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

Stock Code: 2388

Annual Report 2022

BUILD A FIRST-CLASS REGIONAL BANKING GROUP

This version of the 2022 Annual Report will be replaced by the printed version available around mid April 2023.

Our Strategic Goal is to:

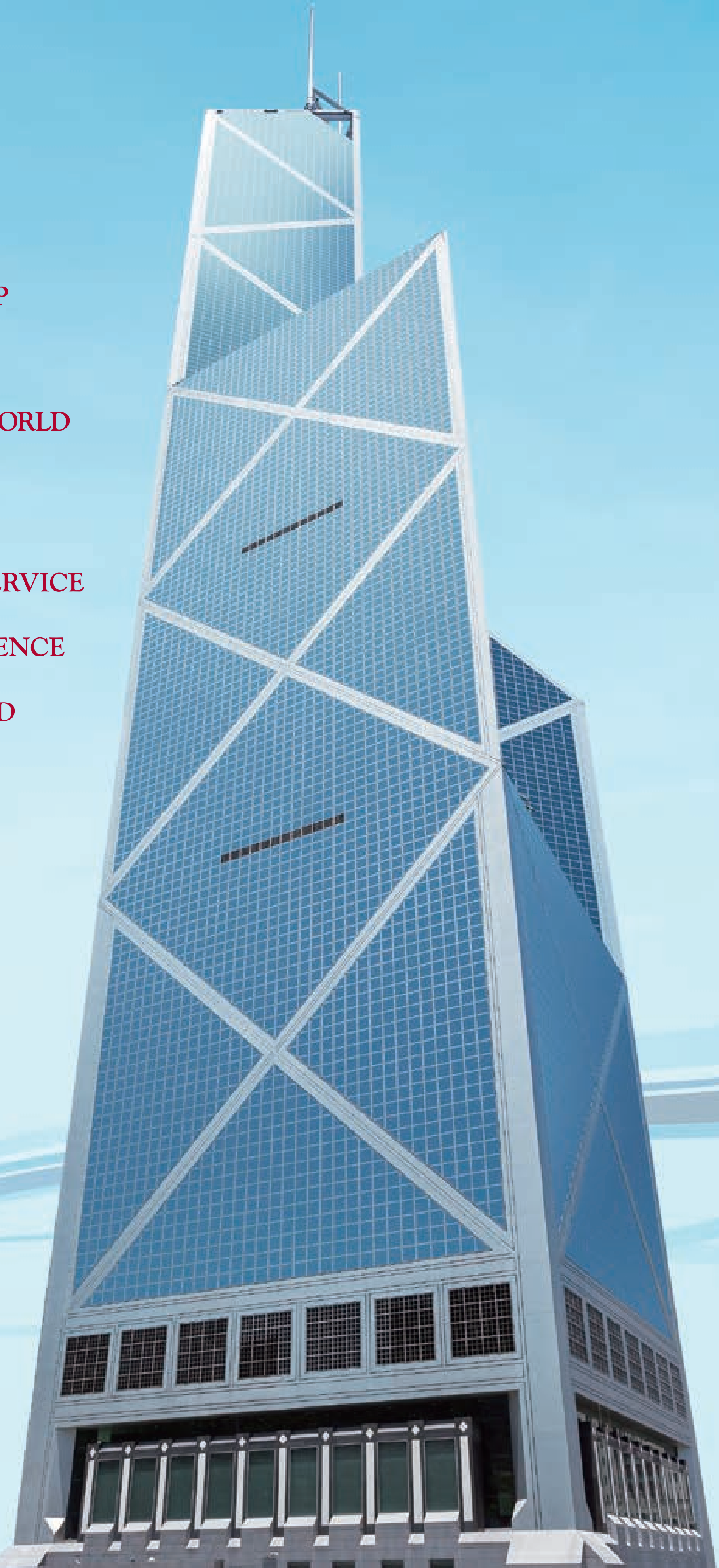
BUILD A FIRST-CLASS REGIONAL BANKING GROUP

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

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

We are actively 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 regional bank with deep roots in Hong Kong for over 100 years, BOCHK upholds its mission to "Bridge China and the World for the Common Good". We are committed to undertaking our corporate social responsibilities and delivering greater value for our stakeholders and the community.

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Financial Highlights

	2022	2021
For the year	**HK$'m**	HK$'m
Net operating income before impairment allowances	**56,932**	48,982
Operating profit	**36,743**	30,430
Profit before taxation	**34,988**	29,968
Profit for the year	**29,038**	24,999
Profit attributable to equity holders of the Company and other equity instrument holders	**28,444**	24,348
Per share	**HK$**	HK$
Basic earnings per share	**2.5588**	2.1726
Dividend per share	**1.357**	1.130
At year-end	**HK$'m**	HK$'m
Total assets	**3,685,057**	3,639,430
Issued and fully paid up share capital	**52,864**	52,864
Capital and reserves attributable to equity holders of the Company	**303,045**	297,999
Financial ratios	**%**	%
Return on average total assets[1]	**0.80**	0.70
Return on average shareholders' equity[2]	**8.78**	7.67
Cost to income ratio	**31.34**	33.50
Loan to deposit ratio[3]	**69.39**	68.60
Average value of liquidity coverage ratio[4]		
First quarter	**159.16**	130.80
Second quarter	**149.49**	130.81
Third quarter	**149.00**	131.01
Fourth quarter	**178.49**	142.96
Quarter-end value of net stable funding ratio[4]		
First quarter	**123.86**	123.61
Second quarter	**126.87**	117.22
Third quarter	**127.98**	124.63
Fourth quarter	**131.56**	125.48
Total capital ratio[5]	**21.56**	21.44

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.

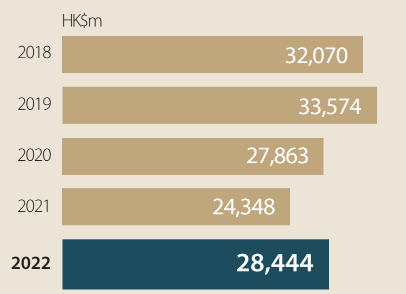
Five-Year Financial Summary

The financial information of the Group for the last five years commencing from 1 January 2018 is summarised below:

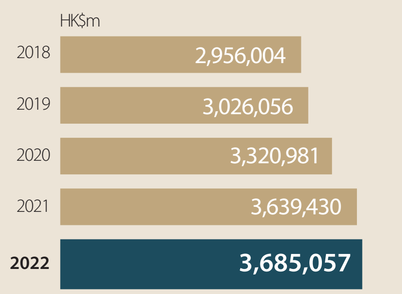
	2022	2021	2020	2019	2018
For the year	**HK$'m**	HK$'m	HK$'m	HK$'m	HK$'m
Net operating income before impairment allowances	**56,932**	48,982	54,474	58,444	54,535
Operating profit	**36,743**	30,430	35,420	39,755	38,087
Profit before taxation	**34,988**	29,968	33,583	40,088	39,081
Profit for the year	**29,038**	24,999	28,468	34,074	32,654
Profit attributable to equity holders of the Company and other equity instrument holders	**28,444**	24,348	27,863	33,574	32,070
Per share	**HK$**	HK$	HK$	HK$	HK$
Basic earnings per share	**2.5588**	2.1726	2.5052	3.0440	3.0333
At year-end	**HK$'m**	HK$'m	HK$'m	HK$'m	HK$'m
Advances and other accounts	**1,645,354**	1,597,194	1,500,416	1,412,961	1,282,994
Total assets	**3,685,057**	3,639,430	3,320,981	3,026,056	2,956,004
Daily average balance of total assets	**3,637,915**	3,589,259	3,295,060	2,971,200	2,817,151
Deposits from customers[1]	**2,377,207**	2,331,155	2,183,709	2,009,273	1,897,995
Total liabilities	**3,353,211**	3,311,969	3,001,326	2,718,564	2,670,631
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	**303,045**	297,999	290,302	278,783	257,536
Financial ratios	**%**	%	%	%	%
Return on average total assets	**0.80**	0.70	0.86	1.15	1.16
Cost to income ratio	**31.34**	33.50	30.01	28.52	27.88
Loan to deposit ratio	**69.39**	68.60	68.59	69.47	66.77

1. Deposits from customers include structured deposits reported as "Financial liabilities at fair value through profit or loss".

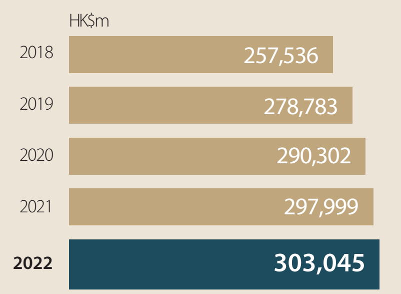
Profit attributable to equity holders of the Company and other equity instrument holders



Total assets



Capital and reserves attributable to equity holders of the Company



Understanding Brings Us Closer

We understand your needs and explore every possibility

Elevating your experience with new technology

Making sustainable development a reality

Walking hand-in-hand towards a brighter future

Message from the Board

2022 marked the 25th anniversary of Hong Kong's return to the motherland, the 110th anniversary of BOC, and the 105th anniversary of BOC' s continuous operation in Hong Kong. The year bore witness to a disturbance in international situation and deep global transformation of a kind unseen for a century. At the same time, China effectively coped with the impact of the unexpected factors and stabilised its economic development. The 20th National Congress of the Communist Party of China was successfully convened and issued a call to embark on a new journey, while the new administration of the HKSAR Government delivered its first Policy Address, opening a new chapter in the city's economic and social development.

Under the leadership of the Board, BOCHK persisted in ensuring stability while pursuing progress, guarded against risks and implemented its work in accordance with the 14th Five-Year Plan of BOC Group. Proactively serving national strategies and fully supporting Hong Kong's economic and livelihood development, we explored promising opportunities and made vigorous efforts to build a first-class regional banking group, promote sustainable and high-quality growth, and continue to create value for all stakeholders.

During the year, BOCHK's operating results achieved positive growth with major businesses outperforming market peers. Our core operating indicators showed solid improvement, and the ratings from external credit rating agencies remained stable. We made solid progress in terms of capturing local market shares, with customer loans increasing by 3.2% to HK$1,649,510 million and customer deposits growing by 2.0% to HK$2,377,207 million. Our total capital ratio and classified or impaired loan ratio stood at 21.56% and 0.53% respectively, maintaining at stronger levels compared to local peers. Our profit after taxation for the year amounted to HK$29,038 million, representing a year-on-year growth of 16.2%. The Board of Directors has recommended a final dividend of HK$0.910 per share for 2022. Together with the interim dividend, this takes our full-year dividend to HK$1.357 per share, translating into a year-on-year growth of 20.1%. The dividend payout ratio was 53.0%, an increase of 1 percentage point year-on-year. Such remarkable results could not have been achieved without the efforts of the Board, senior management and the entire staff as well as the long-standing trust and support from all constituents of the society.

In the past year, we pushed forward our own development hand-in-hand with that of Hong Kong while recording greater achievements in serving the real economy. We continued to consolidate our competitive advantages in traditional businesses such as residential mortgage loans, syndicated loans, IPO receiving bank business, cash pooling and RMB products and services, while deepening the transformation of our retail banking and furthering business cooperation with government entities. As part of our sustainable development strategy, we vigorously expanded our green finance business. BOC Life markedly improved its position in the local market in terms of standard new premiums. We also witnessed solid results in the integrated business development of our private banking, asset management, and trust and custody services. All this is a testimony to the further enhancement of our integrated service capabilities in our core market of Hong Kong. In addition, we actively participated in research regarding digital currency applications and completed the world's first authentication of cross-border digital currency production while launching the first e-CNY Exclusive Experience event in Hong Kong. In response to the fifth wave of pandemic in early 2022, we took the lead in announcing a new round of financial relief measures to support local SME and individual customers, thus navigating the difficult period alongside them.

In the past year, we proactively integrated into the national strategy of building a new development pattern and enhanced the growth quality and performance of our regional businesses. Leveraging cross-border finance as our primary driver of business development in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), we consolidated our leading advantages in such services as Account Opening, Wealth Management Connect, Loan and Payment, which effectively supported the development of a high-quality living circle in the GBA. Giving full play to the strengths of our tech financing business, we provided full-journey, cross-border product solutions that underscored our GBA business appeal and characteristics. We continued to increase our capabilities as the regional headquarters of the Group's Southeast Asian business, captured the opportunities brought by the Regional Comprehensive Economic Partnership ("RCEP") in economic, trade and investment cooperation, and strengthened regional collaboration. In this way, we facilitated the international expansion of both China's "Going Global" enterprises and domestic Southeast Asian companies, while also actively supporting China's high-level opening up. We deepened the implementation of a retail banking strategy for domestic markets in Southeast Asia featuring regional brands and digital initiatives, achieving positive performance across various aspects of our personal banking business in the region. Over the year, our Southeast Asian entities saw a marked increase in profitability and further enhanced their earnings contribution to the Group. We actively promoted RMB internationalisation and financial interconnectivity, and became market leaders in "Bond Connect" and "Stock Connect" businesses. Cross-border RMB clearing and settlement values continued to increase rapidly, and RMB business has advanced further and deeper in the Southeast Asian region.

In the past year, we proactively embraced the digital economy and sped up our digital transformation. We accelerated the development and application of financial technology by advancing the construction of our intelligent platform, data platform and open platform, as well as by completing the building of our cloud platform system. Adhering to a customer-centric philosophy, and the principles of openness and sharing, we continued to improve the online service capabilities of our mobile banking and transaction banking services. We devoted great effort to developing electronic payment services, deepened the ecological construction of application scenarios such as property purchase, education, and health, and upgraded the products and services of the virtual bank livi. Together, this accelerated the progress towards our goal of driving technological innovation through financial services, acting as an integrator of total factors of production, and serving as an all-round innovator in the industry chain as well as a one-stop service provider. We successfully held activities such as "BOCHK Challenge" and sponsored the "BOCHK Technology Innovation Prize" to attract talents in science and technology and thus support the HKSAR Government's "smart city" development strategy. We also strived to reform and enhance our digital, automated and intelligent business flows so as to deepen our smart operations, with our Nanning Operation Centre being honoured with the "National May 1st Labor Award".

In the past year, we actively promoted sustainability to deliver on our commitment to fulfilling our mission and responsibilities. We pursued innovation-driven development, enriched our green financial product and service system, and offered greater financial support to green industries such as clean energy, green buildings and green transportation. We vigorously promoted green deposits and wealth management products, leveraged our financial strength to help enterprises with business transformation and upgrading, and influenced individual behaviour change. Adopting a "win-win" attitude and supporting Hong Kong's bid to become a sustainable finance centre, we joined the "Alliance for Green Commercial Banks" as a cornerstone member. Together with S&P Dow Jones Indices, we launched the first climate transition index focused on listed companies in the GBA. We also signed a strategic cooperation agreement with the Guangzhou Emissions Exchange and were among the first participants and first council members of Core Climate – the new carbon market platform of the Hong Kong Stock Exchange. We set the goal of "carbon neutrality in operations by 2030", and completed a green energy-saving upgrade project for Bank of China Tower, earning the highest – BEAM Plus Platinum rating. We further deepened our corporate culture development and carried out a wide range of charitable activities to help reduce poverty and support youth development. In 2022, we received the highest "AAA" rating from MSCI ESG Research for the second consecutive year and were named "Market Leader for ESG in Hong Kong" and "Market Leader for CSR in Hong Kong" by Euromoney.

In the past year, we ensured a healthy and stable performance as measured by risk and compliance indicators amid a turbulent business environment. We consistently adopted systems thinking, reinforced our "bottom-line" approach and continuously enhanced our comprehensive risk management and emergency response capabilities so as to ensure stable operations. In response to the new requirements of sustainable development, we stepped up climate risk management by integrating sustainability factors into our credit risk framework and process, and by improving our overall risk management policy framework.

In the past year, we further optimised our Board structure and administered orderly changes to the senior management. Madam FUNG Yuen Mei Anita and Mr. LEE Sunny Wai Kwong were appointed as Independent Non-executive Directors of BOCHK. In early 2023, Mr. LIU Liange resigned as BOCHK's Non-executive Director. Over the course of 2022, Madam SUI Yang, Mr. WANG Bing and Mr. ZHONG Xiangqun, ceased serving as the senior management of BOCHK due to a change of job, while Mrs. KUNG YEUNG Ann Yun Chi, Madam WANG Qi and Mr. YUAN Shu retired from their senior executive positions. The aforementioned senior management positions were succeeded by Mr. LIU Chenggang, Mr. CHAN Man and Mr. XU Haifeng accordingly. The Board would like to extend our warm welcome to Madam FUNG Yuen Mei Anita, Mr. LEE Sunny Wai Kwong, Mr. LIU Chenggang, Mr. CHAN Man, and Mr. XU Haifeng, and express our sincere gratitude to Mr. LIU Liange, Madam SUI Yang, Mrs. KUNG YEUNG Ann Yun Chi, Madam WANG Qi, Mr. WANG Bing, Mr. ZHONG Xiangqun and Mr. YUAN Shu for their outstanding contributions.

Looking into 2023, there is a risk that global GDP growth momentum may moderate against a backdrop of wide variations in regional economic performance, the potential continuation of geopolitical conflicts, and the increasing correlation of financial market risks. The Chinese Government will strengthen its policies for stablising the domestic economy, which will see growth rate bottom out and achieve overall improvement. The new administration of the HKSAR Government will strive to comprehensively enhance Hong Kong's competitiveness and leverage its strengths to serve the nation's needs. It will give full play to Hong Kong's role as a "super-connector", and make greater contributions to the regional economic development and the RCEP-related collaborations. In addition, the reopening of border with Chinese mainland will further enhance the immense advantage Hong Kong derives from the motherland's support, and provide abundant hope and opportunity to the banking industry.

BOCHK will remain committed to our mission of "Bridge China and the world for the common good" and fulfil our values of "provide excellent service, innovate with prudence, uphold openness and inclusiveness, collaborate for mutual growth". We will continue to proactively integrate into the national strategy of building the new "dual circulation" development pattern, and develop our integrated regional service capabilities focusing on China-related business elements. Deeply motivated and strongly confident, we will once again set out to pursue progress while ensuring stability, and forge fresh accomplishments in the new development paradigm as we accelerate towards becoming a first-class regional banking group. By fully supporting the city's economic and livelihood development, we will contribute to the steadfast and successful implementation of "One Country, Two Systems" as well as the long-term prosperity and stability of Hong Kong.

30 March 2023

Message from the Management

In 2022, global financial markets witnessed heightened volatility as the pandemic situation continued to fluctuate, uncertainty in the international environment increased, and successive rate hikes by the US Federal Reserve led to a tightening in monetary policies. Economies across the globe posted divergent performance, while emerging markets in Southeast Asia maintained recovery momentum. Widening interest rate spreads driven by rate hikes injected fresh impetus into Hong Kong's banking sector recovery. However, banks continued to face challenges in their business development and risk management, owing to relatively weak credit demand and headwinds from the external environment hindering the development of new business growth drivers. 2022 marked the 25th anniversary of Hong Kong's return to the motherland, the 110th anniversary of Bank of China, and the 105th anniversary of Bank of China's service in Hong Kong. Following the plans of the Board of Directors, we adhered to the principle of "seeking progress while maintaining stability", steadily pushed forward the implementation of the Group's strategies, and focused on profit stabilisation, strengthening foundation, and risk prevention and control, achieving relatively solid operating results. During the year, we were once again named "Strongest Bank in Hong Kong and Asia Pacific" by *The Asian Banker* as well as "Best Bank for CSR in Hong Kong" and "Best Chinese Bank for the Greater Bay Area" by *Asiamoney*, alongside other awards.

We achieved steady improvement in financial efficiency, with profitability returning to a growth trajectory. Faced with sluggish economic performance and declining demand for financial services, we proactively explored opportunities amid a volatile market environment. As at the end of 2022, the Group's total assets increased by 1.3% from the end of 2021 to HK$3,685,057 million. Total deposits from customers and total advances to customers grew to HK$2,377,207 million and HK$1,649,510 million respectively, up 2.0% and 3.2% from the end of 2021, making steady gains in local market share. The Group's income and profit returned to a growth trajectory, with net operating income before impairment allowances and profit for the year amounting to HK$56,932 million and HK$29,038 million respectively in 2022, both up 16.2% year-on-year. Financial and risk indicators stayed solid, with the Group's total capital ratio and Tier 1 capital ratio remaining above the market average. The Group maintained its liquidity indicators at a stable level, with the liquidity coverage ratio ("LCR") and net stable funding ratio ("NSFR") exceeding regulatory requirements. The Group maintained sound asset quality, with the classified or impaired loan ratio standing at 0.53%. The cost to income ratio for the year was 31.34%, remaining below the industry average.

We accelerated our business development and consolidated our core strengths. Leveraging our professional advantages, we provided full support to Hong Kong's integration into the nation's overall development and the enhancement of its status as an international financial centre. The Group remained the top mandated arranger in the Hong Kong and Macao syndicated loan market for the 18th consecutive year, maintained its leading position in terms of IPO main receiving bank business and cash pooling business, and continued to lead the market in terms of the total number of new residential mortgage loans for the fourth consecutive year. We provided full support for Hong Kong's development into an international innovation and technology hub, and achieved steady growth in the Group's loan balance and customer base for innovation and technology startups. We continued to closely follow Hong Kong's Northern Metropolis Development Strategy and formulated related integrated financial services solutions, thus contributing to the city's development.

Focusing on the three markets of Hong Kong, the Greater Bay Area ("GBA") and Southeast Asia, we steadily pushed forward the implementation of BOCHK's strategies. We deeply cultivated the local market and actively served Hong Kong society. The number of BoC Pay customers grew by 20.2% from the end of 2021, with total BoC Pay transaction volume increasing by 20.6% year-on-year, while the total transaction amount of BoC Bill increased by 6.1% year-on-year. The number of Private Wealth and Wealth Management customers recorded double-digit growth as compared with the end of 2021, while private banking assets under management increased by 12.7%. **Attaching great importance to the GBA market, we acted as a pioneer in cross-boundary financial services.** The total number of accounts opened through BOCHK's GBA Account Opening Service grew by over 20% as compared with the end of 2021. We led the Hong Kong market in the aggregate number of accounts opened and the total volume of funds transferred under both the Southbound and Northbound Cross-boundary Wealth Management Connect schemes, and ranked among the market leaders by transaction volume for Bond Connect and settlement volume for Stock Connect. The Group also recorded satisfactory growth in the balance of corporate loans in the GBA. **We expanded our business in Southeast Asia and continually strengthened BOCHK's capacity as a regional headquarters.** In 2022, net operating income before impairment allowances (excluding the effect of changes in exchange rates) of our Southeast Asian entities increased by 27.6% year-on-year. As of the end of 2022, our Southeast Asian entities' deposits and loans grew by 13.8% and 0.4% respectively from the end of 2021 (excluding the effect of changes in exchange rates); and their RMB businesses recorded satisfactory growth.

We consolidated our technological foundations and deepened our digital transformation. As part of our commitment to improve service efficiency, we kept enriching our digital service channels to continually enhance customer experience. The Group supported online applications for SME loans, and rolled out coverage in nine major languages used in Hong Kong and the Southeast Asian regions served by our iGTB platform. We continued to enhance our capabilities in data-driven operations, creating a scenario-based ecosystem covering home ownership, education and healthcare, and increasing the number of registered Open API partners by 16.4% from the end of 2021. The level of risk management intelligence in the middle and back offices was enhanced, expanding the scope of data quality monitoring and gradually implementing intelligent credit approval processes.

We adhered to ESG concepts and promoted the development of green finance. The Group strived to create win-win situations with all sectors of society, so as to achieve a balance between socioeconomic development and nature preservation. As at the end of 2022, our balance of green and sustainability-linked loans increased by 155.3% from the end of 2021 to HK$64,660 million. A number of landmark projects were completed during the year, including the largest sustainability-linked loan in the Asia-Pacific region, the first green transition trade financing in the natural gas industry, and launched the first green personal loan in Hong Kong. We fully supported the HKSAR Government's issuance of green bonds, ranking first in both subscription volume and number of customers among the placing banks. During the year, the Group became the first Chinese bank to join the Alliance for Green Commercial Banks, one of the first members of the Hong Kong International Carbon Market Council set up by Hong Kong Exchanges and Clearing Limited (HKEX), and one of the first participating organisations of Core Climate, an international carbon marketplace by HKEX. We received multiple recognitions for our ESG and sustainability initiatives, including the highest "AAA" rating from MSCI ESG Research for the second consecutive year, the "Asia-Pacific Climate Leaders 2022" award from the *Financial Times* and *Nikkei Asia*, "Market Leader for ESG in Hong Kong" and "Market Leader for CSR in Hong Kong" awards from *Euromoney*, as well as the "ESG Corporate Awards 2022 – Platinum Award" from *The Asset*.

We implemented comprehensive risk management in order to build a solid line of defence against risk. The Group continually enhanced its forward-looking analysis and judgment; formulated and flexibly adjusted risk management strategies in accordance with macroeconomic conditions and regulatory policy requirements, and proactively managed credit risks, maintaining sound asset quality with adequate provision coverage. We responded prudently to market fluctuations and kept various market risks under control. The use of regional compliance standards and operational risk management tools was promoted, and technology risk management was improved. Attaching great importance to anti-money laundering risk management, we strengthened the whole-process control of related risks. The Group continued to enhance its capabilities in intelligent risk control, and further improved the comprehensive risk management mechanisms of its subsidiaries.

We shouldered our social responsibilities and devoted BOCHK's full efforts to the community. We breathe the same air and share the same fate as the Hong Kong community. During the year, we launched more than 80 charity projects, and successfully organised and supported a series of activities to celebrate the 25th anniversary of Hong Kong's return to the motherland, including becoming a strategic partner of the Hong Kong Palace Museum and funding the establishment of the BOCHK Science and Technology Innovation Prize, among other impactful initiatives. We navigated the difficult times together with the Hong Kong community and launched special financial support initiatives amid the pandemic, benefitting over 10,000 enterprises throughout the year. Providing full backing to youth development in Hong Kong, we actively participated in HKSAR Government programmes including the "Greater Bay Area Youth Employment Scheme" and "Strive and Rise Programme". We upgraded our "Volunteer Day" to "Volunteer Week" and organised over 120 volunteer activities throughout the year, totalling over 20,000 hours of service to the community. BOCHK's volunteer team received a number of awards and commendations, including the "Certificate of Appreciation for Fighting against the Pandemic" from the Home Affairs Bureau of the HKSAR Government, the "Gold Award for Outstanding Volunteer Team" from the Hong Kong Volunteers Federation, and awards for "Outstanding Corporate" and "Top Ten Highest Volunteer Hours" at the Hong Kong Volunteer Award 2022.

Looking ahead to 2023, even though the external environment remains complex and severe, the macroeconomic environment poses a relatively high degree of uncertainty, and banks face increased difficulties in terms of comprehensive risk management, there are still promising opportunities ahead. With the deepening of the country's opening-up strategies, including the Belt and Road initiative, RMB internationalisation, and the development of the Guangdong-Hong Kong-Macao Greater Bay Area, Hong Kong's role as a "super-connector" will become even more prominent. As we enter a new stage advancing from stability to prosperity, the HKSAR Government will focus on developing the economy, improving livelihoods and ushering in a new era of good governance, thus making Hong Kong's status as an international financial centre even more compelling. Full resumption of normal travel between Hong Kong and the mainland will boost economic exchange between the two places, with all sectors of society now sharing more optimistic expectations for the city's economic growth. 2023 will also be a pivotal year for building on our achievements and further implementing BOCHK's Five-Year Plan. We will effectively fulfil our mission to "Bridge China and the World for the Common Good", practise our values of "Provide Excellent Service, Innovate with Prudence, Uphold Openness and Inclusiveness, Collaborate for Mutual Growth", and do our utmost to implement our strategies through vigorous and determined endeavour.

Lastly, we would like to take this opportunity to report on changes in the Group's senior management. Mr ZHONG Xiangqun and Mr WANG Bing resigned from the senior management due to a change of job, while Ms WANG Qi, Mr YUAN Shu and Mrs KUNG YEUNG Ann Yun Chi retired. The Group appointed Mr CHAN Man as Deputy Chief Executive (Personal Banking and Wealth Management) on 1 August 2022 and Mr XU Haifeng as Deputy Chief Executive (Corporate Banking) on 15 December 2022, to ensure an orderly succession. On behalf of everyone at the Bank, we would like to express our sincere gratitude to Ms WANG Qi, Mr YUAN Shu, Mr ZHONG Xiangqun, Mr WANG Bing and Mrs KUNG YEUNG Ann Yun Chi for their valuable contributions to the Group and extend our warm welcome to Mr XU Haifeng and Mr CHAN Man, two experienced colleagues, as members of the Group's management team!

We are confident that, with the unreserved support of our stakeholders and the concerted efforts of all our colleagues, BOCHK will reach even greater heights on our journey towards becoming a first-class regional banking group.

Hong Kong, 30 March 2023

Understanding Brings Us Closer

We understand that innovation comes from expanding what's possible

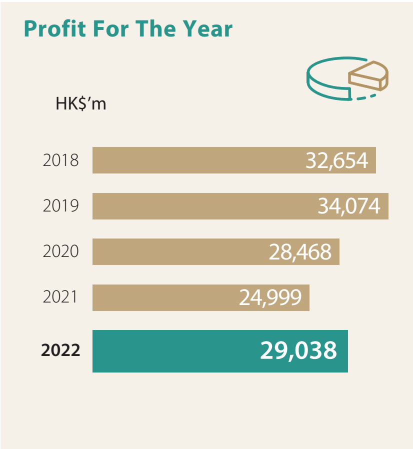
Dare to imagine and go beyond the limits with technology

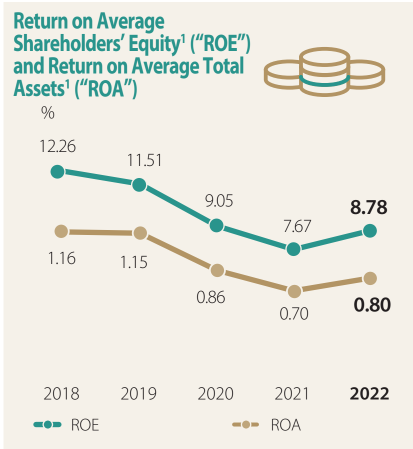
Expanding your connections to bring you closer to your ambitions

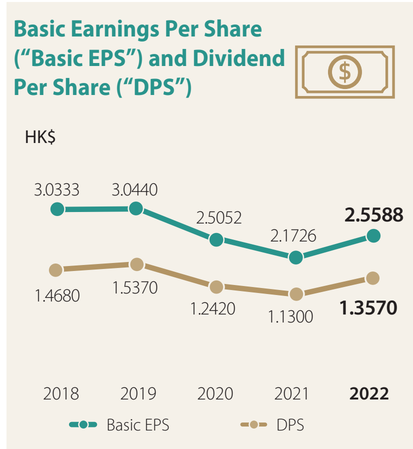
Management Discussion and Analysis

Financial Performance and Conditions at a Glance

The following table is a summary of the Group's key financial results for 2022 in comparison with the previous four years. The average value of the Group's liquidity coverage ratio and net stable funding ratio for 2022 are reported on a quarterly basis.

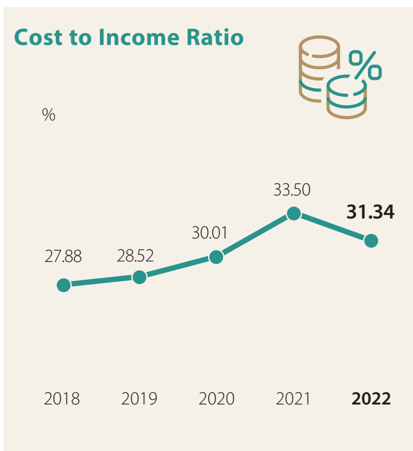


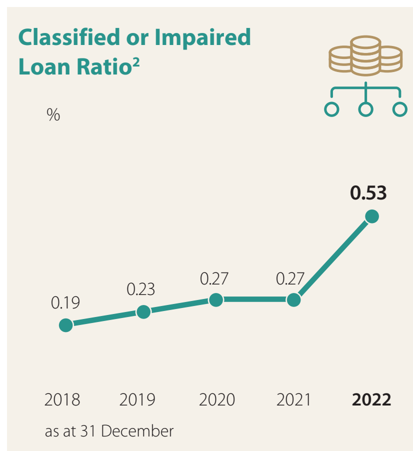




Profit for the year returned to a growth trajectory

- Profit for the year increased by 16.2% year-on-year to HK$29,038 million.
- ROE and ROA were 8.78% and 0.80% respectively, up 1.11 percentage points and 0.10 percentage points respectively year-on-year.
- Basic EPS was HK$2.5588. DPS was HK$1.3570.





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

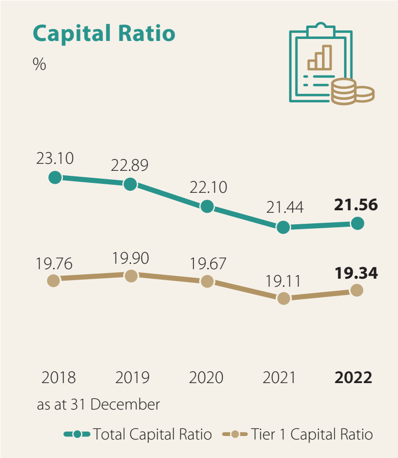
- NIM was 1.25%. If the funding income or cost of foreign currency swap contracts[3] were included, NIM would have been 1.36%, up 27 basis points year-on-year. This was primarily due to the Group's efforts to seize opportunities from rising market interest rates while proactively managing its assets and liabilities, which resulted in a widening of the loan and deposit spread and an increase in the yield of debt securities investments.

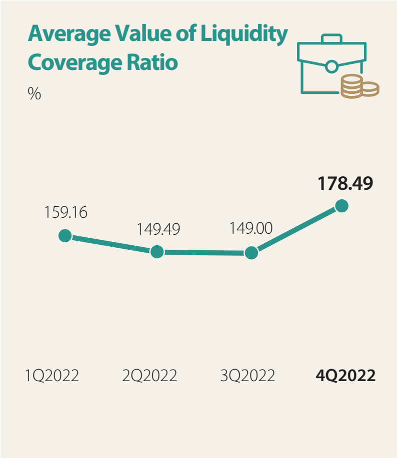
Maintaining satisfactory levels of cost efficiency through continuous optimisation of resource allocation

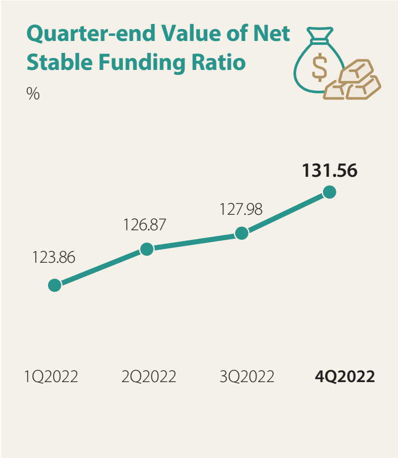
- Cost to income ratio was 31.34%. The Group continuously optimised its resource allocation, implemented low-carbon operational initiatives and explored the utilisation of internal resources to meet additional requirements, thus maintaining its cost to income ratio at a satisfactory level relative to industry peers.

Maintaining benign asset quality through prudent risk management

- The classified or impaired loan ratio was 0.53%, which remained below the market average.







Strong capital position to support stable business growth

- The tier 1 capital ratio was 19.34% and the total capital ratio was 21.56%.

Liquidity remained ample

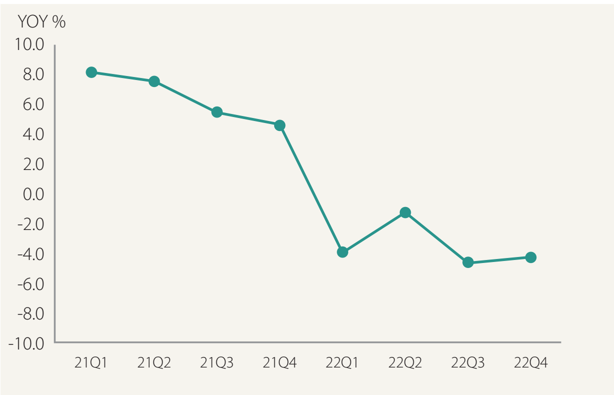
- The average value of the Group's liquidity coverage ratio and the quarter-end value of its net stable funding ratio in each quarter of 2022 met regulatory requirements.

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

Economic Background and Operating Environment

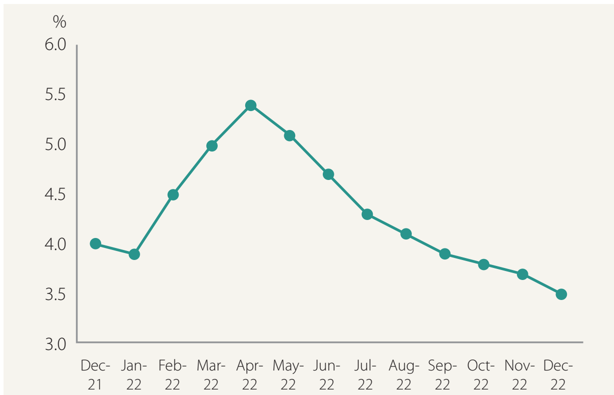
In 2022, the global pandemic situation remained volatile and the external environment featured a relatively high degree of uncertainty amid persistent geopolitical risks. Against a backdrop of high inflation, central banks around the world tightened their monetary policies. The US Federal Reserve continued to increase its benchmark rate and reduce its balance sheet, while the European Central Bank also repeatedly increased its benchmark rates. The Chinese mainland was adversely affected by increasingly complicated and severe international conditions, as well as a volatile domestic pandemic situation. In response, the Chinese Government introduced a range of stimulus measures with the aim of stabilising the economy. Pandemic-related containment measures in Southeast Asia countries were gradually eased, facilitating economic recovery in the region.

Hong Kong GDP Growth Rate



Source: HKSAR Census and Statistics Department

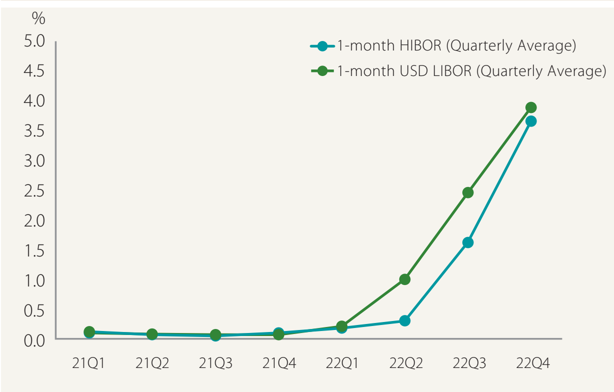
Hong Kong Unemployment Rate



Source: HKSAR Census and Statistics Department

The fifth wave of the pandemic took its toll on Hong Kong economic activity in the first quarter of 2022. Following an improvement in the pandemic situation as well as the introduction of supportive measures by the HKSAR Government, economic performance in the second quarter improved on a quarter-on-quarter basis, with the unemployment rate also gradually declining. However, financial conditions in Hong Kong tightened amid rising interest rates, while the deterioration of the external environment adversely affected Hong Kong exports. As a result, the year-on-year decline in quarterly GDP widened during the third quarter, putting downward pressure on the economy in the fourth quarter.

HIBOR and USD LIBOR



Source: Bloomberg

The exchange rate of the Hong Kong dollar against the US dollar repeatedly triggered the weak-side Convertibility Undertaking in 2022, which led the Hong Kong Monetary Authority ("HKMA") to purchase Hong Kong dollars from the market and caused a contraction in the aggregate balance of the banking sector. The 1-month HIBOR increased from 0.16% at the end of 2021 to 4.35% at the end of 2022. As the US Federal Reserve started to increase its benchmark rate, the 1-month USD LIBOR increased from 0.10% at the end of 2021 to 4.39% at the end of 2022, while the 1-month Secured Overnight Financing Rate ("SOFR") increased from 0.05% to 4.36% over the same period. The US treasury yield curve flattened and subsequently became inverted. The treasury yield spread between 2-year and 10-year tenors was 78 basis points at the end of 2021, while the former was 55 basis points higher than the latter at the end of 2022.

In 2022, the Hong Kong stock market was affected by weak global market sentiment, with anemic levels of IPO activity. The total amount of funds raised and the average daily trading volume of the stock market decreased by 67.4% and 25.1% respectively compared to the year 2021. Hong Kong stock market performance was volatile, being affected by such factors as the pandemic situation, heightened inflationary pressures and a property market downturn in the Chinese mainland. As at the end of 2022, the Hang Seng Index was down 15.5% compared with the end of 2021.

In Hong Kong's property market, residential property transaction volumes decreased year-on-year in 2022 while private residential property prices declined compared with the end of 2021. This occurred amid local stock market volatility, the US Federal Reserve's initiation of a rate hike cycle and balance sheet reduction, and stricter pandemic-related social distancing measures. The HKSAR Government continued to implement demand-side management measures and the HKMA maintained prudent supervisory measures on mortgage loans, notwithstanding the easing of the upper limit on the value of properties eligible for the Mortgage Insurance Programme and the relaxing of stress test requirements for mortgage loan applications. In general, the asset quality of banks' mortgage businesses remained stable. Meanwhile, the pace of recovery in the commercial property market was slowed by social distancing measures. Rental costs, prices and transaction volumes of retail properties fell.

Despite challenges in the macroeconomic environment, the banking industry continues to enjoy enormous development opportunities. The 14th Five-Year Plan will further enhance the opening up of the financial sector in the Chinese mainland and promote RMB internationalisation. Together with other favourable conditions including the further development of the Guangdong-Hong Kong-Macao Greater Bay Area, the expansion of mutual financial market access between the Chinese mainland and Hong Kong, the enactment of the Regional Comprehensive Economic Partnership ("RCEP"), the development of Hong Kong's Northern Metropolis area and the resumption of normal traveller clearance between Hong Kong and the Chinese mainland, these will provide promising business opportunities for the banking sector in Hong Kong.

Consolidated Financial Review

Financial Highlights

HK$'m, except percentages	2022	2021	Change (%)
Net operating income before impairment allowances	**56,932**	48,982	16.2
Operating expenses	**(17,844)**	(16,407)	8.8
Operating profit before impairment allowances	**39,088**	32,575	20.0
Operating profit after impairment allowances	**36,743**	30,430	20.7
Profit before taxation	**34,988**	29,968	16.8
Profit for the year	**29,038**	24,999	16.2
Profit attributable to equity holders of the Company	**27,054**	22,970	17.8

In 2022, the banking sector faced pressure from a complex and challenging operating environment, characterised by an uncertain pandemic situation and financial market volatility. Upholding "bottom-line" thinking in its risk management, the Group actively responded to market volatility and captured business opportunities, with both income and profit returning to a growth trajectory. In 2022, the Group's net operating income before impairment allowances amounted to HK$56,932 million, an increase of HK$7,950 million or 16.2% year-on-year. If the funding income or cost of foreign currency swap contracts were included, net interest income would have recorded year-on-year growth, owing to the Group's efforts to capture opportunities from rising market interest rates and proactively manage its assets and liabilities. Net trading gain increased year-on-year, which was attributable to growth in income from customer transactions amid financial market volatility, as well as changes in the mark-to-market value of certain interest rate instruments. However, net fee and commission income dropped year-on-year, mainly due to the volatile pandemic situation in Hong Kong, persistently dampened investor sentiment in the market, delays in business activities and weakened consumer demand. Operating expenses increased, with the Group pursuing efficient resource allocation in order to meet its basic operating needs and ensure strategic implementation; while also optimising its existing cost base, so as to achieve balanced growth in expenses and income. At the same time, it actively implemented low-carbon operational initiatives and explored the utilisation of internal resources to meet additional requirements for enhancing cost efficiency. Meanwhile, the net charge of impairment allowances increased and a higher net loss was recorded from fair-value adjustments on investment properties. Profit for the year amounted to HK$29,038 million, an increase of HK$4,039 million or 16.2% year-on-year. Profit attributable to equity holders was HK$27,054 million, an increase of HK$4,084 million or 17.8% year-on-year.

Second Half Performance

In the second half of 2022, the Group's net operating income before impairment allowances increased by HK$2,468 million or 9.1%, compared to the first half of 2022. This was mainly attributable to an increase in net interest income, including the funding income or cost of foreign currency swap contracts. Meanwhile, the net charge of impairment allowances decreased from the first half of the year. As a result, the Group's profit after taxation increased by HK$204 million or 1.4% on a half-on-half basis.

Income Statement Analysis

Net Interest Income and Net Interest Margin

HK$'m, except percentages	2022	2021	Change (%)
Interest income	63,834	40,298	58.4
Interest expense	(25,020)	(8,357)	199.4
Net interest income	38,814	31,941	21.5
Average interest-earning assets	3,106,367	3,015,219	3.0
Net interest spread	1.08%	1.00%	
Net interest margin	1.25%	1.06%	
Net interest margin (adjusted)*	1.36%	1.09%	

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

Net interest income amounted to HK$38,814 million in 2022. If the funding income or cost of foreign currency swap contracts# were included, net interest income would have increased by 28.6% year-on-year to HK$42,367 million. This was mainly due to growth in average interest-earning assets and a widening of net interest margin.

Average interest-earning assets expanded by HK$91,148 million or 3.0% year-on-year.

If the funding income or cost of foreign currency swap contracts were included, net interest margin would have been 1.36%, up 27 basis points year-on-year, as a result of the Group's efforts to seize opportunities from rising market interest rates while proactively managing its assets and liabilities, which led to a widening of the loan and deposit spread and an increase in the yield of debt securities investments.

Second Half Performance

Compared with the first half of 2022, the Group's net interest income would have increased by HK$7,041 million or 39.9% if the funding income or cost of foreign currency swap contracts were included. This was mainly due to improvement in net interest margin. Net interest margin widened by 46 basis points to 1.59% as market interest rates rose rapidly in the second half of the year, leading to an increase in the asset yield of advances to customers and debt securities investments.

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

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

	2022		2021	
ASSETS	Average balance HK$'m	Average yield %	Average balance HK$'m	Average yield %
Balances and placements with banks and other financial institutions	**403,002**	**1.07**	383,631	0.82
Debt securities investments and other debt instruments	**1,043,987**	**1.75**	1,015,239	1.26
Advances to customers and other accounts	**1,649,018**	**2.48**	1,600,436	1.52
Other interest-earning assets	**10,360**	**3.77**	15,913	0.75
Total interest-earning assets	**3,106,367**	**2.05**	3,015,219	1.34
Non interest-earning assets	**531,548**	**–**	574,040	–
Total assets	**3,637,915**	**1.75**	3,589,259	1.12

LIABILITIES	Average balance HK$'m	Average rate %	Average balance HK$'m	Average rate %
Deposits and balances from banks and other financial institutions	**284,175**	**0.84**	250,428	0.65
Current, savings and time deposits	**2,234,610**	**0.95**	2,188,701	0.30
Subordinated liabilities	**9,607**	**3.45**	–	–
Other interest-bearing liabilities	**54,444**	**1.83**	19,820	0.60
Total interest-bearing liabilities	**2,582,836**	**0.97**	2,458,949	0.34
Shareholders' funds* and other non interest-bearing deposits and liabilities	**1,055,079**	**–**	1,130,310	–
Total liabilities	**3,637,915**	**0.69**	3,589,259	0.23

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

Net Fee and Commission Income

HK$'m, except percentages	2022	2021	Change (%)
Loan commissions	**2,547**	2,746	(7.2)
Securities brokerage	**2,491**	3,743	(33.4)
Credit card business	**1,991**	2,141	(7.0)
Insurance	**1,257**	1,529	(17.8)
Payment services	**724**	751	(3.6)
Trust and custody services	**723**	764	(5.4)
Funds distribution	**541**	724	(25.3)
Bills commissions	**514**	623	(17.5)
Safe deposit box	**299**	306	(2.3)
Currency exchange	**210**	119	76.5
Funds management	**49**	161	(69.6)
Others	**1,359**	1,196	13.6
Fee and commission income	**12,705**	14,803	(14.2)
Fee and commission expense	**(3,193)**	(2,931)	8.9
Net fee and commission income	**9,512**	11,872	(19.9)

In 2022, net fee and commission income amounted to HK$9,512 million, down HK$2,360 million or 19.9% year-on-year. The decline was mainly due to weakened investor sentiment in the market, which resulted in a year-on-year decrease in commission income from securities brokerage, insurance, funds distribution and funds management of 33.4%, 17.8%, 25.3% and 69.6% respectively. Commission income from loans, credit card business, bills, trust and custody services as well as payment services also decreased owing to delays in business activities and weakening consumer demand. However, commission income from currency exchange rose by 76.5% year-on-year, which was mainly attributable to increased demand for foreign currency banknotes following the gradual easing of travel restrictions for most countries. Fee and commission expenses increased due to a notable uplift in the sales volume of BOC Life's broker and tied agency channels.

Second Half Performance

Compared with the first half of 2022, net fee and commission income decreased by HK$776 million or 15.1%, mainly owing to a decrease in commission income from loans, securities brokerage, funds distribution, bills and funds management. However, commission income from credit card business, insurance, trust and custody services, currency exchange and payment services increased, which partially offset the overall decline in fee and commission income. Fee and commission expenses decreased due to the lower sales volume of BOC Life's broker and tied agency channels.

Net Trading Gain

HK$'m, except percentages	2022	2021	Change (%)
Foreign exchange and foreign exchange products	**8,084**	4,725	71.1
Interest rate instruments and items under fair value hedge	**4,951**	(60)	N/A
Commodities	**173**	175	(1.1)
Equity and credit derivative instruments	**74**	251	(70.5)
Total net trading gain	**13,282**	5,091	160.9

Net trading gain amounted to HK$13,282 million, an increase of HK$8,191 million or 160.9% year-on-year. If the funding income or cost of foreign currency swap contracts were excluded, net trading gain would have increased by 138.0% year-on-year to HK$9,729 million. This was mainly attributable to the Group recording a net trading gain from interest rate instruments and items under fair value hedge in 2022, as compared with a net trading loss in 2021, which resulted from changes in the mark-to-market value of certain interest rate instruments caused by market interest rate movements. Net trading gain from foreign exchange and foreign exchange products increased compared to the previous year, driven in part by year-on-year growth in currency exchange income from customer transactions. Net trading gain from equity and credit derivative instruments decreased by HK$177 million, with less income realised from equity-linked products amid weakened investor sentiment in the market in 2022.

Second Half Performance

Compared with the first half of 2022, net trading gain decreased by HK$4,634 million or 51.7%. If the funding income or cost of foreign currency swap contracts were excluded, net trading gain would have decreased by 54.3% from the first half of the year to HK$3,053 million. This was mainly attributable to the Group further optimising the investment mix of its banking book portfolio, which led to reduced volatility in the mark-to-market value of certain interest rate instruments caused by market interest rate movements.

Net Loss on Other Financial Instruments at Fair Value through Profit or Loss

HK$'m, except percentages	2022	2021	Change (%)
Net loss on other financial instruments at fair value through profit or loss	**(3,243)**	(1,136)	185.5

The Group recorded a net loss of HK$3,243 million on other financial instruments at fair value through profit or loss in 2022, an increase of HK$2,107 million or 185.5% year-on-year. The change was mainly due to a drop in the mark-to-market value of BOC Life's equity and debt securities investments, caused respectively by a weakened local stock market and market interest rate movements. The abovementioned changes to the mark-to-market value of 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 and movements in liabilities.

Second Half Performance

Compared with the first half of 2022, net loss on other financial instruments at fair value through profit or loss increased by HK$301 million or 20.5% to HK$1,772 million, which was mainly attributable to a net loss from changes in the mark-to-market value of securities investments.

Operating Expenses

HK$'m, except percentages	2022	2021	Change (%)
Staff costs	9,946	9,542	4.2
Premises and equipment expenses (excluding depreciation and amortisation)	1,273	1,232	3.3
Depreciation and amortisation	3,001	3,039	(1.3)
Other operating expenses	3,624	2,594	39.7
Operating expenses	17,844	16,407	8.8

	At 31 December 2022	At 31 December 2021	Change (%)
Staff headcount measured in full-time equivalents	14,832	14,553	1.9

Operating expenses amounted to HK$17,844 million, an increase of HK$1,437 million or 8.8% year-on-year. The Group pursued efficient resource allocation in order to meet its basic operating needs and ensure strategic implementation, while optimising its existing cost base so as to achieve balanced growth in expenses and income. At the same time, it actively implemented low-carbon operational initiatives. It also explored the utilisation of internal resources to meet additional requirements for enhancing cost efficiency. The cost to income ratio was 31.34%, remaining at a satisfactory level relative to industry peers.

Staff costs increased by 4.2% year-on-year, mainly due to annual salary increment and increased headcount. The increase was also due to a lower base of performance-related remuneration in 2021 for comparison.

Premises and equipment expenses increased by 3.3%, mainly due to an increase in investment in information technology.

Depreciation and amortisation decreased by 1.3%, mainly due to lower depreciation charges on right-of-use assets and information technology, which more than offset the impact of increased amortisation of intangible assets and higher depreciation charges on premises.

Other operating expenses increased by 39.7%, mainly due to an increase in anti-pandemic, advertising, professional consultancy fees, cleaning and other one-off expenses.

Second Half Performance

Compared with the first half of 2022, operating expenses increased by HK$2,192 million or 28.0%. The increase was mainly due to higher staff costs, increased investment in information technology and an increase in advertising, professional consultancy fees, telecommunications and other one-off expenses.

Net Charge of Impairment Allowances on Advances and Other Accounts

HK$'m, except percentages	2022	2021	Change (%)
Net reversal/(charge) of impairment allowances on advances and other accounts			
Stage 1	816	465	75.5
Stage 2	(1,340)	(1,182)	13.4
Stage 3	(2,021)	(1,249)	61.8
Net charge of impairment allowances on advances and other accounts	(2,545)	(1,966)	29.5

Total Loan Impairment Allowances as a Percentage of Advances to Customers

	At 31 December 2022	At 31 December 2021
Total loan impairment allowances as a percentage of advances to customers	0.70%	0.62%

In 2022, the Group's net charge of impairment allowances on advances and other accounts amounted to HK$2,545 million, an increase of HK$579 million or 29.5% year-on-year. Impairment allowances at Stage 1 recorded a net reversal of HK$816 million, up HK$351 million from the net reversal in 2021, as the Group revised its expected credit loss model in the second half of 2022, which resulted in a net reversal of impairment allowances. Impairment allowances at Stage 2 recorded a net charge of HK$1,340 million, an increase of HK$158 million year-on-year. The change was mainly attributable to the higher impairment allowances made, when the Group revised its expected credit loss model and took into consideration the potential risks arising from exposures to certain Mainland property developers and clients under the prevailing pandemic relief measures in the second half of 2022. Impairment allowances at Stage 3 amounted to a net charge of HK$2,021 million, an increase of HK$772 million year-on-year, owing to new impairment allowances being made in response to the downgrading of certain corporate advances in 2022. The credit cost of advances to customers and other accounts was 0.15%, up 3 basis points year-on-year. As at 31 December 2022, the Group's total loan impairment allowances as a percentage of advances to customers was 0.70%.

Second Half Performance

Compared with the first half of 2022, the Group's net charge of impairment allowances on advances and other accounts decreased by HK$907 million. This decrease was attributable to there being a higher base for comparison, owing to impairment allowances made in the first half of 2022 relating to the downgrading of certain corporate customers and the Group's higher loan growth.

Analysis of Assets and Liabilities

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

Asset Composition

	At 31 December 2022		At 31 December 2021		
HK$'m, except percentages	Balance	% of total	Balance	% of total	Change (%)
Cash and balances and placements with banks and other financial institutions	535,194	14.5	465,535	12.8	15.0
Hong Kong SAR Government certificates of indebtedness	208,770	5.7	203,810	5.6	2.4
Securities investments and other debt instruments[1]	1,079,982	29.3	1,167,770	32.1	(7.5)
Advances and other accounts	1,645,354	44.7	1,597,194	43.9	3.0
Fixed assets and investment properties	60,330	1.6	64,163	1.8	(6.0)
Other assets[2]	155,427	4.2	140,958	3.8	10.3
Total assets	3,685,057	100.0	3,639,430	100.0	1.3

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

As at 31 December 2022, the total assets of the Group amounted to HK$3,685,057 million, an increase of HK$45,627 million or 1.3% compared with the end of 2021. Cash and balances and placements with banks and other financial institutions increased by HK$69,659 million or 15.0%, mainly due to an increase in balances with central banks and banks. The Group prudently managed its banking book investments, resulting in a decrease in securities investments and other debt instruments of HK$87,788 million or 7.5%. Advances and other accounts rose by HK$48,160 million or 3.0%, with advances to customers growing by HK$50,426 million or 3.2%, and trade bills decreasing by HK$935 million or 12.9%.

Advances to Customers

HK$'m, except percentages	At 31 December 2022		At 31 December 2021		Change (%)
	Balance	% of total	Balance	% of total	
Loans for use in Hong Kong	**1,173,707**	**71.2**	1,083,205	67.7	8.4
Industrial, commercial and financial	**641,206**	**38.9**	581,799	36.4	10.2
Individuals	**532,501**	**32.3**	501,406	31.3	6.2
Trade financing	**51,879**	**3.1**	73,611	4.6	(29.5)
Loans for use outside Hong Kong	**423,924**	**25.7**	442,268	27.7	(4.1)
Total advances to customers	**1,649,510**	**100.0**	1,599,084	100.0	3.2

The Group actively responded to market changes and captured opportunities from the Hong Kong, Greater Bay Area, Southeast Asian and overseas markets. Adhering to its customer-centric philosophy, the Group expanded its business in response to customers' loan financing needs. It strengthened its support to local commercial and SME customers in Hong Kong by fulfilling their business requirements through integrated services and offering them exclusive service solutions. It also launched financial relief initiatives to help SMEs cope with market changes. The Group made concerted efforts to develop its mortgage business by enhancing cooperation with real estate agencies and mortgage intermediaries, as well as by optimising its Home Expert mobile application including the online approval process, with a view to reinforcing its leading market position in the Hong Kong mortgage market. It also captured development opportunities from regional synergies by collaborating with its Southeast Asian entities and BOC entities in the Greater Bay Area and Asia-Pacific region to better understand the loan financing needs of key industries and target customers, thus enhancing its cross-border business advantages. 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 2022, advances to customers grew by HK$50,426 million, or 3.2%, to HK$1,649,510 million.

Loans for use in Hong Kong grew by HK$90,502 million or 8.4%.

- Lending to the industrial, commercial and financial sectors increased by HK$59,407 million or 10.2%, reflecting loan growth in property investment and development, wholesale and retail trade, manufacturing and information technology.

- Lending to individuals increased by HK$31,095 million, or 6.2%, mainly driven by growth in residential mortgage loans and other individual loans.

Trade financing decreased by HK$21,732 million or 29.5%. Loans for use outside Hong Kong decreased by HK$18,344 million or 4.1%, mainly due to a decrease in loans for use in the Chinese mainland.

Loan Quality

HK$'m, except percentages	At 31 December 2022	At 31 December 2021
Advances to customers	**1,649,510**	1,599,084
Classified or impaired loan ratio	**0.53%**	0.27%
Total impairment allowances	**11,575**	9,877
Total impairment allowances as a percentage of advances to customers	**0.70%**	0.62%
Residential mortgage loans[1] – delinquency and rescheduled loan ratio[2]	**0.02%**	0.01%
Card advances – delinquency ratio[2]	**0.28%**	0.23%

	2022	2021
Card advances – charge-off ratio[3]	**1.38%**	1.49%

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 2022, several industries faced stiff challenges in light of the volatile pandemic situation, ongoing geopolitical risks and rising worldwide inflation. The Group proactively strengthened its risk management systems for all types of risks and continuously enhanced its risk management so as to maintain solid asset quality. As at 31 December 2022, the Group's classified or impaired loans amounted to HK$8,724 million, an increase of HK$4,403 million from the end of 2021, mainly owing to the downgrading of certain corporate advances. The classified or impaired loan ratio was 0.53%, up 0.26 percentage points from the end of 2021. The combined delinquency and rescheduled loan ratio of residential mortgage loans was 0.02%. The charge-off ratio of card advances was 1.38%, down 0.11 percentage points year-on-year.

Deposits from Customers

HK$'m, except percentages	At 31 December 2022 Balance	At 31 December 2022 % of total	At 31 December 2021 Balance	At 31 December 2021 % of total	Change (%)
Demand deposits and current accounts	**236,115**	**9.9**	327,234	14.1	(27.8)
Savings deposits	**993,689**	**41.8**	1,194,094	51.2	(16.8)
Time, call and notice deposits	**1,147,403**	**48.3**	809,827	34.7	41.7
Total deposits from customers	**2,377,207**	**100.0**	2,331,155	100.0	2.0

In 2022, against the backdrop of rising interest rates, the Group undertook a number of strategic measures in response to the trend of customer migration from CASA deposits to time deposits. It enhanced and reinforced its mid- to high-end customer base, seized market opportunities from the Cross-boundary Wealth Management Connect Scheme, promoted digital applications and product innovation, and strengthened cooperation with government authorities, large corporates and major central banks. At the same time, the Group actively expanded its e-payment, e-collection, payroll, cash management and cash pooling businesses. At the end of 2022, total deposits from customers amounted to HK$2,377,207 million, an increase of HK$46,052 million or 2.0% from the end of 2021. Time, call and notice deposits increased by 41.7%. Savings deposits decreased by 16.8%. Demand deposits and current accounts decreased by 27.8%. The CASA ratio was 51.7%, down 13.6 percentage points from the end of 2021.

Capital and Reserves Attributable to Equity Holders of the Company

HK$'m, except percentages	At 31 December 2022	At 31 December 2021	Change (%)
Share capital	**52,864**	52,864	–
Premises revaluation reserve	**37,683**	38,590	(2.4)
Reserve for financial assets at fair value through other comprehensive income	**(8,748)**	(413)	(2,018.2)
Regulatory reserve	**6,655**	6,073	9.6
Translation reserve	**(1,683)**	(1,000)	(68.3)
Retained earnings	**216,274**	201,885	7.1
Reserves	**250,181**	245,135	2.1
Capital and reserves attributable to equity holders of the Company	**303,045**	297,999	1.7

Capital and reserves attributable to equity holders of the Company amounted to HK$303,045 million as at 31 December 2022, an increase of HK$5,046 million or 1.7% from the end of 2021. The premises revaluation reserve decreased by 2.4%. The deficit in the reserve for financial assets at fair value through other comprehensive income increased, mainly due to the impact of market interest rate movements. The regulatory reserve increased by 9.6%, mainly driven by growth in advances to customers and a change in the net charge of impairment allowances. The deficit in translation reserve increased, mainly due to a depreciation in the carrying value of the Group's Southeast Asian entities' local currency net assets caused by the strengthening of the US dollar. Retained earnings rose by 7.1% from the end of 2021.

Capital Ratio

HK$'m, except percentages	At 31 December 2022	At 31 December 2021
Consolidated capital after deductions		
Common Equity Tier 1 capital	**229,798**	224,189
Additional Tier 1 capital	**23,476**	23,476
Tier 1 capital	**253,274**	247,665
Tier 2 capital	**29,036**	30,174
Total capital	**282,310**	277,839
Total risk-weighted assets	**1,309,536**	1,296,153
Common Equity Tier 1 capital ratio	**17.55%**	17.30%
Tier 1 capital ratio	**19.34%**	19.11%
Total capital ratio	**21.56%**	21.44%

As at 31 December 2022, Common Equity Tier 1 ("CET1") capital and Tier 1 capital increased by 2.5% and 2.3% respectively from the end of 2021, which was primarily attributable to profits recorded for 2022. Total capital increased by 1.6%. Total risk-weighted assets ("RWAs") increased by 1.0%. The CET1 capital ratio was 17.55% and Tier 1 capital ratio was 19.34%, up 0.25 and 0.23 percentage points respectively from the end of 2021, while the total capital ratio was 21.56%, up 0.12 percentage points from the year-end of 2021. The Group properly managed its capital plan on a continuous basis so as to maintain an appropriate capital level for meeting regulatory requirements and supporting sustainable business development while balancing returns to equity holders.

Liquidity Coverage Ratio and Net Stable Funding Ratio

	2022	2021
Average value of liquidity coverage ratio		
First quarter	**159.16%**	130.80%
Second quarter	**149.49%**	130.81%
Third quarter	**149.00%**	131.01%
Fourth quarter	**178.49%**	142.96%

	2022	2021
Quarter-end value of net stable funding ratio		
First quarter	**123.86%**	123.61%
Second quarter	**126.87%**	117.22%
Third quarter	**127.98%**	124.63%
Fourth quarter	**131.56%**	125.48%

The Group's liquidity position remained sound, with the average value of its liquidity coverage ratio and the quarter-end value of its net stable funding ratio meeting regulatory requirements for all four quarters of 2022.

Business Review

In 2022, the Group thoroughly implemented the "2021-2025 Strategic Development Plan of BOCHK Group". It continued to deeply cultivate its core market of Hong Kong, consolidate its business foundations and realise customer growth potential. Capitalising on opportunities from the national strategic policies of the Chinese mainland, the Group vigorously developed its cross-border business and participated in the innovative policies of the Guangdong-Hong Kong-Macao Greater Bay Area. With the aim of further enhancing its regional service capabilities and expediting the delivery of products and services, the Group kept up with the pace of RMB internationalisation, strengthened regional collaborations across Southeast Asia, and seized major development opportunities arising from the official launch of RCEP. Meanwhile, it actively integrated the concept of sustainable development into its business and operations, continuously putting into practice low-carbon and resource efficiency initiatives in its own operations while also taking advantage of green finance business opportunities brought about by carbon neutrality targets and actively supporting the establishment of carbon markets. The Group consolidated the core capacities of its technological foundations so as to offer an all-round digital banking service, and strengthened the development of its integrated business platforms and collaborative mechanisms to improve its integrated service capabilities. In addition, it adhered to "bottom line" thinking in risk management and made constant efforts to refine its human resources, culture and operational procedures in order to provide strong support for the implementation of its strategic plan.

Business Segment Performance

Profit/(Loss) before Taxation by Business Segment

HK$'m, except percentages	2022	% of total	2021	% of total	Change (%)
Personal Banking	7,940	22.7	6,331	21.1	25.4
Corporate Banking	11,407	32.6	12,924	43.1	(11.7)
Treasury	14,933	42.7	10,238	34.2	45.9
Insurance	911	2.6	1,023	3.4	(10.9)
Others	(203)	(0.6)	(548)	(1.8)	63.0
Total profit before taxation	34,988	100.0	29,968	100.0	16.8

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

Personal Banking

Financial Results

Personal Banking achieved a profit before tax of HK$7,940 million in 2022, an increase of HK$1,609 million or 25.4% year-on-year, mainly driven by an increase in net interest income, which was partially offset by a decrease in net fee and commission income and an increase in net charge of impairment allowances. Net interest income increased by 54.2%, which was mainly attributable to improvement in the deposit spread. Net fee and commission income decreased by 19.7%, mainly due to weakened investor sentiment in the market, which resulted in lower transaction volumes in the stock market and hence lower commission income from securities brokerage and funds distribution. Commission income from credit card business decreased owing to weakening consumer demand. The Group recorded a net charge of impairment allowances of HK$344 million in 2022, as compared with a net reversal of HK$128 million in 2021.

Business Operations

Cultivating the green finance sector and pursuing sustainable development

In line with market trends towards low-carbon transition, the Group captured opportunities from the development of green finance and enriched its green finance products and services so as to promote sustainable development and smart living. In response to growing market and customer interest in green investment and ESG products, it fully supported the HKSAR Government's issuance of retail green bonds and introduced Hong Kong's first retail green bond trading platform via mobile banking, ranking first in the market in terms of both subscription volume and number of customers. To support environmental sustainability, the Group introduced a sustainable infrastructure fund, and launched a RMB-denominated decarbonisation-themed fund for subscription on an exclusive priority basis, allowing retail investors to capture opportunities from market trends. The Group also pioneered the first green personal loan in Hong Kong, which at the initial stage offers preferential loans to customers intending to purchase electric vehicles so as to encourage the adoption of green transport. It also launched "BOC Chill Card", its first eco-friendly credit card, with the aim of attracting customers to participate in green consumption. The Group actively encouraged low-carbon living. It promoted paperless loan applications via online platforms, doubling the amount of personal loans processed through electronic channels in 2022 than that of the previous year, and continued to promote its paperless payment receipt scheme, expanding coverage to 15,000 merchants and over 20,000 point-of-sale ("POS") terminals. It also extended its Green Mortgage Plan to cover the primary and secondary purchases of all green buildings accredited with BEAM Plus Platinum or Gold certification from both private developers and government-subsidised residential projects. In addition, the Group become the banking sector's first Platinum Patron member of the Hong Kong Green Building Council, and stepped up its efforts to further promote green buildings, low-carbon living and a greener future.

Pushing forward development into a digital bank and enhancing the competitiveness of core products

The Group utilised innovative technology to enhance its online service capabilities, thus ensuring continuous and effective business operations. It consolidated the market-leading advantages of its core products, achieving stable growth in customer deposits and maintaining the top market position in terms of total number of new residential mortgage loans. The number of customers using its digital platforms as at the end of 2022 grew steadily as compared with the end of 2021, with the Group also recording year-on-year growth in the number of transactions conducted through its mobile banking platform, particularly those related to insurance, time deposits and foreign exchange trading, each of which recorded satisfactory growth. With a view to enhancing its digital strengths so as to improve customer experience in online investments, the Group launched its "PickAStock" stock analytic tool which enables customers to manage their wealth independently and meet their financial goals across different life stages. Now with more than 150,000 total accumulated downloads, its Home Expert mobile application was optimised through the utilisation of blockchain technology in property valuations, which was used in 99% of its valuation reports during the year. The average number of online mortgage applications received per month in 2022 was approximately nine times higher than that in 2021, and the proportion of online mortgage applications within total applications rose by more than 40 percentage points. During the year, BOCHK was awarded Excellent Brand of Securities and Investment Banking Services and Excellent Brand of Property Purchase Planning and Mortgage Services – Banking Solutions in the Hong Kong Leaders' Choice 2022 awards organised by Metro Finance. It also won Digital Transformation of the Year – Hong Kong and Mobile Banking & Payment Initiative of the Year – Hong Kong in the Asian Banking & Finance Retail Banking Awards 2022 organised by *Asian Banking & Finance*, as well as winning the Best in Future of Customer Experience – Hong Kong and Asia Pacific in the Future Enterprise Awards 2022 organised by International Data Corporation for the second consecutive year.

Strengthening exclusive service experiences to targeted customer segments to meet their comprehensive needs

The Group continued to promote its premium brand and strengthened the range of exclusive products and services offered to its high-end customers. It introduced its "Segment-of-One" personalised customer experience, which makes use of big data and artificial intelligence to analyse customers' daily financial behaviour and habits and translate them into corresponding exclusive personal notifications. In order to meet high-net-worth customers' online wealth management needs, it upgraded its mobile banking RM Chat service, a remote financial management tool exclusively available to its Private Wealth customers, by introducing a market-first "RM Chat Investment by Video Service" delivered via the Bank's own platform. This allows Private Wealth customers to arrange video-conferences with their dedicated relationship managers and carry out fund investments remotely. The Group also offered high-end customers USD personal green deposits placement through e-channels. It launched the brand new and exclusive "BOC Private Card", as well as an exclusive one-to-one mortgage consultation service for Private Wealth customers, all with the aim of better fulfilling their investment, financial and wealth management needs. As a result, the number of Private Wealth customers at the end of 2022 recorded double-digit percentage growth as compared with the end of 2021, further expanding its customer base. Meanwhile, the Group rolled out a brand new "Bank For Future" themed campaign to better serve Wealth Management customers. "Bank For Future" offers a diversified range of products and services that embrace the three key "future bank" elements of "Beyond Digital", "Beyond Green" and "Beyond Border", with the aim of enabling customers to capture wealth management opportunities. The Group also introduced "Banking TrendyToo", a new brand targeting the young customer segment, aiming to assist young customers to meet their financial goals across the four dimensions of "Chill Banking+", "Happy Spending+", "Smart Investing+" and "Cool Living+", by offering diversified, 24/7 services alongside easy tips for "Trendy Banking". As a result, over 90% of total transactions conducted by the young customer segment was made via digital channels. During the year, BOCHK was named Most Selected Main Retail Bank in Hong Kong and Best Wealth Management Bank in Hong Kong by *The Asian Banker*.

The Group's private banking business maintained solid growth. By enhancing its collaboration with other business units within the Group, its Southeast Asian entities and BOC Group, it was able to optimise its service chain by providing professional private banking services to high-net-worth clients and family offices with diversified needs. The Group integrated ESG standards into product and service design, pushing forward high-quality and sustainable development in its private banking business. In addition, it continued to promote digital transformation and accelerated business process automation and digitalisation, so as to enhance its private banking service and trading platform. At the same time, it introduced new business partners, innovated its service model by providing tailor-made professional wealth planning services to clients, and enriched its product range in order to enhance customer experience. As at the end of 2022, the Group's private banking assets under management increased by 12.7% compared to the end of 2021.

Refining the construction of seamless cross-border financial scenarios and promoting the development of RMB business

In order to improve the cross-border customer experience, the Group continuously optimised its bank account management services to allow customers to resolve issues with their mainland bank accounts remotely, including extending the grace period for customers with expired Mainland Travel Permits and expanding the coverage of its attestation service. Together, this enabled customers to enjoy convenient cross-border payment and wealth management services. As at the end of 2022, the cumulative number of GBA accounts opened exceeded 200,000, representing steady growth from the end of 2021. The Group improved the account opening efficiency and customer experience of its Bank of China Cross-Boundary Wealth Management Connect service by continuously optimising its product offerings and online workflows, including the launch of "E-Application for Southbound Cross-border Account Opening via Attestation Service". As at the end of 2022, the Group's aggregate number of accounts opened and the total amount of funds transferred for both Southbound and Northbound services ranked among the top tier in Hong Kong, with the amount of new funds transferred under the Southbound service ranking first in the Greater Bay Area market in 2022. To satisfy growing demand for RMB products and to meet customers' investment and wealth management needs, the Group leveraged its prominent position in RMB business and introduced a series of "RMB One" packages that offer a wide range of RMB products and services such as securities, funds, life insurance, time deposits and foreign exchange. During the year, BOCHK was once again named Best Chinese Bank for the Greater Bay Area and was recognised as Best Chinese Bank for the Wealth Management Connect in GBA by *Asiamoney*, and was awarded Excellent Brand of Wealth Management Connect Scheme in the Hong Kong Leaders' Choice 2022 awards organised by Metro Finance. It also received the Banking Sector Cross Border Wealth Management (Personal) – Excellence award in the Financial Institution Awards 2022 organised by *Bloomberg Businessweek (Chinese Edition)*.

Promoting regional wealth management business and enhancing the service capabilities of its Southeast Asian entities

In its Southeast Asian business, the Group promoted regional brand development and client referral services. Having already successfully implemented mutual brand recognition of the Group's Wealth Management services with BOC Thailand, BOC Malaysia and the Phnom Penh Branch, the Wealth Management brand experience was further extended to the wealth management clients of the Jakarta Branch and BOC Singapore Branch. Cross-border opening for BOCHK personal accounts was launched in seven Southeast Asian entities and two BOC branches, while private banking referral services now extend to eight Southeast Asian entities. The Group also accelerated digitalisation and efficiency improvements in its Southeast Asian entities, with BOC Thailand, BOC Malaysia and the Manila Branch each launching an online RMB salary direct remittance service. It also remained committed to optimising the online payment experience for local customers, with the Manila Branch becoming the first Chinese bank in the Philippines to support real-time bank transfers; the Phnom Penh Branch becoming the first Chinese bank in Cambodia to support cross-border UnionPay QR payments, small value real-time payments and e-wallets; and five Southeast Asian entities actively participating in the national-level payment projects of their respective local markets. This included BOC Thailand rolling out its PromptPay 24/7 real-time fund transfer and QR code remittance services, and BOC Malaysia introducing the second phase of the Real-time Retail Payments Platform (RPP) and its Real-time Financial Process Exchange (FPX) payment service.

Corporate Banking

Financial Results

Corporate Banking achieved a profit before tax of HK$11,407 million, a decrease of HK$1,517 million or 11.7% year-on-year, mainly due to a higher net charge of impairment allowances. Net operating income before impairment allowances increased by 2.1% year-on-year. Net interest income rose 3.5% from last year, mainly driven by an improvement in the deposit spread, although this was partially offset by a narrowing in the loan spread. Net fee and commission income decreased by 4.6% year-on-year, with lower commission income from loans, bills and trust and custody services. Net trading gain rose 10.4%, which was mainly attributable to increased currency exchange income from customer transactions. Net charge of impairment allowances amounted to HK$2,008 million, up HK$1,713 million year-on-year, mainly reflecting the higher net charge of impairment allowances related to the downgrading of certain corporate advances.

Business Operations

Enhancing integrated service capabilities to reinforce business advantages

Adhering to its customer-centric philosophy, the Group continuously promoted the deepening of business transformation and provided professional services, with the aim of meeting the integrated financial demands of key customers such as local blue-chip and industry leading enterprises. As a result, the Group remained the top mandated arranger bank in the Hong Kong-Macao syndicated loan market for the 18th consecutive year. It also maintained its market leadership as an IPO main receiving bank in terms of the number of listings and total funds raised on the Main Board. The Group focused on the promotion of its key businesses including trade finance, payment and settlement as well as treasury centre services, and continued to maintain its leading position in the cash pooling business. It continuously improved its online servicing capabilities, which led to a year-on-year increase of 16.5% in the number of online transactions from corporate customers. In recognition of its excellent and highly professional services, a number of its customer collaborations were commended by professional media groups, including a global cash management project implemented for a dairy company that received The Adam Smith Award Asia of Highly Recommended Winners 2022 – Best Treasury Transformation Project from *Treasury Today*, a domestic cash pooling project in cooperation with a local retail chain enterprise that received the Award for Excellence in Cash Management Solutions by *Ming Pao*, and four cooperative cash management projects that were respectively awarded the Excellent Treasury Award, Smart Finance Award, Best Shared Service Platform Award and Best Foreign Exchange Management Award from *Treasury China*.

Giving full play to synergistic advantages and expediting regional business development

The Group deepened its cooperation with BOC's institutions in the Greater Bay Area so as to better understand the financial needs of key industries and target customers, with the aim of consolidating its competitive advantages in cross-border financial service. It actively captured opportunities arising from the HKSAR Government's Northern Metropolis Development Strategy and formulated related integrated financial service solutions, with a view to cultivating new business growth drivers. The Group also established work plans underpinned by the strategic partnership agreement signed with the Shenzhen Nanshan District Government, with a view to steadily enhancing the depth and breadth of its business collaborations. It leveraged its solid franchise in technology finance and supported the development of innovative technology enterprises, facilitating Hong Kong Science Park's business cooperation and communication with the Chinese mainland. To expand its trading business customer base, the Group capitalised on the wide coverage of its digital financing services across the supply chain in order to satisfy customers' cross-border financing needs. Meanwhile, it promoted RMB internationalisation in an orderly manner, thus maintaining the leading market position under mutual market access schemes such as Bond Connect. It also strengthened RMB business cooperation with key state-owned enterprises and institutional customers, and continuously innovated RMB products and integrated financial services, with a view to reinforcing its competitive edge in the offshore RMB market.

In terms of its Southeast Asian business, the Group adhered to the concept of business integration and seized opportunities arising from the enactment of RCEP. In order to drive the collaborative development of its Southeast Asian entities, it focused on the development of Belt and Road and "Going Global" projects as well as large corporate customers in the region. It also strengthened collaboration with BOC's entities in the Asia-Pacific region, and actively led or participated in syndicated projects in Southeast Asia, with the aim of enhancing its market influence. Committed to realising the concept of sustainable development, the Group pushed forward the development of green finance in the Southeast Asian region. The Vientiane Branch successfully launched the first certified green deposits in Laos. The Phnom Penh Branch launched its first certified ESG-social responsibility deposits. Serving as joint lead underwriter and bookrunner, the Manila Branch assisted in the pricing and issuance of the Government of the Philippines' US$2.25 billion sovereign bond, which included its first global ESG bond, priced at US$1 billion. It constantly optimised its regional product offering and refined the functionality of its intelligent Global Transaction Banking (iGTB) in order to support a range of online transactions including transfers within the same bank, domestic interbank transfers and international remittance services. It also provided a variety of distinct payment service gateways in the Southeast Asian region, including cross-currency payroll services. All of these contributed to significant improvements in the Group's regional management capabilities and the competitiveness of its corporate banking business.

Strengthening financial support for commercial and SME customers and promoting inclusive finance

The Group strengthened business cooperation with local commercial and SME customers by delivering customised financial solutions that pinpoint customer needs through enhanced sectoral and digital servicing capabilities. It remained committed to undertaking its corporate social responsibilities and further strengthening financial support in response to the pandemic situation in Hong Kong, including launching six financial support initiatives to assist SMEs in coping with changes in the business environment. The Group also actively engaged in the HKMA's Commercial Data Interchange project and was amongst the first batch of participating banks to successfully connect to the Commercial Credit Reference Agency. To address SME's financing pain points, it also launched the BOCHK Bill Merchant Loan Programme, which makes use of BoC Bill transaction data in the credit approval process for SMEs, thus simplifying the loan application process and enhancing approval efficiency. In order to build an online ecosystem for its corporate customers, the Group launched the "BOC Connect" mobile application, an all-in-one digital platform that offers information sharing, interactive communication and online banking services. The Group's ongoing efforts to provide SMEs with high-quality digital services won wide acclaim and recognition, receiving the Best SME's Partner Award from the Hong Kong General Chamber of Small and Medium Business for the 15th consecutive year, the Corporate Banking – Outstanding Innovative SME Banking Services Award at the Fintech Awards 2021 organised by *etnet*, and the SME Banking Services Award at the Financial Services Awards of Excellence organised by *Hong Kong Economic Journal* for the fourth consecutive year.

Cultivating the concept of sustainable development and actively promoting green finance

To support customers' green transition, the Group constantly refined and continuously promoted its green finance products and services, including green bond underwriting and investment, green loan arrangement, green deposits, green consulting, and green cash management services. As at the end of 2022, the balance of its green and sustainability-linked loans increased by 143% compared to the end of 2021, while the amount of green deposits and newly underwritten ESG-related bond issuance in 2022 recorded year-on-year growth of 17% and 3% respectively. During the year, the Group issued "sustainable and smart living" themed green bonds for the second consecutive year, and cooperated with S&P Dow Jones Indices to launch the "S&P BOCHK China Hong Kong Greater Bay Area Net Zero 2050 Climate Transition Index", the first climate transition index covering listed companies in the Guangdong-Hong Kong-Macao Greater Bay Area, receiving an encouraging market response. It also constantly diversified its offshore RMB-denominated bond products offering and assisted the People's Government of Hainan Province and the Shenzhen Municipal People's Government in the issuance of offshore RMB local government green bonds and blue bonds in Hong Kong, further reinforcing Hong Kong's position as the global hub for offshore RMB business and a centre for green finance in the Asia Pacific region. In recognition of its efforts in promoting sustainable development, the Group received multiple awards at the Hong Kong Green and Sustainable Finance Awards 2022 organised by the Hong Kong Quality Assurance Agency. It was also awarded Hong Kong Domestic ESG Liquidity Management Initiative of the Year by *Asian Banking & Finance*, Most Sustainable Trade Finance Initiative by *The Asian Banker*, as well as the Best Industry Solutions Award by *Treasury China* for the first time.

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

In order to expand its custody business, the Group captured opportunities from the respective national mutual market access policies and continuously strengthened collaborative marketing efforts with BOC's branches in Chinese mainland and overseas, so as to expand its client base such as that of financial institutions. It deepened business cooperation with Chinese investment companies on corporate trust and agency services, making every effort to help its customers to raise funds from bond markets. As at the end of 2022, the number of its custodian clients increased by 11% compared to the end of 2021, with total assets under custody from corporate and institutional clients amounting to over HK$640 billion. It was awarded Bond Connect Top Custodian for the fifth consecutive year by Bond Connect Company Limited.

BOCI-Prudential Trustee Limited ("BOCPT") recorded steady growth in its MPF business. As at the end of 2022, MPF assets under its trusteeship amounted to HK$75.5 billion and BOCPT continued to rank among the top tier in Hong Kong. In 2022, BOCPT was successfully appointed as administrator to several ORSO schemes by a number of sizable enterprises, and launched a brand-new Special Purpose Acquisition Company ("SPAC") escrow account service to provide support for companies with alternative listing needs. It continuously optimised its retirement scheme and asset servicing digital platforms, and rolled out the upgraded BOC-Prudential Easy Choice e-Form as well as My Choice MPF Scheme e-Onboarding mobile applications. Meanwhile, it actively assisted one of the Group's major institutional clients in launching a sizable quantitative fund, establishing an open-ended fund company, and introducing its first non-money market fund featuring daily dividend distribution and re-investment. In 2022, BOCPT received a number of accolades, including seven awards at the 2022 MPF Awards organised by MPF Ratings Ltd, multiple awards at the Lipper Fund Awards Hong Kong 2022 organised by *Refinitiv*, and Best Fund Administrator, Retail Funds – Highly Commended in the Triple A Sustainable Investing Awards for Institutional Investor, ETF, and Asset Servicing Providers 2022 organised by *The Asset*.

Treasury

Financial Results

Treasury recorded a profit before tax of HK$14,933 million, an increase of HK$4,695 million or 45.9% year-on-year. This was primarily due to an increase in net trading gain, which was attributable to changes in the mark-to-market value of certain interest rate instruments caused by market interest rate movements as well as an increase in net gain from foreign currency swap contracts, coupled with an increase in net interest income amid rising interest rates, which were partially offset by the net loss on other financial instruments and an increase in operating expenses.

Business Operations

Continuously enhancing trading capability and steadily promoting global markets business

The Group proactively seized business development opportunities by closely monitoring market trends, and achieved stable growth in its trading business. It further pushed forward digital transformation and technological advancement in its treasury business, with improvements made in its online trading services and transaction processing capabilities, as well as its diversified product and service capabilities, thus achieving satisfactory results in client business. The Group expedited the innovation and promotion of RMB products and placed emphasis on cultivating the offshore RMB market. It expanded its interconnected businesses and reinforced its competitive advantages in RMB business, thus contributing to satisfactory growth momentum in related business scale. Seizing market opportunities, the Group was among the first batch of Qualified Foreign Institutional Investors ("QFII") to complete a direct bond investment on the Shanghai Stock Exchange and Shenzhen Stock Exchange. Committed to promoting green development and ESG best practices, it was among the first batch of market participants of Core Climate, an international carbon marketplace launched by HKEX, and successfully executed international carbon credit transactions priced and settled in RMB and HKD, with a view to promoting Hong Kong as an international carbon trading hub that supports regional and global trades. Meanwhile, the Group assisted its Southeast Asian entities in the implementation of IBOR reform-related treasury products, with BOC Thailand and BOC Malaysia completing a number of related foreign exchange swap and interest rate swap transactions and the Phnom Penh Branch launching its first foreign exchange forward transaction on behalf of its clients. In addition, the Phnom Penh Branch, Vientiane Branch and Brunei Branch each achieved breakthroughs in their RMB trade financing business. At the same time, the Group continued to collaborate with BOC's entities in the Asia Pacific region. It helped BOC Tokyo Branch to successfully launch the world's first JPY floating-rate bond to reference the new Tokyo Overnight Average Rate (TONA) benchmark, assisted BOC Singapore Branch in a pricing project for a green fixed-rate bond, and executed foreign exchange swap business transactions with BOC Tokyo Branch and BOC Sydney Branch. The Group received a number of awards in recognition of its professional expertise. It was awarded Most Influential Market Participant 2021 and Excellent Overseas Member of RMB FX Market 2021 by China Foreign Exchange Trade System, Outstanding International Member 2021 by the Shanghai Gold Exchange, as well as Northbound Top FX Settlement Bank and Primary Market Pioneer Award by Bond Connect Company Limited.

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

Authorised by the People's Bank of China to serve as the RMB Clearing Bank in Hong Kong, BOCHK is committed to providing Hong Kong and overseas participating banks with efficient and professional RMB clearing services. The total clearing volume of the Hong Kong RMB Clearing Bank in 2022 reached RMB384 trillion, representing a year-on-year increase of 7%, maintaining its growth momentum. Regarding its Southeast Asian business, the Group assisted six peer banks in Southeast Asia to apply for indirect participant qualification in the Cross-border Interbank Payment System (CIPS). BOC Thailand successfully strengthened cooperation with a renowned local securities company in financial market interconnection, and successfully acquired the custodian business of a local brokerage in Thailand for its Qualified Foreign Institutional Investor (QFII) assets. As RMB clearing banks, BOC Malaysia and the Manila Branch achieved continuous growth in clearing volumes which increased by 42.1% and 15.4% respectively from the year 2021. BOCHK was named as an Excellent Participant in multiple business areas by CIPS Company Limited.

Adhering to a solid and risk-aware investment strategy and promoting green finance

The Group continued to take a cautious approach to managing its banking book investments and closely monitored worldwide interest rate adjustments. It actively responded to market volatility during the interest rate hike cycle and took a pre-emptive approach to managing risk while seeking fixed-income investment opportunities to enhance returns. In 2022, the Group stepped up its efforts to promote innovation in green finance and executed its first green repo transaction with funds obtained to support sustainable building projects, further enhancing the Group's position in green finance markets.

Enriching product offering in its asset management business

Despite volatile global capital markets, BOCHK Asset Management Limited ("BOCHK AM") proactively sought out and captured investment opportunities for its clients, and further diversified its product offering, including launching the BOCHK All Weather China New Dynamic Equity Fund and a series of China-themed alternative investment funds to cope with asset allocation demand from retail and institutional investors. Fostering ESG concepts to support sustainable development, BOCHK AM embedded climate-related risks into its risk management framework in order to enhance related risk management. It also continued to push forward the digital upgrading of its operating systems and the optimisation of its customer service procedures, with the aim of improving its middle and back office service systems so as to provide a better customer experience. In recognition of its professional expertise, BOCHK AM was awarded Best China Fund House and Best RMB Manager in the 2022 Best of the Best Awards by *Asia Asset Management*.

Insurance

Financial results

In 2022, the Group's insurance segment actively promoted new products with higher value-add, leading to an increase in the value of new business of 32.0% year-on-year to HK$1,374 million. However, standard new premium was down 15.3% from 2021 to HK$8,713 million owing to the impact of the pandemic. Profit before tax was down 10.9% year-on-year to HK$911 million, mainly due to a decrease in investment income resulting from financial market volatility. The Group will adopt Hong Kong Financial Reporting Standard 17 for the basis of preparation of insurance business in 2023. This adoption is not expected to significantly affect or change the Group's business development, financial strength or ability to pay claims.

Business Operations

Promoting product transformation and strengthening its multi-channel development strategy

During the year, BOC Life sought to increase the value of new business by boosting the sales of savings protection plans, which led to a substantial increase in the proportion of higher-value new business sales within total new business sales. BOC Life continued to expand its brokerage channel by forming partnerships with Chinese bank brokers and multinational insurance brokers that manage high-net-worth customers, enhanced collaborations with independent financial advisors, and promoted a range of value-added services in order to increase its mid to high-end customer base. It took several steps to strengthen its multi-channel development strategy, including expanding its tied agent workforce through upgraded measures to recruit and retain talent, and maintained its leading position in bancassurance. BOC Life actively pushed forward its various sales and marketing strategies, including expanding the coverage of its digital channels and enhancing the competitiveness of its products. It also continued to expand its health ecosystem, with over 60,000 users and 50 third-party partners under its "Live Young" reward programme. In 2022, BOC Life supported Livi Bank to obtain an insurance agency license and launched the 3-Year Savings Insurance Plan through the livi mobile application. Through the BOCHK mobile banking platform, it launched the BOC Life iGreen Savings Insurance Plan, Hong Kong's first-ever green insurance plan to be certified by an independent third-party, successfully seizing opportunities from customer demand for green products.

Advancing sustainable development initiatives and launching brand-new ESG products to create diversified social value

BOC Life remained committed to supporting ESG initiatives and captured market opportunities to launch green insurance products. With a view to addressing the needs of the community and fulfilling its social responsibilities, it actively organised a number of corporate charity projects, served as the sole title sponsor of the BOC Life Rogaine Charity Race 2022 and BOC Life Hong Kong Harbour Marathon 2022, and provided full support for youth development. It partnered with HKU Business School to set up the BOC Life Future Leader Scholarship to nurture future leaders, and provided STEAM education for underprivileged students under its New Generation Financial and Technology Designers' Programme. In addition, it cooperated with the World Green Organisation (WGO) to introduce the ESG Accelerator Programme, which provides startup companies with multi-channel platforms for developing their green businesses, thus fostering the development of innovative technology companies as well as ESG and sustainable development in Hong Kong. BOC Life further bolstered its brand reputation as an outstanding corporate citizen and ESG advocate by co-organising the HKMA/BOC Life Sustainability Summit 2022 with the Hong Kong Management Association and sponsoring the Sustainable Investing and ESG Conference co-organised by the WGO and United Nations Economic and Social Commission for Asia and the Pacific. Moreover, BOC Life was awarded the WGO's Green Office Awards and Eco-Healthy Workplace accreditations, setting the benchmark for continual improvement in its sustainable development in the future.

Receiving plaudits for outstanding performance and winning recognition for community service

BOC Life maintained its leading position in Hong Kong's life insurance market, surpassed peers in term of sales conducted via e-channels, and remained the market leader in RMB insurance. In recognition of its product and service excellence, BOC Life was commended with a number of awards, including Outstanding Insurance Business – Annuity Award and Outstanding Insurance Business – Saving Insurance Award for the second consecutive year in the RMB Business Outstanding Awards organised by Metro Finance and Hong Kong Ta Kung Wen Wei Media Group, as well as Outstanding Agent of the Year from The Hong Kong Federation of Insurers. Meanwhile, BOC Life was widely recognised for its community care initiatives and promotion of ESG and sustainable development, receiving the Excellence in Social Sustainability (Good Health and Well-Being) award at the GBA Corporate Sustainability Awards from Metro Finance for two years in a row and the Brand Value – Award for Excellence in Community Contribution at the Awards for Excellence in Finance organised by *Ming Pao*.

Southeast Asian Business

The Group remained committed to its strategic goal of building a first-class regional banking group, and continued to pursue regional integrated development with the aim of building its Southeast Asian entities into mainstream foreign banks in their local markets. The year 2022 marked both the first year of a comprehensive strategic partnership between China and the ASEAN, and the year in which RCEP was enacted. These milestones, coupled with several large-scale regional and international conferences hosted in Southeast Asia such as the ASEAN Summit, the G20 Summit and the Asia-Pacific Economic Cooperation (APEC) Summit, clearly demonstrated that countries around the world are now paying close attention to the influence of Southeast Asia and the Asia-Pacific region. Owing to a combination of positive factors, including higher COVID-19 vaccination rates and the relaxation of pandemic prevention measures, most Southeast Asian economies will continue their economic recovery momentum. Looking forward, the Southeast Asian region will blossom with unlimited business opportunities and prospects. By deepening economic and trade cooperation, China and the ASEAN will create more landmark collaborations through the high-quality implementation of RCEP, the ongoing construction of the Belt and Road, continuous advances in infrastructure interconnection and the development of the digital economy.

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

The Group actively promoted the optimisation and integration of its regional business network, and continued to improve its network efficiency. It completed the relocation and business commencement of the Central Park Sub-Branch of Jakarta Branch and the Tuek Thla Sub-Branch of Phnom Penh Branch (formerly known as the Melawai Sub-Branch and Olympic Sub-Branch respectively), and proceeded with other branch relocations as planned. Overcoming adverse factors including the economic downturn and volatile pandemic situation, the Group seized various opportunities in the region and deepened its management-by-business-unit approach across its Southeast Asian entities, demonstrating the resilience of its integrated operations and achieving steady progress in business development. Leveraging its digital transformation, the Group integrated technological elements into its business and management so as to optimise procedures and improve service levels, with the aim of creating new competitive advantages for high-quality development. To further enhance its regional management, it steadily pushed forward the centralisation of its Southeast Asian operations, successfully moving approximately 60% of its business processes to centralised operation as at the end of 2022, including loan-related operations, customer due diligence, integrated banking services, customer services, international payments, information processing, settlement and trade services, with nearly 40% relocated to the Regional Operation Centre in Nanning, Guangxi. The Group continued to promote business development in an effective manner, enhancing its management capacity as the regional headquarters, strengthening integrated regional development, and adopting the organic integration of market-by-market strategies as the guiding principle for a differentiated management approach across its regional entities.

The Group's Southeast Asian entities* recorded steady business growth. As at the end of 2022, deposits from customers and advances to customers amounted to HK$69,863 million and HK$52,387 million respectively, up 13.8% and 0.4% from the end of last year, excluding the impact of foreign exchange rates. Driven by an improvement in net interest margin and an increase in income from foreign exchange business, net operating income before impairment allowances stood at HK$3,225 million, an increase of 27.6% year-on-year, excluding the impact of foreign exchange rates. As at the end of 2022, the non-performing loan ratio was 2.49%, up 0.10 percentage points from the end of 2021.

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

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

The Group continued to strengthen its overall regional risk management and adhered to its "bottom-line" mindset. It provided professional guidance to and adopted differentiated management of its Southeast Asian entities. The Group pursued a steady and stable approach in its regional credit risk management, strengthened its industry, customer and product foundations, and optimised its credit portfolio structure in the Southeast Asian region. It also carried out risk control in a flexible manner to strictly manage new non-performing loans in order to achieve high-quality development. Moreover, it strengthened forward-looking management and the monitoring of risk indicators to enhance its Southeast Asian entities' risk management capabilities in market risk, interest rate risk and liquidity risk. The Group also made use of system and technological advantages to further strengthen its Southeast Asian entities' risk management and control capabilities in compliance, anti-money laundering and anti-fraud, and to promote the standardisation of compliance and the application of key risk indicators in the region.

Digital Transformation Development

In 2022, the Group followed the "BOCHK 2021-2025 Digital Transformation Strategy" and made earnest efforts to improve the core support capacity of its technological foundations and push forward digital transformation, while thoroughly pursuing the concept of sustainable development. Upholding its customer-centric philosophy, the Group deepened its digital transformation driven by data, business intelligence and ecological approaches. It facilitated the development of ecological, open and scenario-based banking services, promoted integrated and regional products and services, and provided a seamless process experience. At the same time, the Group focused on its three major markets, deepened technological empowerment, strengthened its corporate culture and cultivated digital talent, thus providing its customers and staff with high-quality services and experiences while laying a solid foundation for its long-term development.

Developing ecological, open and scenario-based banking services

The Group actively promoted open banking services, drew on different customer groups and ecologies to construct innovative business models, consolidated its open banking ecosystems and accelerated data interconnection, so as to achieve mutual growth through collaboration. It launched the third phase of Open Application Programme Interface ("API") applications related to corporate and personal customers, introducing over 100 Open APIs to meet the needs of different customers, with peak daily usage recording year-on-year growth of 17.9%. The total number of registered partners reached 378, covering a range of services and businesses, including payment, supply chain, enquiry, payment collection, treasury and factoring. As a result, it achieved a market-leading position in terms of Open API scale. The Group enhanced its financial services reach in the local market through the use of innovative fintech in scenario-based applications, including its major home purchase, education and wellness scenario-based ecosystems. In line with the latest digitalisation trends in consumer spending and business models, it continuously pushed forward digital empowerment and made use of innovative technology to provide customers and merchants with ease and convenience when making and receiving digital payments, thus contributing to the development of mobile payments in the local market. It capitalised on the HKSAR Government's Consumption Voucher Scheme, offering BoC Pay customers a variety of rebates and promotions while providing integrated payment collection services to BoC Bill merchants, so as to deepen the application of digital payments. As at the end of 2022, the number of BoC Pay users increased by 20.2% compared with the end of 2021, and the total transaction volume in 2022 increased by 21% year-on-year. Meanwhile, the total transaction amount of BoC Bill increased by 6.1% year-on-year.

Promoting integrated products and services

The Group promoted integration between products and services along the value chain, with the aim of providing customers with one-stop product and service solutions. It launched the iGTB online loan application service for corporate clients, which enables them to submit loan applications by entering information and uploading documents through online platforms. The Group actively expanded the regional development of its iGTB platform, successfully extending coverage to nine major dialects used in Hong Kong and eight Southeast Asian countries, including Thailand, Malaysia, Vietnam, the Philippines, Cambodia, Laos, Brunei and Myanmar, which enhanced its service levels and customer experience across the region and contributed unique advantages to its regional development. In addition, it launched numerous online products and functions in order to provide a full range of digital corporate financial services to local enterprises and corporate customers with business operations throughout Southeast Asia, which significantly improved the operational efficiency of these corporates during the pandemic.

Providing a seamless process experience

To further enhance the customer service experience, the Group reviewed its end-to-end processes so as to provide its customers with omni-channel and seamless services. During the year, it implemented around 200 functional enhancements to its mobile banking, including new features for trading, registration services and user interface design. It also enhanced the approval efficiency of mortgage loans by expediting the automation of related approval procedures in optimising the pre-default eligibility criteria. The Group launched Hong Kong's first remote account opening service through its mobile banking using iAM smart, which was awarded the Fintech (Regulatory Technology and Risk Management Award) Certificate of Merit in the Hong Kong ICT Awards 2022 arranged by the Office of the Government Chief Information Officer of the HKSAR Government. It supported the Treasury of the HKSAR Government to launch a convenience store-based payment collection service that supports payments to a number of government departments. The standard product service features of the Group's Merchants Entrust FPS APP-to-APP services were extended to support the Hong Kong Housing Authority's online application for housing services as well as the Hospital Authority's mobile application. Meanwhile, the Group promoted the full digital transformation of its traditional cross-border services. Aligning with the needs of each of its Southeast Asian entities, it established an e-channel for the RMB salary direct remittance services of BOC Thailand, BOC Malaysia and the Manila Branch, forming a replicable service experience which will be extended to other Southeast Asian entities.

Deepening technological empowerment and accelerating intelligent operations to drive operational efficiency

The Group made use of big data and artificial intelligence to create a hyper-personalised customer experience. It utilised real-time digital footprints, intelligent decision-making and cross-channel collaborations at the middle-office level to empower its front offices to enhance productivity. It also leveraged big data to establish customer tags and intelligent models that link into its precision marketing platform and enable cross-unit applications, and received the Innovative ICT Solution/Intelligent Application Bronze Award in the 2022 CAHK STAR Awards organised by the Communications Association of Hong Kong. The Group launched the ERP Cloud Service – Accounting Cloud service, which provides SMEs with free access to safe and reliable one-stop cloud-based financial accounting software services, recording continuous growth in customer base. This project was widely recognised by the industry and market, receiving the Smart Business (Solution for SME) Gold Award in the Hong Kong ICT Awards 2022 arranged by the Office of the Government Chief Information Officer of the HKSAR Government, and Best FinTech Merit Award in the 2022 CAHK STAR Awards organised by the Communications Association of Hong Kong. The Group accelerated the expansion of intelligent technology applications and further enhanced its Optical Character Recognition (OCR) technology so as to improve the efficiency of data input and processing. It stepped up efforts to promote digitalised operations and incorporated ESG elements into its business processes, including reinforcing paperless green operations. At the same time, the Group pushed forward the expansion of the Regional Operation Centre in Nanning, Guangxi, so as to achieve a more cost-effective operating model. It promoted agile project management and collaboration to improve staff experience and operational efficiency, and implemented intelligent risk control applications to help strike a balance between its risk management and business development needs. The Group actively promoted its intelligent anti-fraud platform, which utilises regtech to detect fraud cases, and successfully developed and applied intelligent anti-fraud models. At the initial stage, the Group was able to conduct real-time risk control of abnormal credit card transactions. During the year, BOCHK was awarded Effective Application of Regtech in the Bank Staff Recognition Ceremony organised by the Hong Kong Police Force, in recognition of its efforts in actively adopting a multi-pronged approach to combat deception cases by making use of regtech in crime detection and prevention.

Strengthening corporate culture and cultivating talented teams

The "BOCHK Challenge 2021-22" innovation competition hosted by BOCHK and co-organised by the HKMA and the Hong Kong Science and Technology Parks Corporation, was successfully held to discover new ways to apply fintech within the financial industry, explore breakthrough business models that disrupt traditional industry frameworks, improve customers' digital experiences and enhance the operational efficiency of the banking sector. In terms of talent cultivation, the Group promoted its corporate culture through multiple channels, including all-staff training, expert interviews, in-house competitions, videos and animations, prize-winning games, and instant messaging software emoticons and posters, with the aim of deepening staff understanding of innovation culture, ESG and corporate values. In order to ensure appropriate talent development to support the digital transformation of the Group, it arranged external professional training courses, identified different options regarding professional qualification standards and professional sequencing for digital talent, and introduced targeted and stratified training for all staff while encouraging them to pursue professional qualifications and certifications. The Group also conducted internal fintech training on topics such as AI, cloud technology, big data and database development trends, in order to train staff to become fintech practitioners. In line with its strategic goals, the Group made use of market and campus recruitments and organised specialised internships or competitions to proactively acquire digital-savvy and IT-related talent. It cooperated with local public and charitable organisations to launch a range of projects covering the themes of poverty alleviation, youth development, environmental protection and carbon reduction, arts and sport, as well as innovative technology. To support the "Enhanced Competency Framework on Fintech" launched by the HKMA, the Group applied for the one-off exemption and certification of eligible staff, and arranged enrollment in the scheme for staff with a potential talent for fintech so as to enhance their professional standards.

Outlook and Business Focus for 2023

Looking ahead into 2023, it is expected that successive interest rate hikes by major central banks will further inhibit economic activities in varying emergent ways. In particular, the economic prospects of Europe and the US will come under greater pressure, while the international environment may become more complicated and severe. However, China's economic outlook will be more resilient, as the effectiveness of various stimulus measures become more clearly felt. In Southeast Asia, the easing of pandemic controls and higher COVID-19 vaccination rates will enable economic activity to restart, while the tourism industry is expected to continually improve. Together, this will support the region's economic recovery. Hong Kong's economy will face challenges arising from the global economic slowdown and geopolitical instability. However, the full resumption of Hong Kong's full quarantine-free travel to and from the Chinese mainland and other countries and regions, as well as the probable continuous improvement of the labour market, will provide strong support to Hong Kong economic prospects. The macro environment will remain highly uncertain. With this in mind, the Group will closely monitor changes in the market environment and adopt flexible and effective business development strategies in order to mitigate potential impacts.

The Group will implement its established policies according to its mid to long-term plan. With the strategic goal of building a first-class regional banking group, the Group will continue to capture business opportunities from its strategic markets of Hong Kong, the Greater Bay Area and Southeast Asia. It will deeply cultivate the local market in Hong Kong and tap the full potential of its target customers. It will focus on the core market strengths in the Greater Bay Area and vigorously develop cross-border business. It will strengthen business development in Southeast Asia, continue to expand its regional customer base, and enrich its regional product suite. At the same time, the Group will steadily push forward its sustainable development plan and implement the transformation of its environmental, social and governance practices in the service of high-quality development. It will improve its integrated service capabilities, strengthen internal and external collaboration, and strive to be the beating heart of BOC Group's integrated services. It will promote digital transformation and increase the penetration rate of digital services. In addition, the Group will continue to adhere to bottom-line thinking in its risk management and consolidate its human resources, culture and operational procedures in order to provide strong support for the implementation of its strategic plan.

Credit Ratings

As at 31 December 2022	Long-term	Short-term
Standard & Poor's	A+	A-1
Moody's	Aa3	P-1
Fitch	A	F1+

Risk Management

Banking Group

Overview

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

Credit risk management

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

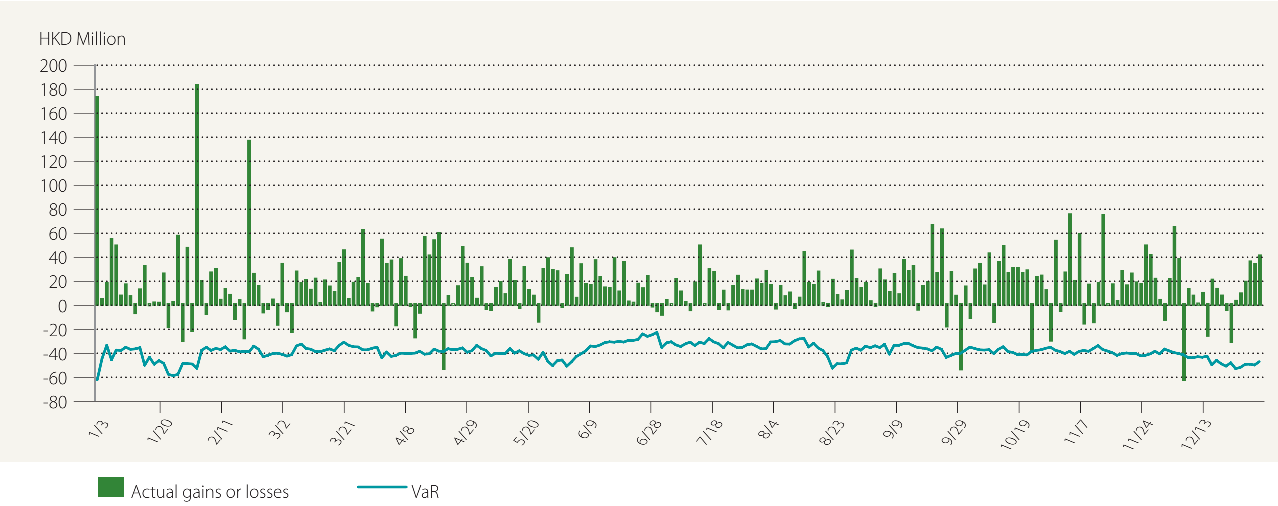
Market risk management

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

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

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

Daily Back-testing in 2022



There were four actual losses exceeding the VaR for the Group in 2022 as shown in the back-testing results. The exceptions were driven by unexpected market movements.

Interest rate risk management

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

Liquidity risk management

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

Operational risk management

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

The Group has implemented the "Three Lines of Defence" 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 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 risk-based review 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 managed and monitored by the Financial Crime Compliance Department ("FCC"). Both LCO and FCC report directly to the CRO. As part of the Group's corporate governance framework, the policies for the management of legal and compliance risks, and money laundering, terrorist financing and financial crime compliance risks are approved by the RMC as delegated by the Board.

Strategic risk management

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

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

Capital management

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

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

In 2022, to comply with the applicable internal loss-absorbing capacity requirements under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules ("LAC Rules") with compliance period starting from 1 January 2023, BOC has granted non-capital loss-absorbing capacity debt instruments totalling RMB47 billion and USD3 billion to BOCHK, which has strengthened the loss-absorbing and recapitalisation capacity of the Group.

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 management framework includes managing the adverse impact due to exchange rate movement through stress test, exposure limit and risk limit.

Understanding Brings Us Closer

We understand that we all build the future together

Nurturing green growth and social wellbeing

Expanding your connections to bring you closer to your goals

Corporate Information

Board of Directors

Chairman

LIU Liange#	(resignation effective from 18 March 2023)

Vice Chairmen

LIU Jin#
SUN Yu

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*	
LEE Sunny Wai Kwong*	(appointment as Independent Non-executive Director effective from 14 September 2022)
TUNG Savio Wai-Hok*	

Non-executive Directors
* Independent Non-executive Directors

Senior Management

Chief Executive

SUN Yu

Chief Risk Officer

JIANG Xin

Deputy Chief Executives

YUAN Shu	(resignation effective from 1 February 2023)
WANG Qi	(resignation effective from 1 November 2022)

Chief Operating Officer

ZHONG Xiangqun	(resignation effective from 31 December 2022)

Deputy Chief Executives

XU Haifeng	(appointment effective from 15 December 2022)
CHAN Man	(appointment effective from 1 August 2022)
WANG Bing	(resignation effective from 5 December 2022)
KUNG YEUNG Ann Yun Chi	(retired effective from 1 August 2022)

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 Jin

Aged 56

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 50

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 is Chief Supervisor of the Asian Financial Cooperation Association, Chairman of the Hong Kong Association of Banks, Honorary President of the Hong Kong Chinese Enterprises Association, Chairman of the Chinese Banking Association of Hong Kong, and sits on the Exchange Fund Advisory Committee and the Currency Board Sub-Committee, the Banking Advisory Committee, and the Council of Treasury Markets Association. Mr SUN sits on the Advisory Committee on the Northern Metropolis and the Advisory Committee on Attracting Strategic Enterprises of the Government of the HKSAR. He is Co-Chairman of Guangdong-HK-Macao Bay Area Entrepreneurs Union, Advisor of Hong Kong Alliance of Technology and Innovation, sits on the General Committee of the Hong Kong General Chamber of Commerce, the Council of the Hong Kong Trade Development Council ("HKTDC"), the Belt and Road and Greater Bay Area Committee of HKTDC, and the Risk Management Committee of the Hong Kong Exchanges and Clearing Limited, the Council of the Hong Kong Management Association, and is also Vice President of the Hong Kong Institute of Bankers, etc.

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

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 57

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 and Chairman of BOC International (China) Co, Ltd (listed in Shanghai) from May 2018 to April 2022.

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

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 62

Independent Non-executive Director

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

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

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 65

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 honour in the HKSAR Award and Recognition System. He also holds a number of public positions including Chairman of the Chinese General Chamber of Commerce in Hong Kong, Chairman of Guangdong-HK-Macao Bay Area Entrepreneurs Union, Economic Advisor to the President of the Chinese Academy of Sciences, Founding Patron and Senior Advisor to the President of the Academy of Sciences of Hong Kong, Executive Director of the China Overseas Friendship Association, Council Member of the Hong Kong Trade Development Council, Founding Chairman of the Hong Kong-Vietnam Chamber of Commerce, Founding Chairman of the Hong Kong-Korea Business Council, Chairman of the China Hong Kong Israel Technology Cooperation and Promotion Center and Chairman of the US-China Center for Research on Educational Excellence of the Michigan State University. Dr CHOI is a Court or Council Member of a number of universities including the Fudan University, the Nanjing University and the Hong Kong Polytechnic University.

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

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 62

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 Audit Committee, Risk Committee, Strategy and Budget Committee as well as Sustainability Committee.

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

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 72

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 (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, United Engineers Limited and Non-executive and Independent Director of Oversea-Chinese Banking Corporation 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 70

Independent Non-executive Director

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

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

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

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

Mr LEE Sunny Wai Kwong

Aged 63

Independent Non-executive Director

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

Positions and experience: Mr LEE is the Vice President (Administration) of City University of Hong Kong. Mr LEE has more than 30 years of experience in business and technology management gained in both Hong Kong and overseas. He was Systems Director of the Bank of America in Hong Kong. He has held key Information Technology ("IT") positions in the financial, management consulting and manufacturing industries in the United States. Mr LEE was an Executive Director of IT of The Hong Kong Jockey Club ("HKJC"), where he served as member of board of management and had overall responsibility for HKJC's IT strategy and innovation. Prior to joining HKJC, he served at The Hong Kong and China Gas Company Limited where he was an executive committee member and held a number of key positions, including the Group's Chief Information Officer and Chief Executive Officer of two strategic diversification businesses, iCare.com Limited and Towngas Telecommunications Company Limited.

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

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

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

Mr TUNG Savio Wai-Hok

Aged 71

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 52

Chief Risk Officer

Mdm JIANG joined the Group in 2021. She is Chief Risk Officer of the Group in charge of the Group's overall risk control and management, overseeing BOCHK's Risk Management Department, Legal & Compliance and Operational Risk Management Department, as well as Financial Crime Compliance 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.

Mr LIU Chenggang

Aged 50

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

Mr XU Haifeng

Aged 51

Deputy Chief Executive

Mr XU joined the Group in 2022. 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 also Chairman of BOC Group Trustee Company Limited. Prior to joining the Group, Mr XU was Chairman of BOC (Europe) S.A. and General Manager of BOC Luxembourg Branch. Mr XU joined BOC in 1993, then held management positions in various institutions including Head Office, Liaoning Branch, New York Branch as Deputy General Manager, Hungary Branch as General Manager, etc. Mr XU has a Bachelor's Degree in International Finance from Dongbei University of Finance and Economics, and a Master's Degree in Business Administration from The Chinese University of Hong Kong.

Mr CHAN Man

Aged 54

Deputy Chief Executive

Mr CHAN joined the Group in 1990. He is Deputy Chief Executive of the Group, overseeing Personal Banking and Wealth Management Department, Personal Digital Banking Product Department, Personal Banking Risk and Integrated Management Department, Private Banking, BOCCC, as well as BOC Life. Mr CHAN is also Chairman of BOCCC and Director of BOC Insurance (International) Holdings Company Limited and BOC Life. From July 1990 to September 2001, Mr CHAN held various positions in Hua Chiao Commercial Bank Limited, formerly a member bank of Bank of China Group in Hong Kong. Following the restructuring of the business of Bank of China Group's member banks in Hong Kong, Mr CHAN has served various positions in the Group since October 2001, including Head of Product Development Division of Economics & Strategic Planning Department, Deputy General Manager of Corporate Banking & Financial Institutions Department, General Manager of Business Optimisation Center, General Manager of Institutional Business Department, General Manager of Personal Banking and Wealth Management Department, and was promoted to his current role in August 2022. Mr CHAN graduated in Business Studies (Banking) programme with Bachelor's Degree qualification from Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic).

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 2022.

Principal Activities

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

Business Review

For business review of the Group for the year, please refer to "Message from the Board", "Message from the Management", "Management Discussion and Analysis", "Corporate Governance", our Sustainability Report 2022 and corporate website.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 125.

The Board has recommended a final dividend of HK$0.910 per share, amounting to approximately HK$9,621 million, subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on Thursday, 29 June 2023 (the "2023 AGM"). If approved, the final dividend will be paid on Friday, 14 July 2023 to shareholders whose names appear on the Register of Members of the Company on Monday, 10 July 2023. Together with the interim dividend of HK$0.447 per share declared in August 2022, the total dividend payout for 2022 would be HK$1.357 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 2023 AGM, from Monday, 26 June 2023 to Thursday, 29 June 2023 (both days inclusive), during which period no transfer of shares will be registered. In order to attend and vote at the 2023 AGM, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Friday, 23 June 2023. The 2023 AGM will be held at 2:00 p.m. on Thursday, 29 June 2023.

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, 5 July 2023 to Monday, 10 July 2023 (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, 4 July 2023. Shares of the Company will be traded ex-dividend as from Monday, 3 July 2023.

Donations

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

Note: These donations do not include the donations and sponsorships made by BOCHK Charitable Foundation ("the Foundation". For details, please refer to our Sustainability Report 2022 and corporate website). The Foundation is a separate legal entity established in Hong Kong and is a charitable institution exempted from tax under the Inland Revenue Ordinance.

Shares Issued

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

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

Debentures Issued

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

Class	Amount issued	Consideration received
1.33% HKD Senior Notes due 2024	HKD2,000,000,000	HKD2,000,000,000

Distributable Reserves

Distributable reserves of the Company as at 31 December 2022, calculated under Part 6 of the Hong Kong Companies Ordinance, amounted to approximately HK$18,307 million.

Five-year Financial Summary

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

Directors

The list of Directors of the Company is set out on page 56. The biographical details of the Directors and senior management are set out on pages 57 to 67. The term of office for each Non-executive Director is approximately three years.

Mr LIU Liange resigned as Chairman and Non-executive Director with effect from 18 March 2023. Mdm FUNG Yuen Mei Anita and Mr LEE Sunny Wai Kwong were appointed as Independent Non-executive Director with effect from 3 March 2022 and 14 September 2022 respectively. The Board would like to express its high praise and sincere gratitude to Mr LIU Liange for his tremendous contributions during his tenture of office.

In accordance with Article 98 of the Articles of Association and pursuant to Code Provision B.2.2 of the Corporate Governance Code which took effect on 1 January 2022, the terms of office of Mr SUN Yu, Mdm CHENG Eva, Mr KOH Beng Seng and Mr TUNG Savio Wai-Hok will expire at the 2023 AGM. Mr KOH Beng Seng and Mr TUNG Savio Wai-Hok have notified the Company that they have decided not to stand for re-election at the forthcoming annual general meeting. The other two retiring Directors, Mr SUN Yu and Mdm CHENG Eva being eligible, will offer themselves for re-election at the 2023 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 term of office of Mr LEE Sunny Wai Kwong, who was appointed on 14 September 2022, will expire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

A full list of the names of the directors of the Company's subsidiaries during the year ended 31 December 2022 is kept at the Company's registered office.

Directors' Service Contracts

No Director offering for re-election at the 2023 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

As at the date of this Annual Report, Mr LIU Jin and Mr LIN Jingzhen are Executive Directors of BOC. During the year, Mr LIU Liange 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 2022, 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:

Name of Director	Number of shares/underlying shares held				Approximate % of the total issued shares
	Personal interests	Family interests	Corporate interests	Total	
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%
FUNG Yuen Mei Anita	550,000	–	–	550,000	0.00%[4]

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

All the interests stated above represented long positions. Save as disclosed above, as at 31 December 2022, 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 2022, 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 2022.

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 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the above continuing connected transactions. 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 2022 have been audited by Messrs PricewaterhouseCoopers who will retire and offer themselves for re-appointment at the 2023 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 Jin
Vice Chairman
Hong Kong, 30 March 2023

Corporate Governance

Principles and Practices

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

The Company has been in full compliance with all code provisions as set out in the Corporate Governance Code contained in Appendix 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. The Company also conducts annual evaluation on the Board, and based on the evaluation feedback, to enhance Board efficiency and effectiveness.

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

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

Corporate Governance Policy

Policy Statement

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

Essential Principles

(1) Eminent Board

Authority	The Board is responsible for supervising the management of the business and affairs of the Group with due regard to maximising shareholder value and enhancing corporate governance standard of the Group. The Board is obliged to act honestly and in good faith and to make decisions objectively in the best interests of the Group and its shareholders as a whole.
Structure	The Company is led by a high caliber Board with strong representation of Independent Non-executive Directors. The Board has a well-balanced composition of the Executive 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. In the 2021-2025 strategic development plan approved by the Board, it 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 the "BOCHK Whistleblowing Policy" and the "BOCHK Whistleblowing Administrative Measures" to ensure that employees and the external parties who deal with the Group (e.g. customers and suppliers) can make whistleblowing reporting through proper channels under confidence when suspected misconducts occurred or may occur which relate to the businesses or other aspects of the Group, and such reports are handled and followed up appropriately. The Company regularly reviews the whistle-blowing mechanism and related policies and administrative measures to ensure their effectiveness.

Corporate Governance Framework

Responsibilities of the Board and the Management

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

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

Five physical Board meetings were held during the year. Major agenda items reviewed and approved included important matters such as the Group's strategies, business plans, financial budget, disclosure of financial results, sustainability report, risk management and internal controls, continuing connected transactions, and annual review of relevant policies. Besides physical meetings, the Board also approved written resolutions on certain matters, including changes of senior management and secretary of Board Committees. 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 2021 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.

Mr LIU Liange, former Chairman, 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.

Mr SUN Yu, the Chief Executive, 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, two are Non-executive Directors and seven 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 Liange resigned as Chairman, Non-executive Director and the Chairman of the Strategy and Budget Committee with effect from 18 March 2023. Mdm FUNG Yuen Mei Anita and Mr LEE Sunny Wai Kwong were appointed as Independent Non-executive Directors and members of each of the Audit Committee, Risk Committee, Strategy and Budget Committee as well as Sustainability Committee with effect from 3 March 2022 and 14 September 2022 respectively. 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 terms of office of Mr SUN Yu, Mdm CHENG Eva, Mr KOH Beng Seng and Mr TUNG Savio Wai-Hok will expire at the 2023 annual general meeting. Mr KOH Beng Seng and Mr TUNG Savio Wai-Hok have notified the Company that they have decided not to stand for re-election at the forthcoming annual general meeting. The other two retiring Directors, Mr SUN Yu and Mdm CHENG Eva being eligible, will offer themselves for re-election. Further, pursuant to Article 102 of the Articles of Association, any Director appointed by the Board shall hold office only until the next following general meeting or the next following annual general meeting of the Company, and shall then be eligible for re-election at such meeting. Accordingly, the term of office of Mr LEE Sunny Wai Kwong, who was appointed on 14 September 2022, will expire at the 2023 annual general meeting and, being eligible, offer himself 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 2022 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. Mr KOH and Mr TUNG have notified the Company that they have decided not to stand for re-election at the forthcoming annual general meeting. 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.

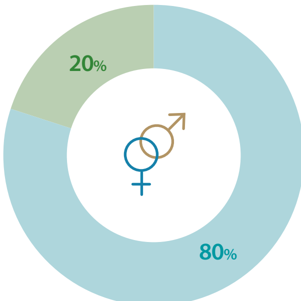
Board Diversity

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 competencies, skills and experience the Board as a whole required. The Board will review the Board Diversity Policy annually and enhance relevant practices continuously based on latest situation. Details of the Board Diversity Policy have been posted on the Company's website at www.bochk.com.

Currently, there are two female members in the Board, represent approximately 20% of the Board, which fulfils 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 five members of senior management, one of them is female, representing approximately 20% 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.

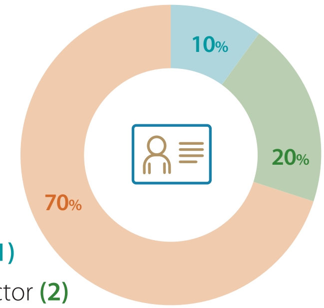
An analysis of the Board's composition as at the date of this Annual Report is set out below:

Gender



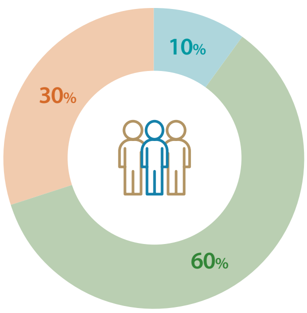
- Male **(8)**
- Female **(2)**

Designation



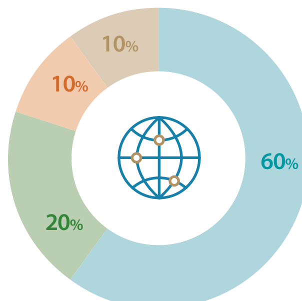
- Executive Director **(1)**
- Non-executive Director **(2)**
- Independent Non-executive Director **(7)**

Age Group



- 45-55 **(1)**
- 56-65 **(6)**
- Over 65 **(3)**

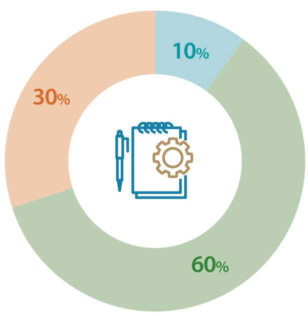
Geographical Location



- Hong Kong **(6)**
- China **(2)**
- Singapore **(1)**
- United States **(1)**

Directorship with the Company

(Number of years)



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

Attendance rate at Board meetings in 2022*

- 100% **(10)**

*Attendance rate of Mr LIU Liange, who resigned as a Director with effect from 18 March 2023, is excluded.

During the year, Mr LIU Liange, Mr LIU Jin and Mr LIN Jingzhen are Executive Directors of BOC. Mr LIU Liange resigned as Executive Director of BOC with effect from 18 March 2023. Save as disclosed above, there are no other relationships between the Board members, including financial, business, family or other material relationships.

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

Directors' Liability Insurance Policy

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

Self-evaluation of the Board

During the year, the Board conducted annual self-evaluation pursuant to the "Regulations on Self-Evaluation of the Board and Individual Evaluation of the Directors". With the endorsement of the Nomination and Remuneration Committee, the annual self-evaluation questionnaire was distributed to Directors for completion. Based on the completed questionnaire, the Company analysed the results and a report delineated the results and recommendation has been submitted to the 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 2022, the Company invited expert to conduct seminars related to fintech and ESG to the Directors and the senior management, discussing areas including global fintech and virtual bank development and trends as well as latest trends on ESG international development and major risks.

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

- macroeconomic analysis;
- ESG and sustainable development;
- climate risk management;
- digital transformation and cyber security;
- fintech and virtual banking;
- 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	Corporate Governance/ ESG Development/ Regulatory Updates	Risk Management and Internal Control	Banking Industry Development Trend
Non-executive Directors			
Mr LIU Liange *(resigned with effect from 18 March 2023)*	✓	✓	✓
Mr LIU Jin	✓	✓	✓
Mr LIN Jingzhen	✓	✓	✓
Independent Non-executive Directors			
Mdm CHENG Eva	✓	✓	✓
Dr CHOI Koon Shum	✓	✓	✓
Mdm FUNG Yuen Mei Anita *(appointed with effect from 3 March 2022)*	✓	✓	✓
Mr KOH Beng Seng	✓	✓	✓
Mr LAW Yee Kwan Quinn	✓	✓	✓
Mr LEE Sunny Wai Kwong *(appointed with effect from 14 September 2022)*	✓	✓	✓
Mr TUNG Savio Wai-Hok	✓	✓	✓
Executive Director			
Mr SUN Yu	✓	✓	✓

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

Five Board meetings were held during 2022 with an average attendance rate of 96%. 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 and Board Committee minutes were sent to all Directors for their comment and record respectively within a reasonable period after the meetings were held.

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

In addition, in order to facilitate open discussion with all the Independent Non-executive Directors, the Chairman met with all 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 2022 are set out as follows:

	Number of meetings attended/Number of meetings convened during Directors' term of office						
		Board Committees					General Meeting
Directors	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	5	2	5	4	2	1
Non-executive Directors							
Mr LIU Liange *(Chairman)* *(resigned with effect from 18 March 2023)*	3/5	–	–	–	3/4	–	1/1
Mr LIU Jin *(Vice Chairman)*	5/5	–	0/2	–	4/4	–	1/1
Mr LIN Jingzhen	5/5	–	–	–	4/4	–	1/1

Directors	Number of meetings attended/Number of meetings convened during Directors' term of office						
		Board Committees					General Meeting
	Board	Audit Committee	Nomination and Remuneration Committee	Risk Committee	Strategy and Budget Committee	Sustainability Committee	Annual General Meeting
Independent Non-executive Directors							
Mdm CHENG Eva	5/5	5/5	–	–	4/4	2/2	1/1
Dr CHOI Koon Shum	5/5	–	2/2	–	4/4	2/2	1/1
Mdm FUNG Yuen Mei Anita *(appointed with effect from 3 March 2022)*	5/5	5/5	–	5/5	4/4	2/2	1/1
Mr KOH Beng Seng	5/5	5/5	2/2	5/5	–	2/2	1/1
Mr LAW Yee Kwan Quinn	5/5	5/5	–	5/5	–	2/2	1/1
Mr LEE Sunny Wai Kwong *(appointed with effect from 14 September 2022)*	2/2	2/2	–	2/2	2/2	1/1	–
Mr TUNG Savio Wai-Hok	5/5	5/5	2/2	5/5	4/4	2/2	1/1
Executive Director							
Mr SUN Yu *(Vice Chairman and Chief Executive)*	5/5	–	–	–	4/4	1/2	1/1
Average Attendance Rate	96%	100%	75%	100%	97%	94%	100%

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

Before the outbreak of the pandemic, 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, coupled with the latest development on the pandemic, the Company invited Board members and senior management to participate in the communication meetings by both physical attendance and through electronic mean to discuss and communicate on the Company's latest business and strategic development and other aspects. It is expected most of the activities will resume to conduct physically in 2023, depending on the latest development on the pandemic.

Board Committees

Audit Committee

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

Composition	Main duties
Mr TUNG Savio Wai-Hok (Chairman) Mdm CHENG Eva Mdm FUNG Yuen Mei Anita[1] Mr KOH Beng Seng Mr LAW Yee Kwan Quinn Mr LEE Sunny Wai Kwong[2]	• 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 2021 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 2022 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 2022 and 30 September 2022 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 2021 • the annual review of the effectiveness of the Group's risk management and internal control systems • the Group's 2023 internal audit plan • the organisation structure, deployment of human resources of Group Audit, as well as its 2023 budget • annual review of the effectiveness of the internal audit function • the 2021 performance appraisal and 2023 key performance indicators for the General Manager of Group Audit and Group Audit • annual review of the "BOCHK Whistleblowing Policy", the "BOCHK Group's Anti-Bribery and Corruption Policy" and the BOCHK "Internal Audit Charter"

Notes:
1. Independent Non-executive Director and appointed as a member of the Audit Committee with effect from 3 March 2022
2. Independent Non-executive Director and appointed as a member of the Audit Committee with effect from 14 September 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 • assisting the Board to establish, approve and review the standards of director independence, and assess the independence and term of office of Independent Non-executive Directors • review of the effectiveness of the Board and Board Committees • ensuring the participation in training and continuous professional development of Directors and Senior Management • review and recommendation of remuneration strategy and incentive framework of the Group • review of the remuneration of Directors, Board Committee members, Senior Management and Key Personnel **Major works performed during the year (included the approval, review and proposal to the Board)** • consideration of the matters relating to the appointment and changes of Directors and Board Committee members • consideration of the matters relating to the appointment, removal and remuneration of the Senior Management • performance appraisal results of the Senior Management for year 2021 • proposal on staff bonus for year 2021 for the Group, including Senior Management • key performance indicators of the Group and the Senior Management for year 2023 • proposal on human resources budget of the Group for year 2023 • 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

Risk Committee

The Risk 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 KOH Beng Seng (Chairman)

Mdm FUNG Yuen Mei Anita[1]

Mr LAW Yee Kwan Quinn

Mr LEE Sunny Wai Kwong[2]

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 policies covering credit risk, market risk, liquidity risk, interest rate risk, operational risk, legal risk, compliance risk, technology risk, strategic risk, reputation risk, anti-money laundering and counter-terrorist financing, 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 revamp of credit asset ECL methodology and revamped residential mortgage loan loss given default (LGD) model
- 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 credit quality to property sector, the report on the asset quality of the loan portfolio in the Southeast Asian entities, the report on the Bank's credit exposures to Russia and Ukraine and the impact of the sanctions on the exposures, the report on the exposures to Europe, BOC Life risk management report, the report on the credit exposures to the top 50 customers with foreign currency borrowing exposures and/or high gearing, the report on the impact of the tight liquidity in HKD on the Bank, the report on the banking book investment portfolio overview and risk mitigation implementation progress, the report on cybersecurity posture, the CSW AML transaction screening machine learning project of BOCHK, the report on outsourcing management, credit risk, market risk and banking book interest rate risk model validation reports, credit risk model performance reports, etc.

Notes:
1. Independent Non-executive Director and appointed as a member of the Risk Committee with effect from 3 March 2022
2. Independent Non-executive Director and appointed as a member of the Risk Committee with effect from 14 September 2022

Strategy and Budget Committee

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

Composition[1]	Main duties
Mr LIU Jin[2] Mr SUN Yu[3] Mr LIN Jingzhen[2] Mdm CHENG Eva[4] Dr CHOI Koon Shum[4] Mdm FUNG Yuen Mei Anita[5] Mr LEE Sunny Wai Kwong[6] Mr TUNG Savio Wai-Hok[4]	• 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 capital injection and the equity restructuring of subsidiaries for Board's approval • review of the Group's digital infrastructure project for Board's approval • receipt of and discussion on the progress of BOCHK's digital transformation strategy • review and monitoring of the implementation of 2022 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 2023 and recommendation of the same to the Board

Notes:
1. Mr LIU Liange resigned as Chairman, Non-executive Director and Chairman of the Strategy and Budget Committee with effect from 18 March 2023.
2. Non-executive Director
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
6. Independent Non-executive Director and appointed as a member of the Strategy and Budget Committee with effect from 14 September 2022

Sustainability Committee

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

Composition	Main duties
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 LEE Sunny Wai Kwong[4] Mr TUNG Savio Wai-Hok[1]	• 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 the Group's corporate culture and review of related policies • determination of the appropriate reporting principles and boundaries and review of the 2021 Sustainability Report **Major works performed during the year** • oversight of the implementation of the Group's sustainability strategies • review of the 2021 Sustainability Report and Material Issues for Board's approval • review of sustainability related reports, including the "Report on Bank Culture Building" • review of the "Carbon Neutral" Targets and Implementation Roadmap of BOCHK Business Operations • supervision and review of the various sustainability measures taken by the Group • receipt of and discussion on the progress reports on carbon emissions calculation in financed activities, low-carbon transition of retail banking customers and branches, and climate related and ESG risk management 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
4. Independent Non-executive Director and appointed as a member of the Sustainability Committee with effect from 14 September 2022

Ad Hoc Committee

The Board established an ad hoc Independent Board Committee during the year with details as follows:

Independent Board Committee

An Independent Board Committee was set up during the year to review the continuing connected transactions and the new caps between the Group on the one hand and BOC and its associates on the other hand, for the three years ending 31 December 2025. The Committee comprised all the Independent Non-executive Director and was chaired by Mr TUNG Savio Wai-Hok. The Committee has engaged Gram Capital Limited as the independent financial adviser. On the basis of Gram Capital Limited's advice and recommendations, the Committee has been satisfied that the continuing connected transactions are entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and the continuing connected transactions and the annual caps imposed on such transactions for the three years ending 31 December 2025 are in the interests of the Company and its shareholders as a whole and are fair and reasonable so far as the independent shareholders are concerned. The Committee also recommends the proposed annual caps of the continuing connected transactions to the Board and the independent shareholders. As the annual caps for certain categories of continuing connected transactions represent 5% or more of the applicable percentage ratios as defined in the Listing Rules, such transactions are subject to the approval of the independent shareholders of the Company. Shareholders can refer to the circular issued by the Company dated 26 January 2023 and notice of the annual general meeting to be issued by the Company in April 2023 for details on the continuing connected transactions and the annual general meeting respectively. Shareholders can also view and download the aforesaid documents from the Company's website at www.bochk.com.

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 2022.

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 2022 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 2022, all Non-executive Directors (excluding Independent Non-executive Directors) and Executive Director have not received their Directors' fees as mentioned above.

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

Remuneration and Incentive Mechanism

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

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

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

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

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

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

- **Determination of the Remuneration Policy**

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

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

1. Performance Management Mechanism

The Group has put in place a performance management mechanism to formalise the performance management at the levels of the Group, units and individuals. 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, the degree of compliance, their performance on risk management duties, and adherence to the corporate culture values, etc. Not only is target accomplishment taken into account, but also the values-based behaviours and sufficient risk management during the course of work, ensuring prudent operation and sustainable development of the Group.

2. Risk Adjustment of Remuneration

To put the principle of aligning performance and remuneration with risk into practice, based on the "Administrative Measures on Risk Modifier Assessment", 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 "Administrative Measures on Risk Modifier Assessment". 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, the amount of remuneration to be adjusted should be proportionate with the misconduct outcome, and should take into account all relevant indicators of the severity of the impact.

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 material misconduct, including but not limited to fraud, mis-selling of financial products, manipulation (or attempted manipulation) of markets etc., or any financial or non-financial factors used in performance measurement or variable 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 negative or improper behaviour which is not in adherence to corporate culture, improper or inadequate risk management, significant incident and economic loss incurred by improper management, etc., the unvested portion of the deferred variable remuneration of the relevant staff would be forfeited.

- **Focused Review on Incentive Systems of Front Offices in Retail Banks**

  To further promote a sound bank culture, deepen the proper understanding of customer outcomes, and reduce the risks of mis-selling and misconduct, the relevant incentive mechanism and its management arrangement were reviewed and optimized by taking references from the HKMA's Focused Review on Incentive Systems of Front Offices in Retail Banks. The Group would continue to monitor the implementation of relevant optimization measures to ensure that the expected results can be achieved.

- **Annual Review of Remuneration Policy**

  The Remuneration Policy of the Group is subject to annual review with reference to changes in external regulatory requirements, market conditions and risk management requirements, etc. In 2022, 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 position lists of "Senior Management" and "Key Personnel", the deferral rates and deferral threshold of variable pay, and established a clawback management mechanism for variable pay. The above amendments were effective from 1 January 2023.

- **External Remuneration Consultant**

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

- **Disclosure on Remuneration**

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

External Auditor

Pursuant to the "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 2023 annual general meeting. Subject to shareholders' authorisation, the Board will authorise the Audit Committee to determine the remuneration of PricewaterhouseCoopers.

For 2022, the fee paid or payable by the Group to PricewaterhouseCoopers was HK$44 million (2021: HK$36 million), of which HK$25 million (2021: HK$25 million) related to audit services and HK$19 million (2021: HK$11 million) related to other services (mainly including tax-related and advisory services). The Audit Committee was satisfied that the non-audit services in 2022 did not affect the independence of PricewaterhouseCoopers.

Risk Management and Internal Control

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

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

The Group conducts an annual review of the effectiveness of its risk management and internal control systems covering all material controls, including financial, operational and compliance controls as well as risk management. The review is conducted by reference to the guidelines and definitions given by the regulatory and professional bodies for the purpose of assessing five different internal control elements, namely, the control environment, risk assessment, control activities, information and communication, and monitoring. The assessment covers all the major internal controls and measures, including financial, operational and compliance controls as well as risk management functions. The review also considers the adequacy of resources, staff qualifications and experience and training of the Group's accounting, financial reporting, internal audit functions, as well as those relating to the ESG performance and reporting. The review is coordinated by the Group's internal audit which, after the Management and various business departments have performed their self-assessment and the Management has confirmed the effectiveness of the relevant systems, carries out an independent examination and other post-assessment work on the review process and results. The results of the 2022 review, which have been reported to the Audit Committee and the Board, revealed that the Group's risk management and internal control systems were effective and adequate.

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

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

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

- the Group has various risk management and human resources policies. There are specific units and personnel that are responsible for handling reputation, strategic, legal, compliance, credit, market, operational, liquidity and interest rate risks. There are also procedures and internal controls for the handling and dissemination of inside information. The Group has set up mechanisms to identify, evaluate and manage all the major risks, and has established corresponding internal control procedures as well as processes for resolving internal control defects. (Details about the Group's risk management are provided on pages 48 to 53 of this Annual Report);

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

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

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

The Group is committed to upholding good corporate governance practices and the internal control system of all subsidiaries are reviewed regularly. During the year of 2022, 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 2022, areas for improvement have been identified and appropriate measures have been implemented.

Communication with Shareholders

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

The Board attaches a high degree of importance to continuous communication with shareholders, particularly through direct dialogue with them at the Company's annual general meeting. 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 (former Chairman of the Company and the Strategy and Budget Committee who resigned with effect from 18 March 2023), 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 2022 annual general meeting held on 29 June 2022 at Four Seasons Grand Ballroom, Level 2, Four Seasons Hotel Hong Kong, 8 Finance Street, Central, Hong Kong. Representatives of PricewaterhouseCoopers, being the auditor of the Company for the financial year ended 31 December 2021 were also present at the Company's 2022 annual general meeting to respond to enquiries raised by shareholders. Save as disclosed above, other Directors including Mr LIU Jin (Vice Chairman of the Company), Mr SUN Yu (Vice Chairman and Chief Executive of the Company), Mr LIN Jingzhen, Mdm FUNG Yuen Mei Anita 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 pandemic 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, the general meeting was conducted as a hybrid meeting which allows shareholders to view the proceedings of the meeting and participate in voting and submit questions in a convenient and efficient way by visiting designated website from anywhere with an internet connection 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 2022 in order to help people in need.

Summary of the resolutions passed at the Company's 2022 annual general meeting as well as the percentage of votes cast in favour are as follows:

Ordinary Resolutions	Percentage Voted For
Approval of audited financial statements and the Reports of the Directors and of the Auditor	99.86%
Declaration of final dividend	99.99%
Re-election of Directors	95.31% to 99.98%
Re-appointment of Auditor	99.30%
Grant of general mandate to issue shares	99.57%
Grant of general mandate to buy-back shares	99.91%

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 2021 Annual Report of the Company, in view of the investors' concern regarding potential dilution of the shareholder value arising from the exercise of power pursuant to the grant of a general mandate to issue shares to the Board, having thoroughly considered the feedback from investors and proxy advisory firms, and making reference to industry's practices on general mandate to issue shares and deliberated the strategic business development plan, the Board has recommended to reduce the general mandate to issue shares to be issued to 10% of the total number of shares in issue as compared to the 20% limit permitted under the Listing Rules, and to introduce a limitation of discount rate of issue price which shall not exceed 10% of the Company's benchmarked price. The Board also continued to recommend the threshold of up to 5% of the total number of shares in issue in the event that the issue of shares is solely for cash and not related to any acquisition of assets (subject to adjustment in case of any subdivision and consolidation of shares after the passing of the relevant resolution) at the 2022 annual general meeting for approval by shareholders. The Board will continue to recommend (i) the threshold for granting of a general mandate to issue shares of up to 10% (or 5% in the event that the issue of shares is solely for cash and not related to any acquisition of assets) of the total number of shares in issue (subject to adjustment in case of any subdivision and consolidation of shares after the passing of the relevant resolution), and (ii) a limitation of discount rate of issue price which shall not exceed 10% of the Company's benchmarked price at the forthcoming annual general meeting for approval by shareholders.

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

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

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

All the resolutions to be proposed at the Company's 2023 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 2023 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 2023 annual general meeting in a circular to shareholders which will include introduction to the proposed resolutions to be approved at the annual general meeting, information on the retiring Directors who are eligible for re-election, as well as information on voting and other issues relating to the 2023 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

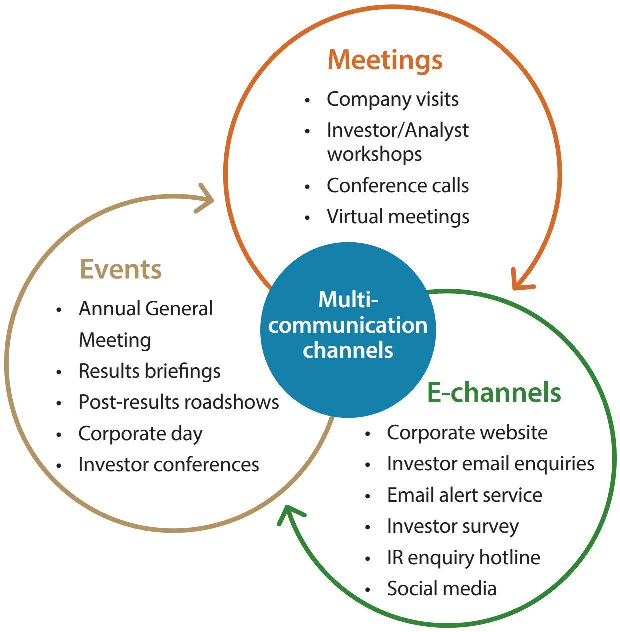
The Company recognises the fundamental importance of maintaining effective communication with its existing and potential investors. We aim to provide clear and timely information that is reasonably required to make a fair investment decision with regard to the Company's equity and debt securities. We 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 2022

In 2022, 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 pandemic and taking into consideration the various social distancing measures as 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 29 June 2022 to 100 shareholders by way of pre-registration. In addition, the said general meeting was conducted as a hybrid meeting which allows shareholders to view the proceedings of the meeting and participate in voting and submit questions in a convenient and efficient way by visiting website from anywhere with an internet connection instead of attending the meeting in person.

At the Annual General Meeting held in June 2022, 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 90 registered shareholders and 16 authorised proxies holding an aggregate of 8,640,081,103 shares, representing 81.72% of the Company's total number of shares in issue, were present. Minutes of the 2022 Annual General Meeting were made available to shareholders on the Company's website.

Results Announcements

Due to the pandemic development, at the Company's 2021 annual results announcement and 2022 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.

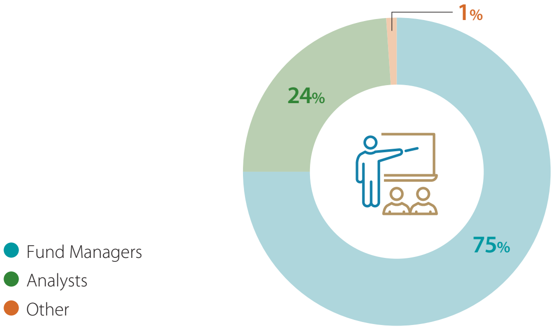
In addition to the interim and annual results announcements, the Company published quarterly financial and business reviews to keep shareholders up-to-date about the Company's performance and financial position.

Communication with the Investment Community

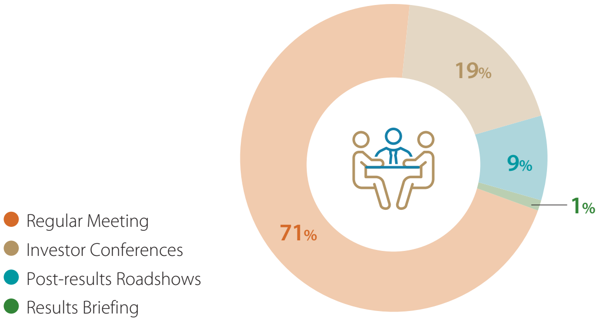
In 2022, the Company had held 197 meetings with a total attendance of over 1,002 investors and analysts across the world. These meetings, which aim to give investors a better understanding of the Company's strategies and new business initiatives as well as to continuously engage them in active and in-depth discussion on the Company's ESG development, were held through 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 and cities including Hong Kong, Beijing, Shanghai, Shenzhen, New York, San Francisco, Toronto, London, Oslo, Frankfurt, Geneva, Brussels, Tokyo, Seoul, Singapore, 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 2023

Major Events	Dates
Announcement of 2022 annual results	30 March (Thursday)
Latest time for lodging transfers for entitlement to attend and vote at the 2023 Annual General Meeting	23 June (Friday) 4:30 p.m.
Book closure period (both days inclusive)	26 June (Monday) to 29 June (Thursday)
Latest time for lodging proxy forms for the 2023 Annual General Meeting	27 June (Tuesday) 2:00 p.m.
2023 Annual General Meeting	29 June (Thursday) 2:00 p.m.
Last day in Hong Kong for dealing in the Company's shares with entitlement to final dividend	30 June (Friday)
Ex-dividend date	3 July (Monday)
Latest time for lodging transfers for entitlement to final dividend	4 July (Tuesday) 4:30 p.m.
Book closure period (both days inclusive)	5 July (Wednesday) to 10 July (Monday)
Record date for final dividend	10 July (Monday)
Final dividend payment date	14 July (Friday)
Announcement of 2023 interim results	Mid to late August

Annual General Meeting

The 2023 Annual General Meeting will be held at 2:00 p.m. on Thursday, 29 June 2023. 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 2022, the Company's market capitalisation was HK$281.2 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)

Senior Notes

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

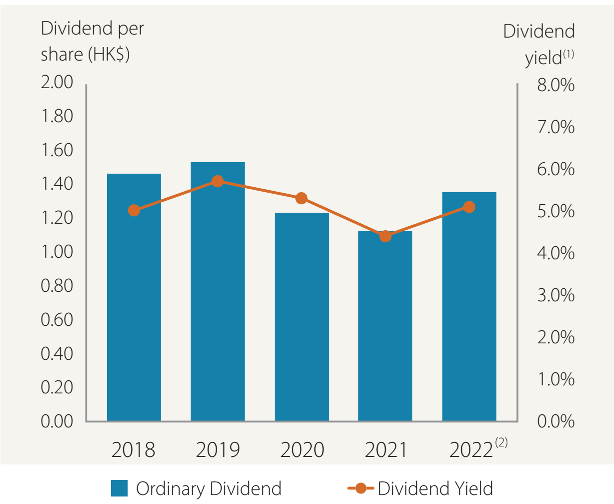
Share Price and Trading Information

Share price (HK$)	2022	2021	2020
Closing price at year end	26.60	25.55	23.50
Highest trading price during the year	32.75	29.55	28.90
Lowest trading price during the year	23.55	22.20	20.05
Average daily trading volume (m shares)	12.91	11.45	13.08
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$0.910 per share, which is subject to the approval of shareholders at the 2023 Annual General Meeting. With the interim dividend per share of HK$0.447 paid during 2022, the total dividend per share will amount to HK$1.357 for the full year.

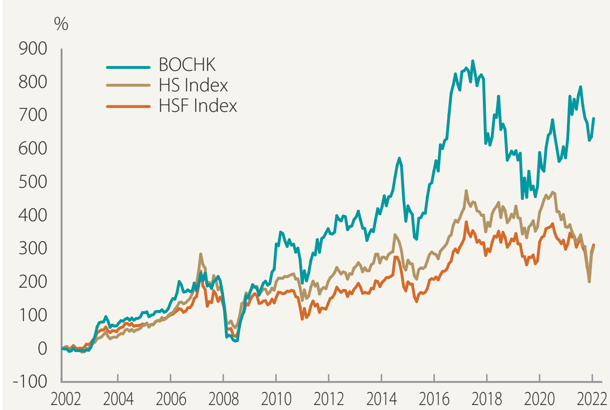
Dividend Per Share and Dividend Yield(1)



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

(2) 2022 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 2022, the Company had 10,572,780,266 shares in issue of which approximately 34% was held by the public and 0.18% was held in the form of ADSs. The Company's 66,222 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 2022:

Category	Number of registered shareholders	% of registered shareholders	Number of shares held by registered shareholders	Approximate % of total issued shares
Individuals	66,101	99.82	210,560,111	1.99
Institutions, corporates and nominees Note	120	0.18	3,421,142,399	32.36
Bank of China Group Note	1	0.00	6,941,077,756	65.65
Total	66,222	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 2022. 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

Financial Strength and Corporate Governance

The Asian Banker

- Strongest Bank in Hong Kong and Asia Pacific 2022

Asiamoney

- Best Chinese Bank for GBA

Corporate Governance Asia

- 12th Asian Excellence Award: Best Investor Relations Company

Sustainable Development

Financial Times, Nikkei Asia and Statista

- Asia-Pacific Climate Leaders 2022

Euromoney

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

Asiamoney

- Best Bank for CSR in Hong Kong

The Asset

- ESG Corporate Awards 2022 – Platinum Award

The Asian Banker

- Most Sustainable Trade Finance Initiative

Corporate Governance Asia

12th Asian Excellence Award:

- Asia's Best CSR
- Best Environmental Responsibility

Bloomberg Businessweek Chinese Edition

ESG Leading Enterprise Awards 2022:

- ESG Leading Enterprise Award
- Leading Social Initiative Award

HKQAA

Hong Kong Green and Sustainable Finance Awards 2022:

- Outstanding Award for Green and Sustainable Bond Lead Manager (Financial Investment Industry) – Largest Amount of Green Bonds
- Outstanding Award for Green and Sustainable Loan Facilitator (Greater Bay Area Enterprises) – Largest Amount of Sustainability-linked Loans
- Pioneering Organisation in Climate Disclosure Planning

HKEX

- Hong Kong International Carbon Market Council Inaugural Member
- Hong Kong International Carbon Market Inaugural Participant

Hong Kong ESG Reporting Awards Limited

The 2022 Hong Kong ESG Reporting Awards:

- Excellence in ESG Governance – Grand Award
- Excellence in Social Positive Impact – Grand Award
- Best ESG Report (Large-cap) – Commendation

Innovative Technology

Euromoney

- Market Leader for Digital Solutions in Hong Kong

Asian Banking & Finance

Asian Banking & Finance Retail Banking Awards 2022:

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

International Data Corporation

Future Enterprise Awards 2022:

- Best in Future of Customer Experience – Hong Kong and Asia Pacific

Bloomberg Businessweek Chinese Edition

Financial Institution Awards 2022:

- Banking Securities Sector Digital Innovation – Excellence

Hong Kong Computer Society

Hong Kong ICT Award 2022:

- Smart Business (Solution for SME) – Gold Award

Cross-border Interbank Payment System

- Extraordinary Participant in RMB Cross-border Payment Clearing Business
- Innovative Participant in Finance Market's RMB Cross-border Payment Clearing

Service Excellence

The Asian Banker

- Best Wealth Management Bank in Hong Kong
- Best Cash Management Bank in Hong Kong
- Most Selected Main Retail Bank in Hong Kong and 10th in Asia Pacific

Asiamoney

- Best Chinese Bank for Wealth Management Connect in GBA

Asian Banking & Finance

- Hong Kong Domestic Trade Finance Bank of the Year
- Hong Kong Domestic Cash Management Bank of the Year
- Hong Kong Domestic ESG Liquidity Management Initiative of the Year

Asia Asset Management

2022 Best of the Best Awards, Hong Kong:

- Best China Fund House
- Best RMB Fund Manager

CorporateTreasurer

- Best Treasury & Finance Strategies in Asia Pacific

Treasury China

China Treasury Award 2022:

- Best Cross-border RMB Services Award
- Best Overseas Treasury Management Bank Award
- Best Industry Solutions Award

Bloomberg Businessweek Chinese Edition

Financial Institution Awards 2022:

- Banking Securities Sector Cross Border Wealth Management (Personal) – Excellence
- Insurance Sector Bancassurer of the Year – Excellence
- Banking Securities Sector Wealth Management Platform – Outstanding
- Banking Securities Sector Brokerage Service – Outstanding

The Hong Kong General Chamber of Small and Medium Business

- Best SME's Partner Award for 15 consecutive years

China Foreign Exchange Trade System

- Most Influential Market Participant

China Central Depository & Clearing Co., Ltd

- CIBM Offshore Institutional Investor Excellence Award

Bond Connect Company Limited

- Northbound Top Custodian Award

MPF Ratings

- Gold Rated Scheme – My Choice MPF Scheme for 10 consecutive years

Talent Development Management

Bloomberg Businessweek Chinese Edition

Financial Institution Awards 2022:

- Banking Sector Training Programme – Excellence

CTgoodjobs

- Best Innovative L&D Initiative Award – Grand
- Best Innovative HR Initiative Award – Grand
- Best Talent Management Strategy Award – Gold

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

Contents	Telephone
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

https://www.youtube.com/@bankofchinahk

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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 125 to 295, comprise:

- the consolidated balance sheet as at 31 December 2022;
- 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 2022, 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 2022, the carrying amount of advances to customers in the Group's consolidated balance sheet was HK$1,649,510 million. Of these balances, the advances to customers measured at amortised cost of HK$1,639,794 million and advances to customers measured at fair value through other comprehensive income of HK$8,884 million, were subject to ECL measurement and an impairment allowance of HK$11,575 million was recognised by management as at 31 December 2022. The impairment losses on advances to customers recognised in the Group's consolidated income statement for the year ended 31 December 2022 amounted to HK$2,547 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 model approach to calculate the ECL. For advances to customers that are classified as stage 1 or stage 2, the Group assessed the ECL using the risk parameter modelling approach that incorporated relevant key risk parameters, including probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD"). For advances to customers classified as stage 3, the Group assessed ECL for each loan by estimating the future cash flows from the advances to customers.	We understood and evaluated management's internal controls and assessment process for the measurement of ECL for advances to customers. 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 assessed the design and tested the operating effectiveness of the key internal controls over the measurement of ECL for advances to customers. These included periodic assessment and approval controls, which primarily include: (1) internal controls over the ECL model management, including continuous monitoring of the selection of modelling methodologies, model optimisation, approval and application of changes in key parameters, and model back-testing; (2) internal controls over significant management judgements and assumptions, including portfolio segmentation, parameter estimation, determination and application of criteria to identify significant increases in credit risk, default and credit-impaired assets, as well as economic indicators, economic scenarios and weightings used in forward-looking measurement; (3) internal controls over the estimated future cash flows and calculation of present values with respect to advances to customers classified as stage 3; (4) internal controls over the accuracy and completeness of key data used by the models; (5) internal controls over the information technology ("IT") systems for ECL measurement, including information technology general controls, data interfaces, application of model parameters and automated IT controls over impairment calculations.

Key Audit Matter	How our audit addressed the Key Audit Matter
The measurement of ECL for advances to customers involves significant management judgements and estimations, mainly on: (1) Segmentation of portfolios based on credit risk characteristics, selection of appropriate models and assumptions; (2) Determination and application of criteria to identify significant increase in credit risks, default or credit-impaired assets; (3) Economic indicators, economic scenarios and weighting used in the forward-looking measurement; (4) Estimation of future cash flows for stage 3 advances to customers that are impaired. 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 with consideration given to the risk characteristics of advances to customers, the Group's risk management practices and industry practices. We selected samples of ECL calculations and examined whether the models' calculation engines are consistent with the Group's methodologies; (2) We examined the accuracy and completeness of historical and measurement date data used in the ECL models on a sample basis, including: (i) in respect of PD: financial and non-financial information for determining borrowers' credit rating, overdue repayment status, etc.; (ii) in respect of LGD: types of guarantees and collateral, historical actual loss rates, etc.; (iii) in respect of EAD: borrowers' outstanding loan balances, interest rates, maturity dates, repayment methods, etc. by agreeing them to loan contracts and other relevant documents. We also agreed the total credit risk exposure in the ECL models to data from other information systems; (3) In respect of PD and LGD, we assessed the reasonableness of the parameters by comparing the historical expected default and loss given default with the subsequent actual default and loss given default for significant exposures through independent back-testing;

Key Audit Matter	How our audit addressed the Key Audit Matter
	(4) We selected samples and assessed the appropriateness of management's staging classifications and judgements used in determining significant increases in credit risk and identification of default or credit-impaired assets based on the borrower's financial and non-financial information and other external evidence provided by management. We took into consideration the credit risk profile of borrowers and the Group's risk management practices in our assessment; (5) For forward-looking measurements, we evaluated management's selection methodology for economic indicators, economic scenarios and weightings assigned based on statistical analysis and expert judgements. We assessed the reasonableness of the forecasted economic indicators by performing back-testing and comparing with publicly available forecasts from third-party institutions. We performed sensitivity analysis on the economic indicators and weightings under different economic scenarios; (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 examined on a sample basis, forecasted cash flows prepared by management based on the financial information of borrowers and guarantors, latest collateral valuations and other available information and factors together with discount rates used to support the computation of impairment allowances. We checked and evaluated the appropriateness of the financial statement disclosures in relation to the measurement of ECL in the context of applicable accounting framework. 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 2022, the Group's financial assets measured at fair value were HK$818,877 million, representing 22% of total assets, of which (1) 21% were classified as Level 1 fair value, measured using quoted prices (unadjusted) in active markets; (2) 78% 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$109,719 million as at 31 December 2022, representing 3% 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 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. (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 compared the valuation of Level 2 financial instruments to quotation available from independent sources; as well as tested observable inputs used in valuation models;

Key Audit Matter	How our audit addressed the Key Audit Matter
	(iii) for unobservable inputs used for valuation of Level 3 financial instruments, we obtained an understanding of management's methodology for the selection of inputs such as liquidity discounts, discount rates, expected dividend, net asset value of unlisted funds etc. and assessed the reasonableness and appropriateness of such inputs by examining supporting information and comparing to alternatives in the market with involvement of our internal valuation experts. We also performed sensitivity analysis on the unobservable inputs; (iv) we involved internal valuation experts to perform independent valuation testing. We checked and evaluated the appropriateness of the financial statements disclosures in relation to fair value of financial instruments in the context of applicable accounting framework. 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 2022, the Group has recorded insurance contract liabilities of HK$152,105 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 control 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 the Group's past experience and our industry 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, 30 March 2023

Consolidated Income Statement

For the year ended 31 December	Notes	**2022 HK$'m**	2021 HK$'m
Interest income		**63,834**	40,298
Interest income calculated using the effective interest method		***62,583***	*39,482*
Others		***1,251***	*816*
Interest expense		**(25,020)**	(8,357)
Net interest income	6	**38,814**	31,941
Fee and commission income		**12,705**	14,803
Fee and commission expense		**(3,193)**	(2,931)
Net fee and commission income	7	**9,512**	11,872
Gross earned premiums		**24,112**	26,531
Gross earned premiums ceded to reinsurers		**(7,957)**	(10,827)
Net insurance premium income		**16,155**	15,704
Net trading gain	8	**13,282**	5,091
Net loss on other financial instruments at fair value through profit or loss	9	**(3,243)**	(1,136)
Net (loss)/gain on other financial instruments	10	**(3,887)**	1,120
Other operating income	11	**911**	983
Total operating income		**71,544**	65,575
Gross insurance benefits and claims and movement in liabilities		**(23,004)**	(28,642)
Reinsurers' share of benefits and claims and movement in liabilities		**8,392**	12,049
Net insurance benefits and claims and movement in liabilities	12	**(14,612)**	(16,593)
Net operating income before impairment allowances		**56,932**	48,982
Net charge of impairment allowances	13	**(2,345)**	(2,145)
Net operating income		**54,587**	46,837
Operating expenses	14	**(17,844)**	(16,407)
Operating profit		**36,743**	30,430
Net loss from disposal of/fair value adjustments on investment properties	15	**(1,305)**	(229)
Net loss from disposal/revaluation of properties, plant and equipment	16	**(111)**	(20)
Share of results after tax of associates and joint ventures	27	**(339)**	(213)
Profit before taxation		**34,988**	29,968
Taxation	17	**(5,950)**	(4,969)
Profit for the year		**29,038**	24,999

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December	Notes	2022 HK$'m	2021 HK$'m
Profit attributable to:			
Equity holders of the Company and other equity instrument holders		**28,444**	24,348
Equity holders of the Company		**27,054**	22,970
Other equity instrument holders		**1,390**	1,378
Non-controlling interests		**594**	651
		29,038	24,999
Dividends	18	**14,347**	11,947
		HK$	HK$
Earnings per share			
Basic and diluted	19	**2.5588**	2.1726

The notes on pages 133 to 295 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December	Notes	2022 HK$'m	2021 HK$'m
Profit for the year		**29,038**	24,999
Items that will not be reclassified subsequently to income statement:			
Premises:			
Revaluation of premises	29	**(1,104)**	651
Deferred tax	36	**200**	(109)
		(904)	542
Equity instruments at fair value through other comprehensive income:			
Change in fair value		**(758)**	(714)
Deferred tax		**71**	22
		(687)	(692)
Actuarial loss on retirement benefit plans		**(4)**	–
		(1,595)	(150)
Items that may be reclassified subsequently to income statement:			
Advances and other accounts at fair value through other comprehensive income:			
Change in impairment allowances charged to income statement	13	**77**	–
Debt instruments at fair value through other comprehensive income:			
Change in fair value		**(13,953)**	(991)
Change in impairment allowances (credited)/charged to income statement	13	**(118)**	26
Release upon disposal/redemption reclassified to income statement	10	**3,858**	(1,171)
Amortisation of accumulated amount of fair value hedge adjustment reclassified to income statement		**(36)**	8
Deferred tax		**1,514**	379
		(8,735)	(1,749)
Currency translation difference		**(892)**	(583)
		(9,550)	(2,332)
Other comprehensive income for the year, net of tax		**(11,145)**	(2,482)
Total comprehensive income for the year		**17,893**	22,517
Total comprehensive income attributable to:			
Equity holders of the Company and other equity instrument holders		**18,383**	22,206
Equity holders of the Company		**16,993**	20,828
Other equity instrument holders		**1,390**	1,378
Non-controlling interests		**(490)**	311
		17,893	22,517

The notes on pages 133 to 295 are an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December	Notes	2022 HK$'m	2021 HK$'m
ASSETS			
Cash and balances and placements with banks and other financial institutions	22	**535,194**	465,535
Financial assets at fair value through profit or loss	23	**85,154**	73,537
Derivative financial instruments	24	**61,832**	33,186
Hong Kong SAR Government certificates of indebtedness		**208,770**	203,810
Advances and other accounts	25	**1,645,354**	1,597,194
Investment in securities	26	**994,828**	1,094,233
Interests in associates and joint ventures	27	**843**	1,215
Investment properties	28	**16,069**	17,722
Properties, plant and equipment	29	**44,261**	46,441
Current tax assets		**115**	93
Deferred tax assets	36	**564**	192
Other assets	30	**92,073**	106,272
Total assets		**3,685,057**	3,639,430
LIABILITIES			
Hong Kong SAR currency notes in circulation	31	**208,770**	203,810
Deposits and balances from banks and other financial institutions		**316,626**	486,062
Financial liabilities at fair value through profit or loss	32	**59,453**	12,520
Derivative financial instruments	24	**50,266**	29,757
Deposits from customers	33	**2,377,207**	2,331,155
Debt securities and certificates of deposit in issue	34	**3,636**	2,423
Other accounts and provisions	35	**99,370**	83,041
Current tax liabilities		**5,039**	3,491
Deferred tax liabilities	36	**4,346**	5,799
Insurance contract liabilities	37	**152,105**	153,911
Subordinated liabilities	38	**76,393**	–
Total liabilities		**3,353,211**	3,311,969

As at 31 December	Notes	**2022 HK$'m**	2021 HK$'m
EQUITY			
Share capital	39	**52,864**	52,864
Reserves		**250,181**	245,135
Capital and reserves attributable to equity holders of the Company		**303,045**	297,999
Other equity instruments	40	**23,476**	23,476
Non-controlling interests		**5,325**	5,986
Total equity		**331,846**	327,461
Total liabilities and equity		**3,685,057**	3,639,430

The notes on pages 133 to 295 are an integral part of these financial statements.

Approved by the Board of Directors on 30 March 2023 and signed on behalf of the Board by:

LIU Jin
Director

SUN Yu
Director

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company									
		Reserves								
	Share capital HK$'m	Premises revaluation reserve HK$'m	Reserve for financial assets at FVOCI HK$'m	Regulatory reserve* HK$'m	Translation reserve HK$'m	Retained earnings HK$'m	Total HK$'m	Other equity instruments HK$'m	Non-controlling interests HK$'m	Total equity HK$'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)
Actuarial loss on retirement benefit plans	–	–	–	–	–	–	–	–	–	–
Advances and other accounts at fair value through other comprehensive income	–	–	–	–	–	–	–	–	–	–
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
Release upon disposal of premises	–	–	–	–	–	–	–	–	–	–
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

	Attributable to equity holders of the Company									
		Reserves								
	Share capital	Premises revaluation reserve	Reserve for financial assets at FVOCI	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
At 1 January 2022	52,864	38,590	(413)	6,073	(1,000)	201,885	297,999	23,476	5,986	327,461
Profit for the year	–	–	–	–	–	28,444	28,444	–	594	29,038
Upon declaration of dividend to other equity instrument holders	–	–	–	–	–	(1,390)	(1,390)	1,390	–	–
	–	–	–	–	–	27,054	27,054	1,390	594	29,038
Other comprehensive income:										
Premises	–	(904)	–	–	–	–	(904)	–	–	(904)
Equity instruments at fair value through other comprehensive income	–	–	(569)	–	–	–	(569)	–	(118)	(687)
Actuarial loss on retirement benefit plans	–	–	–	–	–	(4)	(4)	–	–	(4)
Advances and other accounts at fair value through other comprehensive income	–	–	77	–	–	–	77	–	–	77
Debt instruments at fair value through other comprehensive income	–	–	(7,769)	–	–	–	(7,769)	–	(966)	(8,735)
Currency translation difference	–	–	(209)	–	(683)	–	(892)	–	–	(892)
Total comprehensive income	–	(904)	(8,470)	–	(683)	27,050	16,993	1,390	(490)	17,893
Release upon disposal of equity instruments at fair value through other comprehensive income:										
Transfer	–	–	162	–	–	(162)	–	–	–	–
Deferred tax	–	–	(27)	–	–	–	(27)	–	(18)	(45)
Current tax	–	–	–	–	–	27	27	–	18	45
Release upon disposal of premises	–	(3)	–	–	–	3	–	–	–	–
Transfer from retained earnings	–	–	–	582	–	(582)	–	–	–	–
Dividends	–	–	–	–	–	(11,947)	(11,947)	(1,390)	(171)	(13,508)
At 31 December 2022	52,864	37,683	(8,748)	6,655	(1,683)	216,274	303,045	23,476	5,325	331,846

* 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 133 to 295 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December	Notes	2022 HK$'m	2021 HK$'m
Cash flows from operating activities			
Operating cash (outflow)/inflow before taxation	41(a)	**(21,348)**	93,382
Hong Kong profits tax paid		**(3,743)**	(5,082)
Outside Hong Kong profits tax paid		**(729)**	(300)
Net cash (outflow)/inflow from operating activities		**(25,820)**	88,000
Cash flows from investing activities			
Additions of properties, plant and equipment		**(388)**	(384)
Proceeds from disposal of properties, plant and equipment		**8**	12
Additions of investment properties	28	**(13)**	(233)
Additions of intangible assets	30	**(866)**	(781)
Proceeds from disposal of associates and joint ventures		**9**	–
Dividend received from associates and joint ventures	27	**27**	57
Net cash outflow from investing activities		**(1,223)**	(1,329)
Cash flows from financing activities			
Dividend paid to equity holders of the Company		**(11,947)**	(13,131)
Dividend paid to other equity instrument holders		**(1,390)**	(1,378)
Dividend paid to non-controlling interests		**(171)**	(202)
Proceeds from subordinated liabilities	41(b)	**74,516**	–
Payment of lease liabilities	41(b)	**(699)**	(716)
Net cash inflow/(outflow) from financing activities		**60,309**	(15,427)
Increase in cash and cash equivalents		**33,266**	71,244
Cash and cash equivalents at 1 January		**531,915**	456,058
Effect of exchange rate changes on cash and cash equivalents		**(24,256)**	4,613
Cash and cash equivalents at 31 December	41(c)	**540,925**	531,915

The notes on pages 133 to 295 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 2022

Amendments	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
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022	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

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

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

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 2022 (continued)

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

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

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standard, amendments and interpretation issued that are not yet mandatorily effective and have not been early adopted by the Group in 2022

Standard/ Amendments/ Interpretation	Content	Applicable for financial years beginning on/after	Currently relevant to the Group
HKAS 1 (Amendments)	Classification of Current or Non-current Liabilities	1 January 2024	No
HKAS 1 (Amendments)	Non-current Liabilities with Covenants	1 January 2024	No
HKAS 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 28 (2011) and HKFRS 10 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined	Yes
HKFRS 16 (Amendments)	Lease Liability in a Sale and Leaseback	1 January 2024	No
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) Standard, amendments and interpretation issued that are not yet mandatorily effective and have not been early adopted by the Group in 2022 (continued)

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

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

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

- HKAS 8 (Amendments), "Definition of Accounting Estimates". The amendments clarify how entities should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period. The application of the amendments 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 entities to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. The application of the amendments 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.

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standard, amendments and interpretation issued that are not yet mandatorily effective and have not been early adopted by the Group in 2022 (continued)

- HKFRS 17, "Insurance Contracts". HKFRS 17 was issued in December 2017, aims at replacing the current insurance contracts accounting standard HKFRS 4. The new standard is effective from 1 January 2023 onward and is applied retrospectively with comparative information restated for the financial year of 2022.

  The Group is at a later stage in the implementation of HKFRS 17, accounting policies are formulated, model and systems are developed to accommodate for the transition. The Group adopts the fair value approach on transition to HKFRS 17 for contracts measured other than the premium allocation approach.

  Key changes from HKFRS 4 and expected financial impact of HKFRS 17 are summarised as below:

  (i) Changes in revenue and expenses recognition

  In accordance with HKFRS 17, the Group recognises insurance revenue as it satisfies its performance obligations (i.e. as it provides insurance services) during the coverage period, rather than when the Group receives premiums under HKFRS 4. The losses of onerous insurance contracts will be recognised in the income statement upon initial recognition or when insurance contracts become onerous subsequently. In addition, investment components will not be included in insurance revenue or insurance service expenses.

  Under HKFRS 4, maintenance costs for servicing insurance contracts and directly attributable costs to acquire insurance contracts are presented within operating expenses. Under HKFRS 17, maintenance costs for servicing insurance contracts will be presented as part of insurance service expenses while directly attributable costs to acquire insurance contracts will be reclassified as part of the fulfilment cash flows (composed of premium, claims, benefits and expenses) and will be amortised to the insurance service result over its coverage period.

  (ii) Changes in measurement of insurance contracts

  Unlike HKFRS 4, which is an interim Standard without prescribing the recognition and measurement of insurance contracts, HKFRS 17 requires the Group to divide insurance contracts that are subject to similar risk and managed together into portfolios, and disaggregate portfolios into cohorts with no more than 12 months, and then further divide them into groups based on the profitability of each contract. The Group measures these groups of insurance contracts with the general measurement model (applicable to majority of life insurance contracts), the variable fee approach (applicable to insurance contracts with direct participation features) and the premium allocation approach (applicable to short term insurance contracts).

  Under the general measurement model and the variable fee approach, the Group measures groups of insurance contracts based on the Group's estimates of the present value of future cash flows that are expected to arise as the Group fulfils the contracts, risk adjustments for non-financial risk and contractual service margin ("CSM") on initial recognition.

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standard, amendments and interpretation issued that are not yet mandatorily effective and have not been early adopted by the Group in 2022 (continued)

(ii) Changes in measurement of insurance contracts (continued)

The CSM, which represents the unearned profits that the Group will recognise as it provides insurance contract services in the future, is a component of insurance contract liabilities and will be amortised and recognised as insurance revenue over the remaining coverage period as the services are provided.

HKFRS 17 requires the discount rates used in the measurement of insurance contract liabilities shall be consistent with observable current market prices. In addition, the Group has the option to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income.

(iii) Reclassification of debt instruments

On the initial application of HKFRS 17, the Group is allowed to reassess the classification of financial assets in accordance with HKFRS 9 to reduce the accounting mismatches between financial assets and insurance contract liabilities. For participating and investment-linked insurance contracts measured by the variable fee approach under HKFRS 17, the Group reclassifies the supporting debt instruments measured at amortised cost and fair value through other comprehensive income to fair value through profit or loss. For those assets supporting insurance contracts measured by the general measurement model, there are also reclassifications of certain debt instruments measured at amortised cost to fair value through other comprehensive income under HKFRS 17.

(iv) Expected financial impact on the adoption of HKFRS 17

The Group expects that insurance revenue and insurance service expenses will be reduced under HKFRS 17 as compared with HKFRS 4 in the year of adoption. In addition, a reduction in the total equity on the Group's consolidated balance sheet is expected on the transition date (i.e. 1 January 2022) mainly due to the difference between fair value measurement of insurance contracts and the measurement of insurance contracts under HKFRS 4.

(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 do 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 Note 4.3 Liquidity risk and Note 50 Interests in unconsolidated structured entities.

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 2022.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. 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 statement is amortised by the effective interest method back to the equity. If the hedged item is derecognised, the unamortised cumulative effective hedged portion of fair value change recognised in the income statement is reclassified to equity immediately.

(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 remeasured at fair value.

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

(2) Financial assets at amortised cost

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

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

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

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

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

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

2. 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, other accounts and provisions and subordinated liabilities. All financial liabilities are classified at inception and recognised initially at fair value, and in the case of financial liability not at fair value through profit or loss, plus or minus transaction costs.

(1) Trading liabilities

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

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

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

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

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

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

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

2. 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 income statement.

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

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

2.12 Fair value measurement

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

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

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

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

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

2. Significant accounting policies (continued)

2.13 Precious metals

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

2.14 Impairment of financial assets

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

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

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

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

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

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

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

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 have been significant increases in credit risk since initial recognition. Lifetime expected credit losses will be recognised for credit-impaired financial instruments as Stage 3 if the future cash flows of that financial instruments are adversely affected by one or more events and interest income will then be accrued net of the impairment amount of the respective Stage 3 financial assets.

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

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

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

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

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

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

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

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 the income statement. The Group recognises an impairment gain or loss for all relevant financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI, for which the loss allowance is recorded in the fair value reserve.

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

When a financial asset is uncollectible, it is written off against the gross 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. 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 assets — Shorter of useful lives and lease terms

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

2. 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 the income statement 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 the 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 the income statement.

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 the income statement if the carrying amount of the right-of-use asset has been reduced to zero.

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

(2) 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 tax asset is realised or the deferred tax liability is settled.

The principal temporary differences arise from asset impairment provisions, depreciation of premises and equipment, and revaluation of certain assets including securities at FVOCI and premises. However, the deferred income tax is not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax liabilities are provided in full on all taxable temporary differences. Deferred tax assets are recognised on deductible temporary differences, the carry forward of any unused tax credits and unused tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised.

Deferred income tax is charged or credited in the income statement except for deferred income tax relating to fair value remeasurement of securities at FVOCI and revaluation of premises which are charged or credited to other comprehensive income, in which case the deferred income tax is also credited or charged to other comprehensive income and is subsequently recognised in the income statement together with the realisation of the deferred gain and loss.

Deferred tax liability or deferred tax asset arising from an investment property is determined based on the presumption that the revaluation amount of such investment property will be recovered through sale with the relevant tax rate applied.

2.25 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 income statement 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 four independent scenarios i.e. good, baseline, bad and alternative) 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 2022 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% (2021: 10%) from the Management's estimate, the long-term business fund liability would increase by approximately HK$198 million (2021: approximately HK$267 million), which accounts for 0.20% (2021: 0.27%) 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 (2021: 50 basis points) from the Management's estimates, the long-term business fund liability would increase by approximately HK$499 million (2021: approximately HK$866 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 2022, no provision for maintenance expenses was provided (2021: 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 25 basis points (2021: 19 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 2022 are shown in Note 29.

3.6 Insurance and investment contract classification

The Group issues insurance contracts that transfer insurance risk and financial risk. Insurance contracts are those contracts that transfer significant insurance risk. The Group exercises significant judgement to determine whether there is a scenario (excluding scenarios that are lack of commercial substance) in which an insured event could cause the Group to pay significant additional benefits. In the event the Group has to pay significant additional benefits, the contract is accounted for as an insurance contract.

4. Financial risk management

The Group is exposed to financial risks as a result of engaging in a variety of business activities. The principal financial risks are credit risk, market risk (including currency risk and interest rate risk) and liquidity risk. This note summarises the Group's exposures to these risks, as well as its objectives, risk management governance structure, policies and processes for managing and the methods used to measure these risks.

Financial risk management framework

The Group's risk management governance structure is designed to cover all business processes and to ensure various risks are properly managed and controlled in the course of conducting business. The Group has a robust risk management organisational structure with a comprehensive set of policies and procedures to identify, measure, monitor and control various risks that may arise. These risk management policies and procedures are regularly reviewed and updated to reflect changes in markets and business strategies. Various groups of risk takers assume their respective responsibilities for risk management.

The Board of Directors, representing the interests of shareholders, is the highest decision-making authority of the Group and has the ultimate responsibility for risk management. The Board, with the assistance of its committees, has the primary responsibility for the formulation of risk management strategies, risk appetite and risk culture and ensuring that the Group has an effective risk management system to implement these strategies.

The RMC, a standing committee established by the Board of Directors, is responsible for overseeing the Group's comprehensive risk and various types of risks, approving Level I risk management policies and monitoring their implementation, and approving significant or high risk exposures or transactions. The Audit Committee assists the Board in fulfilling its role in overseeing the internal control system.

The senior management is responsible for the implementation of comprehensive risk management and various types of risk management. The Chief Executive ("CE") is responsible for managing the Group's comprehensive and various types of risks, and approving material risk exposures or transactions within his authority delegated by the Board of Directors. The Deputy Chief Executives ("DCEs") assist the CE in fulfilling his responsibilities on the day-to-day management of various types of risk, and are responsible for approving material risk exposures or transactions within their authorities delegated by the CE. The Chief Risk Officer ("CRO") assists the CE in fulfilling his responsibilities on day-to-day management of various types of risks and internal control; responsible for initiating new risk management strategies, projects and measures in response to regulatory changes that will enable the Group to better monitor and manage any risks that may arise from time to time from new businesses, products and changes in the operating environment and responsible for reviewing material risk exposures or transactions within the delegated authority. In accordance with the principle of setting the hierarchy of risk management policies approved by the Board, senior management is responsible for approving the detailed risk management policies of their areas.

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

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

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

Expected Credit Loss ("ECL") Methodology

For impairment assessment, an impairment model is introduced in compliance with HKFRS 9, it requires the recognition of ECL for financial instrument held at amortised cost and fair value through other comprehensive income. Under HKFRS 9, ECL is assessed in three stages and the financial assets, loan commitments and financial guarantees are classified in one of the three stages.

Stage 1: if the financial instruments are not credit-impaired during origination and their credit risk has not increased significantly since origination, and the impairment allowance is measured at an amount up to 12-month ECL;

Stage 2: if the financial instruments are not credit-impaired during origination but their credit risk has increased significantly since origination, and the impairment allowance is measured at an amount equal to the lifetime ECL;

Stage 3: if the financial instruments are credit-impaired and their future cash flows of that financial instruments are adversely affected by one or more events, and the impairment allowance is also measured at an amount equal to the lifetime ECL.

4. Financial risk management (continued)

4.1 Credit risk (continued)

Expected Credit Loss ("ECL") Methodology (continued)

The Group has established the significant credit deterioration criteria framework to determine the stage of the financial instrument. The framework incorporates both quantitative and qualitative assessment, taking into account of factors such as number of days past due, change in IRB rating, low credit risk threshold and the watchlist.

The customer credit ratings in the internal model are classified into 27 grades. The lowest (27th) credit grading equates to defaulted customers while the others are assigned to non-defaulted customers. The quantitative and qualitative criteria considered in determining significant credit deterioration include:

Quantitative criteria

– Failure to make payments of principal or interest 30 days after the contractual due dates;

– At the reporting date, the credit risk is deemed to increase significantly when the remaining lifetime PD rises by more than a certain range from initial recognition, 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.

4. Financial risk management (continued)

4.1 Credit risk (continued)

Expected Credit Loss ("ECL") Methodology (continued)

ECL is measured at an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The Group has completed the review of ECL methodology in the fourth quarter of 2022, including adjusting the methodology and parameters of the model as well as adding the fourth economic scenario ("Alternative" scenario). The ECL measurement has adopted four economic scenarios to meet the requirements of HKFRS 9, risk differentiation ability of the ECL model has been strengthened and allocation of credit impairment allowance has been enhanced by means of lowering the impairment of those relatively low risk Stage 1 customers to an appropriate level and raising the impairment level of relatively high risk Stage 2 customers (including but not limited to relief loans and several Mainland property developers) to reflect their potential risk. The "Baseline" scenario represents a most likely outcome and the other two scenarios, referred to as "Good" scenario and "Bad" scenario, represent the estimated deviations of the "Baseline" scenario, which are more optimistic or more pessimistic as compared with "Baseline" scenario. "Alternative" scenario represents a more pessimistic scenario than "Bad" scenario, to reflect the Management's view on severe downside risks of the special events that may have severe impact on the performance and asset quality of the credit portfolio, which the Management believes the risk cannot be captured in the three scenarios (including "Baseline", "Good" and "Bad" scenarios) derived by forecasts and historical data.

The Baseline and Alternative scenarios are prepared by our Economics & Strategic Planning Department. Historical data, economic trend, external economic forecast from governmental and non-governmental organisation, etc. are also used as benchmarks to ensure the Baseline scenario is reasonable and supportable. For the Good and Bad scenarios, the Group makes reference to the historical macroeconomics data for estimating the deviations. The Alternative scenario reflects the Management's review of the tail of the economic distribution, incorporating a number of risk events, including further escalation of geopolitical tensions coupled with other uncertainties, worsening of global supply chains, rising global inflation rate, the monetary tightening policy of Central Banks and interest rate hikes which eventually pose a significant pressure on economy.

The core macroeconomic 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.

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, Bad and Alternative scenarios to reflect the less likely outcomes. As of December 2022, the probability weight of the Group's Baseline scenario is higher than the sum of probability weight of Good, Bad and Alternative scenarios.

4. Financial risk management (continued)

4.1 Credit risk (continued)

Expected Credit Loss ("ECL") Methodology (continued)

The core macroeconomic factor used by the Group to assess ECL:

Macroeconomic Factor	Good Scenario	Baseline Scenario	Bad Scenario	Alternative Scenario
2023 Hong Kong GDP Growth	6.50%	3.00%	-0.50%	-6.00%

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.

RMC is responsible for approving ECL methodology and the Management is responsible for the ECL model implementation. Credit Risk Management is responsible for the maintenance of ECL methodology including models review and parameters update on a regular basis. Independent Model Validation Team is responsible for the annual validation of ECL models. If there is any change in ECL methodology, the Group will follow the proper approval process.

As at 31 December 2022, the ECL will be increased by 1.67% if 5% of the probability weight is shifted from Baseline scenario to Bad scenario; and will be decreased by 0.83% if 5% of the probability weight is shifted from Baseline scenario to Good scenario.

Collateral held as security and other credit enhancements

The valuation and management of collateral have been documented in the credit risk management policies and procedures which cover acceptance criteria, validity of collateral, loan-to-value ratio, haircut ratio, valuation and insurance, etc. The collateral is revalued on a regular basis, though the frequency and the method used varies with the type of collateral involved and the nature and the risk of the underlying credit. The Group has established a mechanism to update the value of its main type of collateral, property collateral including the use of public indices on a portfolio basis. Collateral is insured with the Group as the primary beneficiary. In the personal sector, the main types of collateral are real estate, cash deposits and securities. In the commercial and industrial sector, the types of collateral include real estate, securities, cash deposits, vessels, aircraft, etc.

For loans guaranteed by a third party, the Group will assess the guarantor's financial condition, credit history and ability to meet obligations.

As at 31 December 2022, 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$23,999 million (2021: HK$20,891 million). The Group had not sold or re-pledged such collateral (2021: Nil). These transactions are conducted under terms that are usual and customary to reverse repurchase and securities borrowing agreements.

4. Financial risk management (continued)

4.1 Credit risk (continued)

(A) Credit exposures

The maximum credit exposure is the worst case scenario of exposure to the Group without taking into account any collateral held or other credit enhancements. For on-balance sheet assets, the maximum exposure to credit risk equals their carrying amount. For letters of guarantee issued, the maximum exposure to credit risk is the maximum amount that the Group could be required to pay if the guarantees are called upon. For loan commitment and other credit related liabilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The nature of the collateral held and other credit enhancements and their financial effect to the different classes of the Group's financial assets are as follows.

Balances and placements with banks and other financial institutions

These exposures are generally considered to be low risk due to the nature of the counterparties. Collateral is generally not sought on these assets.

Financial assets at fair value through profit or loss and investment in securities

Collateral is generally not sought on debt securities.

Derivative financial instruments

The Master Agreement published by the International Swaps and Derivatives Association, Inc. ("ISDA Master Agreement") is the preferred agreement for documenting derivative activities of the Group. It provides the contractual framework under which dealing activities of over-the-counter ("OTC") transactions are conducted, and sets out close-out netting provisions upon termination following the occurrence of an event of default or a termination event. In addition, if deemed necessary, Credit Support Annexes will be included to form part of the Schedule to the ISDA Master Agreement. Under the Credit Support Annexes, collateral is passed from one counterparty to another, as appropriate, to mitigate the credit exposures.

Advances and other accounts, loan commitments and financial guarantee contracts

The general types of collateral are disclosed on page 177. 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 187 to 188. The components and nature of loan commitments and financial guarantee contracts are disclosed in Note 42. Regarding the commitments that are unconditionally cancellable without prior notice, the Group would assess the necessity to withdraw the credit line in case where the credit quality of a borrower deteriorates. For loan commitments and financial guarantee contracts, 12.23% (2021: 12.39%) were covered by collateral as at 31 December 2022.

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:

	2022 HK$'m	2021 HK$'m
Advances to customers		
Personal		
– Mortgages	**405,467**	386,220
– Credit cards	**11,977**	12,096
– Others	**135,083**	110,729
Corporate		
– Commercial loans	**1,045,104**	1,016,428
– Trade finance	**51,879**	73,611
	1,649,510	1,599,084
Trade bills	**6,329**	7,264
Advances to banks and other financial institutions	**1,015**	727
	1,656,854	1,607,075

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:

	2022			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Advances to customers				
Pass	1,596,110	31,210	–	1,627,320
Special mention	3,680	8,954	–	12,634
Substandard or below	–	–	8,724	8,724
	1,599,790	40,164	8,724	1,648,678
Trade bills				
Pass	6,329	–	–	6,329
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	6,329	–	–	6,329
Advances to banks and other financial institutions				
Pass	1,015	–	–	1,015
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	1,015	–	–	1,015
	1,607,134	40,164	8,724	1,656,022

	2022			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Impairment allowances				
Advances and other accounts at amortised cost	(3,997)	(2,511)	(4,992)	(11,500)
Advances and other accounts at fair value through other comprehensive income	(77)	–	–	(77)

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

	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

	2021			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Impairment allowances				
Advances and other accounts at amortised cost	(4,843)	(2,406)	(2,632)	(9,881)
Advances and other accounts at fair value through other comprehensive income	–	–	–	–

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

As at 31 December 2022, impairment allowance of advances and other accounts at fair value through other comprehensive income amounted to HK$77 million (2021: Nil) and was credited to other comprehensive income.

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

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

	2022			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Impairment allowances				
At 1 January 2022	4,843	2,406	2,632	9,881
Transfer to Stage 1	268	(266)	(2)	–
Transfer to Stage 2	(179)	185	(6)	–
Transfer to Stage 3	(1)	(1,092)	1,093	–
Changes arising from transfer of stage	(249)	783	1,271	1,805
Charge for the year[i]	2,579	331	1,330	4,240
Reversal for the year[ii]	(2,113)	(600)	(580)	(3,293)
Changes in models	(1,110)	826	–	(284)
Write-offs	–	–	(677)	(677)
Recoveries	–	–	117	117
Exchange difference and others	(41)	(62)	(186)	(289)
At 31 December 2022	3,997	2,511	4,992	11,500
Charged to income statement (Note 13)				2,468

	2022			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Gross amount				
At 1 January 2022	1,569,297	33,457	4,321	1,607,075
Transfer to Stage 1	4,090	(4,076)	(14)	–
Transfer to Stage 2	(20,310)	20,351	(41)	–
Transfer to Stage 3	(1,155)	(3,799)	4,954	–
Net change in exposures	60,179	(5,524)	242	54,897
Write-offs	–	–	(677)	(677)
Exchange difference and others	(4,967)	(245)	(61)	(5,273)
At 31 December 2022	1,607,134	40,164	8,724	1,656,022

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

	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

(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:

	2022		2021	
	Impaired HK$'m	Classified or impaired HK$'m	Impaired HK$'m	Classified or impaired HK$'m
Gross advances to customers	**8,724**	**8,724**	4,321	4,321
Percentage of gross advances to customers	**0.53%**	**0.53%**	0.27%	0.27%
Impairment allowances made in respect of such advances	**4,992**	**4,992**	2,632	2,632

Classified or impaired advances to customers represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or classified as Stage 3.

The impairment allowances were made after taking into account the value of collateral in respect of the credit-impaired advances.

	2022 HK$'m	2021 HK$'m
Current market value of collateral held against the covered portion of impaired advances to customers	**4,440**	2,260
Covered portion of impaired advances to customers	**2,387**	1,062
Uncovered portion of impaired advances to customers	**6,337**	3,259

As at 31 December 2022, there were no impaired trade bills and advances to banks and other financial institutions (2021: 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:

	2022		2021	
	Amount HK$'m	% of gross advances to customers	Amount HK$'m	% of gross advances to customers
Gross advances to customers which have been overdue for:				
– six months or less but over three months	**2,858**	**0.17%**	245	0.02%
– one year or less but over six months	**601**	**0.04%**	1,291	0.08%
– over one year	**1,860**	**0.11%**	1,488	0.09%
Advances overdue for over three months	**5,319**	**0.32%**	3,024	0.19%
Impairment allowances made in respect of such advances – Stage 3	**3,110**		1,907	

	2022 HK$'m	2021 HK$'m
Current market value of collateral held against the covered portion of such advances to customers	**2,739**	1,196
Covered portion of such advances to customers	**1,643**	814
Uncovered portion of such advances to customers	**3,676**	2,210

Collateral held against overdue or impaired loans is principally represented by charges over business assets such as commercial, residential premises and aircraft for corporate loans and mortgages over residential properties for personal loans.

As at 31 December 2022, there were no trade bills and advances to banks and other financial institutions overdue for more than three months (2021: Nil).

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

(c) Rescheduled advances

	2022		2021	
	Amount HK$'m	% of gross advances to customers	Amount HK$'m	% of gross advances to customers
Rescheduled advances to customers net of amounts included in "Advances overdue for more than three months"	**509**	**0.03%**	216	0.01%

Rescheduled advances are those advances that have been restructured and renegotiated between the bank and borrowers because of deterioration in the financial position of the borrower or the inability of the borrower to meet the original repayment schedule, and the revised repayment terms, either of interest or the repayment period, are "non-commercial" to the Group. Rescheduled advances, which have been overdue for more than three months under the revised repayment terms, are included in "Advances overdue for more than three months".

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.

	2022					
	Gross advances to customers HK$'m	% covered by collateral or other security	Classified or impaired HK$'m	Overdue HK$'m	Impairment allowances – Stage 3 HK$'m	Impairment allowances – Stages 1 and 2 HK$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	171,614	26.29%	948	967	495	818
– Property investment	91,525	58.03%	827	862	–	484
– Financial concerns	25,197	2.04%	–	–	–	26
– Stockbrokers	1,110	68.14%	–	–	–	–
– Wholesale and retail trade	31,704	40.34%	109	207	36	97
– Manufacturing	48,891	6.64%	41	43	23	140
– Transport and transport equipment	62,411	17.74%	164	71	85	268
– Recreational activities	154	96.92%	–	–	–	–
– Information technology	34,274	0.29%	34	35	21	68
– Others	174,326	43.00%	99	1,118	63	560
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	35,879	99.61%	32	452	–	19
– Loans for purchase of other residential properties	367,502	99.82%	176	1,975	1	252
– Credit card advances	11,962	–	91	480	54	181
– Others	117,158	95.41%	133	933	60	223
Total loans for use in Hong Kong	1,173,707	61.02%	2,654	7,143	838	3,136
Trade financing	51,879	18.38%	238	234	164	113
Loans for use outside Hong Kong	423,924	4.85%	5,832	4,699	3,990	3,257
Gross advances to customers	1,649,510	45.24%	8,724	12,076	4,992	6,506

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

	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)

For those industry sectors constituting not less than 10% of the Group's gross advances to customers, the amounts of new impairment allowances charged to the income statement, and classified or impaired loans written off during the year are shown below:

	2022		2021	
	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	**928**	**–**	533	–
– Others	**398**	**5**	236	4
Individuals				
– Loans for purchase of other residential properties	**160**	**–**	57	–

(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

	2022 HK$'m	2021 HK$'m
Hong Kong	**1,400,675**	1,332,801
Chinese Mainland	**86,546**	95,416
Others	**162,289**	170,867
	1,649,510	1,599,084
Impairment allowances made in respect of the gross advances to customers – Stages 1 and 2		
Hong Kong	**3,954**	3,830
Chinese Mainland	**357**	715
Others	**2,195**	2,700
	6,506	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)

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

Overdue advances

	2022 HK$'m	2021 HK$'m
Hong Kong	**9,359**	3,954
Chinese Mainland	**353**	296
Others	**2,364**	2,030
	12,076	6,280
Impairment allowances made in respect of the overdue advances		
– Stage 3		
Hong Kong	**2,457**	741
Chinese Mainland	**42**	101
Others	**1,555**	1,173
	4,054	2,015

Classified or impaired advances

	2022 HK$'m	2021 HK$'m
Hong Kong	**5,198**	2,123
Chinese Mainland	**171**	207
Others	**3,355**	1,991
	8,724	4,321
Impairment allowances made in respect of the classified or impaired advances		
– Stage 3		
Hong Kong	**2,694**	1,111
Chinese Mainland	**48**	107
Others	**2,250**	1,414
	4,992	2,632

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:

	2022 HK$'m	2021 HK$'m
Car park	**10**	–
Commercial properties	**160**	122
Industrial properties	**17**	–
Residential properties	**147**	29
	334	151

The estimated market value of repossessed assets held by the Group as at 31 December 2022 amounted to HK$546 million (2021: HK$274 million). The repossessed assets comprise properties in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the proprietors concerned) for release in full or in part of the obligations of the borrowers.

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:

	2022			
	Stage 1 HK$'m	**Stage 2 HK$'m**	**Stage 3 HK$'m**	**Total HK$'m**
Central banks				
Pass	**198,387**	**–**	**–**	**198,387**
Special mention	**–**	**–**	**–**	**–**
Substandard or below	**–**	**–**	**–**	**–**
	198,387	**–**	**–**	**198,387**
Other banks and other financial institutions				
Pass	**319,097**	**–**	**–**	**319,097**
Special mention	**–**	**–**	**–**	**–**
Substandard or below	**–**	**–**	**34**	**34**
	319,097	**–**	**34**	**319,131**
	517,484	**–**	**34**	**517,518**
Impairment allowances	**(43)**	**–**	**(16)**	**(59)**
	517,441	**–**	**18**	**517,459**

	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)

Reconciliation of impairment allowances for balances and placements with banks and other financial institutions is as follows:

	2022			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
At 1 January 2022	23	–	–	23
Changes arising from transfer of stage	–	–	–	–
Net (reversal)/charge for the year	(2)	–	15	13
Changes in models	22	–	1	23
At 31 December 2022	43	–	16	59
Charged to income statement (Note 13)				36

	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
Changes in models	–	–	–	–
At 31 December 2021	23	–	–	23
Charged to income statement (Note 13)				15

As at 31 December 2022, gross overdue or impaired balances and placements with banks and other financial institutions amounted to HK$34 million (2021: 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.

	2022 HK$'m	2021 HK$'m
Investment in securities at fair value through other comprehensive income		
– Stage 1		
Aaa	**81,593**	132,445
Aa1 to Aa3	**218,837**	233,943
A1 to A3	**309,293**	455,191
Lower than A3	**16,779**	25,242
Unrated	**31,574**	24,791
	658,076	871,612
– Stage 2		
Lower than A3	**174**	208
– Stage 3	**–**	–
	658,250	871,820
Of which: impairment allowances	**(160)**	(288)
Investment in securities at amortised cost		
– Stage 1		
Aaa	**150,675**	61,864
Aa1 to Aa3	**33,926**	25,404
A1 to A3	**109,742**	93,571
Lower than A3	**31,235**	28,761
Unrated	**6,792**	6,921
	332,370	216,521
– Stage 2		
Lower than A3	**402**	390
– Stage 3	**–**	–
	332,772	216,911
Impairment allowances	**(119)**	(99)
	332,653	216,812
Financial assets at fair value through profit or loss		
Aaa	**1,037**	2,830
Aa1 to Aa3	**16,327**	15,439
A1 to A3	**30,221**	10,814
Lower than A3	**2,860**	8,545
Unrated	**1,136**	3,430
	51,581	41,058

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:

	2022			
	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 2022	287	1	–	288
Changes arising from transfer of stage	–	–	–	–
Net reversal for the year	(83)	–	–	(83)
Changes in models	(35)	–	–	(35)
Exchange difference and others	(10)	–	–	(10)
At 31 December 2022	159	1	–	160
Credited to income statement (Note 13)				(118)
Investment in securities at amortised cost				
At 1 January 2022	96	3	–	99
Changes arising from transfer of stage	–	–	–	–
Net charge for the year	31	–	–	31
Changes in models	(12)	–	–	(12)
Exchange difference and others	1	–	–	1
At 31 December 2022	116	3	–	119
Charged to income statement (Note 13)				19

4. Financial risk management (continued)

4.1 Credit risk (continued)

(E) Debt securities and certificates of deposit (continued)

	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
Changes in models	–	–	–	–
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
Changes in models	–	–	–	–
Exchange difference and others	–	–	–	–
At 31 December 2021	96	3	–	99
Charged to income statement (Note 13)				37

As at 31 December 2022, there were no overdue or impaired debt securities and certificates of deposit (2021: 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:

	2022			
	Stage 1 HK$'m	**Stage 2 HK$'m**	**Stage 3 HK$'m**	**Total HK$'m**
Loan commitments and financial guarantee contracts				
Pass	**767,103**	**4,321**	**–**	**771,424**
Special mention	**2,305**	**1,062**	**–**	**3,367**
Substandard or below	**–**	**–**	**256**	**256**
	769,408	**5,383**	**256**	**775,047**

	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

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:

	2022			
	Stage 1 HK$'m	**Stage 2 HK$'m**	**Stage 3 HK$'m**	**Total HK$'m**
At 1 January 2022	**439**	**51**	**153**	**643**
Transfer to Stage 1	**6**	**(6)**	**–**	**–**
Transfer to Stage 2	**(4)**	**4**	**–**	**–**
Transfer to Stage 3	**–**	**(1)**	**1**	**–**
Changes arising from transfer of stage	**(5)**	**5**	**26**	**26**
Net charge/(reversal) for the year	**20**	**(14)**	**(52)**	**(46)**
Changes in models	**(129)**	**(2)**	**–**	**(131)**
Exchange difference and others	**(1)**	**(1)**	**–**	**(2)**
At 31 December 2022	**326**	**36**	**128**	**490**
Credited to income statement (Note 13)				**(151)**

	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

Majority of credit risk exposures of loan commitments and financial guarantee contracts are classified as Stage 1 and categorised as "Pass" in the internal credit grade throughout the year.

4. Financial risk management (continued)

4.1 Credit risk (continued)

(G) Credit risk management in response to pandemic

In 2022, the new wave of local pandemic has put heavy weights on Hong Kong's economy. 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 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 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 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, credit spreads, equity price, commodity price). The Group adopts a moderate market risk appetite to achieve a balance between risk and return. The Group's objective in managing market risk is to secure healthy growth of the treasury business, by the effective management of potential market risk in the Group's business, according to the Group's overall risk appetite and strategy of the treasury business on the basis of a well-established risk management regime and related management measures.

In accordance with the Group's corporate governance principles in respect of risk management, the Board and RMC, senior management and functional departments/units perform their duties and responsibilities to manage the Group's market risk. The RMD is responsible for the Group's market risk management, assisting senior management to perform their day-to-day duties, independently monitoring the market risk profile and compliance of management policies and limits of the Group and BOCHK, and ensuring that the aggregate and individual market risks are within acceptable levels.

The Group's market risk management covers BOCHK and its subsidiaries. The Group establishes market risk management policies to regulate BOCHK's and its subsidiaries' market risk management; meanwhile, the Group sets up the Group's VaR and stress test limits, which are allocated and monitored across the Group according to the business requirements and risk tolerance levels. In line with the requirements set in the Group's policy, the subsidiaries formulate the detailed policies and procedures and are responsible for managing their daily market risk.

The Group sets up market risk indicators and limits to identify, measure, monitor and control market risk. Major risk indicators and limits include but are not limited to VaR, Stop Loss, Open Position, Stress Testing and Sensitivity Analysis (Basis Point Value, Greeks), etc. To meet management's requirements, major risk indicators and limits are classified into three levels, and are approved by the RMC, senior management or the head of the respective business unit respectively. The treasury business units of BOCHK and subsidiaries (as for Group Limit) are required to conduct their business within approved market risk indicators and limits.

(A) VaR

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

4. Financial risk management (continued)

4.2 Market risk (continued)

(A) VaR (continued)

The following table sets out the VaR for all general market risk exposures[1] of the Group.

	Year	At 31 December HK$'m	Minimum for the year HK$'m	Maximum for the year HK$'m	Average for the year HK$'m
VaR for all market risk	**2022**	**46.3**	**21.9**	**61.3**	**37.7**
	2021	55.1	19.0	55.1	30.7
VaR for foreign exchange risk	**2022**	**20.3**	**14.6**	**39.9**	**23.7**
	2021	25.3	13.2	50.8	25.2
VaR for interest rate risk	**2022**	**39.8**	**15.6**	**63.2**	**31.5**
in the trading book	2021	57.9	6.2	57.9	16.5
VaR for equity risk	**2022**	**1.1**	**0.2**	**4.5**	**2.0**
in the trading book	2021	2.2	0.2	3.4	1.2
VaR for commodity risk	**2022**	**4.1**	**0.0**	**12.3**	**4.4**
	2021	0.4	0.0	35.2	7.0

Note:
1. Structural FX positions have been excluded.

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

– the use of historical market data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;

– the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;

– the use of a 99% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and

– VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

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.

	2022							
	Equivalent in million of HK$							
	US Dollars	**Pound Sterling**	**Japanese Yen**	**Euro**	**Renminbi**	**Australian Dollars**	**Other foreign currencies**	**Total foreign currencies**
Spot assets	**1,056,988**	**25,556**	**107,461**	**64,552**	**536,460**	**33,695**	**67,515**	**1,892,227**
Spot liabilities	**(1,002,142)**	**(33,659)**	**(19,120)**	**(32,649)**	**(510,300)**	**(37,840)**	**(61,225)**	**(1,696,935)**
Forward purchases	**917,681**	**29,024**	**47,522**	**84,569**	**419,521**	**27,865**	**59,524**	**1,585,706**
Forward sales	**(963,555)**	**(21,039)**	**(135,669)**	**(115,911)**	**(443,379)**	**(23,811)**	**(66,850)**	**(1,770,214)**
Net options position	**1,208**	**(11)**	**11**	**(42)**	**(563)**	**85**	**(11)**	**677**
Net long/(short) position	**10,180**	**(129)**	**205**	**519**	**1,739**	**(6)**	**(1,047)**	**11,461**

	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

4. Financial risk management (continued)

4.2 Market risk (continued)

(B) Currency risk (continued)

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

	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

(C) Interest rate risk

Interest rate risk means the risks to a bank's earnings and economic value arising from movements in interest rate and term structures of the bank's asset and liability positions. The Group's interest rate risk exposures are mainly from structural positions. The major types of interest rate risk from structural positions are:

- Gap risk: mismatches in the maturity or repricing periods of assets and liabilities that may affect net interest income and economic value;

- Basis risk: different pricing basis for different transactions resulting that the yield on assets and cost of liabilities may change by different amounts within the same repricing period; and

- Option risk: exercise of the options embedded in assets, liabilities or off-balance sheet items that can cause a change in the cash flows of assets and liabilities.

The Group's risk management framework applies also to interest rate risk management. The ALCO exercises its oversight of interest rate risk in accordance with the "BOCHK Group Banking Book Interest Rate Risk Management Policy" approved by the RMC. The RMD is responsible for the Group's interest rate risk management. With the cooperation of the Financial Management Department and Investment Management, etc., RMD assists the ALCO to perform day-to-day interest rate risk management. Its roles include, but are not limited to, the formulation of management policies, selection of methodologies, setting of risk indicators and limits, assessment of target balance sheet, monitoring of the compliance with policies and limits, and submission of interest rate risk management reports to senior management and the RMC, etc.

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

The Group sets out interest rate risk indicators and limits to identify, measure, monitor and control interest rate risk on a daily basis. The key indicators and limits include, but are not limited to, repricing gap limits, basis risk, duration, price value of a basis point ("PVBP"), net interest income sensitivity ratio ("NII"), economic value sensitivity ratio ("EVE"), etc. The key indicators and limits are classified into different levels, which are approved by the CFO, CRO, ALCO and RMC accordingly. Risk-taking business units are required to conduct their business within the boundary of the interest rate risk limits. Before launching a new product or business in the banking book, the relevant business units are required to go through a risk assessment process, which includes the assessment of underlying interest rate risk and consideration of the adequacy of current risk monitoring mechanism. Any material impact on interest rate risk noted during the risk assessment process will be submitted to the RMC for approval.

NII and EVE assess the impact of interest rate movement on the Group's net interest income and capital base. They are the Group's key interest rate risk indicators. The former assesses the impact of interest rate movement on net interest income as a percentage to the projected net interest income for the year. The latter assesses the impact of interest rate movement on economic value (i.e. the net present value of cash flows of assets, liabilities and off-balance sheet items discounted using the market interest rate) as a percentage to the latest Tier 1 capital. Limits are set by the RMC on these two indicators to monitor and control the Group's banking book interest rate risk.

The Group uses scenario analyses and stress tests to assess the banking book interest rate risk that the Group would face under adverse circumstances. Scenario analyses and stress tests are also used to assess the impact on net interest income and economic value arising from the optionality of savings deposits, the prepayment of mortgage loans and the prepayment of debt securities with embedded options, etc.

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

The Group is principally exposed to HK Dollar, US Dollar and Renminbi in terms of interest rate risk. As at 31 December 2022, 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	
	2022 HK$'m	2021 HK$'m	**2022 HK$'m**	2021 HK$'m
100 basis point parallel up of yield curve				
Total	**2,643**	1,350	**(5,206)**	(7,656)
Of which:				
HK Dollar	**4,372**	3,963	**(382)**	(154)
US Dollar	**(668)**	(739)	**(1,816)**	(4,110)
Renminbi	**(972)**	(1,540)	**(2,621)**	(3,041)
100 basis point parallel down of yield curve				
Total	**(2,643)**	(1,350)	**5,206**	7,656
Of which:				
HK Dollar	**(4,372)**	(3,963)	**382**	154
US Dollar	**668**	739	**1,816**	4,110
Renminbi	**972**	1,540	**2,621**	3,041

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 2022. 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 increased as the size of time deposits increased while the size of current and savings deposits decreased, and the reduction of reserves decreased compared with 2021 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 2022. 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 increased as the size of time deposits increased while the size of current and savings deposits decreased, and the increase in reserves decreased compared with 2021 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.

	2022						
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Non-interest bearing HK$'m	Total HK$'m
Assets							
Cash and balances and placements with banks and other financial institutions	425,459	28,550	29,556	2,285	–	49,344	535,194
Financial assets at fair value through profit or loss	18,292	19,648	10,257	15,919	6,102	14,936	85,154
Derivative financial instruments	–	–	–	–	–	61,832	61,832
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	208,770	208,770
Advances and other accounts	1,436,748	133,216	26,411	34,107	7,448	7,424	1,645,354
Investment in securities							
– At FVOCI	112,322	163,183	176,023	163,944	42,778	3,925	662,175
– At amortised cost	2,871	2,466	70,513	169,195	87,608	–	332,653
Interests in associates and joint ventures	–	–	–	–	–	843	843
Investment properties	–	–	–	–	–	16,069	16,069
Properties, plant and equipment	–	–	–	–	–	44,261	44,261
Other assets (including current and deferred tax assets)	7,943	–	–	–	–	84,809	92,752
Total assets	2,003,635	347,063	312,760	385,450	143,936	492,213	3,685,057
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	208,770	208,770
Deposits and balances from banks and other financial institutions	275,903	1,545	5,700	101	–	33,377	316,626
Financial liabilities at fair value through profit or loss	19,496	15,538	21,541	1,451	1,425	2	59,453
Derivative financial instruments	–	–	–	–	–	50,266	50,266
Deposits from customers	1,480,966	381,657	324,513	1,735	–	188,336	2,377,207
Debt securities and certificates of deposit in issue	–	–	1,702	1,934	–	–	3,636
Other accounts and provisions (including current and deferred tax liabilities)	19,419	10	31	851	406	88,038	108,755
Insurance contract liabilities	–	–	–	–	–	152,105	152,105
Subordinated liabilities	–	–	–	76,393	–	–	76,393
Total liabilities	1,795,784	398,750	353,487	82,465	1,831	720,894	3,353,211
Interest sensitivity gap	207,851	(51,687)	(40,727)	302,985	142,105	(228,681)	331,846

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

	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
Subordinated liabilities	–	–	–	–	–	–	–
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)

4.3 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 2022, 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$159,722 million (2021: HK$160,744 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 2022, 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 2022, the liquidity cushion (before haircut) of BOCHK was HK$717,272 million (2021: HK$781,053 million). A contingency plan is being established which details the conditions to trigger the plan based on stress test results and early warning indicators, the action plans and relevant procedures and responsibility of relevant departments.

The Group, being classified as a category 1 authorised institution by the HKMA, is required to calculate the LCR and NSFR on a consolidated basis in accordance with the Banking (Liquidity) Rules. The Group is required to maintain a LCR and NSFR not less than 100%.

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

In certain derivative contracts, the counterparties have the right to request from the Group additional collateral if they have concerns about the Group's creditworthiness.

The Group's liquidity risk management also covers new products or business developments. Before launching a new product or business, the relevant business units are required to go through a risk assessment process, which includes the assessment of underlying liquidity risk and consideration of the adequacy of the current risk management mechanism. Any material impact on liquidity risk noted during the risk assessment process will be reported to the RMC for approval.

The Group has established a set of uniform liquidity risk management policies which serve as standards and guidance to all the Group's members for liquidity risk management. On the basis of the Group's uniform policies, each of the subsidiaries develops its own liquidity management policies according to its own characteristics, and assumes its own liquidity risk management responsibility. Subsidiaries are required to report their respective liquidity positions with relevant liquidity ratios on a regular basis to the RMD of BOCHK, which consolidates this information and evaluates group-wide liquidity risk to ensure relevant requirements are satisfied.

(A) Liquidity coverage ratio and net stable funding ratio

	2022	2021
Average value of liquidity coverage ratio		
– First quarter	**159.16%**	130.80%
– Second quarter	**149.49%**	130.81%
– Third quarter	**149.00%**	131.01%
– Fourth quarter	**178.49%**	142.96%

Average value of liquidity coverage ratio is calculated based on the arithmetic mean of the liquidity coverage ratio as at the end of each working day in the quarter and the calculation methodology and instructions set out in the HKMA return of liquidity position.

	2022	2021
Quarter-end value of net stable funding ratio		
– First quarter	**123.86%**	123.61%
– Second quarter	**126.87%**	117.22%
– Third quarter	**127.98%**	124.63%
– Fourth quarter	**131.56%**	125.48%

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.

	2022							
	On demand HK$'m	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Indefinite HK$'m	Total HK$'m
Assets								
Cash and balances and placements with banks and other financial institutions	406,490	68,294	28,573	29,566	2,253	–	18	535,194
Financial assets at fair value through profit or loss	–	15,099	20,659	9,120	19,057	6,213	15,006	85,154
Derivative financial instruments	14,493	4,788	4,130	8,053	20,138	10,230	–	61,832
Hong Kong SAR Government certificates of indebtedness	208,770	–	–	–	–	–	–	208,770
Advances and other accounts	304,888	71,820	58,491	174,615	637,249	394,365	3,926	1,645,354
Investment in securities								
– At FVOCI	–	103,562	156,343	179,061	169,435	49,193	4,581	662,175
– At amortised cost	–	3,187	2,398	70,830	168,046	86,850	1,342	332,653
Interests in associates and joint ventures	–	–	–	–	–	–	843	843
Investment properties	–	–	–	–	–	–	16,069	16,069
Properties, plant and equipment	–	–	–	–	–	–	44,261	44,261
Other assets (including current and deferred tax assets)	37,801	12,858	1,194	7,388	20,398	10,550	2,563	92,752
Total assets	972,442	279,608	271,788	478,633	1,036,576	557,401	88,609	3,685,057
Liabilities								
Hong Kong SAR currency notes in circulation	208,770	–	–	–	–	–	–	208,770
Deposits and balances from banks and other financial institutions	259,214	49,990	997	5,700	725	–	–	316,626
Financial liabilities at fair value through profit or loss	–	19,496	15,557	21,547	1,441	1,410	2	59,453
Derivative financial instruments	9,833	3,385	5,769	7,362	16,499	7,418	–	50,266
Deposits from customers	1,230,065	439,237	381,657	324,513	1,735	–	–	2,377,207
Debt securities and certificates of deposit in issue	–	22	10	1,679	1,925	–	–	3,636
Other accounts and provisions (including current and deferred tax liabilities)	76,235	14,374	2,236	3,781	6,944	5,185	–	108,755
Insurance contract liabilities	51,233	501	1,035	7,359	26,998	64,979	–	152,105
Subordinated liabilities	–	–	–	332	76,061	–	–	76,393
Total liabilities	1,835,350	527,005	407,261	372,273	132,328	78,992	2	3,353,211
Net liquidity gap	(862,908)	(247,397)	(135,473)	106,360	904,248	478,409	88,607	331,846

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

	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
Subordinated liabilities	–	–	–	–	–	–	–	–
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

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.

	2022					
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Total HK$'m
Financial liabilities						
Hong Kong SAR currency notes in circulation	**208,770**	**–**	**–**	**–**	**–**	**208,770**
Deposits and balances from banks and other financial institutions	**309,212**	**1,003**	**5,748**	**731**	**–**	**316,694**
Financial liabilities at fair value through profit or loss	**19,505**	**15,619**	**22,101**	**1,691**	**1,769**	**60,685**
Deposits from customers	**1,669,823**	**384,203**	**331,898**	**1,824**	**–**	**2,387,748**
Debt securities and certificates of deposit in issue	**23**	**13**	**1,717**	**2,014**	**–**	**3,767**
Subordinated liabilities	**–**	**–**	**2,509**	**80,586**	**–**	**83,095**
Lease liabilities	**47**	**86**	**347**	**736**	**92**	**1,308**
Other financial liabilities	**78,021**	**274**	**1,418**	**47**	**5**	**79,765**
Total financial liabilities	**2,285,401**	**401,198**	**365,738**	**87,629**	**1,866**	**3,141,832**

	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
Subordinated liabilities	–	–	–	–	–	–
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)

(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.

	2022					
	Up to 1 month HK$'m	**1 to 3 months HK$'m**	**3 to 12 months HK$'m**	**1 to 5 years HK$'m**	**Over 5 years HK$'m**	**Total HK$'m**
Derivative financial liabilities settled on a net basis	**(10,333)**	**(1,774)**	**(7,599)**	**(13,350)**	**(2,165)**	**(35,221)**
Derivative financial instruments settled on a gross basis						
Total inflow	**635,746**	**379,653**	**566,376**	**202,148**	**10,973**	**1,794,896**
Total outflow	**(635,217)**	**(376,902)**	**(563,672)**	**(202,119)**	**(10,647)**	**(1,788,557)**

	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)

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 2022 that the Group commits to extend credit to customers and other facilities amounted to HK$732,484 million (2021: HK$715,718 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 2022 amounting to HK$42,563 million (2021: HK$57,228 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 participation 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 mortality and 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 4.20% in 2022 (2021: 0% to 3.16%). The change in actuarial assumptions in 2022 decreased the insurance contract liabilities net off by reinsurance assets by HK$3,855 million (2021: HK$1,517 million).

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 2022 HK$'m	2021 HK$'m
Worsening of mortality and morbidity	10%	**(165)**	(223)
Lowering of interest rate	50 basis points	**(417)**	(723)

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 2022. 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 2022, to comply with the applicable internal loss-absorbing capacity requirements under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules ("LAC Rules") with compliance period starting from 1 January 2023, BOC has granted non-capital loss-absorbing capacity debt instruments totalling RMB47 billion and USD3 billion to BOCHK, which has strengthened the loss-absorbing and recapitalisation capacity of the Group.

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 (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	**2022**		2021	
	Total assets HK$'m	**Total equity HK$'m**	Total assets HK$'m	Total equity HK$'m
BOC Group Trustee Company Limited	**200**	**200**	200	200
BOCI-Prudential Trustee Limited	**626**	**478**	593	491
China Bridge (Malaysia) Sdn. Bhd.	**20**	**(12)**	12	2
Bank of China (Hong Kong) Nominees Limited	**–**	**–**	–	–
Bank of China (Hong Kong) Trustees Limited	**8**	**8**	8	8
BOC Financial Services (Nanning) Company Limited	**152**	**43**	199	40
BOCHK Information Technology (Shenzhen) Co., Ltd.	**372**	**258**	399	275
BOCHK Information Technology Services (Shenzhen) Co., Ltd.	**401**	**342**	441	373
Po Sang Financial Investment Services Company Limited	**366**	**345**	364	345
Po Sang Securities Limited	**570**	**402**	595	415
Sin Hua Trustee Limited	**5**	**5**	5	5
Billion Express Development Inc.	**–**	**–**	–	–
Billion Orient Holdings Ltd.	**–**	**–**	–	–
Elite Bond Investments Ltd.	**–**	**–**	–	–
Express Capital Enterprise Inc.	**–**	**–**	–	–
Express Charm Holdings Corp.	**–**	**–**	–	–
Express Shine Assets Holdings Corp.	**–**	**–**	–	–
Express Talent Investment Ltd.	**–**	**–**	–	–
Gold Medal Capital Inc.	**–**	**–**	–	–
Gold Tap Enterprises Inc.	**–**	**–**	–	–
Maxi Success Holdings Ltd.	**–**	**–**	–	–
Smart Linkage Holdings Inc.	**–**	**–**	–	–
Smart Union Capital Investments Ltd.	**–**	**–**	–	–
Success Trend Development Ltd.	**–**	**–**	–	–
Wise Key Enterprises Corp.	**–**	**–**	–	–

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 2022 (2021: Nil).

There were also no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation where the methods of consolidation differ as at 31 December 2022 (2021: Nil).

The Group operates subsidiaries in different countries/regions where capital is governed by local rules and there may be restrictions on the transfer of funds or regulatory capital between the members of the Group.

(B) Capital ratio

The capital ratios are analysed as follows:

	2022	2021
CET1 capital ratio	**17.55%**	17.30%
Tier 1 capital ratio	**19.34%**	19.11%
Total capital ratio	**21.56%**	21.44%

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:

	2022 HK$'m	2021 HK$'m
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments	**43,043**	43,043
Retained earnings	**206,222**	193,800
Disclosed reserves	**36,914**	45,033
CET1 capital before regulatory deductions	**286,179**	281,876
CET1 capital: regulatory deductions		
Valuation adjustments	**(33)**	(66)
Other intangible assets (net of associated deferred tax liabilities)	**(1,760)**	(1,623)
Deferred tax assets (net of associated deferred tax liabilities)	**(286)**	(185)
Gains and losses due to changes in own credit risk on fair valued liabilities	**(159)**	(31)
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	**(47,488)**	(49,709)
Regulatory reserve for general banking risks	**(6,655)**	(6,073)
Total regulatory deductions to CET1 capital	**(56,381)**	(57,687)
CET1 capital	**229,798**	224,189
AT1 capital: instruments		
Qualifying AT1 capital instruments classified as equity under applicable accounting standards	**23,476**	23,476
AT1 capital	**23,476**	23,476
Tier 1 capital	**253,274**	247,665
Tier 2 capital: instruments and provisions		
Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**7,666**	7,805
Tier 2 capital before regulatory deductions	**7,666**	7,805
Tier 2 capital: regulatory deductions		
Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	**21,370**	22,369
Total regulatory adjustments to Tier 2 capital	**21,370**	22,369
Tier 2 capital	**29,036**	30,174
Total regulatory capital	**282,310**	277,839

4. Financial risk management (continued)

4.5 Capital management (continued)

(B) Capital ratio (continued)

The capital buffer ratios are analysed as follows:

	2022	2021
Capital conservation buffer ratio	**2.500%**	2.500%
Higher loss absorbency ratio	**1.500%**	1.500%
Countercyclical capital buffer ratio	**0.817%**	0.799%

(C) Leverage ratio

The leverage ratio is analysed as follows:

	2022 HK$'m	2021 HK$'m
Tier 1 capital	**253,274**	247,665
Leverage ratio exposure	**3,370,353**	3,357,085
Leverage ratio	**7.51%**	7.38%

5. Fair values of assets and liabilities

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

– Level 1: based on quoted prices (unadjusted) in active markets for identical assets or liabilities. This category includes equity securities listed on exchange, debt instruments issued by certain governments and certain exchange-traded derivative contracts.

– Level 2: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly. This category includes majority of the OTC derivative contracts, debt securities and certificates of deposit with quote from pricing services vendors, issued structured deposits, advances and other accounts and other debt instruments. It also includes certain foreign exchange contracts, precious metals and properties with insignificant adjustments or calibrations made to observable market inputs.

– Level 3: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. This category includes equity investments, funds, advances and other accounts and other debt instruments with significant unobservable inputs. It also includes properties with significant adjustments made to observable market inputs.

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

5.1 Financial instruments measured at fair value

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

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

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

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

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

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

Debt securities and certificates of deposit, advances and other accounts and other debt instruments

The fair value of these instruments is determined by obtaining quoted market prices from exchange, dealer or independent pricing service vendors or using discounted cash flow technique. Discounted cash flow model is a valuation technique that measures present value using estimated expected future cash flows from the instruments and then discounts these flows using a discount rate or discount margin that reflects the credit spreads required by the market for instruments with similar risk. These inputs are observable or can be corroborated by observable or unobservable market data.

Mortgage backed securities

For this class of instruments, external prices are obtained from independent third parties. The valuation of these securities, depending on the nature of transaction, is estimated from market standard cash flow models with input parameter which include spreads to discount rates, default and recovery rates and prepayment rates that may be observable or compiled through matrix pricing for similar issues.

Derivatives

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

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

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(A) Fair value hierarchy

	2022			
	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	82	36,724	–	36,806
– Equity securities	59	–	–	59
– Fund	1	–	–	1
– Other debt instruments	–	3,400	–	3,400
Other financial assets mandatorily classified at fair value through profit or loss (Note 23)				
– Debt securities and certificates of deposit	–	12,458	62	12,520
– Equity securities	3,957	250	–	4,207
– Fund	2,699	1,105	6,865	10,669
Financial assets designated at fair value through profit or loss (Note 23)				
– Debt securities and certificates of deposit	859	1,396	–	2,255
– Other debt instruments	–	15,237	–	15,237
Derivative financial instruments (Note 24)	97	61,735	–	61,832
Advances and other accounts at fair value	–	8,884	832	9,716
Investment in securities at FVOCI (Note 26)				
– Debt securities and certificates of deposit	162,717	495,533	–	658,250
– Equity securities	806	1,259	1,860	3,925
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 32)				
– Trading liabilities	6	59,445	–	59,451
– Financial liabilities designated at fair value through profit or loss	–	2	–	2
Derivative financial instruments (Note 24)	291	49,975	–	50,266

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(A) Fair value hierarchy (continued)

	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
– Fund	–	–	–	–
– 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 fair value	–	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

There were no financial asset and liability transfers between level 1 and level 2 for the Group during the year (2021: Nil).

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items

	2022					
	Financial assets					
	Other financial assets mandatorily classified at FVPL				Investment in securities at FVOCI	
	Debt securities HK$'m	Equity securities HK$'m	Fund HK$'m	Advances and other accounts at fair value HK$'m	Debt securities HK$'m	Equity securities HK$'m
At 1 January 2022	800	193	4,876	–	1,217	2,132
(Losses)/gains						
– Income statement						
– Net (loss)/gain on other financial instruments at fair value through profit or loss	(42)	(147)	914	–	–	–
– Other comprehensive income						
– Change in fair value	–	–	–	–	–	(295)
Additions	104	–	1,076	–	–	23
Disposals, redemptions and maturity	–	–	(1)	–	–	–
Transfer into level 3	–	–	–	832	–	–
Transfer out of level 3	(800)	(46)	–	–	(1,217)	–
At 31 December 2022	62	–	6,865	832	–	1,860
Total unrealised (losses)/gains for the year included in income statement for financial assets held as at 31 December 2022						
– Net (loss)/gain on other financial instruments at fair value through profit or loss	(42)	(147)	914	–	–	–

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

	2021					
	Financial assets					
	Other financial assets mandatorily classified at FVPL				Investment in securities at FVOCI	
	Debt securities HK$'m	Equity securities HK$'m	Fund HK$'m	Advances and other accounts at fair value HK$'m	Debt securities HK$'m	Equity securities HK$'m
At 1 January 2021	846	–	2,724	–	1,632	2,367
(Losses)/gains						
– Income statement						
– Net (loss)/gain on other financial instruments at fair value through profit or loss	(46)	(1)	509	–	–	–
– Other comprehensive income						
– Change in fair value	–	–	–	–	(69)	(246)
Additions	–	194	1,661	–	–	11
Disposals, redemptions and maturity	–	–	(18)	–	(346)	–
Transfer into level 3	–	–	–	–	–	–
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)

As at 31 December 2022 and 2021, financial instruments categorised as level 3 are mainly comprised of debt securities, fund, certain advances and other accounts and unlisted equity shares.

For certain illiquid debt securities, equity securities and fund, the Group obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value, including discounted cash flow analysis, net asset value and market comparison approach, which may be based on unobservable inputs with significant impact on valuation. For certain advances and other accounts, the credit spreads of comparables used in valuation techniques are unobservable inputs with significant impact on valuation. Therefore, these instruments have been classified by the Group as level 3. Transfers into and out of level 3 in 2022 were due to change of valuation input observability. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

The fair values of unlisted FVOCI equity investments are determined with reference to (i) multiples of comparable listed companies, including average of the price/earnings ratios and average of the price/book values ratios of the comparables; or (ii) dividend discount model calculation of the underlying equity investments; or (iii) net asset value with fair value adjustments on certain assets or liabilities held (if applicable), if neither appropriate comparables nor dividend discount model calculation is available or applicable. The significant unobservable inputs and their range applied in the fair values measurement of the Group's unlisted equity investments includes price/earnings ratios of the comparables of 20.35x – 45.22x, price/book values ratios of the comparables of 0.35x – 0.90x, liquidity discount of 20% – 30%, dividend payout ratio of 23.44% – 83.53% and return on shareholders' equity of 11.30% – 13.59%. 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% (2021: 5%), the Group's other comprehensive income would have increased by HK$84 million and decreased by HK$83 million, respectively (2021: increased by HK$96 million and decreased by HK$94 million, respectively).

5. Fair values of assets and liabilities (continued)

5.2 Financial instruments not measured at fair value

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

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

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

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

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

Advances to customers and banks and other financial institutions

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

Investment in securities at amortised cost

The fair value of securities at amortised cost is determined by using the same approach as those debt securities and certificates of deposit and mortgage backed securities measured at fair value as described in Note 5.1.

Deposits from customers

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

Debt securities and certificates of deposit in issue

The fair value of these instruments is determined by using the same approach as those debt securities and certificates of deposit measured at fair value as described in Note 5.1.

Subordinated liabilities

The fair value of subordinated liabilities is determined by using the same approach as those debt securities and certificates of deposit measured at fair value as described in Note 5.1 and their carrying value approximates fair value.

5. Fair values of assets and liabilities (continued)

5.2 Financial instruments not measured at fair value (continued)

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

	2022		2021	
	Carrying value HK$'m	**Fair value HK$'m**	Carrying value HK$'m	Fair value HK$'m
Financial assets				
Investment in securities at amortised cost (Note 26)	**332,653**	**311,149**	216,812	219,917
Financial liabilities				
Debt securities and certificates of deposit in issue (Note 34)	**3,636**	**3,634**	2,423	2,426

The following tables show the fair value hierarchy for financial instruments with fair values disclosed.

	2022			
	Level 1 HK$'m	**Level 2 HK$'m**	**Level 3 HK$'m**	**Total HK$'m**
Financial assets				
Investment in securities at amortised cost	**71,948**	**236,706**	**2,495**	**311,149**
Financial liabilities				
Debt securities and certificates of deposit in issue	**–**	**3,634**	**–**	**3,634**

	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

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% (2021: 2%) per year	The higher the depreciation rate, the lower the fair value.
		Premium on specialised nature of the property	+15% (2021: +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	-10.7% (2021: -3.7%)	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

	2022			
	Level 1 HK$'m	**Level 2 HK$'m**	**Level 3 HK$'m**	**Total HK$'m**
Non-financial assets				
Investment properties (Note 28)	**–**	**323**	**15,746**	**16,069**
Properties, plant and equipment (Note 29)				
– Premises	**–**	**976**	**40,806**	**41,782**
Other assets (Note 30)				
– Precious metals	**–**	**11,507**	**–**	**11,507**

	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

There were no non-financial asset transfers between level 1 and level 2 for the Group during the year (2021: Nil).

5. Fair values of assets and liabilities (continued)

5.3 Non-financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items

	2022	
	Non-financial assets	
		Properties, plant and equipment
	Investment properties HK$'m	Premises HK$'m
At 1 January 2022	17,245	40,482
Losses		
– Income statement		
– Net loss from fair value adjustments on investment properties	(1,289)	–
– Net loss from revaluation of premises	–	(113)
– Other comprehensive income		
– Revaluation of premises	–	(954)
Depreciation	–	(1,148)
Additions	8	50
Transfer into level 3	182	2,089
Transfer out of level 3	–	–
Reclassification	(400)	400
Exchange difference	–	–
At 31 December 2022	15,746	40,806
Total unrealised losses for the year included in income statement for non-financial assets held as at 31 December 2022		
– Net loss from fair value adjustments on investment properties	(1,289)	–
– Net loss from revaluation of premises	–	(113)
	(1,289)	(113)

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)

	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)

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

	2022 HK$'m	2021 HK$'m
Interest income		
Advances to customers, due from banks and other financial institutions	**45,166**	27,419
Investment in securities and financial assets at fair value through profit or loss	**18,278**	12,760
Others	**390**	119
	63,834	40,298
Interest expense		
Deposits from customers, due to banks and other financial institutions	**(23,692)**	(8,238)
Debt securities and certificates of deposit in issue	**(84)**	(42)
Subordinated liabilities	**(332)**	–
Lease liabilities	**(34)**	(34)
Others	**(878)**	(43)
	(25,020)	(8,357)
Net interest income	**38,814**	31,941

Included within interest income are HK$52,790 million (2021: HK$32,018 million) and HK$9,793 million (2021: HK$7,464 million) for financial assets measured at amortised cost and at fair value through other comprehensive income respectively.

Included within interest expense are HK$24,709 million (2021: HK$8,346 million) for financial liabilities that are not measured at fair value through profit or loss.

7. Net fee and commission income

	2022 HK$'m	2021 HK$'m
Fee and commission income		
Loan commissions	**2,547**	2,746
Securities brokerage	**2,491**	3,743
Credit card business	**1,991**	2,141
Insurance	**1,257**	1,529
Payment services	**724**	751
Trust and custody services	**723**	764
Funds distribution	**541**	724
Bills commissions	**514**	623
Safe deposit box	**299**	306
Currency exchange	**210**	119
Funds management	**49**	161
Others	**1,359**	1,196
	12,705	14,803
Fee and commission expense		
Credit card business	**(1,419)**	(1,400)
Insurance	**(634)**	(434)
Securities brokerage	**(333)**	(458)
Others	**(807)**	(639)
	(3,193)	(2,931)
Net fee and commission income	**9,512**	11,872
Of which arise from:		
Financial assets or financial liabilities that are not measured at fair value through profit or loss		
– Fee and commission income	**2,848**	3,073
– Fee and commission expense	**(10)**	(13)
	2,838	3,060
Trust and other fiduciary activities		
– Fee and commission income	**922**	967
– Fee and commission expense	**(39)**	(39)
	883	928

8. Net trading gain

	2022 HK$'m	2021 HK$'m
Net gain/(loss) from:		
Foreign exchange and foreign exchange products	**8,084**	4,725
Interest rate instruments and items under fair value hedge	**4,951**	(60)
Commodities	**173**	175
Equity and credit derivative instruments	**74**	251
	13,282	5,091

9. Net loss on other financial instruments at fair value through profit or loss

	2022 HK$'m	2021 HK$'m
Net loss on other financial instruments mandatorily classified at fair value through profit or loss	**(3,227)**	(1,110)
Net loss on financial instruments designated at fair value through profit or loss	**(16)**	(26)
	(3,243)	(1,136)

10. Net (loss)/gain on other financial instruments

	2022 HK$'m	2021 HK$'m
Net (loss)/gain on disposal/redemption of investment in securities at FVOCI	**(3,858)**	1,171
Net loss on disposal/redemption of investment in securities at amortised cost	**(41)**	(76)
Others	**12**	25
	(3,887)	1,120

Loss on disposal of investment in securities at amortised cost due to credit deterioration amounted to HK$10 million (2021: gain of HK$41 million).

11. Other operating income

	2022 HK$'m	2021 HK$'m
Dividend income		
– From investment in securities at FVOCI derecognised during the year	**114**	61
– From investment in securities at FVOCI held at the end of the year	**172**	303
Gross rental income from investment properties	**524**	564
Less: Outgoings in respect of investment properties	**(49)**	(57)
Gain from disposal of associates and joint ventures	**3**	–
Others	**147**	112
	911	983

Included in the "Outgoings in respect of investment properties" is HK$7 million (2021: HK$7 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

	2022 HK$'m	2021 HK$'m
Gross insurance benefits and claims and movement in liabilities		
Claims, benefits and surrenders paid	**(21,592)**	(15,563)
Movement in liabilities	**(1,412)**	(13,079)
	(23,004)	(28,642)
Reinsurers' share of benefits and claims and movement in liabilities		
Reinsurers' share of claims, benefits and surrenders paid	**8,584**	10,537
Reinsurers' share of movement in liabilities	**(192)**	1,512
	8,392	12,049
Net insurance benefits and claims and movement in liabilities	**(14,612)**	(16,593)

13. Net charge of impairment allowances

	2022 HK$'m	2021 HK$'m
Net (charge)/reversal of impairment allowances on:		
Advances and other accounts		
– At FVOCI	**(77)**	–
– At amortised cost	**(2,468)**	(1,966)
	(2,545)	(1,966)
Balances and placements with banks and other financial institutions	**(36)**	(15)
Investment in securities		
– At FVOCI	**118**	(26)
– At amortised cost	**(19)**	(37)
	99	(63)
Loan commitments and financial guarantee contracts	**151**	(80)
	(2,331)	(2,124)
Others	**(14)**	(21)
Net charge of impairment allowances	**(2,345)**	(2,145)

14. Operating expenses

	2022 HK$'m	2021 HK$'m
Staff costs (including directors' emoluments)		
– Salaries and other costs	**9,412**	9,005
– Pension cost	**534**	537
	9,946	9,542
Premises and equipment expenses (excluding depreciation and amortisation)		
– Short-term leases, leases of low-value assets and variable lease payments	**10**	11
– Others	**1,263**	1,221
	1,273	1,232
Depreciation and amortisation	**3,001**	3,039
Auditor's remuneration		
– Audit services	**25**	25
– Non-audit services	**14**	9
Other operating expenses	**3,585**	2,560
	17,844	16,407

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

	2022 HK$'m	2021 HK$'m
Net loss from fair value adjustments on investment properties (Note 28)	**(1,305)**	(229)

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

	2022 HK$'m	2021 HK$'m
Net loss from disposal of equipment, fixtures and fittings	**(1)**	(3)
Net loss from revaluation of premises (Note 29)	**(110)**	(17)
	(111)	(20)

17. Taxation

Taxation in the income statement represents:

	2022 HK$'m	2021 HK$'m
Current tax		
Hong Kong profits tax		
– Current year taxation	**5,742**	4,829
– Over-provision in prior years	**(315)**	(283)
	5,427	4,546
Taxation outside Hong Kong		
– Current year taxation	**597**	447
– Over-provision in prior years	**(1)**	(1)
	6,023	4,992
Deferred tax		
Origination and reversal of temporary differences and unused tax credits (Note 36)	**(73)**	(23)
	5,950	4,969

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong 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:

	2022 HK$'m	2021 HK$'m
Profit before taxation	**34,988**	29,968
Calculated at a taxation rate of 16.5% (2021: 16.5%)	**5,773**	4,945
Effect of different taxation rates in other countries/regions	**99**	199
Income not subject to taxation	**(210)**	(240)
Expenses not deductible for taxation purposes	**712**	489
Utilisation of previously unrecognised tax losses	**–**	(15)
Over-provision in prior years	**(316)**	(284)
Withholding tax outside Hong Kong	**146**	101
Others	**(254)**	(226)
Taxation charge	**5,950**	4,969
Effective tax rate	**17.0%**	16.6%

18. Dividends

	2022		2021	
	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	**0.910**	**9,621**	0.683	7,221
	1.357	**14,347**	1.130	11,947

At a meeting held on 30 August 2022, the Board declared an interim dividend of HK$0.447 per ordinary share for the first half of 2022 amounting to approximately HK$4,726 million.

At a meeting held on 30 March 2023, the Board proposed to recommend to the Annual General Meeting on 29 June 2023 a final dividend of HK$0.910 per ordinary share for the year ended 31 December 2022 amounting to approximately HK$9,621 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 2023.

19. Earnings per share

The calculation of basic earnings per share for the year ended 31 December 2022 is based on the consolidated profit for the year attributable to equity holders of the Company of approximately HK$27,054 million (2021: HK$22,970 million) and on the ordinary shares in issue of 10,572,780,266 shares (2021: 10,572,780,266 ordinary shares).

There was no dilution of earnings per share as no potential ordinary shares were in issue for the year ended 31 December 2022 (2021: Nil).

20. Retirement benefit costs

Retirement benefits are provided to eligible employees of the Group.

In Hong Kong, defined contribution scheme 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 scheme, employees make monthly contributions to the ORSO scheme equal to 5% of their basic salaries, while the employer makes monthly contributions equal to 5% to 15% of the employees' monthly basic salaries, depending on years of service. The employees are entitled to receive 100% of the employer's contributions upon retirement, early retirement or termination of employment after completing 10 years of service. Employees with 3 to 9 years of service are entitled to receive the employer's contributions at a scale ranging from 30% to 90% upon termination of employment for other reasons other than summary dismissal. All employer's contributions received by employee are subject to MPF Schemes Ordinance.

With the implementation of the MPF Schemes Ordinance on 1 December 2000, the Group also launched the MPF Scheme according to the regulatory requirement. Since 2019, employees with 5 years of service or above are entitled to employer's voluntary contribution. The trustee of the Scheme is BOCI-Prudential Trustee and the investment manager is BOCI-Prudential Asset Management, which are related parties of the Company.

The Group's total contributions made to the ORSO scheme for the year ended 31 December 2022 amounted to approximately HK$357 million (2021: approximately HK$361 million), after a deduction of forfeited contributions of approximately HK$20 million (2021: approximately HK$20 million). For the MPF Scheme, the Group contributed approximately HK$137 million (2021: approximately HK$132 million) for the year ended 31 December 2022.

All eligible employees of institutions in other countries and regions participate in the local defined contribution schemes or defined benefit plans in accordance with local regulations and market practices.

21. Directors', senior management's and key personnel's emoluments

(a) Directors' and senior management's emoluments

(i) Directors' emoluments

Details of the emoluments paid to or receivable by the directors of the Company in respect of their services rendered for the Company and managing the subsidiaries within the Group during the year are as follows:

	2022				
	Directors' fee HK$'000	Basic salaries, allowances and benefits in kind HK$'000	Bonus HK$'000	Other payments# HK$'000	Total HK$'000
Executive Director					
SUN Yu (Chief Executive)	–	5,532	3,320	–	8,852
Non-executive Directors					
LIU Liange	–	–	–	–	–
LIU Jin	–	–	–	–	–
LIN Jingzhen	–	–	–	–	–
CHENG Eva*	600	–	–	–	600
CHOI Koon Shum*	600	–	–	–	600
FUNG Yuen Mei Anita*, Note 1	500	–	–	–	500
KOH Beng Seng*	650	–	–	–	650
LAW Yee Kwan Quinn*	550	–	–	–	550
LEE Sunny Wai Kwong*, Note 1	179	–	–	–	179
TUNG Savio Wai-Hok*	700	–	–	–	700
	3,779	–	–	–	3,779
	3,779	5,532	3,320	–	12,631

Note 1: Appointed 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)

	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 Director					
SUN Yu (Chief Executive)	–	5,390	2,905	–	8,295
Non-executive Directors					
LIU Liange	–	–	–	–	–
LIU Jin	–	–	–	–	–
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	5,390	2,905	–	11,395

* 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 2022 (2021: 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 (2021: one) director whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining four (2021: four) individuals during the year are as follows:

	2022 HK$'m	2021 HK$'m
Basic salaries and allowances	**20**	18
Bonus	**12**	9
Contributions to pension schemes	**1**	1
	33	28

Emoluments paid to or receivable by individuals during the year with reference to their tenure are within the following bands:

	Number of individuals	
	2022	2021
HK$6,000,001 to HK$6,500,000	**–**	1
HK$6,500,001 to HK$7,000,000	**2**	–
HK$7,000,001 to HK$7,500,000	**–**	2
HK$7,500,001 to HK$8,000,000	**–**	1
HK$8,500,001 to HK$9,000,000	**1**	–
HK$10,000,001 to HK$10,500,000	**1**	–

21. Directors', senior management's and key personnel's emoluments (continued)

(a) Directors' and senior management's emoluments (continued)

(iii) Senior management's emoluments

Emoluments paid to or receivable by individuals during the year with reference to their tenure as senior management are within the following bands:

	Number of individuals	
	2022	2021
HK$0 to HK$500,000	**2**	–
HK$500,001 to HK$1,000,000	**–**	1
HK$2,500,001 to HK$3,000,000	**1**	–
HK$3,500,001 to HK$4,000,000	**1**	1
HK$4,500,001 to HK$5,000,000	**3**	1
HK$5,000,001 to HK$5,500,000	**1**	1
HK$5,500,001 to HK$6,000,000	**–**	1
HK$6,000,001 to HK$6,500,000	**2**	2
HK$7,000,001 to HK$7,500,000	**–**	1
HK$8,000,001 to HK$8,500,000	**–**	1
HK$8,500,001 to HK$9,000,000	**1**	–

(b) Remuneration for Senior Management and Key Personnel under CG-5

For the purpose of disclosure, Senior Management and Key Personnel are defined as follows:

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

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

21. Directors', senior management's and key personnel's emoluments (continued)

(b) Remuneration for Senior Management and Key Personnel under CG-5 (continued)

Details of the remuneration for Senior Management and Key Personnel of the Group during the year are as follows:

(i) Remuneration awarded during financial year

	2022		2021	
	Senior Management HK$'m	**Key Personnel HK$'m**	Senior Management HK$'m	Key Personnel HK$'m
Fixed remuneration				
Cash-based	**41**	**113**	42	146
Of which: deferred	**–**	**–**	–	–
Variable remuneration				
Cash-based	**17**	**61**	16	60
Of which: deferred	***7***	***24***	*4*	*13*
Total remuneration	**58**	**174**	58	206
Number of employees				
Fixed remuneration	**13**	**43**	11	60
Variable remuneration	**12**	**41**	10	55

(ii) Special payments

	2022		2021	
	Senior Management HK$'000	**Key Personnel HK$'000**	Senior Management HK$'000	Key Personnel HK$'000
Sign-on awards	**–**	**280**	–	1,415
Number of employees	**–**	**1**	–	2

There were no guaranteed bonuses and severance payments to Senior Management and Key Personnel for the year ended 31 December 2022 (2021: 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

	2022				
	Total amount of outstanding deferred remuneration HK$'m	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment HK$'m	Total amount of amendment during the year due to ex post explicit adjustments HK$'m	Total amount of amendment during the year due to ex post implicit adjustments HK$'m	Total amount of deferred remuneration paid out in the financial year HK$'m
Senior Management					
Cash	**11**	**11**	**–**	**–**	**(5)**
Key Personnel					
Cash	**34**	**34**	**–**	**(1)**	**(12)**
Total	**45**	**45**	**–**	**(1)**	**(17)**

	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)

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

	2022 HK$'m	2021 HK$'m
Cash	**17,735**	17,586
Balances with central banks	**175,993**	142,560
Placements with central banks maturing within one month	**17,834**	12,882
Placements with central banks maturing between one and twelve months	**3,063**	4,332
Placements with central banks maturing over one year	**1,497**	1,156
	198,387	160,930
Balances with other banks and other financial institutions	**212,800**	191,682
Placements with other banks and other financial institutions maturing within one month	**50,489**	59,035
Placements with other banks and other financial institutions maturing between one and twelve months	**55,086**	35,701
Placements with other banks and other financial institutions maturing over one year	**756**	624
	319,131	287,042
	535,253	465,558
Less: Impairment allowances		
– Stage 1	**(43)**	(23)
– Stage 2	**–**	–
– Stage 3	**(16)**	–
	535,194	465,535

23. Financial assets at fair value through profit or loss

	2022 HK$'m	2021 HK$'m
Securities		
Trading assets		
– Treasury bills	**12,270**	11,548
– Certificates of deposit	**3,578**	1,506
– Other debt securities	**20,958**	10,813
	36,806	23,867
– Equity securities	**59**	23
– Fund	**1**	–
	36,866	23,890
Other financial assets mandatorily classified at fair value through profit or loss		
– Treasury bills	**–**	1,481
– Other debt securities	**12,520**	14,233
	12,520	15,714
– Equity securities	**4,207**	2,857
– Fund	**10,669**	11,202
	27,396	29,773
Financial assets designated at fair value through profit or loss		
– Treasury bills	**624**	–
– Certificates of deposit	**355**	–
– Other debt securities	**1,276**	1,477
	2,255	1,477
Total securities	**66,517**	55,140
Other debt instruments		
Trading assets	**3,400**	3,201
Financial assets designated at fair value through profit or loss	**15,237**	15,196
Total other debt instruments	**18,637**	18,397
	85,154	73,537

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

Total securities are analysed by place of listing as follows:

	2022 HK$'m	2021 HK$'m
Debt securities and certificates of deposit		
– Listed in Hong Kong	**5,193**	9,199
– Listed outside Hong Kong	**5,787**	8,212
– Unlisted	**40,601**	23,647
	51,581	41,058
Equity securities		
– Listed in Hong Kong	**3,553**	2,234
– Listed outside Hong Kong	**713**	453
– Unlisted	**–**	193
	4,266	2,880
Fund		
– Listed in Hong Kong	**1,476**	1,469
– Listed outside Hong Kong	**337**	239
– Unlisted	**8,857**	9,494
	10,670	11,202
Total securities	**66,517**	55,140

Total securities are analysed by type of issuer as follows:

	2022 HK$'m	2021 HK$'m
Sovereigns	**31,839**	21,713
Public sector entities	**186**	748
Banks and other financial institutions	**29,379**	23,806
Corporate entities	**5,113**	8,873
Total securities	**66,517**	55,140

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:

	2022		
	Contract/ notional amounts HK$'m	Fair values	
		Assets HK$'m	Liabilities HK$'m
Exchange rate contracts			
Spot, forwards and futures	**268,839**	**15,806**	**(10,068)**
Swaps	**1,426,428**	**15,226**	**(16,189)**
Options	**28,566**	**374**	**(156)**
	1,723,833	**31,406**	**(26,413)**
Interest rate contracts			
Futures	**99,719**	**75**	**(52)**
Swaps	**1,500,924**	**29,972**	**(23,326)**
Options	**–**	**–**	**–**
	1,600,643	**30,047**	**(23,378)**
Commodity contracts	**14,501**	**361**	**(456)**
Equity contracts	**863**	**18**	**(19)**
	3,339,840	**61,832**	**(50,266)**

24. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

	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)

(b) Hedge accounting

Fair value hedges

The Group uses interest rate swaps to hedge against change in fair value of financial assets and liabilities arising from movements in market interest rates. Interest rate risk to which the Group applies hedge accounting arises from fixed-rate debt securities and senior notes, whose fair value fluctuates when benchmark interest rates change. The Group only designates interest rate risks to the extent of benchmark interest rates as the hedged risks because the changes in fair value of the fixed-rate debt securities and senior notes are significantly influenced by the changes in the benchmark interest rates. Hedge accounting is applied where economic hedging relationships meet the hedge accounting criteria.

Possible sources of ineffectiveness are as follows:

– Notional and timing differences between the hedged items and hedging instruments;

– Significant changes in counterparties' credit risk.

24. Derivative financial instruments and hedge accounting (continued)

(b) Hedge accounting (continued)

Fair value hedges (continued)

The table below summarises the contract/notional amounts and average fixed interest rate of the hedging instruments as at 31 December by remaining contractual maturity.

	2022					
	Up to 1 month HK$'m	**1 to 3 months HK$'m**	**3 to 12 months HK$'m**	**1 to 5 years HK$'m**	**Over 5 years HK$'m**	**Total HK$'m**
Interest rate swaps						
Contract/notional amounts	**2,665**	**2,664**	**7,736**	**76,874**	**27,928**	**117,867**
Average fixed interest rate	**3.47%**	**3.29%**	**3.22%**	**3.07%**	**2.86%**	**N/A**

	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						
Contract/notional amounts	1,513	2,821	11,543	65,070	42,111	123,058
Average fixed interest rate	3.23%	2.99%	3.33%	3.05%	2.87%	N/A

24. Derivative financial instruments and hedge accounting (continued)

(b) Hedge accounting (continued)

Fair value hedges (continued)

The amounts relating to items designated as hedging instruments are as follows:

	2022			
	Contract/ notional amounts HK$'m	Fair values Assets HK$'m	Fair values Liabilities HK$'m	Change in fair value used for recognising hedge ineffectiveness HK$'m
Derivative financial instruments				
Interest rate swaps	**117,867**	**7,290**	**(169)**	**9,762**

	2021			
	Contract/ notional amounts HK$'m	Fair values Assets HK$'m	Fair values Liabilities HK$'m	Change in fair value used for recognising hedge ineffectiveness HK$'m
Derivative financial instruments				
Interest rate swaps	123,058	741	(2,617)	4,046

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:

	2022				
	Carrying amounts		Accumulated amount of fair value hedge adjustment included in the carrying amounts		Change in value used for recognising hedge ineffectiveness
	Assets HK$'m	Liabilities HK$'m	Assets HK$'m	Liabilities HK$'m	HK$'m
Investment in securities					
Debt securities	**107,364**	**–**	**(9,412)**	**–**	**(9,959)**
Debt securities and certificates of deposit in issue					
Senior notes	**–**	**(1,934)**	**–**	**73**	**73**
	107,364	**(1,934)**	**(9,412)**	**73**	**(9,886)**

	2021				
	Carrying amounts		Accumulated amount of fair value hedge adjustment included in the carrying amounts		Change in value used for recognising hedge ineffectiveness
	Assets HK$'m	Liabilities HK$'m	Assets HK$'m	Liabilities HK$'m	HK$'m
Investment in securities					
Debt securities	127,438	–	3,096	–	(4,216)
Debt securities and certificates of deposit in issue					
Senior notes	–	–	–	–	–
	127,438	–	3,096	–	(4,216)

Hedge ineffectiveness recognised is as follows:

	2022 HK$'m	2021 HK$'m
Net trading loss	**(124)**	(170)

25. Advances and other accounts

	2022 HK$'m	2021 HK$'m
Personal loans and advances	**552,527**	509,045
Corporate loans and advances	**1,096,983**	1,090,039
Advances to customers	**1,649,510**	1,599,084
Less: Impairment allowances		
– Stage 1	**(3,995)**	(4,839)
– Stage 2	**(2,511)**	(2,406)
– Stage 3	**(4,992)**	(2,632)
	1,638,012	1,589,207
Trade bills	**6,329**	7,264
Less: Impairment allowances		
– Stage 1	**(1)**	(1)
– Stage 2	**–**	–
– Stage 3	**–**	–
	6,328	7,263
Advances to banks and other financial institutions	**1,015**	727
Less: Impairment allowances		
– Stage 1	**(1)**	(3)
– Stage 2	**–**	–
– Stage 3	**–**	–
	1,014	724
	1,645,354	1,597,194

As at 31 December 2022, advances to customers included accrued interest of HK$3,980 million (2021: HK$1,890 million).

As at 31 December 2022, advances and other accounts at fair value through other comprehensive income and mandatorily classified at fair value through profit or loss amounted to HK$8,884 million (2021: HK$2,757 million) and HK$832 million (2021: Nil) respectively.

26. Investment in securities

	2022 HK$'m	2021 HK$'m
Investment in securities at fair value through other comprehensive income		
– Treasury bills	**287,961**	410,163
– Certificates of deposit	**41,740**	38,059
– Other debt securities	**328,549**	423,598
	658,250	871,820
– Equity securities	**3,925**	5,601
	662,175	877,421
Investment in securities at amortised cost		
– Treasury bills	**6**	–
– Certificates of deposit	**5,510**	2,693
– Other debt securities	**327,256**	214,218
	332,772	216,911
Less: Impairment allowances		
– Stage 1	**(116)**	(96)
– Stage 2	**(3)**	(3)
– Stage 3	**–**	–
	332,653	216,812
	994,828	1,094,233

26. Investment in securities (continued)

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

	2022 HK$'m	2021 HK$'m
Investment in securities at fair value through other comprehensive income		
Debt securities and certificates of deposit		
– Listed in Hong Kong	**72,425**	106,919
– Listed outside Hong Kong	**128,497**	182,018
– Unlisted	**457,328**	582,883
	658,250	871,820
Equity securities		
– Listed in Hong Kong	**1,468**	2,351
– Listed outside Hong Kong	**–**	455
– Unlisted	**2,457**	2,795
	3,925	5,601
	662,175	877,421
Investment in securities at amortised cost		
Debt securities and certificates of deposit		
– Listed in Hong Kong	**47,788**	39,845
– Listed outside Hong Kong	**194,358**	103,719
– Unlisted	**90,507**	73,248
	332,653	216,812
	994,828	1,094,233
Market value of listed securities at amortised cost	**225,309**	145,392

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

	2022 HK$'m	2021 HK$'m
Sovereigns	**512,087**	558,915
Public sector entities	**60,900**	55,078
Banks and other financial institutions	**293,865**	306,006
Corporate entities	**127,976**	174,234
	994,828	1,094,233

26. Investment in securities (continued)

The movements in investment in securities are summarised as follows:

	2022	
	At fair value through other comprehensive income HK$'m	At amortised cost HK$'m
At 1 January 2022	**877,421**	**216,812**
Additions	**1,290,480**	**159,142**
Disposals, redemptions and maturity	**(1,450,959)**	**(39,034)**
Amortisation	**1,020**	**1,432**
Change in fair value/fair value hedge adjustment	**(23,929)**	**(741)**
Net charge of impairment allowances	**–**	**(19)**
Exchange difference	**(31,858)**	**(4,939)**
At 31 December 2022	**662,175**	**332,653**

	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

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$2,796 million (2021: HK$2,356 million) during the year. The derecognition was made because of portfolio rebalancing and the redemption by issuer.

27. Interests in associates and joint ventures

	2022 HK$'m	2021 HK$'m
At 1 January	**1,215**	1,485
Share of results	**(330)**	(197)
Share of tax	**(9)**	(16)
Dividend received	**(27)**	(57)
Disposal of associates and joint ventures	**(6)**	–
At 31 December	**843**	1,215

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$2,800,000,000	39.29%	Banking business
Sunac Realtor Capital Limited	Cayman Islands	US$1	20%	Investment holding
Black Spade Asia Acquisition Co.	Cayman Islands	HK$195,000	10%	Investment holding

None of the above associates and joint ventures is considered individually or in aggregate material to the Group.

As at 31 December 2022, commitments for capital injection to a joint venture under a Share Subscription Agreement amounted to HK$793m (2021: Nil).

28. Investment properties

	2022 HK$'m	2021 HK$'m
At 1 January	**17,722**	18,441
Additions	**13**	233
Fair value losses (Note 15)	**(1,305)**	(229)
Reclassification to properties, plant and equipment (Note 29)	**(361)**	(723)
At 31 December	**16,069**	17,722

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	2022 HK$'m	2021 HK$'m
Held in Hong Kong		
On long-term lease (over 50 years)	**4,773**	4,942
On medium-term lease (10 to 50 years)	**10,975**	12,421
Held outside Hong Kong		
On medium-term lease (10 to 50 years)	**235**	328
On short-term lease (less than 10 years)	**86**	31
	16,069	17,722

As at 31 December 2022, investment properties were included in the balance sheet at valuation carried out at 31 December 2022 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 2022	**43,784**	**1,338**	**1,319**	**46,441**
Additions	**57**	**331**	**645**	**1,033**
Disposals	**(6)**	**(3)**	**–**	**(9)**
Revaluation	**(1,214)**	**–**	**–**	**(1,214)**
Depreciation for the year	**(1,196)**	**(500)**	**(627)**	**(2,323)**
Reclassification from investment properties (Note 28)	**361**	**–**	**–**	**361**
Impairment for the year	**–**	**–**	**–**	**–**
Exchange difference	**(4)**	**(11)**	**(13)**	**(28)**
Net book value at 31 December 2022	**41,782**	**1,155**	**1,324**	**44,261**
At 31 December 2022				
Cost or valuation	**41,782**	**7,163**	**2,497**	**51,442**
Accumulated depreciation and impairment	**–**	**(6,008)**	**(1,173)**	**(7,181)**
Net book value at 31 December 2022	**41,782**	**1,155**	**1,324**	**44,261**
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2022				
At cost	**–**	**7,163**	**2,497**	**9,660**
At valuation	**41,782**	**–**	**–**	**41,782**
	41,782	**7,163**	**2,497**	**51,442**

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 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

29. Properties, plant and equipment (continued)

The carrying value of premises is analysed based on the remaining terms of the leases as follows:

	2022 HK$'m	2021 HK$'m
Held in Hong Kong		
On long-term lease (over 50 years)	**12,034**	12,725
On medium-term lease (10 to 50 years)	**29,437**	30,712
Held outside Hong Kong		
On long-term lease (over 50 years)	**64**	71
On medium-term lease (10 to 50 years)	**214**	276
On short-term lease (below 10 years)	**33**	–
	41,782	43,784

As at 31 December 2022, premises were included in the balance sheet at valuation carried out at 31 December 2022 on the basis of their fair value by an independent firm of chartered surveyors, Knight Frank Petty Limited. The fair value represents the price that would be received to sell each premise in an orderly transaction with market participants at the measurement date.

As a result of the above-mentioned revaluations, changes in value of the premises were recognised as follows:

	2022 HK$'m	2021 HK$'m
Decrease in valuation charged to income statement (Note 16)	**(110)**	(17)
(Decrease)/increase in valuation (charged)/credited to other comprehensive income	**(1,104)**	651
	(1,214)	634

As at 31 December 2022, 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$9,457 million (2021: HK$9,363 million).

30. Other assets

	2022 HK$'m	2021 HK$'m
Repossessed assets	**334**	151
Precious metals	**11,507**	10,207
Intangible assets	**2,213**	2,025
Reinsurance assets	**54,948**	59,696
Accounts receivable and prepayments	**23,071**	34,193
	92,073	106,272

The movements in intangible assets are summarised as follows:

	2022 HK$'m	2021 HK$'m
Net book value at 1 January	**2,025**	1,862
Additions	**866**	781
Amortisation for the year	**(678)**	(618)
Net book value at 31 December	**2,213**	2,025
At 31 December		
Cost	**6,727**	5,866
Accumulated amortisation and impairment	**(4,514)**	(3,841)
Net book value at 31 December	**2,213**	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

	2022 HK$'m	2021 HK$'m
Trading liabilities		
– Short positions in securities	**59,451**	12,322
Financial liabilities designated at fair value through profit or loss		
– Repurchase agreements	**–**	198
– Structured notes	**2**	–
	59,453	12,520

As at 31 December 2022 and 2021, the difference between the carrying amount of financial liabilities designated at fair value through profit or loss and the amount that the Group would be contractually required to pay at maturity to the holders was not significant.

33. Deposits from customers

	2022 HK$'m	2021 HK$'m
Demand deposits and current accounts		
– Corporate	**165,006**	229,326
– Personal	**71,109**	97,908
	236,115	327,234
Savings deposits		
– Corporate	**472,248**	513,556
– Personal	**521,441**	680,538
	993,689	1,194,094
Time, call and notice deposits		
– Corporate	**616,829**	544,036
– Personal	**530,574**	265,791
	1,147,403	809,827
	2,377,207	2,331,155

34. Debt securities and certificates of deposit in issue

	2022 HK$'m	2021 HK$'m
At amortised cost		
– Certificates of deposit	**–**	563
– Senior notes under the Medium Term Note Programme(i)	**1,702**	1,860
– Senior notes under the Medium Term Note Programme, with fair value hedge adjustment(ii)	**1,934**	–
	3,636	2,423

(i) In July 2021, BOCHK issued RMB1.5 billion senior notes, interest rate at 2.80% per annum payable semi-annually, due in 2023.

(ii) In February 2022, BOCHK issued HK$2 billion senior notes, interest rate at 1.33% per annum payable semi-annually, due in 2024.

35. Other accounts and provisions

	2022 HK$'m	2021 HK$'m
Other accounts payable and provisions	**97,582**	81,080
Lease liabilities	**1,298**	1,318
Impairment allowances on loan commitments and financial guarantee contracts		
– Stage 1	**326**	439
– Stage 2	**36**	51
– Stage 3	**128**	153
	99,370	83,041

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:

	2022					
	Accelerated tax depreciation HK$'m	**Property revaluation HK$'m**	**Losses HK$'m**	**Impairment allowances HK$'m**	**Others HK$'m**	**Total HK$'m**
At 1 January 2022	**826**	**6,606**	**(4)**	**(1,128)**	**(693)**	**5,607**
Charged/(credited) to income statement (Note 17)	**15**	**(128)**	**3**	**(11)**	**48**	**(73)**
Credited to other comprehensive income	**–**	**(200)**	**–**	**–**	**(1,585)**	**(1,785)**
Release upon disposal of equity instruments at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**45**	**45**
Exchange difference and others	**–**	**–**	**(24)**	**11**	**1**	**(12)**
At 31 December 2022	**841**	**6,278**	**(25)**	**(1,128)**	**(2,184)**	**3,782**

	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

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:

	2022 **HK$'m**	2021 HK$'m
Deferred tax assets	**(564)**	(192)
Deferred tax liabilities	**4,346**	5,799
	3,782	5,607

	2022 **HK$'m**	2021 HK$'m
Deferred tax assets to be recovered after more than twelve months	**(223)**	(153)
Deferred tax liabilities to be settled after more than twelve months	**6,182**	6,435
	5,959	6,282

As at 31 December 2022, the Group has no unrecognised deferred tax assets in respect of tax losses (2021: 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

	2022 **HK$'m**	2021 HK$'m
At 1 January	**153,911**	139,504
Benefits paid	**(20,761)**	(14,784)
Claims incurred and movement in liabilities	**18,955**	29,191
At 31 December	**152,105**	153,911

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK$45,300 million (2021: HK$48,037 million) and the associated reinsurance assets of HK$54,948 million (2021: HK$59,696 million) are included in "Other assets" (Note 30).

38. Subordinated liabilities

	2022 HK$'m	2021 HK$'m
Subordinated loans, at amortised cost		
RMB20 billion(i)	**22,499**	–
RMB10 billion(ii)	**11,255**	–
USD1 billion(iii)	**7,860**	–
USD1 billion(iv)	**7,846**	–
RMB17 billion(v)	**19,107**	–
USD1 billion(vi)	**7,826**	–
	76,393	–

The HKMA has classified BOCHK as a material subsidiary of the BOC resolution group and required BOCHK to comply with the applicable internal loss-absorbing capacity requirements under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules ("LAC Rules"), with compliance period starting from 1 January 2023. To meet the requirements, BOC has granted non-capital loss-absorbing capacity debt instruments totalling RMB47 billion and USD3 billion to BOCHK in the fourth quarter of 2022, which rank higher than Additional Tier 1 capital securities in the event of a winding-up.

(i) Interest rate at 2.20% per annum payable annually, due in 2024 with early repayment option.

(ii) Interest rate at 2.47% per annum payable annually, due in 2025 with early repayment option.

(iii) Interest rate at 5.30% per annum payable annually, due in 2025 with early repayment option.

(iv) Interest rate at 5.02% per annum payable annually, due in 2025 with early repayment option.

(v) Interest rate at 2.85% per annum payable annually, due in 2025 with early repayment option.

(vi) Interest rate at 4.99% per annum payable annually, due in 2025 with early repayment option.

39. Share capital

	2022 HK$'m	2021 HK$'m
Issued and fully paid:		
10,572,780,266 ordinary shares	**52,864**	52,864

40. Other equity instruments

	2022 HK$'m	2021 HK$'m
Undated non-cumulative subordinated Additional Tier 1 capital securities	**23,476**	23,476

40. Other equity instruments (continued)

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 2022 amounted to HK$1,390 million (2021: HK$1,378 million).

41. Notes to consolidated cash flow statement

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

	2022 HK$'m	2021 HK$'m
Operating profit	**36,743**	30,430
Depreciation and amortisation	**3,001**	3,039
Gain from disposal of associates and joint ventures	**(3)**	–
Net charge of impairment allowances	**2,345**	2,145
Unwind of discount on impairment allowances	**(81)**	(37)
Advances written off net of recoveries	**(560)**	(1,157)
Interest expense on lease liabilities	**34**	34
Change in subordinated liabilities	**1,877**	–
Change in balances and placements with banks and other financial institutions with original maturity over three months	**(15,325)**	(622)
Change in financial assets at fair value through profit or loss	**(21,504)**	1,835
Change in derivative financial instruments	**(8,137)**	(10,886)
Change in advances and other accounts	**(49,779)**	(97,487)
Change in investment in securities	**53,024**	(157,171)
Change in other assets	**14,329**	548
Change in deposits and balances from banks and other financial institutions	**(169,436)**	159,567
Change in financial liabilities at fair value through profit or loss	**46,933**	(7,816)
Change in deposits from customers	**46,052**	147,446
Change in debt securities and certificates of deposit in issue	**1,213**	1,997
Change in other accounts and provisions	**16,498**	12,388
Change in insurance contract liabilities	**(1,806)**	14,407
Effect of changes in exchange rates	**23,234**	(5,278)
Operating cash (outflow)/inflow before taxation	**(21,348)**	93,382
Cash flows from operating activities included		
– interest received	**61,073**	39,160
– interest paid	**18,486**	8,482
– dividend received	**286**	364

41. Notes to consolidated cash flow statement (continued)

(b) Reconciliation of liabilities arising from financing activities

	2022 HK$'m
Subordinated liabilities	
At 1 January	–
Cash flows:	
Proceeds from subordinated liabilities	74,516
Non-cash changes:	
Exchange difference	1,545
Other changes	332
At 31 December	76,393

	2022 HK$'m	2021 HK$'m
Lease liabilities		
At 1 January	1,318	1,710
Cash flows:		
Payment of lease liabilities	(699)	(716)
Non-cash changes:		
Additions	645	331
Disposal	–	(41)
Other changes	34	34
At 31 December	1,298	1,318

41. Notes to consolidated cash flow statement (continued)

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

	2022 HK$'m	2021 HK$'m
Cash and balances and placements with banks and other financial institutions with original maturity within three months	**479,150**	424,780
Treasury bills, certificates of deposit and other debt instruments with original maturity within three months		
– financial assets at fair value through profit or loss	**8,574**	18,461
– investment in securities	**53,201**	88,674
	540,925	531,915

42. Contingent liabilities and commitments

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

	2022 HK$'m	2021 HK$'m
Direct credit substitutes	**1,069**	1,338
Transaction-related contingencies	**25,586**	30,075
Trade-related contingencies	**15,908**	25,815
Commitments that are unconditionally cancellable without prior notice	**533,304**	526,430
Other commitments with an original maturity of		
– up to one year	**21,905**	15,665
– over one year	**177,275**	173,623
	775,047	772,946
Credit risk-weighted amount	**79,122**	83,704

The credit risk-weighted amount is calculated in accordance with the Banking (Capital) Rules. The amount is dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

43. Capital commitments

The Group has the following outstanding capital commitments not provided for in the financial statements:

	2022 HK$'m	2021 HK$'m
Authorised and contracted for but not provided for	**211**	183
Authorised but not contracted for	**233**	119
	444	302

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

44. Operating lease commitments

As lessor

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

	2022 HK$'m	2021 HK$'m
Properties and equipment		
– Not later than one year	**431**	469
– One to two years	**289**	241
– Two to three years	**132**	103
– Three to four years	**6**	16
– Four to five years	**–**	5
	858	834

The Group leases its investment properties under operating lease arrangements, with leases typically for a period from one to three years. The terms of the leases generally require the tenants to pay security deposits and provide for rent adjustments according to the prevailing market conditions upon the lease renewal.

45. Litigation

The Group has been served a number of claims and counterclaims by various independent parties. These claims and counterclaims are in relation to the normal commercial activities of the Group.

No material provision was made against these claims and counterclaims because the directors believe that the Group has meritorious defences against the claimants or the amounts involved in these claims are not expected to be material.

46. Segmental reporting

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

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

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

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

46. Segmental reporting (continued)

	Personal Banking HK$'m	Corporate Banking HK$'m	Treasury HK$'m	Insurance HK$'m	Others HK$'m	Subtotal HK$'m	Eliminations HK$'m	Consolidated HK$'m
Year ended 31 December 2022								
Net interest income/(expense)								
– External	2,533	15,528	14,238	4,075	2,440	38,814	–	38,814
– Inter-segment	8,032	(4,027)	(2,806)	(54)	(1,145)	–	–	–
	10,565	11,501	11,432	4,021	1,295	38,814	–	38,814
Net fee and commission income/(expense)	6,156	3,847	7	(1,176)	1,232	10,066	(554)	9,512
Net insurance premium income	–	–	–	16,175	–	16,175	(20)	16,155
Net trading gain/(loss)	1,011	1,603	10,196	(199)	585	13,196	86	13,282
Net loss on other financial instruments at fair value through profit or loss	–	–	(604)	(2,652)	–	(3,256)	13	(3,243)
Net gain/(loss) on other financial instruments	–	12	(3,709)	(196)	6	(3,887)	–	(3,887)
Other operating income	30	5	80	166	1,831	2,112	(1,201)	911
Total operating income	17,762	16,968	17,402	16,139	4,949	73,220	(1,676)	71,544
Net insurance benefits and claims and movement in liabilities	–	–	–	(14,612)	–	(14,612)	–	(14,612)
Net operating income before impairment allowances	17,762	16,968	17,402	1,527	4,949	58,608	(1,676)	56,932
Net (charge)/reversal of impairment allowances	(344)	(2,008)	71	17	(81)	(2,345)	–	(2,345)
Net operating income	17,418	14,960	17,473	1,544	4,868	56,263	(1,676)	54,587
Operating expenses	(9,429)	(3,553)	(2,544)	(633)	(3,361)	(19,520)	1,676	(17,844)
Operating profit	7,989	11,407	14,929	911	1,507	36,743	–	36,743
Net loss from disposal of/fair value adjustments on investment properties	–	–	–	–	(1,305)	(1,305)	–	(1,305)
Net loss from disposal/revaluation of properties, plant and equipment	(1)	–	–	–	(110)	(111)	–	(111)
Share of results after tax of associates and joint ventures	(48)	–	4	–	(295)	(339)	–	(339)
Profit/(loss) before taxation	7,940	11,407	14,933	911	(203)	34,988	–	34,988
At 31 December 2022								
ASSETS								
Segment assets	580,155	1,040,621	1,734,391	196,057	173,197	3,724,421	(40,207)	3,684,214
Interests in associates and joint ventures	563	–	1	–	279	843	–	843
	580,718	1,040,621	1,734,392	196,057	173,476	3,725,264	(40,207)	3,685,057
LIABILITIES								
Segment liabilities	1,280,379	1,075,631	746,103	185,759	105,546	3,393,418	(40,207)	3,353,211
Year ended 31 December 2022								
Other information								
Capital expenditure	46	26	10	85	1,745	1,912	–	1,912
Depreciation and amortisation	1,175	307	122	73	1,365	3,042	(41)	3,001

46. Segmental reporting (continued)

	Personal Banking HK$'m	Corporate Banking HK$'m	Treasury HK$'m	Insurance HK$'m	Others HK$'m	Subtotal HK$'m	Eliminations HK$'m	Consolidated HK$'m
Year ended 31 December 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

47. Offsetting financial instruments

The following tables present details of the Group's financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

	2022					
				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial assets HK$'m	Gross amounts of recognised financial liabilities set off in the balance sheet HK$'m	Net amounts of financial assets presented in the balance sheet HK$'m	Financial instruments HK$'m	Cash collateral received HK$'m	Net amount HK$'m
Assets						
Derivative financial instruments	45,254	–	45,254	(31,824)	(12,534)	896
Reverse repurchase agreements	17,576	–	17,576	(17,576)	–	–
Securities borrowing agreements	3,400	–	3,400	(3,400)	–	–
Other assets	11,364	(9,222)	2,142	(6)	–	2,136
	77,594	(9,222)	68,372	(52,806)	(12,534)	3,032

	2022					
				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial liabilities HK$'m	Gross amounts of recognised financial assets set off in the balance sheet HK$'m	Net amounts of financial liabilities presented in the balance sheet HK$'m	Financial instruments HK$'m	Cash collateral pledged HK$'m	Net amount HK$'m
Liabilities						
Derivative financial instruments	37,117	–	37,117	(31,824)	(2,527)	2,766
Repurchase agreements	31,757	–	31,757	(31,757)	–	–
Other liabilities	10,562	(9,222)	1,340	(6)	–	1,334
	79,436	(9,222)	70,214	(63,587)	(2,527)	4,100

47. Offsetting financial instruments (continued)

	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

For master netting agreements of OTC derivative, sale and repurchase and securities lending and borrowing transactions entered into by the Group, related amounts with the same counterparty can be offset if an event of default or other predetermined events occur.

48. Assets pledged as security

As at 31 December 2022, the liabilities of the Group amounting to HK$27,986 million (2021: HK$12,788 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK$46,757 million (2021: HK$88,268 million) were secured by debt securities related to sale and repurchase arrangements. The amount of assets pledged by the Group to secure these liabilities was HK$75,346 million (2021: HK$103,349 million) mainly included in "Financial assets at fair value through profit or loss" and "Investment in securities".

In addition, the Group pledges securities amounting to HK$2,709 million (2021: Nil) as initial margin of derivative transactions.

49. Transfers of financial assets

Transferred financial assets that do not qualify for derecognition include debt securities held by counterparties as collateral under sale and repurchase agreements. The counterparties are allowed to sell or re-pledge these securities in the absence of default by the Group, but have an obligation to return the securities upon maturity of the contract. These securities are not derecognised since the Group retains substantially all the risks and rewards. Amounts received under sale and repurchase agreements are recognised as financial liabilities.

The following table analyses the carrying amount of the financial assets transferred to counterparties that do not qualify for derecognition and their associated financial liabilities:

	2022		2021	
	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	**32,189**	**31,757**	70,488	68,268

50. Interests in unconsolidated structured entities

The Group involves a number of fund investments in the normal course of business, which meet the definition of unconsolidated structured entities, and earns management fee and trustee fee from those sponsored by the Group. The Group's investment holding interests in the unconsolidated structured entities were recognised in financial assets measured at FVPL. As at 31 December 2022, the total net asset value of unconsolidated structured entities sponsored by the Group amounted to HK$159,172 million (2021: HK$165,502 million). Interests in unconsolidated structured entities sponsored by the Group amounted to HK$607 million (2021: HK$1,139 million) and interests in those sponsored by other financial institutions amounted to HK$10,062 million (2021: HK$10,063 million). For the year ended 31 December 2022, the above-mentioned management fee and trustee fee amounted to HK$581 million (2021: HK$671 million). The maximum exposure to loss from Group's interests in these fund investments is equal to the total fair value of its investments in these funds.

51. Loans to directors

Particulars of loans made to directors of the Company pursuant to section 383 of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2022 HK$'m	2021 HK$'m
Aggregate amount of relevant transactions outstanding at year end	**5**	–
Maximum aggregate amount of relevant transactions outstanding during the year	**6**	1

52. Significant related party transactions

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

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

General information of the parent companies:

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

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

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

The majority of transactions with BOC arise from money market activities. As at 31 December 2022, the Group's related aggregate amounts due from and to BOC were HK$206,631 million (2021: HK$191,806 million) and HK$95,344 million (2021: HK$245,648 million) respectively. The aggregate amounts of income and expenses of the Group arising from these transactions with BOC for the year ended 31 December 2022 were HK$1,242 million (2021: HK$1,598 million) and HK$1,580 million (2021: HK$936 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 2022, the related aggregate amounts due from and to subsidiaries of BOC were HK$2,209 million (2021: HK$1,113 million) and HK$12,218 million (2021: HK$10,139 million) respectively.

For details of subordinated liabilities granted by BOC, please refer to Note 38 to the Financial Statements.

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

52. Significant related party transactions (continued)

(b) Transactions with government authorities, agencies, affiliates and other state controlled entities

The Group is subject to the control of the State Council of the PRC Government through CIC and Central Huijin, which also directly or indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other state controlled entities. The Group enters into banking transactions with government authorities, agencies, affiliates and other state controlled entities in the normal course of business at commercial terms.

These transactions include, but are not limited to, the following:

– lending, provision of credits and guarantees, and deposit taking;

– inter-bank balance taking and placing;

– sales, purchases, underwriting and redemption of bonds issued by other state controlled entities;

– rendering of foreign exchange, remittance and investment related services;

– provision of fiduciary activities; and

– purchase of utilities, transport, telecommunication and postage services.

(c) Summary of transactions entered into during the ordinary course of business with associates, joint ventures and other related parties

The 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:

	2022 HK$'m	2021 HK$'m
Income statement items		
Associates and joint ventures		
– Fee and commission income	**29**	60
– Interest expenses	**–**	1
– Other operating expenses	**71**	79
Other related parties		
– Fee and commission income	**11**	14
Balance sheet items		
Associates and joint ventures		
– Other assets	**7**	11
– Deposits and balances from banks and other financial institutions	**47**	77
– Deposits from customers	**1**	120

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 296 to 297.

52. Significant related party transactions (continued)

(d) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and senior management. The Group accepts deposits from and grants loans and credit facilities to key management personnel in the ordinary course of business. During both the current and prior 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:

	2022 HK$'m	2021 HK$'m
Salaries and other short-term employee benefits	**52**	52

53. IBOR reform

The Group manages risks related to IBOR reform, continuously monitors the risk exposure of IBOR reform and converts existing contracts.

The 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 which reference LIBOR and have not yet transitioned to an alternative interest rate benchmark:

	2022	
	Financial instruments yet to transition to alternative benchmarks	
	USD LIBOR HK$'m	**Others* HK$'m**
Non-derivative financial assets	**178,040**	**–**
Non-derivative financial liabilities	**624**	**–**
Derivative contract/notional amounts	**469,213**	**–**

53. IBOR reform (continued)

	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).

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".

As at 31 December 2022, the contract/notional amounts of interest rate derivatives designated in fair value hedge accounting relationships was HK$48,924 million (2021: HK$77,496 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.

54. International claims

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

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

	2022				
			Non-bank private sector		
	Banks HK$'m	**Official sector HK$'m**	**Non-bank financial institutions HK$'m**	**Non-financial private sector HK$'m**	**Total HK$'m**
Chinese Mainland	**408,250**	**224,106**	**23,248**	**121,303**	**776,907**
Hong Kong	**14,938**	**4,295**	**55,090**	**326,204**	**400,527**
United States	**32,581**	**161,031**	**16,539**	**15,915**	**226,066**

	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

55. Non-bank Mainland exposures

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

		2022		
	Items in the HKMA return	On-balance sheet exposure HK$'m	Off-balance sheet exposure HK$'m	Total exposure HK$'m
Central government, central government-owned entities and their subsidiaries and joint ventures	1	**369,448**	**28,067**	**397,515**
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	**80,046**	**6,753**	**86,799**
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	**129,723**	**18,635**	**148,358**
Other entities of central government not reported in item 1 above	4	**28,976**	**1,630**	**30,606**
Other entities of local governments not reported in item 2 above	5	**1,362**	**205**	**1,567**
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	**67,098**	**6,968**	**74,066**
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	**1,856**	**86**	**1,942**
Total	8	**678,509**	**62,344**	**740,853**
Total assets after provision	9	**3,422,169**		
On-balance sheet exposures as percentage of total assets	10	**19.83%**		

55. Non-bank Mainland exposures (continued)

	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%		

56. Balance sheet and statement of changes in equity

(a) Balance sheet

As at 31 December	2022 HK$'m	2021 HK$'m
ASSETS		
Bank balances with a subsidiary	**476**	547
Investment in securities	**807**	955
Investment in subsidiaries	**55,322**	55,322
Amounts due from a subsidiary	**10,287**	7,059
Investment in associates and joint ventures	**1,100**	1,100
Other assets	**2**	1
Total assets	**67,994**	64,984
LIABILITIES		
Amounts due to a subsidiary	**3**	2
Total liabilities	**3**	2
EQUITY		
Share capital	**52,864**	52,864
Reserves	**15,127**	12,118
Total equity	**67,991**	64,982
Total liabilities and equity	**67,994**	64,984

Approved by the Board of Directors on 30 March 2023 and signed on behalf of the Board by:

LIU Jin
Director

SUN Yu
Director

56. Balance sheet and statement of changes in equity (continued)

(b) Statement of changes in equity

		Reserves		
	Share capital HK$'m	Reserve for financial assets at FVOCI HK$'m	Retained earnings HK$'m	Total equity HK$'m
At 1 January 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
At 1 January 2022	**52,864**	**(3,031)**	**15,149**	**64,982**
Profit for the year	**–**	**–**	**15,105**	**15,105**
Other comprehensive income:				
Equity instruments at fair value through other comprehensive income	**–**	**(149)**	**–**	**(149)**
Total comprehensive income	**–**	**(149)**	**15,105**	**14,956**
Dividends	**–**	**–**	**(11,947)**	**(11,947)**
At 31 December 2022	**52,864**	**(3,180)**	**18,307**	**67,991**

57. Principal subsidiaries

The following is a list of principal subsidiaries as at 31 December 2022:

Name	Place of incorporation and operation	Issued share capital	Interest held	Principal activities
Bank of China (Hong Kong) Limited	Hong Kong	HK$43,042,840,858	*100%	Banking business
BOC Group Life Assurance Company Limited	Hong Kong	HK$3,538,000,000	*51%	Life insurance business
BOC Credit Card (International) Limited	Hong Kong	HK$565,000,000	100%	Credit card services
Bank of China (Malaysia) Berhad	Malaysia	RM760,518,480	100%	Banking business
Bank of China (Thai) Public Company Limited	Thailand	Baht10,000,000,000	100%	Banking business

* Shares held directly by the Company

The particulars of a subsidiary with significant non-controlling interests are as follows:

BOC Group Life Assurance Company Limited

	2022	2021
Proportion of ownership interests and voting rights held by non-controlling interests	**49%**	49%

	2022 HK$'m	2021 HK$'m
Profit attributable to non-controlling interests	**431**	469
Accumulated non-controlling interests	**5,046**	5,699
Summarised financial information:		
– total assets	**196,057**	197,906
– total liabilities	**185,759**	186,277
– profit for the year	**879**	956
– total comprehensive income for the year	**(1,332)**	261

58. Ultimate and immediate holding companies

The Group is subject to the control of the State Council of the PRC Government through China Investment Corporation, its wholly-owned subsidiary Central Huijin Investment Ltd. ("Central Huijin"), and BOC in which Central Huijin has controlling equity interests. The immediate holding company of the Group is BOC Hong Kong (BVI) Limited, an indirect wholly-owned subsidiary of BOC.

59. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 30 March 2023.

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 2022, 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)

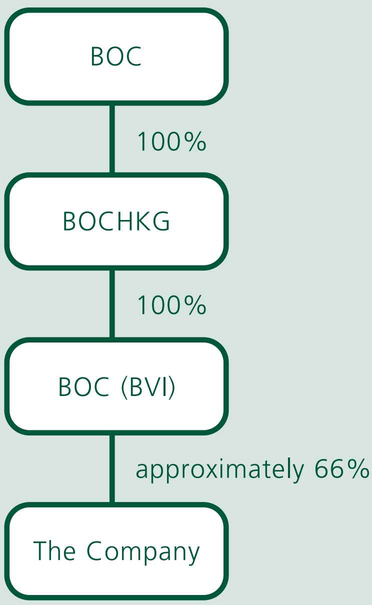
Type of Transaction	2022 Cap (HK$'m)	2022 Actual Amount (HK$'m)
Information Technology Services	**1,000**	**184**
Property Transactions	**1,000**	**196**
Bank-note Delivery	**1,000**	**44**
Provision of Insurance Cover	**1,000**	**280**
Card Services	**1,000**	**56**
Custody Business	**1,000**	**64**
Contact Centre Services	**1,000**	**70**
Securities Transactions	**10,000**	**203**
Fund Distribution Transactions	**10,000**	**48**
Insurance Agency and Insurance Referral	**10,000**	**968**
Investment Products Transactions	**350,000**	**889**
Asset Management and Referral Services	**10,000**	**88**
Foreign Exchange Transactions	**10,000**	**1,274**
Derivatives Transactions	**10,000**	**871**
Trading of Financial Assets	**350,000**	**7,347**
Inter-bank Capital Markets	**350,000**	**89,610**

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	
	2022 HK$'m	2021 HK$'m	**2022 HK$'m**	2021 HK$'m
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs	**29,038**	24,999	**331,846**	327,461
Add: IFRSs/CASs adjustments				
Restatement of carrying value of bank premises	**1,009**	891	**(29,572)**	(31,786)
Deferred tax adjustments	**(397)**	(93)	**4,934**	5,534
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRSs/CASs	**29,650**	25,797	**307,208**	301,209

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
Po Sang Financial Investment Services Company Limited	Hong Kong 23 September 1980	HK$335,000,000	100.00%	Gold trading and investment holding
Po Sang Securities Limited	Hong Kong 19 October 1993	HK$335,000,000	100.00%	Securities brokerage
Sin Hua Trustee Limited	Hong Kong 27 October 1978	HK$3,000,000	100.00%	Trustee services

Subsidiaries of the Company (continued)

Name	Place and date of incorporation/ operation	Issued share capital	Interest held	Principal activities
Billion Express Development Inc.	British Virgin Islands 7 February 2014	US$1	100.00%	Investment holding
Billion Orient Holdings Ltd.	British Virgin Islands 3 February 2014	US$1	100.00%	Investment holding
Elite Bond Investments Ltd.	British Virgin Islands 7 February 2014	US$1	100.00%	Investment holding
Express Capital Enterprise Inc.	British Virgin Islands 3 February 2014	US$1	100.00%	Investment holding
Express Charm Holdings Corp.	British Virgin Islands 7 February 2014	US$1	100.00%	Investment holding
Express Shine Assets Holdings Corp.	British Virgin Islands 3 January 2014	US$1	100.00%	Investment holding
Express Talent Investment Ltd.	British Virgin Islands 13 February 2014	US$1	100.00%	Investment holding
Gold Medal Capital Inc.	British Virgin Islands 3 January 2014	US$1	100.00%	Investment holding
Gold Tap Enterprises Inc.	British Virgin Islands 13 February 2014	US$1	100.00%	Investment holding
Maxi Success Holdings Ltd.	British Virgin Islands 7 February 2014	US$1	100.00%	Investment holding
Smart Linkage Holdings Inc.	British Virgin Islands 13 February 2014	US$1	100.00%	Investment holding
Smart Union Capital Investments Ltd.	British Virgin Islands 3 January 2014	US$1	100.00%	Investment holding
Success Trend Development Ltd.	British Virgin Islands 18 February 2014	US$1	100.00%	Investment holding
Wise Key Enterprises Corp.	British Virgin Islands 18 February 2014	US$1	100.00%	Investment holding
BOCHK Asset Management Limited	Hong Kong 28 October 2010	HK$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.

Definitions

In this Annual Report, unless the context otherwise requires, the following terms shall have the meanings set out below:

Terms	Meanings
"ADR"	American Depositary Receipt
"ADS(s)"	American Depositary Share(s)
"ALCO"	the Asset and Liability Management Committee
"AT1"	Additional Tier 1
"ATM"	Automated Teller Machine
"ASEAN"	The Association of Southeast Asian Nations
"Associates"	has the meaning ascribed to "associates" in the Listing Rules
"BOC"	Bank of China Limited, a joint stock commercial bank with limited liability established under the laws of the PRC, the H shares and A shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively
"BOC (BVI)"	BOC Hong Kong (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of BOCHKG
"BOCCC"	BOC Credit Card (International) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK
"BOCG Insurance"	Bank of China Group Insurance Company Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCHKG"	BOC Hong Kong (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCHK" or "the Bank"	Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of the Company
"BOCI"	BOC International Holdings Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCI-Prudential Asset Management"	BOCI-Prudential Asset Management Limited, a company incorporated under the laws of Hong Kong, in which BOCI Asset Management Limited, a wholly-owned subsidiary of BOC International Holdings Limited, and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOCI-Prudential Trustee"	BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong, in which BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOC Life"	BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOCG Insurance hold equity interests of 51% and 49% respectively
"BOC Malaysia"	Bank of China (Malaysia) Berhad, a wholly-owned subsidiary of BOCHK
"BOC Thailand"	Bank of China (Thai) Public Company Limited, a wholly-owned subsidiary of BOCHK
"Board" or "Board of Directors"	the Board of Directors of the Company
"CAS"	Chinese Accounting Standard for Business Enterprises
"CE"	Chief Executive
"CET1"	Common Equity Tier 1
"CFO"	Chief Financial Officer
"CIC"	China Investment Corporation
"CRO"	Chief Risk Officer

Terms	Meanings
"CVA"	Credit Valuation Adjustment
"Central Huijin"	Central Huijin Investment Ltd.
"DCE"	Deputy Chief Executive
"DVA"	Debit Valuation Adjustment
"ECL"	Expected Credit Loss
"EVE"	Economic Value Sensitivity Ratio
"FCC"	the Financial Crime Compliance Department
"FIRB"	Foundation Internal Ratings-based
"Fitch"	Fitch Ratings
"FVOCI"	Fair value through other comprehensive income
"FVPL"	Fair value through profit or loss
"GDP"	Gross Domestic Product
"HIBOR"	Hong Kong Interbank Offered Rate
"HKAS"	Hong Kong Accounting Standard
"HKFRS"	Hong Kong Financial Reporting Standard
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HKMA"	Hong Kong Monetary Authority
"Hong Kong" or "Hong Kong SAR" or "HKSAR"	Hong Kong Special Administrative Region of the PRC
"IBOR reform"	Interest Rate Benchmark reform
"ICAAP"	Internal Capital Adequacy Assessment Process
"IFRS"	International Financial Reporting Standard
"IMM"	Internal Models
"IT"	Information Technology
"LCO"	the Legal & Compliance and Operational Risk Management Department
"LCR"	Liquidity Coverage Ratio
"LIBOR"	London Interbank Offered Rate
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MC"	the Management Committee
"MCO"	Maximum Cumulative Cash Outflow
"MPF"	Mandatory Provident Fund
"MPF Schemes Ordinance"	the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong, as amended
"Moody's"	Moody's Investors Service
"N/A"	Not applicable
"NII"	Net Interest Income Sensitivity Ratio
"NSFR"	Net Stable Funding Ratio
"ORSO schemes"	the Occupational Retirement Schemes under Occupational Retirement Schemes Ordinance, Chapter 426 of the Laws of Hong Kong
"OTC"	Over-the-counter
"PD"	Probability of Default
"PRC"	the People's Republic of China

DEFINITIONS

Terms	Meanings
"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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