

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 ("HKSAAs") 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.

INDEPENDENT AUDITOR'S REPORT

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
<p>Measurement of expected credit loss (“ECL”) for advances to customers</p> <p>Refer to Note 2.14, Note 3.1, Note 4.1, Note 13 and Note 25 to the Group’s consolidated financial statements.</p> <p>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.</p> <p>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.</p>	<p>We understood and evaluated management’s internal controls and assessment process for the measurement of ECL for advances to customers.</p> <p>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.</p> <p>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:</p> <ol style="list-style-type: none"> (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; (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; (3) internal controls over the estimated future cash flows and calculation of present values with respect to advances to customers classified as stage 3; (4) internal controls over the accuracy and completeness of key data used by the models; (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.

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Key Audit Matter	How our audit addressed the Key Audit Matter
<p>The measurement of ECL for advances to customers involves significant management judgements and assumptions, mainly on:</p> <ol style="list-style-type: none">(1) Segmentation of portfolios based on credit risk characteristics, selection of appropriate models and determination of relevant key parameters;(2) Determination and application of criteria to identify significant increase in credit risks, default or credit-impaired assets;(3) Economic indicators, economic scenarios and weighting used in the forward-looking measurement;(4) Estimation of future cash flows for stage 3 advances to customers that are impaired. <p>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.</p>	<p>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:</p> <ol style="list-style-type: none">(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;(2) We examined the accuracy and completeness of historical and measurement date data used in the ECL models on a sample basis, including:<ol style="list-style-type: none">(i) in respect of PD: financial and non-financial information for determining borrowers' credit rating, overdue repayment status, etc.;(ii) in respect of LGD: types of guarantees and collateral, historical actual loss rates, etc.;(iii) in respect of EAD: borrowers' outstanding loan balances, interest rates, maturity dates, repayment methods, etc.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;(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
	<p>(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;</p> <p>(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;</p> <p>(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;</p> <p>(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.</p> <p>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.</p> <p>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.</p>

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Key Audit Matter	How our audit addressed the Key Audit Matter
<p><i>Valuation of financial instruments measured at fair value</i></p> <p>Refer to Note 2.12, Note 3.2 and Note 5.1 to the Group's consolidated financial statements.</p> <p>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.</p> <p>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.</p>	<p>We understood and evaluated management's internal controls and assessment process of the valuation of financial instruments measured at fair value.</p> <p>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.</p> <p>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.</p> <p>We performed the following substantive procedures on a sampling basis:</p> <ol style="list-style-type: none">(1) For Level 1 financial instruments, we tested their valuations by comparing to quoted prices in active markets.(2) For Level 2 and Level 3 financial instruments:<ol style="list-style-type: none">(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;(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;

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Key Audit Matter	How our audit addressed the Key Audit Matter
	<p>(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;</p> <p>(iv) we involved internal valuation experts to perform independent valuation testing.</p> <p>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.</p> <p>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.</p>

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Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Adoption of HKFRS 17 “Insurance contracts” and valuation of insurance contract liabilities</p> <p>Refer to Note 2.1, Note 2.19, Note 3.3, Note 4.4 and Note 37 to the Group’s consolidated financial statements.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>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:</p> <ol style="list-style-type: none">(1) selection and approval of the accounting policies;(2) selection and approval of methodologies applied in actuarial valuation;(3) key assumptions used by management. <p>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:</p> <ol style="list-style-type: none">(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;(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;(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
	<p>(4) We assessed the appropriateness of the determination of coverage units in respect of the services to be provided against relevant publications; and</p> <p>(5) We tested the application of the methodologies and measurement of insurance contract liabilities, including CSM and FCF on a sample basis.</p> <p>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.</p>

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.

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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 HKSA's 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 HKSA's, 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.

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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