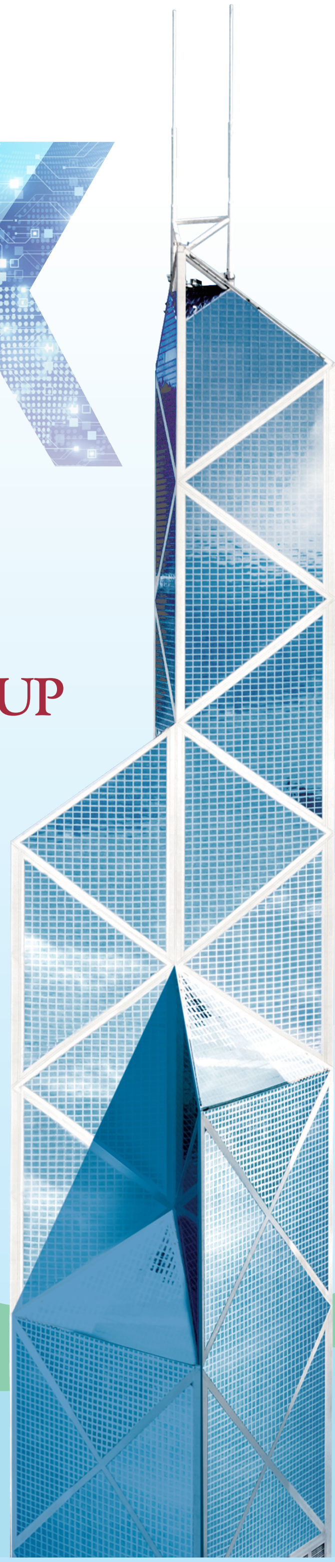
中銀香港(控股)有限公司
BOC HONG KONG (HOLDINGS) LIMITED

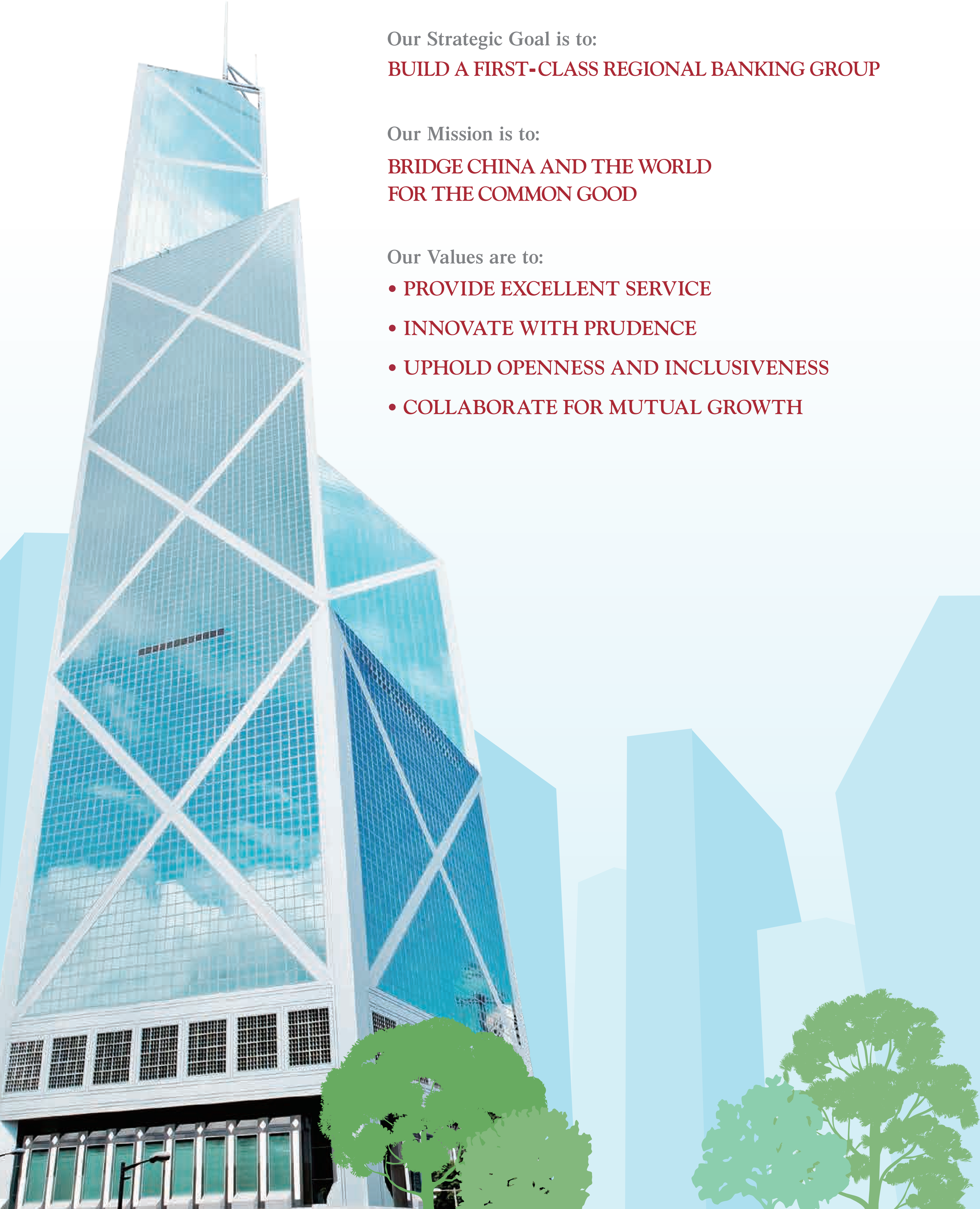
Stock Code: 2388

Annual Report 2021



BUILD A FIRST-CLASS REGIONAL BANKING GROUP

This version of the 2021 Annual Report will be replaced by the printed version available around mid April 2022.



Our Strategic Goal is to:

BUILD A FIRST-CLASS REGIONAL BANKING GROUP

Our Mission is to:

BRIDGE CHINA AND THE WORLD
FOR THE COMMON GOOD

Our Values are to:

- PROVIDE EXCELLENT SERVICE
- INNOVATE WITH PRUDENCE
- UPHOLD OPENNESS AND INCLUSIVENESS
- COLLABORATE FOR MUTUAL GROWTH

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

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

BOCHK is committed to pursuing its strategic goal to "Build a First-class Regional Banking Group" and promoting sustainable and high-quality development. Capitalising on its advantages as a major commercial banking group in Hong Kong, BOCHK continues to increase local market penetration, captures business opportunities in the Greater Bay Area and actively expands its business development in Southeast Asia. We strive to provide customers with comprehensive, professional and high-quality services. Entering a new era of smart banking, we endeavour to become a customer-centric digital bank by enhancing customer experience with innovative technology and offering intelligent products and services.

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

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

As a leading commercial and internationalised regional bank with deep roots in Hong Kong for over 100 years, BOCHK upholds its mission of "Bridge China and the World for the Common Good". We are committed to undertaking our corporate social responsibilities, promoting long-term and balanced sustainable development, and delivering greater value for our stakeholders and the community.

Contents

Financial Highlights

	2021	2020
For the year	**HK$'m**	HK$'m
Net operating income before impairment allowances	**48,982**	54,474
Operating profit	**30,430**	35,420
Profit before taxation	**29,968**	33,583
Profit for the year	**24,999**	28,468
Profit attributable to equity holders of the Company and other equity instrument holders	**24,348**	27,863
Per share	**HK$**	HK$
Basic earnings per share	**2.1726**	2.5052
Dividend per share	**1.130**	1.242
At year-end	**HK$'m**	HK$'m
Total assets	**3,639,430**	3,320,981
Issued and fully paid up share capital	**52,864**	52,864
Capital and reserves attributable to equity holders of the Company	**297,999**	290,302
Financial ratios	**%**	%
Return on average total assets[1]	**0.70**	0.86
Return on average shareholders' equity[2]	**7.67**	9.05
Cost to income ratio	**33.50**	30.01
Loan to deposit ratio[3]	**68.60**	68.59
Average value of liquidity coverage ratio[4]		
First quarter	**134.09**	150.45
Second quarter	**134.20**	131.38
Third quarter	**134.73**	130.98
Fourth quarter	**146.70**	132.76
Quarter-end value of net stable funding ratio[4]		
First quarter	**124.90**	116.60
Second quarter	**118.50**	117.49
Third quarter	**125.92**	115.30
Fourth quarter	**126.96**	125.31
Total capital ratio[5]	**21.44**	22.10

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

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

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

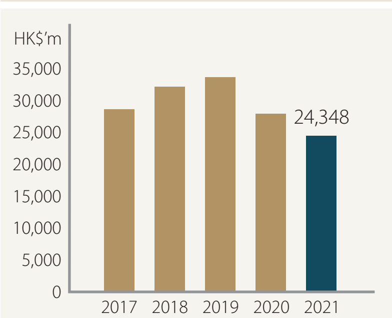
Five-Year Financial Summary

The financial information of the Group for the last five years commencing from 1 January 2017 is summarised below:

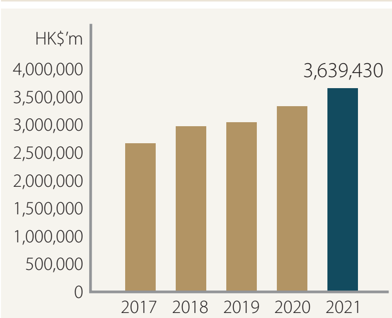
	2021	2020	2019	2018	2017
For the year	**HK$'m**	HK$'m	HK$'m	HK$'m	HK$'m
Net operating income before impairment allowances[1]	**48,982**	54,474	58,444	54,535	49,006
Operating profit[1]	**30,430**	35,420	39,755	38,087	34,103
Profit before taxation[1]	**29,968**	33,583	40,088	39,081	35,375
Profit for the year[1]	**24,999**	28,468	34,074	32,654	29,307
Profit attributable to equity holders of the Company and other equity instrument holders[1]	**24,348**	27,863	33,574	32,070	28,574
Per share	**HK$**	HK$	HK$	HK$	HK$
Basic earnings per share[1]	**2.1726**	2.5052	3.0440	3.0333	2.7026
At year-end	**HK$'m**	HK$'m	HK$'m	HK$'m	HK$'m
Advances and other accounts	**1,597,194**	1,500,416	1,412,961	1,282,994	1,191,554
Total assets	**3,639,430**	3,320,981	3,026,056	2,956,004	2,651,086
Daily average balance of total assets	**3,589,259**	3,295,060	2,971,200	2,817,151	2,571,216
Deposits from customers[2]	**2,331,155**	2,183,709	2,009,273	1,897,995	1,777,874
Total liabilities	**3,311,969**	3,001,326	2,718,564	2,670,631	2,402,463
Issued and fully paid up share capital	**52,864**	52,864	52,864	52,864	52,864
Capital and reserves attributable to equity holders of the Company	**297,999**	290,302	278,783	257,536	244,018
Financial ratios	**%**	%	%	%	%
Return on average total assets	**0.70**	0.86	1.15	1.16	1.24
Cost to income ratio[1]	**33.50**	30.01	28.52	27.88	28.26
Loan to deposit ratio	**68.60**	68.59	69.47	66.77	64.48

1. The financial information is from continuing operations.
2. Deposits from customers include structured deposits reported as "Financial liabilities at fair value through profit or loss".

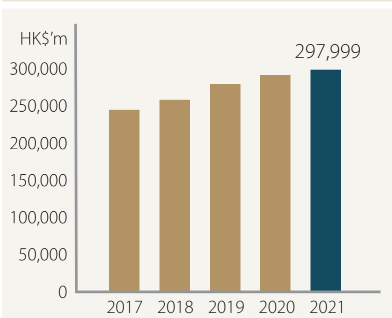
Profit attributable to equity holders of the Company and other equity instrument holders



Total assets



Capital and reserves attributable to equity holders of the Company



Expediting Digital Transformation and Regional Development


BoC Pay
Mobile Payment App
RMB Services
GTB
Corporate Online / Mobile Banking Services

Message from the Chairman

2021 was a landmark year. China made solid efforts in routine pandemic prevention and control while pushing forward economic and social development. It made fresh progress towards building a new development pattern and achieved new results in high-quality development, getting the 14th Five-Year Plan off to a good start. Meanwhile, facing an evolving COVID-19 pandemic and unpredictable global changes, Hong Kong experienced economic recovery buoyed by strong trade performance and deepened its interconnection with the Chinese mainland, bringing its total GDP back to near pre-pandemic levels. However, persistently low interest rates continued to adversely affect the profitability of the local banking sector.

Under the thoughtful planning and wise leadership of the Board of Directors, BOCHK formulated a new five-year plan in close alignment with BOC Group's 14th Five-Year Plan and its "One Mainstay, Two Engines" strategy. Guided by the strategic goal to "Build a First-class Regional Banking Group" and fulfilling the mission of "Bridge China and the World for the Common Good", BOCHK actively followed national strategies and provided full support for Hong Kong's economic and livelihood development by striving to promote sustainable and high-quality growth while continually creating value for all stakeholders.

In 2021, BOCHK continued to outperform the market in terms of its core businesses, achieving solid performance in its major operating indicators and stable ratings from external credit rating agencies. We increased our customer loans by 6.8% to HK$1,599,084 million and our customer deposits by 6.8% to HK$2,331,155 million, driving further gains in local market share. Adhering to stringent risk management principles, we maintained risk indicators at stable and sound levels. Our classified or impaired loan ratio was 0.27% and our total capital ratio was 21.44%, with both metrics continuing to compare favourably against local peers. Our profit after tax for the year amounted to HK$25.0 billion. The Board has recommended a final dividend of HK$0.683 per share. Together with the interim dividend, this takes our full-year dividend to HK$1.130 per share, which translates to a payout ratio of 52.0%, an increase of 2.4 percentage point compared with that of last year. I would like to take this opportunity to extend my heartfelt gratitude to all board members for their excellent guidance, to our entire staff for their diligence, and to our customers and shareholders for their long-standing trust and support.

In the past year, we continuously improved our financial service capabilities while deepening our local market development, further consolidating our traditional competitive advantages and creating new momentum. Committing to Hong Kong as our core market, we maintained our market-leading position in businesses such as new residential mortgage loans, main arrangement of syndicated loans in the Hong Kong and Macao regions, IPO receiving bank and cash pooling. We witnessed vibrant growth in new businesses such as wealth management, investment banking consulting and green finance, and significantly enhanced our integrated service capabilities in such areas as insurance and asset management. Leveraging our advantages in customer scale and service channels, we continued to actively cooperate with the HKSAR Government in support of its various financial relief and economic development programmes to underpin the recovery of the local economy. Faced with a new round of COVID-19 outbreaks since early this year, we further stepped up our financial service support, providing HK$50 billion in credit resources as well as fee concessions, waivers and rebates to assist SME customers. We also further extended the application period for loan moratoriums on mortgage services and provided a wide range of online financial services to relieve the financial pressures of individual customers.

In the past year, we continuously enhanced our advantages in cross-border finance while expanding our regional business, ushering in new business opportunities in the Guangdong-Hong Kong-Macao Greater Bay Area ("the Greater Bay Area"), and achieving steady business development in Southeast Asia. Playing an important role in China's ambition to build a world-class, globally-competitive urban cluster, the Greater Bay Area enjoys a unique position and distinct advantages within the national strategic layout. Meanwhile, ASEAN's status as China's largest trading partner signals a bright outlook for the development of a stronger bilateral economic and trade relationship. BOCHK proactively engaged in the nation's new development pattern of "dual circulation", striving to achieve new breakthroughs. We took the lead in launching Cross-border Wealth Management Connect services and providing Southbound trading under Bond Connect services in the local market, establishing a leading market share. We provided diversified services such as account opening, loans, payments and insurance to support an enjoyable lifestyle for customers in the Greater Bay Area. We also developed new financial service models for innovative technology enterprises by collaboratively combining the strengths of the commercial and investment banking arms of BOC Group. Our business layout in Southeast Asia continued to improve with the opening of the Yangon Branch in Myanmar and Hanoi Representative Office in Vietnam. Through deepened cross-border coordination, our abilities to serve multinational enterprises and local customers were further enhanced, and our collaboration with BOC branches in the Asia-Pacific region yielded good results. Leveraging our solid RMB franchise, we further developed our reputation as an RMB expert by innovating scenarios for RMB usage in businesses such as financing, settlement, commodity trading, and cash pooling, so as to stimulate customer demand and promote the development of RMB markets abroad.

In the past year, we continuously boosted our customer service efficiency through digitalisation, embedding a deep-rooted digital-oriented philosophy and delivering remarkable achievements in our fintech development. Technological innovation not only serves as an important foundation for replacing old growth drivers with new ones, but also provides an essential path for the leapfrogging transformation of the century-old bank. BOCHK actively embraces new technologies and new concepts to support business development and further promote digitalisation. We accelerated the development of mobile and intelligent service channels, with number of mobile banking transactions rising by over 30% and BoC Pay customer numbers passing the one million mark, while our intelligent Global Transaction Banking ("iGTB") platform completed the agile implementation of version upgrades. We deployed technology to promote inclusive finance by launching ERP Cloud Services and advancing intelligent credit approval for SME customers. We remained focused on developing scenario-based financial service ecosystems with a view to building an open bank and improving the intrinsic value and diversification of our services. We deepened the deployment of intelligent systems and promoted intelligent risk control to provide more secure and efficient banking operations. Our virtual banking joint-venture LIVI innovated products and services by fully leveraging the advantages of its three shareholders, which helped to raise its integrated strengths to a market-leading level and grow customer numbers to more than 200,000. In the year, BOCHK was named "Hong Kong's Best Digital Bank 2021" by *Asiamoney*.

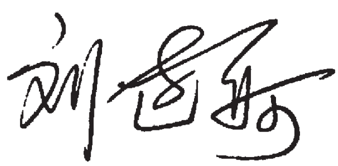
In the past year, we adhered to strict risk management and compliance principles amid a challenging environment, with continuously enhanced comprehensive risk management capabilities and solidified foundation for steady development. In the face of complex and severe external challenges such as new pandemic outbreaks, and geopolitical manoeuvring, BOCHK adhered to "bottom-line thinking" in its risk management and compliance. We continued to refine our multi-layered and comprehensive risk monitoring, pre-warning and emergency management systems. We enhanced our capacity for the accurate identification and proactive prevention of the risks emerging from new situations, new business dynamics, and new business modes, and ensured a stable and controllable overall risk profile as well as steady, secure and sustainable banking operations.

In the past year, we fulfilled our responsibilities as a major bank while pursuing sustainable and high-quality development, with increased influence in society and substantial achievements in green finance. Now that a universal consensus has been achieved around global climate governance, green and low-carbon operations will become an integral part of mainstream economic and social development in the post-pandemic era. Aligned itself with national and HKSAR Government carbon neutrality strategies, BOCHK formulated a five-year sustainable development plan and made proactive efforts to address changes in climate risks. As a market pioneer, we launched innovative green finance products including loans, deposits, bonds, mortgages and ESG funds, pursuing a green future with our customers. As part of our strategy to support charities and anti-pandemic initiatives, we launched more than 70 charity projects and more than 90 volunteer events throughout the year. Our efforts earned us the "9th Hong Kong Volunteer Award: Corporate Award" from the Agency for Volunteer Service. We issued the Commemorative Banknote of the Olympic Winter Games Beijing 2022 to mark this proud occasion, the net proceeds of which will be donated for local charitable purposes. We strengthened corporate governance and information disclosure, officially becoming a signatory of the Task Force on Climate-related Financial Disclosures (TCFD). In 2021, BOCHK was upgraded to the highest "AAA" ESG rating by MSCI, fully reflecting the market's recognition of our efforts.

In the past year, our Board continued to run smoothly and efficiently while constantly strengthening our high-quality corporate governance mechanism. In August 2021, Mr LIU Jin was appointed as Vice Chairman and Non-executive Director of BOCHK. In March 2022, Madam FUNG Yuen Mei Anita was appointed as Independent Non-executive Director of BOCHK. In February 2021, Mr ZHUO Chengwen ceased serving as Chief Risk Officer of BOCHK due to a change of job, and was succeeded by Madam JIANG Xin. In January 2022, Madam SUI Yang ceased serving as Chief Financial Officer of BOCHK due to a change of job, and was succeeded by Mr LIU Chenggang starting from March 2022. On behalf of the Board, I would like to extend my warm welcome to Mr LIU Jin, Madam FUNG Yuen Mei Anita, Madam JIANG Xin and Mr LIU Chenggang, and express my sincere gratitude to Mr ZHUO Chengwen and Madam SUI Yang for their outstanding contributions.

Looking to 2022, the external operating environment remains tough and complex, with challenges and opportunities continuing to coexist. The international landscape is changing even more quickly, the pandemic lingers without an end in sight, and the global economic recovery continues to be uneven. Nevertheless, green and digital economic development will accelerate and become significant drivers of a rebound in GDP growth. Shifts in the monetary policies of major developed economies will create room for improvement in banking sector earnings, albeit with spill-over risks. Despite the triple pressure of shrinking demand, disrupted supply and weakening expectations, the Chinese mainland will continue to display economic resilience, enormous potential, and positive trends in its long-term fundamental outlook. Driven by favourable factors such as the national 14th Five-Year Plan and the strategy for developing the Greater Bay Area, Hong Kong is expected to see continuous economic growth. The Regional Comprehensive Economic Partnership (RCEP) has already come into effect, signifying that the world's largest free trade zone has officially commenced business, which will become a new economic growth driver for the Asia-Pacific region.

2022 marks the 25th anniversary of Hong Kong's return to the motherland, the 110th anniversary of BOC, and the 105th anniversary of its continuous operation in Hong Kong. At this fresh starting point in history, BOCHK will adhere to the mission of "Bridge China and the World for the Common Good", and to the values of "Provide Excellent Service, Innovate with Prudence, Uphold Openness and Inclusiveness, Collaborate for Mutual Growth". We will play an active role in the formation of the nation's new development pattern and the construction of the Greater Bay Area. Grasping opportunities arising from deepening Asia-Pacific economic, trade and investment cooperation as well as the development of the Northern Metropolis in Hong Kong, we will keep forging ahead, embrace new challenges with a fresh perspective, and push forward our new development from this new vantage point. In doing so, we will strive to create value for all stakeholders and pursue our strategic goal to build a first-class regional banking group while contributing to the economic development, social prosperity and stability of Hong Kong.



LIU Liange
Chairman
Hong Kong, 29 March 2022

Message from the Chief Executive

In 2021, the COVID-19 pandemic continued to threaten public health and roil the world's economy. Global economic recovery unfolded along divergent trajectories, inflationary pressures mounted, and financial markets remained volatile. Emerging economies in Southeast Asia were considerably impacted by the pandemic, with their supply chains coming under constant pressure in the second half of the year. In Hong Kong, the economy steadily recovered, financial markets maintained effective operations and the overall banking system remained robust, although banks still faced many challenges in their operations and management due to low market interest rates. Faced with a complicated and turbulent external environment, BOCHK formulated and implemented a five-year strategic plan in accordance with its Board of Directors' decisions and directions. Guided by the philosophy of sustainable and high-quality development, we redoubled our efforts in the Hong Kong, Southeast Asia and Greater Bay Area ("GBA") markets and actively pursued regionalised, digitalised, and integrated development while adhering to stringent risk management, and proactively seizing market opportunities. We recorded satisfactory growth in our major businesses, achieving an auspicious start for our five-year plan. During the year, we were once again named "Strongest Bank in Hong Kong and Asia Pacific" by *The Asian Banker* and "Bank of the Year in Hong Kong" by UK publication *The Banker*.

We achieved steady business growth with healthy financial indicators, although profitability was still held back by the pandemic and the low-interest rate market environment. As at 31 December 2021, the Group's total assets increased by 9.6% from the end of 2020 to HK$3,639,430 million. Total deposits from customers and total advances to customers grew to HK$2,331,155 million and HK$1,599,084 million respectively, both up 6.8% from the end of last year, achieving balanced growth and outpacing the corresponding average growth rates in the market. However, historically low worldwide interest rates continued to weigh on the banking sector profitability. The Group's net operating income before impairment allowances and profit for the year amounted to HK$48,982 million and HK$24,999 million respectively in 2021, decreasing by 10.1% and 12.2% respectively year-on-year. Return on average shareholders' equity ("ROE") of the Group was 7.67%. After adjusting for the swap-related impact, NIM was 1.09%, down 24 basis points year-on-year. At the same time, the Group's financial and risk indicators remained solid, with satisfactory operational efficiency. The cost to income ratio for the year was 33.50%, remaining below the industry average. The total capital ratio was 21.44%. The Group' liquidity indicators exceeded regulatory requirements. The classified or impaired loan ratio was 0.27%, remaining at a lower level relative to industry peers.

We consolidated and enhanced our traditional strengths and optimised our capabilities for delivering integrated services, thus supporting the development of Hong Kong as an international financial centre. Taking advantage of the new crop of opportunities brought about by RMB internationalisation under the 14th Five-Year Plan, we launched the first offshore PBoC Bills Repo Business Market-making Mechanism in the offshore RMB market, and continued to lead the market in RMB clearing volumes, accounting for over 70% of all offshore clearing worldwide. We remained the top mandated arranger in the Hong Kong and Macao syndicated loan market for the 17th consecutive year; maintained our leading position in terms of IPO main receiving bank business and the number of new mortgages; and retained our market leadership in the cash pooling business. We also remained committed to supporting Hong Kong's development as an international asset management centre. Tapping into customers' demands for investment and wealth management services, we recorded double-digit growth in the number of high-net-worth Private Wealth customers as well as in related assets under management from the end of last year. Supporting Hong Kong's efforts in building an international innovation and technology hub, we achieved steady growth in the balance of credit extended to technological innovation companies and the total number of technological innovation enterprise customers.

We continued to deepen business penetration of our core market in Hong Kong, build strategic positions in high-potential markets in Southeast Asia, and capture key markets in the GBA. Cultivating the fertile ground of our own roots in Hong Kong, we supported local companies in their endeavours to turn the corner and achieve healthy growth. We joined hands with Hong Kong people from all walks of life in the fight against COVID-19 and made every effort to assist the HKSAR Government in disbursing relief funds to help the poor and the needy. We actively implemented enhancements to the SME Financing Guarantee Scheme and the Hong Kong Monetary Authority ("HKMA")'s Pre-approved Principal Payment Holiday Scheme; and actively supported the HKMA's initiative to build the Commercial Data Interchange, becoming the first local bank to use business data throughout the process of credit assessment for SME customers during Phase 2 of the Proof-of-Concept study and network link-up. To help SMEs enhance their operational management capabilities, we launched the ERP Cloud Services – Accounting Cloud. We became the first bank in Hong Kong to allow customers to open accounts remotely using the HKSAR Government's iAM Smart mobile app. During the year, our Yangon Branch in Myanmar and Hanoi Representative Office in Vietnam opened for business, and our Manila Branch officially launched its RMB clearing services, which helped to enhance our regional management capabilities and unlock regional synergies. In 2021, the net operating income before impairment allowances of our Southeast Asian entities increased by 8.3% year-on-year, and as of the end of 2021, deposits and loans grew by 16.4% and 2.1% respectively from the end of last year.

We actively expanded our cross-border financial services and participated in the development of the GBA. Giving full play to our bridging role by leveraging our close ties with the Chinese mainland, we were one of the first banks to become eligible for the new Cross-boundary Wealth Management Connect Pilot Scheme and were the first to launch local services. Having gained a first-mover advantage in both that scheme and the Southbound Bond Connect, we led the market in the total number of Southbound and Northbound Wealth Management Connect accounts opened, as well as in turnover of Southbound Bond Connect trading. Seizing opportunities brought about by the development of cross-border finance, we recorded considerable growth in the balance of loans to companies in the GBA compared to the previous year-end. We continually optimised our "GBA Account Opening Service", maintaining double-digit growth in the number of new customers; comprehensively upgraded the "GBA Loan" service to meet Hong Kong residents' cross-border property purchase needs; and became the first banking partner in Hong Kong for the GBA Social Security Insurance scheme, enabling eligible Hong Kong and Macao residents to submit registration forms for Shenzhen's social security insurance scheme at outlets designated by BOCHK.

Pursuing innovation-driven development, we accelerated our digital transformation and enhanced our level of smart operations. The total number of mobile banking customers recorded double-digit growth from the end of last year, while the number of mobile banking transactions rose by over 30% year-on-year. The number of BoC Pay customers exceeded one million. We enhanced our scenario-based financial services ecosystem, focusing on areas such as public services, transport, education, home ownership, cross-border finance, and wealth management. The daily usage of our Open API services reached as high as 270,000 times. We launched "PlanAhead", a first-of-its-kind one-stop wealth planning service on our mobile banking platform, allowing customers to conveniently manage their wealth online. User numbers of the intelligent Global Transaction Banking (iGTB) platform continued to increase as the platform was functionally iterated and enhanced. With our core digital competencies continuously enhanced, we were recognised as "2021 Best Digital Bank in Hong Kong SAR" by *Asiamoney*.

Practising the ESG philosophy of sustainable and high-quality development, we actively promoted green finance. In 2021, the total balance of our green loans and sustainability-linked loans to customers increased by 3.1 times from the end of last year, while the amount of ESG-related bonds underwritten was up 1.7 times year-on-year. In cooperation with the Hong Kong Quality Assurance Agency, we became the first banking partner for its brand-new Green Loan e-Assessment online platform. In addition, we launched the SME Green Financing Incentive Scheme. We instituted our Green Financing Framework and arranged green financing for a number of customers, establishing green finance benchmarks and exemplars for the wider industry. Placement of green deposits by corporate customers rose threefold compared with the same period last year. Meanwhile, we promoted green and low-carbon transition among our customers by acting as a green advisor. The Group's ESG performance was recognised by all sectors of society, with our MSCI ESG rating upgraded to the highest level of AAA during the year, making us the only bank in Hong Kong to have achieved this rating.

Adhering to a bottom-line mindset, we strengthened our risk assessment and dynamic management, building a solid line of defence for risk management. We responded appropriately to changes in the geopolitical situation and industry policies, effectively strengthened our credit risk and credit portfolio management, dynamically optimised our credit strategies, and set aside credit impairment allowances in a prudent manner. We paid close attention to financial market volatility, strengthened risk alerts and early warnings, and kept market risks safely under control. Upholding a bottom-line mindset, we conducted scenario analyses and stress tests, prepared response plans, and continually enhanced our resilience to risks.

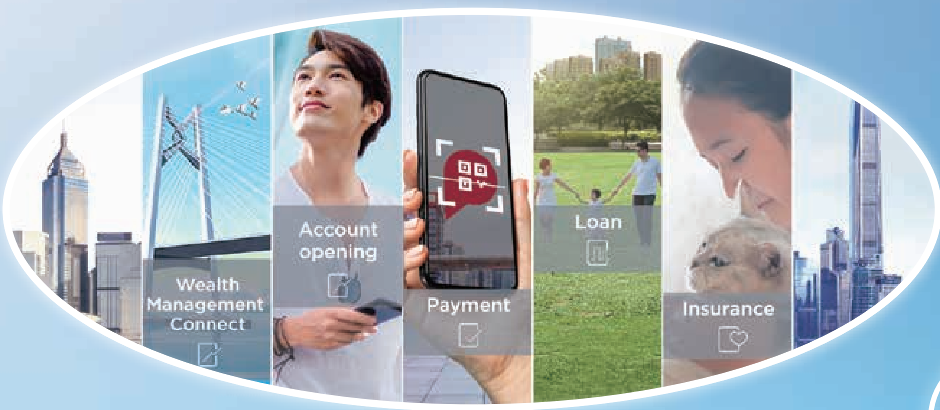
Proactively undertaking our social responsibilities, we continually built our corporate culture and put Bank of China's values into practice. We issued the world's first Commemorative Banknote for the Olympic Winter Games in Beijing, with all net proceeds to be donated to charitable causes. Over 70 charitable projects were launched in 2021, covering such areas as poverty alleviation, help for the underprivileged, youth development, environmental protection and carbon reduction, culture, sports, and the arts. We instituted "BOCHK Volunteer Day" and organised more than 90 volunteer activities during the year, with over 8,200 volunteers providing a total of over 17,000 hours of volunteer service. We were awarded the "Hong Kong Volunteer Award – Gold Award" by the Agency for Volunteer Service for the first time. We also won a number of honours and awards, including the "Award of Excellence in ESG" conferred by the Chamber of Hong Kong Listed Companies, and the "Gold Award in the Servicing and Trading Category" at the Hong Kong Awards for Environmental Excellence, conferred jointly by the HKSAR Government's Environmental Campaign Committee and Environmental Protection Department, among others.

Looking ahead to 2022, we will respond with composure to the challenges posed by the ongoing COVID-19 pandemic, the worldwide policy drift away from monetary easing, and growing geopolitical risks. Strengthening our risk management and control, we will strive to turn crises into opportunities. In 2022, with the Regional Comprehensive Economic Partnership ("RCEP") now in force, the 14th Five-Year Plan will further advance the opening up of the financial sector in the Chinese mainland as well as the internationalisation of the RMB. The Guangdong-Hong Kong-Macao Greater Bay Area will further develop and the blueprint for Hong Kong's Northern Metropolis will gradually become a reality. All of these factors will further highlight Hong Kong's advantages as an international financial centre and herald a new era of opportunity for the development of BOCHK.

This year marks the 110th anniversary of Bank of China and the 105th anniversary of its service to Hong Kong. Firmly committed to its strategic objectives, remaining true to its mission of "Bridge China and the World for the Common Good", and practising its values of "providing excellent service, innovating with prudence, upholding openness and inclusiveness, and collaborating for mutual growth", BOCHK will strengthen its strategy execution, adhere to stringent risk management, proactively seize market opportunities, enhance the quality of its development, and create more value for its stakeholders. We are confident that, with support from different sectors of the community and through the collective efforts of our staff, BOCHK will be able to achieve steady and sustained success in building a first-class regional banking group!

SUN Yu
Vice Chairman & Chief Executive
Hong Kong, 29 March 2022

Bringing Wealth Management Experience to a Whole New Level



Financial Services in the Greater Bay Area

Cross-boundary Wealth Management Connect Scheme

PlanAhead

NotALot
Odd Lot Trading Service

Wealth Management Services

Stock Widget
Investment Tool

GBA Youth Card

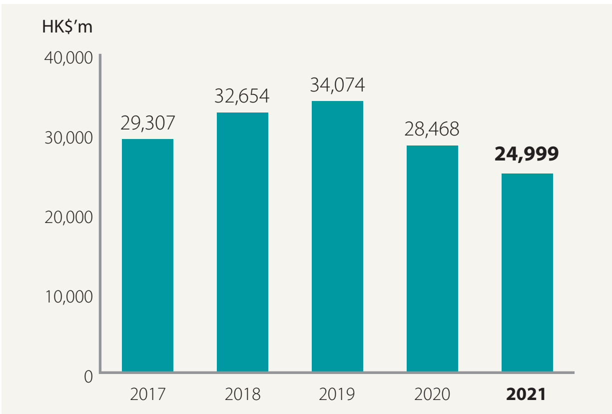
iAM Smart
for Mobile Account Opening

Management Discussion and Analysis

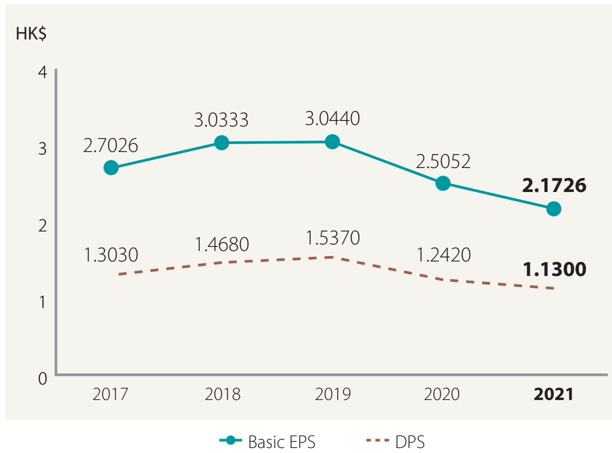
Financial Performance and Conditions at a Glance

The following table is a summary of the Group's key financial results for 2021 in comparison with the previous four years. The average value of the Group's liquidity coverage ratio and net stable funding ratio for 2021 are reported on a quarterly basis.

Profit For The Year[1]



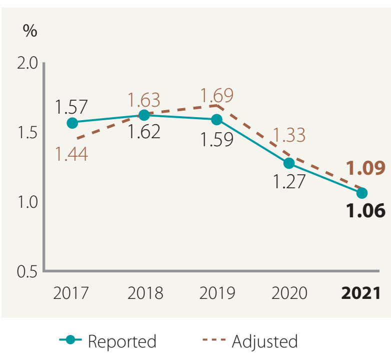
Basic Earnings Per Share ("Basic EPS")[1] and Dividend Per Share ("DPS")[2]



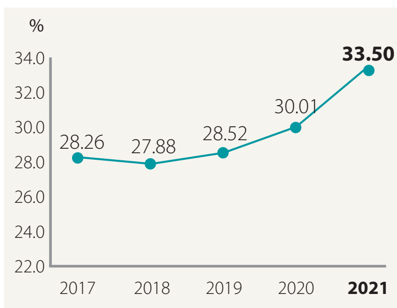
Profit for the year

- Profit for the year decreased by 12.2% year-on-year to HK$24,999 million. Return on average shareholders' equity[3] ("ROE") and return on average total assets[3] ("ROA") stood at 7.67% and 0.70% respectively. Basic EPS was HK$2.1726. DPS was HK$1.1300.

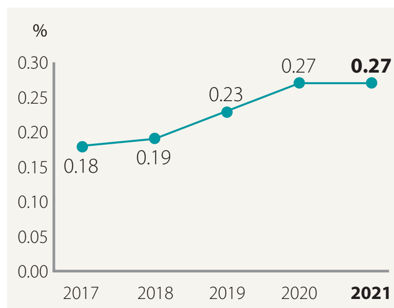
Net Interest Margin ("NIM")[1]



Cost to Income Ratio[1]



Classified or Impaired Loan Ratio[1,4]



as at 31 December

Net interest margin ("NIM") narrowed amid record low market interest rates

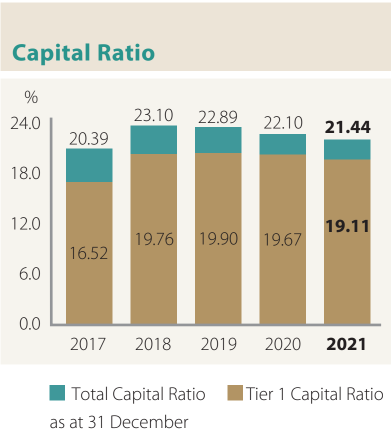
- NIM was 1.06%. If the funding income or cost of foreign currency swap contracts[5] were included, NIM would have been 1.09%, down 24 basis points year-on-year, mainly due to a decrease in asset yields resulting from a persistently low interest rate environment. The Group proactively managed its assets and liabilities, which contributed to solid growth in advances to customers and an improved mix of deposits from customers, partially offsetting the aforementioned negative impacts.

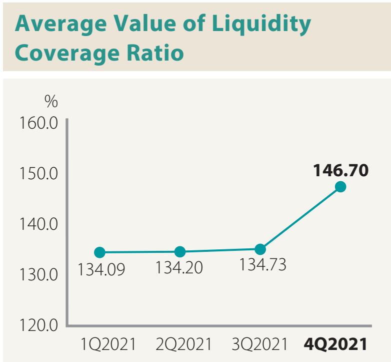
Maintaining high levels of operational efficiency through strengthened cost management

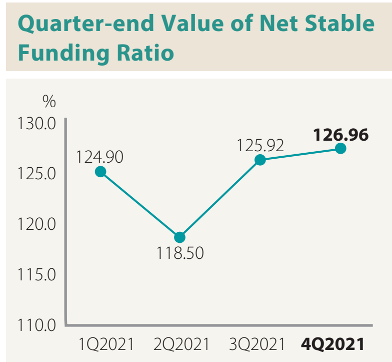
- Cost to income ratio was 33.50%. The Group strengthened cost management while ensuring ongoing investment in its strategic priorities and the implementation of low-carbon operation initiatives. Operating expenses increased slightly by 0.4% as a result, maintaining the Group's cost to income ratio at a satisfactory level relative to industry peers.

Maintaining benign asset quality through prudent risk management

- The classified or impaired loan ratio was 0.27%, which was unchanged from last year and remained below the market average.







Strong capital position to support stable business growth

- The Group's tier 1 capital ratio was 19.11% and its total capital ratio was 21.44%.

Liquidity remained ample

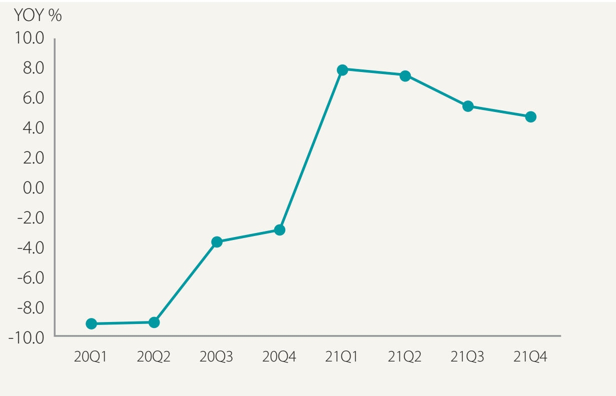
- The average value of the Group's liquidity coverage ratio and the quarter-end value of its net stable funding ratio in each quarter of 2021 exceeded regulatory requirements.

1. Financial information is from continuing operations.
2. Excluding special dividend.
3. Return on average shareholders' equity and return on average total assets as defined in "Financial Highlights".
4. 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.
5. Foreign exchange swap contracts are normally used for the Group's liquidity management and funding activities. In foreign exchange swap contracts, the Group exchanges one currency (original currency) for another (swapped currency) at the spot exchange rate (spot transaction) and commits to reverse the spot transaction by exchanging the same currency pair at a future maturity date at a predetermined rate (forward transaction). In this way, surplus funds in the original currency are swapped into another currency for liquidity and funding purposes with minimal foreign exchange risk. The exchange difference (funding income or cost) between the spot and forward contracts is recognised as a foreign exchange gain or loss (as included in "net trading gain"), while the corresponding interest differential between the surplus funds in the original currency and swapped currency is reflected in net interest income.

Economic Background and Operating Environment

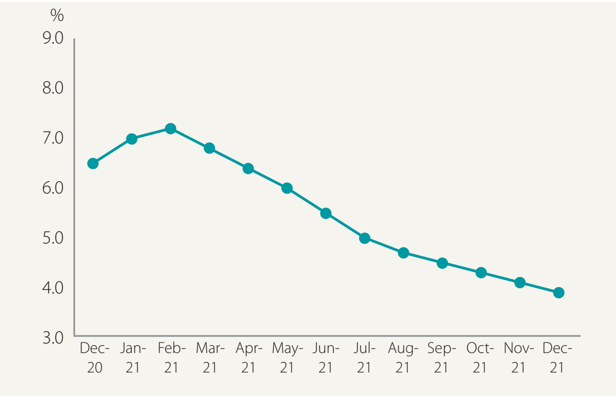
The COVID-19 pandemic situation continued to be volatile in 2021, leaving countries around the world seeking a balance between containing the virus and reviving their economies. The pace of economic recovery varied across different countries. Economic recovery in the US was faster than in other advanced economies, and the Federal Reserve began its planning for scaling down its asset purchase programme amid inflationary pressure. The accommodative monetary policy maintained by the European Central Bank continued to lend support to economic recovery in the Eurozone. The Chinese mainland effectively contained the pandemic, with major economic indicators staging a relatively resilient recovery and exports and imports registering particularly rapid growth. Southeast Asian economies showed signs of recovery amid satisfactory growth in exports. However, political upheavals in certain countries adversely impacted the region's economic recovery path.

Hong Kong GDP Growth Rate



Source: HKSAR Census and Statistics Department

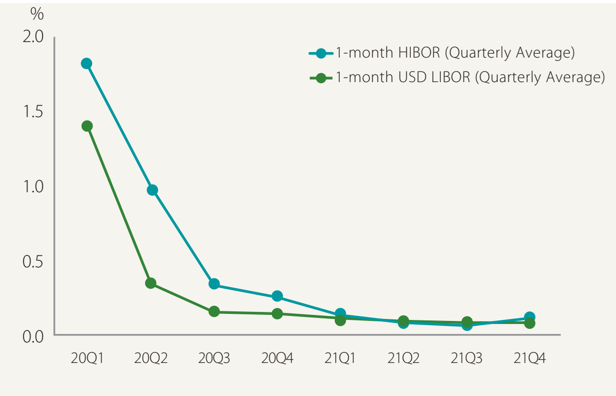
Hong Kong Unemployment Rate



Source: HKSAR Census and Statistics Department

Labour market conditions improved in Hong Kong as the unemployment rate declined from high levels. Domestic consumption and investment activities resumed, boosted by the HKSAR Government's Consumption Voucher Scheme. Hong Kong's merchandise trade performance improved owing to rising demand from the world's major economies. However, inbound tourism was still severely affected by the global pandemic, taking a toll on Hong Kong's economic recovery.

HIBOR and USD LIBOR



Source: Bloomberg

The exchange rate of the Hong Kong dollar against the US dollar weakened during the year. Despite falling below HKD7.8 to USD1 at one point, it largely remained close to the strong-side Convertibility Undertaking. The liquidity of the banking sector remained ample, with the average 1-month HIBOR and 1-month USD LIBOR dropping from 0.85% and 0.52% respectively in 2020 to 0.10% and 0.10% respectively in 2021.

Hong Kong stock market performance was volatile during the year under review. The Hang Seng Index climbed notably in the beginning of 2021 amid anticipation of a global economic recovery. Against the backdrop of increased secondary listings by Chinese enterprises in Hong Kong, the total amount of funds raised and the average daily trading volume of the stock market increased by 3.2% and 28.8% respectively compared to the previous year. As the year went on, however, the stock market became volatile and trended downwards amid worldwide spread of COVID-19 variants, increasing inflationary pressures, the accommodative monetary policy stances of central banks, and uncertain changes to regulatory requirements. As at the end of 2021, the Hang Seng Index was down 14.1% compared with the end of the previous year.

The Hong Kong residential property market developed steadily, and residential property prices remained largely stable amid the easing of monetary policies by major central banks around the world, the continued low interest rate environment for the Hong Kong dollar, and the recovery of the Hong Kong economy. The HKSAR Government continued to implement demand-side management measures and the HKMA maintained prudent supervisory measures on mortgage loans. The asset quality of banks' mortgage businesses remained stable. Furthermore, the commercial property market generally improved, with the sector witnessing an increase in rental costs, prices and transaction volumes in general as well as a slight decline in vacancy rates, although the Grade-A office market remained weak.

Despite challenges in the macroeconomic environment, the banking industry continues to enjoy enormous development opportunities. The Southbound Trading under Bond Connect and Cross-Boundary Wealth Management Connect were launched successively in 2021, and will further promote mutual financial market access between the Chinese mainland and Hong Kong, expanding market horizons for the Hong Kong banking industry. In addition, the 14th Five-Year Plan recognises high-quality and technological innovation as key imperatives for the development of the Chinese mainland economy. Related demand for investment and financing will not only create tremendous business opportunities for the Hong Kong banking industry, but will also promote the development of green finance. At the same time, the official launch of the Chinese mainland's national carbon emissions trading market in July 2021 will push forward green and low-carbon development while injecting further impetus to the financial sector.

Consolidated Financial Review

Financial Highlights

HK$'m, except percentages	2021	2020	Change (%)
Net operating income before impairment allowances	**48,982**	54,474	(10.1)
Operating expenses	**(16,407)**	(16,347)	0.4
Operating profit before impairment allowances	**32,575**	38,127	(14.6)
Operating profit after impairment allowances	**30,430**	35,420	(14.1)
Profit before taxation	**29,968**	33,583	(10.8)
Profit for the year	**24,999**	28,468	(12.2)
Profit attributable to equity holders of the Company	**22,970**	26,487	(13.3)

In 2021, the banking sector remained under pressure from a complex and challenging operating environment characterised by an uncertain COVID-19 pandemic situation, historically low market interest rates and financial market volatility. The Group actively responded and captured market opportunities, offsetting the aforementioned negative impacts. In 2021, net operating income before impairment allowances was HK$48,982 million, a decrease of HK$5,492 million or 10.1% year-on-year. This was mainly due to a year-on-year decrease in net interest income, as asset yields were under pressure amid a persistently low interest rate environment, and to a higher base for comparison owing to a higher gain from the disposal of debt securities investments last year. Nevertheless, the Group seized market opportunities amid satisfactory investor sentiment in the beginning of the year, and stepped up its efforts to enhance its comprehensive product and service capabilities. Net fee and commission income grew year-on-year as a result, partially offsetting the decrease in overall income. The Group continued to make investments to support solid and consistent business growth. Operating expenses were broadly unchanged, reflecting the Group's ongoing commitment to invest in its strategic priorities, while optimising its cost structure and promoting the concept of green banking. Meanwhile, the net charge of impairment allowances decreased and a lower net loss was recorded from fair-value adjustments on investment properties. Profit for the year amounted to HK$24,999 million, a decrease of HK$3,469 million or 12.2% year-on-year. Profit attributable to equity holders was HK$22,970 million, a decrease of HK$3,517 million or 13.3% year-on-year.

Second Half Performance

In the second half of 2021, the Group's net operating income before impairment allowances decreased by HK$1,118 million or 4.5%, compared to the first half of 2021. This was mainly due to a drop in net fee and commission income, caused by a decrease in investment-related and loan commission income. Meanwhile, operating expenses increased from the first half of the year. As a result, the Group's profit after taxation decreased by HK$2,183 million or 16.1% on a half-on-half basis.

Income Statement Analysis

Net Interest Income and Net Interest Margin

HK$'m, except percentages	2021	2020	Change (%)
Interest income	**40,298**	49,928	(19.3)
Interest expense	**(8,357)**	(15,190)	(45.0)
Net interest income	**31,941**	34,738	(8.1)
Average interest-earning assets	**3,015,219**	2,737,726	10.1
Net interest spread	**1.00%**	1.16%	
Net interest margin	**1.06%**	1.27%	
Net interest margin (adjusted)*	**1.09%**	1.33%	

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

Net interest income amounted to HK$31,941 million in 2021. If the funding income or cost of foreign currency swap contracts[#] were included, net interest income would have decreased by 9.4% year-on-year to HK$32,944 million. This was mainly due to a narrowing of net interest margin, partially offset by growth in average interest-earning assets.

Average interest-earning assets expanded by HK$277,493 million or 10.1% year-on-year. Advances to customers and debt securities investments increased, driven by growth in deposits from customers and interbank funding.

If the funding income or cost of foreign currency swap contracts were included, net interest margin would have been 1.09%, down 24 basis points year-on-year. This was mainly due to a substantial drop in market interest rates which resulted in a decline in the average yield of debt securities investments and other debt instruments, and intense market competition for deposit business that resulted in a narrowing of the loan and deposit spread. The Group proactively managed its assets and liabilities in response to the prolonged period of low interest rates, resulting in an increase in higher-yielding assets, including solid growth in advances to customers and increased investments in capital market debt securities, as well as continuous improvement in the mix of deposits from customers, reflected in a higher average CASA ratio. All of these factors partially offset the aforementioned negative impacts.

Second Half Performance

Compared with the first half of 2021, the Group's net interest income would have increased by HK$436 million or 2.7% if the funding income or cost of foreign currency swap contracts were included. This was mainly due to growth in average interest-earning assets. The loan and deposit spread and the average yield of debt securities investments and other debt instruments decreased amid further decline in market interest rates, causing net interest margin to narrow 2 basis points to 1.08%.

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

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

ASSETS	2021 Average balance HK$'m	2021 Average yield %	2020 Average balance HK$'m	2020 Average yield %
Balances and placements with banks and other financial institutions	**383,631**	**0.82**	351,515	0.88
Debt securities investments and other debt instruments	**1,015,239**	**1.26**	849,401	1.76
Advances to customers and other accounts	**1,600,436**	**1.52**	1,518,246	2.08
Other interest-earning assets	**15,913**	**0.75**	18,564	1.20
Total interest-earning assets	**3,015,219**	**1.34**	2,737,726	1.82
Non interest-earning assets	**574,040**	**–**	557,334	–
Total assets	**3,589,259**	**1.12**	3,295,060	1.51

LIABILITIES	2021 Average balance HK$'m	2021 Average rate %	2020 Average balance HK$'m	2020 Average rate %
Deposits and balances from banks and other financial institutions	**250,428**	**0.65**	198,804	0.56
Current, savings and time deposits	**2,188,701**	**0.30**	2,082,314	0.65
Subordinated liabilities	**–**	**–**	1,452	5.51
Other interest-bearing liabilities	**19,820**	**0.60**	28,917	1.27
Total interest-bearing liabilities	**2,458,949**	**0.34**	2,311,487	0.66
Shareholders' funds* and other non interest-bearing deposits and liabilities	**1,130,310**	**–**	983,573	–
Total liabilities	**3,589,259**	**0.23**	3,295,060	0.46

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

Net Fee and Commission Income

HK$'m, except percentages	2021	2020	Change (%)
Securities brokerage	**3,743**	3,567	4.9
Loan commissions	**2,746**	2,310	18.9
Credit card business	**2,141**	1,859	15.2
Insurance	**1,529**	1,272	20.2
Trust and custody services	**764**	689	10.9
Payment services	**751**	740	1.5
Funds distribution	**724**	767	(5.6)
Bills commissions	**623**	591	5.4
Safe deposit box	**306**	306	–
Funds management	**161**	130	23.8
Currency exchange	**119**	226	(47.3)
Others	**1,196**	1,058	13.0
Fee and commission income	**14,803**	13,515	9.5
Fee and commission expense	**(2,931)**	(2,673)	9.7
Net fee and commission income	**11,872**	10,842	9.5

In 2021, net fee and commission income amounted to HK$11,872 million, up HK$1,030 million or 9.5% year-on-year. The Group captured market opportunities amid satisfactory market investor sentiment in the beginning of the year, leading to growth in commission income from insurance and securities brokerage of 20.2% and 4.9% respectively. It continued to push forward diversification in developing its funds management business, which led to an increase of 23.8% in related commission income. Commission income from credit card business and bills increased by 15.2% and 5.4% respectively, as both retail spending and import and export trade regained momentum following the resumption of economic activity in Hong Kong and the stimulus brought about by the rollout of the HKSAR Government's Consumption Voucher Scheme. Loan commission income also rose by 18.9%. The Group recorded a 10.9% increase in commission income from trust and custody services by taking advantage of business opportunities arising from mutual market access schemes, further optimising the customer experience, enriching its custodian products and deepening its corporate trust and agency business, all of which led to an increase in the scale of assets under management in its trust and custody services. In addition, commission income from payment services rose by 1.5% as a result of the Group's efforts to accelerate the development of its cash management business, with satisfactory growth achieved in its cash pooling business. However, commission income from currency exchange dropped 47.3% as global demand for banknotes remained weak owing to the pandemic. Commission income from funds distribution also decreased by 5.6%. Fee and commission expenses increased, mainly due to an increase in credit card related expenses as a result of higher business volume.

Second Half Performance

Compared with the first half of 2021, net fee and commission income decreased by HK$1,442 million or 21.7%, mainly owing to a decrease in commission income from securities brokerage, funds distribution and funds management amid weakened market investor sentiment in the second half of 2021. Loan commissions also decreased. However, commission income from credit card business, insurance, trust and custody services, payment services and currency exchange increased as the economy gradually recovered, which partially offset the overall decline in fee and commission income. Fee and commission expenses remained stable as compared with the first half of the year.

Net Trading Gain

HK$'m, except percentages	2021	2020	Change (%)
Foreign exchange and foreign exchange products	4,725	5,282	(10.5)
Interest rate instruments and items under fair value hedge	(60)	(619)	90.3
Equity and credit derivative instruments	251	150	67.3
Commodities	175	361	(51.5)
Total net trading gain	5,091	5,174	(1.6)

Net trading gain amounted to HK$5,091 million, a decrease of HK$83 million or 1.6% year-on-year. If the funding income or cost of foreign currency swap contracts were excluded, net trading gain would have increased by 15.5% year-on-year to HK$4,088 million. This was attributable to a year-on-year growth in currency exchange income from customer transactions and a year-on-year decrease in net trading loss from interest rate instruments and items under fair value hedge, which resulted from changes in the mark-to-market value of certain debt securities investments and interest rate instruments owing to market interest rate movements. Net trading gain from equity and credit derivative instruments increased by HK$101 million, with higher income realised from equity-linked products amid satisfactory investor sentiment in the beginning of the year. Net trading gain from commodities decreased, mainly due to a lower gain from bullion transactions.

Second Half Performance

Compared with the first half of 2021, net trading gain increased by HK$383 million or 16.3%. If the funding income or cost of foreign currency swap contracts were excluded, net trading gain would have increased by 0.2% from the first half of the year to HK$2,046 million.

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

HK$'m, except percentages	2021	2020	Change (%)
Net (loss)/gain on other financial instruments at fair value through profit or loss	(1,136)	1,959	N/A

The Group recorded a net loss of HK$1,136 million on other financial instruments at fair value through profit or loss in 2021, as compared to a net gain of HK$1,959 million in 2020. The change was mainly due to a lower mark-to-market value of BOC Life's equity and debt securities investments, resulting from Hong Kong stock market volatility and market interest rate movements respectively, as well as a decreased gain from the disposal of debt securities investments by BOC Life. The abovementioned mark-to-market changes in BOC Life's debt securities investments were offset by changes to its policy reserves, also attributable to market interest rate movements, which were reflected in changes in net insurance benefits and claims as well as movements in liabilities.

Second Half Performance

A net loss of HK$1,232 million was recorded in the second half of the year, as compared to a net gain of HK$96 million in the first half. This change was mainly due to a lower mark-to-market value of BOC Life's equity and debt securities investments in the second half of the year.

Operating Expenses

HK$'m, except percentages	2021	2020	Change (%)
Staff costs	**9,542**	9,461	0.9
Premises and equipment expenses (excluding depreciation and amortisation)	**1,232**	1,235	(0.2)
Depreciation and amortisation	**3,039**	3,040	–
Other operating expenses	**2,594**	2,611	(0.7)
Operating expenses	**16,407**	16,347	0.4

	At 31 December 2021	At 31 December 2020	Change (%)
Staff headcount measured in full-time equivalents	**14,553**	14,915	(2.4)

Operating expenses amounted to HK$16,407 million, a slight increase of HK$60 million or 0.4% year-on-year. The Group strengthened its cost management while continuing to invest in its strategic priorities. It actively put its low-carbon and green operation initiatives into practice, optimised business flows and refined internal management, so as to enhance cost efficiency. The cost to income ratio was 33.50%, remaining at a satisfactory level relative to industry peers.

Staff costs increased by 0.9% year-on-year, remaining relatively stable.

Premises and equipment expenses decreased by 0.2%. Within this, investments in information technology increased, while other major related expenses decreased.

Depreciation and amortisation were relatively stable.

Other operating expenses decreased by 0.7%, mainly due to a decrease in business promotion, security, cleaning and printing expenses.

Second Half Performance

Compared with the first half of 2021, operating expenses increased by HK$1,243 million or 16.4%. The increase was mainly due to higher staff costs, more investment in information technology, and increases in charitable donations and professional consultancy fees. Marketing and promotional activities gradually increased during the second half, leading to an increase in related expenses.

Net Charge of Impairment Allowances on Advances and Other Accounts

HK$'m, except percentages	2021	2020	Change (%)
Stage 1	**465**	(898)	N/A
Stage 2	**(1,182)**	(754)	56.8
Stage 3	**(1,249)**	(837)	49.2
Net charge of impairment allowances on advances and other accounts	**(1,966)**	(2,489)	(21.0)

Total Loan Impairment Allowances as a Percentage of Advances to Customers

	At 31 December 2021	At 31 December 2020
Total loan impairment allowances as a percentage of advances to customers	**0.62%**	0.61%

In 2021, the Group's net charge of impairment allowances on advances and other accounts amounted to HK$1,966 million, a decrease of HK$523 million or 21.0% year-on-year. Impairment allowances at Stage 1 recorded a net reversal of HK$465 million, as compared to a net charge of HK$898 million last year. The parameter values of the Group's expected credit loss model improved in 2021, driven by the gradual recovery of the world's major economies. The change was also attributable to there being a higher base for comparison as a result of impairment allowances made last year, when the Group updated the parameter values of its expected credit loss model to take into consideration the outbreak of the COVID-19 pandemic, which seriously destabilised the global economy and led to the weakening of the macroeconomic outlook. Impairment allowances at Stage 2 recorded a net charge of HK$1,182 million, an increase of HK$428 million or 56.8% year-on-year, mainly owing to the Group taking into consideration potential client risks arising from pandemic relief measures as well as changes to the internal ratings of certain customers. Impairment allowances at Stage 3 amounted to a net charge of HK$1,249 million, an increase of HK$412 million year-on-year, mainly due to the downgrading of certain corporate advances, resulting in a higher net charge of impairment allowances. The credit cost of advances to customers was 0.12%, down 4 basis points year-on-year. As at 31 December 2021, the Group's total loan impairment allowances as a percentage of advances to customers was 0.62%.

Second Half Performance

Compared with the first half of 2021, the Group's net charge of impairment allowances on advances and other accounts decreased by HK$428 million. This decrease was attributable to there being a higher base for comparison, owing to impairment allowances made in the first half relating to the Group's higher loan growth and downgrading of certain corporate customers.

Analysis of Assets and Liabilities

The table below summarises the Group's asset composition. Please refer to Note 24 to the Financial Statements for the contract/notional amounts and fair values of the Group's derivative financial instruments. Please refer to Note 41 to the Financial Statements for the contractual amounts of each significant class of contingent liability and commitment and the aggregate credit risk-weighted amounts.

Asset Composition

	At 31 December 2021		At 31 December 2020		
HK$'m, except percentages	Amount	% of total	Amount	% of total	Change (%)
Cash and balances and placements with banks and other financial institutions	**465,535**	**12.8**	463,711	14.0	0.4
Hong Kong SAR Government certificates of indebtedness	**203,810**	**5.6**	189,550	5.7	7.5
Securities investments and other debt instruments[1]	**1,167,770**	**32.1**	940,699	28.3	24.1
Advances and other accounts	**1,597,194**	**43.9**	1,500,416	45.2	6.5
Fixed assets and investment properties	**64,163**	**1.8**	65,296	2.0	(1.7)
Other assets[2]	**140,958**	**3.8**	161,309	4.8	(12.6)
Total assets	**3,639,430**	**100.0**	3,320,981	100.0	9.6

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

The total assets of the Group amounted to HK$3,639,430 million, an increase of HK$318,449 million or 9.6% compared with the end of 2020. Securities investments and other debt instruments increased by HK$227,071 million or 24.1%, as the Group increased investments in government-related bonds and bills. Advances and other accounts rose by HK$96,778 million or 6.5%, with advances to customers growing by HK$101,220 million or 6.8%, and trade bills falling by HK$2,562 million or 26.1%.

Advances to Customers

HK$'m, except percentages	At 31 December 2021		At 31 December 2020		Change (%)
	Amount	% of total	Amount	% of total	
Loans for use in Hong Kong	**1,083,205**	**67.7**	991,457	66.2	9.3
Industrial, commercial and financial	**581,799**	**36.4**	539,633	36.0	7.8
Individuals	**501,406**	**31.3**	451,824	30.2	11.0
Trade financing	**73,611**	**4.6**	66,497	4.4	10.7
Loans for use outside Hong Kong	**442,268**	**27.7**	439,910	29.4	0.5
Total advances to customers	**1,599,084**	**100.0**	1,497,864	100.0	6.8

Adhering to its customer-centric philosophy, the Group focused closely on customer needs while continuing to capture opportunities from its three major markets of Hong Kong, the Greater Bay Area and Southeast Asia. It enhanced the services offered to local corporate and personal clients in Hong Kong so as to meet the loan demands of its key customers. The Group expanded its mortgage business by enhancing cooperation with real estate agencies and mortgage intermediaries, as well as optimising the services available on its Home Expert mobile application, with a view to reinforcing its leading market position in mortgages. It proactively supported the HKSAR Government's various relief measures and helped its SME and personal customers to navigate the difficult times. At the same time, the Group steadily pushed forward its cross-border business by actively promoting integrated development in the Southeast Asian region and enhancing its collaboration with BOC's entities in the Greater Bay Area and Asia-Pacific region. During the year, the Group remained the top mandated arranger in the Hong Kong-Macao syndicated loan market and held the top market position in terms of the total number of new mortgage loans in Hong Kong. In 2021, advances to customers grew by HK$101,220 million, or 6.8%, to HK$1,599,084 million.

Loans for use in Hong Kong grew by HK$91,748 million or 9.3%.

- Lending to the industrial, commercial and financial sectors increased by HK$42,166 million or 7.8%, reflecting loan growth in property development and investment, information technology and stockbrokers.

- Lending to individuals increased by HK$49,582 million, or 11.0%, mainly driven by growth in residential mortgage loans and credit card advances.

Trade financing increased by HK$7,114 million or 10.7%. Loans for use outside Hong Kong grew by HK$2,358 million or 0.5%, mainly driven by growth in loans for use in the Chinese mainland.

Loan Quality

HK$'m, except percentages	At 31 December 2021	At 31 December 2020
Advances to customers	**1,599,084**	1,497,864
Classified or impaired loan ratio	**0.27%**	0.27%
Total impairment allowances	**9,877**	9,172
Total impairment allowances as a percentage of advances to customers	**0.62%**	0.61%
Total impairment allowances as a percentage of classified or impaired advances to customers	**228.58%**	229.64%
Residential mortgage loans[1] – delinquency and rescheduled loan ratio[2]	**0.01%**	0.01%
Card advances – delinquency ratio[2]	**0.23%**	0.23%

	2021	2020
Card advances – charge-off ratio[3]	**1.49%**	1.91%

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

In 2021, certain industries continued to face challenges in light of the volatile COVID-19 pandemic situation and the uneven global economic recovery. The Group proactively strengthened its risk management systems for all types of risks and continuously applied stringent risk management so as to maintain solid asset quality. As at 31 December 2021, classified or impaired loans amounted to HK$4,321 million, up HK$327 million from the end of last year. The classified or impaired loan ratio was 0.27%, remaining stable from the end of last year. The quality of the Group's residential mortgage loans and card advances remained sound.

Deposits from Customers

HK$'m, except percentages	At 31 December 2021 Amount	At 31 December 2021 % of total	At 31 December 2020 Amount	At 31 December 2020 % of total	Change (%)
Demand deposits and current accounts	**327,234**	**14.1**	310,226	14.2	5.5
Savings deposits	**1,194,094**	**51.2**	1,149,035	52.6	3.9
Time, call and notice deposits	**809,827**	**34.7**	724,448	33.2	11.8
Total deposits from customers	**2,331,155**	**100.0**	2,183,709	100.0	6.8

In 2021, the Group continued to enhance its mid to high-end customer base and strengthened cooperation with government authorities, large corporates, major central banks, international financial institutions and sovereign funds through a diversified range of services, including e-payment, payroll, cash management, cash pooling and IPO receiving bank services. At the same time, the Group capitalised on customer preferences for wealth management, insurance, equity securities and structured products within the context of a low interest rate environment, leading to steady growth of deposits from customers. At the end of 2021, total deposits from customers amounted to HK$2,331,155 million, an increase of HK$147,446 million or 6.8% from the end of the previous year. Demand deposits and current accounts increased by 5.5%. Savings deposits increased by 3.9%. Time, call and notice deposits increased by 11.8%. In 2021, the average CASA ratio was 71.0%, an increase of 7.0 percentage points from last year.

Capital and Reserves Attributable to Equity Holders of the Company

HK$'m, except percentages	At 31 December 2021	At 31 December 2020	Change (%)
Share capital	**52,864**	52,864	–
Premises revaluation reserve	**38,590**	38,048	1.4
Reserve for fair value changes	**(413)**	1,726	N/A
Regulatory reserve	**6,073**	4,780	27.1
Translation reserve	**(1,000)**	(503)	(98.8)
Retained earnings	**201,885**	193,387	4.4
Reserves	**245,135**	237,438	3.2
Capital and reserves attributable to equity holders of the Company	**297,999**	290,302	2.7

Capital and reserves attributable to equity holders of the Company amounted to HK$297,999 million as at 31 December 2021, an increase of HK$7,697 million or 2.7% from the end of last year. The premises revaluation reserve increased by 1.4%. Reserve for fair value changes moved from a surplus to a deficit, mainly due to the impact of market interest rate movements on debt instruments at fair value through other comprehensive income. The regulatory reserve increased by 27.1%, mainly due to an increase in advances to customers and a change in the net charge of impairment allowances. Retained earnings rose by 4.4% from the end of last year, mainly reflecting the profit achieved in 2021 after the distribution of dividends.

Capital Ratio

HK$'m, except percentages	At 31 December 2021	At 31 December 2020
Consolidated capital after deductions		
Common Equity Tier 1 capital	**224,189**	216,542
Additional Tier 1 capital	**23,476**	23,476
Tier 1 capital	**247,665**	240,018
Tier 2 capital	**30,174**	29,558
Total capital	**277,839**	269,576
Total risk-weighted assets	**1,296,153**	1,220,000
Common Equity Tier 1 capital ratio	**17.30%**	17.75%
Tier 1 capital ratio	**19.11%**	19.67%
Total capital ratio	**21.44%**	22.10%

As at 31 December 2021, Common Equity Tier 1 ("CET1") capital and Tier 1 capital increased by 3.5% and 3.2% respectively from the end of last year, which was primarily attributable to profits recorded for 2021. Total capital increased by 3.1%. Total risk-weighted assets ("RWAs") increased by 6.2%, mainly driven by growth in advances to customers. The CET1 capital ratio was 17.30% and Tier 1 capital ratio was 19.11%, down 0.45 and 0.56 percentage points respectively from the end of 2020, while the total capital ratio was 21.44%, down 0.66 percentage points from the prior year-end. The Group properly managed its capital plan so as to maintain an appropriate capital level for meeting stricter regulatory requirements and supporting sustainable business development while balancing returns to equity holders.

Liquidity Coverage Ratio and Net Stable Funding Ratio

	2021	2020
Average value of liquidity coverage ratio		
First quarter	**134.09%**	150.45%
Second quarter	**134.20%**	131.38%
Third quarter	**134.73%**	130.98%
Fourth quarter	**146.70%**	132.76%

	2021	2020
Quarter-end value of net stable funding ratio		
First quarter	**124.90%**	116.60%
Second quarter	**118.50%**	117.49%
Third quarter	**125.92%**	115.30%
Fourth quarter	**126.96%**	125.31%

The Group's liquidity position remained sound, with the average value of its liquidity coverage ratio and the quarter-end value of its net stable funding ratio exceeding the regulatory requirements for all four quarters of 2021.

Business Review

In 2021, the Group actively responded to the impact of the COVID-19 pandemic on its customers and banking businesses while prudently managing risks, leveraging its strong franchise and proactively exploring opportunities for business development. It remained committed to its strategic goal of building a first-class regional banking group and strengthened the execution of its strategic plans. It fostered environment, social and governance ("ESG") concepts and actively promoted green finance. The Group continued to develop its local business in Hong Kong and enhanced its integrated service capabilities. By capturing business opportunities in the Guangdong-Hong Kong-Macao Greater Bay Area, it reinforced its cross-border business advantages. It optimised the development of its regional footprint and enhanced its integrated regional service capabilities. At the same time, the Group accelerated digital transformation while enhancing customer experience, applied bottom-line thinking to risk control and regulatory compliance, and took a prudent approach to developing its key business initiatives.

Business Segment Performance

Profit/(Loss) before Taxation by Business Segment

HK$'m, except percentages	2021	% of total	2020	% of total	Change (%)
Personal Banking	**6,331**	**21.1**	11,017	32.8	(42.5)
Corporate Banking	**12,924**	**43.1**	13,035	38.8	(0.9)
Treasury	**10,238**	**34.2**	9,361	27.9	9.4
Insurance	**1,023**	**3.4**	854	2.5	19.8
Others	**(548)**	**(1.8)**	(684)	(2.0)	19.9
Total profit before taxation	**29,968**	**100.0**	33,583	100.0	(10.8)

Note: For additional segmental information, see Note 45 to the Financial Statements.

Personal Banking

Financial Results

Personal Banking achieved a profit before tax of HK$6,331 million in 2021, a decrease of HK$4,686 million or 42.5% year-on-year. This was mainly due to a decrease in net interest income, which was partially offset by an increase in net fee and commission income and a net reversal in impairment allowances.

Net interest income decreased by 47.2%, mainly due to a narrowing of the deposit spread as a result of falling market interest rates. This decrease was, however, partially offset by an improvement in the loan spread as well as growth in the average balance of CASA deposits and loans. Net fee and commission income increased by 8.1%, which was mainly attributable to an increase in commission income from insurance and securities brokerage amid satisfactory market investor sentiment in the beginning of the year, as well as an increase in commission income from loans and credit card business. The Group recorded a net reversal of impairment allowances of HK$128 million in 2021 resulting from an improvement in the parameter values of its expected credit loss model, as compared with a net charge of impairment allowances of HK$421 million in 2020, when the Group updated the parameter values of its expected credit loss model to take into consideration the weakened macroeconomic outlook.

Business operations

Pursuing sustainable development and launching diversified green finance products and services

In line with the market trend towards low-carbon transition, the Group actively conducted ESG concepts and enriched its green finance services to promote sustainable development and smart living. In order to help high-net-worth clients capture opportunities from green finance and jointly promote sustainable and high-quality development with its customers, the Group offered RMB personal green time deposit plans to its Private Wealth customers and became the first retail bank in Hong Kong to launch personal green time deposit products. The Group also pioneered the integration of green finance into the home purchasing journey by launching Hong Kong's first green mortgage plan with a large real estate company, providing prospective buyers of certain designated residential projects with fully digital and paperless mortgage services. In addition, it launched BOCHK All Weather ESG Multi-Asset Fund, the first ESG multi-asset fund with an RMB share class in Hong Kong. The Group also supported green and low-carbon consumer spending through the joint promotion of a paperless payment receipt scheme with about 10,000 merchants covering approximately 15,000 sales outlets. The scheme not only reduced the number of physical payment receipts, but also shortened queuing times for customers and enhanced merchants' operational efficiency. The Group also strengthened ESG-related promotions. It enhanced the online customer service experience, accelerated customer migration to digital transaction channels and promoted electronic statements to reduce the number of paper statements, application forms and cheques.

Developing the core local market and strengthening key product advantages

The Group remained committed to developing the local customer segment in order to strengthen its core product advantages, thus achieving steady growth in customer deposits. It made use of innovative technologies to build a home purchase ecology scenario and continuously enhanced the functionalities of its Home Expert mobile application. As a result, it became the first bank in Hong Kong to launch an one-stop online property purchase mobile application that enables customers to obtain the latest market data as well as first and second-hand property information, thus providing customers with comprehensive home planning and online mortgage services and maintaining its top market position in terms of the total number of new residential mortgage loans. In support of the 100% Personal Loan Guarantee Scheme introduced by HKMC Insurance Limited, the Group provided customers with a simple and convenient online loan application channel, with the aim of alleviating customers' cash-flow pressures and helping them ride out economic difficulties caused by the pandemic. The Group led the market in related business in terms of the number of loans granted. During the year, BOCHK was awarded Excellent Brand of Property Purchase Planning – Banking Solutions and Excellent Brand of Securities Services – Banking in the Hong Kong Leaders' Choice 2021 awards organised by *Metro Finance*.

Optimising a segmented customer service model and meeting the comprehensive needs of customers

The Group continued to promote its premium Private Wealth service to high-end customers through an exclusive team of wealth management experts and the newly launched RM Chat service, which enables customers to communicate with the service team instantly and carry out transactions via mobile banking. Coupled with its complementary online investment and insurance services, this meant that the Group was able to offer diversified services including investment, wealth management, legacy planning, cross-border property purchase and luxury lifestyle benefits to its customers. The Group further expanded its customer base, with the number of Private Wealth customers at the end of 2021 recording double-digit percentage growth from the end of last year, along with notable year-on-year growth in assets under management. It also revamped the brand image of its Wealth Management service by injecting fresh vitality and digital elements, providing customers with a diversified experience in interactive wealth management, digital investment, financial information and lifestyle, in order to better serve the ever-growing customer segment of young millionaires. Meanwhile, the Group enhanced its integrated service capabilities by embedding intelligence in its online wealth management services, with the aim of exploring the potential of the young customer segment. During the year, BOCHK received the Financial Services Awards of Excellence 2021: Wealth Management Bank award from *Hong Kong Economic Journal*.

The Group's private banking business maintained steady growth. By enhancing its collaboration with other business units and Southeast Asian entities within the Group, it was able to optimise its service chain for high-net-worth clients and family offices with professional private banking services. By integrating ESG standards into product design and services, the Group enriched its exclusive private banking product series and pushed forward excellence in high-quality private banking services. In addition, it continued to promote digital transformation and enhance its private banking service and trading platform. It also accelerated process automation and digitalisation, enriched its product range and strengthened its talent pool. As at the end of 2021, private banking's assets under management increased by 4.8% from the previous year end.

Consolidating cross-border advantages and strengthening the foundation for regional business

The Group optimised cross-border account opening by adding a new feature to its Greater Bay Area Account Opening Service that enables customers to use Hong Kong mobile numbers to open bank accounts in the Chinese mainland. At the end of 2021, the number of accounts opened in the Greater Bay Area was more than 169,000, representing double-digit percentage growth from the end of last year. Meanwhile, the Group was among the first batch of banks in Hong Kong to embark on Cross-Boundary Wealth Management Connect services, providing customers in nine Chinese mainland cities in the Greater Bay Area and Hong Kong with qualified investment products and services that meet their demands for cross-border wealth management and asset allocation solutions through Bank of China Cross-Boundary Wealth Management Connect Southbound and Northbound services. The aggregate transaction volume of both the Southbound and Northbound services were ranked amongst the top tier in Hong Kong. To support Hong Kong customers' demand for property purchases in the Greater Bay Area, the Group enhanced its comprehensive Greater Bay Area Personal Loan mortgage service, enhancing customers' full process service experience by providing professional financing solutions in mortgages, property refinancing and personal loans. Meanwhile, the Group launched "GBA Youth Card", so as to provide comprehensive support to young people in various aspects of lifestyle, study, travel, shopping and entertainment in the Greater Bay Area. In line with changing consumption patterns due to the pandemic, its "Taobao Card" also became a popular credit card for online shopping. The Group also became the first in Hong Kong to cooperate with and promote the Bay Area Social Security Service, providing convenience to Hong Kong permanent residents living and working in the Greater Bay Area. During the year, BOCHK was named Best Chinese Bank for the Greater Bay Area by *Asiamoney*, awarded Financial Services Awards of Excellence 2021: Greater Bay Area Financial Service 2021 by *Hong Kong Economic Journal*, and awarded the second "Navigation 9+2": GBA Best Cross-border Wealth Management Award and Best Bank in GBA Award by Hong Kong Ta Kung Wen Wei Media Group.

In respect of its Southeast Asian business, the Group continuously enhanced its regional wealth management service capabilities and made earnest efforts to promote regional brand development and client referrals during the year. Following a successful launch by BOC Malaysia, the Phnom Penh Branch introduced a Wealth Management service while simultaneously enabling service solutions for mutual brand recognition and the common sharing of promotional offers for Wealth Management across Hong Kong, Malaysia and Cambodia. BOC Malaysia launched various new investment products in funds and bonds, while BOC Thailand and the Brunei Branch successively launched an RMB salary direct remittance service. The Manila Branch collaborated with a local card company in the Philippines to successfully launch a dual-currency (PHP and RMB) debit card. The Group also accelerated the digitalisation of its Southeast Asian entities. BOC Malaysia launched the e-Pocket remote account opening service via mobile banking and became the first bank in Malaysia to introduce a mobile application for one-stop investment and wealth management services. The application, known as eWB, supports investment in trusts, funds and retail bonds, as well as enabling customers to perform online risk assessments, make business appointments, and open wealth management accounts.

Accelerating digital transformation and enhancing mobile banking experience

The Group closely monitored changes in the market and customer behaviour during the pandemic and accelerated its development into a digital bank, with the aim to enhance its one-stop integrated service capabilities. It utilised innovative technology to expedite the transformation of its channels and smart development of its retail branch network. In line with its initiative to digitalise branch services, the Group set up eZones and self-service smart areas in more than 180 branches and actively migrated high-frequency counter transactions to intelligent devices, thus enhancing channel resources, branch productivity and customer experience. The Group optimised its platforms, infrastructures and operating processes, and promoted the use of its electronic mortgage application platform to handle customers' mortgage applications so as to move towards paperless branch services. Meanwhile, it promoted collaborations amongst all channels and in order to facilitate the transition of customer services from manual to online, it accelerated the construction and enhancement of its intelligent customer service capabilities through its "Bonnie" chatbot and online chat services. Usage of the Group's intelligent chatbot in 2021 increased by 11% as compared to 2020. In addition, it enhanced the service capability of its contact centres through artificial intelligence solutions such as speech analysis and word analysis, so as to further expand the application of its next-generation customer service platform. The Group is also committed to expediting the digital transformation of its products and optimising its mobile banking service. During the reporting period, it launched "PlanAhead", a one-stop wealth planning service, on its mobile banking. This provides customers with professional asset allocation information and a variety of product solutions to assist them in planning for their financial goals at all stages of life. It also pioneered the launch of the "Stocks Widget" and "NotALot" mobile banking services, which provide customers with the latest market updates and flexible investment choices to meet customers' demand for convenient investment services. In 2021, the number of transactions conducted through mobile banking increased by more than 30% year-on-year, with satisfactory growth in the number of transactions related to securities trading, transfers and payment services. During the year, BOCHK was awarded Hong Kong's Best Digital Bank 2021 by *Asiamoney*, and Mobile Banking & Payment Initiative of the Year – Hong Kong in the Asian Banking & Finance Retail Banking Awards 2021 organised by *Asian Banking & Finance*.

Corporate Banking

Financial Results

Corporate Banking achieved a profit before tax of HK$12,924 million, a decrease of HK$111 million or 0.9% year-on-year. This was mainly due to a decrease in net interest income, which was partially offset by an increase in net fee and commission income as well as a lower net charge of impairment allowances.

Net interest income decreased by 17.7%, mainly due to a narrowing of the deposit spread as a result of falling market interest rates, although this was partially offset by an improvement in the loan spread as well as growth in the average balance of CASA deposits and loans. Net fee and commission income increased by 14.5%, mainly owing to an increase in commission income from loans, trust and custody, bills and payment services. Net charge of impairment allowances amounted to HK$295 million, down HK$1,582 million year-on-year. The drop was mainly due to an improvement in the parameter values of the Group's expected credit loss model in 2021 and the repayment of loans from certain corporate customers.

Business Operations

Continuously enhancing integrated financial service capabilities and advancing green and inclusive finance

The Group adhered to its customer-centric business philosophy and continuously promoted the deepening of business transformation with the aim of meeting customers' diversified demands for professional and integrated services. During the year, it actively responded to changes in the business environment, captured market opportunities and strengthened its support to a number of key projects in Hong Kong, the Greater Bay Area and Southeast Asia. As a result, the Group remained the top arranger bank in the Hong Kong and Macao syndicated loan market for the 17th consecutive year and underwrote a number of bond issues with significant market influence. It also maintained its market leadership as an IPO main receiving bank in terms of the number of listings on the Main Board of The Stock Exchange of Hong Kong. The Group deepened its business relationships with the world's major central banks, international financial institutions and sovereign wealth funds. It also upgraded the service capacity of its online products, with the number of online transactions by corporate customers increasing by 12% year-on-year. Fostering the concept of sustainable development, the Group customised financial solutions to suit customer needs by offering a wide range of green financial products and services, including green bond issuance, green loan arrangement, green consulting, certification services, and green time deposits, in order to assist and encourage its customers to establish sustainable business models. It issued "sustainable and smart living" themed green bonds, so as to support projects related to renewable energy, green building and clean transportation. Balance of green and sustainability linked loans increased by 3.1 times compared with the previous year-end and the issuance amount of newly underwritten ESG-related bonds increased by 1.7 times year-on-year. In recognition of its excellent and highly professional services, BOCHK was awarded Hong Kong Domestic RMB Internationalisation Initiative of the Year for the first time, Hong Kong Domestic Cash Management Bank of the Year for the eighth consecutive year, and Hong Kong Domestic Trade Finance Bank of the Year for the third consecutive year from *Asian Banking & Finance*; Best Transaction Bank in Hong Kong for the fourth time, Best Cash Management Bank in Hong Kong for the seventh time, and The Banker's Choice – Best Cash Management Project in Hong Kong for the second time from *The Asian Banker*, and Best Overseas Treasury Management Bank and Best Cross-border RMB Services Award from *Treasury China*. In addition, a number of the Group's collaborative projects with customers were commended by professional media groups. This included two overseas treasury centres, one established for a petrochemical company and one for an electricity company, that received the Excellent Treasury Award and Best Shared Service Platform Award respectively from *Treasury China*, as well as two cash pooling projects, set up for a wholesale and retail corporate and a logistics corporate, that were awarded Adam Smith Awards Asia – Highly Commended: Best in Class Treasury Solution in ASEAN and Adam Smith Awards Asia – Highly Commended: Harnessing the Power of Technology respectively from *Treasury Today*.

Actively fulfilling corporate social responsibility and strengthening support to commercial and SME customers

The Group strengthened its support to local commercial and SME customers and offered them integrated financial solutions with enhanced sectoral and digital servicing capabilities. It actively promoted various financial relief initiatives in order to help SMEs address business challenges arising from the operating environment and to navigate difficult times alongside them. This included implementing optimisation measures to the credit guarantee products and Special 100% Loan Guarantee under the Hong Kong Mortgage Corporation Limited's SME Financing Guarantee Scheme, while also promoting HKMA's Pre-approved Principal Payment Holiday Scheme. The Group also fully supported the building of HKMA's Commercial Data Interchange ("CDI"). During the second phase of the CDI Proof-of-Concept study and technical connection, the Group became the first Hong Kong bank to use commercial data rather than traditional financial reports for credit assessment purposes throughout the entire loan approval process, thus enhancing loan approval efficiency for SME customers. In addition, the Group joined hands with the Hong Kong Quality Assurance Agency ("HKQAA") to promote the development of green finance, becoming the first bank to cooperate with the HKQAA's Green Loan e-Assessment platform as well as launching the SME Green Financing Incentive Scheme to encourage clients' business transformation towards green and sustainable development. The Group remained committed to providing convenient, high-quality and highly efficient digital financial services to SMEs, including launching "ERP Cloud Services – Accounting Cloud" to improve SMEs' operational efficiency. During the year, the Group received the Best SME's Partner Award from the Hong Kong General Chamber of Small and Medium Business for the 14th consecutive year, the SME Banking Services Award in the Financial Services Awards of Excellence organised by *Hong Kong Economic Journal* for the third consecutive year and the SME Digital Banking Services Award in the 01 Fintech Excellence Award organised by *HK01*.

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

The Group deepened its cooperation with BOC's institutions in the Greater Bay Area and placed emphasis on the research and analysis of policies and planning, in order to better understand the financial demands of key industries and target customers and to promote business synergies. Capturing opportunities from financial policies relating to cross-border RMB services, the Group focused on emerging industries, proactively engaged in the development of major regions such as the Guangdong-Hong Kong-Macao Greater Bay Area, the Yangtze River Delta and the Beijing-Tianjin-Hebei region, and supported the development of enterprises in the innovative technology sector by offering diversified products and services. Seizing opportunities from RMB internationalisation, the Group optimised the coordination and management mechanism of its RMB business and formed a cross-departmental on-demand RMB working unit during the year, which achieved concrete results in coordinating RMB product development and marketing by applying an agile working methodology. Focusing on its key corporate customers, business segments and regions, the Group actively explored business opportunities and recorded steady growth in RMB deposits and loans. It further strengthened RMB business cooperation with key clients, maintaining its edge in RMB cross-border business. It continuously enriched and developed innovative RMB products, including the launch of green RMB deposits and loans. At the same time, the Group strived to expand its key businesses of cash management, trade financing and treasury centre, and continued to maintain its leading position in the cash pooling business.

In terms of its Southeast Asian business, the Group focused on the development of "Belt and Road" and "Going-Out" projects as well as large corporate customers in the region, through enhanced integrated marketing efforts. It strengthened collaborations with BOC's entities in Sydney, Singapore and Tokyo, and capitalised on BOCHK's position as BOC's Asia-Pacific syndicated loan centre. The Group also actively led or participated in syndicated loan projects in the Southeast Asian region, and acquired the corporate clients of Southeast Asian industrial parks. It completed the fundamental layout of the intelligent Global Transaction Banking ("iGTB") platform among its Southeast Asian entities, and successfully launched 73 products and systems in the Southeast Asian region.

Steadily developing custody and trust business so as to enhance integrated service capabilities

With the introduction of Southbound Trading under Bond Connect during the year, substantial growth was recorded in the number of the Group's cross-border custody clients. The Group deepened business cooperation with Chinese investment enterprises in corporate trust and agency services, with the total number of its Bond Connect clients continuing to rank among the top tier in Hong Kong. Meanwhile, it strengthened collaborative marketing efforts with BOC's overseas branches and reinforced its brand proposition in the primary market. The Group's assets under custody as at end of 2021 grew steadily by 2.0% from the end of last year. It was also awarded Bond Connect Top Custodian for the fourth consecutive year by Bond Connect Company Limited.

BOCI-Prudential Trustee Limited ("BOCI-Prudential Trustee") continued to optimise its mobile application for ORSO schemes and developed a one-stop electronic platform for account opening and management processes, so as to enhance customer experience. It also diversified its income streams by successfully engaging in a number of new business avenues, including being appointed for multiple ORSO schemes by a number of sizable enterprises as well as for the Share Award schemes of several well-known listed companies. As at the end of 2021, MPF assets under its trusteeship recorded year-on-year growth of 1.1%, consolidating its leading market position despite stock market volatility towards the end of year. Moreover, BOCI-Prudential Trustee actively collaborated with various multinational asset management companies to seize potential opportunities in the Greater Bay Area and facilitate growth of its unit trust fund business. During the year, it launched 16 unit trust funds and was successfully appointed by a large asset management company as the trustee, fund administrator, custodian, and registrar of its new Hang Seng Index ETF. BOCI-Prudential Trustee received a number of awards in 2021, with its "My Choice MPF Scheme" recognised as Best MPF Scheme at the 2021 Morningstar Fund Awards Hong Kong, organised by Morningstar Investment Management Asia Limited. It also received numerous awards for its funds at the Lipper Fund Awards Hong Kong 2021 organised by *Refinitiv*, as well as at the Top Fund Awards 2021 organised by *Bloomberg Businessweek*.

Treasury

Financial Results

Treasury recorded a profit before tax of HK$10,238 million, an increase of HK$877 million or 9.4% year-on-year. This was primarily due to an increase in net interest income resulting from lower funding costs, which was partially offset by a decline in net gain on other financial assets and a reduction in net trading gain of 6.8%. Net trading gain decreased, primarily due to a drop in net gain from foreign exchange swap contracts and bullion transactions. This was partially offset by growth in currency exchange income from customer transactions and changes in the mark-to-market value of certain debt securities investments and interest rate instruments caused by market interest rate movements.

Business Operations

Continuously enhancing trading capabilities and steadily developing global markets business

The Group continuously strengthened its digital capacities and capabilities in online service, product integration and integrated services, thus achieving satisfactory growth in client business. It seized market opportunities by proactively participating in Bond Connect and PBoC bills repo-related businesses, achieving the market leading position in Southbound Trading under Bond Connect in Hong Kong in terms of transaction volume. Giving full play to its strong franchise, the Group continued to serve and cultivate the offshore RMB market. It actively promoted the use of RMB and RMB-related products and enhanced its trading capabilities. Furthermore, the Group deepened its management-by-business-unit approach across its Southeast Asian entities, strengthened regional collaboration, and continued to develop and enhance the scale and competitiveness of its treasury business in the Southeast Asia region. In recognition of its success, BOCHK was awarded Excellent Overseas Member of RMB FX Market in 2020 by China Foreign Exchange Trade System, Outstanding International Member Award 2020 by Shanghai Gold Exchange, Bond Connect Outstanding FX Settlement Bank by the Bond Connect Company Limited, and CIBM Offshore Institutional Investor Excellence Award 2021 by China Central Depository & Clearing Co., Ltd.

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

The Group continuously enhanced its RMB payment and clearing capabilities during the year. It established a fully automated cross-border fund clearing channel for both Southbound Trading under Bond Connect and Cross-Boundary Wealth Management Connect, further facilitating the mutual opening up of Chinese mainland capital markets and contributing to the long-term development of Hong Kong's financial market infrastructure. As of the end of 2021, the Group's fund clearing business volume for Southbound Trading under Bond Connect was ranked amongst the top tier in Hong Kong. Capitalising on its role as the RMB clearing bank, the Group contributed to the establishment of cross-border financial infrastructure, optimised the quality and efficiency of its clearing services and launched a CNH PBoC bills repo business while also taking up the role of the market maker. At the same time, the Manila Branch officially launched an RMB clearing bank service and successfully introduced a two-way RMB remittance service for its clients. Together with BOC Malaysia, the Manila Branch was granted a direct participant qualification by the Cross-border Interbank Payment System ("CIPS"). The FXall Digital Transaction Platform was successfully rolled out in BOC Thailand and BOC Malaysia, with both entities completing their first RMB/local currency quotation transaction with major peers in the region. The Group actively supported the bilateral local currency settlement ("LCS") agreement between China and Indonesia and undertook related settlement business, with the Jakarta Branch completing a number of RMB/IDR exchange and remittance transactions on the first day of implementation. The Jakarta Branch's RMB/IDR currency exchange volume also ranked first among peers, while its RMB salary direct remittance business volumes recorded substantial growth.

Adhering to a solid and risk-aware investment strategy and promoting market development

The Group continued to take a cautious approach to managing its banking book investments and closely monitored worldwide interest rate adjustments. It actively sought fixed income investment opportunities to enhance returns while remaining alert to risk. In 2021, the Group successfully issued the world's first certificate of deposit benchmarked to the Hong Kong Dollar Overnight Index Average ("HONIA"), becoming the first bank to issue HONIA-linked debt securities and thereby enriching the spectrum of investment options available to investors and promoting HONIA as a new pricing benchmark in the market.

Actively capturing market opportunities to steadily develop its asset management business

Despite volatile capital markets and the uncertain COVID-19 pandemic situation, BOCHK Asset Management Limited ("BOCHK AM") adhered to its prudent development strategy and leveraged its professional investment service capabilities to proactively capture market opportunities and continuously promote business diversification. Overall assets under management recorded steady growth as at the end of 2021. During the year, BOCHK AM launched the BOCHK All Weather ESG Multi-Asset Fund, allowing investors to capture ESG-related investment opportunities. This was the Group's first ESG fund to be authorised by Hong Kong's Securities and Futures Commission as well as the first ESG multi-asset retail fund with an RMB share class in the Hong Kong market. At the same time, BOCHK AM further expanded its client base and distribution channels, while deepening its business relationships with existing clients and proactively capturing cross-border financial opportunities, with several of the public funds it offers becoming eligible wealth management products under the Cross-Boundary Wealth Management Connect Scheme during the year. In recognition of its professional expertise, BOCHK AM was awarded Best RMB Manager, Best CNY Bonds, Offshore (5 Years) and CEO of the Year in the 2021 Best of the Best Awards by *Asia Asset Management*.

Insurance

Financial Results

The Group's insurance segment recorded standard new premium of HK$10,284 million, down 9.4% year-on-year. The value of new business was HK$1,041 million, a decrease of 6.7% year-on-year. This was primarily attributable to the adverse effects of the ongoing COVID-19 pandemic. However, profit before tax was up 19.8% year-on-year to HK$1,023 million, mainly owing to an increase in net interest income resulted from a growth in investment assets.

Business Operations

Actively promoting digitalisation strategy to build business ecosystems

In 2021, BOC Life continued to expand the coverage of its online channels in light of the COVID-19 pandemic's ongoing impact on insurance product sales. To enrich its insurance product portfolio and drive growth in higher value-added whole life savings protection plans, BOC Life launched a range of new products including the Forever Fortune Whole Life Insurance Plan, SmartViva Flexi VHIS and Glamorous Glow Whole Life Insurance Plan, achieving steady growth in new business margin. It also actively enhanced its business collaborations to upgrade its cross-selling capabilities, and maintained its leading position in the Qualifying Deferred Annuity Policy market. BOC Life made great efforts to enhance cooperations with business partners including the world's leading smartwatch brand, innovative technology companies in Asia and Hong Kong, online social platforms, charities and social enterprises, in order to create win-win situations, as well as unlocking new value for customers and providing them with a brand-new experience. In addition, it established a product ecosystem to advocate wellness and healthy lifestyles, in order to meet customer needs across all dimensions. Partnering with a smartwatch brand, BOC Life introduced the "Live Young" programme to strengthen interaction with customers and provide them with preventive health management tools. This cutting-edge programme featured the exclusive launch of the Biological Age Model (BAM) algorithm, and won the gold medal in the 2021 Global FinTech Awards organised by the Monetary Authority of Singapore. Meanwhile, BOC Life and Macao-based HN Group entered into a strategic cooperation agreement to launch the first joint project on 'Insurance + Wellness and Retirement' across Guangdong, Hong Kong and Macao under the Guangdong-Macao In-Depth Cooperation Zone in Hengqin Initiative, reinforcing BOC Life's position as a retirement expert.

Committed to promoting ESG and sustainable development initiatives

BOC Life actively launched a series of environmental and carbon reduction themed CSR programmes, including the launch of the "Brave the Storm Together, Guard Our Green Future" programme, through which BOC Life will donate a certain amount from each successfully issued policy to support Green Ladies & Green Little, a social enterprise operated by St. James' Settlement. BOC Life also partnered with the World Green Organisation ("WGO") to launch ESG projects and became the strategic partner for the WGO's ESG Accelerator Programme for Start-ups. In addition, it supported the Sustainable Investing and ESG Conference 2020/21, co-organised by the WGO and the United Nations Economic and Social Commission for Asia and the Pacific, as a Double Platinum Sponsor. Meanwhile, BOC Life teamed up with Food Angel to prepare and donate hot meals and food packs for underprivileged groups through the "Live Young" programme. It also helped St James' Settlement to develop upcycling and smart digital themed educational programmes for younger people, including the "Little Green Shopkeeper Programme" and "BOC Life New Generation Financial and Technology Designers".

BOC Life continued to sponsor the "Health Engineer" programme and "Kids" Our Love programmes through community partnerships with Hong Kong Sheng Kung Hui Welfare Council and Hong Kong Family Welfare Society respectively, providing holistic care and support for the mental, physical and spiritual wellness needs of teenagers. It was also title sponsor of the Hong Kong Premier League and FIFAe Nations Series 2022 – HKFA eFootball Open organised by The Hong Kong Football Association, with a view to promoting sports development in Hong Kong. BOC Life's relentless efforts and contribution to environmental protection and community development won wide applause and recognition during the year, including a Gold Award in the Web Accessibility Recognition Scheme 2020-2021, the 10 Years Plus Caring Organisation logo from Hong Kong Council of Social Service under its Caring Company Scheme, and the Greater Bay Area Corporate Sustainability Awards 2021 – Social Sustainability Award (Good Health and Well-Being) from the Metro Broadcast Limited.

Maintaining a leading position in the life insurance market and winning recognition for service excellence

BOC Life maintained its leading position in Hong Kong's life insurance sector and remained the market leader in RMB insurance. In recognition of its product and service excellence and sustainable development efforts, BOC Life was commended with a number of local and regional awards, including Outstanding Insurance Business – Annuity Award and Outstanding Insurance Business – Saving Insurance Award in the 2021 RMB Business Outstanding Awards, organised by *Metro Finance* and Hong Kong Ta Kung Wen Wei Media Group, as well as placing in the top three finalists for the Outstanding Customer Services Award at the Hong Kong Insurance Awards 2021, organised by The Hong Kong Federation of Insurers.

Regional Business

The Group continued to pursue integrated regional development in a steady and stable manner, adopting market-by-market strategies as its orientation for development with the aim of building its Southeast Asian entities into mainstream foreign banks in their local markets. In 2021, the ASEAN remained China's largest trading partner. Driven by the strong rebound of the Chinese mainland economy, Southeast Asia showed signs of recovery, with the double-digit growth of merchandised trade in some Southeast Asian countries alleviating the negative impact of COVID-19 variant outbreak and political upheavals in parts of the region. The year also marked the 30th anniversary of the establishment of dialogue between China and the ASEAN and the beginning of their comprehensive strategic partnership. These factors, coupled with the implementation of the Regional Comprehensive Economic Partnership in early 2022, will make the economic and trading relationship between China and the ASEAN still closer. There is enormous potential for growth in Southeast Asia, with new growth opportunities for the Group's regional business being opened up by the Belt and Road initiative and other positive drivers such as regional urbanisation, industrial upgrading and industry chain relocation in Southeast Asian countries.

Enhancing regional business network layout and optimising management of Southeast Asian entities

The Group further enhanced its regional business network with the successful operational launch of the Yangon Branch and Hanoi Representative Office during the year. As a result, its regional business now covers nine countries in Southeast Asia, further enhancing its regional business network layout. The Group established and implemented the Southeast Asia Regional Five-year Sub-plan, which formulates a clear direction for its future regional development. With the aim of further enhancing regional operations, it continuously centralised and gradually relocated its regional operations to the Regional Operation Centre in Nanning, Guangxi as planned. The Group's integrated management approach for its regional business has gradually become more responsive to public needs and preferences, and thus continued to improve its Southeast Asian entities' capabilities in business development and operational management. Its regional brand influence continued to flourish, with the Jakarta Branch again ranked first among all foreign banks in Indonesia in terms of overall operations in the Indonesian banking industry for 2021, and BOC Thailand receiving the 2021 Best Cross-Border Business Services Award in Thailand.

During the year, the Southeast Asian market was adversely impacted by the uncertain pandemic situation. The Group adopted a cautious approach towards regional development, and its Southeast Asian entities* recorded steady business growth. As at the end of 2021, deposits from customers and advances to customers amounted to HK$66,669 million and HK$55,202 million respectively, up 16.4% and 2.1% respectively from the end of last year. Net operating income before impairment allowances amounted to HK$2,708 million, an increase of 8.3% year-on-year. Net charge of impairment allowances amounted to HK$1,902 million, an increase of HK$1,626 million year-on-year, mainly reflecting the potential client risks arising from pandemic relief measures as well as downgrading of certain advances owing to the pandemic. As at the end of 2021, the non-performing loan ratio was 2.39%, up 0.49 percentage points from the end of 2020.

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

Adhering to stringent risk management so as to comprehensively strengthen regional capabilities

The Group continued to closely monitor the pandemic situation in Southeast Asia, coordinating pandemic prevention and control as well as contingency management measures in each of its Southeast Asian entities. It adopted active counter-measures to ensure robust risk management and maintained safe and steady regional business operations. The Group also continued to strengthen its regional risk management during the pandemic. It adhered to the implementation of the "Three Lines of Defence" control mechanism, and provided professional guidance to its Southeast Asian entities. It further strengthened its Southeast Asian entities' credit risk management, undertaking regular reviews of each entity's credit portfolio, continuous ad-hoc risk reviews and non-performing loan collection and recovery in order to closely monitor changes in asset quality. In addition, for certain categories of Southeast Asian entities' common customers or specified portfolios within the Group, an internal ratings-based approach was adopted to calculate the capital requirement for credit risk. The Group completed reviews on the delegation of credit approval authority to its Southeast Asian entities, achieving a balance between business development and risk management. Moreover, it continuously enhanced its Southeast Asian entities' risk management capabilities in market risk, interest rate risk and liquidity risk so as to ensure their operations comply with local regulatory requirements. The Group also made use of system coverage and technical upgrades to further strengthen its risk control capabilities in all aspects, including compliance, anti-money laundering and anti-fraud.

Digital Transformation Development

In 2021, the Group maintained its customer-centric approach and closely monitored market trends with the aim of deepening its all-round digital transformation, driving business evolution and advancing the scenario-based application of innovative fintech by integrating technologies into its front, middle and back offices. It also completed the formulation of its Five-year Digital Transformation and Fintech Plan. Drawing on digital, intelligent and ecological support, the Group remained committed to strengthening infrastructure construction, deepening scenario-based open banking services, enhancing digital and technology-empowered businesses, optimising its innovation mechanisms and agile methodologies, and fostering digital talent, with a view to building a full-scale digital bank. In support of the HKMA's Fintech 2025 Strategy, the Group offered its clients and staff high-quality digital services and experiences, laying a solid foundation for its long-term development.

Strengthening infrastructure construction to provide high-quality and efficient digital banking services

The Group continued to optimise its mobile banking capabilities, making around 70 functional enhancements during the year including refreshing the user interface design to improve customer experience. It became the first bank in Hong Kong to adopt the HKSAR Government's "iAM Smart" mobile application in its mobile banking, which enables remote account opening. Through iAM Smart's authentication and "e-Me" form-filling functions, customers are spared the time involved in the manual input of personal data and identity verification. The Group also enhanced the self-service capabilities and efficiency of the "iService" terminals in its branches, which enable customers to authenticate their identity using a Hong Kong Identity Card, finger vein or facial recognition biometrics, and to perform self-service transactions such as account opening, password changes and customer information updates. In addition, the Group strengthened its data infrastructure to enhance the effectiveness of its big data analysis and artificial intelligence modeling capabilities, with the aim of meeting customers' personalised needs. At the same time, a network risk monitoring system was introduced in order to continuously review and enhance the Group's network security level.

Deepening scenario-based construction to achieve seamless banking services

The Group actively promoted open banking services during the year. It enhanced financial services reachability in the local market through the use of innovative fintech in scenario-based applications, including its major home purchasing and health-related scenario ecosystems. The Group joined hands with three major real estate agencies and mortgage intermediaries to launch an online real-time property valuation service and mortgage application service via open API. It also cooperated with two stock quoting platforms to offer its customers cross-platform mobile banking trading services for Hong Kong stocks, US stocks and A shares. It cooperated with different business and trade ecosystem platforms via blockchain technology, providing corporate customers with bespoke services for different business scenarios using large blockchain trade financing platforms such as "eTradeConnect", "Contour" and "Effitrade", thus promoting the digitisation of cross-border trade and trade financing. The related number of transactions handled doubled compared to the previous year, while transaction volume increased by nearly 3.5 times. In order to build a digital commercial scenario for its corporate customers, the Group launched its brand new iGTB API service. This enables BOCHK to connect into customers' business platforms using API technology, meaning that customers can access digital corporate banking services directly through their own business platforms, thus enhancing customer experience and efficiency in managing funds. The Group also launched the "ERP Cloud Service – Accounting Cloud" service, allowing SME customers to access a one-stop cloud-based financial and accounting software service for free by logging into their iGTB NET accounts. Over a thousand accounts have been opened since its launch, providing a new digital banking experience to customers.

Enhancing digitally-empowered businesses to improve customer experience

The Group capitalised on technology to drive business evolution, improve customer experience and enhance product quality and operational efficiency. Using BoC Bill to drive breakthroughs in client relationships, the Group continued to facilitate the digital transformation of government and public sector entities, schools, large enterprises and SMEs. It successfully cooperated with 120 post offices to help them accept credit card and QR code payments via BoC Bill, transformed the traditional offline payment channel of the HKSAR Government's Treasury Department to a digital payment environment, and successfully established an electronic payment environment for a number of local universities, secondary and primary schools in Hong Kong. At the end of 2021, the total number of BoC Bill terminals increased by 21.4% compared with the end of the previous year, and the total settlement volume increased by 30.3% year-on-year. In addition, the Group enhanced the online functionalities of its BoC Pay services by enabling "Open API" and "App To App", in order to cooperate with leading e-commerce business partners and create an open-loop online payment ecosystem. At the end of 2021, the total number of BoC Pay users increased by 31.8% compared to the end of last year, and the transaction volume increased by 30.2% year-on-year. At the same time, the Group continued to promote its regional mobile and digital financial services with the aim of growing its regional client base, including extending its personal mobile banking coverage across Southeast Asia during the year.

Moving towards intelligent operations and gradually introducing intelligent risk control applications that drive operational efficiency

The Group accelerated the expansion of intelligent technology applications in 2021. Robotic process automation ("RPA") technology was implemented in more operating procedures, which reduced processing times, enhanced employee productivity and improved related processing efficiency by approximately 60%. It optimised its property valuation process through the application of blockchain technology, which covered 98% of its total property valuations, thus enhancing operational efficiency. The Group introduced an intelligent credit rating model as well as an automated loan approval model for small retail businesses, and refined the approval process for residential mortgage loan applications, thus gradually automating operating procedures for loan approvals. It promoted digitalisation in its operations, incorporated ESG elements into its business processes and reinforced paperless green operations. It also implemented intelligent risk control applications by enhancing the digitalised credit monitoring of borrowers; extending usage of its intelligent anti-fraud platform to ATM transactions, deposits, remittance, and the risk monitoring of credit card transactions; and gradually enhancing its capabilities in fraud case detection and remedy. Meanwhile, the Group applied real-time risk control to its personal and corporate online banking, mobile banking, BoC Pay and BoC Bill platforms, with the aim of enhancing customer transaction security. During the year, BOCHK was awarded by the Hong Kong Police in recognition of its efforts in fraud cases prevention.

Optimising innovation mechanisms and strengthening its talent pool

The Group reinforced its vision, goals and key priorities for digital transformation while also formulating a rationale and action plan for each of its business areas. It continuously optimised its agile working methodology and culture, establishing various agile teams to promote strategic projects and inspire staff creativity. To enhance the skills and competence of its talent pool, the Group launched professional training courses and cooperated with institutions from other industries through the virtual academy; proactively hired talented fintech and digital transformation professionals, and continuously optimised its all-staff digital training and development mechanism.

Outlook and Business Focus for 2022

Looking ahead into 2022, global economic growth is expected to gradually moderate and return to normal levels. However, overall global economic prospects remain largely uncertain, as the growth trend will depend on the development of the pandemic, changes in the monetary and fiscal policies of major countries, as well as the prevalence of geopolitical risks. The US economy is expected to maintain growth momentum, but containing inflation will be a major challenge. The Chinese mainland economy is likely to be faced with an accelerated pace of economic restructuring during a global economic slowdown. The official implementation of the Regional Comprehensive Economic Partnership agreement will help promote trading and investment activities in the Asia-Pacific region, boosting economic recovery momentum in Southeast Asia. The fifth wave of pandemic in Hong Kong has become more severe, posing pressure on domestic economy. The HKSAR Government introduced a series of relief measures, which will help mitigate economic shocks. The operating environment will be overwhelmed by the COVID-19 pandemic and will remain highly uncertain. With this in mind, the Group will closely monitor changes in market developments and the related impacts to its financial performance.

In line with its strategic plan, the Group will continue to focus on the three markets of Hong Kong, the Greater Bay Area and Southeast Asia, and strengthen its customer and business foundations. It will continue to develop the local market in Hong Kong to realise customer and business potential. By capturing opportunities arising from the national policies of the Chinese mainland, the Group will vigorously develop its cross-border business. It will unleash its business advantages in the offshore market and actively participate in the innovative policies of the Greater Bay Area to cultivate new business growth drivers. The Group will further enhance the service capability of its regional business and accelerate the delivery of featured products and services. It will capture opportunities from the internationalisation of RMB to seek new business breakthroughs. At the same time, the Group will focus on the development of green finance. It will seize green finance business opportunities stemming from clients' pursuit of carbon neutral targets while continuously putting into practice its own low-carbon and resource-efficient operation initiatives. The Group will endeavour to become a full-scale digital bank and a leading digital enterprise. It will enhance its integrated platform for key businesses to reinforce its integrated service capabilities. In addition, the Group will adhere to stringent risk management and continue to improve its human, cultural and operational mechanisms in order to provide strong support for strategic implementation.

Credit Ratings

As at 31 December 2021	Long-term	Short-term
Standard & Poor's	A+	A-1
Moody's	Aa3	P-1
Fitch	A	F1+

Risk Management

Banking Group

Overview

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

Credit risk management

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

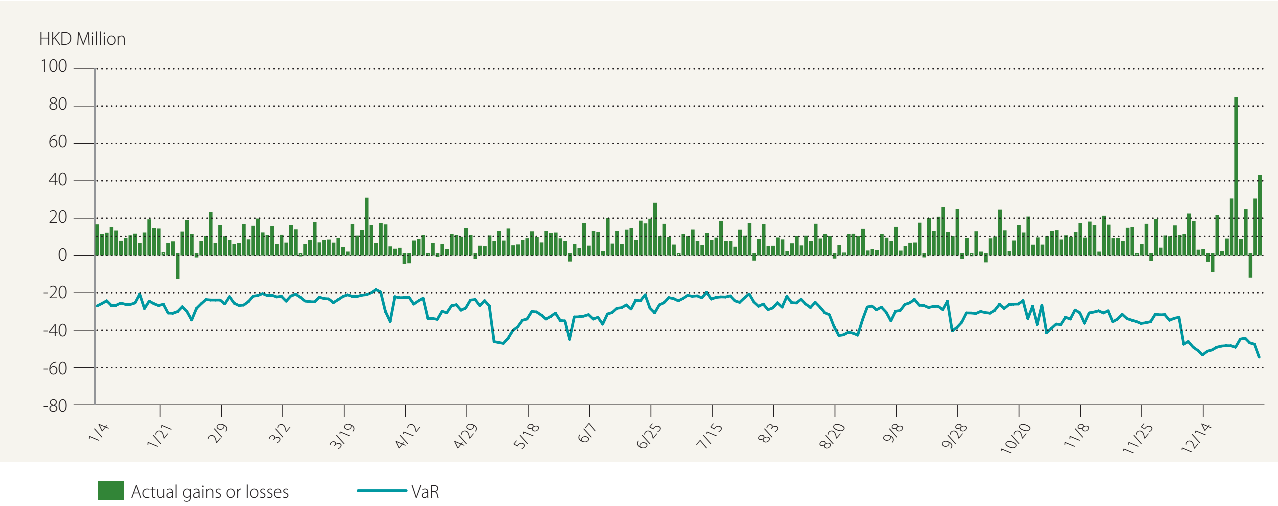
Market risk management

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

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

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

Daily Back-testing in 2021



There was no actual loss exceeding the VaR for the Group in 2021 as shown in the back-testing results.

Interest rate risk management

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

Liquidity risk management

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

Operational risk management

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

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

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

Reputation risk management

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

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

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

Legal and compliance risk management

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

Strategic risk management

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

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

Capital management

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

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

Stress testing

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

BOC Life

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

Insurance risk management

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

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

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

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

Interest rate risk management

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

Liquidity risk management

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

Credit risk management

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

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

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

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

Equity and fund price risk management

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

Currency risk management

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

Fostering Sustainable and Smart Living


Green Financing
Green Mortgage
Green Bonds and
ESG Funds
Green Loan
e-Assessment Platform's
Banking Partner
Green Deposits

Corporate Information

Board of Directors

Chairman
LIU Liange#

Vice Chairmen
LIU Jin# (appointment as Vice Chairman and Non-executive Director effective from 3 August 2021)
SUN Yu
WANG Jiang# (resignation effective from 5 February 2021)

Directors
LIN Jingzhen#
CHENG Eva*
CHOI Koon Shum*
FUNG Yuen Mei Anita* (appointment as Independent Non-executive Director effective from 3 March 2022)
KOH Beng Seng*
LAW Yee Kwan Quinn*
TUNG Savio Wai-Hok*

Non-executive Directors
* Independent Non-executive Directors

Senior Management

Chief Executive
SUN Yu

Chief Risk Officer
JIANG Xin (appointment effective from 28 February 2021)
ZHUO Chengwen (resignation effective from 28 February 2021)

Deputy Chief Executives
WANG Qi
YUAN Shu

Chief Operating Officer
ZHONG Xiangqun

Deputy Chief Executives
WANG Bing
KUNG YEUNG Ann Yun Chi

Chief Financial Officer
LIU Chenggang (appointment effective from 8 March 2022)
SUI Yang (resignation effective from 26 January 2022)

Company Secretary
LUO Nan

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

Auditor
PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor

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

ADR Depositary Bank
Citibank, N.A.
388 Greenwich Street
4th Floor
New York, NY 10013
United States of America

Website
www.bochk.com

Board of Directors and Senior Management

DIRECTORS

Mr LIU Liange

Aged 60

Chairman

Board appointments: Mr LIU is currently Chairman of the Board, Non-executive Director and Chairman of the Strategy and Budget Committee of the Company and BOCHK. He has been appointed as Non-executive Director of the Company and BOCHK since December 2018, Vice Chairman of the Company and BOCHK from December 2018 to July 2019 and Chairman of the Company and BOCHK since July 2019.

Positions and experience: Mr LIU has been appointed as Chairman of BOC since 5 July 2019 and was Vice Chairman of BOC from October 2018 to July 2019. He has been Executive Director of BOC since October 2018 and was President of BOC from August 2018 to June 2019. He was also the President of Shanghai RMB Trading Unit of BOC from October 2018 to November 2019. Mr LIU is currently Director of BOC (BVI) and BOCHKG. Prior to joining BOC in 2018, Mr LIU served as Vice Chairman and President of the Export-Import Bank of China from July 2015 to June 2018. Mr LIU served as Vice President of the Export-Import Bank of China from March 2007 to February 2015. He also served as Director of the African Export-Import Bank from September 2007 to February 2015, Chairman of the Board of Supervisors of Sino-Italian Mandarin Capital Partners from March 2009 to June 2015, and Chairman of the Board of Directors of Regional Credit Guarantee and Investment Facility (Asia) from March 2014 to May 2015. Mr LIU worked in the People's Bank of China for many years, and successively served as Deputy Director-General of the International Department of the People's Bank of China, President of the Fuzhou Central Sub-branch of the People's Bank of China and Director of the Fujian Branch of the State Administration of Foreign Exchange, Director General of the Anti-Money Laundering Bureau (the Security Bureau) of the People's Bank of China.

Qualifications: Mr LIU graduated from Graduate School of the People's Bank of China and received a Master's Degree in Economics in 1987. He holds the title of Senior Economist.

Skill and expertise: Mr LIU has extensive experience in the banking and financial services industry with substantial knowledge in business management and strategy, corporate governance, investment management and anti-money laundering.

Mr LIU Jin

Aged 55

Vice Chairman

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

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

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

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

Mr SUN Yu

Aged 49

Vice Chairman and Chief Executive

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

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

Mr SUN holds other roles with the Group, including Chairman of BOC Insurance (International) Holdings Company Limited and Chairman of BOCHK Charitable Foundation since December 2020, and Chairman of BOC Life since February 2021.

Mr SUN also holds a number of public offices in Hong Kong. He serves as Chairman of the Chinese Banking Association of Hong Kong, and sits on the Exchange Fund Advisory Committee, the Banking Advisory Committee, the Council of Treasury Markets Association, the General Committee of the Hong Kong General Chamber of Commerce, the Belt and Road and Greater Bay Area Committee of the Hong Kong Trade Development Council, and the Risk Management Committee of the Hong Kong Exchanges and Clearing Limited. He is also Director of Hong Kong Note Printing Limited, as well as Vice President of the Hong Kong Institute of Bankers, etc.

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

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

Mr LIN Jingzhen

Aged 56

Non-executive Director

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

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

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

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

Mdm CHENG Eva

Aged 61

Independent Non-executive Director

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

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

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

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

Dr CHOI Koon Shum

Aged 64

Independent Non-executive Director

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

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

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

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

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

Mdm FUNG Yuen Mei Anita

Aged 61

Independent Non-executive Director

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

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

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

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

Mr KOH Beng Seng

Aged 71

Independent Non-executive Director

Board appointments: Mr KOH was appointed as Independent Non-executive Director of the Company and BOCHK in March 2006. He is Chairman of the Risk Committee and a member of each of the Audit Committee, the Nomination and Remuneration Committee as well as the Sustainability Committee.

Positions and experience: Mr KOH is currently Chief Executive Officer of Octagon Advisors Pte Ltd, a business and management consulting company based in Singapore. He is also Non-executive Chairman of Great Eastern Holdings Limited and Non-executive Director of Oversea-Chinese Banking Corporation Limited, both listed in Singapore. Mr KOH was formerly Director of Sing Han International Financial Services Limited and Hon Sui Sen Endowment CLG Limited. He was also Independent Non-executive Director of Singapore Technologies Engineering Ltd and United Engineers Limited, companies listed in Singapore. Mr KOH was Deputy President of United Overseas Bank ("UOB") and a member of UOB's Executive Committee from 2000 to 2004. During this period, he was in charge of UOB's operations, delivery channels, information technology, corporate services, risk management and compliance functions. Prior to that, Mr KOH has spent over 24 years at the Monetary Authority of Singapore where he made significant contributions to the development and supervision of the Singapore financial sector in his capacity as Deputy Managing Director, Banking & Financial Institutions Group. He has also served as Director of Chartered Semiconductor Manufacturing and as part-time adviser to the International Monetary Fund.

Qualifications: Mr KOH holds a Bachelor's Degree in Commerce from Nanyang University in Singapore and a Master's Degree in Business Administration from Columbia University in the United States.

Skill and expertise: Mr KOH has substantial experience in the banking industry which cover business management and strategy, corporate governance, risk management and sustainable development.

Mr LAW Yee Kwan Quinn

Aged 69

Independent Non-executive Director

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

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

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

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

Mr TUNG Savio Wai-Hok

Aged 70

Independent Non-executive Director

Board appointments: Mr TUNG was appointed as Independent Non-executive Director of the Company and BOCHK in December 2005. He is Chairman of the Audit Committee and a member of each of the Nomination and Remuneration Committee, the Risk Committee, the Strategy and Budget Committee as well as the Sustainability Committee.

Positions and experience: Mr TUNG is currently Chairman of Investcorp Technology Partners and Senior Advisor of Investcorp. He previously served as Chief Investment Officer of Investcorp, and is one of the founding partners of Investcorp. Mr TUNG served as Director and a member of the Compensation Committee of Tech Data Corporation, a company previously listed on NASDAQ, until his resignation in June 2020. Before joining Investcorp in 1984, he worked for Chase Manhattan Bank for about 11 years, holding various positions in its front, middle and back offices and served in its offices in New York, Bahrain, Abu Dhabi and London. Mr TUNG has served on the boards of many of Investcorp portfolio companies, including Club Car, Circle K, Saks Fifth Avenue, Simmons Mattresses, Star Market, and Stratus Computer. He is also a board member and treasurer of the Aaron Diamond AIDS Research Center, an affiliate of Columbia University. Mr TUNG is a trustee emeritus and a member of the Columbia University Medical Center Board of Visitors.

Qualification: Mr TUNG holds a BSc in Chemical Engineering from Columbia University of New York.

Skill and expertise: Mr TUNG has substantial experience in the banking and financial services industry which include corporate governance, financial management, risk management and sustainable development.

SENIOR MANAGEMENT

Mdm JIANG Xin

Aged 51

Chief Risk Officer

Mdm JIANG joined the Group in 2021. She is Chief Risk Officer of the Group, overseeing the Group's overall risk control and management, and BOCHK's Risk Management Department. Mdm JIANG is also Director of BOC Life. Prior to joining the Group, Mdm JIANG was General Manager of Corporate Banking Department of BOC. Mdm JIANG joined BOC in 1993 and had held various positions including General Manager of e-Banking Department, General Manager of Channel Management Department, and General Manager of Qingdao Branch. Mdm JIANG has extensive experience in the financial industry with solid professional knowledge and an international vision. Mdm JIANG graduated from Sun Yat-sen University with a Bachelor's Degree in International Trade. She also obtained a Master's Degree in Business Administration at the University of Cambridge in the UK.

Mdm WANG Qi

Aged 59

Deputy Chief Executive

Mdm WANG joined the Group in 2018. She is Deputy Chief Executive of the Group, overseeing the Legal & Compliance and Operational Risk Management Department, as well as Financial Crime Compliance Department. Prior to joining the Group, she was General Manager and Chief Compliance Officer of Internal Control, Legal and Compliance Department of BOC. Mdm WANG has held various positions in BOC since she joined BOC in 1984. She served as Deputy General Manager of Legal Affairs Department, General Manager of Legal and Compliance Department, General Manager (Operational Risk Management) of Risk Management Department, and General Manager of Internal Control Department, etc. Mdm WANG has an international vision, a solid legal and compliance professional background as well as extensive management experience. Mdm WANG graduated from Peking University with a Bachelor's Degree in Economic Law. She also obtained a Master's Degree in Banking and Financial Development at the University of Pavia in Italy. She is an arbitrator of China International Economic and Trade Arbitration Commission (CIETAC).

Mr YUAN Shu

Aged 59

Deputy Chief Executive

Mr YUAN joined the Group in 2015. He is Deputy Chief Executive of the Group in charge of the financial market business, including Global Markets, Investment Management, Asset Management and other capital market-related businesses. He is Chairman of BOCHK Asset Management Limited and Director of BOC Insurance (International) Holdings Company Limited. Mr YUAN has over 30 years of experience in the industry with solid professional expertise and management experience. He has held different positions in the financial market businesses at Head Office and in various overseas branches of BOC. Mr YUAN joined the Trading Department of BOC in 1983, then held positions in the Paris and Tokyo branches, as well as the Trading Department and Global Financial Markets Department of BOC Head Office. Mr YUAN was Director (Trading) of the Global Financial Markets Department in 2006 and was promoted to General Manager (Trading) of the Financial Markets Unit in 2010. Prior to joining the Group as Deputy Chief Executive (Financial Markets) in November 2015, he served as General Manager of the Hong Kong Branch, BOC. Mr YUAN graduated from Renmin University of China majoring in International Finance.

Mr ZHONG Xiangqun

Aged 52

Chief Operating Officer

Mr ZHONG joined the Group in 2015. He is Chief Operating Officer of the Group, overseeing the Bank-wide Operation Department, Information Technology Department, Innovation and Optimisation Centre and Corporate Services Department. He is also Chairman of Livi Bank Limited, Director of BOCCC and Director of Hong Kong Interbank Clearing Limited. Prior to joining the Group, Mr ZHONG served as General Manager of E-Finance Department of BOC in charge of the development of e-finance business, covering mobile payment, e-business, e-financing and big data application. Joining BOC in 1994, Mr ZHONG has held management positions in Information Technology Department, Personal Banking Unit, Card Centre and Innovation & Development Department, etc. He was Director of China UnionPay and a member of China Financial Standardisation Technical Committee. Mr ZHONG has solid expertise in information technology and cyber security as well as practical business experience. Mr ZHONG graduated from Peking University with a Bachelor's Degree in Information Science specialised in Software and a Master's Degree in Applied Mathematics.

Mr WANG Bing

Aged 50

Deputy Chief Executive

Mr WANG joined the Group in 2018. He is Deputy Chief Executive of the Group, overseeing Global Corporate Banking Department, Commercial Banking Department, Institutional Business Department, Transaction Banking Department, Custody and Trust Services, as well as the Southeast Asia Business. He is Director and Chairman of BOCI-Prudential Trustee as well as BOC Group Trustee Company Limited. Prior to joining the Group, Mr WANG served as General Manager of Jiangsu Branch of BOC. Since joining BOC in 1996, Mr WANG has held management positions in various institutions including Suzhou, Ningbo and Jiangsu branches. He served as Deputy General Manager of Jiangsu Branch and General Manager of Ningbo Branch, etc. He is innovative with sound professional capabilities in corporate banking as well as extensive business and management experience. Mr WANG graduated from Soochow University with a Bachelor's and Master's Degree in English. He also obtained a Master's Degree in Business Administration at the City University of London in the UK.

Mrs KUNG YEUNG Ann Yun Chi

Aged 59

Deputy Chief Executive

Mrs KUNG joined the Group in 2007. She is Deputy Chief Executive of the Group in charge of Personal Banking and Wealth Management Department, Personal Digital Banking Product Department, Private Banking, BOCCC, Personal Banking Risk and Integrated Management Department as well as BOC Life. She is also Chairman of BOCCC and Director of BOC Insurance (International) Holdings Company Limited and BOC Life. Mrs KUNG joined BOCHK as Head of Channel Management in August 2007. She was appointed as Head of Personal Banking in April 2011, and was promoted to her current role in March 2015. Prior to joining the Group, Mrs KUNG had held various senior positions in Standard Chartered Bank (Hong Kong) Limited. With over 30 years of experience in the industry, Mrs KUNG possesses extensive knowledge in personal banking and a strong background in financial services. Mrs KUNG graduated from the University of Southern California in the United States of America where she obtained her Bachelor of Science Degree in Business Administration with a concentration in Accounting. In addition to business pursuits, Mrs KUNG plays an active role in the business community and public service in Hong Kong.

Mr LIU Chenggang

Aged 49

Chief Financial Officer

Mr LIU joined the Group in 2022. He is Chief Financial Officer of the Group, overseeing Financial Management Department, General Accounting and Accounting Policy Department, Treasury, as well as the Economics & Strategic Planning Department. Prior to joining the Group, Mr LIU served as the General Manager of Equity Investment and Subsidiary Management Department, BOC. He joined BOC in July 1994 and had solid experience in financial management, treasury and global markets functions. He served as the General Manager of Financial Management Department of BOC from June 2016 to October 2018 and Treasury of BOC from March 2014 to June 2016. He worked in various departments at the parent bank's Head Office, Macau branch and Shenzhen branch, and developed a good understanding on the business operations of BOC headquarter & branches, domestic and overseas subsidiaries. Mr LIU possesses strong organizational, communication and execution skills with business acumen and innovation awareness. He obtained Masters' degrees in International Finance from PBC School of Finance, Tsinghua University and Applied Finance in Macquarie University, Australia. Mr LIU obtained the qualifications of China Senior Accountant and Chartered Financial Analyst (CFA).

Report of the Directors

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2021.

Principal Activities

The principal activities of the Group are the provision of banking and related financial services. An analysis of the Group's performance for the year by business segments is set out in Note 45 to the Financial Statements.

Business Review

For business review of the Group for the year, please refer to "Message from the Chairman", "Message from the Chief Executive", "Management Discussion and Analysis", "Corporate Governance", our Sustainability Report 2021 and corporate website.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 121.

The Board has recommended a final dividend of HK$0.683 per share, amounting to approximately HK$7,221 million, subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on Wednesday, 29 June 2022 (the "2022 AGM"). If approved, the final dividend will be paid on Friday, 15 July 2022 to shareholders whose names appear on the Register of Members of the Company on Monday, 11 July 2022. Together with the interim dividend of HK$0.447 per share declared in August 2021, the total dividend payout for 2021 would be HK$1.130 per share.

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

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to attend and vote at the 2022 AGM, from Thursday, 23 June 2022 to Wednesday, 29 June 2022 (both days inclusive), during which period no transfer of shares will be registered. In order to attend and vote at the 2022 AGM, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Wednesday, 22 June 2022. The 2022 AGM will be held at 2:00 p.m. on Wednesday, 29 June 2022.

Closure of Register of Members for Entitlement to Final Dividend

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to the proposed final dividend, from Wednesday, 6 July 2022 to Monday, 11 July 2022 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Tuesday, 5 July 2022. Shares of the Company will be traded ex-dividend as from Monday, 4 July 2022.

Donations

Charitable and other donations made by the Group during the year amounted to approximately HK$80 million.

Note: These donations do not include the donations and sponsorships made by BOCHK Charitable Foundation ("the Foundation". For details, please refer to our Sustainability Report 2021 and corporate website). The Foundation is a separate legal entity established in Hong Kong and is a charitable institution exempted from tax under the Inland Revenue Ordinance.

Shares Issued

Details of the Company's issued shares are set out in Note 38 to the Financial Statements.

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

Debentures Issued

During the year, BOCHK issued the following debentures to raise funds for general corporate purposes.

Class	Amount issued	Consideration received
2.8% CNY Senior Notes due 2023	RMB1,500,000,000	RMB1,500,000,000

Distributable Reserves

Distributable reserves of the Company as at 31 December 2021, calculated under Part 6 of the Hong Kong Companies Ordinance, amounted to approximately HK$15,149 million.

Five-year Financial Summary

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

Directors

The list of Directors of the Company is set out on page 54. The biographical details of the Directors and senior management are set out on pages 55 to 65. The term of office for each Non-executive Director is approximately three years.

Mr LIU Jin was appointed as Vice Chairman and Non-executive Director with effect from 3 August 2021. Mdm FUNG Yuen Mei Anita was appointed as Independent Non-executive Director with effect from 3 March 2022. Mr WANG Jiang resigned as Vice Chairman and Non-executive Director with effect from 5 February 2021. The Board would like to express its sincere gratitude and high praise to Mr WANG Jiang for his valuable contributions during his tenure of office.

In accordance with Article 98 of the Articles of Association and pursuant to Code Provision B.2.2 (or former Code Provision A.4.2) of the Corporate Governance Code which took effect on 1 January 2022, the terms of office of Mr LIU Liange will expire at the 2022 AGM. The retiring Director, being eligible, will offer himself for re-election at the 2022 AGM. Further, pursuant to Article 102 of the Articles of Association, any Director appointed by the Board shall hold office only until the next following general meeting or the next following annual general meeting, and shall then be eligible for re-election at such meeting. Accordingly, the terms of office of Mr LIU Jin and Mdm FUNG Yuen Mei Anita, who were appointed on 3 August 2021 and 3 March 2022 respectively, will expire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

A full list of the names of the directors of the Company's subsidiaries during the year ended 31 December 2021 is kept at the Company's registered office.

Directors' Service Contracts

No Director offering for re-election at the 2022 AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation other than the normal statutory compensation.

Directors' Interests in Transactions, Arrangements or Contracts

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

Directors' Interests in Competing Business

Mr LIU Liange, Mr LIU Jin and Mr LIN Jingzhen are Executive Directors of BOC (Mr LIU Jin has been appointed as such position with effect from 16 June 2021). During the year, Mr WANG Jiang was Executive Director of BOC.

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

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

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

Directors' Rights to Acquire Shares

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

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

As at 31 December 2021, the interests and short positions of the Directors, Chief Executive and their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") are set out below:

The Company:

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

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

Associated corporation of the Company:

Bank of China Limited (H Shares)

Name of Director	Number of shares/underlying shares held				Approximate % of the total issued H shares
	Personal interests	Family interests	Corporate interests	Total	
SUN Yu	10,000	–	–	10,000	0.00%[1]
CHOI Koon Shum	4,000,000	40,000[2]	1,120,000[3]	5,160,000	0.01%

Notes:
1. Such shares held by Mr SUN Yu represent approximately 0.00001% of the total issued H shares of BOC.
2. Such shares are held by the spouse of Dr CHOI Koon Shum.
3. Dr CHOI Koon Shum is deemed to be interested in the 1,120,000 shares held through Choi Koon Shum Education Foundation Limited by virtue of the SFO.

All the interests stated above represented long positions. Save as disclosed above, as at 31 December 2021, none of the Directors, Chief Executive or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Interest of Substantial Shareholders

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 31 December 2021, the following parties had the following interests (as defined in the SFO) in the Company set opposite their respective names:

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

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

All the interests stated above represented long positions. Apart from the disclosure above, according to the register maintained by the Company pursuant to section 336 of the SFO, BOCI Financial Products Limited had an interest in 143,522 shares which represented short positions. BOC and Central Huijin are deemed to be interested in such number of shares for the purpose of the SFO. Save as disclosed, no other interests or short positions were recorded in the register maintained by the Company under section 336 of the SFO as at 31 December 2021.

Management Contracts

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

Equity-linked Agreements

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

Permitted Indemnity Provision

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

Purchase, Sale or Redemption of the Company's Shares

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

Major Customers

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

Connected Transactions

The Independent Non-executive Directors have reviewed the transactions which the Company disclosed in a public announcement on 23 December 2019 and confirmed that these transactions were:

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

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

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

In accordance with paragraphs 14A.56 and 14A.71(6)(b) of the Listing Rules, the Board of Directors engaged the auditor of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the above continuing connected transactions. In accordance with paragraph 14A.57 of the Listing Rules, a copy of the auditor's letter has been provided by the Company to the Stock Exchange of Hong Kong.

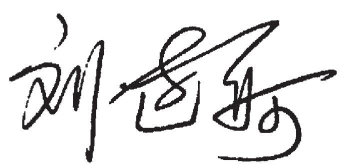
Compliance with the Banking (Disclosure) Rules and the Listing Rules

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

Auditor

The financial statements for the year 2021 have been audited by Messrs PricewaterhouseCoopers who will retire and offer themselves for re-appointment at the 2022 AGM. Messrs PricewaterhouseCoopers has been appointed as new auditor of the Company at the annual general meeting of the Company held on 17 May 2021 upon the retirement of Messrs Ernst & Young.

On behalf of the Board



LIU Liange
Chairman
Hong Kong, 29 March 2022

Corporate Governance

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

The Company has been in full compliance with all code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules. The Company also complies with nearly all the recommended best practices set out in the said code. In particular, the Company publishes quarterly financial and business reviews within one month after the end of the relevant quarter so that shareholders and investors can be kept up to date of the performance, financial positions and prospects of the Company on a timely basis.

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

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

Corporate Governance Policy

Policy Statement

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

Essential Principles

(1) Eminent Board

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

(2) Prudent Risk Management

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

(3) Fair Remuneration System

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

(4) Effective Disclosure Mechanism

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

(5) Upholding Shareholders' Rights

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

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

(6) Safeguarding Stakeholders' Interests

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

(7) Promoting Sustainability

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

(8) Pursuit of "Good to Great"

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

Policy Goal

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

Corporate Culture

The Board provides strategic guidance for the Group, reviews, approves and monitors objectives, values and strategies that align with the corporate culture of the Group. The Board approved the 2021-2025 strategic development plan during the year which established the Group's mission, vision, values, methodology and strategic goals, with deepening corporate culture as one of the four development supports.

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

Anti-corruption and Whistleblowing

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

The Company has also established policy and administrative measures on handling staff reporting of irregularities to ensure employees can whistle blow through proper channel under confidence when suspected misconducts occurred or may occur which relate to the business or other aspects, and such reports are handled and followed-up appropriately, without risk of retaliation or revenge. The Company regularly reviews the whistle-blowing mechanism and related policies and administrative measures to ensure their effectiveness.

Corporate Governance Framework

Responsibilities of the Board and the Management

The Board is at the core of the Company's corporate governance framework and there is a clear division of responsibilities between the Board and the Management.

The Board is responsible for providing high-level guidance and effective oversight of the Management. It operates under the well-defined Board's Mandate which sets out matters specifically reserved for its deliberation. Generally, the Board is responsible for:

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

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

During the year, the Board reviewed and approved amendments made to certain corporate governance related policies and procedures so as to align with the latest changes in regulatory requirements. The Board also reviewed the Company's compliance with the Corporate Governance Code and the disclosure in the Corporate Governance Report contained in the 2020 Annual Report.

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

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

Roles of the Chairman and the Chief Executive

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

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

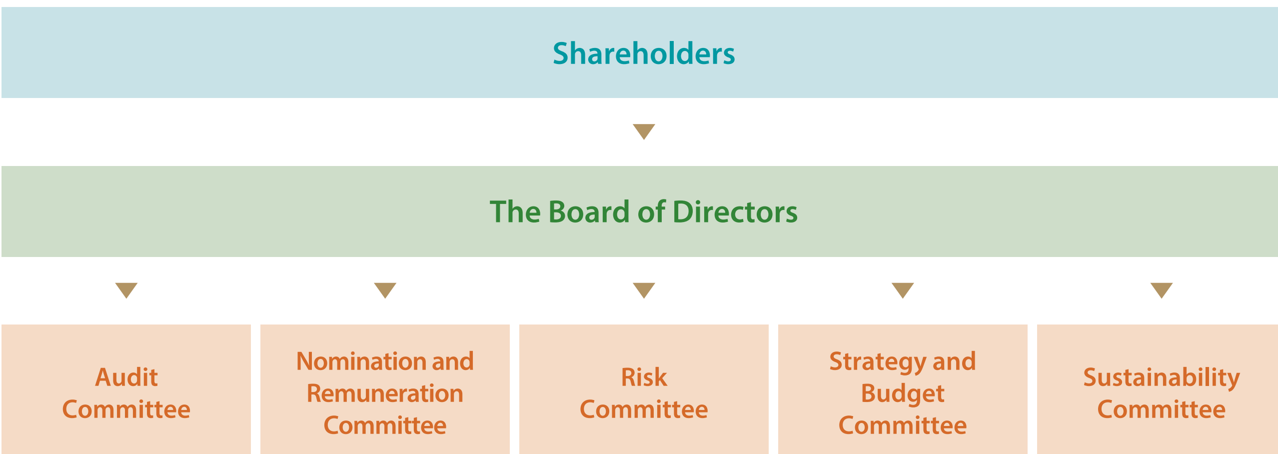
The Chief Executive, Mr SUN Yu, is responsible for providing leadership for the whole management and implementing important policies and development strategies as adopted by the Board. Led by the Chief Executive, the Management Committee fulfils responsibilities including management of the Group's routine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

Board Committees

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

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

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



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

Board of Directors

Composition and Terms of Office of the Board

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

Mr LIU Jin was appointed as Vice Chairman, Non-executive Director and a member of each of the Nomination and Remuneration Committee as well as the Strategy and Budget Committee with effect from 3 August 2021. Mdm FUNG Yuen Mei Anita was appointed as Independent Non-executive Director and a member of each of the Audit Committee, Risk Committee, Strategy and Budget Committee as well as Sustainability Committee with effect from 3 March 2022. Mr WANG Jiang resigned as Vice Chairman, Non-executive Director and ceased to be a member of each of the Nomination and Remuneration Committee as well as the Strategy and Budget Committee with effect from 5 February 2021. Save as disclosed above, there are no other changes to the composition of the Board and Board Committees during the year and up to the date of this Annual Report.

All directors of the Company would, in accordance with the relevant provisions of the Articles of Association and the Corporate Governance Code, retire at least once for every three years. In accordance with Article 98 of the Articles of Association and pursuant to Code Provision B.2.2 of the Corporate Governance Code, the term of office of Mr LIU Liange will expire at the 2022 annual general meeting and, being eligible, offer himself for re-election. Further, pursuant to Article 102 of the Articles of Association, any Director appointed by the Board shall hold office only until the next following general meeting or the next following annual general meeting of the Company, and shall then be eligible for re-election at such meeting. Accordingly, the terms of office of Mr LIU Jin and Mdm FUNG Yuen Mei Anita, who were appointed on 3 August 2021 and 3 March 2022 respectively, will expire at the 2022 annual general meeting and, being eligible, offer themselves for re-election.

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

Selection and Nomination of Board Members

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

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

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

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

For the Board members of the Company who were newly appointed in 2021 and the retiring Board members standing for re-election at the next following general meeting of the Company, the Nomination and Remuneration Committee reviewed their biographical details against relevant requirements under the Listing Rules and the selection criteria set out in the Company's nomination policies of Board members and considered they have the required character, integrity and professional knowledge and experience to continue fulfilling their role and contributing to the Company and the diversity of the Board.

Under the current board membership, all Directors possess extensive experience in banking and/or management. In addition, over one-third of them are Independent Non-executive Directors, who possess experience in banking and financial industry as well as expertise in strategic development, corporate governance, investment management, risk management and sustainable development. The Company has received from each of the Independent Non-executive Directors an annual confirmation of his/her independence by reference to the "Policy on Independence of Directors" of the Company. Based on the information available to the Company and upon considering relevant factors, it considers that all of the Independent Non-executive Directors are independent. Currently, Mr KOH Beng Seng and Mr TUNG Savio Wai-Hok have served on the Board for more than nine years, and they have continued to make significant contributions to the Company by offering valuable guidance from their areas of expertise and extensive experience in business strategy, banking operation, risk management, governance as well as accounting and finance, all of which are relevant to the Group's business. It is considered that the length of service of Mr KOH and Mr TUNG has not affected their independence, given both of them have consistently demonstrated strong independence in judgement and have provided effective oversight of the Management during their tenure. In the event that any director has been appointed for over nine years, the Company will discuss and consider relevant factors and make appropriate disclosures in accordance with relevant regulations. Moreover, all Directors have disclosed to the Company their significant commitments and have undertaken and confirmed that they are able to devote sufficient time to the affairs of the Company. Biographical details of the professional experience, skills and knowledge of the Board members are set out in the section headed "Board of Directors and Senior Management" and are available under the sub-section "Organisation" of the section headed "About Us" on the Company's website at www.bochk.com.

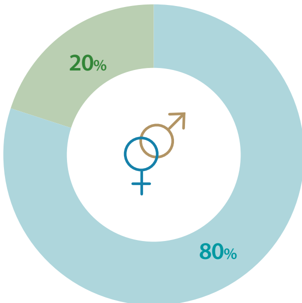
Board Diversity

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

Currently, there are two female members in the Board, which fulfills the requirement on gender diversity under the Listing Rules. At the same time, the Company has adopted the Succession Policy for Directors, in which the Company is committed to promoting diversity including gender diversity of Board members with a view to exercising more comprehensive consideration and judgement by the Board at the time of making succession planning of the Directors. At present, out of the eight members of senior management, three of them are females, representing approximately 38% of the senior management team. The Company strives to promote diversity and inclusion in the teams, in strict compliance with relevant laws and regulations as well as the Staff Guidelines on Eliminating Discrimination. The Company offers diversity and inclusion training and applies the principle of equal opportunity to all policies related to human resources, remuneration and benefits, to ensure employment opportunities for people of all kinds. Any discrimination or harassment against employees owing to their marital status, pregnancy, disability, family status, race or gender are prohibited. During the year, our female employees accounted for around 57% of the total workforce.

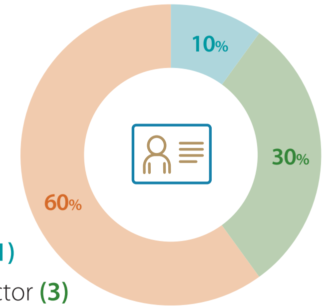
An analysis of the Board's composition as at the date of this Annual Report is set out below:

Gender



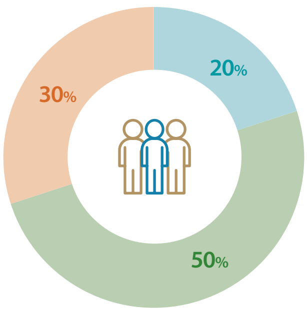
- Male (8)
- Female (2)

Designation



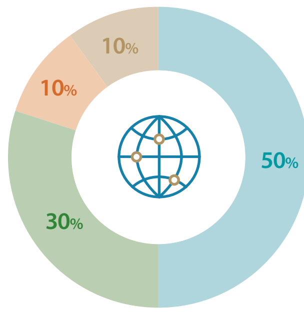
- Executive Director (1)
- Non-executive Director (3)
- Independent Non-executive Director (6)

Age Group



- 45-55 (2)
- 56-65 (5)
- Over 65 (3)

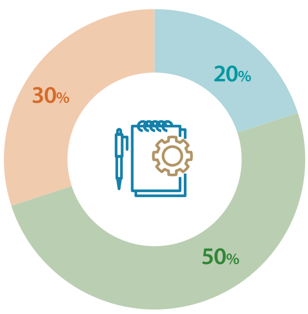
Geographical Location



- Hong Kong (5)
- China (3)
- Singapore (1)
- United States (1)

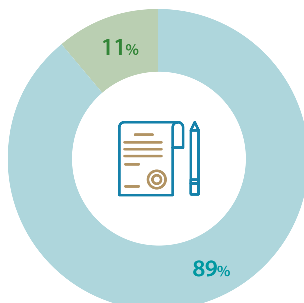
Directorship with the Company

(Number of years)



- Less than 1 year (2)
- 1-6 years (5)
- Over 6 years (3)

Attendance rate at Board meetings in 2021*



- 100% (8)
- Below 90% (1)

* Mdm FUNG Yuen Mei Anita was appointed as Independent Non-executive Director with effect from 3 March 2022. Accordingly, attendance rate at Board meetings in 2021 is not applicable to her.

Mr LIU Liange, Mr LIU Jin and Mr LIN Jingzhen are Executive Directors of BOC. During the year, Mr WANG Jiang was Executive Director of BOC (he resigned such position with effect from 5 February 2021). Save as disclosed above, there are no other relationships between the Board members, including financial, business, family or other material relationships.

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

Directors' Liability Insurance Policy

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

Self-evaluation of the Board

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

Review of Effectiveness of the Individual Directors

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

Directors' Training and Professional Development

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

The Company arranges appropriate Directors' induction through the use of induction handbook, face-to-face meetings and other means, and in accordance with the needs of individual Directors. Topics include but not limited to:

- governance structure;
- mandates of the Board and the Board Committees;
- standing agenda of the Board;
- regulatory requirements on corporate governance;
- focus of concern of regulators; and
- business operation, strategic plan and focus of internal control.

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

During the year, all Directors have participated in continuous professional development to develop and refresh their knowledge and skills in accordance with Code Provision C.1.4 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules. In 2021, the Company invited expert to conduct seminars related to digital transformation in banking and climate risk to the Directors and the senior management, discussing areas such as digital transformation trends, framework and climate risk management.

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

- green and sustainable finance;
- climate risk management;
- digital transformation;
- stock and bond markets in Hong Kong;
- regtech;
- anti-money laundering;
- risk management and internal control;
- corporate governance; and
- banking industry development trend; etc.

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

Directors [Note]	Corporate Governance/ ESG Development/ Regulatory Updates	Risk Management and Internal Control	Banking Industry Development Trend
Non-executive Directors			
Mr LIU Liange	✓	✓	✓
Mr LIU Jin *(appointed with effect from 3 August 2021)*	✓	✓	✓
Mr LIN Jingzhen	✓	✓	✓
Independent Non-executive Directors			
Mdm CHENG Eva	✓	✓	✓
Dr CHOI Koon Shum	✓	✓	✓
Mr KOH Beng Seng	✓	✓	✓
Mr LAW Yee Kwan Quinn	✓	✓	✓
Mr TUNG Savio Wai-Hok	✓	✓	✓
Executive Director			
Mr SUN Yu	✓	✓	✓

Note: The training records for Director who resigned during the year have not been included therein. Mdm FUNG Yuen Mei Anita was appointed as Independent Non-executive Director with effect from 3 March 2022, and her training records was not included herein. Please refer to the section headed "Composition and Terms of Office of the Board" under "Board of Directors" for details of changes in Directors during the year and up to the date of this Annual Report.

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

Five Board meetings were held during 2021 with an average attendance rate of 98%. Regular meeting schedule for the year was prepared and approved by the Board in the preceding year. Formal notices of regular Board meetings were sent to all Directors at least 14 days before the date of the scheduled meetings, and Board agenda and meeting materials of sufficient quality were despatched to all Board members for review at least seven days prior to the scheduled meetings. Board agenda of each meeting was approved by the Chairman following consultation with other Board members and the senior management. Members of the senior management were regularly invited to attend the Board meetings to make presentation and answer questions that the Directors might have. Draft and final versions of Board minutes were sent to all Directors for their comment and record respectively within a reasonable period after the meetings were held.

The Board also received monthly reports with information on the Group's latest financial and operating performance. Accordingly, the Directors can have a balanced assessment of the Group's performance, position and prospects throughout the year. In addition, the Directors received, on a regular basis, thematic reports regarding the Company's precautionary measures taken against COVID-19, professional services and products rendered to customers, active participation in anti-pandemic charity activities as well as the pandemic support work of Southeast Asian institutions.

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

Details of respective Directors' attendance at the Board meetings, Board Committee meetings and annual general meeting in 2021 are set out as follows:

	Number of meetings attended/Number of meetings convened during Directors' term of office						
		Board Committees					General Meeting
Directors[Note]	Board	Audit Committee	Nomination and Remuneration Committee	Risk Committee	Strategy and Budget Committee	Sustainability Committee	Annual General Meeting
Number of meetings held during the year	5	6	2	4	4	2	1
Non-executive Directors							
Mr LIU Liange *(Chairman)*	5/5	–	–	–	4/4	–	1/1
Mr LIU Jin *(Vice-Chairman) (appointed with effect from 3 August 2021)*	3/3	–	1/1	–	3/3	–	0/0
Mr LIN Jingzhen	5/5	–	–	–	4/4	–	1/1
Independent Non-executive Directors							
Mdm CHENG Eva	5/5	6/6	–	–	4/4	2/2	1/1
Dr CHOI Koon Shum	5/5	–	2/2	–	3/4	1/2	1/1
Mr KOH Beng Seng	5/5	6/6	2/2	4/4	–	2/2	1/1
Mr LAW Yee Kwan Quinn	5/5	6/6	–	4/4	–	2/2	1/1
Mr TUNG Savio Wai-Hok	4/5	5/6	1/2	2/4	3/4	1/2	1/1
Executive Director							
Mr SUN Yu *(Vice Chairman and Chief Executive)*	5/5	–	–	–	4/4	2/2	1/1
Average Attendance Rate	98%	96%	88%	84%	92%	83%	100%

Note: Mr WANG Jiang resigned as Non-executive Director with effect from 5 February 2021 and no meeting of the Board and Board Committee was held during the period when he was in office. Mdm FUNG Yuen Mei Anita was appointed as Independent Non-executive Director with effect from 3 March 2022, and her attendance records was not included herein. Please refer to the section headed "Composition and Terms of Office of the Board" under "Board of Directors" for details of changes in Directors during the year and up to the date of this Annual Report.

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

Before the outbreak of COVID-19, the Company used to arrange informal events for Board members and the senior management to facilitate their communication and interactions. For example, the Company would organise working meals from time to time, with Board members and the senior management invited to join and share insights on the Company's business and strategic issues. Board retreat would also be organised for Directors (in particular the Independent Non-executive Directors) to gain a good understanding of the Company's regional business and operations and enhance communication with the senior management. During the year, the Company invited Board members and senior management to participate in the communication meetings through electronic mean to discuss and communicate on the Company's latest business and strategic development and other aspects. Some of the activities might resume to conduct physically in 2022, depending on the latest development on the pandemic.

Board Committees

Audit Committee

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

Composition

Mr TUNG Savio Wai-Hok (Chairman)
Mdm CHENG Eva
Mdm FUNG Yuen Mei Anita[Note]
Mr KOH Beng Seng
Mr LAW Yee Kwan Quinn

Main duties

- oversight of the integrity of financial statements and financial reporting process
- oversight of risk management and internal control systems
- review of performance of the internal audit function and the General Manager of Group Audit
- review of the appointment of external auditor and assessment of its qualification, independence and performance and, with authorisation of the Board and shareholders at general meeting, determination of its remuneration
- review of the periodic review and annual audit of the Company's and the Group's financial statements, and financial and business review
- oversight of compliance with applicable accounting standards as well as legal and regulatory requirements on financial disclosures
- oversight of corporate governance framework of the Group and implementation thereof

Major works performed during the year (included the review and, where applicable, approval of)

- the Company's financial statements for the year ended 31 December 2020 and the annual results announcement that were recommended to the Board for approval
- the Company's interim financial statements for the six months ended 30 June 2021 and the interim results announcement that were recommended to the Board for approval
- the Company's announcements on quarterly financial and business review for the period ended 31 March 2021 and 30 September 2021 that were recommended to the Board for approval
- the audit reports and report on internal control recommendations submitted by external auditor, the audit reports submitted by the internal audit, and the on-site examination reports issued by regulators
- the proposed appointment of external auditor, and the fees payable to external auditor for the annual audit, interim review and other non-audit services
- the connected transactions carried out in 2020
- the annual review of the effectiveness of the Group's risk management and internal control systems
- the Group's 2022 internal audit plan
- the organisation structure, deployment of human resources of Group Audit, as well as its 2022 budget
- external consultant's independent review of the internal audit function
- annual review of the effectiveness of the internal audit function
- the 2020 performance appraisal and 2022 key performance indicators for the General Manager of Group Audit and Group Audit
- annual review of the "Policy on External Auditor Management", the "Policy on Staff Reporting of Irregularities", the "Anti-Bribery and Corruption Policy" and the "Internal Audit Charter"

Note: Independent Non-executive Director and appointed as a member of the Audit Committee with effect from 3 March 2022

Nomination and Remuneration Committee

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

Composition	Main duties
Dr CHOI Koon Shum[1] (Chairman) Mr LIU Jin[2] Mr KOH Beng Seng[1] Mr TUNG Savio Wai-Hok[1]	• review of overall human resources strategies of the Group • selection and nomination of Directors, Board Committee members and Senior Management • regular monitoring and review of structure, size and composition (including but not limited to gender, age, cultural and educational background, ethnicity, geographical location, professional experience, skills, knowledge and track records, etc.) of the Board and Board Committees • review of the effectiveness of the Board and Board Committees • ensuring the participation in training and continuous professional development of Directors and Senior Management • review and recommendation of remuneration strategy and incentive framework of the Group • review of the remuneration of Directors, Board Committee members, Senior Management and Key Personnel **Major works performed during the year (included the approval, review and proposal to the Board)** • consideration of the matters relating to the appointment and changes of Directors and Board Committee members • consideration of the matters relating to the appointment, removal and remuneration of the Executive Director and Senior Management • performance appraisal result of the Senior Management for year 2020 • proposal on staff bonus for year 2020 for the Group, including Senior Management • key performance indicators of the Group and the Senior Management for year 2022 • proposal on human resources budget of the Group for year 2022 • coordination and oversight of the annual performance evaluation of the Board, Board Committees and individual Directors • annual review and amendment of the major human resources and remuneration policies • annual review of the "Policy on Independence of Directors" and the "Policy on Directors' Remuneration"

Notes:
1. Independent Non-executive Director
2. Non-executive Director and appointed as a member of the Nomination and Remuneration Committee with effect from 3 August 2021

Risk Committee

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

Composition

Mr KOH Beng Seng (Chairman)
Mdm FUNG Yuen Mei Anita[Note]
Mr LAW Yee Kwan Quinn
Mr TUNG Savio Wai-Hok

Main duties

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

Major works performed during the year

- review and approval of key risk management policies of the Group, including the Group's risk appetite, the Risk Management Policy Statement, the Capital Management Policy, the Stress Test Policy, Data Management Policy, Risk Data Aggregation & Risk Reporting Management Policy, and a range of risk management policies covering credit risk, market risk, liquidity risk, interest rate risk, operational risk, legal risk, compliance risk, technology risk, strategic risk and reputation risk, etc.
- review and approval of the proposal for the annual review of the Group's recovery plan, the risk adjustment method for group bonus funding mechanics, the results of risk adjustment of the Group, the proposal for the amendment of the credit asset impairment methodology and the Secure Tertiary Data Backup (STDB) independent assessment report
- review and approval of the Group's operating plans, including the Group's target balance sheets, the results of Internal Capital Adequacy Assessment Process (ICAAP), the investment plans and portfolio key risk indicators, as well as risk management limits
- review of risk management reports, including the Group's risk management report, the institutional money laundering risk assessment report, reports on the credit quality and provision of the Bank's credit portfolios arising from the Covid-19 pandemic and debt moratorium, the report on the credit quality of the loan portfolios in SEA operations, the report on cybersecurity, the report on outsourcing management, credit risk and market risk model validation reports, credit risk model performance reports, etc.

Note: Independent Non-executive Director and appointed as a member of the Risk Committee with effect from 3 March 2022

Strategy and Budget Committee

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

Composition

Mr LIU Liange[1] (Chairman)
Mr LIU Jin[2]
Mr SUN Yu[3]
Mr LIN Jingzhen[1]
Mdm CHENG Eva[4]
Dr CHOI Koon Shum[4]
Mdm FUNG Yuen Mei Anita[5]
Mr TUNG Savio Wai-Hok[4]

Main duties

- review of the Group's medium to long-term strategic plan for Board's approval
- monitoring of the Group's implementation of medium to long-term strategy, providing guidance on strategy direction for the management
- review of major investments, capital expenditure and strategic commitments of the Group, and making recommendations to the Board
- review and monitoring of the Group's regular/periodic (including annual) business plan
- review of budget for Board's approval and monitoring of performance against budgeted targets

Major works performed during the year

- review of the Group's medium and long-term development strategy plan, sub-plans for the southeast Asian region and digital transformation for Board's approval
- receipt of and discussion on the Group's RMB business strategy
- receipt of and discussion on the Group's plan on the reform of interest rate benchmarks
- review and monitoring of the implementation of 2021 Financial Budget and Business Plan of the Group, and also review and endorsement of the Financial Budget and Business Plan of the Group submitted by the Management for the year 2022 and recommendation of the same to the Board

Notes:
1. Non-executive Director
2. Non-executive Director and appointed as a member of the Strategy and Budget Committee with effect from 3 August 2021
3. Executive Director
4. Independent Non-executive Director
5. Independent Non-executive Director and appointed as a member of the Strategy and Budget Committee with effect from 3 March 2022

Sustainability Committee

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

Composition

Mdm CHENG Eva[1] (Chairlady)
Mr SUN Yu[2]
Dr CHOI Koon Shum[1]
Mdm FUNG Yuen Mei Anita[3]
Mr KOH Beng Seng[1]
Mr LAW Yee Kwan Quinn[1]
Mr TUNG Savio Wai-Hok[1]

Main duties

- review of the Group's sustainability strategies, goals and priorities as well as material sustainability related policies
- review of environmental, social and governance issues which are material to the Group and the related measures
- oversight of the Group's sustainability performance
- oversight of corporate culture of the Group and review of related policies
- determination of the appropriate reporting principles and boundaries and review of the Sustainability Report

Major work performed during the year

- oversight of the formulation and implementation of the Group's sustainability strategies
- oversight of the Group's materiality assessment mechanism and the related work progress
- review of the Groups' Five-Year Sustainability Plan and measures to promote the low-carbon transition of the Group's own operations
- review of the 2020 Sustainability Report for Board's approval
- review of the Group's sustainability related policies, including the "Sustainability Policy", and recommendation of the same to the Board for approval
- review of sustainability related reports, including the "Report on Bank Culture Building" and the "Report on Annual Review of the Staff Code of Conduct"
- supervision and review of the various sustainability measures taken by the Group
- receipt of and discussion on the market trend and progress update on Task Force on Climate-Related Financial Disclosure of the Group

Notes:
1. Independent Non-executive Director
2. Executive Director
3. Independent Non-executive Director and appointed as a member of the Sustainability Committee with effect from 3 March 2022

Directors' Securities Transactions

The Company has established and implemented the "Code for Securities Transactions by Directors" (the "Company's Code") to govern the Directors' dealings in securities transactions of the Company. Terms of the Company's Code are more stringent than the mandatory standards set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" as contained in Appendix 10 of the Listing Rules. Apart from the Directors' dealings in the securities of the Company, the Company's Code has also been applied to the Directors' dealings in the securities of BOC and BOC Aviation Limited (BOC's subsidiary) since their share listing on the Stock Exchange of Hong Kong in June 2006 and June 2016 respectively as well as BOC International (China) Co, Ltd (BOC's associate) since its share listing on the Shanghai Stock Exchange in February 2020.

Upon specific enquiry by the Company, all Directors confirmed that they had strictly complied with the provisions as set out in both the Company's Code and the said Model Code throughout the year 2021.

Directors' Remuneration

Pursuant to the "Policy on Directors' Remuneration" adopted by the Company, when recommendation of the remuneration of Directors is made, the Nomination and Remuneration Committee should benchmark against companies of comparable business type or scale, the role (chairmanship or membership) they played, job nature and workload at both the Board and Board Committee levels (including frequency of meetings and nature of agenda items) in order to compensate Directors fairly. The remuneration of Directors is subject to regular review based on market practices, regulatory requirements and inflation, etc. No individual Director is allowed to participate in the procedures for deciding his/her individual remuneration package. The remuneration of the Independent Non-executive Directors is not linked with the performance of the Company. Information relating to the remuneration of each Director for 2021 is set out in Note 21 to the Financial Statements. The present scale of Director's fees, including additional fees for membership of Board Committees, is given below:

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

Note: For the year ended 31 December 2021, all Non-executive Directors (excluding Independent Non-executive Directors) and Executive Director have not received their Directors' fees as mentioned above.

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

Remuneration and Incentive Mechanism

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

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

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

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

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

  - "Key Personnel": The employees whose individual business activities involve the assumption of material risk which may have significant impact on risk exposure, or whose individual responsibilities are directly and materially linked to the risk management, or those who have direct influence to the profit, including heads of material business lines, heads of major subsidiaries, senior executives of Southeast Asian entities, head of trading, as well as heads of risk control functions.

- **Determination of the Remuneration Policy**

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

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

1. **Performance Management Mechanism**

   The Group has put in place a performance management mechanism to formalise the performance management at the levels of the Group, units and individuals. The annual targets of the Group will be cascaded down under the framework of balanced scorecard whereby the performance of the "Senior Management" and different units (including business units, risk control units and other units) would be assessed from the perspectives of financial, strategy implementation, building blocks, human capital, risk management and compliance. For individual staff at different levels, annual targets of the Group will be tied to their job requirements through the performance management mechanism. Performance of individuals will be appraised on their achievement against targets, their contribution towards performance of their units, fulfilment of risk management duties and compliance and adherence to the Group's corporate culture, etc. Not only is target accomplishment taken into account, but also the values-based behaviours and sufficient risk management during the course of work, ensuring prudent operation and sustainable development of the Group.

2. **Risk Adjustment of Remuneration**

   To put the principle of aligning performance and remuneration with risk into practice, based on "The Risk Adjustment Method", the key risk modifiers of BOCHK have been incorporated into the performance management mechanism of the Group. Credit risk, market risk, banking book interest rate risk, liquidity risk, operational risk, legal risk, compliance risk (including Anti-money laundry) and reputation risk form the framework of "The Risk Adjustment Method". The size of the bonus pool of the Group is calculated according to the risk adjusted performance results approved by the Board and is subject to the Board's discretion. This method ensures the Group to fix the Group's bonus pool after considering risk exposures and changes and to maintain effective risk management through the remuneration mechanism.

3. Performance-based and Risk-adjusted Remuneration Management

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

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

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

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

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

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

The vesting of the deferred variable remuneration is linked with the long term value creation of the Group. The vesting conditions are closely linked to the annual performance of the Group in the next three years and the individual behaviour of the staff concerned. When the Group's performance has met the threshold requirement, the deferred variable remuneration would be vested following the corresponding schedule. However, if a staff is found to have committed fraud, or any financial or non-financial factors used in performance measurement or variable pay determination are later proven to have been manifestly worse than originally understood in a particular year, or individual behaviour/management style poses negative impacts to the business unit and even the Group, including but not limited to improper or inadequate risk management, significant incident and economic loss incurred by improper management, etc., the unvested portion of the deferred variable remuneration of the relevant staff would be forfeited.

- **Annual Review of Remuneration Policy**

  The Remuneration Policy of the Group is subject to annual review with reference to changes in external regulatory requirements, market conditions and risk management requirements, etc. According to the latest regulatory requirement, the Group reviewed the related policies of remuneration and incentive, including "BOCHK Group Remuneration and Incentive Policy", "BOCHK Group Variable Pay Deferral Policy", "BOCHK Group Bonus Funding Policy" etc, revised the approval authority of remuneration packages, identification criteria and position lists, deferral threshold and deferral rates of "Senior Management" and "Key Personnel", supplemented the link between misconduct risk and remuneration, specified the roles and responsibilities of risk management units. The above amendments were effective from 1 January 2022.

- **External Remuneration Consultant**

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

- **Disclosure on Remuneration**

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

External Auditor

Pursuant to the "Policy on External Auditor Management" adopted by the Board, the Audit Committee reviewed and monitored and was satisfied with the independence and objectivity of PricewaterhouseCoopers, the Group's external auditor, and the effectiveness of its audit procedures, based on the principles and standards set out in the said Policy that were in line with international best practices. Upon the recommendation of the Audit Committee, the Board will propose that PricewaterhouseCoopers be re-appointed as auditor of the Group at the Company's 2022 annual general meeting. Subject to shareholders' authorisation, the Board will authorise the Audit Committee to determine the remuneration of PricewaterhouseCoopers.

For 2021, the fee paid or payable by the Group to PricewaterhouseCoopers was HK$36 million, of which HK$25 million related to audit services and HK$11 million related to other services (mainly including tax-related and advisory services). For 2020, the fee paid or payable by the Group to preceding external auditor, Ernst & Young, was HK$44 million, of which HK$29 million related to audit services and HK$15 million related to other services (mainly including tax-related and advisory services). The Audit Committee was satisfied that the non-audit services in 2021 did not affect the independence of PricewaterhouseCoopers.

Risk Management and Internal Control

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

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

The Group conducts an annual review of the effectiveness of its risk management and internal control systems covering all material controls, including financial, operational and compliance controls as well as risk management. The review is conducted by reference to the guidelines and definitions given by the regulatory and professional bodies for the purpose of assessing five different internal control elements, namely, the control environment, risk assessment, control activities, information and communication, and monitoring. The assessment covers all the major internal controls and measures, including financial, operational and compliance controls as well as risk management functions. The review also considers the adequacy of resources, staff qualifications and experience and training of the Group's accounting, financial reporting and internal audit functions. The review is coordinated by the Group's internal audit which, after the Management and various business departments have performed their self-assessment and the Management has confirmed the effectiveness of the relevant systems, carries out an independent examination and other post-assessment work on the review process and results. The results of the 2021 review, which have been reported to the Audit Committee and the Board, revealed that the Group's risk management and internal control systems were effective and adequate.

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

- a rational organisational structure with appropriate personnel is developed and whose responsibility, authority, and accountability are clearly delineated. The Group has formulated policies and procedures to ensure reasonable checks and balances for all the operating units, reasonable safeguard for the Group's assets and adherence to relevant laws and regulations and risk management in its operations;

- the Management draws up and continuously monitors the implementation of the Group's strategies, business plans and financial budgets. The accounting and management systems that are in place provide the basis for evaluating financial and operational performance;

- the Group has various risk management and human resources policies. There are specific units and personnel that are responsible for handling reputation, strategic, legal, compliance, credit, market, operational, liquidity and interest rate risks. There are also procedures and internal controls for the handling and dissemination of inside information. The Group has set up mechanisms to identify, evaluate and manage all the major risks, and has established corresponding internal control procedures as well as processes for resolving internal control defects. (Details about the Group's risk management are provided on pages 46 to 51 of this Annual Report);

- the Group has established an information technology governance structure that produces a range of reports on information systems and management, including information on the monitoring of various business units, financial information and operating performance. Such information facilitates the Management, business units and the regulatory bodies in assessing and monitoring the Group's operation and performance. Proper communication channels and reporting mechanisms are in place at various business units and levels to facilitate exchange of information;

- pursuant to a risk-based approach and in accordance with the internal audit plan approved by the Audit Committee, the Group's internal audit conducts independent reviews on such aspects as financial activities, various business areas, various kinds of risks, operations and activities. Reports are submitted directly to the Audit Committee. The Group's internal audit closely follows up on the items that require attention in a systematic way and reports to the Management and the Audit Committee in a timely manner; and

- the Audit Committee reviews the reports submitted by external auditor to the Group's Management in connection with the annual audit as well as the recommendations made by regulatory bodies on risk management and internal control. The Group's internal audit follows up on the same to ensure timely implementation of the recommendations, and also periodically reports the status of the implementation to the Management and the Audit Committee.

The Group is committed to upholding good corporate governance practices and the internal control system of all subsidiaries are reviewed regularly. During the year of 2021, continuous improvements on the organisation structure and segregation of duty, the risk management policy and procedure, and the enhancement of disclosure transparency have been undertaken by the Group. In response to internal and external changes in global economic condition, operating environment, regulatory requirement and business development, the Group has implemented a series of measures and undertaken an on-going review on the effectiveness of the internal control mechanism. In 2021, areas for improvement have been identified and appropriate measures have been implemented.

Amendments to the Articles of Association

At the 2021 annual general meeting, the Company had adopted a new Articles of Association with the following summary changes including (i) to enable the convening, holding and conducting of general meetings (including an annual general meeting, any adjourned meeting or postponed meeting) as a physical meeting in any part of the world (except that the principal place of the general meeting must be a location in Hong Kong) and at one or more locations, or as a hybrid meeting; (ii) to recognise the use of electronic communication and/or facilities by the Company in addition to traditional and/or mechanical means; (iii) to empower the Board to postpone a general meeting (or an adjourned general meeting) before such meeting (or adjourned meeting) is held; and (iv) to update and tidy up definitions and other references, and to make consequential amendments in line with the aforesaid amendments and other house-keeping amendments.

Communication with Shareholders

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

The Board attaches a high degree of importance to continuous communication with shareholders, particularly through direct dialogue with them at the Company's annual general meeting. During the pandemic, the Company has adjusted the mode of convening the annual general meeting flexibly, ensuring effective communication with shareholders while complying with the Companies Ordinance and other applicable disease prevention regulations as well as the requirements of the Articles of Association.

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

Mr LIU Liange (Chairman of the Company and the Strategy and Budget Committee), Mr TUNG Savio Wai-Hok (Chairman of the Audit Committee), Dr CHOI Koon Shum (Chairman of the Nomination and Remuneration Committee), Mr KOH Beng Seng (Chairman of the Risk Committee) and Mdm CHENG Eva (Chairlady of the Sustainability Committee) were present at the Company's 2021 annual general meeting held on 17 May 2021 at Grand Ballroom, The Lobby Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wan Chai, Hong Kong. Representatives of Ernst & Young, being the auditor of the Company for the financial year ended 31 December 2020 were also present at the Company's 2021 annual general meeting to respond to enquiries raised by shareholders. Save as disclosed above, other Directors including Mr SUN Yu (Vice Chairman and Chief Executive of the Company), Mr LIN Jingzhen and Mr LAW Yee Kwan Quinn were also present at the meeting.

In the interest of the health and safety of the shareholders attending general meetings during the COVID-19 situation and taking into consideration the various social distancing measures as strongly advised by the HKSAR Government, the Company had reviewed the meeting venue area at the hotel and had arranged to limit physical attendance at the general meeting to 100 shareholders by way of pre-registration. In addition, similar to previous practice, the Company had launched live webcast for the general meeting so that shareholders could view the proceedings of the meeting and submit questions online instead of attending the meeting in person. Shareholders were also strongly recommended to appoint the chairman of the general meeting as proxy to vote in order to exercise their voting rights. Moreover, the Company is committed to undertaking corporate social responsibility and has enhanced the arrangement by making charitable donations to The Community Chest Anti-NCP Rainbow Fund as an alternative to distribution of corporate gifts to shareholders at the general meeting held in 2021 in order to help people in need.

Summary of the resolutions passed at the Company's 2021 annual general meeting as well as the percentage of votes cast in favour are as follows:

Resolutions	Percentage Voted For
Ordinary Resolutions	
Approval of audited financial statements and the Reports of the Directors and of the Auditor	99.98%
Declaration of final dividend	99.84%
Re-election of Directors	94.65% to 98.72%
Appointment of Auditor	99.38%
Grant of general mandate to issue shares	84.66%
Grant of general mandate to buy back shares	99.91%
Extension of the general mandate to issue shares by adding the number of shares bought back	85.55%
Special Resolution	
Adoption of new Articles of Association	99.90%

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

As disclosed in the 2020 Annual Report of the Company, in view of the investors' concern regarding the potential dilution of the shareholder value arising from the exercise of power pursuant to the grant of a general mandate to issue shares to the Board, the Board has voluntarily reduced the general mandate to issue shares of up to 5% of the total number of shares in issue as compared to the 20% limit permitted under the Listing Rules in the event that the issue of shares is solely for cash and not related to any acquisition of assets for approval by the shareholders at the 2021 annual general meeting.

Having thoroughly considered the feedback from investors and proxy advisory firms, and making reference to industry's practices on general mandate to issue shares and deliberated the strategic business development plan, the Board will recommend to reduce the general mandate to issue shares to be issued to 10% of the total number of shares in issue as compared to the 20% limit permitted under the Listing Rules, and to introduce a limitation of discount rate of issue price which shall not exceed 10% of the Company's benchmarked price. The Board will also continue to recommend the threshold of up to 5% of the total number of shares in issue in the event that the issue of shares is solely for cash and not related to any acquisition of assets (subject to adjustment in case of any subdivision and consolidation of shares after the passing of the relevant resolution) at the 2022 annual general meeting for approval by shareholders.

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

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

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

All the resolutions to be proposed at the Company's 2022 annual general meeting will be voted on by poll. Accordingly, the Company will engage Computershare Hong Kong Investor Services Limited, the Company's Share Registrar, to act as the scrutineer for such purpose. The results of the poll voting will be posted on the Stock Exchange's website and the Company's website as soon as practicable following conclusion of the vote-counting for shareholders' information.

Besides, in order that shareholders can have a better understanding of the agenda items to be discussed at the 2022 annual general meeting and to encourage their active participation so that exchange of views and communication can be further enhanced, the Company will provide detailed information on the 2022 annual general meeting in a circular to shareholders which will include introduction to the proposed resolutions to be approved at the annual general meeting, information on the retiring Directors who are eligible for re-election, as well as information on voting, live webcast (if applicable) and other issues relating to the 2022 annual general meeting in the form of "Frequently Asked Questions".

Shareholders' Rights

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

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

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

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

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

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

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

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

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

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

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

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

Dividend Policy

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

Disclosure of Information

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

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

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

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

Directors' Responsibility Statement in relation to Financial Statements

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

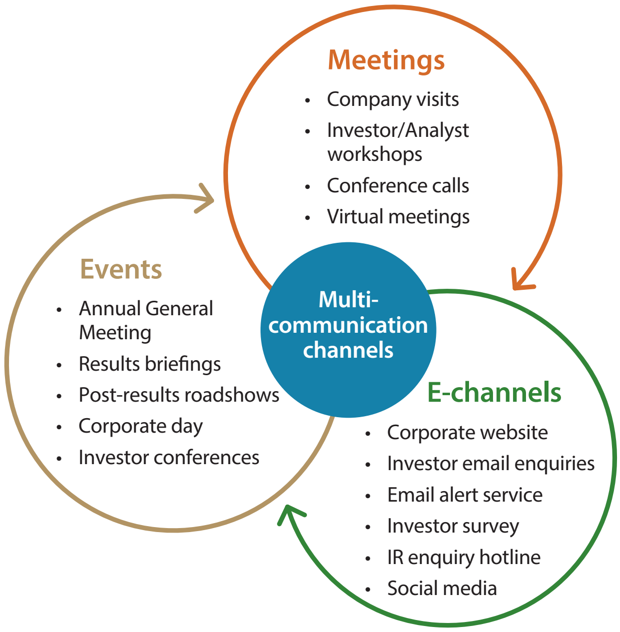
The Directors are required by the Hong Kong Companies Ordinance to prepare financial statements, which give a true and fair view of the state of affairs of the Company. The financial statements should be prepared on a going concern basis unless it is considered inappropriate. The Directors are responsible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

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

Investor Relations

Investor Relations Policy and Guidelines

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



Investor Relations Programmes

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

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

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

Information Disclosure Policy

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

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

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

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

Access to Corporate Information

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

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

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

Overview of Investor Relations Activities in 2021

In 2021, the Company continued its efforts to provide effective channels for communication with the investment community.

Annual General Meeting

In the interest of the health and safety of the shareholders and other stakeholders attending general meetings during the COVID-19 situation and taking into consideration the various social distancing measures as strongly advised by the HKSAR Government, the Company had reviewed the meeting venue area at the hotel and had arranged to limit physical attendance at the Annual General Meeting held on 17 May 2021 to 100 shareholders by way of pre-registration. In addition, same as last year, the Company had launched live webcast for the said general meeting so that shareholders could view the proceedings of the meeting and submit questions online instead of attending the meeting in person.

At the Annual General Meeting held in May 2021, Chairman of the Board, Chairmen and members of the Audit Committee, the Nomination and Remuneration Committee, the Risk Committee, the Strategy and Budget Committee as well as the Sustainability Committee respectively, the Company's senior management and external auditor were present to respond to questions and comments from shareholders. A total of 103 registered shareholders and 37 authorised proxies holding an aggregate of 8,445,212,562 shares, representing 79.88% of the Company's total number of shares in issue, were present. Minutes of the 2021 Annual General Meeting were made available to shareholders on the Company's website.

Results Announcements

Due to the COVID-19 development, at the Company's 2020 annual results announcement and 2021 interim results announcement, the Company's senior management conducted briefings via "webcast + teleconferences" with analysts and the press to apprise them of the Company's strategy implementation, operating results, business development and outlook as well as to answer their questions. The public could access the results announcements, presentation materials, webcasts, financial data pack and transcripts of analyst briefing sessions on the Company's website and kept themselves updated with the latest financial and earnings performances of the Company. At the same time, the Company leveraged a wide range of social platforms and announced results via Weixin, YouTube and Linkedin so as to maintain broad communications channels with investors.

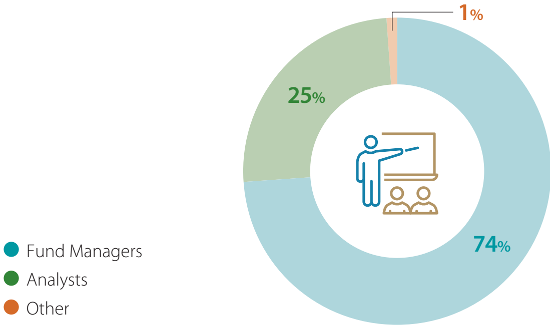
In addition to the interim and annual results announcements, the Company published quarterly financial and business reviews to keep shareholders up-to-date about the Company's performance and financial position.

Communication with the Investment Community

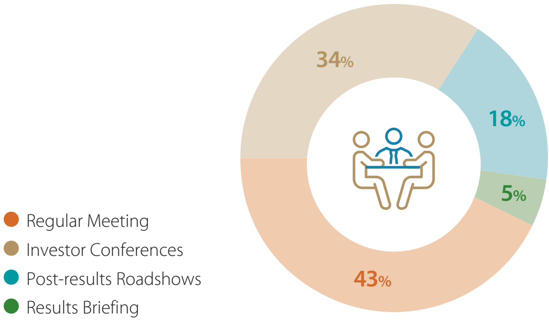
In 2021, the Company had held 153 meetings with investors and analysts across the world, with a total attendance of over 650. These meetings, which aim to give investors a better understanding of the Company's strategies and new business initiatives as well as to continuously engage them in active discussion on the Company's ESG development, were held through virtual results briefings, post-results road-shows, investor conferences, regular meetings and thematic meetings. The Company was widely covered by 12 securities research institutions, among which a good number of them ascribed "Buy" rating to the Company. The Company expanded investor base and optimised its geographical distribution by proactively making use of virtual meeting and interacting with institutional investors across major regions in the globe covering various financial centres including Hong Kong, Beijing, Shanghai, Shenzhen, New York, Toronto, London, Oslo, Frankfurt, Geneva, Tokyo, Singapore, Kuala Lumpur, Abu Dhabi, Sydney, etc., which earned positive reaction from the investment community.

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

Investor Meetings by Category



Investors Met by Event



Going Forward

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

Investor Relations Contact

Enquiries can be directed to:

Investor Relations Division BOC Hong Kong (Holdings) Limited 53rd Floor, Bank of China Tower 1 Garden Road, Hong Kong	Telephone: (852) 2826 6314 Facsimile: (852) 2810 5830 E-mail: investor_relations@bochk.com

Shareholder Information

Financial Calendar 2022

Major Events	Dates
Announcement of 2021 annual results	29 March (Tuesday)
Latest time for lodging transfers for entitlement to attend and vote at the 2022 Annual General Meeting	22 June (Wednesday) 4:30 p.m.
Book closure period (both days inclusive)	23 June (Thursday) to 29 June (Wednesday)
Latest time for lodging proxy forms for the 2022 Annual General Meeting	27 June (Monday) 2:00 p.m.
2022 Annual General Meeting	29 June (Wednesday) 2:00 p.m.
Last day in Hong Kong for dealing in the Company's shares with entitlement to final dividend	30 June (Thursday)
Ex-dividend date	4 July (Monday)
Latest time for lodging transfers for entitlement to final dividend	5 July (Tuesday) 4:30 p.m.
Book closure period (both days inclusive)	6 July (Wednesday) to 11 July (Monday)
Record date for final dividend	11 July (Monday)
Final dividend payment date	15 July (Friday)
Announcement of 2022 interim results	Mid to late August

Annual General Meeting

The 2022 Annual General Meeting will be held at 2:00 p.m. on Wednesday, 29 June 2022. For details of the meeting, please refer to the notice of the annual general meeting to be issued by the Company.

Share Information

Listing and Stock Codes

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

Market Capitalisation and Index Recognition

As at 31 December 2021, the Company's market capitalisation was HK$270.1 billion, among the top 50 leading stocks on the Main Board of Hong Kong Stock Exchange in terms of market capitalisation. Given the Company's market capitalisation and liquidity, its shares are a constituent of Hang Seng Index, MSCI Index, and FTSE Index series. In addition, the Company is a constituent of Hang Seng Corporate Sustainability Index Series, Hang Seng High Dividend Yield Index and HSI ESG Index, which recognises its favorable performance in related areas.

Debt Securities

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

Subordinated Notes

Description	:	Bank of China (Hong Kong) Limited 5.90% Undated Non-cumulative Subordinated Additional Tier 1 Capital Securities	
Issue size	:	US$3,000 million	
Stock codes	:	HKEX	5163
		ISIN	US06428YAA47 (Regulation S)
			US06428JAA79 (Rule 144A)
		Bloomberg	AU4771195 (Regulation S)
			AU4771229 (Rule 144A)

Senior Notes

Description	:	Bank of China (Hong Kong) Limited 2.8% CNY Notes 2023	
Issue size	:	RMB1,500 million	
Issue theme	:	Green bond	
Stock codes	:	HKEX	86010
		ISIN	HK0000744695 (Regulation S)
		Bloomberg	BQ3692499 (Regulation S)

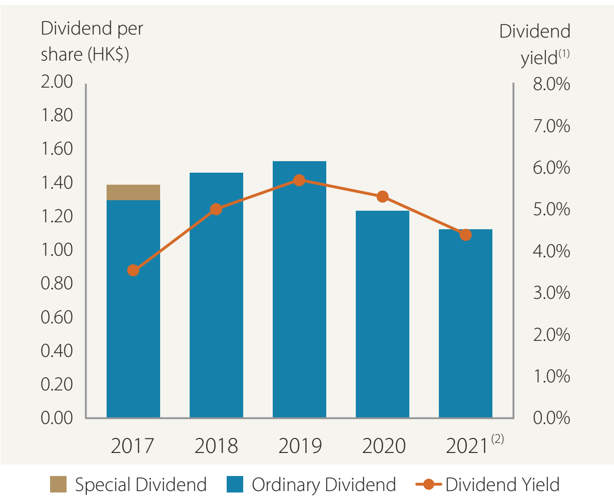
Share Price and Trading Information

Share price (HK$)	2021	2020	2019
Closing price at year end	25.55	23.50	27.05
Highest trading price during the year	29.55	28.90	35.90
Lowest trading price during the year	22.20	20.05	25.05
Average daily trading volume (m shares)	11.45	13.08	11.66
Number of ordinary shares issued (shares)	10,572,780,266		
Public float	Approximately 34%		

Dividends

The Board of Directors has recommended a final dividend of HK$0.683 per share, which is subject to the approval of shareholders at the 2022 Annual General Meeting. With the interim dividend per share of HK$0.447 paid during 2021, the total dividend per share will amount to HK$1.130 for the full year.

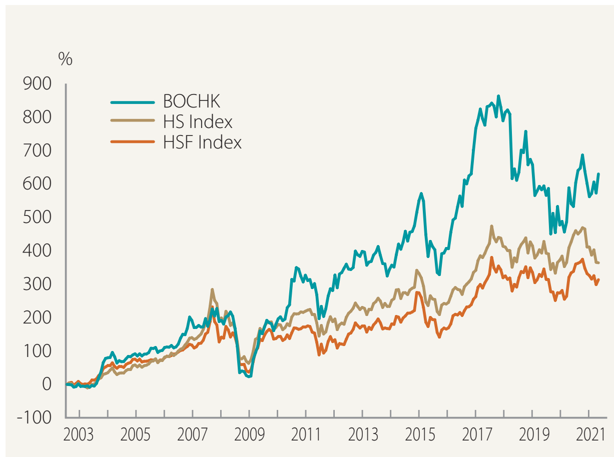
Dividend Per Share and Dividend Yield(1)



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

(2) 2021 proposed final dividend will be subject to shareholders' approval at the Company's forthcoming Annual General Meeting.

Total Shareholder Return since Initial Public Offering



Source: Bloomberg

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

Credit Ratings (long-term)

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

Shareholding Structure and Shareholder Base

As at 31 December 2021, the Company had 10,572,780,266 shares in issue of which approximately 34% was held by the public and 0.15% was held in the form of ADSs. The Company's 68,009 registered shareholders were distributed in various parts of the world, including Asia, Europe, North America and Australia. Apart from BOC, the Company is not aware of any major shareholders with a shareholding of more than 5% which has to be reported under the SFO.

During the year, the shareholder structure of the Company remained stable. The following table shows the distribution of ownership according to the register of members which includes registered shareholders and shareholders recorded in the participant shareholding report generated from the Central Clearing and Settlement System as at 31 December 2021:

Category	Number of registered shareholders	% of registered shareholders	Number of shares held by registered shareholders	Approximate % of total issued shares
Individuals	67,885	99.82	216,420,191	2.05
Institutions, corporates and nominees Note	123	0.18	3,415,282,319	32.30
Bank of China Group Note	1	0.00	6,941,077,756	65.65
Total	68,009	100.00	10,572,780,266	100.00

Note:
As recorded in the register maintained by the Company pursuant to section 336 of the SFO, the total number of shares held by Bank of China Group was 6,984,274,213 shares, representing approximately 66.06% of the total number of shares in issue of the Company as at 31 December 2021. This figure included certain numbers of shares held for Bank of China Group in the securities account opened with BOCI Securities Limited, a participant of the Central Clearing and Settlement System. Accordingly, these shares are included under the category of "Institutions, corporates and nominees".

Shareholder Enquiries

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

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

Other Information

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

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

Awards and Recognition

With our solid financial strength and outstanding business performance, the Group earned various industry awards which further reinforced our leading market position. In addition, guided by our customer-centric principle, we won accolades in recognition of our achievements in enhancing customer experience through continuous product and service innovation as well as channel optimisation. We are also highly commended for our commitment to foster sustainable development of the economy, society and the environment.

Financial Strength and Corporate Governance

- Bank of the Year in Hong Kong ***(The Banker)***
- Strongest Bank in Hong Kong and Asia Pacific ***(The Asian Banker)***
- Most Outstanding Company in Hong Kong – Banking Sector ***(Asiamoney)***
- Best Chinese Bank for the Greater Bay Area ***(Asiamoney)***
- Hong Kong: Best Bank (Chinese Financial Institutions) ***(FinanceAsia)***
- Listed Company Awards of Excellence 2021 (Blue Chip) ***(Hong Kong Economic Journal)***
- Best Listing Company Awards ***(China Financial Market)***

Digital Development

- Best Digital Bank in Hong Kong SAR ***(Asiamoney)***
- Asian Banking & Finance Retail Banking Awards 2021: Mobile Banking & Payment Initiative of the Year – Hong Kong ***(Asian Banking & Finance)***
- IDC Future Enterprise Awards: Best in Future of Customers and Consumers – Hong Kong, and Best in Future of Intelligence – Hong Kong ***(IDC)***

Sustainable Development

- Hong Kong Green and Sustainable Finance Awards 2021 ***(Hong Kong Quality Assurance Agency)***:

  Outstanding Award for Green and Sustainable Bond Issuer (Hong Kong Commercial Banking Industry) – Largest Single Renminbi Green Bond

  Outstanding Award for Green and Sustainable Bond Lead Manager (Financial Investment Industry) – Largest Amount of Green Bonds

  Outstanding Award for Green and Sustainable Bond Lead Manager (Shipping Industry) – Largest Single Blue Bond

  Outstanding Award for Green and Sustainable Loan Facilitator (Greater Bay Area Enterprises) – Greatest Number of Green and Sustainability-linked Loan, Green Loan e-Assessment

- Hong Kong Corporate Governance & ESG Excellence Awards 2021: Award of Excellence in ESG ***(The Chamber of Hong Kong Listed Companies)***
- Hong Kong Awards for Environmental Excellence: Servicing and Trading – Gold Award ***(Environmental Campaign Committee)***
- Hong Kong Volunteer Award – Gold ***(Agency for Volunteer Service)***
- Awarded Caring Company Logo for 19 consecutive years ***(The Hong Kong Council of Social Service)***

Service Excellence

- Hong Kong Domestic RMB Internationalisation Initiative of the Year, Hong Kong Domestic Trade Finance Bank of the Year, and Hong Kong Domestic Cash Management Bank of the Year ***(Asian Banking & Finance)***
- Best Transaction Bank in Hong Kong, Best Cash Management Bank in Hong Kong, and Best Cash Management Project in Hong Kong ***(The Asian Banker)***
- Outstanding FX Settlement Bank and Top Custodian ***(Bond Connect Company Limited)***
- Best SME's Partner Award for 14 consecutive years ***(The Hong Kong General Chamber of Small and Medium Business)***

- Market Influential Leader Award in 2021 ***(China Foreign Exchange Trade System/National Interbank Funding Center)***
- CIBM Offshore Institutional Investor Excellence Award ***(China Central Depository & Clearing Co., Ltd)***
- Extraordinary Participant in Cross-border Payment and Clearing, Extraordinary Institution in Participant Access, Extraordinary Participant in Outstanding Operation Management, Anti-pandemic Pioneer Award, and Advancement in Business Migration ***(Cross-border Interbank Payment System)***
- Adam Smith Awards Asia – Highly Commended: Best in Class Treasury Solution in ASEAN, and Harnessing the Power of Technology ***(Treasury Today)***
- Best Cash Pooling Solution – Highly Commended ***(TMI)***
- China Treasury Award: Best Cross-border RMB Services Award, Best Overseas Treasury Management Bank Award, Best Shared Service Platform Award, and Excellent Treasury Award ***(Treasury China)***
- 9+2•GBA Outstanding Contribution Award (Corporate), Best Bank in GBA Award, and GBA Best Cross-border Wealth Management Award ***(Ta Kung Wen Wei Media Group Business Development Limited)***
- Financial Institution Awards 2021: Bancassurance Sector Bancassurer of the Year – Excellence ***(Bloomberg Businessweek)***
- Top Business Leader for Year 2021 Award ***(Lao National Chamber of Commerce and Industry)***
- Best of Cross-border Business Services Award 2021 ***(Business Plus Magazine and University of the Thai Chamber of Commerce)***

Talent Development Management

- Best HR Awards 2021 ***(CTgoodjobs)***:

  Best Talent Acquisition & Onboarding Strategy Award – Grand

  Best L&D Technology Implementation Award – Grand

  Best Graduate and Management Trainee Programme Award – Gold

  Best Innovative L&D Initiative Award – Gold

- Hong Kong Banking Industry Talent Development Awards Programme: Talent Development Award (Category I) ***(The Hong Kong Institute of Bankers)***

Contact Us

Bank of China (Hong Kong)

Enquiry Hotline

Contents	Telephone
Personal Customer Service Hotline	(852) 3988 2388
24-hour *Wealth Management* Service Hotline	(852) 3988 2888
24-hour *Enrich Banking* Service Hotline	(852) 3988 2988
Corporate Customer Service Hotline	(852) 3988 2288
BOC Credit Card Hotline	(852) 2853 8828
BOC Credit Card Lost Card Reporting Hotline	(852) 2544 2222
ATM Card Hotline	(852) 2691 2323
BOC Express Cash Customer Service Hotline	(852) 2108 3611

Branch Locator

www.bochk.com/en/branch.html

Internet Banking and Mobile Banking

Internet Banking:
www.bochk.com

Mobile Banking:

iGTB Corporate Internet Banking and Mobile Banking

Corporate Internet Banking:
igtb.bochk.com

Corporate Mobile Banking:

iOS

Android

BoC Pay Mobile App

BoC Bill Integrated Billing Service

Social Media

BOCHK_Banking

BOCHK_CC

YouTube 中銀香港BOCHK

www.youtube.com/user/bankofchinahk

Independent Auditor's Report

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

Opinion

What we have audited

The consolidated financial statements of BOC Hong Kong (Holdings) Limited (the "Company") and its subsidiaries (the "Group"), which are set out on pages 121 to 290, comprise:

- the consolidated balance sheet as at 31 December 2021;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

Key Audit Matters

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

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

- Measurement of expected credit loss ("ECL") for advances to customers
- Valuation of financial instruments measured at fair value
- Valuation of insurance contract liabilities

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit loss ("ECL") for advances to customers	
Refer to Note 2.14, Note 3.1, Note 4.1, Note 13 and Note 25 to the Group's consolidated financial statements. As at 31 December 2021, the gross carrying amount and impairment allowances of advances to customers in the Group's consolidated balance sheet was HK$1,599,084 million and HK$9,877 million, respectively. The impairment losses on advances to customers recognised in the Group's consolidated income statement for the year ended 31 December 2021 amounted to HK$1,962 million. The Group assessed whether the credit risk of advances to customers had increased significantly since their initial recognition, and applied a three-stage impairment approach to measure their ECL. For advances classified into stages 1 and 2, the Group assessed the ECL using the risk parameter modelling approach that incorporated relevant key risk parameters, including probability of default ("PD"), loss given default ("LGD"), exposure at default ("EAD"). For advances to customers in stage 3, the Group assessed ECL by estimating the future cash flows for the advances to customers.	We understood and evaluated management's internal controls and assessment process for the measurement of ECL for advances to customers. We assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as the complexity of estimation models used, the subjectivity of significant management judgements and assumptions, and susceptibility to management bias. We tested the key internal controls over the measurement of ECL for advances to customers. These primarily included periodic assessment and approval controls over: (1) ECL models, including the selection of modelling methodologies; model optimisation and application of key parameters, and model back-testing; (2) significant management judgements and assumptions, including portfolio segmentation, relevant ECL model parameters estimation, determination of significant increases in credit risk, identification of default and credit impaired assets, as well as economic indicators, economic scenarios and weighting used in forward looking measurement; (3) estimated future cash flows and calculations of present values with respect to advances to customers in stage 3; (4) the accuracy and completeness of key data used in the model; (5) information technology ("IT") systems for ECL measurement, including IT general controls, data interfaces, application of model parameters and IT controls over impairment calculations.

Key Audit Matter	How our audit addressed the Key Audit Matter
The measurement of ECL for advances to customers involves significant judgements and assumptions, mainly on: (1) Segmentation of portfolios based on credit risk characteristics, selection of appropriate models and determination of relevant key parameters; (2) Determination and application of criteria to identify significant increase in credit risk, default and credit impaired assets; (3) Economic indicators, economic scenarios and weighting used in the forward-looking measurement; (4) Estimation of future cash flows for advances to customers that are impaired. We have identified the measurement of ECL for advances to customers as a key audit matter due to the material balance of the Group's impairment allowances for advances to customers and high inherent risk given the uncertainty of estimates, adoption of complex models, involvement of significant management judgements and assumptions and use of numerous parameters and data inputs in such measurement.	We involved our credit risk experts in evaluating the model methodologies, significant judgements and assumptions, data and key parameters used in the ECL measurement for advances to customers. The substantive audit procedures performed by us were mainly as follows: (1) We assessed the appropriateness of portfolio segmentation and the models adopted for the measurement of ECL in respect of different portfolios by considering the risk characteristics of advances to customers, the Group's risk management practices and industry practices. We tested ECL calculations on a sampling basis and examined whether the models' calculation engines are in accordance with the Group's methodologies; (2) We checked the accuracy and completeness of historical and measurement date data used in the ECL models on a sampling basis. The sampled data inputs included but not limited to the following: (i) in respect of PD: financial and non-financial information for determining borrowers' credit rating, and overdue repayment status, etc.; (ii) in respect of LGD: types of guarantees and collateral, and historical actual loss rates, etc.; (iii) in respect of EAD: borrowers' outstanding loan balances, interest rates, maturity dates and repayment methods, etc. We agreed these data inputs to loan contracts and other relevant documents. We also agreed the total credit risk exposure in the ECL models to data from other information systems; (3) In respect of PD and LGD, we assessed the reasonableness of the parameters by comparing the historical expected default and loss given default with the subsequent actual default and loss given default for significant exposures through independent back-testing;

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of financial instruments measured at fair value	
Refer to Note 2.12, Note 3.2 and Note 5.1 to the Group's consolidated financial statements. As at 31 December 2021, the Group's financial assets measured at fair value were HK$986,901 million, representing 27% of total assets, of which (1) 31% were classified as Level 1 fair value, measured using quoted prices (unadjusted) in active markets; (2) 68% were classified as Level 2 fair value, measured using valuation techniques for which inputs are observable for the financial instruments, either directly or indirectly; and (3) 1% were classified as Level 3 fair value, measured using valuation techniques using unobservable inputs that have a significant impact on the valuation. Level 3 financial instruments mainly include unlisted equity, fund investments and some debt securities held by the Group. While the Group's financial liabilities measured at fair value were HK$42,277 million as at 31 December 2021, representing 1% of total liabilities, of which more than 99% were classified as Level 2 fair value. We have identified this as a key audit matter due to the material balance of the financial instruments measured at fair value. Also, management has used complex valuation models to determine the fair value of financial instruments that are not quoted in active markets. The valuation models involve management's judgements and assumptions, including the selection of data inputs.	We understood and evaluated management's internal controls and assessment process of the valuation of financial instruments measured at fair value. We assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as the complexity of valuation techniques and models, the subjectivity of management's judgements and assumptions in selecting valuation techniques, models and data inputs and susceptibility to management bias. We tested the key internal controls over the valuation of financial instruments measured at fair value. These included controls over independent price verification, model validation and approval, review and approval of valuation results, and the IT general controls of related systems, systems interfaces of inputs such as market data and automated calculations within the valuation system. We performed the following substantive procedures on a sampling basis: (1) For Level 1 financial instruments, we tested their valuations by comparing to quoted prices in active markets.

Key Audit Matter	How our audit addressed the Key Audit Matter
	(2) For Level 2 and Level 3 financial instruments: (i) we assessed the appropriateness of the Group's valuation models and benchmarked against common market models, taking into consideration the product characteristics and industry practice; (ii) we tested the accuracy of data inputs used for valuation of Level 2 financial instruments by comparing to market observable data and involved our valuation experts to assess the reasonableness of any judgements and assumptions that management applied; (iii) we obtained an understanding of management's judgements in the selection of unobservable data inputs used for valuation of Level 3 financial instruments and involved our valuation experts to assess the reasonableness of any judgements and assumptions that management applied. We also compared the unobservable data inputs to alternatives in the market and performed sensitivity analysis on the unobservable data inputs. We checked and evaluated the financial statements disclosures in relation to fair value of financial instruments. Based on the procedures performed, we considered that the valuation models, significant judgements and assumptions as well as relevant data used by management in the valuation of financial instruments measured at fair value were supported by available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of insurance contract liabilities Refer to Note 2.20, Note 3.3, Note 4.4 and Note 37 to the Group's consolidated financial statements. As at 31 December 2021, the Group has recorded insurance contract liabilities of HK$153,911 million, representing 5% of the Group's total liabilities. The valuation of insurance contract liabilities involved significant judgements and assumptions about uncertain future outcomes, including mortality, morbidity, expense, valuation interest rates and provision for adverse deviation, as well as complex valuation methodologies. We have identified this as a key audit matter due to the high inherent risk given the uncertainty of estimates, use of complex valuation methodologies and involvement of significant management judgements and assumptions.	We understood and evaluated management's internal controls and assessment process of the valuation of the insurance contract liabilities. We assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as the complexity of estimation models used, the subjectivity of significant management judgements and assumptions, and susceptibility to management bias. We tested the key internal controls over the valuation of insurance contract liabilities. These included periodic assessment and approval controls, which primarily over: (1) selection and approval of methodologies applied in actuarial valuation; (2) key assumptions used by management. We involved our actuarial experts in assessing the appropriateness of valuation methodologies, key assumptions used and management's judgements applied. The substantive audit procedures performed by us were mainly as follows: (1) We discussed with management to understand the product features and the valuation methodologies applied in the valuation of insurance contract liabilities. We assessed the appropriateness of the valuation methodologies in accordance with the relevant accounting standards and regulatory requirements; (2) We assessed the reasonableness of the key assumptions, including mortality, morbidity, expense, valuation interest rates and provision for adverse deviation applied in the valuation of insurance contract liabilities with reference to market observable data, the Group's past experience and our industry experience; (3) We reviewed the current best estimate assumptions applied in and assessed the calculation of the liability adequacy test to consider whether the insurance contract liabilities are adequate; (4) We compared the result of insurance contract liabilities against our expectation derived from market data and experience and policyholder experience. We checked and evaluated the financial statements disclosures in relation to insurance contract liabilities. Based on the procedures performed, we considered that the valuation methodologies, significant judgements and assumptions used by management in the valuation of insurance contract liabilities were supported by available evidence.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 29 March 2022

Consolidated Income Statement

For the year ended 31 December	Notes	2021 HK$'m	2020 HK$'m
Interest income		**40,298**	49,928
Interest income calculated using the effective interest method		***39,482***	*48,755*
Others		***816***	*1,173*
Interest expense		**(8,357)**	(15,190)
Net interest income	6	**31,941**	34,738
Fee and commission income		**14,803**	13,515
Fee and commission expense		**(2,931)**	(2,673)
Net fee and commission income	7	**11,872**	10,842
Gross earned premiums		**26,531**	27,990
Gross earned premiums ceded to reinsurers		**(10,827)**	(9,530)
Net insurance premium income		**15,704**	18,460
Net trading gain	8	**5,091**	5,174
Net (loss)/gain on other financial instruments at fair value through profit or loss	9	**(1,136)**	1,959
Net gain on other financial instruments	10	**1,120**	4,572
Other operating income	11	**983**	896
Total operating income		**65,575**	76,641
Gross insurance benefits and claims and movement in liabilities		**(28,642)**	(34,113)
Reinsurers' share of benefits and claims and movement in liabilities		**12,049**	11,946
Net insurance benefits and claims and movement in liabilities	12	**(16,593)**	(22,167)
Net operating income before impairment allowances		**48,982**	54,474
Net charge of impairment allowances	13	**(2,145)**	(2,707)
Net operating income		**46,837**	51,767
Operating expenses	14	**(16,407)**	(16,347)
Operating profit		**30,430**	35,420
Net loss from disposal of/fair value adjustments on investment properties	15	**(229)**	(1,622)
Net loss from disposal/revaluation of properties, plant and equipment	16	**(20)**	(63)
Share of results after tax of associates and joint ventures	27	**(213)**	(152)
Profit before taxation		**29,968**	33,583
Taxation	17	**(4,969)**	(5,115)
Profit for the year		**24,999**	28,468

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December	Notes	**2021 HK$'m**	2020 HK$'m
Profit attributable to:			
Equity holders of the Company and other equity instrument holders		**24,348**	27,863
Equity holders of the Company		**22,970**	26,487
Other equity instrument holders		**1,378**	1,376
Non-controlling interests		**651**	605
		24,999	28,468
Dividends	18	**11,947**	13,131
		HK$	HK$
Earnings per share			
Basic and diluted	19	**2.1726**	2.5052

The notes on pages 129 to 290 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December	Notes	2021 HK$'m	2020 HK$'m
Profit for the year		**24,999**	28,468
Items that will not be reclassified subsequently to income statement:			
Premises:			
Revaluation of premises	29	**651**	(1,707)
Deferred tax	36	**(109)**	297
		542	(1,410)
Equity instruments at fair value through other comprehensive income:			
Change in fair value		**(714)**	(91)
Deferred tax		**22**	21
		(692)	(70)
Own credit risk:			
Change in fair value of own credit risk of financial liabilities designated at fair value through profit or loss		**–**	1
Deferred tax		**–**	–
		–	1
		(150)	(1,479)
Items that may be reclassified subsequently to income statement:			
Debt instruments at fair value through other comprehensive income:			
Change in fair value		**(991)**	6,311
Change in impairment allowances charged to income statement	13	**26**	100
Release upon disposal/redemption reclassified to income statement	10	**(1,171)**	(4,503)
Amortisation of accumulated amount of fair value hedge adjustment reclassified to income statement		**8**	89
Deferred tax		**379**	(274)
		(1,749)	1,723
Currency translation difference		**(583)**	239
		(2,332)	1,962
Other comprehensive income for the year, net of tax		**(2,482)**	483
Total comprehensive income for the year		**22,517**	28,951
Total comprehensive income attributable to:			
Equity holders of the Company and other equity instrument holders		**22,206**	28,109
Equity holders of the Company		**20,828**	26,733
Other equity instrument holders		**1,378**	1,376
Non-controlling interests		**311**	842
		22,517	28,951

The notes on pages 129 to 290 are an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December	Notes	2021 HK$'m	2020 HK$'m
ASSETS			
Cash and balances and placements with banks and other financial institutions	22	**465,535**	463,711
Financial assets at fair value through profit or loss	23	**73,537**	60,214
Derivative financial instruments	24	**33,186**	52,856
Hong Kong SAR Government certificates of indebtedness		**203,810**	189,550
Advances and other accounts	25	**1,597,194**	1,500,416
Investment in securities	26	**1,094,233**	880,485
Interests in associates and joint ventures	27	**1,215**	1,485
Investment properties	28	**17,722**	18,441
Properties, plant and equipment	29	**46,441**	46,855
Current tax assets		**93**	138
Deferred tax assets	36	**192**	95
Other assets	30	**106,272**	106,735
Total assets		**3,639,430**	3,320,981
LIABILITIES			
Hong Kong SAR currency notes in circulation	31	**203,810**	189,550
Deposits and balances from banks and other financial institutions		**486,062**	326,495
Financial liabilities at fair value through profit or loss	32	**12,520**	20,336
Derivative financial instruments	24	**29,757**	60,313
Deposits from customers	33	**2,331,155**	2,183,709
Debt securities and certificates of deposit in issue	34	**2,423**	426
Other accounts and provisions	35	**83,041**	71,050
Current tax liabilities		**3,491**	3,979
Deferred tax liabilities	36	**5,799**	5,964
Insurance contract liabilities	37	**153,911**	139,504
Total liabilities		**3,311,969**	3,001,326

As at 31 December	Notes	2021 HK$'m	2020 HK$'m
EQUITY			
Share capital	38	**52,864**	52,864
Reserves		**245,135**	237,438
Capital and reserves attributable to equity holders of the Company		**297,999**	290,302
Other equity instruments	39	**23,476**	23,476
Non-controlling interests		**5,986**	5,877
Total equity		**327,461**	319,655
Total liabilities and equity		**3,639,430**	3,320,981

The notes on pages 129 to 290 are an integral part of these financial statements.

Approved by the Board of Directors on 29 March 2022 and signed on behalf of the Board by:

LIU Liange
Director

SUN Yu
Director

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company										
		Reserves									
	Share capital HK$'m	Premises revaluation reserve HK$'m	Reserve for fair value changes HK$'m	Reserve for own credit risk HK$'m	Regulatory reserve* HK$'m	Translation reserve HK$'m	Retained earnings HK$'m	Total HK$'m	Other equity instruments HK$'m	Non-controlling interests HK$'m	Total equity HK$'m
At 1 January 2020	52,864	39,458	69	(33)	11,077	(581)	175,929	278,783	23,476	5,233	307,492
Profit for the year	–	–	–	–	–	–	27,863	27,863	–	605	28,468
Upon declaration of dividend to other equity instrument holders	–	–	–	–	–	–	(1,376)	(1,376)	1,376	–	–
	–	–	–	–	–	–	26,487	26,487	1,376	605	28,468
Other comprehensive income:											
Premises	–	(1,410)	–	–	–	–	–	(1,410)	–	–	(1,410)
Equity instruments at fair value through other comprehensive income	–	–	(6)	–	–	–	–	(6)	–	(64)	(70)
Own credit risk	–	–	–	1	–	–	–	1	–	–	1
Debt instruments at fair value through other comprehensive income	–	–	1,422	–	–	–	–	1,422	–	301	1,723
Currency translation difference	–	–	161	–	–	78	–	239	–	–	239
Total comprehensive income	–	(1,410)	1,577	1	–	78	26,487	26,733	1,376	842	28,951
Release upon disposal of equity instruments at fair value through other comprehensive income:											
Transfer	–	–	96	–	–	–	(96)	–	–	–	–
Deferred tax	–	–	(16)	–	–	–	–	(16)	–	(16)	(32)
Current tax	–	–	–	–	–	–	16	16	–	16	32
Release upon redemption of financial liabilities designated at fair value through profit or loss:											
Transfer	–	–	–	38	–	–	(38)	–	–	–	–
Deferred tax	–	–	–	(6)	–	–	–	(6)	–	–	(6)
Current tax	–	–	–	–	–	–	6	6	–	–	6
Transfer to retained earnings	–	–	–	–	(6,297)	–	6,297	–	–	–	–
Dividends	–	–	–	–	–	–	(15,214)	(15,214)	(1,376)	(198)	(16,788)
At 31 December 2020	52,864	38,048	1,726	–	4,780	(503)	193,387	290,302	23,476	5,877	319,655

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company										
		Reserves									
	Share capital	Premises revaluation reserve	Reserve for fair value changes	Reserve for own credit risk	Regulatory reserve*	Translation reserve	Retained earnings	Total	Other equity instruments	Non-controlling interests	Total equity
	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m
At 1 January 2021	52,864	38,048	1,726	–	4,780	(503)	193,387	290,302	23,476	5,877	319,655
Profit for the year	–	–	–	–	–	–	24,348	24,348	–	651	24,999
Upon declaration of dividend to other equity instrument holders	–	–	–	–	–	–	(1,378)	(1,378)	1,378	–	–
	–	–	–	–	–	–	22,970	22,970	1,378	651	24,999
Other comprehensive income:											
Premises	–	542	–	–	–	–	–	542	–	–	542
Equity instruments at fair value through other comprehensive income	–	–	(641)	–	–	–	–	(641)	–	(51)	(692)
Debt instruments at fair value through other comprehensive income	–	–	(1,460)	–	–	–	–	(1,460)	–	(289)	(1,749)
Currency translation difference	–	–	(86)	–	–	(497)	–	(583)	–	–	(583)
Total comprehensive income	–	542	(2,187)	–	–	(497)	22,970	20,828	1,378	311	22,517
Release upon disposal of equity instruments at fair value through other comprehensive income:											
Transfer	–	–	58	–	–	–	(58)	–	–	–	–
Deferred tax	–	–	(10)	–	–	–	–	(10)	–	(9)	(19)
Current tax	–	–	–	–	–	–	10	10	–	9	19
Transfer from retained earnings	–	–	–	–	1,293	–	(1,293)	–	–	–	–
Dividends	–	–	–	–	–	–	(13,131)	(13,131)	(1,378)	(202)	(14,711)
At 31 December 2021	52,864	38,590	(413)	–	6,073	(1,000)	201,885	297,999	23,476	5,986	327,461

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

The notes on pages 129 to 290 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December	Notes	2021 HK$'m	2020 HK$'m
Cash flows from operating activities			
Operating cash inflow before taxation	40(a)	**93,382**	152,274
Hong Kong profits tax paid		**(5,082)**	(9,304)
Outside Hong Kong profits tax paid		**(300)**	(350)
Net cash inflow from operating activities		**88,000**	142,620
Cash flows from investing activities			
Additions of properties, plant and equipment		**(384)**	(1,323)
Proceeds from disposal of properties, plant and equipment		**12**	11
Additions of investment properties	28	**(233)**	(9)
Additions of intangible assets	30	**(781)**	–
Additions of associates and joint ventures	27	**–**	(6)
Dividend received from associates and joint ventures	27	**57**	3
Net cash outflow from investing activities		**(1,329)**	(1,324)
Cash flows from financing activities			
Dividend paid to equity holders of the Company		**(13,131)**	(15,214)
Dividend paid to other equity instrument holders		**(1,378)**	(1,376)
Dividend paid to non-controlling interests		**(202)**	(198)
Payment for redemption of subordinated liabilities	40(b)	**–**	(12,603)
Interest paid for subordinated liabilities	40(b)	**–**	(350)
Payment of lease liabilities	40(b)	**(716)**	(733)
Net cash outflow from financing activities		**(15,427)**	(30,474)
Increase in cash and cash equivalents		**71,244**	110,822
Cash and cash equivalents at 1 January		**456,058**	331,652
Effect of exchange rate changes on cash and cash equivalents		**4,613**	13,584
Cash and cash equivalents at 31 December	40(c)	**531,915**	456,058

The notes on pages 129 to 290 are an integral part of these financial statements.

Notes to the Financial Statements

1. Principal activities

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

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

2. Significant accounting policies

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

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

2.1 Basis of preparation

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

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, precious metals at fair value, investment properties which are carried at fair value and premises which are carried at fair value or revalued amount less accumulated depreciation and accumulated impairment losses. Disposal group and repossessed assets held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in Notes 2.2 and 2.26 respectively.

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

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Amendments that are initially adopted for the financial year beginning on 1 January 2021

Amendments	Content	Applicable for financial years beginning on/after	Currently relevant to the Group
HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform – Phase 2	1 January 2021	Yes
HKFRS 16 (Amendments)	COVID-19-Related Rent Concessions beyond 30 June 2021	1 April 2021	Yes

- HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendments), "Interest Rate Benchmark Reform – Phase 2". The amendments address the issues that arise during the reform of an interest rate benchmark rate ("IBOR reform"), including the replacement of one benchmark with an alternative one. The amendments complement those issued in 2019 and relate to:

  – changes to contractual cash flows – a company does not have to derecognise or adjust the carrying amount of financial instruments for changes that are direct consequence of the reform and occur on an economically equivalent basis, but will instead update the effective interest rate to reflect the change to the alternative benchmark rates;

  – hedge accounting – a company does not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge meets other hedge accounting criteria; furthermore, if a company reasonably expects that alternative benchmark rates will be separately identifiable within a period of 24 months, it can designate the alternative benchmark rates as a non-contractually specified risk component even if it is not separately identifiable at the designation date; and

  – disclosures – a company is required to disclose information about the nature and extent of risks arising from IBOR reform to which the company is exposed, how the company manages those risks, and the company's progress in completing the transition to alternative benchmark rates and how it is managing that transition.

  The amendments have been applied retrospectively. Further information is included in Note 52.

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Amendments that are initially adopted for the financial year beginning on 1 January 2021 (continued)

- HKFRS 16 (Amendments), "COVID-19-Related Rent Concessions beyond 30 June 2021". The amendments provide an optional practical expedient allowing lessees to elect not to evaluate whether qualifying rent concessions are lease modifications and, instead, account for those rent concessions as if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic.

  The amendments were effective on 1 June 2020 and applicable to COVID-19-related rent concessions that reduce lease payments from 1 January 2020 to 30 June 2021. In April 2021, further amendment to HKFRS 16 was announced to extend the availability of the practical expedient so that it applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The Group has early adopted the amendments and applied the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the reporting period. The application of the amendments does not have a material impact on the Group's financial statements.

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations issued that are not yet mandatorily effective and have not been early adopted by the Group in 2021

Standards/ Amendments/ Interpretations	Content	Applicable for financial years beginning on/after	Currently relevant to the Group
Accounting Guideline 5 (Revised)	Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations	1 January 2022	Yes
Amendments to HKFRSs	Annual Improvements to HKFRS Standards 2018–2020	1 January 2022	Yes
HKAS 1 (Amendments)	Classification of Current or Non-current Liabilities	1 January 2023	No
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023	Yes
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023	Yes
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023	Yes
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022	Yes
HKAS 28 (2011) and HKFRS 10 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined	Yes
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022	Yes
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022	Yes
HKFRS 17	Insurance Contracts	1 January 2023	Yes
HK Int 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023	No

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations issued that are not yet mandatorily effective and have not been early adopted by the Group in 2021 (continued)

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

- Accounting Guideline 5 (Revised), "Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations" ("AG 5"). The amendments revise to reflect a clearer rationale for why the transaction described in paragraph 5 of AG 5 is not a business combination and why, in practice, a principle similar to that for a reverse acquisition is applied to those transactions is provided. New disclosure requirements for common control combinations are added to paragraph 19 of AG 5. The accounting for change in non-controlling interests as a result of common control combination is clarified in the example in AG 5. The terminologies and references in AG 5 are updated to align with existing HKFRSs. The application of the amendments will not have a material impact on the Group's financial statements.

- HKAS 1 (Amendments), "Disclosure of Accounting Policies". The amendment aims 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 will not have a material impact on the Group's financial statements.

- HKAS 8 (Amendments), "Definition of Accounting Estimates". The amendment clarifies how companies 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 will 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 companies 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 will not have a material impact on the Group's financial statements.

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations issued that are not yet mandatorily effective and have not been early adopted by the Group in 2021 (continued)

- HKAS 16 (Amendments), "Property, Plant and Equipment: Proceeds before Intended Use". The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities. The related sales proceeds together with the costs of providing these items as determined by HKAS 2, should be included in profit or loss. The amendments are applied retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The application of the amendments will not have a material impact on the Group's financial statements.

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

- HKAS 37 (Amendments), "Onerous Contracts – Cost of Fulfilling a Contract". The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract. The amendments are applied to contracts for which exist at the date when the amendments are first applied, with the cumulative effect of applying the amendments to be recognised as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated. The application of the amendments will not have a material impact on the Group's financial statements.

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations issued that are not yet mandatorily effective and have not been early adopted by the Group in 2021 (continued)

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

- HKFRS 17, "Insurance Contracts". HKFRS 17 and the Amendments issued in October 2020, aims at replacing the current insurance contracts standard HKFRS 4, an interim standard that leads to highly divergent accounting practices that exist in the insurers' local jurisdictions. The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts, with an objective to ensure that an entity provides relevant information that faithfully represents insurance contracts. Early application of the standard is permitted but only if the entity also applies HKFRS 9. The Group is considering the financial impact of the adoption of the standard.

(c) Improvements to HKFRSs

"Improvements to HKFRSs" contains a number of amendments to HKFRSs which the HKICPA considers not urgent but necessary. It comprises amendments that result in accounting changes for presentation, recognition or measurement purpose as well as terminology or editorial amendments related to a variety of individual HKFRSs. These improvements will not have a material impact on the Group's financial statements.

(d) Comparative figures

Certain comparative figures in the notes have been adjusted to conform with presentation in the current year, including the classification in Note 23 financial assets at fair value through profit or loss and Note 26 investment in securities.

2. Significant accounting policies (continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31 December 2021.

(1) Subsidiaries

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

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

If the Group is committed by the Board to a sale plan involving loss of control of a subsidiary (a disposal group) that is unlikely to be withdrawn or changed significantly, the Group shall classify all the assets and liabilities of that subsidiary as held for sale only when the following criteria are met on or before the end of the reporting period: (i) the carrying amount will be recovered principally through a sale transaction rather than through continuing use; (ii) the subsidiary is available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of its kind and its sale must be highly probable, including a high probability of shareholders' approval, if needed; (iii) an active programme to locate a buyer at a reasonable price has been initiated and to complete the sale within one year, regardless of whether the Group will or will not retain a non-controlling interest after the sale. Disposal group (other than investment properties and financial instruments) is initially recognised and subsequently remeasured at the lower of its carrying amount and fair value less costs to sell. Properties, plant and equipment classified as held for sale are not depreciated.

2. Significant accounting policies (continued)

2.2 Consolidation (continued)

(1) Subsidiaries (continued)

(i) Business combinations not under common control

Acquisitions of businesses not under common control are accounted for using the acquisition method. The consideration transferred in a business combination is the fair values at the acquisition date of the assets transferred, the liabilities incurred (including contingent consideration arrangement) and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are expensed in the income statement as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If after assessment, the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held interest in the acquiree (if any), the excess is recognised immediately in the income statement as a gain on bargain. Subsequently, goodwill is subject to impairment testing at least annually.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at fair value at the acquisition date and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. The measurement period does not exceed one year from the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

2. Significant accounting policies (continued)

2.2 Consolidation (continued)

(1) Subsidiaries (continued)

(ii) Business combinations under common control

For a combination with a company under common control, the merger accounting method will be applied. The principle of merger accounting is a way to combine companies under common control as though the business of the acquiree had always been carried out by the acquirer. The Group's consolidated financial statements represent the consolidated results, consolidated cash flows and consolidated financial position of the Group as if any such combination had occurred from the date when the Company and the acquiree first came under common control (i.e. no fair value adjustment on the date of combination is required). The difference between the consideration and carrying amount at the time of combination is recognised in equity. The effects of all transactions between the Group and the acquiree, whether occurring before or after the combination, are eliminated in preparing the consolidated financial statements of the Group. Comparative amounts are presented as if the acquiree had been combined at the beginning of the previous reporting period. The transaction costs for the combination will be expensed in the income statement.

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

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

(2) Changes in ownership interests

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

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

2. Significant accounting policies (continued)

2.2 Consolidation (continued)

(3) Associates and joint ventures

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

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

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

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

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

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

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

2.3 Segmental reporting

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

2. Significant accounting policies (continued)

2.4 Foreign currency translation

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

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

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

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

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

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

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

2. Significant accounting policies (continued)

2.5 Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

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

2. Significant accounting policies (continued)

2.5 Derivative financial instruments and hedge accounting (continued)

(a) Fair value hedge

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

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

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

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

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any accumulated gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the accumulated gain or loss that was reported in equity is immediately reclassified to the income statement.

2. Significant accounting policies (continued)

2.5 Derivative financial instruments and hedge accounting (continued)

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. A gain or loss on the effective portion of the hedging instrument is recognised in other comprehensive income and accumulated in equity; a gain or loss on the ineffective portion is recognised immediately in the income statement. Accumulated gains and losses previously recognised in other comprehensive income are reclassified to the income statement upon disposal of the foreign operation as part of the gain or loss on disposal.

2.6 Offsetting financial instruments

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

2.7 Income and expense

(1) Interest income and expense

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

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

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

2. Significant accounting policies (continued)

2.7 Income and expense (continued)

(2) Non-interest income and expense

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

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

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

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

The accounting policies for insurance premium income are disclosed in Note 2.20.

2.8 Financial assets

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

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

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

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

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

2. Significant accounting policies (continued)

2.8 Financial assets (continued)

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

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

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

(2) Financial assets at amortised cost

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

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

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

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

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

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

2. Significant accounting policies (continued)

2.9 Financial liabilities

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

(1) Trading liabilities

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

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

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

- eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring the financial liabilities or recognising the gains and losses on them on different bases; or

- applies to a group of financial assets, financial liabilities or both that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Group is provided internally on that basis to the key management; or

- relates to financial liabilities containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial liabilities.

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

(3) Deposits, debt securities and certificates of deposit in issue and other liabilities

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

2. Significant accounting policies (continued)

2.10 Financial guarantee contracts and undrawn loan commitments

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

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

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

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

2.11 Recognition, derecognition and modification of financial instruments

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

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

2. Significant accounting policies (continued)

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

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

Repos or securities lending are initially recognised as due to banks, placements from banks and other financial institutions, as appropriate, at the actual amount of cash received from the counterparty. Financial assets given as collateral for repurchase agreements are not derecognised and are recorded as investment in securities or financial assets at FVPL. Reverse repos or securities borrowings with a "hold-to-collect" business model and contractual cash flow of solely payments of principal and interest on the principal outstanding are initially recognised in the balance sheet as cash and due from banks or placements with banks and other financial institutions, as appropriate, at the actual amount of cash paid to the counterparty. Financial assets received as collateral under reverse repurchase agreements are not recognised on the balance sheet. The difference between the sale and the repurchase price is recognised as interest income or interest expense over the life of the agreements using the effective interest method.

2.12 Fair value measurement

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

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

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

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

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

2. Significant accounting policies (continued)

2.13 Precious metals

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

2.14 Impairment of financial assets

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

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

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

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

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

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

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

2. Significant accounting policies (continued)

2.14 Impairment of financial assets (continued)

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within 12 months after the reporting date; or

- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

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

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

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

- failure to make payments of principal or interest 30 days after their contractually due dates;

- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

- an actual or expected significant deterioration in the operating results of the debtor; and

- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

2. Significant accounting policies (continued)

2.14 Impairment of financial assets (continued)

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

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

– significant financial difficulty incurred by the debtor;

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

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

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

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

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

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

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

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

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

2. Significant accounting policies (continued)

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

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

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

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

2.16 Investment properties

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

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

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

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

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

2. Significant accounting policies (continued)

2.17 Properties, plant and equipment

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

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

All plant and equipment and right-of-use assets other than leasehold land (see Note 2.19) are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition and installation of the items.

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

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

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

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

2. Significant accounting policies (continued)

2.17 Properties, plant and equipment (continued)

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

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

2.18 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance owned and controlled by the Group, mainly computer application software. Intangible assets are stated at acquisition cost less accumulated amortisation and impairment.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

- Capitalised computer application software: 3 to 5 years

Both the period and method of amortisation are reviewed annually.

Gains or losses on disposals are determined as the difference between the net disposal proceeds and the carrying amount, relevant taxes and expenses. These are recognised in the income statement on the date of disposal.

2. Significant accounting policies (continued)

2.19 Leases

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

(1) As a lessee

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

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

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

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

2. Significant accounting policies (continued)

2.19 Leases (continued)

(1) As a lessee (continued)

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

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

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

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

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

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

(2) As a lessor

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

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

2. Significant accounting policies (continued)

2.20 Insurance and investment contracts

(1) Insurance and investment contract classification, recognition and measurement

The Group follows the local regulatory requirements to measure the liabilities of its insurance contracts and investment contracts with the discretionary participation feature ("DPF").

The Group issues insurance contracts, which are contracts that transfer significant insurance risk and may also transfer financial risk. As a general guideline, the Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefit payable if the insured event did not occur. The Group issues long term business insurance contracts, which insure events covered by life policies (for example death, survival, or total permanent disability) over a long duration. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised. In addition, the Group issues investment contracts. Investment contracts transfer financial risk with no significant insurance risk. They contain a DPF which entitles the holders to receive additional benefits (supplement to guaranteed benefits) that are likely to be significant based on the performance and return of a specified pool or type of contracts.

Linked long term insurance contracts with embedded derivatives (which are closely related to the host insurance contracts) linking payments on the contract to units of the investment funds which the Group has invested with the consideration received from the contract holders, the liability is adjusted for all changes in the fair value of the underlying assets, and includes a liability for contractual benefits that are expected to be incurred in the future which is recorded when the premiums are recognised.

Retirement scheme management category I contracts are classified as investment contracts. They also include an investment guarantee element in the determination of the credit rate to policyholders' accounts. The liability for these contracts is determined using a retrospective calculation method which represents an account balance based on the premiums received to date plus interest or bonus credited to the policyholders less policy charges.

Retirement scheme management category III insurance contracts, as defined in the Insurance Ordinance, insure events associated with the cessation of employment due to death. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised. The portion of the premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability, which is included in insurance liabilities.

Premiums are recognised as revenue when they become payable by the contract holders before the deduction of commissions and are gross of any taxes or duties levied on the premium. Benefits and claims are recorded as an expense when they are incurred.

2. Significant accounting policies (continued)

2.20 Insurance and investment contracts (continued)

(1) Insurance and investment contract classification, recognition and measurement (continued)

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirement for insurance contracts as noted above are classified as reinsurance contracts held.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These reinsurance assets consist of short-term amounts due from reinsurers as well as longer term receivables that are dependent on the expected claims and benefits arising from the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

(2) Liability adequacy tests

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administrative expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the consolidated income statement, with a provision established for losses arising from the liability adequacy tests.

2.21 Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise balances with original maturity less than three months from the date of acquisition, including cash, balances with banks and other financial institutions, short-term bills and notes classified as investment securities and certificates of deposit.

2.22 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2. Significant accounting policies (continued)

2.23 Employee benefits

(1) Retirement benefit costs

The Group contributes to defined contribution retirement schemes under either recognised ORSO schemes or MPF schemes that are available to the Group's employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries for the ORSO schemes and in accordance with the MPF rules for MPF schemes. The retirement benefit scheme costs are charged to the income statement as incurred and represent contributions payable by the Group to the schemes. Contributions made by the Group that are forfeited by those employees who leave the ORSO scheme prior to the full vesting of their entitlement to the contributions are used by the Group to reduce the existing level of contributions or to meet its expenses under the trust deed of the ORSO schemes.

The assets of the schemes are held in independently-administered funds separate from those of the Group.

(2) Leave entitlements

Employee entitlements to annual leave and sick leave are recognised when they accrue to employees. A provision is made for the estimated liability for unused annual leave and the amount of sick leave expected to be paid as a result of services rendered by employees up to the end of the reporting period.

Compensated absences other than sick leave and special approved annual leave are non-accumulating; they lapse if the current period's entitlement is not used in full. Except for unexpired annual leave, they do not entitle employees to a cash payment for unused entitlement on leaving the Group.

(3) Bonus plans

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans that are expected to be settled longer than twelve months will be discounted if the amounts are significant.

2.24 Current and deferred income taxes

Tax expenses for the period comprise current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income. In this case, the tax is also recognised in other comprehensive income.

Income tax payable on profits, based on the applicable tax law enacted or substantially enacted at the end of the reporting period in each jurisdiction where the Company and its subsidiaries, associates and joint ventures operate and generate taxable income, is recognised as a current income tax expense in the period in which profits arise.

2. Significant accounting policies (continued)

2.24 Current and deferred income taxes (continued)

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from asset impairment provisions, depreciation of premises and equipment, and revaluation of certain assets including securities at FVOCI and premises. However, the deferred income tax is not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax liabilities are provided in full on all taxable temporary differences. Deferred income tax assets are recognised on deductible temporary differences, the carry forward of any unused tax credits and unused tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised.

Deferred income tax is charged or credited in the income statement except for deferred income tax relating to fair value re-measurement of securities at FVOCI and revaluation of premises which are charged or credited to other comprehensive income, in which case the deferred income tax is also credited or charged to other comprehensive income and is subsequently recognised in the income statement together with the realisation of the deferred gain and loss.

Deferred tax liability or deferred tax asset arising from an investment property is determined based on the presumption that the revaluation amount of such investment property will be recovered through sale with the relevant tax rate applied.

2.25 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are recognised in the profit or loss over the period necessary to match them with the related costs that they are intended to compensate.

2.26 Repossessed assets

Repossessed assets are initially recognised at the lower of their fair value less costs to sell and the amortised cost of the related outstanding loans on the date of repossession, and the related loans and advances together with the related impairment allowances are derecognised from the balance sheet. Subsequently, repossessed assets are measured at the lower of their cost and fair values less costs to sell and are reported as "non-current assets held for sale" included in "Other assets".

2. Significant accounting policies (continued)

2.27 Fiduciary activities

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are excluded from these financial statements, as they are not assets of the Group.

2.28 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised as a provision but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When the inflow is virtually certain, it will be recognised as an asset.

2.29 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if that party (i) controls, jointly controls or has significant influence over the Group; (ii) is a member of the same financial reporting group, such as parents, subsidiaries and fellow subsidiaries; (iii) is an associate or a joint venture of the Group or parent reporting group; (iv) is a key management personnel of the Group or parents; (v) is subject to common control with the Group; (vi) is an entity in which a person identified in (iv) controls; and (vii) provides key management personnel services to the Group or its parent. Related parties may be individuals or entities.

3. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the carrying amounts of assets and liabilities within the next reporting period. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to changes in essential estimates and judgements, which affect the carrying amount of assets and liabilities, are set out below. The effects of changes to either the key assumptions or other estimation uncertainties are presented below if it is practicable to determine. It is possible that actual results may require material adjustments to the estimates referred to below.

3.1 Impairment losses on advances to customers

The Group reviews its credit portfolios to assess impairment at least on a quarterly basis. Under HKFRS 9, the measurement of impairment losses across all categories of financial asset requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes of which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models. The choice of variable inputs and their interdependencies involves a series of assumptions. ECL models for stage 1 and stage 2 exposures are developed by leveraging on the parameters implemented under Note 4.1, where feasible and available. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit rating models, which assign Probability of Defaults to the individual ratings;
- The Group's significant credit deterioration criteria (including internal credit rating downgrade, days past due, drop in Mark-to-Market and qualitative assessment) for assessing whether the financial assets' impairment allowances should be measured on a lifetime ECL basis;
- The segmentation of financial assets according to credit risk characteristics (portfolios including Sovereign, Bank, Corporates, Retail Small Medium-sized Enterprise, Residential Mortgage Loan and Credit Card) when their ECLs are assessed on a collective basis;
- Development of ECL models, including the determination of macroeconomic factor forecasts (including Gross Domestic Product growth, Consumer Price Index, Property Price Index and Unemployment Rate) and the effect on Probability of Defaults, Loss Given Defaults and Exposure at Defaults; and
- Selection of forward-looking macroeconomic scenarios (including three independent scenarios i.e. good, baseline and bad) and their probability weightings.

3. Critical accounting estimates and judgements in applying accounting policies (continued)

3.1 Impairment losses on advances to customers (continued)

In respect of credit-impaired exposures, expected credit losses are measured on an individual basis by estimating the future recoverable cash flows. Factors affecting this estimate include, among other things, the granularity of financial information related to specific borrowers and their guarantors, the availability of meaningful information of competitors and the relevance of sector trends to the future performance of specific borrowers and cash flows from the sale of collateral.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Carrying amounts of advances to customers as at 31 December 2021 are shown in Note 25.

3.2 Fair values of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Valuation techniques used include the use of recent arm's length transactions, discounted cash flows analysis and models with built-in functions available in externally acquired financial analysis or risk management systems widely used by the industry such as option pricing models, and other commonly used market pricing models. To the extent practical, the models use observable data. In addition, valuation adjustments may be adopted if factors such as credit risk are not considered in the valuation models. Management judgement and estimates are required for the selection of appropriate valuation parameters, assumptions and modelling techniques.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date. Further details will be discussed in Note 5.

3. Critical accounting estimates and judgements in applying accounting policies (continued)

3.3 Estimate of future benefit payments and premiums arising from long term insurance contracts

In determining the Group's long-term business fund liabilities (a component of insurance contract liabilities), the Group follows the Insurance (Determination of Long-Term Liabilities) Rules and makes prudent assumptions which include appropriate margins for adverse deviation of the relevant factors. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on population statistics or reinsurance information, adjusted where appropriate to reflect the Group's own experience and relevant reinsurance arrangements. For contracts that insure the risk of longevity, appropriate prudent allowances are made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS, SARS, avian flu and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Group has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.

Were the number of deaths and morbidity in future years to differ by 10% (2020: 10%) from the Management's estimate, the long-term business fund liability would increase by approximately HK$267 million (2020: approximately HK$264 million), which accounts for 0.27% (2020: 0.29%) of the liability. In this case, it is assumed there is no relief arising from reinsurance contracts held.

For linked long term insurance contracts with a life cover component, it is assumed that the Group will be able to increase mortality risk charges in future years in line with emerging mortality experience.

Estimates are also made as to future investment income arising from the assets backing long term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. Were the average future investment returns to decrease by 50 basis points (2020: 50 basis points) from the Management's estimates, the long-term business fund liability would increase by approximately HK$866 million (2020: approximately HK$1,316 million). In this case, it is assumed there is no relief arising from reinsurance contracts held.

The Group has also assessed whether a provision for expense is necessary in accordance with the Insurance Ordinance. A provision for expense is the amount required to meet the total net cost that would likely be incurred in fulfilling contracts if the Group were to cease to transact new business 12 months after the valuation date. As at 31 December 2021, no provision for maintenance expenses was provided (2020: Nil).

A resilience reserve was set up and included in long term business fund liabilities in accordance with the Insurance (Determination of Long-Term Liabilities) Rules to provide a prudent provision against the effects of possible future changes to the value of the assets to meet the liabilities. The resilience reserve was set up based on the appointed actuary's advice of a 19 basis points (2020: 12 basis points) change in market yield of the underlying assets and valuation interest rates. The amount of resilience reserve set up depends on the degree of change in interest rate assumed.

3. Critical accounting estimates and judgements in applying accounting policies (continued)

3.4 Deferred tax assets

Deferred tax assets on unused tax losses and unused tax credits are recognised and the determination of the amount to be recognised requires significant management judgement. Deferred tax asset on unused tax losses are recognised to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits. For deferred tax assets on unused tax credits, judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the estimation of available tax credits and the possibility to recover such deferred tax assets recognised.

3.5 Determination of lease terms of leases

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to renew the leases for additional terms of three to nine years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option on the lease commencement date. During the evaluation, the Group considers all relevant factors that create an economic incentive for it to exercise the renewal option. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

Carrying amounts of right-of-use assets as at 31 December 2021 are shown in Note 29.

4. Financial risk management

The Group is exposed to financial risks as a result of engaging in a variety of business activities. The principal financial risks are credit risk, market risk (including currency risk and interest rate risk) and liquidity risk. This note summarises the Group's exposures to these risks, as well as its objectives, risk management governance structure, policies and processes for managing and the methods used to measure these risks.

Financial risk management framework

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

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

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

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

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

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

4. Financial risk management (continued)

Financial risk management framework (continued)

The Group has put in place appropriate internal control systems, including the establishment of an organisation structure that sets clear lines of authority and responsibility for monitoring compliance with policies, procedures and limits. Proper reporting lines also provide sufficient independence of the control functions from the business areas, as well as adequate segregation of duties throughout the organisation which helps to promote an appropriate internal control environment.

Product development and risk monitoring

To ensure the effectiveness of risk assessment and monitoring, the Group has a comprehensive product development and risk monitoring system where roles and responsibilities of all related units are clearly defined and proper due diligence processes on product development are in place.

In accordance with the strategic objectives set by the Board and the Management, respective product management units are responsible for formulating business and product development plans, and proceeding to specific product development activities. The department of strategic development shall ensure the plans are aligned with the Group's overall strategies. Departments that are responsible for risk management, legal, compliance and finance, etc. are accountable for review of the risk assessment results.

Apart from product development, respective product management units shall work closely with relevant risk evaluating departments to identify and assess the risks of new products. Risk evaluating departments shall conduct independent review on the risk assessment results and the corresponding risk management measures. Products can only be launched upon completion of the product due diligence process to the satisfaction of all risk evaluating departments.

A prudent approach is adopted in offering treasury products to our clients. All new treasury products require approval from a special committee before launching.

4.1 Credit risk

Credit risk is the risk of loss that a customer or counterparty is unable to or unwilling to meet its contractual obligations. Credit risk exists in the trading book and banking book, as well as from on- and off-balance sheet transactions of the Group. It arises principally from lending, trade finance and treasury businesses.

Credit risk management framework

The Group has formulated a comprehensive set of credit risk management policies and procedures, and appropriate credit risk limits to manage and control credit risk that may arise. These policies, procedures and credit risk limits are regularly reviewed and updated to cope with changes in market conditions and business strategies.

The Group's organisation structure establishes a clear set of authority and responsibility for monitoring compliance with policies, procedures and limits.

4. Financial risk management (continued)

4.1 Credit risk (continued)

Credit risk management framework (continued)

The Chief Credit Officer, who reports directly to the CRO, takes charge of credit risk management and is also responsible for the control of credit risk exposures of subsidiaries in line with the credit risk management principles and requirements set by the Group. Various units of the Group have their respective credit risk management responsibilities. Business units act as the first line of defence in risk management. The Risk Management Department ("RMD"), which is independent from the business units, is responsible for the day-to-day management of credit risks and provides an independent due diligence through identifying, measuring, monitoring and controlling credit risk to ensure an effective checks and balances, as well as drafting, reviewing and updating credit risk management policies and procedures. It is also responsible for the design, development and maintenance of the Group's internal rating system and ensures the system complies with the relevant regulatory requirements. Back offices are responsible for credit administration, providing operations support and supervision on the implementation of prerequisite terms and conditions of credit facilities.

In accordance with the Group's operating principle, the Group's principal subsidiaries have to formulate their own credit risk policies that are consistent with those of the Group's core principle. These subsidiaries are required to submit their risk management reports to the Group's Management on a regular basis.

The Board of Directors delegates credit approval authority to the CE. The CE can further delegate to the subordinates within his limit authorised by the Board of Directors. The Group sets the limits of credit approval authority according to the credit business nature, rating, the level of transaction risk, and the extent of the credit exposure.

Credit risk measurement and control

In view of the rapidly changing market conditions, the Group has been continuously revisiting its credit strategies and conducting rigorous reviews on the concerned portfolios.

Advances

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

The Group also uses loan grades, obligor ratings and loss estimates (if applicable) to support credit monitoring, reporting and analysis of credit risk information. For non-retail exposures, more frequent rating review and closer monitoring are required for higher-risk customers. For retail exposures, monthly updated internal ratings and loss estimates are used for credit monitoring on a portfolio basis. More comprehensive review is required for obligors being identified under high-risk pools.

4. Financial risk management (continued)

4.1 Credit risk (continued)

Credit risk measurement and control (continued)

Advances (continued)

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

RMD provides regular credit management information reports and ad hoc reports to the Management Committee ("MC"), RMC and Board of Directors to facilitate their continuous monitoring of credit risk.

In addition, the Group identifies credit concentration risk by industry, geography, customer or counterparty. The Group monitors changes to every counterparties credit risk, quality of the credit portfolio and credit risk concentrations, and reports regularly to the Group's Management.

The Group adopts loan grading criteria which divide credit assets into five categories with reference to the HKMA's guidelines, as below:

"Pass" represents loans where the borrower is current in meeting its repayment obligations and full repayment of interest and principal is not in doubt.

"Special Mention" represents loans where the borrower is experiencing difficulties which may threaten the Group's recoverability of the loan principal and interest. Ultimate loss is not expected at this stage but could occur if adverse conditions persist.

"Substandard" represents loans where the borrower displays a definable weakness that is likely to jeopardise repayment.

"Doubtful" represents loans where collection in full is improbable and the Group expects to sustain a loss of principal and/or interest, taking into account the net realisable value of the collateral.

"Loss" represents loans which are considered uncollectible after all collection options (such as the realisation of collateral or the institution of legal proceedings) have been exhausted.

Debt securities and derivatives

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

Settlement risk arises mainly from foreign exchange transactions with counterparties and also from derivative transactions in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty or customer to cover all settlement risks arising from the Group's market transactions on any single day.

4. Financial risk management (continued)

4.1 Credit risk (continued)

Credit risk measurement and control (continued)

Financial instruments are default when one or more events that have a detrimental impact on the estimated future cash flows have 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; or

– Other observable data indicating that there is a measurable decrease in the estimated future cash flows from such financial instruments.

Expected Credit Loss ("ECL") Methodology

For impairment assessment, an impairment model is introduced in compliance with HKFRS 9, it requires the recognition of ECL for financial instrument held at amortised cost and fair value through other comprehensive income. Under HKFRS 9, ECL is assessed in three stages and the financial assets, loan commitments and financial guarantees are classified in one of the three stages.

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

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

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

4. Financial risk management (continued)

4.1 Credit risk (continued)

Expected Credit Loss ("ECL") Methodology (continued)

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

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

Quantitative criteria

– Failure to make payments of principal or interest 30 days after the contractual due dates;

– At the reporting date, the credit risk is deemed to increase significantly when the remaining lifetime PD rises by more than a certain range from initial recognition, reflected as drop in credit rating by corresponding level according to the different PD at initial recognition. In majority cases, there is a significant increase in credit risk when the customer's credit rating drops by 5 grades.

Qualitative criteria

– Significant adverse change in debtor's operations or financial status;

– Customers with sign of credit deterioration are put into watchlist for staging review.

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

ECL is measured at an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The Group adopts three economic scenarios in the ECL measurement to meet the requirements of HKFRS 9. The "Baseline" scenario represents a most likely outcome and the other two scenarios, referred to as "Good" scenario and "Bad" scenario, represent less likely outcomes which are more optimistic or more pessimistic compared to Baseline scenario.

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

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

4. Financial risk management (continued)

4.1 Credit risk (continued)

Expected Credit Loss ("ECL") Methodology (continued)

The probability weight assigned for each scenario reflects the Group's view for the economic environment, which implements the Group's prudent and consistent credit strategy of ensuring the adequacy of impairment allowance. A higher probability weight is assigned to the Baseline scenario to reflect the most likely outcome and a lower probability weight is assigned to the Good and Bad scenarios to reflect the less likely outcomes. As of December 2021, the probability weight of the Group's Baseline scenario is higher than the sum of probability weight of Good and Bad scenarios.

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

Macroeconomic Factor	Bad Scenario	Baseline Scenario	Good Scenario
2022 Hong Kong GDP Growth	-5.88%	+3.50%	+6.77%

The calculation of ECL is affected by macroeconomic factors and economic scenarios. If more pessimistic macroeconomic factors are applied in ECL assessment or a higher probability weight is assigned to the Bad scenario, it would result in an increase in ECL. The Group reviews the macroeconomic factors used in the ECL model and the probability weight of economic scenarios on a quarterly basis according to the established mechanism.

As at 31 December 2021, the ECL will be increased by 2.95% if 5% of the probability weight is shifted from Baseline scenario to Bad scenario; and will be decreased by 2.51% if 5% of the probability weight is shifted from Baseline scenario to Good scenario.

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

Collateral held as security and other credit enhancements

The valuation and management of collateral have been documented in the credit risk management policies and procedures which cover acceptance criteria, validity of collateral, loan-to-value ratio, haircut ratio, valuation and insurance, etc. The collateral is revalued on a regular basis, though the frequency and the method used varies with the type of collateral involved and the nature and the risk of the underlying credit. The Group has established a mechanism to update the value of its main type of collateral, property collateral including the use of public indices on a portfolio basis. Collateral is insured with the Group as the primary beneficiary. In the personal sector, the main types of collateral are real estate, cash deposits and securities. In the commercial and industrial sector, the types of collateral include real estate, securities, cash deposits, vessels, aircraft, etc.

For loans guaranteed by a third party, the Group will assess the guarantor's financial condition, credit history and ability to meet obligations.

4. Financial risk management (continued)

4.1 Credit risk (continued)

Collateral held as security and other credit enhancements (continued)

As at 31 December 2021, the fair value of collateral held by the Group that was permitted to sell or re-pledge in the absence of default by the borrower amounted to HK$20,891 million (2020: HK$5,168 million). The Group had not sold or re-pledged such collateral (2020: Nil). These transactions are conducted under terms that are usual and customary to reverse repurchase and securities borrowing agreements.

(A) Credit exposures

The maximum credit exposure is the worst case scenario of exposure to the Group without taking into account any collateral held or other credit enhancements. For on-balance sheet assets, the maximum exposure to credit risk equals their carrying amount. For letters of guarantee issued, the maximum exposure to credit risk is the maximum amount that the Group could be required to pay if the guarantees are called upon. For loan commitment and other credit related liabilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The nature of the collateral held and other credit enhancements and their financial effect to the different classes of the Group's financial assets are as follows.

Balances and placements with banks and other financial institutions

These exposures are generally considered to be low risk due to the nature of the counterparties. Collateral is generally not sought on these assets.

Financial assets at fair value through profit or loss and investment in securities

Collateral is generally not sought on debt securities.

Derivative financial instruments

The Master Agreement published by the International Swaps and Derivatives Association, Inc. ("ISDA Master Agreement") is the preferred agreement for documenting derivative activities of the Group. It provides the contractual framework under which dealing activities of over-the-counter ("OTC") transactions are conducted, and sets out close-out netting provisions upon termination following the occurrence of an event of default or a termination event. In addition, if deemed necessary, Credit Support Annexes will be included to form part of the Schedule to the ISDA Master Agreement. Under the Credit Support Annexes, collateral is passed from one counterparty to another, as appropriate, to mitigate the credit exposures.

Advances and other accounts, loan commitments and financial guarantee contracts

The general types of collateral are disclosed on page 172. Advances and other accounts, loan commitments and financial guarantee contracts are collateralised to the extent considered appropriate by the Group taking account of the risk assessment of individual exposures. The collateral coverage of advances to customers is analysed on pages 182 to 183. The components and nature of loan commitments and financial guarantee contracts are disclosed in Note 41. Regarding the commitments that are unconditionally cancellable without prior notice, the Group would assess the necessity to withdraw the credit line in case where the credit quality of a borrower deteriorates. For loan commitments and financial guarantee contracts, 12.39% (2020: 13.25%) were covered by collateral as at 31 December 2021.

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts

Gross advances and other accounts before impairment allowances are summarised by product type as follows:

	2021 HK$'m	2020 HK$'m
Advances to customers		
Personal		
– Mortgages	**386,220**	340,587
– Credit cards	**12,096**	10,981
– Others	**110,729**	107,009
Corporate		
– Commercial loans	**1,016,428**	972,790
– Trade finance	**73,611**	66,497
	1,599,084	1,497,864
Trade bills	**7,264**	9,826
Advances to banks and other financial institutions	**727**	1,898
	1,607,075	1,509,588

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

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

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

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

	2021			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Advances to customers				
Pass	1,558,267	25,138	–	1,583,405
Special mention	3,039	8,319	–	11,358
Substandard or below	–	–	4,321	4,321
	1,561,306	33,457	4,321	1,599,084
Trade bills				
Pass	7,264	–	–	7,264
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	7,264	–	–	7,264
Advances to banks and other financial institutions				
Pass	727	–	–	727
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	727	–	–	727
	1,569,297	33,457	4,321	1,607,075
Impairment allowances	(4,843)	(2,406)	(2,632)	(9,881)
	1,564,454	31,051	1,689	1,597,194

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

	2020			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Advances to customers				
Pass	1,466,646	20,352	–	1,486,998
Special mention	3,846	3,026	–	6,872
Substandard or below	–	–	3,994	3,994
	1,470,492	23,378	3,994	1,497,864
Trade bills				
Pass	9,826	–	–	9,826
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	9,826	–	–	9,826
Advances to banks and other financial institutions				
Pass	1,898	–	–	1,898
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	1,898	–	–	1,898
	1,482,216	23,378	3,994	1,509,588
Impairment allowances	(5,405)	(1,115)	(2,652)	(9,172)
	1,476,811	22,263	1,342	1,500,416

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

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

	2021			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Impairment allowances				
At 1 January 2021	5,405	1,115	2,652	9,172
Transfer to Stage 1	105	(103)	(2)	–
Transfer to Stage 2	(226)	242	(16)	–
Transfer to Stage 3	(14)	(13)	27	–
Changes arising from transfer of stage	(82)	1,062	963	1,943
Charge for the year[i]	2,590	682	703	3,975
Reversal for the year[ii]	(2,912)	(473)	(375)	(3,760)
Changes in models	5	(65)	(42)	(102)
Write-offs	–	–	(1,247)	(1,247)
Recoveries	–	–	90	90
Exchange difference and others	(28)	(41)	(121)	(190)
At 31 December 2021	4,843	2,406	2,632	9,881
Charged to income statement (Note 13)				1,966

	2021			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Gross amount				
At 1 January 2021	1,482,216	23,378	3,994	1,509,588
Transfer to Stage 1	1,472	(1,455)	(17)	–
Transfer to Stage 2	(15,700)	15,726	(26)	–
Transfer to Stage 3	(1,392)	(229)	1,621	–
Net change in exposures	104,523	(4,008)	(33)	100,482
Write-offs	–	–	(1,247)	(1,247)
Exchange difference and others	(1,822)	45	29	(1,748)
At 31 December 2021	1,569,297	33,457	4,321	1,607,075

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

	2020			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Impairment allowances				
At 1 January 2020	4,564	297	2,175	7,036
Transfer to Stage 1	96	(94)	(2)	–
Transfer to Stage 2	(166)	177	(11)	–
Transfer to Stage 3	(8)	(19)	27	–
Changes arising from transfer of stage	(76)	782	772	1,478
Charge for the year[(i)]	2,894	104	300	3,298
Reversal for the year[(ii)]	(1,920)	(132)	(235)	(2,287)
Write-offs	–	–	(561)	(561)
Recoveries	–	–	136	136
Exchange difference and others	21	–	51	72
At 31 December 2020	5,405	1,115	2,652	9,172
Charged to income statement (Note 13)				2,489

	2020			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Gross amount				
At 1 January 2020	1,412,567	4,213	3,217	1,419,997
Transfer to Stage 1	1,207	(1,197)	(10)	–
Transfer to Stage 2	(22,369)	22,384	(15)	–
Transfer to Stage 3	(804)	(403)	1,207	–
Net change in exposures	87,260	(1,628)	62	85,694
Write-offs	–	–	(561)	(561)
Exchange difference and others	4,355	9	94	4,458
At 31 December 2020	1,482,216	23,378	3,994	1,509,588

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

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

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

(a) Impaired advances

Impaired advances to customers are analysed as follows:

	2021		2020	
	Impaired HK$'m	**Classified or impaired HK$'m**	Impaired HK$'m	Classified or impaired HK$'m
Gross advances to customers	**4,321**	**4,321**	3,994	3,994
Percentage of gross advances to customers	**0.27%**	**0.27%**	0.27%	0.27%
Impairment allowances made in respect of such advances	**2,632**	**2,632**	2,652	2,652

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.

	2021 HK$'m	2020 HK$'m
Current market value of collateral held against the covered portion of impaired advances to customers	**2,260**	3,046
Covered portion of impaired advances to customers	**1,062**	1,558
Uncovered portion of impaired advances to customers	**3,259**	2,436

As at 31 December 2021, there were no impaired trade bills and advances to banks and other financial institutions (2020: Nil).

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

(b) Advances overdue for more than three months

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

	2021		2020	
	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	**245**	**0.02%**	174	0.01%
– one year or less but over six months	**1,291**	**0.08%**	718	0.05%
– over one year	**1,488**	**0.09%**	2,137	0.14%
Advances overdue for over three months	**3,024**	**0.19%**	3,029	0.20%
Impairment allowances made in respect of such advances – Stage 3	**1,907**		2,332	

	2021 HK$'m	2020 HK$'m
Current market value of collateral held against the covered portion of such advances to customers	**1,196**	1,312
Covered portion of such advances to customers	**814**	913
Uncovered portion of such advances to customers	**2,210**	2,116

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

As at 31 December 2021, there were no trade bills and advances to banks and other financial institutions overdue for more than three months (2020: Nil).

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

(c) Rescheduled advances

	2021		2020	
	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"	**216**	**0.01%**	178	0.01%

Rescheduled advances are those advances that have been restructured and renegotiated between the bank and borrowers because of deterioration in the financial position of the borrower or the inability of the borrower to meet the original repayment schedule, and the revised repayment terms, either of interest or the repayment period, are "non-commercial" to the Group. Rescheduled advances, which have been overdue for more than three months under the revised repayment terms, are included in "Advances overdue for more than three months".

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

(d) Concentration of advances to customers

(i) Sectoral analysis of gross advances to customers

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

	2021					
	Gross advances to customers HK$'m	% covered by collateral or other security	Classified or impaired HK$'m	Overdue HK$'m	Impairment allowances – Stage 3 HK$'m	Impairment allowances – Stages 1 and 2 HK$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	166,208	26.82%	–	171	–	899
– Property investment	78,125	62.89%	28	41	1	248
– Financial concerns	23,392	0.83%	–	–	–	39
– Stockbrokers	3,070	80.08%	–	–	–	5
– Wholesale and retail trade	27,281	47.95%	260	304	121	243
– Manufacturing	44,492	9.12%	31	3	20	180
– Transport and transport equipment	62,000	22.79%	–	–	–	368
– Recreational activities	176	97.15%	–	–	–	–
– Information technology	31,753	0.30%	32	32	20	61
– Others	145,302	43.76%	51	266	29	359
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	34,776	99.49%	15	221	–	21
– Loans for purchase of other residential properties	349,645	99.95%	129	1,153	1	129
– Credit card advances	12,079	–	91	419	48	174
– Others	104,906	95.19%	117	469	67	196
Total loans for use in Hong Kong	1,083,205	62.35%	754	3,079	307	2,922
Trade financing	73,611	15.17%	517	498	385	181
Loans for use outside Hong Kong	442,268	4.95%	3,050	2,703	1,940	4,142
Gross advances to customers	1,599,084	44.30%	4,321	6,280	2,632	7,245

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

	2020					
	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	132,966	27.12%	–	1	–	803
– Property investment	64,768	67.95%	111	184	15	186
– Financial concerns	24,110	0.74%	–	–	–	54
– Stockbrokers	1,656	78.86%	–	–	–	3
– Wholesale and retail trade	30,523	43.12%	198	239	109	411
– Manufacturing	53,629	8.05%	8	9	4	290
– Transport and transport equipment	74,633	23.05%	260	–	–	598
– Recreational activities	198	9.90%	–	–	–	2
– Information technology	25,579	0.81%	97	99	13	33
– Others	131,571	47.23%	18	200	4	409
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	27,809	99.33%	18	183	–	17
– Loans for purchase of other residential properties	311,070	99.92%	140	1,332	1	137
– Credit card advances	10,959	–	106	366	95	151
– Others	101,986	94.43%	126	537	81	384
Total loans for use in Hong Kong	991,457	61.86%	1,082	3,150	322	3,478
Trade financing	66,497	15.36%	569	573	372	202
Loans for use outside Hong Kong	439,910	5.29%	2,343	2,217	1,958	2,840
Gross advances to customers	1,497,864	43.18%	3,994	5,940	2,652	6,520

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

For those industry sectors constitute not less than 10% of the Group's gross advances to customers, the amounts of new impairment allowances charged to the income statement, and classified or impaired loans written off during the year are shown below:

	2021		2020	
	New impairment allowances HK$'m	Classified or impaired loans written off HK$'m	New impairment allowances HK$'m	Classified or impaired loans written off HK$'m
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	**533**	**–**	428	–
Individuals				
– Loans for purchase of other residential properties	**57**	**–**	52	–

(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

	2021 HK$'m	2020 HK$'m
Hong Kong	**1,332,801**	1,218,633
Chinese Mainland	**95,416**	112,527
Others	**170,867**	166,704
	1,599,084	1,497,864
Impairment allowances made in respect of the gross advances to customers – Stages 1 and 2		
Hong Kong	**3,830**	4,551
Chinese Mainland	**715**	656
Others	**2,700**	1,313
	7,245	6,520

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

Overdue advances

	2021 HK$'m	2020 HK$'m
Hong Kong	**3,954**	4,115
Chinese Mainland	**296**	567
Others	**2,030**	1,258
	6,280	5,940
Impairment allowances made in respect of the overdue advances – Stage 3		
Hong Kong	**741**	1,308
Chinese Mainland	**101**	320
Others	**1,173**	908
	2,015	2,536

Classified or impaired advances

	2021 HK$'m	2020 HK$'m
Hong Kong	**2,123**	2,194
Chinese Mainland	**207**	404
Others	**1,991**	1,396
	4,321	3,994
Impairment allowances made in respect of the classified or impaired advances – Stage 3		
Hong Kong	**1,111**	1,410
Chinese Mainland	**107**	331
Others	**1,414**	911
	2,632	2,652

4. Financial risk management (continued)

4.1 Credit risk (continued)

(C) Repossessed assets

During the year, the Group obtained assets by taking possession of collateral held as security. The nature and carrying value of these assets held as at 31 December are summarised as follows:

	2021 HK$'m	2020 HK$'m
Commercial properties	**122**	–
Industrial properties	**–**	5
Residential properties	**29**	18
	151	23

The estimated market value of repossessed assets held by the Group as at 31 December 2021 amounted to HK$274 million (2020: HK$67 million). The repossessed assets comprise properties in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the proprietors concerned) for release in full or in part of the obligations of the borrowers.

When the repossessed assets are not readily convertible into cash, the Group may consider the following alternatives:

– adjusting the selling prices

– selling the loans together with the assets

– arranging loan restructuring

4. Financial risk management (continued)

4.1 Credit risk (continued)

(D) Balances and placements with banks and other financial institutions

Balances and placements with banks and other financial institutions before impairment allowances are analysed by internal credit grade and stage classification as follows:

	2021			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Central banks				
Pass	**160,930**	**–**	**–**	**160,930**
Special mention	**–**	**–**	**–**	**–**
Substandard or below	**–**	**–**	**–**	**–**
	160,930	**–**	**–**	**160,930**
Other banks and other financial institutions				
Pass	**287,042**	**–**	**–**	**287,042**
Special mention	**–**	**–**	**–**	**–**
Substandard or below	**–**	**–**	**–**	**–**
	287,042	**–**	**–**	**287,042**
	447,972	**–**	**–**	**447,972**
Impairment allowances	**(23)**	**–**	**–**	**(23)**
	447,949	**–**	**–**	**447,949**

4. Financial risk management (continued)

4.1 Credit risk (continued)

(D) Balances and placements with banks and other financial institutions (continued)

	2020			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Central banks				
Pass	183,571	–	–	183,571
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	183,571	–	–	183,571
Other banks and other financial institutions				
Pass	241,961	–	–	241,961
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	241,961	–	–	241,961
	425,532	–	–	425,532
Impairment allowances	(8)	–	–	(8)
	425,524	–	–	425,524

4. Financial risk management (continued)

4.1 Credit risk (continued)

(D) Balances and placements with banks and other financial institutions (continued)

Reconciliation of impairment allowances for balances and placements with banks and other financial institutions is as follows:

	2021			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
At 1 January 2021	8	–	–	8
Changes arising from transfer of stage	–	–	–	–
Net charge for the year	15	–	–	15
At 31 December 2021	23	–	–	23
Charged to income statement (Note 13)				15

	2020			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
At 1 January 2020	3	–	–	3
Changes arising from transfer of stage	–	–	–	–
Net charge for the year	5	–	–	5
At 31 December 2020	8	–	–	8
Charged to income statement (Note 13)				5

As at 31 December 2021, there were no overdue or impaired balances and placements with banks and other financial institutions (2020: Nil).

4. Financial risk management (continued)

4.1 Credit risk (continued)

(E) Debt securities and certificates of deposit

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

	2021 HK$'m	2020 HK$'m
Investment in securities at fair value through other comprehensive income		
– Stage 1		
Aaa	**132,445**	115,426
Aa1 to Aa3	**233,943**	153,601
A1 to A3	**455,191**	438,994
Lower than A3	**25,242**	26,555
Unrated	**24,791**	19,596
	871,612	754,172
– Stage 2		
Lower than A3	**208**	–
– Stage 3	**–**	–
	871,820	754,172
Of which: impairment allowances	**(288)**	(261)
Investment in securities at amortised cost		
– Stage 1		
Aaa	**61,864**	43,082
Aa1 to Aa3	**25,404**	6,730
A1 to A3	**93,571**	39,864
Lower than A3	**28,761**	23,923
Unrated	**6,921**	6,894
	216,521	120,493
– Stage 2		
Lower than A3	**390**	–
– Stage 3	**–**	–
	216,911	120,493
Impairment allowances	**(99)**	(62)
	216,812	120,431
Financial assets at fair value through profit or loss		
Aaa	**2,830**	1,095
Aa1 to Aa3	**15,439**	22,573
A1 to A3	**10,814**	8,412
Lower than A3	**8,545**	9,846
Unrated	**3,430**	2,070
	41,058	43,996

The preparation basis of the current year disclosure above has been refined to align with the credit risk management policy of the Group.

4. Financial risk management (continued)

4.1 Credit risk (continued)

(E) Debt securities and certificates of deposit (continued)

Reconciliation of impairment allowances for debt securities and certificates of deposit is as follows:

	2021			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Investment in securities at fair value through other comprehensive income				
At 1 January 2021	261	–	–	261
Changes arising from transfer of stage	–	–	–	–
Net charge for the year	25	1	–	26
Exchange difference and others	1	–	–	1
At 31 December 2021	287	1	–	288
Charged to income statement (Note 13)				26
Investment in securities at amortised cost				
At 1 January 2021	62	–	–	62
Changes arising from transfer of stage	–	–	–	–
Net charge for the year	34	3	–	37
At 31 December 2021	96	3	–	99
Charged to income statement (Note 13)				37

4. Financial risk management (continued)

4.1 Credit risk (continued)

(E) Debt securities and certificates of deposit (continued)

	2020			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Investment in securities at fair value through other comprehensive income				
At 1 January 2020	160	–	–	160
Changes arising from transfer of stage	–	–	–	–
Net charge for the year	100	–	–	100
Exchange difference and others	1	–	–	1
At 31 December 2020	261	–	–	261
Charged to income statement (Note 13)				100
Investment in securities at amortised cost				
At 1 January 2020	46	–	–	46
Changes arising from transfer of stage	–	–	–	–
Net charge for the year	16	–	–	16
At 31 December 2020	62	–	–	62
Charged to income statement (Note 13)				16

As at 31 December 2021, there were no overdue or impaired debt securities and certificates of deposit (2020: Nil).

4. Financial risk management (continued)

4.1 Credit risk (continued)

(F) Loan commitments and financial guarantee contracts

Loan commitments and financial guarantee contracts are analysed by internal credit grade and stage classification as follows:

	2021			
	Stage 1 HK$'m	**Stage 2 HK$'m**	**Stage 3 HK$'m**	**Total HK$'m**
Loan commitments and financial guarantee contracts				
Pass	**766,298**	**2,939**	**–**	**769,237**
Special mention	**2,062**	**1,244**	**–**	**3,306**
Substandard or below	**–**	**–**	**403**	**403**
	768,360	**4,183**	**403**	**772,946**

	2020			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Loan commitments and financial guarantee contracts				
Pass	760,490	3,007	–	763,497
Special mention	1,640	1,225	–	2,865
Substandard or below	–	–	36	36
	762,130	4,232	36	766,398

4. Financial risk management (continued)

4.1 Credit risk (continued)

(F) Loan commitments and financial guarantee contracts (continued)

Reconciliation of impairment allowances for loan commitments and financial guarantee contracts is as follows:

	2021			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
At 1 January 2021	**594**	**44**	**20**	**658**
Transfer to Stage 1	**11**	**(11)**	**–**	**–**
Transfer to Stage 2	**(6)**	**6**	**–**	**–**
Transfer to Stage 3	**(5)**	**–**	**5**	**–**
Changes arising from transfer of stage	**(10)**	**3**	**133**	**126**
Net (reversal)/charge for the year	**(76)**	**33**	**(3)**	**(46)**
Changes in models	**(66)**	**(24)**	**–**	**(90)**
Exchange difference and others	**(3)**	**–**	**(2)**	**(5)**
At 31 December 2021	**439**	**51**	**153**	**643**
Charged to income statement (Note 13)				**80**

	2020			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
At 1 January 2020	535	22	20	577
Transfer to Stage 1	13	(13)	–	–
Transfer to Stage 2	(3)	3	–	–
Transfer to Stage 3	–	–	–	–
Changes arising from transfer of stage	(12)	35	–	23
Net charge/(reversal) for the year	57	(3)	–	54
Exchange difference and others	4	–	–	4
At 31 December 2020	594	44	20	658
Charged to income statement (Note 13)				77

Majority of credit risk exposures of loan commitments and financial guarantee contracts are classified as Stage 1 and categorised as "Pass" in the internal credit grade throughout the year. Key stage transfer for the year mainly represents transfer of a financial guarantee contract from Stage 1 to Stage 3 (2020: Nil).

4. Financial risk management (continued)

4.1 Credit risk (continued)

(G) Credit risk management in response to COVID-19 pandemic

In 2021, the vaccination programme has rolled out in various countries, economic activities are expected to recover gradually. While the COVID-19 pandemic is still evolving and recurring, the operating environment and financial situations of borrowers remain challenging. The Group has taken a series of risk control measures in response to the adverse impact and the uncertainty from the pandemic:

– The Group coordinated with the HKMA in launching various relief measures for individuals and commercial borrowers, in order to alleviate the financial pressure and the impact of the pandemic. The terms of the payment holidays under relief measures are granted on commercial basis, therefore the extension of relief measures to the concerned borrowers do not automatically trigger the migration to Stage 2 and Stage 3, and are not classified as rescheduled advances.

– The implementation of quarantine measures severely hit several industries, including Trading, Retail, Aviation, Tourism (including hospitality), Catering, Entertainment etc. The Group continues to conduct risk-based assessments on the borrowers within these industries. The impacts of the pandemic on the affected borrowers, their respective mitigation measures and short-term refinancing plans are also assessed to identify the vulnerable borrowers, who are put into the watchlist for on-going close monitoring. The loan classification and internal ratings of these borrowers are timely reviewed according to their latest situation.

– The Group performed stress tests of different scenarios of containment of COVID-19 pandemic regularly to assess the potential impacts on credit loss and asset quality.

– The Group reviews the forward looking macroeconomic factors used in ECL model on a quarterly basis to reflect the dynamic changes of economic outlook. While the relief measures implemented by the governments of various countries have alleviated the default pressure of the affected borrowers under COVID-19 pandemic, the Group continues its close monitoring on those borrowers with multiple extensions of relief measures being granted, and additional impairment allowances have been made to address the potential higher default risk of this portfolio upon expiration of the relief measures.

The Group continues to closely monitor the situation brought by the COVID-19 pandemic on the economy and adopt prudent asset quality management to avoid significant deterioration in asset quality.

4. Financial risk management (continued)

4.2 Market risk

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

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

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

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

(A) VaR

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

4. Financial risk management (continued)

4.2 Market risk (continued)

(A) VaR (continued)

The following table sets out the VaR for all general market risk exposures[1] of the Group.

	Year	At 31 December HK$'m	Minimum for the year HK$'m	Maximum for the year HK$'m	Average for the year HK$'m
VaR for all market risk	**2021**	**55.1**	**19.0**	**55.1**	**30.7**
	2020	27.4	17.5	50.1	31.1
VaR for foreign exchange risk	**2021**	**25.3**	**13.2**	**50.8**	**25.2**
	2020	27.8	6.5	30.8	21.1
VaR for interest rate risk	**2021**	**57.9**	**6.2**	**57.9**	**16.5**
in the trading book	2020	10.1	5.8	35.6	18.5
VaR for equity risk	**2021**	**2.2**	**0.2**	**3.4**	**1.2**
in the trading book	2020	0.8	0.3	2.9	1.0
VaR for commodity risk	**2021**	**0.4**	**0.0**	**35.2**	**7.0**
	2020	2.5	0.0	11.2	1.8

Note:

1. Structural FX positions have been excluded.

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

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

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

4. Financial risk management (continued)

4.2 Market risk (continued)

(B) Currency risk

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

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

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

	2020							
	Equivalent in million of HK$							
	US Dollars	Pound Sterling	Japanese Yen	Euro	Renminbi	Australian Dollars	Other foreign currencies	Total foreign currencies
Spot assets	1,017,375	30,074	160,779	45,926	427,394	36,620	62,008	1,780,176
Spot liabilities	(877,494)	(25,986)	(8,006)	(27,974)	(412,245)	(30,815)	(60,400)	(1,442,920)
Forward purchases	617,715	23,737	18,050	39,254	365,271	15,063	54,352	1,133,442
Forward sales	(734,480)	(27,641)	(170,914)	(57,474)	(382,383)	(20,758)	(56,136)	(1,449,786)
Net options position	650	7	–	(2)	(406)	(1)	(1)	247
Net long/(short) position	23,766	191	(91)	(270)	(2,369)	109	(177)	21,159

4. Financial risk management (continued)

4.2 Market risk (continued)

(B) Currency risk (continued)

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

	2020					
	Equivalent in million of HK$					
	US Dollars	Baht	Malaysian Ringgit	Philippine Peso	Other foreign currencies	Total foreign currencies
Net structural position	30,042	2,697	3,024	1,881	4,677	42,321

(C) Interest rate risk

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

– Gap risk: mismatches in the maturity or repricing periods of assets and liabilities that may affect net interest income and economic value;

– Basis risk: different pricing basis for different transactions resulting that the yield on assets and cost of liabilities may change by different amounts within the same repricing period; and

– Option risk: exercise of the options embedded in assets, liabilities or off-balance sheet items that can cause a change in the cash flows of assets and liabilities.

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

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

The Group sets out interest rate risk indicators and limits to identify, measure, monitor and control interest rate risk on a daily basis. The indicators and limits include, but are not limited to, repricing gap limits, basis risk, duration, price value of a basis point ("PVBP"), net interest income sensitivity ratio ("NII"), economic value sensitivity ratio ("EVE"), etc. The indicators and limits are classified into different levels, which are approved by the CFO, CRO, ALCO and RMC accordingly. Risk-taking business units are required to conduct their business within the boundary of the interest rate risk limits. Before launching a new product or business in the banking book, the relevant departments are required to go through a risk assessment process, which includes the assessment of underlying interest rate risk and consideration of the adequacy of current risk monitoring mechanism. Any material impact on interest rate risk noted during the risk assessment process will be submitted to the RMC for approval.

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

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

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

The Group is principally exposed to HK Dollar, US Dollar and Renminbi in terms of interest rate risk. As at 31 December 2021, if market interest rates had a 100 basis point parallel shift of the yield curve with other variables held constant, the sensitivities on net interest income over a twelve-month period and on reserves for the Group would have been as follows:

	Impact on net interest income over the next twelve months at 31 December		Impact on reserves at 31 December	
	2021 HK$'m	2020 HK$'m	**2021 HK$'m**	2020 HK$'m
100 basis point parallel up of yield curve				
Total	**1,350**	2,623	**(7,656)**	(9,393)
Of which:				
HK Dollar	**3,963**	4,164	**(154)**	(677)
US Dollar	**(739)**	178	**(4,110)**	(5,263)
Renminbi	**(1,540)**	(1,437)	**(3,041)**	(2,627)
100 basis point parallel down of yield curve				
Total	**(1,350)**	(2,623)	**7,656**	9,393
Of which:				
HK Dollar	**(3,963)**	(4,164)	**154**	677
US Dollar	**739**	(178)	**4,110**	5,263
Renminbi	**1,540**	1,437	**3,041**	2,627

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

In a parallel shift up of 100 basis points of yield curve, the overall impact on net interest income of the above currencies is positive in 2021. Reserves of the Group would have been reduced because of the expected reduction in valuation of the debt securities portfolio and relevant interest rate derivatives under hedge accounting due to a parallel shift up of 100 basis points in the yield curve. The positive impact on net interest income is decreased as the size of current and savings deposits increased and the reduction of reserves is decreased compared with 2020 because the duration of the debt securities portfolio in capital market decreased.

In a parallel shift down of 100 basis points of yield curve, the overall impact on net interest income of the above currencies is negative in 2021. Reserves of the Group would have been increased because of the expected increase in valuation of the debt securities portfolio and relevant interest rate derivatives under hedge accounting due to a parallel shift down of 100 basis points in the yield curve. The negative impact on net interest income is decreased as the size of current and savings deposits increased and the increase in reserves is decreased compared with 2020 because the duration of the debt securities portfolio in capital market decreased.

The sensitivities above are for illustration only and are based on several assumptions, including, but not limited to, the change in the correlation between interest rates of relevant currencies, parallel movement of interest rates, the absence of actions that would be taken to mitigate the impact of interest rate risk, the effectiveness of hedge accounting, all positions being assumed to run to maturity, behavioural assumptions of products in which the actual repricing date differs from the contractual repricing date or products without contractual maturity. The above exposures form only a part of the Group's overall interest rate risk exposures.

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

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

	2021						
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Non-interest bearing HK$'m	Total HK$'m
Assets							
Cash and balances and placements with banks and other financial institutions	362,264	17,281	23,108	1,416	–	61,466	465,535
Financial assets at fair value through profit or loss	19,727	11,620	8,995	10,145	8,968	14,082	73,537
Derivative financial instruments	–	–	–	–	–	33,186	33,186
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	203,810	203,810
Advances and other accounts	1,336,894	164,780	35,656	44,032	7,956	7,876	1,597,194
Investment in securities							
– At FVOCI	115,427	309,399	136,185	205,404	105,405	5,601	877,421
– At amortised cost	2,521	7,402	19,723	108,207	78,959	–	216,812
Interests in associates and joint ventures	–	–	–	–	–	1,215	1,215
Investment properties	–	–	–	–	–	17,722	17,722
Properties, plant and equipment	–	–	–	–	–	46,441	46,441
Other assets (including current and deferred tax assets)	11,396	–	–	–	–	95,161	106,557
Total assets	1,848,229	510,482	223,667	369,204	201,288	486,560	3,639,430
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	203,810	203,810
Deposits and balances from banks and other financial institutions	386,399	18,081	714	412	–	80,456	486,062
Financial liabilities at fair value through profit or loss	5,249	4,784	973	1,343	171	–	12,520
Derivative financial instruments	–	–	–	–	–	29,757	29,757
Deposits from customers	1,685,008	279,751	117,181	1,716	–	247,499	2,331,155
Debt securities and certificates of deposit in issue	563	–	–	1,860	–	–	2,423
Other accounts and provisions (including current and deferred tax liabilities)	11,341	7	140	947	224	79,672	92,331
Insurance contract liabilities	–	–	–	–	–	153,911	153,911
Total liabilities	2,088,560	302,623	119,008	6,278	395	795,105	3,311,969
Interest sensitivity gap	(240,331)	207,859	104,659	362,926	200,893	(308,545)	327,461

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

	2020						
	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	338,539	25,591	12,516	1,101	–	85,964	463,711
Financial assets at fair value through profit or loss	4,404	17,991	4,962	7,362	12,695	12,800	60,214
Derivative financial instruments	–	–	–	–	–	52,856	52,856
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	189,550	189,550
Advances and other accounts	1,247,621	163,297	36,230	40,454	6,438	6,376	1,500,416
Investment in securities							
– At FVOCI	130,866	213,464	100,434	192,840	116,568	5,882	760,054
– At amortised cost	5,253	3,836	14,834	37,825	58,683	–	120,431
Interests in associates and joint ventures	–	–	–	–	–	1,485	1,485
Investment properties	–	–	–	–	–	18,441	18,441
Properties, plant and equipment	–	–	–	–	–	46,855	46,855
Other assets (including current and deferred tax assets)	20,813	–	–	–	–	86,155	106,968
Total assets	1,747,496	424,179	168,976	279,582	194,384	506,364	3,320,981
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	189,550	189,550
Deposits and balances from banks and other financial institutions	226,861	565	1,322	1,243	–	96,504	326,495
Financial liabilities at fair value through profit or loss	11,551	4,346	3,690	387	362	–	20,336
Derivative financial instruments	–	–	–	–	–	60,313	60,313
Deposits from customers	1,575,155	246,117	110,992	1,715	–	249,730	2,183,709
Debt securities and certificates of deposit in issue	233	–	193	–	–	–	426
Other accounts and provisions (including current and deferred tax liabilities)	11,065	4	94	1,165	447	68,218	80,993
Insurance contract liabilities	–	–	–	–	–	139,504	139,504
Total liabilities	1,824,865	251,032	116,291	4,510	809	803,819	3,001,326
Interest sensitivity gap	(77,369)	173,147	52,685	275,072	193,575	(297,455)	319,655

4. Financial risk management (continued)

4.3 Liquidity risk

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

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

The Group's liquidity risk management objective is to effectively manage the liquidity of on- and off-balance sheet items with a reasonable cost based on the liquidity risk appetite to achieve sound operation and sustainable profitability. Deposits from customers are the Group's primary source of funds. To ensure stable and sufficient sources of funds are in place, the Group actively attracts new deposits, keeps the core deposit and obtains supplementary funding from the interbank market and by issuing bills in the capital market. According to different term maturities and the results of funding needs estimated from stressed scenarios, the Group adjusts its asset structure (including loans, bonds investment, interbank placement, etc.) to maintain sufficient liquid assets which provides adequate funds in support of normal business needs and ensure its ability to raise funds at a reasonable cost to serve external claims in case of emergency. The Group is committed to diversify the sources, tenors and use of funding to avoid excessive concentration of assets and liabilities; and prevent triggering liquidity risk due to the break of funding strand resulting from over-concentration of sources and use of funding in a particular area where problems occur. In order to manage such risk, the Group sets concentration limits on collateral pools and sources of funding such as Tier 1 high-quality readily liquefiable assets to total high-quality readily liquefiable assets ratio, top ten depositors ratio and large depositors ratio. Whenever necessary, the Group could improve the liquidity position by taking mitigation actions including, but not limited to obtaining funding through interbank borrowings or repos in the money market, selling bonds in the secondary market or retaining existing and attracting new customer deposits. Apart from increasing the funding, the Group would maintain good communication with the counterparties, the parent bank and the regulators to enhance mutual confidence.

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

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

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

In accordance with the requirements of Supervisory Policy Manual LM-2 "Sound Systems and controls for Liquidity Risk Management" issued by the HKMA, the Group has implemented a behaviour model and assumptions of cash flow analysis and stress test to enhance the Group's cash flow analysis under both normal and stressed conditions. In cash flow analysis under normal circumstances, assumptions have been made relating to on-balance sheet items (such as deposits from customers) and off-balance sheet items (such as loan commitments). According to various characteristics of the assets, liabilities and off-balance sheet items, the Group forecasts the future cash flow based on the contractual maturity date and the assumptions of customer behaviour and balance sheet changes. The Group establishes the MCO indicator which predicts the future 30 days maximum cumulative net cash outflow in normal situations based on the above assumptions, to assess if the Group has sufficient financing capacity to meet the cash flow gap in order to achieve the objective of continuing operations. As at 31 December 2021, before taking the cash inflow through the sale of outstanding marketable securities into consideration, BOCHK's 30-day cumulative cash flow was a net cash inflow, amounting to HK$160,744 million (2020: HK$186,303 million) and was in compliance with the internal limit requirements.

In the liquidity stress test, institution specific, general market crisis and combined crisis scenarios have been set up, a combined crisis scenario is a combination of institution specific and general market crisis to assess the Group's capability to withstand a more severe liquidity crisis, with a more stringent set of assumptions being adopted. Stress test assumptions include the run-off rate of retail, wholesale and interbank deposits; the drawdown rate of loan commitments and trade-related contingent liabilities; the delinquency ratio and rollover rate of customer loans; and haircut of interbank placement and marketable securities. As at 31 December 2021, the Group was able to maintain a net cash inflow under the three stressed scenarios, indicating the Group has the ability to meet financing needs under stressed conditions. In addition, the Group has a policy in place to maintain a liquidity cushion which includes high quality or comparable quality marketable securities issued or guaranteed by sovereigns, central banks, public sector entities or multilateral development banks with 0% or 20% risk weight or marketable securities issued by non-financial corporate with a corresponding external credit rating of A- or above to ensure funding needs even under stressed scenarios. As at 31 December 2021, the liquidity cushion (before haircut) of BOCHK was HK$781,053 million (2020: HK$645,716 million). A contingency plan is being established which details the conditions to trigger the plan based on stress test results and early warning indicators, the action plans and relevant procedures and responsibility of relevant departments.

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

The Group, being classified as a category 1 authorised institution by the HKMA, is required to calculate the LCR and NSFR on a consolidated basis in accordance with the Banking (Liquidity) Rules. The Group is required to maintain a LCR and NSFR not less than 100% in 2021.

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

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

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

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(A) Liquidity coverage ratio and net stable funding ratio

	2021	2020
Average value of liquidity coverage ratio		
– First quarter	**134.09%**	150.45%
– Second quarter	**134.20%**	131.38%
– Third quarter	**134.73%**	130.98%
– Fourth quarter	**146.70%**	132.76%

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.

	2021	2020
Quarter-end value of net stable funding ratio		
– First quarter	**124.90%**	116.60%
– Second quarter	**118.50%**	117.49%
– Third quarter	**125.92%**	115.30%
– Fourth quarter	**126.96%**	125.31%

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

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

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(B) Maturity analysis

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

	2021							
	On demand HK$'m	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Indefinite HK$'m	Total HK$'m
Assets								
Cash and balances and placements with banks and other financial institutions	351,826	71,905	17,297	22,727	1,780	–	–	465,535
Financial assets at fair value through profit or loss	–	19,787	11,560	7,720	10,540	8,394	15,536	73,537
Derivative financial instruments	11,944	3,086	4,299	3,895	6,356	3,606	–	33,186
Hong Kong SAR Government certificates of indebtedness	203,810	–	–	–	–	–	–	203,810
Advances and other accounts	259,993	44,548	79,716	235,036	602,050	374,119	1,732	1,597,194
Investment in securities								
– At FVOCI	–	105,135	298,363	142,601	212,683	111,837	6,802	877,421
– At amortised cost	–	3,093	7,964	20,175	105,290	77,855	2,435	216,812
Interests in associates and joint ventures	–	–	–	–	–	–	1,215	1,215
Investment properties	–	–	–	–	–	–	17,722	17,722
Properties, plant and equipment	–	–	–	–	–	–	46,441	46,441
Other assets (including current and deferred tax assets)	43,664	21,400	1,806	2,763	23,750	10,987	2,187	106,557
Total assets	871,237	268,954	421,005	434,917	962,449	586,798	94,070	3,639,430
Liabilities								
Hong Kong SAR currency notes in circulation	203,810	–	–	–	–	–	–	203,810
Deposits and balances from banks and other financial institutions	292,365	174,423	17,452	1,028	794	–	–	486,062
Financial liabilities at fair value through profit or loss	–	5,249	4,790	974	1,337	170	–	12,520
Derivative financial instruments	7,626	2,321	2,607	3,813	8,576	4,814	–	29,757
Deposits from customers	1,521,727	410,780	279,751	117,181	1,716	–	–	2,331,155
Debt securities and certificates of deposit in issue	–	588	–	–	1,835	–	–	2,423
Other accounts and provisions (including current and deferred tax liabilities)	56,368	18,859	2,005	3,501	7,145	4,453	–	92,331
Insurance contract liabilities	53,766	2,759	2,669	4,064	29,531	61,122	–	153,911
Total liabilities	2,135,662	614,979	309,274	130,561	50,934	70,559	–	3,311,969
Net liquidity gap	(1,264,425)	(346,025)	111,731	304,356	911,515	516,239	94,070	327,461

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

	2020							
	On demand HK$'m	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Indefinite HK$'m	Total HK$'m
Assets								
Cash and balances and placements with banks and other financial institutions	368,078	56,425	25,217	12,134	1,857	–	–	463,711
Financial assets at fair value through profit or loss	–	4,490	17,863	4,459	7,241	12,114	14,047	60,214
Derivative financial instruments	15,506	3,614	6,190	8,887	12,101	6,558	–	52,856
Hong Kong SAR Government certificates of indebtedness	189,550	–	–	–	–	–	–	189,550
Advances and other accounts	225,736	40,664	82,601	183,549	622,363	344,001	1,502	1,500,416
Investment in securities								
– At FVOCI	–	125,613	199,644	108,713	201,587	116,176	8,321	760,054
– At amortised cost	–	5,575	4,119	14,620	36,100	58,219	1,798	120,431
Interests in associates and joint ventures	–	–	–	–	–	–	1,485	1,485
Investment properties	–	–	–	–	–	–	18,441	18,441
Properties, plant and equipment	–	–	–	–	–	–	46,855	46,855
Other assets (including current and deferred tax assets)	50,984	15,340	3,263	5,498	17,717	12,275	1,891	106,968
Total assets	849,854	251,721	338,897	337,860	898,966	549,343	94,340	3,320,981
Liabilities								
Hong Kong SAR currency notes in circulation	189,550	–	–	–	–	–	–	189,550
Deposits and balances from banks and other financial institutions	269,742	53,625	564	1,322	1,242	–	–	326,495
Financial liabilities at fair value through profit or loss	–	11,552	4,348	3,690	386	360	–	20,336
Derivative financial instruments	11,253	5,064	7,058	9,461	16,758	10,719	–	60,313
Deposits from customers	1,459,907	364,978	246,117	110,992	1,715	–	–	2,183,709
Debt securities and certificates of deposit in issue	–	233	–	193	–	–	–	426
Other accounts and provisions (including current and deferred tax liabilities)	49,267	16,950	1,960	2,988	7,146	2,682	–	80,993
Insurance contract liabilities	57,335	1,296	1,194	5,832	22,214	51,633	–	139,504
Total liabilities	2,037,054	453,698	261,241	134,478	49,461	65,394	–	3,001,326
Net liquidity gap	(1,187,200)	(201,977)	77,656	203,382	849,505	483,949	94,340	319,655

The analysis of debt securities by remaining period to maturity is based on contractual maturity date. The disclosure does not imply that the securities will be held to maturity.

The above analysis in respect of insurance contract liabilities represents the estimated timing of net cash outflows resulting from recognised insurance contract liabilities on the balance sheet as at 31 December.

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(C) Analysis of undiscounted cash flows by contractual maturities

(a) Non-derivative cash flows

The tables below summarise the cash flows of the Group as at 31 December for non-derivative financial liabilities by remaining contractual maturity.

	2021					
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Total HK$'m
Financial liabilities						
Hong Kong SAR currency notes in circulation	203,810	–	–	–	–	203,810
Deposits and balances from banks and other financial institutions	466,849	17,507	1,054	877	–	486,287
Financial liabilities at fair value through profit or loss	5,250	4,793	992	1,350	169	12,554
Deposits from customers	1,932,586	280,074	117,795	1,742	–	2,332,197
Debt securities and certificates of deposit in issue	589	–	26	1,891	–	2,506
Lease liabilities	57	102	412	746	69	1,386
Other financial liabilities	61,243	305	261	15	5	61,829
Total financial liabilities	2,670,384	302,781	120,540	6,621	243	3,100,569

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(C) Analysis of undiscounted cash flows by contractual maturities (continued)

(a) Non-derivative cash flows (continued)

	2020					
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Total HK$'m
Financial liabilities						
Hong Kong SAR currency notes in circulation	189,550	–	–	–	–	189,550
Deposits and balances from banks and other financial institutions	323,387	568	1,342	1,251	–	326,548
Financial liabilities at fair value through profit or loss	11,552	4,349	3,698	409	342	20,350
Deposits from customers	1,824,955	246,406	111,817	1,754	–	2,184,932
Debt securities and certificates of deposit in issue	233	–	194	–	–	427
Lease liabilities	62	115	480	1,023	134	1,814
Other financial liabilities	50,820	282	144	7	6	51,259
Total financial liabilities	2,400,559	251,720	117,675	4,444	482	2,774,880

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(C) Analysis of undiscounted cash flows by contractual maturities (continued)

(b) Derivative cash flows

The tables below summarise the cash flows of the Group by remaining contractual maturity as at 31 December for derivative financial liabilities that will be settled on a net basis, together with all derivative financial instruments that will be settled on a gross basis regardless of whether the contract is in an asset or liability position. The amounts disclosed in the tables are the contractual undiscounted cash flows, except for certain derivatives which are disclosed at fair value.

The Group's derivative financial instruments that will be settled on a net basis mainly include interest rate swaps whereas derivative financial instruments that will be settled on a gross basis mainly include currency forwards and currency swaps.

	2021					
	Up to 1 month HK$'m	**1 to 3 months HK$'m**	**3 to 12 months HK$'m**	**1 to 5 years HK$'m**	**Over 5 years HK$'m**	**Total HK$'m**
Derivative financial liabilities settled on a net basis	**(8,138)**	**(1,181)**	**(4,315)**	**(6,464)**	**(1,162)**	**(21,260)**
Derivative financial instruments settled on a gross basis						
Total inflow	**926,726**	**414,179**	**314,868**	**82,945**	**6,666**	**1,745,384**
Total outflow	**(925,727)**	**(410,520)**	**(314,351)**	**(82,820)**	**(6,657)**	**(1,740,075)**

	2020					
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Total HK$'m
Derivative financial liabilities settled on a net basis	(12,478)	(1,828)	(6,454)	(15,829)	(2,184)	(38,773)
Derivative financial instruments settled on a gross basis						
Total inflow	431,862	356,732	369,126	128,138	5,646	1,291,504
Total outflow	(433,394)	(357,868)	(369,544)	(127,575)	(5,573)	(1,293,954)

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(C) Analysis of undiscounted cash flows by contractual maturities (continued)

(c) Off-balance sheet items

Loan commitments

The contractual amounts of the Group's off-balance sheet financial instruments as at 31 December 2021 that the Group commits to extend credit to customers and other facilities amounted to HK$715,718 million (2020: HK$705,866 million). Majority of those loan commitments can be drawn within one year.

Financial guarantee contracts

Majority of financial guarantees and other financial facilities of the Group as at 31 December 2021 amounting to HK$57,228 million (2020: HK$60,532 million) are maturing no later than one year.

4.4 Insurance risk

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

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

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

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

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

4. Financial risk management (continued)

4.4 Insurance risk (continued)

(A) Process used to decide on assumptions

In determining the long term business fund liabilities, the Group follows the Insurance (Determination of Long Term Liabilities) Rules and makes prudent assumptions which include appropriate margins for adverse deviation of the relevant factors. It takes account of all prospective liabilities as determined by the policy terms and conditions for each existing contract, taking credit for premiums payable after the valuation date. The determination of liability is based on current assumptions made as at the valuation date as to mortality rates and morbidity rates, and takes into account of various appropriate discount rates, and with due regard to the reasonable expectation of policyholders. A prudent margin for adverse deviations is included in the assumptions.

The assumptions adopted for the insurance liabilities disclosed in this note are summarised as follows:

Mortality and morbidity

The amount of liability in respect of any category of contract shall, where relevant, be determined on the basis of prudent rates of mortality and morbidity, plus a margin for adverse deviation. The assumptions used for the determination of future liabilities are based on population statistics or reinsurance information, adjusted where appropriate to reflect the Group's own experience and relevant reinsurance arrangements.

Interest rates adopted for valuation purposes

Homogeneous life insurance policies are grouped into segments and are matched by specific assets. The duration of liabilities under each segment is calculated for valuation purposes.

Investment guarantee of investment contract with discretionary participating feature

The amount of the liability in respect of the investment guarantee provided by the investment contract with discretionary participation feature is determined by stochastic analysis based on historical economic data to reflect the value-at-risk at 99% confidence level.

Acquisition expense

The acquisition expense assumptions used for determination of future liabilities are based on the Group's own experience. The Group has changed the acquisition expense assumptions for new business written based on updated expense experience of the Group.

(B) Change in assumptions

The Group has updated the lapse assumptions to reflect the Group's own experience, and the interest rates adopted for the valuation purposes to reflect the changes in the market interest rates and the yields of investment portfolio backing the policy liabilities. The valuation interest rate assumptions used for the year end valuation purpose were in the range of 0% to 3.16% in 2021 (2020: 0% to 3.04%).

4. Financial risk management (continued)

4.4 Insurance risk (continued)

(C) Sensitivity analysis

The following table presents the sensitivity of the long-term business fund liabilities to movements in the key assumptions used in the estimation of insurance liabilities:

Sensitivity analysis – life and annuity insurance contracts:

Scenario	Change in variable	Decrease in profit after tax due to changes in insurance liabilities 2021 HK$'m	2020 HK$'m
Worsening of mortality and morbidity	10%	**(223)**	(221)
Lowering of interest rate	50 basis points	**(723)**	(1,099)

The above analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated, for example, changes in interest rate and in market values; and changes in lapses and in future mortality and morbidity.

Sensitivity analysis – linked long term insurance contracts, retirement scheme management category III insurance contracts, and retirement scheme management category I investment contracts with "DPF":

The reserves on retirement scheme management category III insurance contracts, retirement scheme management category I investment contracts with "DPF" and non-unitised reserve on linked long term insurance contracts are insignificant to the whole portfolio, and no sensitivity analysis has been performed. The insurance liabilities for these three components contributed to less than 0.1% of the total insurance liabilities at the balance sheet date.

For unit-linked fund liabilities (unitised reserve), the liabilities are backed by the unit-linked fund asset values.

Among linked long term insurance contracts, there are contracts with minimum guaranteed death benefits that expose the Group to the risk arising from declines in the value of underlying investments. This may increase the Group's net exposure to mortality risk.

4.5 Capital management

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

The Group has developed and maintained a sound framework of policies and controls on capital management to support the development of the Group's business and to meet the statutory capital adequacy ratio.

4. Financial risk management (continued)

4.5 Capital management (continued)

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

The ALCO monitors the Group's capital adequacy and adjusts the capital mix where appropriate. The Group has adopted the foundation internal ratings-based ("FIRB") approach to calculate the credit risk capital charge for the majority of its non-securitisation exposures. Small residual credit exposures are remained under the standardised (credit risk) ("STC") approach. The Group has adopted the standardised credit valuation adjustment ("CVA") method to calculate the capital charge for the CVA risk of the counterparty.

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

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

The Group has continued to adopt an internal capital adequacy assessment process ("ICAAP") to comply with the HKMA's requirements in the Supervisory Policy Manual "Supervisory Review Process" in 2021. Based on the HKMA's guidelines on Pillar II, ICAAP has been initiated to assess the extra capital needed to cover the material risks not captured or not adequately captured under Pillar I, and therefore minimum Common Equity Tier 1 capital ratio, minimum Tier 1 capital ratio and minimum Total capital ratio are determined. Meanwhile, operating ranges for the aforementioned capital ratios have also been established which enable the flexibility for future business growth and efficiency of capital utilisation. The Group considers this ICAAP as an on-going process for capital management and periodically reviews and adjusts its capital structure where appropriate in relation to the overall risk profile.

In addition, the capital plan of the Group is drawn up annually and then submitted to the Board for approval after endorsement of the ALCO. The plan is built up by assessing the implications of various factors upon capital adequacy such as the business strategies, return on equity, risk appetite, credit rating, as well as regulatory requirements. Hence, the future capital requirement is determined and capital sources are identified also. The plan is to ensure the Group maintains adequate capital and appropriate capital structure which align with its business development needs, thereby achieving an optimal balance among risk, return and capital adequacy.

4. Financial risk management (continued)

4.5 Capital management (continued)

(A) Basis of regulatory consolidation

The consolidation basis for regulatory purposes comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules. For accounting purposes, subsidiaries are consolidated in accordance with HKFRSs.

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

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

Name	2021		2020	
	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	**593**	**491**	553	498
China Bridge (Malaysia) Sdn. Bhd.	**12**	**2**	13	9
Bank of China (Hong Kong) Nominees Limited	**–**	**–**	–	–
Bank of China (Hong Kong) Trustees Limited	**8**	**8**	11	11
BOC Financial Services (Nanning) Company Limited	**199**	**40**	248	43
BOCHK Information Technology (Shenzhen) Co., Ltd.	**399**	**275**	387	265
BOCHK Information Technology Services (Shenzhen) Co., Ltd.	**441**	**373**	421	360
Che Hsing (Nominees) Limited*	**N/A**	**N/A**	–	–
Po Sang Financial Investment Services Company Limited	**364**	**345**	364	345
Po Sang Securities and Futures Limited	**595**	**415**	952	375
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.	**–**	**–**	–	–

* Che Hsing (Nominees) Limited was dissolved on 16 February 2021.

4. Financial risk management (continued)

4.5 Capital management (continued)

(A) Basis of regulatory consolidation (continued)

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

There were no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation as at 31 December 2021 (2020: Nil).

There were also no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation where the methods of consolidation differ as at 31 December 2021 (2020: 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:

	2021	2020
CET1 capital ratio	**17.30%**	17.75%
Tier 1 capital ratio	**19.11%**	19.67%
Total capital ratio	**21.44%**	22.10%

4. Financial risk management (continued)

4.5 Capital management (continued)

(B) Capital ratio (continued)

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

	2021 HK$'m	2020 HK$'m
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments	**43,043**	43,043
Retained earnings	**193,800**	184,230
Disclosed reserves	**45,033**	45,100
CET1 capital before regulatory deductions	**281,876**	272,373
CET1 capital: regulatory deductions		
Valuation adjustments	**(66)**	(24)
Other intangible assets (net of associated deferred tax liabilities)	**(1,623)**	(1,502)
Deferred tax assets (net of associated deferred tax liabilities)	**(185)**	(91)
Gains and losses due to changes in own credit risk on fair valued liabilities	**(31)**	(21)
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	**(49,709)**	(49,413)
Regulatory reserve for general banking risks	**(6,073)**	(4,780)
Total regulatory deductions to CET1 capital	**(57,687)**	(55,831)
CET1 capital	**224,189**	216,542
AT1 capital: instruments		
Qualifying AT1 capital instruments classified as equity under applicable accounting standards	**23,476**	23,476
AT1 capital	**23,476**	23,476
Tier 1 capital	**247,665**	240,018
Tier 2 capital: instruments and provisions		
Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**7,805**	7,322
Tier 2 capital before regulatory deductions	**7,805**	7,322
Tier 2 capital: regulatory deductions		
Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	**22,369**	22,236
Total regulatory adjustments to Tier 2 capital	**22,369**	22,236
Tier 2 capital	**30,174**	29,558
Total regulatory capital	**277,839**	269,576

4. Financial risk management (continued)

4.5 Capital management (continued)

(B) Capital ratio (continued)

The capital buffer ratios are analysed as follows:

	2021	2020
Capital conservation buffer ratio	**2.500%**	2.500%
Higher loss absorbency ratio	**1.500%**	1.500%
Countercyclical capital buffer ratio	**0.799%**	0.790%

(C) Leverage ratio

The leverage ratio is analysed as follows:

	2021 HK$'m	2020 HK$'m
Tier 1 capital	**247,665**	240,018
Leverage ratio exposure	**3,357,085**	3,036,425
Leverage ratio	**7.38%**	7.90%

5. Fair values of assets and liabilities

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

– Level 1: based on quoted prices (unadjusted) in active markets for identical assets or liabilities. This category includes equity securities listed on exchange, debt instruments issued by certain governments and certain exchange-traded derivative contracts.

– Level 2: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly. This category includes majority of the OTC derivative contracts, debt securities and certificates of deposit with quote from pricing services vendors, issued structured deposits and other debt instruments. It also includes certain foreign exchange contracts, precious metals and properties with insignificant adjustments or calibrations made to observable market inputs.

– Level 3: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. This category includes equity investments, debt instruments and certain OTC derivative contracts with significant unobservable components. It also includes properties with significant adjustments made to observable market inputs.

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

5.1 Financial instruments measured at fair value

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

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

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

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

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

The technique used to calculate the fair value of the following financial instruments is as below:

Debt securities and certificates of deposit and other debt instruments

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

Asset backed securities

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

Derivatives

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

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

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(A) Fair value hierarchy

	2021			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Financial assets				
Trading assets (Note 23)				
– Debt securities and certificates of deposit	**121**	**23,746**	**–**	**23,867**
– Equity securities	**23**	**–**	**–**	**23**
– Other debt instruments	**–**	**3,201**	**–**	**3,201**
Other financial assets mandatorily classified at fair value through profit or loss (Note 23)				
– Debt securities and certificates of deposit	**1,481**	**13,433**	**800**	**15,714**
– Equity securities	**2,520**	**144**	**193**	**2,857**
– Fund	**4,550**	**1,776**	**4,876**	**11,202**
Financial assets designated at fair value through profit or loss (Note 23)				
– Debt securities and certificates of deposit	**711**	**766**	**–**	**1,477**
– Other debt instruments	**–**	**15,196**	**–**	**15,196**
Derivative financial instruments (Note 24)	**20**	**33,166**	**–**	**33,186**
Advances and other accounts at FVOCI (Note 25)	**–**	**2,757**	**–**	**2,757**
Investment in securities at FVOCI (Note 26)				
– Debt securities and certificates of deposit	**291,912**	**578,691**	**1,217**	**871,820**
– Equity securities	**2,010**	**1,459**	**2,132**	**5,601**
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 32)				
– Trading liabilities	**–**	**12,322**	**–**	**12,322**
– Financial liabilities designated at fair value through profit or loss	**–**	**198**	**–**	**198**
Derivative financial instruments (Note 24)	**11**	**29,746**	**–**	**29,757**

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(A) Fair value hierarchy (continued)

	2020			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Financial assets				
Trading assets (Note 23)				
– Debt securities and certificates of deposit	–	26,817	–	26,817
– Equity securities	49	–	–	49
– Other debt instruments	–	3,300	–	3,300
Other financial assets mandatorily classified at fair value through profit or loss (Note 23)				
– Debt securities and certificates of deposit	–	15,026	846	15,872
– Equity securities	3,910	–	–	3,910
– Fund	4,934	1,183	2,724	8,841
Financial assets designated at fair value through profit or loss (Note 23)				
– Debt securities and certificates of deposit	720	587	–	1,307
– Other debt instruments	–	118	–	118
Derivative financial instruments (Note 24)	33	52,823	–	52,856
Advances and other accounts at FVOCI (Note 25)	–	1,163	–	1,163
Investment in securities at FVOCI (Note 26)				
– Debt securities and certificates of deposit	258,764	493,776	1,632	754,172
– Equity securities	2,441	1,074	2,367	5,882
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 32)				
– Trading liabilities	–	20,336	–	20,336
– Financial liabilities designated at fair value through profit or loss	–	–	–	–
Derivative financial instruments (Note 24)	35	60,278	–	60,313

There were no financial asset and liability transfers between level 1 and level 2 for the Group during 2021 (2020: There were transfers of derivative financial assets of HK$15,498 million and derivative financial liabilities of HK$11,227 million from level 1 to level 2 for the Group during 2020 as a result of calibrations of market observable inputs on certain financial instruments. The impact arising from such calibrations was insignificant to the fair value measurement of the relevant financial instruments).

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items

	2021					
	Financial assets					
	Other financial assets mandatorily classified at FVPL			Derivative financial instruments	Investment in securities at FVOCI	
	Debt securities HK$'m	Equity securities HK$'m	Fund HK$'m	HK$'m	Debt securities HK$'m	Equity securities HK$'m
At 1 January 2021	846	–	2,724	–	1,632	2,367
(Losses)/gains						
– Income statement						
– Net trading gain	–	–	–	–	–	–
– Net (loss)/gain on other financial instruments at fair value through profit or loss	(46)	(1)	509	–	–	–
– Other comprehensive income						
– Change in fair value	–	–	–	–	(69)	(246)
Additions	–	194	1,661	–	–	11
Disposals, redemptions and maturity	–	–	(18)	–	(346)	–
Transfer out of level 3	–	–	–	–	–	–
At 31 December 2021	800	193	4,876	–	1,217	2,132
Total unrealised (losses)/gains for the year included in income statement for financial assets held as at 31 December 2021						
– Net (loss)/gain on other financial instruments at fair value through profit or loss	(46)	(1)	509	–	–	–

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

	2020					
	Financial assets					
	Other financial assets mandatorily classified at FVPL				Investment in securities at FVOCI	
	Debt securities HK$'m	Equity securities HK$'m	Fund HK$'m	Derivative financial instruments HK$'m	Debt securities HK$'m	Equity securities HK$'m
At 1 January 2020	2,252	–	1,474	11	1,867	2,154
Gains						
– Income statement						
– Net trading gain	–	–	–	146	–	–
– Net gain on other financial instruments at fair value through profit or loss	223	–	107	–	–	–
– Other comprehensive income						
– Change in fair value	–	–	–	–	191	213
Additions	194	–	1,143	–	–	–
Disposals, redemptions and maturity	(1,823)	–	–	–	(426)	–
Transfer out of level 3	–	–	–	(157)	–	–
At 31 December 2020	846	–	2,724	–	1,632	2,367
Total unrealised gains for the year included in income statement for financial assets held as at 31 December 2020						
– Net gain on other financial instruments at fair value through profit or loss	49	–	107	–	–	–

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

As at 31 December 2021 and 2020, financial instruments categorised as level 3 are mainly comprised of debt securities, fund, unlisted equity shares and certain OTC derivative contracts.

For certain illiquid debt securities, equity securities and fund, the Group obtains valuation quotations from counterparties which may be based on unobservable inputs with significant impact on the valuation. For certain OTC derivative contracts, the counterparty credit spreads 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 out of level 3 during 2020 were due to change of valuation observability. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

The fair values of unlisted FVOCI equity investments are determined with reference to (i) multiples of comparable listed companies, including average of the price/earnings ratios and average of the price/book values ratios of the comparables; or (ii) dividend discount model calculation of the underlying equity investments; or (iii) net asset value with fair value adjustments on certain assets or liabilities held (if applicable), if neither appropriate comparables nor dividend discount model calculation is available or applicable. The significant unobservable inputs and their range applied in the fair values measurement of the Group's unlisted FVOCI equity investments includes price/earnings ratios of the comparables of 25.76x – 51.58x, price/book values ratios of the comparables of 0.49x – 1.04x, liquidity discount of 30%, dividend payout ratio of 23.44% – 83.51% and return on shareholders' equity of 7.95% – 12.21%. 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% (2020: 5%), the Group's other comprehensive income would have increased by HK$96 million and decreased by HK$94 million, respectively (2020: increased by HK$55 million and decreased by HK$54 million, respectively).

5. Fair values of assets and liabilities (continued)

5.2 Financial instruments not measured at fair value

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

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

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

Advances to customers and banks and other financial institutions

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

Investment in securities at amortised cost

The fair value of securities at amortised cost is determined by using the same approach as those debt securities and certificates of deposit and asset backed securities measured at fair value as described in Note 5.1.

Deposits from customers

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

Debt securities and certificates of deposit in issue

The fair value of these instruments is determined by using the same approach as those debt securities and certificates of deposit measured at fair value as described in Note 5.1.

5. Fair values of assets and liabilities (continued)

5.2 Financial instruments not measured at fair value (continued)

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

	2021		2020	
	Carrying value HK$'m	**Fair value HK$'m**	Carrying value HK$'m	Fair value HK$'m
Financial assets				
Investment in securities at amortised cost (Note 26)	**216,812**	**219,917**	120,431	127,060
Financial liabilities				
Debt securities and certificates of deposit in issue (Note 34)	**2,423**	**2,426**	426	426

The following tables show the fair value hierarchy for financial instruments with fair values disclosed.

	2021			
	Level 1 HK$'m	**Level 2 HK$'m**	**Level 3 HK$'m**	**Total HK$'m**
Financial assets				
Investment in securities at amortised cost	**995**	**215,416**	**3,506**	**219,917**
Financial liabilities				
Debt securities and certificates of deposit in issue	**–**	**2,426**	**–**	**2,426**

	2020			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Financial assets				
Investment in securities at amortised cost	957	122,887	3,216	127,060
Financial liabilities				
Debt securities and certificates of deposit in issue	–	426	–	426

5. Fair values of assets and liabilities (continued)

5.3 Non-financial instruments measured at fair value

The Group uses valuation techniques or quoted market prices in active market to determine the fair value of non-financial instruments.

Investment properties and premises

The Group's properties can be divided into investment properties and premises. All of the Group's investment properties and premises were revalued as at year end. This year, the valuations were carried out by an independent firm of chartered surveyors, Knight Frank Petty Limited, who have among their staff Fellow and Members of The Hong Kong Institute of Surveyors with recent experience in the locations and categories of properties being valued. The Group's Management had discussions with the surveyors on the valuation methods, valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date. There has been no change in valuation methods during the year and the methods used are consistent with last year.

(i) Valuation methods and inputs used in level 2 fair value measurements

The fair value of properties classified as level 2 is determined using either the market comparison approach by reference to recent sales price of comparable properties or the income capitalisation approach by reference to market rent and capitalisation rate, with appropriate adjustments to reflect the differences between the comparable properties and the subject properties. These adjustments are considered as insignificant to the measurement.

The Group's properties are located in Hong Kong, certain major cities in the mainland, Thailand and Malaysia where the property markets are considered active and transparent. Sales price, market rent and capitalisation rate of comparable properties are generally observable either directly or indirectly in these markets.

(ii) Information about level 3 fair value measurements

The fair value of all of the Group's properties classified as level 3, except for the bank vault, is determined using either the market comparison approach or the income capitalisation approach, adjusted for a premium or a discount specific to the features of the Group's properties compared to the comparable properties.

The fair value of the bank vault is determined using the depreciated replacement cost approach as no direct comparable is available given the specialised nature of the property. The major inputs are the market value of the existing land, the current cost of replacing the property and the depreciation rate. Appropriate adjustments are made to reflect the specialised nature of the property.

5. Fair values of assets and liabilities (continued)

5.3 Non-financial instruments measured at fair value (continued)

Investment properties and premises (continued)

(ii) Information about level 3 fair value measurements (continued)

The valuation methods and significant unobservable inputs used in the fair value measurement of the Group's properties classified as level 3 are as follows:

	Valuation method	Significant unobservable inputs	Weighted average	Relationship of unobservable inputs to fair value
Bank vault	Depreciated replacement cost approach	Depreciation rate	2% (2020: 2%) per year	The higher the depreciation rate, the lower the fair value.
		Premium on specialised nature of the property	+15% (2020: +15%) to building cost	The higher the premium, the higher the fair value.
Other properties	Market comparison approach or income capitalisation approach	Premium/(discount) on features of the property compared to comparable properties	-3.7% (2020: -8%)	The higher the premium, the higher the fair value. The higher the discount, the lower the fair value.

Premium/(discount) on features of a property is determined after taken into account various factors, such as time for market movement, location, accessibility, building age/condition, floor level, size, layout, etc., with reference to the differences in features with comparable properties.

For the fair value of the investment property with a redevelopment plan, it is measured on a redevelopment basis by adopting residual approach which is a valuation method generally used to value development of lands. Gross Development Value ("GDV") is first determined using market comparison approach by reference to recent transactions of comparable properties and adjusted for a premium or a discount specific to the quality of the Group's development compared to the comparable properties. The ultimate fair value of the redevelopment is the residual value after deducting the present value of the development costs (including professional fees, demolition cost, constructions cost etc.) and developer's profit from the present value of the GDV. The higher the GDV, the higher the fair value; the higher the development costs and the discount rate, the lower is the fair value.

Precious metals

The fair values of precious metals are determined by obtaining quoted market prices in active market or market quote with certain adjustments.

5. Fair values of assets and liabilities (continued)

5.3 Non-financial instruments measured at fair value (continued)

(A) Fair value hierarchy

	2021			
	Level 1 HK$'m	**Level 2 HK$'m**	**Level 3 HK$'m**	**Total HK$'m**
Non-financial assets				
Investment properties (Note 28)	**–**	**477**	**17,245**	**17,722**
Properties, plant and equipment (Note 29)				
– Premises	**–**	**3,302**	**40,482**	**43,784**
Other assets (Note 30)				
– Precious metals	**–**	**10,207**	**–**	**10,207**

	2020			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Non-financial assets				
Investment properties (Note 28)	–	697	17,744	18,441
Properties, plant and equipment (Note 29)				
– Premises	–	2,601	40,947	43,548
Other assets (Note 30)				
– Precious metals	–	10,697	–	10,697

There were no non-financial asset transfers between level 1 and level 2 for the Group during the year (2020: There were transfers of HK$5,721 million of precious metals from level 1 to level 2 for the Group during 2020 as a result of calibrations of market observable inputs on precious metals. The impact arising from such calibrations was insignificant to the fair value measurement of precious metals. There were no other non-financial asset transfers between level 1 and level 2 for the Group during the year).

5. Fair values of assets and liabilities (continued)

5.3 Non-financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items

	2021	
	Non-financial assets	
		Properties, plant and equipment
	Investment properties HK$'m	Premises HK$'m
At 1 January 2021	17,744	40,947
Losses		
– Income statement		
– Net loss from fair value adjustments on investment properties	(230)	–
– Net loss from revaluation of premises	–	(16)
– Other comprehensive income		
– Revaluation of premises	–	616
Depreciation	–	(1,129)
Additions	232	38
Transfer into level 3	412	606
Transfer out of level 3	(163)	(1,291)
Reclassification	(750)	750
Exchange difference	–	(39)
At 31 December 2021	17,245	40,482
Total unrealised losses for the year included in income statement for non-financial assets held as at 31 December 2021		
– Net loss from fair value adjustments on investment properties	(230)	–
– Net loss from revaluation of premises	–	(16)
	(230)	(16)

5. Fair values of assets and liabilities (continued)

5.3 Non-financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

	2020	
	Non-financial assets	
		Properties, plant and equipment
	Investment properties HK$'m	Premises HK$'m
At 1 January 2020	19,714	45,322
Losses		
– Income statement		
– Net loss from fair value adjustments on investment properties	(1,622)	–
– Net loss from revaluation of premises	–	(57)
– Other comprehensive income		
– Revaluation of premises	–	(1,720)
Depreciation	–	(1,157)
Additions	9	87
Transfer into level 3	–	–
Transfer out of level 3	(277)	(1,608)
Reclassification	(80)	80
Exchange difference	–	–
At 31 December 2020	17,744	40,947
Total unrealised losses for the year included in income statement for non-financial assets held as at 31 December 2020		
– Net loss from fair value adjustments on investment properties	(1,622)	–
– Net loss from revaluation of premises	–	(57)
	(1,622)	(57)

The transfer of properties into and out of level 3 is due to change in the premium/(discount) on features applied between the subject and comparable properties during the year. Premium/(discount) on features is determined with reference to differences in features between the subject properties and the comparable properties recently transacted in the market. As comparable properties that come from recent market transactions may be different in each year, the premium/(discount) on features applied between the subject and comparable properties would change from year to year accordingly. As a result, the significance of adjustments made to observable market inputs may vary and lead to the transfer of properties into and out of level 3.

6. Net interest income

	2021 HK$'m	2020 HK$'m
Interest income		
Advances to customers, due from banks and other financial institutions	**27,419**	34,744
Investment in securities and financial assets at fair value through profit or loss	**12,760**	14,960
Others	**119**	224
	40,298	49,928
Interest expense		
Deposits from customers, due to banks and other financial institutions	**(8,238)**	(14,743)
Debt securities and certificates of deposit in issue	**(42)**	(2)
Subordinated liabilities	**–**	(80)
Lease liabilities	**(34)**	(54)
Others	**(43)**	(311)
	(8,357)	(15,190)
Net interest income	**31,941**	34,738

Included within interest income are HK$32,018 million (2020: HK$38,633 million) and HK$7,464 million (2020: HK$10,122 million) for financial assets measured at amortised cost and at fair value through other comprehensive income respectively.

Included within interest expense are HK$8,346 million (2020: HK$14,947 million) for financial liabilities that are not measured at fair value through profit or loss.

7. Net fee and commission income

	2021 HK$'m	2020 HK$'m
Fee and commission income		
Securities brokerage	**3,743**	3,567
Loan commissions	**2,746**	2,310
Credit card business	**2,141**	1,859
Insurance	**1,529**	1,272
Trust and custody services	**764**	689
Payment services	**751**	740
Funds distribution	**724**	767
Bills commissions	**623**	591
Safe deposit box	**306**	306
Funds management	**161**	130
Currency exchange	**119**	226
Others	**1,196**	1,058
	14,803	13,515
Fee and commission expense		
Credit card business	**(1,400)**	(1,179)
Securities brokerage	**(458)**	(415)
Insurance	**(434)**	(405)
Others	**(639)**	(674)
	(2,931)	(2,673)
Net fee and commission income	**11,872**	10,842
Of which arise from:		
Financial assets or financial liabilities that are not measured at fair value through profit or loss		
– Fee and commission income	**3,073**	2,588
– Fee and commission expense	**(13)**	(9)
	3,060	2,579
Trust and other fiduciary activities		
– Fee and commission income	**967**	888
– Fee and commission expense	**(39)**	(30)
	928	858

8. Net trading gain

	2021 HK$'m	2020 HK$'m
Net gain/(loss) from:		
Foreign exchange and foreign exchange products	**4,725**	5,282
Interest rate instruments and items under fair value hedge	**(60)**	(619)
Commodities	**175**	361
Equity and credit derivative instruments	**251**	150
	5,091	5,174

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

	2021 HK$'m	2020 HK$'m
Net (loss)/gain on other financial instruments mandatorily classified at fair value through profit or loss	**(1,110)**	1,838
Net (loss)/gain on financial instruments designated at fair value through profit or loss	**(26)**	121
	(1,136)	1,959

10. Net gain on other financial instruments

	2021 HK$'m	2020 HK$'m
Net gain on disposal/redemption of investment in securities at FVOCI	**1,171**	4,503
Net (loss)/gain on disposal/redemption of investment in securities at amortised cost	**(76)**	62
Others	**25**	7
	1,120	4,572

Gain on disposal of investment in securities at amortised cost due to credit deterioration amounted to HK$41 million (2020: HK$98 million).

11. Other operating income

	2021 HK$'m	2020 HK$'m
Dividend income		
– From investment in securities at FVOCI derecognised during the year	**61**	36
– From investment in securities at FVOCI held at the end of the year	**303**	199
Gross rental income from investment properties	**564**	587
Less: Outgoings in respect of investment properties	**(57)**	(61)
Others	**112**	135
	983	896

Included in the "Outgoings in respect of investment properties" is HK$7 million (2020: HK$4 million) of direct operating expenses related to investment properties that were not let during the year.

12. Net insurance benefits and claims and movement in liabilities

	2021 HK$'m	2020 HK$'m
Gross insurance benefits and claims and movement in liabilities		
Claims, benefits and surrenders paid	**(15,563)**	(14,036)
Movement in liabilities	**(13,079)**	(20,077)
	(28,642)	(34,113)
Reinsurers' share of benefits and claims and movement in liabilities		
Reinsurers' share of claims, benefits and surrenders paid	**10,537**	8,371
Reinsurers' share of movement in liabilities	**1,512**	3,575
	12,049	11,946
Net insurance benefits and claims and movement in liabilities	**(16,593)**	(22,167)

13. Net charge of impairment allowances

	2021 HK$'m	2020 HK$'m
Net charge of impairment allowances on:		
Advances and other accounts	**(1,966)**	(2,489)
Balances and placements with banks and other financial institutions	**(15)**	(5)
Investment in securities		
– At FVOCI	**(26)**	(100)
– At amortised cost	**(37)**	(16)
	(63)	(116)
Loan commitments and financial guarantee contracts	**(80)**	(77)
	(2,124)	(2,687)
Others	**(21)**	(20)
Net charge of impairment allowances	**(2,145)**	(2,707)

14. Operating expenses

	2021 HK$'m	2020 HK$'m
Staff costs (including directors' emoluments)		
– Salaries and other costs	**9,005**	8,916
– Pension cost	**537**	545
	9,542	9,461
Premises and equipment expenses (excluding depreciation and amortisation)		
– Short-term leases, leases of low-value assets and variable lease payments	**11**	11
– Others	**1,221**	1,224
	1,232	1,235
Depreciation and amortisation	**3,039**	3,040
Auditor's remuneration		
– Audit services	**25**	29
– Non-audit services	**9**	14
Other operating expenses	**2,560**	2,568
	16,407	16,347

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

	2021 HK$'m	2020 HK$'m
Net loss from fair value adjustments on investment properties (Note 28)	**(229)**	(1,622)

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

	2021 HK$'m	2020 HK$'m
Net loss from disposal of equipment, fixtures and fittings	**(3)**	(4)
Net loss from revaluation of premises (Note 29)	**(17)**	(59)
	(20)	(63)

17. Taxation

Taxation in the income statement represents:

	2021 HK$'m	2020 HK$'m
Current tax		
Hong Kong profits tax		
– Current year taxation	**4,829**	5,412
– Over-provision in prior years	**(283)**	(180)
	4,546	5,232
Taxation outside Hong Kong		
– Current year taxation	**447**	419
– Over-provision in prior years	**(1)**	(25)
	4,992	5,626
Deferred tax		
Origination and reversal of temporary differences and unused tax credits (Note 36)	**(23)**	(511)
	4,969	5,115

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries/regions in which the Group operates.

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:

	2021 HK$'m	2020 HK$'m
Profit before taxation	**29,968**	33,583
Calculated at a taxation rate of 16.5% (2020: 16.5%)	**4,945**	5,541
Effect of different taxation rates in other countries/regions	**199**	75
Income not subject to taxation	**(240)**	(410)
Expenses not deductible for taxation purposes	**489**	461
Utilisation of previously unrecognised tax losses	**(15)**	(10)
Over-provision in prior years	**(284)**	(205)
Withholding tax outside Hong Kong	**101**	(110)
Others	**(226)**	(227)
Taxation charge	**4,969**	5,115
Effective tax rate	**16.6%**	15.2%

18. Dividends

	2021		2020	
	Per share HK$	**Total HK$'m**	Per share HK$	Total HK$'m
Interim dividend paid	**0.447**	**4,726**	0.447	4,726
Proposed final dividend	**0.683**	**7,221**	0.795	8,405
	1.130	**11,947**	1.242	13,131

At a meeting held on 30 August 2021, the Board declared an interim dividend of HK$0.447 per ordinary share for the first half of 2021 amounting to approximately HK$4,726 million.

At a meeting held on 29 March 2022, the Board proposed to recommend to the Annual General Meeting on 29 June 2022 a final dividend of HK$0.683 per ordinary share for the year ended 31 December 2021 amounting to approximately HK$7,221 million. This proposed final dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2022.

19. Earnings per share

The calculation of basic earnings per share for the year ended 31 December 2021 is based on the consolidated profit for the year attributable to equity holders of the Company of approximately HK$22,970 million (2020: HK$26,487 million) and on the ordinary shares in issue of 10,572,780,266 shares (2020: 10,572,780,266 ordinary shares).

There was no dilution of earnings per share as no potential ordinary shares were in issue for the year ended 31 December 2021 (2020: Nil).

20. Retirement benefit costs

Retirement benefits are provided to eligible employees of the Group. In Hong Kong, defined contribution schemes for the Group's employees are ORSO schemes exempted under the MPF Schemes Ordinance and the BOC-Prudential Easy Choice MPF Scheme.

Under the ORSO schemes, employees make monthly contributions to the ORSO schemes equal to 5% of their basic salaries, while the employer makes monthly contributions equal to 5% to 15% of the employees' monthly basic salaries, depending on years of service. The employees are entitled to receive 100% of the employer's contributions upon retirement, early retirement or termination of employment after completing 10 years of service. Employees with 3 to 9 years of service are entitled to receive the employer's contributions at a scale ranging from 30% to 90% upon termination of employment for other reasons other than summary dismissal. All employer's contributions received by employee are subject to MPF Schemes Ordinance.

With the implementation of the MPF Schemes Ordinance on 1 December 2000, the Group also launched the MPF Scheme according to the regulatory requirement. Since 2019, employees with 5 years of service or above are entitled to employer's voluntary contribution. The trustee of the Scheme is BOCI-Prudential Trustee and the investment manager is BOCI-Prudential Asset Management, which are related parties of the Company.

The Group's total contributions made to the ORSO schemes for the year ended 31 December 2021 amounted to approximately HK$361 million (2020: approximately HK$375 million), after a deduction of forfeited contributions of approximately HK$20 million (2020: approximately HK$10 million). For the MPF Scheme, the Group contributed approximately HK$132 million (2020: approximately HK$132 million) for the year ended 31 December 2021.

21. Directors', senior management's and key personnel's emoluments

(a) Directors' and senior management's emoluments

(i) Directors' emoluments

Details of the emoluments paid to or receivable by the directors of the Company in respect of their services rendered for the Company and managing the subsidiaries within the Group during the year are as follows:

	2021				
	Directors' fee HK$'000	Basic salaries, allowances and benefits in kind HK$'000	Bonus HK$'000	Other payments# HK$'000	Total HK$'000
Executive Directors					
SUN Yu (Chief Executive)	–	5,390	2,905	–	8,295
Non-executive Directors					
LIU Liange	–	–	–	–	–
LIU Jin Note 1	–	–	–	–	–
WANG Jiang Note 2	–	–	–	–	–
LIN Jingzhen	–	–	–	–	–
CHENG Eva*	600	–	–	–	600
CHOI Koon Shum*	600	–	–	–	600
KOH Beng Seng*	650	–	–	–	650
LAW Yee Kwan Quinn*	550	–	–	–	550
TUNG Savio Wai-Hok*	700	–	–	–	700
	3,100	–	–	–	3,100
	3,100	5,390	2,905	–	11,395

Note 1: Appointed during the year.
Note 2: Resigned during the year.

21. Directors', senior management's and key personnel's emoluments (continued)

(a) Directors' and senior management's emoluments (continued)

(i) Directors' emoluments (continued)

	2020				
	Directors' fee HK$'000	Basic salaries, allowances and benefits in kind HK$'000	Bonus HK$'000	Other payments# HK$'000	Total HK$'000
Executive Directors					
SUN Yu (Chief Executive)	–	140	31	–	171
GAO Yingxin (Chief Executive)	–	3,041	1,636	–	4,677
	–	3,181	1,667	–	4,848
Non-executive Directors					
LIU Liange	–	–	–	–	–
WANG Jiang	–	–	–	–	–
LIN Jingzhen	–	–	–	–	–
CHENG Eva*	600	–	–	–	600
CHOI Koon Shum*	600	–	–	–	600
KOH Beng Seng*	650	–	–	–	650
LAW Yee Kwan Quinn*	550	–	–	–	550
TUNG Savio Wai-Hok*	700	–	–	–	700
	3,100	–	–	–	3,100
	3,100	3,181	1,667	–	7,948

* Independent Non-executive Directors

\# Including the contributions to pension scheme for directors, inducement to join the Group and the compensation for the loss of office paid to or receivable by directors.

There were no directors waived emoluments for the year ended 31 December 2021 (2020: Nil).

21. Directors', senior management's and key personnel's emoluments (continued)

(a) Directors' and senior management's emoluments (continued)

(ii) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2020: Nil) director whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining four (2020: five) individuals during the year are as follows:

	2021 HK$'m	2020 HK$'m
Basic salaries and allowances	18	26
Bonus	9	10
Contributions to pension schemes	1	1
	28	37

Emoluments paid to or receivable by individuals during the year with reference to their tenure are within the following bands:

	Number of individuals	
	2021	2020
HK$6,000,001 to HK$6,500,000	1	–
HK$6,500,001 to HK$7,000,000	–	1
HK$7,000,001 to HK$7,500,000	2	2
HK$7,500,001 to HK$8,000,000	1	1
HK$8,500,001 to HK$9,000,000	–	1

21. Directors', senior management's and key personnel's emoluments (continued)

(a) Directors' and senior management's emoluments (continued)

(iii) Senior management's emoluments

Emoluments paid to or receivable by individuals during the year with reference to their tenure as senior management are within the following bands:

	Number of individuals	
	2021	2020
HK$0 to HK$500,000	**–**	1
HK$500,001 to HK$1,000,000	**1**	–
HK$3,500,001 to HK$4,000,000	**1**	1
HK$4,500,001 to HK$5,000,000	**1**	1
HK$5,000,001 to HK$5,500,000	**1**	2
HK$5,500,001 to HK$6,000,000	**1**	1
HK$6,000,001 to HK$6,500,000	**2**	1
HK$6,500,001 to HK$7,000,000	**–**	1
HK$7,000,001 to HK$7,500,000	**1**	1
HK$7,500,001 to HK$8,000,000	**–**	1
HK$8,000,001 to HK$8,500,000	**1**	–

(b) Remuneration for Senior Management and Key Personnel under CG-5

For the purpose of disclosure, Senior Management and Key Personnel are defined as follows:

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

– Key Personnel: The employees whose individual business activities involve the assumption of material risk which may have significant impact on risk exposure, or whose individual responsibilities are directly and materially linked to the risk management, or those who have direct influence to the profit, including heads of material business lines, heads of major subsidiaries, senior executives of Southeast Asian entities, head of trading, as well as heads of risk control functions.

21. Directors', senior management's and key personnel's emoluments (continued)

(b) Remuneration for Senior Management and Key Personnel under CG-5 (continued)

Details of the remuneration for Senior Management and Key Personnel of the Group during the year are as follows:

(i) Remuneration awarded during financial year

	2021		2020	
	Senior Management HK$'m	**Key Personnel HK$'m**	Senior Management HK$'m	Key Personnel HK$'m
Fixed remuneration				
Cash-based	**42**	**146**	45	153
Of which: deferred	**–**	**–**	–	–
Variable remuneration				
Cash-based	**16**	**60**	18	60
Of which: deferred	***4***	***13***	*5*	*13*
Total remuneration	**58**	**206**	63	213
Number of employees				
Fixed remuneration	**11**	**60**	13	58
Variable remuneration	**10**	**55**	13	57

(ii) Special payments

	2021		2020	
	Senior Management HK$'m	**Key Personnel HK$'m**	Senior Management HK$'m	Key Personnel HK$'m
Sign-on awards	**–**	**1**	–	3
Number of employees	**–**	**2**	–	2

There were no guaranteed bonuses and severance payments to Senior Management and Key Personnel for the year ended 31 December 2021 (2020: Nil).

21. Directors', senior management's and key personnel's emoluments (continued)

(b) Remuneration for Senior Management and Key Personnel under CG-5 (continued)

(iii) Deferred remuneration

	2021				
	Total amount of outstanding deferred remuneration HK$'m	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment HK$'m	Total amount of amendment during the year due to ex post explicit adjustments HK$'m	Total amount of amendment during the year due to ex post implicit adjustments HK$'m	Total amount of deferred remuneration paid out in the financial year HK$'m
Senior Management					
Cash	**9**	**9**	**–**	**(1)**	**(4)**
Key Personnel					
Cash	**28**	**28**	**–**	**(3)**	**(18)**
Total	**37**	**37**	**–**	**(4)**	**(22)**

	2020				
	Total amount of outstanding deferred remuneration HK$'m	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment HK$'m	Total amount of amendment during the year due to ex post explicit adjustments HK$'m	Total amount of amendment during the year due to ex post implicit adjustments HK$'m	Total amount of deferred remuneration paid out in the financial year HK$'m
Senior Management					
Cash	10	10	–	–	(5)
Key Personnel					
Cash	36	36	–	–	(19)
Total	46	46	–	–	(24)

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

	2021 HK$'m	2020 HK$'m
Cash	**17,586**	38,187
Balances with central banks	**142,560**	141,803
Placements with central banks maturing within one month	**12,882**	36,842
Placements with central banks maturing between one and twelve months	**4,332**	3,379
Placements with central banks maturing over one year	**1,156**	1,547
	160,930	183,571
Balances with other banks and other financial institutions	**191,682**	188,089
Placements with other banks and other financial institutions maturing within one month	**59,035**	19,588
Placements with other banks and other financial institutions maturing between one and twelve months	**35,701**	33,974
Placements with other banks and other financial institutions maturing over one year	**624**	310
	287,042	241,961
	465,558	463,719
Less: Impairment allowances		
– Stage 1	**(23)**	(8)
– Stage 2	**–**	–
– Stage 3	**–**	–
	465,535	463,711

23. Financial assets at fair value through profit or loss

	2021 HK$'m	2020 HK$'m
Securities		
Trading assets		
– Treasury bills	**11,548**	19,491
– Certificates of deposit	**1,506**	171
– Other debt securities	**10,813**	7,155
	23,867	26,817
– Equity securities	**23**	49
	23,890	26,866
Other financial assets mandatorily classified at fair value through profit or loss		
– Treasury bills	**1,481**	–
– Other debt securities	**14,233**	15,872
	15,714	15,872
– Equity securities	**2,857**	3,910
– Fund	**11,202**	8,841
	29,773	28,623
Financial assets designated at fair value through profit or loss		
– Certificates of deposit	**–**	–
– Other debt securities	**1,477**	1,307
	1,477	1,307
Total securities	**55,140**	56,796
Other debt instruments		
Trading assets	**3,201**	3,300
Financial assets designated at fair value through profit or loss	**15,196**	118
Total other debt instruments	**18,397**	3,418
	73,537	60,214

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

Total securities are analysed by place of listing as follows:

	2021 HK$'m	2020 HK$'m
Debt securities and certificates of deposit		
– Listed in Hong Kong	**9,199**	8,102
– Listed outside Hong Kong	**8,212**	8,133
– Unlisted	**23,647**	27,761
	41,058	43,996
Equity securities		
– Listed in Hong Kong	**2,234**	2,610
– Listed outside Hong Kong	**453**	1,265
– Unlisted	**193**	84
	2,880	3,959
Fund		
– Listed in Hong Kong	**1,469**	–
– Listed outside Hong Kong	**239**	491
– Unlisted	**9,494**	8,350
	11,202	8,841
Total securities	**55,140**	56,796

Total securities are analysed by type of issuer as follows:

	2021 HK$'m	2020 HK$'m
Sovereigns	**21,713**	26,207
Public sector entities	**748**	535
Banks and other financial institutions	**23,806**	20,935
Corporate entities	**8,873**	9,119
Total securities	**55,140**	56,796

24. Derivative financial instruments and hedge accounting

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

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

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

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

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

(a) Derivative financial instruments

The Group trades derivative products (both exchange-traded and OTC) mainly for customer business. The Group strictly follows risk management policies and requirements in providing derivative products to our customers and in trading of derivative products in the interbank market.

Derivatives are also used to manage the interest rate risk of the banking book. A derivative instrument must be included in the approved product list before any transactions for that instrument can be made. There are limits to control the notional amount of exposure arising from derivative transactions, and the maximum tenor of the deal is set. Every derivative transaction must be input into the relevant system for settlement, mark-to-market revaluation, reporting and control.

24. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

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

	2021		
	Contract/ notional amounts	Fair values	
		Assets	Liabilities
	HK$'m	HK$'m	HK$'m
Exchange rate contracts			
Spot, forwards and futures	203,700	11,720	(7,545)
Swaps	1,602,271	11,558	(8,476)
Options	40,382	92	(86)
	1,846,353	23,370	(16,107)
Interest rate contracts			
Futures	2,220	1	(3)
Swaps	1,084,835	9,361	(13,321)
Options	567	–	–
	1,087,622	9,362	(13,324)
Commodity contracts	13,873	388	(265)
Equity contracts	1,470	66	(61)
	2,949,318	33,186	(29,757)

24. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

	2020		
	Contract/ notional amounts HK$'m	Fair values	
		Assets HK$'m	Liabilities HK$'m
Exchange rate contracts			
Spot, forwards and futures	250,999	13,496	(9,914)
Swaps	1,157,985	18,667	(20,759)
Options	21,443	147	(136)
	1,430,427	32,310	(30,809)
Interest rate contracts			
Futures	488	–	–
Swaps	1,152,857	17,211	(26,218)
Options	5,845	–	–
	1,159,190	17,211	(26,218)
Commodity contracts	42,819	3,282	(3,246)
Equity contracts	2,526	53	(40)
	2,634,962	52,856	(60,313)

(b) Hedge accounting

Fair value hedges

The Group uses interest rate swaps to hedge against change in fair value of financial assets and liabilities arising from movements in market interest rates. Interest rate risk to which the Group applies hedge accounting arises from fixed-rate debt securities, whose fair value fluctuates when benchmark interest rates change. The Group only designates interest rate risks to the extent of benchmark interest rates as the hedged risks because the changes in fair value of the fixed-rate debt securities are significantly influenced by the changes in the benchmark interest rates. Hedge accounting is applied where economic hedging relationships meet the hedge accounting criteria.

Possible sources of ineffectiveness are as follows:

– Notional and timing differences between the hedged items and hedging instruments;

– Significant changes in counterparties' credit risk.

24. Derivative financial instruments and hedge accounting (continued)

(b) Hedge accounting (continued)

Fair value hedges (continued)

The table below summarises the contract/notional amounts of the hedging instruments as at 31 December by remaining contractual maturity.

	2021					
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Total HK$'m
Interest rate swaps	1,513	2,821	11,543	65,070	42,111	123,058

	2020					
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Total HK$'m
Interest rate swaps	1,875	2,011	8,382	61,441	37,545	111,254

The amounts relating to items designated as hedging instruments are as follows:

	2021			
	Contract/ notional amounts HK$'m	Fair values		Change in fair value used for recognising hedge ineffectiveness HK$'m
		Assets HK$'m	Liabilities HK$'m	
Derivative financial instruments				
Interest rate swaps	123,058	741	(2,617)	4,046

	2020			
	Contract/ notional amounts HK$'m	Fair values		Change in fair value used for recognising hedge ineffectiveness HK$'m
		Assets HK$'m	Liabilities HK$'m	
Derivative financial instruments				
Interest rate swaps	111,254	50	(6,196)	(4,074)

24. Derivative financial instruments and hedge accounting (continued)

(b) Hedge accounting (continued)

Fair value hedges (continued)

The amounts relating to hedged items are as follows:

	2021		
	Carrying amounts HK$'m	Accumulated amount of fair value hedge adjustment included in the carrying amounts HK$'m	Change in value used for recognising hedge ineffectiveness HK$'m
Investment in securities			
Debt securities	**127,438**	**3,096**	**(4,216)**

	2020		
	Carrying amounts HK$'m	Accumulated amount of fair value hedge adjustment included in the carrying amounts HK$'m	Change in value used for recognising hedge ineffectiveness HK$'m
Investment in securities			
Debt securities	119,092	6,538	4,302

Hedge ineffectiveness recognised is as follows:

	2021 HK$'m	2020 HK$'m
Net trading (loss)/gain	**(170)**	228

25. Advances and other accounts

	2021 HK$'m	2020 HK$'m
Personal loans and advances	**509,045**	458,577
Corporate loans and advances	**1,090,039**	1,039,287
Advances to customers	**1,599,084**	1,497,864
Less: Impairment allowances		
– Stage 1	**(4,839)**	(5,405)
– Stage 2	**(2,406)**	(1,115)
– Stage 3	**(2,632)**	(2,652)
	1,589,207	1,488,692
Trade bills	**7,264**	9,826
Less: Impairment allowances		
– Stage 1	**(1)**	–
– Stage 2	**–**	–
– Stage 3	**–**	–
	7,263	9,826
Advances to banks and other financial institutions	**727**	1,898
Less: Impairment allowances		
– Stage 1	**(3)**	–
– Stage 2	**–**	–
– Stage 3	**–**	–
	724	1,898
	1,597,194	1,500,416

As at 31 December 2021, advances to customers included accrued interest of HK$1,890 million (2020: HK$1,958 million).

As at 31 December 2021, advances and other accounts at fair value through other comprehensive income amounted to HK$2,757 million (2020: HK$1,163 million).

26. Investment in securities

	2021 HK$'m	2020 HK$'m
Investment in securities at fair value through other comprehensive income		
– Treasury bills	**410,163**	334,480
– Certificates of deposit	**38,059**	46,029
– Other debt securities	**423,598**	373,663
	871,820	754,172
– Equity securities	**5,601**	5,882
	877,421	760,054
Investment in securities at amortised cost		
– Certificates of deposit	**2,693**	984
– Other debt securities	**214,218**	119,509
	216,911	120,493
Less: Impairment allowances		
– Stage 1	**(96)**	(62)
– Stage 2	**(3)**	–
– Stage 3	**–**	–
	216,812	120,431
	1,094,233	880,485

26. Investment in securities (continued)

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

	2021 HK$'m	2020 HK$'m
Investment in securities at fair value through other comprehensive income		
Debt securities and certificates of deposit		
– Listed in Hong Kong	**106,919**	98,647
– Listed outside Hong Kong	**182,018**	158,283
– Unlisted	**582,883**	497,242
	871,820	754,172
Equity securities		
– Listed in Hong Kong	**2,351**	2,777
– Listed outside Hong Kong	**455**	496
– Unlisted	**2,795**	2,609
	5,601	5,882
	877,421	760,054
Investment in securities at amortised cost		
Debt securities and certificates of deposit		
– Listed in Hong Kong	**39,845**	28,050
– Listed outside Hong Kong	**103,719**	59,685
– Unlisted	**73,248**	32,696
	216,812	120,431
	1,094,233	880,485
Market value of listed securities at amortised cost	**145,392**	92,341

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

	2021 HK$'m	2020 HK$'m
Sovereigns	**558,915**	426,384
Public sector entities	**55,078**	26,363
Banks and other financial institutions	**306,006**	270,645
Corporate entities	**174,234**	157,093
	1,094,233	880,485

26. Investment in securities (continued)

The movements in investment in securities are summarised as follows:

	2021	
	At fair value through other comprehensive income HK$'m	**At amortised cost HK$'m**
At 1 January 2021	**760,054**	**120,431**
Additions	**1,501,274**	**132,794**
Disposals, redemptions and maturity	**(1,364,521)**	**(37,870)**
Amortisation	**(1,114)**	**427**
Change in fair value/fair value hedge adjustment	**(5,850)**	**(71)**
Net charge of impairment allowances	**–**	**(37)**
Exchange difference	**(12,422)**	**1,138**
At 31 December 2021	**877,421**	**216,812**

	2020	
	At fair value through other comprehensive income HK$'m	At amortised cost HK$'m
At 1 January 2020	690,670	110,983
Additions	1,149,390	58,961
Disposals, redemptions and maturity	(1,102,401)	(49,850)
Amortisation	478	260
Change in fair value/fair value hedge adjustment	10,537	(15)
Net charge of impairment allowances	–	(16)
Exchange difference	11,380	108
At 31 December 2020	760,054	120,431

The Group has designated certain equity securities as equity securities at fair value through other comprehensive income. The fair value through other comprehensive income designation was made because these are held for strategic investments. Investments include subordinated Additional Tier 1 securities, listed and unlisted equity shares.

The Group derecognised certain equity securities at fair value through other comprehensive income with fair value of HK$2,356 million (2020: HK$2,289 million) during the year. The derecognition was made because of portfolio rebalancing and the redemption by issuer.

27. Interests in associates and joint ventures

	2021 HK$'m	2020 HK$'m
At 1 January	**1,485**	1,632
Additions	**–**	6
Share of results	**(197)**	(126)
Share of tax	**(16)**	(26)
Dividend received	**(57)**	(3)
Exchange difference	**–**	2
At 31 December	**1,215**	1,485

The particulars of the Group's associates and joint ventures, all of which are unlisted, are as follows:

Name	Place of incorporation and operation	Issued share capital	Interest held	Principal activities
BOC Services Company Limited	PRC	Registered capital RMB50,000,000	45%	Credit card back-end service support
FutureX Innovation Limited	Cayman Islands	US$1	20%	Investment holding
Golden Harvest (Cayman) Limited	Cayman Islands	US$100	49%	Investment holding
Joint Electronic Teller Services Limited	Hong Kong	HK$10,025,200	19.96%	Operation of a private inter-bank message switching network in respect of ATM services
Livi Bank Limited	Hong Kong	HK$2,500,000,000	44%	Banking business
Sunac Realtor Capital Limited	Cayman Islands	US$1	20%	Investment holding
盈進智能製造（深圳）投資中心（有限合夥）	PRC	Paid in capital RMB9,500,000	52.63%	Investment holding

None of the above associates and joint ventures is considered individually or in aggregate material to the Group.

28. Investment properties

	2021 HK$'m	2020 HK$'m
At 1 January	**18,441**	20,110
Additions	**233**	9
Fair value losses (Note 15)	**(229)**	(1,622)
Reclassification to properties, plant and equipment (Note 29)	**(723)**	(56)
At 31 December	**17,722**	18,441

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	2021 HK$'m	2020 HK$'m
Held in Hong Kong		
On long-term lease (over 50 years)	**4,942**	4,720
On medium-term lease (10 to 50 years)	**12,421**	13,362
Held outside Hong Kong		
On medium-term lease (10 to 50 years)	**328**	328
On short-term lease (less than 10 years)	**31**	31
	17,722	18,441

As at 31 December 2021, investment properties were included in the balance sheet at valuation carried out at 31 December 2021 on the basis of their fair value by an independent firm of chartered surveyors, Knight Frank Petty Limited. The fair value represents the price that would be received to sell each investment property in an orderly transaction with market participants at the measurement date.

29. Properties, plant and equipment

	Premises HK$'m	Equipment, fixtures and fittings HK$'m	Right-of-use assets HK$'m	Total HK$'m
Net book value at 1 January 2021	43,548	1,582	1,725	46,855
Additions	40	344	341	725
Disposals	(4)	(11)	(41)	(56)
Revaluation	634	–	–	634
Depreciation for the year	(1,154)	(567)	(700)	(2,421)
Reclassification from investment properties (Note 28)	723	–	–	723
Impairment for the year	–	(4)	–	(4)
Exchange difference	(3)	(6)	(6)	(15)
Net book value at 31 December 2021	43,784	1,338	1,319	46,441
At 31 December 2021				
Cost or valuation	43,784	7,032	2,775	53,591
Accumulated depreciation and impairment	–	(5,694)	(1,456)	(7,150)
Net book value at 31 December 2021	43,784	1,338	1,319	46,441
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2021				
At cost	–	7,032	2,775	9,807
At valuation	43,784	–	–	43,784
	43,784	7,032	2,775	53,591

There was no transfer of application software to other assets during 2021 (2020: Application software with net book value of HK$1,862 million, representing cost of HK$5,101 million and accumulated amortisation of HK$3,239 million, was transferred to other assets and presented as intangible assets on 31 December 2020).

29. Properties, plant and equipment (continued)

	Premises HK$'m	Equipment, fixtures and fittings HK$'m	Right-of-use assets HK$'m	Total HK$'m
Net book value at 1 January 2020	46,342	3,331	1,929	51,602
Additions	91	1,232	561	1,884
Disposals	(2)	(13)	(10)	(25)
Revaluation	(1,766)	–	–	(1,766)
Depreciation for the year	(1,173)	(1,107)	(760)	(3,040)
Reclassification from investment properties (Note 28)	56	–	–	56
Transfer to other assets (Note 30)	–	(1,862)	–	(1,862)
Exchange difference	–	1	5	6
Net book value at 31 December 2020	43,548	1,582	1,725	46,855
At 31 December 2020				
Cost or valuation	43,548	7,006	3,001	53,555
Accumulated depreciation and impairment	–	(5,424)	(1,276)	(6,700)
Net book value at 31 December 2020	43,548	1,582	1,725	46,855
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2020				
At cost	–	7,006	3,001	10,007
At valuation	43,548	–	–	43,548
	43,548	7,006	3,001	53,555

29. Properties, plant and equipment (continued)

The carrying value of premises is analysed based on the remaining terms of the leases as follows:

	2021 HK$'m	2020 HK$'m
Held in Hong Kong		
On long-term lease (over 50 years)	**12,725**	12,904
On medium-term lease (10 to 50 years)	**30,712**	30,292
Held outside Hong Kong		
On long-term lease (over 50 years)	**71**	75
On medium-term lease (10 to 50 years)	**276**	277
	43,784	43,548

As at 31 December 2021, premises were included in the balance sheet at valuation carried out at 31 December 2021 on the basis of their fair value by an independent firm of chartered surveyors, Knight Frank Petty Limited. The fair value represents the price that would be received to sell each premises in an orderly transaction with market participants at the measurement date.

As a result of the above-mentioned revaluations, changes in value of the premises were recognised as follows:

	2021 HK$'m	2020 HK$'m
Decrease in valuation charged to income statement (Note 16)	**(17)**	(59)
Increase/(decrease) in valuation credited/(charged) to other comprehensive income	**651**	(1,707)
	634	(1,766)

As at 31 December 2021, the net book value of premises that would have been included in the Group's balance sheet had the premises been carried at cost less accumulated depreciation and impairment losses was HK$9,363 million (2020: HK$8,748 million).

30. Other assets

	2021 HK$'m	2020 HK$'m
Repossessed assets	**151**	23
Precious metals	**10,207**	10,697
Intangible assets[1]	**2,025**	1,862
Reinsurance assets	**59,696**	55,672
Accounts receivable and prepayments	**34,193**	38,481
	106,272	106,735

(1) The movements in intangible assets are summarised as follows:

	2021 HK$'m
Net book value at 1 January	**1,862**
Additions	**781**
Amortisation for the year	**(618)**
Net book value at 31 December	**2,025**
At 31 December	
Cost	**5,866**
Accumulated amortisation and impairment	**(3,841)**
Net book value at 31 December	**2,025**

31. Hong Kong SAR currency notes in circulation

The Hong Kong SAR currency notes in circulation are secured by deposit of funds in respect of which the Hong Kong SAR Government certificates of indebtedness are held.

32. Financial liabilities at fair value through profit or loss

	2021 HK$'m	2020 HK$'m
Trading liabilities		
– Short positions in Exchange Fund Bills and Notes	**12,322**	20,336
Financial liabilities designated at fair value through profit or loss		
– Repurchase agreements	**198**	–
	12,520	20,336

As at 31 December 2021, the carrying amount of financial liabilities designated at fair value through profit or loss was approximately the same as the amount that the Group would be contractually required to pay at maturity to the holders.

33. Deposits from customers

	2021 HK$'m	2020 HK$'m
Demand deposits and current accounts		
– Corporate	**229,326**	222,286
– Personal	**97,908**	87,940
	327,234	310,226
Savings deposits		
– Corporate	**513,556**	499,740
– Personal	**680,538**	649,295
	1,194,094	1,149,035
Time, call and notice deposits		
– Corporate	**544,036**	454,852
– Personal	**265,791**	269,596
	809,827	724,448
	2,331,155	2,183,709

34. Debt securities and certificates of deposit in issue

	2021 HK$'m	2020 HK$'m
At amortised cost		
– Certificates of deposit	**563**	233
– Other debt securities	**1,860**	193
	2,423	426

35. Other accounts and provisions

	2021 HK$'m	2020 HK$'m
Other accounts payable and provisions	**81,080**	68,682
Lease liabilities	**1,318**	1,710
Impairment allowances on loan commitments and financial guarantee contracts		
– Stage 1	**439**	594
– Stage 2	**51**	44
– Stage 3	**153**	20
	83,041	71,050

36. Deferred taxation

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

The major components of deferred tax (assets)/liabilities recorded in the balance sheet, and the movements during the year are as follows:

	2021					
	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 2021	**797**	**6,560**	**(46)**	**(1,153)**	**(289)**	**5,869**
Charged/(credited) to income statement (Note 17)	**29**	**(63)**	**10**	**23**	**(22)**	**(23)**
Charged/(credited) to other comprehensive income	**–**	**109**	**–**	**–**	**(401)**	**(292)**
Release upon disposal of equity instruments at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**19**	**19**
Exchange difference and others	**–**	**–**	**32**	**2**	**–**	**34**
At 31 December 2021	**826**	**6,606**	**(4)**	**(1,128)**	**(693)**	**5,607**

	2020					
	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 2020	756	6,997	–	(804)	(532)	6,417
Charged/(credited) to income statement (Note 17)	41	(140)	(15)	(349)	(48)	(511)
(Credited)/charged to other comprehensive income	–	(297)	–	–	253	(44)
Release upon disposal of equity instruments at fair value through other comprehensive income	–	–	(31)	–	32	1
Release upon redemption of financial liabilities designated at fair value through profit or loss	–	–	–	–	6	6
At 31 December 2020	797	6,560	(46)	(1,153)	(289)	5,869

36. Deferred taxation (continued)

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

	2021 HK$'m	2020 HK$'m
Deferred tax assets	**(192)**	(95)
Deferred tax liabilities	**5,799**	5,964
	5,607	5,869

	2021 HK$'m	2020 HK$'m
Deferred tax assets to be recovered after more than twelve months	**(153)**	(112)
Deferred tax liabilities to be settled after more than twelve months	**6,435**	6,244
	6,282	6,132

As at 31 December 2021, the Group has no unrecognised deferred tax assets in respect of tax losses (2020: Nil). All of the amount for the Group has no expiry date under the current tax legislation in different countries/regions.

37. Insurance contract liabilities

	2021 HK$'m	2020 HK$'m
At 1 January	**139,504**	117,269
Benefits paid	**(14,784)**	(13,288)
Claims incurred and movement in liabilities	**29,191**	35,523
At 31 December	**153,911**	139,504

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK$48,037 million (2020: HK$45,615 million) and the associated reinsurance assets of HK$59,696 million (2020: HK$55,672 million) are included in "Other assets" (Note 30).

38. Share capital

	2021 HK$'m	2020 HK$'m
Issued and fully paid:		
10,572,780,266 ordinary shares	**52,864**	52,864

39. Other equity instruments

	2021 HK$'m	2020 HK$'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 2021 amounted to HK$1,378 million (2020: HK$1,376 million).

40. Notes to consolidated cash flow statement

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

	2021 HK$'m	2020 HK$'m
Operating profit	**30,430**	35,420
Depreciation and amortisation	**3,039**	3,040
Net charge of impairment allowances	**2,145**	2,707
Unwind of discount on impairment allowances	**(37)**	(8)
Advances written off net of recoveries	**(1,157)**	(425)
Interest expense on lease liabilities	**34**	54
Change in balances and placements with banks and other financial institutions with original maturity over three months	**(622)**	3,800
Change in financial assets at fair value through profit or loss	**1,835**	21,655
Change in derivative financial instruments	**(10,886)**	5,563
Change in advances and other accounts	**(97,487)**	(89,591)
Change in investment in securities	**(157,171)**	(49,999)
Change in other assets	**548**	(13,863)
Change in deposits and balances from banks and other financial institutions	**159,567**	58,606
Change in financial liabilities at fair value through profit or loss	**(7,816)**	1,130
Change in deposits from customers	**147,446**	174,436
Change in debt securities and certificates of deposit in issue	**1,997**	310
Change in other accounts and provisions	**12,388**	(9,527)
Change in insurance contract liabilities	**14,407**	22,235
Effect of changes in exchange rates	**(5,278)**	(13,269)
Operating cash inflow before taxation	**93,382**	152,274
Cash flows from operating activities included		
– interest received	**39,160**	51,764
– interest paid	**8,482**	17,674
– dividend received	**364**	235

40. Notes to consolidated cash flow statement (continued)

(b) Reconciliation of liabilities arising from financing activities

	2020 HK$'m
Subordinated liabilities	
At 1 January	12,954
Cash flows:	
Payment for redemption of subordinated liabilities	(12,603)
Interest paid for subordinated liabilities	(350)
	(12,953)
Non-cash changes:	
Change in fair value of own credit risk credited to other comprehensive income	(1)
Exchange difference	(39)
Other changes	39
At 31 December	–

	2021 HK$'m	2020 HK$'m
Lease liabilities		
At 1 January	**1,710**	1,850
Cash flows:		
Payment of lease liabilities	**(716)**	(733)
Non-cash changes:		
Additions	**331**	549
Disposal	**(41)**	(10)
Other changes	**34**	54
At 31 December	**1,318**	1,710

40. Notes to consolidated cash flow statement (continued)

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

	2021 HK$'m	2020 HK$'m
Cash and balances and placements with banks and other financial institutions with original maturity within three months	**424,780**	423,563
Treasury bills, certificates of deposit and other debt instruments with original maturity within three months		
– financial assets at fair value through profit or loss	**18,461**	3,303
– investment in securities	**88,674**	29,192
	531,915	456,058

41. 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.

	2021 HK$'m	2020 HK$'m
Direct credit substitutes	**1,338**	2,487
Transaction-related contingencies	**30,075**	30,215
Trade-related contingencies	**25,815**	27,830
Commitments that are unconditionally cancellable without prior notice	**526,430**	511,975
Other commitments with an original maturity of		
– up to one year	**15,665**	20,416
– over one year	**173,623**	173,475
	772,946	766,398
Credit risk-weighted amount	**83,704**	87,517

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.

42. Capital commitments

The Group has the following outstanding capital commitments not provided for in the financial statements:

	2021 HK$'m	2020 HK$'m
Authorised and contracted for but not provided for	**183**	274
Authorised but not contracted for	**119**	70
	302	344

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

43. Operating lease commitments

As lessor

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

	2021 HK$'m	2020 HK$'m
Properties and equipment		
– Not later than one year	**469**	520
– One to two years	**241**	313
– Two to three years	**103**	101
– Three to four years	**16**	14
– Four to five years	**5**	10
– Later than five years	**–**	–
	834	958

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.

44. Litigation

The Group has been served a number of claims and counterclaims by various independent parties. These claims and counterclaims are in relation to the normal commercial activities of the Group.

No material provision was made against these claims and counterclaims because the directors believe that the Group has meritorious defences against the claimants or the amounts involved in these claims are not expected to be material.

45. Segmental reporting

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

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

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

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

45. Segmental reporting (continued)

	Personal Banking HK$'m	Corporate Banking HK$'m	Treasury HK$'m	Insurance HK$'m	Others HK$'m	Subtotal HK$'m	Eliminations HK$'m	Consolidated HK$'m
Year ended 31 December 2021								
Net interest income/(expense)								
– External	4,063	12,411	9,859	3,808	1,800	31,941	–	31,941
– Inter-segment	2,790	(1,301)	(1,264)	(11)	(214)	–	–	–
	6,853	11,110	8,595	3,797	1,586	31,941	–	31,941
Net fee and commission income/(expense)	7,663	4,033	150	(677)	1,240	12,409	(537)	11,872
Net insurance premium income	–	–	–	15,726	–	15,726	(22)	15,704
Net trading gain	1,066	1,452	1,876	69	545	5,008	83	5,091
Net loss on other financial instruments at fair value through profit or loss	–	–	(75)	(1,073)	–	(1,148)	12	(1,136)
Net gain on other financial instruments	–	16	940	153	11	1,120	–	1,120
Other operating income	62	1	97	182	1,926	2,268	(1,285)	983
Total operating income	15,644	16,612	11,583	18,177	5,308	67,324	(1,749)	65,575
Net insurance benefits and claims and movement in liabilities	–	–	–	(16,593)	–	(16,593)	–	(16,593)
Net operating income before impairment allowances	15,644	16,612	11,583	1,584	5,308	50,731	(1,749)	48,982
Net reversal/(charge) of impairment allowances	128	(295)	(55)	(12)	(1,911)	(2,145)	–	(2,145)
Net operating income	15,772	16,317	11,528	1,572	3,397	48,586	(1,749)	46,837
Operating expenses	(9,518)	(3,393)	(1,295)	(549)	(3,401)	(18,156)	1,749	(16,407)
Operating profit/(loss)	6,254	12,924	10,233	1,023	(4)	30,430	–	30,430
Net loss from disposal of/fair value adjustments on investment properties	–	–	–	–	(229)	(229)	–	(229)
Net loss from disposal/revaluation of properties, plant and equipment	(4)	–	–	–	(16)	(20)	–	(20)
Share of results after tax of associates and joint ventures	81	–	5	–	(299)	(213)	–	(213)
Profit/(loss) before taxation	6,331	12,924	10,238	1,023	(548)	29,968	–	29,968
At 31 December 2021								
ASSETS								
Segment assets	533,841	1,031,942	1,733,682	197,906	176,059	3,673,430	(35,215)	3,638,215
Interests in associates and joint ventures	633	–	8	–	574	1,215	–	1,215
	534,474	1,031,942	1,733,690	197,906	176,633	3,674,645	(35,215)	3,639,430
LIABILITIES								
Segment liabilities	1,203,126	1,100,321	753,782	186,277	103,678	3,347,184	(35,215)	3,311,969
Year ended 31 December 2021								
Other information								
Capital expenditure	35	24	1	97	1,582	1,739	–	1,739
Depreciation and amortisation	1,266	295	107	67	1,339	3,074	(35)	3,039

45. Segmental reporting (continued)

	Personal Banking HK$'m	Corporate Banking HK$'m	Treasury HK$'m	Insurance HK$'m	Others HK$'m	Subtotal HK$'m	Eliminations HK$'m	Consolidated HK$'m
Year ended 31 December 2020								
Net interest income/(expense)								
– External	2,014	14,846	12,623	3,437	1,818	34,738	–	34,738
– Inter-segment	10,955	(1,352)	(8,840)	(13)	(750)	–	–	–
	12,969	13,494	3,783	3,424	1,068	34,738	–	34,738
Net fee and commission income/(expense)	7,092	3,522	253	(626)	1,262	11,503	(661)	10,842
Net insurance premium income	–	–	–	18,482	–	18,482	(22)	18,460
Net trading gain	1,004	1,311	2,012	259	435	5,021	153	5,174
Net gain/(loss) on other financial instruments at fair value through profit or loss	–	–	208	1,743	(3)	1,948	11	1,959
Net gain on other financial instruments	–	7	4,376	189	–	4,572	–	4,572
Other operating income	18	5	80	123	2,055	2,281	(1,385)	896
Total operating income	21,083	18,339	10,712	23,594	4,817	78,545	(1,904)	76,641
Net insurance benefits and claims and movement in liabilities	–	–	–	(22,167)	–	(22,167)	–	(22,167)
Net operating income before impairment allowances	21,083	18,339	10,712	1,427	4,817	56,378	(1,904)	54,474
Net charge of impairment allowances	(421)	(1,877)	(87)	(36)	(286)	(2,707)	–	(2,707)
Net operating income	20,662	16,462	10,625	1,391	4,531	53,671	(1,904)	51,767
Operating expenses	(9,684)	(3,427)	(1,269)	(537)	(3,334)	(18,251)	1,904	(16,347)
Operating profit	10,978	13,035	9,356	854	1,197	35,420	–	35,420
Net loss from disposal of/fair value adjustments on investment properties	–	–	–	–	(1,622)	(1,622)	–	(1,622)
Net loss from disposal/revaluation of properties, plant and equipment	(3)	–	–	–	(60)	(63)	–	(63)
Share of results after tax of associates and joint ventures	42	–	5	–	(199)	(152)	–	(152)
Profit/(loss) before taxation	11,017	13,035	9,361	854	(684)	33,583	–	33,583
At 31 December 2020								
ASSETS								
Segment assets	491,213	985,638	1,538,239	179,865	159,589	3,354,544	(35,048)	3,319,496
Interests in associates and joint ventures	603	–	9	–	873	1,485	–	1,485
	491,816	985,638	1,538,248	179,865	160,462	3,356,029	(35,048)	3,320,981
LIABILITIES								
Segment liabilities	1,159,255	1,013,145	601,497	168,463	94,014	3,036,374	(35,048)	3,001,326
Year ended 31 December 2020								
Other information								
Capital expenditure	29	8	1	52	1,803	1,893	–	1,893
Depreciation and amortisation	1,274	281	107	64	1,349	3,075	(35)	3,040

46. Offsetting financial instruments

The following tables present details of the Group's financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

	2021					
				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial assets HK$'m	Gross amounts of recognised financial liabilities set off in the balance sheet HK$'m	Net amounts of financial assets presented in the balance sheet HK$'m	Financial instruments HK$'m	Cash collateral received HK$'m	Net amount HK$'m
Assets						
Derivative financial instruments	16,703	–	16,703	(12,337)	(3,869)	497
Reverse repurchase agreements	17,064	–	17,064	(17,064)	–	–
Securities borrowing agreements	3,201	–	3,201	(3,201)	–	–
Other assets	12,008	(8,908)	3,100	(1)	–	3,099
	48,976	(8,908)	40,068	(32,603)	(3,869)	3,596

	2021					
				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial liabilities HK$'m	Gross amounts of recognised financial assets set off in the balance sheet HK$'m	Net amounts of financial liabilities presented in the balance sheet HK$'m	Financial instruments HK$'m	Cash collateral pledged HK$'m	Net amount HK$'m
Liabilities						
Derivative financial instruments	18,116	–	18,116	(12,337)	(5,592)	187
Repurchase agreements	68,268	–	68,268	(68,268)	–	–
Other liabilities	9,540	(8,908)	632	(1)	–	631
	95,924	(8,908)	87,016	(80,606)	(5,592)	818

46. Offsetting financial instruments (continued)

	2020					
				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial assets HK$'m	Gross amounts of recognised financial liabilities set off in the balance sheet HK$'m	Net amounts of financial assets presented in the balance sheet HK$'m	Financial instruments HK$'m	Cash collateral received HK$'m	Net amount HK$'m
Assets						
Derivative financial instruments	35,570	–	35,570	(28,032)	(3,314)	4,224
Reverse repurchase agreements	1,284	–	1,284	(1,284)	–	–
Securities borrowing agreements	3,300	–	3,300	(3,300)	–	–
Other assets	19,737	(14,300)	5,437	–	–	5,437
	59,891	(14,300)	45,591	(32,616)	(3,314)	9,661

	2020					
				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial liabilities HK$'m	Gross amounts of recognised financial assets set off in the balance sheet HK$'m	Net amounts of financial liabilities presented in the balance sheet HK$'m	Financial instruments HK$'m	Cash collateral pledged HK$'m	Net amount HK$'m
Liabilities						
Derivative financial instruments	48,805	–	48,805	(28,032)	(16,858)	3,915
Repurchase agreements	210	–	210	(210)	–	–
Other liabilities	15,454	(14,300)	1,154	–	–	1,154
	64,469	(14,300)	50,169	(28,242)	(16,858)	5,069

For master netting agreements of OTC derivative, sale and repurchase and securities lending and borrowing transactions entered into by the Group, related amounts with the same counterparty can be offset if an event of default or other predetermined events occur.

47. Assets pledged as security

As at 31 December 2021, the liabilities of the Group amounting to HK$12,788 million (2020: HK$15,293 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK$88,268 million (2020: HK$210 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$103,349 million (2020: HK$15,570 million) mainly included in "Financial assets at fair value through profit or loss" and "Investment in securities".

48. Transfers of financial assets

The transferred financial assets of the Group below that do not qualify for derecognition are debt securities held by counterparties as collateral under sale and repurchase agreements.

	2021		2020	
	Carrying amount of transferred assets HK$'m	**Carrying amount of associated liabilities HK$'m**	Carrying amount of transferred assets HK$'m	Carrying amount of associated liabilities HK$'m
Repurchase agreements	**70,488**	**68,268**	231	210

49. Interests in unconsolidated structured entities

The Group involves a number of fund investments in the normal course of business and earns management fee and trustee fee, which meet the definition of unconsolidated structured entities. As at 31 December 2021, the total net asset value of unconsolidated structured entities amounted to HK$160,458 million (2020: HK$181,781 million). The Group's investment holding interests in the unconsolidated structured entities were recognised in financial assets measured at FVPL amounted to HK$1,228 million (2020: HK$1,923 million). For the year ended 31 December 2021, the above-mentioned management fee and trustee fee amounted to HK$671 million (2020: HK$619 million). The maximum exposure to loss from Group's interests in these fund investments is equal to the total fair value of its investments in these funds.

50. Loans to directors

Particulars of loans made to directors of the Company pursuant to section 383 of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2021 HK$'m	2020 HK$'m
Aggregate amount of relevant transactions outstanding at year end	**–**	–
Maximum aggregate amount of relevant transactions outstanding during the year	**1**	–

51. 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 31 December 2021, the Group's related aggregate amounts due from and to BOC were HK$191,806 million (2020: HK$188,781 million) and HK$245,648 million (2020: HK$110,389 million) respectively. The aggregate amounts of income and expenses of the Group arising from these transactions with BOC for the year ended 31 December 2021 were HK$1,598 million (2020: HK$1,037 million) and HK$936 million (2020: HK$157 million) respectively. The related party transactions above constitute connected transactions as defined in Chapter 14A of the Listing Rules but under exemption from its disclosure requirement.

As at 31 December 2021, the related aggregate amounts due from and to subsidiaries of BOC were HK$1,113 million (31 December 2020: HK$405 million) and HK$10,139 million (31 December 2020: HK$5,657 million) respectively.

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

(b) Transactions with government authorities, agencies, affiliates and other state controlled entities

The Group is subject to the control of the State Council of the PRC Government through CIC and Central Huijin, which also directly or indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other state controlled entities. The Group enters into banking transactions with government authorities, agencies, affiliates and other state controlled entities in the normal course of business at commercial terms.

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;

51. Significant related party transactions (continued)

(b) Transactions with government authorities, agencies, affiliates and other state controlled entities (continued)

- 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:

	2021 HK$'m	2020 HK$'m
Income statement items		
Associates and joint ventures		
– Fee and commission income	**60**	43
– Interest expenses	**1**	1
– Other operating expenses	**79**	80
Other related parties		
– Fee and commission income	**14**	12
Balance sheet items		
Associates and joint ventures		
– Other assets	**11**	11
– Deposits and balances from banks and other financial institutions	**77**	38
– Deposits from customers	**120**	124
– Other accounts and provisions	**–**	7

The related party transactions in respect of the other operating expenses arising from associates and joint ventures above constitute connected transactions as defined in Chapter 14A of the Listing Rules and the required disclosures are provided in "Connected transactions" on pages 291 to 292.

(d) Key management personnel

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

The compensation of key management personnel for the year ended 31 December is detailed as follows:

	2021 HK$'m	2020 HK$'m
Salaries and other short-term employee benefits	**52**	55

52. IBOR reform

The Group has fair value hedge accounting relationships that are exposed to different interbank offered rates, predominantly US Dollar LIBOR. External progress on the transition to risk-free interest rates is being monitored, with the objective of ensuring a smooth transition for the Group's hedge accounting relationships. The specific issues arising will vary with the details of each hedging relationship, but may arise due to the transition of existing products included in the designation, a change in expected volumes of products to be issued, a change in contractual terms of new products issued, or a combination of these factors. Some hedges may need to be de-designated and new relationships entered into, while others may survive IBOR reform.

The hedged items that are affected by the adoption of the applicable temporary reliefs in hedge accounting relationships are debt securities which are presented in the consolidated balance sheet as "Investment in securities". When identifying the hedged items that are affected by the adoption of the applicable temporary reliefs, judgement has been exercised by the Group in determining when uncertainty is expected to be resolved and therefore when the applicable temporary reliefs will cease to apply. As at 31 December 2021, the Group believed that the uncertainty continued to exist and so the applicable temporary reliefs apply to all of the Group's hedge accounting relationships that reference benchmarks subject to reform or replacement.

As at 31 December 2021, the contract/notional amounts of interest rate derivatives designated in fair value hedge accounting relationships was HK$77,496 million (2020: HK$104,022 million), which represented the extent of the risk exposure around fair value hedging relationships managed by the Group that was directly affected by IBOR reform and impacted by applicable temporary reliefs.

The Group manages risks related to IBOR reform and completed most of the system updates. The Group continuously monitors the risk exposure of IBOR reform, converts existing contracts and actively communicates with customers.

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 31 December 2021 which reference LIBOR and have not yet transitioned to an alternative interest rate benchmark:

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

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

53. International claims

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

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

	2021				
			Non-bank private sector		
	Banks HK$'m	**Official sector HK$'m**	**Non-bank financial institutions HK$'m**	**Non-financial private sector HK$'m**	**Total HK$'m**
Chinese Mainland	**413,327**	**149,879**	**29,297**	**143,351**	**735,854**
Hong Kong	**30,507**	**3,341**	**50,196**	**379,250**	**463,294**
United States	**18,373**	**147,258**	**15,829**	**19,879**	**201,339**

	2020				
			Non-bank private sector		
	Banks HK$'m	Official sector HK$'m	Non-bank financial institutions HK$'m	Non-financial private sector HK$'m	Total HK$'m
Chinese Mainland	384,517	134,057	24,283	151,545	694,402
Hong Kong	7,263	185	46,394	341,442	395,284
United States	10,575	136,361	16,957	21,578	185,471

54. 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.

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

54. Non-bank Mainland exposures (continued)

		2020		
	Items in the HKMA return	On-balance sheet exposure HK$'m	Off-balance sheet exposure HK$'m	Total exposure HK$'m
Central government, central government-owned entities and their subsidiaries and joint ventures	1	349,405	36,110	385,515
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	69,104	11,230	80,334
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	109,921	23,386	133,307
Other entities of central government not reported in item 1 above	4	32,628	4,765	37,393
Other entities of local governments not reported in item 2 above	5	1,002	–	1,002
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	83,664	8,477	92,141
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	1,849	10	1,859
Total	8	647,573	83,978	731,551
Total assets after provision	9	3,067,224		
On-balance sheet exposures as percentage of total assets	10	21.11%		

55. Balance sheet and statement of changes in equity

(a) Balance sheet

As at 31 December	2021 HK$'m	2020 HK$'m
ASSETS		
Bank balances with a subsidiary	**547**	1,474
Investment in securities	**955**	1,412
Investment in subsidiaries	**55,322**	55,322
Amounts due from a subsidiary	**7,059**	7,403
Investment in associates and joint ventures	**1,100**	1,100
Other assets	**1**	2
Total assets	**64,984**	66,713
LIABILITIES		
Amounts due to a subsidiary	**2**	2
Total liabilities	**2**	2
EQUITY		
Share capital	**52,864**	52,864
Reserves	**12,118**	13,847
Total equity	**64,982**	66,711
Total liabilities and equity	**64,984**	66,713

Approved by the Board of Directors on 29 March 2022 and signed on behalf of the Board by:

LIU Liange
Director

SUN Yu
Director

55. Balance sheet and statement of changes in equity (continued)

(b) Statement of changes in equity

		Reserves		
	Share capital HK$'m	Reserve for fair value changes HK$'m	Retained earnings HK$'m	Total equity HK$'m
At 1 January 2020	52,864	(2,503)	19,413	69,774
Profit for the year	–	–	12,222	12,222
Other comprehensive income:				
Equity instruments at fair value through other comprehensive income	–	(71)	–	(71)
Total comprehensive income	–	(71)	12,222	12,151
Dividends	–	–	(15,214)	(15,214)
At 31 December 2020	52,864	(2,574)	16,421	66,711
At 1 January 2021	**52,864**	**(2,574)**	**16,421**	**66,711**
Profit for the year	**–**	**–**	**11,859**	**11,859**
Other comprehensive income:				
Equity instruments at fair value through other comprehensive income	**–**	**(457)**	**–**	**(457)**
Total comprehensive income	**–**	**(457)**	**11,859**	**11,402**
Dividends	**–**	**–**	**(13,131)**	**(13,131)**
At 31 December 2021	**52,864**	**(3,031)**	**15,149**	**64,982**

56. Principal subsidiaries

The following is a list of principal subsidiaries as at 31 December 2021:

Name	Place of incorporation and operation	Issued share capital	Interest held	Principal activities
Bank of China (Hong Kong) Limited	Hong Kong	HK$43,042,840,858	*100%	Banking business
BOC Group Life Assurance Company Limited	Hong Kong	HK$3,538,000,000	*51%	Life insurance business
BOC Credit Card (International) Limited	Hong Kong	HK$565,000,000	100%	Credit card services
Bank of China (Malaysia) Berhad	Malaysia	RM760,518,480	100%	Banking business
Bank of China (Thai) Public Company Limited	Thailand	Baht10,000,000,000	100%	Banking business
Po Sang Securities and Futures Limited	Hong Kong	HK$335,000,000	100%	Securities and futures brokerage

* Shares held directly by the Company

The particulars of a subsidiary with significant non-controlling interests are as follows:

BOC Group Life Assurance Company Limited

	2021	2020
Proportion of ownership interests and voting rights held by non-controlling interests	**49%**	49%

	2021 HK$'m	2020 HK$'m
Profit attributable to non-controlling interests	**469**	424
Accumulated non-controlling interests	**5,699**	5,587
Summarised financial information:		
– total assets	**197,906**	179,865
– total liabilities	**186,277**	168,463
– profit for the year	**956**	866
– total comprehensive income for the year	**261**	1,349

57. Ultimate holding company

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

58. Events after the balance sheet date

On 17 February 2022, the Group issued HK$2 billion "sustainable and smart living" themed green bonds, which was listed on The Stock Exchange of Hong Kong Limited, as part of the Group's USD15 billion Medium Term Note Programme. The themed green bonds are denominated in HKD, have a maturity of 2 years due in 2024, and bear a fixed interest rate of 1.33% per annum payable semi-annually in arrear.

59. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 29 March 2022.

Unaudited Supplementary Financial Information

1. Regulatory Disclosures

The Regulatory Disclosures, together with the disclosures in this Annual Report, contained all the disclosures required by the Banking (Disclosure) Rules and Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules issued by the HKMA. The Regulatory Disclosures is available under the section "Regulatory Disclosures" on BOCHK's website at www.bochk.com.

This Annual Report and the Regulatory Disclosures are prepared according to the Group's disclosure policy. The disclosure policy sets out a robust mechanism for the Group's disclosures of financial information on a legitimate and compliant basis. It depicts the principles and internal control measures to ensure the timeliness, fairness, accuracy, integrity, completeness and legitimacy of financial disclosures.

2. Connected transactions

In 2021, BOCHK, a wholly-owned subsidiary of the Company, and its subsidiaries engaged on a regular basis in the usual course of their business in numerous transactions with BOC and its Associates. As BOC is the Company's controlling shareholder and therefore a connected person of the Company, all such transactions constituted connected transactions for the purposes of the Listing Rules. The Group is subject to the control of the State Council of the PRC Government through China Investment Corporation ("CIC"), its wholly-owned subsidiary Central Huijin Investment Ltd. ("Central Huijin"), and BOC in which Central Huijin has controlling equity interests. Central Huijin is the ultimate controlling shareholder of the Company. Central Huijin has accepted PRC Government's authorisation in carrying out equity investment in core financial enterprises. For the purposes of this report, therefore, Central Huijin and its Associates have not been treated as connected persons to the Company.

The transactions fell into the following two categories:

1. exempted transactions entered into in the ordinary and usual course of business and under normal commercial terms or better. Such transactions were (1) fully exempted from shareholders' approval, annual review and all disclosure requirements and/or (2) exempted from shareholders' approval requirement by virtue of Rules 14A.76 and 14A.87 to 14A.101 of the Listing Rules;

2. certain continuing connected transactions conducted pursuant to the Services and Relationship Agreement entered into among, inter alia, the Company and BOC dated 6 July 2002 (as amended and supplemented from time to time, which has been amended for a period of three years commencing 1 January 2020), whereas BOC has agreed to, and agreed to procure its Associates to, enter into all future arrangements with the Group on an arm's length basis, on normal commercial terms and at rates no less favourable than those offered to independent third parties, in relation to certain areas including, among others, information technology services, training services, physical bullion agency services, correspondent banking arrangements, treasury transactions, provision of insurance and syndicated loans, and the Company has agreed to, and agreed to procure its subsidiaries to, enter into all future arrangements on the same basis, provided that the rates offered by the Group to BOC and its Associates will be no more favourable than those offered to independent third parties. The Services and Relationship Agreement has also been last amended to allow for the provision of insurance agency and insurance referral services between BOC and its Associates and the Group. On 23 December 2019 the Company made an announcement (the "Announcement") in accordance with Rule 14A.35 of the Listing Rules, and has got the approval from the independent shareholders on 29 June 2020. The Announcement listed those continuing connected transactions that exceeded the de minimus threshold and set out caps in respect of such transactions for 2020-2022. These transactions were conducted in the ordinary and usual course of its business and on normal commercial terms or better. Details of these continuing connected transactions are set out below and are described in the announcements which may be viewed at the Company's website. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

2. Connected transactions (continued)

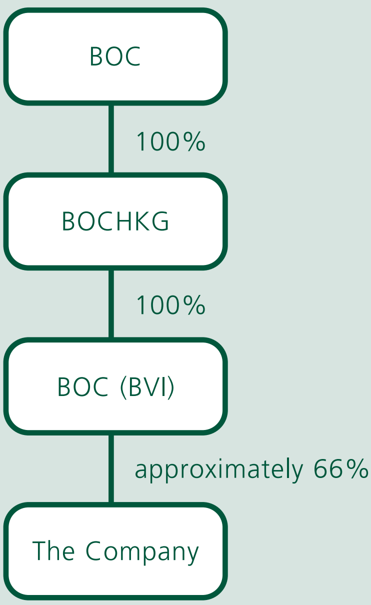
Type of Transaction	2021 Cap (HK$'m)	2021 Actual Amount (HK$'m)
Information Technology Services	**1,000**	**158**
Property Transactions	**1,000**	**182**
Bank-note Delivery	**1,000**	**34**
Provision of Insurance Cover	**1,000**	**297**
Card Services	**1,000**	**95**
Custody Business	**1,000**	**65**
Contact Centre Services	**1,000**	**79**
Securities Transactions	**7,000**	**324**
Fund Distribution Transactions	**7,000**	**58**
Insurance Agency and Insurance Referral	**7,000**	**984**
Investment Products Transactions	**250,000**	**1,361**
Asset Management and Referral Services	**7,000**	**86**
Foreign Exchange Transactions	**7,000**	**884**
Derivatives Transactions	**7,000**	**349**
Trading of Financial Assets	**250,000**	**7,057**
Inter-bank Capital Markets	**250,000**	**35,244**

3. Reconciliation between HKFRSs vs IFRSs/CASs

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

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

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



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

3. Reconciliation between HKFRSs vs IFRSs/CASs (continued)

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

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

(a) Restatement of carrying value of bank premises

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

(b) Deferred tax adjustments

These represent the deferred tax effect of the aforesaid adjustments.

Profit after tax/net assets reconciliation

HKFRSs vs IFRSs/CASs

	Profit after tax		Net assets	
	2021 HK$'m	2020 HK$'m	**2021 HK$'m**	2020 HK$'m
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs	**24,999**	28,468	**327,461**	319,655
Add: IFRSs/CASs adjustments				
Restatement of carrying value of bank premises	**891**	959	**(31,786)**	(32,110)
Deferred tax adjustments	**(93)**	(119)	**5,534**	5,534
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRSs/CASs	**25,797**	29,308	**301,209**	293,079

Appendix

Subsidiaries of the Company

The particulars of subsidiaries are as follows:

Name	Place and date of incorporation/ operation	Issued share capital	Interest held	Principal activities
Directly held:				
Bank of China (Hong Kong) Limited	Hong Kong 16 October 1964	HK$43,042,840,858	100.00%	Banking business
BOC Group Life Assurance Company Limited	Hong Kong 12 March 1997	HK$3,538,000,000	51.00%	Life insurance business
BOCHK Asset Management (Cayman) Limited	Cayman Islands 7 October 2010	HK$283,000,000	100.00%	Investment holding
BOC Insurance (International) Holdings Company Limited	Hong Kong 6 June 2017	HK$100	100.00%	Investment holding
Indirectly held:				
BOC Credit Card (International) Limited	Hong Kong 9 September 1980	HK$565,000,000	100.00%	Credit card services
BOC Group Trustee Company Limited	Hong Kong 1 December 1997	HK$200,000,000	66.00%	Investment holding
BOCI-Prudential Trustee Limited	Hong Kong 11 October 1999	HK$300,000,000	42.24%*	Trustee services
Bank of China (Malaysia) Berhad	Malaysia 14 April 2000	RM760,518,480	100.00%	Banking business
China Bridge (Malaysia) Sdn. Bhd.	Malaysia 24 April 2009	RM1,000,000	100.00%	China visa application
Bank of China (Thai) Public Company Limited	Thailand 1 April 2014	Baht10,000,000,000	100.00%	Banking business
Bank of China (Hong Kong) Nominees Limited	Hong Kong 1 October 1985	HK$2	100.00%	Nominee services
Bank of China (Hong Kong) Trustees Limited	Hong Kong 6 November 1987	HK$3,000,000	100.00%	Trustee and agency services
BOC Financial Services (Nanning) Company Limited**	PRC 19 February 2019	Registered capital HK$60,000,000	100.00%	Financial operational services
BOCHK Information Technology (Shenzhen) Co., Ltd.**	PRC 16 April 1990	Registered capital HK$70,000,000	100.00%	Property holding
BOCHK Information Technology Services (Shenzhen) Co., Ltd.**	PRC 26 May 1993	Registered capital HK$40,000,000	100.00%	Information technology services

Subsidiaries of the Company (continued)

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

Subsidiaries of the Company (continued)

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

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

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

Che Hsing (Nominees) Limited was dissolved on 16 February 2021.

Definitions

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

Terms	Meanings
"ADR"	American Depositary Receipt
"ADS(s)"	American Depositary Share(s)
"ALCO"	the Asset and Liability Management Committee
"AT1"	Additional Tier 1
"ATM"	Automated Teller Machine
"Associates"	has the meaning ascribed to "associates" in the Listing Rules
"BOC"	Bank of China Limited, a joint stock commercial bank with limited liability established under the laws of the PRC, the H shares and A shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively
"BOC (BVI)"	BOC Hong Kong (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of BOCHKG
"BOCCC"	BOC Credit Card (International) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK
"BOCG Insurance"	Bank of China Group Insurance Company Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCHKG"	BOC Hong Kong (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCHK" or "the Bank"	Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of the Company
"BOCI"	BOC International Holdings Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCI-Prudential Asset Management"	BOCI-Prudential Asset Management Limited, a company incorporated under the laws of Hong Kong, in which BOCI Asset Management Limited, a wholly-owned subsidiary of BOC International Holdings Limited, and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOCI-Prudential Trustee"	BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong, in which BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOC Life"	BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOCG Insurance hold equity interests of 51% and 49% respectively
"BOC Malaysia"	Bank of China (Malaysia) Berhad, a wholly-owned subsidiary of BOCHK
"BOC Thailand"	Bank of China (Thai) Public Company Limited, a wholly-owned subsidiary of BOCHK
"Board" or "Board of Directors"	the Board of Directors of the Company
"CAS"	Chinese Accounting Standard for Business Enterprises
"CE"	Chief Executive
"CET1"	Common Equity Tier 1
"CFO"	Chief Financial Officer

Terms	Meanings
"CIC"	China Investment Corporation
"CRO"	Chief Risk Officer
"CVA"	Credit Valuation Adjustment
"Central Huijin"	Central Huijin Investment Ltd.
"DCE"	Deputy Chief Executive
"DVA"	Debit Valuation Adjustment
"ECL"	Expected Credit Loss
"EVE"	Economic Value Sensitivity Ratio
"FCC"	the Financial Crime Compliance Department
"FIRB"	Foundation Internal Ratings-based
"Fitch"	Fitch Ratings
"FVOCI"	Fair value through other comprehensive income
"FVPL"	Fair value through profit or loss
"GDP"	Gross Domestic Product
"HIBOR"	Hong Kong Interbank Offered Rate
"HKAS"	Hong Kong Accounting Standard
"HKFRS"	Hong Kong Financial Reporting Standard
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HKMA"	Hong Kong Monetary Authority
"Hong Kong" or "Hong Kong SAR" or "HKSAR"	Hong Kong Special Administrative Region of the PRC
"IBOR reform"	Interest Rate Benchmark reform
"ICAAP"	Internal Capital Adequacy Assessment Process
"IFRS"	International Financial Reporting Standard
"IMM"	Internal Models
"IT"	Information Technology
"LCO"	the Legal & Compliance and Operational Risk Management Department
"LCR"	Liquidity Coverage Ratio
"LIBOR"	London Interbank Offered Rate
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MC"	the Management Committee
"MCO"	Maximum Cumulative Cash Outflow
"MPF"	Mandatory Provident Fund
"MPF Schemes Ordinance"	the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong, as amended

DEFINITIONS

Terms	Meanings
"Moody's"	Moody's Investors Service
"N/A"	Not applicable
"NII"	Net Interest Income Sensitivity Ratio
"NSFR"	Net Stable Funding Ratio
"ORSO schemes"	the Occupational Retirement Schemes under Occupational Retirement Schemes Ordinance, Chapter 426 of the Laws of Hong Kong
"OTC"	Over-the-counter
"PD"	Probability of Default
"PRC"	the People's Republic of China
"PVBP"	Price Value of a Basis Point
"RFR"	Risk-free interest rate
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"RMC"	the Risk Committee
"RMD"	the Risk Management Department
"RWA"	Risk-weighted Assets
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"SME"	Small and Medium-sized Enterprise
"STC"	Standardised (Credit Risk)
"STM"	Standardised (Market Risk)
"STO"	Standardised (Operational Risk)
"Standard & Poor's"	Standard & Poor's Ratings Services
"Stock Exchange" or "Hong Kong Stock Exchange" or "Stock Exchange of Hong Kong"	The Stock Exchange of Hong Kong Limited
"the Company"	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong
"the Group"	the Company and its subsidiaries collectively referred as the Group
"US"	the United States of America
"VaR"	Value at Risk

Be Environmentally Friendly for Our Better Future

This annual report is printed on elemental chlorine free paper with varnishing, an environmentally friendly technique, on the cover. We strive to protect the environment and promote sustainable development for the betterment of our future generations.

中銀香港(控股)有限公司
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