

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. Basis of preparation and material accounting policies

(a) *Basis of preparation*

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

(b) *Material accounting policies*

Except for the initial adoption of the below mentioned standard and amendments, the accounting policies adopted and methods of computation used in the preparation of the unaudited interim financial information are consistent with those adopted and used in the Group’s annual financial statements for the year ended 31 December 2022 and shall be read in conjunction with the Group’s Annual Report for 2022.

Standard and amendments that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2023

The Group has initially applied the following standard and amendments for the financial year beginning on 1 January 2023:

- 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 condensed consolidated interim financial statements, Note 3.1, Note 3.2(B), Note 3.2(C), Note 3.3(B), Note 4 to Note 12, Note 15, Note 17, Note 19, Note 21, Note 22, Note 25, Note 29 to Note 31, Note 35, Note 39 and Note 43. The changes introduced in HKFRS 17 are highlighted as follows:

(i) *Changes to recognition and measurement*

HKFRS 17 establishes specific principles for the recognition and measurement of insurance contracts issued and reinsurance contracts held by the Group.

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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. Basis of preparation and material accounting policies (continued)

(b) *Material accounting policies (continued)*

Standard and amendments that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2023 (continued)

(i) *Changes to recognition and measurement (continued)*

Groups of insurance contracts issued are initially recognised from the earliest of (a) the beginning of the coverage period; (b) the date when the first payment from the policyholder is due or actually received, if there is no due date; and (c) when the Group determines that a group of contracts becomes onerous.

In accordance with HKFRS 17, the Group recognises insurance revenue as it satisfies its performance obligations (i.e. as it provides insurance services) during the coverage period. The losses of onerous insurance contracts will be recognised in the income statement upon initial recognition or when insurance contracts become onerous subsequently. In addition, investment components will not be included in insurance revenue or insurance service expenses.

Under HKFRS 17, directly attributable insurance acquisition cash flows will be reclassified as part of the fulfilment cash flows (composed of premium, claims, benefits and expenses) and will be amortised to the insurance revenue and insurance service expenses over its coverage period.

HKFRS 17 requires the discount rates used in the measurement of insurance contract liabilities shall be consistent with observable current market prices. In addition, the Group has 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.

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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. Basis of preparation and material accounting policies (continued)

(b) *Material accounting policies (continued)*

Standard and amendments that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2023 (continued)

(i) *Changes to recognition and measurement (continued)*

Under the GMM and the VFA, the Group measures groups of insurance contracts based on the Group's estimates of the present value of future cash flows that are expected to arise as the Group fulfils the contracts, risk adjustments for non-financial risk and contractual service margin ("CSM") on initial recognition. The 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 as the services are provided.

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.

(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 expenses, 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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. Basis of preparation and material accounting policies (continued)

(b) Material accounting policies (continued)

Standard and amendments that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2023 (continued)

(iii) Transition approach (continued)

The Group has determined the CSM 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.

(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 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 is 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 is 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 at 1 January 2023.

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. Basis of preparation and material accounting policies (continued)

(b) Material accounting policies (continued)

Standard and amendments that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2023 (continued)

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

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. 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.

(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	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	

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. Basis of preparation and material accounting policies (continued)

(b) *Material accounting policies (continued)*

Standard and amendments that are relevant to the Group and 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 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 amendment clarifies 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. 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.

(c) *Amendment issued that is relevant to the Group but not yet mandatorily effective and has not been early adopted by the Group in 2023*

Amendment	Content	Applicable for financial years beginning on/ after
HKAS 28 (2011) and HKFRS 10 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

Please refer to Note 2.1(b) of the Group’s Annual Report for 2022 for brief explanation of the above-mentioned amendment.

NOTES TO THE INTERIM FINANCIAL INFORMATION

2. Critical accounting estimates and judgements in applying accounting policies

The nature and assumptions related to the Group's accounting estimates in this reporting period are consistent with those used in the Group's financial statements for the year ended 31 December 2022, except for accounting estimates and judgements related to insurance contract liabilities under HKFRS 17. In applying HKFRS 17, 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 based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Estimate of future benefit payments and premiums arising from long term insurance contracts

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.

(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.

In performing the above determination, management applied judgement that might significantly impact the CSM carrying values and amounts of the CSM allocation recognised in the income statement for the period. For example, coverage units for contracts that provide both insurance coverage and investment services are determined based on the quantity of benefits the policyholder to be able to validly claim in each period, being weighted according to the expected present value of such quantity in the future for each service.

(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 determined by reference to relevant assets in the portfolio as well as market indices.

(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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management

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

A summary of the Group's objectives, risk management governance structure, policies and processes for managing and the methods used to measure these risks is set out in Note 4 to the Financial Statements of the Group's Annual Report for 2022.

3.1 Credit risk

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

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

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

(A) Advances and other accounts

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

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

	At 30 June 2023			
	Stage 1 HK\$'m	Stage 2 HK\$'m	Stage 3 HK\$'m	Total HK\$'m
Advances to customers				
Pass	1,671,456	24,416	–	1,695,872
Special mention	3,016	7,346	–	10,362
Substandard or below	–	–	12,554	12,554
	1,674,472	31,762	12,554	1,718,788
Trade bills				
Pass	5,291	–	–	5,291
Special mention	43	–	–	43
Substandard or below	–	–	–	–
	5,334	–	–	5,334
Advances to banks and other financial institutions				
Pass	626	–	–	626
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	626	–	–	626
	1,680,432	31,762	12,554	1,724,748

	At 30 June 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	(3,519)	(2,748)	(6,224)	(12,491)
Advances and other accounts at fair value through other comprehensive income	(44)	–	–	(44)

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

	At 31 December 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

	At 31 December 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 30 June 2023 and 31 December 2022, advances and other accounts by internal credit grade and stage classification did not include advances and other accounts mandatorily classified at fair value through profit or loss.

As at 30 June 2023, impairment allowance of advances and other accounts at fair value through other comprehensive income amounted to HK\$44 million (31 December 2022: HK\$77 million) and was credited to other comprehensive income.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

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

	Half-year ended 30 June 2023			
	Stage 1 HK\$'m	Stage 2 HK\$'m	Stage 3 HK\$'m	Total HK\$'m
Impairment allowances				
At 1 January 2023	3,997	2,511	4,992	11,500
Transfer to Stage 1	48	(46)	(2)	–
Transfer to Stage 2	(131)	141	(10)	–
Transfer to Stage 3	(4)	(460)	464	–
Changes arising from transfer of stage	(35)	753	265	983
Charge for the period ⁽ⁱ⁾	1,020	371	1,159	2,550
Reversal for the period ⁽ⁱⁱ⁾	(1,380)	(536)	(358)	(2,274)
Write-offs	–	–	(152)	(152)
Recoveries	–	–	60	60
Exchange difference and others	4	14	(194)	(176)
At 30 June 2023	3,519	2,748	6,224	12,491
Charged to income statement (Note 11)				1,259

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

	Year ended 31 December 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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(a) Impaired advances

Impaired advances to customers are analysed as follows:

	At 30 June 2023		At 31 December 2022	
	Impaired HK\$'m	Classified or impaired HK\$'m	Impaired HK\$'m	Classified or impaired HK\$'m
Gross advances to customers	12,554	12,554	8,724	8,724
Percentage of gross advances to customers	0.73%	0.73%	0.53%	0.53%
Impairment allowances made in respect of such advances	6,224	6,224	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.

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Current market value of collateral held against the covered portion of impaired advances to customers	9,889	4,440
Covered portion of impaired advances to customers	6,123	2,387
Uncovered portion of impaired advances to customers	6,431	6,337

As at 30 June 2023, there were no impaired trade bills and advances to banks and other financial institutions (31 December 2022: Nil).

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

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

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

	At 30 June 2023		At 31 December 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	639	0.04%	2,858	0.17%
– one year or less but over six months	3,521	0.20%	601	0.04%
– over one year	2,201	0.13%	1,860	0.11%
Advances overdue for over three months	6,361	0.37%	5,319	0.32%
Impairment allowances made in respect of such advances – Stage 3	4,784		3,110	

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Current market value of collateral held against the covered portion of such advances to customers	1,550	2,739
Covered portion of such advances to customers	899	1,643
Uncovered portion of such advances to customers	5,462	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 30 June 2023, there were no trade bills and advances to banks and other financial institutions overdue for more than three months (31 December 2022: Nil).

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(c) Rescheduled advances

	At 30 June 2023		At 31 December 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"	1,332	0.08%	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".

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(d) Concentration of advances to customers

(i) Sectoral analysis of gross advances to customers

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

	At 30 June 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	196,275	25.55%	953	1,059	674	725
– Property investment	93,268	62.72%	1,122	65	67	423
– Financial concerns	23,496	2.62%	–	–	–	31
– Stockbrokers	2,838	88.89%	–	–	–	–
– Wholesale and retail trade	38,575	33.89%	102	288	31	111
– Manufacturing	56,435	8.38%	34	65	23	138
– Transport and transport equipment	45,956	20.06%	99	11	76	90
– Recreational activities	13	100.00%	–	–	–	–
– Information technology	40,452	0.29%	35	35	20	59
– Others	203,327	42.80%	3,609	4,567	497	453
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	43,801	99.67%	37	433	–	18
– Loans for purchase of other residential properties	375,359	99.84%	176	1,726	3	264
– Credit card advances	11,325	–	90	424	53	171
– Others	119,855	95.54%	123	826	48	203
Total loans for use in Hong Kong	1,250,975	60.66%	6,380	9,499	1,492	2,686
Trade financing	56,961	17.29%	215	146	170	97
Loans for use outside Hong Kong	411,701	4.79%	5,959	6,417	4,562	3,482
Gross advances to customers	1,719,637	45.85%	12,554	16,062	6,224	6,265

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

	At 31 December 2022					
	Gross advances to customers HK\$m	% covered by collateral or other security	Classified or impaired HK\$m	Overdue HK\$m	Impairment allowances	Impairment allowances
					– Stage 3 HK\$m	– 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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

(ii) Geographical analysis of gross advances to customers

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

Gross advances to customers

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Hong Kong	1,470,169	1,399,434
Chinese Mainland	85,806	86,546
Others	163,662	162,289
	1,719,637	1,648,269
Impairment allowances made in respect of the gross advances to customers – Stages 1 and 2		
Hong Kong	3,937	3,954
Chinese Mainland	253	357
Others	2,075	2,195
	6,265	6,506

Overdue advances

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Hong Kong	12,107	9,359
Chinese Mainland	335	353
Others	3,620	2,364
	16,062	12,076
Impairment allowances made in respect of the overdue advances – Stage 3		
Hong Kong	3,480	2,457
Chinese Mainland	129	42
Others	1,743	1,555
	5,352	4,054

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

Classified or impaired advances

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Hong Kong	9,150	5,198
Chinese Mainland	275	171
Others	3,129	3,355
	12,554	8,724
Impairment allowances made in respect of the classified or impaired advances – Stage 3		
Hong Kong	3,763	2,694
Chinese Mainland	147	48
Others	2,314	2,250
	6,224	4,992

(B) Repossessed assets

The estimated market value of repossessed assets held by the Group as at 30 June 2023 amounted to HK\$427 million (31 December 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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(C) Debt securities and certificates of deposit

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

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Investment in securities at fair value through other comprehensive income		
– Stage 1		
Aaa	101,427	82,235
Aa1 to Aa3	284,455	221,612
A1 to A3	316,870	328,065
Lower than A3	24,878	26,386
Unrated	35,383	35,504
	763,013	693,802
– Stage 2		
Lower than A3	488	498
– Stage 3	–	–
	763,501	694,300
Of which: impairment allowances	(188)	(187)
Investment in securities at amortised cost		
– Stage 1		
Aaa	160,541	148,951
Aa1 to Aa3	32,520	24,487
A1 to A3	65,055	55,499
Lower than A3	8,159	8,820
Unrated	1,638	1,501
	267,913	239,258
– Stage 2	–	–
– Stage 3	–	–
	267,913	239,258
Impairment allowances	(59)	(62)
	267,854	239,196
Financial assets at fair value through profit or loss		
Aaa	1,477	1,761
Aa1 to Aa3	30,873	21,031
A1 to A3	65,968	59,299
Lower than A3	12,753	12,950
Unrated	2,501	2,191
	113,572	97,232

As at 30 June 2023, there were no overdue or impaired debt securities and certificates of deposit (31 December 2022: Nil).

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(D) Credit risk management in response to pandemic

In the first half of 2023, along with the relaxation of quarantine measures and resumption of cross border travel between Hong Kong and the Mainland, the number of tourists visiting Hong Kong gradually picks up, the social and economic activities are rejuvenated with positive economic prospects. In view of the operating environment and financial situations of the affected borrowers under the pandemic remain challenging, the Group is still maintaining a series of risk control measures in response to the adverse impact and the uncertainty brought by the pandemic:

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market risk

(A) VaR

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

The following table sets out the VaR for all general market risk exposures¹ of the Group.

	Year	At 30 June HK\$'m	Minimum for the first half of year HK\$'m	Maximum for the first half of year HK\$'m	Average for the first half of year HK\$'m
VaR for all market risk	2023	38.9	35.7	62.1	46.4
	2022	34.5	21.9	61.3	38.3
VaR for foreign exchange risk	2023	19.7	19.3	48.4	29.5
	2022	29.4	14.9	39.9	25.0
VaR for interest rate risk in the trading book	2023	41.0	32.1	52.7	41.1
	2022	16.3	16.2	63.2	30.8
VaR for equity risk in the trading book	2023	3.7	0.3	7.8	4.0
	2022	1.9	0.3	2.5	0.9
VaR for commodity risk	2023	4.6	0.0	13.5	5.0
	2022	1.5	0.1	12.3	5.0

Note:

1. Structural FX positions have been excluded.

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market risk (continued)

(A) VaR (continued)

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

(B) Currency risk

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

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

	At 30 June 2023							
	Equivalent in million of HK\$							
	US Dollars	Pound Sterling	Japanese Yen	Euro	Renminbi	Australian Dollars	Other foreign currencies	Total foreign currencies
Spot assets	1,057,031	23,643	93,423	47,456	550,637	17,796	73,946	1,863,932
Spot liabilities	(984,649)	(29,260)	(18,608)	(37,466)	(536,664)	(31,639)	(63,845)	(1,702,131)
Forward purchases	1,018,978	28,520	74,182	83,610	447,286	34,689	62,890	1,750,155
Forward sales	(1,091,863)	(22,643)	(141,489)	(92,950)	(456,991)	(20,627)	(74,100)	(1,900,663)
Net options position	3,687	(500)	(34)	(1)	(1,494)	(216)	250	1,692
Net long/(short) position	3,184	(240)	7,474	649	2,774	3	(859)	12,985

	At 31 December 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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market risk (continued)

(B) Currency risk (continued)

	At 30 June 2023					
	Equivalent in million of HK\$					
	US Dollars	Malaysian Baht	Philippine Ringgit	Philippine Peso	Other foreign currencies	Total foreign currencies
Net structural position	31,254	2,354	2,995	1,772	5,171	43,546

	At 31 December 2022					
	Equivalent in million of HK\$					
	US Dollars	Malaysian Baht	Philippine Ringgit	Philippine Peso	Other foreign currencies	Total foreign currencies
Net structural position	31,172	2,285	2,905	1,717	4,371	42,450

The comparative figures in the note have been restated to conform with current period presentation.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market risk (continued)

(C) Interest rate risk

The tables below summarise the Group's on-balance sheet exposure to interest rate risk as at 30 June 2023 and 31 December 2022. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing date and maturity date.

	At 30 June 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	295,226	37,679	34,451	2,278	-	44,926	414,560
Financial assets at fair value through profit or loss	18,678	26,333	18,466	25,189	49,196	16,636	154,498
Derivative financial instruments	-	-	-	-	-	75,056	75,056
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	210,010	210,010
Advances and other accounts	1,384,527	231,672	39,190	43,351	7,529	6,837	1,713,106
Investment in securities							
– At FVOCI	166,286	122,821	187,942	207,546	78,906	4,232	767,733
– At amortised cost	4,128	10,231	103,931	117,004	32,560	-	267,854
Interests in associates and joint ventures	-	-	-	-	-	716	716
Investment properties	-	-	-	-	-	16,039	16,039
Properties, plant and equipment	-	-	-	-	-	43,668	43,668
Other assets (including current and deferred tax assets)	9,164	-	-	-	-	98,777	107,941
Total assets	1,878,009	428,736	383,980	395,368	168,191	516,897	3,771,181
Liabilities							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	210,010	210,010
Deposits and balances from banks and other financial institutions	259,048	11,772	181	-	-	20,330	291,331
Financial liabilities at fair value through profit or loss	14,617	19,976	16,400	1,153	61	2	52,209
Derivative financial instruments	-	-	-	-	-	56,338	56,338
Deposits from customers	1,491,970	437,453	356,882	2,426	-	174,659	2,463,390
Debt securities and certificates of deposit in issue	1,635	-	1,967	-	-	-	3,602
Other accounts and provisions (including current and deferred tax liabilities)	26,254	3	40	809	399	83,088	110,593
Insurance contract liabilities	-	-	-	-	-	173,567	173,567
Subordinated liabilities	-	-	-	75,627	-	-	75,627
Total liabilities	1,793,524	469,204	375,470	80,015	460	717,994	3,436,667
Interest sensitivity gap	84,485	(40,468)	8,510	315,353	167,731	(201,097)	334,514

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market risk (continued)

(C) Interest rate risk (continued)

	At 31 December 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 1(b) material accounting policies.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity risk

(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%

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%

Quarter-end value of net stable funding ratio is calculated based on the calculation methodology and instructions set out in the HKMA return of stable funding position.

Liquidity coverage ratio and net stable funding ratio are computed on the consolidated basis which comprise the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Liquidity) Rules.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis

The tables below analyse the Group's assets and liabilities as at 30 June 2023 and 31 December 2022 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2023							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
Assets								
Cash and balances and placements with banks and other financial institutions	263,290	76,850	37,705	34,454	2,251	-	10	414,560
Financial assets at fair value through profit or loss	-	13,863	28,430	18,646	27,504	48,597	17,458	154,498
Derivative financial instruments	15,384	7,505	7,282	13,892	21,931	9,062	-	75,056
Hong Kong SAR Government certificates of indebtedness	210,010	-	-	-	-	-	-	210,010
Advances and other accounts	335,355	72,914	60,389	212,439	615,357	410,094	6,558	1,713,106
Investment in securities								
– At FVOCI	-	149,526	123,629	192,835	211,714	85,472	4,557	767,733
– At amortised cost	-	3,139	11,202	104,222	116,968	32,323	-	267,854
Interests in associates and joint ventures	-	-	-	-	-	-	716	716
Investment properties	-	-	-	-	-	-	16,039	16,039
Properties, plant and equipment	-	-	-	-	-	-	43,668	43,668
Other assets (including current and deferred tax assets)	21,261	35,302	1,160	5,685	13,523	28,496	2,514	107,941
Total assets	845,300	359,099	269,797	582,173	1,009,248	614,044	91,520	3,771,181
Liabilities								
Hong Kong SAR currency notes in circulation	210,010	-	-	-	-	-	-	210,010
Deposits and balances from banks and other financial institutions	206,094	73,283	11,459	181	314	-	-	291,331
Financial liabilities at fair value through profit or loss	-	14,510	20,092	16,401	1,144	60	2	52,209
Derivative financial instruments	10,622	4,775	6,135	10,366	17,455	6,985	-	56,338
Deposits from customers	1,173,021	493,608	437,453	356,882	2,426	-	-	2,463,390
Debt securities and certificates of deposit in issue	-	1,635	10	1,957	-	-	-	3,602
Other accounts and provisions (including current and deferred tax liabilities)	53,787	42,124	333	6,739	7,081	529	-	110,593
Insurance contract liabilities	-	1,442	3,120	13,073	45,137	99,045	-	161,817
Subordinated liabilities	-	-	-	1,550	74,077	-	-	75,627
Total liabilities	1,653,534	631,377	478,602	407,149	147,634	106,619	2	3,424,917
Net liquidity gap	(808,234)	(272,278)	(208,805)	175,024	861,614	507,425	91,518	346,264

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

	At 31 December 2022							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
Assets								
Cash and balances and placements with banks and other financial institutions	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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

The analysis of debt securities by remaining period to maturity is based on contractual maturity date.

The disclosure does not imply that the securities will be held to maturity.

The above analysis in respect of insurance contract liabilities excludes the contractual service margin and risk adjustments for non-financial risk.

3.4 Insurance risk

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

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

Within the insurance process, concentrations of risk may arise where a particular event or a series of events could impact heavily on the Group's claim liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant claim liabilities could arise.

For the in-force insurance contracts, most of the underlying insurance liabilities are related to endowment, universal life, annuity, whole life and unit-linked insurance products. For most of the insurance policies issued, the Group has a retention limit on any single life insured. The Group cedes the excess of the insured benefit over the limit to reinsurer under an excess of loss reinsurance arrangement. For some of the insurance business, the Group has entered into reinsurance arrangements that reinsure most of the insurance risk.

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital management

The HKMA supervises BOCHK and certain subsidiaries specified by the HKMA on a consolidated and solo basis and, as such, receives information on the capital adequacy of, and sets capital requirements for those companies as a whole. Individual overseas banking subsidiaries and branches are directly regulated by their local banking supervisors, who set and monitor their capital adequacy requirements. Certain non-banking financial subsidiaries are also subject to the supervision and capital requirements of local regulatory authorities.

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

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

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

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.

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital management (continued)

(A) Basis of regulatory consolidation (continued)

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

Name	At 30 June 2023		At 31 December 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	547	454	626	478
China Bridge (Malaysia) Sdn. Bhd.	26	(4)	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	136	42	152	43
BOCHK Information Technology (Shenzhen) Co., Ltd.	373	260	372	258
BOCHK Information Technology Services (Shenzhen) Co., Ltd.	393	342	401	342
Po Sang Financial Investment Services Company Limited	359	346	366	345
Po Sang Securities Limited	538	408	570	402
Sin Hua Trustee Limited	5	5	5	5
Billion Express Development Inc.	–	–	–	–
Billion Orient Holdings Ltd.	–	–	–	–
Elite Bond Investments Ltd.	–	–	–	–
Express Capital Enterprise Inc.	–	–	–	–
Express Charm Holdings Corp.	–	–	–	–
Express Shine Assets Holdings Corp.	–	–	–	–
Express Talent Investment Ltd.	–	–	–	–
Gold Medal Capital Inc.	–	–	–	–
Gold Tap Enterprises Inc.	–	–	–	–
Maxi Success Holdings Ltd.	–	–	–	–
Smart Linkage Holdings Inc.	–	–	–	–
Smart Union Capital Investments Ltd.	–	–	–	–
Success Trend Development Ltd.	–	–	–	–
Wise Key Enterprises Corp.	–	–	–	–

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital management (continued)

(A) Basis of regulatory consolidation (continued)

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

There were no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation as at 30 June 2023 (31 December 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 30 June 2023 (31 December 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:

	At 30 June 2023	At 31 December 2022
CET1 capital ratio	19.00%	17.51%
Tier 1 capital ratio	20.75%	19.30%
Total capital ratio	22.99%	21.52%

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital management (continued)

(B) Capital ratio (continued)

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

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments	43,043	43,043
Retained earnings	222,833	206,222
Disclosed reserves	38,214	36,914
CET1 capital before regulatory deductions	304,090	286,179
CET1 capital: regulatory deductions		
Valuation adjustments	(36)	(33)
Other intangible assets (net of associated deferred tax liabilities)	(1,789)	(1,760)
Deferred tax assets (net of associated deferred tax liabilities)	(257)	(286)
Gains and losses due to changes in own credit risk on fair valued liabilities	(108)	(159)
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	(47,530)	(47,488)
Regulatory reserve for general banking risks	(7,486)	(6,655)
Total regulatory deductions to CET1 capital	(57,206)	(56,381)
CET1 capital	246,884	229,798
AT1 capital: instruments		
Qualifying AT1 capital instruments classified as equity under applicable accounting standards	23,476	23,476
AT1 capital before regulatory deductions	23,476	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	(800)	–
Total regulatory deductions to AT1 capital	(800)	–
AT1 capital	22,676	23,476
Tier 1 capital	269,560	253,274
Tier 2 capital: instruments and provisions		
Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	7,781	7,678
Tier 2 capital before regulatory deductions	7,781	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	21,389	21,370
Total regulatory adjustments to Tier 2 capital	21,389	21,370
Tier 2 capital	29,170	29,048
Total regulatory capital	298,730	282,322

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital management (continued)

(B) Capital ratio (continued)

The capital buffer ratios are analysed as follows:

	At 30 June 2023	At 31 December 2022
Capital conservation buffer ratio	2.500%	2.500%
Higher loss absorbency ratio	1.500%	1.500%
Countercyclical capital buffer ratio	0.822%	0.817%

The comparative figures in the note have been restated to conform with current period presentation.

(C) Leverage ratio

The leverage ratio is analysed as follows:

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Tier 1 capital	269,560	253,274
Leverage ratio exposure	3,479,089	3,370,353
Leverage ratio	7.75%	7.51%

4. Fair values of financial assets and liabilities

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

- Level 1: based on quoted prices (unadjusted) in active markets for identical assets or liabilities. This category includes equity securities listed on exchange, debt instruments issued by certain governments and certain exchange-traded derivative contracts.
- Level 2: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly. This category includes majority of the over-the-counter ("OTC") derivative contracts, debt securities and certificates of deposit with quote from pricing services vendors, issued structured deposits, advances and other accounts and other debt instruments. It also includes certain foreign exchange contracts with insignificant adjustments or calibrations made to observable market inputs.
- Level 3: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. This category includes equity investments, funds, advances and other accounts and other debt instruments with significant unobservable inputs.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

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

4.1 Financial instruments measured at fair value

The Group has an established governance structure and controls framework to ensure that fair values are either determined or validated by control units independent of the front offices. Control units have overall responsibility for independent verification of valuation results from front line businesses and all other significant fair value measurements. Other specific controls include verification of observable pricing inputs; review and approval for new models and changes to models; calibration and back-testing of models against observed market transactions; analysis and investigation of significant daily valuation movements; review of significant unobservable inputs and valuation adjustments. Significant valuation issues are reported to senior management, Risk Committee and Audit Committee.

Generally, the unit of account for a financial instrument is the individual instrument. HKFRS 13 permits a portfolio exception, through an accounting policy election, to measure the fair value of a portfolio of financial assets and financial liabilities on the basis of the net open risk position when certain criteria are met. The Group applies valuation adjustments at an individual instrument level, consistent with that unit of account. According to its risk management policies and systems to manage derivative financial instruments, the fair value adjustments of certain derivative portfolios that meet those criteria is measured on the basis of the price to be received or paid for net open risk. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of its relative net risk exposure to the portfolio.

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

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

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

Debt securities and certificates of deposit, 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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

4.1 Financial instruments measured at fair value (continued)

Derivatives

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

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

(A) Fair value hierarchy

	At 30 June 2023			
	Level 1 HK\$'m	Level 2 HK\$'m	Level 3 HK\$'m	Total HK\$'m
Financial assets				
Trading assets (Note 19)				
– Debt securities and certificates of deposit	264	50,954	–	51,218
– Equity securities	74	–	–	74
– Fund	–	–	–	–
– Other debt instruments	–	4,000	–	4,000
Other financial assets mandatorily classified at fair value through profit or loss (Note 19)				
– Debt securities and certificates of deposit	91	49,960	270	50,321
– Equity securities	3,856	60	–	3,916
– Fund	4,627	652	7,367	12,646
Financial assets designated at fair value through profit or loss (Note 19)				
– Debt securities and certificates of deposit	152	11,881	–	12,033
– Other debt instruments	–	20,290	–	20,290
Derivative financial instruments (Note 20)	40	75,016	–	75,056
Advances and other accounts at fair value	–	4,629	849	5,478
Investment in securities at FVOCI (Note 22)				
– Debt securities and certificates of deposit	146,816	616,685	–	763,501
– Equity securities	922	623	2,687	4,232
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 26)				
– Trading liabilities	62	51,933	–	51,995
– Financial liabilities designated at fair value through profit or loss	–	214	–	214
Derivative financial instruments (Note 20)	138	56,200	–	56,338

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

4.1 Financial instruments measured at fair value (continued)

(A) Fair value hierarchy (continued)

	At 31 December 2022			
	Level 1 HK\$'m	Level 2 HK\$'m	Level 3 HK\$'m	Total HK\$'m
Financial assets				
Trading assets (Note 19)				
– 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 19)				
– 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 19)				
– Debt securities and certificates of deposit	859	1,396	–	2,255
– Other debt instruments	–	15,237	–	15,237
Derivative financial instruments (Note 20)	97	61,735	–	61,832
Advances and other accounts at fair value	–	8,884	832	9,716
Investment in securities at FVOCI (Note 22)				
– 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 26)				
– Trading liabilities	6	59,445	–	59,451
– Financial liabilities designated at fair value through profit or loss	–	2	–	2
Derivative financial instruments (Note 20)	291	49,975	–	50,266

There were no financial asset and liability transfers between level 1 and level 2 for the Group during the period (31 December 2022: Nil).

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

4.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items

	Half-year ended 30 June 2023					
	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	accounts at fair value	Debt securities	Equity securities
HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	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	(10)	-	386	-	-	-
- Other comprehensive income						
- Change in fair value	-	-	-	-	-	27
Additions	-	-	118	-	-	800
Disposals, redemptions and maturity	(44)	-	(2)	-	-	-
Transfer into level 3	-	-	-	-	-	-
Transfer out of level 3	(1,491)	-	-	-	(735)	-
Exchange difference	-	-	-	17	-	-
At 30 June 2023	270	-	7,367	849	-	2,687
Total unrealised (losses)/gains for the period included in income statement for financial assets held as at 30 June 2023						
- Net (loss)/gain on other financial instruments at fair value through profit or loss	(10)	-	386	-	-	-

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

4.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

	Year ended 31 December 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	-	-	-

As at 30 June 2023 and 31 December 2022, financial instruments categorised as level 3 are mainly comprised of debt securities, fund, certain advances and other accounts and unlisted equity shares.

For certain illiquid debt securities, equity 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 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 in the first half of 2023 and year of 2022 were due to change of valuation input observability. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

4.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

The fair values of unlisted FVOCI equity investments are determined with reference to (i) multiples of comparable listed companies, including average of the price/earnings ratios and average of the price/book values ratios of the comparables; or (ii) dividend discount model calculation of the underlying equity investments; or (iii) net asset value with fair value adjustments on certain assets or liabilities held (if applicable), if neither appropriate comparables nor dividend discount model calculation is available or applicable. The significant unobservable inputs and their range applied in the fair values measurement of the Group's unlisted equity investments includes price/earnings ratios of the comparables of 22.11x – 46.54x, price/book values ratios of the comparables of 0.35x – 0.85x, liquidity discount of 20% – 30%, dividend payout ratio of 23.44% – 81.05% and return on shareholders' equity of 12.14% – 14.76%. The fair value is positively correlated to the price/earnings ratios and price/book value ratios of appropriate comparables, forecasted stream of future dividend payout or net asset values, and is negatively correlated to the liquidity discount used in the average of price/earnings ratios and price/book value ratios of comparables or discount rate used in dividend discount model.

Had all of the significant unobservable inputs applied on the valuation techniques favourably changed/unfavourably changed by 5% (31 December 2022: 5%), the Group's other comprehensive income would have increased by HK\$85 million and decreased by HK\$84 million, respectively (31 December 2022: increased by HK\$84 million and decreased by HK\$83 million, respectively).

4.2 Financial instruments not measured at fair value

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

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

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

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

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

Advances to customers and banks and other financial institutions

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

4.2 Financial instruments not measured at fair value (continued)

Investment in securities at amortised cost

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

Deposits from customers

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

Debt securities and certificates of deposit in issue

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

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 4.1 and their carrying value approximates fair value.

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

	At 30 June 2023		At 31 December 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 22)	267,854	259,651	239,196	229,448
Financial liabilities				
Debt securities and certificates of deposit in issue (Note 28)	3,602	3,604	3,636	3,634

NOTES TO THE INTERIM FINANCIAL INFORMATION

5. Net interest income

	Half-year ended 30 June 2023 HK\$'m	Half-year ended 30 June 2022 HK\$'m
Interest income		
Advances to customers, due from banks and other financial institutions	39,805	14,933
Investment in securities and financial assets at fair value through profit or loss	17,019	6,929
Others	425	80
	57,249	21,942
Interest expense		
Deposits from customers, due to banks and other financial institutions	(31,539)	(6,497)
Debt securities and certificates of deposit in issue	(65)	(33)
Subordinated liabilities	(1,253)	–
Lease liabilities	(20)	(19)
Others	(1,164)	(72)
	(34,041)	(6,621)
Net interest income	23,208	15,321

Included within interest income are HK\$43,464 million (first half of 2022: HK\$16,566 million) and HK\$11,805 million (first half of 2022: HK\$4,102 million) for financial assets measured at amortised cost and at fair value through other comprehensive income respectively.

Included within interest expense are HK\$33,539 million (first half of 2022: HK\$6,597 million) for financial liabilities that are not measured at fair value through profit or loss.

NOTES TO THE INTERIM FINANCIAL INFORMATION

6. Net fee and commission income

	Half-year ended 30 June 2023 HK\$'m	Half-year ended 30 June 2022 HK\$'m
Fee and commission income		
Loan commissions	1,466	1,769
Credit card business	1,185	903
Securities brokerage	952	1,388
Trust and custody services	380	341
Payment services	345	360
Insurance	327	357
Funds distribution	254	295
Bills commissions	237	262
Currency exchange	186	87
Safe deposit box	145	149
Funds management	17	26
Others	854	687
	6,348	6,624
Fee and commission expense		
Credit card business	(858)	(612)
Securities brokerage	(147)	(182)
Others	(429)	(398)
	(1,434)	(1,192)
Net fee and commission income	4,914	5,432
Of which arise from:		
Financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	1,601	1,933
– Fee and commission expense	(5)	(4)
	1,596	1,929
Trust and other fiduciary activities		
– Fee and commission income	479	441
– Fee and commission expense	(22)	(17)
	457	424

NOTES TO THE INTERIM FINANCIAL INFORMATION

7. Net trading gain

	Half-year ended 30 June 2023 HK\$'m	Half-year ended 30 June 2022 HK\$'m
Net gain from:		
Foreign exchange and foreign exchange products	3,773	4,624
Interest rate instruments and items under fair value hedge	171	4,076
Commodities	77	182
Equity and credit derivative instruments	22	20
	4,043	8,902

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

	Half-year ended 30 June 2023 HK\$'m	Half-year ended 30 June 2022 HK\$'m
Net gain/(loss) on other financial instruments mandatorily classified at fair value through profit or loss	1,548	(8,404)
Net loss on financial instruments designated at fair value through profit or loss	(37)	(9)
	1,511	(8,413)

9. Net loss on other financial instruments

	Half-year ended 30 June 2023 HK\$'m	Half-year ended 30 June 2022 HK\$'m
Net loss on disposal/redemption of investment in securities at FVOCI	(791)	(1,997)
Net loss on disposal/redemption of investment in securities at amortised cost	(11)	(35)
Others	2	4
	(800)	(2,028)

NOTES TO THE INTERIM FINANCIAL INFORMATION

10. Other operating income

	Half-year ended 30 June 2023 HK\$'m	Half-year ended 30 June 2022 HK\$'m
Dividend income		
– From investment in securities at FVOCI derecognised during the period	–	8
– From investment in securities at FVOCI held at the end of the period	37	109
Gross rental income from investment properties	233	275
Less: Outgoings in respect of investment properties	(31)	(22)
Gain from disposal of associates and joint ventures	–	3
Others	47	48
	286	421

Included in the “Outgoings in respect of investment properties” is HK\$7 million (first half of 2022: HK\$4 million) of direct operating expenses related to investment properties that were not let during the period.

11. Net charge of impairment allowances

	Half-year ended 30 June 2023 HK\$'m	Half-year ended 30 June 2022 HK\$'m
Net reversal/(charge) of impairment allowances on:		
Advances and other accounts		
– At FVOCI	34	(154)
– At amortised cost	(1,259)	(1,572)
	(1,225)	(1,726)
Investment in securities		
– At FVOCI	(3)	28
– At amortised cost	3	(24)
	–	4
Others	56	18
Net charge of impairment allowances	(1,169)	(1,704)

NOTES TO THE INTERIM FINANCIAL INFORMATION

12. Operating expenses

	Half-year ended 30 June 2023 HK\$'m	Half-year ended 30 June 2022 HK\$'m
Staff costs (including directors' emoluments)		
– Salaries and other costs	4,789	4,341
– Pension cost	289	264
	5,078	4,605
Premises and equipment expenses (excluding depreciation and amortisation)		
– Short-term leases, leases of low-value assets and variable lease payments	22	6
– Others	641	583
	663	589
Depreciation and amortisation	1,476	1,526
Auditor's remuneration		
– Audit services	3	3
– Non-audit services	–	6
Other operating expenses	1,167	1,097
	8,387	7,826
Less: Costs directly attributable to insurance contracts	(535)	(411)
	7,852	7,415

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

	Half-year ended 30 June 2023 HK\$'m	Half-year ended 30 June 2022 HK\$'m
Net loss from fair value adjustments on investment properties	(166)	(142)

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

	Half-year ended 30 June 2023 HK\$'m	Half-year ended 30 June 2022 HK\$'m
Net loss from disposal of equipment, fixtures and fittings	(4)	(1)
Net gain/(loss) from revaluation of premises	1	(1)
	(3)	(2)

NOTES TO THE INTERIM FINANCIAL INFORMATION

15. Taxation

Taxation in the income statement represents:

	Half-year ended 30 June 2023 HK\$'m	Half-year ended 30 June 2022 HK\$'m
Current tax		
Hong Kong profits tax		
– Current period taxation	3,252	2,864
– Over-provision in prior periods	(42)	(35)
	3,210	2,829
Taxation outside Hong Kong		
– Current period taxation	382	294
– Over-provision in prior periods	(10)	(11)
	3,582	3,112
Deferred tax		
Origination and reversal of temporary differences and unused tax credits	(141)	(224)
	3,441	2,888

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 for the first half of 2023. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for the first half of 2023 at the rates of taxation prevailing in the countries/regions in which the Group operates.

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

	Half-year ended 30 June 2023 HK\$'m	Half-year ended 30 June 2022 HK\$'m
Profit before taxation	21,523	15,929
Calculated at a taxation rate of 16.5% (2022: 16.5%)	3,551	2,628
Effect of different taxation rates in other countries/regions	76	69
Income not subject to taxation	(794)	(63)
Expenses not deductible for taxation purposes	709	329
Over-provision in prior periods	(52)	(46)
Withholding tax outside Hong Kong	97	85
Others	(146)	(114)
Taxation charge	3,441	2,888
Effective tax rate	16.0%	18.1%

NOTES TO THE INTERIM FINANCIAL INFORMATION

16. Dividends

	Half-year ended 30 June 2023		Half-year ended 30 June 2022	
	Per share HK\$	Total HK\$m	Per share HK\$	Total HK\$m
Interim dividend	0.527	5,572	0.447	4,726

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. This declared interim dividend is not reflected as a dividend payable in this interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2023.

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.

17. Earnings per share

The calculation of basic earnings per share for the first half of 2023 is based on the consolidated profit for the period attributable to equity holders of the Company of approximately HK\$16,998 million (first half of 2022: HK\$12,622 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 first half of 2023 (first half of 2022: Nil).

NOTES TO THE INTERIM FINANCIAL INFORMATION

18. Cash and balances and placements with banks and other financial institutions

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Cash	13,639	17,735
Balances with central banks	151,478	175,993
Placements with central banks maturing within one month	9,074	17,834
Placements with central banks maturing between one and twelve months	7,390	3,063
Placements with central banks maturing over one year	1,830	1,497
	169,772	198,387
Balances with other banks and other financial institutions	98,105	212,800
Placements with other banks and other financial institutions maturing within one month	67,915	50,489
Placements with other banks and other financial institutions maturing between one and twelve months	64,782	55,086
Placements with other banks and other financial institutions maturing over one year	421	756
	231,223	319,131
	414,634	535,253
Less: Impairment allowances		
– Stage 1	(50)	(43)
– Stage 2	–	–
– Stage 3	(24)	(16)
	414,560	535,194

NOTES TO THE INTERIM FINANCIAL INFORMATION

19. Financial assets at fair value through profit or loss

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Securities		
Trading assets		
– Treasury bills	20,997	12,270
– Certificates of deposit	8,334	3,578
– Other debt securities	21,887	20,958
	51,218	36,806
– Equity securities	74	59
– Fund	–	1
	51,292	36,866
Other financial assets mandatorily classified at fair value through profit or loss		
– Certificates of deposit	393	397
– Other debt securities	49,928	57,774
	50,321	58,171
– Equity securities	3,916	4,615
– Fund	12,646	10,669
	66,883	73,455
Financial assets designated at fair value through profit or loss		
– Treasury bills	–	624
– Certificates of deposit	17	355
– Other debt securities	12,016	1,276
	12,033	2,255
Total securities	130,208	112,576
Other debt instruments		
Trading assets	4,000	3,400
Financial assets designated at fair value through profit or loss	20,290	15,237
Total other debt instruments	24,290	18,637
	154,498	131,213

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

Total securities are analysed by place of listing as follows:

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Debt securities and certificates of deposit		
– Listed in Hong Kong	18,706	20,831
– Listed outside Hong Kong	38,876	23,232
– Unlisted	55,990	53,169
	113,572	97,232
Equity securities		
– Listed in Hong Kong	3,078	3,961
– Listed outside Hong Kong	912	713
	3,990	4,674
Fund		
– Listed in Hong Kong	3,317	1,476
– Listed outside Hong Kong	467	337
– Unlisted	8,862	8,857
	12,646	10,670
Total securities	130,208	112,576

Total securities are analysed by type of issuer as follows:

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Sovereigns	42,927	35,728
Public sector entities	1,157	186
Banks and other financial institutions	55,007	49,890
Corporate entities	31,117	26,772
Total securities	130,208	112,576

NOTES TO THE INTERIM FINANCIAL INFORMATION

20. Derivative financial instruments

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

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

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

20. Derivative financial instruments (continued)

The following tables summarise the contract/notional amounts and fair values of each class of derivative financial instrument as at 30 June 2023 and 31 December 2022:

	At 30 June 2023		
	Contract/ notional amounts HK\$'m	Fair values	
		Assets HK\$'m	Liabilities HK\$'m
Exchange rate contracts			
Spot, forwards and futures	268,588	15,815	(11,075)
Swaps	1,562,460	26,996	(19,913)
Options	65,146	560	(291)
	1,896,194	43,371	(31,279)
Interest rate contracts			
Futures	87,491	16	(81)
Swaps	2,194,021	31,195	(24,561)
	2,281,512	31,211	(24,642)
Commodity contracts	15,921	452	(391)
Equity contracts	1,745	22	(26)
	4,195,372	75,056	(56,338)

	At 31 December 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)

NOTES TO THE INTERIM FINANCIAL INFORMATION

21. Advances and other accounts

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Personal loans and advances	580,866	551,286
Corporate loans and advances	1,138,771	1,096,983
Advances to customers	1,719,637	1,648,269
Less: Impairment allowances		
– Stage 1	(3,517)	(3,995)
– Stage 2	(2,748)	(2,511)
– Stage 3	(6,224)	(4,992)
	1,707,148	1,636,771
Trade bills	5,334	6,329
Less: Impairment allowances		
– Stage 1	(1)	(1)
– Stage 2	–	–
– Stage 3	–	–
	5,333	6,328
Advances to banks and other financial institutions	626	1,015
Less: Impairment allowances		
– Stage 1	(1)	(1)
– Stage 2	–	–
– Stage 3	–	–
	625	1,014
	1,713,106	1,644,113

As at 30 June 2023, advances to customers included accrued interest of HK\$4,342 million (31 December 2022: HK\$3,980 million).

As at 30 June 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\$4,629 million (31 December 2022: HK\$8,884 million) and HK\$849 million (31 December 2022: HK\$832 million) respectively.

NOTES TO THE INTERIM FINANCIAL INFORMATION

22. Investment in securities

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Investment in securities at fair value through other comprehensive income		
– Treasury bills	325,502	287,961
– Certificates of deposit	35,461	42,144
– Other debt securities	402,538	364,195
	763,501	694,300
– Equity securities	4,232	3,517
	767,733	697,817
Investment in securities at amortised cost		
– Treasury bills	7	6
– Certificates of deposit	5,110	4,630
– Other debt securities	262,796	234,622
	267,913	239,258
Less: Impairment allowances		
– Stage 1	(59)	(62)
– Stage 2	–	–
– Stage 3	–	–
	267,854	239,196
	1,035,587	937,013

NOTES TO THE INTERIM FINANCIAL INFORMATION

22. Investment in securities (continued)

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

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Investment in securities at fair value through other comprehensive income		
Debt securities and certificates of deposit		
– Listed in Hong Kong	85,026	86,572
– Listed outside Hong Kong	168,185	141,484
– Unlisted	510,290	466,244
	763,501	694,300
Equity securities		
– Listed in Hong Kong	1,138	1,060
– Unlisted	3,094	2,457
	4,232	3,517
	767,733	697,817
Investment in securities at amortised cost		
Debt securities and certificates of deposit		
– Listed in Hong Kong	15,760	13,839
– Listed outside Hong Kong	172,937	158,462
– Unlisted	79,157	66,895
	267,854	239,196
	1,035,587	937,013
Market value of listed securities at amortised cost	182,769	165,092

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

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Sovereigns	547,308	506,386
Public sector entities	94,056	60,900
Banks and other financial institutions	300,533	268,507
Corporate entities	93,690	101,220
	1,035,587	937,013

NOTES TO THE INTERIM FINANCIAL INFORMATION

23. Investment properties

	Half-year ended 30 June 2023 HK\$'m	Year ended 31 December 2022 HK\$'m
At 1 January	16,069	17,722
Additions	10	13
Fair value losses	(166)	(1,305)
Reclassification from/(to) properties, plant and equipment (Note 24)	126	(361)
At period/year end	16,039	16,069

24. Properties, plant and equipment

	Equipment, fixtures and Right-of-use assets*			Total HK\$'m
	Premises HK\$'m	fittings HK\$'m	HK\$'m	
Net book value at 1 January 2023	41,782	1,155	1,324	44,261
Additions	13	166	235	414
Disposals	(6)	(6)	–	(12)
Revaluation	241	–	–	241
Depreciation for the period	(587)	(226)	(287)	(1,100)
Reclassification to investment properties (Note 23)	(126)	–	–	(126)
Exchange difference	(4)	(2)	(4)	(10)
Net book value at 30 June 2023	41,313	1,087	1,268	43,668
At 30 June 2023				
Cost or valuation	41,313	6,889	2,636	50,838
Accumulated depreciation and impairment	–	(5,802)	(1,368)	(7,170)
Net book value at 30 June 2023	41,313	1,087	1,268	43,668
The analysis of cost or valuation of the above assets is as follows:				
At 30 June 2023				
At cost	–	6,889	2,636	9,525
At valuation	41,313	–	–	41,313
	41,313	6,889	2,636	50,838

NOTES TO THE INTERIM FINANCIAL INFORMATION

24. 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 23)	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.

25. Other assets

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Repossessed assets	245	334
Precious metals	10,355	11,507
Intangible assets	2,249	2,213
Accounts receivable and prepayments	47,180	23,048
Insurance contract assets	1	3
Reinsurance contract assets	46,577	48,815
	106,607	85,920

NOTES TO THE INTERIM FINANCIAL INFORMATION

26. Financial liabilities at fair value through profit or loss

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Trading liabilities		
– Short positions in securities	51,995	59,451
Financial liabilities designated at fair value through profit or loss		
– Repurchase agreements	104	–
– Structured notes	2	2
– Structured deposits (Note 27)	108	–
	52,209	59,453

As at 30 June 2023 and 31 December 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.

27. Deposits from customers

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Current, savings and other deposit accounts (per balance sheet)	2,463,390	2,377,207
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 26)	108	–
	2,463,498	2,377,207
Analysed by:		
Demand deposits and current accounts		
– Corporate	152,802	165,006
– Personal	72,054	71,109
	224,856	236,115
Savings deposits		
– Corporate	454,006	472,248
– Personal	493,295	521,441
	947,301	993,689
Time, call and notice deposits		
– Corporate	665,565	616,829
– Personal	625,776	530,574
	1,291,341	1,147,403
	2,463,498	2,377,207

NOTES TO THE INTERIM FINANCIAL INFORMATION

28. Debt securities and certificates of deposit in issue

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
At amortised cost		
– Senior notes under the Medium Term Note Programme ⁽ⁱ⁾	1,635	1,702
– Senior notes under the Medium Term Note Programme, with fair value hedge adjustment ⁽ⁱⁱ⁾	1,967	1,934
	3,602	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.

29. Other accounts and provisions

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Dividend payable	9,621	–
Other accounts payable and provisions	87,211	67,134
Lease liabilities	1,250	1,298
Impairment allowances on loan commitments and financial guarantee contracts		
– Stage 1	255	326
– Stage 2	24	36
– Stage 3	123	128
Reinsurance contract liabilities	725	766
	99,209	69,688

NOTES TO THE INTERIM FINANCIAL INFORMATION

30. Deferred taxation

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

The major components of deferred tax (assets)/liabilities recorded in the balance sheet, and the movements during the first half of 2023 and the year ended 31 December 2022 are as follows:

	Half-year ended 30 June 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 15)	5	(81)	(5)	41	(101)	(141)
Charged to other comprehensive income	-	15	-	-	159	174
Release upon disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	-	-
Exchange difference and others	-	-	-	(3)	1	(2)
At 30 June 2023	846	6,212	(836)	(1,090)	(1,917)	3,215

	Year ended 31 December 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	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

NOTES TO THE INTERIM FINANCIAL INFORMATION

30. Deferred taxation (continued)

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

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Deferred tax assets	(1,230)	(1,162)
Deferred tax liabilities	4,445	4,346
	3,215	3,184

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Deferred tax assets to be recovered after more than twelve months	(1,011)	(1,107)
Deferred tax liabilities to be settled after more than twelve months	6,137	6,182
	5,126	5,075

As at 30 June 2023 and 31 December 2022, the Group has no unrecognised deferred tax assets in respect of tax losses.

31. Insurance contract liabilities

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Analysis by remaining coverage and incurred claims of insurance contracts		
– Liabilities for remaining coverage		
– Excluding loss component	173,099	168,677
– Loss component	257	160
– Liabilities for incurred claims	211	409
	173,567	169,246
Analysis by measurement component of insurance contracts		
– Measured under the premium allocation approach	–	6
– Measured under other approaches		
– Estimates of present value of future cash flows	161,817	157,895
– Risk adjustments for non-financial risk	353	339
– Contractual service margin	11,397	11,006
	173,567	169,246

NOTES TO THE INTERIM FINANCIAL INFORMATION

32. Subordinated liabilities

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Subordinated loans, at amortised cost		
RMB20 billion ⁽ⁱ⁾	21,840	22,499
RMB10 billion ⁽ⁱⁱ⁾	10,940	11,255
USD1 billion ⁽ⁱⁱⁱ⁾	8,104	7,860
USD1 billion ^(iv)	8,079	7,846
RMB17 billion ^(v)	18,606	19,107
USD1 billion ^(vi)	8,058	7,826
	75,627	76,393

(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.

33. Share capital

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Issued and fully paid: 10,572,780,266 ordinary shares	52,864	52,864

34. Other equity instruments

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Undated non-cumulative subordinated Additional Tier 1 capital securities	23,476	23,476

In September 2018, BOCHK issued USD3,000 million undated non-cumulative subordinated Additional Tier 1 capital securities. The capital securities are perpetual securities in respect of which there is no fixed redemption date and are not callable within the first 5 years. They have an initial rate of distribution of 5.90% per annum payable semi-annually which may be cancelled at the sole discretion of BOCHK. Dividend paid to other equity instrument holders in the first half of 2023 amounted to HK\$696 million (first half of 2022: HK\$693 million).

NOTES TO THE INTERIM FINANCIAL INFORMATION

35. Notes to condensed consolidated cash flow statement

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

	Half-year ended 30 June 2023 HK\$'m	Half-year ended 30 June 2022 HK\$'m
Operating profit	21,817	16,232
Depreciation and amortisation	1,476	1,526
Gain from disposal of associates and joint ventures	–	(3)
Net charge of impairment allowances	1,169	1,704
Unwind of discount on impairment allowances	(62)	(25)
Advances written off net of recoveries	(92)	(262)
Interest expense on lease liabilities	20	19
Change in subordinated liabilities	(766)	–
Change in balances and placements with banks and other financial institutions with original maturity over three months	(2,843)	(14,651)
Change in financial assets at fair value through profit or loss	(3,403)	3,445
Change in derivative financial instruments	(7,152)	(19,249)
Change in advances and other accounts	(69,984)	(82,751)
Change in investment in securities	(87,883)	43,542
Change in other assets	(23,033)	(4,637)
Change in deposits and balances from banks and other financial institutions	(25,295)	(171,768)
Change in financial liabilities at fair value through profit or loss	(7,244)	13,945
Change in deposits from customers	86,183	69,454
Change in debt securities and certificates of deposit in issue	(34)	1,310
Change in other accounts and provisions	20,077	46,188
Change in insurance and reinsurance contract assets/liabilities	6,135	753
Effect of changes in exchange rates	6,450	12,266
Operating cash outflow before taxation	(84,464)	(82,962)
Cash flows from operating activities included		
– interest received	55,561	22,121
– interest paid	28,465	5,880
– dividend received	37	117

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

	At 30 June 2023 HK\$'m	At 30 June 2022 HK\$'m
Cash and balances and placements with banks and other financial institutions with original maturity within three months	355,688	381,393
Treasury bills, certificates of deposit and other debt instruments with original maturity within three months		
– financial assets at fair value through profit or loss	28,456	14,457
– investment in securities	62,264	36,754
	446,408	432,604

NOTES TO THE INTERIM FINANCIAL INFORMATION

36. Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment and the aggregate credit risk-weighted amount and is prepared with reference to the completion instructions for the HKMA return of capital adequacy ratio.

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Direct credit substitutes	1,082	1,069
Transaction-related contingencies	27,758	25,586
Trade-related contingencies	17,580	15,908
Commitments that are unconditionally cancellable without prior notice	583,716	533,304
Other commitments with an original maturity of		
– up to one year	18,139	21,905
– over one year	177,967	177,275
	826,242	775,047
Credit risk-weighted amount	80,419	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.

37. Capital commitments

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

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Authorised and contracted for but not provided for	498	211
Authorised but not contracted for	19	233
	517	444

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

38. Operating lease commitments

As lessor

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

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Properties and equipment		
– Not later than one year	414	431
– One to two years	252	289
– Two to three years	91	132
– Three to four years	6	6
– Four to five years	–	–
	763	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.

39. Segmental reporting

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

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

39. Segmental reporting (continued)

	Personal Banking HK\$'m	Corporate Banking HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations* HK\$'m	Consolidated HK\$'m
Half-year ended 30 June 2023								
Net interest (expense)/income								
– External	(4,460)	9,411	14,349	2,177	1,731	23,208	–	23,208
– Inter-segment	14,246	380	(14,410)	(41)	(175)	–	–	–
	9,786	9,791	(61)	2,136	1,556	23,208	–	23,208
Net fee and commission income/(expense)	3,390	2,157	128	(6)	593	6,262	(1,348)	4,914
Insurance service result	–	–	–	457	–	457	90	547
Net trading gain/(loss)	271	828	3,056	(399)	283	4,039	4	4,043
Net gain on other financial instruments								
at fair value through profit or loss	–	–	63	1,447	–	1,510	1	1,511
Net gain/(loss) on other financial instruments	–	2	(677)	(125)	–	(800)	–	(800)
Insurance finance (expenses)/income	–	–	–	(2,871)	–	(2,871)	–	(2,871)
Other operating income	8	–	5	10	869	892	(606)	286
Net operating income before impairment allowances	13,455	12,778	2,514	649	3,301	32,697	(1,859)	30,838
Net (charge)/reversal of impairment allowances	(73)	(1,138)	(3)	(1)	46	(1,169)	–	(1,169)
Net operating income	13,382	11,640	2,511	648	3,347	31,528	(1,859)	29,669
Operating expenses	(4,743)	(1,790)	(728)	(31)	(1,606)	(8,898)	1,046	(7,852)
Operating profit	8,639	9,850	1,783	617	1,741	22,630	(813)	21,817
Net loss from disposal of/fair value adjustments								
on investment properties	–	–	–	–	(166)	(166)	–	(166)
Net loss from disposal/revaluation of properties, plant and equipment	(1)	–	–	–	(2)	(3)	–	(3)
Share of results after tax of associates and joint ventures	(13)	–	2	–	(114)	(125)	–	(125)
Profit before taxation	8,625	9,850	1,785	617	1,459	22,336	(813)	21,523
At 30 June 2023								
ASSETS								
Segment assets	608,386	1,077,311	1,764,943	182,680	178,726	3,812,046	(41,581)	3,770,465
Interests in associates and joint ventures	550	–	1	–	165	716	–	716
	608,936	1,077,311	1,764,944	182,680	178,891	3,812,762	(41,581)	3,771,181
LIABILITIES								
Segment liabilities	1,342,832	1,095,603	741,634	176,958	119,937	3,476,964	(40,297)	3,436,667
Half-year ended 30 June 2023								
Other information								
Capital expenditure	17	–	–	29	786	832	–	832
Depreciation and amortisation	557	166	64	40	670	1,497	(21)	1,476

NOTES TO THE INTERIM FINANCIAL INFORMATION

39. Segmental reporting (continued)

	Personal Banking HK\$'m	Corporate Banking HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations* HK\$'m	Consolidated HK\$'m
Half-year ended 30 June 2022								
Net interest income/(expense)								
– External	2,063	5,685	4,660	1,907	1,006	15,321	–	15,321
– Inter-segment	1,884	(212)	(1,507)	(10)	(155)	–	–	–
	3,947	5,473	3,153	1,897	851	15,321	–	15,321
Net fee and commission income/(expense)	3,232	2,433	(29)	(8)	588	6,216	(784)	5,432
Insurance service result	–	–	–	412	–	412	74	486
Net trading gain/(loss)	511	834	7,211	(11)	354	8,899	3	8,902
Net loss on other financial instruments at fair value through profit or loss	–	–	(141)	(8,273)	–	(8,414)	1	(8,413)
Net gain/(loss) on other financial instruments	–	4	(2,033)	1	–	(2,028)	–	(2,028)
Insurance finance (expenses)/income	–	–	–	5,230	–	5,230	–	5,230
Other operating income	13	1	30	60	915	1,019	(598)	421
Net operating income/(expense) before impairment allowances	7,703	8,745	8,191	(692)	2,708	26,655	(1,304)	25,351
Net (charge)/reversal of impairment allowances	(111)	(1,590)	(2)	(7)	6	(1,704)	–	(1,704)
Net operating income/(expense)	7,592	7,155	8,189	(699)	2,714	24,951	(1,304)	23,647
Operating expenses	(4,501)	(1,662)	(637)	(31)	(1,529)	(8,360)	945	(7,415)
Operating profit/(loss)	3,091	5,493	7,552	(730)	1,185	16,591	(359)	16,232
Net loss from disposal of/fair value adjustments on investment properties	–	–	–	–	(142)	(142)	–	(142)
Net loss from disposal/revaluation of properties, plant and equipment	(1)	–	–	–	(1)	(2)	–	(2)
Share of results after tax of associates and joint ventures	(11)	–	2	–	(150)	(159)	–	(159)
Profit/(loss) before taxation	3,079	5,493	7,554	(730)	892	16,288	(359)	15,929
At 31 December 2022								
ASSETS								
Segment assets	580,155	1,040,621	1,734,391	177,427	173,275	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	177,427	173,554	3,706,712	(40,207)	3,666,505
LIABILITIES								
Segment liabilities	1,280,379	1,075,631	746,103	172,749	105,546	3,380,408	(39,738)	3,340,670
Half-year ended 30 June 2022								
Other information								
Capital expenditure	11	5	5	23	671	715	–	715
Depreciation and amortisation	617	152	61	34	682	1,546	(20)	1,526

* Eliminations include the CSM adjustments of the Group which arise from eliminating intra-group fees for insurance policies distributed through the Group's banking channels, together with the related directly attributable costs incurred.

NOTES TO THE INTERIM FINANCIAL INFORMATION

40. Assets pledged as security

As at 30 June 2023, the liabilities of the Group amounting to HK\$25,853 million (31 December 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\$37,495 million (31 December 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\$63,669 million (31 December 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\$3,204 million (31 December 2022: HK\$2,709 million) as initial margin of derivative transactions.

41. Significant related party transactions

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

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

General information of the parent companies:

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

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

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

The majority of transactions with BOC arise from money market activities. As at 30 June 2023, the Group’s related aggregate amounts due from and to BOC were HK\$110,964 million (31 December 2022: HK\$206,631 million) and HK\$64,515 million (31 December 2022: HK\$95,344 million) respectively. The aggregate amounts of income and expenses of the Group arising from these transactions with BOC for the first half of 2023 were HK\$1,251 million (first half of 2022: HK\$505 million) and HK\$1,785 million (first half of 2022: HK\$770 million) respectively.

As at 30 June 2023, the related aggregate amounts due from and to subsidiaries of BOC were HK\$1,758 million (31 December 2022: HK\$2,209 million) and HK\$10,609 million (31 December 2022: HK\$12,218 million) respectively.

For details of subordinated liabilities granted by BOC, please refer to Note 32 to the Interim Financial Information.

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

	Half-year ended 30 June 2023 HK\$'m	Half-year ended 30 June 2022 HK\$'m
Income statement items		
Associates and joint ventures		
– Fee and commission income	13	3
– Other operating expenses	34	36
Other related parties		
– Fee and commission income	6	6

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Balance sheet items		
Associates and joint ventures		
– Investment in securities	790	–
– Other assets	6	7
– Deposits and balances from banks and other financial institutions	58	47
– Deposits from customers	1	1

NOTES TO THE INTERIM FINANCIAL INFORMATION

41. Significant related party transactions (continued)

(d) Key management personnel

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

The compensation of key management personnel is detailed as follows:

	Half-year ended 30 June 2023 HK\$'m	Half-year ended 30 June 2022 HK\$'m
Salaries and other short-term employee benefits	13	17

42. IBOR reform

The Group is exposed to different interbank offered rates, predominantly US Dollar LIBOR. The following table contains details of financial instruments that the Group holds as at 30 June 2023 and 31 December 2022 which reference USD LIBOR and have not yet transitioned to an alternative interest rate benchmark:

	At 30 June 2023 HK\$'m	At 31 December 2022 HK\$'m
Financial instruments yet to transition to alternative benchmarks		
Non-derivative financial assets	115,033	178,040
Non-derivative financial liabilities	314	624
Derivative contract/notional amounts	–	469,213

NOTES TO THE INTERIM FINANCIAL INFORMATION

43. International claims

The below analysis is prepared with reference to the completion instructions for the HKMA return of international banking statistics. International claims are exposures to counterparties on which the ultimate risk lies based on the locations of the counterparties after taking into account the transfer of risk, and represent the sum of cross-border claims in all currencies and local claims in foreign currencies. For a claim guaranteed by a party situated in a location different from the counterparty, the risk will be transferred to the location of the guarantor. For a claim on an overseas branch of a bank whose head office is located in another location, the risk will be transferred to the location where its head office is located.

Claims on individual countries/regions, after risk transfer, amounting to 10% or more of the aggregate international claims of the Group in either period/year end are shown as follows:

	At 30 June 2023				
	Non-bank private sector				Total HK\$m
	Banks HK\$m	Official sector HK\$m	Non-bank		
			financial institutions HK\$m	Non-financial private sector HK\$m	
Chinese Mainland	338,732	216,367	9,799	121,178	686,076
Hong Kong	10,273	15,137	54,199	325,600	405,209
United States	28,087	160,589	15,370	20,128	224,174

	At 31 December 2022				
	Non-bank private sector				Total HK\$m
	Banks HK\$m	Official sector HK\$m	Non-bank		
			financial institutions HK\$m	Non-financial private sector HK\$m	
Chinese Mainland	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

NOTES TO THE INTERIM FINANCIAL INFORMATION

44. Non-bank Mainland exposures

The analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties and the types of direct exposures with reference to the completion instructions for the HKMA return of Mainland activities, which includes the Mainland exposures extended by BOCHK's Hong Kong office only.

	Items in the HKMA return	At 30 June 2023		
		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	363,917	30,476	394,393
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	80,900	5,045	85,945
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	131,705	22,938	154,643
Other entities of central government not reported in item 1 above	4	27,033	2,638	29,671
Other entities of local governments not reported in item 2 above	5	1,362	207	1,569
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	63,535	7,596	71,131
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	3,572	–	3,572
Total	8	672,024	68,900	740,924
Total assets after provision	9	3,521,505		
On-balance sheet exposures as percentage of total assets	10	19.08%		

NOTES TO THE INTERIM FINANCIAL INFORMATION

44. Non-bank Mainland exposures (continued)

	Items in the HKMA return	At 31 December 2022		
		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%		

NOTES TO THE INTERIM FINANCIAL INFORMATION

45. Comparative amounts

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.

46. Event after the balance sheet date

For the other equity instruments as described in Note 34, as stated in the BOCHK's notice of redemption dated 11 August 2023, BOCHK will redeem all of the USD3,000 million undated non-cumulative subordinated Additional Tier 1 capital securities (the "Capital Securities") on 14 September 2023 (the "First Call Date"), at the principal amount of the Capital Securities together with distributions accrued to (but excluding) the First Call Date. Upon redemption, there will be no Capital Securities in issue.

47. Compliance with HKAS 34

The unaudited interim financial information for the first half of 2023 complies with HKAS 34 "Interim Financial Reporting" issued by the HKICPA.

48. Statutory accounts

The financial information relating to the year ended 31 December 2022 that is included in this Interim Report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2022 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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