



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

2024 INTERIM REPORT

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FINANCIAL HIGHLIGHTS

	30 June 2024 HK\$'m	30 June 2023 HK\$'m
For the period		
Net operating income before impairment allowances	35,336	30,838
Operating profit	25,134	21,817
Profit before taxation	24,716	21,523
Profit for the period	20,463	18,082
Profit attributable to equity holders of the Company and other equity instrument holders	20,040	17,694
Per share	HK\$	HK\$
Basic earnings per share	1.8954	1.6077
Dividend per share	0.570	0.527
	30 June 2024 HK\$'m	31 December 2023 HK\$'m
At period/year end		
Total assets	3,998,248	3,868,783
Issued and fully paid up share capital	52,864	52,864
Capital and reserves attributable to equity holders of the Company	326,573	320,145
	30 June 2024 %	30 June 2023 %
Financial ratios for the period		
Return on average total assets ¹	1.00	0.97
Return on average shareholders' equity ²	12.39	10.81
Cost to income ratio	22.98	25.46
Average value of liquidity coverage ratio ³		
First quarter	223.79	189.68
Second quarter	250.58	188.89
	30 June 2024 %	31 December 2023 %
Financial ratios at period/year end		
Loan to deposit ratio ⁴	64.21	67.99
Quarter-end value of net stable funding ratio ³		
First quarter	140.36	134.51
Second quarter	140.96	131.56
Total capital ratio ⁵	22.17	21.18

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.

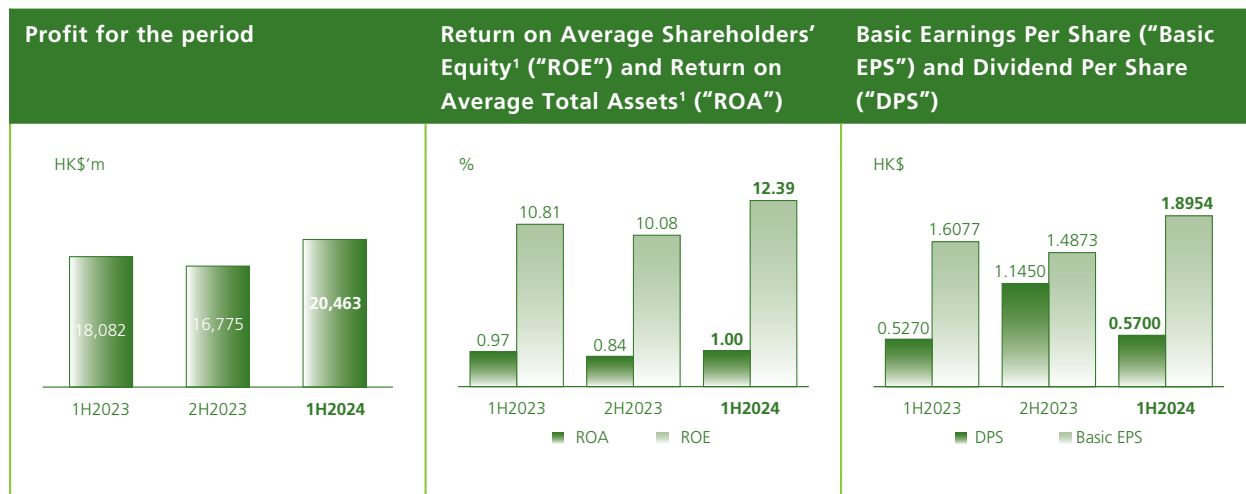
4. Loan to deposit ratio is calculated as at period/year end. Loan represents gross advances to customers. Deposits from customers include structured deposits reported as "Financial liabilities at fair value through profit or loss".

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

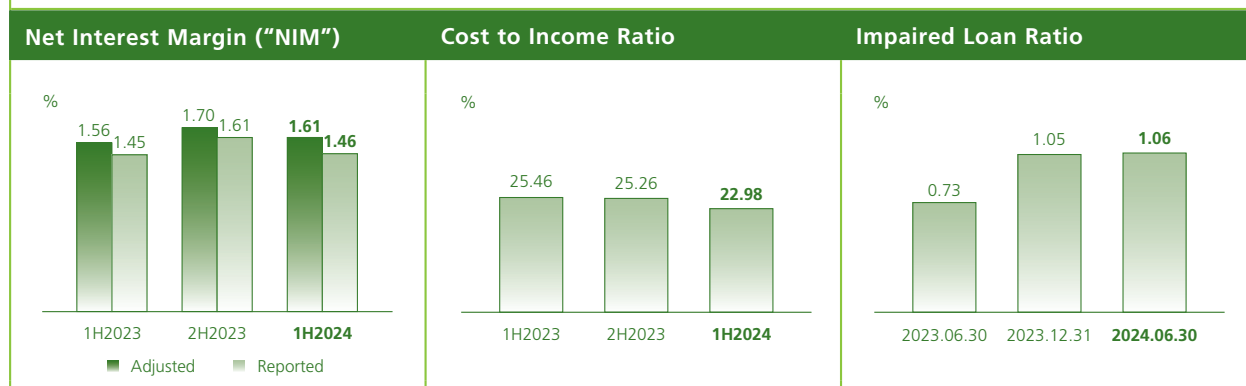
FINANCIAL PERFORMANCE AND CONDITIONS AT A GLANCE

The following table is a summary of the Group's key financial results for the first half of 2024 as compared with the previous two half-year periods of 2023.



Profit for the period

- In the first half of 2024, profit for the period amounted to HK\$20,463 million, representing an increase of 13.2% compared to the same period of the previous year and an increase of 22.0% compared to the second half of 2023.
- ROE and ROA were 12.39% and 1.00% respectively.
- Basic EPS was HK\$1.8954. The interim dividend per share was HK\$0.57.



Achieved a year-on-year increase in NIM by dynamically managing assets and liabilities

- NIM was 1.46%. If the funding income or cost of foreign currency swap contracts² were included, NIM would have been 1.61%, an increase of 5 basis points year-on-year. This was mainly attributable to the Group's efforts to dynamically manage its assets and liabilities so as to control deposit costs amid rising market interest rates, resulting in a widening of the loan and deposit spread and an increase in the average yield of debt securities investments.

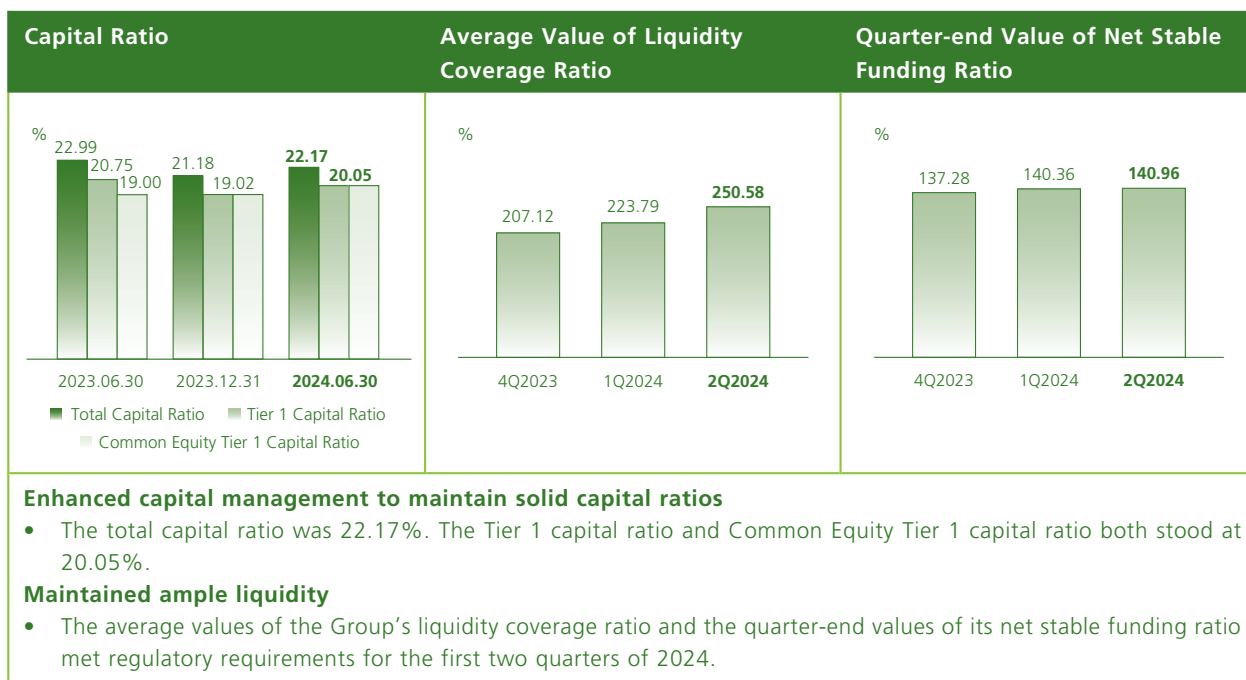
Maintained satisfactory cost efficiency by continuously optimising resource allocation

- Operating expenses increased by 3.4% year-on-year, while net operating income before impairment allowances increased by 14.6% compared to the same period last year. As a result, the Group's cost to income ratio improved by 2.48 percentage points year-on-year to 22.98%, remaining at a satisfactory level compared to industry peers.

Maintained benign asset quality through comprehensive risk management

- The impaired loan ratio was 1.06%, which remained below the market average.

MANAGEMENT DISCUSSION AND ANALYSIS



- Return on average shareholders' equity and return on average total assets as defined in "Financial Highlights".
- 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

ECONOMIC BACKGROUND AND OPERATING ENVIRONMENT

In the first half of 2024, the global economy experienced recovery, with several international organisations being optimistic on their full-year global economic and trade forecasts. However, the external environment remained complex. In the US, headline inflation rates started to slow and the Chairman of the Federal Reserve began to signal future rate cuts. The European Central Bank, meanwhile, implemented its first rate cut since 2019. Developments in international monetary policies continued to be influenced by a wide range of factors. In Southeast Asia, trade rebounded overall, with most central banks in the region keeping policy rates high amid volatile exchange rates. The Chinese mainland economy continued its gradual recovery, with market demand recovered steadily, alongside continuous improvements in supply. Despite volatility in the short term, the Chinese mainland's long-term economic growth trend is expected to remain stable and positive.

The Hong Kong economy showed moderate growth. Exports of merchandise goods and services remained the key drivers of economic growth, benefitting from an improved global trade environment and a continued recovery in tourist arrivals. Exports of merchandise goods improved as external demands recovered modestly. Private consumption expenditure softened, overall investment expenditure continued to expand, while the unemployment rate remained relatively low.

Hong Kong's financial system remained resilient. The exchange rate of the Hong Kong dollar against the US dollar remained stable while Hong Kong dollar interest rates remained relatively high. The average 1-month HIBOR increased from 3.52% in the first half of 2023 to 4.51% in the first half of 2024, while the average 1-month SOFR rose from 4.83% to 5.33% over the same period. Total deposits in the Hong Kong banking system steadily increased while loan demand declined. Asset quality remained robust.

The Hong Kong stock market experienced an upward trajectory amid volatility, albeit without a notable pickup in transaction volume. From late April onwards, market sentiment was boosted by the Chinese government's announcement of a series of measures to enhance connectivity between financial markets in the Chinese mainland and Hong Kong. As at the end of June 2024, the Hang Sang Index closed at 17,719, representing an increase of 3.9% from the end of last year, while the average daily trading volume of the stock market in the first half of the year fell by 4.5% year-on-year.

Regarding the Hong Kong property market, the HKSAR Government announced the abolition of demand-side management measures for all types of residential properties, and revised its macroprudential supervisory measures at the end of February. This led to more transactions in the private residential property market, suggesting improved market sentiment, although prices weakened again in May after two months of stabilisation. Meanwhile, the non-residential property market remained weak, with transaction volume declining year-on-year, and sale prices and rent levels remaining subdued.

In the second half of 2024, the US Federal Reserve is expected to make rate cuts, starting from September at the earliest if the US economy follows its expected path. The Chinese mainland economy is expected to continue its revival, and Hong Kong merchandise exports are expected to stabilise. In addition, with the support of various upcoming Hong Kong mega-events, the local economy is expected to continue its recovery, positively impacting the development of the banking sector in Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL REVIEW

Financial Highlights

HK\$m	Half-year ended 30 June 2024	Half-year ended 31 December 2023	Half-year ended 30 June 2023
Net operating income before impairment allowances	35,336	34,660	30,838
Operating expenses	(8,121)	(8,755)	(7,852)
Operating profit before impairment allowances	27,215	25,905	22,986
Operating profit after impairment allowances	25,134	20,741	21,817
Profit before taxation	24,716	19,391	21,523
Profit for the period	20,463	16,775	18,082
Profit attributable to equity holders of the Company	20,040	15,725	16,998

In the first half of 2024, the Group's net operating income before impairment allowances amounted to HK\$35,336 million, an increase of HK\$4,498 million or 14.6% year-on-year. Net interest income recorded year-on-year growth, mainly reflecting the growth in average interest-earning assets and the Group's efforts to dynamically manage its assets and liabilities so as to capture opportunities from rising market interest rates, resulting in a widening of net interest margin. The Group seized business opportunities from improved investor sentiment in the market as well as the rebound in tourism, which outweighed the negative impact of dampened credit demand. As a result, net fee and commission income increased on a year-on-year basis. Meanwhile, the Group recorded an increase in net trading gain and reduced its net loss on other financial instruments, which more than offset an increase in operating expenses and net charge of impairment allowances, as well as a higher net loss from fair value adjustments on investment properties. Profit for the period amounted to HK\$20,463 million, a year-on-year increase of HK\$2,381 million or 13.2%. Profit attributable to equity holders was HK\$20,040 million, an increase of HK\$3,042 million or 17.9% year-on-year.

As compared to the second half of 2023, the Group's net operating income before impairment allowances increased by HK\$676 million or 2.0%. This was mainly attributable to an increase in net fee and commission income and net trading gain, which more than offset a decline in net interest income. In addition, both operating expenses and net charge of impairment allowances decreased, and there was a lower net loss from fair value adjustments on investment properties. As a result, the Group's profit for the period increased by HK\$3,688 million or 22.0% compared to the second half of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

INCOME STATEMENT ANALYSIS

Net Interest Income and Net Interest Margin

HK\$m, except percentages	Half-year ended 30 June 2024	Half-year ended 31 December 2023	Half-year ended 30 June 2023
Interest income	70,888	71,240	57,249
Interest expense	(44,906)	(43,370)	(34,041)
Net interest income	25,982	27,870	23,208
Average interest-earning assets	3,580,673	3,441,740	3,226,086
Net interest spread	1.06%	1.21%	1.05%
Net interest margin	1.46%	1.61%	1.45%
Net interest margin (adjusted) ¹	1.61%	1.70%	1.56%

Net interest income amounted to HK\$25,982 million in the first half of 2024. If the funding income or cost of foreign currency swap contracts² were included, net interest income would have increased by 15.3% year-on-year to HK\$28,817 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\$354,587 million or 11.0% year-on-year. If the funding income or cost of foreign currency swap contracts were included, net interest margin would have been 1.61%, up 5 basis points year-on-year. This was mainly attributable to the Group's efforts to capitalise on rising market interest rates while dynamically managing its assets and liabilities and proactively controlling deposit costs, which led to a widening of the loan and deposit spread and an increase in the average yield of debt securities investments.

Compared with the second half of 2023, the Group's net interest income would have decreased by 2.3% if the funding income or cost of foreign currency swap contracts were included. This was mainly due to a decrease in HKD market interest rates, which led to a narrowing of the loan and deposit spread, partially offset by an increase in the average yield of debt securities investments. As a result, net interest margin declined by 9 basis points.

1. Including the funding income or cost of foreign currency swap contracts.
2. 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 2024		Half-year ended 31 December 2023		Half-year ended 30 June 2023	
	Average balance HK\$'m	Average yield %	Average balance HK\$'m	Average yield %	Average balance HK\$'m	Average yield %
ASSETS						
Balances and placements with banks and other financial institutions	627,359	1.81	483,488	1.99	376,321	2.07
Debt securities investments and other debt instruments	1,280,523	3.92	1,262,849	3.72	1,154,081	2.97
Advances to customers and other accounts	1,662,295	4.81	1,682,582	4.99	1,683,288	4.31
Other interest-earning assets	10,496	5.95	12,821	6.69	12,396	6.93
Total interest-earning assets	3,580,673	3.97	3,441,740	4.11	3,226,086	3.58
Non interest-earning assets	522,206	–	551,116	–	505,454	–
Total assets	4,102,879	3.47	3,992,856	3.54	3,731,540	3.09
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	294,307	2.44	286,843	2.28	248,758	1.42
Current, savings and time deposits	2,620,519	2.92	2,505,714	2.94	2,299,194	2.61
Subordinated liabilities	75,167	3.41	75,623	3.29	77,534	3.26
Other interest-bearing liabilities	101,241	3.62	95,678	3.55	86,938	2.90
Total interest-bearing liabilities	3,091,234	2.91	2,963,858	2.90	2,712,424	2.53
Shareholders' funds* and other non interest-bearing deposits and liabilities	1,011,645	–	1,028,998	–	1,019,116	–
Total liabilities	4,102,879	2.20	3,992,856	2.15	3,731,540	1.84

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

MANAGEMENT DISCUSSION AND ANALYSIS

Net Fee and Commission Income

HK\$'m	Half-year ended 30 June 2024	Half-year ended 31 December 2023	Half-year ended 30 June 2023
Loan commissions	1,352	947	1,466
Credit card business	1,229	1,245	1,185
Securities brokerage	962	874	952
Trust and custody services	431	410	380
Payment services	364	369	345
Insurance	360	324	327
Funds distribution	323	177	254
Currency exchange	267	212	186
Bills commissions	216	244	237
Safe deposit box	143	145	145
Funds management	17	11	17
Others	913	881	854
Fee and commission income	6,577	5,839	6,348
Fee and commission expense	(1,577)	(1,586)	(1,434)
Net fee and commission income	5,000	4,253	4,914

In the first half of 2024, net fee and commission income amounted to HK\$5,000 million, an increase of HK\$86 million or 1.8% year-on-year. The Group remained committed to developing its wealth management business and enhanced its product and service suite for funds and insurance, which resulted in year-on-year increases in commission income from funds distribution and insurance of 27.2% and 10.1% respectively. Commission income from currency exchange rose 43.5% owing to the rebound in tourism, while commission income from trust and custody services increased by 13.4% year-on-year. However, loan commissions declined amid dampened credit demand, partially offsetting the abovementioned increases. Fee and commission expenses increased, mainly driven by higher business volume.

Compared with the second half of 2023, net fee and commission income increased by HK\$747 million or 17.6%, primarily owing to an increase in commission income from loans, funds distribution and management, securities brokerage, currency exchange, insurance and trust and custody services.

MANAGEMENT DISCUSSION AND ANALYSIS

Net Trading Gain

HK\$'m	Half-year ended 30 June 2024	Half-year ended 31 December 2023	Half-year ended 30 June 2023
Net trading gain	5,275	4,272	4,043

In the first half of 2024, the Group's net trading gain amounted to HK\$5,275 million, an increase of HK\$1,232 million or 30.5% year-on-year. The increase was attributable to the year-on-year increase in the swap income from foreign currency swap contracts and the net trading gain from interest rate instruments and commodities.

Compared with the second half of 2023, net trading gain increased by HK\$1,003 million or 23.5%, mainly attributable to an increase in the swap income from foreign currency swap contracts.

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

HK\$'m	Half-year ended 30 June 2024	Half-year ended 31 December 2023	Half-year ended 30 June 2023
Net (loss)/gain on other financial instruments at fair value through profit or loss	(868)	766	1,511

In the first half of 2024, the Group recorded a net loss of HK\$868 million on other financial instruments at fair value through profit or loss, compared to a net gain of HK\$1,511 million in the first half of 2023. The change was primarily due to a drop in the mark-to-market value of BOC Life's debt securities investments, caused by market interest rate movements. However, this drop 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.

Compared with the second half of 2023, the change was mainly attributable to a drop in the mark-to-market value of BOC Life's debt securities investments this year, in contrast to an increase in the mark-to-market value of BOC Life's related investments caused by market interest rate movements in the second half of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Expenses

HK\$'m	Half-year ended 30 June 2024	Half-year ended 31 December 2023	Half-year ended 30 June 2023
Staff costs	5,351	5,647	5,078
Premises and equipment expenses (excluding depreciation and amortisation)	733	731	663
Depreciation and amortisation	1,436	1,443	1,476
Other operating expenses	1,193	1,551	1,170
Less: Costs directly attributable to insurance contracts	(592)	(617)	(535)
Operating expenses	8,121	8,755	7,852

	At 30 June 2024	At 31 December 2023	At 30 June 2023
Staff headcount measured in full-time equivalents	14,910	14,916	14,823

The Group remained committed to allocating resources efficiently and dynamically, in order to meet its basic operating needs, support strategic implementation, and ensure safety and compliance in its operations. It continued to prioritise key projects and business growth while strengthening cost control. Upholding the concept of low-carbon operations, the Group internally promoted green office and energy-saving practices, and externally supported green operation initiatives and paperless workflows. At the same time, it refined its cost management mechanisms to enhance resource efficiency and utilise internal resources to meet additional requirements, particularly in terms of marketing resources. As such, it improved its ability to match inputs and outputs, and thus strengthened the correlation of costs to benefits. During the period, operating expenses amounted to HK\$8,121 million, an increase of HK\$269 million or 3.4% year-on-year. The cost to income ratio was 22.98%, remaining at a satisfactory level relative to industry peers.

Staff costs increased by 5.4% year-on-year, mainly due to an increase in salary and performance-related remuneration.

Premises and equipment expenses were up 10.6%, primarily due to increased investment in information technology, and a lower base for comparison in terms of rental payments of short-term leases in the same period last year.

Depreciation and amortisation decreased by 2.7%, mainly due to the completion of depreciation on certain computer systems.

Other operating expenses increased by 2.0%, primarily owing to an increase in communication and business promotion expenses, as well as professional consultancy fees.

Compared with the second half of 2023, operating expenses decreased by HK\$634 million or 7.2%. The decrease was mainly due to lower staff costs and a reduction in advertising and business promotion expenses, as well as professional consultancy fees.

MANAGEMENT DISCUSSION AND ANALYSIS

Net Charge of Impairment Allowances on Advances and Other Accounts

HK\$'m	Half-year ended 30 June 2024	Half-year ended 31 December 2023	Half-year ended 30 June 2023
Net (charge)/reversal of impairment allowances on advances and other accounts			
Stage 1	(575)	(482)	429
Stage 2	(412)	(1,887)	(588)
Stage 3	(1,080)	(2,825)	(1,066)
Net charge of impairment allowances on advances and other accounts	(2,067)	(5,194)	(1,225)

In the first half of 2024, the Group's net charge of impairment allowances on advances and other accounts amounted to HK\$2,067 million, an increase of HK\$842 million or 68.7% year-on-year. Impairment allowances at Stage 1 recorded a net charge of HK\$575 million. This was mainly due to the higher impairment allowances resulting from the Group updating of the parameter values of its expected credit loss model in response to a deteriorating macroeconomic outlook, changes in its loan portfolio and downgrades to the internal ratings of certain customers. Conversely, the net reversal of HK\$429 million in the first half of last year had been driven by improvements to parameter values. Impairment allowances at Stage 2 recorded a net charge of HK\$412 million, a decrease of HK\$176 million year-on-year, reflecting changes in the internal ratings of certain customers. Impairment allowances at Stage 3 amounted to a net charge of HK\$1,080 million, an increase of HK\$14 million year-on-year. The annualised credit cost of advances to customers and other accounts was 0.25%, up 0.11 percentage points year-on-year. As at 30 June 2024, the Group's total loan impairment allowances as a percentage of advances to customers was 0.96%.

Compared with the second half of 2023, the Group's net charge of impairment allowances on advances and other accounts decreased by HK\$3,127 million or 60.2%, mainly due to a higher base for comparison in the second half of 2023 regarding the downgrading of certain customers and an increase of impairment allowances made in relation to certain non-performing customers.

MANAGEMENT DISCUSSION AND ANALYSIS

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 35 to the Interim Financial Information for the contractual amounts of each significant class of contingent liability and commitment, and the aggregate credit risk-weighted amount.

Asset Composition

HK\$m, except percentages	At 30 June 2024		At 31 December 2023	
	Balance	% of total	Balance	% of total
Cash and balances and placements with banks and other financial institutions	697,785	17.4	406,571	10.5
Hong Kong SAR Government certificates of indebtedness	210,370	5.3	213,000	5.5
Securities investments and other debt instruments ¹	1,175,695	29.4	1,351,730	34.9
Advances and other accounts	1,689,389	42.3	1,693,144	43.8
Properties, plant and equipment as well as investment properties	56,355	1.4	56,613	1.5
Other assets ²	168,654	4.2	147,725	3.8
Total assets	3,998,248	100.0	3,868,783	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 2024, the total assets of the Group amounted to HK\$3,998,248 million, an increase of HK\$129,465 million or 3.3% from the end of last year. Cash and balances and placements with banks and other financial institutions increased by HK\$291,214 million or 71.6%, which was partially offset by the HK\$176,035 million or 13.0% decrease in securities investments and other debt instruments. Advances and other accounts fell HK\$3,755 million or 0.2% as credit demand was weak, with advances to customers decreasing HK\$964 million or 0.1%, and trade bills decreasing by HK\$1,161 million or 31.0%.

MANAGEMENT DISCUSSION AND ANALYSIS

Advances to Customers

HK\$m, except percentages	At 30 June 2024		At 31 December 2023	
	Balance	% of total	Balance	% of total
Loans for use in Hong Kong	1,255,651	73.8	1,253,163	73.6
Industrial, commercial and financial	673,816	39.6	683,604	40.1
Individuals	581,835	34.2	569,559	33.5
Trade financing	51,663	3.0	47,691	2.8
Loans for use outside Hong Kong	394,024	23.2	401,448	23.6
Total advances to customers	1,701,338	100.0	1,702,302	100.0

In the first half of 2024, demand for loans in Hong Kong remained weak. The Group actively responded to market changes and captured opportunities in the Hong Kong, Greater Bay Area, Southeast Asian and key overseas markets. It leveraged its advantages in customer base and professional services to provide comprehensive financial service solutions to customers in Hong Kong, the Chinese mainland and Southeast Asia. The Group strengthened cooperation with Hong Kong's blue-chip enterprises, industry leaders and financial institutions by offering them diversified financing solutions. It met the financing needs of SME customers by enriching its digital products and addressing common pain points. By refining the functionality of its Home Expert mobile application, the Group was able to provide customers with comprehensive home purchase planning and online mortgage services. Seizing business opportunities arising from the development of national policies for fostering new quality productive forces and increasing economic and trade collaboration between China and Southeast Asia, it enhanced cooperation with its Southeast Asian entities as well as BOC's entities in the Greater Bay Area and Asia-Pacific region. The Group focused on serving innovation and technology enterprises in fields such as artificial intelligence, advanced manufacturing and new energy vehicle manufacturing, actively pursued projects with large multinational corporations and China's "Going Global" enterprises, and led or participated in syndicated loan projects across Southeast Asia. During the period, the Group remained the top mandated arranger in the Hong Kong-Macao syndicated loan market. As at 30 June 2024, advances to customers amounted to HK\$1,701,338 million, down HK\$964 million, or 0.1% from the end of last year.

Loans for use in Hong Kong grew by HK\$2,488 million or 0.2%.

- Lending to the industrial, commercial and financial sectors decreased by HK\$9,788 million or 1.4%, reflecting a decrease in loans for use in property development and investment, information technology, and wholesale and retail trade.
- Lending to individuals increased by HK\$12,276 million, or 2.2%, mainly driven by growth in loans for the purchase of flats in the Home Ownership Scheme and other government-sponsored home purchase schemes, and loans for the purchase of other residential properties.

Trade financing increased by HK\$3,972 million or 8.3%. Loans for use outside Hong Kong decreased by HK\$7,424 million or 1.8%, mainly due to a decrease in loans for use in the Chinese mainland.

MANAGEMENT DISCUSSION AND ANALYSIS

Loan Quality

HK\$m, except percentages	At 30 June 2024	At 31 December 2023
Advances to customers	1,701,338	1,702,302
Impaired loan ratio	1.06%	1.05%
Total impairment allowances ¹	16,352	14,750
Total impairment allowances as a percentage of advances to customers	0.96%	0.87%
Residential mortgage loans ² – delinquency and rescheduled loan ratio ³	0.03%	0.02%
Card advances – delinquency ratio ³	0.33%	0.32%
	Half-year ended 30 June 2024	Half-year ended 30 June 2023
Card advances – charge-off ratio ⁴	2.00%	1.43%

1. Total impairment allowances include those for advances at fair value through other comprehensive income.
2. Residential mortgage loans exclude those under the Home Ownership Scheme and other government-sponsored home purchasing schemes.
3. The delinquency ratio is the ratio of the total amount of overdue advances (more than three months) to total outstanding advances.
4. The charge-off ratio is the ratio of total write-offs made during the period to average card receivables during the period.

The Group continued to closely monitor market information and industry trends in order to strengthen its control over credit portfolios containing higher-risk industries or client groups. The Group also dynamically adjusted its credit strategies and continuously improved its credit risk management mechanisms and practices to maintain solid asset quality. As at 30 June 2024, the impaired loan ratio was 1.06%, up 0.01 percentage points from the end of last year. This increase was primarily due to the Group's impaired loans rising by HK\$300 million from the end of last year to HK\$18,097 million, owing to the downgrading of certain customers in the first half of the year. The combined delinquency and rescheduled loan ratio of the Group's residential mortgage loans was 0.03%. The charge-off ratio of card advances stood at 2.00%, up 0.57 percentage points year-on-year.

MANAGEMENT DISCUSSION AND ANALYSIS

Deposits from Customers*

HK\$'m, except percentages	At 30 June 2024		At 31 December 2023	
	Balance	% of total	Balance	% of total
Demand deposits and current accounts	230,597	8.7	216,366	8.6
Savings deposits	976,190	36.8	971,113	38.8
Time, call and notice deposits (excluding structured deposits)	1,431,501	54.1	1,314,203	52.5
	2,638,288	99.6	2,501,682	99.9
Structured deposits	11,409	0.4	2,159	0.1
Total deposits from customers	2,649,697	100.0	2,503,841	100.0

* Including structured deposits

In the first half of 2024, the Group dynamically adjusted the pace of its deposits growth in response to elevated market interest rates. The Group grew its deposits business by actively promoting its Cross-boundary Wealth Management Connect services and developing cross-border businesses related to Southbound services and the Top Talent Pass Scheme, in order to attract new funding sources. It enhanced its product offering by strengthening the marketing of low or no-interest products and expanding its payroll business. At the same time, it introduced more online applications and products, increased collaboration among its business units and strengthened cooperation with government authorities, large corporates and major central banks in order to better understand and meet clients' settlement, custody and treasury needs, with a view to attracting more operating fund by providing high-quality products and services. As at 30 June 2024, total deposits from customers amounted to HK\$2,649,697 million, an increase of HK\$145,856 million or 5.8% from the prior year-end. Demand deposits and current accounts increased by 6.6%. Savings deposits rose by 0.5%. Time, call and notice deposits increased by 8.9%. The CASA ratio was 45.5%, down 1.9 percentage points from the end of last year.

Capital and Reserves Attributable to Equity Holders of the Company

HK\$'m	At 30 June 2024	At 31 December 2023
Share capital	52,864	52,864
Premises revaluation reserve	36,737	36,899
Reserve for financial assets at fair value through other comprehensive income	(7,147)	(6,470)
Regulatory reserve	7,155	7,974
Translation reserve	(2,500)	(1,883)
Insurance finance reserve	1,577	1,637
Retained earnings	237,887	229,124
Reserves	273,709	267,281
Capital and reserves attributable to equity holders of the Company	326,573	320,145

As at 30 June 2024, capital and reserves attributable to equity holders of the Company amounted to HK\$326,573 million, an increase of HK\$6,428 million or 2.0% from the end of last year. The premises revaluation reserve decreased by 0.4%. The deficit in the reserve for financial assets at fair value through other comprehensive income increased by 10.5%, mainly owing to decline in the mark-to-market value of debt securities investments caused by rising market interest rates. The regulatory reserve decreased by 10.3%, primarily driven by a decrease in advances to customers and a change in the net charge of impairment allowances. Retained earnings rose by 3.8% from the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Ratio

HK\$m, except percentages	At 30 June 2024	At 31 December 2023
Consolidated capital after deductions		
Common Equity Tier 1 capital	261,872	247,109
Tier 1 capital	261,872	247,109
Total capital	289,609	275,145
Total risk-weighted assets	1,306,227	1,298,956
Common Equity Tier 1 capital ratio	20.05%	19.02%
Tier 1 capital ratio	20.05%	19.02%
Total capital ratio	22.17%	21.18%

As at 30 June 2024, Common Equity Tier 1 (“CET1”) capital increased by 6.0% from the end of last year, primarily due to profits recorded for the first half of 2024. Total capital increased by 5.3% from the previous year-end. Total risk-weighted assets (“RWAs”) increased by 0.6% from the end of last year. The Group’s adoption of a new residential mortgage default rate model at the beginning of 2024 led to a lower risk weighting for residential mortgages, which partially offset the increase in RWAs driven by business growth. The CET1 capital ratio and Tier 1 capital ratio both stood at 20.05%, while the total capital ratio was 22.17%. The Group continued to strengthen its capital management so as to support business growth, properly manage its RWAs and improve its return on capital, 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

	2024	2023
Average value of liquidity coverage ratio		
First quarter	223.79%	189.68%
Second quarter	250.58%	188.89%
Third quarter	N/A	193.47%
Fourth quarter	N/A	207.12%

	2024	2023
Quarter-end value of net stable funding ratio		
First quarter	140.36%	134.51%
Second quarter	140.96%	131.56%
Third quarter	N/A	138.67%
Fourth quarter	N/A	137.28%

The Group’s liquidity position remained sound, with the average values 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 2024.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2024, the Group focused on its three markets of Hong Kong, the Guangdong-Hong Kong-Macao Greater Bay Area (“GBA”) and Southeast Asia, with strengthening regional development, deepening digital empowerment and optimising integrated services as its main development drivers. The Group expanded its corporate, financial institution and retail customer base, enhancing cross-border and cross-industry collaboration to further boost its comprehensive competitive advantages. It fully supported the enhancement of Hong Kong’s status as an international wealth management centre and a competitive hub for family office business. It also contributed to Hong Kong’s development as an international financial centre and reinforced its reputation as an offshore RMB business hub, helping Bank of China Group to sharpen its competitive edge in global RMB business. The Group seized opportunities in its key markets of the GBA and in Southeast Asia and advanced the development and interconnectivity of the GBA. It deepened its corporate culture, cultivated talented teams, promoted intelligent operations and strengthened its comprehensive risk control to promote sustainable and high-quality development. It balanced business development with risk management and control, consistently adding value for its stakeholders.

Business Segment Performance

Profit before Taxation by Business Segment

HK\$’m, except percentages	Half-year ended 30 June 2024		Half-year ended 30 June 2023	
	Amount	% of total	Amount	% of total
Personal Banking	6,699	27.1	7,770	36.1
Corporate Banking	8,557	34.6	9,843	45.7
Treasury	6,920	28.0	1,785	8.3
Insurance	849	3.5	666	3.1
Others	1,691	6.8	1,459	6.8
Total profit before taxation	24,716	100.0	21,523	100.0

Note: For additional segmental information, see Note 38 to the Interim Financial Information.

Personal Banking

Financial Results

Personal Banking achieved a profit before tax of HK\$6,699 million in the first half of 2024, a decline of HK\$1,071 million or 13.8% year-on-year. This was mainly attributable to a decrease in net interest income and an increase in operating expenses. Net interest income decreased by 8.9%, mostly driven by the narrowing of loan spread. Net fee and commission income grew by 1.4%, mainly owing to growth in commission income from funds distribution, although this was largely offset by a decrease in commission income from securities brokerage. Operating expenses rose by 3.0%, primarily due to higher staff costs.

Business Operations

Cultivating the green finance sector to fulfil sustainable development concepts

In line with market and customer trends towards low-carbon transition, the Group actively captured opportunities from the development of green finance and enriched its green and low-carbon financial products and services. It introduced an equity fund themed on net-zero transition in China, allowing customers to capture green investment opportunities. The Group also expanded the loan purpose of Green Personal Loan under BOC Express Cash Instalment Loan scheme to green and sustainable finance courses. In the first half of 2024, the number of green personal loan applications grew 129% year-on-year. The Group stepped up its digital green transformation efforts by launching “BeLeaf”, Hong Kong’s first carbon footprint tracking function, within its mobile banking platform. This feature uses artificial intelligence to integrate and categorise transaction data from various accounts, helping customers to understand the environmental impact of their financial habits and guiding them to adopt green and low-carbon lifestyles.

MANAGEMENT DISCUSSION AND ANALYSIS

Deepening digital transformation to provide high-quality and efficient digital banking services

The Group accelerated its development as a digital bank. It utilised innovative technology to enhance its online servicing capabilities and safeguard the effectiveness and continuity of its business operations. As at the end of June 2024, both the customer scale and transaction volumes of its digital service channels recorded steady growth. This included an increase in the number of mobile banking customers as well as higher transaction volumes for funds, BOC Remittance Plus and foreign exchange trading. The Group enhanced its mobile banking services by introducing new features to its mobile banking applications, including physical cheque deposit and precious metals account opening services, enabling customers to enjoy convenient banking services from the comfort of their homes. To meet surging demand for online insurance products, it expanded the insurance product categories offered on its mobile banking platform and optimised travel insurance product coverage on its mobile banking and online banking channels, enhancing the online application experience. BOCHK ranked first in the market in standard new premiums from online channels in the first quarter of 2024. To improve operational efficiency, the Group utilised blockchain technology to optimise its property valuation processes. It enhanced the functionality of its Home Expert mobile application to provide customers with comprehensive property purchase planning and online mortgage services, including adding a “Talent Schemes” zone feature to help customers entering Hong Kong under the Top Talent Pass Schemes to better understand the local property purchase process. As at the end of June 2024, the Home Expert mobile application had been cumulatively downloaded of more than 180,000 times. In the first half of 2024, the proportion of online mortgage applications to total mortgage applications was 80.7%, an increase of 29.3 percentage points year-on-year. In response to the trend of Hong Kong residents travelling north for cross-border retail consumption, as well as growing overseas travel, the Group leveraged its “BOC Cheers Card” to boost cross-border and overseas cardholder spending. Along with the “20X Amazing Rewards” gift point reward programme, this resulted in double-digit year-on-year growth in offshore spending. During the period, the Group worked closely with UnionPay International and more than 1,000 merchants to launch a number of promotional campaigns, including “Macao GO”, “Hong Kong GO” and “Northbound GO” of “Enjoy Amazing Rewards in the GBA”, to enrich the customer experience of retail consumption in the Greater Bay Area. In the first half of 2024, the total transaction volumes of the Group’s retail cardholder spending and merchant acquiring business in Hong Kong increased by 9.8% and 7.0% respectively year-on-year. During the period, BOCHK was honoured with the “Best Home Loan Financing” award at the Hong Kong Excellence in Retail Finance and Technology Innovation Awards 2024 organised by *The Asian Banker*.

Enriching exclusive service experiences for targeted customer segments to meet their comprehensive needs

To meet the comprehensive needs of high net-worth customers in wealth management, the Group enhanced the exclusive products and services of its “Private Wealth” premium brand. It expanded its service network by establishing its sixth Private Wealth centre at Bank of China Tower, offering one-stop services for wealth management, integrated business value-added services and business registration services, thus allowing customers to manage both their daily business operations and personal financial management needs simultaneously. As at the end of June 2024, the number of Private Wealth customers had grown by nearly 10% from the end of 2023. The Group continued to develop its “TrendyToo” brand, which targets the young customer segment. By actively exploring innovative service channels and products, boosting social media promotion, introducing different scenarios and launching new branding activities, the Group has steadily increased the number of young customers since the brand’s launch. In the first half of 2024, the number of newly-opened accounts rose by nearly 50% year-on-year. During the period, BOCHK was awarded “Best Wealth Management Bank” at the Hong Kong Excellence in Retail Finance and Technology Innovation Awards 2024 organised by *The Asian Banker*.

The Group’s private banking business maintained steady growth by comprehensively serving the sophisticated needs of high-net-worth clients. By enhancing collaboration with other business units within the Group, its Southeast Asian entities and BOC, it optimised its service chain and provided professional and diversified services to high-end clients and family offices. At the same time, the Group actively integrated green finance and ESG elements into product and service design so as to promote high-quality and sustainable development in its private banking business. It also organised a series of exclusive events to strengthen private banking client relationships and retention. In addition, it intensified digital transformation efforts, accelerating business process automation and digitalisation while enhancing its private banking service and trading platforms. The Group introduced new service models and provided exclusive products and professional wealth management services to its clients, enriching the customer experience. The operating income and assets under management of the Group’s private banking business developed steadily.

MANAGEMENT DISCUSSION AND ANALYSIS

Seizing cross-border opportunities to steadily promote the development of RMB business

Building on its strengths in cross-border financial services, the Group launched “BOCHK Cross-boundary Wealth Management Connect 2.0”, introducing more qualified investment products to help customers capture cross-border wealth management opportunities. As at the end of June 2024, cross-border customer numbers steadily increased compared to the end of 2023, while the aggregate number of accounts opened and the volume of funds remitted or transferred under Southbound and Northbound services ranked among the top tier in Hong Kong. Capitalising on policy opportunities, the Group provided comprehensive financial services to SME customers. During the period, it established its ninth commercial financial management centre, offering a suite of commercial financial solutions tailored to customers’ entrepreneurial and operational needs. The Group also became the first bank to launch services related to the New Capital Investment Entrant Scheme, offering eligible individuals planning to move to Hong Kong a range of investment products, including funds, bonds, equity, certificates of deposit and other investment products, to help them capture more investment opportunities and meet their asset allocation needs. In line with the facilitative measures announced by the HKMA and the People’s Bank of China regarding cross-border remittances for property purchases by Hong Kong and Macao residents in the Greater Bay Area, the Group enhanced the payment and financing options of its Greater Bay Area Loan service by introducing cross-border direct remittance services. This enabled Hong Kong residents to remit HKD, RMB or other foreign currencies directly from Hong Kong to mainland bank accounts in order to settle their Greater Bay Area home purchase payments. The Group also introduced Chinese fixed income funds to provide retail investors with investment opportunities in the Chinese mainland’s onshore bond market. In the first half of 2024, sales of RMB funds recorded an increase of over 20% year-on-year. The Group further consolidated its leading position in RMB insurance business. In the first quarter of 2024, RMB insurance standard new premiums grew by approximately 50% year-on-year, ranking first in the market for the 12th consecutive year. The Group accelerated its digital development and functional optimisation. By enhancing features such as local real-time payments, cross-border payments and QR code interconnectivity, it improved the mobile banking customer experience. Leveraging its regional brand advantages, the Group realised mutual recognition of rights and interests for wealth management customers with designated provincial and municipal BOC branches in the Chinese mainland as well as BOC Singapore Branch, and introduced diversified wealth management products in the Southeast Asian market, satisfying its customers’ various financial service needs.

Enhancing digital empowerment in Southeast Asia to advance regional businesses

The Group accelerated the development of its personal financial products and services in Southeast Asia, with its personal banking services now extending to eight countries in the region. The Group further expanded its “Wealth Management” brand and remained committed to developing a full-scope wealth management business featuring comprehensive financial services tailored to local market needs. It utilised digital innovation and its multi-functional mobile banking platform to steadily expand scenarios within the local personal banking ecosystem, optimising the online payment experience for local customers. During the period, it supported its Southeast Asian entities to participate in UnionPay International’s Global Payment Interconnection Programme, with the Vientiane Branch successfully launching a UnionPay QR code payment service on its mobile banking platform, following in the footsteps of BOC Malaysia and the Phnom Penh Branch. The Phnom Penh Branch became the first bank in Cambodia to launch a co-branded debit card, which facilitates both Cambodian Shared Switch (CSS) and UnionPay. In addition, BOC Malaysia launched a project to connect Combi QR code and UnionPay QR code payment functions for customers using its mobile banking platform in the Chinese mainland.

MANAGEMENT DISCUSSION AND ANALYSIS

Corporate Banking

Financial Results

Corporate Banking achieved a profit before tax of HK\$8,557 million, a decrease of HK\$1,286 million or 13.1% year-on-year. This was mainly attributable to a drop in net interest income, which was primarily driven by a decrease in the average balance of loans and a narrowing of deposit spread, as well as a decline in loan and bills commissions. The net charge of impairment allowances increased by HK\$730 million year-on-year, owing to the downgrading of certain corporate customers.

Business Operations

Enhancing the quality and efficiency of its comprehensive services to constantly sharpen competitive advantage

Adhering to its customer-centric philosophy, the Group stepped up its efforts to enhance its integrated financial services capabilities to meet the demands of corporate customers from Hong Kong, the Chinese mainland, Southeast Asia and other overseas countries. In the first half of 2024, it underwrote a number of bond issues with significant market influence and remained the top mandated arranger in the Hong Kong-Macao syndicated loan market. The Group helped corporate customers to build offshore treasury centres, consolidating its leading position in cash pooling business. It also strengthened cooperation with its trade ecosystem partners in technological innovation in order to improve the competitiveness of its trade products. Leveraging its advantages in RMB business, the Group launched a range of RMB trade service solutions, including services for e-commerce, commodities, Chinese brands “Going Global”, and Belt and Road projects, to help corporate customers seize opportunities arising from global economic and trade recovery. In recognition of its excellence in professional services, BOCHK was named “Best Cash Management Bank in Hong Kong” for the 10th time, and “Best Transaction Bank in Hong Kong” for the sixth time by *The Asian Banker*.

Integrating regional resource allocation to promote collaborative regional business development

In its cross-border business, the Group strengthened collaborations with BOC’s entities in the Chinese mainland, leveraging business opportunities from the comprehensive integration of the Greater Bay Area to provide financial services that allow customers to access global expertise at any point of contact. It closely monitored the HKSAR Government’s development plan for the Northern Metropolis area, proactively capturing pioneer growth opportunities. Efforts were made to enhance the Group’s financial servicing capabilities in the technology sector. By strengthening cooperation with Cyberport and Hong Kong Science and Technology Parks Corporation, the Group supported the development of innovative technology enterprises through diversified products and services. As at the end of June 2024, its innovative technology customer base increased solidly compared to the end of last year. The Group also enriched its cross-border financial service solutions by launching new services tailored to the needs of innovative technology and digital transformation, with the aim of providing integrated and customised services for enterprises to support their cross-border operations and help them capture development opportunities in the Greater Bay Area.

In its Southeast Asian business, the Group capitalised on growth opportunities arising from the Chinese mainland’s new development paradigm and global trends in industrial relocation. It continued to prioritise the development of Belt and Road and “Going Global” projects, along with serving large corporate customers in the region. The Group actively led or participated in syndicated loan projects in Southeast Asia and promoted structured financing business in the region. During the period, it collaborated with various entities within BOC Group to jointly engage in high-quality syndicated loans in the Asia-Pacific region. BOC Thailand participated in the first syndicated loan project for an automobile finance company in Thailand. Meanwhile, the Jakarta Branch collaborated with the Singapore Branch to successfully win a tender for a 3-year US dollar-denominated syndicated loan to an Indonesian bank, becoming one of the nine mandated lead arranger banks. It also expanded its regional RMB clearing network. During the period, the Jakarta Branch, Phnom Penh Branch and Yangon Branch successively completed the RMB clearing account opening procedures for several banking peers. The Group continuously optimised its regional product offering by enhancing the service capabilities of its intelligent Global Transaction Banking (iGTB) platform, which in turn strengthened the diversified service capabilities of its Southeast Asian entities. It also deepened its green finance business in Southeast Asia and promoted green development in the region. By providing a sustainability-linked loan to a large real estate development company in Thailand, the Group encouraged customers to reduce the carbon footprint of their properties through various methods.

MANAGEMENT DISCUSSION AND ANALYSIS

Deepening cooperation with commercial and SME customers to promote the development of inclusive finance

The Group fully supported the business development of commercial and SME customers by providing customised financial solutions based on its specialist industry expertise and digital servicing capabilities. It played an active role in various financing schemes launched by the HKSAR Government and implemented the HKMA's nine supportive measures for SMEs through its participation in the Banking Sector SME Lending Coordination Mechanism, with the aim of offering diversified financing products and other financial services to SME customers. The Group was one of the first financial institutions to connect with the HKMA's Commercial Data Interchange to access credit reference data from the Commercial Credit Reference Agency, leveraging the platform to obtain alternative data and thus streamline its loan approval process. During the period, BOCHK won wide acclaim for providing high-quality services to SMEs. It received the "Best SME's Partner Award" from the Hong Kong General Chamber of Small and Medium Business for the 17th consecutive year, and the "Outstanding Innovative SME Banking Services" award at the FinTech Awards organised by *etnet* for the third consecutive year.

Driving sustainable development by enhancing green products and services

In line with the Chinese mainland's carbon peak and carbon neutralisation strategy, the Group offered professional green finance services to enterprises, aiming to serve as a reliable partner in their low-carbon transitions. During the period, the Group provided a sustainability-linked loan to a large local bus franchise, supporting the green transition of the public transportation sector. Acting as a joint global coordinator, it once again assisted the HKSAR Government in successfully issuing multi-currency digital green bonds, thereby supporting the government's green finance development. As at the end of June 2024, the balance of the Group's green and sustainability-linked loans to corporate customers grew 20% compared to the end of last year. BOCHK was recognised by the market for its efforts in promoting sustainable development, receiving the "Outstanding Green and Sustainable Development Corporate Banking Service Brand" award from Metro Finance's Hong Kong Leaders' Choice 2024.

Ensuring steady growth in trust and custody business by providing premier services

The Group enhanced its joint marketing efforts with BOC's domestic and overseas branches to deepen collaboration with target customers. It acquired several new portfolio mandates via transfer to the Group and expanded its business coverage. During the period, the Group acted as the bond trustee and agent for the Airport Authority Hong Kong's first retail bond issuance, as well as being appointed as the custodian of the digital green bond issued by the HKSAR Government for the second consecutive year. It captured business opportunities from market interconnectivity, achieving steady growth in assets under custody through Bond Connect. As at the end of June 2024, the number of its custodian clients increased by 2.5%, with total assets under custody from corporate and institutional clients rising by 44%, compared with the end of last year.

BOCI-Prudential Trustee Limited ("BOCI-Prudential Trustee") continued its steady business development. As at the end of June 2024, MPF assets under its trusteeship increased by 7.7% compared to the end of last year, ranking among the top tier in the MPF market. It advanced business transformation by enhancing its fund administration services and custody business so as to diversify revenue streams. During the period, BOCI-Prudential Trustee was appointed as the custodian and fund administrator for 15 new funds, including six Spot Bitcoin and Ether ETFs. It received multiple accolades for its excellent services, including several honours in the 2024 Lipper Hong Kong Fund Awards jointly organised by *Hong Kong Economic Journal* and London Stock Exchange Group, as well as the "Best Fund Administrator, Retail Funds – Highly Commended" award in the Triple A Sustainable Investing Awards for Institutional Investors, ETFs, and Asset Servicing Providers 2024 organised by *The Asset*.

MANAGEMENT DISCUSSION AND ANALYSIS

Treasury

Financial Results

Treasury recorded a profit before tax of HK\$6,920 million, an increase of HK\$5,135 million or 287.7% year-on-year. This was primarily due to an increase in net interest income resulting from rising market interest rates, an increase in net trading gain owing to the Group seizing opportunities from market interest rate movements, and a decrease in net loss on other financial instruments.

Business Operations

Strengthening product and service development to steadily promote global markets business

The Group actively responded to market changes, strictly monitored and controlled risks, and seized market opportunities to expand its treasury product offerings. It consolidated its system infrastructure to enhance online servicing capabilities, resulting in stable growth in its trading business. Reinforcing its position as a key market maker in the HKD and RMB markets, it acted as a market maker of CNH futures on the HKEX, Singapore Exchange and Bursa Malaysia Derivatives. By deepening cross-departmental collaboration, the Group capitalised on market opportunities and emerging customer needs, developing and strengthening its diversified products and integrated services. Adopting refined management practices, the Group met the needs of different customer segments with professional services. It helped its Southeast Asian entities to focus on fulfilling target customer groups' cross-border trade and investment needs, including those related to foreign exchange, risk hedging, and investment and financing services, as well as improving the Group's overall product servicing and risk management capacity in the region. As a result, it achieved satisfactory results in client business. The Group fully enhanced its RMB service capabilities with a focus on cultivating the offshore RMB market and consistently supporting the offshore RMB bond market. It actively participated in various infrastructure enhancements to offshore RMB mutual market access schemes. The Group engaged in multi-faceted cooperation with BOC's Asia-Pacific entities and actively participated in foreign exchange transactions under Bond Connect and the China Interbank Bond Market (CIBM), as well as clearing services under the mutual financial market access between the Chinese mainland and Hong Kong. In addition, it established a stable and reliable cash supply network within the Group and carried out diversified cash business collaborations. BOCHK was awarded "Best Renminbi Bank in Hong Kong" at the Triple A Treasuries Awards 2024 organised by *The Asset*.

Maintaining a solid and risk-aware investment strategy and balancing risks and returns in its banking book

The Group adopted a cautious approach to managing its banking book investments. It closely monitored worldwide interest rate adjustments and took a pre-emptive approach to managing risks, while seeking fixed-income investment opportunities to enhance returns. In light of the HKMA's "Expansion of Eligible Collateral for the RMB Liquidity Facility", it executed Hong Kong's first repo transaction collateralised by onshore RMB denominated debt securities under Northbound Bond Connect.

Actively promoting product diversification and recording continued growth in assets under management

BOCHK Asset Management Limited ("BOCHK AM") continued to foster the steady development of the Group's asset management business. Leveraging its professional investment service capabilities, it proactively captured market investment opportunities for its customers and offered a diverse range of asset management products to meet various investment needs. In the first half of 2024, the BOCHK All Weather HKD Money Market Fund and BOCHK All Weather USD Money Market Fund achieved relatively fast growth in scale. BOCHK AM also introduced the BOCHK All Weather RMB Money Market Fund, enriching its offshore RMB investment product offerings. In addition, it launched a series of new private funds covering major global asset classes, providing diversified investment choices for different types of investors. BOCHK AM's professional expertise was widely recognised by the market. It was awarded "Best RMB Manager – Hong Kong" at the 2024 Best of the Best Awards and "Best Asia Absolute Return Fund (3 years)" at the 2024 Best of the Best Performance Awards organized by *Asia Asset Management*. It also received the "Best Multi-Asset Strategy" award at *AsianInvestor's* Asset Management Awards 2024 for its BOCHK All Weather Global Opportunities Fund.

MANAGEMENT DISCUSSION AND ANALYSIS

Insurance

Financial Results

In the first half of 2024, the Group's insurance segment remained committed to optimising its product structure and service offering. As a result, standard new premiums increased by 78.8% year-on-year to HK\$11,100 million and continued to rank among the top tier in Hong Kong. The value of new business grew by 52.4% year-on-year to HK\$1,600 million. Profit before tax was up 27.5% year-on-year to HK\$849 million, driven by business growth and an increase in investment income.

Business Operations

Advancing digital transformation and business ecosystem development while leveraging its multi-channel distribution network

BOC Life actively expanded its distribution channels and enriched its product spectrum to provide customers with high-quality and professional services. Regarding distribution channels, it leveraged the Group's synergistic advantages and strengthened intra-group collaboration to optimise its product strategy and launch targeted marketing campaigns for different distribution channels and customer segments. At the same time, it deepened strategic partnerships with brokerage firms, prestigious private banks and large independent financial advisory firms. It also expanded and strengthened its tied agency workforce, focused on sales of high-value new business products and acquired customers from the Top Talent Pass Scheme and New Capital Investment Entrant Scheme as well as other high-quality customer segments. Regarding product development, BOC Life continued to optimise its business structure and revamp its products, including adding five additional currency versions (pound sterling, euro, Canadian dollars, Australian dollars and Singapore dollars) to the popular product "Glamorous Glow Global Whole Life Insurance Plan", in order to meet different customer needs.

BOC Life made concerted efforts to improve customer experience and advance digital operations, including strengthening its online sales and optimising eService platform functions. It also developed omni-channel services with better adaptability to scenario integration and actively expanded its wellness and silver ecosystems. In its wellness ecosystem, BOC Life continued to collaborate with cross-industry partners through its "Live Young Rewards App" and launched various promotional campaigns for customised services covering different aspects of everyday life. It also cooperated with different units within the Group to organise a variety of customer activities. During the period, the "Live Young Rewards App" teamed up with "FamilyMAX" by Wealth Management to host Hong Kong's first family running event themed around Nailoong, the character in a popular animation, using a popular sport as an entry point to increase user interactions. The "Live Young Rewards App" has now partnered with 85 third-party entities and accumulated over 110,000 users. In its silver ecosystem, BOC Life collaborated with business partners to advance the construction of elderly care business scenarios. It developed a macro-level blueprint and initiated a pilot project in the Guangdong-Hong Kong-Macao Greater Bay Area to promote cross-border and sojourn elderly care services. During the period, BOC Life organised a number of corporate social responsibility projects focused on youth development and sports, so as to facilitate cross-sector collaboration in the promotion of Hong Kong's sustainable development. These included the "BOC Life Rogaine Charity Race", "BOC Life Harbour Marathon 2024", "BOC Life 6th Trampoline Asian Championships" and 26 ESG-themed seminars under the "BOC Life Corporate Sustainability Seminar Series".

BOC Life was widely commended for its high-quality professional services and innovative products during the period, eight of its products won the "2024 Wealth Insurer of the Year" at the 10Life 5-Star Insurance Awards 2024. Meanwhile, in recognition of BOC Life's ongoing commitment to collaborating with different sectors to promote sustainability and create social value, it received the "Brand Value – Award for Excellence in Community Contribution" award at the Awards for Excellence in Finance 2024 organised by *Ming Pao*.

MANAGEMENT DISCUSSION AND ANALYSIS

Southeast Asian Business

Giving full play to regional synergies and further expanding the coordinated development of its global businesses

The Group continued to drive forward its integrated regional development plan while adopting tailored strategies for individual markets and pursuing a differentiated management approach for each of its regional entities. To improve the management of its Southeast Asian entities, it optimised its regional management model and continued to implement its regional development plan in an orderly manner. It steadily advanced the centralisation of its Southeast Asian operations and boosted the business operation capacity of its Regional Operation Centre in Nanning, Guangxi. The Group's regional brand influence continued to grow, with the Manila Branch, Jakarta Branch and Phnom Penh Branch awarded "Best Renminbi Bank" in the Philippines, Indonesia and Cambodia respectively at the Triple A Treasuries Awards 2024 organised by *The Asset*. In addition, BOC Thailand received the "Best Cross-border Business Solutions" award at the Thailand Top Company Awards 2024, jointly organised by leading local magazine *Business+* and the University of The Thai Chamber of Commerce (UTCC).

The Group's Southeast Asian entities* recorded steady business growth. As at the end of June 2024, deposits from customers and advances to customers amounted to HK\$84,720 million and HK\$56,483 million respectively, up 17.4% and 8.6% from the end of last year, excluding the impact of foreign exchange rates. Net operating income before impairment allowances stood at HK\$2,508 million, an increase of 30.8% year-on-year, excluding the impact of foreign exchange rates. As at the end of June 2024, the non-performing loan ratio was 3.14%, up 0.28 percentage points from the end of 2023.

* 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.

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

The Group continued to strengthen regional risk management and adhered to its "Three Lines of Defence" control mechanism in providing supervision and professional guidance to its Southeast Asian entities. It closely monitored regional economic and market developments and adjusted and optimised its strategies in a timely manner, allowing it to capture market opportunities while ensuring robust risk management and regulatory compliance. The Group also continued to leverage its system and technological advantages to strengthen its Southeast Asian entities' risk control capabilities in compliance, anti-money laundering and anti-fraud.

MANAGEMENT DISCUSSION AND ANALYSIS

Digital Transformation Development

In the first half of 2024, the Group remained committed to advancing its “BOCHK 2021-2025 Digital Transformation Strategy”. It ensured high-quality and sustainable development by implementing digital transformation, enhancing work mechanisms and workflows, promoting the integration of business and technology, and strengthening its technological foundations. Upholding a customer-centric approach, the Group continuously enhanced its digital transformation through data, business intelligence and ecological approaches, and promoted the development of open and scenario-based financial service ecosystems, integrated products and services, and seamless process experiences. Focusing on its three core markets, it deepened technological empowerment, fostered a strong innovative corporate culture and nurtured digital talent, with the aim of providing both customers and staff with high-quality digital services and experiences while laying a solid foundation for its long-term development.

Developing open and scenario-based financial service ecosystems

The Group developed digital services for various customer segments and ecosystems, and actively expanded the business scope of BoC Pay to enhance the smart operating environment for SME customers. In its local business, the Group cooperated with public entities and associations to stimulate local consumer spending during mega-events held by the HKSAR Government, with BoC Pay’s merchant transaction volume recording a year-on-year increase of 7.9% in the first half of 2024. In its cross-border business, the Group launched multiple marketing activities under the banner of “Enjoy Amazing Rewards in the GBA”, collaborated with strategic partners to introduce cross-border travel promotions, and optimised payment convenience for travelers within the Greater Bay Area’s “One-Hour Living Circle”. The total spending volume of Hong Kong residents in the Chinese mainland via BoC Pay in the first half of 2024 was 3.2 times of that in the same period of 2023. The Group also promoted the usage and acceptance of e-CNY, actively participating in the construction of the e-CNY ecosystem. It introduced an “e-CNY Zone” in its BoC Pay app, enabling customers to directly bind their BoC e-CNY wallet for QR code payments, top-ups, enquiries and receiving red packet rewards. It also partnered with major local merchants to expand the scope of e-CNY payment collection services, facilitating a wider range of e-CNY payment scenarios for mainland tourists visiting Hong Kong. As at the end of June 2024, the number of BoC Pay users increased by 8.7% compared with the end of last year, while total transaction volume in the first half of 2024 recorded stable growth year-on-year. Meanwhile, the Group continued to develop BoC Bill’s ecosystem in acquiring business, reinforcing its competitive advantages in four major categories: transportation, dining and retail, charity, and education. The total transaction amount of BoC Bill’s acquiring business in the first half of 2024 grew by 7.0% year-on-year. In addition, BOCHK became one of the founding members of the Project Ensemble Architecture Community established by HKMA, aiming to shape industry standards and develop strategies to support the development of Hong Kong’s tokenisation market.

Promoting integrated products and services

Deepening its “mobile first” strategy, the Group enhanced the functions of its mobile banking and Home Expert mobile application to allow customers to enjoy convenient banking services from the comfort of their homes. To support SMEs in accelerating their digital transformation, it continued to push forward the BOCHK Bill Merchant Loan Programme and data-driven financing programmes in collaboration with designated payment platforms. These programmes use merchants’ electronic transaction data as alternative data to streamline the loan approval process, helping SMEs to manage funding and turnover challenges, accelerate digital transformation and expand business reach. Meanwhile, the Group further optimised regional product support, including enhancing the functions of its iGTB platform.

MANAGEMENT DISCUSSION AND ANALYSIS

Providing a seamless process experience

Upholding its customer-centric approach, the Group continued to provide customers with omni-channel and seamless services. It enhanced the homepage of its corporate internet banking platform, allowing customers to choose different user interface display modes according to their needs, thereby optimising the customer journey. The Group actively promoted digital transformation in its Southeast Asian business. It consolidated its integrated funding system for the Ho Chi Minh City Branch, Phnom Penh Branch and Vientiane Branch, improving the automation of front, middle and back-end business operations and management processes. It also continued to enrich its financial service ecosystems in Southeast Asia. The Ho Chi Minh City Branch joined the local clearing network in Vietnam and became the first Chinese bank in Vietnam to launch a NAPAS counter service. This enables corporate and retail customers to carry out small-amount real-time fund transfers in VND at the Ho Chi Minh City Branch, improving the efficiency of interbank transfers in Vietnam.

Deepening technological empowerment to promote intelligent operations

The Group continued to advance the development of intelligent operations through end-to-end process digitalisation, internal operational automation and operational centralisation in order to mitigate operational risks caused by manual handling. This approach aims to improve operational efficiency and capacity and thus achieve a more cost-effective operating model. To build smart workflows through technological empowerment, the Group expanded the application and promotion of smart office tools, collaborative tools and automated testing tools, enabling prompt responses to market changes. It launched a corporate financial data identification service that uses artificial intelligence to automatically read and identify data from the documents and financial reports of corporate customers, thus improving operational efficiency and strictly controlling operational risks. The Group further deepened the technological application of its intelligent anti-fraud platform by combining AI models and automated processes to enhance the anti-fraud management and monitoring capabilities of its digital channels. During the period, BOCHK was awarded the “Cyber Security Enterprise Excellence Award” in the Cyber Security Professional Awards 2023, jointly organised by the Hong Kong Police Force, the Government Computer Emergency Response Team Hong Kong and the Hong Kong Computer Emergency Response Team Coordination Centre.

Building an innovative corporate culture and cultivating talents

The Group refined its digital transformation policies and systems by enhancing agile methodologies, deepening technological empowerment, cultivating digital-savvy talent and fostering an innovative corporate culture. These efforts provided a strong foundation for implementation of strategies and high-quality development. To meet its strategic needs, the Group actively recruited digital and IT talent through job boards, campus recruitment, cross-industry and cross-border hiring, the HKSAR Government’s Greater Bay Area Youth Employment Scheme, the HKMA’s Fintech Career Accelerator Scheme, various internship programmes with external organisations and academic institutions, and technology and innovation competitions. The Group also expanded and cultivated its digital talent pool through targeted development plans, including job enrichment, technology and innovation projects, and exchange programmes between business units. It leveraged its “Innovation and Digital Academy” online learning platform to provide structured training programmes, including digital-themed lectures, co-creation workshops, digital qualification and certification programmes, and bank-wide digital skills competitions, with the aim of enhancing digital competence by integrating diverse training approaches such as learning, practicing, competition, site visits and research. In addition, the Group supported prospective staff members to take part in the HKMA’s “Pilot Scheme on Training Subsidy for Fintech Practitioners” in order to increase practitioners’ competency levels, and arranged staff visits to the Bank of China Innovation Lab (Greater Bay Area) to keep employees updated on technological integration and development trends in the Greater Bay Area.

MANAGEMENT DISCUSSION AND ANALYSIS

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 ("RC"), 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 the second line of defence and 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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"), the RC 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.

The Group will write-off the financial assets, either partially or in full, when there is no realistic prospect of recovery or reasonable expectation of full recovery upon assessment. After realisation of the collateral of secured financial assets, the net value of the financial assets will be written-off if there is no prospect of recovery.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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

MANAGEMENT DISCUSSION AND ANALYSIS

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.

The core macroeconomic factors in the major countries/regions where the Group operates such as Gross Domestic Product (“GDP”) 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, following 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 2024, 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
2024 Hong Kong GDP Growth	6.50%	3.00%	-0.50%	-5.50%

The calculation of ECL is affected by macroeconomic factors and economic scenarios. In principle, an increase in ECL would be resulted if more pessimistic macroeconomic factors are applied in ECL assessment or a higher probability weight is assigned to the “Bad” scenario. 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.

RC 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 2024, the ECL will be increased by 1.33% (31 December 2023: 1.21%) if 5% of the probability weight is shifted from “Baseline” scenario to “Bad” scenario; and will be decreased by 0.65% (31 December 2023: 0.59%) 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 RC, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 RC, 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 RC 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 of loss 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 "Banking Book Interest Rate Risk Management Policy of BOCHK Group" approved by the RC. 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 RC, 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 RC 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 RC for approval.

MANAGEMENT DISCUSSION AND ANALYSIS

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 RC 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 non-maturity 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 RC, senior management and functional departments/units perform their duties and responsibilities to manage the Group's liquidity risk. The RC is the decision-making authority of liquidity risk management, and assumes the ultimate responsibility of liquidity risk management. As authorised by the RC, 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 RC. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2024, 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 RC 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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” system for its operational risk management. All departments as the first line of defence are the first parties responsible for operational risk management, and carry out the duties and functions of risk management 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 RC. 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 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. In addition, each new product/service initiative and outsourcing arrangement is subject to a risk assessment and governance process, where risks are firstly identified and assessed by business unit, and reviewed and challenged by relevant second lines of defence, in accordance with the risk-based principle. Subsequent changes on the existing products, services and outsourcing arrangements are also subject to a similar process. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 RC as delegated by the Board.

Strategic risk management

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

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

Capital management

The major objective of the Group’s capital management is to maximise total shareholders’ return while maintaining a capital adequacy position in relation to the Group’s overall risk profile. The 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.

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 RC. The Financial Management Department reports the combined stress test results of the Group to the Board and RC regularly.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 financial instruments or 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 2024 HK\$'m	(Unaudited) Half-year ended 30 June 2023 HK\$'m
Interest income		70,888	57,249
<i>Interest income calculated using the effective interest method</i>		64,250	55,269
<i>Others</i>		6,638	1,980
Interest expense		(44,906)	(34,041)
Net interest income	5	25,982	23,208
Fee and commission income		6,577	6,348
Fee and commission expense		(1,577)	(1,434)
Net fee and commission income	6	5,000	4,914
Insurance revenue		1,186	885
Insurance service expense		(609)	(395)
Net income from reinsurance contracts held		94	57
Insurance service result		671	547
Net trading gain	7	5,275	4,043
Net (loss)/gain on other financial instruments at fair value through profit or loss	8	(868)	1,511
Net loss on other financial instruments	9	(213)	(800)
Insurance finance expenses		(842)	(2,871)
Other operating income	10	331	286
Net operating income before impairment allowances		35,336	30,838
Net charge of impairment allowances	11	(2,081)	(1,169)
Net operating income		33,255	29,669
Operating expenses	12	(8,121)	(7,852)
Operating profit		25,134	21,817
Net loss from disposal of/fair value adjustments on investment properties	13	(296)	(166)
Net loss from disposal/revaluation of properties, plant and equipment	14	(31)	(3)
Share of results after tax of associates and joint ventures		(91)	(125)
Profit before taxation		24,716	21,523
Taxation	15	(4,253)	(3,441)
Profit for the period		20,463	18,082
Profit attributable to:			
Equity holders of the Company and other equity instrument holders		20,040	17,694
Equity holders of the Company		20,040	16,998
Other equity instrument holders		–	696
Non-controlling interests		423	388
		20,463	18,082
		HK\$	HK\$
Earnings per share			
Basic and diluted	17	1.8954	1.6077

The notes on pages 45 to 114 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Notes	(Unaudited) Half-year ended 30 June 2024 HK\$'m	(Unaudited) Half-year ended 30 June 2023 HK\$'m
Profit for the period	20,463	18,082
Items that will not be reclassified subsequently to income statement:		
Premises:		
Revaluation of premises	(190)	240
Deferred tax	34	(15)
	(156)	225
Equity instruments at fair value through other comprehensive income:		
Change in fair value	91	193
Deferred tax	(14)	(3)
	77	190
Actuarial gain on retirement benefit plans	4	–
	(75)	415
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 to income statement	11 (22)	(34)
Debt instruments at fair value through other comprehensive income:		
Change in fair value	(1,193)	660
Change in impairment allowances charged to income statement	11 21	3
Release upon disposal/redemption reclassified to income statement	9 203	791
Amortisation of accumulated amount of fair value hedge adjustment reclassified to income statement	(27)	(19)
Deferred tax	167	(219)
	(829)	1,216
Insurance contracts:		
Finance expenses from insurance contracts issued	(396)	(732)
Finance income from reinsurance contracts held	255	347
Deferred tax	23	63
	(118)	(322)
Currency translation difference	(668)	(258)
	(1,637)	602
Other comprehensive income for the period, net of tax	(1,712)	1,017
Total comprehensive income for the period	18,751	19,099
Total comprehensive income attributable to:		
Equity holders of the Company and other equity instrument holders	18,534	18,498
Equity holders of the Company	18,534	17,802
Other equity instrument holders	–	696
Non-controlling interests	217	601
	18,751	19,099

The notes on pages 45 to 114 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) At 30 June 2024 HK\$'m	(Audited) At 31 December 2023 HK\$'m
	Notes		
ASSETS			
Cash and balances and placements with banks and other financial institutions	18	697,785	406,571
Financial assets at fair value through profit or loss	19	201,801	373,290
Derivative financial instruments	20	58,533	54,211
Hong Kong SAR Government certificates of indebtedness		210,370	213,000
Advances and other accounts	21	1,689,389	1,693,144
Investment in securities	22	973,894	978,440
Interests in associates and joint ventures		1,184	1,275
Investment properties	23	14,627	14,875
Properties, plant and equipment	24	41,728	41,738
Current tax assets		17	75
Deferred tax assets	30	1,644	1,480
Other assets	25	107,276	90,684
Total assets		3,998,248	3,868,783
LIABILITIES			
Hong Kong SAR currency notes in circulation		210,370	213,000
Deposits and balances from banks and other financial institutions		322,117	373,673
Financial liabilities at fair value through profit or loss	26	71,249	66,203
Derivative financial instruments	20	44,044	41,553
Deposits from customers	27	2,638,288	2,501,682
Debt securities and certificates of deposit in issue	28	–	1,999
Other accounts and provisions	29	110,151	84,694
Current tax liabilities		7,278	4,612
Deferred tax liabilities	30	4,408	4,742
Insurance contract liabilities	31	185,113	177,873
Subordinated liabilities	32	75,296	75,323
Total liabilities		3,668,314	3,545,354
EQUITY			
Share capital	33	52,864	52,864
Reserves		273,709	267,281
Capital and reserves attributable to equity holders of the Company		326,573	320,145
Non-controlling interests		3,361	3,284
Total equity		329,934	323,429
Total liabilities and equity		3,998,248	3,868,783

The notes on pages 45 to 114 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										Total equity HK\$'m
	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	Other equity instruments HK\$'m	Non- controlling interests HK\$'m	
HK\$'m											
At 1 January 2023	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
Profit for the period	-	-	-	-	-	-	16,421	16,421	-	354	16,775
Upon declaration of dividend to other equity instrument holders	-	-	-	-	-	-	(696)	(696)	696	-	-
	-	-	-	-	-	-	15,725	15,725	696	354	16,775
Other comprehensive income:											
Premises	-	(1,008)	-	-	-	-	-	(1,008)	-	-	(1,008)
Equity instruments at fair value through other comprehensive income	-	-	452	-	-	-	-	452	-	1	453
Actuarial loss on retirement benefit plans	-	-	-	-	-	-	(6)	(6)	-	-	(6)
Advances and other accounts at fair value through other comprehensive income	-	-	(14)	-	-	-	-	(14)	-	-	(14)
Debt instruments at fair value through other comprehensive income	-	-	3,161	-	-	-	-	3,161	-	398	3,559
Insurance contracts	-	-	-	-	-	(487)	-	(487)	-	(468)	(955)
Currency translation difference	-	-	45	-	(50)	-	-	(5)	-	-	(5)
Total comprehensive income	-	(1,008)	3,644	-	(50)	(487)	15,719	17,818	696	285	18,799
Redemption of other equity instruments	-	-	-	-	-	-	(70)	(70)	(23,476)	-	(23,546)
Release upon disposal of premises	-	(1)	-	-	-	-	1	-	-	-	-
Transfer from retained earnings	-	-	-	488	-	-	(488)	-	-	-	-
Dividends	-	-	-	-	-	-	(5,572)	(5,572)	(696)	(70)	(6,338)
At 31 December 2023	52,864	36,899	(6,470)	7,974	(1,883)	1,637	229,124	320,145	-	3,284	323,429

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)										
	Attributable to equity holders of the Company										
	Reserves										
	Share capital	Reserve for Premises revaluation	Reserve for financial assets at FVOCI	Regulatory reserve*	Translation reserve	Insurance finance reserve	Retained earnings	Total	Other equity instruments	Non-controlling interests	Total equity
HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	
At 1 January 2024	52,864	36,899	(6,470)	7,974	(1,883)	1,637	229,124	320,145	-	3,284	323,429
Profit for the period	-	-	-	-	-	-	20,040	20,040	-	423	20,463
Upon declaration of dividend to other equity instrument holders	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	20,040	20,040	-	423	20,463
Other comprehensive income:											
Premises	-	(156)	-	-	-	-	-	(156)	-	-	(156)
Equity instruments at fair value through other comprehensive income	-	-	76	-	-	-	-	76	-	1	77
Actuarial gain on retirement benefit plans	-	-	-	-	-	-	4	4	-	-	4
Advances and other accounts at fair value through other comprehensive income	-	-	(22)	-	-	-	-	(22)	-	-	(22)
Debt instruments at fair value through other comprehensive income	-	-	(680)	-	-	-	-	(680)	-	(149)	(829)
Insurance contracts	-	-	-	-	-	(60)	-	(60)	-	(58)	(118)
Currency translation difference	-	-	(51)	-	(617)	-	-	(668)	-	-	(668)
Total comprehensive income	-	(156)	(677)	-	(617)	(60)	20,044	18,534	-	217	18,751
Release upon disposal of premises	-	(6)	-	-	-	-	6	-	-	-	-
Transfer to retained earnings	-	-	-	(819)	-	-	819	-	-	-	-
Dividends	-	-	-	-	-	-	(12,106)	(12,106)	-	(140)	(12,246)
At 30 June 2024	52,864	36,737	(7,147)	7,155	(2,500)	1,577	237,887	326,573	-	3,361	329,934

* 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 45 to 114 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Notes	(Unaudited) Half-year ended 30 June 2024 HK\$'m	(Unaudited) Half-year ended 30 June 2023 HK\$'m
Cash flows from operating activities			
Operating cash inflow/(outflow) before taxation	34(a)	32,858	(84,464)
Hong Kong profits tax paid		(1,333)	(1,184)
Outside Hong Kong profits tax paid		(499)	(487)
Net cash inflow/(outflow) from operating activities		31,026	(86,135)
Cash flows from investing activities			
Additions of properties, plant and equipment		(1,092)	(179)
Proceeds from disposal of properties, plant and equipment		6	8
Additions of investment properties		(42)	(10)
Additions of intangible assets		(400)	(412)
Dividend received from associates and joint ventures		–	2
Net cash outflow from investing activities		(1,528)	(591)
Cash flows from financing activities			
Dividend paid to other equity instrument holders		–	(696)
Dividend paid to non-controlling interests		(140)	(103)
Payment of lease liabilities		(283)	(303)
Net cash outflow from financing activities		(423)	(1,102)
Increase/(decrease) in cash and cash equivalents		29,075	(87,828)
Cash and cash equivalents at 1 January		686,930	540,925
Effect of exchange rate changes on cash and cash equivalents		(12,562)	(6,689)
Cash and cash equivalents at 30 June	34(b)	703,443	446,408
Cash flows from operating activities included			
– interest received		71,193	55,561
– interest paid		46,372	28,465
– dividend received		42	37

The notes on pages 45 to 114 are an integral part of this interim financial information.

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. Basis of preparation and material accounting policies

(a) Basis of preparation

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

(b) Material accounting policies

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 2023 and shall be read in conjunction with the Group’s Annual Report for 2023.

(c) Standards and amendments issued that are relevant to the Group but not yet mandatorily effective and have not been early adopted by the Group in 2024

Standards/Amendments	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
HKFRS 9 and HKFRS 7 (Amendments)	Amendments to the Classification and Measurement of Financial Instruments	1 January 2026
HKFRS 18	Presentation and Disclosure in Financial Statements	1 January 2027
HKFRS 19	Subsidiaries without Public Accountability: Disclosures	1 January 2027

- HKFRS 9 and HKFRS 7 (Amendments), “Amendments to the Classification and Measurement of Financial Instruments”. The amendments to HKFRS 9 provide clarification regarding the classification of financial assets with contingent features and the requirements for classifying financial assets with non-recourse features and contractually linked instruments. The amendments also introduce an accounting policy option for entities to derecognise financial liabilities that are settled through an electronic payment system before settlement date if specified criteria are met.

The amendments to HKFRS 7 require entities to provide additional disclosure regarding investments in equity instruments designated at fair value through other comprehensive income and financial instruments with contingent features.

The amendments are effective for annual periods beginning on or after 1 January 2026 with earlier application of either all the amendments at the same time or only the amendments related to the classification of financial assets is permitted. The Group is in the process of assessing the impact of the adoption of the amendments.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

(c) *Standards and amendments issued that are relevant to the Group but not yet mandatorily effective and have not been early adopted by the Group in 2024 (continued)*

- HKFRS 18, “Presentation and Disclosure in Financial Statements”. HKFRS 18 supersedes HKAS 1 “Presentation of Financial Statements” and is effective for annual periods beginning on or after 1 January 2027 with earlier application permitted. The new standard aims to improve entities’ reporting of financial performance and give investors a better basis for analysing and comparing entities by introducing presentation of new defined subtotals in the statement of profit or loss, disclosures about management-defined performance measures, and enhanced requirements for grouping of information. The Group is in the process of assessing the impact of the adoption of HKFRS 18.
- HKFRS 19, “Subsidiaries without Public Accountability: Disclosures”. HKFRS 19 is a voluntary standard which permits eligible subsidiaries to use HKFRSs with reduced disclosures and is effective for annual periods beginning on or after 1 January 2027 with earlier application permitted. A subsidiary is eligible to apply the standard if it does not have public accountability and its ultimate or intermediate parent produces consolidated financial statements that are available for public use and that comply with HKFRS Accounting Standards. The application of the standard will not have any impact on the Group’s financial statements.

Please refer to Note 2.1(b) to the Financial Statements of the Group’s Annual Report for 2023 for brief explanation of the remaining amendment.

2. Critical estimates and judgements in applying accounting policies

The nature and assumptions related to the Group’s estimates and judgements in this reporting period are consistent with those used in the Group’s financial statements for the year ended 31 December 2023.

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 2023.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

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 its debt obligations to the Group.

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

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

(A) Advances and other accounts

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

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

	At 30 June 2024			
	Stage 1 HK\$'m	Stage 2 HK\$'m	Stage 3 HK\$'m	Total HK\$'m
Advances to customers				
Pass	1,653,100	18,442	–	1,671,542
Special mention	1,845	9,019	–	10,864
Substandard or below	–	–	18,097	18,097
	1,654,945	27,461	18,097	1,700,503
Trade bills				
Pass	2,588	–	–	2,588
Special mention	2	–	–	2
Substandard or below	–	–	–	–
	2,590	–	–	2,590
Advances to banks and other financial institutions				
Pass	1,807	–	–	1,807
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	1,807	–	–	1,807
	1,659,342	27,461	18,097	1,704,900

	At 30 June 2024			
	Stage 1 HK\$'m	Stage 2 HK\$'m	Stage 3 HK\$'m	Total HK\$'m
Impairment allowances				
Advances and other accounts at amortised cost	(4,764)	(1,290)	(10,292)	(16,346)
Advances and other accounts at fair value through other comprehensive income	(8)	–	–	(8)

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

	At 31 December 2023			
	Stage 1 HK\$'m	Stage 2 HK\$'m	Stage 3 HK\$'m	Total HK\$'m
Advances to customers				
Pass	1,659,557	16,721	–	1,676,278
Special mention	3,039	4,325	–	7,364
Substandard or below	–	–	17,797	17,797
	1,662,596	21,046	17,797	1,701,439
Trade bills				
Pass	3,751	–	–	3,751
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	3,751	–	–	3,751
Advances to banks and other financial institutions				
Pass	1,815	–	–	1,815
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	1,815	–	–	1,815
	1,668,162	21,046	17,797	1,707,005

	At 31 December 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	(4,113)	(1,056)	(9,555)	(14,724)
Advances and other accounts at fair value through other comprehensive income	(29)	–	–	(29)

As at 30 June 2024 and 31 December 2023, 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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

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

	Half-year ended 30 June 2024			
	Stage 1 HK\$'m	Stage 2 HK\$'m	Stage 3 HK\$'m	Total HK\$'m
Impairment allowances				
At 1 January 2024	4,113	1,056	9,555	14,724
Transfer to Stage 1	135	(132)	(3)	–
Transfer to Stage 2	(61)	63	(2)	–
Transfer to Stage 3	(4)	(79)	83	–
Changes arising from transfer of stage	(114)	75	332	293
Charge for the period ⁽ⁱ⁾	2,100	439	1,214	3,753
Reversal for the period ⁽ⁱⁱ⁾	(1,389)	(102)	(466)	(1,957)
Write-offs	–	–	(383)	(383)
Recoveries	–	–	77	77
Exchange difference and others	(16)	(30)	(115)	(161)
At 30 June 2024	4,764	1,290	10,292	16,346
Charged to income statement (Note 11)				2,089

	Year ended 31 December 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	174	(163)	(11)	–
Transfer to Stage 2	(153)	155	(2)	–
Transfer to Stage 3	(4)	(3,936)	3,940	–
Changes arising from transfer of stage	(156)	1,061	1,979	2,884
Charge for the year ⁽ⁱ⁾	2,318	2,311	2,556	7,185
Reversal for the year ⁽ⁱⁱ⁾	(2,061)	(897)	(644)	(3,602)
Write-offs	–	–	(3,088)	(3,088)
Recoveries	–	–	133	133
Exchange difference and others	(2)	14	(300)	(288)
At 31 December 2023	4,113	1,056	9,555	14,724

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(a) Impaired advances

Impaired advances to customers are analysed as follows:

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Gross impaired advances to customers	18,097	17,797
Percentage of gross advances to customers	1.06%	1.05%
Impairment allowances made in respect of such advances	10,292	9,555

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

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Current market value of collateral held against the covered portion of impaired advances to customers	7,895	9,331
Covered portion of impaired advances to customers	6,155	6,204
Uncovered portion of impaired advances to customers	11,942	11,593

As at 30 June 2024, there were no impaired trade bills and advances to banks and other financial institutions (31 December 2023: Nil).

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

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

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

	At 30 June 2024		At 31 December 2023	
	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	1,886	0.11%	4,000	0.24%
– one year or less but over six months	7,714	0.45%	4,101	0.24%
– over one year	5,903	0.35%	2,447	0.14%
Advances overdue for over three months	15,503	0.91%	10,548	0.62%
Impairment allowances made in respect of such advances – Stage 3	9,331		5,342	

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Current market value of collateral held against the covered portion of such advances to customers	5,355	5,891
Covered portion of such advances to customers	4,579	4,518
Uncovered portion of such advances to customers	10,924	6,030

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 2024, there were no trade bills and advances to banks and other financial institutions overdue for more than three months (31 December 2023: Nil).

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(c) Rescheduled advances

	At 30 June 2024		At 31 December 2023	
	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"	1,240	0.07%	1,722	0.10%

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(d) Concentration of advances to customers

(i) Sectoral analysis of gross advances to customers

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

	At 30 June 2024					
	Gross advances to customers HK\$'m	% covered by collateral or other security	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	169,324	28.01%	36	39	2	1,112
– Property investment	94,174	58.46%	1,221	383	133	284
– Financial concerns	19,034	0.89%	–	–	–	37
– Stockbrokers	2,294	99.12%	–	–	–	–
– Wholesale and retail trade	33,223	35.05%	173	162	67	109
– Manufacturing	59,799	6.30%	85	89	55	154
– Transport and transport equipment	53,542	16.08%	88	20	68	104
– Recreational activities	234	7.78%	–	–	–	–
– Information technology	32,453	0.33%	1	1	–	77
– Others	209,739	36.97%	3,780	3,942	1,252	552
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	48,340	99.71%	69	536	1	85
– Loans for purchase of other residential properties	397,185	98.95%	280	1,826	15	366
– Credit card advances	11,597	–	95	437	60	176
– Others	124,713	95.51%	148	756	51	191
Total loans for use in Hong Kong	1,255,651	61.08%	5,976	8,191	1,704	3,247
Trade financing	51,663	17.89%	522	378	365	193
Loans for use outside Hong Kong	394,024	4.52%	11,599	11,204	8,223	2,612
Gross advances to customers	1,701,338	46.67%	18,097	19,773	10,292	6,052

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

	At 31 December 2023					
	Gross advances to customers HK\$'m	% covered by collateral or other security	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	188,115	24.32%	357	357	258	724
– Property investment	95,384	61.42%	1,716	934	544	289
– Financial concerns	16,506	1.04%	–	–	–	34
– Stockbrokers	1,196	97.48%	–	–	–	–
– Wholesale and retail trade	33,992	34.98%	138	140	51	111
– Manufacturing	58,991	6.85%	46	73	33	173
– Transport and transport equipment	51,971	18.17%	100	13	80	95
– Recreational activities	63	21.14%	–	–	–	–
– Information technology	38,989	0.26%	20	21	20	50
– Others	198,397	42.89%	3,712	4,844	712	513
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	45,079	99.70%	45	461	–	27
– Loans for purchase of other residential properties	388,178	99.21%	227	1,935	7	442
– Credit card advances	12,668	–	97	476	63	182
– Others	123,634	95.26%	119	683	45	212
Total loans for use in Hong Kong	1,253,163	60.97%	6,577	9,937	1,813	2,852
Trade financing	47,691	18.77%	466	315	299	88
Loans for use outside Hong Kong	401,448	4.37%	10,754	10,819	7,443	2,226
Gross advances to customers	1,702,302	46.44%	17,797	21,071	9,555	5,166

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

(ii) Geographical analysis of gross advances to customers

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

Gross advances to customers

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Hong Kong	1,460,228	1,454,475
Chinese mainland	76,117	85,131
Others	164,993	162,696
	1,701,338	1,702,302
Impairment allowances made in respect of the gross advances to customers – Stages 1 and 2		
Hong Kong	3,953	3,405
Chinese mainland	362	271
Others	1,737	1,490
	6,052	5,166

Overdue advances

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Hong Kong	15,469	16,001
Chinese mainland	435	303
Others	3,869	4,767
	19,773	21,071
Impairment allowances made in respect of the overdue advances – Stage 3		
Hong Kong	6,890	5,988
Chinese mainland	234	51
Others	2,514	2,513
	9,638	8,552

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

Impaired advances

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Hong Kong	13,467	13,016
Chinese mainland	310	295
Others	4,320	4,486
	18,097	17,797
Impairment allowances made in respect of the impaired advances – Stage 3		
Hong Kong	7,205	6,367
Chinese mainland	234	165
Others	2,853	3,023
	10,292	9,555

(B) Repossessed assets

The estimated market value of repossessed assets held by the Group as at 30 June 2024 amounted to HK\$171 million (31 December 2023: HK\$282 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.

(C) Balances and placements with banks and other financial institutions

As at 30 June 2024, gross overdue or impaired balances and placements with banks and other financial institutions amounted to HK\$32 million (31 December 2023: HK\$33 million). The aforesaid balances and placements have been overdue for more than one year as at 30 June 2024 and 31 December 2023.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.1 Credit risk (continued)

(D) 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 2024 HK\$'m	At 31 December 2023 HK\$'m
Investment in securities at fair value through other comprehensive income		
– Stage 1		
Aaa	128,829	129,180
Aa1 to Aa3	313,208	318,116
A1 to A3	284,953	260,343
Lower than A3	23,152	26,404
Unrated	35,763	31,139
	785,905	765,182
– Stage 2		
Lower than A3	–	474
– Stage 3	–	–
	785,905	765,656
Of which: impairment allowances	(217)	(198)
Investment in securities at amortised cost		
– Stage 1		
Aaa	109,332	114,597
Aa1 to Aa3	25,051	25,055
A1 to A3	41,102	58,358
Lower than A3	6,139	8,456
Unrated	1,652	1,659
	183,276	208,125
– Stage 2	–	–
– Stage 3	–	–
	183,276	208,125
Impairment allowances	(49)	(47)
	183,227	208,078
Financial assets at fair value through profit or loss		
Aaa	3,986	3,148
Aa1 to Aa3	53,469	44,165
A1 to A3	86,398	71,040
Lower than A3	11,573	12,562
Unrated	12,395	4,185
	167,821	135,100

As at 30 June 2024, there were no impaired debt securities and certificates of deposit (31 December 2023: Nil). Debt securities and certificates of deposit which have been overdue for six months or less but over three months and overdue for one year or less but over six months amounted to HK\$18 million (31 December 2023: HK\$51 million) and HK\$48 million (31 December 2023: Nil) respectively and were measured at fair value through profit or loss.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market risk

(A) VaR

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

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

	Year	At 30 June HK\$'m	Minimum for the first half of year HK\$'m	Maximum for the first half of year HK\$'m	Average for the first half of year HK\$'m
VaR for all market risk	2024	138.6	67.9	138.6	89.6
	2023	38.9	35.7	62.1	46.4
VaR for foreign exchange risk	2024	44.8	26.0	64.4	40.8
	2023	19.7	19.3	48.4	29.5
VaR for interest rate risk in the trading book	2024	139.0	64.0	139.0	90.6
	2023	41.0	32.1	52.7	41.1
VaR for equity risk in the trading book	2024	1.5	0.3	8.0	1.6
	2023	3.7	0.3	7.8	4.0
VaR for commodity risk	2024	0.7	0.0	7.6	2.1
	2023	4.6	0.0	13.5	5.0

Note:

1. Structural FX positions have been excluded.

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market risk (continued)

(A) VaR (continued)

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

(B) Currency risk

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

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

	At 30 June 2024							
	Equivalent in million of HK\$							
	US Dollars	Pound Sterling	Japanese Yen	Euro	Renminbi	Australian Dollars	Other foreign currencies	Total foreign currencies
Spot assets	1,026,696	23,866	88,540	37,992	892,010	21,661	74,886	2,165,651
Spot liabilities	(1,156,566)	(27,216)	(31,995)	(37,739)	(563,640)	(31,927)	(67,630)	(1,916,713)
Forward purchases	1,939,997	34,219	101,200	93,121	996,296	38,033	82,693	3,285,559
Forward sales	(1,790,562)	(30,698)	(153,969)	(92,643)	(1,315,853)	(27,350)	(91,164)	(3,502,239)
Net options position	4,349	(214)	(53)	(317)	(3,332)	(210)	121	344
Net long/(short) position	23,914	(43)	3,723	414	5,481	207	(1,094)	32,602

	At 31 December 2023							
	Equivalent in million of HK\$							
	US Dollars	Pound Sterling	Japanese Yen	Euro	Renminbi	Australian Dollars	Other foreign currencies	Total foreign currencies
Spot assets	1,062,469	23,210	70,841	44,422	736,181	24,025	69,379	2,030,527
Spot liabilities	(1,115,545)	(29,783)	(27,849)	(35,573)	(509,114)	(33,301)	(62,675)	(1,813,840)
Forward purchases	1,446,407	26,178	78,221	76,557	744,856	41,025	61,036	2,474,280
Forward sales	(1,377,946)	(19,611)	(117,473)	(84,815)	(965,216)	(31,657)	(68,879)	(2,665,597)
Net options position	1,923	(35)	59	(121)	(165)	(54)	45	1,652
Net long/(short) position	17,308	(41)	3,799	470	6,542	38	(1,094)	27,022

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market risk (continued)

(B) Currency risk (continued)

	At 30 June 2024						
	Equivalent in million of HK\$						
	US Dollars	Baht	Malaysian Ringgit	Philippine Peso	Rupiah	Other foreign currencies	Total foreign currencies
Net structural position	8,327	2,671	3,276	1,974	3,681	1,955	21,884

	At 31 December 2023						
	Equivalent in million of HK\$						
	US Dollars	Baht	Malaysian Ringgit	Philippine Peso	Rupiah	Other foreign currencies	Total foreign currencies
Net structural position	8,017	2,648	3,140	1,926	3,474	1,948	21,153

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market risk (continued)

(C) Interest rate risk

The tables below summarise the Group's on-balance sheet exposure to interest rate risk. 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 2024						
	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	579,508	16,884	51,287	1,828	-	48,278	697,785
Financial assets at fair value through profit or loss	13,733	29,575	39,493	32,549	62,078	24,373	201,801
Derivative financial instruments	-	-	-	-	-	58,533	58,533
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	210,370	210,370
Advances and other accounts	1,392,126	165,106	62,854	53,856	8,579	6,868	1,689,389
Investment in securities							
– At FVOCI	154,590	125,999	172,436	242,885	89,995	4,762	790,667
– At amortised cost	5,104	5,061	41,612	92,314	39,136	-	183,227
Interests in associates and joint ventures	-	-	-	-	-	1,184	1,184
Investment properties	-	-	-	-	-	14,627	14,627
Properties, plant and equipment	-	-	-	-	-	41,728	41,728
Other assets (including current and deferred tax assets)	10,717	-	-	-	-	98,220	108,937
Total assets	2,155,778	342,625	367,682	423,432	199,788	508,943	3,998,248
Liabilities							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	210,370	210,370
Deposits and balances from banks and other financial institutions	297,186	5,140	369	-	-	19,422	322,117
Financial liabilities at fair value through profit or loss	38,594	15,318	12,535	2,019	2,783	-	71,249
Derivative financial instruments	-	-	-	-	-	44,044	44,044
Deposits from customers	1,661,028	544,895	266,333	1,367	-	164,665	2,638,288
Debt securities and certificates of deposit in issue	-	-	-	-	-	-	-
Other accounts and provisions (including current and deferred tax liabilities)	26,378	7	104	730	300	94,318	121,837
Insurance contract liabilities	-	-	-	-	-	185,113	185,113
Subordinated liabilities	-	-	-	75,296	-	-	75,296
Total liabilities	2,023,186	565,360	279,341	79,412	3,083	717,932	3,668,314
Interest sensitivity gap	132,592	(222,735)	88,341	344,020	196,705	(208,989)	329,934

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.2 Market risk (continued)

(C) Interest rate risk (continued)

	At 31 December 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	297,147	25,365	29,830	2,466	-	51,763	406,571
Financial assets at fair value through profit or loss	219,681	35,740	20,715	28,454	51,909	16,791	373,290
Derivative financial instruments	-	-	-	-	-	54,211	54,211
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	213,000	213,000
Advances and other accounts	1,437,380	132,698	66,235	40,492	8,498	7,841	1,693,144
Investment in securities							
– At FVOCI	145,275	142,874	143,240	247,264	87,003	4,706	770,362
– At amortised cost	9,482	32,487	30,140	103,471	32,498	-	208,078
Interests in associates and joint ventures	-	-	-	-	-	1,275	1,275
Investment properties	-	-	-	-	-	14,875	14,875
Properties, plant and equipment	-	-	-	-	-	41,738	41,738
Other assets (including current and deferred tax assets)	6,669	-	-	-	-	85,570	92,239
Total assets	2,115,634	369,164	290,160	422,147	179,908	491,770	3,868,783
Liabilities							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	213,000	213,000
Deposits and balances from banks and other financial institutions	342,692	916	101	-	-	29,964	373,673
Financial liabilities at fair value through profit or loss	18,297	30,827	15,652	1,255	172	-	66,203
Derivative financial instruments	-	-	-	-	-	41,553	41,553
Deposits from customers	1,540,154	458,625	327,879	1,844	-	173,180	2,501,682
Debt securities and certificates of deposit in issue	-	1,999	-	-	-	-	1,999
Other accounts and provisions (including current and deferred tax liabilities)	22,628	4	106	745	352	70,213	94,048
Insurance contract liabilities	-	-	-	-	-	177,873	177,873
Subordinated liabilities	-	-	-	75,323	-	-	75,323
Total liabilities	1,923,771	492,371	343,738	79,167	524	705,783	3,545,354
Interest sensitivity gap	191,863	(123,207)	(53,578)	342,980	179,384	(214,013)	323,429

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity risk

(A) Liquidity coverage ratio and net stable funding ratio

	2024	2023
Average value of liquidity coverage ratio		
– First quarter	223.79%	189.68%
– Second quarter	250.58%	188.89%

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.

	2024	2023
Quarter-end value of net stable funding ratio		
– First quarter	140.36%	134.51%
– Second quarter	140.96%	131.56%

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis

The following analysis of the Group's assets and liabilities into relevant maturity groupings is based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2024							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
Assets								
Cash and balances and placements with banks and other financial institutions	309,039	318,746	16,907	51,287	1,806	-	-	697,785
Financial assets at fair value through profit or loss	-	8,195	33,478	39,787	34,617	61,285	24,439	201,801
Derivative financial instruments	16,042	4,987	3,803	12,744	14,830	6,127	-	58,533
Hong Kong SAR Government certificates of indebtedness	210,370	-	-	-	-	-	-	210,370
Advances and other accounts	344,598	72,079	66,899	254,426	507,737	435,727	7,923	1,689,389
Investment in securities								
– At FVOCI	-	123,976	127,749	175,829	248,667	109,684	4,762	790,667
– At amortised cost	-	4,833	5,470	42,161	91,977	38,786	-	183,227
Interests in associates and joint ventures	-	-	-	-	-	-	1,184	1,184
Investment properties	-	-	-	-	-	-	14,627	14,627
Properties, plant and equipment	-	-	-	-	-	-	41,728	41,728
Other assets (including current and deferred tax assets)	30,071	34,259	734	4,596	11,905	24,852	2,520	108,937
Total assets	910,120	567,075	255,040	580,830	911,539	676,461	97,183	3,998,248
Liabilities								
Hong Kong SAR currency notes in circulation	210,370	-	-	-	-	-	-	210,370
Deposits and balances from banks and other financial institutions	206,842	109,768	5,140	367	-	-	-	322,117
Financial liabilities at fair value through profit or loss	-	38,594	15,333	12,554	2,009	2,759	-	71,249
Derivative financial instruments	11,281	3,778	3,220	9,296	12,090	4,379	-	44,044
Deposits from customers	1,208,477	617,216	544,895	266,333	1,367	-	-	2,638,288
Debt securities and certificates of deposit in issue	-	-	-	-	-	-	-	-
Other accounts and provisions (including current and deferred tax liabilities)	56,404	50,538	334	7,471	6,544	546	-	121,837
Insurance contract liabilities	-	773	2,708	11,055	47,961	108,533	-	171,030
Subordinated liabilities	-	-	-	1,611	73,685	-	-	75,296
Total liabilities	1,693,374	820,667	571,630	308,687	143,656	116,217	-	3,654,231
Net liquidity gap	(783,254)	(253,592)	(316,590)	272,143	767,883	560,244	97,183	344,017

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

	At 31 December 2023							Total HK\$m
	On demand HK\$m	Up to 1 month HK\$m	1 to 3 months HK\$m	3 to 12 months HK\$m	1 to 5 years HK\$m	Over 5 years HK\$m	Indefinite HK\$m	
Assets								
Cash and balances and placements with banks and other financial institutions	297,469	51,439	25,387	29,845	2,431	-	-	406,571
Financial assets at fair value through profit or loss	-	213,013	39,977	21,083	30,653	51,253	17,311	373,290
Derivative financial instruments	15,765	4,487	5,904	7,645	14,242	6,168	-	54,211
Hong Kong SAR Government certificates of indebtedness	213,000	-	-	-	-	-	-	213,000
Advances and other accounts	338,621	60,133	60,907	240,526	555,023	429,575	8,359	1,693,144
Investment in securities								
- At FVOCI	-	148,500	123,488	146,344	251,076	95,926	5,028	770,362
- At amortised cost	-	9,131	32,817	30,468	103,432	32,230	-	208,078
Interests in associates and joint ventures	-	-	-	-	-	-	1,275	1,275
Investment properties	-	-	-	-	-	-	14,875	14,875
Properties, plant and equipment	-	-	-	-	-	-	41,738	41,738
Other assets (including current and deferred tax assets)	20,949	22,716	1,277	4,438	13,115	27,178	2,566	92,239
Total assets	885,804	509,419	289,757	480,349	969,972	642,330	91,152	3,868,783
Liabilities								
Hong Kong SAR currency notes in circulation	213,000	-	-	-	-	-	-	213,000
Deposits and balances from banks and other financial institutions	199,392	173,263	605	413	-	-	-	373,673
Financial liabilities at fair value through profit or loss	-	21,672	27,462	15,653	1,245	171	-	66,203
Derivative financial instruments	11,062	3,650	4,142	6,730	11,655	4,314	-	41,553
Deposits from customers	1,188,522	524,812	458,625	327,879	1,844	-	-	2,501,682
Debt securities and certificates of deposit in issue	-	-	1,999	-	-	-	-	1,999
Other accounts and provisions (including current and deferred tax liabilities)	50,592	31,001	2,406	2,640	6,847	562	-	94,048
Insurance contract liabilities	-	1,264	3,688	10,963	47,100	103,179	-	166,194
Subordinated liabilities	-	-	-	344	74,979	-	-	75,323
Total liabilities	1,662,568	755,662	498,927	364,622	143,670	108,226	-	3,533,675
Net liquidity gap	(776,764)	(246,243)	(209,170)	115,727	826,302	534,104	91,152	335,108

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

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

The above analysis in respect of insurance contract liabilities represents the estimated timing of net cash outflows resulting from recognised insurance contract liabilities on the balance sheet and excludes the contractual service margin and risk adjustment 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 used in the estimates of fulfilment cash flows.

(A) Change in assumptions

The Group has updated the discount rates to reflect the changes in Group's experience and market conditions.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital management

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

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

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

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

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

(A) Basis of regulatory consolidation

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital management (continued)

(A) Basis of regulatory consolidation (continued)

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

Name	At 30 June 2024		At 31 December 2023	
	Total assets HK\$'m	Total equity HK\$'m	Total assets HK\$'m	Total equity HK\$'m
BOC Group Trustee Company Limited	201	201	200	200
BOCI-Prudential Trustee Limited	575	472	627	499
China Bridge (Malaysia) Sdn. Bhd.	8	(1)	13	(1)
Bank of China (Hong Kong) Nominees Limited	–	–	–	–
Bank of China (Hong Kong) Trustees Limited	9	8	8	8
BOC Digital Services (Nanning) Company Limited*	102	48	118	47
BOCHK Information Technology (Shenzhen) Co., Ltd.	370	260	374	263
BOCHK Information Technology Services (Shenzhen) Co., Ltd.	391	342	408	349
Po Sang Financial Investment Services Company Limited	355	346	361	346
Po Sang Securities Limited	571	385	605	384
Sin Hua Trustee Limited	3	3	3	3
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.	–	–	–	–

* BOC Financial Services (Nanning) Company Limited has changed company's name to BOC Digital Services (Nanning) Company Limited on 12 January 2024.

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital management (continued)

(A) Basis of regulatory consolidation (continued)

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

There were no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation as at 30 June 2024 (31 December 2023: 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 2024 (31 December 2023: 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 2024	At 31 December 2023
CET1 capital ratio	20.05%	19.02%
Tier 1 capital ratio	20.05%	19.02%
Total capital ratio	22.17%	21.18%

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital management (continued)

(B) Capital ratio (continued)

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

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments	43,043	43,043
Retained earnings	235,336	219,744
Disclosed reserves	38,820	40,947
CET1 capital before regulatory deductions	317,199	303,734
CET1 capital: regulatory deductions		
Valuation adjustments	(32)	(28)
Other intangible assets (net of associated deferred tax liabilities)	(1,910)	(1,894)
Deferred tax assets (net of associated deferred tax liabilities)	(312)	(328)
Gains and losses due to changes in own credit risk on fair valued liabilities	(76)	(62)
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	(44,945)	(45,398)
Regulatory reserve for general banking risks	(7,155)	(7,974)
Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	(897)	(941)
Total regulatory deductions to CET1 capital	(55,327)	(56,625)
CET1 capital	261,872	247,109
AT1 capital: instruments		
Qualifying AT1 capital instruments classified as equity under applicable accounting standards	–	–
AT1 capital before regulatory deductions	–	–
AT1 capital: regulatory deductions		
Significant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	(897)	(941)
Total regulatory deductions to AT1 capital	(897)	(941)
AT1 capital	–	–
Tier 1 capital	261,872	247,109
Tier 2 capital: instruments and provisions		
Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	7,512	7,607
Tier 2 capital before regulatory deductions	7,512	7,607
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	20,225	20,429
Total regulatory adjustments to Tier 2 capital	20,225	20,429
Tier 2 capital	27,737	28,036
Total regulatory capital	289,609	275,145

NOTES TO THE INTERIM FINANCIAL INFORMATION

3. Financial risk management (continued)

3.5 Capital management (continued)

(B) Capital ratio (continued)

The capital buffer ratios are analysed as follows:

	At 30 June 2024	At 31 December 2023
Capital conservation buffer ratio	2.500%	2.500%
Higher loss absorbency ratio	1.500%	1.500%
Countercyclical capital buffer ratio	0.823%	0.813%

(C) Leverage ratio

The leverage ratio is analysed as follows:

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Tier 1 capital	261,872	247,109
Leverage ratio exposure	3,720,479	3,602,432
Leverage ratio	7.04%	6.86%

NOTES TO THE INTERIM FINANCIAL INFORMATION

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.

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 are 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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

4.1 Financial instruments measured at fair value (continued)

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 parameters which include spreads to discount rates, default and recovery rates and prepayment rates that may be observable or compiled through matrix pricing for similar issues.

Derivatives

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

4.1 Financial instruments measured at fair value (continued)

(A) Fair value hierarchy

	At 30 June 2024			
	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	460	92,521	–	92,981
– Equity securities	53	–	–	53
– Funds	2	–	–	2
– Other debt instruments	–	3,800	–	3,800
Other financial assets mandatorily classified at fair value through profit or loss (Note 19)				
– Debt securities and certificates of deposit	80	43,952	66	44,098
– Equity securities	5,331	–	–	5,331
– Funds	5,382	5,257	8,348	18,987
Financial assets designated at fair value through profit or loss (Note 19)				
– Debt securities and certificates of deposit	2,514	28,228	–	30,742
– Other debt instruments	–	5,807	–	5,807
Derivative financial instruments (Note 20)	77	58,456	–	58,533
Advances and other accounts at fair value	–	1,445	835	2,280
Investment in securities at FVOCI (Note 22)				
– Debt securities and certificates of deposit	131,828	654,077	–	785,905
– Equity securities	846	620	3,296	4,762
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 26)				
– Trading liabilities	1,256	37,621	–	38,877
– Financial liabilities designated at fair value through profit or loss	–	32,372	–	32,372
Derivative financial instruments (Note 20)	32	44,012	–	44,044

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

4.1 Financial instruments measured at fair value (continued)

(A) Fair value hierarchy (continued)

	At 31 December 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	1	66,477	–	66,478
– Equity securities	69	–	–	69
– Funds	–	–	–	–
– Other debt instruments	–	3,800	–	3,800
Other financial assets mandatorily classified at fair value through profit or loss (Note 19)				
– Debt securities and certificates of deposit	88	48,799	70	48,957
– Equity securities	4,133	–	–	4,133
– Funds	3,421	1,479	7,689	12,589
Financial assets designated at fair value through profit or loss (Note 19)				
– Debt securities and certificates of deposit	1,780	17,885	–	19,665
– Other debt instruments	–	217,599	–	217,599
Derivative financial instruments (Note 20)	19	54,192	–	54,211
Advances and other accounts at fair value	–	4,512	863	5,375
Investment in securities at FVOCI (Note 22)				
– Debt securities and certificates of deposit	130,681	634,975	–	765,656
– Equity securities	822	622	3,262	4,706
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 26)				
– Trading liabilities	805	59,045	–	59,850
– Financial liabilities designated at fair value through profit or loss	–	6,353	–	6,353
Derivative financial instruments (Note 20)	195	41,358	–	41,553

There were no financial asset and liability transfers between level 1 and level 2 for the Group during the period (31 December 2023: Nil).

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

4.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items

	Half-year ended 30 June 2024				
	Financial assets				
	Other financial assets mandatorily classified at FVPL		Advances and other accounts at fair value	Investment in securities at FVOCI	
	Debt securities	Funds		Debt securities	Equity securities
HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	
At 1 January 2024	70	7,689	863	-	3,262
(Losses)/gains					
– Income statement					
– Net loss on other financial instruments at fair value through profit or loss	(4)	(155)	-	-	-
– Other comprehensive income					
– Change in fair value	-	-	-	-	35
Additions	-	814	-	-	-
Disposals, redemptions and maturity	-	-	-	-	(1)
Transfer into level 3	-	-	-	-	-
Transfer out of level 3	-	-	-	-	-
Exchange difference	-	-	(28)	-	-
At 30 June 2024	66	8,348	835	-	3,296
Total unrealised losses for the period included in income statement for financial assets held as at 30 June 2024					
– Net loss on other financial instruments at fair value through profit or loss	(4)	(155)	-	-	-

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

4.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

	Year ended 31 December 2023				
	Financial assets				
	Other financial assets mandatorily classified at FVPL		Advances and other accounts at fair value HK\$m	Investment in securities at FVOCI	
	Debt securities HK\$m	Funds 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	(40)	392	–	–	–
– Other comprehensive income					
– Change in fair value	–	–	–	–	602
Additions	110	502	–	–	800
Disposals, redemptions and maturity	(62)	(70)	–	–	–
Transfer into level 3	–	–	–	–	–
Transfer out of level 3	(1,753)	–	–	(735)	–
Exchange difference	–	–	31	–	–
At 31 December 2023	70	7,689	863	–	3,262
Total unrealised (losses)/gains for the year included in income statement for financial assets held as at 31 December 2023					
– Net (loss)/gain on other financial instruments at fair value through profit or loss	(40)	392	–	–	–

As at 30 June 2024 and 31 December 2023, financial instruments categorised as level 3 are mainly comprised of certain debt and equity securities, funds, certain advances and other accounts and unlisted equity shares.

For certain illiquid debt securities and funds, 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 equity securities, 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 out of level 3 in year of 2023 were due to change of valuation input observability. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

4.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

The fair values of unlisted FVOCI equity investments are determined with reference to (i) multiples of comparable listed companies, including average of the price/earnings ratios and average of the price/book values ratios of the comparables; or (ii) dividend discount model calculation of the underlying equity investments; or (iii) net asset value with fair value adjustments on certain assets or liabilities held (if applicable), if neither appropriate comparables nor dividend discount model calculation is available or applicable. The significant unobservable inputs and their range applied in the fair values measurement of the Group's unlisted equity investments includes price/earnings ratios of the comparables of 20.58x – 38.24x, price/book values ratios of the comparables of 0.25x – 0.74x, liquidity discount of 20% – 30%, dividend payout ratio of 23.44% – 81.51% and discount rate of 11.61% – 14.70%. 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 2023: 5%), the Group's other comprehensive income would have increased/decreased by HK\$110 million (31 December 2023: increased by HK\$64 million and decreased by HK\$63 million, respectively).

4.2 Financial instruments not measured at fair value

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

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

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

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

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

Advances to customers and banks and other financial institutions

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

4.2 Financial instruments not measured at fair value (continued)

Investment in securities at amortised cost

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

Deposits from customers

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

Debt securities and certificates of deposit in issue

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

Subordinated liabilities

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

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

	At 30 June 2024		At 31 December 2023	
	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)	183,227	178,403	208,078	202,952
Financial liabilities				
Debt securities and certificates of deposit in issue (Note 28)	–	–	1,999	2,001

NOTES TO THE INTERIM FINANCIAL INFORMATION

5. Net interest income

	Half-year ended 30 June 2024 HK\$'m	Half-year ended 30 June 2023 HK\$'m
Interest income		
Advances to customers, due from banks and other financial institutions	45,551	39,805
Investment in securities and financial assets at fair value through profit or loss	25,026	17,019
Others	311	425
	70,888	57,249
Interest expense		
Deposits from customers, due to banks and other financial institutions	(41,801)	(31,539)
Debt securities and certificates of deposit in issue	(14)	(65)
Subordinated liabilities	(1,280)	(1,253)
Lease liabilities	(19)	(20)
Others	(1,792)	(1,164)
	(44,906)	(34,041)
Net interest income	25,982	23,208

Included within interest income are HK\$48,442 million (first half of 2023: HK\$43,464 million) and HK\$15,808 million (first half of 2023: HK\$11,805 million) for financial assets measured at amortised cost and at fair value through other comprehensive income respectively.

Included within interest expense are HK\$43,968 million (first half of 2023: HK\$33,539 million) for financial liabilities that are not measured at fair value through profit or loss.

NOTES TO THE INTERIM FINANCIAL INFORMATION

6. Net fee and commission income

	Half-year ended 30 June 2024 HK\$'m	Half-year ended 30 June 2023 HK\$'m
Fee and commission income		
Loan commissions	1,352	1,466
Credit card business	1,229	1,185
Securities brokerage	962	952
Trust and custody services	431	380
Payment services	364	345
Insurance	360	327
Funds distribution	323	254
Currency exchange	267	186
Bills commissions	216	237
Safe deposit box	143	145
Funds management	17	17
Others	913	854
	6,577	6,348
Fee and commission expense		
Credit card business	(909)	(858)
Securities brokerage	(138)	(147)
Others	(530)	(429)
	(1,577)	(1,434)
Net fee and commission income	5,000	4,914
Of which arise from:		
Financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	1,476	1,601
– Fee and commission expense	(4)	(5)
	1,472	1,596
Trust and other fiduciary activities		
– Fee and commission income	529	479
– Fee and commission expense	(27)	(22)
	502	457

NOTES TO THE INTERIM FINANCIAL INFORMATION

7. Net trading gain

	Half-year ended 30 June 2024 HK\$'m	Half-year ended 30 June 2023 HK\$'m
Net gain/(loss) from:		
Foreign exchange and foreign exchange products	4,754	3,773
Interest rate instruments and items under fair value hedge	293	171
Commodities	274	77
Equity instruments	(46)	22
	5,275	4,043

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

	Half-year ended 30 June 2024 HK\$'m	Half-year ended 30 June 2023 HK\$'m
Net gain on other financial instruments mandatorily classified at fair value through profit or loss	594	1,548
Net loss on financial instruments designated at fair value through profit or loss	(1,462)	(37)
	(868)	1,511

9. Net loss on other financial instruments

	Half-year ended 30 June 2024 HK\$'m	Half-year ended 30 June 2023 HK\$'m
Net loss on disposal/redemption of investment in securities at FVOCI	(203)	(791)
Net loss on redemption of investment in securities at amortised cost	(12)	(11)
Others	2	2
	(213)	(800)

NOTES TO THE INTERIM FINANCIAL INFORMATION

10. Other operating income

	Half-year ended 30 June 2024 HK\$'m	Half-year ended 30 June 2023 HK\$'m
Dividend income		
– From investment in securities at FVOCI held at the end of the period	42	37
Gross rental income from investment properties	225	233
Less: Outgoings in respect of investment properties	(33)	(31)
Others	97	47
	331	286

Included in the “Outgoings in respect of investment properties” is HK\$10 million (first half of 2023: HK\$7 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 2024 HK\$'m	Half-year ended 30 June 2023 HK\$'m
Net reversal/(charge) of impairment allowances on:		
Advances and other accounts		
– At FVOCI	22	34
– At amortised cost	(2,089)	(1,259)
	(2,067)	(1,225)
Investment in securities		
– At FVOCI	(21)	(3)
– At amortised cost	(2)	3
	(23)	–
Others	9	56
Net charge of impairment allowances	(2,081)	(1,169)

NOTES TO THE INTERIM FINANCIAL INFORMATION

12. Operating expenses

	Half-year ended 30 June 2024 HK\$'m	Half-year ended 30 June 2023 HK\$'m
Staff costs (including directors' emoluments)		
– Salaries and other costs	5,050	4,789
– Pension cost	301	289
	5,351	5,078
Premises and equipment expenses (excluding depreciation and amortisation)		
– Short-term leases, leases of low-value assets and variable lease payments	44	22
– Others	689	641
	733	663
Depreciation and amortisation	1,436	1,476
Auditor's remuneration		
– Audit services	8	3
– Non-audit services	1	–
Other operating expenses	1,184	1,167
	8,713	8,387
Less: Costs directly attributable to insurance contracts	(592)	(535)
	8,121	7,852

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

	Half-year ended 30 June 2024 HK\$'m	Half-year ended 30 June 2023 HK\$'m
Net loss from fair value adjustments on investment properties	(296)	(166)

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

	Half-year ended 30 June 2024 HK\$'m	Half-year ended 30 June 2023 HK\$'m
Net loss from disposal of equipment, fixtures and fittings	(2)	(4)
Net (loss)/gain from revaluation of premises	(29)	1
	(31)	(3)

NOTES TO THE INTERIM FINANCIAL INFORMATION

15. Taxation

Taxation in the income statement represents:

	Half-year ended 30 June 2024 HK\$'m	Half-year ended 30 June 2023 HK\$'m
Current tax		
Hong Kong profits tax		
– Current period taxation	3,808	3,252
– Over-provision in prior periods	(44)	(42)
	3,764	3,210
Taxation outside Hong Kong		
– Current period taxation	791	382
– Under/(over)-provision in prior periods	1	(10)
	4,556	3,582
Deferred tax		
Origination and reversal of temporary differences and unused tax credits	(303)	(141)
	4,253	3,441

Hong Kong profits tax has been provided at the rate of 16.5% (2023: 16.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2024. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for the first half of 2024 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 2024 HK\$'m	Half-year ended 30 June 2023 HK\$'m
Profit before taxation	24,716	21,523
Calculated at a taxation rate of 16.5% (2023: 16.5%)	4,078	3,551
Effect of different taxation rates in other countries/regions	97	76
Income not subject to taxation	(1,300)	(794)
Expenses not deductible for taxation purposes	994	709
Over-provision in prior periods	(43)	(52)
Withholding tax outside Hong Kong	414	97
Others	13	(146)
Taxation charge	4,253	3,441
Effective tax rate	17.2%	16.0%

NOTES TO THE INTERIM FINANCIAL INFORMATION

15. Taxation (continued)

Organisation for Economic Co-operation and Development's ("OECD") Global Minimum Tax ("Pillar Two") model rules

The Group is within the scope of the OECD's Pillar Two model rules. Pillar Two legislation was enacted in Vietnam and Malaysia, among the jurisdictions in which the Group operates and has become effective in Vietnam since 1 January 2024 and will become effective in Malaysia from 1 January 2025 respectively. Under the Pillar Two legislation enacted in Vietnam and Malaysia, the Group is liable to pay a top-up tax for the difference between the Global Anti-Base Erosion ("GloBE") effective tax rate for Vietnam and Malaysia, and the 15% minimum rate.

For the jurisdiction in which Pillar Two legislation has become effective (i.e. Vietnam), the Group has assessed that there shall not be related additional current tax expense. The Group applies the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to HKAS 12 "Income Taxes" issued in July 2023.

For the jurisdiction in which Pillar Two legislation has been enacted but has not yet become effective (i.e. Malaysia), the Group has assessed that the GloBE effective tax rate for Malaysia should likely exceed the 15% minimum rate. Accordingly, there should not likely be top-up tax expense in Malaysia when the Pillar Two legislation becomes effective.

16. Dividends

	Half-year ended 30 June 2024		Half-year ended 30 June 2023	
	Per share HK\$	Total HK\$'m	Per share HK\$	Total HK\$'m
Interim dividend	0.570	6,026	0.527	5,572

At a meeting held on 29 August 2024, the Board declared an interim dividend of HK\$0.570 per ordinary share for the first half of 2024 amounting to approximately HK\$6,026 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 2024.

The final dividend of HK\$1.145 per ordinary share for the year ended 31 December 2023 amounting to approximately HK\$12,106 million was approved at the Annual General Meeting held on 27 June 2024 and was paid on 15 July 2024.

17. Earnings per share

The calculation of basic earnings per share for the first half of 2024 is based on the consolidated profit for the period attributable to equity holders of the Company of approximately HK\$20,040 million (first half of 2023: HK\$16,998 million) and on the ordinary shares in issue of 10,572,780,266 shares (2023: 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 2024 (first half of 2023: Nil).

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Cash	18,005	19,257
Balances with central banks	181,715	141,310
Placements with central banks maturing within one month	288,494	13,595
Placements with central banks maturing between one and twelve months	7,246	3,052
Placements with central banks maturing over one year	1,458	1,820
	478,913	159,777
Balances with other banks and other financial institutions	109,354	136,944
Placements with other banks and other financial institutions maturing within one month	30,279	37,872
Placements with other banks and other financial institutions maturing between one and twelve months	60,971	52,191
Placements with other banks and other financial institutions maturing over one year	348	611
	200,952	227,618
	697,870	406,652
Less: Impairment allowances		
– Stage 1	(53)	(48)
– Stage 2	–	–
– Stage 3	(32)	(33)
	697,785	406,571

NOTES TO THE INTERIM FINANCIAL INFORMATION

19. Financial assets at fair value through profit or loss

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Securities		
Trading assets		
– Treasury bills	36,629	32,892
– Certificates of deposit	12,112	7,449
– Other debt securities	44,240	26,137
	92,981	66,478
– Equity securities	53	69
– Funds	2	–
	93,036	66,547
Other financial assets mandatorily classified at fair value through profit or loss		
– Certificates of deposit	385	401
– Other debt securities	43,713	48,556
	44,098	48,957
– Equity securities	5,331	4,133
– Funds	18,987	12,589
	68,416	65,679
Financial assets designated at fair value through profit or loss		
– Treasury bills	1,760	375
– Certificates of deposit	25	35
– Other debt securities	28,957	19,255
	30,742	19,665
Total securities	192,194	151,891
Other debt instruments		
Trading assets	3,800	3,800
Financial assets designated at fair value through profit or loss	5,807	217,599
Total other debt instruments	9,607	221,399
	201,801	373,290

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

Total securities are analysed by place of listing as follows:

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Debt securities and certificates of deposit		
– Listed in Hong Kong	19,901	17,709
– Listed outside Hong Kong	48,536	44,657
– Unlisted	99,384	72,734
	167,821	135,100
Equity securities		
– Listed in Hong Kong	2,967	2,819
– Listed outside Hong Kong	2,417	1,383
	5,384	4,202
Funds		
– Listed in Hong Kong	3,579	3,421
– Listed outside Hong Kong	1,805	–
– Unlisted	13,605	9,168
	18,989	12,589
Total securities	192,194	151,891

Total securities are analysed by type of issuer as follows:

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Sovereigns	78,412	59,456
Public sector entities	2,397	1,762
Banks and other financial institutions	74,042	56,235
Corporate entities	37,343	34,438
Total securities	192,194	151,891

NOTES TO THE INTERIM FINANCIAL INFORMATION

20. Derivative financial instruments

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

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

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

20. Derivative financial instruments (continued)

The following tables summarise the contract/notional amounts and fair values of each class of derivative financial instrument as at 30 June 2024 and 31 December 2023:

	At 30 June 2024		
	Contract/ notional amounts HK\$'m	Fair values	
		Assets HK\$'m	Liabilities HK\$'m
Exchange rate contracts			
Spot, forwards and futures	293,813	15,861	(11,352)
Swaps	2,858,407	19,827	(14,628)
Options	133,290	520	(174)
	3,285,510	36,208	(26,154)
Interest rate contracts			
Futures	44,602	12	(9)
Swaps	1,993,439	21,561	(17,348)
Options	1,284	–	–
	2,039,325	21,573	(17,357)
Commodity contracts	39,373	736	(530)
Equity contracts	707	16	(3)
	5,364,915	58,533	(44,044)

	At 31 December 2023		
	Contract/ notional amounts HK\$'m	Fair values	
		Assets HK\$'m	Liabilities HK\$'m
Exchange rate contracts			
Spot, forwards and futures	307,690	15,566	(11,035)
Swaps	2,098,292	16,176	(13,000)
Options	52,950	469	(194)
	2,458,932	32,211	(24,229)
Interest rate contracts			
Futures	24,339	10	(19)
Swaps	1,810,768	21,461	(16,684)
Options	–	–	–
	1,835,107	21,471	(16,703)
Commodity contracts	16,627	497	(594)
Equity contracts	1,196	32	(27)
	4,311,862	54,211	(41,553)

NOTES TO THE INTERIM FINANCIAL INFORMATION

21. Advances and other accounts

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Personal loans and advances	603,803	600,813
Corporate loans and advances	1,097,535	1,101,489
Advances to customers	1,701,338	1,702,302
Less: Impairment allowances		
– Stage 1	(4,762)	(4,110)
– Stage 2	(1,290)	(1,056)
– Stage 3	(10,292)	(9,555)
	1,684,994	1,687,581
Trade bills	2,590	3,751
Less: Impairment allowances		
– Stage 1	–	(1)
– Stage 2	–	–
– Stage 3	–	–
	2,590	3,750
Advances to banks and other financial institutions	1,807	1,815
Less: Impairment allowances		
– Stage 1	(2)	(2)
– Stage 2	–	–
– Stage 3	–	–
	1,805	1,813
	1,689,389	1,693,144

As at 30 June 2024, advances to customers included accrued interest of HK\$5,781 million (31 December 2023: HK\$5,731 million).

As at 30 June 2024, advances and other accounts at fair value through other comprehensive income and mandatorily classified at fair value through profit or loss amounted to HK\$1,445 million (31 December 2023: HK\$4,512 million) and HK\$835 million (31 December 2023: HK\$863 million) respectively.

As at 30 June 2024, impairment allowance of advances and other accounts at fair value through other comprehensive income amounted to HK\$8 million (31 December 2023: HK\$29 million) and was credited to other comprehensive income.

NOTES TO THE INTERIM FINANCIAL INFORMATION

22. Investment in securities

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Investment in securities at fair value through other comprehensive income		
– Treasury bills	270,482	305,168
– Certificates of deposit	35,892	25,910
– Other debt securities	479,531	434,578
	785,905	765,656
– Equity securities	4,762	4,706
	790,667	770,362
Investment in securities at amortised cost		
– Treasury bills	15	12
– Certificates of deposit	516	1,214
– Other debt securities	182,745	206,899
	183,276	208,125
Less: Impairment allowances		
– Stage 1	(49)	(47)
– Stage 2	–	–
– Stage 3	–	–
	183,227	208,078
	973,894	978,440

NOTES TO THE INTERIM FINANCIAL INFORMATION

22. Investment in securities (continued)

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

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Investment in securities at fair value through other comprehensive income		
Debt securities and certificates of deposit		
– Listed in Hong Kong	92,478	88,869
– Listed outside Hong Kong	185,757	174,722
– Unlisted	507,670	502,065
	785,905	765,656
Equity securities		
– Listed in Hong Kong	1,067	1,040
– Unlisted	3,695	3,666
	4,762	4,706
	790,667	770,362
Investment in securities at amortised cost		
Debt securities and certificates of deposit		
– Listed in Hong Kong	16,333	15,827
– Listed outside Hong Kong	116,699	122,043
– Unlisted	50,195	70,208
	183,227	208,078
	973,894	978,440
Market value of listed securities at amortised cost	129,978	134,598

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

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Sovereigns	463,418	490,733
Public sector entities	131,087	109,128
Banks and other financial institutions	296,253	286,490
Corporate entities	83,136	92,089
	973,894	978,440

NOTES TO THE INTERIM FINANCIAL INFORMATION

23. Investment properties

	Half-year ended 30 June 2024 HK\$'m	Year ended 31 December 2023 HK\$'m
At 1 January	14,875	16,069
Additions	42	26
Fair value losses	(296)	(1,270)
Reclassification from properties, plant and equipment (Note 24)	6	50
At period/year end	14,627	14,875

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 2024	39,455	1,051	1,232	41,738
Additions	973	129	204	1,306
Disposals	(6)	(2)	(2)	(10)
Revaluation	(219)	–	–	(219)
Depreciation for the period	(589)	(198)	(281)	(1,068)
Reclassification to investment properties (Note 23)	(6)	–	–	(6)
Exchange difference	(1)	(4)	(8)	(13)
Net book value at 30 June 2024	39,607	976	1,145	41,728
At 30 June 2024				
Cost or valuation	39,607	6,578	2,934	49,119
Accumulated depreciation and impairment	–	(5,602)	(1,789)	(7,391)
Net book value at 30 June 2024	39,607	976	1,145	41,728
The analysis of cost or valuation of the above assets is as follows:				
At 30 June 2024				
At cost	–	6,578	2,934	9,512
At valuation	39,607	–	–	39,607
	39,607	6,578	2,934	49,119

NOTES TO THE INTERIM FINANCIAL INFORMATION

24. Properties, plant and equipment (continued)

	Premises HK\$'m	Equipment, fixtures and fittings HK\$'m	Right-of-use assets* HK\$'m	Total HK\$'m
Net book value at 1 January 2023	41,782	1,155	1,324	44,261
Additions	51	337	481	869
Disposals	(30)	(6)	–	(36)
Revaluation	(1,115)	–	–	(1,115)
Depreciation for the year	(1,181)	(433)	(569)	(2,183)
Reclassification to investment properties (Note 23)	(50)	–	–	(50)
Exchange difference	(2)	(2)	(4)	(8)
Net book value at 31 December 2023	39,455	1,051	1,232	41,738
At 31 December 2023				
Cost or valuation	39,455	6,557	2,814	48,826
Accumulated depreciation and impairment	–	(5,506)	(1,582)	(7,088)
Net book value at 31 December 2023	39,455	1,051	1,232	41,738
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2023				
At cost	–	6,557	2,814	9,371
At valuation	39,455	–	–	39,455
	39,455	6,557	2,814	48,826

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

25. Other assets

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Precious metals	16,492	11,627
Intangible assets	2,404	2,382
Accounts receivable, prepayments and others	49,197	32,881
Insurance contract assets	8	2
Reinsurance contract assets	39,175	43,792
	107,276	90,684

NOTES TO THE INTERIM FINANCIAL INFORMATION

26. Financial liabilities at fair value through profit or loss

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Trading liabilities		
– Short positions in securities	38,877	59,850
Financial liabilities designated at fair value through profit or loss		
– Repurchase agreements	20,963	4,194
– Structured deposits (Note 27)	11,409	2,159
	32,372	6,353
	71,249	66,203

As at 30 June 2024 and 31 December 2023, 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 2024 HK\$'m	At 31 December 2023 HK\$'m
Current, savings and other deposit accounts (per balance sheet)	2,638,288	2,501,682
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 26)	11,409	2,159
	2,649,697	2,503,841
Analysed by:		
Demand deposits and current accounts		
– Corporate	160,704	153,646
– Personal	69,893	62,720
	230,597	216,366
Savings deposits		
– Corporate	510,894	519,868
– Personal	465,296	451,245
	976,190	971,113
Time, call and notice deposits		
– Corporate	763,240	620,576
– Personal	679,670	695,786
	1,442,910	1,316,362
	2,649,697	2,503,841

NOTES TO THE INTERIM FINANCIAL INFORMATION

28. Debt securities and certificates of deposit in issue

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
At amortised cost		
– Senior notes under the Medium Term Note Programme, with fair value hedge adjustment ⁽ⁱ⁾	–	1,999

(i) 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 2024 HK\$'m	At 31 December 2023 HK\$'m
Dividend payable	12,106	–
Other accounts payable and provisions	95,892	82,404
Lease liabilities	1,141	1,206
Impairment allowances on loan commitments and financial guarantee contracts		
– Stage 1	262	319
– Stage 2	53	30
– Stage 3	20	21
Reinsurance contract liabilities	677	714
	110,151	84,694

NOTES TO THE INTERIM FINANCIAL INFORMATION

30. Deferred taxation

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

The major components of deferred tax (assets)/liabilities recorded in the balance sheet, and the movements during the first half of 2024 and the year ended 31 December 2023 are as follows:

	Half-year ended 30 June 2024					
	Accelerated tax depreciation	Property revaluation	Losses	Impairment allowances	Others	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1 January 2024	865	5,911	(918)	(1,019)	(1,577)	3,262
(Credited)/charged to income statement (Note 15)	(12)	(83)	44	(112)	(140)	(303)
Credited to other comprehensive income	–	(34)	–	–	(176)	(210)
Exchange difference and others	–	–	–	11	4	15
At 30 June 2024	853	5,794	(874)	(1,120)	(1,889)	2,764

	Year ended 31 December 2023					
	Accelerated tax depreciation	Property revaluation	Losses	Impairment allowances	Others	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1 January 2023	841	6,278	(831)	(1,128)	(1,976)	3,184
Charged/(credited) to income statement	24	(165)	(87)	109	(217)	(336)
(Credited)/charged to other comprehensive income	–	(202)	–	–	614	412
Exchange difference and others	–	–	–	–	2	2
At 31 December 2023	865	5,911	(918)	(1,019)	(1,577)	3,262

NOTES TO THE INTERIM FINANCIAL INFORMATION

30. Deferred taxation (continued)

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

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Deferred tax assets	(1,644)	(1,480)
Deferred tax liabilities	4,408	4,742
	2,764	3,262

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Deferred tax assets to be recovered after more than twelve months	(1,548)	(1,453)
Deferred tax liabilities to be settled after more than twelve months	5,720	5,977
	4,172	4,524

As at 30 June 2024 and 31 December 2023, the Group has no unrecognised deferred tax assets in respect of tax losses.

31. Insurance contracts

(a) Analysis of remaining coverage and incurred claims for insurance contracts issued

	At 30 June 2024			
	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding loss component	Loss component		
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Insurance contract liabilities	183,622	868	623	185,113
Insurance contract assets	(18)	–	10	(8)
	183,604	868	633	185,105

	At 31 December 2023			
	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding loss component	Loss component		
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Insurance contract liabilities	176,917	625	331	177,873
Insurance contract assets	(5)	–	3	(2)
	176,912	625	334	177,871

NOTES TO THE INTERIM FINANCIAL INFORMATION

31. Insurance contracts (continued)

(b) *Analysis of the measurement components of insurance contracts not measured under the premium allocation approach*

	At 30 June 2024			
	Contractual service margin			Total HK\$'m
	Present value of future cash flows and risk adjustment for non-financial risk HK\$'m	Contracts recognised after transition date HK\$'m	Contracts measured under the fair value approach at transition HK\$'m	
Insurance contract liabilities	171,405	7,017	6,691	185,113
Insurance contract assets	(1)	–	1	–
	171,404	7,017	6,692	185,113

	At 31 December 2023			
	Contractual service margin			Total HK\$'m
	Present value of future cash flows and risk adjustment for non-financial risk HK\$'m	Contracts recognised after transition date HK\$'m	Contracts measured under the fair value approach at transition HK\$'m	
Insurance contract liabilities	166,529	4,470	6,863	177,862
Insurance contract assets	(1)	–	–	(1)
	166,528	4,470	6,863	177,861

NOTES TO THE INTERIM FINANCIAL INFORMATION

32. Subordinated liabilities

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Subordinated loans, at amortised cost		
RMB10 billion ⁽ⁱ⁾	10,872	11,018
USD1 billion ⁽ⁱⁱ⁾	8,077	7,869
USD1 billion ⁽ⁱⁱⁱ⁾	8,050	7,853
RMB17 billion ^(iv)	18,492	18,704
USD1 billion ^(v)	8,031	7,836
RMB20 billion ^(vi)	21,774	22,043
	75,296	75,323

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

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

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

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

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

(vi) Interest rate at 2.67% per annum payable annually, due in 2025 with early repayment option.

33. Share capital

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Issued and fully paid: 10,572,780,266 ordinary shares	52,864	52,864

NOTES TO THE INTERIM FINANCIAL INFORMATION

34. Notes to condensed consolidated cash flow statement

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

	Half-year ended 30 June 2024 HK\$'m	Half-year ended 30 June 2023 HK\$'m
Operating profit	25,134	21,817
Depreciation and amortisation	1,436	1,476
Net charge of impairment allowances	2,081	1,169
Unwind of discount on impairment allowances	(120)	(62)
Advances written off net of recoveries	(306)	(92)
Interest expense on lease liabilities	19	20
Change in subordinated liabilities	(27)	(766)
Change in balances and placements with banks and other financial institutions with original maturity over three months	(5,943)	(2,843)
Change in financial assets at fair value through profit or loss	(32,901)	(3,403)
Change in derivative financial instruments	(1,831)	(7,152)
Change in advances and other accounts	2,132	(69,984)
Change in investment in securities	(60,754)	(87,883)
Change in other assets	(21,152)	(23,033)
Change in deposits and balances from banks and other financial institutions	(51,556)	(25,295)
Change in financial liabilities at fair value through profit or loss	5,046	(7,244)
Change in deposits from customers	136,606	86,183
Change in debt securities and certificates of deposit in issue	(1,999)	(34)
Change in other accounts and provisions	13,489	20,077
Change in insurance and reinsurance contract assets/liabilities	11,673	6,135
Effect of changes in exchange rates	11,831	6,450
Operating cash inflow/(outflow) before taxation	32,858	(84,464)

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

	At 30 June 2024 HK\$'m	At 30 June 2023 HK\$'m
Cash and balances and placements with banks and other financial institutions with original maturity within three months	630,713	355,688
Treasury bills, certificates of deposit and other debt instruments with original maturity within three months		
– financial assets at fair value through profit or loss	24,801	28,456
– investment in securities	47,929	62,264
	703,443	446,408

NOTES TO THE INTERIM FINANCIAL INFORMATION

35. 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 2024 HK\$'m	At 31 December 2023 HK\$'m
Direct credit substitutes	1,185	1,117
Transaction-related contingencies	25,742	28,132
Trade-related contingencies	14,225	16,068
Commitments that are unconditionally cancellable without prior notice	635,865	628,682
Other commitments with an original maturity of		
– up to one year	17,226	16,520
– over one year	159,958	168,212
Others	63	–
	854,264	858,731
Credit risk-weighted amount	72,182	78,102

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.

36. Capital commitments

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

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Authorised and contracted for but not provided for	622	592
Authorised but not contracted for	18	49
	640	641

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

37. 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 2024 HK\$'m	At 31 December 2023 HK\$'m
Properties and equipment		
– Not later than one year	399	385
– One to two years	245	228
– Two to three years	112	73
– Three to four years	10	–
– Four to five years	–	–
	766	686

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.

38. 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.

Comparative amounts have been updated to conform with current period presentation.

NOTES TO THE INTERIM FINANCIAL INFORMATION

38. 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 2024								
Net interest (expense)/income								
– External	(7,177)	7,507	21,222	2,504	1,926	25,982	–	25,982
– Inter-segment	16,090	1,809	(17,835)	(57)	(7)	–	–	–
	8,913	9,316	3,387	2,447	1,919	25,982	–	25,982
Net fee and commission income/(expense)								
– External	3,703	2,144	162	(1,401)	392	5,000	–	5,000
– Inter-segment	(1,374)	6	56	1,396	307	391	(391)	–
	2,329	2,150	218	(5)	699	5,391	(391)	5,000
Insurance service result	–	–	–	615	–	615	56	671
Net trading gain/(loss)	218	813	4,512	(648)	375	5,270	5	5,275
Net (loss)/gain on other financial instruments at fair value through profit or loss	(28)	–	(133)	(709)	1	(869)	1	(868)
Net gain/(loss) on other financial instruments	–	2	(246)	28	3	(213)	–	(213)
Insurance finance expenses	–	–	–	(842)	–	(842)	–	(842)
Other operating income	13	–	7	7	912	939	(608)	331
Net operating income before impairment allowances	11,445	12,281	7,745	893	3,909	36,273	(937)	35,336
Net (charge)/reversal of impairment allowances	(84)	(1,868)	(37)	4	(96)	(2,081)	–	(2,081)
Net operating income	11,361	10,413	7,708	897	3,813	34,192	(937)	33,255
Operating expenses	(4,639)	(1,856)	(790)	(44)	(1,729)	(9,058)	937	(8,121)
Operating profit	6,722	8,557	6,918	853	2,084	25,134	–	25,134
Net loss from disposal of/fair value adjustments on investment properties	–	–	–	–	(296)	(296)	–	(296)
Net loss from disposal/revaluation of properties, plant and equipment	–	–	–	–	(31)	(31)	–	(31)
Share of results after tax of associates and joint ventures	(23)	–	2	(4)	(66)	(91)	–	(91)
Profit before taxation	6,699	8,557	6,920	849	1,691	24,716	–	24,716
At 30 June 2024								
ASSETS								
Segment assets	632,925	1,032,445	1,993,445	193,299	189,602	4,041,716	(44,652)	3,997,064
Interests in associates and joint ventures	90	–	5	305	784	1,184	–	1,184
	633,015	1,032,445	1,993,450	193,604	190,386	4,042,900	(44,652)	3,998,248
LIABILITIES								
Segment liabilities	1,359,428	1,263,119	766,795	189,719	133,905	3,712,966	(44,652)	3,668,314
Half-year ended 30 June 2024								
Other information								
Capital expenditure	31	2	–	75	1,640	1,748	–	1,748
Depreciation and amortisation	529	166	67	41	654	1,457	(21)	1,436

NOTES TO THE INTERIM FINANCIAL INFORMATION

38. 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)								
– External	3,378	2,148	94	(1,110)	404	4,914	–	4,914
– Inter-segment	(1,082)	–	34	1,104	189	245	(245)	–
	2,296	2,148	128	(6)	593	5,159	(245)	4,914
Insurance service result	–	–	–	506	–	506	41	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	–	–	–	(2,871)	–	(2,871)	–	(2,871)
Other operating income	8	–	5	10	869	892	(606)	286
Net operating income before impairment allowances	12,361	12,769	2,514	698	3,301	31,643	(805)	30,838
Net (charge)/reversal of impairment allowances	(73)	(1,138)	(3)	(1)	46	(1,169)	–	(1,169)
Net operating income	12,288	11,631	2,511	697	3,347	30,474	(805)	29,669
Operating expenses	(4,504)	(1,788)	(728)	(31)	(1,606)	(8,657)	805	(7,852)
Operating profit	7,784	9,843	1,783	666	1,741	21,817	–	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	7,770	9,843	1,785	666	1,459	21,523	–	21,523
At 31 December 2023								
ASSETS								
Segment assets	629,699	1,041,554	1,884,129	187,152	189,328	3,931,862	(64,354)	3,867,508
Interests in associates and joint ventures	113	–	3	309	850	1,275	–	1,275
	629,812	1,041,554	1,884,132	187,461	190,178	3,933,137	(64,354)	3,868,783
LIABILITIES								
Segment liabilities	1,366,745	1,120,307	819,223	182,912	120,521	3,609,708	(64,354)	3,545,354
Half-year ended 30 June 2023								
Other information								
Capital expenditure	17	–	–	29	786	832	–	832
Depreciation and amortisation	557	166	64	40	670	1,497	(21)	1,476

NOTES TO THE INTERIM FINANCIAL INFORMATION

39. Assets pledged as security

As at 30 June 2024, the liabilities of the Group amounting to HK\$21,065 million (31 December 2023: HK\$38,253 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK\$71,451 million (31 December 2023: HK\$84,241 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\$92,615 million (31 December 2023: HK\$122,929 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\$3,406 million (31 December 2023: HK\$3,271 million) as initial margin of derivative transactions.

40. 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 and are summarised as below:

	Half-year ended 30 June 2024 HK\$'m	Half-year ended 30 June 2023 HK\$'m
Income statement items		
– Interest income	1,382	1,251
– Interest expenses	2,058	1,785

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Balance sheet items		
– Cash and balances and placements with banks and other financial institutions	112,829	134,248
– Other assets	7,524	3,727
– Investment in securities	14,470	8,009
– Deposits and balances from banks and other financial institutions	47,431	75,445

NOTES TO THE INTERIM FINANCIAL INFORMATION

40. Significant related party transactions (continued)

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

Related party transactions with subsidiaries of BOC are summarised as below:

	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Balance sheet items		
– Cash and balances and placements with banks and other financial institutions	1,117	516
– Advances and other accounts	2,423	2,416
– Deposits and balances from banks and other financial institutions	16,955	19,238

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

Except as disclosed above, other transactions with BOC and with companies controlled by BOC are not considered significant.

(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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

40. Significant related party transactions (continued)

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

The Group enters into banking and other transactions with associates, joint ventures and other related parties which include but are not limited to loans, investment securities and money market transactions. The aggregate income/expenses and balances arising from related party transactions with these entities are summarised as follows:

	Half-year ended 30 June 2024 HK\$'m	Half-year ended 30 June 2023 HK\$'m
Income statement items		
Associates and joint ventures		
– Fee and commission income	7	13
– Other operating expenses	14	34
	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Balance sheet items		
Associates and joint ventures		
– Investment in securities	897	941
– Deposits and balances from banks and other financial institutions	52	406

Except as disclosed above, other transactions with associates, joint ventures and other related parties of the Group are not considered significant.

(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 significant 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 2024 HK\$'m	Half-year ended 30 June 2023 HK\$'m
Salaries and other short-term employee benefits	14	13

NOTES TO THE INTERIM FINANCIAL INFORMATION

41. 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 2024				
	Banks HK\$'m	Official sector HK\$'m	Non-bank private sector		Total HK\$'m
			Non-bank financial institutions HK\$'m	Non-financial private sector HK\$'m	
Chinese mainland	317,559	519,820	11,883	105,935	955,197
Hong Kong	8,767	17,028	53,990	371,633	451,418
United States	30,972	141,097	12,533	26,262	210,864

	At 31 December 2023				
	Banks HK\$'m	Official sector HK\$'m	Non-bank private sector		Total HK\$'m
			Non-bank financial institutions HK\$'m	Non-financial private sector HK\$'m	
Chinese mainland	330,222	391,169	12,064	116,644	850,099
Hong Kong	8,439	16,902	43,698	357,831	426,870
United States	29,635	146,302	14,412	24,334	214,683

NOTES TO THE INTERIM FINANCIAL INFORMATION

42. 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 2024		
	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	344,372	26,511	370,883
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	80,231	5,416	85,647
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	110,399	20,874	131,273
Other entities of central government not reported in item 1 above	4	27,970	3,607	31,577
Other entities of local governments not reported in item 2 above	5	991	117	1,108
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	54,204	7,695	61,899
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	2,446	–	2,446
Total	8	620,613	64,220	684,833
Total assets after provision	9	3,726,373		
On-balance sheet exposures as percentage of total assets	10	16.65%		

NOTES TO THE INTERIM FINANCIAL INFORMATION

42. Non-bank Mainland exposures (continued)

	Items in the HKMA return	At 31 December 2023		
		On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total exposure HK\$'m
Central government, central government-owned entities and their subsidiaries and joint ventures	1	348,102	23,154	371,256
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	84,392	4,981	89,373
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	125,112	20,785	145,897
Other entities of central government not reported in item 1 above	4	27,853	2,460	30,313
Other entities of local governments not reported in item 2 above	5	1,406	162	1,568
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	56,366	10,321	66,687
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	2,917	–	2,917
Total	8	646,148	61,863	708,011
Total assets after provision	9	3,621,071		
On-balance sheet exposures as percentage of total assets	10	17.84%		

43. Compliance with HKAS 34

The unaudited interim financial information for the first half of 2024 complies with HKAS 34 "Interim Financial Reporting" issued by the HKICPA.

44. Statutory accounts

The financial information relating to the year ended 31 December 2023 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 2023 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[#]

Vice Chairman

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^{*}

MA Si Hang Frederick^{*}

[#] Non-executive Directors

^{*} Independent Non-executive Directors

Senior Management

Chief Executive

SUN Yu

Deputy Chief Executive and Chief Financial Officer

LIU Chenggang

Deputy Chief Executive and Chief Risk Officer

XU Haifeng

Deputy Chief Executives

XING Guiwei

WANG Huabin

CHAN Man

LI Tong

Company Secretary

HUANG Xuefei

Registered Office

53rd Floor

Bank of China Tower

1 Garden Road

Hong Kong

Share Registrar

Computershare Hong Kong Investor Services Limited
17M Floor

Hopewell Centre

183 Queen's Road East

Wan Chai, Hong Kong

ADR Depository Bank

Citibank, N.A.

388 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 2388 (HKD Counter)

Hong Kong Limited 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

ADDITIONAL INFORMATION

2. Interim dividend and closure of register of members

The Board has declared an interim dividend of HK\$0.570 per share (2023: HK\$0.527), payable on Friday, 27 September 2024 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 24 September 2024.

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to the interim dividend, from Monday, 16 September 2024 to Tuesday, 24 September 2024 (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, 13 September 2024. Shares of the Company will be traded ex-dividend as from Thursday, 12 September 2024.

3. Interest of substantial shareholders

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 30 June 2024, 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 2024.

ADDITIONAL INFORMATION

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

As at 30 June 2024, 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 C3 of the Listing Rules (the "Model Code") are set out below:

Associated corporation of the Company:

Bank of China Limited (H Shares)

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

Notes:

- Such shares held by Mr SUN Yu represent approximately 0.00001% of the total issued H shares of BOC.
- Such shares are held by the spouse of Dr CHOI Koon Shum.
- Dr CHOI Koon Shum is deemed to be interested in the 1,120,000 shares held through Choi Koon Shum Charitable Foundation Limited by virtue of the SFO.
- Such shares held by Mdm FUNG Yuen Mei Anita represent approximately 0.0007% of the total issued H shares of BOC.
- 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 2024, 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.

ADDITIONAL INFORMATION

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 2023 Annual Report up to 29 August 2024 (being the approval date of this Interim Report) are set out below:

- (a) Mdm FUNG Yuen Mei Anita, Independent Non-executive Director of the Company, retired as Director of M Plus Museum Limited with effect from 1 April 2024.
- (b) Prof MA Si Hang Frederick, Independent Non-executive Director of the Company, ceased to be Independent Non-executive Director of HH&L Acquisition Co. (listed in New York) with effect from 17 April 2024.
- (c) Mr SUN Yu, Vice Chairman and Chief Executive of the Company, has been appointed as Member of Shenzhen-Hong Kong Financial Co-operation Committee with effect from 13 June 2024.
- (d) Mr LEE Sunny Wai Kwong, Independent Non-executive Director of the Company, retired as Vice President (Administration) of City University of Hong Kong with effect from 1 July 2024.
- (e) Mr LIU Jin resigned as Vice Chairman, Non-executive Director and member of each of the Nomination and Remuneration Committee and the Strategy and Budget Committee of the Company and the Bank with effect from 25 August 2024. Mr LIU also resigned as Director of BOC (BVI) and BOCHKG with effect from 25 August 2024.

The biographies of Directors are available under 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 LIP Sai Wo. Other members include Mdm CHENG Eva, Mdm FUNG Yuen Mei Anita, 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.

ADDITIONAL INFORMATION

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 as set out in the Corporate Governance Code contained in Appendix C1 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 2023 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, BOC Aviation Limited (BOC’s subsidiary) and BOC International (China) Co, Ltd (BOC’s associate). 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.

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.

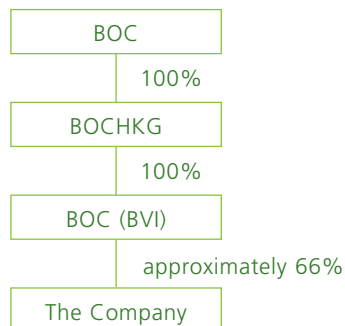
ADDITIONAL INFORMATION

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.

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.

ADDITIONAL INFORMATION

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

The major differences which arise from the difference in measurement basis relate to the following:

(a) Restatement of carrying value of bank premises

The Company has elected for a revaluation model rather than cost model to account for bank premises under HKFRSs. On the contrary, BOC has elected for the cost model for bank premises under IFRSs and CASs. Therefore, adjustments have been made to the carrying value of bank premises as well as to re-calculate the depreciation charge and disposal gain/loss under IFRSs and CASs.

(b) Deferred tax adjustments

These represent the deferred tax effect of the aforesaid adjustments.

Profit after tax/net assets reconciliation

HKFRSs vs IFRSs/CASs

	Profit after tax		Net assets	
	Half-year ended 30 June 2024 HK\$'m	Half-year ended 30 June 2023 HK\$'m	At 30 June 2024 HK\$'m	At 31 December 2023 HK\$'m
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs	20,463	18,082	329,934	323,429
Add: IFRSs/CASs adjustments				
Restatement of carrying value of bank premises	454	430	(26,662)	(27,389)
Deferred tax adjustments	(70)	(66)	4,459	4,577
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRSs/CASs	20,847	18,446	307,731	300,617

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 39 to 114, 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 2024 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, 29 August 2024

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
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 Digital Services (Nanning) Company Limited**	PRC 19 February 2019	Registered capital HK\$60,000,000	100.00%	Financial operational services
BOCHK Information Technology (Shenzhen) Co., Ltd.**	PRC 16 April 1990	Registered capital HK\$70,000,000	100.00%	Property holding
BOCHK Information Technology Services (Shenzhen) Co., Ltd.**	PRC 26 May 1993	Registered capital HK\$40,000,000	100.00%	Information technology services

APPENDIX

Subsidiaries of the Company (continued)

Name	Place and date of incorporation/operation	Issued share capital	Interest held	Principal activities
Po Sang Financial Investment Services Company Limited	Hong Kong 23 September 1980	HK\$335,000,000	100.00%	Gold trading and investment holding
Po Sang Securities 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
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

Subsidiaries of the Company (continued)

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

BOC Financial Services (Nanning) Company Limited has changed company's name to BOC Digital Services (Nanning) Company Limited on 12 January 2024.

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 BOCHK
"BOCG Insurance"	Bank of China Group Insurance Company Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCHKG"	BOC Hong Kong (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCHK" or "the Bank"	Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of the Company
"BOCI"	BOC International Holdings Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCI-Prudential Trustee"	BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong, in which BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOC Life"	BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOCG Insurance hold equity interests of 51% and 49% respectively
"BOC Malaysia"	Bank of China (Malaysia) Berhad, a wholly-owned subsidiary of BOCHK
"BOC Thailand"	Bank of China (Thai) Public Company Limited, a wholly-owned subsidiary of BOCHK
"Board" or "Board of Directors"	the Board of Directors of the Company
"CAS"	Chinese Accounting Standard for Business Enterprises
"CE"	Chief Executive
"CET1"	Common Equity Tier 1

DEFINITIONS

Terms	Meanings
"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
"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
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

DEFINITIONS

Terms	Meanings
"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
"RC"	the Risk Committee
"RMD"	the Risk Management Department
"RWA"	Risk-weighted Assets
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"SME"	Small and Medium-sized Enterprise
"STC"	Standardised (Credit Risk)
"STM"	Standardised (Market Risk)
"STO"	Standardised (Operational Risk)
"Standard & Poor's"	Standard & Poor's Ratings Services
"Stock Exchange" or "Hong Kong Stock Exchange" or "Stock Exchange of Hong Kong"	The Stock Exchange of Hong Kong Limited
"the Company"	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong
"the Group"	the Company and its subsidiaries collectively referred as the Group
"US"	the United States of America
"VaR"	Value at Risk



53/F Bank of China Tower, 1 Garden Road, Hong Kong
Website: www.bochk.com

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