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

(Incorporated in Hong Kong with limited liability)

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

2023 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the "Board") of BOC Hong Kong (Holdings) Limited (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries for the six months period ended 30 June 2023. This announcement, containing the full text of the 2023 Interim Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of interim results. Printed version of the Company's 2023 Interim Report will be delivered to the Company's shareholders who have chosen to receive printed version and will also be available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and of the Company at www.bochk.com in mid September 2023.

FINANCIAL HIGHLIGHTS

For the period	**30 June 2023 HK$'m**	30 June 2022 HK$'m
Net operating income before impairment allowances	**30,838**	25,351
Operating profit	**21,817**	16,232
Profit before taxation	**21,523**	15,929
Profit for the period	**18,082**	13,041
Profit attributable to equity holders of the Company and other equity instrument holders	**17,694**	13,315
Per share	**HK$**	HK$
Basic earnings per share	**1.6077**	1.1938
Dividend per share	**0.527**	0.447
At period/year end	**30 June 2023 HK$'m**	31 December 2022 HK$'m
Total assets	**3,771,181**	3,666,505
Issued and fully paid up share capital	**52,864**	52,864
Capital and reserves attributable to equity holders of the Company	**307,969**	299,788
Financial ratios for the period	**30 June 2023 %**	30 June 2022 %
Return on average total assets[1]	**0.97**	0.71
Return on average shareholders' equity[2]	**10.81**	8.37
Cost to income ratio	**25.46**	29.25
Average value of liquidity coverage ratio[3]		
First quarter	**189.68**	159.16
Second quarter	**188.89**	149.49
Financial ratios at period/year end	**30 June 2023 %**	31 December 2022 %
Loan to deposit ratio[4]	**69.80**	69.34
Quarter-end value of net stable funding ratio[3]		
First quarter	**134.51**	123.86
Second quarter	**131.56**	126.87
Total capital ratio[5]	**22.99**	21.52

1. Return on average total assets = $\frac{\text{Profit for the period}}{\text{Daily average balance of total assets}}$

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. 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.

4. Loan to deposit ratio is calculated as at period/year end. Loan represents gross advances to customers. Deposits from customers include structured deposits reported as "Financial liabilities at fair value through profit or loss".

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.

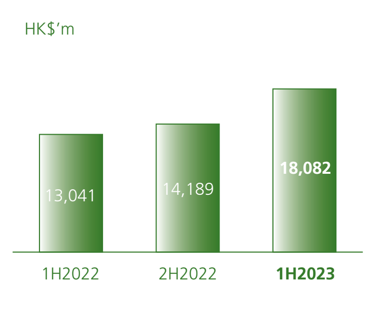
MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE AND CONDITIONS AT A GLANCE

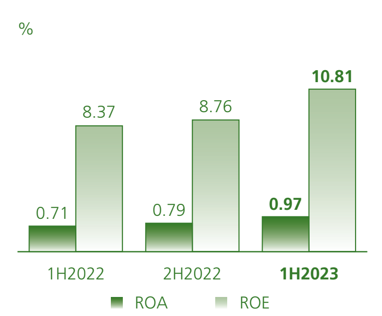
The Group has adopted Hong Kong Financial Reporting Standard ("HKFRS") 17, "Insurance Contracts", effective from 1 January 2023. The requirements of HKFRS 17 have been applied retrospectively, with comparative information restated for the financial year of 2022 (previously published under HKFRS 4).

The following table is a summary of the Group's key financial results for the first half of 2023 as compared with the previous two half-year periods of 2022.

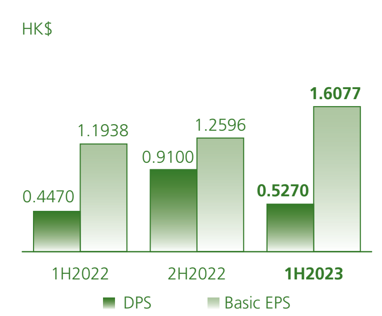
Profit for the period



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



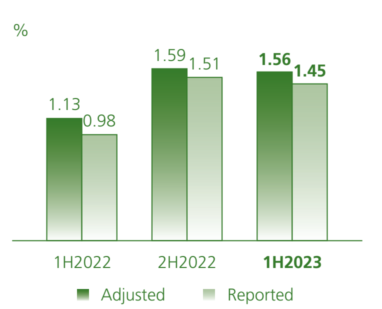
Basic Earnings Per Share ("Basic EPS") and Dividend Per Share ("DPS")



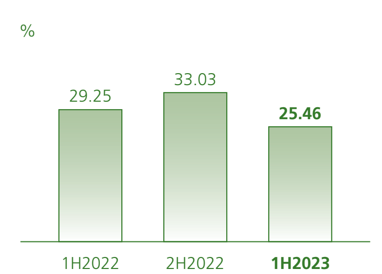
Profit for the period

- In the first half of 2023, profit for the period amounted to HK$18,082 million, representing an increase of 38.7% compared to the same period of the previous year and an increase of 27.4% compared to the second half of 2022.
- ROE and ROA were 10.81% and 0.97% respectively.
- Basic EPS was HK$1.6077. The interim dividend per share was HK$0.527.

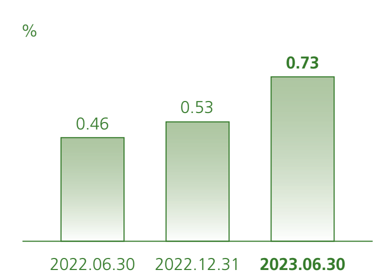
Net Interest Margin ("NIM")



Cost to Income Ratio



Classified or Impaired Loan Ratio[2]



Seizing opportunities from rising market interest rates to achieve a notable year-on-year increase in NIM

- NIM was 1.45%. If the funding income or cost of foreign currency swap contracts[3] were included, NIM would have been 1.56%, an increase of 43 basis points year-on-year. This was mainly attributable to higher market interest rates compared to the same period of the previous year. The Group proactively managed its assets and liabilities, resulting in a widening of the loan and deposit spread and an increase in the average yield of debt securities investments.

Maintaining satisfactory cost efficiency by continuously optimising resource allocation

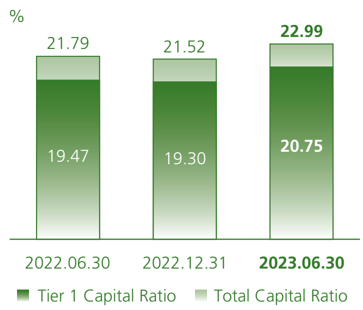
- Operating expenses increased by 5.9% year-on-year, while net operating income before impairment allowances increased by 21.6% compared to the same period last year. As a result, cost to income ratio improved by 3.79 percentage points year-on-year to 25.46%, maintaining at a satisfactory level compared to industry peers.

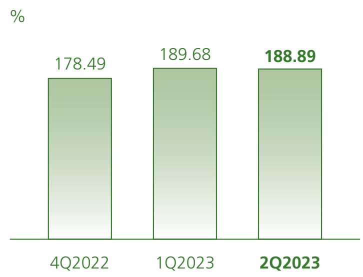
Maintaining benign asset quality through prudent risk management

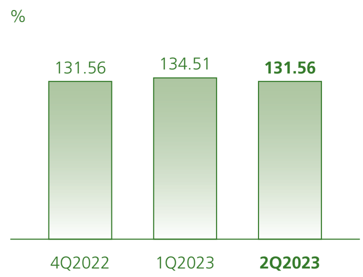
- The classified or impaired loan ratio was 0.73%, which remained below the market average.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Ratio	Average Value of Liquidity Coverage Ratio	Quarter-end Value of Net Stable Funding Ratio







Strong capital position to support solid business growth

- The tier 1 capital ratio was 20.75% and the total capital ratio was 22.99%.

Liquidity remained ample

- The average values of the Group's liquidity coverage ratio in the first and second quarter of 2023 stood at 189.68% and 188.89% respectively.
- Net stable funding ratio stood at 134.51% at the end of the first quarter of 2023 and at 131.56% at the end of the second quarter of 2023.

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 the first half of 2023, the operating environment became more complex and challenging. The headline inflation rate in the US declined year-on-year but remained high, prompting the Federal Reserve to repeatedly raise the benchmark rate. As a result, the US economy continued to face recession risks. In Europe, the European Central Bank continued to raise the benchmark rate in order to curb inflationary pressures, despite ongoing uncertainty regarding financial systemic risks and geopolitical developments. In the Chinese mainland, gradual recovery in market demand and continuous increase in both production demand and supply were witnessed. Counter-cyclical monetary policies were reinforced by cutting the reserve requirement ratio and interest rates, so as to maintain reasonable and abundant liquidity in the banking system. The Southeast Asian economy continued to recover, although monetary policies among the region's central banks diverged and Southeast Asian currency exchange rates were volatile.

Despite financial markets facing increased uncertainty due to banking volatility in Europe and the US, Hong Kong's financial system remained effective and its banking system robust. Imports and exports of merchandise declined year-on-year due to a weakened external environment. Hong Kong's unemployment rate continued to decline and retail sales improved. These factors, coupled with a significant increase in visitor arrivals, resulted in the Hong Kong economy returning to positive growth.

In the first half of the year, the exchange rate of Hong Kong dollar against the US dollar triggered the weak-side Convertibility Undertaking, owing to supply and demand for Hong Kong dollar funding in the market. This prompted the Hong Kong Monetary Authority ("HKMA") to purchase Hong Kong dollars from the market, leading to a contraction in the aggregate balance of the banking sector. The Linked Exchange Rate System's automatic interest rate adjustment mechanism came into play, causing Hong Kong dollar interest rates to gradually rise. The 1-month HIBOR increased from 4.35% at the end of 2022 to 4.93% at the end of June 2023, and the Hong Kong dollar exchange rate stabilised within the conversion range. Meanwhile, the US Federal Reserve continued to raise its benchmark rate, resulting in the 1-month Secured Overnight Financing Rate ("SOFR") increasing from 4.36% to 5.14% over the same period. The inversion of the US treasury yield curve widened, with the treasury yield spread between 2-year and 10-year tenors expanding from 55 basis points at the end of 2022 to 106 basis points at the end of June 2023.

In the first half of 2023, Hong Kong stock market performance experienced volatility and in line with global markets trends, influenced by the tightening of monetary policies by several central banks. The total amount of funds raised and the average daily trading volume of the stock market fell by 35.3% and 16.4% respectively compared to the same period last year. As at the end of June 2023, the Hang Seng Index was down 4.4% compared with the end of 2022.

In the Hong Kong property market, residential property transaction volumes increased year-on-year and private residential property prices rose compared with the previous year-end, supported by positive factors such as the border reopening and a positive outlook on Hong Kong's economic recovery. The asset quality of banks' mortgage businesses remained generally stable. Meanwhile, the reopening of Hong Kong's borders also affected the commercial property market with sale prices rising from the last year-end and transaction volumes increasing year-on-year. Sale prices and rental costs of retail properties remained relatively stable while transaction volumes fell year-on-year.

Despite challenges in the macroeconomic environment, the banking industry continues to enjoy significant development opportunities. The persistent upward trend in interest rates is expected to benefit banks' earnings. At the same time, the 14th Five-Year Plan, the Guangdong-Hong Kong-Macao Greater Bay Area, the expansion of mutual financial market access between the Chinese mainland and Hong Kong, and the enactment of the Regional Comprehensive Economic Partnership ("RCEP") will provide new business opportunities for the banking sector in Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL REVIEW

Financial Highlights

HK$'m	**Half-year ended 30 June 2023**	(Restated) Half-year ended 31 December 2022	(Restated) Half-year ended 30 June 2022
Net operating income before impairment allowances	**30,838**	28,864	25,351
Operating expenses	**(7,852)**	(9,535)	(7,415)
Operating profit before impairment allowances	**22,986**	19,329	17,936
Operating profit after impairment allowances	**21,817**	18,685	16,232
Profit before taxation	**21,523**	17,233	15,929
Profit for the period	**18,082**	14,189	13,041
Profit attributable to equity holders of the Company	**16,998**	13,318	12,622

In the first half of 2023, the Group's net operating income before impairment allowances amounted to HK$30,838 million, an increase of HK$5,487 million or 21.6% 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, which was primarily attributable to higher market interest rates compared to the same period of the previous year. The Group proactively managed its assets and liabilities, leading to a widening of the loan and deposit spread and an increase in the average yield of debt securities investments. Net fee and commission income decreased on a year-on-year basis, mainly due to weakened investor confidence in the market, a decline in imports and exports, and dampened credit demand, factors which more than offset the positive impact on consumer confidence and travel brought about by the reopening of Hong Kong's borders. The Group optimised the investment mix of its banking book portfolio, resulting in reduced volatility in the mark-to-market value of certain interest rate instruments caused by market interest rate movements, which in turn led to a year-on-year decrease in net trading gain. Operating expenses increased, mainly reflecting the Group's concerted efforts to enhance brand promotion and marketing in view of improved market environment, and higher daily operating and business related expenses incurred in light of the gradual resumption of economic activities. Meanwhile, the net charge of impairment allowances decreased. Profit for the period amounted to HK$18,082 million, a year-on-year increase of HK$5,041 million or 38.7%. Profit attributable to equity holders was HK$16,998 million, an increase of HK$4,376 million or 34.7% year-on-year.

As compared to the second half of 2022, the Group's net operating income before impairment allowances increased by HK$1,974 million or 6.8%. This was mainly attributable to an increase in net interest income, including the funding income or cost of foreign currency swap contracts, an increase in net fee and commission income and a decrease in net loss on the disposal of debt securities investments. Operating expenses decreased, which more than offset the increase in the net charge of impairment allowances. Furthermore, there was a lower net loss from fair-value adjustments on investment properties. The Group's profit for the period increased by HK$3,893 million or 27.4% compared to the second half of last year.

INCOME STATEMENT ANALYSIS

Net Interest Income and Net Interest Margin

HK$'m, except percentages	**Half-year ended 30 June 2023**	(Restated) Half-year ended 31 December 2022	(Restated) Half-year ended 30 June 2022
Interest income	**57,249**	41,828	21,942
Interest expense	**(34,041)**	(18,399)	(6,621)
Net interest income	**23,208**	23,429	15,321
Average interest-earning assets	**3,226,086**	3,072,107	3,138,342
Net interest spread	**1.05%**	1.28%	0.90%
Net interest margin	**1.45%**	1.51%	0.98%
Net interest margin (adjusted)*	**1.56%**	1.59%	1.13%

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

Net interest income amounted to HK$23,208 million in the first half of 2023. If the funding income or cost of foreign currency swap contracts# were included, net interest income would have increased by 42.0% year-on-year to HK$24,988 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$87,744 million or 2.8% year-on-year. If the funding income or cost of foreign currency swap contracts were included, net interest margin would have been 1.56%, up 43 basis points year-on-year, which was mainly attributable to higher market interest rates compared to the same period of the previous year. The Group proactively managed its assets and liabilities, which led to a widening of the loan and deposit spread and an increase in the average yield of debt securities investments, which more than offset the impact of customer migration from CASA deposits to time deposits.

Compared with the second half of 2022, the Group's net interest income would have increased by 1.2% if the funding income or cost of foreign currency swap contracts were included. This was mainly due to growth in average interest-earning assets, which was partially offset by a decrease in net interest margin. Average interest-earning assets expanded by HK$153,979 million or 5.0%. If the funding income or cost of foreign currency swap contracts were included, net interest margin would have been down 3 basis points, as deposit costs increased amid customer migration from CASA deposits to time deposits and intense market competition for deposit business.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	Half-year ended 30 June 2023		(Restated) Half-year ended 31 December 2022		(Restated) Half-year ended 30 June 2022	
ASSETS	**Average balance HK$'m**	**Average yield %**	Average balance HK$'m	Average yield %	Average balance HK$'m	Average yield %
Balances and placements with banks and other financial institutions	**376,321**	**2.07**	393,665	1.44	412,493	0.72
Debt securities investments and other debt instruments	**1,154,081**	**2.97**	1,005,961	2.24	1,082,644	1.29
Advances to customers and other accounts	**1,683,288**	**4.31**	1,658,247	3.27	1,636,783	1.66
Other interest-earning assets	**12,396**	**6.93**	14,234	4.32	6,422	2.53
Total interest-earning assets	**3,226,086**	**3.58**	3,072,107	2.70	3,138,342	1.41
Non interest-earning assets	**505,454**	**–**	518,335	–	544,979	–
Total assets	**3,731,540**	**3.09**	3,590,442	2.31	3,683,321	1.20
LIABILITIES	**Average balance HK$'m**	**Average rate %**	Average balance HK$'m	Average rate %	Average balance HK$'m	Average rate %
Deposits and balances from banks and other financial institutions	**248,758**	**1.42**	245,868	0.88	323,117	0.81
Current, savings and time deposits	**2,299,194**	**2.61**	2,215,114	1.44	2,254,428	0.46
Subordinated liabilities	**77,534**	**3.26**	19,057	3.45	–	–
Other interest-bearing liabilities	**86,938**	**2.90**	85,616	2.02	22,756	1.10
Total interest-bearing liabilities	**2,712,424**	**2.53**	2,565,655	1.42	2,600,301	0.51
Shareholders' funds* and other non interest-bearing deposits and liabilities	**1,019,116**	**–**	1,024,787	–	1,083,020	–
Total liabilities	**3,731,540**	**1.84**	3,590,442	1.02	3,683,321	0.36

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

Net Fee and Commission Income

HK$'m	**Half-year ended 30 June 2023**	(Restated) Half-year ended 31 December 2022	(Restated) Half-year ended 30 June 2022
Loan commissions	**1,466**	778	1,769
Credit card business	**1,185**	1,088	903
Securities brokerage	**952**	1,103	1,388
Trust and custody services	**380**	382	341
Payment services	**345**	364	360
Insurance	**327**	555	357
Funds distribution	**254**	246	295
Bills commissions	**237**	252	262
Currency exchange	**186**	123	87
Safe deposit box	**145**	150	149
Funds management	**17**	23	26
Others	**854**	672	687
Fee and commission income	**6,348**	5,736	6,624
Fee and commission expense	**(1,434)**	(1,368)	(1,192)
Net fee and commission income	**4,914**	4,368	5,432

In the first half of 2023, net fee and commission income amounted to HK$4,914 million, a decrease of HK$518 million or 9.5% year-on-year. The drop was mainly due to weakened investor confidence in the market, which resulted in a year-on-year decrease in commission income from securities brokerage and funds distribution of 31.4% and 13.9% respectively, alongside a decrease in commission income from funds management of 34.6% compared to the same period last year. Commission income from loans, bills and payment services decreased on a year-on-year basis, owing to a decline in imports and exports, and dampened trade and credit demand. However, commission income from credit card business and currency exchange rose by 31.2% and 113.8% year-on-year respectively, mainly due to reopening of Hong Kong's borders, which boosted consumer confidence and travel. Commission income from trust and custody services also increased year-on-year. Fee and commission expenses increased, mainly due to an increase in credit card related expenses resulting from higher business volume.

Compared with the second half of 2022, net fee and commission income increased by HK$546 million or 12.5%, primarily owing to an increase in commission income from loans, credit card business, currency exchange and funds distribution. However, commission income from insurance, securities brokerage, funds management, bills, payment services and trust and custody services decreased. Fee and commission expenses increased, mainly due to an increase in credit card related expenses resulting from higher business volume.

Net Trading Gain

HK$'m	**Half-year ended 30 June 2023**	(Restated) Half-year ended 31 December 2022	(Restated) Half-year ended 30 June 2022
Foreign exchange and foreign exchange products	**3,773**	3,011	4,624
Interest rate instruments and items under fair value hedge	**171**	881	4,076
Commodities	**77**	(9)	182
Equity and credit derivative instruments	**22**	54	20
Total net trading gain	**4,043**	3,937	8,902

In the first half of 2023, the Group's net trading gain amounted to HK$4,043 million, a decrease of HK$4,859 million or 54.6% year-on-year. If the funding income or cost of foreign currency swap contracts were excluded, net trading gain would have decreased by 65.8% year-on-year to HK$2,263 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. This, in turn, led to a year-on-year decrease in the net trading gain from interest rate instruments and items under fair value hedge. Net trading gain from commodities decreased by HK$105 million year-on-year, primarily due to a lower gain from bullion transactions.

Compared with the second half of 2022, net trading gain increased by HK$106 million or 2.7%. If the funding income or cost of foreign currency swap contracts were excluded, net trading gain would have decreased by 15.1% from the second half of last year. This was mainly attributable to changes in the mark-to-market value of certain interest rate instruments caused by market interest rate movements.

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

HK$'m	**Half-year ended 30 June 2023**	(Restated) Half-year ended 31 December 2022	(Restated) Half-year ended 30 June 2022
Net gain/(loss) on other financial instruments at fair value through profit or loss	**1,511**	(3,451)	(8,413)

In the first half of 2023, the Group recorded a net gain of HK$1,511 million on other financial instruments at fair value through profit or loss, compared to a net loss of HK$8,413 million in the first half of 2022. The change was primarily due to a rise in the mark-to-market value of BOC Life's debt securities investments this year, caused by market interest rate movements. The abovementioned changes in the mark-to-market value of debt securities investments related to BOC Life's participating insurance business was offset by changes to its insurance contract liabilities, also caused by market interest rate movements, which have been reflected in changes in insurance finance (expenses)/income.

Compared with the second half of 2022, the change was mainly attributable to a rise in the mark-to-market value of BOC Life's debt securities investments this year, in contrast to a decrease in the mark-to-market value of BOC Life's related investments resulting from movements in market interest rates in the second half of last year.

Operating Expenses

HK$'m	**Half-year ended 30 June 2023**	(Restated) Half-year ended 31 December 2022	(Restated) Half-year ended 30 June 2022
Staff costs	**5,078**	5,341	4,605
Premises and equipment expenses (excluding depreciation and amortisation)	**663**	684	589
Depreciation and amortisation	**1,476**	1,475	1,526
Other operating expenses	**1,170**	2,518	1,106
Less: Costs directly attributable to insurance contracts	**(535)**	(483)	(411)
Operating expenses	**7,852**	9,535	7,415

	At 30 June 2023	At 31 December 2022	At 30 June 2022
Staff headcount measured in full-time equivalents	**14,823**	14,832	14,220

Operating expenses amounted to HK$7,852 million, an increase of HK$437 million or 5.9% year-on-year. The Group remained committed to allocating resources efficiently and dynamically to meet its basic operating needs and support strategic implementation. To ensure safety and compliance in its operations, the Group continuously implemented low-carbon operational initiatives and prioritised key projects and business growth. At the same time, it refined cost management mechanisms and explored the utilisation of internal resources to meet additional requirements. During the period, it seized opportunities from improved market environment brought about by reopening of borders between the Chinese mainland and Hong Kong, and made concerted efforts to enhance brand promotion and marketing. Meanwhile, higher daily operating and business related expenses were incurred in light of the gradual resumption of economic activities. The cost to income ratio was 25.46%, remaining at a satisfactory level relative to industry peers.

Staff costs increased by 10.3% year-on-year, mainly due to the annual salary increment and an increased accrual for performance-related remuneration driven by improved earnings in the first half.

Premises and equipment expenses were up 12.6%, primarily due to increased investment in information technology.

Depreciation and amortisation decreased by 3.3%, mainly due to lower depreciation charges on right-of-use assets and completion of depreciation on certain computer systems, which more than offset the impact of increased amortisation of intangible assets.

Other operating expenses increased by 5.8%, primarily owing to an increase in business promotion, advertising and communication expenses.

Compared with the second half of 2022, operating expenses decreased by HK$1,683 million or 17.7%. The decrease was mainly due to lower staff costs and a reduction in advertising expenditure, professional consultancy fees, cleaning costs and charitable donation expenses. It was also partly attributable to other one-off expenses recorded in the second half of last year which led to a higher base for comparison.

Net Charge of Impairment Allowances on Advances and Other Accounts

HK$'m	**Half-year ended 30 June 2023**	(Restated) Half-year ended 31 December 2022	(Restated) Half-year ended 30 June 2022
Net reversal/(charge) of impairment allowances on advances and other accounts			
Stage 1	**429**	1,175	(359)
Stage 2	**(588)**	(1,024)	(316)
Stage 3	**(1,066)**	(970)	(1,051)
Net charge of impairment allowances on advances and other accounts	**(1,225)**	(819)	(1,726)

In the first half of 2023, the Group's net charge of impairment allowances on advances and other accounts amounted to HK$1,225 million, a decrease of HK$501 million or 29.0% year-on-year. Impairment allowances at Stage 1 recorded a net reversal of HK$429 million, as compared to a net charge of HK$359 million in the same period last year. The net reversal in the first half of 2023 was driven by improvements to the parameter values of the Group's expected credit loss model made in response to a more positive macroeconomic outlook. By contrast, in the same period last year, the deteriorating macroeconomic conditions caused by the severity of the pandemic and ongoing geopolitical risks resulted in a higher net charge of impairment allowances. Impairment allowances at Stage 2 recorded a net charge of HK$588 million, an increase of HK$272 million year-on-year, mainly reflecting the potential risks arising from exposures to certain property developers. Impairment allowances at Stage 3 amounted to a net charge of HK$1,066 million, an increase of HK$15 million year-on-year. The annualised credit cost of advances to customers and other accounts was 0.14%, down 0.07 percentage points year-on-year.

As at 30 June 2023, the Group's total loan impairment allowances as a percentage of advances to customers was 0.73%.

Compared with the second half of 2022, the Group's net charge of impairment allowances on advances and other accounts increased by HK$406 million or 49.6%. The net reversal of impairment allowances at Stage 1 decreased by HK$746 million, owing to a higher net reversal recorded in the second half of 2022 when the Group revised its expected credit loss model and a negative loan growth. The net charge of impairment allowances at Stage 2 decreased by HK$436 million, mainly attributable to the higher impairment allowances made in the second half of 2022 after the Group adjusted its expected credit loss model to take into consideration the potential risks arising from exposures to certain Mainland property developers and clients under the prevailing pandemic relief measures. The net charge of impairment allowances at Stage 3 increased by HK$96 million, mainly due to new impairment allowances made in response to the downgrading of certain corporate advances this year.

ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the Group's asset composition. Please refer to Note 20 to the Interim Financial Information for the contract/notional amounts and fair values of the Group's derivative financial instruments. Please refer to Note 36 to the Interim Financial Information for the contractual amounts of each significant class of contingent liability and commitment, and the aggregate credit risk-weighted amounts.

Asset Composition

	At 30 June 2023		(Restated) At 31 December 2022	
HK$'m, except percentages	**Balance**	**% of total**	Balance	% of total
Cash and balances and placements with banks and other financial institutions	**414,560**	**11.0**	535,194	14.6
Hong Kong SAR Government certificates of indebtedness	**210,010**	**5.6**	208,770	5.7
Securities investments and other debt instruments[1]	**1,190,085**	**31.5**	1,068,226	29.1
Advances and other accounts	**1,713,106**	**45.4**	1,644,113	44.8
Fixed assets and investment properties	**59,707**	**1.6**	60,330	1.7
Other assets[2]	**183,713**	**4.9**	149,872	4.1
Total assets	**3,771,181**	**100.0**	3,666,505	100.0

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 30 June 2023, the total assets of the Group amounted to HK$3,771,181 million, an increase of HK$104,676 million or 2.9% from the end of last year. Cash and balances and placements with banks and other financial institutions decreased by HK$120,634 million or 22.5%, mainly due to a decrease in balances with banks and central banks. Securities investments and other debt instruments increased by HK$121,859 million or 11.4%, as the Group increased investments in government-related bonds and bills as well as high-quality financial institutions bonds. Advances and other accounts rose by HK$68,993 million or 4.2%, with advances to customers growing by HK$71,368 million or 4.3%, and trade bills decreasing by HK$995 million or 15.7%.

Advances to Customers

HK$'m, except percentages	**At 30 June 2023** Balance	% of total	(Restated) At 31 December 2022 Balance	% of total
Loans for use in Hong Kong	**1,250,975**	**72.8**	1,172,466	71.1
Industrial, commercial and financial	**700,635**	**40.8**	641,206	38.9
Individuals	**550,340**	**32.0**	531,260	32.2
Trade financing	**56,961**	**3.3**	51,879	3.2
Loans for use outside Hong Kong	**411,701**	**23.9**	423,924	25.7
Total advances to customers	**1,719,637**	**100.0**	1,648,269	100.0

The Group continued to capture opportunities in the Hong Kong, Greater Bay Area, Southeast Asian and key overseas markets. Adhering to its customer-centric philosophy, the Group deepened cross-departmental collaboration and strengthened service capabilities across its entire product line, aiming to meet customers' comprehensive business needs with professional services. It further bolstered its support to local commercial and SME customers in Hong Kong by offering tailored and exclusive service solutions. In addition, the Group facilitated the HKSAR Government's launch of funding schemes to support post-pandemic business recovery in certain industries. The Group made concerted efforts to develop its mortgage business by refining the functionality of its Home Expert mobile application, providing customers with comprehensive property planning and online mortgage services. It capitalised on development opportunities arising from regional synergies by enhancing collaboration with its Southeast Asian entities and BOC's entities in the Greater Bay Area and Asia-Pacific region. These collaborations focused on developing of Belt and Road and "Going Global" projects, serving large corporate customers in the region, and actively leading or participating in syndicated projects in Southeast Asia. During the period, the Group remained the top mandated arranger in the Hong Kong-Macao syndicated loan market and held the leading market position in terms of the total number of new mortgage loans in Hong Kong. As at 30 June 2023, advances to customers amounted to HK$1,719,637 million, an increase of HK$71,368 million or 4.3% from the end of last year.

Loans for use in Hong Kong grew by HK$78,509 million or 6.7%.

- Lending to the industrial, commercial and financial sectors increased by HK$59,429 million or 9.3%, reflecting loan growth in property development and investment, manufacturing, wholesale and retail trade, information technology and stock brokers.

- Lending to individuals increased by HK$19,080 million, or 3.6%, mainly driven by growth in loans for the purchase of flats under the Home Ownership Scheme and other government-sponsored home purchase schemes, loans for the purchase of other residential properties and other individual loans.

Trade financing increased by HK$5,082 million or 9.8%. Loans for use outside Hong Kong decreased by HK$12,223 million or 2.9%, mainly due to a decrease in loans for use in the Chinese mainland.

Loan Quality

HK$'m, except percentages	**At 30 June 2023**	(Restated) At 31 December 2022
Advances to customers	**1,719,637**	1,648,269
Classified or impaired loan ratio	**0.73%**	0.53%
Total impairment allowances	**12,533**	11,575
Total impairment allowances as a percentage of advances to customers	**0.73%**	0.70%
Residential mortgage loans[1] – delinquency and rescheduled loan ratio[2]	**0.01%**	0.02%
Card advances – delinquency ratio[2]	**0.27%**	0.28%

	Half-year ended 30 June 2023	Half-year ended 30 June 2022
Card advances – charge-off ratio[3]	**1.43%**	1.38%

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 period to average card receivables during the period.

During the first half of 2023, Hong Kong's economic recovery was positively impacted by the reopening of borders between the Chinese mainland and Hong Kong, which benefitted industries such as tourism, transport, aviation, catering and retail, among others. However, elevated interest rates put pressure on customers' repayment abilities, while ongoing geopolitical risks and heightened global inflation contributed to uncertainty in the economic environment. The Group proactively strengthened its risk management systems across all types of risks and continuously improved its risk management practices in order to maintain solid asset quality. As at 30 June 2023, the classified or impaired loan ratio was 0.73%, up 0.20 percentage points from the end of last year, as the Group's classified or impaired loans rose by HK$3,830 million from the end of last year to HK$12,554 million owing to the downgrading of certain corporate advances in the first half of the year. The combined delinquency and rescheduled loan ratio of the Group's residential mortgage loans was 0.01%. The charge-off ratio of card advances stood at 1.43%, up 0.05 percentage points year-on-year.

Deposits from Customers*

HK$'m, except percentages	**At 30 June 2023** Balance	% of total	At 31 December 2022 Balance	% of total
Demand deposits and current accounts	**224,856**	**9.1**	236,115	9.9
Savings deposits	**947,301**	**38.5**	993,689	41.8
Time, call and notice deposits	**1,291,233**	**52.4**	1,147,403	48.3
	2,463,390	**100.0**	2,377,207	100.0
Structured deposits	**108**	**0.0**	–	–
Total deposits from customers	**2,463,498**	**100.0**	2,377,207	100.0

* Including structured deposits

In the first half of 2023, market interest rates remained high, leading to a continued trend of customers migrating from CASA deposits to time deposits. In light of this, the Group implemented several strategic measures to consolidate its mid to high-end customer base. It seized market opportunities from the reopening of Hong Kong's borders and actively promoted its Cross-boundary Wealth Management Connect service, while also accelerating the introduction of online applications and products as well as innovative product, such as green deposits. Furthermore, the Group enhanced collaboration among its business units, strengthened cooperation with government authorities, large corporates and major central banks, and actively expanded its e-payment, e-collection, payroll, cash management and cash pooling businesses. As at 30 June 2023, total deposits from customers amounted to HK$2,463,498 million, an increase of HK$86,291 million or 3.6% from the end of the previous year. Time, call and notice deposits increased by 12.5%. Savings deposits decreased by 4.7%. Demand deposits and current accounts decreased by 4.8%. The CASA ratio was 47.6%, down 4.1 percentage points from the end of last year.

Capital and Reserves Attributable to Equity Holders of the Company

HK$'m	**At 30 June 2023**	(Restated) At 31 December 2022
Share capital	**52,864**	52,864
Premises revaluation reserve	**37,908**	37,683
Reserve for financial assets at fair value through other comprehensive income	**(10,114)**	(11,008)
Regulatory reserve	**7,486**	6,655
Translation reserve	**(1,833)**	(1,683)
Insurance finance reserve	**2,124**	2,288
Retained earnings	**219,534**	212,989
Reserves	**255,105**	246,924
Capital and reserves attributable to equity holders of the Company	**307,969**	299,788

As at 30 June 2023, capital and reserves attributable to equity holders of the Company amounted to HK$307,969 million, an increase of HK$8,181 million or 2.7% from the end of last year. The premises revaluation reserve grew by 0.6%. The deficit in the reserve for financial assets at fair value through other comprehensive income decreased by 8.1% as the Group optimised the investment mix of its banking book portfolio to reduce the impact of market interest rate movements on the mark-to-market value of financial assets at fair value through other comprehensive income. The regulatory reserve increased by 12.5%, primarily driven by growth in advances to customers and a change in the net charge of impairment allowances. Retained earnings rose by 3.1% from the end of last year.

*Capital Ratio**

HK$'m, except percentages	**At 30 June 2023**	At 31 December 2022
Consolidated capital after deductions		
Common Equity Tier 1 capital	**246,884**	229,798
Additional Tier 1 capital	**22,676**	23,476
Tier 1 capital	**269,560**	253,274
Tier 2 capital	**29,170**	29,048
Total capital	**298,730**	282,322
Total risk-weighted assets	**1,299,148**	1,312,199
Common Equity Tier 1 capital ratio	**19.00%**	17.51%
Tier 1 capital ratio	**20.75%**	19.30%
Total capital ratio	**22.99%**	21.52%

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

As at 30 June 2023, Common Equity Tier 1 ("CET1") capital and tier 1 capital increased by 7.4% and 6.4% respectively from the end of last year, which was primarily attributable to profits recorded for the first half of 2023. Total capital increased by 5.8% from the previous year-end. Total risk-weighted assets ("RWAs") decreased by 1.0% from the end of last year. The CET1 capital ratio was 19.00% and the tier 1 capital ratio was 20.75%, while the total capital ratio stood at 22.99%. The Group continued to strengthen its capital management so as to enhance profitability, properly manage its RWAs and improve its return on capital within the context of a rate hike cycle, with a view to maintaining an appropriate capital level for meeting regulatory requirements and balancing sustainable business development with returns to equity holders.

Liquidity Coverage Ratio and Net Stable Funding Ratio

	2023	2022
Average value of liquidity coverage ratio		
First quarter	**189.68%**	159.16%
Second quarter	**188.89%**	149.49%
Third quarter	**N/A**	149.00%
Fourth quarter	**N/A**	178.49%

	2023	2022
Quarter-end value of net stable funding ratio		
First quarter	**134.51%**	123.86%
Second quarter	**131.56%**	126.87%
Third quarter	**N/A**	127.98%
Fourth quarter	**N/A**	131.56%

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2023, the Group seized opportunities from economic recovery and continued to pursue progress while maintaining stability, thus improving its ability to advance sound development. It deeply cultivated its core market of Hong Kong with a view to consolidating its customer and business foundations and exploring growth potential. Taking advantage of the full resumption of normal travel between the Chinese mainland and Hong Kong, the Group vigorously developed cross-border business, leveraged its offshore market advantages and capitalised on the policy dividends of the Guangdong-Hong Kong-Macao Greater Bay Area in order to cultivate new growth drivers. To further enhance its regional service capabilities and expedite the delivery of product and service delivery, the Group remained at the forefront of RMB internationalisation, strengthened regional collaborations across Southeast Asia and seized major development opportunities from the RCEP. It also actively integrated the concept of green finance and sustainable development into its business and operations, providing diversified low-carbon products and services to meet customers' needs for green transformation. The Group consolidated its core technological foundations so as to offer comprehensive digital banking services and actively developed integrated business platforms and collaborative mechanisms to enhance its integrated service capabilities. In addition, the Group adhered to "bottom line" thinking in risk management while making 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	**Half-year ended 30 June 2023**	Half-year ended 30 June 2022
Personal Banking	**8,625**	3,079
Corporate Banking	**9,850**	5,493
Treasury	**1,785**	7,554
Insurance	**617**	(730)
Others	**1,459**	892
Subtotal	**22,336**	16,288
Eliminations[2]	**(813)**	(359)
Total profit before taxation	**21,523**	15,929

1. For additional segmental information, see Note 39 to the Interim Financial Information.

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

Personal Banking

Financial Results

Personal Banking achieved a profit before tax of HK$8,625 million in the first half of 2023, an increase of HK$5,546 million or 180.1% year-on-year. This growth was mainly attributable to an increase in net interest income, which was partially offset by a slight drop in non-interest income and an increase in operating expenses. Net interest income increased by 147.9%, mainly driven by a rise in market interest rates along with an increase in the average balance of deposits and loans. Operating expenses rose by 5.4%, mainly due to higher staff costs and an increase in business-related expenses.

Business Operations

Enriching green finance products and services and boosting high-quality development

In line with market and customer trends towards low-carbon transition, the Group actively implemented its strategic plan for sustainable development. It enriched its green finance products and services to support customers in adopting green and low-carbon living practices. In light of growing market interest in ESG issues, the Group helped retail customers to capture new green investment opportunities and offered a diversified range of investment options that combine growth and income components. These include a sustainable income strategy fund and a sustainable equity fund, the latter being the first equity fund in Hong Kong to reference the "S&P BOCHK China Hong Kong Greater Bay Area Net Zero 2050 Climate Transition Index" for active investments. At the end of June 2023, the number of ESG funds distributed via BOCHK's platform had increased by approximately 20% compared to the end of last year. The Group also continued to promote its Green Mortgage Plan, encouraging homebuying clients to support green buildings. At the end of June 2023, the balance of green mortgage loans was approximately 2.2 times higher than that of the previous year-end, further promoting carbon reduction, environmental protection and smart living.

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

The Group pushed forward data-driven product design and service delivery to ensure effective and continuous business operations. As at the end of June 2023, the number of customers using its digital platforms showed steadily growth as compared with the end of 2022. Notably, there was continuous growth in both the number of customers using its mobile banking platform and related transaction volumes, in particular those related to insurance and foreign exchange trading. To meet surging demand for online insurance products, the Group expanded the range of insurance products offered on its mobile banking platform, aiming to enhance customers' online insurance application experience. The proportion of life insurance business transacted via e-channels increased steadily, with the Group ranking first in the market for standard new premiums from online channels in the first quarter of 2023. To improve its remote service capabilities and expand customer coverage, the Group upgraded its RM Chat service platform to enhance customer interactions and services, thereby strengthening customer acquisition and retention effectiveness. It also advanced the automation of approval procedures by deepening the automation of its residential mortgage approval processes and optimising the pre-default eligibility criteria of personal loan and credit card applications, so as to enhance the Group's efficiency and capacity in credit approval. In line with the "HKD-RMB Dual Counter Model" launched by Hong Kong Exchange and Clearing Limited, the Group introduced a cross-counter securities trading service on mobile banking. This allows customers to conduct flexible cross-counter transactions after selecting of designated securities according to their various funding needs. To improve operational efficiency, the Group utilised blockchain technology to carry out 99% of its property valuation reports during the period. In addition, it optimised its Home Expert mobile application to provide comprehensive property purchase planning and online mortgage services. In coordination with the "Hospital Authority Enhanced Home Loan Interest Subsidy Scheme", a special module was set up within the application to enable qualified Hospital Authority personnel to complete the entire mortgage application process online and realise their dream of home ownership. As at the end of June 2023, the Home Expert mobile application had achieved more than 167,000 cumulative downloads. In the first half of 2023, the monthly average number of online mortgage applications recorded year-on-year growth of 22.8%, accounting for approximately half of total mortgage applications. The Group maintained its top market position in terms of total number of new residential mortgage loans for 4 consecutive years.

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

The Group made concerted efforts to promote its premium brand of "Private Wealth". It expanded the range of exclusive products and premier services on offer, including providing Private Wealth professional investors with diverse trading channels such as corporate bond trading via mobile banking. With additional Private Wealth centres coming into operation, it was able to facilitate face-to-face wealth management services for its high net-worth customers and enhance their bespoke banking experiences. As a result, the Group's Private Wealth business achieved steady growth, driven by continuous expansion in customer base since its launch. As at the end of June 2023, the number of Private Wealth customers had further increased as compared with the end of 2022. The Group also continued to develop its "Trendy Too" brand, which targets the young customer segment, and actively explored using innovative service channels and products to guide more young customers to accumulate wealth step-by-step. To celebrate the first anniversary of TrendyToo, the Group introduced a number of themed promotional offers covering various wealth management and investment instruments as well as spending and payment tools. There has been a steady increase in the number of young customer accounts since the brand launched, with the number of newly opened accounts in the first half of 2023 almost tripled year-on-year. During the period, BOCHK was awarded Best Retail Bank in Hong Kong at the Global Excellence in Retail Financial Services Awards 2023 organised by *The Asian Banker*.

The Group's private banking business maintained satisfactory 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 and thus provide professional private banking services to high-net-worth clients and family offices. At the same time, the Group actively integrated green finance and ESG standards into product and service design, pushing forward high-quality and sustainable development in its private banking business. It stepped up its digital transformation efforts by accelerating business process automation and digitalisation to keep enhancing its private banking service and trading platform. The Group also enriched its product range and strived to implement innovative service practices. As at 30 June 2023, the Group's private banking assets under management had increased by 17.1% compared to the end of 2022.

Seizing cross-border market opportunities and fostering the development of RMB business

With Hong Kong fully resuming normalcy, the Group implemented a number of initiatives to help cross-border customers capture wealth management opportunities. It introduced a series of convenient offline services, as well as brand promotional and themed marketing campaigns, while relying on its cross-border mobile banking module to strengthen its online investment guidance service and offer exclusive investment options with featured complementary discounts. The Group capitalised on its new "BOCHK Cross-border GO" brand, which focuses on the three major regions of the Chinese mainland, Southeast Asia and other overseas countries, to provide one-stop cross-border financial services to customers travelling around the globe. As at the end of June 2023, the coverage of its attestation service had been extended to 14 countries and regions. Regarding cross-border financial services in the Chinese mainland, BOCHK strived to become the first-choice bank for Hong Kong customers travelling north and Chinese mainland customers travelling south by providing them with a suite of financial services in the Greater Bay Area, such as account opening, property purchase, wealth management, payment and insurance protection. As at the end of June 2023, the number of BOCHK's cross-border customers had steadily increased, with the revenue generated from its cross-border life insurance business witnessing a satisfactory year-on-year growth. Meanwhile, the cumulative number of GBA accounts opened increased by 41% compared with the end of last year. The Group continuously optimised its cross-border products and services with the aim of meeting the global asset allocation requirements of Chinese mainland customers. It now offers more than 160 investment products under the Southbound scheme of the BOCHK Cross-boundary Wealth Management Connect service, including funds, retail bonds, deposits and foreign exchange products. In the first half of 2023, the aggregate number of accounts opened and the total amount of funds remitted or transferred under Southbound and Northbound services ranked among the top tier in Hong Kong, while the market value of products provided under the Southbound scheme ranked among the top tier in the Greater Bay Area market. In line with the "Northbound Travel for Hong Kong Vehicles" scheme announced by the HKSAR Government and the People's Government of Guangdong Province, the Group launched "Hong Kong-Guangdong Cross Border Motor Insurance" to facilitate Hong Kong residents' cross-boundary car trips. Keeping pace with RMB internationalisation, BOCHK leveraged its prominent position in RMB business to satisfy customers' investment and financial needs through its comprehensive "RMB One" package, which offers a wide range of RMB products and services. In the first quarter of 2023, the Group further consolidated its leading position in RMB insurance and maintained its market leadership in the new RMB insurance standard premiums for the 11th consecutive year.

Improving regional brand development and enhancing digital empowerment in Southeast Asia

The Group accelerated the development of its personal banking financial product and service suite in Southeast Asia. Its personal banking services now extend to eight Southeast Asian countries while its "Wealth Management" is rooted in BOC Malaysia, BOC Thailand, the Jakarta Branch and Phnom Penh Branch, the Group remained committed to developing a full-scope wealth management business and comprehensive financial services that serve the needs of the local markets. It utilised digital innovation and its multi-functional mobile banking platform to optimise the online payment experience for local customers, introducing a series of features such as small value real-time payment, cross-border UnionPay QR payment, and online RMB salary direct remittance service. As such, it steadily advanced the development of a scenario-based personal banking financial services ecosystem. Meanwhile, BOC Malaysia launched the second phase of its Real-time Retail Payments Platform (RPP), becoming the first Chinese bank to offer this service in the country. The Vientiane Branch became the first commercial bank in Laos to offer UnionPay, WeChat, and Alipay online payment services. The Phnom Penh Branch launched a KHQR QR code payment service and promoted merchant acquiring business in Angkor Wat, Cambodia. The Jakarta Branch partnered with a local Chinese life insurance company to launch an Indonesian rupiah-denominated savings insurance product and introduced a corporate debit card for corporate customers. In addition, the Manila Branch secured the payroll business of a multinational telecommunications company in the Philippines.

Leveraging BOC Credit Card's advantages to stimulate post-pandemic local and cross-border spending

Seizing business opportunities from the reopening of borders and the resumption of normalcy, the Group collaborated closely with BOC to launch joint promotional offers with merchants, bridging consumer spending between the Chinese mainland and Hong Kong. The "So Three Campaign" was introduced, offering special rebates across three categories of spending, namely online shopping, bill payment, and dining, shopping and entertainment. In addition, the Group partnered with local and overseas physical stores and online merchants covering the majority of customers' daily spending needs, and worked with several brand ambassadors to promote its brand image and enhance BOC Credit Card's brand awareness. To revolutionalise its "BOC Chill Card", the Group introduced the monthly "Chill Ticket Bidding Day" promotion, allowing cardholders to purchase tickets to designated movie screenings and music concerts at no cost. By launching new entertainment and reward schemes that attract and appeal to young customers, the Group recorded notable growth in young customers' share of new card acquisition in the first half of 2023. It also strengthened intra-group collaborations and synergies in order to continuously cultivate new business growth drivers. In the first half of 2023, the total transaction volume of retail cardholder spending and merchant acquiring business increased by 33.8% and 42.4% respectively year-on-year.

Corporate Banking

Financial Results

Corporate Banking achieved a profit before tax of HK$9,850 million, an increase of HK$4,357 million or 79.3% year-on-year. This was mainly attributable to an increase in net interest income. Net operating income before impairment allowances increased by 46.1% year-on-year. Net interest income increased by 78.9% year-on-year, primarily driven by a rise in market interest rates. Net fee and commission income decreased by 11.3% year-on-year, mainly due to a decline in commission income from loans and bills. The net charge of impairment allowances was down HK$452 million year-on-year. This was mainly due to a higher net charge of impairment allowances recorded in the same period last year, resulting from the deteriorating macroeconomic conditions caused by the severity of the pandemic and ongoing geopolitical risks.

Business Operations

Enhancing professional product and service capabilities to constantly sharpen business advantages

Adhering to its customer-centric philosophy, the Group focused on strengthening intra-group collaboration and enhancing its full-scope service capabilities to meet customers' comprehensive business demands. It proactively captured market opportunities, and strengthened support for key projects in Hong Kong, the Greater Bay Area and Southeast Asia. As a result, the Group remained the top mandated arranger bank in the Hong Kong-Macao syndicated loan market and underwrote several bond issues with significant market influence. It deepened its business relationships with the world's major central banks, international financial institutions and sovereign wealth funds. It also further promoted the development of key businesses such as trade financing, payment, and settlement services, and maintained its leading position in the cash pooling business. During the period, it introduced an efficient online payment collection solution for an internationally renowned airline, enhancing operational efficiency and offering passengers a safe, efficient and convenient electronic payment experience. In recognition of its outstanding and highly professional services, BOCHK was named Best Cash Management Bank in Hong Kong for the ninth time and Best Transaction Bank in Hong Kong for the fifth time by *The Asian Banker*. Moreover, it was awarded Hong Kong Domestic Cash Management Bank of the Year for the tenth consecutive year by *Asian Banking & Finance*.

Giving full play to synergistic advantages and accelerating regional business development

The Group deepened its cooperation with BOC's institutions in the Greater Bay Area to seize post-pandemic opportunities and changes as market recovered. These collaborations aimed to promote business synergies and jointly explore the cross-border financing needs of key industries and target customers in the context of deepening integration within the Greater Bay Area. The Group strived to enhance its technology finance capabilities and supported the development of innovative technology enterprises in the Guangdong-Hong Kong-Macao Greater Bay Area, the Yangtze River Delta and the Beijing-Tianjin-Hebei region by offering diversified products and services. It closely followed the HKSAR Government's development plan and related business opportunities for the Northern Metropolis area so as to actively provide corresponding financial support. During the period, the Group launched a new series of cross-border financial service solutions to help corporate customers capture business opportunities in the Greater Bay Area. It continuously improved its RMB service capabilities and facilitated the expansion of cross-border financial infrastructure, including supporting the launch of Northbound Trading of Swap Connect by providing transaction clearing agency and foreign exchange services for offshore investors. In addition, it successfully implemented the first batch of cross-border RMB settlement business to support trade deals between China and Argentina for an intelligent technology enterprise.

In its Southeast Asian business, the Group focused on business integration and seized opportunities brought about by economic and trade ties within the Asia-Pacific region. It prioritised the development of Belt and Road and "Going Global" projects as well as large corporate customers in the region, and actively led or participated in regional syndicated projects by enhancing collaboration with BOC entities in the Asia-Pacific region. The Phnom Penh Branch and Vientiane Branch each signed a strategic cooperation framework agreement with a large Chinese investment company to provide comprehensive financial services, such as deposits, loans, remittances, international settlement and trade financing, for the company's local corporate investees. The Yangon Branch successfully completed its first RMB export letter of credit collection transaction, marking its first trade finance deal since commencing business. The Group continued to support structured financing projects in Southeast Asia and coordinated its Southeast Asian entities to participate in high-quality syndicated loans in the Asia-Pacific region. BOCHK successfully acted as lead arranger in its first syndicated loan to a leading auto finance company in Indonesia, further consolidating its prominent position in the syndicated loan market. To promote the regional development of green finance, the Group remained committed to fostering the concept of sustainable development and promoting the launch and certification of ESG projects. The Manila Branch and the Phnom Penh Branch launched the Group's first bilateral green loan and social responsibility loan certified by third party respectively in Southeast Asia. The Group also optimised its regional product suite and made concerted efforts to improve the service capability of its intelligent Global Transaction Banking (iGTB) platform among its Southeast Asian entities, so as to provide all-round digital services for local and cross-border corporate customers and support customers' digital transformation. During the period, BOC Malaysia and BOC Thailand each launched iGTB regional e-commerce services, allowing customers to handle letters of credit and guarantees through online banking.

Promoting inclusive finance and deepening cooperation with commercial and SME customers

The Group spared no effort in supporting the business development of local commercial and SME customers, aiming to deliver customised financial solutions by enhancing its sectoral and digital servicing capabilities. It actively supported the "Dedicated 100% Loan Guarantee Scheme" launched this year by HKMC Insurance Limited to aid in the post-pandemic recovery of local and cross-boundary passenger transport and tourism industries. The Group also collaborated with a third-party online payment platform in Hong Kong to provide convenient digital banking loan services for SMEs by utilising transaction data from e-wallets provided by merchants. These ongoing efforts to provide high-quality SME services won wide acclaim and recognition, with the Group receiving the Best SME's Partner Award from the Hong Kong General Chamber of Small and Medium Business for the 16th consecutive year and the Outstanding Innovative SME Banking Services at the FinTech Awards organised by *etnet* for the second consecutive year.

Cultivating the concept of sustainable development and actively promoting green transformation

In line with ESG development trends, the Group ramped up efforts to enhance its green finance product and service offerings in order to provide customers with bespoke and cutting-edge financial solutions, while supporting and encouraging enterprises to adopt sustainable business models and accomplish their green development goals. As at the end of June 2023, the balance of its green and sustainability-linked loans to corporate customers increased by 47% as compared with the previous year-end. Acting as joint global coordinator, the Group successfully assisted the HKSAR Government in issuing RMB15 billion worth of green bonds.

Steadily developing custody and trust business

The Group devoted significant efforts to expand its custody business. It enhanced joint marketing efforts with BOC's branches in the Chinese mainland and overseas and successfully engaged in several key custody projects. As at the end of June 2023, its corporate and institutional custodian clients increased by 2% compared to the end of last year. During the period, the Group actively explored new products and served as custodian for the HKSAR Government's first tokenised green bond issuance. It also deepened business cooperation with Chinese investment companies on corporate trust and agency services, in an effort to assist its customers in raising funds from bond markets.

BOCI-Prudential Trustee Limited ("BOCI-Prudential Trustee") continued to promote business transformation and diversify its income streams by successfully engaging in a number of sizable projects, including ORSO schemes, Private Employee Benefits schemes and Special Purpose Acquisition Company escrow account services. During the period, BOCI-Prudential Trustee was appointed as trustee, fund administrator or custodian for 15 new funds or investment portfolios. As at the end of June 2023, MPF assets under BOCI-Prudential Trustee's trusteeship increased by 6.3% from the end of last year, remaining among the top tier in Hong Kong. BOCI-Prudential Trustee also optimised its retirement schemes and asset servicing digital platforms to enhance its e-channel sales capacities, while assisting the MPFA in preparing for the launch of the eMPF platform. In addition, BOCI-Prudential Trustee sought to tap into business opportunities from the Cross-boundary Wealth Management Connect schemes, with a view to building its cross-border unit trust business and satisfying the wealth management needs of residents from Hong Kong and the Chinese Mainland. During the period, BOCI-Prudential Trustee received multiple accolades in recognition of its professional service capabilities, including five awards at the 2023 MPF Awards organised by MPF Ratings Ltd, multiple fund awards at the Top Fund Awards 2022 organised by *Bloomberg Businessweek* (Chinese Edition) and the Lipper Fund Awards Hong Kong 2023 organised by *Refinitiv*; and Best Fund Administrator, Retail Funds – Highly Commended in the Triple A Sustainable Investing Awards for Institutional Investors, ETFs, and Asset Servicing Providers 2023 organised by *The Asset* for the second consecutive year.

Treasury

Financial Results

Treasury recorded a profit before tax of HK$1,785 million, a decrease of HK$5,769 million or 76.4% year-on-year. This decline was primarily due to the Group optimising the investment mix of its banking book portfolio, resulting in reduced volatility in the mark-to-market value of certain interest rate instruments caused by market interest rate movements. In addition, there was a decrease in net gain from foreign currency swap contracts, which led to a year-on-year decrease in net trading gain, as well as a year-on-year drop in net interest income owing to a rise in funding costs. However, these declines were partially offset by a decrease in the net loss on other financial instruments.

Business Operations

Strengthening infrastructure and steadily promoting global markets business

The Group actively responded to market changes and maintained stable growth in its trading business. Through continuous technological advancements, the Group enhanced its online servicing and transaction processing capabilities. It remained committed to developing diversified products and integrated services, achieving satisfactory results in client business. The Group placed emphasis on cultivating the offshore RMB market by expanding scenario-based applications of RMB, which further consolidated and enhanced its professional reputation in RMB business. During the period, the Group actively supported mutual market access schemes such as Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and Northbound Trading of Swap Connect, contributing to the high-level opening-up of Chinese mainland financial markets and the prosperity and development of financial markets in the Chinese mainland and Hong Kong. At the same time, the Group continued to strengthen collaboration with BOC's entities in the Asia-Pacific region. It assisted BOC Singapore Branch to become the exclusive lead underwriter for the offshore RMB bond issuance of the International Finance Corporation, thus making greater contributions to promoting RMB internationalisation and serving sovereign issuers.

Expanding the depth and breadth of cross-border business and continuing to act as a pioneer in cross-boundary financial services

The Group continued to strengthen the innovation and promotion of RMB products and actively cultivated the offshore RMB market. It enhanced its RMB trading capabilities, improved related products and services and bolstered risk management in Southeast Asia. BOC Thailand actively promoted its treasury business to customers, while the Vientiane Branch launched foreign exchange swap services. The Jakarta Branch achieved stable business progress in RMB Bond Connect, while its RMB clearing volume have now ranked top in the local market for ten consecutive years. As the RMB clearing banks for Malaysia and the Philippines respectively, BOC Malaysia and the Manila Branch further enhanced local RMB infrastructure to improve local RMB clearing business. The Group continued to promote the development of the Cross-border Interbank Payment System (CIPS) and the gradual expansion of RMB usage in the region. BOC Thailand was granted a direct participating bank qualification by the CIPS, allowing it to further simplify RMB business processing procedures, while continuing to assist its Southeast Asian banking peers in applying for indirect participating bank qualifications. During the period, BOCHK and the Manila Branch were respectively recognised as Best Renminbi Bank in Hong Kong and Best Renminbi Bank in the Philippines by *The Asset* in its Triple A Treasurise Awards 2023.

Maintaining a solid and risk-aware investment strategy and promoting sustainable business development

The Group adopted a cautious approach to managing its banking book investments and closely monitored worldwide interest rate adjustments. It responded to market volatility promptly and sought fixed-income investment opportunities to enhance returns. The Group also enriched its product mix to meet market demand for diversified green finance solutions. In addition, it executed its first green RMB reverse repo transaction during the period, with the funds obtained used to support sustainable development projects.

Steadily developing its asset management business and proactively capturing investment opportunities for clients

BOCHK Asset Management Limited ("BOCHK AM") stepped up its efforts to develop the Group's asset management business steadily, leveraging its professional investment service capabilities to offer customers a diverse range of asset management products to meet their investment needs. During the period, BOCHK AM launched the BOCHK All Weather HKD Money Market Fund, its first public money market fund providing investors with a new cash management option. It also participated in the listing of the BOCHK Greater Bay Area Climate Transition ETF on the main board of The Stock Exchange of Hong Kong Limited. As the first ESG themed exchange-traded fund ("ETF") in the Hong Kong market that tracks an ESG index with investments in the Guangdong-Hong Kong-Macao Greater Bay Area, this ETF helps investors to capture economic growth opportunities driven by climate transition in the GBA. In recognition of its professional expertise, BOCHK AM was awarded Best RMB Manager at the Best of the Best Awards – Hong Kong in 2023 by *Asia Asset Management*, and was also named Best-in-Class of China Fixed Income, Outstanding Achiever of Asia Fixed Income and Outstanding Achiever of RMB Fixed Income in the house award category at the Fund of the Year Awards 2022 organised by *BENCHMARK*.

Insurance

Financial Results

In the first half of 2023, the Group's insurance segment focused on optimising its product structure and actively promoting new products with higher value-add, which contributed to an increase in the value of new business of 9.0% year-on-year to HK$1,050 million. Profit before tax amounted to HK$617 million, compared to a loss before tax of HK$730 million for the same period last year. This was mainly attributable to market interest rate movements causing an increase in the mark-to-market value of debt securities investments this year. Insurance service result increased by 10.9% year-on-year.

Business Operations

Continuously optimising business structure and establishing wellness ecosystems

BOC Life continued to focus on driving the sales of products with higher value of new business. It collaborated with relevant units within the Group to launch the "Star Legacy Private Wealth Whole Life Plan", providing the Group's "Private Wealth" customers with a one-stop insurance solution covering life insurance protection, wealth appreciation and wealth inheritance, with the aim of meeting high-net-worth customers' increasing demand for wealth inheritance and protection services. BOC Life also developed its distribution channels by deepening its collaboration within the Group and proactively recruiting talent to build its professional tied agency workforce. Meanwhile, BOC Life launched the second phase of the "Live Young Rewards App" in June. Through an innovative and agile approach, the app deployed big data applications and integrated BOC Life's insurance service experience into different health scenarios, driving the development of an elderly care ecosystem. As at the end of June 2023, the app had accumulated more than 80,000 members. BOC Life continued to incorporate ESG elements into its strategic planning and business operations, promoting cross-industry collaborations to advance sustainable development and create shared value and win-win situations with the society. It deployed positive screening to identify ESG-related opportunities in its investment decisions and strictly adhered to practices set out by the World Green Organisation to enhance sustainability in workplaces, including the "Green Office" and "Eco-Healthy Workplace" labelling programmes. Furthermore, BOC Life strengthened its digital customer services to deliver a more seamless experience and reduce paper consumption. It collaborated with the government, business sector and non-profit organisations to organise comprehensive programmes for corporate charity and green development, supporting sustainable development in education, environment, youth, the underprivileged and local communities. This helped to enhance BOC Life's brand influence and create win-win situations for all parties in society. The "BOC Life New Generation Financial and Technology Designers' Programme" promotes STEAM education, benefitting approximately 310 underprivileged students from 11 schools since its inception in 2021. During the period, BOC Life continued to promote sports development in Hong Kong through title sponsorships of the Hong Kong Premier League and FIFAe Nations Series 2023™ – HKFA eFootball Open. In addition, more than 90% of BOC Life's staff were registered as corporate volunteers who actively participated in various CSR events aimed at building a harmonious and inclusive society. BOC Life remained committed to foster an ESG-centric corporate culture, organising the "Corporate Sustainability Seminar Series" to encourage staff to learn about ESG implementation by inviting experts from various industries to share their experiences and outlooks.

Actively fostering cross-border business and promoting insurance market connectivity in the Greater Bay Area

BOC Life capitalised on the border reopening between the Chinese mainland and Hong Kong, seeking to gain first-mover advantage by launching a series of business projects. These included setting up a new customer service centre at a prime location in Tsim Sha Tsui to facilitate the visits of customers from the Chinese mainland, collaborating within the Group to reserve bank account opening quotas for Chinese mainland customers referred by brokers and tied agents, and actively participating in the preparatory work for establishing insurance service centres in the Guangdong-Hong Kong-Macao Greater Bay Area, with a view to promoting the connectivity of insurance markets in the region.

Winning wide recognition for service excellence

BOC Life's excellence in insurance products and services was widely recognised by customers and the market during the period, including three accolades in the 10Life 5-Star Insurance Award 2022 for its whole life critical illness, savings (education and retirement) and whole life insurance solutions. In addition, in recognition of its efforts in driving corporate philanthropy and promoting the sustainable development of society, it was awarded the Brand Value – Award for Excellence in Community Contribution in the Awards for Excellence in Finance 2023 organised by *Ming Pao*, as well as the Gold Award in the 2022-2023 Web Accessibility Recognition Scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

Southeast Asian Business

The Group's Southeast Asian entities* recorded steady business growth. As at the end of June 2023, deposits from customers and advances to customers amounted to HK$75,364 million and HK$54,263 million respectively, up 8.4% and 4.8% from the end of last year, excluding the impact of foreign exchange rates. Driven by an improvement in net interest margin, net operating income before impairment allowances stood at HK$2,021 million, an increase of 40.7% year-on-year, excluding the impact of foreign exchange rates. As at the end of June 2023, the non-performing loan ratio was 2.44%, down 0.05 percentage points from the end of 2022.

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

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

The Group continued to push forward integrated regional development while adopting market-by-market strategies to guide a differentiated management approach across its regional entities. To enhance the management of its Southeast Asian entities, it deepened its regional management model and regularly reviewed the progress of its regional development sub-plan, so as to ensure improvements in related indicators and strategic measures. The Group continuously improved its network efficiency. It successfully completed the relocation and business commencement of the Loei Branch of BOC Thailand and pushed forward other network relocations in an orderly manner. To further enhance its regional management, it steadily promoted the centralisation of its Southeast Asian operations and gradually accelerated its service migration to the Regional Operation Centre in Nanning, Guangxi.

Adhering to "bottom line" thinking in risk management so as to continuously strengthen regional capabilities

The Group continued to strengthen its post-pandemic regional risk management, adhered to the implementation of the "Three Lines of Defence" control mechanism, and provided professional guidance to its Southeast Asian entities. To ensure robust risk management and maintain safe regional business operations, it closely monitored regional market developments and their impacts on each entity. It further strengthened its Southeast Asian entities' credit risk management, refined the credit approval process and prudently defined credit solutions. The Group also regularly reviewed and optimised each entity's credit portfolio and asset quality. It conducted ad-hoc risk reviews on the assessment, rescheduling, collection and recovery of non-performing loans in order to ensure stable asset quality, thus ensuring synergistic effect between business development and risk management. Moreover, it enhanced its Southeast Asian entities' risk management capabilities in market risk, interest rate risk and liquidity risk to ensure that their operations comply with local regulatory requirements. The Group also made use of its system and technological advantages to further strengthen its Southeast Asian entities' risk control capabilities in compliance, anti-money laundering and anti-fraud.

Digital Transformation Development

In the first half of 2023, the Group remained committed to pushing forward its "BOCHK 2021-2025 Digital Transformation Strategy", working diligently to enhance the core support capacity of its technological foundations and drive digital transformation, and establishing robust working mechanisms and workflows to facilitate high-quality and sustainable development. Upholding its customer-centric philosophy, the Group utilised data, business intelligence and ecological approaches to deepen its digital transformation. It developed ecological, open and scenario-based banking services, offering customers integrated products and services, alongside a seamless process experience. Focusing on its three core markets, the Group deepened technological empowerment, fostered an innovative corporate culture, and nurtured digital 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 harnessed the potential of different customer segments and ecologies to develop digital services, providing customers with a variety of e-payment options for daily consumption and travelling needs. The number of BoC Pay customers witnessed continuous growth as the Group capitalised on the HKSAR Government's Consumption Voucher Scheme and launched a series of marketing campaigns. As at the end of June 2023, the number of BoC Pay users had increased by 10% compared with the end of last year, while total transaction volumes in the first half of 2023 recorded year-on-year growth of 24%. Taking advantages of the synergies between BoC Bill and BoC Pay, the Group accelerated the development of smart travel in Hong Kong by launching a BoC Pay QR travel code service to facilitate payments for the HKeToll Free-Flow Tolling Service launched by the Transport Department of the HKSAR Government, as well as the city's main bus and tram services. Furthermore, the Group launched the third phase of its Open Application Programme Interface ("API") applications to cater the needs of corporate and personal customers, with over 100 Open APIs in the current stage to meet the needs of different customers. The total number of registered partners reached 427, covering a range of services, 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 by applying innovative fintech to scenario-based applications, including its major home purchase, education and wellness scenario-based ecosystems.

Promoting integrated products and services

The Group promoted financial market connectivity between the Chinese mainland and Hong Kong while developing high-quality financial products and services. It accelerated the development of e-CNY by launching the second phase of its e-CNY Exclusive Experience in collaboration with BOC, and increased promotions targeting small amount and high-frequency scenarios to encourage more customers to use e-CNY payments. The Group also facilitated the development of RMB cross-border payment business by promoting the use of CIPS connector. It optimised its regional product offering and enhanced the service capability of its iGTB platform in Southeast Asian countries so as to provide comprehensive online services for local and cross-border corporates in the region. It also launched iGTB regional e-commerce services, allowing customers to handle letters of credit and guarantees through online banking. To further enhance the service experience for personal customers, the Group strived to provide end-to-end digital services, continually optimised its mobile banking experience and expanded its product range. In the first half of 2023, it launched the Hospital Authority Enhanced Home Loan Interest Subsidy Scheme module within its Home Expert mobile application, allowing Hospital Authority customers to complete the entire process of home purchasing through the app, including property search, loan capacity calculation, property valuation, mortgage application, document submission, and approval result enquiry. It also provided one-day express approval service to enhance customer experience.

Providing a seamless process experience

The Group continued to strengthen its intelligent operations and digital transformation by providing customers with seamless, omni-channel services to further enhance customer experience. Continuous training was deployed to its Virtual Assistant Bonnie so as to realise "conversational banking", which enables smooth diverting of customers to "Online Chat" service and mobile banking, creating an integrated omni-channel digital customer journey. It focused on integrating between products and services along the value chain to provide customers with one-stop product and service solutions, based on a deep understanding of the integrated needs of corporate customers that underpin its existing products. Its iGTB platform provided corporate customers with various account and transaction information, including real-time enquiry, e-Advice and customised reports, meeting their corporate financial management needs. The Group deepened the regional development of its iGTB platform, launching real-time fraud monitoring to the Manila Branch and BOC Malaysia, enhancing the beneficiary address for the Manila Branch, offering more choices for telegraphic transfer payment purposes in the Jakarta Branch, and optimising the display rules for beneficiary names for BOC Thailand's PromptPay service. These efforts aimed to provide comprehensive digital corporate financial services to local enterprises and corporates in Southeast Asia and enhance the Group's operational efficiency in the region.

Improving innovative mechanisms and cultivating talented teams

The Group laid solid foundations for its long-term development through various ways, which included refining its policies and systems related to digital transformation, optimising agile methodologies, deepening technological empowerment, cultivating digital talent and fostering an innovative culture. To meet its strategic needs, the Group actively acquired digital-savvy and IT-related talents through various channels, such as market and campus recruitment, cross-industry hiring, collaboration with external organisations and academic institutions, specialised internships, and technology and innovation competitions. To continue to enhance digital transformation capability of all staff and foster Group-wide digital talent development, it launched specialised and stratified training programmes, as well as scheduled learning plans as part of its "Go Digital・The Quintet of Digital Transformation Learning Series", which included executive talks, hands-on agile tools workshops, digitalisation-related professional certifications, a digital transformation resources gallery, and e-learning courses comprising real case studies. The Group supported potential staff members to take part in the "Enhanced Competency Framework for Banking Practitioners – Fintech module" launched by the HKMA to enhance practitioners' standards of competence, and arranged internal and external training to support the talent development of digital professionals. In addition, it continued to organise "BOCHK Challenge 2023", covering five of the most popular technological fields, to encourage students from higher education institutions in Hong Kong and working professionals in start-up enterprises to fully unleash their potential. The competition aimed to explore new business models by adopting cross-boundary technologies, strengthening BOCHK's new digital banking image.

Deepening technological empowerment to enhance operational efficiency

To maximise back-office efficiency, the Group accelerated the use of intelligent technology applications and pushed forward the automation and integration of its operations. During the period, it deepened the application of robotic process automation to enhance internal process efficiency. Collaborating with frontline units, it reinforced process optimisation and innovation to realise end-to-end process digitalisation and transformation. The Group continuously pushed forward the expansion of its Regional Operation Centre in Nanning, Guangxi and improved its process migration ratio to achieve a more cost-effective operating model. It reinforced its intelligent risk and anti-fraud management capability by utilising artificial intelligence and robotic process automation to further enhance its intelligent anti-fraud platform. It integrated the intelligent anti-fraud model into its business operations and conducted real-time risk control of credit card transactions in an effort to utilise technology to improve the fraud prevention management and monitoring of e-channels transactions. During the period, BOCHK was awarded Best Big Data and Analytics Initiative at the Global Excellence in Retail Financial Services Awards 2023 organised by *The Asian Banker*.

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.

Risk management governance structure

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 Risk Committee ("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.

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. 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.

For advances, different credit approval and control procedures are adopted according to the level of risk associated with the customer, counterparty or transaction. The Credit Risk Assessment Committee, comprising experts from credit and other functions, is responsible for making an independent assessment of material credit applications which require the approval of DCEs or above. Credit applications for non-retail exposures are independently reviewed and objectively assessed by risk management units. Obligor ratings (in terms of probability of default) and facility ratings (in terms of loss given default) are assigned to these portfolios to support credit approval. Retail internal rating systems are deployed in the risk assessment of retail credit transactions, including small business loans under retail exposures, residential mortgage loans, personal loans and credit cards, etc. Loan grades, obligor and facility ratings as well as loss estimates (if applicable) are used to support credit approval.

The Group also uses loan grades, obligor ratings and loss estimates (if applicable) to support credit monitoring, reporting and analysis of credit risk information. For non-retail exposures, more frequent rating review and closer monitoring are required for higher-risk customers. For retail exposures, monthly updated internal ratings and loss estimates are used for credit monitoring on a portfolio basis. More comprehensive review is required for obligors being identified under high-risk pools. The Group adopts loan grading criteria which divide credit assets into five categories with reference to the HKMA's guidelines. The Risk Management Department ("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 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.

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.

For impairment assessment, an impairment model is introduced in compliance with HKFRS 9, it requires the recognition of Expected Credit Loss ("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.

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 Internal Ratings-Based (“IRB”) rating, low credit risk threshold and the watchlist.

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

Quantitative criteria

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

- At the reporting date, the credit risk is deemed to increase significantly when the remaining lifetime PD rises by more than a certain range from initial recognition, and reflected as a drop in customer’s credit rating by corresponding level according to the different PD at initial recognition. In majority cases, there is a significant increase in credit risk when the customer’s credit rating drops by 5 grades.

Qualitative criteria

- Significant adverse change in debtor’s operations or financial status;

- Customers with sign of credit deterioration are put into watchlist for staging review.

The Group leverages the parameters implemented under Basel II IRB models and internal models where feasible and available to assess ECL. For the portfolios without models, all other reasonable and supportable information such as historical information, relevant loss experience or proxies are utilised. The measurement of ECL is the product of the financial instrument’s probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”) discounted at the effective interest rate to the reporting date.

ECL is measured at an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The Group adopts four economic scenarios in the ECL measurement, including “Good”, “Baseline”, “Bad” and “Alternative” scenarios, to meet the requirements of HKFRS 9. The “Baseline” scenario represents a most likely outcome. “Good” and “Bad” scenarios represent the estimated deviations of the “Baseline” scenario, which are either more optimistic or more pessimistic as compared with “Baseline” scenario. The “Alternative” scenario represents a more pessimistic scenario than the “Bad” scenario, to reflect the Management’s view on severe downside risks of the idiosyncratic events that may have severe impact on the performance and asset quality of the credit portfolio, when the Management considers the risk cannot be fully reflected in the three scenarios (i.e. “Good”, “Baseline” and “Bad” scenarios) derived from forecasts and historical data.

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

MANAGEMENT DISCUSSION AND ANALYSIS

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 June 2023, the probability weight of the Group's "Baseline" scenario is higher than the sum of probability weight of "Good", "Bad" and "Alternative" scenarios.

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	7.00%	3.50%	0.00%	-5.50%

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 30 June 2023, the ECL will be increased by 1.59% if 5% of the probability weight is shifted from "Baseline" scenario to "Bad" scenario; and will be decreased by 0.81% if 5% of the probability weight is shifted from "Baseline" scenario to "Good" scenario.

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. 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.

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

The 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.

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: 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 Asset and Liability Management Committee ("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.

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.

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.

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.

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.

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 30 June 2023, the Group was able to maintain a net cash inflow under the three stressed scenarios, indicating the Group has the ability to meet financing needs under stressed conditions. In addition, the Group has a policy in place to maintain a liquidity cushion which includes high quality or comparable quality marketable securities issued or guaranteed by sovereigns, central banks, public sector entities or multilateral development banks with 0% or 20% risk weight or marketable securities issued by non-financial corporate with a corresponding external credit rating of A- or above to ensure funding needs even under stressed scenarios. 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%.

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.

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, self checking, self correction and self development. The Legal & Compliance and Operational Risk Management Department ("LCO"), together with certain specialist functional units in relation to operational risk management within the Group, including the Human Resources Department, Corporate Services Department, Financial Crime Compliance Department, Financial Management Department, Treasury and General Accounting & Accounting Policy Department (collectively known as "specialist functional units"), are the second line of defence. They are responsible for assessing and monitoring the operational risk conditions in the first line of defence, and providing them with guidance. The LCO, being independent from the business units, is responsible for assisting the Management in managing the Group's operational risk, including the establishment and review of the operational risk management policy and framework, designing the operational risk management tools and reporting mechanism, reviewing and contributing to the monitoring and reporting the overall operational risk profile to the Management and RMC. Specialist functional units are required to carry out their leading managerial duties of the second line of defence with respect to some specific aspects of operational risk and its related issues. Apart from taking charge of operational risk management in their own units, these units are also required to provide other units with professional advice/training in respect of certain operational risk categories and to lead the group-wide operational risk management. Group Audit is the third line of defence which provides independent assessment to the effectiveness and adequacy of the operational risk management framework and is required to conduct risk-based review of the operational risk management activities of various departments 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, etc. 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 ALCO periodically reviews the Group's capital structure and adjusts the capital mix where appropriate to maintain an optimal balance among risk, return and capital adequacy.

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

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

Stress testing

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

BOC Life

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

Insurance risk management

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

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

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

For details of the Group's Insurance Risk Management, please refer to Note 3.4 to the Interim Financial Information.

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.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	(Unaudited) Half-year ended 30 June 2023 HK$'m	(Restated) (Unaudited) Half-year ended 30 June 2022 HK$'m
Interest income		**57,249**	21,942
Interest income calculated using the effective interest method		***55,269***	*20,668*
Others		***1,980***	*1,274*
Interest expense		**(34,041)**	(6,621)
Net interest income	5	**23,208**	15,321
Fee and commission income		**6,348**	6,624
Fee and commission expense		**(1,434)**	(1,192)
Net fee and commission income	6	**4,914**	5,432
Insurance revenue		**885**	814
Insurance service expense		**(395)**	(334)
Net income from reinsurance contracts held		**57**	6
Insurance service result		**547**	486
Net trading gain	7	**4,043**	8,902
Net gain/(loss) on other financial instruments at fair value through profit or loss	8	**1,511**	(8,413)
Net loss on other financial instruments	9	**(800)**	(2,028)
Insurance finance (expenses)/income		**(2,871)**	5,230
Other operating income	10	**286**	421
Net operating income before impairment allowances		**30,838**	25,351
Net charge of impairment allowances	11	**(1,169)**	(1,704)
Net operating income		**29,669**	23,647
Operating expenses	12	**(7,852)**	(7,415)
Operating profit		**21,817**	16,232
Net loss from disposal of/fair value adjustments on investment properties	13	**(166)**	(142)
Net loss from disposal/revaluation of properties, plant and equipment	14	**(3)**	(2)
Share of results after tax of associates and joint ventures		**(125)**	(159)
Profit before taxation		**21,523**	15,929
Taxation	15	**(3,441)**	(2,888)
Profit for the period		**18,082**	13,041
Profit attributable to:			
Equity holders of the Company and other equity instrument holders		**17,694**	13,315
Equity holders of the Company		**16,998**	12,622
Other equity instrument holders		**696**	693
Non-controlling interests		**388**	(274)
		18,082	13,041
		HK$	HK$
Earnings per share			
Basic and diluted	17	**1.6077**	1.1938

The notes on pages 49 to 124 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	(Unaudited) Half-year ended 30 June 2023 HK$'m	(Restated) (Unaudited) Half-year ended 30 June 2022 HK$'m
Profit for the period		**18,082**	13,041
Items that will not be reclassified subsequently to income statement:			
Premises:			
Revaluation of premises		**240**	239
Deferred tax		**(15)**	(32)
		225	207
Equity instruments at fair value through other comprehensive income:			
Change in fair value		**193**	(354)
Deferred tax		**(3)**	19
		190	(335)
		415	(128)
Items that may be reclassified subsequently to income statement:			
Advances and other accounts at fair value through other comprehensive income:			
Change in impairment allowances (credited)/charged to income statement	11	**(34)**	154
Debt instruments at fair value through other comprehensive income:			
Change in fair value		**660**	(16,973)
Change in impairment allowances charged/(credited) to income statement	11	**3**	(28)
Release upon disposal/redemption reclassified to income statement	9	**791**	1,997
Amortisation of accumulated amount of fair value hedge adjustment reclassified to income statement		**(19)**	(15)
Deferred tax		**(219)**	2,102
		1,216	(12,917)
Insurance contracts:			
Finance (expenses)/income from insurance contracts issued		**(732)**	5,840
Finance income/(expenses) from reinsurance contracts held		**347**	(1,178)
Deferred tax		**63**	(770)
		(322)	3,892
Currency translation difference		**(258)**	(696)
		602	(9,567)
Other comprehensive income for the period, net of tax		**1,017**	(9,695)
Total comprehensive income for the period		**19,099**	3,346
Total comprehensive income attributable to:			
Equity holders of the Company and other equity instrument holders		**18,498**	4,625
Equity holders of the Company		**17,802**	3,932
Other equity instrument holders		**696**	693
Non-controlling interests		**601**	(1,279)
		19,099	3,346

The notes on pages 49 to 124 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	(Unaudited) At 30 June 2023 HK$'m	(Restated) At 31 December 2022 HK$'m
ASSETS			
Cash and balances and placements with banks and other financial institutions	18	**414,560**	535,194
Financial assets at fair value through profit or loss	19	**154,498**	131,213
Derivative financial instruments	20	**75,056**	61,832
Hong Kong SAR Government certificates of indebtedness		**210,010**	208,770
Advances and other accounts	21	**1,713,106**	1,644,113
Investment in securities	22	**1,035,587**	937,013
Interests in associates and joint ventures		**716**	843
Investment properties	23	**16,039**	16,069
Properties, plant and equipment	24	**43,668**	44,261
Current tax assets		**104**	115
Deferred tax assets	30	**1,230**	1,162
Other assets	25	**106,607**	85,920
Total assets		**3,771,181**	3,666,505
LIABILITIES			
Hong Kong SAR currency notes in circulation		**210,010**	208,770
Deposits and balances from banks and other financial institutions		**291,331**	316,626
Financial liabilities at fair value through profit or loss	26	**52,209**	59,453
Derivative financial instruments	20	**56,338**	50,266
Deposits from customers	27	**2,463,390**	2,377,207
Debt securities and certificates of deposit in issue	28	**3,602**	3,636
Other accounts and provisions	29	**99,209**	69,688
Current tax liabilities		**6,939**	5,039
Deferred tax liabilities	30	**4,445**	4,346
Insurance contract liabilities	31	**173,567**	169,246
Subordinated liabilities	32	**75,627**	76,393
Total liabilities		**3,436,667**	3,340,670
EQUITY			
Share capital	33	**52,864**	52,864
Reserves		**255,105**	246,924
Capital and reserves attributable to equity holders of the Company		**307,969**	299,788
Other equity instruments	34	**23,476**	23,476
Non-controlling interests		**3,069**	2,571
Total equity		**334,514**	325,835
Total liabilities and equity		**3,771,181**	3,666,505

The notes on pages 49 to 124 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)										
	Attributable to equity holders of the Company										
		Reserves									
	Share capital HK$'m	Premises revaluation reserve HK$'m	Reserve for financial assets at FVOCI HK$'m	Regulatory reserve* HK$'m	Translation reserve HK$'m	Insurance finance reserve HK$'m	Retained earnings HK$'m	Total HK$'m	Other equity instruments HK$'m	Non-controlling interests HK$'m	Total equity HK$'m
At 1 January 2022, as previously reported	52,864	38,590	(413)	6,073	(1,000)	–	201,885	297,999	23,476	5,986	327,461
Effect of adoption of HKFRS 17	–	–	558	–	–	–	(2,171)	(1,613)	–	(1,550)	(3,163)
At 1 January 2022, as restated	52,864	38,590	145	6,073	(1,000)	–	199,714	296,386	23,476	4,436	324,298
Profit for the period	–	–	–	–	–	–	13,315	13,315	–	(274)	13,041
Upon declaration of dividend to other equity instrument holders	–	–	–	–	–	–	(693)	(693)	693	–	–
	–	–	–	–	–	–	12,622	12,622	693	(274)	13,041
Other comprehensive income:											
Premises	–	207	–	–	–	–	–	207	–	–	207
Equity instruments at fair value through other comprehensive income	–	–	(320)	–	–	–	–	(320)	–	(15)	(335)
Advances and other accounts at fair value through other comprehensive income	–	–	154	–	–	–	–	154	–	–	154
Debt instruments at fair value through other comprehensive income	–	–	(10,020)	–	–	–	–	(10,020)	–	(2,897)	(12,917)
Insurance contracts	–	–	–	–	–	1,985	–	1,985	–	1,907	3,892
Currency translation difference	–	–	(115)	–	(581)	–	–	(696)	–	–	(696)
Total comprehensive income	–	207	(10,301)	–	(581)	1,985	12,622	3,932	693	(1,279)	3,346
Release upon disposal of equity instruments at fair value through other comprehensive income:											
Transfer	–	–	11	–	–	–	(11)	–	–	–	–
Deferred tax	–	–	(2)	–	–	–	–	(2)	–	(1)	(3)
Current tax	–	–	–	–	–	–	2	2	–	1	3
Transfer from retained earnings	–	–	–	192	–	–	(192)	–	–	–	–
Dividends	–	–	–	–	–	–	(7,221)	(7,221)	(693)	(110)	(8,024)
At 30 June 2022, as restated	52,864	38,797	(10,147)	6,265	(1,581)	1,985	204,914	293,097	23,476	3,047	319,620
Profit for the period	–	–	–	–	–	–	14,015	14,015	–	174	14,189
Upon declaration of dividend to other equity instrument holders	–	–	–	–	–	–	(697)	(697)	697	–	–
	–	–	–	–	–	–	13,318	13,318	697	174	14,189
Other comprehensive income:											
Premises	–	(1,111)	–	–	–	–	–	(1,111)	–	–	(1,111)
Equity instruments at fair value through other comprehensive income	–	–	(233)	–	–	–	–	(233)	–	(88)	(321)
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	–	–	(583)	–	–	–	–	(583)	–	(793)	(1,376)
Insurance contracts	–	–	–	–	–	303	–	303	–	292	595
Currency translation difference	–	–	(94)	–	(102)	–	–	(196)	–	–	(196)
Total comprehensive income	–	(1,111)	(987)	–	(102)	303	13,314	11,417	697	(415)	11,699
Release upon disposal of equity instruments at fair value through other comprehensive income:											
Transfer	–	–	151	–	–	–	(151)	–	–	–	–
Deferred tax	–	–	(25)	–	–	–	–	(25)	–	(17)	(42)
Current tax	–	–	–	–	–	–	25	25	–	17	42
Release upon disposal of premises	–	(3)	–	–	–	–	3	–	–	–	–
Transfer from retained earnings	–	–	–	390	–	–	(390)	–	–	–	–
Dividends	–	–	–	–	–	–	(4,726)	(4,726)	(697)	(61)	(5,484)
At 31 December 2022, as restated	52,864	37,683	(11,008)	6,655	(1,683)	2,288	212,989	299,788	23,476	2,571	325,835

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)										
	Attributable to equity holders of the Company										
		Reserves									
	Share capital HK$'m	Premises revaluation reserve HK$'m	Reserve for financial assets at FVOCI HK$'m	Regulatory reserve* HK$'m	Translation reserve HK$'m	Insurance finance reserve HK$'m	Retained earnings HK$'m	Total HK$'m	Other equity instruments HK$'m	Non-controlling interests HK$'m	Total equity HK$'m
At 1 January 2023	52,864	37,683	(8,748)	6,655	(1,683)	–	216,274	303,045	23,476	5,325	331,846
Effect of adoption of HKFRS 17	–	–	(2,260)	–	–	2,288	(3,285)	(3,257)	–	(2,754)	(6,011)
At 1 January 2023, as restated	52,864	37,683	(11,008)	6,655	(1,683)	2,288	212,989	299,788	23,476	2,571	325,835
Profit for the period	–	–	–	–	–	–	17,694	17,694	–	388	18,082
Upon declaration of dividend to other equity instrument holders	–	–	–	–	–	–	(696)	(696)	696	–	–
	–	–	–	–	–	–	16,998	16,998	696	388	18,082
Other comprehensive income:											
Premises	–	225	–	–	–	–	–	225	–	–	225
Equity instruments at fair value through other comprehensive income	–	–	188	–	–	–	–	188	–	2	190
Advances and other accounts at fair value through other comprehensive income	–	–	(34)	–	–	–	–	(34)	–	–	(34)
Debt instruments at fair value through other comprehensive income	–	–	847	–	–	–	–	847	–	369	1,216
Insurance contracts	–	–	–	–	–	(164)	–	(164)	–	(158)	(322)
Currency translation difference	–	–	(108)	–	(150)	–	–	(258)	–	–	(258)
Total comprehensive income	–	225	893	–	(150)	(164)	16,998	17,802	696	601	19,099
Release upon disposal of equity instruments at fair value through other comprehensive income:											
Transfer	–	–	1	–	–	–	(1)	–	–	–	–
Deferred tax	–	–	–	–	–	–	–	–	–	–	–
Current tax	–	–	–	–	–	–	–	–	–	–	–
Transfer from retained earnings	–	–	–	831	–	–	(831)	–	–	–	–
Dividends	–	–	–	–	–	–	(9,621)	(9,621)	(696)	(103)	(10,420)
At 30 June 2023	52,864	37,908	(10,114)	7,486	(1,833)	2,124	219,534	307,969	23,476	3,069	334,514

* 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 49 to 124 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Notes	**(Unaudited) Half-year ended 30 June 2023 HK$'m**	(Unaudited) Half-year ended 30 June 2022 HK$'m
Cash flows from operating activities			
Operating cash outflow before taxation	35(a)	**(84,464)**	(82,962)
Hong Kong profits tax paid		**(1,184)**	(1,297)
Outside Hong Kong profits tax paid		**(487)**	(392)
Net cash outflow from operating activities		**(86,135)**	(84,651)
Cash flows from investing activities			
Additions of properties, plant and equipment		**(179)**	(122)
Proceeds from disposal of properties, plant and equipment		**8**	4
Additions of investment properties		**(10)**	(2)
Additions of intangible assets		**(412)**	(362)
Proceeds from disposal of associates and joint ventures		**–**	9
Dividend received from associates and joint ventures		**2**	2
Net cash outflow from investing activities		**(591)**	(471)
Cash flows from financing activities			
Dividend paid to other equity instrument holders		**(696)**	(693)
Dividend paid to non-controlling interests		**(103)**	(110)
Payment of lease liabilities		**(303)**	(362)
Net cash outflow from financing activities		**(1,102)**	(1,165)
Decrease in cash and cash equivalents		**(87,828)**	(86,287)
Cash and cash equivalents at 1 January		**540,925**	531,915
Effect of exchange rate changes on cash and cash equivalents		**(6,689)**	(13,024)
Cash and cash equivalents at 30 June	35(b)	**446,408**	432,604

The notes on pages 49 to 124 are an integral part of this interim financial information.

1. Basis of preparation and material accounting policies

(a) Basis of preparation

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

(b) Material accounting policies

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

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

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

- HKFRS 17, "Insurance Contracts". The issuance of HKFRS 17 replaces HKFRS 4 for annual periods beginning on or after 1 January 2023. On 1 January 2023, the Group adopted the requirements of HKFRS 17 retrospectively with comparatives restated from the transition date, 1 January 2022. These include comparative data presented in the condensed consolidated interim financial statements, Note 3.1, Note 3.2(B), Note 3.2(C), Note 3.3(B), Note 4 to Note 12, Note 15, Note 17, Note 19, Note 21, Note 22, Note 25, Note 29 to Note 31, Note 35, Note 39 and Note 43. The changes introduced in HKFRS 17 are highlighted as follows:

  (i) Changes to recognition and measurement

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

  Insurance contracts subject to similar risks and managed together are grouped as a portfolio of insurance contracts. Each portfolio is further divided into groups of contracts mainly based on profitability, extent of loss or possibility of becoming onerous contract subsequent to initial recognition. Insurance contracts issued more than one year apart should not be included in the same group. The unit of account for the recognition and measurement of insurance contracts is each individual group of contracts.

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

(b) Material accounting policies (continued)

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

(i) Changes to recognition and measurement (continued)

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

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

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

HKFRS 17 requires the discount rates used in the measurement of insurance contract liabilities shall be consistent with observable current market prices. In addition, the Group has elected the other comprehensive income option for certain portfolios of insurance contracts without direct participation features to disaggregate insurance finance income or expenses between amounts included in the income statement and amounts included in other comprehensive income.

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

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

(b) *Material accounting policies (continued)*

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

(i) Changes to recognition and measurement (continued)

Under the GMM and the VFA, the Group measures groups of insurance contracts based on the Group's estimates of the present value of future cash flows that are expected to arise as the Group fulfils the contracts, risk adjustments for non-financial risk and contractual service margin ("CSM") on initial recognition. The CSM, which represents the unearned profits that the Group will recognise as it provides insurance contract services in the future, is a component of insurance contract liabilities and will be amortised and recognised as insurance revenue over the remaining coverage period as the services are provided.

Changes in the amount of the Group's share of the fair value of the underlying items and changes in the effect of the time value of money and financial risks including the effect of options and guarantees embedded in the insurance contracts would adjust the CSM under the VFA, whereas such changes would recognise in the income statement under the GMM. In addition, changes in the obligation to pay the policyholder the amount equal to the fair value of the underlying items do not adjust the CSM but directly recognise in the income statement under the VFA.

(ii) Changes to presentation

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

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

(iii) Transition approach

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

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

(b) *Material accounting policies (continued)*

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

(iii) Transition approach (continued)

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

(iv) Impact of reclassification of financial assets

Upon transition to HKFRS 17, the Group has performed a detailed analysis for each class of the Group's financial assets on 1 January 2023, and re-designated certain financial assets. The following table shows the measurement category and carrying amount of certain financial assets before and after the adoption of HKFRS 17 as at 1 January 2023.

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

Note:

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

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

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

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

(b) Material accounting policies (continued)

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

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

The Group reassessed classification of financial assets if they are connected with contracts within the scope of HKFRS 17 at the date of initial application of HKFRS 17 and restated the comparative information for 2022. For financial assets derecognised between the transition date and date of initial application of HKFRS 17, the Group has applied classification overlay for the purpose of presenting comparative information. The classification overlay is based on how the Group expects the financial assets would be designated at the date of initial application of HKFRS 17.

(v) Overall impact of adoption of HKFRS 17

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

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

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

(b) Material accounting policies (continued)

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

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

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

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

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

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

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

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

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

2. Critical accounting estimates and judgements in applying accounting policies

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

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

The present value of future cash flows is estimated using deterministic scenarios, except where stochastic modelling is used to measure options and guarantees embedded in the insurance contracts. The assumptions used in the deterministic scenarios are derived to approximate the probability-weighted mean of a full range of scenarios.

(b) Determining coverage units

The Group uses the amount that indicates the sum which policyholders are able to validly claim, such as the contractual cover in each period or number of policies with consideration of policy size subject to certain scenarios as the basis for the quantity of benefits for all insurance coverages, investment-return and investment-related services.

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

(c) Discount rates

Life insurance contract liabilities are calculated by discounting expected future cash flows at a risk-free rate, plus an illiquidity premium where applicable. Risk free rates are determined by reference to relevant market yield information. The illiquidity premium is determined by reference to relevant assets in the portfolio as well as market indices.

(d) Risk adjustment for non-financial risk

The risk adjustment for non-financial risk represents the compensation that the Group requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts and covers insurance risk, lapse risk and expense risk. The Group has estimated the risk adjustment using confidence level technique.

3. Financial risk management

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

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

3.1 Credit risk

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

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

– Significant financial difficulty incurred by the borrower;

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

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

– Probable that the borrower will become bankrupt or undergo other financial reorganisation;

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

– Other observable data indicating that there is a measurable decrease in the estimated future cash flows from such financial instruments.

(A) Advances and other accounts

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

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

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

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

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

	At 30 June 2023			
	Stage 1 HK$'m	**Stage 2 HK$'m**	**Stage 3 HK$'m**	**Total HK$'m**
Impairment allowances				
Advances and other accounts at amortised cost	**(3,519)**	**(2,748)**	**(6,224)**	**(12,491)**
Advances and other accounts at fair value through other comprehensive income	**(44)**	**–**	**–**	**(44)**

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

	At 31 December 2022			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Advances to customers				
Pass	1,594,869	31,210	–	1,626,079
Special mention	3,680	8,954	–	12,634
Substandard or below	–	–	8,724	8,724
	1,598,549	40,164	8,724	1,647,437
Trade bills				
Pass	6,329	–	–	6,329
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	6,329	–	–	6,329
Advances to banks and other financial institutions				
Pass	1,015	–	–	1,015
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	1,015	–	–	1,015
	1,605,893	40,164	8,724	1,654,781

	At 31 December 2022			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Impairment allowances				
Advances and other accounts at amortised cost	(3,997)	(2,511)	(4,992)	(11,500)
Advances and other accounts at fair value through other comprehensive income	(77)	–	–	(77)

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

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

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

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

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

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

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

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

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

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(a) Impaired advances

Impaired advances to customers are analysed as follows:

	At 30 June 2023		At 31 December 2022	
	Impaired HK$'m	**Classified or impaired HK$'m**	Impaired HK$'m	Classified or impaired HK$'m
Gross advances to customers	**12,554**	**12,554**	8,724	8,724
Percentage of gross advances to customers	**0.73%**	**0.73%**	0.53%	0.53%
Impairment allowances made in respect of such advances	**6,224**	**6,224**	4,992	4,992

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

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

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

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

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(b) Advances overdue for more than three months

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

	At 30 June 2023		At 31 December 2022	
	Amount HK$'m	**% of gross advances to customers**	Amount HK$'m	% of gross advances to customers
Gross advances to customers which have been overdue for:				
– six months or less but over three months	**639**	**0.04%**	2,858	0.17%
– one year or less but over six months	**3,521**	**0.20%**	601	0.04%
– over one year	**2,201**	**0.13%**	1,860	0.11%
Advances overdue for over three months	**6,361**	**0.37%**	5,319	0.32%
Impairment allowances made in respect of such advances – Stage 3	**4,784**		3,110	

	At 30 June 2023 HK$'m	At 31 December 2022 HK$'m
Current market value of collateral held against the covered portion of such advances to customers	**1,550**	2,739
Covered portion of such advances to customers	**899**	1,643
Uncovered portion of such advances to customers	**5,462**	3,676

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

As at 30 June 2023, there were no trade bills and advances to banks and other financial institutions overdue for more than three months (31 December 2022: Nil).

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(c) Rescheduled advances

	At 30 June 2023		At 31 December 2022	
	Amount HK$'m	**% of gross advances to customers**	Amount HK$'m	% of gross advances to customers
Rescheduled advances to customers net of amounts included in "Advances overdue for more than three months"	**1,332**	**0.08%**	509	0.03%

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

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(d) Concentration of advances to customers

(i) Sectoral analysis of gross advances to customers

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

	At 30 June 2023					
	Gross advances to customers HK$'m	% covered by collateral or other security	Classified or impaired HK$'m	Overdue HK$'m	Impairment allowances – Stage 3 HK$'m	Impairment allowances – Stages 1 and 2 HK$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	196,275	25.55%	953	1,059	674	725
– Property investment	93,268	62.72%	1,122	65	67	423
– Financial concerns	23,496	2.62%	–	–	–	31
– Stockbrokers	2,838	88.89%	–	–	–	–
– Wholesale and retail trade	38,575	33.89%	102	288	31	111
– Manufacturing	56,435	8.38%	34	65	23	138
– Transport and transport equipment	45,956	20.06%	99	11	76	90
– Recreational activities	13	100.00%	–	–	–	–
– Information technology	40,452	0.29%	35	35	20	59
– Others	203,327	42.80%	3,609	4,567	497	453
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	43,801	99.67%	37	433	–	18
– Loans for purchase of other residential properties	375,359	99.84%	176	1,726	3	264
– Credit card advances	11,325	–	90	424	53	171
– Others	119,855	95.54%	123	826	48	203
Total loans for use in Hong Kong	1,250,975	60.66%	6,380	9,499	1,492	2,686
Trade financing	56,961	17.29%	215	146	170	97
Loans for use outside Hong Kong	411,701	4.79%	5,959	6,417	4,562	3,482
Gross advances to customers	1,719,637	45.85%	12,554	16,062	6,224	6,265

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

	At 31 December 2022					
	Gross advances to customers HK$'m	% covered by collateral or other security	Classified or impaired HK$'m	Overdue HK$'m	Impairment allowances – Stage 3 HK$'m	Impairment allowances – Stages 1 and 2 HK$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	171,614	26.29%	948	967	495	818
– Property investment	91,525	58.03%	827	862	–	484
– Financial concerns	25,197	2.04%	–	–	–	26
– Stockbrokers	1,110	68.14%	–	–	–	–
– Wholesale and retail trade	31,704	40.34%	109	207	36	97
– Manufacturing	48,891	6.64%	41	43	23	140
– Transport and transport equipment	62,411	17.74%	164	71	85	268
– Recreational activities	154	96.92%	–	–	–	–
– Information technology	34,274	0.29%	34	35	21	68
– Others	174,326	43.00%	99	1,118	63	560
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	35,879	99.61%	32	452	–	19
– Loans for purchase of other residential properties	367,502	99.82%	176	1,975	1	252
– Credit card advances	11,962	–	91	480	54	181
– Others	115,917	95.36%	133	933	60	223
Total loans for use in Hong Kong	1,172,466	60.98%	2,654	7,143	838	3,136
Trade financing	51,879	18.38%	238	234	164	113
Loans for use outside Hong Kong	423,924	4.85%	5,832	4,699	3,990	3,257
Gross advances to customers	1,648,269	45.20%	8,724	12,076	4,992	6,506

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

(ii) Geographical analysis of gross advances to customers

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

Gross advances to customers

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

Overdue advances

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

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

Classified or impaired advances

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

(B) Repossessed assets

The estimated market value of repossessed assets held by the Group as at 30 June 2023 amounted to HK$427 million (31 December 2022: HK$546 million). The repossessed assets comprise properties in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the proprietors concerned) for release in full or in part of the obligations of the borrowers.

3. Financial risk management (continued)

3.1 Credit risk (continued)

(C) Debt securities and certificates of deposit

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

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

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

3. Financial risk management (continued)

3.1 Credit risk (continued)

(D) Credit risk management in response to pandemic

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

– The Group coordinated with the HKMA in launching various relief measures for individuals and commercial borrowers, in order to alleviate the financial pressure and the impact of the pandemic. The terms of the payment holidays under relief measures are granted on commercial basis, therefore the extension of relief measures to the concerned borrowers do not automatically trigger the migration to Stage 2 and Stage 3, and are not classified as rescheduled advances.

– The implementation of quarantine measures severely hit several industries, including Trading, Retail, Aviation, Tourism (including hospitality), Catering, Entertainment etc. The Group continues to conduct risk-based assessments on the borrowers within these industries. The impacts of the pandemic on the affected borrowers, their respective mitigation measures and short-term refinancing plans are also assessed to identify the vulnerable borrowers, who are put into the watchlist for on-going close monitoring. The loan classification and internal ratings of these borrowers are timely reviewed according to their latest situation.

– The Group performs stress testing of different scenarios of containment of pandemic regularly to assess the potential impacts on credit loss and asset quality.

– The Group reviews the forward looking macroeconomic factors used in ECL model on a quarterly basis to reflect the dynamic changes of economic outlook. The Group continues its close monitoring on those borrowers with multiple extensions of relief measures being granted, and additional impairment allowances have been made to address the potential higher default risk of this portfolio upon expiration of the relief measures.

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

3. Financial risk management (continued)

3.2 Market risk

(A) VaR

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

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

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

Note:

1. Structural FX positions have been excluded.

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

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

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

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

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

3. Financial risk management (continued)

3.2 Market risk (continued)

(A) VaR (continued)

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

(B) Currency risk

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

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

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

	At 31 December 2022							
	Equivalent in million of HK$							
	US Dollars	Pound Sterling	Japanese Yen	Euro	Renminbi	Australian Dollars	Other foreign currencies	Total foreign currencies
Spot assets	1,046,552	25,728	107,461	64,552	536,342	33,695	67,514	1,881,844
Spot liabilities	(1,002,755)	(33,831)	(19,120)	(32,649)	(509,612)	(37,840)	(61,223)	(1,697,030)
Forward purchases	917,681	29,024	47,522	84,569	419,521	27,865	59,524	1,585,706
Forward sales	(963,555)	(21,039)	(135,669)	(115,911)	(443,379)	(23,811)	(66,850)	(1,770,214)
Net options position	1,208	(11)	11	(42)	(563)	85	(11)	677
Net (short)/long position	(869)	(129)	205	519	2,309	(6)	(1,046)	983

3. Financial risk management (continued)

3.2 Market risk (continued)

(B) Currency risk (continued)

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

	At 31 December 2022					
	Equivalent in million of HK$					
	US Dollars	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

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

3. Financial risk management (continued)

3.2 Market risk (continued)

(C) Interest rate risk

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

	At 30 June 2023						
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Non-interest bearing HK$'m	Total HK$'m
Assets							
Cash and balances and placements with banks and other financial institutions	295,226	37,679	34,451	2,278	–	44,926	414,560
Financial assets at fair value through profit or loss	18,678	26,333	18,466	25,189	49,196	16,636	154,498
Derivative financial instruments	–	–	–	–	–	75,056	75,056
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	210,010	210,010
Advances and other accounts	1,384,527	231,672	39,190	43,351	7,529	6,837	1,713,106
Investment in securities							
– At FVOCI	166,286	122,821	187,942	207,546	78,906	4,232	767,733
– At amortised cost	4,128	10,231	103,931	117,004	32,560	–	267,854
Interests in associates and joint ventures	–	–	–	–	–	716	716
Investment properties	–	–	–	–	–	16,039	16,039
Properties, plant and equipment	–	–	–	–	–	43,668	43,668
Other assets (including current and deferred tax assets)	9,164	–	–	–	–	98,777	107,941
Total assets	1,878,009	428,736	383,980	395,368	168,191	516,897	3,771,181
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	210,010	210,010
Deposits and balances from banks and other financial institutions	259,048	11,772	181	–	–	20,330	291,331
Financial liabilities at fair value through profit or loss	14,617	19,976	16,400	1,153	61	2	52,209
Derivative financial instruments	–	–	–	–	–	56,338	56,338
Deposits from customers	1,491,970	437,453	356,882	2,426	–	174,659	2,463,390
Debt securities and certificates of deposit in issue	1,635	–	1,967	–	–	–	3,602
Other accounts and provisions (including current and deferred tax liabilities)	26,254	3	40	809	399	83,088	110,593
Insurance contract liabilities	–	–	–	–	–	173,567	173,567
Subordinated liabilities	–	–	–	75,627	–	–	75,627
Total liabilities	1,793,524	469,204	375,470	80,015	460	717,994	3,436,667
Interest sensitivity gap	84,485	(40,468)	8,510	315,353	167,731	(201,097)	334,514

3. Financial risk management (continued)

3.2 Market risk (continued)

(C) Interest rate risk (continued)

	At 31 December 2022						
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Non-interest bearing HK$'m	Total HK$'m
Assets							
Cash and balances and placements with banks and other financial institutions	425,459	28,550	29,556	2,285	–	49,344	535,194
Financial assets at fair value through profit or loss	18,478	19,897	11,949	24,797	40,748	15,344	131,213
Derivative financial instruments	–	–	–	–	–	61,832	61,832
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	208,770	208,770
Advances and other accounts	1,435,507	133,216	26,411	34,107	7,448	7,424	1,644,113
Investment in securities							
– At FVOCI	112,829	163,477	177,549	176,407	64,038	3,517	697,817
– At amortised cost	2,181	1,921	67,010	146,749	21,335	–	239,196
Interests in associates and joint ventures	–	–	–	–	–	843	843
Investment properties	–	–	–	–	–	16,069	16,069
Properties, plant and equipment	–	–	–	–	–	44,261	44,261
Other assets (including current and deferred tax assets)	7,943	–	–	–	–	79,254	87,197
Total assets	2,002,397	347,061	312,475	384,345	133,569	486,658	3,666,505
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	208,770	208,770
Deposits and balances from banks and other financial institutions	275,903	1,545	5,700	101	–	33,377	316,626
Financial liabilities at fair value through profit or loss	19,496	15,538	21,541	1,451	1,425	2	59,453
Derivative financial instruments	–	–	–	–	–	50,266	50,266
Deposits from customers	1,480,966	381,657	324,513	1,735	–	188,336	2,377,207
Debt securities and certificates of deposit in issue	–	–	1,702	1,934	–	–	3,636
Other accounts and provisions (including current and deferred tax liabilities)	19,419	10	31	851	406	58,356	79,073
Insurance contract liabilities	–	–	–	–	–	169,246	169,246
Subordinated liabilities	–	–	–	76,393	–	–	76,393
Total liabilities	1,795,784	398,750	353,487	82,465	1,831	708,353	3,340,670
Interest sensitivity gap	206,613	(51,689)	(41,012)	301,880	131,738	(221,695)	325,835

Assets and liabilities in the tables, including insurance contract liabilities, are measured in accordance with relevant accounting standards as described in Note 1(b) material accounting policies.

3. Financial risk management (continued)

3.3 Liquidity risk

(A) Liquidity coverage ratio and net stable funding ratio

	2023	2022
Average value of liquidity coverage ratio		
– First quarter	**189.68%**	159.16%
– Second quarter	**188.89%**	149.49%

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

	2023	2022
Quarter-end value of net stable funding ratio		
– First quarter	**134.51%**	123.86%
– Second quarter	**131.56%**	126.87%

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

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

3. Financial risk management (continued)

3.3 *Liquidity risk (continued)*

(B) Maturity analysis

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

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

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

	At 31 December 2022							
	On demand HK$'m	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Indefinite HK$'m	Total HK$'m
Assets								
Cash and balances and placements with banks and other financial institutions	406,490	68,294	28,573	29,566	2,253	–	18	535,194
Financial assets at fair value through profit or loss	–	15,347	20,848	10,317	27,229	40,438	17,034	131,213
Derivative financial instruments	14,493	4,788	4,130	8,053	20,138	10,230	–	61,832
Hong Kong SAR Government certificates of indebtedness	208,770	–	–	–	–	–	–	208,770
Advances and other accounts	303,647	71,820	58,491	174,615	637,249	394,365	3,926	1,644,113
Investment in securities								
– At FVOCI	–	104,175	156,815	181,051	181,778	70,208	3,790	697,817
– At amortised cost	–	2,326	1,737	67,437	146,454	21,242	–	239,196
Interests in associates and joint ventures	–	–	–	–	–	–	843	843
Investment properties	–	–	–	–	–	–	16,069	16,069
Properties, plant and equipment	–	–	–	–	–	–	44,261	44,261
Other assets (including current and deferred tax assets)	21,159	12,728	819	4,687	15,461	29,780	2,563	87,197
Total assets	954,559	279,478	271,413	475,726	1,030,562	566,263	88,504	3,666,505
Liabilities								
Hong Kong SAR currency notes in circulation	208,770	–	–	–	–	–	–	208,770
Deposits and balances from banks and other financial institutions	259,214	49,990	997	5,700	725	–	–	316,626
Financial liabilities at fair value through profit or loss	–	19,496	15,557	21,547	1,441	1,410	2	59,453
Derivative financial instruments	9,833	3,385	5,769	7,362	16,499	7,418	–	50,266
Deposits from customers	1,230,065	439,237	381,657	324,513	1,735	–	–	2,377,207
Debt securities and certificates of deposit in issue	–	22	10	1,679	1,925	–	–	3,636
Other accounts and provisions (including current and deferred tax liabilities)	51,046	14,229	2,238	3,829	7,171	560	–	79,073
Insurance contract liabilities	–	624	1,414	10,636	48,868	96,359	–	157,901
Subordinated liabilities	–	–	–	332	76,061	–	–	76,393
Total liabilities	1,758,928	526,983	407,642	375,598	154,425	105,747	2	3,329,325
Net liquidity gap	(804,369)	(247,505)	(136,229)	100,128	876,137	460,516	88,502	337,180

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

The analysis of debt securities by remaining period to maturity is based on contractual maturity date. The disclosure does not imply that the securities will be held to maturity.

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

3.4 Insurance risk

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

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

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

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

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

3. Financial risk management (continued)

3.5 Capital management

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

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

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

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

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

(A) Basis of regulatory consolidation

The consolidation basis for regulatory purposes comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules. For accounting purposes, subsidiaries are consolidated in accordance with HKFRSs.

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

3. Financial risk management (continued)

3.5 Capital management (continued)

(A) Basis of regulatory consolidation (continued)

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

	At 30 June 2023		At 31 December 2022	
Name	**Total assets HK$'m**	**Total equity HK$'m**	Total assets HK$'m	Total equity HK$'m
BOC Group Trustee Company Limited	**200**	**200**	200	200
BOCI-Prudential Trustee Limited	**547**	**454**	626	478
China Bridge (Malaysia) Sdn. Bhd.	**26**	**(4)**	20	(12)
Bank of China (Hong Kong) Nominees Limited	**–**	**–**	–	–
Bank of China (Hong Kong) Trustees Limited	**8**	**8**	8	8
BOC Financial Services (Nanning) Company Limited	**136**	**42**	152	43
BOCHK Information Technology (Shenzhen) Co., Ltd.	**373**	**260**	372	258
BOCHK Information Technology Services (Shenzhen) Co., Ltd.	**393**	**342**	401	342
Po Sang Financial Investment Services Company Limited	**359**	**346**	366	345
Po Sang Securities Limited	**538**	**408**	570	402
Sin Hua Trustee Limited	**5**	**5**	5	5
Billion Express Development Inc.	**–**	**–**	–	–
Billion Orient Holdings Ltd.	**–**	**–**	–	–
Elite Bond Investments Ltd.	**–**	**–**	–	–
Express Capital Enterprise Inc.	**–**	**–**	–	–
Express Charm Holdings Corp.	**–**	**–**	–	–
Express Shine Assets Holdings Corp.	**–**	**–**	–	–
Express Talent Investment Ltd.	**–**	**–**	–	–
Gold Medal Capital Inc.	**–**	**–**	–	–
Gold Tap Enterprises Inc.	**–**	**–**	–	–
Maxi Success Holdings Ltd.	**–**	**–**	–	–
Smart Linkage Holdings Inc.	**–**	**–**	–	–
Smart Union Capital Investments Ltd.	**–**	**–**	–	–
Success Trend Development Ltd.	**–**	**–**	–	–
Wise Key Enterprises Corp.	**–**	**–**	–	–

3. Financial risk management (continued)

3.5 Capital management (continued)

(A) Basis of regulatory consolidation (continued)

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

There were no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation as at 30 June 2023 (31 December 2022: Nil).

There were also no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation where the methods of consolidation differ as at 30 June 2023 (31 December 2022: Nil).

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

(B) Capital ratio

The capital ratios are analysed as follows:

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

3. Financial risk management (continued)

3.5 Capital management (continued)

(B) Capital ratio (continued)

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

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

3. Financial risk management (continued)

3.5 Capital management (continued)

(B) Capital ratio (continued)

The capital buffer ratios are analysed as follows:

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

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

(C) Leverage ratio

The leverage ratio is analysed as follows:

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

4. Fair values of financial assets and liabilities

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

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

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

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

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

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

4.1 Financial instruments measured at fair value

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

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

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

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

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

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

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

Mortgage backed securities

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

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

4.1 Financial instruments measured at fair value (continued)

Derivatives

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

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

(A) Fair value hierarchy

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

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

4.1 Financial instruments measured at fair value (continued)

(A) Fair value hierarchy (continued)

	At 31 December 2022			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Financial assets				
Trading assets (Note 19)				
– Debt securities and certificates of deposit	82	36,724	–	36,806
– Equity securities	59	–	–	59
– Fund	1	–	–	1
– Other debt instruments	–	3,400	–	3,400
Other financial assets mandatorily classified at fair value through profit or loss (Note 19)				
– Debt securities and certificates of deposit	88	56,268	1,815	58,171
– Equity securities	3,957	658	–	4,615
– Fund	2,699	1,105	6,865	10,669
Financial assets designated at fair value through profit or loss (Note 19)				
– Debt securities and certificates of deposit	859	1,396	–	2,255
– Other debt instruments	–	15,237	–	15,237
Derivative financial instruments (Note 20)	97	61,735	–	61,832
Advances and other accounts at fair value	–	8,884	832	9,716
Investment in securities at FVOCI (Note 22)				
– Debt securities and certificates of deposit	162,629	530,936	735	694,300
– Equity securities	806	851	1,860	3,517
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 26)				
– Trading liabilities	6	59,445	–	59,451
– Financial liabilities designated at fair value through profit or loss	–	2	–	2
Derivative financial instruments (Note 20)	291	49,975	–	50,266

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

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

4.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items

	Half-year ended 30 June 2023					
	Financial assets					
	Other financial assets mandatorily classified at FVPL			Advances and other accounts at fair value	Investment in securities at FVOCI	
	Debt securities HK$'m	Equity securities HK$'m	Fund HK$'m	HK$'m	Debt securities HK$'m	Equity securities HK$'m
At 1 January 2023	1,815	–	6,865	832	735	1,860
(Losses)/gains						
– Income statement						
– Net (loss)/gain on other financial instruments at fair value through profit or loss	(10)	–	386	–	–	–
– Other comprehensive income						
– Change in fair value	–	–	–	–	–	27
Additions	–	–	118	–	–	800
Disposals, redemptions and maturity	(44)	–	(2)	–	–	–
Transfer into level 3	–	–	–	–	–	–
Transfer out of level 3	(1,491)	–	–	–	(735)	–
Exchange difference	–	–	–	17	–	–
At 30 June 2023	270	–	7,367	849	–	2,687
Total unrealised (losses)/gains for the period included in income statement for financial assets held as at 30 June 2023						
– Net (loss)/gain on other financial instruments at fair value through profit or loss	(10)	–	386	–	–	–

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

4.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

	Year ended 31 December 2022					
	Financial assets					
	Other financial assets mandatorily classified at FVPL			Advances and other accounts at fair value	Investment in securities at FVOCI	
	Debt securities HK$'m	Equity securities HK$'m	Fund HK$'m	HK$'m	Debt securities HK$'m	Equity securities HK$'m
At 1 January 2022	4,028	193	4,876	–	1,108	2,132
(Losses)/gains						
– Income statement						
– Net (loss)/gain on other financial instruments at fair value through profit or loss	(466)	(147)	914	–	–	–
– Other comprehensive income						
– Change in fair value	–	–	–	–	(207)	(295)
Additions	104	–	1,076	–	–	23
Disposals, redemptions and maturity	–	–	(1)	–	–	–
Transfer into level 3	–	–	–	832	–	–
Transfer out of level 3	(1,851)	(46)	–	–	(166)	–
At 31 December 2022	1,815	–	6,865	832	735	1,860
Total unrealised (losses)/gains for the year included in income statement for financial assets held as at 31 December 2022						
– Net (loss)/gain on other financial instruments at fair value through profit or loss	(466)	(147)	914	–	–	–

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

For certain illiquid debt securities, equity securities and fund, the Group obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value, including discounted cash flow analysis, net asset value and market comparison approach, which may be based on unobservable inputs with significant impact on valuation. For certain advances and other accounts, the credit spreads of comparables used in valuation techniques are unobservable inputs with significant impact on valuation. Therefore, these instruments have been classified by the Group as level 3. Transfers into and out of level 3 in the first half of 2023 and year of 2022 were due to change of valuation input observability. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

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

4.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

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

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

4.2 Financial instruments not measured at fair value

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

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

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

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

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

Advances to customers and banks and other financial institutions

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

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

4.2 Financial instruments not measured at fair value (continued)

Investment in securities at amortised cost

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

Deposits from customers

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

Debt securities and certificates of deposit in issue

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

Subordinated liabilities

The fair value of subordinated liabilities is determined by using the same approach as those debt securities and certificates of deposit measured at fair value as described in Note 4.1 and their carrying value approximates fair value.

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

	At 30 June 2023		At 31 December 2022	
	Carrying value HK$'m	**Fair value HK$'m**	Carrying value HK$'m	Fair value HK$'m
Financial assets				
Investment in securities at amortised cost (Note 22)	**267,854**	**259,651**	239,196	229,448
Financial liabilities				
Debt securities and certificates of deposit in issue (Note 28)	**3,602**	**3,604**	3,636	3,634

5. Net interest income

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

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

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

6. Net fee and commission income

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

7. Net trading gain

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

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

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

9. Net loss on other financial instruments

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

10. Other operating income

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

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

11. Net charge of impairment allowances

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

12. Operating expenses

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

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

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

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

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

15. Taxation

Taxation in the income statement represents:

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

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 16.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2023. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for the first half of 2023 at the rates of taxation prevailing in the countries/regions in which the Group operates.

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

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

16. Dividends

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

At a meeting held on 30 August 2023, the Board declared an interim dividend of HK$0.527 per ordinary share for the first half of 2023 amounting to approximately HK$5,572 million. This declared interim dividend is not reflected as a dividend payable in this interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2023.

The final dividend of HK$0.910 per ordinary share for the year ended 31 December 2022 amounting to approximately HK$9,621 million was approved at the Annual General Meeting held on 29 June 2023 and was paid on 14 July 2023.

17. Earnings per share

The calculation of basic earnings per share for the first half of 2023 is based on the consolidated profit for the period attributable to equity holders of the Company of approximately HK$16,998 million (first half of 2022: HK$12,622 million) and on the ordinary shares in issue of 10,572,780,266 shares (2022: 10,572,780,266 ordinary shares).

There was no dilution of earnings per share as no potential ordinary shares were in issue for the first half of 2023 (first half of 2022: Nil).

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

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

19. Financial assets at fair value through profit or loss

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

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

Total securities are analysed by place of listing as follows:

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

Total securities are analysed by type of issuer as follows:

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

20. Derivative financial instruments

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

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

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

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

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

20. Derivative financial instruments (continued)

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

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

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

21. Advances and other accounts

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

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

As at 30 June 2023, advances and other accounts at fair value through other comprehensive income and mandatorily classified at fair value through profit or loss amounted to HK$4,629 million (31 December 2022: HK$8,884 million) and HK$849 million (31 December 2022: HK$832 million) respectively.

22. Investment in securities

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

22. Investment in securities (continued)

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

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

23. Investment properties

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

24. Properties, plant and equipment

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

24. Properties, plant and equipment (continued)

	Premises HK$'m	Equipment, fixtures and fittings HK$'m	Right-of-use assets* HK$'m	Total HK$'m
Net book value at 1 January 2022	43,784	1,338	1,319	46,441
Additions	57	331	645	1,033
Disposals	(6)	(3)	–	(9)
Revaluation	(1,214)	–	–	(1,214)
Depreciation for the year	(1,196)	(500)	(627)	(2,323)
Reclassification from investment properties (Note 23)	361	–	–	361
Exchange difference	(4)	(11)	(13)	(28)
Net book value at 31 December 2022	41,782	1,155	1,324	44,261
At 31 December 2022				
Cost or valuation	41,782	7,163	2,497	51,442
Accumulated depreciation and impairment	–	(6,008)	(1,173)	(7,181)
Net book value at 31 December 2022	41,782	1,155	1,324	44,261
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2022				
At cost	–	7,163	2,497	9,660
At valuation	41,782	–	–	41,782
	41,782	7,163	2,497	51,442

* The right-of-use assets of the Group are mainly related to lease of properties.

25. Other assets

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

26. Financial liabilities at fair value through profit or loss

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

As at 30 June 2023 and 31 December 2022, the difference between the carrying amount of financial liabilities designated at fair value through profit or loss and the amount that the Group would be contractually required to pay at maturity to the holders was not significant.

27. Deposits from customers

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

28. Debt securities and certificates of deposit in issue

	At 30 June 2023 HK$'m	At 31 December 2022 HK$'m
At amortised cost		
– Senior notes under the Medium Term Note Programme [(i)]	**1,635**	1,702
– Senior notes under the Medium Term Note Programme, with fair value hedge adjustment [(ii)]	**1,967**	1,934
	3,602	3,636

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

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

29. Other accounts and provisions

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

30. Deferred taxation

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

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

	Half-year ended 30 June 2023					
	Accelerated tax depreciation HK$'m	**Property revaluation HK$'m**	**Losses HK$'m**	**Impairment allowances HK$'m**	**Others HK$'m**	**Total HK$'m**
At 1 January 2023	**841**	**6,278**	**(831)**	**(1,128)**	**(1,976)**	**3,184**
Charged/(credited) to income statement (Note 15)	**5**	**(81)**	**(5)**	**41**	**(101)**	**(141)**
Charged to other comprehensive income	**–**	**15**	**–**	**–**	**159**	**174**
Release upon disposal of equity instruments at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**
Exchange difference and others	**–**	**–**	**–**	**(3)**	**1**	**(2)**
At 30 June 2023	**846**	**6,212**	**(836)**	**(1,090)**	**(1,917)**	**3,215**

	Year ended 31 December 2022					
	Accelerated tax depreciation HK$'m	Property revaluation HK$'m	Losses HK$'m	Impairment allowances HK$'m	Others HK$'m	Total HK$'m
At 1 January 2022, as previously reported	826	6,606	(4)	(1,128)	(693)	5,607
Effect of adoption of HKFRS 17	–	–	(866)	–	212	(654)
At 1 January 2022, after adoption of HKFRS 17	826	6,606	(870)	(1,128)	(481)	4,953
Charged/(credited) to income statement	15	(128)	63	(11)	(30)	(91)
Credited to other comprehensive income	–	(200)	–	–	(1,511)	(1,711)
Release upon disposal of equity instruments at fair value through other comprehensive income	–	–	–	–	45	45
Exchange difference and others	–	–	(24)	11	1	(12)
At 31 December 2022	841	6,278	(831)	(1,128)	(1,976)	3,184

30. Deferred taxation (continued)

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

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

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

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

31. Insurance contract liabilities

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

32. Subordinated liabilities

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

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

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

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

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

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

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

33. Share capital

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

34. Other equity instruments

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

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

35. Notes to condensed consolidated cash flow statement

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

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

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

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

36. Contingent liabilities and commitments

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

	At 30 June 2023 HK$'m	At 31 December 2022 HK$'m
Direct credit substitutes	**1,082**	1,069
Transaction-related contingencies	**27,758**	25,586
Trade-related contingencies	**17,580**	15,908
Commitments that are unconditionally cancellable without prior notice	**583,716**	533,304
Other commitments with an original maturity of		
– up to one year	**18,139**	21,905
– over one year	**177,967**	177,275
	826,242	775,047
Credit risk-weighted amount	**80,419**	79,122

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

37. Capital commitments

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

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

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

38. Operating lease commitments

As lessor

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

	At 30 June 2023 HK$'m	At 31 December 2022 HK$'m
Properties and equipment		
– Not later than one year	**414**	431
– One to two years	**252**	289
– Two to three years	**91**	132
– Three to four years	**6**	6
– Four to five years	**–**	–
	763	858

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

39. Segmental reporting

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

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

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

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

39. Segmental reporting (continued)

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

39. Segmental reporting (continued)

	Personal Banking HK$'m	Corporate Banking HK$'m	Treasury HK$'m	Insurance HK$'m	Others HK$'m	Subtotal HK$'m	Eliminations* HK$'m	Consolidated HK$'m
Half-year ended 30 June 2022								
Net interest income/(expense)								
– External	2,063	5,685	4,660	1,907	1,006	15,321	–	15,321
– Inter-segment	1,884	(212)	(1,507)	(10)	(155)	–	–	–
	3,947	5,473	3,153	1,897	851	15,321	–	15,321
Net fee and commission income/(expense)	3,232	2,433	(29)	(8)	588	6,216	(784)	5,432
Insurance service result	–	–	–	412	–	412	74	486
Net trading gain/(loss)	511	834	7,211	(11)	354	8,899	3	8,902
Net loss on other financial instruments at fair value through profit or loss	–	–	(141)	(8,273)	–	(8,414)	1	(8,413)
Net gain/(loss) on other financial instruments	–	4	(2,033)	1	–	(2,028)	–	(2,028)
Insurance finance (expenses)/income	–	–	–	5,230	–	5,230	–	5,230
Other operating income	13	1	30	60	915	1,019	(598)	421
Net operating income/(expense) before impairment allowances	7,703	8,745	8,191	(692)	2,708	26,655	(1,304)	25,351
Net (charge)/reversal of impairment allowances	(111)	(1,590)	(2)	(7)	6	(1,704)	–	(1,704)
Net operating income/(expense)	7,592	7,155	8,189	(699)	2,714	24,951	(1,304)	23,647
Operating expenses	(4,501)	(1,662)	(637)	(31)	(1,529)	(8,360)	945	(7,415)
Operating profit/(loss)	3,091	5,493	7,552	(730)	1,185	16,591	(359)	16,232
Net loss from disposal of/fair value adjustments on investment properties	–	–	–	–	(142)	(142)	–	(142)
Net loss from disposal/revaluation of properties, plant and equipment	(1)	–	–	–	(1)	(2)	–	(2)
Share of results after tax of associates and joint ventures	(11)	–	2	–	(150)	(159)	–	(159)
Profit/(loss) before taxation	3,079	5,493	7,554	(730)	892	16,288	(359)	15,929
At 31 December 2022								
ASSETS								
Segment assets	580,155	1,040,621	1,734,391	177,427	173,275	3,705,869	(40,207)	3,665,662
Interests in associates and joint ventures	563	–	1	–	279	843	–	843
	580,718	1,040,621	1,734,392	177,427	173,554	3,706,712	(40,207)	3,666,505
LIABILITIES								
Segment liabilities	1,280,379	1,075,631	746,103	172,749	105,546	3,380,408	(39,738)	3,340,670
Half-year ended 30 June 2022								
Other information								
Capital expenditure	11	5	5	23	671	715	–	715
Depreciation and amortisation	617	152	61	34	682	1,546	(20)	1,526

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

40. Assets pledged as security

As at 30 June 2023, the liabilities of the Group amounting to HK$25,853 million (31 December 2022: HK$27,986 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK$37,495 million (31 December 2022: HK$46,757 million) were secured by debt securities related to sale and repurchase arrangements. The amount of assets pledged by the Group to secure these liabilities was HK$63,669 million (31 December 2022: HK$75,346 million) mainly included in "Financial assets at fair value through profit or loss" and "Investment in securities".

In addition, the Group pledges securities amounting to HK$3,204 million (31 December 2022: HK$2,709 million) as initial margin of derivative transactions.

41. Significant related party transactions

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

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

General information of the parent companies:

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

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

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

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

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

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

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

41. Significant related party transactions (continued)

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

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

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

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

– inter-bank balance taking and placing;

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

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

– provision of fiduciary activities; and

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

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

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

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

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

41. Significant related party transactions (continued)

(d) Key management personnel

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

The compensation of key management personnel is detailed as follows:

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

42. IBOR reform

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

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

43. International claims

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

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

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

	At 31 December 2022				
			Non-bank private sector		
	Banks HK$'m	Official sector HK$'m	Non-bank financial institutions HK$'m	Non-financial private sector HK$'m	Total HK$'m
Chinese Mainland	408,109	223,505	17,001	119,710	768,325
Hong Kong	14,938	3,578	54,417	323,167	396,100
United States	32,072	161,031	16,539	14,796	224,438

44. Non-bank Mainland exposures

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

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

44. Non-bank Mainland exposures (continued)

	Items in the HKMA return	At 31 December 2022 On-balance sheet exposure HK$'m	Off-balance sheet exposure HK$'m	Total exposure HK$'m
Central government, central government-owned entities and their subsidiaries and joint ventures	1	369,448	28,067	397,515
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	80,046	6,753	86,799
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	129,723	18,635	148,358
Other entities of central government not reported in item 1 above	4	28,976	1,630	30,606
Other entities of local governments not reported in item 2 above	5	1,362	205	1,567
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	67,098	6,968	74,066
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	1,856	86	1,942
Total	8	678,509	62,344	740,853
Total assets after provision	9	3,422,169		
On-balance sheet exposures as percentage of total assets	10	19.83%		

45. Comparative amounts

The issuance of HKFRS 17 replaces HKFRS 4 for annual periods beginning on or after 1 January 2023. On 1 January 2023, the Group adopted the requirements of HKFRS 17 retrospectively with comparatives restated from the transition date, 1 January 2022.

46. Event after the balance sheet date

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

47. Compliance with HKAS 34

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

48. Statutory accounts

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

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

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

ADDITIONAL INFORMATION

1. Corporate information

Board of Directors

Chairman

GE Haijiao#	(appointment effective from 27 April 2023)

Vice Chairmen

LIU Jin#
SUN Yu

Directors

LIN Jingzhen#	
CHENG Eva*	
CHOI Koon Shum*	
FUNG Yuen Mei Anita*	
LAW Yee Kwan Quinn*	
LEE Sunny Wai Kwong*	
LIP Sai Wo*	(appointment effective immediately from the conclusion of the annual general meeting held on 29 June 2023)
KOH Beng Seng*	(retirement effective immediately from the conclusion of the annual general meeting held on 29 June 2023)
TUNG Savio Wai-Hok*	(retirement effective immediately from the conclusion of the annual general meeting held on 29 June 2023)

Non-executive Directors
* Independent Non-executive Directors

Senior Management

Chief Executive

SUN Yu

Chief Risk Officer

JIANG Xin

Chief Financial Officer

LIU Chenggang

Deputy Chief Executives

XU Haifeng	
XING Guiwei	(appointment effective from 9 June 2023)
CHAN Man	

Company Secretary

LUO Nan

Registered Office

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

Auditor

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor

Share Registrar

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

ADR Depositary Bank

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

Credit Ratings (Long Term)

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

Index Constituent

The Company is a constituent of the following indices:
Hang Seng Index Series
Hang Seng Corporate Sustainability Index Series
Hang Seng High Dividend Yield Index Series
HSI ESG Index
MSCI Index Series
FTSE Index Series

Stock Codes

Ordinary shares:

The Stock Exchange of Hong Kong Limited	2388 (HKD Counter) 82388 (RMB Counter)
Reuters	2388.HK (HKD Counter) 82388.HK (RMB Counter)
Bloomberg	2388 HK (HKD Counter) 82388 HK (RMB Counter)

Level 1 ADR Programme:

CUSIP No.	096813209
OTC Symbol	BHKLY

Website

www.bochk.com

2. Interim dividend and closure of register of members

The Board has declared an interim dividend of HK$0.527 per share (2022: HK$0.447), payable on Friday, 29 September 2023 to shareholders whose names appear on the Register of Members of the Company on Thursday, 21 September 2023.

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to the interim dividend, from Monday, 18 September 2023 to Thursday, 21 September 2023 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the interim 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 Friday, 15 September 2023. Shares of the Company will be traded ex-dividend as from Thursday, 14 September 2023.

3. Interest of substantial shareholders

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 30 June 2023, the following parties had the following interests (as defined in the SFO) in the Company set opposite their respective names:

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

Notes:

1. Following the reorganisation of BOC in August 2004, Central Huijin holds the controlling equity capital of BOC on behalf of the State. Accordingly, for the purpose of the SFO, Central Huijin is deemed to have the same interests in the Company as BOC.

2. BOC holds the entire issued shares of BOCHKG, which in turn holds the entire issued shares of BOC (BVI). Accordingly, BOC and BOCHKG are deemed to have the same interests in the Company as BOC (BVI) for the purpose of the SFO. BOC (BVI) beneficially held 6,984,175,056 shares of the Company.

3. BOC holds the entire issued shares of BOCI, which in turn holds the entire issued shares of BOCI Asia Limited and BOCI Financial Products Limited. Accordingly, BOC is deemed to have the same interests in the Company as BOCI Asia Limited and BOCI Financial Products Limited for the purpose of the SFO. BOCI Asia Limited had an interest in 24,479 shares of the Company and an interest in 72,000 shares held under physically settled equity derivatives while BOCI Financial Products Limited had an interest in 2,678 shares of the Company.

All the interests stated above represented long positions. Apart from the disclosure above, according to the register maintained by the Company pursuant to section 336 of the SFO, BOCI Financial Products Limited had an interest in 143,522 shares which represented short positions. BOC and Central Huijin are deemed to be interested in such number of shares for the purpose of the SFO. Save as disclosed, no other interests or short positions were recorded in the register maintained by the Company under section 336 of the SFO as at 30 June 2023.

4. Directors' and Chief Executive's interests in shares, underlying shares and debentures

As at 30 June 2023, the interests and short positions of the Directors, Chief Executive and their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") are set out below:

Associated corporation of the Company:
Bank of China Limited (H Shares)

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

Notes:

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

All the interests stated above represented long positions. Save as disclosed above, as at 30 June 2023, none of the Directors, Chief Executive or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

5. Changes of information in respect of Directors

In accordance with Rule 13.51B(1) of the Listing Rules, the changes in information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules after the last disclosure set out in the 2022 Annual Report up to 30 August 2023 (being the approval date of this Interim Report) are set out below:

(a) Mr GE Haijiao has been appointed as Chairman, Non-executive Director and Chairman of the Strategy and Budget Committee of the Company and BOCHK with effect from 27 April 2023. On the same day, he has also been appointed as Director of BOC (BVI) and BOCHKG respectively.

(b) Mr LIU Jin, Vice Chairman and Non-executive Director of the Company, has been appointed as Chairman and Non-executive Director of the Board of BOC Aviation Limited (listed in Hong Kong) with effect from 24 April 2023.

(c) Mr SUN Yu, Vice Chairman and Chief Executive of the Company, ceased to be the council member of Hong Kong Management Association with effect from 24 July 2023.

(d) Mr TUNG Savio Wai-Hok retired as Independent Non-executive Director, and ceased to be Chairman of Audit Committee and member of each of Nomination and Remuneration Committee, Risk Committee, Strategy and Budget Committee as well as Sustainability Committee of the Company and BOCHK with immediate effect from the conclusion of the respective annual general meetings held on 29 June 2023.

(e) Mr KOH Beng Seng retired as Independent Non-executive Director, and ceased to be Chairman of Risk Committee and member of each of Audit Committee, Nomination and Remuneration Committee as well as Sustainability Committee of the Company and BOCHK with immediate effect from the conclusion of the respective annual general meetings held on 29 June 2023.

(f) Mr LIP Sai Wo has been appointed as Independent Non-executive Director, Chairman of Audit Committee and member of each of Risk Committee, Strategy and Budget Committee as well as Sustainability Committee of the Company and BOCHK with immediate effect from the conclusion of the respective annual general meetings held on 29 June 2023.

(g) Madam FUNG Yuen Mei Anita, Independent Non-executive Director of the Company, has been appointed as Chairman of Risk Committee and member of Nomination and Remuneration Committee of the Company and BOCHK with immediate effect from the conclusion of the respective annual general meetings held on 29 June 2023. Furthermore, Madam FUNG retired as member of Judicial Officers Recommendation Commission with effect from 30 June 2023.

(h) Mr LEE Sunny Wai Kwong, Independent Non-executive Director of the Company, has been appointed as member of Nomination and Remuneration Committee of the Company and BOCHK with immediate effect from the conclusion of the respective annual general meetings held on 29 June 2023.

The biographies of Directors are available under the sub-section "Organisation – Board of Directors" of the section headed "About Us" on the Company's website at www.bochk.com.

6. Purchase, sale or redemption of the Company's shares

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

7. Audit Committee

The Audit Committee consists of Independent Non-executive Directors only. It is chaired by Mr TUNG Savio Wai-Hok (retired on 29 June 2023) and Mr LIP Sai Wo (appointed as an Independent Non-executive Director and the Chairman of the Audit Committee with effect from 29 June 2023). Other members include Madam CHENG Eva, Madam FUNG Yuen Mei Anita, Mr KOH Beng Seng (retired on 29 June 2023), Mr LAW Yee Kwan Quinn and Mr LEE Sunny Wai Kwong.

Based on the principle of independence, the Audit Committee assists the Board in monitoring the financial reports, internal control, internal audit and external audit of the Group.

At the request of the Audit Committee of the Company, the Group's external auditor has carried out a review of the interim financial information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. The Audit Committee has reviewed with the Management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim reports.

8. Compliance with the "Corporate Governance Code"

The Company is committed to embracing and enhancing good corporate governance principles and practices. During the period under review, the Company has been in full compliance with all code provisions of the Corporate Governance Code as contained in Appendix 14 of the Listing Rules (the "Corporate Governance Code"). The Company has also complied with nearly all the recommended best practices set out in the Corporate Governance Code throughout the period. For further details, please refer to the section titled "Corporate Governance" contained in the Annual Report 2022 of the Company.

9. Compliance with the Codes for Securities Transactions by Directors

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. 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 Hong Kong Stock Exchange 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 Model Code throughout the period under review.

ADDITIONAL INFORMATION

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

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

11. Interim Report

This Interim 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 Interim 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 Interim Report and other 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 Interim Report or how to access those corporate communications on the Company's website, please call the Company's hotline at (852) 2846 2700.

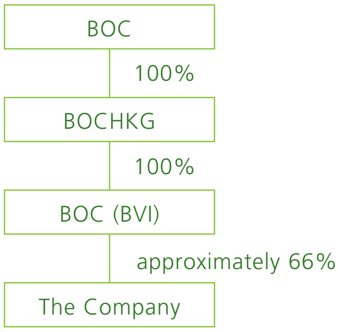
12. Reconciliation between HKFRSs vs IFRSs/CASs

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 interim financial information. 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 interim financial information is not the same as the interim 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.

12. Reconciliation between HKFRSs vs IFRSs/CASs (continued)

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 interim financial information 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.

The Board considers that the best way to ensure that shareholders and the investing public understand the material differences between the interim 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 interim financial information 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.

ADDITIONAL INFORMATION

12. Reconciliation between HKFRSs vs IFRSs/CASs (continued)

Profit after tax/net assets reconciliation

HKFRSs vs IFRSs/CASs

	Profit after tax		Net assets	
	Half-year ended 30 June 2023 HK$'m	Half-year ended 30 June 2022 HK$'m	**At 30 June 2023 HK$'m**	At 31 December 2022 HK$'m
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs	**18,082**	13,041	**334,514**	325,835
Add: IFRSs/CASs adjustments				
Restatement of carrying value of bank premises	**430**	447	**(29,255)**	(29,572)
Deferred tax adjustments	**(66)**	(252)	**4,882**	4,934
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRSs/CASs	**18,446**	13,236	**310,141**	301,197

13. Regulatory Disclosures

The Regulatory Disclosures, together with the disclosures in this Interim 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.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

Introduction

We have reviewed the interim financial information set out on pages 43 to 124, which comprises the interim condensed consolidated balance sheet of BOC Hong Kong (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2023 and the interim condensed consolidated income statement, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated cash flow statement for the six-month period then ended, and selected explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 30 August 2023

APPENDIX

Subsidiaries of the Company

The particulars of subsidiaries are as follows:

Name	Place and date of incorporation/ operation	Issued share capital	Interest held	Principal activities
Directly held:				
Bank of China (Hong Kong) Limited	Hong Kong 16 October 1964	HK$43,042,840,858	100.00%	Banking business
BOC Group Life Assurance Company Limited	Hong Kong 12 March 1997	HK$3,538,000,000	51.00%	Life insurance business
BOCHK Asset Management (Cayman) Limited	Cayman Islands 7 October 2010	HK$383,000,000	100.00%	Investment holding
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

Subsidiaries of the Company (continued)

Name	Place and date of incorporation/ operation	Issued share capital	Interest held	Principal activities
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
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

Subsidiaries of the Company (continued)

Name	Place and date of incorporation/ operation	Issued share capital	Interest held	Principal activities
Maxi Success Holdings Ltd.	British Virgin Islands 7 February 2014	US$1	100.00%	Investment holding
Smart Linkage Holdings Inc.	British Virgin Islands 13 February 2014	US$1	100.00%	Investment holding
Smart Union Capital Investments Ltd.	British Virgin Islands 3 January 2014	US$1	100.00%	Investment holding
Success Trend Development Ltd.	British Virgin Islands 18 February 2014	US$1	100.00%	Investment holding
Wise Key Enterprises Corp.	British Virgin Islands 18 February 2014	US$1	100.00%	Investment holding
BOCHK Asset Management Limited	Hong Kong 28 October 2010	HK$372,500,000	100.00%	Asset management
BOC Equity Investment Management (Shenzhen) Limited**	PRC 2 April 2019	Registered capital US$5,000,000	100.00%	Asset management
Greater Bay Area Investment (GP) Limited	Hong Kong 4 February 2021	HK$1	100.00%	Investment holding

* BOCI-Prudential Trustee Limited is a subsidiary of a non-wholly-owned subsidiary of the Company and, accordingly, is accounted for as a subsidiary by virtue of the Company's control over it.

** It is registered as limited liability company in the PRC.

DEFINITIONS

In this Interim 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
"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
"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 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

DEFINITIONS

Terms	Meanings
"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
"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

DEFINITIONS

Terms	Meanings
"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
"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
"PRC"	the People's Republic of China
"PVBP"	Price Value of a Basis Point
"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)

DEFINITIONS

Terms	Meanings
"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

By Order of the Board
LUO Nan
Company Secretary

Hong Kong, 30 August 2023

As at the date of this announcement, the Board comprises Mr GE Haijiao (Chairman), Mr LIU Jin* (Vice Chairman), Mr SUN Yu (Vice Chairman and Chief Executive), Mr LIN Jingzhen*, Madam CHENG Eva**, Dr CHOI Koon Shum**, Madam FUNG Yuen Mei Anita**, Mr LAW Yee Kwan Quinn**, Mr LEE Sunny Wai Kwong** and Mr LIP Sai Wo**.*

* *Non-executive Directors*
** *Independent Non-executive Directors*