,277	103,678	3,347,184	(35,215)	3,311,969
Half-year ended 30 June 2021								
Other information								
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:

	Half-year ended 30 June 2022 HK\$'m	Half-year ended 30 June 2021 HK\$'m
Salaries and other short-term employee benefits	17	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:

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

	At 31 December 2021	
	Financial instruments yet to transition to alternative benchmarks	
	USD LIBOR HK\$'m	Others* HK\$'m
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

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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%		

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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
Total	8	705,481	79,061	784,542
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.