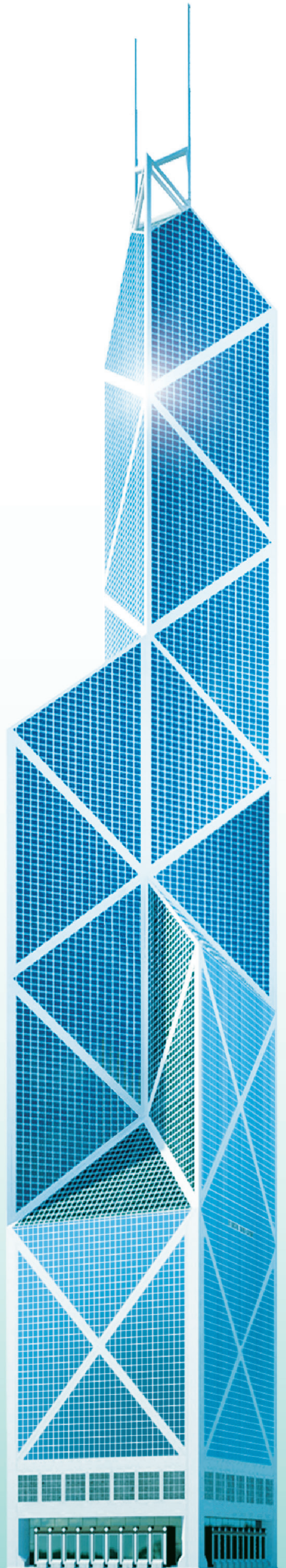
中銀香港(控股)有限公司
# BOC HONG KONG (HOLDINGS) LIMITED

Stock Codes: 2388 (HKD counter) and 82388 (RMB counter)


# Annual Report 2023

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



**BOC Hong Kong (Holdings) Limited** ("the Company") is one of the largest listed companies and commercial banking groups in Hong Kong, holding the entire equity interest of Bank of China (Hong Kong) Limited ("BOCHK"), its principal operating subsidiary. Bank of China ("BOC") established its foothold in Hong Kong in September 1917. Following the restructuring of the businesses of Bank of China Group's member banks in Hong Kong, the Company was incorporated in Hong Kong on 12 September 2001 and has been listed on the Main Board of the Stock Exchange of Hong Kong since 25 July 2002. Its stock codes are "2388" (HKD counter) and "82388" (RMB counter), and its ADR OTC Symbol is "BHKLY". BOC holds approximately 66.06% of the equity interest of the Company through BOC Hong Kong (BVI) Limited, an indirect wholly-owned subsidiary of BOC.

BOCHK is committed to promoting sustainable and high-quality development. Capitalising on our advantages as a major commercial banking group in Hong Kong, we continue to increase local market penetration, capture business opportunities in the Greater Bay Area and actively expand our business development in Southeast Asia. Adhering to our customer-centric philosophy, we explore every possibility to meet customers' needs. We elevate customer experience with new technology and strive to make green and sustainable development a reality. We provide customers with comprehensive, professional and high-quality services, connecting them with opportunities to achieve more.

As one of the three note-issuing banks and the sole clearing bank for Renminbi ("RMB") business in Hong Kong, BOCHK has strong market positions in all major businesses. Our strong RMB franchise has made us the first choice for customers in RMB business. Leveraging Hong Kong's most extensive branch network and diversified service platforms, as well as efficient e-channels such as internet and mobile banking services, we offer a comprehensive range of financial, investment and wealth management services to personal, corporate and institutional customers.

We are actively expanding our business in the Southeast Asian region. With our branches and subsidiaries in Malaysia, Thailand, Indonesia, Cambodia, Vietnam, the Philippines, Laos, Brunei and Myanmar, we support customers in the region with professional and high-quality financial services. Through close cooperation with our parent bank BOC, we provide a full range of high-quality cross-border services to multinationals, cross-border customers, mainland enterprises going global, central banks and super-sovereign organisations.

As a leading commercial and regional bank with deep roots in Hong Kong for over 100 years, BOCHK is committed to "serving where our roots are", undertaking our corporate social responsibilities and delivering greater value for our stakeholders and the community.

# Contents

# Financial Highlights

| | 2023 | 2022 |
|---|---|---|
| **For the year** | **HK$'m** | HK$'m |
| Net operating income before impairment allowances | **65,498** | 54,215 |
| Operating profit | **42,558** | 34,917 |
| Profit before taxation | **40,914** | 33,162 |
| Profit for the year | **34,857** | 27,230 |
| Profit attributable to equity holders of the Company and other equity instrument holders | **34,115** | 27,330 |
| **Per share** | **HK$** | HK$ |
| Basic earnings per share | **3.0950** | 2.4535 |
| Dividend per share | **1.672** | 1.357 |
| **At year-end** | **HK$'m** | HK$'m |
| Total assets | **3,868,783** | 3,666,505 |
| Issued and fully paid up share capital | **52,864** | 52,864 |
| Capital and reserves attributable to equity holders of the Company | **320,145** | 299,788 |
| **Financial ratios** | **%** | % |
| Return on average total assets[1] | **0.90** | 0.75 |
| Return on average shareholders' equity[2] | **10.60** | 8.50 |
| Cost to income ratio | **25.35** | 31.26 |
| Loan to deposit ratio[3] | **67.99** | 69.34 |
| Average value of liquidity coverage ratio[4] | | |
| First quarter | **189.68** | 159.16 |
| Second quarter | **188.89** | 149.49 |
| Third quarter | **193.47** | 149.00 |
| Fourth quarter | **207.12** | 178.49 |
| Quarter-end value of net stable funding ratio[4] | | |
| First quarter | **134.51** | 123.86 |
| Second quarter | **131.56** | 126.87 |
| Third quarter | **138.67** | 127.98 |
| Fourth quarter | **137.28** | 131.56 |
| Total capital ratio[5] | **21.18** | 21.52 |

1. Return on average total assets $= \dfrac{\text{Profit for the year}}{\text{Daily average balance of total assets}}$
2. Return on average shareholders' equity

   $= \dfrac{\text{Profit attributable to equity holders of the Company and other equity instrument holders}}{\text{Average of the beginning and ending balance of capital and reserves attributable to equity holders of the Company and other equity instruments}}$
3. Loan to deposit ratio is calculated as at year end. Loan represents gross advances to customers. Deposits from customers include structured deposits reported as "Financial liabilities at fair value through profit or loss".
4. Liquidity coverage ratio and net stable funding ratio are computed on the consolidated basis which comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Liquidity) Rules.
5. Total capital ratio is computed on the consolidated basis for regulatory purposes that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules.
6. On 1 January 2023, the Group adopted the requirements of HKFRS 17 "Insurance Contracts" retrospectively. The comparative information for the year 2022 has been restated accordingly.

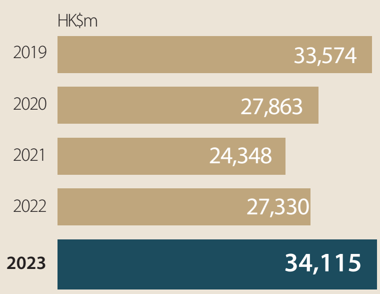
# Five-Year Financial Summary

The financial information of the Group for the last five years commencing from 1 January 2019 is summarised below:

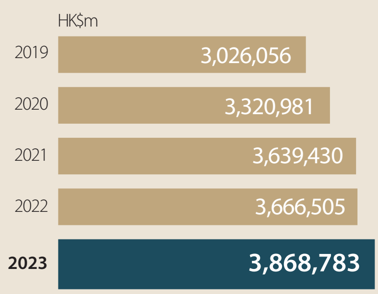
| | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|
| **For the year** | **HK$'m** | HK$'m | HK$'m | HK$'m | HK$'m |
| Net operating income before impairment allowances | **65,498** | 54,215 | 48,982 | 54,474 | 58,444 |
| Operating profit | **42,558** | 34,917 | 30,430 | 35,420 | 39,755 |
| Profit before taxation | **40,914** | 33,162 | 29,968 | 33,583 | 40,088 |
| Profit for the year | **34,857** | 27,230 | 24,999 | 28,468 | 34,074 |
| Profit attributable to equity holders of the Company and other equity instrument holders | **34,115** | 27,330 | 24,348 | 27,863 | 33,574 |
| **Per share** | **HK$** | HK$ | HK$ | HK$ | HK$ |
| Basic earnings per share | **3.0950** | 2.4535 | 2.1726 | 2.5052 | 3.0440 |
| **At year-end** | **HK$'m** | HK$'m | HK$'m | HK$'m | HK$'m |
| Advances and other accounts | **1,693,144** | 1,644,113 | 1,597,194 | 1,500,416 | 1,412,961 |
| Total assets | **3,868,783** | 3,666,505 | 3,639,430 | 3,320,981 | 3,026,056 |
| Daily average balance of total assets | **3,863,272** | 3,636,500 | 3,589,259 | 3,295,060 | 2,971,200 |
| Deposits from customers[1] | **2,503,841** | 2,377,207 | 2,331,155 | 2,183,709 | 2,009,273 |
| Total liabilities | **3,545,354** | 3,340,670 | 3,311,969 | 3,001,326 | 2,718,564 |
| Issued and fully paid up share capital | **52,864** | 52,864 | 52,864 | 52,864 | 52,864 |
| Capital and reserves attributable to equity holders of the Company | **320,145** | 299,788 | 297,999 | 290,302 | 278,783 |
| **Financial ratios** | **%** | % | % | % | % |
| Return on average total assets | **0.90** | 0.75 | 0.70 | 0.86 | 1.15 |
| Cost to income ratio | **25.35** | 31.26 | 33.50 | 30.01 | 28.52 |
| Loan to deposit ratio | **67.99** | 69.34 | 68.60 | 68.59 | 69.47 |

1. Deposits from customers include structured deposits reported as "Financial liabilities at fair value through profit or loss".
2. On 1 January 2023, the Group adopted the requirements of HKFRS 17 "Insurance Contracts" retrospectively. The comparative information for the year 2022 has been restated accordingly.

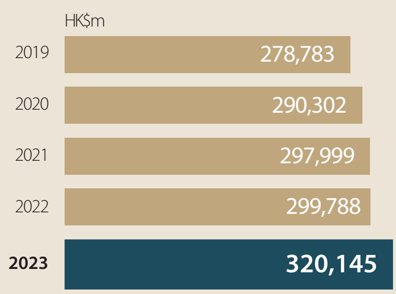
**Profit attributable to equity holders of the Company and other equity instrument holders**




**Total assets**




**Capital and reserves attributable to equity holders of the Company**



# Digital Finance
# Empowering Innovation

# Message from the Chairman

In 2023, BOCHK proactively performed its pivotal role in BOC Group's globalisation efforts, actively served the country's higher-level opening up, and fully supported Hong Kong in consolidating and enhancing its status as an international financial centre. By seizing opportunities, promoting innovation and focusing on services, we continuously strengthened the foundations of our high-quality development, reinforced and expanded our distinctive advantages, firmly guarded against risks, recorded solid annual performance in operations, and created value for all stakeholders.

BOCHK reported its highest operating profits since its initial public offering. Our core businesses outperformed the market and financial indicators remained robust. Customer loans increased by 3.3% to HK$1,702,302 million, while customer deposits grew by 5.3% to HK$2,503,841 million. Both surpassed market average growth rates. We achieved an after-tax profit for the year of HK$34,857 million, representing year-on-year growth of 28%. The Board has recommended a final dividend of HK$1.145 per share, which, along with the interim dividend, took our annual dividend to HK$1.672 per share, representing growth of 23.2% year-on-year. Our dividend payout ratio increased by 1 percentage point to 54%. These hard-earned results are attributable to the collective efforts of the Board, management and all colleagues, and reflect the long-term trust and support we enjoy from various sectors of society.

**We actively served the country's high-level opening up and contributed to the establishment of the new "dual circulation" development pattern.** We deepened our participation in Belt and Road cooperation and China-ASEAN economic and trade collaboration, provided a suite of global financial services for Chinese enterprises' "Going Global" initiatives and facilitated the integrative development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA). The quality and scale of our leading products, such as GBA Account Opening, Cross-Boundary Wealth Management Connect and GBA mortgage loans, were enhanced. We also improved the convenience of financial services for GBA residents, such as cross-border payment and cross-border consumption, and achieved significant growth in the number of cross-border individual customers and cross-border income. As the regional headquarters of its Southeast Asian business, BOCHK continued to leverage its advantages in corporate governance and capital resources to strengthen regional management and enhance its intensive operations in Southeast Asia, as well as exploring the implementation of a collaborative mechanism with Asia-Pacific institutions to boost the joint development of its regional business. We supported the steady and prudent promotion of RMB internationalisation and proactively participated in developing the offshore RMB market and enhancing financial market connectivity, while continuously expanding the scope of RMB usage and pioneering new application scenarios. Our market leadership in businesses such as Bond Connect, Stock Connect and Swap Connect was maintained. In addition, we supported the Hong Kong Stock Exchange in launching the HKD-RMB Dual Counter Model, becoming one of the first batch of dual-listed securities. The Phnom Penh Branch was authorised to serve as an RMB clearing bank in Cambodia, while BOCHK, BOC Malaysia and the Manila Branch all reported continued growth in RMB clearing volumes.

**We remained fully committed to serving the economic and social development of Hong Kong, helping to enhance growth momentum and addressing people's concerns and livelihood challenges**. Focusing on key areas, we strengthened our products and services, boosted market competitiveness and achieved a leading market position in featured businesses such as syndicated loans, IPO main receiving bank services, cash pooling and RMB business. We deepened cooperation with local enterprises in areas such as investment and financing, treasury management and cross-border business, and played an active role in the development of the Northern Metropolis. We pushed forward the transformation of our retail business and improved the quality and efficiency of our wealth management, insurance and asset management businesses. To support the construction of Hong Kong's International Innovation and Technology Centre, we enhanced cooperation with industrial parks, provided financial services to innovative technology enterprises and launched the Innovation & Technology and Talent Financing Incentive Scheme for new-tech and high-tech companies. We also continued to sponsor the BOCHK Science and Technology Innovation Prize, successfully organised the BOCHK Challenge and supported Hong Kong FinTech Week. To help build Hong Kong's status as an East-meets-West Centre for international cultural exchange, we served as a strategic partner of the Hong Kong Palace Museum for a series of cultural and artistic activities that benefitted different communities. We remained committed to serving the real economy and vigorously developed inclusive finance while continuing to cooperate with the HKSAR Government to implement the SME Financing Guarantee Scheme and participate in the HKMA's Pre-approved Principal Payment Holiday Scheme. We further enhanced our advantages in residential mortgage business, maintaining a leading market share. In addition, we stepped up efforts to support charitable activities and public welfare by deeply engaging in poverty alleviation, helping disadvantaged people and promoting youth development. We sponsored significant events such as Hong Kong Tree Planting Day and the Hong Kong-Zhuhai-Macao Bridge (Hong Kong Section) Half Marathon, and were honoured with the "Outstanding Corporate" award from the HKSAR Government at the Hong Kong Volunteer Award 2023.

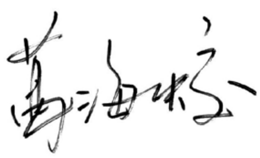
**We proactively promoted digital transformation as well as green and sustainable development, enhancing the quality and efficiency of our services.** Actively integrating into the next wave of the digital economy, we strengthened our technological infrastructure, embraced technological empowerment, accelerated the integration and innovation of our financial products and improved operational efficiency and service levels. We optimised our home purchase, education and health ecosystems, expanded the range of smart mobility and cross-border consumption scenarios via BoC Pay, and advanced the development of billing services via BoC Bill. The functionalities of our mobile banking and intelligent Global Transaction Banking (iGTB) platforms were enriched, and our online approval and transaction capabilities were refined. Reinforcing our focus on the research, development and promotion of digital currencies, we engaged in a cross-border e-CNY pilot, the mBridge project and the HKMA's e-HKD Pilot Programme. We promoted automated and intensive operations and elevated our smart risk management and fraud prevention capabilities. While thoroughly implementing the national sustainable development strategy and actively supporting the HKSAR Government's green development plans, we confirmed our goal of carbon neutrality in operations by 2030 as well as our implementation roadmap, and released our first Task Force on Climate-related Financial Disclosure ("TCFD") report. Consistent efforts were devoted to innovating a diverse range of green financial products and services, including loans, bonds and funds. We assisted the HKSAR Government in issuing the world's first government-issued tokenised green bonds, launched the "BOCHK Greater Bay Area Climate Transition ETF" and completed our first green RMB reverse repo transaction. In addition, we were once again awarded "Market Leader for ESG in Hong Kong" by *EuroMoney* and "Asia-Pacific Climate Leader 2023" by *The Financial Times*.

**We steadfastly balanced development and security while establishing a robust risk bottom line.** We continued to deepen the construction of our comprehensive risk management system, strengthened risk prevention and control at source, and effectively guarded against both conventional and unconventional risks. We boosted our risk prevention and control capabilities in terms of foresight, responsiveness and disposal, and firmly upheld the bottom line of preventing systemic risks. Our capital and liquidity ratios remained sufficient, and our asset quality continued to outperform Hong Kong banking industry averages. We were recognised as "The Strongest Bank in Hong Kong and Asia Pacific" for the fourth consecutive year by *The Asian Banker,* and once again named "Bank of the Year in Hong Kong" by British publication *The Banker*.

In 2023, Mr KOH Beng Seng and Mr TUNG Savio Wai-Hok retired from the Board, while Mr LIP Sai Wo and Prof MA Si Hang Frederick were appointed as independent non-executive directors. On behalf of the Board, I would like to express my heartfelt gratitude to Mr KOH Beng Seng and Mr TUNG Savio Wai-Hok for their outstanding contributions to

BOCHK over the past 18 years, and extend a warm welcome to Mr LIP Sai Wo and Prof MA Si Hang Frederick to join the Board.

2024 marks the 75th anniversary of the founding of the People's Republic of China. With strong backing from the central government, Hong Kong will continue to gather fresh momentum and consolidate its unique advantages and position as it advances from stability to prosperity. At the same time, Hong Kong's banking sector will embrace the vast array of development opportunities and record further accomplishments on the journey towards building the country into a financial powerhouse while consolidating and boosting Hong Kong's status as an international financial centre. Standing united and adopting a pragmatic approach, BOCHK will play a more proactive role in serving the development priorities of both the nation and Hong Kong, and establish itself as a bridgehead for BOC Group's globalisation strategy, a leader in integrated service development, and a driving force for digital transformation. We will comprehensively reinforce our "bottom line" in risk control and prevention, further increase our market competitiveness and deliver even more outstanding results to reward our shareholders, investors and all sectors of society for their trust and support. As we write new chapters in our high-quality development story, we will continue to serve China's journey towards modernisation and becoming a financial powerhouse, while making greater contributions to the excellent practice of "One Country, Two Systems" and the long-term prosperity and stability of Hong Kong.



**GE Haijiao**
Chairman

# Message from the Chief Executive

In 2023, Hong Kong's economy rebounded as travel to and from the Chinese mainland and other parts of the world returned to normal. At the same time, however, central banks across the world continued to tighten their monetary policies. This, alongside geopolitical tensions and other factors, rendered the operating environment more complex and severe. Following the plans of the Board of Directors, we devoted unwavering efforts to driving high-quality development, and satisfactorily completed various initiatives. Through these endeavours, we achieved market leadership in our major businesses, maintained robust financial and risk indicators, sharpened market competitiveness and strengthened our influence in society. During the year, we received numerous honours and awards, including "Bank of the Year in Hong Kong" from *The Banker*, "The Strongest Bank in Hong Kong and Asia Pacific" for the fourth consecutive year from *The Asian Banker*, and "Best Renminbi Bank" in Hong Kong from *The Asset*.

**We steadily improved our operational efficiency and achieved notable growth in profitability during the year.** As at the end of 2023, the Group's total assets increased by 5.5% from the previous year-end to HK$3,868,783 million. Total deposits from customers and total advances to customers grew to HK$2,503,841 million and HK$1,702,302 million respectively, up 5.3% and 3.3% from the end of 2022, outpacing the prevailing market growth rates. The Group's operating income and operating profit both reached record highs, with net operating income before impairment allowances and profit for the year amounting to HK$65,498 million and HK$34,857 million respectively in 2023, up 20.8% and 28.0% year-on-year. The Group's financial and risk indicators stayed solid, with its total capital ratio and Tier 1 capital ratio remaining above the market average. Our liquidity indicators remained at a stable level, with the liquidity coverage ratio ("LCR") and net stable funding ratio ("NSFR") exceeding regulatory requirements. The Group's asset quality surpassed the market average, with the classified or impaired loan ratio standing at 1.05%. The cost to income ratio for the year was 25.35%, remaining below the market average.

**Our businesses outperformed market peers and our core strengths were continually enhanced.** Giving full play to our pivotal role in Bank of China Group's globalised operations, we continued to lead the financial industry in serving the country's high-level opening up. The Group remained the top mandated arranger in the Hong Kong and Macao syndicated loan market for the 19th consecutive year, ranked first in IPO main receiving bank business, and maintained its leading position in cash pooling business. We steadily enhanced the capacity of our custody and trust services, and led the market in the total number of new residential mortgage loans. We fully supported Hong Kong in consolidating its position as a global offshore RMB business hub by facilitating the launch of Swap Connect. In light of the HKD-RMB Dual Counter Model introduced by Hong Kong Exchanges and Clearing Limited, we further enriched our RMB products. The Group also played an active part in the construction of RMB internationalisation infrastructure. The Phnom Penh Branch was authorised by the People's Bank of China as the RMB clearing bank in Cambodia, while our Southeast Asian entities including BOC Thailand, Jakarta Branch and Vientiane Branch qualified as direct participating banks of the Cross-border Interbank Payment System ("CIPS").

**We reinforced our core local businesses, expanded cross-border business in the Greater Bay Area ("GBA"), and grasped development opportunities in Southeast Asia.** The Group actively responded to Hong Kong's economic development needs by increasing financial support to meet the financing demands of local commercial and SME customers. We continued to support the HKSAR Government in implementing the SME Financing Guarantee Scheme, and responded to the HKSAR Government's policy to encourage the development of family offices by becoming one of the first institutions to join the Network of Family Office Service Providers. In line with national strategies, we served customer demand for cross-border financial services in the GBA and launched cross-border financial service solutions to help enterprises capture GBA development opportunities. The Group also continued to enhance its two-way service capacity for Cross-boundary Wealth Management Connect, witnessing a notable surge in the number of two-way accounts opened and the total volume of funds transferred. We played an active role in the Belt and Road cooperation and devoted ourselves to regional development. As at the end of 2023, total advances to customers of our Southeast Asian entities amounted to HK$54,045 million, up 4.6% from the end of 2022 (excluding the impact of foreign exchange rates), demonstrating our strong financial support to the Belt and Road initiative. In 2023, our Southeast Asian entities registered year-on-year growth of 39.1% in net operating income before impairment allowances (excluding the impact of foreign exchange rates).

**We advanced our digital transformation to become a digital-driven bank.** We continuously pursued a deeper integration of business and technology, and leveraged technology empowerment to bolster our core business development and improve customer experience. We have designed and piloted a set of industry-leading digital performance metrics to drive quantitative measurement of digitalisation outcomes. The Group actively participated in digital currency initiatives, including the e-CNY cross-boundary pilot and the e-HKD Pilot Programme, and continued to drive the intelligent centralisation of its operations.

**We responded to social development needs by implementing an ESG philosophy.** We actively pushed forward sustainable development by offering an expanded and enhanced range of green and sustainable financial products and services, to support enterprises' low-carbon transition goals and encourage a shift towards low-carbon living across society. As at the end of 2023, the total balance of green and sustainability-linked loans increased by 86.9% from the prior year-end. During the year, the Group achieved a series of significant milestones, such as serving as a joint global coordinator for the HKSAR Government's issuance of a tokenised green bond, launching the first exchange-traded fund ("ETF") in the Hong Kong market to track an ESG index with investments in the GBA (the "BOCHK Greater Bay Area Climate Transition ETF"), completing BOCHK's first sustainability-linked aircraft financing, and executing the first green RMB reverse repo transaction. As the first Chinese bank outside of the mainland to commit to carbon neutrality in operations, we announced our goal of achieving carbon neutrality by 2030, along with detailed objectives for green operations by 2025. Our efforts in sustainability were widely recognised. During the year, we were granted 40 ESG and CSR related awards, including "Market Leader for CSR in Hong Kong" and "Market Leader for ESG in Hong Kong" from *Euromoney*, and "Asia-Pacific Climate Leader 2023" from *The Financial Times*.

**We strengthened our comprehensive risk management system and built a robust defence against risks.** Taking a risk "bottom-line" mindset as the foundation of our business development, we made consistent efforts to prevent and mitigate operating risks. The Group further improved asset quality management mechanisms and intensified control over the centralisation of loans to high-risk industries as well as customer onboarding. Making agile response to the challenges imposed by a complex and changeable market environment, we properly managed market, interest rate and liquidity risks, keeping our major indicators at a safe and sound level. We adopted a prudent approach to managing our money laundering risk, revamping our institutional money laundering risk assessment model and adopting regulatory technology solutions in our transaction screening process, to advance our anti-money laundering risk management capability and automation level. We enhanced our capabilities in intelligent risk control, strengthened the use of new data analysis tools to boost automated credit analysis reporting, and explored the establishment of BOCHK Intelligent Credit Risk Control Centre.

**We actively undertook our social responsibilities and promoted the prosperity and stability of Hong Kong.** We showed our care for grassroots communities by supporting community development in various forms. During the year, we carried out more than 80 charity projects, including serving as title sponsor of the BOCHK Science and Technology Innovation Prize for the second time and as title sponsor of the inaugural Bank of China (Hong Kong) Hong Kong-Zhuhai-Macao Bridge (HK Section) Half Marathon, as well as exclusively sponsoring the special exhibition "Gazing at Sanxingdui: New Archaeological Discoveries in Sichuan" held at the Hong Kong Palace Museum. We leveraged our advantages to promote youth development, providing over 1,600 internships and jobs for local university graduates and young people throughout the year. The Group fully supported the HKSAR Government's "Strive and Rise Programme" and was awarded the programme's first "Strategic Partner Award (Vice-chair Organisation)". We held a "Volunteer Week" featuring a rich and diverse array of activities and organised over 140 volunteer engagements throughout the year, accumulating over 23,000 hours of service. At the Hong Kong Volunteer Award 2023 organised by the HKSAR Government, BOCHK was honoured with awards for "Outstanding Corporate" and "Top Ten Highest Volunteer Hours".

Looking ahead to 2024, even though the global economic environment remains relatively complex, rising geopolitical tensions are impacting international capital flows and trade patterns, market confidence in further economic recovery is in need of shoring up, and the banking industry faces certain difficulties in terms of comprehensive risk management, we undoubtedly see more opportunities than challenges. The further promotion of RMB internationalisation, the ongoing development of the GBA and the expansion of mutual financial market access between the Chinese mainland and Hong Kong, as outlined in the National 14th Five-Year Plan, together with other favourable factors such as the enactment of the Regional Comprehensive Economic Partnership, will create plenty of development opportunities for Hong Kong's banking industry.

Finally, we would like to take this opportunity to report on changes in the Group's senior management since 2023. The Group appointed Mr XING Guiwei, Mr WANG Huabin and Mdm LI Tong to the position of Deputy Chief Executive. Mdm JIANG Xin resigned as Chief Risk Officer of the Group due to a change of job, while Mr XU Haifeng took up the position of Deputy Chief Executive and Chief Risk Officer. On behalf of all colleagues at the Bank, we would like to extend our warm welcome to Mr XING Guiwei, Mr WANG Huabin and Mdm LI Tong, three highly experienced professionals, as they join the Group's management team, and express our sincere thanks to Mdm JIANG Xin for her valuable contributions to BOCHK's development.

Going forward, with the solid brand foundation and market competitiveness we have built and honed in Hong Kong over more than 100 years, as well as support from all sectors of society and the collective efforts of every BOCHK colleague, we will continue to strengthen our strategy implementation, create strong impetus for growth, and forge ahead with courage and determination in our steadfast efforts to create greater value for all stakeholders.

**SUN Yu**
Vice Chairman & Chief Executive

# Cross-border Finance
# Connecting Opportunity

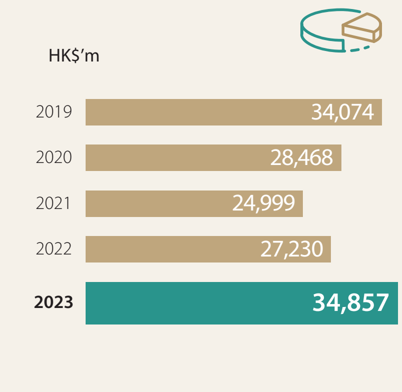
# Management Discussion and Analysis

## Financial Performance and Conditions at a Glance

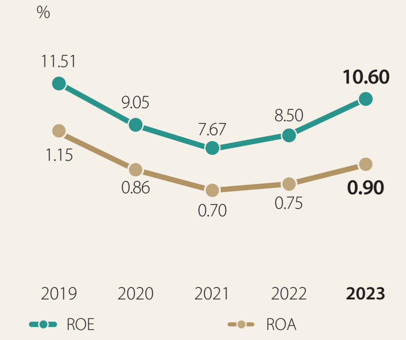
The Group has adopted Hong Kong Financial Reporting Standard ("HKFRS") 17, "Insurance Contracts", effective from 1 January 2023. The requirements of HKFRS 17 have been applied retrospectively, with comparative information restated for the financial year of 2022 (previously published under HKFRS 4).

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

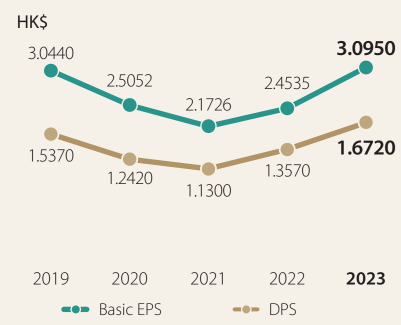
**Profit for the Year**




**Return on Average Shareholders' Equity[1] ("ROE") and Return on Average Total Assets[1] ("ROA")**



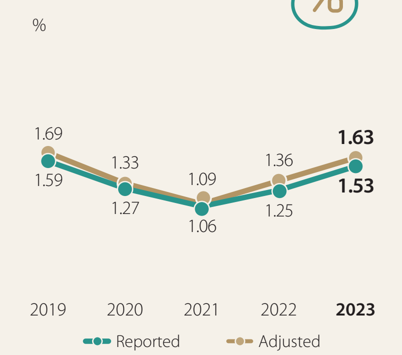

**Basic Earnings Per Share ("Basic EPS") and Dividend Per Share ("DPS")**



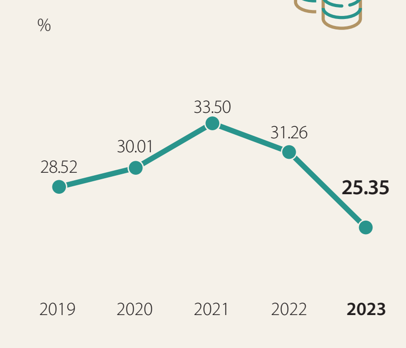

**Profit for the year recorded steady growth**

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

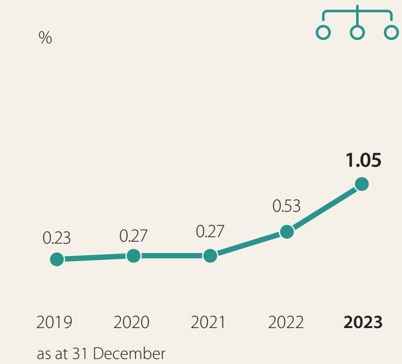
**Net Interest Margin ("NIM")**




**Cost to Income Ratio**




**Classified or Impaired Loan Ratio[2]**




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

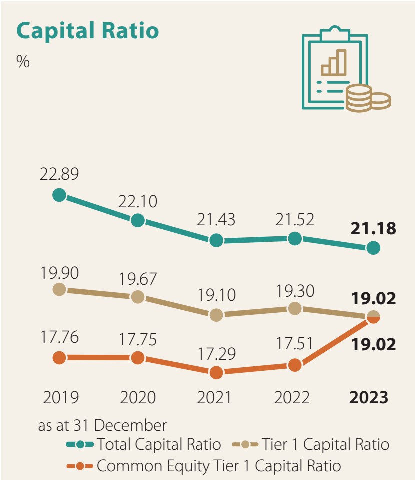
- NIM was 1.53%. If the funding income or cost of foreign currency swap contracts[3] were included, NIM would have been 1.63%, up 27 basis points year-on-year. This was primarily due to the Group's efforts to seize opportunities from rising market interest rates while proactively managing its assets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

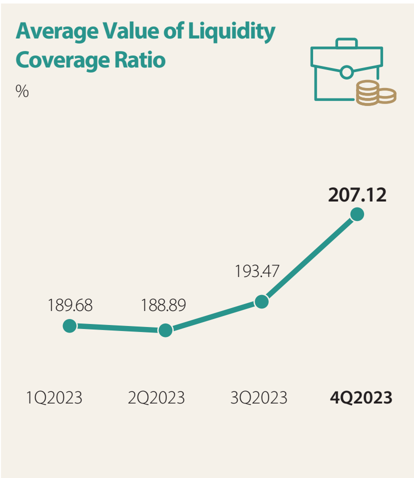
**Continuously enhancing operational efficiency by optimising resource allocation**

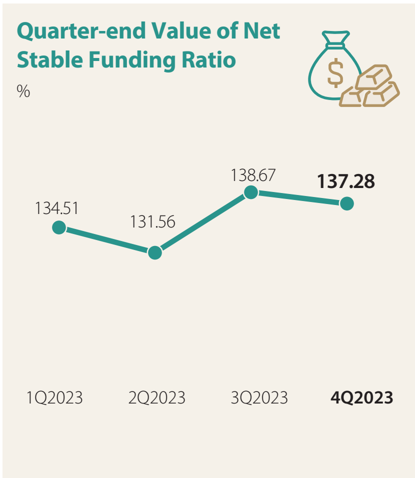
- Operating expenses decreased by 2.0% year-on-year, while net operating income before impairment allowances grew by 20.8% compared to last year. As a result, cost to income ratio improved by 5.91 percentage points year-on-year to 25.35%, remaining at a satisfactory level compared to industry peers.

**Maintaining benign asset quality through enhanced risk management**

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




**Prudently managed risk assets and continued to improve capital management**

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

**Liquidity remained ample**

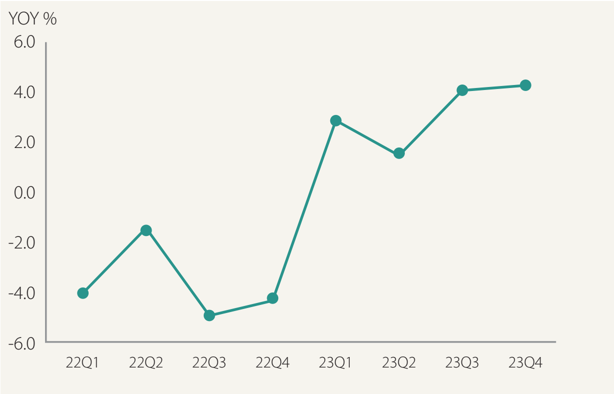
- The average value of the Group's liquidity coverage ratio and the quarter-end value of its net stable funding ratio in each quarter of 2023 met regulatory requirements.

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

## Economic Background and Operating Environment

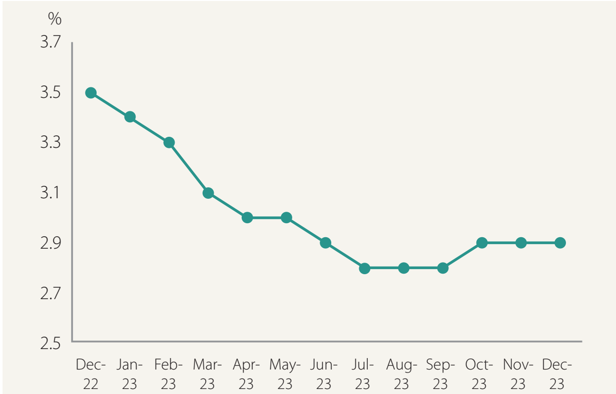
In 2023, global economic growth slowed as the operating environment grew increasingly complex and challenging amid uncertainties stemming from elevated interest rates and geopolitical risks. The US economy remained resilient. Headline US inflation rates eased in comparison to 2022, but remained at a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

**Hong Kong GDP Growth Rate**




Source: HKSAR Census and Statistics Department

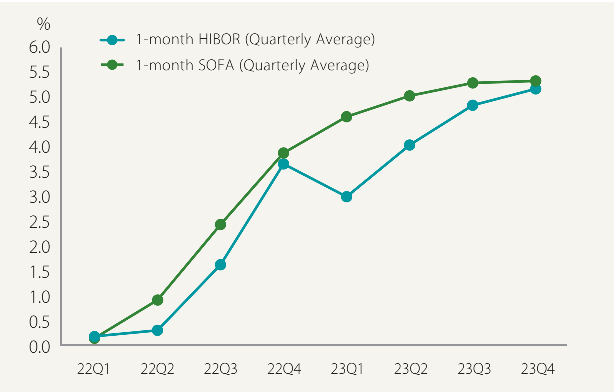
**Hong Kong Unemployment Rate**




Source: HKSAR Census and Statistics Department

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

**HIBOR and SOFA**




Source: Bloomberg

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

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

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

## Consolidated Financial Review

### Financial Highlights

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

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

**Second Half Performance**

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

## Income Statement Analysis

**Net Interest Income and Net Interest Margin**

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

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

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

**Second Half Performance**

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

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

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

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

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

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

### Net Fee and Commission Income

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

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

### Second Half Performance

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

### Net Trading Gain

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

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

### Second Half Performance

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

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

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

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

### Second Half Performance

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

**Operating Expenses**

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

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

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

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

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

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

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

**Second Half Performance**

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

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

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

**Total Loan Impairment Allowances as a Percentage of Advances to Customers**

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

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

**Second Half Performance**

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

## Analysis of Assets and Liabilities

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

**Asset Composition**

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

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

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

### Advances to Customers

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

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

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

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

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

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

**Loan Quality**

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

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

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

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

**Deposits from Customers***

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

* Including structured deposits

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

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

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

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

**Capital Ratio***

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

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

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

**Liquidity Coverage Ratio and Net Stable Funding Ratio**

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

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

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

# Business Review

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

## Business Segment Performance

**Profit/(Loss) before Taxation by Business Segment**

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

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

# Personal Banking

## Financial Results

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

## Business Operations

**Enriching green finance products and services and boosting sustainable development**

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

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

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

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

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

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

**Seizing cross-border market opportunities and developing RMB business**

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

**Improving regional brand development and enhancing service capabilities in Southeast Asia**

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

# Corporate Banking

## Financial Results

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

## Business Operations

**Refining integrated product and service capabilities to constantly sharpen business advantages**

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

**Giving full play to synergistic advantages and further expanding regional business**

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

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

**Promoting inclusive finance and strengthening support for commercial and SME customers**

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

**Cultivating sustainable development concepts and advancing green finance development**

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

**Steadily developing custody and trust business**

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

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

# Treasury

## Financial Results

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

## Business Operations

**Continuously enhancing trading capability and steadily promoting global markets business**

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

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

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

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

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

# Insurance

## Financial results

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

## Business Operations

**Constantly enriching multi-channel strategies to capture business opportunities**

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

**Proactively cultivating sustainable development to achieve mutual gain**

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

## Southeast Asian business

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

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

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

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

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

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

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

## Digital Transformation

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

**Developing ecological, open and scenario-based banking services**

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

**Promoting integrated products and services**

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

**Providing a seamless process experience**

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

**Deepening technological empowerment to enhance operational efficiency**

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

**Building an innovative culture and cultivating digital-savvy talent**

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

## Outlook and Business Focus for 2024

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

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

## Credit Ratings

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

# RISK MANAGEMENT

## Banking Group

### Overview

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

### Credit risk management

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

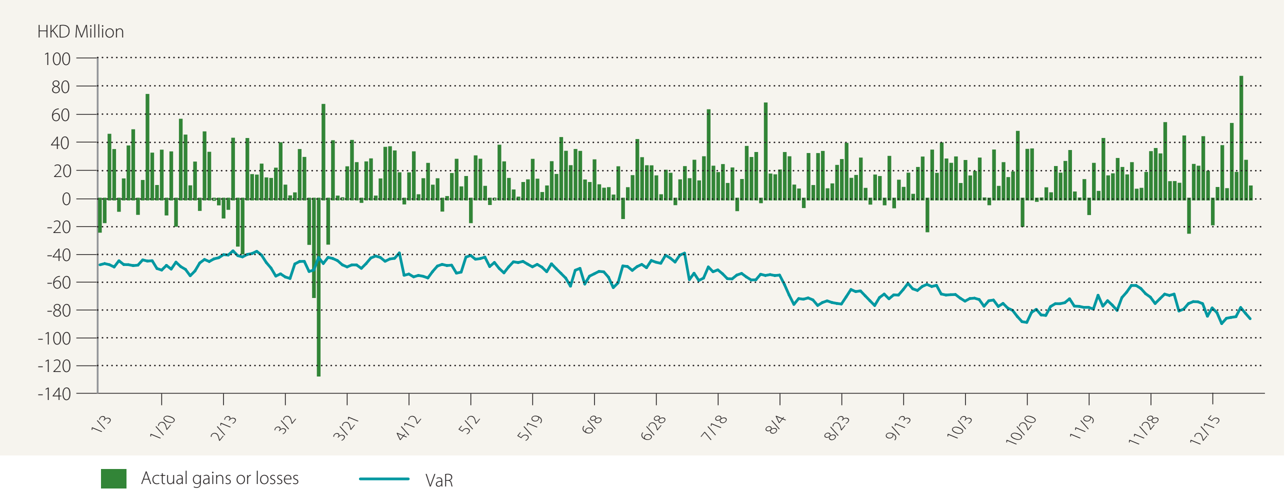
### Market risk management

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

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

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

**Daily Back-testing in 2023**




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

**Interest rate risk management**

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

**Liquidity risk management**

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

**Operational risk management**

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

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

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

**Reputation risk management**

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

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

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

**Legal and compliance risk management**

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

**Strategic risk management**

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

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

**Capital management**

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

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

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

### Stress testing

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

## BOC Life

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

### Insurance risk management

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

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

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

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

### Interest rate risk management

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

**Liquidity risk management**

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

**Credit risk management**

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

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

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

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

**Equity and fund price risk management**

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

**Currency risk management**

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

# Green Finance
# Building a Better Future

# Corporate Information

## Board of Directors

### Chairman

GE Haijiao#

### Vice Chairmen

LIU Jin#

SUN Yu

### Directors

LIN Jingzhen#

CHENG Eva*

CHOI Koon Shum*

FUNG Yuen Mei Anita*

LAW Yee Kwan Quinn*

LEE Sunny Wai Kwong*

LIP Sai Wo*

MA Si Hang Frederick*

# Non-executive Directors
* Independent Non-executive Directors

## Senior Management

### Chief Executive

SUN Yu

### Chief Financial Officer

LIU Chenggang

### Deputy Chief Executive and Chief Risk Officer

XU Haifeng

### Deputy Chief Executives

XING Guiwei

WANG Huabin

CHAN Man

LI Tong

## Company Secretary

LUO Nan

## Registered Office

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

## Auditor

PricewaterhouseCoopers
*Certified Public Accountants*
*Registered Public Interest Entity Auditor*

## Share Registrar

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

## ADR Depositary Bank

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

## WEBSITE

www.bochk.com

# Board of Directors and Senior Management

## DIRECTORS

### Mr GE Haijiao

Aged 52

Chairman

**Board appointments:** Mr GE was appointed as Chairman of the Board, Non-executive Director and Chairman of the Strategy and Budget Committee of the Company and BOCHK since April 2023.

**Positions and experience:** Mr GE is currently the Chairman and Executive Director of BOC. He is also a Director of BOC (BVI) and BOCHKG. Prior to joining BOC in 2023, he served as a member of the Standing Committee of Hebei Provincial Committee of the Communist Party of China and Vice Governor of Hebei Province from November 2021 to March 2023, Vice Governor of Hebei Province from September 2019 to November 2021, Executive Director of China Everbright Group from November 2018 to September 2019, and Executive Director and President of China Everbright Bank Company Limited (a company listed in Shanghai and Hong Kong) from January 2019 to September 2019. From October 2016 to November 2018, he served as Deputy General Manager of China Everbright Group Ltd. Prior to that, Mr GE had worked in Agricultural Bank of China Limited (a company listed in Shanghai and Hong Kong) for many years, serving as Deputy General Manager of Dalian Branch, General Manager of Singapore Branch, Deputy General Manager (department general manager level) of the International Banking Department of the Head Office and General Manager of Heilongjiang Branch.

**Qualifications:** Mr GE graduated from Liaoning University in 1993 and Nanjing Agricultural University in 2008 with a Doctor's Degree in Management. He holds the title of Senior Economist.

**Skills and expertise:** Mr GE has extensive experience in the banking, financial services and policy, substantial knowledge in business management, strategy and corporate governance, with deep understanding of the macroeconomic and regulatory environment.

## Mr LIU Jin

Aged 57

### Vice Chairman

**Board appointments:** Mr LIU was appointed as Vice Chairman, Non-executive Director of the Company and BOCHK in August 2021. He is a member of each of the Nomination and Remuneration Committee as well as the Strategy and Budget Committee.

**Positions and experience:** Mr LIU is the Vice Chairman and Executive Director of BOC since June 2021 and President of BOC since April 2021. He is currently Director of BOC (BVI) and BOCHKG. Prior to joining BOC in 2021, Mr LIU served as Executive Director of China Everbright Group from December 2019 to March 2021, President of China Everbright Bank Company Limited ("China Everbright Bank") from January 2020 to March 2021, and Executive Director of China Everbright Bank from March 2020 to March 2021. He served as Executive Vice President of China Development Bank from September 2018 to November 2019. Mr LIU had worked in Industrial and Commercial Bank of China Limited ("ICBC") for many years, and successively served as Deputy General Manager of its Shandong Branch, Vice Chairman, Executive Director, General Manager of Industrial and Commercial Bank of China (Europe) S.A. and General Manager of ICBC Frankfurt Branch, General Manager of the Investment Banking Department of the Head Office of ICBC, and General Manager of Jiangsu Branch of ICBC. He served as the Chairman and Non-executive Director of BOC Aviation Limited (listed in Hong Kong) from April 2023 to March 2024.

**Qualifications**: Mr LIU graduated from Shandong University in 1993, and obtained his Master's degree in Arts. He holds the title of Senior Economist.

**Skills and expertise:** Mr LIU has substantial experience in the banking and financial services industry with expertise in business management and strategy, corporate governance and investment management.

## Mr SUN Yu

Aged 51

### Vice Chairman and Chief Executive

**Board appointments:** Mr SUN has been re-designated as Executive Director and appointed as Vice Chairman and Chief Executive of the Company and BOCHK since December 2020. He is a member of each of the Strategy and Budget Committee as well as the Sustainability Committee, Chairman of BOCHK Charitable Foundation, and Chairman of BOC Life since February 2021. Prior to the re-designation, Mr SUN was a Non-executive Director and a member of the Risk Committee of the Company and BOCHK from March 2020 to December 2020.

**Positions and experience:** Mr SUN joined BOC in 1998. He served as the Executive Vice President of BOC from February 2019 to December 2020, and as Chief Overseas Business Officer of BOC from September 2018 to February 2019. From March 2015 to November 2018, Mr SUN served as General Manager of London Branch of BOC, CEO of Bank of China (UK) Limited, and also served as General Manager of London Trading Center of BOC from December 2015 to November 2018. Mr SUN previously served as Director of Global Financial Markets Department, Director of Financial Markets Unit (Client Business), Director of Financial Markets Unit (Securities Investments) and Deputy General Manager of the Shanghai Branch of BOC. He served as General Manager of Global Markets of BOCHK from July 2012 to December 2014. He was also a Board Director of Bank of China (UK) Limited from March 2015 to September 2021, Chairman of the Board of Directors of Bank of China (UK) Limited from December 2018 to September 2021, Chairman of the Board of Directors of BOC Aviation Limited (listed in Hong Kong) from February 2019 to December 2020, President of Shanghai RMB Trading Unit of BOC from November 2019 to December 2020 and General Manager of Beijing Branch of BOC from December 2019 to December 2020.

Mr SUN also holds a number of public offices in Hong Kong. He is Honorary President of the Hong Kong Chinese Enterprises Association, Chairman of the Chinese Banking Association of Hong Kong, and sits on the Exchange Fund Advisory Committee, and the Banking Advisory Committee. Mr SUN sits on the Advisory Committee on the Northern Metropolis and the Advisory Committee on Attracting Strategic Enterprises of the Government of the HKSAR. He is Co-Chairman of Guangdong-HK-Macao Bay Area Entrepreneurs Union, Advisor of Hong Kong Alliance of Technology and Innovation, sits on the General Committee of the Hong Kong General Chamber of Commerce, the Belt and Road and Greater Bay Area Committee of the Hong Kong Trade Development Council, the Risk Management Committee of the Hong Kong Exchanges and Clearing Limited, and is also Vice President of the Hong Kong Institute of Bankers, etc.

**Qualifications:** Mr SUN graduated from Nankai University with a Master's Degree in Economics in 1998.

**Skills and expertise:** Mr SUN has extensive experience in the banking and financial services industry with substantial knowledge in business management and strategy, corporate governance, risk management and sustainable development.

## Mr LIN Jingzhen

Aged 58

### Non-executive Director

**Board appointments:** Mr LIN was appointed as Non-executive Director of the Company and BOCHK in August 2018. He is a member of the Strategy and Budget Committee.

**Positions and experience:** Mr LIN is Executive Vice President of BOC since March 2018 and Executive Director of BOC since February 2019. He joined BOC in 1987. Mr LIN served as Deputy Chief Executive of the Company and BOCHK from May 2015 to January 2018. He served as General Manager of Corporate Banking Department from March 2014 to May 2015 and General Manager (Corporate Banking) of the Corporate Banking Unit of BOC from October 2010 to March 2014. He previously served as Deputy General Manager of Corporate Banking Department and Deputy General Manager of Corporate Banking Unit of BOC. Mr LIN served as Chairman of the Board of Directors of BOC International Holdings Limited from April 2018 to December 2020 and Chairman of BOC International (China) Co, Ltd (listed in Shanghai) from May 2018 to April 2022.

**Qualifications:** Mr LIN graduated from Xiamen University in 1987 and obtained a Master's Degree in Business Administration from Xiamen University in 2000.

**Skills and expertise:** Mr LIN has substantial experience in the banking industry with extensive expertise in business management and strategy, corporate governance, risk management and investment management.

## Mdm CHENG Eva

Aged 63

### Independent Non-executive Director

**Board appointments:** Mdm CHENG was appointed as Independent Non-executive Director of the Company and BOCHK in October 2014. She is Chairman of the Sustainability Committee and a member of each of the Audit Committee as well as the Strategy and Budget Committee.

**Positions and experience:** Mdm CHENG was former Secretary for Transport and Housing of the Government of the HKSAR. She joined the government's Administrative Service in August 1983 and was posted to various bureaus and departments, including serving as Permanent Secretary for Economic Development and Labour (Economic Development) and Commissioner for Tourism. She retired from the Government of the HKSAR on 30 June 2012.

**Qualifications:** Mdm CHENG holds a Bachelor's Degree in Social Sciences from The University of Hong Kong.

**Skills and expertise:** Mdm CHENG has broad knowledge in business strategy, corporate governance, sustainable development as well as environmental, social and governance.

## Dr CHOI Koon Shum

Aged 66

### Independent Non-executive Director

**Board appointments**: Dr CHOI was appointed as Independent Non-executive Director of the Company and BOCHK in June 2016. He is Chairman of the Nomination and Remuneration Committee and a member of each of the Strategy and Budget Committee as well as the Sustainability Committee.

**Positions and experience:** Dr CHOI is Chairman of Sunwah Group, Sunwah International Limited (delisted in Toronto and privatised on 14 June 2021), Sunwah Kingsway Capital Holdings Limited (listed in Hong Kong) and Vietnam VinaCapital. He is also Independent Non-executive Director of Hui Xian Asset Management Limited, the Manager of Hui Xian Real Estate Investment Trust (listed in Hong Kong). Dr CHOI has extensive experience in food industry, real estate development, international trade as well as technology and finance related business.

Dr CHOI is a Standing Committee Member of the National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China. He was awarded the Grand Bauhinia Medal, the highest honor in the HKSAR Award and Recognition System. He also holds a number of public positions including Chairman of the Chinese General Chamber of Commerce in Hong Kong, Chairman of Guangdong-HK-Macao Bay Area Entrepreneurs Alliance, Economic Advisor to the President of the Chinese Academy of Sciences, Founding Patron and Senior Advisor to the President of the Academy of Sciences of Hong Kong, Executive Director of the China Overseas Friendship Association, Council Member of the Hong Kong Trade Development Council, Founding Chairman of the Hong Kong-Vietnam Chamber of Commerce, Founding Chairman of the Hong Kong-Korea Business Council, Chairman of the China Hong Kong Israel Technology Cooperation and Promotion Center and Chairman of the US-China Center for Research on Educational Excellence of the Michigan State University. Dr CHOI is a Court or Council Member of a number of universities including the Fudan University, the Nanjing University and the Hong Kong Polytechnic University.

**Qualifications:** Dr CHOI was conferred Honorary Doctor of Humanities by the Michigan State University in the United States in 2005. He became University Fellow of the Hong Kong Polytechnic University in 2007. He was also conferred Honorary Professor by the University of Glamorgan in the United Kingdom in 2009, Honorary Doctor of Social Sciences by the Lingnan University in Hong Kong in 2011, Honorary Doctor by the Vietnam National University, Hanoi in 2013, Honorary Doctor of Business Administration by the De Montfort University in the United Kingdom in 2014, Honorary Doctor of Law by the University of Alberta in Canada in 2015 and Honorary Doctor of Business Administration by the Hong Kong Metropolitan University (formerly known as The Open University of Hong Kong) in 2020.

**Skills and expertise:** Dr CHOI has substantial exposure in business management and strategy, corporate governance, human resource management and sustainable development.

## Mdm FUNG Yuen Mei Anita

Aged 63

### Independent Non-executive Director

**Board appointments:** Mdm FUNG was appointed as Independent Non-executive Director of the Company and BOCHK in March 2022. She is Chairman of the Risk Committee and a member of each of the Audit Committee, the Nomination and Remuneration Committee, the Strategy and Budget Committee as well as the Sustainability Committee.

**Positions and experience:** Mdm FUNG previously served as Group General Manager of HSBC Holdings plc from May 2008 to February 2015, Chief Executive Officer of Hong Kong region of The Hongkong and Shanghai Banking Corporation Limited ("HSBC") from September 2011 to February 2015. Mdm FUNG served consecutively as treasurer and head of global markets for Asia Pacific, head of global banking and markets for Asia Pacific of HSBC. Mdm FUNG is currently Independent Non-executive Director of Hang Lung Properties Limited (listed in Hong Kong), a court member of The Hong Kong University of Science and Technology, Director of M Plus Museum Limited, Steward of The Hong Kong Jockey Club and Member of Hospital Authority. Mdm FUNG held directorships in several listed companies in the past, including Independent Non-executive Director of China Construction Bank Corporation as well as Hong Kong Exchanges and Clearing Limited, Non-executive Director of Bank of Communications Co., Ltd and Hang Seng Bank Limited (all companies are listed in Hong Kong). She also previously held a number of public positions including Independent Non-executive Member of the Board of Airport Authority Hong Kong, Non-official Member of Hong Kong Housing Authority, Member of the Board of West Kowloon Cultural District Authority, Non-executive Director of The Hong Kong Mortgage Corporation Limited and a member of the Judicial Officers Recommendation Commission.

**Qualifications:** Mdm FUNG obtained her Bachelor's degree in Social Science from The University of Hong Kong in 1983 and Master's degree in Applied Finance from Macquarie University, Australia in 1995.

**Skills and expertise:** Mdm FUNG has extensive experience in the banking and financial services industry with substantial knowledge in business management and strategy, capital market, corporate governance, risk management and sustainable development.

## Mr LAW Yee Kwan Quinn

Aged 71

### Independent Non-executive Director

**Board appointments:** Mr LAW was appointed as Independent Non-executive Director of the Company and BOCHK in March 2019. He is a member of each of the Audit Committee, the Risk Committee and the Sustainability Committee.

**Positions and experience:** Mr LAW currently serves as a court member of The Hong Kong University of Science and Technology ("HKUST"), a governing board member of HKUST (Guangzhou), and an advisor of Hong Kong Business Accountants Association. He previously served as a council member cum audit committee chairman and standing committee member of the HKUST, and also as member of a number of committees of Hong Kong Institute of Certified Public Accountants ("HKICPA"), including Corporate Governance Committee, Professional Accountants in Business Committee, Professional Conduct Committee and Ethics Committee. He held directorships in several listed companies both in Hong Kong and overseas in the past. He was formerly Deputy Chairman and Managing Director of Urban Renewal Authority, Director of The Wharf (Holdings) Limited, Independent Non-executive Director of Bank of Tianjin Co., Ltd and Independent Non-executive Director of HKBN Limited. Mr LAW is currently Independent Non-executive Director of ENN Energy Holdings Limited, and serves as an external Supervisor and the chairman of the Nomination Committee of the Board of Supervisors of Bank of Tianjin Co., Ltd. (all companies are listed in Hong Kong).

**Qualifications:** Mr LAW is a certified public accountant and also a fellow member of HKICPA, a fellow member of The Association of Chartered Certified Accountants and an associate member of The Chartered Governance Institute. He is an honorary fellow of HKUST.

**Skills and expertise:** Mr LAW has extensive experience in accounting and finance, banking, business strategy, corporate governance, risk management and sustainable development.

## Mr LEE Sunny Wai Kwong

Aged 64

### Independent Non-executive Director

**Board appointments:** Mr LEE was appointed as Independent Non-executive Director of the Company and BOCHK in September 2022. He is a member of each of the Audit Committee, the Nomination and Remuneration Committee, the Risk Committee, the Strategy and Budget Committee as well as the Sustainability Committee.

**Positions and experience:** Mr LEE is the Vice President (Administration) of City University of Hong Kong. Mr LEE has more than 40 years of experience in business and technology management gained in both Hong Kong and overseas. He was Systems Director of the Bank of America in Hong Kong. He has held key Information Technology ("IT") positions in the financial, management consulting and manufacturing industries in the United States. Mr LEE was an Executive Director of IT of The Hong Kong Jockey Club ("HKJC"), where he served as member of board of management and had overall responsibility for HKJC's IT strategy and innovation. Prior to joining HKJC, he served at The Hong Kong and China Gas Company Limited where he was an executive committee member and held a number of key positions, including the Group's Chief Information Officer and Chief Executive Officer of two strategic diversification businesses, iCare.com Limited and Towngas Telecommunications Company Limited.

Mr LEE is currently an Independent Non-executive Director of MTR Corporation Limited and SUNeVision Holdings Ltd. (both companies are listed in Hong Kong). He also serves in many governing and advisory committees in academic, professional and community arena. He is the Board Chairman of Hong Kong Applied Science and Technology Research Institute Company Limited, the Chairman of Public Libraries Advisory Committee, an Ex-officio Member of Committee on Innovation, Technology and Industry Development of the HKSAR and a Council Member of each of Hong Kong Management Association, Hong Kong Quality Assurance Agency and Hong Kong Professionals and Senior Executives Association. Mr LEE is a Distinguished Fellow of Hong Kong Computer Society, a Chartered IT Professional of The British Computer Society, a Fellow of The Hong Kong Institution of Engineers, a Chartered Engineer of United Kingdom Engineering Council and a Fellow of Hong Kong Institute of Directors.

**Qualifications:** Mr LEE obtained his Bachelor's degree in 1982 and a Master's degree in Operations Research & Industrial Engineering in 1983, both from Cornell University in the United States.

**Skills and expertise:** Mr LEE has extensive experience in business management and strategy, corporate governance, information technology management and sustainable development.

## Mr LIP Sai Wo

Aged 64

### Independent Non-executive Director

**Board appointments:** Mr LIP was appointed as Independent Non-executive Director of the Company and BOCHK in June 2023. He is Chairman of the Audit Committee and a member of each of the Risk Committee, the Strategy and Budget Committee as well as the Sustainability Committee.

**Positions and experience:** Mr LIP had been working with Deloitte for about 40 years and has extensive experience in accounting and auditing. Prior to retirement as partner of Deloitte China in May 2022, Mr LIP had previously served as audit managing partner, reputation and risk managing partner and chief quality and ethics officer as well as member of management committee of Deloitte China.

**Qualifications:** Mr LIP was graduated from The Chinese University of Hong Kong in 1983 and holds a Bachelor's degree in Business Administration. He is a fellow member of HKICPA and a fellow member of The Association of Chartered Certified Accountants.

**Skills and expertise:** Mr LIP has extensive experience in accounting and finance, business strategy, corporate governance, risk management and sustainable development.

## Prof MA Si Hang Frederick

Aged 72

### Independent Non-executive Director

**Board appointments:** Prof MA was appointed as Independent Non-executive Director of the Company and BOCHK in October 2023. He is a member of each of the Nomination and Remuneration Committee, the Strategy and Budget Committee as well as the Sustainability Committee.

**Positions and experience:** Prof MA is currently chairman and independent non-executive director of FWD Group Holdings Limited, an independent non-executive director of COSCO Shipping Holdings Co., Ltd. (listed in Hong Kong), an independent non-executive director of HH&L Acquisition Co. (listed in New York) and a non-executive director of Unicorn II Holdings Limited (a company privatised and delisted in New York in January 2022), a member of the Chief Executive's Council of Advisers, a member of the International Advisory Council of Investcorp and a member of the International Advisory Council of China Investment Corporation. Prof MA held directorships in several listed companies in the past, including independent non-executive director of Guangshen Railway Company Limited (listed in Shanghai and Hong Kong), independent non-executive director of Husky Energy Inc. (listed in Toronto), independent non-executive director of the Agricultural Bank of China Limited (listed in Shanghai and Hong Kong), chairman and non-executive director of MTR Corporation Limited (listed in Hong Kong) and an independent non-executive director of China Resources Land Limited (listed in Hong Kong). Prof MA previously served as the managing director of UK branch of RBC Dominion Securities Inc., the deputy chairman and managing director of Kumagai Gumi Co. Ltd, the managing director and Asia-Pacific Area Director of Global Private Bank of Chase Manhattan Bank, the Asia-Pacific Chief Executive of JP Morgan Private Bank, the Chief Financial Officer and Executive Director of PCCW Limited, the Secretary for Financial Services and the Treasury of the Government of the HKSAR, the Secretary for Commerce and Economic Development of the Government of the HKSAR.

**Qualifications:** Prof MA graduated with a Bachelor of Arts (Honours) degree from The University of Hong Kong majoring in economics and history. He is a Permanent Honourable President of Hong Kong Special Schools Council since 2011. He is also an Honorary Professor of the Business School at The University of Hong Kong and the Faculty of Business Administration at The Chinese University of Hong Kong. He was conferred the Honorary Doctor of Social Sciences by Lingnan University and City University of Hong Kong in 2014 and 2016 respectively. He was the Council Chairman of The Education University of Hong Kong from 2017 to 2020.

**Skills and expertise:** Prof MA has extensive experience in business management and strategy, corporate governance, human resource management and sustainable development.

# SENIOR MANAGEMENT

## Mr LIU Chenggang

Aged 51

### Chief Financial Officer

Mr LIU joined the Group in 2022. He is Chief Financial Officer of the Group and also Chairman of Livi Bank Limited and Director of Hong Kong Note Printing Limited. Prior to joining the Group, Mr LIU served as General Manager of Equity Investment and Subsidiary Management Department of BOC. He joined BOC in 1994. He had served as General Manager of Financial Management Department, as well as General Manager of Treasury, and had worked in various departments at the head office, Macau branch and Shenzhen branch. Mr LIU has solid experience in financial management, treasury and global markets functions with a good understanding on the business of BOC headquarter & branches, domestic and overseas subsidiaries. Mr LIU possesses Masters' degrees in International Finance from PBC School of Finance, Tsinghua University and Applied Finance in Macquarie University, Australia. He also obtained the qualifications of China Senior Accountant and Chartered Financial Analyst (CFA).

## Mr XU Haifeng

Aged 52

### Deputy Chief Executive and Chief Risk Officer

Mr XU joined the Group in 2022. He is Deputy Chief Executive and Chief Risk Officer of the Group, and also Chairman of BOCI-Prudential Trustee and BOC Group Trustee Company Limited. He also serves as a Standing Committee Member of The Chinese General Chamber of Commerce, the Vice-president of Hong Kong Green Finance Association and a member of the Financial Services Advisory Committee of the Hong Kong Trade Development Council. Prior to joining the Group, Mr XU was Chairman of Bank of China (Europe) S.A. and General Manager of BOC Luxembourg Branch. Mr XU joined BOC in 1993, then held management positions in various institutions including Head Office, Liaoning Branch, New York Branch as Deputy General Manager, Hungary Branch as General Manager, etc. Mr XU has a Bachelor's Degree in International Finance from Dongbei University of Finance and Economics, and a Master's Degree in Business Administration from The Chinese University of Hong Kong.

## Mr XING Guiwei

Aged 51

### Deputy Chief Executive

Mr XING joined the Group in 2022. He is Deputy Chief Executive of the Group and also Chairman of Hong Kong Interbank Clearing Limited and member of Risk Management Committee of Hong Kong Exchanges and Clearing Limited. Prior to joining the Group, Mr XING was Chairman of BOC Financial Technology Company Limited and Head of BOC Financial Technology Innovation Office. Mr XING joined BOC in 2000, then held various positions including Chief Architect and General Manager of Information Technology Department. Mr XING was Deputy Chairman of the Beijing Fintech Industry Alliance, Chairman of the Technical Standards Committee of the Payment & Clearing Association of China, Vice-Chairman of Technology Management Committee of NetsUnion, and technology committee member of UnionPay and various other organisations. As a veteran in IT planning and strategy, Mr XING has solid IT and architecture management expertise, as well as extensive practical experience. Mr XING has a Bachelor's Degree in Information Science and a Doctor's Degree in Applied Mathematics from Peking University.

## Mr WANG Huabin

Aged 50

### Deputy Chief Executive

Mr WANG joined the Group in 2024. He is Deputy Chief Executive of the Group. Prior to joining the Group, Mr WANG was General Manager of Financial Institutions Department of BOC. He joined BOC in 2000 and had served as Head (International Settlement & Trade Finances) in Corporate Banking Department of BOC, Deputy General Manager and Corporate Banking Director of BOC London Branch and General Manager of BOCHK Phnom Penh Branch. Mr WANG is well versed in international financial markets, with extensive experience in corporate and institutional banking business. Mr WANG has a Bachelor's Degree in Economics from Nankai University, a Master's Degree in Finance from University of International Business and Economics and a Master's Degree in Business Administration from Bayes Business School at City, University of London.

## Mr CHAN Man

Aged 55

### Deputy Chief Executive

Mr CHAN joined the Group in 1990. He is Deputy Chief Executive of the Group and also Chairman of BOCCC and Director of BOC Life. He also serves as member of Human Resources Planning Commission of the HKSAR Government, member of Corruption Prevention Advisory Committee of the Independent Commission Against Corruption ("ICAC"), member of the Financial Infrastructure and Market Development Sub-Committee of the Exchange Fund Advisory Committee, and board member of the Community Chest. From July 1990 to September 2001, Mr CHAN held various positions in Hua Chiao Commercial Bank Limited, formerly a member bank of Bank of China Group in Hong Kong. Following the restructuring of the business of Bank of China Group's member banks in Hong Kong, Mr CHAN has served various positions in the Group since October 2001, including Head of Product Development Division of Economics & Strategic Planning Department, Deputy General Manager of Corporate Banking & Financial Institutions Department, General Manager of Business Optimisation Center, General Manager of Institutional Business Department, General Manager of Personal Banking and Wealth Management Department, and was promoted to his current role in August 2022. Mr CHAN graduated in Business Studies (Banking) programme with Bachelor's Degree qualification from Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic).

## Mdm LI Tong

Aged 53

### Deputy Chief Executive

Mdm LI joined the Group in 2024. She is Deputy Chief Executive of the Group. Prior to joining the Group, Mdm LI served as CEO, Executive President and Executive Director of BOC International Holdings Limited. She joined BOC in 1993 and had worked in Henan Province Branch, Shenzhen Branch and Sydney Branch. Mdm LI possesses a wealth of experience in the realms of commercial banking, investment banking and global financial markets, complemented by an international vision. Mdm LI has a Bachelor's Degree in International Trade from Dongbei University of Finance and Economics, and a Master's Degree in Business Administration from Tsinghua University.

# Report of the Directors

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2023.

## Principal Activities

The principal activities of the Group are the provision of banking and related financial services. An analysis of the Group's performance for the year by business segments is set out in Note 46 to the Financial Statements.

## Business Review

For business review of the Group for the year, please refer to "Message from the Chairman", "Message from the Chief Executive", "Management Discussion and Analysis", "Corporate Governance", our Sustainability Report 2023 and corporate website.

## Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 128.

The Board has recommended a final dividend of HK$1.145 per share, amounting to approximately HK$12,106 million, subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on Thursday, 27 June 2024 (the "2024 AGM"). If approved, the final dividend will be paid on Monday, 15 July 2024 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 9 July 2024. Together with the interim dividend of HK$0.527 per share declared in August 2023, the total dividend payout for 2023 would be HK$1.672 per share.

## Closure of Register of Members for Entitlement to Attend and Vote at Annual General Meeting

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to attend and vote at the 2024 AGM, from Monday, 24 June 2024 to Thursday, 27 June 2024 (both days inclusive), during which period no transfer of shares will be registered. In order to attend and vote at the 2024 AGM, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Friday, 21 June 2024. The 2024 AGM will be held at 2:00 p.m. on Thursday, 27 June 2024.

## Closure of Register of Members for Entitlement to Final Dividend

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to the proposed final dividend, from Thursday, 4 July 2024 to Tuesday, 9 July 2024 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Wednesday, 3 July 2024. Shares of the Company will be traded ex-dividend as from Tuesday, 2 July 2024.

## Donations

Charitable and other donations made by the Group during the year amounted to approximately HK$36 million.

Note: These donations do not include the donations and sponsorships made by BOCHK Charitable Foundation ("the Foundation". For details, please refer to our Sustainability Report 2023 and corporate website). The Foundation is a separate legal entity established in Hong Kong and is a charitable institution exempted from tax under the Inland Revenue Ordinance.

## Shares Issued

Details of the Company's issued shares are set out in Note 39 to the Financial Statements.

As at the latest practicable date prior to the issue of this Annual Report and based on publicly available information, the public float of the Company was approximately 34%. The Directors consider that there is sufficient public float in the shares of the Company.

## Distributable Reserves

Distributable reserves of the Company as at 31 December 2023, calculated under Part 6 of the Hong Kong Companies Ordinance, amounted to approximately HK$17,547 million.

## Five-year Financial Summary

A summary of the results, assets and liabilities of the Group for the last five years is set out on page 3.

## Directors

The list of Directors of the Company is set out on page 56. The biographical details of the Directors and senior management are set out on pages 57 to 68. The term of office for each Non-executive Director is approximately three years.

Mr GE Haijiao was appointed as Chairman and Non-executive Director with effect from 27 April 2023. Mr LIP Sai Wo was appointed as Independent Non-executive Director with immediate effect from the conclusion of the annual general meeting held on 29 June 2023. Prof MA Si Hang Frederick was appointed as Independent Non-executive Director with effect from 20 October 2023. Mr KOH Beng Seng and Mr TUNG Savio Wai-Hok retired as Independent Non-executive Directors with immediate effect from the conclusion of the annual general meeting held on 29 June 2023. The Board would like to express its high praise and sincere gratitude to the retiring directors for their valuable contributions during their tenure of office. Please refer to the Company's 2022 annual report and relevant announcements for details of other changes of directors of the Company during the year.

In accordance with Article 98 of the Articles of Association and pursuant to Code Provision B.2.2 of the Corporate Governance Code as set out in Appendix C1 of the Listing Rules, the terms of office of Mr LIN Jingzhen, Dr CHOI Koon Shum and Mr LAW Yee Kwan Quinn will expire at the 2024 AGM. All the retiring Directors, being eligible, will offer themselves for re-election at the 2024 AGM. Further, pursuant to Article 102 of the Articles of Association, any Director appointed by the Board shall hold office only until the next following general meeting or the next following annual general meeting, and shall then be eligible for re-election at such meeting. Accordingly, the terms of office of Mr LIP Sai Wo and Prof MA Si Hang Frederick, who were appointed on 29 June 2023 and 20 October 2023 respectively, will expire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

A full list of the names of the directors of the Company's subsidiaries during the year ended 31 December 2023 is kept at the Company's registered office.

## Directors' Service Contracts

No Director offering for re-election at the 2024 AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation other than the normal statutory compensation.

## Directors' Interests in Transactions, Arrangements or Contracts

No transactions, arrangements or contracts of significance, in relation to the Group's business to which the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Directors' Interests in Competing Business

Mr GE Haijiao, Mr LIU Jin and Mr LIN Jingzhen are Executive Directors of BOC.

BOC is a joint stock commercial bank with limited liability, established under the laws of the PRC, providing a full range of commercial banking and other financial services through its associates throughout the world. Certain of the Group's operations overlap with and/or are complementary to those of BOC and its associates. To the extent that BOC or its associates compete with the Group, the Directors believe that the Group's interests are adequately protected by good corporate governance practices and the involvement of the Independent Non-executive Directors.

Further, the Board's Mandate also expressly provides that unless permissible under applicable laws or regulations, if a substantial shareholder or a Director has a conflict of interest in the matter to be considered by the Board, the matter shall not be dealt with by way of written resolutions, but a Board meeting attended by the Independent Non-executive Directors who have no material interest in the matter shall be held to deliberate on the same.

Save as disclosed above, none of the Directors is interested in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

## Directors' Rights to Acquire Shares

At no time during the year was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## Directors' and Chief Executive's Interests in Shares, Underlying Shares and Debentures

As at 31 December 2023, the interests and short positions of the Directors, Chief Executive and their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 of the Listing Rules (the "Model Code") are set out below:

### Associated corporation of the Company:

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

| Name of Director | Number of shares/underlying shares held | | | | Approximate % of the total issued H shares |
|---|---|---|---|---|---|
| | Personal interests | Family interests | Corporate interests | Total | |
| SUN Yu | 10,000 | – | – | 10,000 | 0.00%[1] |
| CHOI Koon Shum | 4,000,000 | 40,000[2] | 1,120,000[3] | 5,160,000 | 0.01% |
| FUNG Yuen Mei Anita | 550,000 | – | – | 550,000 | 0.00%[4] |
| LIP Sai Wo | 201,000 | – | – | 201,000 | 0.00%[5] |

Notes:
1. Such shares held by Mr SUN Yu represent approximately 0.00001% of the total issued H shares of BOC.
2. Such shares are held by the spouse of Dr CHOI Koon Shum.
3. Dr CHOI Koon Shum is deemed to be interested in the 1,120,000 shares held through Choi Koon Shum Charitable Foundation Limited by virtue of the SFO.
4. Such shares held by Mdm FUNG Yuen Mei Anita represent approximately 0.0007% of the total issued H shares of BOC.
5. Such shares held by Mr LIP Sai Wo represent approximately 0.0002% of the total issued H shares of BOC.

All the interests stated above represented long positions. Save as disclosed above, as at 31 December 2023, none of the Directors, Chief Executive or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Interest of Substantial Shareholders

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 31 December 2023, the following parties had the following interests (as defined in the SFO) in the Company set opposite their respective names:

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

Notes:

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

All the interests stated above represented long positions. Apart from the disclosure above, according to the register maintained by the Company pursuant to section 336 of the SFO, BOCI Financial Products Limited had an interest in 143,522 shares which represented short positions. BOC and Central Huijin are deemed to be interested in such number of shares for the purpose of the SFO. Save as disclosed, no other interests or short positions were recorded in the register maintained by the Company under section 336 of the SFO as at 31 December 2023.

## Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## Equity-linked Agreements

No equity-linked agreements were entered into by the Company during the year or subsisted at the end of the year.

## Permitted Indemnity Provision

Pursuant to the Articles of Association, every Director shall be indemnified out of funds of the Company against all liabilities incurred by him/her to the extent permitted by the Hong Kong Companies Ordinance. The Company has maintained insurance for the benefit of the Directors against liability which may lawfully be insured by the Company.

## Purchase, Sale or Redemption of the Company's Shares

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

## Major Customers

During the year, the five largest customers of the Group accounted for less than 30% of the total of interest income and other operating income of the Group.

## Connected Transactions

The Independent Non-executive Directors have reviewed the transactions which the Company disclosed in a public announcement on 30 December 2022 and confirmed that these transactions were:

(i) entered into in the ordinary and usual course of business of the Group;

(ii) conducted on normal commercial terms or better; and

(iii) entered into according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In accordance with paragraphs 14A.56 and 14A.71(6)(b) of the Listing Rules, the Board of Directors engaged the auditor of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the above continuing connected transactions.

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

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

## Auditor

The financial statements for the year 2023 have been audited by Messrs PricewaterhouseCoopers who will retire and offer themselves for re-appointment at the 2024 AGM. Messrs PricewaterhouseCoopers has been appointed as new auditor of the Company at the annual general meeting of the Company held on 17 May 2021 upon the retirement of Messrs Ernst & Young.

On behalf of the Board

**GE Haijiao**
Chairman
Hong Kong, 28 March 2024

# Corporate Governance

## Principles and Practices

The Company is committed to maintaining and upholding high standards of corporate governance in order to safeguard the interests of shareholders, customers and employees. It abides strictly by the relevant laws and regulations in Hong Kong and other jurisdictions where the Group operated, and observes the rules and guidelines issued by regulatory authorities including the HKMA, Hong Kong Securities and Futures Commission and the Stock Exchange of Hong Kong. The Company from time to time reviews the corporate governance practices as adopted and strives to comply with the relevant requirements of international and local corporate governance best practices.

The Company has been in full compliance with all code provisions as set out in the Corporate Governance Code contained in Appendix C1 of the Listing Rules. The Company also complies with nearly all the recommended best practices set out in the said code. In particular, the Company publishes quarterly financial and business reviews within one month after the end of the relevant quarter so that shareholders and investors can be kept up to date of the performance, financial positions and prospects of the Company on a timely basis. The Company also conducts annual evaluation on the Board, and based on the evaluation feedback, to enhance Board efficiency and effectiveness.

BOCHK, the Company's wholly-owned and principal operating subsidiary, has followed the guidelines as set out in the Supervisory Policy Manual module CG-1 entitled Corporate Governance of Locally Incorporated Authorised Institutions issued by the HKMA.

To further enhance corporate governance standard, the Company will revamp its corporate governance system and strengthen relevant measures by referencing to market trend as well as guidelines and requirements issued by regulatory authorities. The Company will continue to maintain sound corporate governance standards and procedures to ensure the completeness, transparency and quality of our information disclosure.

## Corporate Governance Policy

### Policy Statement

The Company recognises the importance of high standards of corporate governance and maintains an effective corporate governance framework which delivers long-term success of the Group. The Company is also strongly committed to embracing and enhancing sound corporate governance principles and practices. The established well-structured corporate governance framework directs and regulates the business ethical conduct of the Company, thereby protects and upholds the interests of shareholders and stakeholders as a whole in a sustainable manner.

## Essential Principles

**(1) Eminent Board**

| | |
|---|---|
| Authority | The Board is responsible for supervising the management of the business and affairs of the Group with due regard to maximising shareholder value and enhancing corporate governance standard of the Group. The Board is obliged to act honestly and in good faith and to make decisions objectively in the best interests of the Group and its shareholders as a whole. |
| Structure | The Company is led by a high caliber Board with strong representation of Independent Non-executive Directors. The Board has a well-balanced composition of the Executive Director(s), Non-executive Directors and Independent Non-executive Directors.<br>Both the number and percentage of Independent Non-executive Directors are well above the requirements set by relevant rules and regulations. All Directors are eminent individuals from diverse disciplines with extensive professional experience and are able to make objective judgement. |
| Roles of the Chairman and the Chief Executive | In order to promote balance of power, the roles of the Chairman and the Chief Executive are segregated. The Company benefits from the segregation as the Chairman can focus on leading the Board and monitoring corporate governance and shareholder issues, while the Chief Executive leads the Management to perform the day-to-day operations and affairs of the Company. |
| Board Committees | The Board has established five standing Board Committees which are delegated with different responsibilities to assist the Board in performing its duties. They are Audit Committee, Nomination and Remuneration Committee, Risk Committee, Strategy and Budget Committee as well as Sustainability Committee. All Board Committees comprised a majority of Independent Non-executive Directors with most of them chaired by an Independent Non-executive Director.<br>Each of the Board Committees has a well-defined mandate with the roles and responsibilities delineated therein. The performance and effectiveness of these standing Board Committees are evaluated annually with a view to making further enhancement.<br>Other Board Committees like Independent Board Committee and Search Committee will be formed as and when required under the appropriate circumstances. |

**(2) Prudent Risk Management**

The Board recognises the need for risk control and management being a vital component of the business of the Group. The Board formulates and oversees the risk management strategies, and the related framework and policies with the assistance of the Risk Committee and other relevant Board Committee(s). The Management performs the daily risk management responsibilities of the Group under the guidance of the Risk Committee.

**(3) Fair Remuneration System**

The Company ensures that Directors' remuneration should be appropriate and reflect their duty and responsibility to fulfil the expectations of the shareholders and meet regulatory requirements. Directors' fees are subject to the approval of the shareholders. The Board, based on the recommendations of the Nomination and Remuneration Committee which is mainly responsible for ensuring the fairness and reasonableness of the overall human resources and remuneration strategies, approves the remuneration policies of the Group. No Director shall be involved in deciding his or her own remuneration.

**(4) Effective Disclosure Mechanism**

The Board reviews and monitors from time to time the effectiveness of the Group's disclosure process for reports, announcements and inside information. It encourages and takes necessary steps to disclose information in a timely manner and to ensure the information concerning the Group is expressed and communicated in a clear and objective manner that enables the shareholders and the public to appraise the position of the Group to make informed investment decisions.

**(5) Upholding Shareholders' Rights**

The Board respects the rights of shareholders as mandated by the articles of association of the Company (the "Articles of Association") and relevant applicable laws and regulatory requirements. The Board places utmost importance on maintaining effective communications with shareholders and also makes its best efforts to keep the shareholders informed of the business and affairs of the Company by maintaining various channels of communications and having direct dialogue with shareholders.

In addition, the shareholders also have the rights to obtain all publicly available information of the Company, propose a resolution at annual general meetings, nominate a person for election as a director, and make enquiries about the Company.

**(6) Safeguarding Stakeholders' Interests**

The Board has a fiduciary duty to protect and serve, with due care and consideration of, the interest of all stakeholders of the Company including but not limited to employees, customers, business partners, suppliers, regulators and the community. All the interests of stakeholders of the Company are further safeguarded by strictly complying with applicable laws and regulations as well as governance policies.

**(7) Promoting Sustainability**

The Company attaches great importance to sustainability. The Board is committed to undertaking corporate social responsibility and promoting the sustainable development of the economy, society and environment through strengthening relationship with its stakeholders. The Company consistently supports and participates in various activities that are conducive to sustainability, with a view to benefitting the current and next generations.

**(8) Pursuit of "Good to Great"**

The Board encourages the pursuit of "Good to Great". With the assistance of the Nomination and Remuneration Committee, the Board ensures that each Board Committee shall conduct regular self-assessment of its effectiveness, and based on the evaluation results, the Board gives such feedback, directions and guidance as may be necessary to enhance its efficiency and effectiveness.

## Policy Goal

The Board and the senior management of the Company are responsible for adhering to the corporate governance principles and executing this policy. The Company seeks to manage its business in accordance with the well-defined corporate governance principles which provide a solid governance framework for excellent performance and sustainable growth.

## Corporate Culture

The Board provides strategic guidance for the Group, reviews, approves and monitors the Group's mid and long-term strategy. In the 2021-2025 strategic development plan approved by the Board, deepening corporate culture is determined to be one of the four development supports.

The Board attaches a high degree of importance to the continuous deepening for the building of corporate culture and to strengthen the transmission of values. Senior management, led by example, demonstrates their commitment and determination to promote proper bank culture and values. The Sustainability Committee under the Board is a specialised committee for corporate culture construction, with one of its responsibilities to supervise the Group's development of a good and sustainable corporate culture, and to continuously monitor the implementation of the corporate culture. The Sustainability Committee is responsible for approving or recommending for the approval of the Board on relevant policies related to corporate culture of the Group, including the Group's professional standards, in order to promote ethical and responsible professional behaviour; the Group's commercial principles and standards to be adopted in its business activities, in order to establish culture and behavioural standards that promote prudent risk-taking and fair treatment of customers; the Group's staff code of conduct and appropriate training, in order to ensure our staff can maintain good personal integrity and conduct, and comply with the Group's culture and behavioural standards. The Company evaluates the effectiveness of corporate culture building with a Culture Dashboard, and reports the result to the Sustainability Committee annually. The Company has launched multi-level and multi-angle corporate culture trainings and promotional activities to strengthen the promotion of corporate culture and values, deepen employees' understanding and build consensus across the Group. The Company has improved the incentive and restraint mechanism, staff job performance is assessed with the consideration of their practice of corporate culture, guided the establishment of a correct view of performance and avoided short term behaviour and hidden risks. The Company has established a customer feedback mechanism, and obtained feedback from employee surveys, focused group discussions, individual interviews, etc., so as to obtain the views of customers and staff on the continuous development on corporate culture.

## Anti-corruption and whistleblowing

The Company promotes a strong corporate culture of integrity and high ethical standard, and strongly values the ethical conduct and integrity of the employees and any third parties engaged by the Group. A zero-tolerance approach is taken towards bribery and corruption for all levels of employees. The Company has established the Anti-Bribery and Corruption Policy, which strives to uphold all relevant anti-bribery and corruption laws in Hong Kong and all jurisdictions where it operates, and implement a robust anti-bribery and corruption control framework to provide guidance to, and strengthen the standards of conduct of its employees. The overall anti-bribery and corruption framework is jointly supervised by the Board, its designated committee and the senior management. The Company conducts regular anti-bribery and corruption institutional risk assessment to evaluate the effectiveness of the framework to ensure the framework is properly and adequately managed and implemented.

The Company has also established the BOCHK Whistleblowing Policy and the BOCHK Whistleblowing Administrative Measures to ensure that employees and the external parties who deal with the Group (e.g. customers and suppliers) can make whistleblowing reporting through proper channels under confidence when suspected misconducts occurred or may occur which relate to the businesses or other aspects of the Group, and such reports are handled and followed up appropriately. The Company regularly reviews the whistle-blowing mechanism and related policies and administrative measures to ensure their effectiveness.

## Corporate Governance Framework

### Responsibilities of the Board and the Management

The Board is at the core of the Company's corporate governance framework and there is a clear division of responsibilities between the Board and the Management. The Board is responsible for providing high-level guidance and effective oversight of the Management. It operates under the well-defined Board's Mandate which sets out matters specifically reserved for its deliberation. Generally, the Board is responsible for:

- formulating the Group's mid and long-term strategies and monitoring the implementation thereof;
- reviewing and approving the annual business plans and financial budgets;
- approving the annual results, interim results and quarterly financial and business reviews;
- reviewing and monitoring the Group's risk management and internal control;
- ensuring good corporate governance of the Group and effective compliance; and
- monitoring the performance of the Management.

Five physical Board meetings were held during the year. Major agenda items reviewed and approved included important matters such as the Group's strategies, business plans, financial budget, financial results, sustainability report, risk management and internal controls, and annual review of relevant policies. Besides physical meetings, the Board also approved written resolutions on certain matters, including changes of directors and senior management. Supporting explanatory materials accompanying the written resolutions were sent to Directors to facilitate their understanding of the matters and assist them to make informed decisions.

During the year, the Board reviewed and approved amendments made to certain corporate governance related policies and procedures so as to align with the latest changes in regulatory requirements. The Board also reviewed the Company's compliance with the Corporate Governance Code and the disclosure in the Corporate Governance Report contained in the 2022 Annual Report.

The Company has established relevant mechanisms to ensure independent views and input are available to the Board and conducted review of such mechanisms on an annual basis. The Company has adopted the Working Rules of the Board which states that Directors are entitled to seek, at the Group's expense, independent professional advice reasonably necessary for discharging their duties as Directors.

The Board authorises the Management to implement the strategies as approved by the Board. The Management is responsible for the day-to-day operations of the Group and reports to the Board. For this purpose, the Board has formulated clear written guidelines which stipulate the circumstances where the Management should report to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will conduct regular review on these authorisation and guidelines.

### Roles of the Chairman and the Chief Executive

To avoid concentration of power in any single individual, the positions of the Chairman and the Chief Executive of the Company are held by two different individuals. Their roles are distinct, clearly established and stipulated in the Board's Mandate.

The Chairman of the Board of the Company is responsible for ensuring that the Board properly discharges its responsibilities and conforms to good corporate governance practices and procedures. In addition, the Chairman is also responsible for ensuring that all Directors are properly briefed on all issues currently on hand, and that all Directors receive adequate, accurate and reliable information in a timely manner.

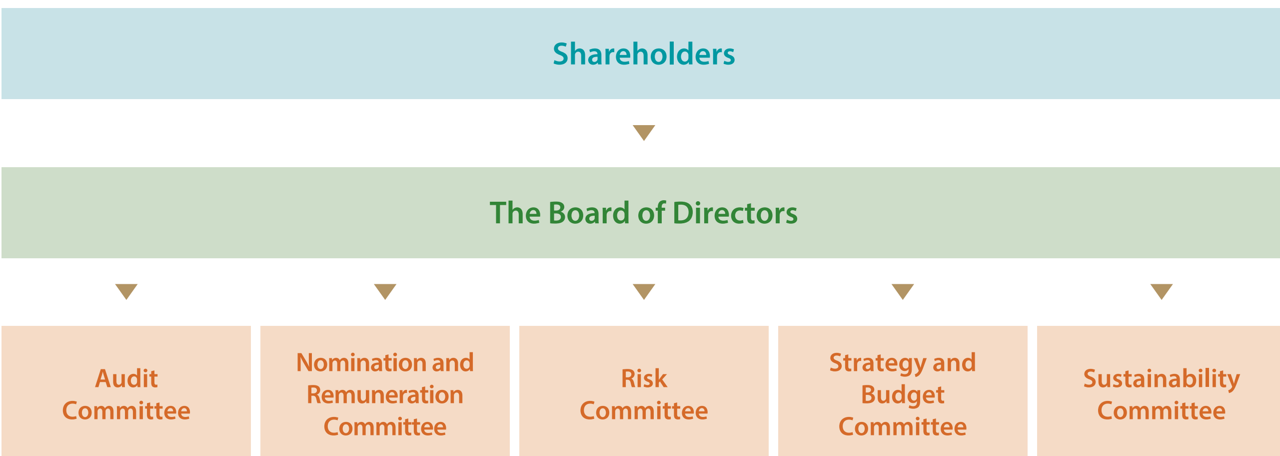
The Chief Executive of the Company is responsible for providing leadership for the whole management and implementing important policies and development strategies as adopted by the Board. Led by the Chief Executive, the Management Committee fulfils responsibilities including management of the Group's routine operation, implementation of business development strategies and realisation of the Group's long-term targets and strategies.

## Board Committees

Taking into consideration the latest regulatory requirements, guidelines as well as market practices and international best practices, the Board has established five standing Board Committees to assist in performing its responsibilities, namely the Audit Committee, the Nomination and Remuneration Committee, the Risk Committee, the Strategy and Budget Committee as well as the Sustainability Committee. In addition, the Board will authorise an Independent Board Committee comprising all the Independent Non-executive Directors as and when required to review connected transactions (including continuing connected transactions) and make recommendations in accordance with relevant rules and regulations.

Each of the Board Committees has a well-defined Mandate and makes recommendations to the Board on relevant matters within its scope of responsibilities or makes decisions under appropriate circumstances in accordance with the power delegated by the Board. All Board Committees are assigned a professional secretarial department which ensures that the Board Committees have adequate resources to perform their duties effectively and properly. All Board Committees adopt the same governance process as the Board as far as possible and report regularly to the Board on their decisions and their recommendations. The Board and Board Committees will participate in the annual performance appraisal of those professional secretarial departments to warrant and enhance the services provided and ensure that adequate and efficient supports are provided to the Board and Board Committees. In addition, according to their respective Mandates, the Board and each of the Board Committees will evaluate and review their work process and effectiveness annually, with a view to identifying areas for further improvements.

The following chart sets out the Company's corporate governance framework:




Details including the Company's corporate governance principles and framework adopted by the Board, the composition of the Board and each of the Board Committees and their respective Mandates, Corporate Governance Policy, Shareholder Communication Policy and Information Disclosure Policy are available under the sub-section "Corporate Governance" of the section headed "About Us" on the Company's website at www.bochk.com.

# Board of Directors

## Board Composition and its Terms of Office

As at the date of this Annual Report, the Board is composed of eleven Directors, of whom one is Executive Director, three are Non-executive Directors and seven are Independent Non-executive Directors. The list of current Directors of the Company is set out on page 56 of this Annual Report. The Board maintains an appropriate level of checks and balances to ensure independence and objectivity of the decisions of the Board, as well as the impartial oversight of the Management. The Board acts honestly and in good faith so that decisions are made objectively and in the best interests of the Group with a view to delivering long-term and maximum shareholder value and fulfilling its corporate responsibility to other stakeholders of the Group.

Major changes to the composition of the Board and Board Committees during the year and up to the date of this Annual Report are as follows:

(a) Mr GE Haijiao has been appointed as Chairman, Non-executive Director and Chairman of the Strategy and Budget Committee with effect from 27 April 2023.

(b) Mr LIP Sai Wo was appointed as Independent Non-executive Director, Chairman of the Audit Committee and a member of each of the Risk Committee, the Strategy and Budget Committee as well as the Sustainability Committee with effect from the conclusion of the annual general meeting held on 29 June 2023.

(c) Prof MA Si Hang Frederick was appointed as Independent Non-executive Director and a member of each of the Nomination and Remuneration Committee, the Strategy and Budget Committee as well as the Sustainability Committee with effect from 20 October 2023.

(d) Mdm FUNG Yuen Mei Anita, an Independent Non-executive Director and a member of each of the Audit Committee, the Risk Committee, the Strategy and Budget Committee as well as the Sustainability Committee, was appointed as Chairman of the Risk Committee and a member of the Nomination and Remuneration Committee with effect from the conclusion of the annual general meeting held on 29 June 2023.

(e) Mr LEE Sunny Wai Kwong, an Independent Non-executive Director and a member of each of the Audit Committee, the Risk Committee, the Strategy and Budget Committee as well as the Sustainability Committee, was appointed as a member of the Nomination and Remuneration Committee with effect from the conclusion of the annual general meeting held on 29 June 2023.

(f) Mr TUNG Savio Wai-Hok retired as Independent Non-executive Director, and ceased as Chairman of the Audit Committee and a member of each of the Nomination and Remuneration Committee, the Risk Committee, the Strategy and Budget Committee as well as the Sustainability Committee with effect from the conclusion of the annual general meeting held on 29 June 2023.

(g) Mr KOH Beng Seng retired as Independent Non-executive Director, and ceased as Chairman of the Risk Committee and a member of each of the Audit Committee, the Nomination and Remuneration Committee as well as the Sustainability Committee with effect from the conclusion of the annual general meeting held on 29 June 2023.

Please refer to the Company's 2022 annual report and relevant announcements for details of other changes of directors of the Company during the year.

All directors, including Non-executive Directors, of the Company would, in accordance with the relevant provisions of the Articles of Association and the Corporate Governance Code, retire at least once for every three years. In accordance with Article 98 of the Articles of Association and pursuant to Code Provision B.2.2 of the Corporate Governance Code, the terms of office of Mr LIN Jingzhen, Dr CHOI Koon Shum and Mr LAW Yee Kwan Quinn will expire at the 2024 annual general meeting. All the retiring Directors, being eligible, will offer themselves for re-election. Further, pursuant to Article 102 of the Articles of Association, any Director appointed by the Board shall hold office only until the next following general meeting or the next following annual general meeting of the Company, and shall then be eligible for re-election at such meeting. Accordingly, the terms of office of Mr LIP Sai Wo and Prof MA Si Hang Frederick, who were appointed on 29 June 2023 and 20 October 2023 respectively, will expire at the 2024 annual general meeting and, being eligible, offer themselves for re-election.

Further details regarding the proposed re-election and terms of appointment of Directors are set out in the section headed "Report of the Directors". In addition, the Company has also established a written and formal process for the appointment of the Independent Non-executive Directors to ensure that the appointment procedures are standardised, thorough and transparent.

## Selection and Nomination of Board Members

The Company has in place relevant policies on the nomination of Board members. The Nomination and Remuneration Committee is responsible for reviewing the structure, size, composition and members' qualifications for the Board regularly, and it shall take into account the existing composition of the Board and the business requirements of the Group and follow board diversity, independence of directors and other relevant supervisory and policy requirements and be responsible for the identification, selection and nomination of Board members.

Potential candidates of Executive Directors could be sourced and selected amongst the senior management. Potential candidates of Independent Non-executive Directors could be recruited through global selection and also upon nomination by Independent Non-executive Directors. Pursuant to the provisions of the Articles of Association and relevant regulations, shareholders could also nominate a person other than a retiring Director for election as a Director (including Non-executive Director) at a general meeting. Where necessary, the Nomination and Remuneration Committee may appoint external advisors to assist in recruiting appropriate individuals. The Nomination and Remuneration Committee shall consider various factors in assessing the suitability of a proposed candidate for appointment as Board member, which include:

- Board diversity;
- Reputation and past performance of candidate;
- Professional knowledge, industrial experience and skills of candidate;
- Commitment of candidate to devote sufficient time to discharge duties as a Board member, and the effective management of potential conflict of interest; and
- Satisfaction of independence requirements of the Listing Rules and the Policy on Independence of Directors of the Company in the case of a candidate for Independent Non-executive Director.

The Nomination and Remuneration Committee shall assess the candidates pursuant to the selection criteria, hold meetings to discuss and arrange interviews with the candidates where necessary, and make recommendation to the Board. The appointment of Directors shall be eventually approved by the Board and/or shareholders at general meetings.

For the Board members of the Company who were newly appointed in 2023 and the retiring Board members standing for re-election at the next following general meeting of the Company, the Nomination and Remuneration Committee reviewed their biographical details against relevant requirements under the Listing Rules, applicable regulatory guidelines and the selection criteria set out in the Company's nomination policies of Board members and considered they have the required character, integrity and professional knowledge and experience to continue fulfilling their role and contributing to the Company and the diversity of the Board.

## Board Expertise

Under current board membership, all Directors possess extensive experience in banking and financial industry as well as expertise in strategic development, corporate governance, information technology, risk management and sustainable development. An analysis on the expertise of the Board is set out below:

| Areas of expertise | Number of Directors/ Total number of Directors |
|---|---|
| Corporate Governance | 10/11 |
| Business Strategy | 10/11 |
| Banking and Financial Industry | 8/11 |
| Sustainability and ESG | 8/11 |
| Accounting and Finance | 7/11 |
| Risk Management | 7/11 |
| Information Technology, Innovation and Regtech/Fintech | 3/11 |
| Insurance | 3/11 |
| Legal and Compliance | 2/11 |

## Board Independence

As at the date of this Annual Report, the number of Independent Non-executive Directors comprised 63% of the Board, which is well above the requirement of the Listing Rules (i.e. at least one-third of the Board). In addition, each Board Committee has a strong present of Independent Non-executive Directors and an analysis on Board and Board Committees' composition is set out below:

| | Number of Directors/Percentage of Total Number of Directors | | | | Chaired by | |
|---|---|---|---|---|---|---|
| | Independent Non-executive Directors | Non-executive Directors | Executive Director | Total number of Directors | Designation | Gender |
| Board | 7 (63.6%) | 3 (27.3%) | 1 (9.1%) | 11 | NED | M |
| Audit Committee | 5 (100%) | 0 (0%) | 0 (0%) | 5 | INED | M |
| Nomination and Remuneration Committee | 4 (80%) | 1 (20%) | 0 (0%) | 5 | INED | M |
| Risk Committee | 4 (100%) | 0 (0%) | 0 (0%) | 4 | INED | F |
| Strategic and Budget Committee | 6 (60%) | 3 (30%) | 1 (10%) | 10 | NED | M |
| Sustainability Committee | 7 (87.5%) | 0 (0%) | 1 (12.5%) | 8 | INED | F |

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his/her independence by reference to the Policy on Independence of Directors of the Company. Based on the information available to the Company and upon considering relevant factors, it considers that all of the Independent Non-executive Directors are independent. Currently, Mdm CHENG Eva has served on the Board for more than nine years, and she has continued to make significant contributions to the Company by offering valuable guidance, impartial views and comments from her expertise and extensive experience in business strategy, corporate governance, sustainable development as well as environmental, social and governance, all of which are relevant to the development of the Group's business. It is considered that the length of service of Mdm CHENG has not affected her independence, given she has not taken part in the day-to-day management of the Company, has consistently demonstrated strong independence in judgement, a firm commitment to her role and has provided effective oversight of the Management during her tenure. In the event that any director has been appointed for over nine years, the Company will discuss and consider relevant factors and make appropriate disclosures in accordance with relevant regulations. Moreover, all Directors have disclosed to the Company their significant commitments and have undertaken and confirmed that they are able to devote sufficient time to the affairs of the Company. Biographical details of the professional experience, skills and knowledge of the Board members are set out in the section headed "Board of Directors and Senior Management" and are available under the section headed "About Us" on the Company's website at www.bochk.com.

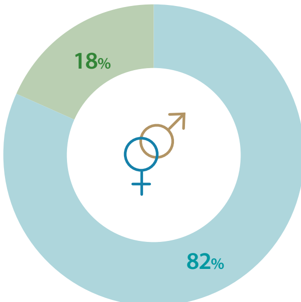
## Board Diversity

The Company recognises the importance and benefits of board diversity. In order to promote the Board's effectiveness and standards of corporate governance, the Company has adopted the Board Diversity Policy which will be observed when identifying suitable and qualified candidates to be a Board member and whenever a Board member is proposed to be re-elected. The said policy provides that in designing the Board's composition, board diversity should be considered in various aspects, including but not limited to gender, age, cultural and educational background, ethnicity, geographical location, professional experience, skills, knowledge and track records, etc., to ensure an appropriate diversity of skills, backgrounds and viewpoints. At the same time, all Board nominations and appointments are made on merit, in the context of the competencies, skills and experience the Board as a whole required. The Board will review the Board Diversity Policy annually and enhance relevant practices continuously based on latest situation. Details of the Board Diversity Policy have been posted on the Company's website at www.bochk.com.

Currently, there are two female members in the Board, represent approximately 18% of the Board, which fulfils the requirement to have at least one director of a different gender under the Listing Rules. As delineated in the Board Diversity Policy, in designing the Board's composition, gender is being one of the various aspects to be considered for Board diversity. Similar to other aspects to be taken into consideration in the said policy, the Board has well balanced of gender and thus the Company has not set any particular measurable objectives for gender diversity. At the same time, the Company has adopted the Succession Policy for Directors, in which the Company is committed to promoting diversity including gender diversity of Board members with a view to exercising more comprehensive consideration and judgement by the Board at the time of making succession planning of the Directors. At present, out of the seven members of senior management, one of them is female, representing approximately 14% of the senior management team. The Company strives to promote diversity and inclusion in the teams, in strict compliance with relevant laws and regulations as well as the Staff Guidelines on Eliminating Discrimination. The Company offers diversity and inclusion training and applies the principle of equal opportunity to all policies related to human resources, remuneration and benefits, to ensure employment opportunities for people of all kinds. Any discrimination or harassment against employees owing to their marital status, pregnancy, breastfeeding or expressing milk, disability, family status, race or gender are prohibited. During the year, our female employees accounted for around 57% of the total workforce.

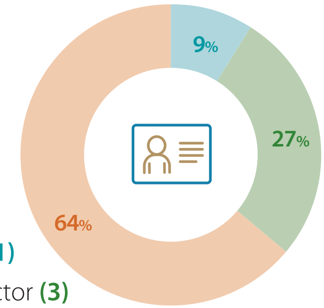
An analysis of the Board's composition as at the date of this Annual Report is set out below:

## Gender



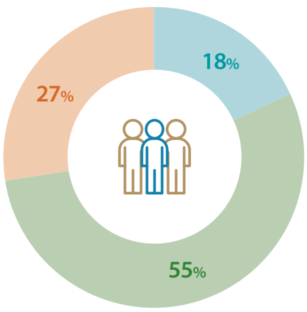

- Male (9)
- Female (2)

## Designation



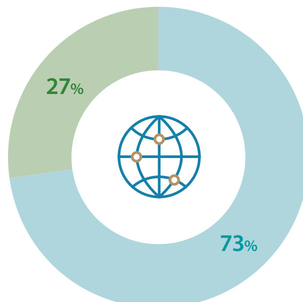

- Executive Director (1)
- Non-executive Director (3)
- Independent Non-executive Director (7)

## Age Group



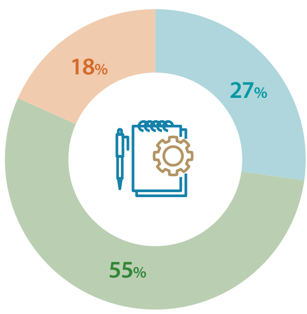

- 46-55 (2)
- 56-65 (6)
- Over 65 (3)

## Geographical Location



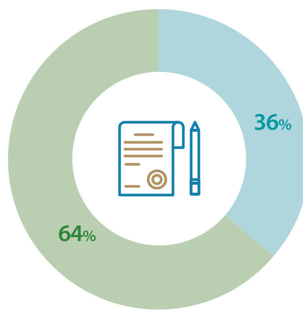

- Chinese mainland (3)
- Hong Kong (8)

## Length of services




- Less than 1 year (3)
- 1-6 years (6)
- Over 6 years (2)

## Attendance rate at Board meetings in 2023




- Below 80% (4)
- 100% (7)

As at the date of this Annual Report, Mr GE Haijiao, Mr LIU Jin and Mr LIN Jingzhen are Executive Directors of BOC. Save as disclosed above, there are no other relationships between the Board members, including financial, business, family or other material relationships.

In addition, it is expressly provided in the Policy on Managing Conflicts of Interest of Directors that, unless the applicable laws or regulations allow otherwise, if a Director has a conflict of interest in the matter to be considered by the Board, a Board meeting must be convened and attended by the Independent Non-executive Directors who have no material interest and give professional advice to the subject matter for further consideration and approval.

## Directors' Liability Insurance Policy

During the year, the Company has arranged for appropriate cover on Directors' Liability Insurance Policy to indemnify the Directors for liabilities arising from the corporate activities. The coverage and the amount insured under such policy are reviewed annually by the Company.

## Self-evaluation of the Board

During the year, the Board conducted annual self-evaluation pursuant to the Regulations on Self-Evaluation of the Board and Individual Evaluation of the Directors. With the endorsement of the Nomination and Remuneration Committee, the annual self-evaluation questionnaire was distributed to Directors for completion. Based on the completed questionnaire, the Company analysed the results and a report delineated the results and recommendation has been submitted to the Nomination and Remuneration Committee as well as the Board for review and consideration.

## Review of Effectiveness of the Individual Directors

During the year, the Company has also engaged an external professional consultant to conduct independent review of the effectiveness of the individual Directors. A questionnaire was distributed to all Directors for their completion and included Directors' self-assessment in areas such as their time commitment and participation, interaction and communication with senior management, as well as evaluation of other members of the Board and Board Committees, and other factors that impact director effectiveness. Based on the completed questionnaire and other available information, the external consultant assessed the effectiveness of individual Directors and prepared a report setting out its observations and recommendations, which has been submitted to the Nomination and Remuneration Committee as well as the Board for review and follow-up.

## Directors' Training and Professional Development

To ensure the newly appointed Directors have adequate understanding of the Company's business operations and to enable all Directors to update their knowledge regularly so as to provide informed recommendation and advice and make contribution to the Company, the Board has established a set of written policies specifying guidelines on Directors' induction upon appointment and continuous training.

The Company arranges appropriate Directors' induction through the use of induction handbook, face-to-face meetings and other means, and the induction training is tailor-made and individually designed in accordance with the needs, background and experience of individual Directors.

The Company also provides regular updates to Board members on material changes to regulatory requirements applicable to the Directors and the Group on a timely basis; and the Company arranges regular meetings between Board members and the Management to facilitate the understanding of its latest business development. In addition, Board members are encouraged to participate actively in continuous training programmes. The Company also arranges relevant professional training programmes for Board members at the Company's expense.

During the year, all Directors have participated in continuous professional development to develop and refresh their knowledge and skills in accordance with Code Provision C.1.4 of the Corporate Governance Code contained in Appendix C1 to the Listing Rules. In 2023, the Company invited expert to conduct seminars related to development of Greater Bay Area and application of generative AI to the Directors and the senior management, discussing areas including opportunities for financial development in Greater Bay Area as well as development and financial application of generative AI and big data.

Furthermore, each of the Directors has received a series of training as he/she thought fit. During the year, they attended seminars and workshops and received training materials from the Company, regulatory authorities and professional firms, covering a wide range of topics:

– macroeconomic analysis;
– ESG and sustainable development;
– climate risk management;
– digital transformation and cyber security;
– fintech and virtual assets;
– anti-money laundering;
– risk management and internal control;
– corporate governance;
– bank culture; and
– banking industry development trend; etc.

The Directors' records of annual training information have been entered in the register of directors' training records maintained and updated by the Company from time to time. As at year end, the participation of all Directors in continuous professional development is summarised as follows:

| Directors | Corporate Governance/ ESG Development/ Regulatory Updates | Risk Management and Internal Control | Information Technology/Digital Transformation and Cyber Security | Banking Industry Development Trend |
|---|---|---|---|---|
| **Non-executive Directors** | | | | |
| Mr GE Haijiao | ✓ | ✓ | ✓ | ✓ |
| Mr LIU Jin | ✓ | ✓ | ✓ | ✓ |
| Mr LIN Jingzhen | ✓ | ✓ | ✓ | ✓ |
| **Independent Non-executive Directors** | | | | |
| Mdm CHENG Eva | ✓ | ✓ | ✓ | ✓ |
| Dr CHOI Koon Shum | ✓ | ✓ | ✓ | ✓ |
| Mdm FUNG Yuen Mei Anita | ✓ | ✓ | ✓ | ✓ |
| Mr LAW Yee Kwan Quinn | ✓ | ✓ | ✓ | ✓ |
| Mr LEE Sunny Wai Kwong | ✓ | ✓ | ✓ | ✓ |
| Mr LIP Sai Wo | ✓ | ✓ | ✓ | ✓ |
| Prof MA Si Hang Frederick | ✓ | ✓ | ✓ | ✓ |
| **Executive Director** | | | | |
| Mr SUN Yu | ✓ | ✓ | ✓ | ✓ |

Note: The training records of former Directors during the year have not been included herein. Please refer to the section headed "Board Composition and its Terms of Office" under "Board of Directors" for details of changes in Directors during the year and up to the date of this Annual Report.

## Directors' Attendance at Board Meetings, Board Committee Meetings and General Meetings

Five Board meetings were held during 2023 with an average attendance rate of 93%. Regular meeting schedule for the year was prepared and approved by the Board in the preceding year. Formal notices of regular Board meetings were sent to all Directors at least 14 days before the date of the scheduled meetings, and Board agenda and meeting materials of sufficient quality were despatched to all Board members for review at least seven days prior to the scheduled meetings. Board agenda of each meeting was approved by the Chairman following consultation with all Board members and the senior management. Members of the senior management were regularly invited to attend the Board meetings to make presentation and answer questions that the Directors might have. Draft and final versions of Board and Board Committee minutes were sent to all Directors for their comment and record respectively within a reasonable period after the meetings were held.

The Board also received monthly reports with information on the Group's latest financial and operating performance. Accordingly, the Directors can have a balanced assessment of the Group's performance, position and prospects throughout the year.

In addition, in order to facilitate open discussion with all the Independent Non-executive Directors, the Chairman met with all Independent Non-executive Directors in the absence of other Directors and the senior management. Relevant practice has been incorporated in the Working Rules of the Board.

Details of respective Directors' attendance at the Board meetings, Board Committee meetings and annual general meeting in 2023 are set out as follows:

| Directors | Number of meetings attended/Number of meetings convened during Directors' term of office | | | | | | |
|---|---|---|---|---|---|---|---|
| | Board | Board Committees | | | | | General Meeting |
| | | Audit Committee | Nomination and Remuneration Committee | Risk Committee | Strategy and Budget Committee | Sustainability Committee | Annual General Meeting |
| **Number of meetings held during the year** | 5 | 9 | 2 | 4 | 5 | 2 | 1 |
| **Non-executive Directors** | | | | | | | |
| Mr GE Haijiao *(Chairman)* | 4/4 | – | – | – | 4/4 | – | 1/1 |
| Mr LIU Jin *(Vice Chairman)* | 4/5 | – | 1/2 | – | 4/5 | – | 1/1 |
| Mr LIN Jingzhen | 4/5 | – | – | – | 3/5 | – | 1/1 |
| **Independent Non-executive Directors** | | | | | | | |
| Mdm CHENG Eva | 5/5 | 9/9 | – | – | 5/5 | 2/2 | 1/1 |
| Dr CHOI Koon Shum | 4/5 | – | 2/2 | – | 4/5 | 2/2 | 1/1 |
| Mdm FUNG Yuen Mei Anita | 5/5 | 8/9 | 1/1 | 3/4 | 5/5 | 2/2 | 1/1 |
| Mr KOH Beng Seng | 2/2 | 6/6 | 1/1 | 1/1 | – | 1/1 | 1/1 |
| Mr LAW Yee Kwan Quinn | 5/5 | 9/9 | – | 4/4 | – | 2/2 | 1/1 |
| Mr LEE Sunny Wai Kwong | 5/5 | 8/9 | 1/1 | 4/4 | 5/5 | 2/2 | 1/1 |
| Mr LIP Sai Wo | 3/3 | 3/3 | – | 3/3 | 3/3 | 1/1 | – |
| Prof MA Si Hang Frederick | 1/2 | – | 1/1 | – | 1/2 | 1/1 | – |
| Mr TUNG Savio Wai-Hok | 2/2 | 6/6 | 1/1 | 1/1 | 2/2 | 1/1 | 1/1 |
| **Executive Director** | | | | | | | |
| Mr SUN Yu *(Vice Chairman and Chief Executive)* | 5/5 | – | – | – | 5/5 | 2/2 | 1/1 |
| **Average Attendance Rate** | 93% | 96% | 90% | 94% | 90% | 100% | 100% |

Apart from formal Board meetings and general meeting, the Company has set up a system of pre-communication meetings for the Independent Non-executive Directors, where major agenda items have been presented to the Independent Non-executive Directors before each Board meeting, and their comments have been timely conveyed to the Management for follow up actions so as to enhance the effectiveness of deliberation at Board meetings.

The Company has arranged informal events for Board members and the senior management to facilitate their communication and interactions. For example, the Company has invited Directors to participate in the communication meetings with the Chief Executive and senior management to discuss and communicate on the Company's latest business and strategic development and other aspects during the year. Independent Non-executive Directors has been invited to join the Company's brainstorming meeting to share their experience and ideas on business development strategy. Besides, a board retreat to Greater Bay Area has been organised during the year for Board members (in particular the Independent Non-executive Directors) to gain a good understanding of the Group's regional business and operations and enhance communication with the senior management. The Company has also organised working meals from time to time, with Board members and the senior management invited to join and share insights on the Company's business and strategic issues.

**Directors' Time Commitment**

All Directors confirmed to the Company that he/she has devoted sufficient time, attention and effort to fulfilling their responsibilities as a director of the Company throughout the year. The Directors also disclosed to the Company the number and nature of offices he/she held in other listed companies and organisations as well as other significant commitment. None of the Directors held directorships in more than seven listed companies as at the date of this Annual Report. Below is an analysis of the number of directorships in other listed companies of the Directors:

| Number of directorships in other listed companies | Number of Directors/ Total number of Directors | Overall percentage |
|---|---|---|
| 0 | 3/11 | 27% |
| 1 – 2 | 8/11 | 73% |

# Board Committees

## Audit Committee

The Audit Committee currently comprises five members, all of whom are Independent Non-executive Directors. Its composition, main duties and major works performed during the year are as follows:

| Composition[1] | Main duties |
|---|---|
| Mr LIP Sai Wo[2] *(Chairman)*<br>Mdm CHENG Eva[2]<br>Mdm FUNG Yuen Mei Anita[2]<br>Mr LAW Yee Kwan Quinn[2]<br>Mr LEE Sunny Wai Kwong[2] | • oversight of the integrity of financial statements and financial reporting process<br>• oversight of risk management and internal control systems<br>• review of performance of the internal audit function and the General Manager of Group Audit<br>• review of the appointment of external auditor and assessment of its qualification, independence and performance and, with authorisation of the Board and shareholders at general meeting, determination of its remuneration<br>• review of the periodic review and annual audit of the Company's and the Group's financial statements, and financial and business review<br>• oversight of compliance with applicable accounting standards as well as legal and regulatory requirements on financial disclosures<br>• oversight of corporate governance framework of the Group and implementation thereof<br><br>**Major works performed during the year (included the review and, where applicable, approval of)**<br>• the Company's financial statements for the year ended 31 December 2022 and the annual results announcement that were recommended to the Board for approval<br>• the Company's interim financial statements for the six months ended 30 June 2023 and the interim results announcement that were recommended to the Board for approval<br>• the Company's announcements on quarterly financial and business review for the period ended 31 March 2023 and 30 September 2023 that were recommended to the Board for approval<br>• the audit reports and report on internal control recommendations submitted by external auditor, the audit reports submitted by the internal audit, and the on-site examination reports issued by regulators<br>• the proposed appointment of external auditor, and the fees payable to external auditor for the annual audit, interim review and other non-audit services<br>• the connected transactions carried out in 2022<br>• the annual review of the effectiveness of the Group's risk management and internal control systems<br>• the Group's 2024 internal audit plan<br>• the organisation structure, deployment of human resources of Group Audit, as well as its 2024 budget<br>• annual review of the effectiveness of the internal audit function<br>• the 2022 performance appraisal of the General Manager of Group Audit and Group Audit<br>• review of the BOCHK Whistleblowing Policy, the BOCHK Group's Anti-Bribery and Corruption Policy, the BOCHK External Auditor Management Policy and the BOCHK Internal Audit Charter |

Notes:
1. Please refer to the section headed "Board Composition and its Terms of Office" under "Board of Directors" for details of changes to the composition of the Board Committee during the year and up to the date of this Annual Report
2. Independent Non-executive Director

## Nomination and Remuneration Committee

The Nomination and Remuneration Committee currently comprises five members, including one Non-executive Director and four Independent Non-executive Directors. Its composition, main duties and major works performed during the year are as follows:

**Composition**[1]

Dr CHOI Koon Shum[2] *(Chairman)*
Mr LIU Jin[3]
Mdm FUNG Yuen Mei Anita[2]
Mr LEE Sunny Wai Kwong[2]
Prof MA Si Hang Frederick[2]

**Main duties**

- review of overall human resources strategies of the Group
- selection and nomination of Directors, Board Committee members and Senior Management
- regular monitoring and review of structure, size and composition (including but not limited to gender, age, cultural and educational background, ethnicity, geographical location, professional experience, skills, knowledge and track records, etc.) of the Board and Board Committees
- assisting the Board to establish, approve and review the standards of director independence, and assess the independence and term of office of Independent Non-executive Directors
- review of the effectiveness of the Board and Board Committees
- ensuring the participation in training and continuous professional development of Directors and Senior Management
- review and recommendation of remuneration strategy and incentive framework of the Group
- review of the remuneration of Directors, Board Committee members, Senior Management and Key Personnel

**Major works performed during the year (included the approval, review and proposal to the Board)**

- consideration of the matters relating to the appointment and changes of Directors and Board Committee members
- consideration of the matters relating to the appointment, removal and remuneration of the Senior Management
- performance appraisal results of the Senior Management for year 2022
- proposal on staff bonus for year 2022 and salary adjustment for year 2023 for the Group, including Senior Management and Key Personnel
- proposal on human resources budget of the Group for year 2024
- coordination and oversight of the annual performance evaluation of the Board, Board Committees and individual Directors
- annual review and amendment of the major human resources and remuneration policies
- annual review of the Policy on Independence of Directors and the Policy on Directors' Remuneration

Notes:
1. Please refer to the section headed "Board Composition and its Terms of Office" under "Board of Directors" for details of changes to the composition of the Board Committee during the year and up to the date of this Annual Report
2. Independent Non-executive Director
3. Non-executive Director

## Risk Committee

The Risk Committee currently comprises four members, all of whom are Independent Non-executive Directors. Its composition, main duties and major works performed during the year are as follows:

**Composition[1]**

Mdm FUNG Yuen Mei Anita[2] *(Chairlady)*
Mr LAW Yee Kwan Quinn[2]
Mr LEE Sunny Wai Kwong[2]
Mr LIP Sai Wo[2]

**Main duties**

- formulation of the risk appetite and risk management strategy of the Group and determination of the Group's risk profile
- identification, assessment and management of material risks faced by various business units of the Group
- review and assessment of the adequacy and effectiveness of the Group's risk management policies, systems and internal controls
- review and monitoring of the Group's capital management
- review and approval of the Group's target balance sheet
- review and monitoring of the Group's compliance with risk management policies, systems and internal controls, including the Group's compliance with prudential, legal and regulatory requirements governing the businesses of the Group
- review and approval of high-level risk-related policies of the Group
- review and approval of significant or high risk exposures or transactions
- review of risk management reports, including risk exposure reports, model development and validation reports, and credit risk model performance reports

**Major works performed during the year**

- review and approval of key risk management policies of the Group, including the Group's risk appetite, the Risk Management Policy Statement, the Operational Resilience Policy, the Operational Continuity in Resolution Management Policy and various risk management policies
- review of the results of Internal Capital Adequacy Assessment Process (ICAAP), the investment plans and portfolio key risk indicators for Board's approval
- approval of the Group's target balance sheets, the proposal for the annual review of the Group's recovery plan, and the results of risk modifier, as well as risk management limits
- approval of the methodology of Climate Risk Stress Test and the New Institutional Risk Assessment model methodology
- review of various risk management reports, including the Group's risk management reports, report on loan exposures to the property sector, institutional money laundering risk assessment report, report on the status of Cybersecurity Assessments and Validation, credit risk and market risk model validation reports, and credit risk model performance reports etc.

Notes:
1. Please refer to the section headed "Board Composition and its Terms of Office" under "Board of Directors" for details of changes to the composition of the Board Committee during the year and up to the date of this Annual Report
2. Independent Non-executive Director

## Strategy and Budget Committee

The Strategy and Budget Committee currently comprises ten members, including three Non-executive Directors, six Independent Non-executive Directors as well as the Executive Director and Chief Executive of the Company. Its composition, main duties and major works performed during the year are as follows:

| Composition[1] | Main duties |
| --- | --- |
| Mr GE Haijiao[2] *(Chairman)*<br>Mr LIU Jin[2]<br>Mr SUN Yu[3]<br>Mr LIN Jingzhen[2]<br>Mdm CHENG Eva[4]<br>Dr CHOI Koon Shum[4]<br>Mdm FUNG Yuen Mei Anita[4]<br>Mr LEE Sunny Wai Kwong[4]<br>Mr LIP Sai Wo[4]<br>Prof MA Si Hang Frederick[4] | • review of the Group's medium to long-term strategic plan for Board's approval<br>• monitoring of the Group's implementation of medium to long-term strategy, providing guidance on strategy direction for the Management<br>• review of major investments, capital expenditure and strategic commitments of the Group, and making recommendations to the Board<br>• review and monitoring of the Group's regular/periodic (including annual) business plan<br>• review of annual budget for Board's approval and monitoring of performance against budgeted targets<br><br>**Major works performed during the year**<br>• receipt of and discussion on the strategic development plan of the Group's Greater Bay Area after full resumption of normal travel policy<br>• review of the Group's proposal for granting subordinated loan to subsidiaries for Board's approval<br>• receipt of and discussion on the business performance and strategic plan of the Group's subsidiaries<br>• receipt of and discussion on the strategy of accelerating the growth of high net worth customers in BOCHK<br>• review and monitoring of the implementation of 2023 Financial Budget and Business Plan of the Group, and also review and endorsement for Board's approval of the Financial Budget and Business Plan of the Group submitted by the Management for the year 2024 |

Notes:
1. Please refer to the section headed "Board Composition and its Terms of Office" under "Board of Directors" for details of changes to the composition of the Board Committee during the year and up to the date of this Annual Report
2. Non-executive Director
3. Executive Director
4. Independent Non-executive Director

## Sustainability Committee

The Sustainability Committee currently comprises eight members, including seven Independent Non-executive Directors as well as the Executive Director and Chief Executive of the Company. Its composition, main duties and major works performed during the year are as follows:

| Composition[1] | Main duties |
|---|---|
| Mdm CHENG Eva[2] *(Chairlady)*<br>Mr SUN Yu[3]<br>Dr CHOI Koon Shum[2]<br>Mdm FUNG Yuen Mei Anita[2]<br>Mr LAW Yee Kwan Quinn[2]<br>Mr LEE Sunny Wai Kwong[2]<br>Mr LIP Sai Wo[2]<br>Prof MA Si Hang Frederick[2] | • review of the Group's sustainability strategies, goals and priorities as well as material sustainability related policies<br>• review of environmental, social and governance issues which are material to the Group and the related measures<br>• oversight of the Group's sustainability performance<br>• oversight of the Group's corporate culture and review of related policies<br>• determination of the appropriate reporting principles and boundaries and review of the Sustainability Report<br><br>**Major works performed during the year**<br>• approval of the review of the Group's 5-year sustainability plan, and oversight of the strategy implementation<br>• review of the 2022 Sustainability Report and Material Issues for Board's approval<br>• review of sustainability related reports, including the Climate-related Financial Disclosures (TCFD) Report 2022, Report on Bank Culture Building, Report on the Review of the Staff Code of Conduct and Report on Consumer Rights Protection under Personal Banking<br>• review of the target setting and implementation of achieving "carbon neutrality" in BOCHK's business operations, and approval of the disclosure plan<br>• supervision and review of the various sustainability measures taken by the Group<br>• receipt of and discussion on the progress reports on carbon emissions calculation in financed activities, green finance product innovation and greenwashing risk management of the Group |

Notes:
1. Please refer to the section headed "Board Composition and its Terms of Office" under "Board of Directors" for details of changes to the composition of the Board Committee during the year and up to the date of this Annual Report
2. Independent Non-executive Director
3. Executive Director

## Directors' Securities Transactions

The Company has established and implemented the Code for Securities Transactions by Directors (the "Company's Code") to govern the Directors' dealings in securities transactions of the Company. Terms of the Company's Code are more stringent than the mandatory standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix C3 of the Listing Rules. Apart from the Directors' dealings in the securities of the Company, the Company's Code has also been applied to the Directors' dealings in the securities of BOC and BOC Aviation Limited (BOC's subsidiary) since their share listing on the Stock Exchange of Hong Kong in June 2006 and June 2016 respectively as well as BOC International (China) Co, Ltd (BOC's associate) since its share listing on the Shanghai Stock Exchange in February 2020.

Upon specific enquiry by the Company, all Directors confirmed that they had strictly complied with the provisions as set out in both the Company's Code and the said Model Code throughout the year 2023.

## Directors' Remuneration

Pursuant to the Policy on Directors' Remuneration adopted by the Company, when recommendation of the remuneration of Directors is made, the Nomination and Remuneration Committee should benchmark against companies of comparable business type or scale, the role (chairmanship or membership) they played, job nature and workload at both the Board and Board Committee levels (including frequency of meetings and nature of agenda items) in order to compensate Directors fairly. The remuneration of Directors is subject to regular review based on market practices, regulatory requirements and inflation, etc. No individual Director is allowed to participate in the procedures for deciding his/her individual remuneration package. The remuneration of the Independent Non-executive Directors is not linked with the performance of the Company. Information relating to the remuneration of each Director for 2023 is set out in Note 21 to the Financial Statements. The present scale of Director's fees, including additional fees for membership of Board Committees, is given below:

| | |
|---|---|
| Board of Directors: | |
| All Directors | HK$400,000 p.a. |
| Board Committees: | |
| Chairman | HK$100,000 p.a. |
| Other Committee members | HK$50,000 p.a. |

Note: For the year ended 31 December 2023, all Non-executive Directors (excluding Independent Non-executive Directors) and Executive Director have not received their Directors' fees as mentioned above.

The Nomination and Remuneration Committee also has the delegated responsibility from the Board to determine the remuneration packages of the Executive Directors and the Senior Management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment, early payout of deferred remuneration), as well as the performance-based remuneration. Moreover, it will recommend to the Board on their remuneration package upon joining, sign-on bonus and contract guaranteed bonus, etc.

## Remuneration and Incentive Mechanism

The Remuneration and Incentive Mechanism of the Group is based on the principles of "effective motivation" and "sound remuneration management". It links remuneration with performance and risk factors closely. It serves to encourage staff to enhance their performance, and at the same time, to strengthen their awareness of risk so as to achieve sound remuneration management.

The Remuneration and Incentive Policy of the Group is generally in line with the broad principles set out in the HKMA's Guideline on a Sound Remuneration System and applicable to the Company and all of its subsidiaries (including the branches and entities in and out of Hong Kong).

- **"Senior Management" and "Key Personnel"**

  The Remuneration and Incentive Policy of the Group defines "Senior Management" and "Key Personnel" as follows:

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

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

- **Determination of the Remuneration Policy**

  To fulfil the above-mentioned principles and to facilitate effective risk management within the framework of the Remuneration Policy of the Group, the Remuneration Policy of the Group is initiated by Human Resources Department with consultation of the risk control units including risk management, financial management and compliance in order to balance the needs for staff motivations, sound remuneration and prudent risk management. After the proposed Remuneration Policy is cleared by the Management Committee, it will be submitted to the Nomination and Remuneration Committee for review and thereafter to the Board for approval. The Nomination and Remuneration Committee and the Board will seek opinions from other Board Committees (e.g. Risk Committee, Audit Committee, etc.) where they consider necessary under the circumstances.

- **Key Features of the Remuneration and Incentive Mechanism**

1. *Performance Management Mechanism*

   The Group has put in place a performance management mechanism to formalise the performance management at the levels of the Group, units and individuals. For Senior Management and other staff, annual targets of the Group will be tied to the job requirements of staff at each level through the performance management mechanism. Performance of individuals will be appraised on quantitative and qualitative dimensions such as business performance/achievements, the degree of compliance, their performance on risk management duties, and adherence to the corporate values, etc. Not only is target accomplishment taken into account, but also the values-based behaviours and sufficient risk management during the course of work, ensuring prudent operation and sustainable development of the Group.

2. *Performance-based and Risk-adjusted Remuneration Management*

   The remuneration of staff is composed of "fixed remuneration" and "variable remuneration". The proportion of one to the other for individual staff members depends on job grades, roles, responsibilities and functions of the staff with the prerequisite that balance has to be struck between the fixed and variable portion. Generally speaking, the higher the job grades and/or the greater the responsibilities, the higher will be the proportion of variable remuneration so as to encourage the staff to follow the Group's philosophy of prudent risk management and sound long-term financial stability.

   Every year, the Group will conduct periodic review on the fixed remuneration of the staff with reference to various factors like remuneration strategy, market pay trend and staff salary level, and will determine the remuneration based on the affordability of the Group as well as the performance of the Group, units and individuals. As mentioned above, performance assessment criteria include quantitative and qualitative factors, as well as financial and non-financial indicators.

According to the BOCHK Group Bonus Funding Policy, the size of the bonus pool of the Group is determined by the Board on the basis of the financial performance of the Group and the achievement of non-financial strategic business targets under the long-term development of the Group. The size of the bonus pool is reached based on pre-defined formulaic calculations but the Board can make discretionary adjustment to it if deemed appropriate under prevailing circumstances. When the Group's performance is relatively weak (e.g. failed to meet the threshold performance level), no bonus will be paid out that year in principle. However, the Board reserves the rights to exercise its discretion.

As far as individual units and individual staff are concerned, allocation of the variable remuneration is closely linked to the performance of the units, and that of each individual staff as well as the unit he/she is attaching to, and the assessment of which should include risk modifiers. The performance and remuneration arrangement of risk control personnel are determined by the achievement of their core job responsibilities, independent from the business they oversee; for front-line risk controllers, a cross-departmental reporting and performance management system is applied to ensure the suitability of performance-based remuneration. Within the acceptable risk level of the Group, the better the performance of the unit and the individual staff, the higher will be the variable remuneration for the individual staff. The allocation of variable remuneration to staff should also consider individual behaviour comprehensively. For behaviour which is positive and adhering to the Group's corporate culture, the variable remuneration should be tilted forward; for misconduct or behaviour which is negative and not adhering to the Group's corporate culture, the variable remuneration should be forfeited or reduced, the amount of remuneration to be adjusted should be proportionate with the misconduct outcome, and should take into account all relevant indicators of the severity of the impact.

3. *Linking the payout of the variable remuneration with the time horizon of the risk to reflect the long-term value creation of the Group*

   To work out the principle of aligning remuneration with the time horizon of risk and to ensure that sufficient time is allowed to ascertain the associated risk and its impact before the actual payout, payout of the variable remuneration of staff is required to be deferred in cash if such amount reaches certain prescribed threshold. The Group adopts a progressive approach towards deferral. The longer the time horizon of risk in the activities conducted by the staff and the higher amount of the variable remuneration, the higher will be the proportion of deferral. Deferral period lasts for three years.

   The vesting of the deferred variable remuneration is linked with the long term value creation of the Group. The vesting conditions are closely linked to the annual performance of the Group in the next three years and the individual behaviour of the staff concerned. When the Group's performance has met the threshold requirement, the deferred variable remuneration would be vested following the corresponding schedule.

   However, if circumstances at the Group or entity/unit level such as major adjustments to financial information on which the calculation of variable remuneration is based occur as a result of financial restatement, or there is fraud in performance appraisal, or the remuneration management procedures are violated by distributing variable remuneration or adding remuneration and incentive items without authorisation, or remuneration is distributed in violation of regulation or based on false information, or there are falls far short of the standards or deviates from the reasonable range with respect to the key regulatory indicators, or receiving regulatory disposal measures such as takeover or heavy fines imposed by regulatory institution, or having major risk events that have caused bad influences on the financial market order etc., or a staff has committed material misconduct, including but not limited to fraud, mis-selling of financial products, manipulation (or attempted manipulation) of markets etc., or any financial or non-financial factors used in performance measurement or variable remuneration determination are later proven to have been manifestly worse than originally understood in a particular year, or an individual whose apparent negligence or failure to perform the obligation of prudent management has caused excessive risk exposure within the scope of responsibility, or individual behaviour/management style poses negative impacts to the business unit and even the Group, including but not limited to negative or improper behaviour which is not in adherence to corporate culture, improper or inadequate risk management, significant incident and economic loss incurred by improper management, etc., the Group reserves the rights to carry out the malus and clawback of variable remuneration, forfeiting the unvested portion of the deferred variable remuneration of the relevant staff and/or requiring the relevant staff to return the paid variable remuneration.

- **Annual Review of Remuneration Policy**

  The Remuneration Policy of the Group is subject to annual review with reference to changes in external regulatory requirements, market conditions and risk management requirements, etc. In 2023, the Group reviewed the related policies of remuneration and incentive, including BOCHK Group Remuneration and Incentive Policy, BOCHK Group Variable Pay Deferral Policy, BOCHK Group Bonus Funding Policy etc. The above amendments were effective from 1 January 2024. Besides, the position lists of "Key Personnel" were reviewed and revised with effect from December 2023.

- **External Remuneration Consultant**

  To ensure the suitability and competitiveness of the remuneration and incentive mechanism, the Group appointed Willis Towers Watson, Mercer and McLagan for independent consultation in areas of pay management and market remuneration data of the Senior Management and key positions, etc.

- **Disclosure on Remuneration**

  The Group has fully complied with the guideline in Part 3 of the Guideline on a Sound Remuneration System issued by the HKMA to disclose information in relation to our remuneration and incentive mechanism.

## External Auditor

Pursuant to the BOCHK Policy on External Auditor Management adopted by the Board, the Audit Committee reviewed and monitored and was satisfied with the independence and objectivity of PricewaterhouseCoopers, the Group's external auditor, and the effectiveness of its audit procedures, based on the principles and standards set out in the said Policy that were in line with international best practices. Upon the recommendation of the Audit Committee, the Board will propose that PricewaterhouseCoopers be re-appointed as auditor of the Group at the Company's 2024 annual general meeting. Subject to shareholders' authorisation, the Board will authorise the Audit Committee to determine the remuneration of PricewaterhouseCoopers.

For 2023, the fees paid or payable by the Group to PricewaterhouseCoopers was HK$32 million (2022: HK$44 million), of which HK$30 million (2022: HK$25 million) related to audit services and HK$2 million (2022: HK$19 million) related to other services (mainly including tax compliance services and services provided to meet the requirements of regulatory bodies). The Audit Committee was satisfied that the non-audit services in 2023 did not affect the independence of PricewaterhouseCoopers.

## Risk Management and Internal Control

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems. The Board oversees the Management in the design, implementation and monitoring of the risk management and internal control systems. According to the Board's scope of delegation, the Management is responsible for the day-to-day operations and risk management, and the Management needs to provide a confirmation to the Board on the effectiveness of these systems.

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss; to manage the risk of system failure; and to assist in the achievement of the Group's objectives. In addition to safeguarding the Group's assets, it also ensures the maintenance of proper accounting records and compliance with relevant laws and regulations.

The Group conducts an annual review of the effectiveness of its risk management and internal control systems covering all material controls, including financial, operational and compliance controls as well as risk management. The review is conducted by reference to the guidelines and definitions given by the regulatory and professional bodies for the purpose of assessing five different internal control elements, namely, the control environment, risk assessment, control activities, information and communication, and monitoring. The assessment covers all the major internal controls and measures, including financial, operational and compliance controls as well as risk management functions. The review also considers the adequacy of resources, staff qualifications and experience and training of the Group's accounting, financial reporting, internal audit functions, as well as those relating to the ESG performance and reporting. The review is coordinated by the Group's internal audit which, after the Management and various business departments have performed their self-assessment and the Management has confirmed the effectiveness of the relevant systems, carries out an independent examination and other post-assessment work on the review process and results. The results of the 2023 review, which have been reported to the Audit Committee and the Board, revealed that the Group's risk management and internal control systems were effective and adequate.

In addition, the key procedures that the Group has essentially established and implemented to provide internal controls are summarised as follows:

- a rational organisational structure with appropriate personnel is developed and whose responsibility, authority, and accountability are clearly delineated. The Group has formulated policies and procedures to ensure reasonable checks and balances for all the operating units, reasonable safeguard for the Group's assets and adherence to relevant laws and regulations and risk management in its operations;
- the Management draws up and continuously monitors the implementation of the Group's strategies, business plans and financial budgets. The accounting and management systems that are in place provide the basis for evaluating financial and operational performance;
- the Group has various risk management and human resources policies. There are specific units and personnel that are responsible for handling reputation, strategic, legal, compliance, credit, market, operational, liquidity and interest rate risks. There are also procedures and internal controls for the handling and dissemination of inside information. The Group has set up mechanisms to identify, evaluate and manage all the major risks, and has established corresponding internal control procedures as well as processes for resolving internal control defects. (Details about the Group's risk management are provided on pages 48 to 53 of this Annual Report);
- the Group has established an information technology governance structure that produces a range of reports on information systems and management, including information on the monitoring of various business units, financial information and operating performance. Such information facilitates the Management, business units and the regulatory bodies in assessing and monitoring the Group's operation and performance. Proper communication channels and reporting mechanisms are in place at various business units and levels to facilitate exchange of information;
- pursuant to a risk-based approach and in accordance with the internal audit plan approved by the Audit Committee, the Group's internal audit conducts independent reviews on such aspects as financial activities, various business areas, various kinds of risks, operations and activities. Reports are submitted directly to the Audit Committee. The Group's internal audit closely follows up on the items that require attention in a systematic way and reports to the Management and the Audit Committee in a timely manner; and
- the Audit Committee reviews the reports submitted by external auditor to the Group's Management in connection with the annual audit as well as the recommendations made by regulatory bodies on risk management and internal control. The Group's internal audit follows up on the same to ensure timely implementation of the recommendations, and also periodically reports the status of the implementation to the Management and the Audit Committee.

The Group is committed to upholding good corporate governance practices and the internal control system of all subsidiaries are reviewed regularly. During the year of 2023, continuous improvements on the organisation structure and segregation of duty, the risk management policy and procedure, and the enhancement of disclosure transparency have been undertaken by the Group. In response to internal and external changes in global economic condition, operating environment, regulatory requirement and business development, the Group has implemented a series of measures and undertaken an on-going review on the effectiveness of the internal control mechanism. In 2023, areas for improvement have been identified and appropriate measures have been implemented.

## Communication with Shareholders

The Company has adopted a Shareholder Communication Policy which will be reviewed by the Board annually to ensure effectiveness. The said policy sets forth the commitment of the Company to maintain on-going and effective communication with its shareholders and provides various channels for communication which include access of the Company's corporate communication such as announcements, circulars, annual and interim reports as well as other information through the Company's website or, if requested by shareholders, sending hard copies of relevant materials to them.

The Board attaches a high degree of importance to continuous communication with shareholders, particularly through direct dialogue with them at the Company's annual general meeting. The Company has adopted a hybrid meeting model for convening the annual general meeting flexibly which allows shareholders to attend the meeting in person or to view the proceedings of the meeting and participate in voting, and submit questions in a convenient and efficient way.

Apart from making close communication with the Shareholders, the Company will communicate actively with the investment community in the forms of meetings, conferences and roadshows. For details, please refer to the section headed "Investor Relations" in this report.

Mr GE Haijiao (Chairman of the Company and the Strategy and Budget Committee who was appointed with effect from 27 April 2023), Mr TUNG Savio Wai-Hok (former Chairman of the Audit Committee who retired with immediate effect from the conclusion of the annual general meeting held on 29 June 2023), Dr CHOI Koon Shum (Chairman of the Nomination and Remuneration Committee), Mr KOH Beng Seng (former Chairman of the Risk Committee who retired with immediate effect from the conclusion of the annual general meeting held on 29 June 2023) and Mdm CHENG Eva (Chairlady of the Sustainability Committee) were present at the Company's 2023 annual general meeting held on 29 June 2023 at Four Seasons Grand Ballroom, Level 2, Four Seasons Hotel Hong Kong, 8 Finance Street, Central, Hong Kong. Representatives of PricewaterhouseCoopers, the auditor of the Company, and Gram Capital Limited, the independent financial adviser engaged in connection with the continuing connected transactions, were also present at the Company's 2023 annual general meeting to respond to enquiries raised by shareholders. Save as disclosed above, other Directors including Mr LIU Jin (Vice Chairman of the Company), Mr SUN Yu (Vice Chairman and Chief Executive of the Company), Mr LIN Jingzhen, Mdm FUNG Yuen Mei Anita, Mr LAW Yee Kwan Quinn and Mr LEE Sunny Wai Kwong were also present at the meeting.

The Company is committed to undertaking corporate social responsibility and has enhanced the arrangement by making charitable donations to The Community Chest Medical Assistance Fund as an alternative to distribution of corporate gifts to shareholders at the general meeting held in 2023 in order to help people in need.

Summary of the resolutions passed at the Company's 2023 annual general meeting as well as the percentage of votes cast in favour are as follows:

| Ordinary Resolutions | Percentage Voted For |
|---|---|
| Approval of audited financial statements and the Reports of the Directors and of the Auditor | 99.95% |
| Declaration of final dividend | 99.99% |
| Re-election of Directors | 97.18% to 99.86% |
| Re-appointment of Auditor | 98.86% |
| Grant of general mandate to issue shares | 98.89% |
| Grant of general mandate to buy-back shares | 99.92% |
| Approval of the Continuing Connected Transactions and the New Caps | 98.66% |

Further details of the voting results are available under the sub-section "Stock Exchange Announcements" of the section headed "Investor Relations" on the Company's website at www.bochk.com.

As disclosed in the 2022 Annual Report of the Company, in view of the investors' concern regarding potential dilution of the shareholder value arising from the exercise of power pursuant to the grant of a general mandate to issue shares to the Board, having thoroughly considered the feedback from investors and proxy advisory firms, and making reference to industry's practices on general mandate to issue shares and deliberated the strategic business development plan, the Board has recommended to reduce the general mandate to issue shares to be issued to 10% of the total number of shares in issue as compared to the 20% limit permitted under the Listing Rules, and to introduce a limitation of discount rate of issue price which shall not exceed 10% of the Company's benchmarked price. The Board also continued to recommend the threshold of up to 5% of the total number of shares in issue in the event that the issue of shares is solely for cash and not related to any acquisition of assets (subject to adjustment in case of any subdivision and consolidation of shares after the passing of the relevant resolution) at the 2023 annual general meeting for approval by shareholders. The Board will continue to recommend (i) the threshold for granting of a general mandate to issue shares of up to 10% (or 5% in the event that the issue of shares is solely for cash and not related to any acquisition of assets) of the total number of shares in issue (subject to adjustment in case of any subdivision and consolidation of shares after the passing of the relevant resolution), and (ii) a limitation of discount rate of issue price which shall not exceed 10% of the Company's benchmarked price at the forthcoming annual general meeting for approval by shareholders.

Further, given its commitment to high standards of corporate governance, the Board also adopted certain internal policies for the exercise of the powers granted to the Board under the general mandates to issue shares solely for cash and buy back shares. The relevant policies are summarised as follows:

- in the exercise of the power to issue shares for cash, the Board will have regard to factors such as the Group's total capital ratio, and in particular, its Tier 1 capital, cost and benefit of raising Tier 2 capital, need for cash for the Group's business development, the principle that shareholders should be treated equally and the alternative of conducting a rights issue; and

- the Board has set the triggering events for the exercise of the power to buy back shares, which include: market price of the Company's shares is lower than the fair value of the shares; the Group has surplus funds which are in excess of its short to mid term development requirements; and the Board considers it proper and appropriate to exercise relevant mandate for enhancing the return on equity or net assets or earnings per share of the Company. In general, such share buy-backs will be made on the Stock Exchange. However, if it is expected that the size of the share buy-backs may lead to a disorderly market for the Company's shares, then the Board will consider making the share buy-backs through a general offer, i.e. offer to all existing shareholders in proportion to their respective shareholdings. The price at which shares are bought back will not be higher than the fair value of the shares of the Company.

All the resolutions to be proposed at the Company's 2024 annual general meeting will be voted on by poll. Accordingly, the Company will engage Computershare Hong Kong Investor Services Limited, the Company's Share Registrar, to act as the scrutineer for such purpose. The results of the poll voting will be posted on the Stock Exchange's website and the Company's website as soon as practicable following conclusion of the vote-counting for shareholders' information.

Besides, in order that shareholders can have a better understanding of the agenda items to be discussed at the 2024 annual general meeting and to encourage their active participation so that exchange of views and communication can be further enhanced, the Company will provide detailed information on the 2024 annual general meeting in a circular to shareholders which will include introduction to the proposed resolutions to be approved at the annual general meeting, information on the retiring Directors who are eligible for re-election, as well as information on voting and other issues relating to the 2024 annual general meeting in the form of "Frequently Asked Questions".

## Shareholders' Rights

Shareholders are entitled to convene an extraordinary general meeting, propose a resolution at an annual general meeting, and propose a person for election as a Director. Please see the detailed procedures as follows:

- **the way in which shareholders can convene an extraordinary general meeting**

  Any shareholder(s) holding not less than 5% of total voting rights of all the shareholders who have a relevant right to vote may request the Board to convene an extraordinary general meeting. The request, duly signed by the shareholder(s) concerned, must clearly state the general nature of the business to be dealt with at the meeting and may include the text of the proposed resolution. Such request must be deposited at the registered office of the Company, 53rd Floor, Bank of China Tower, 1 Garden Road, Hong Kong. The Company would take appropriate actions and make necessary arrangements in accordance with the requirements under sections 566 to 568 of the Hong Kong Companies Ordinance once a valid request is received.

- **the procedures for proposing a resolution at an annual general meeting**

  The following shareholders are entitled to request the Company to give notice of a resolution that may properly be moved at an annual general meeting of the Company:

  (a) shareholders representing at least 2.5% of the total voting rights of all the shareholders who have a relevant right to vote; or

  (b) at least 50 shareholders who have a relevant right to vote.

  The request identifying the proposed resolution, duly signed by the shareholders concerned, must be deposited at the registered office of the Company, 53rd Floor, Bank of China Tower, 1 Garden Road, Hong Kong not less than six weeks before the annual general meeting, or if later, the time at which notice is given of that meeting. The Company would take appropriate actions and make necessary arrangements in accordance with the requirements under sections 615 and 616 of the Hong Kong Companies Ordinance once valid documents are received.

- **the procedures for Director's nomination and election by shareholders**

  If a shareholder wishes to propose a person other than a retiring Director for election as a Director at a general meeting, the shareholder should lodge at the registered office of the Company (53rd Floor, Bank of China Tower, 1 Garden Road, Hong Kong): (a) a notice in writing signed by such shareholder (other than the proposed person) duly qualified to attend and vote at the meeting of his/her intention to propose such person for election; (b) a notice signed by the proposed person indicating his/her willingness to be elected; and (c) a sum reasonably sufficient to meet the Company's expenses in giving effect thereto.

  The period during which the aforesaid notices may be given will be at least seven days. Such period will commence on the day after the despatch of the notice of the general meeting for which such notices are given and end no later than seven days prior to the date of such general meeting. The Company would take appropriate actions and make necessary arrangements in accordance with the requirements under Article 99 of the Articles of Association once valid notices and the aforesaid sum are received.

Further shareholder information, including details of shareholders by types and aggregate shareholding as well as important shareholders' dates in 2024, is set out in the section headed "Investor Relations". The percentage of public float is set out in the Report of the Directors. Shareholders are welcome to send in any written enquiries to the Board for the attention of the Company Secretary either by post to the registered office of the Company at 53rd Floor, Bank of China Tower, 1 Garden Road, Hong Kong or by way of email to investor_relations@bochk.com. The Company Secretary would direct the enquiries received to appropriate Board member(s) or the Chairman of the Board Committee(s) who is in charge of the areas of concern referred therein for further handling. The Board, assisted by the Company Secretary, would make its best efforts to ensure that all such enquiries are addressed in a timely manner.

## Dividend Policy

The primary objectives of the Company's dividend policy are to comply with regulatory requirements, support its ongoing business development by providing adequate capital while balancing shareholders' long term and short term interests. Unless under special circumstances, the Board maintains a payout ratio within the range of 40% to 60%. The Company periodically reviews the dividend policy by considering multiple factors, among which are changes of regulatory requirements, economic and business environments.

## Disclosure of Information

The Company recognises the importance of timely and effective disclosure of information and formulates policies, procedures and controlling measures on information disclosure (including inside information) in accordance with the requirements under applicable laws, regulations and regulatory requirements which include the Securities and Futures Ordinance, the Listing Rules and the HKMA's Supervisory Policy Manual.

The Group has established controlling measures for the oversight of business and corporate development of the Group to enable prompt identification and escalation of any inside information by all departments/units. The Management Committee reviews relevant information submitted and assesses its possible impact, and reports the result to the Board. The Board will assess and determine whether it is inside information, and whether it is appropriate to disclose the inside information after consideration of relevant circumstances and regulatory requirements.

The Information Disclosure Policy requires that heads of relevant departments/units should restrict access to the inside information to a limited number of employees on a need-to-know basis during the escalation process and maintain a list of insider employees for senior management's inspection from time to time. The Group provides regular refreshment courses on the Information Disclosure Policy to employees to ensure those employees are fully conversant of their obligations under the said policy.

Details of the Information Disclosure Policy have been posted on the Company's website at www.bochk.com.

## Directors' Responsibility Statement in relation to Financial Statements

The following statement should be read in conjunction with the auditor's statement of their responsibilities as set out in the auditor's report. The statement aims to distinguish the responsibilities of the Directors and the auditor in relation to the financial statements.

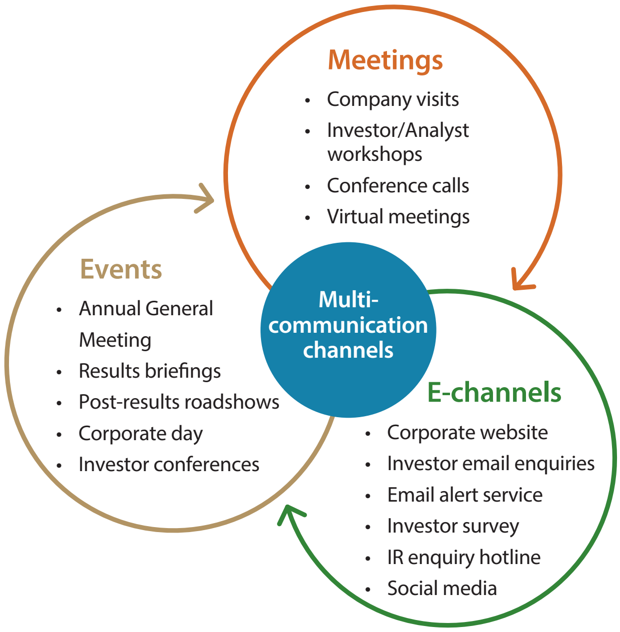
The Directors are required by the Hong Kong Companies Ordinance to prepare financial statements, which give a true and fair view of the state of affairs of the Group. The financial statements should be prepared on a going concern basis unless it is considered inappropriate. The Directors are responsible for ensuring that the accounting records kept by the Group at any time reasonably and accurately reflect the financial position of the Group, and that the financial statements comply with the requirements of the Hong Kong Companies Ordinance. The Directors also have duties to take reasonable and practicable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors consider that in preparing the financial statements, the Group has adopted appropriate accounting policies which have been consistently applied and supported by reasonable judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

# Investor Relations

## Investor Relations Policy and Guidelines

The Company recognises the fundamental importance of maintaining effective communication with its existing and potential investors. We aim to provide clear and timely information that is reasonably required to make a fair investment decision with regard to the Company's equity and debt securities. We also highly value investor feedback and comments for the formulation of the Company's growth strategies to ensure its sustainable development and enhance shareholder value.




## Investor Relations Programmes

The objectives of the Company's investor relations programmes are to promote, through various channels, timely and effective communication with the investment community to enhance their knowledge and understanding of the Company's development and strategies. The investment community refers to existing and potential investors of the Company's securities, analysts and securities market professionals. The Company's securities include both equity securities and debt securities.

The Company's investor relations strategies and programmes are formulated and overseen by the Investor Relations Committee, which is chaired by the Company's Chief Executive and comprises members of the senior management. The Investor Relations Division of the Board Secretariat, which reports directly to the Board, is responsible for the implementation of these strategies and acts as an intermediary between the Company and the investment community. Both the Board and the Committee evaluate the effectiveness of the investor relations programmes on a regular basis.

The Company's senior management is highly supportive and actively involved in investor relations activities. We communicate with the investment community in meetings, conferences and road-shows during which we discuss general public information, including disclosed financial information and historical data, markets and product strategies, business strengths and weaknesses, growth opportunities and threats. Any topic will be discussed so long as it is not considered to be material non-public information.

## Information Disclosure Policy

The Company attaches high importance to the principles of information disclosure with regard to timeliness, fairness and transparency, and proactively discloses information that may have an impact on investment decision-making. In accordance with relevant legislation and statutory requirements, the Company has prepared an Information Disclosure Policy, which is available on the Company's website for public reference. The policy contains clear guidelines to ensure the following:

1. information disclosure is in compliance with the Listing Rules and other regulatory requirements;

2. all communications with the public, including the investment community and the media, follow the principles of timeliness, fairness, truthfulness, accuracy and compliance; and

3. effective monitoring of procedures for information disclosure is in place.

## Access to Corporate Information

The Investor Relations section of the Company's website (www.bochk.com) provides shareholders and investors with access to information on the Company's latest developments according to the principles of the Information Disclosure Policy. These include information in relation to the Company's key developments, interim and annual results as well as quarterly financial and business review updates. Members of the public can access important announcements through the Stock Exchange of Hong Kong. The website also includes regulatory disclosure information that complies with the applicable requirements set out in the Banking (Disclosure) Rules as stipulated by the Hong Kong Monetary Authority.

The Investor Relations section also includes information on credit ratings, shares and dividends, as well as a corporate calendar with dates of important events.

Shareholders and investors are encouraged to view the Company's corporate materials online to support environmental conservation. The Investor Relations website also includes an e-mail alert service to provide corporate updates on the Company's financial performance and latest developments. Shareholders and other interested parties may register on the website to receive updates by email.

# Overview of Investor Relations Activities in 2023

In 2023, the Company continued its efforts to provide effective channels for communication with the investment community.

## Annual General Meeting

The Annual General Meeting held on 29 June 2023 was conducted as a hybrid meeting which allows shareholders to participate in the proceedings of the meeting, vote and submit questions in a convenient and efficient way by visiting website from anywhere with an internet connection instead of attending the meeting in person.

At the Annual General Meeting held in June 2023, Chairman of the Board, Chairmen and members of the Audit Committee, the Nomination and Remuneration Committee, the Risk Committee, the Strategy and Budget Committee as well as the Sustainability Committee respectively, the Company's senior management and external auditor were present to respond to questions and comments from shareholders. A total of 354 registered shareholders and 85 authorised proxies holding an aggregate of 8,546,643,092 shares, representing 80.84% of the Company's total number of shares in issue, were present. Minutes of the 2023 Annual General Meeting were made available to shareholders on the Company's website.

## Results Announcements

At the Company's 2022 annual results announcement and 2023 interim results announcement, the Company's senior management attended the briefings with analysts and the press to apprise them of the Company's strategy implementation, operating results, business development and outlook as well as to answer their questions. The public could access the results announcements, presentation materials, webcasts, financial data pack and transcripts of analyst briefing sessions on the Company's website and kept themselves updated with the latest financial and earnings performances of the Company. At the same time, the Company leveraged a wide range of social platforms and announced results via Weixin, YouTube and LinkedIn so as to maintain broad communications channels with investors.

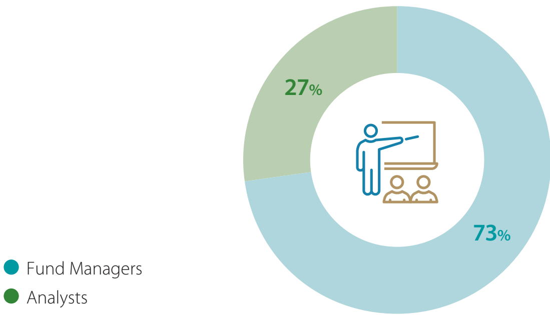
In addition to the interim and annual results announcements, the Company published quarterly financial and business reviews to keep shareholders up-to-date about the Company's performance and financial position.

## Communication with the Investment Community

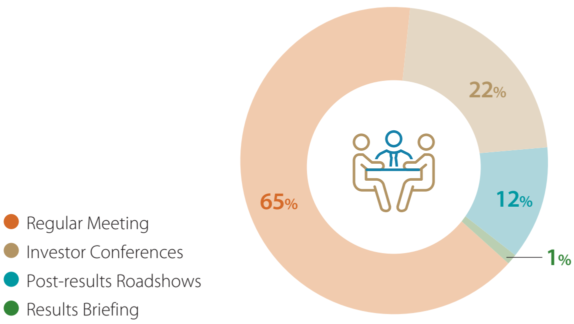
In 2023, the Company had held 209 meetings with a total attendance of over 780 investors and analysts across the world. These meetings, which aim to give investors a better understanding of the Company's strategies and new business initiatives as well as to continuously engage them in active and in-depth discussion on the Company's ESG development, were held through results briefings, post-results road-shows, investor conferences, regular meetings and thematic meetings. The Company was widely covered by 13 securities research institutions, among which a good number of them ascribed "Buy" rating to the Company. The Company expanded investor base and optimised its geographical distribution by proactively making use of virtual and in-person meetings and interacting with institutional investors across major regions in the globe covering the financial centres and cities in the Asia-Pacific, Europe, America, Middle East, etc., which earned positive reaction from the investment community.

In addition to that, the Company closely monitored the latest market development and continued to promote two-way communication through methods including emails, direct dialogue, survey and investor feedback. The responses received from investors enabled the Company to understand market focuses and demand for detailed business information, which helped to better formulate its investor relations plan and continually improve its disclosure standard and investor relations practices.

**Investor Meetings by Participant Category**




**Investors Met by Event**




## Going Forward

Under the principles of timeliness, fairness and transparency, the Company will continue to promote proactive investor relations practices, including effective investor relations programmes to keep the investment community adequately informed of the Company's present and future development. The Company will also benchmark its programmes against best practices for continuous improvement and more efficient communication with the investment community.

## Investor Relations Contact

Enquiries can be directed to:

Investor Relations Division
BOC Hong Kong (Holdings) Limited
53rd Floor, Bank of China Tower
1 Garden Road, Hong Kong

Telephone: (852) 2826 6314
Facsimile: (852) 2810 5830
E-mail: investor_relations@bochk.com

## Shareholder Information

### Financial Calendar 2024

| Major Events | Dates |
|---|---|
| Announcement of 2023 annual results | 28 March (Thursday) |
| Latest time for lodging transfers for entitlement to attend and vote at the 2024 Annual General Meeting | 21 June (Friday) 4:30 p.m. |
| Book closure period (both days inclusive) | 24 June (Monday) to 27 June (Thursday) |
| Latest time for lodging proxy forms for the 2024 Annual General Meeting | 25 June (Tuesday) 2:00 p.m. |
| 2024 Annual General Meeting | 27 June (Thursday) 2:00 p.m. |
| Last day in Hong Kong for dealing in the Company's shares with entitlement to final dividend | 28 June (Friday) |
| Ex-dividend date | 2 July (Tuesday) |
| Latest time for lodging transfers for entitlement to final dividend | 3 July (Wednesday) 4:30 p.m. |
| Book closure period (both days inclusive) | 4 July (Thursday) to 9 July (Tuesday) |
| Record date for final dividend | 9 July (Tuesday) |
| Final dividend payment date | 15 July (Monday) |
| Announcement of 2024 interim results | Mid to late August |

## Annual General Meeting

The 2024 Annual General Meeting will be held at 2:00 p.m. on Thursday, 27 June 2024. For details of the meeting, please refer to the notice of the annual general meeting to be issued by the Company.

# Share Information

## Listing and Stock Codes

| Ordinary Shares | | Level 1 ADR Programme | |
|---|---|---|---|
| The Company's ordinary shares are listed and traded on The Stock Exchange of Hong Kong Limited ("HKEX"). | | The Company maintains a Level 1 ADR facility for its ADSs. Each ADS represents 20 ordinary shares of the Company *(HKD counter)*. | |
| *Stock codes (HKD counter)* | | *Stock codes* | |
| HKEX | 2388 | CUSIP No. | 096813209 |
| Reuters | 2388.HK | OTC Symbol | BHKLY |
| Bloomberg | 2388 HK | | |
| *Stock codes (RMB counter)* | | | |
| HKEX | 82388 | | |
| Reuters | 82388.HK | | |
| Bloomberg | 82388 HK | | |

## Market Capitalisation and Index Recognition

As at 31 December 2023, the Company's market capitalisation was HK$224.1 billion, among the top 50 leading stocks on the Main Board of Hong Kong Stock Exchange in terms of market capitalisation. Given the Company's market capitalisation and liquidity, its shares are a constituent of Hang Seng Index, MSCI Index, and FTSE Index series. In addition, the Company is a constituent of Hang Seng Corporate Sustainability Index Series, Hang Seng High Dividend Yield Index and HSI ESG Index, which recognises its favorable performance in related areas.

## Debt Securities

| | | | |
|---|---|---|---|
| Issuer | : | Bank of China (Hong Kong) Limited, a wholly-owned and principal subsidiary of the Company | |
| Listing | : | The Notes are listed and traded on The Stock Exchange of Hong Kong Limited | |

### Senior Notes

| | | | |
|---|---|---|---|
| Description | : | Bank of China (Hong Kong) Limited 1.33% Notes 2024 | |
| Issue size | : | HK$2,000 million | |
| Issue theme | : | Green bond | |
| Stock codes | : | HKEX | 4490 |
| | | ISIN | HK0000814258 (Regulation S) |
| | | Bloomberg | BU4307411 (Regulation S) |

## Share Price and Trading Information

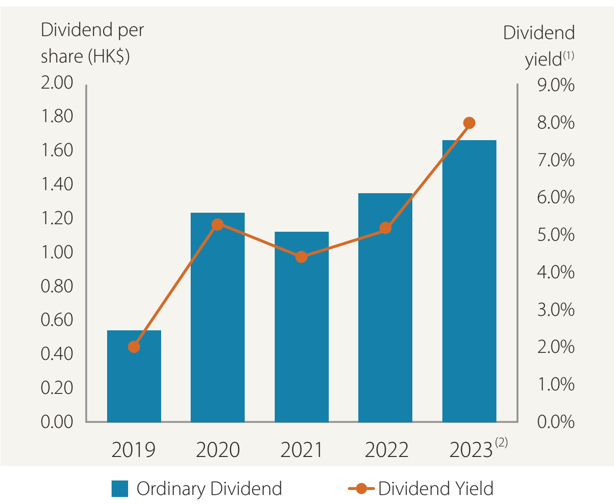
| Share price (HKD counter/RMB counter) | 2023 | 2022 | 2021 |
|---|---|---|---|
| Closing price at year end | 21.20/19.20 | 26.60/- | 25.55/- |
| Highest trading price during the year | 28.25/22.75 | 32.75/- | 29.55/- |
| Lowest trading price during the year | 20.00/18.44 | 23.55/- | 22.20/- |
| Average daily trading volume (m shares) **(HKD counter/RMB counter)** | 8.97/0.29 | 12.81/- | 11.45/- |
| Number of ordinary shares issued (shares) | 10,572,780,266 | | |
| Public float | Approximately 34% | | |

Note:
1. The Company added the RMB counter on 19 June 2023.
2. HKD counter is traded in HKD. RMB counter is traded in RMB.

## Dividends

The Board of Directors has recommended a final dividend of HK$1.145 per share, which is subject to the approval of shareholders at the 2024 Annual General Meeting. With the interim dividend per share of HK$0.527 paid during 2023, the total dividend per share will amount to HK$1.672 for the full year.

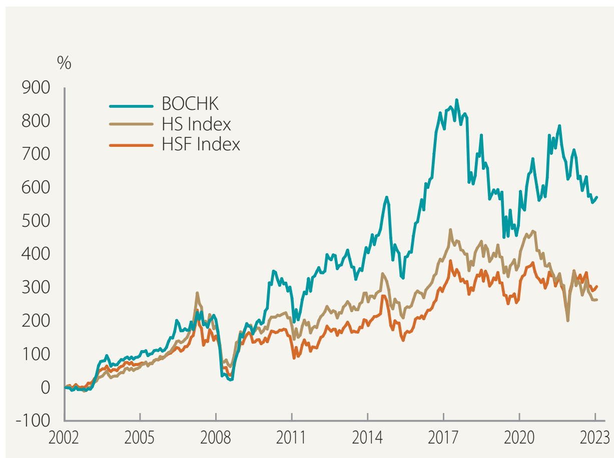
### Dividend Per Share and Dividend Yield(1)




(1) Annual dividend yield is calculated based on dividends of the year (i.e. interim dividend and proposed final dividend of the year) and closing share price at that year-end.

(2) 2023 proposed final dividend will be subject to shareholders' approval at the Company's forthcoming Annual General Meeting.

### Total Shareholder Return since Initial Public Offering




*Source: Bloomberg*

Total shareholder return is measured by share price appreciation and reinvested dividends.

## Credit Ratings (long-term)

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

## Shareholding Structure and Shareholder Base

As at 31 December 2023, the Company had 10,572,780,266 shares in issue of which approximately 34% was held by the public and 0.17% was held in the form of ADSs. The Company's 64,559 registered shareholders were distributed in various parts of the world, including Asia, Europe, North America and Australia. Apart from BOC, the Company is not aware of any major shareholders with a shareholding of more than 5% which has to be reported under the SFO.

During the year, the shareholder structure of the Company remained stable. The following table shows the distribution of ownership according to the register of members which includes registered shareholders and shareholders recorded in the participant shareholding report generated from the Central Clearing and Settlement System as at 31 December 2023:

| Category | Number of registered shareholders | % of registered shareholders | Number of shares held by registered shareholders | Approximate % of total issued shares |
|---|---|---|---|---|
| Individuals | 64,447 | 99.83 | 194,509,892 | 1.84 |
| Institutions, corporates and nominees Note | 111 | 0.17 | 3,437,192,618 | 32.51 |
| Bank of China Group Note | 1 | 0.00 | 6,941,077,756 | 65.65 |
| Total | 64,559 | 100.00 | 10,572,780,266 | 100.00 |

Note:
As recorded in the register maintained by the Company pursuant to section 336 of the SFO, the total number of shares held by Bank of China Group was 6,984,274,213 shares, representing approximately 66.06% of the total number of shares in issue of the Company as at 31 December 2023. This figure included certain numbers of shares held for Bank of China Group in the securities account opened with BOCI Securities Limited, a participant of the Central Clearing and Settlement System. Accordingly, these shares are included under the category of "Institutions, corporates and nominees".

## Shareholder Enquiries

For any enquiries or requests relating to shareholder's shareholding, e.g. change of personal details, transfer of shares, loss of share certificates and dividend warrants, etc., please send in writing to:

| | |
|---|---|
| Hong Kong | Computershare Hong Kong Investor Services Limited<br>17M Floor, Hopewell Centre<br>183 Queen's Road East, Wan Chai, Hong Kong<br>Telephone: (852) 2862 8555<br>Facsimile: (852) 2865 0990<br>Online Feedback Platform: www.computershare.com/hk/en/online_feedback |
| USA | Citibank Shareholder Services<br>P.O. Box 43077, Providence, Rhode Island 02940-3077, USA<br>Telephone: 1-877-248-4237 (toll free)<br>1-781-575-4555 (outside USA)<br>E-mail: citibank@shareholders-online.com |

## Other Information

This Annual Report is available in both English and Chinese. A copy prepared in the language different from that in which you have received is available by writing to the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or email to bochk.ecom@computershare.com.hk. This Annual Report is also available (in both English and Chinese) on the Company's website at www.bochk.com and the Stock Exchange's website at www.hkexnews.hk. You are encouraged to access the corporate communications of the Company through these websites in lieu of receiving printed copies to help protect the environment. We believe that it is also the most efficient and convenient method of communication with our shareholders.

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

# Awards and Recognition

## Financial Strength and Corporate Governance

**The Asian Banker**

- Strongest Bank in Hong Kong and Asia Pacific
- Second Strongest Bank in the World

Global Excellence in Retail Financial Services Awards 2023:

- Best Retail Bank in Hong Kong

**The Banker**

- Bank of the Year in Hong Kong

**Asiamoney**

Greater Bay Area Awards 2023:

- Best Chinese Bank for the Greater Bay Area 2023

## Sustainable Development

**Financial Times and Statista**

- Asia-Pacific Climate Leaders 2023

**Euromoney**

Euromoney Market Leader 2023:

- Market Leader for CSR in Hong Kong
- Market Leader for ESG in Hong Kong

**The Asset**

- ESG Corporate Awards 2023 – Platinum Award

**FinanceAsia**

- Best ESG Impact – Hong Kong SAR

**Bloomberg Businessweek Chinese Edition**

ESG Leading Enterprise Awards 2023:

- ESG Leading Enterprise Award
- Leading Social Initiative Award

Financial Institution Awards 2023:

- Bancassurance ESG Sustainability – Outstanding

**Fortune China**

- One of the 40 leading companies with outstanding ESG performance in China ESG Impact List

**The Hong Kong General Chamber of Small & Medium Business**

- ESG Leading Enterprise Award

**Home and Youth Affairs Bureau of the HKSAR Government and the Agency for Volunteer Service**

Hong Kong Volunteer Award 2023:

- Outstanding Corporate Award
- Top Ten Highest Volunteer Hours Award

**Hong Kong Quality Assurance Agency**

Hong Kong Green and Sustainable Finance Awards 2023:

– Outstanding Award for Green and Sustainable Bond Lead Manager

- Largest Amount of Green Bonds (Financial Investment Industry)
- Visionary Green, Social, Blue and Sustainable Bond Framework (Financial Institution)
- Largest Single Social Renminbi Bond (Local Government Financing Project)

## Innovative Technology

**Euromoney**

Euromoney Market Leader:

- Market Leader for Digital Solutions in Hong Kong

**Asian Banking & Finance**

Asian Banking & Finance Retail Banking Awards 2023:

- Digital Transformation of the Year – Hong Kong
- Mobile Banking & Payment Initiative of the Year – Hong Kong
- Digital Business Banking Initiative of the Year – Hong Kong

**The Asian Banker**

Global Excellence in Retail Financial Services Awards 2023:

- Best Big Data and Analytics Initiative

**Global Finance**

- Best Mobile Banking App Award in China

**The Digital Banker**

Digital CX Awards 2023:

- Best Digital Bancassurance

**Bloomberg Businessweek Chinese Edition**

Financial Institution Awards 2023:

- Insurance Sector - Online Platform – Excellence
- Bank Securities Sector Digital Trading Platform – Outstanding

**The Hong Kong Management Association**

Award for Excellence in Training and Development 2023:

- Excellence in Digital Transformation

## Talent Development Management

**Bloomberg Businessweek Chinese Edition**

Financial Institution Awards 2023:

- Banking Sector – Training Programme of the Year – Excellence

**JobMarket**

- Employer of Choice Award 2023

**CTgoodjobs**

- Best Talent Management Strategy Award – Gold

**The Hong Kong Institute of Bankers**

Hong Kong Banking Industry Talent Development Awards Programme:

- Category I: HKIB Talent Development Award 2023
- Category II: Talent Development Excellence Award 2023

## Service Excellence

**The Asset**

- Best Renminbi Bank in Hong Kong
- Manila Branch: Best Renminbi Bank in the Philippines

Triple A Sustainable Investing Awards for Institutional Investors, ETFs, and Asset Servicing Providers 2023 :

- Best Fund Administrator, Retail Funds – Highly Commended

**The Asian Banker**

- Best Cash Management Bank in Hong Kong
- Best Transaction Bank in Hong Kong

**Asian Banking & Finance**

- Hong Kong Domestic Cash Management Bank of the Year

Asian Banking & Finance Retail Banking Awards 2023:

- SME Bank of the Year – Hong Kong

**Asiamoney**

Greater Bay Area Awards 2023:

- Best Chinese Bank for the Wealth Management Connect of the Greater Bay Area 2023

**Asia Asset Management**

Best of the Best Awards – Hong Kong in 2023:

- Best RMB Manager

**The Corporate Treasurer**

- Best Cash Management Bank (Hong Kong)
- Most Innovative Treasury & Finance Strategies

**Treasury China**

- Best Global Treasury Service Award
- Best Global Cash Management Bank Award

**Bloomberg Businessweek Chinese Edition**

Financial Institution Awards 2023:

- Insurance Sector Bancassurer of the Year – Excellence
- Banking Securities Sector Securities Company of the Year – Excellence
- Banking Securities Sector Cross-Border Wealth Management (Personal) – Excellence
- Banking Sector SME Engagement – Outstanding

**The Hong Kong General Chamber of Small & Medium Business**

- Best SME's Partner Award for 16 consecutive years

**HKEX**

- Top Clearing Member – Offshore RMB OTC Derivatives
- Top Clearing Member – HKD OTC Derivatives

**China Foreign Exchange Trade System**

- Influential Market Participants Award – Offshore Institutional Investor
- Innovation Market Award – Cross Border Investment Innovation

**China Central Depository & Clearing Co., Ltd**

- CIBM Direct Access – Outstanding Offshore Investment Institutional Investor – Proprietary Business
- Collateral Business – Pioneer Award

**MPF Ratings**

- My Choice MPF Scheme – MPF Ratings Gold Rated Scheme for 11 consecutive years

# Independent Auditor's Report

**To the Members of BOC Hong Kong (Holdings) Limited**
(incorporated in Hong Kong with limited liability)

## Opinion

### What we have audited

The consolidated financial statements of BOC Hong Kong (Holdings) Limited (the "Company") and its subsidiaries (the "Group"), which are set out on pages 128 to 303, comprise:

- the consolidated balance sheet as at 31 December 2023;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Measurement of expected credit loss ("ECL") for advances to customers
- Valuation of financial instruments measured at fair value
- Adoption of HKFRS 17 "Insurance contracts" and valuation of insurance contract liabilities

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| ***Measurement of expected credit loss ("ECL") for advances to customers*** | |
| Refer to Note 2.14, Note 3.1, Note 4.1, Note 13 and Note 25 to the Group's consolidated financial statements.<br><br>As at 31 December 2023, the carrying amount of advances to customers in the Group's consolidated balance sheet was HK$1,702,302 million. Of these balances, the advances to customers measured at amortised cost of HK$1,696,927 million and advances to customers measured at fair value through other comprehensive income of HK$4,512 million, were subject to ECL measurement and an impairment allowance of HK$14,750 million was recognised by management as at 31 December 2023. The impairment losses on advances to customers recognised in the Group's consolidated income statement for the year ended 31 December 2023 amounted to HK$6,418 million.<br><br>The Group assessed whether the credit risk of advances to customers had increased significantly since their initial recognition, and applied a three-stage impairment model approach to calculate the ECL. For advances to customers that are classified as stage 1 or stage 2, the Group assessed the ECL using the risk parameter modelling approach that incorporated relevant key risk parameters, including probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD"). For advances to customers classified as stage 3, the Group assessed ECL for each loan by estimating the future cash flows from the advances to customers. | We understood and evaluated management's internal controls and assessment process for the measurement of ECL for advances to customers.<br><br>We assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as the complexity of estimation models used, the subjectivity of significant management judgements and assumptions, and susceptibility to management bias.<br><br>We assessed the design and tested the operating effectiveness of the key internal controls over the measurement of ECL for advances to customers. These included periodic assessment and approval controls, which primarily include:<br><br>(1) internal controls over the ECL model management, including continuous monitoring of the selection of modelling methodologies, model optimisation, approval and application of changes in key parameters, and model back-testing;<br><br>(2) internal controls over significant management judgements and assumptions, including portfolio segmentation, parameter estimation, determination and application of criteria to identify significant increases in credit risk, default and credit-impaired assets, as well as economic indicators, economic scenarios and weightings used in forward-looking measurement;<br><br>(3) internal controls over the estimated future cash flows and calculation of present values with respect to advances to customers classified as stage 3;<br><br>(4) internal controls over the accuracy and completeness of key data used by the models;<br><br>(5) internal controls over the information technology ("IT") systems for ECL measurement, including information technology general controls, data interfaces, application of model parameters and automated IT controls over impairment calculations. |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| The measurement of ECL for advances to customers involves significant management judgements and assumptions, mainly on:<br><br>(1) Segmentation of portfolios based on credit risk characteristics, selection of appropriate models and determination of relevant key parameters;<br><br>(2) Determination and application of criteria to identify significant increase in credit risks, default or credit-impaired assets;<br><br>(3) Economic indicators, economic scenarios and weighting used in the forward-looking measurement;<br><br>(4) Estimation of future cash flows for stage 3 advances to customers that are impaired.<br><br>We have identified the measurement of ECL for advances to customers as a key audit matter due to the material balance of the Group's impairment allowances for advances to customers and high inherent risk given the uncertainty of estimates, adoption of complex models, involvement of significant management judgements and assumptions and use of numerous parameters and data inputs in such measurement. | We involved our credit risk experts in evaluating the model methodologies, significant judgements and assumptions, data and key parameters used in the ECL measurement for advances to customers. The substantive audit procedures performed by us were mainly as follows:<br><br>(1) We assessed the appropriateness of portfolio segmentation and the models adopted for the measurement of ECL in respect of different portfolios with consideration given to the risk characteristics of advances to customers, the Group's risk management practices and industry practices. We selected samples of ECL calculations and examined whether the models' calculation engines are consistent with the Group's methodologies;<br><br>(2) We examined the accuracy and completeness of historical and measurement date data used in the ECL models on a sample basis, including:<br><br>(i) in respect of PD: financial and non-financial information for determining borrowers' credit rating, overdue repayment status, etc.;<br><br>(ii) in respect of LGD: types of guarantees and collateral, historical actual loss rates, etc.;<br><br>(iii) in respect of EAD: borrowers' outstanding loan balances, interest rates, maturity dates, repayment methods, etc.<br><br>by agreeing them to loan contracts and other relevant documents. We also agreed the total credit risk exposure in the ECL models to data from other information systems;<br><br>(3) In respect of PD and LGD, we assessed the reasonableness of the parameters by comparing the historical expected default and loss given default with the subsequent actual default and loss given default for significant exposures through independent back-testing; |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| | (4) We selected samples and assessed the appropriateness of management's staging classifications and judgements used in determining significant increases in credit risk and identification of default or credit-impaired assets based on the borrower's financial and non-financial information and other external evidence provided by management. We took into consideration the credit risk profile of borrowers and the Group's risk management practices in our assessment;<br><br>(5) For forward-looking measurements, we evaluated management's selection methodology for economic indicators, economic scenarios and weightings assigned based on statistical analysis and expert judgements. We assessed the reasonableness of the forecasted economic indicators by performing back-testing and comparing with publicly available forecasts from third-party institutions. We performed sensitivity analysis on the economic indicators and weightings under different economic scenarios;<br><br>(6) We reviewed the annual ECL model validation result and assessment performed by management and evaluated if significant finding has been addressed in the ECL calculation;<br><br>(7) For advances to customers that were classified as stage 3, we examined on a sample basis, forecasted cash flows prepared by management based on the financial information of borrowers and guarantors, latest collateral valuations and other available information and factors together with discount rates used to support the computation of impairment allowances.<br><br>We checked and evaluated the appropriateness of the financial statement disclosures in relation to the measurement of ECL in the context of applicable accounting framework.<br><br>Based on the procedures performed, we considered that the models, significant judgements and assumptions, as well as relevant data and key parameters used by management in measuring ECL for advances to customers were supported by available evidence. |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| ***Valuation of financial instruments measured at fair value*** | |
| Refer to Note 2.12, Note 3.2 and Note 5.1 to the Group's consolidated financial statements.<br><br>As at 31 December 2023, the Group's financial assets measured at fair value were HK$1,203,238 million, representing 31% of total assets, of which (1) 12% were classified as Level 1 fair value, measured using quoted prices (unadjusted) in active markets; (2) 87% were classified as Level 2 fair value, measured using valuation techniques for which inputs are observable for the financial instruments, either directly or indirectly; and (3) 1% were classified as Level 3 fair value, measured using valuation techniques using unobservable inputs that have a significant impact on the valuation. Level 3 financial instruments mainly include unlisted equity, fund investments and some debt securities held by the Group. While the Group's financial liabilities measured at fair value were HK$107,756 million as at 31 December 2023, representing 3% of total liabilities, of which more than 99% were classified as Level 2 fair value.<br><br>We have identified this as a key audit matter due to the material balance of the financial instruments measured at fair value. Also, management has used complex valuation models to determine the fair value of financial instruments that are not quoted in active markets. The valuation models involve management's judgements and assumptions, including the selection of data inputs. | We understood and evaluated management's internal controls and assessment process of the valuation of financial instruments measured at fair value.<br><br>We assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as the complexity of valuation techniques and models, the subjectivity of management's judgements and assumptions in selecting valuation techniques, models and data inputs and susceptibility to management bias.<br><br>We tested the key internal controls over the valuation of financial instruments measured at fair value. These included controls over model validation and approval, review and approval of valuation results, and the IT general controls of related systems, systems interfaces of inputs such as market data and automated calculations within the valuation system.<br><br>We performed the following substantive procedures on a sampling basis:<br><br>(1) For Level 1 financial instruments, we tested their valuations by comparing to quoted prices in active markets.<br><br>(2) For Level 2 and Level 3 financial instruments:<br><br>(i) we assessed the appropriateness of the Group's valuation models and benchmarked against common market models, taking into consideration the product characteristics and industry practice;<br><br>(ii) we compared the valuation of Level 2 financial instruments to quotation available from independent sources; as well as tested observable inputs used in valuation models; |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| | (iii) for unobservable inputs used for valuation of Level 3 financial instruments, we obtained an understanding of management's methodology for the selection of inputs such as liquidity discounts, discount rates, expected dividend, net asset value of unlisted funds, etc. and assessed the reasonableness and appropriateness of such inputs by examining supporting information and comparing to alternatives in the market with involvement of our internal valuation experts. We also performed sensitivity analysis on the unobservable inputs;<br><br>(iv) we involved internal valuation experts to perform independent valuation testing.<br><br>We checked and evaluated the appropriateness of the financial statements disclosures in relation to fair value of financial instruments in the context of applicable accounting framework.<br><br>Based on the procedures performed, we considered that the valuation models, significant judgements and assumptions as well as relevant data used by management in the valuation of financial instruments measured at fair value were supported by available evidence. |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| ***Adoption of HKFRS 17 "Insurance contracts" and valuation of insurance contract liabilities*** | |
| Refer to Note 2.1, Note 2.19, Note 3.3, Note 4.4 and Note 37 to the Group's consolidated financial statements.<br><br>HKFRS 17 "Insurance contracts" sets out the requirements in accounting for insurance contracts it issues. The Group is required to adopt the standard retrospectively from 1 January 2023, with comparatives restated from 1 January 2022.<br><br>As at 31 December 2023, the Group has recorded insurance contract liabilities of HK$177,873 million, representing 5% of the Group's total liabilities.<br><br>This is a new standard which requires significant judgements in the selection of accounting policies and the use of complex actuarial methodologies that are applied for valuation of insurance contract liabilities. The selection and application of appropriate methodology require significant management judgements. They also require the determination of assumptions which involve estimation uncertainty. The valuation of insurance contract liabilities was mainly measured as the total of fulfilment cash flows ("FCF") and contractual service margin ("CSM"), which involved the use of key assumptions about uncertain future outcomes, for examples, mortality, morbidity, expense, lapse and discount rates in the estimation of FCF and the determination of coverage units for releasing of CSM. We focus on the transition to the new standard for insurance contract liabilities and valuation of insurance contract liabilities at year end date. | We understood and evaluated management's internal control and assessment process over the transition to the new standard for insurance contract liabilities and valuation of insurance contract liabilities.<br><br>We assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as the complexity of valuation methodologies, the subjectivity of significant management judgements and assumptions, and susceptibility to management bias.<br><br>We tested the key internal controls over the transition to the new standard for insurance contract liabilities and valuation of insurance contract liabilities. These included controls over:<br><br>(1) selection and approval of the accounting policies;<br><br>(2) selection and approval of methodologies applied in actuarial valuation;<br><br>(3) key assumptions used by management.<br><br>We involved our actuarial experts in assessing the appropriateness of valuation methodologies, key assumptions used and management's judgements applied. The substantive audit procedures performed by us were mainly as follows:<br><br>(1) We obtained an understanding of the new accounting policies including management's judgements in determining the approach for transition and the measurement of FCF and CSM, and evaluated whether management had developed appropriate policies;<br><br>(2) We obtained the valuation methodologies applied in the valuation of insurance contract liabilities. We assessed the appropriateness of the valuation methodologies in accordance with the relevant accounting policies;<br><br>(3) We assessed the reasonableness of the use of key assumptions about uncertain future outcomes, including mortality, morbidity, expense, lapse and discount rates applied in the valuation of insurance contract liabilities with reference to market observable data (as applicable), the Group's past experience and our industry experience; |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| | (4) We assessed the appropriateness of the determination of coverage units in respect of the services to be provided against relevant publications; and<br><br>(5) We tested the application of the methodologies and measurement of insurance contract liabilities, including CSM and FCF on a sample basis.<br><br>Based on the procedures performed, we considered that the valuation methodologies, significant judgements and assumptions used by management in the transition to the new standard for insurance contract liabilities and valuation of insurance contract liabilities were supported by available evidence. |

## Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ms. Lam Hung.

**PricewaterhouseCoopers**
Certified Public Accountants
Hong Kong, 28 March 2024

# Consolidated Income Statement

| For the year ended 31 December | Notes | 2023<br>HK$'m | (Restated)<br>2022<br>HK$'m |
|---|---|---|---|
| Interest income | | **128,489** | 63,770 |
| *Interest income calculated using the effective interest method* | | ***121,459*** | *60,954* |
| *Others* | | ***7,030*** | *2,816* |
| Interest expense | | **(77,411)** | (25,020) |
| **Net interest income** | 6 | **51,078** | 38,750 |
| Fee and commission income | | **12,187** | 12,360 |
| Fee and commission expense | | **(3,020)** | (2,560) |
| **Net fee and commission income** | 7 | **9,167** | 9,800 |
| Insurance revenue | | **1,897** | 1,694 |
| Insurance service expense | | **(1,059)** | (637) |
| Net income from reinsurance contracts held | | **108** | 80 |
| **Insurance service result** | | **946** | 1,137 |
| Net trading gain | 8 | **8,315** | 12,839 |
| Net gain/(loss) on other financial instruments at fair value through profit or loss | 9 | **2,277** | (11,864) |
| Net loss on other financial instruments | 10 | **(1,468)** | (3,856) |
| Insurance finance (expenses)/income | 11 | **(5,430)** | 6,561 |
| Other operating income | 12 | **613** | 848 |
| **Net operating income before impairment allowances** | | **65,498** | 54,215 |
| Net charge of impairment allowances | 13 | **(6,333)** | (2,348) |
| **Net operating income** | | **59,165** | 51,867 |
| Operating expenses | 14 | **(16,607)** | (16,950) |
| **Operating profit** | | **42,558** | 34,917 |
| Net loss from disposal of/fair value adjustments on investment properties | 15 | **(1,270)** | (1,305) |
| Net loss from disposal/revaluation of properties, plant and equipment | 16 | **(135)** | (111) |
| Share of results after tax of associates and joint ventures | 27 | **(239)** | (339) |
| **Profit before taxation** | | **40,914** | 33,162 |
| Taxation | 17 | **(6,057)** | (5,932) |
| **Profit for the year** | | **34,857** | 27,230 |

| For the year ended 31 December | Notes | 2023<br>HK$'m | (Restated)<br>2022<br>HK$'m |
|---|---|---|---|
| **Profit attributable to:** | | | |
| Equity holders of the Company and other equity instrument holders | | **34,115** | 27,330 |
| Equity holders of the Company | | **32,723** | 25,940 |
| Other equity instrument holders | | **1,392** | 1,390 |
| Non-controlling interests | | **742** | (100) |
| | | **34,857** | 27,230 |
| | | **HK$** | HK$ |
| **Earnings per share** | | | |
| Basic and diluted | 19 | **3.0950** | 2.4535 |

The notes on pages 136 to 303 are an integral part of these financial statements.

# Consolidated Statement of Comprehensive Income

| For the year ended 31 December | Notes | 2023 HK$'m | (Restated) 2022 HK$'m |
|---|---|---|---|
| **Profit for the year** | | **34,857** | 27,230 |
| Items that will not be reclassified subsequently to income statement: | | | |
| Premises: | | | |
| Revaluation of premises | 29 | **(985)** | (1,104) |
| Deferred tax | 36 | **202** | 200 |
| | | **(783)** | (904) |
| Equity instruments at fair value through other comprehensive income: | | | |
| Change in fair value | | **646** | (721) |
| Deferred tax | | **(3)** | 65 |
| | | **643** | (656) |
| Actuarial loss on retirement benefit plans | | **(6)** | (4) |
| | | **(146)** | (1,564) |
| Items that may be reclassified subsequently to income statement: | | | |
| Advances and other accounts at fair value through other comprehensive income: | | | |
| Change in impairment allowances (credited)/charged to income statement | 13 | **(48)** | 77 |
| Debt instruments at fair value through other comprehensive income: | | | |
| Change in fair value | | **4,260** | (20,286) |
| Change in impairment allowances charged/(credited) to income statement | 13 | **13** | (120) |
| Release upon disposal/redemption reclassified to income statement | 10 | **1,457** | 3,816 |
| Amortisation of accumulated amount of fair value hedge adjustment reclassified to income statement | | **(91)** | (36) |
| Deferred tax | | **(864)** | 2,333 |
| | | **4,775** | (14,293) |
| Insurance contracts: | | | |
| Finance (expenses)/income from insurance contracts issued | | **(2,165)** | 6,745 |
| Finance income/(expenses) from reinsurance contracts held | | **635** | (1,371) |
| Deferred tax | | **253** | (887) |
| | | **(1,277)** | 4,487 |
| Currency translation difference | | **(263)** | (892) |
| | | **3,187** | (10,621) |
| **Other comprehensive income for the year, net of tax** | | **3,041** | (12,185) |
| **Total comprehensive income for the year** | | **37,898** | 15,045 |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the Company and other equity instrument holders | | **37,012** | 16,739 |
| Equity holders of the Company | | **35,620** | 15,349 |
| Other equity instrument holders | | **1,392** | 1,390 |
| Non-controlling interests | | **886** | (1,694) |
| | | **37,898** | 15,045 |

The notes on pages 136 to 303 are an integral part of these financial statements.

# Consolidated Balance Sheet

| | Notes | As at 31 December 2023 HK$'m | (Restated) As at 31 December 2022 HK$'m | (Restated) As at 1 January 2022 HK$'m |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and balances and placements with banks and other financial institutions | 22 | **406,571** | 535,194 | 465,535 |
| Financial assets at fair value through profit or loss | 23 | **373,290** | 131,213 | 118,665 |
| Derivative financial instruments | 24 | **54,211** | 61,832 | 33,186 |
| Hong Kong SAR Government certificates of indebtedness | | **213,000** | 208,770 | 203,810 |
| Advances and other accounts | 25 | **1,693,144** | 1,644,113 | 1,595,728 |
| Investment in securities | 26 | **978,440** | 937,013 | 1,052,277 |
| Interests in associates and joint ventures | 27 | **1,275** | 843 | 1,215 |
| Investment properties | 28 | **14,875** | 16,069 | 17,722 |
| Properties, plant and equipment | 29 | **41,738** | 44,261 | 46,441 |
| Current tax assets | | **75** | 115 | 93 |
| Deferred tax assets | 36 | **1,480** | 1,162 | 780 |
| Other assets | 30 | **90,684** | 85,920 | 101,187 |
| Total assets | | **3,868,783** | 3,666,505 | 3,636,639 |
| **LIABILITIES** | | | | |
| Hong Kong SAR currency notes in circulation | 31 | **213,000** | 208,770 | 203,810 |
| Deposits and balances from banks and other financial institutions | | **373,673** | 316,626 | 486,062 |
| Financial liabilities at fair value through profit or loss | 32 | **66,203** | 59,453 | 12,520 |
| Derivative financial instruments | 24 | **41,553** | 50,266 | 29,757 |
| Deposits from customers | 33 | **2,501,682** | 2,377,207 | 2,331,155 |
| Debt securities and certificates of deposit in issue | 34 | **1,999** | 3,636 | 2,423 |
| Other accounts and provisions | 35 | **84,694** | 69,688 | 53,685 |
| Current tax liabilities | | **4,612** | 5,039 | 3,491 |
| Deferred tax liabilities | 36 | **4,742** | 4,346 | 5,733 |
| Insurance contract liabilities | 37 | **177,873** | 169,246 | 183,705 |
| Subordinated liabilities | 38 | **75,323** | 76,393 | – |
| Total liabilities | | **3,545,354** | 3,340,670 | 3,312,341 |

## CONSOLIDATED BALANCE SHEET

| | Notes | **As at 31 December 2023 HK$'m** | (Restated) As at 31 December 2022 HK$'m | (Restated) As at 1 January 2022 HK$'m |
|---|---|---|---|---|
| **EQUITY** | | | | |
| Share capital | 39 | **52,864** | 52,864 | 52,864 |
| Reserves | | **267,281** | 246,924 | 243,522 |
| Capital and reserves attributable to equity holders of the Company | | **320,145** | 299,788 | 296,386 |
| Other equity instruments | 40 | **–** | 23,476 | 23,476 |
| Non-controlling interests | | **3,284** | 2,571 | 4,436 |
| Total equity | | **323,429** | 325,835 | 324,298 |
| Total liabilities and equity | | **3,868,783** | 3,666,505 | 3,636,639 |

The notes on pages 136 to 303 are an integral part of these financial statements.

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

**GE Haijiao**
Director

**SUN Yu**
Director

# Consolidated Statement of Changes in Equity

| | Attributable to equity holders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Reserves | | | | | | | | | |
| | Share capital HK$'m | Premises revaluation reserve HK$'m | Reserve for financial assets at FVOCI HK$'m | Regulatory reserve* HK$'m | Translation reserve HK$'m | Insurance finance reserve HK$'m | Retained earnings HK$'m | Total HK$'m | Other equity instruments HK$'m | Non-controlling interests HK$'m | Total equity HK$'m |
| At 1 January 2022, as previously reported | 52,864 | 38,590 | (413) | 6,073 | (1,000) | – | 201,885 | 297,999 | 23,476 | 5,986 | 327,461 |
| Effect of adoption of HKFRS 17 | – | – | 558 | – | – | – | (2,171) | (1,613) | – | (1,550) | (3,163) |
| At 1 January 2022, as restated | 52,864 | 38,590 | 145 | 6,073 | (1,000) | – | 199,714 | 296,386 | 23,476 | 4,436 | 324,298 |
| Profit for the year | – | – | – | – | – | – | 27,330 | 27,330 | – | (100) | 27,230 |
| Upon declaration of dividend to other equity instrument holders | – | – | – | – | – | – | (1,390) | (1,390) | 1,390 | – | – |
| | – | – | – | – | – | – | 25,940 | 25,940 | 1,390 | (100) | 27,230 |
| Other comprehensive income: | | | | | | | | | | | |
| Premises | – | (904) | – | – | – | – | – | (904) | – | – | (904) |
| Equity instruments at fair value through other comprehensive income | – | – | (553) | – | – | – | – | (553) | – | (103) | (656) |
| Actuarial loss on retirement benefit plans | – | – | – | – | – | – | (4) | (4) | – | – | (4) |
| Advances and other accounts at fair value through other comprehensive income | – | – | 77 | – | – | – | – | 77 | – | – | 77 |
| Debt instruments at fair value through other comprehensive income | – | – | (10,603) | – | – | – | – | (10,603) | – | (3,690) | (14,293) |
| Insurance contracts | – | – | – | – | – | 2,288 | – | 2,288 | – | 2,199 | 4,487 |
| Currency translation difference | – | – | (209) | – | (683) | – | – | (892) | – | – | (892) |
| Total comprehensive income | – | (904) | (11,288) | – | (683) | 2,288 | 25,936 | 15,349 | 1,390 | (1,694) | 15,045 |
| Release upon disposal of equity instruments at fair value through other comprehensive income: | | | | | | | | | | | |
| Transfer | – | – | 162 | – | – | – | (162) | – | – | – | – |
| Deferred tax | – | – | (27) | – | – | – | – | (27) | – | (18) | (45) |
| Current tax | – | – | – | – | – | – | 27 | 27 | – | 18 | 45 |
| Release upon disposal of premises | – | (3) | – | – | – | – | 3 | – | – | – | – |
| Transfer from retained earnings | – | – | – | 582 | – | – | (582) | – | – | – | – |
| Dividends | – | – | – | – | – | – | (11,947) | (11,947) | (1,390) | (171) | (13,508) |
| At 31 December 2022, as restated | 52,864 | 37,683 | (11,008) | 6,655 | (1,683) | 2,288 | 212,989 | 299,788 | 23,476 | 2,571 | 325,835 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to equity holders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Reserves | | | | | | | | | |
| | Share capital HK$'m | Premises revaluation reserve HK$'m | Reserve for financial assets at FVOCI HK$'m | Regulatory reserve* HK$'m | Translation reserve HK$'m | Insurance finance reserve HK$'m | Retained earnings HK$'m | Total HK$'m | Other equity instruments HK$'m | Non-controlling interests HK$'m | Total equity HK$'m |
| At 1 January 2023 | 52,864 | 37,683 | (8,748) | 6,655 | (1,683) | – | 216,274 | 303,045 | 23,476 | 5,325 | 331,846 |
| Effect of adoption of HKFRS 17 | – | – | (2,260) | – | – | 2,288 | (3,285) | (3,257) | – | (2,754) | (6,011) |
| At 1 January 2023, as restated | 52,864 | 37,683 | (11,008) | 6,655 | (1,683) | 2,288 | 212,989 | 299,788 | 23,476 | 2,571 | 325,835 |
| Profit for the year | – | – | – | – | – | – | 34,115 | 34,115 | – | 742 | 34,857 |
| Upon declaration of dividend to other equity instrument holders | – | – | – | – | – | – | (1,392) | (1,392) | 1,392 | – | – |
| | – | – | – | – | – | – | 32,723 | 32,723 | 1,392 | 742 | 34,857 |
| Other comprehensive income: | | | | | | | | | | | |
| Premises | – | (783) | – | – | – | – | – | (783) | – | – | (783) |
| Equity instruments at fair value through other comprehensive income | – | – | 640 | – | – | – | – | 640 | – | 3 | 643 |
| Actuarial loss on retirement benefit plans | – | – | – | – | – | – | (6) | (6) | – | – | (6) |
| Advances and other accounts at fair value through other comprehensive income | – | – | (48) | – | – | – | – | (48) | – | – | (48) |
| Debt instruments at fair value through other comprehensive income | – | – | 4,008 | – | – | – | – | 4,008 | – | 767 | 4,775 |
| Insurance contracts | – | – | – | – | – | (651) | – | (651) | – | (626) | (1,277) |
| Currency translation difference | – | – | (63) | – | (200) | – | – | (263) | – | – | (263) |
| Total comprehensive income | – | (783) | 4,537 | – | (200) | (651) | 32,717 | 35,620 | 1,392 | 886 | 37,898 |
| Release upon disposal of equity instruments at fair value through other comprehensive income: | | | | | | | | | | | |
| Transfer | – | – | 1 | – | – | – | (1) | – | – | – | – |
| Deferred tax | – | – | – | – | – | – | – | – | – | – | – |
| Current tax | – | – | – | – | – | – | – | – | – | – | – |
| Redemption of other equity instruments | – | – | – | – | – | – | (70) | (70) | (23,476) | – | (23,546) |
| Release upon disposal of premises | – | (1) | – | – | – | – | 1 | – | – | – | – |
| Transfer from retained earnings | – | – | – | 1,319 | – | – | (1,319) | – | – | – | – |
| Dividends | – | – | – | – | – | – | (15,193) | (15,193) | (1,392) | (173) | (16,758) |
| At 31 December 2023 | 52,864 | 36,899 | (6,470) | 7,974 | (1,883) | 1,637 | 229,124 | 320,145 | – | 3,284 | 323,429 |

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

The notes on pages 136 to 303 are an integral part of these financial statements.

# Consolidated Cash Flow Statement

| For the year ended 31 December | Notes | 2023<br>HK$'m | 2022<br>HK$'m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Operating cash inflow/(outflow) before taxation | 41(a) | **203,877** | (21,348) |
| Hong Kong profits tax paid | | **(5,997)** | (3,743) |
| Outside Hong Kong profits tax paid | | **(763)** | (729) |
| **Net cash inflow/(outflow) from operating activities** | | **197,117** | (25,820) |
| **Cash flows from investing activities** | | | |
| Additions of properties, plant and equipment | | **(388)** | (388) |
| Proceeds from disposal of properties, plant and equipment | | **31** | 8 |
| Additions of investment properties | 28 | **(26)** | (13) |
| Additions of intangible assets | 30 | **(905)** | (866) |
| Additions of interests in associates and joint ventures | | **(1,102)** | – |
| Proceeds from disposal of associates and joint ventures | | **–** | 9 |
| Dividend received from associates and joint ventures | 27 | **431** | 27 |
| **Net cash outflow from investing activities** | | **(1,959)** | (1,223) |
| **Cash flows from financing activities** | | | |
| Dividend paid to equity holders of the Company | | **(15,193)** | (11,947) |
| Dividend paid to other equity instrument holders | | **(1,392)** | (1,390) |
| Dividend paid to non-controlling interests | | **(173)** | (171) |
| Payment for redemption of other equity instruments | | **(23,546)** | – |
| Payment for redemption of subordinated liabilities | 41(b) | **(21,937)** | – |
| Interest paid for subordinated liabilities | 41(b) | **(2,483)** | – |
| Proceeds from subordinated liabilities | 41(b) | **21,937** | 74,516 |
| Payment of lease liabilities | 41(b) | **(613)** | (699) |
| **Net cash (outflow)/inflow from financing activities** | | **(43,400)** | 60,309 |
| Increase in cash and cash equivalents | | **151,758** | 33,266 |
| Cash and cash equivalents at 1 January | | **540,925** | 531,915 |
| Effect of exchange rate changes on cash and cash equivalents | | **(5,753)** | (24,256) |
| **Cash and cash equivalents at 31 December** | 41(c) | **686,930** | 540,925 |
| Cash flows from operating activities included | | | |
| – interest received | | **123,461** | 61,009 |
| – interest paid | | **66,904** | 18,486 |
| – dividend received | | **108** | 270 |

The notes on pages 136 to 303 are an integral part of these financial statements.

# Notes to the Financial Statements

## 1. Principal activities

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

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

## 2. Material accounting policies

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

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

### 2.1 Basis of preparation

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

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

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

# 2. Material accounting policies (continued)

## 2.1 Basis of preparation (continued)

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

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

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

#### (i) Changes to recognition and measurement

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

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

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

# 2. Material accounting policies (continued)

## 2.1 Basis of preparation (continued)

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

#### (ii) Changes to presentation

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

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

#### (iii) Transition approach

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

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

# 2. Material accounting policies (continued)

## 2.1 Basis of preparation (continued)

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

#### (iv) Impact of reclassification of financial assets

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

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

Note:

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

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

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

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

# 2. Material accounting policies (continued)

## 2.1 Basis of preparation (continued)

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

#### (v) Overall impact of adoption of HKFRS 17

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

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

# 2. Material accounting policies (continued)

## 2.1 Basis of preparation (continued)

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

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

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

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

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

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

## 2. Material accounting policies (continued)

### 2.1 Basis of preparation (continued)

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

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

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

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

# 2. Material accounting policies (continued)

## 2.2 Consolidation

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

### (1) Subsidiaries

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

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

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

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

### (2) Changes in ownership interests

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

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

# 2. Material accounting policies (continued)

## 2.2 Consolidation (continued)

### (3) Associates and joint ventures

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

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

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

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

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

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

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

## 2.3 Segmental reporting

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

# 2. Material accounting policies (continued)

## 2.4 Foreign currency translation

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

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

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

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

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

- assets and liabilities are translated at the closing rate at the end of the reporting period;
- income and expenses are translated at average exchange rates; and
- all resulting exchange differences are recognised in the currency translation reserve in equity.

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

## 2. Material accounting policies (continued)

### 2.5 Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

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

# 2. Material accounting policies (continued)

## 2.5 Derivative financial instruments and hedge accounting (continued)

**Fair value hedge**

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

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

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

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

## 2.6 Offsetting financial instruments

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

# 2. Material accounting policies (continued)

## 2.7 Income and expense

### (1) Interest income and expense

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

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

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

### (2) Non-interest income and expense

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

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

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

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

# 2. Material accounting policies (continued)

## 2.7 Income and expense (continued)

### (3) Insurance revenue and expenses

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

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

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

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

## 2.8 Financial assets

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

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

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

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

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

# 2. Material accounting policies (continued)

## 2.8 Financial assets (continued)

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

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

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

### (2) Financial assets at amortised cost

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

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

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

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

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

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

# 2. Material accounting policies (continued)

## 2.9 Financial liabilities

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

**(1) Trading liabilities**

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

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

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

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

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

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

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

# 2. Material accounting policies (continued)

## 2.10 Financial guarantee contracts and undrawn loan commitments

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

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

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

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

## 2.11 Recognition, derecognition and modification of financial instruments

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

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

# 2. Material accounting policies (continued)

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

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

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

## 2.12 Fair value measurement

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

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

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

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

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

# 2. Material accounting policies (continued)

## 2.13 Precious metals

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

## 2.14 Impairment of financial assets

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

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

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

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

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

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

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

ECLs are measured on either of the following bases:

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

# 2. Material accounting policies (continued)

## 2.14 Impairment of financial assets (continued)

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

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

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

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

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

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

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

# 2. Material accounting policies (continued)

## 2.14 Impairment of financial assets (continued)

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

– significant financial difficulty incurred by the debtor;

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

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

– probable that the debtor will become bankrupt or undergo other financial reorganisation;

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

– other observable data indicating that there is a measurable decrease in the estimated future cash flows from such advances.

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

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

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

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

# 2. Material accounting policies (continued)

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

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

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

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

## 2.16 Investment properties

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

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

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

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

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

## 2. Material accounting policies (continued)

### 2.17 Properties, plant and equipment

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

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

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

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

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

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

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

# 2. Material accounting policies (continued)

## 2.17 Properties, plant and equipment (continued)

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

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

## 2.18 Leases

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

**(1) As a lessee**

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

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

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

# 2. Material accounting policies (continued)

## 2.18 Leases (continued)

### (1) As a lessee (continued)

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

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

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

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

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

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

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

# 2. Material accounting policies (continued)

## 2.18 Leases (continued)

### (2) As a lessor

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

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

## 2.19 Insurance and investment contracts

### (1) Classification of contracts

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

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

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

### (2) Level of aggregation

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

# 2. Material accounting policies (continued)

## 2.19 Insurance and investment contracts (continued)

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

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

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

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

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

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

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

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

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

# 2. Material accounting policies (continued)

## 2.19 Insurance and investment contracts (continued)

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

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

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

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

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

## 2.20 Cash and cash equivalents

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

## 2.21 Provisions

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

# 2. Material accounting policies (continued)

## 2.22 Employee benefits

### (1) Retirement benefit costs

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

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

### (2) Leave entitlements

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

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

### (3) Bonus plans

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

## 2.23 Current and deferred income taxes

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

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

# 2. Material accounting policies (continued)

## 2.23 Current and deferred income taxes (continued)

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

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

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

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

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

## 2.24 Repossessed assets

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

# 2. Material accounting policies (continued)

## 2.25 Fiduciary activities

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

## 2.26 Contingent liabilities and contingent assets

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

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

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

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

## 2.27 Related parties

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

# 3. Critical estimates and judgements in applying accounting policies

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

## 3.1 Impairment losses on advances to customers

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

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

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

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

## 3.1 Impairment losses on advances to customers (continued)

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

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

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

## 3.2 Fair values of financial instruments

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

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

## 3.3 Insurance contract liabilities

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

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

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

## 3.3 Insurance contract liabilities (continued)

### (b) Determining coverage units

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

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

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

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

### (c) Discount rates

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

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

### (d) Risk adjustment for non-financial risk

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

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

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

## 3.4 Deferred tax assets

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

## 3.5 Determination of lease terms of leases

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

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

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

# 4. Financial risk management

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

## Financial risk management framework

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

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

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

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

## 4. Financial risk management (continued)

### Financial risk management framework (continued)

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

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

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

### Product development and risk monitoring

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

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

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk

Credit risk is the risk of loss that a customer or counterparty is unable to or unwilling to meet its contractual obligations. Credit risk exists in the trading book and banking book, as well as from on- and off-balance sheet transactions of the Group. It arises principally from lending, trade finance and treasury businesses.

**Credit risk management framework**

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

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

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

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

### Credit risk measurement and control

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

### Advances

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

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

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

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

**Credit risk measurement and control (continued)**

**Advances (continued)**

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

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

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

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

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

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

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

**Debt securities and derivatives**

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

### Credit risk measurement and control (continued)

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

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

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

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

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

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

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

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

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

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

Quantitative criteria

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

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

Qualitative criteria

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

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

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

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

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

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

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

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

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

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

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

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

**Collateral held as security and other credit enhancements**

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

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

### (A) Credit exposures

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

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

**Balances and placements with banks and other financial institutions**

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

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

Collateral is generally not sought on debt securities.

**Derivative financial instruments**

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

**Advances and other accounts, loan commitments and financial guarantee contracts**

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

### (B) Advances and other accounts

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

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

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

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

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

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

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

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

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

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

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

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

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

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

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

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

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

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

#### (a) Impaired advances

Impaired advances to customers are analysed as follows:

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

Classified or impaired advances to customers represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or classified as Stage 3.

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

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

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

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

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

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

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

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

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

#### (c) Rescheduled advances

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

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

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

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

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

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

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

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

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

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

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

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

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

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

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

**Gross advances to customers**

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

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

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

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

**Overdue advances**

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

**Classified or impaired advances**

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

### (C) Repossessed assets

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

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

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

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

– adjusting the selling prices

– selling the loans together with the assets

– arranging loan restructuring

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

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

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

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

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

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

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

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

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

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

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

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

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

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

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

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

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

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

# 4. Financial risk management (continued)

## 4.1 Credit risk (continued)

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

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

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

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

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

# 4. Financial risk management (continued)

## 4.2 Market risk

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

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

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

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

### (A) VaR

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

# 4. Financial risk management (continued)

## 4.2 Market risk (continued)

### (A) VaR (continued)

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

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

Note:
1. Structural FX positions have been excluded.

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

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

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

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

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

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

# 4. Financial risk management (continued)

## 4.2 Market risk (continued)

### (B) Currency risk

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

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

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

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

# 4. Financial risk management (continued)

## 4.2 Market risk (continued)

### (B) Currency risk (continued)

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

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

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

### (C) Interest rate risk

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

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

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

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

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

# 4. Financial risk management (continued)

## 4.2 Market risk (continued)

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

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

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

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

# 4. Financial risk management (continued)

## 4.2 Market risk (continued)

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

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

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

# 4. Financial risk management (continued)

## 4.2 Market risk (continued)

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

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

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

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

# 4. Financial risk management (continued)

## 4.2 Market risk (continued)

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

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

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

# 4. Financial risk management (continued)

## 4.2 Market risk (continued)

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

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

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

# 4. Financial risk management (continued)

## 4.3 Liquidity risk

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

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

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

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

# 4. Financial risk management (continued)

## 4.3 Liquidity risk (continued)

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

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

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

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

# 4. Financial risk management (continued)

## 4.3 Liquidity risk (continued)

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

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

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

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

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

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

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

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

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

# 4. Financial risk management (continued)

## 4.3 Liquidity risk (continued)

### (B) Maturity analysis

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

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

# 4. Financial risk management (continued)

## 4.3 Liquidity risk (continued)

### (B) Maturity analysis (continued)

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

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

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

# 4. Financial risk management (continued)

## 4.3 Liquidity risk (continued)

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

#### (a) Non-derivative cash flows

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

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

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

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

# 4. Financial risk management (continued)

## 4.3 Liquidity risk (continued)

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

#### (b) Derivative cash flows

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

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

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

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

# 4. Financial risk management (continued)

## 4.3 Liquidity risk (continued)

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

#### (c) Off-balance sheet items

Loan commitments

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

Financial guarantee contracts

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

## 4.4 Insurance risk

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

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

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

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

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

# 4. Financial risk management (continued)

## 4.4 Insurance risk (continued)

### (A) Change in assumptions

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

### (B) Sensitivity analysis

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

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

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

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

# 4. Financial risk management (continued)

## 4.5 Capital management

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

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

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

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

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

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

The Group has continued to adopt an internal capital adequacy assessment process ("ICAAP") to comply with the HKMA's requirements in the Supervisory Policy Manual "Supervisory Review Process" in 2023. Based on the HKMA's guidelines on Pillar II, ICAAP has been initiated to assess the extra capital needed to cover the material risks not captured or not adequately captured under Pillar I, and therefore minimum Common Equity Tier 1 capital ratio, minimum Tier 1 capital ratio and minimum Total capital ratio are determined. Meanwhile, operating ranges for the aforementioned capital ratios have also been established which enable the flexibility for future business growth and efficiency of capital utilisation. The Group considers this ICAAP as an on-going process for capital management and periodically reviews and adjusts its capital structure where appropriate in relation to the overall risk profile.

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

# 4. Financial risk management (continued)

## 4.5 Capital management (continued)

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

### (A) Basis of regulatory consolidation

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

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

# 4. Financial risk management (continued)

## 4.5 Capital management (continued)

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

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

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

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

# 4. Financial risk management (continued)

## 4.5 Capital management (continued)

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

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

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

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

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

### (B) Capital ratio

The capital ratios are analysed as follows:

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

# 4. Financial risk management (continued)

## 4.5 Capital management (continued)

### (B) Capital ratio (continued)

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

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

# 4. Financial risk management (continued)

## 4.5 Capital management (continued)

### (B) Capital ratio (continued)

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

The capital buffer ratios are analysed as follows:

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

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

### (C) Leverage ratio

The leverage ratio is analysed as follows:

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

# 5. Fair values of assets and liabilities

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

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

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

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

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

## 5.1 Financial instruments measured at fair value

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

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

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

# 5. Fair values of assets and liabilities (continued)

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

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

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

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

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

**Mortgage backed securities**

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

**Derivatives**

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

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

# 5. Fair values of assets and liabilities (continued)

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

### (A) Fair value hierarchy

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

# 5. Fair values of assets and liabilities (continued)

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

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

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

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

# 5. Fair values of assets and liabilities (continued)

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

### (B) Reconciliation of level 3 items

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

# 5. Fair values of assets and liabilities (continued)

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

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

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

# 5. Fair values of assets and liabilities (continued)

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

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

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

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

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

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

# 5. Fair values of assets and liabilities (continued)

## 5.2 Financial instruments not measured at fair value

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

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

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

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

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

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

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

**Investment in securities at amortised cost**

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

**Deposits from customers**

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

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

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

**Subordinated liabilities**

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

# 5. Fair values of assets and liabilities (continued)

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

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

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

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

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

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

# 5. Fair values of assets and liabilities (continued)

## 5.3 Non-financial instruments measured at fair value

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

**Investment properties and premises**

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

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

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

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

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

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

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

# 5. Fair values of assets and liabilities (continued)

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

**Investment properties and premises (continued)**

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

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

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

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

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

**Precious metals**

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

# 5. Fair values of assets and liabilities (continued)

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

### (A) Fair value hierarchy

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

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

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

# 5. Fair values of assets and liabilities (continued)

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

### (B) Reconciliation of level 3 items

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

# 5. Fair values of assets and liabilities (continued)

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

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

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

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

## 6. Net interest income

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

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

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

## 7. Net fee and commission income

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

## 8. Net trading gain

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

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

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

## 10. Net loss on other financial instruments

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

## 11. Insurance finance (expenses)/income

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

## 12. Other operating income

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

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

## 13. Net charge of impairment allowances

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

## 14. Operating expenses

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

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

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

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

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

## 17. Taxation

Taxation in the income statement represents:

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

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

## 17. Taxation (continued)

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

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

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

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

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

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

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

## 18. Dividends

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

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

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

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

## 19. Earnings per share

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

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

## 20. Retirement benefit costs

Retirement benefits are provided to eligible employees of the Group.

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

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

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

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

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

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

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

#### (i) Directors' emoluments

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

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

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

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

### (a) Directors' and senior management's emoluments (continued)

#### (i) Directors' emoluments (continued)

| | 2022 | | | | |
|---|---|---|---|---|---|
| | Directors' fee HK$'000 | Basic salaries, allowances and benefits in kind HK$'000 | Bonus HK$'000 | Other payments# HK$'000 | Total HK$'000 |
| **Executive Director** | | | | | |
| SUN Yu (Chief Executive) | – | 5,532 | 3,320 | – | 8,852 |
| **Non-executive Directors** | | | | | |
| LIU Jin | – | – | – | – | – |
| LIN Jingzhen | – | – | – | – | – |
| CHENG Eva* | 600 | – | – | – | 600 |
| CHOI Koon Shum* | 600 | – | – | – | 600 |
| FUNG Yuen Mei Anita* | 500 | – | – | – | 500 |
| KOH Beng Seng* | 650 | – | – | – | 650 |
| LAW Yee Kwan Quinn* | 550 | – | – | – | 550 |
| LEE Sunny Wai Kwong* | 179 | – | – | – | 179 |
| TUNG Savio Wai-Hok* | 700 | – | – | – | 700 |
| | 3,779 | – | – | – | 3,779 |
| | 3,779 | 5,532 | 3,320 | – | 12,631 |

* Independent Non-executive Directors

\# Including the contributions to pension scheme for directors, inducement to join the Group and the compensation for the loss of office paid to or receivable by directors.

Except as disclosed in above tables, director resigned during the year received no emoluments.

There were no directors waived emoluments for the year ended 31 December 2023 (2022: Nil).

## 21. Directors', senior management's and key personnel's emoluments (continued)

### (a) Directors' and senior management's emoluments (continued)

#### (ii) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2022: one) director whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining four (2022: four) individuals during the year are as follows:

| | **2023 HK$'m** | 2022 HK$'m |
|---|---|---|
| Basic salaries and allowances | **18** | 20 |
| Bonus | **14** | 12 |
| Contributions to pension schemes | **1** | 1 |
| | **33** | 33 |

Emoluments paid to or receivable by individuals during the year with reference to their tenure are within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2023** | 2022 |
| HK$6,500,001 to HK$7,000,000 | **–** | 2 |
| HK$7,000,001 to HK$7,500,000 | **1** | – |
| HK$7,500,001 to HK$8,000,000 | **1** | – |
| HK$8,000,001 to HK$8,500,000 | **1** | – |
| HK$8,500,001 to HK$9,000,000 | **–** | 1 |
| HK$9,000,001 to HK$9,500,000 | **1** | – |
| HK$10,000,001 to HK$10,500,000 | **–** | 1 |

## 21. Directors', senior management's and key personnel's emoluments (continued)

### (a) Directors' and senior management's emoluments (continued)

#### (iii) Senior management's emoluments

Emoluments paid to or receivable by individuals during the year with reference to their tenure as senior management are within the following bands:

| | Number of individuals | |
|---|---|---|
| | **2023** | 2022 |
| HK$0 to HK$500,000 | **–** | 2 |
| HK$500,001 to HK$1,000,000 | **1** | – |
| HK$2,500,001 to HK$3,000,000 | **1** | 1 |
| HK$3,500,001 to HK$4,000,000 | **–** | 1 |
| HK$4,000,001 to HK$4,500,000 | **1** | – |
| HK$4,500,001 to HK$5,000,000 | **2** | 3 |
| HK$5,000,001 to HK$5,500,000 | **–** | 1 |
| HK$6,000,001 to HK$6,500,000 | **–** | 2 |
| HK$6,500,001 to HK$7,000,000 | **1** | – |
| HK$8,500,001 to HK$9,000,000 | **–** | 1 |
| HK$9,500,001 to HK$10,000,000 | **1** | – |

### (b) Remuneration for Senior Management and Key Personnel under CG-5

For the purpose of disclosure, Senior Management and Key Personnel are defined as follows:

- Senior Management: The senior executives designated by the Board who are responsible for oversight of the firm-wide strategy or activities or material business lines, including the Chief Executive, Deputy Chief Executives, Chief Financial Officer, Chief Risk Officer, Board Secretary and General Manager of Group Audit.

- Key Personnel: The employees whose duties or activities involve the assumption of material risk, or those who take on material exposures on behalf of the Group, or whose individual responsibilities are directly and materially linked to the risk management, or those who have direct influence to the profit, including heads of material business lines, heads of major subsidiaries and Southeast Asian entities, head of trading, heads of risk control functions, general managers who report directly to the Chief Executive, as well as "managers" appointed by the Group according to the Banking Ordinance.

## 21. Directors', senior management's and key personnel's emoluments (continued)

### (b) Remuneration for Senior Management and Key Personnel under CG-5 (continued)

Details of the remuneration for Senior Management and Key Personnel of the Group during the year are as follows:

**(i) Remuneration awarded during financial year**

| | **2023** | | 2022 | |
|---|---|---|---|---|
| | **Senior Management HK$'m** | **Key Personnel HK$'m** | Senior Management HK$'m | Key Personnel HK$'m |
| Fixed remuneration | | | | |
| Cash-based | **30** | **120** | 41 | 113 |
| *Of which: deferred* | **–** | **–** | – | – |
| Variable remuneration | | | | |
| Cash-based | **14** | **70** | 17 | 61 |
| *Of which: deferred* | ***5*** | ***28*** | *7* | *24* |
| Total remuneration | **44** | **190** | 58 | 174 |
| Number of employees | | | | |
| Fixed remuneration | **9** | **47** | 13 | 43 |
| Variable remuneration | **9** | **47** | 12 | 41 |

**(ii) Special payments**

| | **2023** | | 2022 | |
|---|---|---|---|---|
| | **Senior Management HK$'000** | **Key Personnel HK$'000** | Senior Management HK$'000 | Key Personnel HK$'000 |
| Sign-on awards | **–** | **1,240** | – | 280 |
| Number of employees | **–** | **2** | – | 1 |

There were no guaranteed bonuses and severance payments to Senior Management and Key Personnel for the year ended 31 December 2023 (2022: Nil).

## 21. Directors', senior management's and key personnel's emoluments (continued)

### (b) Remuneration for Senior Management and Key Personnel under CG-5 (continued)

#### (iii) Deferred remuneration

| | 2023 | | | | |
|---|---|---|---|---|---|
| | Total amount of outstanding deferred remuneration HK$'m | Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment HK$'m | Total amount of amendment during the year due to ex post explicit adjustments HK$'m | Total amount of amendment during the year due to ex post implicit adjustments HK$'m | Total amount of deferred remuneration paid out in the financial year HK$'m |
| Senior Management | | | | | |
| Cash | **11** | **11** | **–** | **–** | **(5)** |
| Key Personnel | | | | | |
| Cash | **48** | **48** | **–** | **–** | **(14)** |
| Total | **59** | **59** | **–** | **–** | **(19)** |

| | 2022 | | | | |
|---|---|---|---|---|---|
| | Total amount of outstanding deferred remuneration HK$'m | Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment HK$'m | Total amount of amendment during the year due to ex post explicit adjustments HK$'m | Total amount of amendment during the year due to ex post implicit adjustments HK$'m | Total amount of deferred remuneration paid out in the financial year HK$'m |
| Senior Management | | | | | |
| Cash | 11 | 11 | – | – | (5) |
| Key Personnel | | | | | |
| Cash | 34 | 34 | – | (1) | (12) |
| Total | 45 | 45 | – | (1) | (17) |

## 22. Cash and balances and placements with banks and other financial institutions

| | 2023 HK$'m | 2022 HK$'m |
|---|---|---|
| Cash | **19,257** | 17,735 |
| | | |
| Balances with central banks | **141,310** | 175,993 |
| Placements with central banks maturing within one month | **13,595** | 17,834 |
| Placements with central banks maturing between one and twelve months | **3,052** | 3,063 |
| Placements with central banks maturing over one year | **1,820** | 1,497 |
| | **159,777** | 198,387 |
| | | |
| Balances with other banks and other financial institutions | **136,944** | 212,800 |
| Placements with other banks and other financial institutions maturing within one month | **37,872** | 50,489 |
| Placements with other banks and other financial institutions maturing between one and twelve months | **52,191** | 55,086 |
| Placements with other banks and other financial institutions maturing over one year | **611** | 756 |
| | **227,618** | 319,131 |
| | **406,652** | 535,253 |
| Less: Impairment allowances | | |
| – Stage 1 | **(48)** | (43) |
| – Stage 2 | **–** | – |
| – Stage 3 | **(33)** | (16) |
| | **406,571** | 535,194 |

## 23. Financial assets at fair value through profit or loss

| | 2023 HK$'m | 2022 HK$'m |
|---|---|---|
| Securities | | |
| Trading assets | | |
| – Treasury bills | **32,892** | 12,270 |
| – Certificates of deposit | **7,449** | 3,578 |
| – Other debt securities | **26,137** | 20,958 |
| | **66,478** | 36,806 |
| – Equity securities | **69** | 59 |
| – Fund | **–** | 1 |
| | **66,547** | 36,866 |
| Other financial assets mandatorily classified at fair value through profit or loss | | |
| – Certificates of deposit | **401** | 397 |
| – Other debt securities | **48,556** | 57,774 |
| | **48,957** | 58,171 |
| – Equity securities | **4,133** | 4,615 |
| – Fund | **12,589** | 10,669 |
| | **65,679** | 73,455 |
| Financial assets designated at fair value through profit or loss | | |
| – Treasury bills | **375** | 624 |
| – Certificates of deposit | **35** | 355 |
| – Other debt securities | **19,255** | 1,276 |
| | **19,665** | 2,255 |
| Total securities | **151,891** | 112,576 |
| Other debt instruments | | |
| Trading assets | **3,800** | 3,400 |
| Financial assets designated at fair value through profit or loss | **217,599** | 15,237 |
| Total other debt instruments | **221,399** | 18,637 |
| | **373,290** | 131,213 |

## 23. Financial assets at fair value through profit or loss (continued)

Total securities are analysed by place of listing as follows:

| | 2023 HK$'m | 2022 HK$'m |
|---|---|---|
| Debt securities and certificates of deposit | | |
| – Listed in Hong Kong | **17,709** | 20,831 |
| – Listed outside Hong Kong | **44,657** | 23,232 |
| – Unlisted | **72,734** | 53,169 |
| | **135,100** | 97,232 |
| Equity securities | | |
| – Listed in Hong Kong | **2,819** | 3,961 |
| – Listed outside Hong Kong | **1,383** | 713 |
| | **4,202** | 4,674 |
| Fund | | |
| – Listed in Hong Kong | **3,421** | 1,476 |
| – Listed outside Hong Kong | **–** | 337 |
| – Unlisted | **9,168** | 8,857 |
| | **12,589** | 10,670 |
| Total securities | **151,891** | 112,576 |

Total securities are analysed by type of issuer as follows:

| | 2023 HK$'m | 2022 HK$'m |
|---|---|---|
| Sovereigns | **59,456** | 35,728 |
| Public sector entities | **1,762** | 186 |
| Banks and other financial institutions | **56,235** | 49,890 |
| Corporate entities | **34,438** | 26,772 |
| Total securities | **151,891** | 112,576 |

# 24. Derivative financial instruments and hedge accounting

The Group enters into exchange rate, interest rate, commodity, equity and credit related derivative financial instrument contracts for trading and risk management purposes.

Currency forwards represent commitments to purchase and sell foreign currency on a future date. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates or buy or sell interest rate financial instruments on a future date at an agreed price in the financial market under the administration of the stock exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contract rate of interest and the current market rate, based on a notional principal amount.

Currency, interest rate and commodity swaps are commitments to exchange one set of cash flows or commodity for another. Swaps result in an exchange of currencies, interest rates (for example, fixed rate for floating rate), or precious metals (for example, silver swaps) or a combination of all these (for example, cross-currency interest rate swaps). Except for certain currency swap contracts, no exchange of principal takes place.

Foreign currency, interest rate, precious metal and equity options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of the financial instrument at a predetermined price. In consideration for the assumption of foreign exchange and interest rate risk, the seller receives a premium from the purchaser. Options are negotiated over-the-counter between the Group and its counterparty or traded through the stock exchange (for example, exchange-traded stock option).

The contract/notional amounts and fair values of derivative financial instruments held by the Group are set out in the following tables. The contract/notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet dates and certain of them provide a basis for comparison with the fair values of instruments recognised on the balance sheet. However, they do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates, market interest rates, commodity prices or equity prices relative to their terms. The aggregate fair values of derivative financial instruments can fluctuate significantly from time to time.

## (a) Derivative financial instruments

The Group trades derivative products (both exchange-traded and OTC) mainly for customer business. The Group strictly follows risk management policies and requirements in providing derivative products to our customers and in trading of derivative products in the interbank market.

Derivatives are also used to manage the interest rate risk of the banking book. A derivative instrument must be included in the approved product list before any transactions for that instrument can be made. There are limits to control the notional amount of exposure arising from derivative transactions, and the maximum tenor of the deal is set. Every derivative transaction must be input into the relevant system for settlement, mark-to-market revaluation, reporting and control.

# 24. Derivative financial instruments and hedge accounting (continued)

## (a) Derivative financial instruments (continued)

The following tables summarise the contract/notional amounts and fair values of each class of derivative financial instrument as at 31 December:

| | 2023 | | |
|---|---|---|---|
| | Contract/ notional amounts | Fair values | |
| | | Assets | Liabilities |
| | HK$'m | HK$'m | HK$'m |
| Exchange rate contracts | | | |
| Spot, forwards and futures | **307,690** | **15,566** | **(11,035)** |
| Swaps | **2,098,292** | **16,176** | **(13,000)** |
| Options | **52,950** | **469** | **(194)** |
| | **2,458,932** | **32,211** | **(24,229)** |
| Interest rate contracts | | | |
| Futures | **24,339** | **10** | **(19)** |
| Swaps | **1,810,768** | **21,461** | **(16,684)** |
| | **1,835,107** | **21,471** | **(16,703)** |
| Commodity contracts | **16,627** | **497** | **(594)** |
| Equity contracts | **1,196** | **32** | **(27)** |
| | **4,311,862** | **54,211** | **(41,553)** |

# 24. Derivative financial instruments and hedge accounting (continued)

## (a) Derivative financial instruments (continued)

| | 2022 | | |
|---|---|---|---|
| | Contract/ notional amounts HK$'m | Fair values | |
| | | Assets HK$'m | Liabilities HK$'m |
| Exchange rate contracts | | | |
| Spot, forwards and futures | 268,839 | 15,806 | (10,068) |
| Swaps | 1,426,428 | 15,226 | (16,189) |
| Options | 28,566 | 374 | (156) |
| | 1,723,833 | 31,406 | (26,413) |
| Interest rate contracts | | | |
| Futures | 99,719 | 75 | (52) |
| Swaps | 1,500,924 | 29,972 | (23,326) |
| | 1,600,643 | 30,047 | (23,378) |
| Commodity contracts | 14,501 | 361 | (456) |
| Equity contracts | 863 | 18 | (19) |
| | 3,339,840 | 61,832 | (50,266) |

## (b) Hedge accounting

**Fair value hedges**

The Group uses interest rate swaps to hedge against change in fair value of financial assets and liabilities arising from movements in market interest rates. Interest rate risk to which the Group applies hedge accounting arises from fixed-rate debt securities and senior notes, whose fair value fluctuates when benchmark interest rates change. The Group only designates interest rate risks to the extent of benchmark interest rates as the hedged risks because the changes in fair value of the fixed-rate debt securities and senior notes are significantly influenced by the changes in the benchmark interest rates. Hedge accounting is applied where economic hedging relationships meet the hedge accounting criteria.

Possible sources of ineffectiveness are as follows:

– Notional and timing differences between the hedged items and hedging instruments;

– Significant changes in counterparties' credit risk.

# 24. Derivative financial instruments and hedge accounting (continued)

## (b) Hedge accounting (continued)

**Fair value hedges (continued)**

The table below summarises the contract/notional amounts and average fixed interest rate of the hedging instruments as at 31 December by remaining contractual maturity.

| | **2023** | | | | | |
|---|---|---|---|---|---|---|
| | **Up to 1 month HK$'m** | **1 to 3 months HK$'m** | **3 to 12 months HK$'m** | **1 to 5 years HK$'m** | **Over 5 years HK$'m** | **Total HK$'m** |
| Interest rate swaps | | | | | | |
| Contract/notional amounts | **1,388** | **4,712** | **16,446** | **56,610** | **22,668** | **101,824** |
| Average fixed interest rate | **3.40%** | **3.48%** | **2.90%** | **3.22%** | **3.02%** | **N/A** |

| | 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 month HK$'m | 1 to 3 months HK$'m | 3 to 12 months HK$'m | 1 to 5 years HK$'m | Over 5 years HK$'m | Total HK$'m |
| Interest rate swaps | | | | | | |
| Contract/notional amounts | 2,665 | 2,664 | 7,736 | 76,874 | 27,928 | 117,867 |
| Average fixed interest rate | 3.47% | 3.29% | 3.22% | 3.07% | 2.86% | N/A |

# 24. Derivative financial instruments and hedge accounting (continued)

## (b) Hedge accounting (continued)

**Fair value hedges (continued)**

The amounts relating to items designated as hedging instruments are as follows:

| | **2023** | | | |
|---|---|---|---|---|
| | **Contract/ notional amounts HK$'m** | **Fair values** | | **Change in fair value used for recognising hedge ineffectiveness HK$'m** |
| | | **Assets HK$'m** | **Liabilities HK$'m** | |
| Derivative financial instruments | | | | |
| Interest rate swaps | **101,824** | **5,022** | **(142)** | **(2,480)** |

| | 2022 | | | |
|---|---|---|---|---|
| | Contract/ notional amounts HK$'m | Fair values | | Change in fair value used for recognising hedge ineffectiveness HK$'m |
| | | Assets HK$'m | Liabilities HK$'m | |
| Derivative financial instruments | | | | |
| Interest rate swaps | 117,867 | 7,290 | (169) | 9,762 |

## 24. Derivative financial instruments and hedge accounting (continued)

### (b) Hedge accounting (continued)

**Fair value hedges (continued)**

The amounts relating to hedged items are as follows:

| | **2023** | | | | |
|---|---|---|---|---|---|
| | **Carrying amounts** | | **Accumulated amount of fair value hedge adjustment included in the carrying amounts** | | **Change in value used for recognising hedge ineffectiveness** |
| | **Assets HK$'m** | **Liabilities HK$'m** | **Assets HK$'m** | **Liabilities HK$'m** | **HK$'m** |
| Investment in securities | | | | | |
| Debt securities | **94,612** | **–** | **(5,833)** | **–** | **2,195** |
| Debt securities and certificates of deposit in issue | | | | | |
| Senior notes | **–** | **(1,999)** | **–** | **10** | **(63)** |
| | **94,612** | **(1,999)** | **(5,833)** | **10** | **2,132** |

| | 2022 | | | | |
|---|---|---|---|---|---|
| | Carrying amounts | | Accumulated amount of fair value hedge adjustment included in the carrying amounts | | Change in value used for recognising hedge ineffectiveness |
| | Assets HK$'m | Liabilities HK$'m | Assets HK$'m | Liabilities HK$'m | HK$'m |
| Investment in securities | | | | | |
| Debt securities | 107,364 | – | (9,412) | – | (9,959) |
| Debt securities and certificates of deposit in issue | | | | | |
| Senior notes | – | (1,934) | – | 73 | 73 |
| | 107,364 | (1,934) | (9,412) | 73 | (9,886) |

Hedge ineffectiveness recognised is as follows:

| | **2023 HK$'m** | 2022 HK$'m |
|---|---|---|
| Net trading loss | **(348)** | (124) |

## 25. Advances and other accounts

| | 2023 HK$'m | 2022 HK$'m |
|---|---|---|
| Personal loans and advances | **600,813** | 551,286 |
| Corporate loans and advances | **1,101,489** | 1,096,983 |
| Advances to customers | **1,702,302** | 1,648,269 |
| Less: Impairment allowances | | |
| – Stage 1 | **(4,110)** | (3,995) |
| – Stage 2 | **(1,056)** | (2,511) |
| – Stage 3 | **(9,555)** | (4,992) |
| | **1,687,581** | 1,636,771 |
| Trade bills | **3,751** | 6,329 |
| Less: Impairment allowances | | |
| – Stage 1 | **(1)** | (1) |
| – Stage 2 | **–** | – |
| – Stage 3 | **–** | – |
| | **3,750** | 6,328 |
| Advances to banks and other financial institutions | **1,815** | 1,015 |
| Less: Impairment allowances | | |
| – Stage 1 | **(2)** | (1) |
| – Stage 2 | **–** | – |
| – Stage 3 | **–** | – |
| | **1,813** | 1,014 |
| | **1,693,144** | 1,644,113 |

As at 31 December 2023, advances to customers included accrued interest of HK$5,731 million (2022: HK$3,980 million).

As at 31 December 2023, advances and other accounts at fair value through other comprehensive income and mandatorily classified at fair value through profit or loss amounted to HK$4,512 million (2022: HK$8,884 million) and HK$863 million (2022: HK$832 million) respectively.

## 26. Investment in securities

| | 2023 HK$'m | 2022 HK$'m |
|---|---|---|
| Investment in securities at fair value through other comprehensive income | | |
| – Treasury bills | **305,168** | 287,961 |
| – Certificates of deposit | **25,910** | 42,144 |
| – Other debt securities | **434,578** | 364,195 |
| | **765,656** | 694,300 |
| – Equity securities | **4,706** | 3,517 |
| | **770,362** | 697,817 |
| Investment in securities at amortised cost | | |
| – Treasury bills | **12** | 6 |
| – Certificates of deposit | **1,214** | 4,630 |
| – Other debt securities | **206,899** | 234,622 |
| | **208,125** | 239,258 |
| Less: Impairment allowances | | |
| – Stage 1 | **(47)** | (62) |
| – Stage 2 | **–** | – |
| – Stage 3 | **–** | – |
| | **208,078** | 239,196 |
| | **978,440** | 937,013 |

## 26. Investment in securities (continued)

Investment in securities is analysed by place of listing as follows:

| | 2023 HK$'m | 2022 HK$'m |
|---|---|---|
| Investment in securities at fair value through other comprehensive income | | |
| Debt securities and certificates of deposit | | |
| – Listed in Hong Kong | **88,869** | 86,572 |
| – Listed outside Hong Kong | **174,722** | 141,484 |
| – Unlisted | **502,065** | 466,244 |
| | **765,656** | 694,300 |
| Equity securities | | |
| – Listed in Hong Kong | **1,040** | 1,060 |
| – Unlisted | **3,666** | 2,457 |
| | **4,706** | 3,517 |
| | **770,362** | 697,817 |
| Investment in securities at amortised cost | | |
| Debt securities and certificates of deposit | | |
| – Listed in Hong Kong | **15,827** | 13,839 |
| – Listed outside Hong Kong | **122,043** | 158,462 |
| – Unlisted | **70,208** | 66,895 |
| | **208,078** | 239,196 |
| | **978,440** | 937,013 |
| Market value of listed securities at amortised cost | **134,598** | 165,092 |

Investment in securities is analysed by type of issuer as follows:

| | 2023 HK$'m | 2022 HK$'m |
|---|---|---|
| Sovereigns | **490,733** | 506,386 |
| Public sector entities | **109,128** | 60,900 |
| Banks and other financial institutions | **286,490** | 268,507 |
| Corporate entities | **92,089** | 101,220 |
| | **978,440** | 937,013 |

## 26. Investment in securities (continued)

The movements in investment in securities are summarised as follows:

| | 2023 | |
|---|---|---|
| | At fair value through other comprehensive income HK$'m | At amortised cost HK$'m |
| At 1 January 2023 | **697,817** | **239,196** |
| Additions | **1,316,600** | **40,655** |
| Disposals, redemptions and maturity | **(1,243,340)** | **(71,516)** |
| Amortisation | **3,460** | **617** |
| Change in fair value/fair value hedge adjustment | **6,888** | **213** |
| Net reversal of impairment allowances | **–** | **15** |
| Exchange difference | **(11,063)** | **(1,102)** |
| At 31 December 2023 | **770,362** | **208,078** |

| | 2022 | |
|---|---|---|
| | At fair value through other comprehensive income HK$'m | At amortised cost HK$'m |
| At 1 January 2022 | 916,774 | 135,503 |
| Additions | 1,296,203 | 136,941 |
| Disposals, redemptions and maturity | (1,453,974) | (29,429) |
| Amortisation | 1,024 | 1,331 |
| Change in fair value/fair value hedge adjustment | (30,225) | (741) |
| Net charge of impairment allowances | – | (24) |
| Exchange difference | (31,985) | (4,385) |
| At 31 December 2022 | 697,817 | 239,196 |

The Group has designated certain equity securities as equity securities at fair value through other comprehensive income. The fair value through other comprehensive income designation was made because these are held for strategic investments. Investments include subordinated Additional Tier 1 securities, listed and unlisted equity shares.

The Group derecognised certain equity securities at fair value through other comprehensive income with fair value of HK$233 million (2022: HK$2,796 million) during the year. The derecognition was made because of portfolio rebalancing and the redemption by issuer.

## 27. Interests in associates and joint ventures

| | 2023 HK$'m | 2022 HK$'m |
|---|---|---|
| At 1 January | **843** | 1,215 |
| Addition/(disposal) of associates and joint ventures | **1,102** | (6) |
| Share of results | **(215)** | (330) |
| Share of tax | **(13)** | (9) |
| Dividend received | **(431)** | (27) |
| Exchange difference and others | **(11)** | – |
| At 31 December | **1,275** | 843 |

The particulars of the Group's associates and joint ventures, all of which are unlisted, are as follows:

| Name | Place of incorporation and operation | Issued share capital | Interest held | Principal activities |
|---|---|---|---|---|
| BOC Services Company Limited | PRC | Registered capital RMB50,000,000 | 45% | Credit card back-end service support |
| FutureX Innovation Limited | Cayman Islands | US$1 | 20% | Investment holding |
| Golden Harvest (Cayman) Limited | Cayman Islands | US$100 | 49% | Investment holding |
| Joint Electronic Teller Services Limited | Hong Kong | HK$10,025,200 | 19.96% | Operation of a private inter-bank message switching network in respect of ATM services |
| Livi Bank Limited | Hong Kong | HK$3,792,000,000 | 49.91% | Banking business |
| Sunac Realtor Capital Limited | Cayman Islands | US$1 | 20% | Investment holding |
| Black Spade Asia Acquisition Co. | Cayman Islands | HK$195,000 | 10% | Investment holding |
| GBA Equity Fund II LPF | Hong Kong | N/A | 10.20% | Fund |

None of the above associates and joint ventures is considered individually or in aggregate material to the Group.

## 28. Investment properties

| | 2023 HK$'m | 2022 HK$'m |
|---|---|---|
| At 1 January | **16,069** | 17,722 |
| Additions | **26** | 13 |
| Fair value losses (Note 15) | **(1,270)** | (1,305) |
| Reclassification from/(to) properties, plant and equipment (Note 29) | **50** | (361) |
| At 31 December | **14,875** | 16,069 |

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

| | 2023 HK$'m | 2022 HK$'m |
|---|---|---|
| Held in Hong Kong | | |
| On long-term lease (over 50 years) | **4,619** | 4,773 |
| On medium-term lease (10 to 50 years) | **9,937** | 10,975 |
| Held outside Hong Kong | | |
| On medium-term lease (10 to 50 years) | **261** | 235 |
| On short-term lease (less than 10 years) | **58** | 86 |
| | **14,875** | 16,069 |

As at 31 December 2023, investment properties were included in the balance sheet at valuation carried out at 31 December 2023 on the basis of their fair value by an independent firm of chartered surveyors, Knight Frank Petty Limited. The fair value represents the price that would be received to sell each investment property in an orderly transaction with market participants at the measurement date.

## 29. Properties, plant and equipment

| | Premises HK$'m | Equipment, fixtures and fittings HK$'m | Right-of-use assets* HK$'m | Total HK$'m |
|---|---|---|---|---|
| Net book value at 1 January 2023 | **41,782** | **1,155** | **1,324** | **44,261** |
| Additions | **51** | **337** | **481** | **869** |
| Disposals | **(30)** | **(6)** | **–** | **(36)** |
| Revaluation | **(1,115)** | **–** | **–** | **(1,115)** |
| Depreciation for the year | **(1,181)** | **(433)** | **(569)** | **(2,183)** |
| Reclassification to investment properties (Note 28) | **(50)** | **–** | **–** | **(50)** |
| Exchange difference | **(2)** | **(2)** | **(4)** | **(8)** |
| Net book value at 31 December 2023 | **39,455** | **1,051** | **1,232** | **41,738** |
| At 31 December 2023 | | | | |
| Cost or valuation | **39,455** | **6,557** | **2,814** | **48,826** |
| Accumulated depreciation and impairment | **–** | **(5,506)** | **(1,582)** | **(7,088)** |
| Net book value at 31 December 2023 | **39,455** | **1,051** | **1,232** | **41,738** |
| The analysis of cost or valuation of the above assets is as follows: | | | | |
| At 31 December 2023 | | | | |
| At cost | **–** | **6,557** | **2,814** | **9,371** |
| At valuation | **39,455** | **–** | **–** | **39,455** |
| | **39,455** | **6,557** | **2,814** | **48,826** |

## 29. Properties, plant and equipment (continued)

| | Premises HK$'m | Equipment, fixtures and fittings HK$'m | Right-of-use assets* HK$'m | Total HK$'m |
|---|---|---|---|---|
| Net book value at 1 January 2022 | 43,784 | 1,338 | 1,319 | 46,441 |
| Additions | 57 | 331 | 645 | 1,033 |
| Disposals | (6) | (3) | – | (9) |
| Revaluation | (1,214) | – | – | (1,214) |
| Depreciation for the year | (1,196) | (500) | (627) | (2,323) |
| Reclassification from investment properties (Note 28) | 361 | – | – | 361 |
| Exchange difference | (4) | (11) | (13) | (28) |
| Net book value at 31 December 2022 | 41,782 | 1,155 | 1,324 | 44,261 |
| At 31 December 2022 | | | | |
| Cost or valuation | 41,782 | 7,163 | 2,497 | 51,442 |
| Accumulated depreciation and impairment | – | (6,008) | (1,173) | (7,181) |
| Net book value at 31 December 2022 | 41,782 | 1,155 | 1,324 | 44,261 |
| The analysis of cost or valuation of the above assets is as follows: | | | | |
| At 31 December 2022 | | | | |
| At cost | – | 7,163 | 2,497 | 9,660 |
| At valuation | 41,782 | – | – | 41,782 |
| | 41,782 | 7,163 | 2,497 | 51,442 |

* The right-of-use assets of the Group are mainly related to lease of properties.

## 29. Properties, plant and equipment (continued)

The carrying value of premises is analysed based on the remaining terms of the leases as follows:

| | **2023** **HK$'m** | 2022 HK$'m |
|---|---|---|
| Held in Hong Kong | | |
| On long-term lease (over 50 years) | **11,608** | 12,034 |
| On medium-term lease (10 to 50 years) | **27,542** | 29,437 |
| Held outside Hong Kong | | |
| On long-term lease (over 50 years) | **56** | 64 |
| On medium-term lease (10 to 50 years) | **217** | 214 |
| On short-term lease (below 10 years) | **32** | 33 |
| | **39,455** | 41,782 |

As at 31 December 2023, premises were included in the balance sheet at valuation carried out at 31 December 2023 on the basis of their fair value by an independent firm of chartered surveyors, Knight Frank Petty Limited. The fair value represents the price that would be received to sell each premise in an orderly transaction with market participants at the measurement date.

As a result of the above-mentioned revaluations, changes in value of the premises were recognised as follows:

| | **2023** **HK$'m** | 2022 HK$'m |
|---|---|---|
| Decrease in valuation charged to income statement (Note 16) | **(130)** | (110) |
| Decrease in valuation charged to other comprehensive income | **(985)** | (1,104) |
| | **(1,115)** | (1,214) |

As at 31 December 2023, the net book value of premises that would have been included in the Group's balance sheet had the premises been carried at cost less accumulated depreciation and impairment losses was HK$9,181 million (2022: HK$9,457 million).

## 30. Other assets

| | 2023 HK$'m | 2022 HK$'m |
|---|---|---|
| Repossessed assets | **162** | 334 |
| Precious metals | **11,627** | 11,507 |
| Intangible assets | **2,382** | 2,213 |
| Accounts receivable and prepayments | **32,719** | 23,048 |
| Insurance contract assets | **2** | 3 |
| Reinsurance contract assets | **43,792** | 48,815 |
| | **90,684** | 85,920 |

The movements in intangible assets are summarised as follows:

| | 2023 HK$'m | 2022 HK$'m |
|---|---|---|
| Net book value at 1 January | **2,213** | 2,025 |
| Additions | **905** | 866 |
| Amortisation for the year | **(736)** | (678) |
| Net book value at 31 December | **2,382** | 2,213 |
| At 31 December | | |
| Cost | **6,938** | 6,727 |
| Accumulated amortisation and impairment | **(4,556)** | (4,514) |
| Net book value at 31 December | **2,382** | 2,213 |

## 31. Hong Kong SAR currency notes in circulation

The Hong Kong SAR currency notes in circulation are secured by deposit of funds in respect of which the Hong Kong SAR Government certificates of indebtedness are held.

## 32. Financial liabilities at fair value through profit or loss

| | 2023 HK$'m | 2022 HK$'m |
|---|---|---|
| Trading liabilities | | |
| – Short positions in securities | **59,850** | 59,451 |
| Financial liabilities designated at fair value through profit or loss | | |
| – Repurchase agreements | **4,194** | – |
| – Structured notes | **–** | 2 |
| – Structured deposits (Note 33) | **2,159** | – |
| | **6,353** | 2 |
| | **66,203** | 59,453 |

As at 31 December 2023 and 2022, the difference between the carrying amount of financial liabilities designated at fair value through profit or loss and the amount that the Group would be contractually required to pay at maturity to the holders was not significant.

## 33. Deposits from customers

| | 2023 HK$'m | 2022 HK$'m |
|---|---|---|
| Current, savings and other deposit accounts (per balance sheet) | **2,501,682** | 2,377,207 |
| Structured deposits reported as financial liabilities at fair value through profit or loss (Note 32) | **2,159** | – |
| | **2,503,841** | 2,377,207 |
| Analysed by: | | |
| Demand deposits and current accounts | | |
| – Corporate | **153,646** | 165,006 |
| – Personal | **62,720** | 71,109 |
| | **216,366** | 236,115 |
| Savings deposits | | |
| – Corporate | **519,868** | 472,248 |
| – Personal | **451,245** | 521,441 |
| | **971,113** | 993,689 |
| Time, call and notice deposits | | |
| – Corporate | **620,576** | 616,829 |
| – Personal | **695,786** | 530,574 |
| | **1,316,362** | 1,147,403 |
| | **2,503,841** | 2,377,207 |

## 34. Debt securities and certificates of deposit in issue

| | 2023 HK$'m | 2022 HK$'m |
|---|---|---|
| At amortised cost | | |
| – Senior notes under the Medium Term Note Programme [(i)] | – | 1,702 |
| – Senior notes under the Medium Term Note Programme, with fair value hedge adjustment [(ii)] | **1,999** | 1,934 |
| | **1,999** | 3,636 |

(i) In July 2021, BOCHK issued RMB1.5 billion senior notes, interest rate at 2.80% per annum payable semi-annually, due in 2023.

(ii) In February 2022, BOCHK issued HK$2 billion senior notes, interest rate at 1.33% per annum payable semi-annually, due in 2024.

## 35. Other accounts and provisions

| | 2023 HK$'m | 2022 HK$'m |
|---|---|---|
| Other accounts payable and provisions | **82,404** | 67,134 |
| Lease liabilities | **1,206** | 1,298 |
| Impairment allowances on loan commitments and financial guarantee contracts | | |
| – Stage 1 | **319** | 326 |
| – Stage 2 | **30** | 36 |
| – Stage 3 | **21** | 128 |
| Reinsurance contract liabilities | **714** | 766 |
| | **84,694** | 69,688 |

## 36. Deferred taxation

Deferred tax is recognised in respect of the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and unused tax credits in accordance with HKAS 12 "Income Taxes".

The major components of deferred tax (assets)/liabilities recorded in the balance sheet, and the movements during the year are as follows:

| | 2023 | | | | | |
|---|---|---|---|---|---|---|
| | **Accelerated tax depreciation HK$'m** | **Property revaluation HK$'m** | **Losses HK$'m** | **Impairment allowances HK$'m** | **Others HK$'m** | **Total HK$'m** |
| At 1 January 2023 | **841** | **6,278** | **(831)** | **(1,128)** | **(1,976)** | **3,184** |
| Charged/(credited) to income statement (Note 17) | **24** | **(165)** | **(87)** | **109** | **(217)** | **(336)** |
| (Credited)/charged to other comprehensive income | **–** | **(202)** | **–** | **–** | **614** | **412** |
| Release upon disposal of equity instruments at fair value through other comprehensive income | **–** | **–** | **–** | **–** | **–** | **–** |
| Exchange difference and others | **–** | **–** | **–** | **–** | **2** | **2** |
| At 31 December 2023 | **865** | **5,911** | **(918)** | **(1,019)** | **(1,577)** | **3,262** |

| | 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Accelerated tax depreciation HK$'m | Property revaluation HK$'m | Losses HK$'m | Impairment allowances HK$'m | Others HK$'m | Total HK$'m |
| At 1 January 2022, as previously reported | 826 | 6,606 | (4) | (1,128) | (693) | 5,607 |
| Effect of adoption of HKFRS 17 | – | – | (866) | – | 212 | (654) |
| At 1 January 2022, after adoption of HKFRS 17 | 826 | 6,606 | (870) | (1,128) | (481) | 4,953 |
| Charged/(credited) to income statement (Note 17) | 15 | (128) | 63 | (11) | (30) | (91) |
| Credited to other comprehensive income | – | (200) | – | – | (1,511) | (1,711) |
| Release upon disposal of equity instruments at fair value through other comprehensive income | – | – | – | – | 45 | 45 |
| Exchange difference and others | – | – | (24) | 11 | 1 | (12) |
| At 31 December 2022 | 841 | 6,278 | (831) | (1,128) | (1,976) | 3,184 |

## 36. Deferred taxation (continued)

Deferred tax assets and liabilities are offset on an individual entity basis when there is a legal right to set off current tax assets against current tax liabilities and when the deferred taxation relates to the same authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

| | **2023 HK$'m** | 2022 HK$'m |
|---|---|---|
| Deferred tax assets | **(1,480)** | (1,162) |
| Deferred tax liabilities | **4,742** | 4,346 |
| | **3,262** | 3,184 |

| | **2023 HK$'m** | 2022 HK$'m |
|---|---|---|
| Deferred tax assets to be recovered after more than twelve months | **(1,453)** | (1,107) |
| Deferred tax liabilities to be settled after more than twelve months | **5,977** | 6,182 |
| | **4,524** | 5,075 |

As at 31 December 2023, the Group has no unrecognised deferred tax assets in respect of tax losses (2022: Nil).

## 37. Insurance contracts

### (a) Reconciliation of remaining coverage and incurred claims for insurance contracts issued

| | 2023 | | | |
|---|---|---|---|---|
| | Liabilities for remaining coverage | | | |
| | Excluding loss component HK$'m | Loss component HK$'m | Liabilities for incurred claims HK$'m | Total HK$'m |
| At 1 January | **168,674** | **160** | **409** | **169,243** |
| Insurance revenue | **(1,897)** | **–** | **–** | **(1,897)** |
| Insurance service expenses | | | | |
| Incurred claims and other directly attributable expenses | **–** | **(6)** | **478** | **472** |
| Amortisation of insurance acquisition cash flows | **177** | **–** | **–** | **177** |
| Changes that relate to past service – changes in the fulfilment cash flow relating to the liabilities for incurred claims | **–** | **–** | **(13)** | **(13)** |
| Losses on onerous contracts and reversals of those losses | **–** | **354** | **–** | **354** |
| Losses for the net outflow recognised on initial recognition | **–** | **69** | **–** | **69** |
| | **177** | **417** | **465** | **1,059** |
| Insurance finance expenses/(income) | **8,047** | **48** | **(5)** | **8,090** |
| Investment components | **(22,342)** | **–** | **22,342** | **–** |
| Cash flows | | | | |
| Premiums received | **25,743** | **–** | **–** | **25,743** |
| Claims and other directly attributable expenses paid | **–** | **–** | **(22,877)** | **(22,877)** |
| Insurance acquisition cash flows | **(1,490)** | **–** | **–** | **(1,490)** |
| | **24,253** | **–** | **(22,877)** | **1,376** |
| At 31 December | **176,912** | **625** | **334** | **177,871** |
| Insurance contract liabilities | **176,917** | **625** | **331** | **177,873** |
| Insurance contract assets | **(5)** | **–** | **3** | **(2)** |
| | **176,912** | **625** | **334** | **177,871** |

## 37. Insurance contracts (continued)

### (a) Reconciliation of remaining coverage and incurred claims for insurance contracts issued (continued)

| | 2022 | | | |
|---|---|---|---|---|
| | Liabilities for remaining coverage | | | |
| | Excluding loss component HK$'m | Loss component HK$'m | Liabilities for incurred claims HK$'m | Total HK$'m |
| At 1 January | 183,480 | – | 221 | 183,701 |
| Insurance revenue | (1,694) | – | – | (1,694) |
| Insurance service expenses | | | | |
| Incurred claims and other directly attributable expenses | – | (2) | 446 | 444 |
| Amortisation of insurance acquisition cash flows | 76 | – | – | 76 |
| Changes that relate to past service – changes in the fulfilment cash flow relating to the liabilities for incurred claims | – | – | – | – |
| Losses on onerous contracts and reversals of those losses | – | (43) | – | (43) |
| Losses for the net outflow recognised on initial recognition | – | 160 | – | 160 |
| | 76 | 115 | 446 | 637 |
| Insurance finance (income)/expenses | (15,383) | 45 | 6 | (15,332) |
| Investment components | (19,070) | – | 19,070 | – |
| Cash flows | | | | |
| Premiums received | 22,530 | – | – | 22,530 |
| Claims and other directly attributable expenses paid | – | – | (19,334) | (19,334) |
| Insurance acquisition cash flows | (1,265) | – | – | (1,265) |
| | 21,265 | – | (19,334) | 1,931 |
| At 31 December | 168,674 | 160 | 409 | 169,243 |
| Insurance contract liabilities | 168,677 | 160 | 409 | 169,246 |
| Insurance contract assets | (3) | – | – | (3) |
| | 168,674 | 160 | 409 | 169,243 |

## 37. Insurance contracts (continued)

### (b) Reconciliation of the measurement components of insurance contracts not measured under the premium allocation approach

| | 2023 | | | |
|---|---|---|---|---|
| | | Contractual service margin | | |
| | Present value of future cash flows and risk adjustment for non-financial risk HK$'m | Contracts recognised after transition date HK$'m | Contracts measured under the fair value approach at transition HK$'m | Total HK$'m |
| At 1 January | 158,233 | 1,750 | 9,256 | 169,239 |
| Changes that relate to current service | | | | |
| Contractual service margin recognised for the service provided | – | (246) | (895) | (1,141) |
| Change in the risk adjustment for non-financial risk for the risk expired | (23) | – | – | (23) |
| Experience adjustments | (91) | – | – | (91) |
| | (114) | (246) | (895) | (1,255) |
| Changes that relate to future service | | | | |
| Changes in estimates that adjust the contractual service margin | 1,599 | (8) | (1,591) | – |
| Changes in estimates that result in onerous contract losses and reversals of those losses | 354 | – | – | 354 |
| Contracts initially recognised | (2,926) | 2,995 | – | 69 |
| | (973) | 2,987 | (1,591) | 423 |
| Changes that relate to past service | | | | |
| Changes in the fulfilment cash flow relating to the liabilities for incurred claims | (13) | – | – | (13) |
| Experience adjustments | – | – | – | – |
| | (13) | – | – | (13) |
| Insurance finance expenses/(income) | 8,018 | (21) | 93 | 8,090 |
| Cash flows | | | | |
| Premiums received | 25,736 | – | – | 25,736 |
| Claims and other directly attributable expenses paid | (22,869) | – | – | (22,869) |
| Insurance acquisition cash flows | (1,490) | – | – | (1,490) |
| | 1,377 | – | – | 1,377 |
| At 31 December | 166,528 | 4,470 | 6,863 | 177,861 |
| Insurance contract liabilities | 166,529 | 4,470 | 6,863 | 177,862 |
| Insurance contract assets | (1) | – | – | (1) |
| | 166,528 | 4,470 | 6,863 | 177,861 |

## 37. Insurance contracts (continued)

### (b) Reconciliation of the measurement components of insurance contracts not measured under the premium allocation approach (continued)

| | 2022 | | | |
|---|---|---|---|---|
| | | Contractual service margin | | |
| | Present value of future cash flows and risk adjustment for non-financial risk HK$'m | Contracts recognised after transition date HK$'m | Contracts measured under the fair value approach at transition HK$'m | Total HK$'m |
| At 1 January | 176,350 | – | 7,337 | 183,687 |
| Changes that relate to current service | | | | |
| Contractual service margin recognised for the service provided | – | (92) | (981) | (1,073) |
| Change in the risk adjustment for non-financial risk for the risk expired | (10) | – | – | (10) |
| Experience adjustments | (121) | – | – | (121) |
| | (131) | (92) | (981) | (1,204) |
| Changes that relate to future service | | | | |
| Changes in estimates that adjust the contractual service margin | (3,039) | 605 | 2,434 | – |
| Changes in estimates that result in onerous contract losses and reversals of those losses | (43) | – | – | (43) |
| Contracts initially recognised | (1,167) | 1,327 | – | 160 |
| | (4,249) | 1,932 | 2,434 | 117 |
| Changes that relate to past service | | | | |
| Changes in the fulfilment cash flow relating to the liabilities for incurred claims | – | – | – | – |
| Experience adjustments | – | – | – | – |
| | – | – | – | – |
| Insurance finance (income)/expenses | (15,708) | (90) | 466 | (15,332) |
| Cash flows | | | | |
| Premiums received | 22,529 | – | – | 22,529 |
| Claims and other directly attributable expenses paid | (19,295) | – | – | (19,295) |
| Insurance acquisition cash flows | (1,263) | – | – | (1,263) |
| | 1,971 | – | – | 1,971 |
| At 31 December | 158,233 | 1,750 | 9,256 | 169,239 |
| Insurance contract liabilities | 158,234 | 1,750 | 9,256 | 169,240 |
| Insurance contract assets | (1) | – | – | (1) |
| | 158,233 | 1,750 | 9,256 | 169,239 |

# 37. Insurance contracts (continued)

## (c) Impact of insurance contracts recognised in the year

| | 2023 | | |
|---|---|---|---|
| | **Non-onerous contracts originated HK$'m** | **Onerous contracts originated HK$'m** | **Total HK$'m** |
| Estimates of the present value of future cash outflows | | | |
| Insurance acquisition cash flows | **1,661** | **227** | **1,888** |
| Claims and other directly attributable expenses | **15,473** | **4,310** | **19,783** |
| | **17,134** | **4,537** | **21,671** |
| Estimates of the present value of future cash inflows | **(20,167)** | **(4,474)** | **(24,641)** |
| Risk adjustment for non-financial risk | **38** | **6** | **44** |
| Contractual service margin | **2,995** | **–** | **2,995** |
| Loss component on initial recognition | **–** | **69** | **69** |

| | 2022 | | |
|---|---|---|---|
| | Non-onerous contracts originated HK$'m | Onerous contracts originated HK$'m | Total HK$'m |
| Estimates of the present value of future cash outflows | | | |
| Insurance acquisition cash flows | 1,179 | 185 | 1,364 |
| Claims and other directly attributable expenses | 11,781 | 4,167 | 15,948 |
| | 12,960 | 4,352 | 17,312 |
| Estimates of the present value of future cash inflows | (14,306) | (4,192) | (18,498) |
| Risk adjustment for non-financial risk | 19 | – | 19 |
| Contractual service margin | 1,327 | – | 1,327 |
| Loss component on initial recognition | – | 160 | 160 |

## 37. Insurance contracts (continued)

### (d) Expected release of the contractual service margin

An analysis of the expected release of the contractual service margin remaining at the end of the reporting period charge to income statement after the reporting date is provided in the following table:

| | 2023 | | | |
|---|---|---|---|---|
| | Less than 1 year HK$'m | 1 to 5 years HK$'m | Over 5 years HK$'m | Total HK$'m |
| Insurance contracts issued | **837** | **2,729** | **7,767** | **11,333** |

| | 2022 | | | |
|---|---|---|---|---|
| | Less than 1 year HK$'m | 1 to 5 years HK$'m | Over 5 years HK$'m | Total HK$'m |
| Insurance contracts issued | 700 | 2,386 | 7,920 | 11,006 |

The amounts disclosed in the table include projections of the contractual service margin recognition for the services that will be provided or received in the future for the contracts in force as at the reporting date, but do not take account of future interest accretion under the general measurement model and future adjustments of the contractual service margin reflecting changes in the variable fee for contracts under the variable fee approach.

## 38. Subordinated liabilities

| | 2023 HK$'m | 2022 HK$'m |
|---|---|---|
| Subordinated loans, at amortised cost | | |
| RMB20 billion(i) | – | 22,499 |
| RMB10 billion(ii) | 11,018 | 11,255 |
| USD1 billion(iii) | 7,869 | 7,860 |
| USD1 billion(iv) | 7,853 | 7,846 |
| RMB17 billion(v) | 18,704 | 19,107 |
| USD1 billion(vi) | 7,836 | 7,826 |
| RMB20 billion(vii) | 22,043 | – |
| | 75,323 | 76,393 |

In compliance with the applicable internal loss-absorbing capacity requirements under LAC rules, BOCHK early repaid non-capital loss-absorbing capacity debt instrument totalling RMB20 billion in 2023. On the same day, BOC has granted this instrument totalling RMB20 billion to BOCHK.

(i) Interest rate at 2.20% per annum payable annually, due in 2024 with early repayment option.

(ii) Interest rate at 2.47% per annum payable annually, due in 2025 with early repayment option.

(iii) Interest rate at 5.30% per annum payable annually, due in 2025 with early repayment option.

(iv) Interest rate at 5.02% per annum payable annually, due in 2025 with early repayment option.

(v) Interest rate at 2.85% per annum payable annually, due in 2025 with early repayment option.

(vi) Interest rate at 4.99% per annum payable annually, due in 2025 with early repayment option.

(vii) Interest rate at 2.67% per annum payable annually, due in 2025 with early repayment option.

## 39. Share capital

| | 2023 HK$'m | 2022 HK$'m |
|---|---|---|
| Issued and fully paid: | | |
| 10,572,780,266 ordinary shares | 52,864 | 52,864 |

## 40. Other equity instruments

| | 2023 HK$'m | 2022 HK$'m |
|---|---|---|
| Undated non-cumulative subordinated Additional Tier 1 capital securities | – | 23,476 |

In September 2018, BOCHK issued USD3,000 million undated non-cumulative subordinated Additional Tier 1 capital securities. The capital securities are perpetual securities in respect of which there is no fixed redemption date and are not callable within the first 5 years. They have an initial rate of distribution of 5.90% per annum payable semi-annually which may be cancelled at the sole discretion of BOCHK. Dividend paid to other equity instrument holders in 2023 amounted to HK$1,392 million (2022: HK$1,390 million). BOCHK has redeemed all of the capital securities in September 2023.

## 41. Notes to consolidated cash flow statement

### (a) Reconciliation of operating profit to operating cash inflow/(outflow) before taxation

| | 2023 HK$'m | 2022 HK$'m |
|---|---|---|
| Operating profit | **42,558** | 34,917 |
| Depreciation and amortisation | **2,919** | 3,001 |
| Gain from disposal of associates and joint ventures | **–** | (3) |
| Net charge of impairment allowances | **6,333** | 2,348 |
| Unwind of discount on impairment allowances | **(143)** | (81) |
| Advances written off net of recoveries | **(2,955)** | (560) |
| Interest expense on lease liabilities | **41** | 34 |
| Change in subordinated liabilities | **1,413** | 1,877 |
| Change in balances and placements with banks and other financial institutions with original maturity over three months | **(5,111)** | (15,325) |
| Change in financial assets at fair value through profit or loss | **(21,460)** | (22,435) |
| Change in derivative financial instruments | **(1,092)** | (8,137) |
| Change in advances and other accounts | **(52,255)** | (50,004) |
| Change in investment in securities | **23,960** | 62,540 |
| Change in other assets | **(9,793)** | 9,497 |
| Change in deposits and balances from banks and other financial institutions | **57,047** | (169,436) |
| Change in financial liabilities at fair value through profit or loss | **6,750** | 46,933 |
| Change in deposits from customers | **124,475** | 46,052 |
| Change in debt securities and certificates of deposit in issue | **(1,637)** | 1,213 |
| Change in other accounts and provisions | **15,263** | 15,852 |
| Change in insurance and reinsurance contract assets/liabilities | **12,069** | (2,865) |
| Effect of changes in exchange rates | **5,495** | 23,234 |
| Operating cash inflow/(outflow) before taxation | **203,877** | (21,348) |

# 41. Notes to consolidated cash flow statement (continued)

## (b) Reconciliation of liabilities arising from financing activities

| | **2023 HK$'m** | 2022 HK$'m |
|---|---|---|
| Subordinated liabilities | | |
| At 1 January | **76,393** | – |
| Cash flows: | | |
| Payment for redemption of subordinated liabilities | **(21,937)** | – |
| Interest paid for subordinated liabilities | **(2,483)** | – |
| Proceeds from subordinated liabilities | **21,937** | 74,516 |
| Non-cash changes: | | |
| Exchange difference | **(1,096)** | 1,545 |
| Other changes | **2,509** | 332 |
| At 31 December | **75,323** | 76,393 |

| | **2023 HK$'m** | 2022 HK$'m |
|---|---|---|
| Lease liabilities | | |
| At 1 January | **1,298** | 1,318 |
| Cash flows: | | |
| Payment of lease liabilities | **(613)** | (699) |
| Non-cash changes: | | |
| Additions | **480** | 645 |
| Disposal | **–** | – |
| Other changes | **41** | 34 |
| At 31 December | **1,206** | 1,298 |

## (c) Analysis of the balances of cash and cash equivalents

| | **2023 HK$'m** | 2022 HK$'m |
|---|---|---|
| Cash and balances and placements with banks and other financial institutions with original maturity within three months | **345,438** | 479,150 |
| Treasury bills, certificates of deposit and other debt instruments with original maturity within three months | | |
| – financial assets at fair value through profit or loss | **229,191** | 8,574 |
| – investment in securities | **112,301** | 53,201 |
| | **686,930** | 540,925 |

## 42. Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment and the aggregate credit risk-weighted amount and is prepared with reference to the completion instructions for the HKMA return of capital adequacy ratio.

| | **2023 HK$'m** | 2022 HK$'m |
|---|---|---|
| Direct credit substitutes | **1,117** | 1,069 |
| Transaction-related contingencies | **28,132** | 25,586 |
| Trade-related contingencies | **16,068** | 15,908 |
| Commitments that are unconditionally cancellable without prior notice | **628,682** | 533,304 |
| Other commitments with an original maturity of | | |
| – up to one year | **16,520** | 21,905 |
| – over one year | **168,212** | 177,275 |
| | **858,731** | 775,047 |
| Credit risk-weighted amount | **78,102** | 79,122 |

The credit risk-weighted amount is calculated in accordance with the Banking (Capital) Rules. The amount is dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

## 43. Capital commitments

The Group has the following outstanding capital commitments not provided for in the financial statements:

| | **2023 HK$'m** | 2022 HK$'m |
|---|---|---|
| Authorised and contracted for but not provided for | **592** | 211 |
| Authorised but not contracted for | **49** | 233 |
| | **641** | 444 |

The above capital commitments mainly relate to commitments to purchase computer equipment and software, and to renovate the Group's premises.

## 44. Operating lease commitments

### As lessor

The Group has contracted with tenants for the following future minimum lease receivables under non-cancellable operating leases:

| | 2023 HK$'m | 2022 HK$'m |
|---|---|---|
| Properties and equipment | | |
| – Not later than one year | **385** | 431 |
| – One to two years | **228** | 289 |
| – Two to three years | **73** | 132 |
| – Three to four years | **–** | 6 |
| – Four to five years | **–** | – |
| | **686** | 858 |

The Group leases its investment properties under operating lease arrangements, with leases typically for a period from one to three years. The terms of the leases generally require the tenants to pay security deposits and provide for rent adjustments according to the prevailing market conditions upon the lease renewal.

## 45. Litigation

The Group has been served a number of claims and counterclaims by various independent parties. These claims and counterclaims are in relation to the normal commercial activities of the Group.

No material provision was made against these claims and counterclaims because the directors believe that the Group has meritorious defences against the claimants or the amounts involved in these claims are not expected to be material.

## 46. Segmental reporting

The Group manages the business mainly from a business segment perspective and over 90% of the Group's revenues, profits before tax and assets are derived from Hong Kong. Currently, four operating segments are identified: Personal Banking, Corporate Banking, Treasury and Insurance. The classification of the Group's operating segments is based on customer segment and product type, which is aligned with the RPC (relationship, product and channel) management model of the Group.

Both Personal Banking and Corporate Banking provide general banking services including various deposit products, overdrafts, loans, credit cards, trade related products and other credit facilities, investment and insurance products, and foreign currency and derivative products. Personal Banking mainly serves retail customers and small enterprises, while Corporate Banking mainly deals with corporate customers. Treasury manages the funding and liquidity, and the interest rate and foreign exchange positions of the Group in addition to proprietary trades. The Insurance segment represents business mainly relating to life insurance products, including individual life insurance and group life insurance products. "Others" mainly represents the Group's holdings of premises, investment properties, equity investments, certain interests in associates and joint ventures and the businesses of the Southeast Asian entities.

Measurement of segment assets, liabilities, income, expenses, results and capital expenditure is based on the Group's accounting policies. The segment information includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Inter-segment funding is charged according to the internal funds transfer pricing mechanism of the Group, which is primarily based on market rates with the consideration of specific features of the product.

As the Group derives a majority of revenue from interest and the senior management relies primarily on net interest income in managing the business, interest income and expense for all reportable segments are presented on a net basis. Under the same consideration, insurance service result is also presented on a net basis.

## 46. Segmental reporting (continued)

| | Personal Banking HK$'m | Corporate Banking HK$'m | Treasury HK$'m | Insurance HK$'m | Others HK$'m | Subtotal HK$'m | Eliminations HK$'m | Consolidated HK$'m |
|---|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2023** | | | | | | | | |
| Net interest (expense)/income | | | | | | | | |
| – External | (11,050) | 19,864 | 34,195 | 4,499 | 3,570 | 51,078 | – | 51,078 |
| – Inter-segment | 30,784 | 438 | (30,764) | (100) | (358) | – | – | – |
| | 19,734 | 20,302 | 3,431 | 4,399 | 3,212 | 51,078 | – | 51,078 |
| Net fee and commission income/(expense) | | | | | | | | |
| – External | 6,393 | 3,820 | 185 | (2,054) | 823 | 9,167 | – | 9,167 |
| – Inter-segment | (2,005) | 4 | 125 | 2,043 | 577 | 744 | (744) | – |
| | 4,388 | 3,824 | 310 | (11) | 1,400 | 9,911 | (744) | 9,167 |
| Insurance service result | – | – | – | 828 | – | 828 | 118 | 946 |
| Net trading gain/(loss) | 515 | 1,752 | 6,113 | (734) | 657 | 8,303 | 12 | 8,315 |
| Net gain/(loss) on other financial instruments at fair value through profit or loss | 39 | – | (142) | 2,379 | – | 2,276 | 1 | 2,277 |
| Net gain/(loss) on other financial instruments | – | 10 | (1,322) | (151) | (5) | (1,468) | – | (1,468) |
| Insurance finance (expenses)/income | – | – | – | (5,430) | – | (5,430) | – | (5,430) |
| Other operating income | 27 | 1 | 31 | 16 | 1,743 | 1,818 | (1,205) | 613 |
| **Net operating income before impairment allowances** | 24,703 | 25,889 | 8,421 | 1,296 | 7,007 | 67,316 | (1,818) | 65,498 |
| Net (charge)/reversal of impairment allowances | (392) | (6,212) | (1) | (1) | 273 | (6,333) | – | (6,333) |
| **Net operating income** | 24,311 | 19,677 | 8,420 | 1,295 | 7,280 | 60,983 | (1,818) | 59,165 |
| Operating expenses | (9,607) | (3,811) | (1,457) | (97) | (3,453) | (18,425) | 1,818 | (16,607) |
| **Operating profit** | 14,704 | 15,866 | 6,963 | 1,198 | 3,827 | 42,558 | – | 42,558 |
| Net loss from disposal of/fair value adjustments on investment properties | – | – | – | – | (1,270) | (1,270) | – | (1,270) |
| Net loss from disposal/revaluation of properties, plant and equipment | (1) | – | – | – | (134) | (135) | – | (135) |
| Share of results after tax of associates and joint ventures | (22) | – | 5 | – | (222) | (239) | – | (239) |
| **Profit before taxation** | 14,681 | 15,866 | 6,968 | 1,198 | 2,201 | 40,914 | – | 40,914 |
| **At 31 December 2023** | | | | | | | | |
| **ASSETS** | | | | | | | | |
| Segment assets | 629,699 | 1,041,554 | 1,884,129 | 187,152 | 189,328 | 3,931,862 | (64,354) | 3,867,508 |
| Interests in associates and joint ventures | 113 | – | 3 | 309 | 850 | 1,275 | – | 1,275 |
| | 629,812 | 1,041,554 | 1,884,132 | 187,461 | 190,178 | 3,933,137 | (64,354) | 3,868,783 |
| **LIABILITIES** | | | | | | | | |
| Segment liabilities | 1,366,745 | 1,120,307 | 819,223 | 182,912 | 120,521 | 3,609,708 | (64,354) | 3,545,354 |
| **Year ended 31 December 2023** | | | | | | | | |
| **Other information** | | | | | | | | |
| Capital expenditure | 41 | 19 | 1 | 52 | 1,681 | 1,794 | – | 1,794 |
| Depreciation and amortisation | 1,088 | 324 | 127 | 81 | 1,340 | 2,960 | (41) | 2,919 |

## 46. Segmental reporting (continued)

| | Personal Banking HK$'m | Corporate Banking HK$'m | Treasury HK$'m | Insurance HK$'m | Others HK$'m | Subtotal HK$'m | Eliminations HK$'m | Consolidated HK$'m |
|---|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2022** | | | | | | | | |
| Net interest income/(expense) | | | | | | | | |
| – External | 2,533 | 15,528 | 14,238 | 4,011 | 2,440 | 38,750 | – | 38,750 |
| – Inter-segment | 8,032 | (4,027) | (2,806) | (54) | (1,145) | – | – | – |
| | 10,565 | 11,501 | 11,432 | 3,957 | 1,295 | 38,750 | – | 38,750 |
| Net fee and commission income/(expense) | | | | | | | | |
| – External | 6,140 | 3,829 | (74) | (874) | 779 | 9,800 | – | 9,800 |
| – Inter-segment | (828) | 6 | 81 | 854 | 453 | 566 | (566) | – |
| | 5,312 | 3,835 | 7 | (20) | 1,232 | 10,366 | (566) | 9,800 |
| Insurance service result | – | – | – | 1,041 | – | 1,041 | 96 | 1,137 |
| Net trading gain/(loss) | 1,011 | 1,603 | 10,196 | (560) | 585 | 12,835 | 4 | 12,839 |
| Net loss on other financial instruments at fair value through profit or loss | – | – | (604) | (11,260) | – | (11,864) | – | (11,864) |
| Net gain/(loss) on other financial instruments | – | 12 | (3,709) | (165) | 6 | (3,856) | – | (3,856) |
| Insurance finance (expenses)/income | – | – | – | 6,561 | – | 6,561 | – | 6,561 |
| Other operating income | 30 | 5 | 80 | 101 | 1,831 | 2,047 | (1,199) | 848 |
| **Net operating income/(expense) before impairment allowances** | 16,918 | 16,956 | 17,402 | (345) | 4,949 | 55,880 | (1,665) | 54,215 |
| Net (charge)/reversal of impairment allowances | (344) | (2,008) | 71 | 14 | (81) | (2,348) | – | (2,348) |
| **Net operating income/(expense)** | 16,574 | 14,948 | 17,473 | (331) | 4,868 | 53,532 | (1,665) | 51,867 |
| Operating expenses | (9,096) | (3,548) | (2,544) | (66) | (3,361) | (18,615) | 1,665 | (16,950) |
| **Operating profit/(loss)** | 7,478 | 11,400 | 14,929 | (397) | 1,507 | 34,917 | – | 34,917 |
| Net loss from disposal of/fair value adjustments on investment properties | – | – | – | – | (1,305) | (1,305) | – | (1,305) |
| Net loss from disposal/revaluation of properties, plant and equipment | (1) | – | – | – | (110) | (111) | – | (111) |
| Share of results after tax of associates and joint ventures | (48) | – | 4 | – | (295) | (339) | – | (339) |
| **Profit/(loss) before taxation** | 7,429 | 11,400 | 14,933 | (397) | (203) | 33,162 | – | 33,162 |
| **At 31 December 2022** | | | | | | | | |
| **ASSETS** | | | | | | | | |
| Segment assets | 580,155 | 1,040,621 | 1,734,391 | 177,505 | 173,197 | 3,705,869 | (40,207) | 3,665,662 |
| Interests in associates and joint ventures | 563 | – | 1 | – | 279 | 843 | – | 843 |
| | 580,718 | 1,040,621 | 1,734,392 | 177,505 | 173,476 | 3,706,712 | (40,207) | 3,666,505 |
| **LIABILITIES** | | | | | | | | |
| Segment liabilities | 1,280,379 | 1,075,631 | 746,103 | 173,218 | 105,546 | 3,380,877 | (40,207) | 3,340,670 |
| **Year ended 31 December 2022** | | | | | | | | |
| **Other information** | | | | | | | | |
| Capital expenditure | 46 | 26 | 10 | 85 | 1,745 | 1,912 | – | 1,912 |
| Depreciation and amortisation | 1,175 | 307 | 122 | 73 | 1,365 | 3,042 | (41) | 3,001 |

## 47. Offsetting financial instruments

The following tables present details of the Group's financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

| | 2023 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the balance sheet | | |
| | Gross amounts of recognised financial assets HK$'m | Gross amounts of recognised financial liabilities set off in the balance sheet HK$'m | Net amounts of financial assets presented in the balance sheet HK$'m | Financial instruments* HK$'m | Cash collateral received HK$'m | Net amount HK$'m |
| **Assets** | | | | | | |
| Derivative financial instruments | 37,191 | – | 37,191 | (23,668) | (12,310) | 1,213 |
| Reverse repurchase agreements | 21,771 | – | 21,771 | (21,771) | – | – |
| Securities borrowing agreements | 3,800 | – | 3,800 | (3,800) | – | – |
| Other assets | 15,689 | (11,684) | 4,005 | – | – | 4,005 |
| | 78,451 | (11,684) | 66,767 | (49,239) | (12,310) | 5,218 |

| | 2023 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the balance sheet | | |
| | Gross amounts of recognised financial liabilities HK$'m | Gross amounts of recognised financial assets set off in the balance sheet HK$'m | Net amounts of financial liabilities presented in the balance sheet HK$'m | Financial instruments* HK$'m | Cash collateral pledged HK$'m | Net amount HK$'m |
| **Liabilities** | | | | | | |
| Derivative financial instruments | 28,454 | – | 28,454 | (23,614) | (2,288) | 2,552 |
| Repurchase agreements | 44,495 | – | 44,495 | (44,495) | – | – |
| Other liabilities | 14,964 | (11,684) | 3,280 | – | – | 3,280 |
| | 87,913 | (11,684) | 76,229 | (68,109) | (2,288) | 5,832 |

## 47. Offsetting financial instruments (continued)

| | 2022 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the balance sheet | | |
| | Gross amounts of recognised financial assets HK$'m | Gross amounts of recognised financial liabilities set off in the balance sheet HK$'m | Net amounts of financial assets presented in the balance sheet HK$'m | Financial instruments HK$'m | Cash collateral received HK$'m | Net amount HK$'m |
| **Assets** | | | | | | |
| Derivative financial instruments | 45,254 | – | 45,254 | (31,824) | (12,534) | 896 |
| Reverse repurchase agreements | 17,576 | – | 17,576 | (17,576) | – | – |
| Securities borrowing agreements | 3,400 | – | 3,400 | (3,400) | – | – |
| Other assets | 11,364 | (9,222) | 2,142 | (6) | – | 2,136 |
| | 77,594 | (9,222) | 68,372 | (52,806) | (12,534) | 3,032 |

| | 2022 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the balance sheet | | |
| | Gross amounts of recognised financial liabilities HK$'m | Gross amounts of recognised financial assets set off in the balance sheet HK$'m | Net amounts of financial liabilities presented in the balance sheet HK$'m | Financial instruments HK$'m | Cash collateral pledged HK$'m | Net amount HK$'m |
| **Liabilities** | | | | | | |
| Derivative financial instruments | 37,117 | – | 37,117 | (31,824) | (2,527) | 2,766 |
| Repurchase agreements | 31,757 | – | 31,757 | (31,757) | – | – |
| Other liabilities | 10,562 | (9,222) | 1,340 | (6) | – | 1,334 |
| | 79,436 | (9,222) | 70,214 | (63,587) | (2,527) | 4,100 |

* Including non-cash collateral.

For master netting agreements of OTC derivative, sale and repurchase and securities lending and borrowing transactions entered into by the Group, related amounts with the same counterparty can be offset if an event of default or other predetermined events occur.

## 48. Assets pledged as security

As at 31 December 2023, the liabilities of the Group amounting to HK$38,253 million (2022: HK$27,986 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK$84,241 million (2022: HK$46,757 million) were secured by debt securities related to sale and repurchase arrangements. The amount of assets pledged by the Group to secure these liabilities was HK$122,929 million (2022: HK$75,346 million) mainly included in "Financial assets at fair value through profit or loss" and "Investment in securities".

In addition, the Group pledges securities amounting to HK$3,271 million (2022: HK$2,709 million) as initial margin of derivative transactions.

## 49. Transfers of financial assets

Transferred financial assets that do not qualify for derecognition include debt securities held by counterparties as collateral under sale and repurchase agreements. The counterparties are allowed to sell or re-pledge these securities in the absence of default by the Group, but have an obligation to return the securities upon maturity of the contract. These securities are not derecognised since the Group retains substantially all the risks and rewards. Amounts received under sale and repurchase agreements are recognised as financial liabilities.

The following table analyses the carrying amount of the financial assets transferred to counterparties that do not qualify for derecognition and their associated financial liabilities:

| | **2023** | | 2022 | |
|---|---|---|---|---|
| | **Carrying amount of transferred assets HK$'m** | **Carrying amount of associated liabilities HK$'m** | Carrying amount of transferred assets HK$'m | Carrying amount of associated liabilities HK$'m |
| Repurchase agreements | **44,389** | **43,866** | 32,189 | 31,757 |

## 50. Interests in unconsolidated structured entities

The Group involves a number of fund investments in the normal course of business, which meet the definition of unconsolidated structured entities, and earns management fee and trustee fee from those sponsored by the Group. The Group's investment holding interests in the unconsolidated structured entities were recognised in financial assets measured at FVPL. As at 31 December 2023, the total net asset value of unconsolidated structured entities sponsored by the Group amounted to HK$187,435 million (2022: HK$159,172 million). Interests in unconsolidated structured entities sponsored by the Group amounted to HK$511 million (2022: HK$607 million) and interests in those sponsored by other financial institutions amounted to HK$12,078 million (2022: HK$10,062 million). For the year ended 31 December 2023, the above-mentioned management fee and trustee fee amounted to HK$660 million (2022: HK$581 million). The maximum exposure to loss from Group's interests in these fund investments is equal to the total fair value of its investments in these funds.

## 51. Loans to directors

Particulars of loans made to directors of the Company pursuant to section 383 of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

| | **2023 HK$'m** | 2022 HK$'m |
|---|---|---|
| Aggregate amount of relevant transactions outstanding at year end | **5** | 5 |
| Maximum aggregate amount of relevant transactions outstanding during the year | **5** | 6 |

## 52. Significant related party transactions

The Group is subject to the control of the State Council of the PRC Government through China Investment Corporation ("CIC"), its wholly-owned subsidiary Central Huijin Investment Ltd. ("Central Huijin"), and BOC in which Central Huijin has controlling equity interests.

### (a) Transactions with the parent companies and the other companies controlled by the parent companies

General information of the parent companies:

The Group is controlled by BOC. Central Huijin is the controlling entity of BOC, and it is a wholly-owned subsidiary of CIC which is a wholly state-owned company engaging in foreign currency investment management.

Central Huijin has controlling equity interests in certain other entities in the PRC.

The Group enters into banking and other transactions with these entities in the normal course of business which include loans, investment securities, money market and reinsurance transactions.

## 52. Significant related party transactions (continued)

### (a) Transactions with the parent companies and the other companies controlled by the parent companies (continued)

The majority of transactions with BOC arise from money market activities. Related party transactions with BOC as disclosed below constitute connected transactions as defined in Chapter 14A of the Listing Rules but under exemption from its disclosure requirement.

| | **2023 HK$'m** | 2022 HK$'m |
|---|---|---|
| Income statement items | | |
| – Interest income | **2,520** | 1,242 |
| – Interest expenses | **4,240** | 1,580 |
| Balance sheet items | | |
| – Cash and balances and placements with banks and other financial institutions | **134,248** | 206,631 |
| – Other assets | **3,727** | 5,478 |
| – Investment in securities | **8,009** | 27,450 |
| – Deposits and balances from banks and other financial institutions | **75,445** | 95,344 |

Related party transactions with subsidiaries of BOC are summarised as below:

| | **2023 HK$'m** | 2022 HK$'m |
|---|---|---|
| Balance sheet items | | |
| – Cash and balances and placements with banks and other financial institutions | **516** | 2,209 |
| – Advances and other accounts | **2,416** | 1,000 |
| – Deposits and balances from banks and other financial institutions | **19,238** | 12,218 |

For details of subordinated liabilities granted by BOC, please refer to Note 38 to the Financial Statements.

Except as disclosed above, other transactions with BOC and with companies controlled by BOC are not considered material.

## 52. Significant related party transactions (continued)

### (b) Transactions with government authorities, agencies, affiliates and other state controlled entities

The Group is subject to the control of the State Council of the PRC Government through CIC and Central Huijin, which also directly or indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other state controlled entities. The Group enters into banking transactions with government authorities, agencies, affiliates and other state controlled entities in the normal course of business at commercial terms.

These transactions include, but are not limited to, the following:

- lending, provision of credits and guarantees, and deposit taking;
- inter-bank balance taking and placing;
- sales, purchases, underwriting and redemption of bonds issued by other state controlled entities;
- rendering of foreign exchange, remittance and investment related services;
- provision of fiduciary activities; and
- purchase of utilities, transport, telecommunication and postage services.

### (c) Summary of transactions entered into during the ordinary course of business with associates, joint ventures and other related parties

The Group enters into banking and other transactions with associates, joint ventures and other related parties which include but are not limited to loans, investment securities and money market transactions. The aggregate income/expenses and balances arising from related party transactions with these entities are summarised as follows:

| | **2023 HK$'m** | 2022 HK$'m |
|---|---|---|
| Income statement items | | |
| Associates and joint ventures | | |
| – Fee and commission income | **20** | 29 |
| – Other operating expenses | **70** | 71 |
| Balance sheet items | | |
| Associates and joint ventures | | |
| – Investment in securities | **941** | – |
| – Deposits and balances from banks and other financial institutions | **406** | 47 |

## 52. Significant related party transactions (continued)

### (c) Summary of transactions entered into during the ordinary course of business with associates, joint ventures and other related parties (continued)

The related party transactions in respect of the other operating expenses arising from associates and joint ventures above constitute connected transactions as defined in Chapter 14A of the Listing Rules and the required disclosures are provided in "Connected transactions" on pages 304 to 305.

Except as disclosed above, other transactions with associates, joint ventures and other related parties of the Group are not considered material.

### (d) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and senior management. The Group accepts deposits from and grants loans and credit facilities to key management personnel in the ordinary course of business. During both the current and prior years, no material transaction was conducted with key management personnel of the Company and its holding companies, as well as parties related to them.

The compensation of key management personnel for the year ended 31 December is detailed as follows:

| | **2023 HK$'m** | 2022 HK$'m |
|---|---|---|
| Salaries and other short-term employee benefits | **38** | 52 |

## 53. IBOR reform

The Group manages risks related to IBOR reform, continuously monitors the risk exposure of IBOR reform and converts existing contracts.

The following table contains details of financial instruments that the Group holds as at 31 December which reference synthetic USD LIBOR/USD LIBOR and have not yet transitioned to an alternative interest rate benchmark:

| | **2023 HK$'m** | 2022 HK$'m |
|---|---|---|
| Financial instruments yet to transition to alternative benchmarks | | |
| Non-derivative financial assets | **2,773** | 178,040 |
| Non-derivative financial liabilities | **–** | 624 |
| Derivative contract/notional amounts | **–** | 469,213 |

## 54. International claims

The below analysis is prepared with reference to the completion instructions for the HKMA return of international banking statistics. International claims are exposures to counterparties on which the ultimate risk lies based on the locations of the counterparties after taking into account the transfer of risk, and represent the sum of cross-border claims in all currencies and local claims in foreign currencies. For a claim guaranteed by a party situated in a location different from the counterparty, the risk will be transferred to the location of the guarantor. For a claim on an overseas branch of a bank whose head office is located in another location, the risk will be transferred to the location where its head office is located.

Claims on individual countries/regions, after risk transfer, amounting to 10% or more of the aggregate international claims of the Group in either year end are shown as follows:

| | 2023 | | | | |
|---|---|---|---|---|---|
| | | | Non-bank private sector | | |
| | Banks HK$'m | Official sector HK$'m | Non-bank financial institutions HK$'m | Non-financial private sector HK$'m | Total HK$'m |
| Chinese Mainland | **330,222** | **391,169** | **12,064** | **116,644** | **850,099** |
| Hong Kong | **8,439** | **16,902** | **43,698** | **357,831** | **426,870** |
| United States | **29,635** | **146,302** | **14,412** | **24,334** | **214,683** |

| | 2022 | | | | |
|---|---|---|---|---|---|
| | | | Non-bank private sector | | |
| | Banks HK$'m | Official sector HK$'m | Non-bank financial institutions HK$'m | Non-financial private sector HK$'m | Total HK$'m |
| Chinese Mainland | 408,109 | 223,505 | 17,001 | 119,710 | 768,325 |
| Hong Kong | 14,938 | 3,578 | 54,417 | 323,167 | 396,100 |
| United States | 32,072 | 161,031 | 16,539 | 14,796 | 224,438 |

## 55. Non-bank Mainland exposures

The analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties and the types of direct exposures with reference to the completion instructions for the HKMA return of Mainland activities, which includes the Mainland exposures extended by BOCHK's Hong Kong office only.

| | | 2023 | | |
|---|---|---|---|---|
| | Items in the HKMA return | On-balance sheet exposure HK$'m | Off-balance sheet exposure HK$'m | Total exposure HK$'m |
| Central government, central government-owned entities and their subsidiaries and joint ventures | 1 | **348,102** | **23,154** | **371,256** |
| Local governments, local government-owned entities and their subsidiaries and joint ventures | 2 | **84,392** | **4,981** | **89,373** |
| PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures | 3 | **125,112** | **20,785** | **145,897** |
| Other entities of central government not reported in item 1 above | 4 | **27,853** | **2,460** | **30,313** |
| Other entities of local governments not reported in item 2 above | 5 | **1,406** | **162** | **1,568** |
| PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland | 6 | **56,366** | **10,321** | **66,687** |
| Other counterparties where the exposures are considered to be non-bank Mainland exposures | 7 | **2,917** | **–** | **2,917** |
| Total | 8 | **646,148** | **61,863** | **708,011** |
| Total assets after provision | 9 | **3,621,071** | | |
| On-balance sheet exposures as percentage of total assets | 10 | **17.84%** | | |

## 55. Non-bank Mainland exposures (continued)

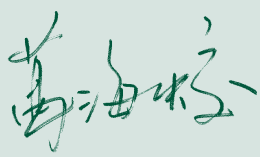
| | | 2022 | | |
|---|---|---|---|---|
| | Items in the HKMA return | On-balance sheet exposure HK$'m | Off-balance sheet exposure HK$'m | Total exposure HK$'m |
| Central government, central government-owned entities and their subsidiaries and joint ventures | 1 | 369,448 | 28,067 | 397,515 |
| Local governments, local government-owned entities and their subsidiaries and joint ventures | 2 | 80,046 | 6,753 | 86,799 |
| PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures | 3 | 129,723 | 18,635 | 148,358 |
| Other entities of central government not reported in item 1 above | 4 | 28,976 | 1,630 | 30,606 |
| Other entities of local governments not reported in item 2 above | 5 | 1,362 | 205 | 1,567 |
| PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland | 6 | 67,098 | 6,968 | 74,066 |
| Other counterparties where the exposures are considered to be non-bank Mainland exposures | 7 | 1,856 | 86 | 1,942 |
| Total | 8 | 678,509 | 62,344 | 740,853 |
| Total assets after provision | 9 | 3,422,169 | | |
| On-balance sheet exposures as percentage of total assets | 10 | 19.83% | | |

## 56. Balance sheet and statement of changes in equity

### (a) Balance sheet

| As at 31 December | 2023<br>HK$'m | 2022<br>HK$'m |
|---|---|---|
| **ASSETS** | | |
| Bank balances with a subsidiary | **1,147** | 476 |
| Investment in securities | **822** | 807 |
| Investment in subsidiaries | **55,422** | 55,322 |
| Amounts due from a subsidiary | **12,095** | 10,287 |
| Investment in associates and joint ventures | **928** | 1,100 |
| Other assets | **2** | 2 |
| Total assets | **70,416** | 67,994 |
| **LIABILITIES** | | |
| Amounts due to a subsidiary | **5** | 3 |
| Total liabilities | **5** | 3 |
| **EQUITY** | | |
| Share capital | **52,864** | 52,864 |
| Reserves | **17,547** | 15,127 |
| Total equity | **70,411** | 67,991 |
| Total liabilities and equity | **70,416** | 67,994 |

Approved by the Board of Directors on 28 March 2024 and signed on behalf of the Board by:



**GE Haijiao**
Director

**SUN Yu**
Director

## 56. Balance sheet and statement of changes in equity (continued)

### (b) Statement of changes in equity

| | | Reserves | | |
|---|---|---|---|---|
| | Share capital HK$'m | Reserve for financial assets at FVOCI HK$'m | Retained earnings HK$'m | Total equity HK$'m |
| At 1 January 2022 | 52,864 | (3,031) | 15,149 | 64,982 |
| Profit for the year | – | – | 15,105 | 15,105 |
| Other comprehensive income: | | | | |
| Equity instruments at fair value through other comprehensive income | – | (149) | – | (149) |
| Total comprehensive income | – | (149) | 15,105 | 14,956 |
| Dividends | – | – | (11,947) | (11,947) |
| At 31 December 2022 | 52,864 | (3,180) | 18,307 | 67,991 |
| At 1 January 2023 | **52,864** | **(3,180)** | **18,307** | **67,991** |
| Profit for the year | **–** | **–** | **17,598** | **17,598** |
| Other comprehensive income: | | | | |
| Equity instruments at fair value through other comprehensive income | **–** | **15** | **–** | **15** |
| Total comprehensive income | **–** | **15** | **17,598** | **17,613** |
| Dividends | **–** | **–** | **(15,193)** | **(15,193)** |
| At 31 December 2023 | **52,864** | **(3,165)** | **20,712** | **70,411** |

## 57. Principal subsidiaries

The following is a list of principal subsidiaries as at 31 December 2023:

| Name | Place of incorporation and operation | Issued share capital | Interest held | Principal activities |
|---|---|---|---|---|
| Bank of China (Hong Kong) Limited | Hong Kong | HK$43,042,840,858 | *100% | Banking business |
| BOC Group Life Assurance Company Limited | Hong Kong | HK$3,538,000,000 | *51% | Life insurance business |
| BOC Credit Card (International) Limited | Hong Kong | HK$565,000,000 | 100% | Credit card services |
| Bank of China (Malaysia) Berhad | Malaysia | RM760,518,480 | 100% | Banking business |
| Bank of China (Thai) Public Company Limited | Thailand | Baht10,000,000,000 | 100% | Banking business |

* Shares held directly by the Company

The particulars of a subsidiary with significant non-controlling interests are as follows:

**BOC Group Life Assurance Company Limited**

| | **2023** | 2022 |
|---|---|---|
| Proportion of ownership interests and voting rights held by non-controlling interests | **49%** | 49% |

| | **2023 HK$'m** | 2022 HK$'m |
|---|---|---|
| Profit/(loss) attributable to non-controlling interests | **557** | (263) |
| Accumulated non-controlling interests | **2,993** | 2,292 |
| Summarised financial information: | | |
| – total assets | **187,153** | 177,427 |
| – total liabilities | **181,046** | 172,749 |
| – profit/(loss) for the year | **1,136** | (537) |
| – total comprehensive income for the year | **1,429** | (3,788) |

## 58. Ultimate and immediate holding companies

The Group is subject to the control of the State Council of the PRC Government through China Investment Corporation, its wholly-owned subsidiary Central Huijin Investment Ltd. ("Central Huijin"), and BOC in which Central Huijin has controlling equity interests. The immediate holding company of the Group is BOC Hong Kong (BVI) Limited, an indirect wholly-owned subsidiary of BOC.

## 59. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 28 March 2024.

# Unaudited Supplementary Financial Information

## 1. Regulatory Disclosures

The Regulatory Disclosures, together with the disclosures in this Annual Report, contained all the disclosures required by the Banking (Disclosure) Rules and Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules issued by the HKMA. The Regulatory Disclosures is available under the section "Regulatory Disclosures" on BOCHK's website at www.bochk.com.

This Annual Report and the Regulatory Disclosures are prepared according to the Group's disclosure policy. The disclosure policy sets out a robust mechanism for the Group's disclosures of financial information on a legitimate and compliant basis. It depicts the principles and internal control measures to ensure the timeliness, fairness, accuracy, integrity, completeness and legitimacy of financial disclosures.

## 2. Connected transactions

In 2023, BOCHK, a wholly-owned subsidiary of the Company, and its subsidiaries engaged on a regular basis in the usual course of their business in numerous transactions with BOC and its Associates. As BOC is the Company's controlling shareholder and therefore a connected person of the Company, all such transactions constituted connected transactions for the purposes of the Listing Rules. 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. Central Huijin is the ultimate controlling shareholder of the Company. Central Huijin has accepted PRC Government's authorisation in carrying out equity investment in core financial enterprises. For the purposes of this report, therefore, Central Huijin and its Associates have not been treated as connected persons to the Company.

The transactions fell into the following two categories:

1. exempted transactions entered into in the ordinary and usual course of business and under normal commercial terms or better. Such transactions were (1) fully exempted from shareholders' approval, annual review and all disclosure requirements and/or (2) exempted from shareholders' approval requirement by virtue of Rules 14A.76 and 14A.87 to 14A.101 of the Listing Rules;

2. certain continuing connected transactions conducted pursuant to the New Services and Relationship Agreement entered into among, inter alia, the Company and BOC dated 30 December 2022 (which the parties will continue to carry out, amongst others, the Continuing Connected Transactions during the period commencing from 1 January 2023 to 31 December 2025), whereas BOC has agreed to, and agreed to procure its Associates to, enter into all future arrangements with the Group on an arm's length basis, on normal commercial terms and at rates no less favourable than those offered to independent third parties, in relation to certain areas including, among others, information technology services, administration services, foreign exchange transactions, derivatives transactions, support and services to the BOCHK entities, and the Company has agreed to, and agreed to procure its subsidiaries to, enter into all future arrangements on the same basis, provided that the rates offered by the Group to BOC and its Associates will be no more favourable than those offered to independent third parties. On 30 December 2022 the Company made an announcement (the "Announcement") in accordance with Rule 14A.35 of the Listing Rules, and has got the approval from the independent shareholders on 29 June 2023. The Announcement listed those continuing connected transactions that exceeded the de minimis threshold and set out caps in respect of such transactions for 2023-2025. These transactions were conducted in the ordinary and usual course of its business and on normal commercial terms or better. Details of these continuing connected transactions are set out below and are described in the announcements which may be viewed at the Company's website. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

## 2. Connected transactions (continued)

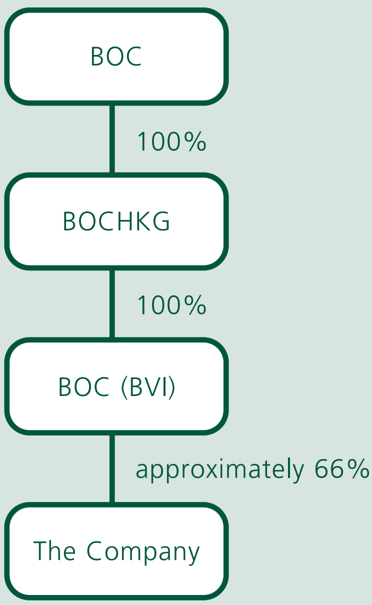
| Type of Transaction | 2023 Cap (HK$'m) | 2023 Actual Amount (HK$'m) |
|---|---|---|
| Information Technology Services | **1,000** | **193** |
| Property Transactions | **1,000** | **186** |
| Bank-note Delivery | **1,000** | **188** |
| Provision of Insurance Cover | **1,000** | **294** |
| Card Services | **1,000** | **54** |
| Custody Business | **1,000** | **79** |
| Contact Centre Services | **1,000** | **69** |
| Securities Transactions | **5,000** | **161** |
| Fund Distribution Transactions | **5,000** | **42** |
| Insurance Agency and Insurance Referral | **5,000** | **2,164** |
| Investment Products Transactions | **200,000** | **371** |
| Asset Management and Referral Services | **5,000** | **102** |
| Foreign Exchange Transactions | **5,000** | **1,005** |
| Derivatives Transactions | **5,000** | **87** |
| Trading of Financial Assets | **200,000** | **8,431** |
| Inter-bank Capital Markets | **200,000** | **63,810** |

## 3. Reconciliation between HKFRSs vs IFRSs/CASs

The Company understands that BOC, an intermediate holding company as well as controlling shareholder of the Company, will prepare and disclose consolidated financial information in accordance with IFRSs and CASs for which the Company and its subsidiaries will form part of the consolidated financial statements. The requirements of CASs have substantially converged with HKFRSs and IFRSs.

The consolidated financial information of "BOC Hong Kong Group" for the periods disclosed by BOC in its consolidated financial statements is not the same as the consolidated financial information of the Group for the periods published by the Company pursuant to applicable laws and regulations in Hong Kong. There are two reasons for this.

First, the definitions of "BOC Hong Kong Group" (as adopted by BOC for the purpose of its own financial disclosure) and "Group" (as adopted by the Company in preparing and presenting its consolidated financial information) are different: "BOC Hong Kong Group" refers to BOCHKG and its subsidiaries, whereas "Group" refers to the Company and its subsidiaries (see the below organisation chart). Though there is difference in definitions between "BOC Hong Kong Group" and "Group", their financial results for the periods presented are substantially the same. This is because BOCHKG and BOC (BVI) are holding companies only and have no substantive operations of their own.




Second, the Group has prepared its consolidated financial statements in accordance with HKFRSs; whereas the consolidated financial information reported to BOC is prepared in accordance with IFRSs and CASs respectively. There is a difference in the election of subsequent measurement basis of bank premises by the Group and by BOC respectively.

## 3. Reconciliation between HKFRSs vs IFRSs/CASs (continued)

The Board considers that the best way to ensure that shareholders and the investing public understand the material differences between the consolidated financial information of the Group published by the Company on the one hand, and the consolidated financial information of BOC Hong Kong Group disclosed by BOC in its consolidated financial statements on the other hand, is to present reconciliations of the profit after tax/net assets of the Group prepared under HKFRSs to the profit after tax/net assets of the Group prepared under IFRSs/CASs respectively for the periods presented.

The major differences which arise from the difference in measurement basis relate to the following:

### (a) Restatement of carrying value of bank premises

The Company has elected for a revaluation model rather than cost model to account for bank premises under HKFRSs. On the contrary, BOC has elected for the cost model for bank premises under IFRSs and CASs. Therefore, adjustments have been made to the carrying value of bank premises as well as to re-calculate the depreciation charge and disposal gain/loss under IFRSs and CASs.

### (b) Deferred tax adjustments

These represent the deferred tax effect of the aforesaid adjustments.

### Profit after tax/net assets reconciliation

**HKFRSs vs IFRSs/CASs**

| | Profit after tax | | Net assets | |
|---|---|---|---|---|
| | **2023 HK$'m** | 2022 HK$'m | **2023 HK$'m** | 2022 HK$'m |
| **Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs** | **34,857** | 27,230 | **323,429** | 325,835 |
| Add: IFRSs/CASs adjustments | | | | |
| Restatement of carrying value of bank premises | **998** | 1,009 | **(27,389)** | (29,572) |
| Deferred tax adjustments | **(152)** | (397) | **4,577** | 4,934 |
| **Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRSs/CASs** | **35,703** | 27,842 | **300,617** | 301,197 |

# Appendix

## Subsidiaries of the Company

The particulars of subsidiaries are as follows:

| Name | Place and date of incorporation/ operation | Issued share capital | Interest held | Principal activities |
|---|---|---|---|---|
| **Directly held:** | | | | |
| Bank of China (Hong Kong) Limited | Hong Kong 16 October 1964 | HK$43,042,840,858 | 100.00% | Banking business |
| BOC Group Life Assurance Company Limited | Hong Kong 12 March 1997 | HK$3,538,000,000 | 51.00% | Life insurance business |
| BOCHK Asset Management (Cayman) Limited | Cayman Islands 7 October 2010 | HK$383,000,000 | 100.00% | Investment holding |
| **Indirectly held:** | | | | |
| BOC Credit Card (International) Limited | Hong Kong 9 September 1980 | HK$565,000,000 | 100.00% | Credit card services |
| BOC Group Trustee Company Limited | Hong Kong 1 December 1997 | HK$200,000,000 | 66.00% | Investment holding |
| BOCI-Prudential Trustee Limited | Hong Kong 11 October 1999 | HK$300,000,000 | 42.24%* | Trustee services |
| Bank of China (Malaysia) Berhad | Malaysia 14 April 2000 | RM760,518,480 | 100.00% | Banking business |
| China Bridge (Malaysia) Sdn. Bhd. | Malaysia 24 April 2009 | RM1,000,000 | 100.00% | China visa application |
| Bank of China (Thai) Public Company Limited | Thailand 1 April 2014 | Baht10,000,000,000 | 100.00% | Banking business |
| Bank of China (Hong Kong) Nominees Limited | Hong Kong 1 October 1985 | HK$2 | 100.00% | Nominee services |
| Bank of China (Hong Kong) Trustees Limited | Hong Kong 6 November 1987 | HK$3,000,000 | 100.00% | Trustee and agency services |
| BOC Digital Services (Nanning) Company Limited** | PRC 19 February 2019 | Registered capital HK$60,000,000 | 100.00% | Financial operational services |
| BOCHK Information Technology (Shenzhen) Co., Ltd.** | PRC 16 April 1990 | Registered capital HK$70,000,000 | 100.00% | Property holding |
| BOCHK Information Technology Services (Shenzhen) Co., Ltd.** | PRC 26 May 1993 | Registered capital HK$40,000,000 | 100.00% | Information technology services |
| Po Sang Financial Investment Services Company Limited | Hong Kong 23 September 1980 | HK$335,000,000 | 100.00% | Gold trading and investment holding |
| Po Sang Securities Limited | Hong Kong 19 October 1993 | HK$335,000,000 | 100.00% | Securities brokerage |
| Sin Hua Trustee Limited | Hong Kong 27 October 1978 | HK$3,000,000 | 100.00% | Trustee services |

## Subsidiaries of the Company (continued)

| Name | Place and date of incorporation/ operation | Issued share capital | Interest held | Principal activities |
|---|---|---|---|---|
| Billion Express Development Inc. | British Virgin Islands 7 February 2014 | US$1 | 100.00% | Investment holding |
| Billion Orient Holdings Ltd. | British Virgin Islands 3 February 2014 | US$1 | 100.00% | Investment holding |
| Elite Bond Investments Ltd. | British Virgin Islands 7 February 2014 | US$1 | 100.00% | Investment holding |
| Express Capital Enterprise Inc. | British Virgin Islands 3 February 2014 | US$1 | 100.00% | Investment holding |
| Express Charm Holdings Corp. | British Virgin Islands 7 February 2014 | US$1 | 100.00% | Investment holding |
| Express Shine Assets Holdings Corp. | British Virgin Islands 3 January 2014 | US$1 | 100.00% | Investment holding |
| Express Talent Investment Ltd. | British Virgin Islands 13 February 2014 | US$1 | 100.00% | Investment holding |
| Gold Medal Capital Inc. | British Virgin Islands 3 January 2014 | US$1 | 100.00% | Investment holding |
| Gold Tap Enterprises Inc. | British Virgin Islands 13 February 2014 | US$1 | 100.00% | Investment holding |
| Maxi Success Holdings Ltd. | British Virgin Islands 7 February 2014 | US$1 | 100.00% | Investment holding |
| Smart Linkage Holdings Inc. | British Virgin Islands 13 February 2014 | US$1 | 100.00% | Investment holding |
| Smart Union Capital Investments Ltd. | British Virgin Islands 3 January 2014 | US$1 | 100.00% | Investment holding |
| Success Trend Development Ltd. | British Virgin Islands 18 February 2014 | US$1 | 100.00% | Investment holding |
| Wise Key Enterprises Corp. | British Virgin Islands 18 February 2014 | US$1 | 100.00% | Investment holding |
| BOCHK Asset Management Limited | Hong Kong 28 October 2010 | HK$372,500,000 | 100.00% | Asset management |
| BOC Equity Investment Management (Shenzhen) Limited** | PRC 2 April 2019 | Registered capital US$5,000,000 | 100.00% | Asset management |
| Greater Bay Area Investment (GP) Limited | Hong Kong 4 February 2021 | HK$1 | 100.00% | Investment holding |

* BOCI-Prudential Trustee Limited is a subsidiary of a non-wholly-owned subsidiary of the Company and, accordingly, is accounted for as a subsidiary by virtue of the Company's control over it.

** It is registered as limited liability company in the PRC.

BOC Insurance (International) Holdings Company Limited was dissolved on 8 December 2023.

BOC Financial Services (Nanning) Company Limited has changed company's name to BOC Digital Services (Nanning) Company Limited on 12 January 2024.

# Definitions

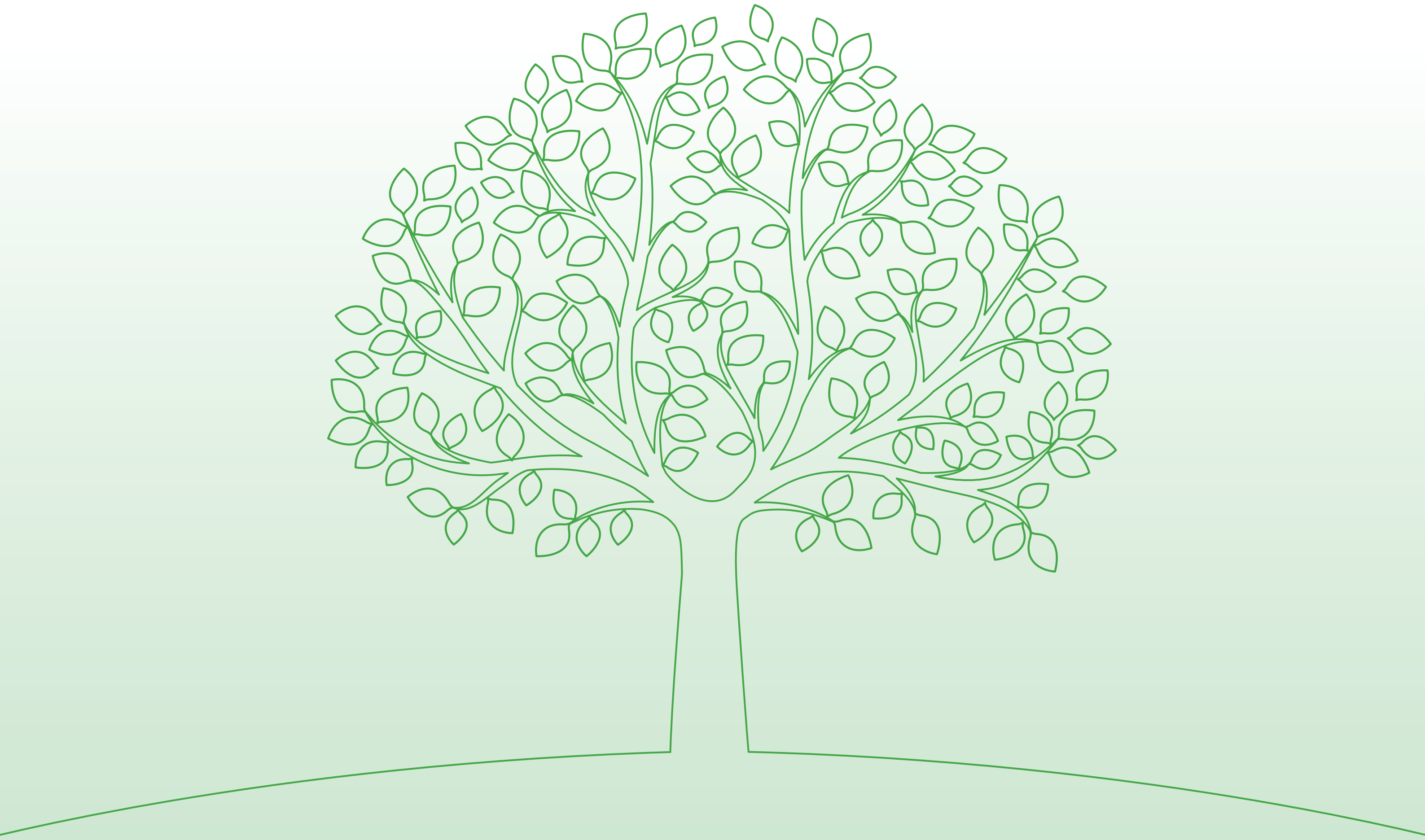
In this Annual Report, unless the context otherwise requires, the following terms shall have the meanings set out below:

| Terms | Meanings |
|---|---|
| "ADR" | American Depositary Receipt |
| "ADS(s)" | American Depositary Share(s) |
| "ALCO" | the Asset and Liability Management Committee |
| "AT1" | Additional Tier 1 |
| "ATM" | Automated Teller Machine |
| "ASEAN" | The Association of Southeast Asian Nations |
| "Associates" | has the meaning ascribed to "associates" in the Listing Rules |
| "BOC" | Bank of China Limited, a joint stock commercial bank with limited liability established under the laws of the PRC, the H shares and A shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively |
| "BOC (BVI)" | BOC Hong Kong (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of BOCHKG |
| "BOCCC" | BOC Credit Card (International) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK |
| "BOCG Insurance" | Bank of China Group Insurance Company Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC |
| "BOCHKG" | BOC Hong Kong (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC |
| "BOCHK" or "the Bank" | Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of the Company |
| "BOCI" | BOC International Holdings Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC |
| "BOCI-Prudential Asset Management" | BOCI-Prudential Asset Management Limited, a company incorporated under the laws of Hong Kong, in which BOCI Asset Management Limited, a wholly-owned subsidiary of BOC International Holdings Limited, and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively |
| "BOCI-Prudential Trustee" | BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong, in which BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively |
| "BOC Life" | BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOCG Insurance hold equity interests of 51% and 49% respectively |
| "BOC Malaysia" | Bank of China (Malaysia) Berhad, a wholly-owned subsidiary of BOCHK |
| "BOC Thailand" | Bank of China (Thai) Public Company Limited, a wholly-owned subsidiary of BOCHK |
| "Board" or "Board of Directors" | the Board of Directors of the Company |
| "CAS" | Chinese Accounting Standard for Business Enterprises |
| "CE" | Chief Executive |
| "CET1" | Common Equity Tier 1 |
| "CFO" | Chief Financial Officer |
| "CIC" | China Investment Corporation |
| "CRO" | Chief Risk Officer |

| Terms | Meanings |
|---|---|
| "CVA" | Credit Valuation Adjustment |
| "Central Huijin" | Central Huijin Investment Ltd. |
| "DCE" | Deputy Chief Executive |
| "DVA" | Debit Valuation Adjustment |
| "ECL" | Expected Credit Loss |
| "EVE" | Economic Value Sensitivity Ratio |
| "FCC" | the Financial Crime Compliance Department |
| "FIRB" | Foundation Internal Ratings-based |
| "Fitch" | Fitch Ratings |
| "FVOCI" | Fair value through other comprehensive income |
| "FVPL" | Fair value through profit or loss |
| "GDP" | Gross Domestic Product |
| "HIBOR" | Hong Kong Interbank Offered Rate |
| "HKAS" | Hong Kong Accounting Standard |
| "HKFRS" | Hong Kong Financial Reporting Standard |
| "HKICPA" | Hong Kong Institute of Certified Public Accountants |
| "HKMA" | Hong Kong Monetary Authority |
| "Hong Kong" or "Hong Kong SAR" or "HKSAR" | Hong Kong Special Administrative Region of the PRC |
| "IBOR reform" | Interest Rate Benchmark reform |
| "ICAAP" | Internal Capital Adequacy Assessment Process |
| "IFRS" | International Financial Reporting Standard |
| "IMM" | Internal Models |
| "IT" | Information Technology |
| "LCO" | the Legal & Compliance and Operational Risk Management Department |
| "LCR" | Liquidity Coverage Ratio |
| "LIBOR" | London Interbank Offered Rate |
| "Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| "MC" | the Management Committee |
| "MCO" | Maximum Cumulative Cash Outflow |
| "MPF" | Mandatory Provident Fund |
| "MPF Schemes Ordinance" | the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong, as amended |
| "Moody's" | Moody's Investors Service |
| "N/A" | Not applicable |
| "NII" | Net Interest Income Sensitivity Ratio |
| "NSFR" | Net Stable Funding Ratio |
| "ORSO schemes" | the Occupational Retirement Schemes under Occupational Retirement Schemes Ordinance, Chapter 426 of the Laws of Hong Kong |
| "OTC" | Over-the-counter |
| "PD" | Probability of Default |
| "PRC" | the People's Republic of China |
| "PVBP" | Price Value of a Basis Point |

# DEFINITIONS

| Terms | Meanings |
| --- | --- |
| "RMB" or "Renminbi" | Renminbi, the lawful currency of the PRC |
| "RMC" | the Risk Committee |
| "RMD" | the Risk Management Department |
| "RWA" | Risk-weighted Assets |
| "SFO" | the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong |
| "SME" | Small and Medium-sized Enterprise |
| "STC" | Standardised (Credit Risk) |
| "STM" | Standardised (Market Risk) |
| "STO" | Standardised (Operational Risk) |
| "Standard & Poor's" | Standard & Poor's Ratings Services |
| "Stock Exchange" or "Hong Kong Stock Exchange" or "Stock Exchange of Hong Kong" | The Stock Exchange of Hong Kong Limited |
| "the Company" | BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong |
| "the Group" | the Company and its subsidiaries collectively referred as the Group |
| "US" | the United States of America |
| "VaR" | Value at Risk |



## Be Environmentally Friendly for Our Better Future

This annual report is printed on elemental chlorine free paper with varnishing, an environmentally friendly technique, on the cover. We strive to protect the environment and promote sustainable development for the betterment of our future generations.

中銀香港(控股)有限公司
BOC HONG KONG (HOLDINGS) LIMITED

53/F Bank of China Tower, 1 Garden Road, Hong Kong
www.bochk.com