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

2020 INTERIM REPORT

Stock code: 2388

This version of the 2020 Interim Report will be replaced by the printed version available in mid September 2020.

CONTENTS

FINANCIAL HIGHLIGHTS

For the period	30 June 2020 HK$'m	30 June 2019 HK$'m
Net operating income before impairment allowances	**28,743**	29,169
Operating profit	**19,788**	20,848
Profit before taxation	**19,224**	21,552
Profit for the period	**16,161**	18,276
Profit attributable to equity holders of the Company and other equity instrument holders	**15,898**	17,949
Per share	**HK$**	HK$
Basic earnings per share	**1.4385**	1.6319
Dividend per share	**0.447**	0.545
At period/year end	**30 June 2020 HK$'m**	31 December 2019 HK$'m
Total assets	**3,226,726**	3,026,056
Issued and fully paid up share capital	**52,864**	52,864
Capital and reserves attributable to equity holders of the Company	**284,085**	278,783
Financial ratios for the period	**30 June 2020 %**	30 June 2019 %
Return on average total assets[1]	**1.04**	1.25
Return on average shareholders' equity[2]	**10.43**	12.53
Cost to income ratio	**26.40**	25.81
Average value of liquidity coverage ratio[3]		
First quarter	**150.45**	183.00
Second quarter	**131.38**	156.57
Financial ratios at period/year end	**30 June 2020 %**	31 December 2019 %
Loan to deposit ratio[4]	**70.25**	69.47
Quarter-end value of net stable funding ratio[3]		
First quarter	**116.60**	121.36
Second quarter	**117.49**	119.15
Total capital ratio[5]	**23.11**	22.89

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.

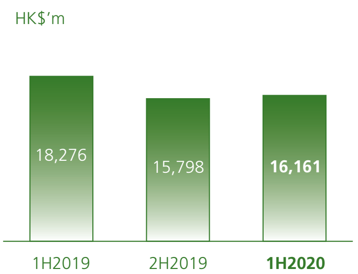
5. Total capital ratio is computed on the consolidated basis for regulatory purposes that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules.

MANAGEMENT DISCUSSION AND ANALYSIS

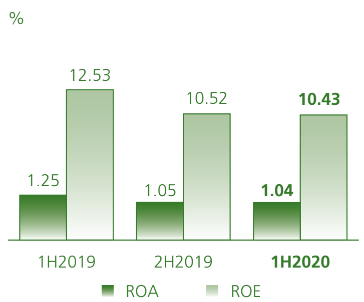
FINANCIAL PERFORMANCE AND CONDITIONS AT A GLANCE

The following table is a summary of the Group's key financial results for the first half of 2020 in comparison with the previous two half-year periods of 2019.

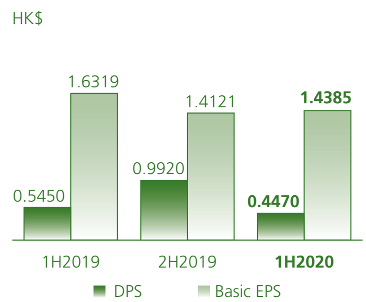
Profit for the period



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



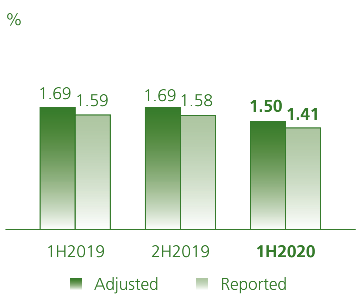
Basic Earnings Per Share ("Basic EPS") and Dividend Per Share ("DPS")



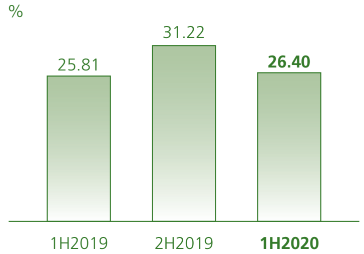
Profit for the period

- In the first half of 2020, profit for the period amounted to HK$16,161 million, representing an increase of 2.3% compared to the second half of 2019 but a year-on-year decrease of 11.6%.
- ROE and ROA was 10.43% and 1.04% respectively.
- Basic EPS was HK$1.4385. The interim dividend per share was HK$0.447.

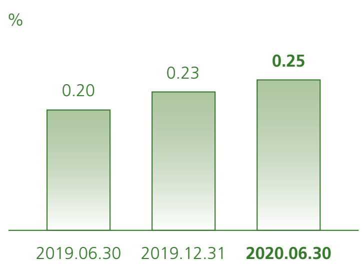
Net Interest Margin ("NIM")



Cost to Income Ratio



Classified or Impaired Loan Ratio[2]



Adjusted net interest margin ("NIM") narrowed amid falling market interest rates

- NIM was 1.41%. If the funding income or cost of foreign currency swap contracts[3] were included, NIM would have been 1.50%, down 19 basis points year-on-year, as a result of falling market interest rates. The Group proactively managed its assets and liabilities amid a low interest rate environment, partially mitigating the aforementioned negative impact.

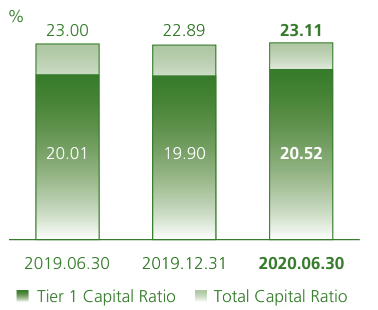
Maintaining high operational efficiency through flexible resource allocation

- The Group's cost to income ratio was 26.40%, up 0.59 percentage points year-on-year, maintaining its cost efficiency at a satisfactory level relative to industry peers.

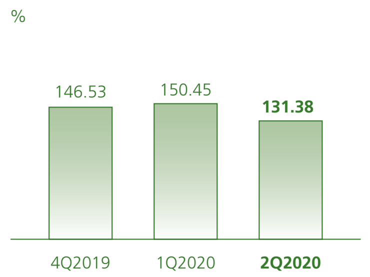
Maintaining benign asset quality through prudent risk management

- The classified or impaired loan ratio was 0.25%, remaining below the market average.

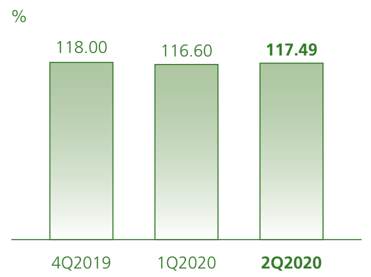
Capital Ratio



Average Value of Liquidity Coverage Ratio



Quarter-end Value of Net Stable Funding Ratio



Strong capital position to support business growth

- Tier 1 capital ratio was 20.52%, up 0.62 percentage points from that at the prior year-end, which was primarily attributable to profits recorded for the first half of 2020 as well as a decrease in regulatory reserve which led to a corresponding increase in retained earnings. Total capital ratio was 23.11%, up 0.22 percentage points from that at the prior year-end, as subordinated liabilities qualifying as Tier 2 capital instruments matured during the period.

Healthy liquidity position

- The average value of liquidity coverage ratio in the first and second quarter of 2020 remained healthy at 150.45% and 131.38% respectively.
- Net stable funding ratio stood at 116.60% at the end of the first quarter 2020 and 117.49% at the end of the second quarter 2020 respectively.

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

MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC BACKGROUND AND OPERATING ENVIRONMENT

The first half of 2020 witnessed the global outbreak of the COVID-19 pandemic. At the same time, Brexit negotiations progressed slowly, and global financial markets became more volatile. The US economy weakened and labour market conditions deteriorated amid the pandemic. In response, the Federal Reserve eased US monetary policy further by cutting the federal funds rate twice in March to a range of 0.00% to 0.25%, relaunching quantitative easing and enhancing credit support to enterprises. The Eurozone economy was also affected by the pandemic, with the European Central Bank announcing an increase in the scale of its asset purchases. In the Mainland, the pandemic was brought under control earlier. Following an economic contraction in the first quarter, the Mainland authorities heartily promoted the full resumption of work and production while increasing monetary and fiscal support, which led to economic improvement in the second quarter. Southeast Asian economies were also affected, with many countries introducing economic stimulus packages and cutting interest rates and reserve requirement ratios in order to cope with the economic fallout.

Many countries around the world imposed travel restrictions in response to the outbreak of COVID-19, which took a toll on Hong Kong's economy. Industries such as tourism, hotels, retail and imports and exports were severely affected, leading to a deep economic recession and a rise in the unemployment rate. Into the second quarter, the HKSAR government introduced relief measures to support enterprises and the labour market, which may help to alleviate the economic impacts of the pandemic.

Movements in the exchange rate of the Hong Kong dollar against the US dollar repeatedly triggered the strong-side Convertibility Undertaking in the first half of the year. The Hong Kong Monetary Authority ("HKMA") accordingly sold Hong Kong dollars, resulting in a rise in the aggregate balance in the banking sector. The average 1-month HIBOR and 1-month LIBOR dropped from 1.89% and 2.22% respectively in 2019 to 1.41% and 0.89% respectively in the first half of 2020.

Global stock market performance generally rebounded as central banks around the world successively eased their monetary policies, but Hong Kong's stock market underperformed. As at the end of June 2020, the Hang Seng Index had dropped 13.3% compared with the end of 2019. However, the average daily trading volume of the Hong Kong stock market in the first half of 2020 increased compared to the same period last year.

In the property market, the total number of transactions for residential properties in the first half of 2020 dropped compared to the same period of 2019. Residential property prices were relatively stable given the widespread easing of monetary policies by central banks around the world and the persistently low interest rate environment for the Hong Kong dollar. The HKSAR government continued to implement demand-side management measures, while the HKMA maintained prudent supervisory measures on mortgage loans, which helped banks to maintain stable asset quality in their mortgage businesses. Meanwhile, economic uncertainty weakened rental demand for commercial properties, leading to a continuous rise in vacancy rates and an overall decline in the property prices of office buildings.

Despite these challenges in the macro environment, the banking industry continues to enjoy enormous development opportunities. *The Opinions on Providing Financial Support for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area*, jointly published by authorities such as the People's Bank of China in May, along with the launch announcement of the "Wealth Management Connect" pilot scheme for the Guangdong-Hong Kong-Macao Greater Bay Area in June, will promote mutual financial market access in the Greater Bay Area and expand market horizon for the Hong Kong banking industry. In addition, the HKMA continues to deepen the implementation of the "New Era of Smart Banking", which will facilitate the development of fintech and create more development opportunities for the banking industry. In addition, the HKMA continues to promote green and sustainable banking in phases, collaborating with the banking industry to promote the development of green finance in Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL REVIEW

Financial Highlights

HK$'m	**Half-year ended 30 June 2020**	Half-year ended 31 December 2019	Half-year ended 30 June 2019
Net operating income before impairment allowances	**28,743**	29,275	29,169
Operating expenses	**(7,589)**	(9,139)	(7,528)
Operating profit before impairment allowances	**21,154**	20,136	21,641
Operating profit after impairment allowances	**19,788**	18,907	20,848
Profit before taxation	**19,224**	18,536	21,552
Profit for the period	**16,161**	15,798	18,276
Profit attributable to equity holders of the Company	**15,209**	14,930	17,254

In the first half of 2020, the Group's profit for the period amounted to HK$16,161 million, a decrease of HK$2,115 million or 11.6% year-on-year. Profit attributable to equity holders was HK$15,209 million, a decrease of HK$2,045 million or 11.9% year-on-year. Net charge of impairment allowances increased year-on-year during the period, resulting from a weakening in the macro economic outlook and a growth in advances to customers. Fair-value adjustments on investment properties recorded a net loss, as compared with a net gain in the same period last year. Net operating income before impairment allowances was HK$28,743 million, down HK$426 million or 1.5% year-on-year. This was mainly due to a narrowing of net interest margin, which more than offset the positive impact from the increase in average interest-earning assets, resulting in a decrease in net interest income. Net fee and commission income fell, mainly due to the impact of the COVID-19 pandemic and economic downturn. This decrease in income was partially offset by a higher net gain from the disposal of certain debt securities investments. Operating expenses rose 0.8% on a year-on-year basis, as a result of the Group's ongoing investment in supporting its long-term business expansion while adopting cautious cost control measures.

As compared with the second half of 2019, the Group's net operating income before impairment allowances decreased by HK$532 million or 1.8%. This was mainly due to a decrease in net interest income and a lower net trading gain for the banking business, which was partially offset by an increase in net fee and commission income and a net gain from the disposal of debt securities investments. Operating expenses dropped, offsetting the impact from the increase in net charge of impairment allowances. Profit for the period increased by HK$363 million or 2.3% compared to the second half of last year.

INCOME STATEMENT ANALYSIS

Net Interest Income and Net Interest Margin

HK$'m, except percentages	**Half-year ended 30 June 2020**	Half-year ended 31 December 2019	Half-year ended 30 June 2019
Interest income	**28,936**	34,179	33,605
Interest expense	**(10,300)**	(13,559)	(13,702)
Net interest income	**18,636**	20,620	19,903
Average interest-earning assets	**2,651,178**	2,580,805	2,521,282
Net interest spread	**1.25%**	1.36%	1.37%
Net interest margin	**1.41%**	1.58%	1.59%
Net interest margin (adjusted)*	**1.50%**	1.69%	1.69%

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

Net interest income amounted to HK$18,636 million in the first half of 2020. If the funding income or cost of foreign currency swap contracts[#] were included, net interest income would have decreased by 6.1% year-on-year. The decrease was mainly due to a narrowing of net interest margin, partially offset by growth in average interest-earning assets.

Average interest-earning assets expanded by HK$129,896 million or 5.2% year-on-year. An increase in deposits from customers led to an increase in advances to customers.

Net interest margin was 1.41%. If the funding income or cost of foreign currency swap contracts were included, net interest margin would have been 1.50%, down 19 basis points year-on-year. This was mainly due to falling market interest rates, intense market competition for deposits and loans, and the relatively shorter loan repricing periods than those of deposits, resulting in a narrowing of the loan and deposit spread. In addition, the average yield of debt securities investments and other debt instruments dropped and the contribution from net free funds decreased. The Group proactively managed its assets and liabilities in response to challenges in the market environment, resulting in solid growth in its loan portfolio, enhanced deposit pricing management and an improved deposit mix with a higher CASA ratio, partially offsetting the aforementioned negative impacts.

[#] 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 2020		Half-year ended 31 December 2019		Half-year ended 30 June 2019	
ASSETS	**Average balance HK$'m**	**Average yield %**	Average balance HK$'m	Average yield %	Average balance HK$'m	Average yield %
Balances and placements with banks and other financial institutions	**305,597**	**1.09**	304,254	1.69	334,982	1.82
Debt securities investments and other debt instruments	**839,362**	**2.04**	860,283	2.31	869,063	2.42
Advances to customers and other accounts	**1,478,356**	**2.52**	1,390,802	3.03	1,298,560	3.09
Other interest-earning assets	**27,863**	**1.09**	25,466	2.42	18,677	2.80
Total interest-earning assets	**2,651,178**	**2.19**	2,580,805	2.63	2,521,282	2.69
Non interest-earning assets	**470,798**	**–**	431,848	–	407,778	–
Total assets	**3,121,976**	**1.86**	3,012,653	2.25	2,929,060	2.31
LIABILITIES	**Average balance HK$'m**	**Average rate %**	Average balance HK$'m	Average rate %	Average balance HK$'m	Average rate %
Deposits and balances from banks and other financial institutions	**197,300**	**0.77**	184,150	1.14	198,894	1.22
Current, savings and time deposits	**1,964,093**	**0.94**	1,891,679	1.24	1,838,239	1.29
Subordinated liabilities	**2,920**	**5.50**	13,027	5.47	13,160	5.51
Other interest-bearing liabilities	**36,464**	**1.40**	37,373	1.69	41,671	1.78
Total interest-bearing liabilities	**2,200,777**	**0.94**	2,126,229	1.27	2,091,964	1.32
Shareholders' funds* and other non interest-bearing deposits and liabilities	**921,199**	**–**	886,424	–	837,096	–
Total liabilities	**3,121,976**	**0.66**	3,012,653	0.89	2,929,060	0.94

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

If the funding income or cost of foreign currency swap contracts were included, the Group's net interest income would have decreased by 9.8% compared to the second half of 2019. Net interest margin fell by 19 basis points, which was mainly due to a narrowing of the loan and deposit spread and a drop in the average yield of debt securities investments and other debt instruments, as well as a decrease in the contribution from net free funds.

Net Fee and Commission Income

HK$'m	**Half-year ended 30 June 2020**	Half-year ended 31 December 2019	Half-year ended 30 June 2019
Securities brokerage	**1,567**	1,020	1,093
Loan commissions	**1,389**	1,052	1,623
Credit card business	**924**	1,340	1,635
Insurance	**713**	951	1,160
Funds distribution	**442**	437	464
Payment services	**358**	377	339
Trust and custody services	**322**	342	309
Bills commissions	**278**	348	352
Currency exchange	**157**	276	323
Safe deposit box	**153**	150	144
Others	**495**	589	678
Fee and commission income	**6,798**	6,882	8,120
Fee and commission expense	**(1,363)**	(2,009)	(2,074)
Net fee and commission income	**5,435**	4,873	6,046

In the first half of 2020, net fee and commission income amounted to HK$5,435 million, down HK$611 million or 10.1% year-on-year. The decrease was mainly due to the impact of the COVID-19 pandemic and economic downturn, which slowed economic activities and adversely affected the tourism, retail, and trade sectors, resulting in a drop in commission income from currency exchange, credit card business and bills of 51.4%, 43.5% and 21.0% respectively. Commission income from insurance and funds distribution decreased by 38.5% and 4.7% respectively amid adverse investor sentiment in the market and changes in market interest rates. Loan commissions also decreased by 14.4%. However, commission income from securities brokerage increased by 43.4% amid increased transaction volumes in the stock market in the first half of 2020. Commission income from payment services was up 5.6% as a result of the Group's efforts to accelerate the development of its cash management business and maintain its leading market position in the cash pooling business. Assets under management ("AUM") relating to the Group's trust and custody business continued to grow, with related income increasing by 4.2%. Fee and commission expenses fell, mainly due to a drop in credit card business related expenses as a result of lower business volume.

Compared with the second half of 2019, net fee and commission income increased by HK$562 million or 11.5%, which was mainly attributable to growth in commission income from securities brokerage and loans. However, commission income from credit card business, insurance, currency exchange, bills, trust and custody services as well as payment services decreased. Fee and commission expenses decreased due to lower insurance and credit card business related expenses.

Net Trading Gain

HK$'m	**Half-year ended 30 June 2020**	Half-year ended 31 December 2019	Half-year ended 30 June 2019
Foreign exchange and foreign exchange products	**2,863**	2,796	2,135
Interest rate instruments and items under fair value hedge	**(787)**	(89)	(489)
Commodities	**250**	240	126
Equity and credit derivative instruments	**4**	24	57
Total net trading gain	**2,330**	2,971	1,829

In the first half of 2020, the Group's net trading gain amounted to HK$2,330 million, an increase of HK$501 million or 27.4% year-on-year. Net trading gain from foreign exchange and foreign exchange products increased by HK$728 million, which was mainly attributable to a mark-to-market gain from foreign exchange products, as compared with a mark-to-market loss in the first half of 2019. Net trading loss from interest rate instruments and items under fair value hedge increased from the same period last year, primarily due to mark-to-market changes to certain debt securities investments and interest rate instruments caused by market interest rate movements. Net trading gain from commodities increased, mainly due to an increased gain from bullion transactions. The decrease in net trading gain from equity and credit derivative instruments was mainly due to a mark-to-market loss from equity instruments. If the funding income or cost of foreign currency swap contracts were excluded, net trading gain would have increased by 84.3% year-on-year.

Compared with the second half of 2019, net trading gain decreased by HK$641 million or 21.6%. This was mainly attributable to mark-to-market changes to certain debt securities investments and interest rate instruments caused by market interest rate movements. If the funding income or cost of foreign currency swap contracts were excluded, net trading gain would have decreased by 28.8% from the second half of 2019.

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

HK$'m	**Half-year ended 30 June 2020**	Half-year ended 31 December 2019	Half-year ended 30 June 2019
Net gain on other financial instruments at fair value through profit or loss	**202**	1,028	2,215

Net gain on other financial instruments at fair value through profit or loss recorded a decrease of HK$2,013 million or 90.9% year-on-year. The change was mainly due to a drop in the mark-to-market gain from BOC Life's debt securities related investments, together with a mark-to-market loss in its equity securities related investments. Compared with the second half of 2019, the change was mainly attributable to a drop in the mark-to-market gain from BOC Life's debt securities related investments, coupled with a mark-to-market loss in BOC Life's equity securities related investments. The mark-to-market changes of the debt securities investments mentioned above were offset by changes to BOC Life's policy reserves, also attributable to market interest rate movements, which were reflected in changes in net insurance benefits and claims as well as movements in liabilities.

Operating Expenses

HK$'m	**Half-year ended 30 June 2020**	Half-year ended 31 December 2019	Half-year ended 30 June 2019
Staff costs	**4,384**	5,100	4,264
Premises and equipment expenses (excluding depreciation)	**550**	890	652
Depreciation	**1,529**	1,479	1,402
Other operating expenses	**1,126**	1,670	1,210
Total operating expenses	**7,589**	9,139	7,528

	At 30 June 2020	At 31 December 2019	At 30 June 2019
Staff headcount measured in full-time equivalents	**14,867**	14,668	13,964

Total operating expenses amounted to HK$7,589 million, an increase of HK$61 million or 0.8% year-on-year, reflecting the Group's ongoing investment in its strategic priorities, including accelerating its transformation into a digital bank and supporting fintech innovation, pushing forward its regional business development and uplifting its overall service competitiveness, while always maintaining proactive cost control. The cost to income ratio was 26.40%, with the Group maintaining cost efficiency at a solid level relative to industry peers.

Staff costs increased by 2.8% year-on-year, mainly due to annual salary increment and increased headcount. The increase was also due to higher staff allowances and welfare expenses.

Premises and equipment expenses decreased by 15.6%. Following the adoption of Hong Kong Financial Reporting Standard 16 ("HKFRS 16"), "Leases", leases for use of premises are accounted for as a right-of-use asset, with related rental expenses recognised as the depreciation of the right-of-use asset. However, some of the short-term leases, leases of low-value assets and variable lease payments continued to be recognised as rental expenses in the first half of 2019. Rental expenses decreased year-on-year subsequent to the expiration of these leases.

Depreciation increased by 9.1%, mainly due to the impact of HKFRS 16, and increased depreciation charges on premises and information technology infrastructure.

Other operating expenses decreased by 6.9%, mainly due to a decrease in advertising and business promotional expenses.

Compared with the second half of 2019, total operating expenses decreased by HK$1,550 million or 17.0%. The decrease was due to lower performance-related remuneration, advertising and business promotional expenses, as well as rental and renovation expenses.

Net Charge of Impairment Allowances on Advances and Other Accounts

HK$'m	**Half-year ended 30 June 2020**	Half-year ended 31 December 2019	Half-year ended 30 June 2019
Stage 1	**(831)**	(425)	(276)
Stage 2	**(72)**	9	12
Stage 3	**(408)**	(719)	(453)
Total net charge of impairment allowances on advances and other accounts	**(1,311)**	(1,135)	(717)

In the first half of 2020, net charge of impairment allowances on advances and other accounts amounted to HK$1,311 million, an increase of HK$594 million or 82.8% year-on-year. Impairment allowances at Stage 1 recorded a net charge of HK$831 million, up HK$555 million year-on-year. The outbreak of COVID-19 shocked the global economy, resulting in a year-on-year drop in GDP and a disruption in business activities which adversely affected profitability and liquidity of corporate clients. The rise in the unemployment rate also affected the credit quality of retail clients. The Group prudently updated the parameter values in the expected credit loss model to take into consideration the increased uncertainty in macroeconomic outlook, as well as loan growth during the period, resulting in an increase in impairment allowances. Impairment allowances at Stage 2 recorded a net charge of HK$72 million, as compared to a net reversal of HK$12 million in the same period last year, mainly reflecting the impact of changes to the internal ratings of certain customers. Impairment allowances at Stage 3 amounted to HK$408 million, a decrease of HK$45 million year-on-year, mainly due to the downgrading of certain corporate advances in the same period last year, resulting in a higher base for comparison. As at 30 June 2020, the Group's total loan impairment allowances as a percentage of advances to customers was 0.54%. Annualised credit cost of advances to customers was 0.18%, up 4 basis points from last year's full-year figure.

Compared with the second half of 2019, net charge of impairment allowances on advances and other accounts increased by HK$176 million, or 15.5%, owing to an increase in impairment allowances resulting from higher loan growth in the first half of this year alongside changes to the parameter values in the expected credit loss model, which was updated prudently to take into consideration the increased uncertainty in macroeconomic outlook arising from the impact of COVID-19.

ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the Group's asset composition. Please refer to Note 22 to the Interim Financial Information for the contract/notional amounts and fair values of the derivative financial instruments. Please refer to Note 38 to the Interim Financial Information for the contractual amounts of each significant class of contingent liability and commitment and the aggregate credit risk-weighted amounts.

Asset Composition

	At 30 June 2020		At 31 December 2019	
HK$'m, except percentages	**Amount**	**% of total**	Amount	% of total
Cash and balances and placements with banks and other financial institutions	**409,658**	**12.7**	366,829	12.1
Hong Kong SAR Government certificates of indebtedness	**175,330**	**5.4**	163,840	5.4
Securities investments and other debt instruments[1]	**887,861**	**27.5**	886,846	29.3
Advances and other accounts	**1,510,363**	**46.8**	1,412,961	46.7
Fixed assets and investment properties	**69,787**	**2.2**	71,712	2.4
Other assets[2]	**173,727**	**5.4**	123,868	4.1
Total assets	**3,226,726**	**100.0**	3,026,056	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 2020, the total assets of the Group amounted to HK$3,226,726 million, an increase of HK$200,670 million or 6.6% from the end of last year. Cash and balances and placements with banks and other financial institutions increased by HK$42,829 million or 11.7%, mainly due to an increase in balances with central banks. Advances and other accounts rose by HK$97,402 million or 6.9%, with advances to customers growing by HK$107,868 million or 7.7% and trade bills decreasing by HK$7,460 million or 36.0%. Other assets increased by HK$49,859 million or 40.3%, as a result of an increase in accounts receivable of clearing items.

Advances to Customers

	At 30 June 2020		At 31 December 2019	
HK$'m, except percentages	**Amount**	**% of total**	Amount	% of total
Loans for use in Hong Kong	**993,146**	**66.0**	924,734	66.3
Industrial, commercial and financial	**565,927**	**37.6**	515,548	37.0
Individuals	**427,219**	**28.4**	409,186	29.3
Trade financing	**82,074**	**5.5**	75,764	5.4
Loans for use outside Hong Kong	**428,531**	**28.5**	395,385	28.3
Total advances to customers	**1,503,751**	**100.0**	1,395,883	100.0

In the first half of 2020, the Group remained committed to meeting the integrated financial service demands of large corporates from Hong Kong and overseas countries. It continued to strengthen its service capabilities to local commercial clients, supported the loan demands of high-quality customers and expedited the digitalisation of its mortgage business processes. At the same time, the Group steadily expanded its business in the Southeast Asian region and enhanced its marketing efforts so as to acquire Belt and Road related target clients and major projects, giving full play to its role as BOC's Asia-Pacific syndicated loan centre. During the period, the Group remained the top mandated arranger in the Hong Kong and Macao syndicated loan market. It also maintained its leading position in the residential mortgage business in Hong Kong. In the first half of 2020, advances to customers grew by HK$107,868 million, or 7.7%, to HK$1,503,751 million.

Loans for use in Hong Kong grew by HK$68,412 million or 7.4%.

- Lending to the industrial, commercial and financial sectors increased by HK$50,379 million or 9.8%, reflecting growth in manufacturing, property investment, transport and transport equipment and IPO financing.

- Lending to individuals increased by HK$18,033 million, or 4.4%. Residential mortgage loans (excluding those under government-sponsored home purchasing schemes) grew by 4.1% while other individual loans increased by 7.7%, mainly driven by an increase in personal loans for investment and property refinancing purposes.

Trade financing increased by HK$6,310 million or 8.3%. Loans for use outside Hong Kong grew by HK$33,146 million or 8.4%, mainly driven by growth in loans for use in the Mainland and Southeast Asia.

Loan Quality

HK$'m, except percentages	**At 30 June 2020**	At 31 December 2019
Advances to customers	**1,503,751**	1,395,883
Classified or impaired loan ratio	**0.25%**	0.23%
Total impairment allowances	**8,056**	7,035
Total impairment allowances as a percentage of advances to customers	**0.54%**	0.50%
Residential mortgage loans[1] – delinquency and rescheduled loan ratio[2]	**0.02%**	0.01%
Card advances – delinquency ratio[2]	**0.34%**	0.27%

	Half-year ended 30 June 2020	Half-year ended 30 June 2019
Card advances – charge-off ratio[3]	**1.88%**	1.35%

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

In view of the complex and challenging external environment experienced during the reporting period, the Group proactively strengthened its risk management system for all types of risks and continuously enhanced its regional risk management so as to maintain benign asset quality. As at 30 June 2020, the classified or impaired loan ratio was 0.25%, up 0.02 percentage points from the end of last year. Classified or impaired loans amounted to HK$3,817 million, an increase of HK$600 million from the end of last year.

The credit quality of the Group's residential mortgage loans remained stable. The combined delinquency and rescheduled loan ratio of residential mortgage loans was 0.02% as at 30 June 2020. The charge-off ratio of card advances for the first half of 2020 was 1.88%, up 0.53 percentage points year-on-year.

Deposits from Customers

HK$'m, except percentages	**At 30 June 2020** Amount	**% of total**	At 31 December 2019 Amount	% of total
Demand deposits and current accounts	**293,328**	**13.7**	207,013	10.3
Savings deposits	**996,215**	**46.5**	900,009	44.8
Time, call and notice deposits	**850,893**	**39.8**	902,251	44.9
Total deposits from customers	**2,140,436**	**100.0**	2,009,273	100.0

In the first half of 2020, the Group stepped up its efforts to expand its mid- to high-end customer base and strengthened cooperation with government authorities, large corporates, major central banks, international financial institutions and sovereign funds through payroll, e-payment and payment collection services. At the same time, it actively leveraged its role as a main receiving bank for IPOs and expanded its cash management and cash pooling businesses, leading to solid growth in current accounts and savings deposits from both personal and corporate clients. As of 30 June 2020, total deposits from customers amounted to HK$2,140,436 million, an increase of HK$131,163 million or 6.5% from the end of last year. Demand deposits and current accounts increased by 41.7%, partly driven by IPO-related funds. Adjusting related impact, demand deposits and current accounts would have increased by 26.4%. Savings deposits increased by 10.7%. Time, call and notice deposits decreased by 5.7%. The CASA ratio was 60.2%.

Capital and Reserves Attributable to Equity Holders of the Company

HK$'m	**At 30 June 2020**	At 31 December 2019
Share capital	**52,864**	52,864
Premises revaluation reserve	**39,025**	39,458
Reserve for fair value changes	**1,462**	69
Reserve for own credit risk	**–**	(33)
Regulatory reserve	**5,667**	11,077
Translation reserve	**(902)**	(581)
Retained earnings	**185,969**	175,929
Reserves	**231,221**	225,919
Capital and reserves attributable to equity holders of the Company	**284,085**	278,783

Capital and reserves attributable to equity holders of the Company amounted to HK$284,085 million as at 30 June 2020, an increase of HK$5,302 million or 1.9% from the end of 2019. The premises revaluation reserve decreased by 1.1%, reflecting a decrease in the valuation of the Group's premises in the first half of 2020. Reserve for fair value changes increased, mainly driven by market interest rate movements. The regulatory reserve decreased by 48.8%, mainly due to the HKMA's relaxation of the regulatory reserve requirement, which also led to a corresponding increase in retained earnings. Retained earnings rose by 5.7% from the end of last year, mainly reflecting the profit achieved in the first half of 2020 after the distribution of final dividends for 2019, and the reversal from regulatory reserve.

Capital Ratio

HK$'m, except percentages	**At 30 June 2020**	At 31 December 2019
Consolidated capital after deductions		
Common Equity Tier 1 capital	**216,560**	195,039
Additional Tier 1 capital	**23,476**	23,476
Tier 1 capital	**240,036**	218,515
Tier 2 capital	**30,222**	32,855
Total capital	**270,258**	251,370
Total risk-weighted assets	**1,169,600**	1,098,018
Common Equity Tier 1 capital ratio	**18.52%**	17.76%
Tier 1 capital ratio	**20.52%**	19.90%
Total capital ratio	**23.11%**	22.89%

As at 30 June 2020, the Group's Common Equity Tier 1 ("CET1") capital and Tier 1 capital increased by 11.0% and 9.8% respectively, which was primarily attributable to profits recorded for the first half of 2020 and the HKMA's relaxation of its regulatory reserve requirement. Total capital increased by 7.5%, as subordinated liabilities qualifying as Tier 2 capital instruments matured during the period, resulting in lower growth in total capital. The Group remains committed to balancing growth in risk-weighted assets ("RWAs") with enhancement in returns. Total RWAs increased by 6.5%, mainly driven by loan growth. The CET1 capital ratio was 18.52% and Tier 1 capital ratio was 20.52%, up 0.76 and 0.62 percentage points respectively from the end of 2019. Total capital ratio was 23.11%, up 0.22 percentage points from the previous year-end. The Group continued to review its capital structure and manage the growth of its RWAs so as to maintain an appropriate capital level to support the sustainable business development while balancing returns to its equity holders.

Liquidity Coverage Ratio and Net Stable Funding Ratio

	2020	2019
Average value of liquidity coverage ratio		
First quarter	**150.45%**	183.00%
Second quarter	**131.38%**	156.57%
Third quarter	**N/A**	142.85%
Fourth quarter	**N/A**	146.53%

	2020	2019
Quarter-end value of net stable funding ratio		
First quarter	**116.60%**	121.36%
Second quarter	**117.49%**	119.15%
Third quarter	**N/A**	116.47%
Fourth quarter	**N/A**	118.00%

The Group's liquidity position remained sound, with the average value of its liquidity coverage ratio and the quarter-end value of its net stable funding ratio exceeding the regulatory requirement for the first two quarters of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Taking into consideration the complex and challenging environment in the first half of 2020, the Group remained committed to its strategy of building a top-class, full-service and internationalised regional bank. It actively responded to changes in the market environment and steadily pushed forward its business priorities. Striving to be customer-centric at all times, it continued to develop the local market in Hong Kong, providing full support to the development of the real economy. The Group took the lead in introducing a number of financial relief initiatives and maintained stringent measures to prevent all risks during the pandemic. It was proactively involved in the construction of the Guangdong-Hong Kong-Macao Greater Bay Area and promoted cross-border synergistic collaboration so as to sharpen its integrated competitive strengths. It also improved its business network layout in Southeast Asia and enhanced regional synergies and service capabilities. The Group expedited its transformation into a digital bank, promoting technological innovation, infrastructure and application. Meanwhile, it deeply cultivated its bank culture to ensure solid, balanced and sustainable development.

Business Segment Performance

Profit before Taxation by Business Segment

	Half-year ended 30 June 2020		Half-year ended 30 June 2019	
HK$'m, except percentages	**Amount**	**% of total**	Amount	% of total
Personal Banking	**4,352**	**22.6**	6,454	30.0
Corporate Banking	**7,158**	**37.2**	8,065	37.4
Treasury	**7,217**	**37.6**	5,074	23.5
Insurance	**392**	**2.0**	551	2.6
Others	**105**	**0.6**	1,408	6.5
Total profit before taxation	**19,224**	**100.0**	21,552	100.0

Note: For additional segmental information, see Note 41 to the Interim Financial Information.

PERSONAL BANKING

Financial Results

Personal Banking achieved a profit before tax of HK$4,352 million in the first half of 2020, a decrease of HK$2,102 million or 32.6% year-on-year, mainly due to a decrease in net interest income and net fee and commission income, resulting in a drop in net operating income, and an increase in net charge of impairment allowances.

Net interest income decreased by 16.5%, mainly due to a narrowing of the deposit spread as a result of falling market interest rates and intense market competition. Net fee and commission income decreased by 7.8%, owing to a drop in commission income from insurance and credit card businesses. However, commission income from securities brokerage rose amid increased transaction volumes in the stock market, which partially offset these negative impacts. Net charge of impairment allowances amounted to HK$630 million, up HK$542 million year-on-year, owing to an increase in impairment allowances linked to heightened uncertainty in the macroeconomic outlook.

Business Operations

Providing full support to pandemic relief and addressing people's livelihood banking needs

The Group took the lead in launching a number of financial support and relief initiatives, including a principal repayment moratorium for mortgage loans, grace periods for insurance premium payment, as well as additional insurance protection, with the aim of offering multi-faceted support to individual customers affected by the pandemic and helping customers to navigate through difficult times. The Group collaborated extensively with the HKSAR government's Cash Payout Scheme, using its mobile and internet banking channels as well as its 169 branches to assist the general public in registering for the scheme to receive the HK$10,000 payment. In addition, the Group was the only bank to offer cheque encashment services for the scheme, helping individuals to register for and collect the payment conveniently. To meet the general public's full range of financial needs, the Group provided maximal branch services during the pandemic and extended the service hours of account opening and certain transactions conducted through its e-channels. It also enriched the service scope of its e-channels, including launching a remote application service for its Qualifying Deferred Annuity Policy and Voluntary Health Insurance Scheme products, and broadening the range of insurance and investment products available online.

Giving full play to its online and offline competitive advantages to optimise customer services

In response to customer needs, the Group adjusted its service channel strategy by setting up eZone in its full branch network (excluding the Banking Services Centre and Safe Deposit Box Service Centre), providing customers with an innovative experience and tailored online and offline services. At the same time, it provided valuable services to mid- to high-end customers with a focus on offering professional, exclusive and privileged services, products and experiences. The Group further expanded its customer base, with the number of mid- to high-end customers as at the end of June 2020 maintaining double-digit percentage growth from the end of last year. By continuously enriching and integrating data resources and strengthening its big data AI infrastructure, the Group offered bespoke products and services according to customers' preferences and behaviours. It remained committed to developing the local customer segment in order to strengthen its core product advantages, resulting in steady growth of customer deposits, maintaining its top market position in total number of new residential mortgage loans, and recording notable year-on-year growth in the online transaction volumes of key investment products. During the period, in recognition of its performance in the personal banking industry, BOCHK was awarded Excellent Brand of Mortgage Services – Banking and Excellent Brand of Securities Services – Banking in the Hong Kong Leaders' Choice Brand Awards 2020 by Metro Finance, Bancassurer of the Year – Outstanding in the Financial Institution Awards 2020 by *Bloomberg Businessweek* and The Best Big Data or AI Initiative in the International Excellence in Retail Financial Services Awards 2020 by *The Asian Banker*.

The Group's private banking business maintained steady growth. By enhancing its collaboration with business units within the Group, it was able to strengthen its value chain for serving high-net-worth clients. In line with the development of green finance and environmental, social and governance standards, the Group enriched its exclusive private banking products and provided professional private banking services to high-net-worth clients and family offices. In addition, it continued to promote digital development, optimise its customised private banking systems, enrich its exclusive product range, strengthen its talent pool and team-building so as to enhance its private banking services. During the period, the number of customers continued to grow. As at 30 June 2020, private banking's AUM had increased 4.6% from the end of last year.

Promoting scenario-based application of products to accelerate customer migration to online transactions

The Group closely monitored changes in the market environment during the pandemic and accelerated its development into a digital bank. To meet rapid growth in customer demand for online transactions, the Group adopted a mobile first strategy by enhancing the personal account opening service and investment functions of its mobile banking, expediting the development of its digital mortgage business processes and providing e-channel service offerings so as to enhance its product functionality and competitiveness. In the first half of 2020, the total number of transactions conducted via mobile banking increased by over 60% year-on-year and the monthly average number of online mortgage applications was almost double that of last year's full-year figure. The Group utilised open Application Programme Interface ("API") technology to expand cross-platform cooperation and launched a developers' portal, opening up access to more than 90 open APIs. In line with the HKMA's Phase II of Open API, it strengthened cooperation with third party service providers, including online real estate agency platforms, external economic and financial applications, product comparison websites and comprehensive service platforms, so as to expand its cross-platform functions, including property purchase planning, securities and foreign exchange trading services and online loan application, and enrich its product scenario-based applications.

Promoting integrated development and collaboration in the Greater Bay Area and enhancing cross-border customer experience

The Group actively responded to the financial policies for the Guangdong-Hong Kong-Macao Greater Bay Area by focusing on the financial service needs of residents in Guangdong, Hong Kong and Macao, including account opening, transportation and property purchase. In the first half of 2020, it continued to enhance its Mainland personal account opening attestation service by supporting a digital account opening application process, as well as introducing a new standard instruction of remittance function in mobile banking, thus continuously enhancing Hong Kong residents' cross-border service experience. The Group enriched BoC Pay's application scenarios in the Greater Bay Area with the launch of a cross-border remittance function for mainland customers living in Hong Kong that facilitates their payments across the Greater Bay Area. To support Hong Kong customers' demand for purchasing properties in the Greater Bay Area, the Group launched the Greater Bay Area Personal Loan mortgage service, which optimises the full process of property viewing, contract signing, payment and mortgage services.

Enriching regional products and services and strengthening the foundation for business future growth

The Group continued to strengthen regional collaboration and optimise regional cross-border services. It expanded its cross-border attestation service to allow BOCHK customers to open personal accounts with BOC Malaysia and customers of the Ho Chi Minh City Branch and Brunei Branch to open personal accounts with BOCHK. The Group enriched its regional wealth management services, with BOC Malaysia offering a number of new funds and bonds. It accelerated digital development in Southeast Asia and achieved steady progress in its regional mobile payment project, with BOC Malaysia participating in and continuously enhancing an instant fund transfer service through local payment system DuitNow. The Jakarta Branch's debit cards were equipped with instant inter-bank transfer functionality via local automated teller machines within the country. The Manila Branch launched online foreign currency exchange services conducted via e-channels. In order to address personal customer needs for studying, employment, travel and property purchase in Southeast Asia, the Group launched the Personal Financial Services in Southeast Asia page on the BOCHK website. The Group also managed its regional products in a systematic and orderly manner, enhancing its internal management efficiency and risk control capabilities, and conducted the phrased roll out of its integrated account opening platform and loan approval system.

CORPORATE BANKING

Financial Results

Corporate Banking achieved a profit before tax of HK$7,158 million, a decrease of HK$907 million or 11.2% year-on-year, mainly due to a decrease in net interest income and net fee and commission income, which resulted in a drop in net operating income. This was partially offset by a decrease in net charge of impairment allowances.

Net interest income decreased by 9.9%, mainly due to a narrowing of both the deposit spread and loan spread as a result of intense market competition, although this was partially offset by growth in the average balance of deposits and loans. Net fee and commission income decreased by 12.8%, owing to a drop in loan and bills commissions. Net charge of impairment allowances amounted to HK$561 million, down HK$114 million year-on-year.

Business Operations

Actively responding to market changes and steadily advancing corporate banking business development

The Group continued to adhere to its customer-centric philosophy and pushed forward the deepening of its business transformation with the aim of meeting customers' needs, reinforcing integrated services and improving customer experience. In order to address the impact of the COVID-19 pandemic, it actively responded to market changes, devoted efforts to expanding its business and continuously improved its regional and comprehensive service capabilities. During the reporting period, the Group strengthened its support to a number of key projects in Hong Kong and Southeast Asia. It remained the top mandated arranger in the Hong Kong and Macao syndicated loan market and successfully underwrote a number of bond issues with significant market influence. The Group also actively promoted the advancement of green finance so as to ensure sustainable development. Meanwhile, it maintained its market leadership as an IPO main receiving bank in terms of the number of main board listing assignments. In addition, it deepened its business relationships with the world's major central banks, international financial institutions and sovereign funds. It also further pushed forward digital transformation and scenario-based applications by strengthening cooperation with clients in e-payment and payment collection projects, so as to provide more convenient payment channels for customers in a number of aspects including clothing, food, accommodation, necessities and transportation.

Proactively fulfilling social responsibilities and navigating difficult times with its SME customers

The Group continuously improved its support to local commercial customers by enabling integrated digitalised and online financial services, undertaken with the aim of further enhancing service quality. The Group also actively supported its SME customers in view of the pandemic. It took the lead in introducing five financial support initiatives amid the pandemic, including a special loan scheme for SMEs to relieve the pandemic impact featuring an express approval process, as well as a principal moratorium for mortgage loans. It also collaborated with HKMC Insurance Limited to launch the Special 100% Loan Guarantee under the SME Financing Guarantee Scheme, in order to help SMEs affected by the pandemic obtain timely financing for their operations. At the same time, the Group offered full support to the Pre-approved Principal Payment Holiday Scheme, launched by the HKMA, together with the Banking Sector SME Lending Coordination Mechanism, which provided eligible corporate customers with deferred payment arrangements so as to alleviate cash flow pressures.

Strengthening key customer acquisition in Southeast Asia and the Greater Bay Area and giving full play to synergistic advantages

The Group stepped up efforts to solidify its regional business foundation and collaborated with its Southeast Asian entities to maintain growth momentum on the basis of appropriate risk control. In order to enhance the regional synergies of its Southeast Asian entities, the Group reinforced its integrated marketing efforts with a focus on core customers and key projects. It also bolstered regional collaboration by actively targeting and acquiring major "Belt and Road" clients and projects, including those related to roads and bridges, communication facilities, petroleum and energy, giving full play to its integrated operations in the Southeast Asian region. At the same time, the Group capitalised on its position as BOC's Asia-Pacific syndicated loan centre by assisting sizable businesses within the Southeast Asian region in arranging syndicated loans, thus deepening business relationships with local mainstream customers. Through regional collaborations, the Group was also able to oversee and facilitate the design, marketing and implementation of sophisticated projects, such as cash management projects, in an integrated and professional manner. In addition, in order to further develop its business in the Guangdong-Hong Kong-Macao Greater Bay Area, the Group continuously deepened its collaboration with BOC's entities in the Greater Bay Area regarding cross-border transactions, with a view to exploring the financial demands of key industries and target customers, as well as strengthening support for the development of science and technology enterprises, so as to contribute to financial interconnectivity within the Greater Bay Area.

Enhancing product and service competitiveness and striving to improve customer experience

The Group continuously refined its integrated service capabilities in Hong Kong, the Greater Bay Area and Southeast Asia by enhancing its product and service standards for corporate customers and further accelerating the development of its key businesses, including cash management, trade financing and treasury centre, thus securing its market-leading position in cash pooling business. In a bid to encourage diversification in financial product development and fintech innovation, the Group continuously enriched its digitalised products and services and optimised the functionalities of its online service platforms, so as to enhance customer experience. Its excellent and highly professional services were widely recognised by the market. One of its project co-organised with a mobile network provider, which supports the centralised management of global funds, was awarded Asia's Best Treasury & Finance Strategies in the CT Awards by *CorporateTreasurer*.

Continuously developing custody and trustee businesses

The Group's custody business effectively responded to market challenges and captured opportunities from the Chinese government's respective mutual market access policies, Chinese enterprises "Going Global" and the development of the Greater Bay Area. As a result, total assets under custody from corporate and institutional clients reached new heights in June 2020 and total number of Bond Connect clients also continued to rank among the global top tier. The Group was appointed by Bond Connect Company Limited to become a launch member of its first think tank. Meanwhile, it further deepened its cooperation with Chinese investment enterprises and reinforced its business relationships with banks in the Chinese mainland in terms of overseas custody business. It also proactively enhanced its corporate trust and agency service capabilities and received positive market feedback as a result. As at the end of June 2020, the Group's total assets under custody exceeded HK$1,226.1 billion.

In the first half of 2020, the MPF business of BOCI-Prudential Trustee Limited ("BOCI-Prudential Trustee") maintained steady growth and retained its top 5 position in the MPF market. During the first half of 2020, BOCI-Prudential Trustee remained dedicated to exploring new business opportunities alongside its MPF business. It was appointed as trustee to a number of employee share award schemes. In addition, BOCI-Prudential Trustee established a presence across major social media platforms so as to augment its influence through mobile channels and improve customer experience.

TREASURY

Financial Results

Treasury recorded a profit before tax of HK$7,217 million, an increase of HK$2,143 million or 42.2% year-on-year. The growth was driven by an increase in net interest income and net gain on other financial assets, which more than offset the decrease in net fee and commission income and net trading gain.

Net interest income increased by 15.4%, which was mainly attributable to a drop in funding costs. Net trading gain decreased, primarily due to mark-to-market changes to certain debt securities investments and interest rate instruments caused by market interest rate movements, which was partially offset by the mark-to-market changes on foreign exchange products and a higher net gain on financial assets from the disposal of certain debt securities.

Business Operations

Continuously enhancing treasury service capabilities and steadily promoting regional business development

The Group continued to deepen its market research and closely monitored market changes. It actively captured market opportunities and continuously enhanced customer service capabilities in order to achieve solid growth in client business. Leveraging its expertise and competitive edge in distribution channels, it pushed forward business model innovations that drove satisfactory performance in its precious metal trading business. The Group continued to improve its trading infrastructure so as to respond to the impact of the COVID-19 pandemic, enhancing its online service capacity and business scale. It also optimised its regulatory compliance and internal control and achieved solid development in all businesses. During the reporting period, BOCHK received the 2019 Outstanding International Business Award and the Prominent Contribution Award (International Board) from the Shanghai Gold Exchange, in recognition of its excellent performance during the pandemic.

By continuously enhancing its trading, sales, product development and risk control capabilities in regional financial markets, and formulating guidance on business development with reference to the local market conditions and customer demand of its Southeast Asian entities, the Group was able to further improve its integrated regional and professional capabilities in customer service and product development. During the period, the Jakarta Branch and Manila Branch completed significant direct exchange for clients between USD and IDR, and USD and RMB, respectively. BOC Thailand and BOC Malaysia achieved breakthroughs in cross-currency swap and interest rate swap business. The Phnom Penh Branch became the first overseas bank to be appointed by the People's Bank of China as a quoting bank for RMB to Cambodian Riel ("KHR") in the regional market, joined the China Foreign Exchange Trade System and successfully processed the first overseas RMB to KHR direct exchange for its clients.

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

In order to support prevention and control measures against the COVID-19 pandemic in the Mainland, BOCHK, as the RMB clearing bank in Hong Kong, activated a special green channel of the Cross-border Interbank Payment System in the Mainland during the 2020 Chinese New Year holidays. Through this channel, it was able to provide cross-border RMB clearing services for donations and payments for the procurement of infectious prevention resources carried out between the Mainland and offshore markets, facilitating the timely arrival of funds. In addition, BOCHK officially joined SWIFT's global payments innovation platform in April 2020 in the capacity of the RMB clearing bank in Hong Kong, further enhancing the transparency and customer experience of its cross-border RMB remittance service. In the first half of 2020, BOC Malaysia was successfully reappointed as the RMB clearing bank and settlement bank in Malaysia, and was awarded 2019 Excellent Member and Media Star by the local chamber of commerce.

Capturing market opportunities and adhering to a proactive but risk-aware investment strategy

In response to market volatility, the Group continued to take a cautious approach to managing its banking book investments by closely tracking market changes. It planned ahead and actively sought investment opportunities to enhance returns while remaining alert to risk. During the first half of the year, the Group strengthened its process management and refined management so as to achieve balanced growth, and optimised its mix of assets and liabilities in order to respond to changes in market interest rates.

Continuous expansion in AUM and market recognition for investment performance

Despite the COVID-19 pandemic and market fluctuations, BOCHK Asset Management Limited ("BOCHK AM") continued to steadily expand its business, actively captured investment opportunities and optimised asset allocation for its clients, thus achieving continuous expansion in its AUM. As at the end of June 2020, its AUM had increased over 15% compared to the end of last year. BOCHK AM developed new funds during the period, with the official launch of the BOCHK All Weather Asian High Yield Bond Fund taking place in June. At the same time, it continued to expand its customer base and distribution channels while deepening business relationships with existing customers. In recognition of its investment performance, BOCHK AM was awarded Best Offshore RMB Bond Performance (3 years) and Best RMB Manager in Hong Kong in the 2020 Best of the Best Awards by *Asia Asset Management*. Meanwhile, the BOCHK All Weather Asian Bond Fund was awarded Best Fund over 3 Years – Bond Asia Pacific LC in the Lipper Fund Awards Hong Kong 2020 by *REFINITIV*.

INSURANCE

Financial Results

In the first half of 2020, the insurance industry faced severe challenges brought about by the COVID-19 pandemic and falling market interest rates. The standard new premium of the Group's insurance segment during the period was HK$5,442 million, down 25.4% year-on-year. Net interest income and reinsurance income increased, but investment income was adversely affected by market volatility. Profit before tax was HK$392 million, down 28.9% year-on-year. The value of new business was HK$659 million, an increase of 8.8% year-on-year, as a result of the Group's proactive improvements to its business structure.

Business Operations

Expanding the range of diversified products and distribution channels to improve customer experience

BOC Life Qualifying Deferred Annuity products have been well received by customers since their launch last year and remained the market leader. BOC Life continued to implement its strategy of diversifying distribution channels, expanding market coverage and strengthening its position as an expert in the area of retirement wealth management. During the period, BOC Life collaborated with Bupa (Asia) Limited to offer customers a high-end Voluntary Health Insurance Scheme plan. In response to the pandemic, BOC Life actively introduced a number of relief measures to provide customers with flexibility, including remote application for Qualifying Deferred Annuity products via telephone, an extension of the grace period for premium payment and the offering of additional COVID-19 coverage for designated customers. At the same time, BOC Life stepped up efforts to develop its online insurance service by launching a number of products available on mobile banking, including short-term savings, whole life protection, critical illness, deferred annuity and hospital cash plans, so as to provide customers with a more convenient digital insurance application experience. In the reporting period, the proportion of life insurance standard new premium from online services rose to 11.0%, up 2.0% year-on-year.

Maintaining market leadership in life insurance and winning recognition for high-quality service

BOC Life maintained its leading position in Hong Kong's life insurance business and remained the market leader in RMB insurance business. In recognition of its service quality and professional image, BOC Life received a number of local and regional awards, including the Annuity Plan – Outstanding and Online Platform – Outstanding awards in *Bloomberg Businessweek's* Financial Institution Awards 2020, the GBA Insurance Award 2020 (HK Region): Outstanding Customer Services Award from Metro Finance, the Sing Tao Excellent Services Brand Awards 2019: Qualifying Deferred Annuity Policy Award by *Sing Tao Daily*, the Fintech Awards 2019: Outstanding Life Insurance e-Application Platform by *etnet* and the 2019 BENCHMARK Wealth Management Award: Client Support – Best-in-Class by *BENCHMARK*.

REGIONAL BUSINESS

The Group remained committed to its strategy of building a top-class, full-service and internationalised regional bank and cautiously responded to the impacts of the COVID-19 pandemic and economic downturn. It continued to pursue integrated regional development and adopt effective measures to enhance support to its Southeast Asian entities, with the aim of them becoming mainstream foreign banks in their local markets. In the first half of 2020, the pandemic spread across Southeast Asia, resulting in an economic downturn for countries in the region. Despite the numerous challenges and risks faced by the Southeast Asian entities in this new situation, there are still opportunities ahead for the regional business. The signing of the Regional Comprehensive Economic Partnership is expected to lead to a proliferation of trading activities in the region. The enactment of the Free Trade Agreement signed between Hong Kong and the ASEAN will foster closer cooperation and enhance joint efforts in the construction of the Belt and Road Initiative. In addition, Southeast Asian countries continued to push forward digital transformation, which will bring new development potential to the region, while household consumption and infrastructure investment in the Southeast Asian region will generate remarkable growth potential.

Enhancing regional business network layout and deepening integrated regional development

The Group continued to enhance its regional business network layout. On 9 April 2020, the Group was granted approval by the Central Bank of Myanmar to set up its Yangon Branch in Myanmar. As a result, its Southeast Asian business will cover nine countries in the region, signifying a milestone in the Group's regional development. On 1 March 2020, the Jakarta Branch received approval from the Indonesian regulatory authority to upgrade its status to Commercial Bank Based on Business Activities 3, which significantly improved the Group's market position and brand influence in the country and laid a solid foundation for the Jakarta Branch to become a mainstream foreign bank in Indonesia. The Group also actively developed and implemented its management model and continuously optimised its institutional management in the region, which effectively improved the capacities and standards of its Southeast Asian entities in respect of customer sales, product innovation, technological operations, operational management and staff management.

Net operating income before impairment allowances of the Group's Southeast Asian entities* in the first half of 2020 amounted to HK$1,304 million, a drop of 6.1% year-on-year. As at the end of June 2020, deposits from customers and advances to customers amounted to HK$60,380 million and HK$53,398 million, up 6.7% and 6.0% respectively from the end of last year. The non-performing loan ratio was 1.94%, up 0.43 percentage points from the end of 2019.

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

Adhering to stringent risk management so as to comprehensively enhance regional risk control capabilities

The Group steadily pushed forward the construction of its regional risk management by strengthening its Southeast Asian entities' credit risk management capacities and enhancing their market risk, interest rate risk and liquidity risk management capabilities, so as to actively respond to the impacts of the COVID-19 pandemic in the Southeast Asian region. The Group continued to enhance its Southeast Asian entities' legal compliance and operational risk management capabilities, while steadily strengthening their management control on outsourcing services. In addition, the Group reinforced its Southeast Asian entities' anti-money laundering work in order to continuously enhance related management standards. Moreover, the Group closely monitored significant emergency events in Southeast Asia, responding with agility to uplift its entities' capabilities, while coordinating their business continuity planning so as to ensure adherence to stringent risk management.

MANAGEMENT DISCUSSION AND ANALYSIS

DIGITAL TRANSFORMATION DEVELOPMENT

The Group is engaged in deepening its application of innovative fintech, accelerating its digital transformation progress, promoting business process digitalisation, and improving operational efficiency. Its digital transformation is driven by top-level design, in line with the established Digital Transformation Blueprint of BOCHK and the new IT 3-Year Plan. By focusing on the five key digital capabilities of innovation, agility, digitisation, mobility, and regionalisation, it aims to establish three catalysing platforms, namely an intelligent platform, a digital platform and an open platform, to provide a stable, reliable and unified cornerstone for cloud technology and security governance. At the same time, the Group is actively acquiring and cultivating innovative fintech talents, as well as developing innovation mechanisms, organisational structures and corporate cultures to support its digital transformation. Based on technology-driven business reform, it provides brand-new digital solutions in customer services, financial products, service flows, operational management and risk control, with the aim of gradually becoming a digital bank characterised by business ecologies, process digitalisation, intelligent operations, agile project management, and cloud computing.

Building business ecologies

The Group actively deepened scenario-based applications and accelerated their integration into customer ecosystems. Through cross-sector cooperation, it facilitated fintech development and opened up access to more than 90 open APIs. In February 2020, the Group joined hands with a major real estate agency to launch an online real-time property valuation service via API, which was used over 1 million times up to the end of June. In addition, it cooperated with two stock quoting platforms to offer cross-platform mobile banking stock trading services for Hong Kong stocks, US stocks and A shares. To meet the needs for clothing, food, accommodation and transportation, the Group continued to provide the most comprehensive fund collection solutions through BoC Bill, including the usage of traditional bank cards, QR code and Octopus card services, covering industries (including SMEs) relating to people's livelihood. BoC Bill, together with BoC Pay, was able to support scenarios involving livelihood-related payments, allowing merchants and individual customers to enjoy cashless and contactless electronic payment services. The total number of customers of BoC Pay increased by 44.2% from the end of last year, while related transaction volumes also recorded a satisfactory growth compared to the same period last year. The Group continued to optimise BoC Pay by launching a cross-border small amount transfer function to support instant money transfer, further enriching the payment scenarios in the Greater Bay Area.

Digitalising processes

To meet rapid growth in customer demand for online transactions, the Group adopted a mobile first strategy by expanding the personal account opening service of its mobile banking to non-BOCHK customers, which significantly shortened transaction times for basic banking services. Its property valuation process was optimised through the application of blockchain technology, which covered almost 95% of the Group's total property valuations as at the end of June 2020, an increase of 13 percentage points from the end of last year. The Group continually optimised the business processes of its digitalised services. It constantly upgraded its intelligent Global Transaction Banking Platform (iGTB) with functional enhancements, increased its marketing efforts, and extended its services to the Southeast Asian region, so as to enhance its regional online service capabilities. The Group also stepped up its efforts to link eTradeConnect, an innovative trade finance platform in Hong Kong, with the trade finance platform of the People's Bank of China, with the aim of enhancing digitalisation capabilities in trade finance and promoting cross-border information exchange efficiency. Robotic process automation ("RPA") was further extended in the handling of middle and back office operational procedures, which effectively automated operational procedures, reduced processing time and enhanced staff productivity.

Moving towards intelligent operations

The Group introduced ID card verification technology and continuously enhanced facial recognition and optical character recognition ("OCR") technology in order to improve the efficiency and accuracy of mobile account opening, providing a solid infrastructure platform for services in Hong Kong and Southeast Asia. The Group continued to enhance its core banking services, with the introduction of an electronic account opening application service for SMEs, in order to improve account opening efficiency and customer experience. The Group utilised data analysis in its mortgage business and adopted an automatic approval process for qualifying personal residential mortgage loan applications, in order to improve approval efficiency. The Group accelerated the construction of intelligent customer services through chatbot and online chat services to facilitate the transition of customer services from manual to online. Supporting the construction of a bank-wide intelligent anti-fraud platform, it enhanced the capabilities in fraud case detection and remedy in order to fully strengthen the anti-fraud risk management. In response to the pandemic, a mobile office solution was introduced to support staff working from home.

Adopting agile project management

Dedicated to deepening the adoption of agile working model and culture, the Group implemented an agile approach to project development and constantly refined its business workflow in a customer-centric approach. It also established an innovative agile mechanism and system, with the aim of ensuring that digital transformation is undertaken in an orderly and effective manner. With the aim of facilitating digitalisation and agile transformation, the Group drew up the plans for agile team formation and development that will further uplift the effective organisation and operation of inter-departmental agile project teams. To enhance talent acquisition for technological innovation, the Group expanded its recruitment channels to attract talented professionals with expertise in big data, artificial intelligence, fintech, digital marketing and quantitative trading. It also continued to cultivate fintech talents and established the Digital and Innovation Academy. In line with its digital transformation, the Group's 2020 corporate culture development plan will focus on "encouraging innovative thinking and building an agile culture that is responsive, collaborative and efficient".

Moving towards cloud computing

Having introduced mainstream cloud technology to the banking industry, the Group utilised virtual technology to establish a cloud computing platform. It gradually established a cloud service model in the area of software development, so as to improve the flexibility and scalability of its systems, and gradually deployed customer-oriented application systems on its cloud computing platform in order to improve service efficiency and reduce operating costs.

Launching a virtual bank

Livi Bank Limited ("Livi"), a joint venture company owned by BOC Hong Kong (Holdings) Limited, Jingdong Digits Technology Holding Co., Ltd. and Jardine Matheson Group, commenced business on 12 August 2020 owing to the strong support from its three shareholders. Livi will focus on the retail banking business at launch to provide a simple digital banking product that is secure and designed to address the everyday needs of the Hong Kong customers. It will continue to expand its product and service offering, cooperate with renowned business partners to build its ecosystems and introduce new product features so as to provide convenient, inclusive and smart banking services with a focus on retail living ecosphere in Hong Kong.

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

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

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

The Chief Executive ("CE") is responsible for managing the Group's various types of risks, and approving material risk exposures or transactions within his authority delegated by the Board of Directors. The Deputy Chief Executives ("DCEs") assist the CE in fulfilling his responsibilities on the day-to-day management of various types of risk, and are responsible for approving material risk exposures or transactions within their authorities delegated by the CE. The Deputy Chief Executive in charge of legal, compliance, operational risk and anti-money laundering together with the Chief Risk Officer ("CRO") assist CE in fulfilling his responsibilities on day-to-day management of various types of risks and internal control. The CRO is 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. The CRO is also responsible for reviewing material risk exposures or transactions within his delegated authority. In accordance with the principle of setting the hierarchy of risk management policies approved by the Board, senior management is also responsible for approving the detailed risk management policies of their responsible areas.

Various units of the Group have their respective risk management responsibilities. Business units act as the first line of defence while risk management units, which are independent from the business units, are responsible for the day-to-day management of different kinds of risks. Risk management units have the primary responsibility for drafting, reviewing and updating various risk management policies and procedures.

The Group's principal banking subsidiaries are subject to risk management policies that are consistent with those of the Group. Moreover, the Group's non-banking subsidiaries, such as BOC Life, are subject to the Group's risk management requirements. These subsidiaries are required to formulate their respective risk management policies based on the characteristics of their own industries, perform daily risk management responsibilities and report to BOCHK on a regular basis. Risk management units of BOCHK monitor the risk management status of these subsidiaries.

Credit risk management

Credit risk is the risk of loss that a customer or counterparty is unable to or unwilling to meet its contractual obligations. Credit risk exists in the trading book and banking book, as well as from on- and off-balance sheet transactions of the Group. It arises principally from lending, trade finance and treasury businesses. The Chief Credit Officer, who reports directly to the CRO, takes charge of credit risk management and is also responsible for the control of credit risk exposures of subsidiaries in line with the credit risk management principles and requirements set by the Group.

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

The Group also uses loan grades, obligor ratings and loss estimates (if applicable) to support credit monitoring, reporting and analysis of credit risk information. For non-retail exposures, more frequent rating review and closer monitoring are required for higher-risk customers. For retail exposures, monthly updated internal ratings and loss estimates are used for credit monitoring on a portfolio basis. More comprehensive review is required for obligors being identified under high-risk pools. The Group adopts loan grading criteria which divide credit assets into five categories with reference to the HKMA's guidelines. The Risk Management Department ("RMD") provides regular credit management information reports and ad hoc reports to the Management Committee ("MC"), RMC and Board of Directors to facilitate their continuous monitoring of credit risk. In addition, the Group identifies credit concentration risk by industry, geography, customer and counterparty. The Group monitors changes to counterparty credit risk, quality of the credit portfolio and credit risk concentrations, and reports regularly to the Group's Management.

The Group employs an internal master rating scale that can be mapped to Standard & Poor's external credit ratings. The structure of internal master rating scale is in compliance with the requirement of the Banking (Capital) Rules under the Hong Kong Banking Ordinance.

For investments in debt securities and securitisation assets, the obligor ratings or external credit ratings, assessment of the underlying assets and credit limits setting on customer/security issuer basis are used for managing credit risk associated with the investment. For derivatives, the Group sets customer limits to manage the credit risk involved and follows the same approval and control processes as applied for advances. On-going monitoring and stop-loss procedures are established.

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

Stage 1: if the financial instrument is not credit-impaired upon origination and the credit risk on the financial instrument has not increased significantly since initial recognition, the loss allowance is measured at an amount up to 12-month ECL;

Stage 2: if the financial instrument is not credit-impaired upon origination but the credit risk on the financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to the lifetime ECL;

Stage 3: if the financial instrument is credit-impaired, with one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred, the loss allowance is also measured at an amount equal to the lifetime ECL.

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

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

ECL is measured at an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The Group adopts three economic scenarios in the ECL measurement to meet the requirements of HKFRS 9. The "Baseline" scenario represents a most likely outcome and the other two scenarios, referred to as "Good" scenario and "Bad" scenario, represent less likely outcomes which are more optimistic or more pessimistic compared to Baseline scenario.

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

Market risk management

Market risk refers to the risk of loss arising from movements in the value of foreign exchange, interest rate, equity and commodity positions held by the Group due to the volatility of financial market price (foreign exchange rate, interest rate, equity price, commodity price). The Group adopts a moderate market risk appetite to achieve a balance between risk and return. The Group's objective in managing market risk is to secure healthy growth of the treasury business, by the effective management of potential market risk in the Group's business, according to the Group's overall risk appetite and strategy of the treasury business on the basis of a well-established risk management regime and related management measures.

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

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

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

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

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

Interest rate risk management

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

- Gap risk: mismatches in the maturity or repricing periods of assets and liabilities that may affect net interest income and economic value;
- Basis risk: different pricing basis for different transactions resulting that the yield on assets and cost of liabilities may change by different amounts within the same repricing period; and
- Option risk: exercise of the options embedded in assets, liabilities or off-balance sheet items that can cause a change in the cash flows of assets and liabilities.

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

The Group sets out interest rate risk indicators and limits to identify, measure, monitor and control interest rate risk on a daily basis. The 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 ("EV"), etc. The indicators and limits are classified into different levels, which are approved by the CFO, CRO, ALCO and RMC accordingly. Risk-taking business units are required to conduct their business within the boundary of the interest rate risk limits. Before launching a new product or business in the banking book, the relevant departments are required to go through a risk assessment process, which includes the assessment of underlying interest rate risk and consideration of the adequacy of current risk monitoring mechanism. Any material impact on interest rate risk noted during the risk assessment process will be submitted to the RMC for approval.

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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 or stressed scenarios; and to survive with net positive cumulative cash flow in extreme scenarios.

In accordance with the Group's corporate governance principles in respect of risk management, the Board and the RMC, senior management and functional departments/units perform their duties and responsibilities to manage the Group's liquidity risk. The RMC is the decision-making authority of liquidity risk management, and assumes the ultimate responsibility of liquidity risk management. As authorised by the RMC, ALCO exercises its oversight of liquidity risk and ensures the daily operations of the Group are in accordance with the risk appetite and policies as set by the RMC. The RMD is responsible for the Group's liquidity risk management. It cooperates with the Financial Management Department and Investment Management, etc. to assist the ALCO to perform liquidity management functions according to their specific responsibilities.

The Group's liquidity risk management objective is to effectively manage the liquidity of on- and off-balance sheet items with a reasonable cost based on the liquidity risk appetite to achieve sound operation and sustainable profitability. Deposits from customers are the Group's primary source of funds. To ensure stable and sufficient sources of funds are in place, the Group actively attracts new deposits, keeps the core deposit and obtains supplementary funding from the interbank market and by issuing bills in the capital market. According to different term maturities and the results of funding needs estimated from stressed scenarios, the Group adjusts its asset structure (including loans, bonds investment, interbank placement, etc.) to maintain sufficient liquid assets which provides adequate funds in support of normal business needs and ensure its ability to raise funds at a reasonable cost to serve external claims in case of emergency. The Group is committed to diversify the sources, tenors and use of funding to avoid excessive concentration of assets and liabilities; and prevent triggering liquidity risk due to the break of funding strand resulting from over-concentration of sources and use of funding in a particular area where problems occur. In order to manage such risk, the Group sets concentration limits on collateral pools and sources of funding such as Tier 1 high-quality readily liquefiable assets to total high-quality readily liquefiable assets ratio, top ten depositors ratio and large depositors ratio. Whenever necessary, the Group could improve the liquidity position by taking mitigation actions including, but not limited to obtaining funding through interbank borrowings or repos in the money market, selling bonds in the secondary market or retaining existing and attracting new customer deposits. Apart from increasing the funding, the Group would maintain good communication with the counterparties, the parent bank and the regulators to enhance mutual confidence.

The Group has established intra-group liquidity risk management guidelines to manage the liquidity funding among different entities within the Group, and to restrict their reliance of funding on each other. The Group also pays attention to manage liquidity risk created by off-balance sheet activities, such as loan commitments, derivatives, options and other complex structured products. The Group has an overall liquidity risk management strategy to cover the liquidity management of foreign currency assets and liabilities, collateral, intra-day liquidity, intra-group liquidity, the liquidity risk arising from other risks, etc., and has formulated corresponding contingency plan.

The Group established liquidity risk management indicators and limits to identify, measure, monitor and control liquidity risk on a daily basis. These indicators and limits include, but are not limited to liquidity coverage ratio ("LCR"), net stable funding ratio ("NSFR"), loan-to-deposit ratio, Maximum Cumulative Cash Outflow ("MCO") and liquidity cushion. The Group applies a cash flow analysis to assess the Group's liquidity condition under normal conditions and also performs a liquidity stress test (including institution specific, general market crisis and combined crisis) and other methods at least on a monthly basis to assess the Group's capability to withstand various severe liquidity crises. Also, relevant management information systems such as the Assets and Liabilities Management System and the Basel Liquidity Ratio Management System are developed to provide data and to prepare for regular management reports to facilitate liquidity risk management duties.

In accordance with the requirements of Supervisory Policy Manual LM-2 "Sound Systems and controls for Liquidity Risk Management" issued by the HKMA, the Group has implemented a behaviour model and assumptions of cash flow analysis and stress test to enhance the Group's cash flow analysis under both normal and stressed conditions. In cash flow analysis under normal circumstances, assumptions have been made relating to on-balance sheet items (such as deposits from customers) and off-balance sheet items (such as loan commitments). According to various characteristics of the assets, liabilities and off-balance sheet items, the Group forecasts the future cash flow based on the contractual maturity date and the assumptions of customer behaviour and balance sheet changes. The Group establishes the MCO indicator which predicts the future 30 days maximum cumulative net cash outflow in normal situations based on the above assumptions, to assess if the Group has sufficient financing capacity to meet the cash flow gap in order to achieve the objective of continuing operations.

In the liquidity stress test, institution specific, general market crisis and combined crisis scenarios have been set up, a combined crisis scenario is a combination of institution specific and general market crisis to assess the Group's capability to withstand a more severe liquidity crisis, with a more stringent set of assumptions being adopted. Stress test assumptions include the run-off rate of retail, wholesale and interbank deposits; the drawdown rate of loan commitments and trade-related contingent liabilities; the delinquency ratio and rollover rate of customer loans; and haircut of interbank placement and marketable securities. As at 30 June 2020, 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 2020.

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

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

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

Operational risk management

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

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

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

Reputation risk management

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

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

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

Legal and compliance risk management

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

Strategic risk management

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

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

Capital management

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

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

Stress testing

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

BOC Life

BOC Life's principal business underwrites long-term insurance business in life and annuity (Class A), linked long term business (Class C), permanent health (Class D), retirement scheme management category I (Class G) and retirement scheme management category III (Class I) 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 price risk and currency 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.

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. 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.

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

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

Interest rate risk management

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

Liquidity risk management

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

Credit risk management

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

- Default risk associated with bonds, notes and counterparties
- Credit spread widening as a result of credit migration (downgrade)
- Reinsurers' share of insurance unpaid 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 and issuer. Such limits are subject to review by the Management at least once a year.

Equity price risk management

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

Currency risk management

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

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	**(Unaudited) Half-year ended 30 June 2020 HK$'m**	(Unaudited) Half-year ended 30 June 2019 HK$'m
Interest income		**28,936**	33,605
Interest expense		**(10,300)**	(13,702)
Net interest income	5	**18,636**	19,903
Fee and commission income		**6,798**	8,120
Fee and commission expense		**(1,363)**	(2,074)
Net fee and commission income	6	**5,435**	6,046
Gross earned premiums		**14,449**	14,724
Gross earned premiums ceded to reinsurers		**(6,533)**	(5,328)
Net insurance premium income		**7,916**	9,396
Net trading gain	7	**2,330**	1,829
Net gain on other financial instruments at fair value through profit or loss	8	**202**	2,215
Net gain on other financial assets	9	**2,571**	716
Other operating income	10	**464**	501
Total operating income		**37,554**	40,606
Gross insurance benefits and claims and movement in liabilities		**(16,723)**	(17,705)
Reinsurers' share of benefits and claims and movement in liabilities		**7,912**	6,268
Net insurance benefits and claims and movement in liabilities	11	**(8,811)**	(11,437)
Net operating income before impairment allowances		**28,743**	29,169
Net charge of impairment allowances	12	**(1,366)**	(793)
Net operating income		**27,377**	28,376
Operating expenses	13	**(7,589)**	(7,528)
Operating profit		**19,788**	20,848
Net (loss)/gain from disposal of/fair value adjustments on investment properties	14	**(507)**	657
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	15	**(3)**	1
Share of profits less losses after tax of associates and joint ventures		**(54)**	46
Profit before taxation		**19,224**	21,552
Taxation	16	**(3,063)**	(3,276)
Profit for the period		**16,161**	18,276
Profit attributable to:			
Equity holders of the Company and other equity instrument holders		**15,898**	17,949
Equity holders of the Company		**15,209**	17,254
Other equity instrument holders		**689**	695
Non-controlling interests		**263**	327
		16,161	18,276
Dividends	17	**4,726**	5,762
		HK$	HK$
Earnings per share			
Basic and diluted	18	**1.4385**	1.6319

The notes on pages 44 to 113 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	(Unaudited) Half-year ended 30 June 2020 HK$'m	(Unaudited) Half-year ended 30 June 2019 HK$'m
Profit for the period		**16,161**	18,276
Items that will not be reclassified subsequently to income statement:			
Premises:			
Revaluation of premises		**(545)**	1,069
Deferred tax		**112**	(136)
		(433)	933
Equity instruments at fair value through other comprehensive income:			
Change in fair value		**(281)**	(183)
Deferred tax		**49**	3
		(232)	(180)
Own credit risk:			
Change in fair value of own credit risk of financial liabilities designated at fair value through profit or loss		**1**	(48)
Deferred tax		**–**	7
		1	(41)
		(664)	712
Items that may be reclassified subsequently to income statement:			
Debt instruments at fair value through other comprehensive income:			
Change in fair value		**4,429**	5,037
Change in impairment allowances charged to income statement	12	**75**	46
Release upon disposal/redemption reclassified to income statement	9	**(2,513)**	(736)
Amortisation of accumulated amount of fair value hedge adjustment reclassified to income statement		**2**	7
Deferred tax		**(316)**	(710)
		1,677	3,644
Currency translation difference		**(370)**	161
		1,307	3,805
Other comprehensive income for the period, net of tax		**643**	4,517
Total comprehensive income for the period		**16,804**	22,793
Total comprehensive income attributable to:			
Equity holders of the Company and other equity instrument holders		**16,479**	21,980
Equity holders of the Company		**15,790**	21,285
Other equity instrument holders		**689**	695
Non-controlling interests		**325**	813
		16,804	22,793

The notes on pages 44 to 113 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	(Unaudited) At 30 June 2020 HK$'m	(Audited) At 31 December 2019 HK$'m
ASSETS			
Cash and balances and placements with banks and other financial institutions	20	**409,658**	366,829
Financial assets at fair value through profit or loss	21	**57,975**	85,193
Derivative financial instruments	22	**44,265**	31,027
Hong Kong SAR Government certificates of indebtedness		**175,330**	163,840
Advances and other accounts	23	**1,510,363**	1,412,961
Investment in securities	24	**829,886**	801,653
Interests in associates and joint ventures		**1,578**	1,632
Investment properties	25	**19,579**	20,110
Properties, plant and equipment	26	**50,208**	51,602
Current tax assets		**76**	116
Deferred tax assets	32	**64**	63
Other assets	27	**127,744**	91,030
Total assets		**3,226,726**	3,026,056
LIABILITIES			
Hong Kong SAR currency notes in circulation		**175,330**	163,840
Deposits and balances from banks and other financial institutions		**270,484**	267,889
Financial liabilities at fair value through profit or loss	28	**10,858**	19,206
Derivative financial instruments	22	**53,075**	32,921
Deposits from customers	29	**2,140,436**	2,009,273
Debt securities and certificates of deposit in issue	30	**–**	116
Other accounts and provisions	31	**125,066**	80,624
Current tax liabilities		**6,289**	7,992
Deferred tax liabilities	32	**6,446**	6,480
Insurance contract liabilities	33	**125,738**	117,269
Subordinated liabilities	34	**–**	12,954
Total liabilities		**2,913,722**	2,718,564
EQUITY			
Share capital	35	**52,864**	52,864
Reserves		**231,221**	225,919
Capital and reserves attributable to equity holders of the Company		**284,085**	278,783
Other equity instruments	36	**23,476**	23,476
Non-controlling interests		**5,443**	5,233
Total equity		**313,004**	307,492
Total liabilities and equity		**3,226,726**	3,026,056

The notes on pages 44 to 113 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)											
	Attributable to equity holders of the Company											
		Reserves										
	Share capital HK$'m	Premises revaluation reserve HK$'m	Reserve for fair value changes HK$'m	Reserve for own credit risk HK$'m	Regulatory reserve* HK$'m	Translation reserve HK$'m	Merger reserve** HK$'m	Retained earnings HK$'m	Total HK$'m	Other equity instruments HK$'m	Non-controlling interests HK$'m	Total equity HK$'m
At 1 January 2019	52,864	38,527	(4,116)	5	10,496	(832)	350	160,242	257,536	23,476	4,361	285,373
Profit for the period	–	–	–	–	–	–	–	17,949	17,949	–	327	18,276
Upon declaration of dividend to other equity instrument holders	–	–	–	–	–	–	–	(695)	(695)	695	–	–
	–	–	–	–	–	–	–	17,254	17,254	695	327	18,276
Other comprehensive income:												
Premises	–	933	–	–	–	–	–	–	933	–	–	933
Equity instruments at fair value through other comprehensive income	–	–	(177)	–	–	–	–	–	(177)	–	(3)	(180)
Own credit risk	–	–	–	(41)	–	–	–	–	(41)	–	–	(41)
Debt instruments at fair value through other comprehensive income	–	–	3,155	–	–	–	–	–	3,155	–	489	3,644
Currency translation difference	–	–	10	–	–	151	–	–	161	–	–	161
Total comprehensive income	–	933	2,988	(41)	–	151	–	17,254	21,285	695	813	22,793
Release upon disposal of equity instruments at fair value through other comprehensive income:												
Transfer	–	–	8	–	–	–	–	(8)	–	–	–	–
Deferred tax	–	–	(1)	–	–	–	–	–	(1)	–	(1)	(2)
Current tax	–	–	–	–	–	–	–	1	1	–	1	2
Acquisition of entity under common control	–	–	–	–	–	–	(728)	–	(728)	–	–	(728)
Transfer from retained earnings	–	–	–	–	381	–	378	(759)	–	–	–	–
Dividends	–	–	–	–	–	–	–	(9,759)	(9,759)	(695)	(117)	(10,571)
At 30 June 2019	52,864	39,460	(1,121)	(36)	10,877	(681)	–	166,971	268,334	23,476	5,057	296,867
Profit for the period	–	–	–	–	–	–	–	15,625	15,625	–	173	15,798
Upon declaration of dividend to other equity instrument holders	–	–	–	–	–	–	–	(695)	(695)	695	–	–
	–	–	–	–	–	–	–	14,930	14,930	695	173	15,798
Other comprehensive income:												
Premises	–	(2)	–	–	–	–	–	–	(2)	–	–	(2)
Equity instruments at fair value through other comprehensive income	–	–	6	–	–	–	–	–	6	–	(4)	2
Own credit risk	–	–	–	3	–	–	–	–	3	–	–	3
Debt instruments at fair value through other comprehensive income	–	–	1,173	–	–	–	–	–	1,173	–	93	1,266
Currency translation difference	–	–	1	–	–	100	–	–	101	–	–	101
Total comprehensive income	–	(2)	1,180	3	–	100	–	14,930	16,211	695	262	17,168
Release upon disposal of equity instruments at fair value through other comprehensive income:												
Transfer	–	–	13	–	–	–	–	(13)	–	–	–	–
Deferred tax	–	–	(3)	–	–	–	–	–	(3)	–	(2)	(5)
Current tax	–	–	–	–	–	–	–	3	3	–	2	5
Transfer from retained earnings	–	–	–	–	200	–	–	(200)	–	–	–	–
Dividends	–	–	–	–	–	–	–	(5,762)	(5,762)	(695)	(86)	(6,543)
At 31 December 2019	52,864	39,458	69	(33)	11,077	(581)	–	175,929	278,783	23,476	5,233	307,492

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)											
	Attributable to equity holders of the Company											
		Reserves										
	Share capital HK$'m	Premises revaluation reserve HK$'m	Reserve for fair value changes HK$'m	Reserve for own credit risk HK$'m	Regulatory reserve* HK$'m	Translation reserve HK$'m	Merger reserve** HK$'m	Retained earnings HK$'m	Total HK$'m	Other equity instruments HK$'m	Non-controlling interests HK$'m	Total equity HK$'m
At 1 January 2020	52,864	39,458	69	(33)	11,077	(581)	–	175,929	278,783	23,476	5,233	307,492
Profit for the period	–	–	–	–	–	–	–	15,898	15,898	–	263	16,161
Upon declaration of dividend to other equity instrument holders	–	–	–	–	–	–	–	(689)	(689)	689	–	–
	–	–	–	–	–	–	–	15,209	15,209	689	263	16,161
Other comprehensive income:												
Premises	–	(433)	–	–	–	–	–	–	(433)	–	–	(433)
Equity instruments at fair value through other comprehensive income	–	–	(123)	–	–	–	–	–	(123)	–	(109)	(232)
Own credit risk	–	–	–	1	–	–	–	–	1	–	–	1
Debt instruments at fair value through other comprehensive income	–	–	1,506	–	–	–	–	–	1,506	–	171	1,677
Currency translation difference	–	–	(49)	–	–	(321)	–	–	(370)	–	–	(370)
Total comprehensive income	–	(433)	1,334	1	–	(321)	–	15,209	15,790	689	325	16,804
Release upon disposal of equity instruments at fair value through other comprehensive income:												
Transfer	–	–	70	–	–	–	–	(70)	–	–	–	–
Deferred tax	–	–	(11)	–	–	–	–	–	(11)	–	(11)	(22)
Current tax	–	–	–	–	–	–	–	11	11	–	11	22
Release upon redemption of financial liabilities designated at fair value through profit or loss:												
Transfer	–	–	–	38	–	–	–	(38)	–	–	–	–
Deferred tax	–	–	–	(6)	–	–	–	–	(6)	–	–	(6)
Current tax	–	–	–	–	–	–	–	6	6	–	–	6
Transfer to retained earnings	–	–	–	–	(5,410)	–	–	5,410	–	–	–	–
Dividends	–	–	–	–	–	–	–	(10,488)	(10,488)	(689)	(115)	(11,292)
At 30 June 2020	52,864	39,025	1,462	–	5,667	(902)	–	185,969	284,085	23,476	5,443	313,004

* 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.

** Merger reserve was arising on the application of merger accounting method in relation to the combination with entity under common control.

The notes on pages 44 to 113 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Notes	**(Unaudited) Half-year ended 30 June 2020 HK$'m**	(Unaudited) Half-year ended 30 June 2019 HK$'m
Cash flows from operating activities			
Operating cash inflow/(outflow) before taxation	37(a)	**77,452**	(274,181)
Hong Kong profits tax paid		**(4,640)**	(94)
Overseas profits tax paid		**(277)**	(369)
Net cash inflow/(outflow) from operating activities		**72,535**	(274,644)
Cash flows from investing activities			
Additions of properties, plant and equipment		**(439)**	(552)
Proceeds from disposal of properties, plant and equipment		**8**	1
Additions of investment properties		**(4)**	(24)
Additions of associates and joint ventures		**–**	(1,100)
Dividend received from associates and joint ventures		**–**	2
Acquisition of entity under common control		**–**	(728)
Net cash outflow from investing activities		**(435)**	(2,401)
Cash flows from financing activities			
Dividend paid to equity holders of the Company		**–**	(9,759)
Dividend paid to other equity instrument holders		**(689)**	(695)
Dividend paid to non-controlling interests		**(115)**	(117)
Payment for redemption of subordinated liabilities		**(12,603)**	–
Interest paid for subordinated liabilities		**(350)**	(353)
Payment of lease liabilities		**(391)**	(295)
Net cash outflow from financing activities		**(14,148)**	(11,219)
Increase/(decrease) in cash and cash equivalents		**57,952**	(288,264)
Cash and cash equivalents at 1 January		**331,652**	626,126
Effect of exchange rate changes on cash and cash equivalents		**(3,207)**	3,778
Cash and cash equivalents at 30 June	37(b)	**386,397**	341,640

The notes on pages 44 to 113 are an integral part of this interim financial information.

1. Basis of preparation and significant 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) Significant accounting policies

Except for the initial adoption of the below mentioned amendments, the significant 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 2019 and shall be read in conjunction with the Group's Annual Report for 2019.

Amendments that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2020

The Group has initially applied the following amendments for the financial year beginning on 1 January 2020:

- HKAS 39, HKFRS 7 and HKFRS 9 (Amendments), "Interest Rate Benchmark Reform". The amendments modify certain specific hedge accounting requirements to provide temporary relief allowing the continuous use of hedge accounting under the uncertainties caused by interest rate benchmark reform ("IBOR reform") on the cash flows of the hedge relationships. Pursuant to the amendments, the relief would deem to be ended at the earlier of (i) when there is no longer uncertainty arising from IBOR reform over the cash flows of the hedging relationships, and (ii) when the hedging relationship to which the relief applied is discontinued, or in case of cash flow hedges, when the entire amount accumulated in the cash flow hedge reserve with respect to the discontinued hedging relationship has been reclassified to profit or loss.

  The amendments have been applied retrospectively. There is no material impact on the Group's financial statements.

- HKFRS 16 (Amendments), "COVID-19-Related Rent Concessions". The amendments provide a practical expedient that lessees are exempted from evaluating whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

  The amendments are effective on 1 June 2020 and applicable to COVID-19-related rent concessions that reduce lease payments from 1 January 2020 to 30 June 2021. The Group has elected to early adopt the amendments and applied the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the interim reporting period. The adoption of the amendments does not have a material impact on the Group's financial statements.

- HKAS 1 and HKAS 8 (Amendments), "Definition of Material". The amendments clarify the definition of materiality of information and align the definition used across other accounting standards. The amendments have been applied prospectively. The application of the amendments does not have a material impact on the Group's financial statements.

- HKFRS 3 (Amendments), "Definition of a Business". The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a business combination transaction should be accounted for as a business combination or as an asset acquisition. The amendments have been applied prospectively. The application of this amendments does not have a material impact on the Group's financial statements.

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

(c) Standard and amendments issued that are relevant to the Group but not yet mandatorily effective and have not been early adopted by the Group in 2020

Standard/ Amendments	Content	Applicable for financial years beginning on/after
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
HKAS 28 (2011) and HKFRS 10 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
HKFRS 17	Insurance Contracts	1 January 2021

- HKAS 16 (Amendments), "Property, Plant and Equipment: Proceeds before Intended Use". The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use. The related sales proceeds together with the costs of providing these items as determined by HKAS 2, should be included in profit and loss. The amendments are applied retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The application of the amendments will not have a material impact on the Group's financial statements.

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

- HKFRS 3 (Amendments), "Reference to the Conceptual Framework". The amendments update a reference in HKFRS 3 to the Conceptual Framework for Financial Reporting issued in 2018. The amendments also add to HKFRS 3 an exception to its requirement for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability, that for some types of liabilities and contingent liabilities, an entity applying HKFRS 3 should instead refer to HKAS 37. The exception has been added to avoid an unintended consequence of updating the reference to the Conceptual Framework. The application of the amendments will not have a material impact on the Group's financial statements.

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

(c) Standard and amendments issued that are relevant to the Group but not yet mandatorily effective and have not been early adopted by the Group in 2020 (continued)

- HKFRS 17, "Insurance Contracts". HKFRS 17 aims at replacing the current insurance contracts standard HKFRS 4, an interim standard that leads to highly divergent accounting practices that exist in the insurers' local jurisdictions. The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts, with an objective to ensure that an entity provides relevant information that faithfully represents insurance contracts. Early application of the standard is permitted but only if the entity also applies HKFRS 9 and HKFRS 15. In June 2020, the IASB issued amendments to IFRS 17 deferring the effective date of IFRS 17 to the reporting periods beginning on or after 1 January 2023. At the time of the issuance of this interim financial statements, the change to the effective date have not yet been reflected in HKFRS. It is expected that the change to the effective date will also be adopted by the HKICPA to HKFRS 17. The Group is considering the financial impact of the standard and the timing of its application.

- Please refer to Note 2.1(b) of the Group's Annual Report for 2019 for brief explanations of remaining amendments.

(d) Improvements to HKFRSs

"Improvements to HKFRSs" contains numerous amendments to HKFRSs which HKICPA considers not urgent but necessary. The amendments comprise clarification to changes in presentation, recognition or measurement purpose, amendments to the basis for conclusions as well as terminology or editorial amendments related to each HKFRS. These improvements will not have a material impact on the Group's financial statements.

2. Critical accounting estimates and judgements in applying accounting policies

The nature and assumptions related to the Group's accounting estimates in this reporting period are consistent with those used in the Group's financial statements for the year ended 31 December 2019.

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.

3.1 Credit risk

(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 are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred such as past due for more than 90 days or the borrower is unlikely to pay in full for the credit obligations to the Group. Credit-impaired advances are classified as Stage 3 and lifetime expected credit losses will be recognised.

Evidence that an advance 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 legal reasons related to the borrower's financial difficulty, the Group has granted to the borrower a concession that it would not otherwise consider;

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

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

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

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

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

	At 30 June 2020			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Advances to customers				
Pass	1,491,529	2,322	–	1,493,851
Special mention	2,962	3,121	–	6,083
Substandard or below	–	–	3,817	3,817
	1,494,491	5,443	3,817	1,503,751
Trade bills				
Pass	13,265	–	–	13,265
Special mention	2	–	–	2
Substandard or below	–	–	–	–
	13,267	–	–	13,267
Advances to banks and other financial institutions				
Pass	1,403	–	–	1,403
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	1,403	–	–	1,403
	1,509,161	5,443	3,817	1,518,421
Impairment allowances	(5,392)	(325)	(2,341)	(8,058)
	1,503,769	5,118	1,476	1,510,363

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

	At 31 December 2019			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Advances to customers				
Pass	1,385,770	1,592	–	1,387,362
Special mention	2,683	2,621	–	5,304
Substandard or below	–	–	3,217	3,217
	1,388,453	4,213	3,217	1,395,883
Trade bills				
Pass	20,727	–	–	20,727
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	20,727	–	–	20,727
Advances to banks and other financial institutions				
Pass	3,387	–	–	3,387
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	3,387	–	–	3,387
	1,412,567	4,213	3,217	1,419,997
Impairment allowances	(4,564)	(297)	(2,175)	(7,036)
	1,408,003	3,916	1,042	1,412,961

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:

	At 30 June 2020			
	Stage 1 HK$'m	**Stage 2 HK$'m**	**Stage 3 HK$'m**	**Total HK$'m**
Impairment allowances				
At 1 January 2020	**4,564**	**297**	**2,175**	**7,036**
Transfer to Stage 1	**75**	**(73)**	**(2)**	**–**
Transfer to Stage 2	**(43)**	**50**	**(7)**	**–**
Transfer to Stage 3	**(7)**	**(18)**	**25**	**–**
Changes arising from transfer of stage	**(62)**	**145**	**458**	**541**
Other changes (including new assets and derecognised assets)	**893**	**(73)**	**(50)**	**770**
Write-offs	**–**	**–**	**(305)**	**(305)**
Recoveries	**–**	**–**	**76**	**76**
Unwind of discount on impairment allowances	**–**	**–**	**(4)**	**(4)**
Exchange difference	**(28)**	**(3)**	**(25)**	**(56)**
At 30 June 2020	**5,392**	**325**	**2,341**	**8,058**
Charged to income statement (Note 12)				**1,311**

	At 31 December 2019			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Impairment allowances				
At 1 January 2019	3,748	546	1,130	5,424
Transfer to Stage 1	154	(143)	(11)	–
Transfer to Stage 2	(26)	103	(77)	–
Transfer to Stage 3	(15)	(184)	199	–
Changes arising from transfer of stage	(131)	84	1,216	1,169
Other changes (including new assets and derecognised assets)	832	(105)	(44)	683
Write-offs	–	–	(462)	(462)
Recoveries	–	–	213	213
Unwind of discount on impairment allowances	–	–	(4)	(4)
Exchange difference	2	(4)	15	13
At 31 December 2019	4,564	297	2,175	7,036

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 2020		At 31 December 2019	
	Impaired HK$'m	**Classified or impaired HK$'m**	Impaired HK$'m	Classified or impaired HK$'m
Gross advances to customers	**3,817**	**3,817**	3,217	3,217
Percentage of gross advances to customers	**0.25%**	**0.25%**	0.23%	0.23%
Impairment allowances made in respect of such advances	**2,341**	**2,341**	2,175	2,175

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

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

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Current market value of collateral held against the covered portion of impaired advances to customers	**2,911**	2,187
Covered portion of impaired advances to customers	**1,627**	1,011
Uncovered portion of impaired advances to customers	**2,190**	2,206

As at 30 June 2020, there were no impaired trade bills and advances to banks and other financial institutions (31 December 2019: Nil).

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(b) Advances overdue for more than three months

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

	At 30 June 2020		At 31 December 2019	
	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	**426**	**0.03%**	145	0.01%
– one year or less but over six months	**647**	**0.04%**	836	0.06%
– over one year	**1,578**	**0.11%**	948	0.07%
Advances overdue for over three months	**2,651**	**0.18%**	1,929	0.14%
Impairment allowances made in respect of such advances – Stage 3	**2,005**		1,651	

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Current market value of collateral held against the covered portion of such advances to customers	**1,049**	487
Covered portion of such advances to customers	**708**	315
Uncovered portion of such advances to customers	**1,943**	1,614

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

As at 30 June 2020, there were no trade bills and advances to banks and other financial institutions overdue for more than three months (31 December 2019: Nil).

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(c) Rescheduled advances

	At 30 June 2020		At 31 December 2019	
	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"	**147**	**0.01%**	239	0.02%

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

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(d) Concentration of advances to customers

(i) Sectoral analysis of gross advances to customers

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

	At 30 June 2020					
	Gross advances to customers HK$'m	% covered by collateral or other security	Classified or impaired HK$'m	Overdue HK$'m	Impairment allowances – Stage 3 HK$'m	Impairment allowances – Stages 1 and 2 HK$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	139,340	23.42%	–	5	–	710
– Property investment	64,716	67.94%	106	162	4	138
– Financial concerns	27,217	0.85%	–	–	–	46
– Stockbrokers	6,147	32.45%	–	–	–	2
– Wholesale and retail trade	36,031	40.14%	171	291	100	322
– Manufacturing	60,077	9.04%	66	68	5	209
– Transport and transport equipment	75,570	24.28%	319	3	–	234
– Recreational activities	205	12.22%	–	3	–	3
– Information technology	24,321	0.81%	92	93	4	28
– Others	132,303	48.02%	6	259	2	459
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	21,239	99.51%	16	170	–	23
– Loans for purchase of other residential properties	288,778	99.94%	114	1,279	1	187
– Credit card advances	12,340	–	130	460	116	174
– Others	104,862	93.58%	105	629	89	589
Total loans for use in Hong Kong	993,146	59.28%	1,125	3,422	321	3,124
Trade financing	82,074	13.72%	536	586	311	236
Loans for use outside Hong Kong	428,531	5.85%	2,156	2,657	1,709	2,355
Gross advances to customers	1,503,751	41.56%	3,817	6,665	2,341	5,715

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 2019					
	Gross advances to customers HK$'m	% covered by collateral or other security	Classified or impaired HK$'m	Overdue HK$'m	Impairment allowances – Stage 3 HK$'m	Impairment allowances – Stages 1 and 2 HK$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	137,663	21.53%	–	9	–	695
– Property investment	49,073	81.98%	–	158	–	62
– Financial concerns	28,353	0.89%	–	–	–	53
– Stockbrokers	815	98.27%	–	–	–	1
– Wholesale and retail trade	39,880	36.86%	88	283	87	210
– Manufacturing	42,719	12.98%	193	222	95	174
– Transport and transport equipment	66,511	27.29%	325	69	–	180
– Recreational activities	2,161	1.19%	–	–	–	3
– Information technology	22,464	0.90%	–	48	–	76
– Others	125,909	47.30%	6	138	4	365
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	19,855	99.68%	18	161	–	10
– Loans for purchase of other residential properties	277,288	99.93%	96	1,374	–	97
– Credit card advances	14,663	–	127	579	113	159
– Others	97,380	91.08%	71	504	63	358
Total loans for use in Hong Kong	924,734	59.98%	924	3,545	362	2,443
Trade financing	75,764	14.75%	318	340	237	154
Loans for use outside Hong Kong	395,385	6.74%	1,975	1,988	1,576	2,263
Gross advances to customers	1,395,883	42.45%	3,217	5,873	2,175	4,860

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 2020 HK$'m	At 31 December 2019 HK$'m
Hong Kong	**1,227,493**	1,124,812
Chinese Mainland	**119,294**	126,075
Others	**156,964**	144,996
	1,503,751	1,395,883
Impairment allowances made in respect of the gross advances to customers – Stages 1 and 2		
Hong Kong	**4,074**	3,228
Chinese Mainland	**460**	492
Others	**1,181**	1,140
	5,715	4,860

Overdue advances

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Hong Kong	**4,408**	4,341
Chinese Mainland	**668**	607
Others	**1,589**	925
	6,665	5,873
Impairment allowances made in respect of the overdue advances – Stage 3		
Hong Kong	**1,156**	975
Chinese Mainland	**395**	423
Others	**689**	489
	2,240	1,887

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

Classified or impaired advances

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Hong Kong	**2,173**	1,766
Chinese Mainland	**486**	507
Others	**1,158**	944
	3,817	3,217
Impairment allowances made in respect of the classified or impaired advances – Stage 3		
Hong Kong	**1,236**	1,132
Chinese Mainland	**411**	436
Others	**694**	607
	2,341	2,175

(B) Repossessed assets

The estimated market value of repossessed assets held by the Group as at 30 June 2020 amounted to HK$50 million (31 December 2019: HK$33 million). The repossessed assets comprise properties in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the proprietors concerned) for release in full or in part of the obligations of the borrowers.

3. Financial risk management (continued)

3.1 Credit risk (continued)

(C) Debt securities and certificates of deposit

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

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Investment in securities at fair value through other comprehensive income		
– Stage 1		
Aaa	**95,287**	105,381
Aa1 to Aa3	**198,238**	171,367
A1 to A3	**360,925**	358,381
Lower than A3	**24,437**	24,952
Unrated	**23,098**	24,621
	701,985	684,702
– Stage 2	**–**	–
– Stage 3	**–**	–
	701,985	684,702
Of which: impairment allowances	**(233)**	(160)
Investment in securities at amortised cost		
– Stage 1		
Aaa	**51,856**	57,569
Aa1 to Aa3	**5,934**	4,687
A1 to A3	**36,481**	26,263
Lower than A3	**20,180**	15,956
Unrated	**7,326**	6,554
	121,777	111,029
– Stage 2	**–**	–
– Stage 3	**–**	–
	121,777	111,029
Impairment allowances	**(53)**	(46)
	121,724	110,983
Financial assets at fair value through profit or loss		
Aaa	**2,847**	3,030
Aa1 to Aa3	**17,754**	28,350
A1 to A3	**9,237**	18,779
Lower than A3	**9,932**	11,834
Unrated	**2,978**	6,111
	42,748	68,104

As at 30 June 2020, there were no impaired or overdue debt securities and certificates of deposit (31 December 2019: Nil).

3. Financial risk management (continued)

3.1 Credit risk (continued)

(D) Credit risk management in response to COVID-19 pandemic

The rapid global spread of COVID-19 pandemic during the first half of 2020 has severely disrupted the economic activities and operations of our customers, the Group has taken a series of risk control measures in response to the adverse impact from the pandemic:

– The Group coordinated with the HKMA in launching various relief measures for individuals and commercial customers, in order to alleviate the financial pressure and the impact of the pandemic. The underwriting standards of the loans under relief measures are consistent with other credits and the repayment terms are revised on commercial basis. Therefore, loans under relief measures do not automatically trigger the migration to Stage 2 and Stage 3, and are not classified as rescheduled advances.

– The Group has conducted risk-based assessments on those industries which are more affected by the impact of COVID-19 pandemic (including Trading, Retail, Aviation, Tourism (including hospitality), Catering, Entertainment etc.). Impacts of the pandemic on affected customers, their respective mitigation measures and short-term refinancing plans were also assessed, vulnerable borrowers were identified and put into the watchlist for on-going close monitoring. The loan classification and internal ratings of these borrowers were reviewed according to their latest situation.

– The Group performed stress tests of different scenarios of containment of COVID-19 pandemic to assess the potential impacts on credit loss and asset quality.

– The Group reviewed and updated the forward looking macro-economic factors used in ECL computation to reflect the uncertain economic outlook and possible further deterioration in the economic environments due to impact of COVID-19 pandemic, which resulted in an increase in Stage 1 and Stage 2 impairment allowance. In addition, the Group performed internal rating review of major customers being put into watchlist due to COVID-19 pandemic impacts, resulting in downgrades of those affected borrowers hence leading to additional Stage 1 and Stage 2 impairment allowance to withstand the uncertainty of future economic conditions.

In the current challenging economic situation, the Group will continue to maintain effective risk management framework and prudent underwriting standards to avoid significant deterioration in asset quality.

3. Financial risk management (continued)

3.2 Market risk

(A) VaR

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

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

	Year	At 30 June HK$'m	Minimum for the first half of year HK$'m	Maximum for the first half of year HK$'m	Average for the first half of year HK$'m
VaR for all market risk	**2020**	**38.7**	**17.5**	**44.1**	**30.6**
	2019	48.1	23.2	48.1	30.5
VaR for foreign exchange risk	**2020**	**27.5**	**6.5**	**29.3**	**14.8**
	2019	11.7	7.7	21.1	14.6
VaR for interest rate risk in the trading book	**2020**	**26.0**	**13.2**	**35.6**	**24.7**
	2019	20.7	9.8	24.5	17.6
VaR for equity risk in the trading book	**2020**	**0.8**	**0.3**	**2.9**	**0.8**
	2019	0.6	0.2	2.5	0.5
VaR for commodity risk	**2020**	**0.4**	**–**	**2.5**	**0.6**
	2019	41.5	10.4	42.1	22.2

Note:
1. Structural FX positions have been excluded.

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

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

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

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

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

3. Financial risk management (continued)

3.2 Market risk (continued)

(A) VaR (continued)

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

(B) Currency risk

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

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

	At 30 June 2020							
	Equivalent in million of HK$							
	US Dollars	**Pound Sterling**	**Japanese Yen**	**Euro**	**Renminbi**	**Australian Dollars**	**Other foreign currencies**	**Total foreign currencies**
Spot assets	**1,003,765**	**26,515**	**103,656**	**46,384**	**309,133**	**33,627**	**73,917**	**1,596,997**
Spot liabilities	**(846,803)**	**(19,719)**	**(8,096)**	**(29,380)**	**(305,425)**	**(28,429)**	**(76,347)**	**(1,314,199)**
Forward purchases	**904,882**	**22,655**	**12,329**	**50,404**	**502,372**	**15,799**	**53,243**	**1,561,684**
Forward sales	**(1,045,047)**	**(29,227)**	**(107,856)**	**(67,352)**	**(504,014)**	**(20,973)**	**(50,752)**	**(1,825,221)**
Net options position	**(144)**	**(25)**	**1**	**7**	**(73)**	**(31)**	**59**	**(206)**
Net long/(short) position	**16,653**	**199**	**34**	**63**	**1,993**	**(7)**	**120**	**19,055**

	At 31 December 2019							
	Equivalent in million of HK$							
	US Dollars	Pound Sterling	Japanese Yen	Euro	Renminbi	Australian Dollars	Other foreign currencies	Total foreign currencies
Spot assets	932,480	29,513	123,344	40,611	311,496	37,785	70,914	1,546,143
Spot liabilities	(841,543)	(17,530)	(13,099)	(25,326)	(301,348)	(24,821)	(67,572)	(1,291,239)
Forward purchases	987,326	21,177	35,349	49,566	529,913	20,718	50,290	1,694,339
Forward sales	(1,076,832)	(33,139)	(145,612)	(64,801)	(538,358)	(33,632)	(54,187)	(1,946,561)
Net options position	144	56	4	(86)	(293)	(15)	(24)	(214)
Net long/(short) position	1,575	77	(14)	(36)	1,410	35	(579)	2,468

3. Financial risk management (continued)

3.2 Market risk (continued)

(B) Currency risk (continued)

	At 30 June 2020					
	Equivalent in million of HK$					
	US Dollars	**Baht**	**Malaysian Ringgit**	**Philippine Peso**	**Other foreign currencies**	**Total foreign currencies**
Net structural position	**29,721**	**2,561**	**2,841**	**1,793**	**4,616**	**41,532**

	At 31 December 2019					
	Equivalent in million of HK$					
	US Dollars	Baht	Malaysian Ringgit	Philippine Peso	Other foreign currencies	Total foreign currencies
Net structural position	29,052	2,625	2,903	1,737	4,523	40,840

3. Financial risk management (continued)

3.2 Market risk (continued)

(C) Interest rate risk

The tables below summarise the Group's on-balance sheet exposure to interest rate risk as at 30 June 2020 and 31 December 2019. 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 2020						
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Non-interest bearing HK$'m	Total HK$'m
Assets							
Cash and balances and placements with banks and other financial institutions	248,950	14,846	38,525	395	–	106,942	409,658
Financial assets at fair value through profit or loss	3,762	13,959	4,941	9,702	13,978	11,633	57,975
Derivative financial instruments	–	–	–	–	–	44,265	44,265
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	175,330	175,330
Advances and other accounts	1,192,580	231,205	31,570	42,578	6,081	6,349	1,510,363
Investment in securities							
– At FVOCI	69,558	162,954	168,400	186,968	114,105	6,177	708,162
– At amortised cost	1,151	1,200	19,792	42,415	57,166	–	121,724
Interests in associates and joint ventures	–	–	–	–	–	1,578	1,578
Investment properties	–	–	–	–	–	19,579	19,579
Properties, plant and equipment	–	–	–	–	–	50,208	50,208
Other assets (including current and deferred tax assets)	25,815	–	–	–	–	102,069	127,884
Total assets	1,541,816	424,164	263,228	282,058	191,330	524,130	3,226,726
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	175,330	175,330
Deposits and balances from banks and other financial institutions	242,476	7,364	1,249	1,335	–	18,060	270,484
Financial liabilities at fair value through profit or loss	661	6,225	2,902	649	421	–	10,858
Derivative financial instruments	–	–	–	–	–	53,075	53,075
Deposits from customers	1,492,700	289,199	113,067	3,754	–	241,716	2,140,436
Debt securities and certificates of deposit in issue	–	–	–	–	–	–	–
Other accounts and provisions (including current and deferred tax liabilities)	8,252	48	104	807	359	128,231	137,801
Insurance contract liabilities	–	–	–	–	–	125,738	125,738
Subordinated liabilities	–	–	–	–	–	–	–
Total liabilities	1,744,089	302,836	117,322	6,545	780	742,150	2,913,722
Interest sensitivity gap	(202,273)	121,328	145,906	275,513	190,550	(218,020)	313,004

3. Financial risk management (continued)

3.2 Market risk (continued)

(C) Interest rate risk (continued)

	At 31 December 2019						
	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	247,996	25,193	6,201	–	–	87,439	366,829
Financial assets at fair value through profit or loss	10,465	17,977	10,254	13,410	21,295	11,792	85,193
Derivative financial instruments	–	–	–	–	–	31,027	31,027
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	163,840	163,840
Advances and other accounts	1,142,802	178,023	35,698	43,576	5,126	7,736	1,412,961
Investment in securities							
– At FVOCI	123,330	165,789	110,936	171,211	113,436	5,968	690,670
– At amortised cost	1,970	5,050	10,999	52,157	40,807	–	110,983
Interests in associates and joint ventures	–	–	–	–	–	1,632	1,632
Investment properties	–	–	–	–	–	20,110	20,110
Properties, plant and equipment	–	–	–	–	–	51,602	51,602
Other assets (including current and deferred tax assets)	14,170	–	–	–	–	77,039	91,209
Total assets	1,540,733	392,032	174,088	280,354	180,664	458,185	3,026,056
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	163,840	163,840
Deposits and balances from banks and other financial institutions	236,979	1,271	897	1,628	–	27,114	267,889
Financial liabilities at fair value through profit or loss	2,843	6,046	9,202	724	391	–	19,206
Derivative financial instruments	–	–	–	–	–	32,921	32,921
Deposits from customers	1,409,054	295,979	139,866	4,577	–	159,797	2,009,273
Debt securities and certificates of deposit in issue	–	116	–	–	–	–	116
Other accounts and provisions (including current and deferred tax liabilities)	9,331	7	114	1,008	721	83,915	95,096
Insurance contract liabilities	–	–	–	–	–	117,269	117,269
Subordinated liabilities	–	12,954	–	–	–	–	12,954
Total liabilities	1,658,207	316,373	150,079	7,937	1,112	584,856	2,718,564
Interest sensitivity gap	(117,474)	75,659	24,009	272,417	179,552	(126,671)	307,492

3. Financial risk management (continued)

3.3 Liquidity risk

(A) Liquidity coverage ratio and net stable funding ratio

	2020	2019
Average value of liquidity coverage ratio		
– First quarter	**150.45%**	183.00%
– Second quarter	**131.38%**	156.57%

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.

	2020	2019
Quarter-end value of net stable funding ratio		
– First quarter	**116.60%**	121.36%
– Second quarter	**117.49%**	119.15%

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.

The additional information of liquidity coverage ratio and net stable funding ratio disclosures is available under the section "Regulatory Disclosures" on BOCHK's website at www.bochk.com.

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis

The tables below analyse the Group's assets and liabilities as at 30 June 2020 and 31 December 2019 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2020							
	On demand HK$'m	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Indefinite HK$'m	Total HK$'m
Assets								
Cash and balances and placements with banks and other financial institutions	252,684	103,208	14,455	38,136	1,175	–	–	409,658
Financial assets at fair value through profit or loss	–	3,800	13,867	4,720	9,168	13,851	12,569	57,975
Derivative financial instruments	14,449	1,379	2,382	4,256	12,415	9,384	–	44,265
Hong Kong SAR Government certificates of indebtedness	175,330	–	–	–	–	–	–	175,330
Advances and other accounts	241,313	48,919	67,358	216,731	609,470	324,982	1,590	1,510,363
Investment in securities								
– At FVOCI	–	59,509	143,752	175,300	206,728	116,375	6,498	708,162
– At amortised cost	–	1,500	1,530	18,765	40,996	56,699	2,234	121,724
Interests in associates and joint ventures	–	–	–	–	–	–	1,578	1,578
Investment properties	–	–	–	–	–	–	19,579	19,579
Properties, plant and equipment	–	–	–	–	–	–	50,208	50,208
Other assets (including current and deferred tax assets)	53,597	39,073	995	6,174	15,499	12,523	23	127,884
Total assets	737,373	257,388	244,339	464,082	895,451	533,814	94,279	3,226,726
Liabilities								
Hong Kong SAR currency notes in circulation	175,330	–	–	–	–	–	–	175,330
Deposits and balances from banks and other financial institutions	182,633	77,903	7,364	1,249	1,335	–	–	270,484
Financial liabilities at fair value through profit or loss	–	661	6,228	2,902	649	418	–	10,858
Derivative financial instruments	13,253	1,312	1,846	4,255	17,817	14,592	–	53,075
Deposits from customers	1,289,941	444,475	289,199	113,067	3,754	–	–	2,140,436
Debt securities and certificates of deposit in issue	–	–	–	–	–	–	–	–
Other accounts and provisions (including current and deferred tax liabilities)	47,944	74,398	436	7,229	7,656	138	–	137,801
Insurance contract liabilities	43,569	1,296	1,194	5,832	22,214	51,633	–	125,738
Subordinated liabilities	–	–	–	–	–	–	–	–
Total liabilities	1,752,670	600,045	306,267	134,534	53,425	66,781	–	2,913,722
Net liquidity gap	(1,015,297)	(342,657)	(61,928)	329,548	842,026	467,033	94,279	313,004

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

	At 31 December 2019							
	On demand HK$'m	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Indefinite HK$'m	Total HK$'m
Assets								
Cash and balances and placements with banks and other financial institutions	244,794	90,641	24,799	5,810	785	–	–	366,829
Financial assets at fair value through profit or loss	–	10,389	17,233	9,537	12,515	21,278	14,241	85,193
Derivative financial instruments	11,662	2,593	3,574	4,996	5,212	2,990	–	31,027
Hong Kong SAR Government certificates of indebtedness	163,840	–	–	–	–	–	–	163,840
Advances and other accounts	211,627	46,455	57,860	167,062	619,292	309,478	1,187	1,412,961
Investment in securities								
– At FVOCI	–	113,646	141,953	119,015	195,027	114,737	6,292	690,670
– At amortised cost	–	2,151	5,124	10,634	51,789	40,780	505	110,983
Interests in associates and joint ventures	–	–	–	–	–	–	1,632	1,632
Investment properties	–	–	–	–	–	–	20,110	20,110
Properties, plant and equipment	–	–	–	–	–	–	51,602	51,602
Other assets (including current and deferred tax assets)	42,449	16,213	456	4,224	16,061	11,796	10	91,209
Total assets	674,372	282,088	250,999	321,278	900,681	501,059	95,579	3,026,056
Liabilities								
Hong Kong SAR currency notes in circulation	163,840	–	–	–	–	–	–	163,840
Deposits and balances from banks and other financial institutions	168,004	96,089	1,271	897	1,628	–	–	267,889
Financial liabilities at fair value through profit or loss	–	2,843	6,049	9,202	724	388	–	19,206
Derivative financial instruments	9,576	2,509	3,089	5,161	7,627	4,959	–	32,921
Deposits from customers	1,107,436	461,415	295,979	139,866	4,577	–	–	2,009,273
Debt securities and certificates of deposit in issue	–	–	116	–	–	–	–	116
Other accounts and provisions (including current and deferred tax liabilities)	45,568	35,537	2,137	3,603	8,079	172	–	95,096
Insurance contract liabilities	40,113	455	372	4,814	21,368	50,147	–	117,269
Subordinated liabilities	–	–	12,954	–	–	–	–	12,954
Total liabilities	1,534,537	598,848	321,967	163,543	44,003	55,666	–	2,718,564
Net liquidity gap	(860,165)	(316,760)	(70,968)	157,735	856,678	445,393	95,579	307,492

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

The above maturity classifications have been prepared in accordance with relevant provisions under the Banking (Disclosure) Rules. The Group has reported assets such as advances and debt securities which have been overdue for not more than one month as "On demand". In the case of an asset that is repayable by different payments or instalments, only that portion of the asset that is actually overdue is reported as overdue. Any part of the asset that is not due is reported according to the residual maturity unless the repayment of the asset is in doubt in which case the amount is reported as "Indefinite". The above assets are stated after deduction of provisions, if any.

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.

3.4 Insurance risk

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

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

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

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

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

3. Financial risk management (continued)

3.5 Capital management

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.

(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 and the list of subsidiaries is set out in "Appendix – Subsidiaries of the Company".

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

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 2020		At 31 December 2019	
	Total assets HK$'m	**Total equity HK$'m**	Total assets HK$'m	Total equity HK$'m
BOC Group Trustee Company Limited	**200**	**200**	200	200
BOCI-Prudential Trustee Limited	**521**	**450**	612	483
China Bridge (Malaysia) Sdn. Bhd.	**21**	**14**	56	36
Bank of China (Hong Kong) Nominees Limited	**–**	**–**	–	–
Bank of China (Hong Kong) Trustees Limited	**12**	**12**	12	11
BOC Financial Services (Nanning) Company Limited	**168**	**9**	173	42
BOCHK Information Technology (Shenzhen) Co., Ltd.	**447**	**261**	401	255
BOCHK Information Technology Services (Shenzhen) Co., Ltd.	**409**	**348**	418	348
Che Hsing (Nominees) Limited	**1**	**1**	1	1
Po Sang Financial Investment Services Company Limited	**363**	**345**	364	345
Po Sang Securities and Futures Limited	**1,057**	**391**	664	373
Sin Chiao Enterprises Corporation, Limited	**6**	**6**	6	6
Sin Hua Trustee Limited	**4**	**4**	5	5
Billion Express Development Inc.	**–**	**–**	–	–
Billion Orient Holdings Ltd.	**–**	**–**	–	–
Elite Bond Investments Ltd.	**–**	**–**	–	–
Express Capital Enterprise Inc.	**–**	**–**	–	–
Express Charm Holdings Corp.	**–**	**–**	–	–
Express Shine Assets Holdings Corp.	**–**	**–**	–	–
Express Talent Investment Ltd.	**–**	**–**	–	–
Gold Medal Capital Inc.	**–**	**–**	–	–
Gold Tap Enterprises Inc.	**–**	**–**	–	–
Maxi Success Holdings Ltd.	**–**	**–**	–	–
Smart Linkage Holdings Inc.	**–**	**–**	–	–
Smart Union Capital Investments Ltd.	**–**	**–**	–	–
Success Trend Development Ltd.	**–**	**–**	–	–
Wise Key Enterprises Corp.	**–**	**–**	–	–

3. Financial risk management (continued)

3.5 Capital management (continued)

(A) Basis of regulatory consolidation (continued)

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

There were no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation as at 30 June 2020 (31 December 2019: 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 2020 (31 December 2019: 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 2020	At 31 December 2019
CET1 capital ratio	**18.52%**	17.76%
Tier 1 capital ratio	**20.52%**	19.90%
Total capital ratio	**23.11%**	22.89%

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 2020 HK$'m	At 31 December 2019 HK$'m
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments	**43,043**	43,043
Retained earnings	**184,542**	164,113
Disclosed reserves	**46,433**	51,309
CET1 capital before regulatory deductions	**274,018**	258,465
CET1 capital: regulatory deductions		
Valuation adjustments	**(169)**	(65)
Deferred tax assets (net of associated deferred tax liabilities)	**(63)**	(62)
Gains and losses due to changes in own credit risk on fair valued liabilities	**(49)**	237
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	**(51,510)**	(52,459)
Regulatory reserve for general banking risks	**(5,667)**	(11,077)
Total regulatory deductions to CET1 capital	**(57,458)**	(63,426)
CET1 capital	**216,560**	195,039
AT1 capital: instruments		
Qualifying AT1 capital instruments classified as equity under applicable accounting standards	**23,476**	23,476
AT1 capital	**23,476**	23,476
Tier 1 capital	**240,036**	218,515
Tier 2 capital: instruments and provisions		
Capital instruments subject to phase-out arrangements from Tier 2 capital	**–**	2,505
Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**7,043**	6,743
Tier 2 capital before regulatory deductions	**7,043**	9,248
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	**23,179**	23,607
Total regulatory adjustments to Tier 2 capital	**23,179**	23,607
Tier 2 capital	**30,222**	32,855
Total regulatory capital	**270,258**	251,370

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 2020	At 31 December 2019
Capital conservation buffer ratio	**2.500%**	2.500%
Higher loss absorbency ratio	**1.500%**	1.500%
Countercyclical capital buffer ratio	**0.778%**	1.552%

The additional information of capital ratio disclosures is available under the section "Regulatory Disclosures" on BOCHK's website at www.bochk.com.

(C) Leverage ratio

The leverage ratio is analysed as follows:

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Tier 1 capital	**240,036**	218,515
Leverage ratio exposure	**2,960,539**	2,799,606
Leverage ratio	**8.11%**	7.81%

The additional information of leverage ratio disclosures is available under the section "Regulatory Disclosures" on BOCHK's website at www.bochk.com.

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 and other debt instruments.

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

– 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 investment, debt instruments and certain OTC derivative contracts with significant unobservable components.

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. 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 of certain derivative portfolios that meet those criteria is measured on the basis of the price to be received or paid for net open risk. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative size of each of the individual instruments in the portfolio.

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

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

The technique used to calculate the fair value of the following financial instruments is as below:

Debt securities and certificates of deposit and other debt instruments

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

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

4.1 Financial instruments measured at fair value (continued)

Asset backed securities

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

Derivatives

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

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

Subordinated liabilities

Fair value for subordinated notes is based on market prices or broker/dealer price quotations. Own credit adjustment for subordinated notes is calculated as the difference between the market value and the net present value calculated by the latest benchmark interest rate and own credit spreads of the subordinated notes determined on the beginning of measurement period.

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 2020			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Financial assets				
Trading assets (Note 21)				
– Debt securities and certificates of deposit	–	23,842	–	23,842
– Equity securities	56	–	–	56
– Other debt instruments	–	3,594	–	3,594
Other financial assets mandatorily classified at fair value through profit or loss (Note 21)				
– Debt securities and certificates of deposit	–	14,972	822	15,794
– Equity securities	4,623	–	–	4,623
– Fund	4,485	987	1,482	6,954
Financial assets designated at fair value through profit or loss (Note 21)				
– Debt securities and certificates of deposit	725	2,387	–	3,112
Derivative financial instruments (Note 22)	14,466	29,799	–	44,265
Investment in securities at FVOCI (Note 24)				
– Debt securities and certificates of deposit	159,688	540,293	2,004	701,985
– Equity securities	2,459	1,596	2,122	6,177
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 28)				
– Trading liabilities	–	10,858	–	10,858
Derivative financial instruments (Note 22)	13,317	39,758	–	53,075
Subordinated liabilities (Note 34)				
– Subordinated notes	–	–	–	–

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 2019			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Financial assets				
Trading assets (Note 21)				
– Debt securities and certificates of deposit	133	37,457	–	37,590
– Equity securities	37	–	–	37
– Other debt instruments	–	5,297	–	5,297
Other financial assets mandatorily classified at fair value through profit or loss (Note 21)				
– Debt securities and certificates of deposit	–	25,271	2,252	27,523
– Equity securities	2,618	–	–	2,618
– Fund	5,705	1,958	1,474	9,137
Financial assets designated at fair value through profit or loss (Note 21)				
– Debt securities and certificates of deposit	708	2,283	–	2,991
Derivative financial instruments (Note 22)	11,674	19,342	11	31,027
Investment in securities at FVOCI (Note 24)				
– Debt securities and certificates of deposit	197,156	485,679	1,867	684,702
– Equity securities	2,680	1,134	2,154	5,968
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 28)				
– Trading liabilities	–	19,206	–	19,206
Derivative financial instruments (Note 22)	9,717	23,204	–	32,921
Subordinated liabilities (Note 34)				
– Subordinated notes	–	12,954	–	12,954

There were no significant financial asset and liability transfers between level 1 and level 2 for the Group during the first half of 2020 and the year of 2019.

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

4.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items

	At 30 June 2020				
	Financial assets				
	Other financial assets mandatorily classified at FVPL			Investment in securities at FVOCI	
	Debt securities and certificates of deposit HK$'m	Fund HK$'m	Derivative financial instruments HK$'m	Debt securities and certificates of deposit HK$'m	Equity securities HK$'m
At 1 January 2020	2,252	1,474	11	1,867	2,154
Gains/(losses)					
– Income statement					
– Net trading gain	–	–	20	–	–
– Net gain/(loss) on other financial instruments at fair value through profit or loss	199	(98)	–	–	–
– Other comprehensive income					
– Change in fair value	–	–	–	137	(32)
Additions	194	106	–	–	–
Disposals, redemptions and maturity	(1,823)	–	–	–	–
Transfer into level 3	–	–	–	–	–
Transfer out of level 3	–	–	(31)	–	–
At 30 June 2020	822	1,482	–	2,004	2,122
Total unrealised gains/(losses) for the period included in income statement for financial assets held as at 30 June 2020					
– Net trading gain	–	–	–	–	–
– Net gain/(loss) on other financial instruments at fair value through profit or loss	199	(98)	–	–	–
	199	(98)	–	–	–

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)

	At 31 December 2019				
	Financial assets				
	Other financial assets mandatorily classified at FVPL			Investment in securities at FVOCI	
	Debt securities and certificates of deposit HK$'m	Fund HK$'m	Derivative financial instruments HK$'m	Debt securities and certificates of deposit HK$'m	Equity securities HK$'m
At 1 January 2019	1,909	915	7	1,618	1,144
Gains					
– Income statement					
– Net trading gain	–	–	11	–	–
– Net gain on other financial instruments at fair value through profit or loss	382	80	–	–	–
– Other comprehensive income					
– Change in fair value	–	–	–	249	446
Additions	156	412	–	–	564
Disposals, redemptions and maturity	(195)	–	–	–	–
Transfer into level 3	–	67	–	–	–
Transfer out of level 3	–	–	(7)	–	–
At 31 December 2019	2,252	1,474	11	1,867	2,154
Total unrealised gains for the year included in income statement for financial assets held as at 31 December 2019					
– Net trading gain	–	–	11	–	–
– Net gain on other financial instruments at fair value through profit or loss	382	80	–	–	–
	382	80	11	–	–

As at 30 June 2020 and 31 December 2019, financial instruments categorised as level 3 are mainly comprised of debt securities and certificates of deposit, fund, unlisted equity shares and certain OTC derivative contracts.

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)

For certain illiquid debt securities and certificates of deposit and fund, the Group obtains valuation quotations from counterparties which may be based on unobservable inputs with significant impact on the valuation. For certain OTC derivative contracts, the counterparty credit spreads used in valuation techniques are unobservable inputs with significant impact on valuation. Therefore, these instruments have been classified by the Group as level 3. Transfers out of level 3 in the first half of 2020 and year of 2019 were due to change of valuation observability. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

The fair values of unlisted FVOCI equity shares are determined with reference to (i) multiples of comparable listed companies, such as average of the price/earning ratios of comparables; or (ii) dividend discount model calculation of the underlying equity investments; or (iii) net asset value, if neither appropriate comparables nor dividend discount model calculation is available or applicable.

Had the significant unobservable inputs applied on the valuation techniques increased/decreased by 5% (31 December 2019: 5%), the Group's other comprehensive income would have increased/decreased by HK$53 million and HK$51 million, respectively (31 December 2019: HK$42 million and HK$37 million, respectively). When the fair value of the unlisted FVOCI shares is affected by more than one unobservable input, the aforesaid impact reflects the most favourable or the most unfavourable change from varying inputs individually.

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.

Advances to customers and banks and other financial institutions

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

Investment in securities at amortised cost

The fair value of securities at amortised cost is determined by using the same approach as those debt securities and certificates of deposit and asset backed securities measured at fair value as described in Note 4.1. Besides, a discounted cash flow model is used for certain securities at amortised cost based on a current yield curve appropriate for the remaining term to maturity.

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.

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

4.2 Financial instruments not measured at fair value (continued)

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

	At 30 June 2020		At 31 December 2019	
	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 24)	**121,724**	**128,046**	110,983	114,241
Financial liabilities				
Debt securities and certificates of deposit in issue (Note 30)	**–**	**–**	116	116

5. Net interest income

	Half-year ended 30 June 2020 HK$'m	Half-year ended 30 June 2019 HK$'m
Interest income		
Advances to customers, due from banks and other financial institutions	**20,228**	22,924
Investment in securities and financial assets at fair value through profit or loss	**8,558**	10,422
Others	**150**	259
	28,936	33,605
Interest expense		
Deposits from customers, due to banks and other financial institutions	**(9,964)**	(12,974)
Debt securities and certificates of deposit in issue	**(1)**	(68)
Subordinated liabilities	**(80)**	(360)
Lease liabilities	**(28)**	(27)
Others	**(227)**	(273)
	(10,300)	(13,702)
Net interest income	**18,636**	19,903

Included within interest income are HK$22,204 million (first half of 2019: HK$24,949 million) and HK$6,427 million (first half of 2019: HK$6,674 million), before hedging effect, for financial assets measured at amortised cost and at fair value through other comprehensive income respectively.

Included within interest expense are HK$10,070 million (first half of 2019: HK$13,178 million), before hedging effect, for financial liabilities that are not measured at fair value through profit or loss.

6. Net fee and commission income

	Half-year ended 30 June 2020 HK$'m	Half-year ended 30 June 2019 HK$'m
Fee and commission income		
Securities brokerage	**1,567**	1,093
Loan commissions	**1,389**	1,623
Credit card business	**924**	1,635
Insurance	**713**	1,160
Funds distribution	**442**	464
Payment services	**358**	339
Trust and custody services	**322**	309
Bills commissions	**278**	352
Currency exchange	**157**	323
Safe deposit box	**153**	144
Others	**495**	678
	6,798	8,120
Fee and commission expense		
Credit card business	**(588)**	(1,158)
Insurance	**(233)**	(302)
Securities brokerage	**(178)**	(133)
Others	**(364)**	(481)
	(1,363)	(2,074)
Net fee and commission income	**5,435**	6,046
Of which arise from:		
Financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	**1,501**	1,889
– Fee and commission expense	**(3)**	(6)
	1,498	1,883
Trust and other fiduciary activities		
– Fee and commission income	**421**	403
– Fee and commission expense	**(14)**	(13)
	407	390

7. Net trading gain

	Half-year ended 30 June 2020 HK$'m	Half-year ended 30 June 2019 HK$'m
Net gain/(loss) from:		
Foreign exchange and foreign exchange products	**2,863**	2,135
Interest rate instruments and items under fair value hedge	**(787)**	(489)
Commodities	**250**	126
Equity and credit derivative instruments	**4**	57
	2,330	1,829

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

	Half-year ended 30 June 2020 HK$'m	Half-year ended 30 June 2019 HK$'m
Net gain on other financial instruments mandatorily classified at fair value through profit or loss	**71**	2,141
Net gain on financial instruments designated at fair value through profit or loss	**131**	74
	202	2,215

9. Net gain on other financial assets

	Half-year ended 30 June 2020 HK$'m	Half-year ended 30 June 2019 HK$'m
Net gain on disposal/redemption of investment in securities at FVOCI	**2,513**	736
Net gain/(loss) on disposal/redemption of investment in securities at amortised cost	**48**	(18)
Others	**10**	(2)
	2,571	716

10. Other operating income

	Half-year ended 30 June 2020 HK$'m	Half-year ended 30 June 2019 HK$'m
Dividend income		
– From investment in securities at FVOCI derecognised during the period	**21**	2
– From investment in securities at FVOCI held at the end of the period	**103**	122
Gross rental income from investment properties	**301**	329
Less: Outgoings in respect of investment properties	**(20)**	(29)
Others	**59**	77
	464	501

Included in the "Outgoings in respect of investment properties" is HK$2 million (first half of 2019: HK$1 million) of direct operating expenses related to investment properties that were not let during the period.

11. Net insurance benefits and claims and movement in liabilities

	Half-year ended 30 June 2020 HK$'m	Half-year ended 30 June 2019 HK$'m
Gross insurance benefits and claims and movement in liabilities		
Claims, benefits and surrenders paid	**(7,413)**	(9,218)
Movement in liabilities	**(9,310)**	(8,487)
	(16,723)	(17,705)
Reinsurers' share of benefits and claims and movement in liabilities		
Reinsurers' share of claims, benefits and surrenders paid	**4,851**	3,450
Reinsurers' share of movement in liabilities	**3,061**	2,818
	7,912	6,268
Net insurance benefits and claims and movement in liabilities	**(8,811)**	(11,437)

12. Net charge of impairment allowances

	Half-year ended 30 June 2020 HK$'m	Half-year ended 30 June 2019 HK$'m
Net (charge)/reversal of impairment allowances on:		
Advances and other accounts	**(1,311)**	(717)
Investment in securities		
– At FVOCI	**(75)**	(46)
– At amortised cost	**(7)**	(4)
	(82)	(50)
Others	**27**	(26)
Net charge of impairment allowances	**(1,366)**	(793)

13. Operating expenses

	Half-year ended 30 June 2020 HK$'m	Half-year ended 30 June 2019 HK$'m
Staff costs (including directors' emoluments)		
– Salaries and other costs	**4,114**	4,010
– Pension cost	**270**	254
	4,384	4,264
Premises and equipment expenses (excluding depreciation)		
– Short-term leases, leases of low-value assets and variable lease payments	**–**	117
– Information technology	**316**	318
– Others	**234**	217
	550	652
Depreciation	**1,529**	1,402
Auditor's remuneration		
– Audit services	**3**	3
– Non-audit services	**3**	4
Other operating expenses	**1,120**	1,203
	7,589	7,528

14. Net (loss)/gain from disposal of/fair value adjustments on investment properties

	Half-year ended 30 June 2020 HK$'m	Half-year ended 30 June 2019 HK$'m
Net (loss)/gain from fair value adjustments on investment properties	**(507)**	657

15. Net (loss)/gain from disposal/revaluation of properties, plant and equipment

	Half-year ended 30 June 2020 HK$'m	Half-year ended 30 June 2019 HK$'m
Net loss from disposal of equipment, fixtures and fittings	**(1)**	(1)
Net (loss)/gain from revaluation of premises	**(2)**	2
	(3)	1

16. Taxation

Taxation in the income statement represents:

	Half-year ended 30 June 2020 HK$'m	Half-year ended 30 June 2019 HK$'m
Current tax		
Hong Kong profits tax		
– Current period taxation	**3,028**	3,035
– Under-provision in prior periods	**2**	–
	3,030	3,035
Overseas taxation		
– Current period taxation	**259**	360
– Over-provision in prior periods	**(7)**	(25)
	3,282	3,370
Deferred tax		
Origination and reversal of temporary differences and unused tax credits	**(219)**	(94)
	3,063	3,276

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2020. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2020 at the rates of taxation prevailing in the countries/regions in which the Group operates.

16. Taxation (continued)

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 2020 HK$'m	Half-year ended 30 June 2019 HK$'m
Profit before taxation	**19,224**	21,552
Calculated at a taxation rate of 16.5% (2019: 16.5%)	**3,172**	3,556
Effect of different taxation rates in other countries/regions	**56**	132
Income not subject to taxation	**(317)**	(683)
Expenses not deductible for taxation purposes	**284**	327
Utilisation of previously unrecognised tax losses	**–**	(1)
Over-provision in prior periods	**(5)**	(25)
Foreign withholding tax	**(13)**	85
Others	**(114)**	(115)
Taxation charge	**3,063**	3,276
Effective tax rate	**15.9%**	15.2%

17. Dividends

	Half-year ended 30 June 2020		Half-year ended 30 June 2019	
	Per share HK$	**Total HK$'m**	Per share HK$	Total HK$'m
Interim dividend	**0.447**	**4,726**	0.545	5,762

At a meeting held on 30 August 2020, the Board declared an interim dividend of HK$0.447 per ordinary share for the first half of 2020 amounting to approximately HK$4,726 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 2020.

18. Earnings per share

The calculation of basic earnings per share for the first half of 2020 is based on the consolidated profit for the period attributable to equity holders of the Company of approximately HK$15,209 million (first half of 2019: HK$17,254 million) and on the ordinary shares in issue of 10,572,780,266 shares (2019: 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 2020 (first half of 2019: Nil).

19. Retirement benefit costs

Retirement benefits are provided to eligible employees of the Group. In Hong Kong, defined contribution schemes for the Group's employees are ORSO schemes exempted under the MPF Schemes Ordinance and the BOC-Prudential Easy Choice MPF Scheme.

19. Retirement benefit costs (continued)

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

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

The Group's total contributions made to the ORSO schemes for the first half of 2020 amounted to approximately HK$188 million (first half of 2019: approximately HK$178 million), after a deduction of forfeited contributions of approximately HK$4 million (first half of 2019: approximately HK$4 million). For the MPF Scheme, the Group contributed approximately HK$66 million (first half of 2019: approximately HK$58 million) for the first half of 2020.

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

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Cash	**16,763**	19,028
Balances with central banks	**178,535**	150,249
Placements with central banks maturing within one month	**32,806**	9,541
Placements with central banks maturing between one and twelve months	**4,013**	2,444
Placements with central banks maturing over one year	**1,175**	785
	216,529	163,019
Balances with other banks and other financial institutions	**57,387**	75,518
Placements with other banks and other financial institutions maturing within one month	**70,405**	81,101
Placements with other banks and other financial institutions maturing between one and twelve months	**48,592**	28,166
	176,384	184,785
	409,676	366,832
Impairment allowances		
– Stage 1	**(18)**	(3)
– Stage 2	**–**	–
– Stage 3	**–**	–
	409,658	366,829

21. Financial assets at fair value through profit or loss

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Securities		
Trading assets		
– Treasury bills	**14,081**	21,025
– Certificates of deposit	**2,129**	2,953
– Other debt securities	**7,632**	13,612
	23,842	37,590
– Equity securities	**56**	37
	23,898	37,627
Other financial assets mandatorily classified at fair value through profit or loss		
– Certificates of deposit	**–**	2
– Other debt securities	**15,794**	27,521
	15,794	27,523
– Equity securities	**4,623**	2,618
– Fund	**6,954**	9,137
	27,371	39,278
Financial assets designated at fair value through profit or loss		
– Certificates of deposit	**–**	–
– Other debt securities	**3,112**	2,991
	3,112	2,991
Total securities	**54,381**	79,896
Other debt instruments		
Trading assets	**3,594**	5,297
	57,975	85,193

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

Total securities are analysed by place of listing as follows:

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Debt securities and certificates of deposit		
– Listed in Hong Kong	**9,288**	14,901
– Listed outside Hong Kong	**9,504**	14,036
– Unlisted	**23,956**	39,167
	42,748	68,104
Equity securities		
– Listed in Hong Kong	**2,547**	1,500
– Listed outside Hong Kong	**2,132**	1,155
	4,679	2,655
Fund		
– Listed in Hong Kong	**414**	–
– Listed outside Hong Kong	**493**	–
– Unlisted	**6,047**	9,137
	6,954	9,137
Total securities	**54,381**	79,896

Total securities are analysed by type of issuer as follows:

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Sovereigns	**20,508**	30,812
Public sector entities	**1,478**	1,526
Banks and other financial institutions	**20,268**	33,665
Corporate entities	**12,127**	13,893
Total securities	**54,381**	79,896

22. 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.

22. 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 2020 and 31 December 2019:

	At 30 June 2020		
	Contract/ notional amounts	**Fair values**	
		Assets	**Liabilities**
	HK$'m	**HK$'m**	**HK$'m**
Exchange rate contracts			
Spot, forwards and futures	**285,134**	**12,541**	**(8,325)**
Swaps	**1,470,679**	**7,568**	**(6,661)**
Options	**35,722**	**79**	**(71)**
	1,791,535	**20,188**	**(15,057)**
Interest rate contracts			
Futures	**1,381**	**1**	**(1)**
Swaps	**1,212,907**	**21,426**	**(32,385)**
Options	**4,698**	**–**	**–**
	1,218,986	**21,427**	**(32,386)**
Commodity contracts	**50,418**	**2,571**	**(5,546)**
Equity contracts	**3,597**	**79**	**(86)**
Credit derivative contracts	**–**	**–**	**–**
	3,064,536	**44,265**	**(53,075)**

	At 31 December 2019		
	Contract/ notional amounts	Fair values	
		Assets	Liabilities
	HK$'m	HK$'m	HK$'m
Exchange rate contracts			
Spot, forwards and futures	315,793	11,814	(8,082)
Swaps	1,556,697	10,849	(10,108)
Options	49,544	132	(100)
	1,922,034	22,795	(18,290)
Interest rate contracts			
Futures	2,318	2	(29)
Swaps	1,223,157	7,462	(12,002)
Options	3,114	–	–
	1,228,589	7,464	(12,031)
Commodity contracts	48,446	756	(2,576)
Equity contracts	1,317	12	(15)
Credit derivative contracts	389	–	(9)
	3,200,775	31,027	(32,921)

23. Advances and other accounts

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Personal loans and advances	**435,131**	415,874
Corporate loans and advances	**1,068,620**	980,009
Advances to customers	**1,503,751**	1,395,883
Less: Impairment allowances		
– Stage 1	**(5,390)**	(4,563)
– Stage 2	**(325)**	(297)
– Stage 3	**(2,341)**	(2,175)
	1,495,695	1,388,848
Trade bills	**13,267**	20,727
Less: Impairment allowances		
– Stage 1	**(1)**	(1)
– Stage 2	**–**	–
– Stage 3	**–**	–
	13,266	20,726
Advances to banks and other financial institutions	**1,403**	3,387
Less: Impairment allowances		
– Stage 1	**(1)**	–
– Stage 2	**–**	–
– Stage 3	**–**	–
	1,402	3,387
	1,510,363	1,412,961

As at 30 June 2020, advances to customers included accrued interest of HK$2,275 million (31 December 2019: HK$2,751 million).

24. Investment in securities

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Investment in securities at fair value through other comprehensive income		
– Treasury bills	**243,715**	234,284
– Certificates of deposit	**47,496**	51,167
– Other debt securities	**410,774**	399,251
	701,985	684,702
– Equity securities	**6,177**	5,968
	708,162	690,670
Investment in securities at amortised cost		
– Certificates of deposit	**924**	1,526
– Other debt securities	**120,853**	109,503
	121,777	111,029
– Impairment allowances		
Stage 1	**(53)**	(46)
Stage 2	**–**	–
Stage 3	**–**	–
	121,724	110,983
	829,886	801,653

24. Investment in securities (continued)

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

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Investment in securities at fair value through other comprehensive income		
Debt securities and certificates of deposit		
– Listed in Hong Kong	**82,318**	69,523
– Listed outside Hong Kong	**202,728**	187,072
– Unlisted	**416,939**	428,107
	701,985	684,702
Equity securities		
– Listed in Hong Kong	**3,037**	3,207
– Listed outside Hong Kong	**1,018**	607
– Unlisted	**2,122**	2,154
	6,177	5,968
	708,162	690,670
Investment in securities at amortised cost		
Debt securities and certificates of deposit		
– Listed in Hong Kong	**24,337**	19,664
– Listed outside Hong Kong	**58,825**	55,151
– Unlisted	**38,562**	36,168
	121,724	110,983
	829,886	801,653
Market value of listed securities at amortised cost	**87,552**	77,394

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

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Sovereigns	**355,077**	357,468
Public sector entities	**42,027**	46,790
Banks and other financial institutions	**241,298**	221,098
Corporate entities	**191,484**	176,297
	829,886	801,653

25. Investment properties

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
At 1 January	**20,110**	19,684
Additions	**4**	35
Fair value (losses)/gains	**(507)**	282
Reclassification (to)/from properties, plant and equipment (Note 26)	**(28)**	109
At period/year end	**19,579**	20,110

26. 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 2020	**46,342**	**3,331**	**1,929**	**51,602**
Additions	**8**	**431**	**244**	**683**
Disposals	**–**	**(9)**	**–**	**(9)**
Revaluation	**(547)**	**–**	**–**	**(547)**
Depreciation for the period (Note 13)	**(588)**	**(553)**	**(388)**	**(1,529)**
Reclassification from investment properties (Note 25)	**28**	**–**	**–**	**28**
Exchange difference	**(4)**	**(7)**	**(9)**	**(20)**
Net book value at 30 June 2020	**45,239**	**3,193**	**1,776**	**50,208**
At 30 June 2020				
Cost or valuation	**45,239**	**11,538**	**2,769**	**59,546**
Accumulated depreciation and impairment	**–**	**(8,345)**	**(993)**	**(9,338)**
Net book value at 30 June 2020	**45,239**	**3,193**	**1,776**	**50,208**
The analysis of cost or valuation of the above assets is as follows:				
At 30 June 2020				
At cost	**–**	**11,538**	**2,769**	**14,307**
At valuation	**45,239**	**–**	**–**	**45,239**
	45,239	**11,538**	**2,769**	**59,546**

26. 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 2019	46,390	3,045	1,757	51,192
Additions	147	1,303	877	2,327
Disposals	–	(8)	–	(8)
Revaluation	1,070	–	–	1,070
Depreciation for the year	(1,157)	(1,013)	(711)	(2,881)
Reclassification to investment properties (Note 25)	(109)	–	–	(109)
Exchange difference	1	4	6	11
Net book value at 31 December 2019	46,342	3,331	1,929	51,602
At 31 December 2019				
Cost or valuation	46,342	11,487	2,640	60,469
Accumulated depreciation and impairment	–	(8,156)	(711)	(8,867)
Net book value at 31 December 2019	46,342	3,331	1,929	51,602
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2019				
At cost	–	11,487	2,640	14,127
At valuation	46,342	–	–	46,342
	46,342	11,487	2,640	60,469

27. Other assets

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Repossessed assets	**18**	7
Precious metals	**7,642**	9,261
Reinsurance assets	**52,499**	48,614
Accounts receivable and prepayments	**67,585**	33,148
	127,744	91,030

28. Financial liabilities at fair value through profit or loss

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Trading liabilities		
– Short positions in Exchange Fund Bills and Notes	**10,658**	19,206
– Others	**200**	–
	10,858	19,206

29. Deposits from customers

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Demand deposits and current accounts		
– Corporate	**217,117**	138,646
– Personal	**76,211**	68,367
	293,328	207,013
Savings deposits		
– Corporate	**447,133**	400,903
– Personal	**549,082**	499,106
	996,215	900,009
Time, call and notice deposits		
– Corporate	**497,104**	517,080
– Personal	**353,789**	385,171
	850,893	902,251
	2,140,436	2,009,273

30. Debt securities and certificates of deposit in issue

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
At amortised cost		
– Certificates of deposit	**–**	116

31. Other accounts and provisions

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Dividend payable	**10,488**	–
Other accounts payable	**112,329**	78,197
Lease liabilities	**1,731**	1,850
Impairment allowances on loan commitments and financial guarantee contracts		
– Stage 1	**477**	535
– Stage 2	**22**	22
– Stage 3	**19**	20
	125,066	80,624

32. 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 2020 and the year ended 31 December 2019 are as follows:

	At 30 June 2020					
	Accelerated tax depreciation HK$'m	**Property revaluation HK$'m**	**Losses HK$'m**	**Impairment allowances HK$'m**	**Others HK$'m**	**Total HK$'m**
At 1 January 2020	**756**	**6,997**	**–**	**(804)**	**(532)**	**6,417**
(Credited)/charged to income statement (Note 16)	**(6)**	**(55)**	**(8)**	**(190)**	**40**	**(219)**
(Credited)/charged to other comprehensive income	**–**	**(112)**	**–**	**–**	**267**	**155**
Release upon disposal of equity instruments at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**22**	**22**
Release upon redemption of financial liabilities designated at fair value through profit or loss	**–**	**–**	**–**	**–**	**6**	**6**
Exchange difference	**–**	**–**	**–**	**–**	**1**	**1**
At 30 June 2020	**750**	**6,830**	**(8)**	**(994)**	**(196)**	**6,382**

	At 31 December 2019					
	Accelerated tax depreciation HK$'m	Property revaluation HK$'m	Losses HK$'m	Impairment allowances HK$'m	Others HK$'m	Total HK$'m
At 1 January 2019	706	6,991	–	(724)	(1,478)	5,495
Charged/(credited) to income statement	50	(127)	–	(80)	12	(145)
Charged to other comprehensive income	–	133	–	–	927	1,060
Release upon disposal of equity instruments at fair value through other comprehensive income	–	–	–	–	7	7
At 31 December 2019	756	6,997	–	(804)	(532)	6,417

32. 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 2020 HK$'m	At 31 December 2019 HK$'m
Deferred tax assets	**(64)**	(63)
Deferred tax liabilities	**6,446**	6,480
	6,382	6,417

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Deferred tax assets to be recovered after more than twelve months	**(70)**	(43)
Deferred tax liabilities to be settled after more than twelve months	**6,633**	6,971
	6,563	6,928

As at 30 June 2020, the Group has no unrecognised deferred tax assets in respect of tax losses (31 December 2019: the Group has not recognised deferred tax assets in respect of tax losses amounting to HK$9 million). All of the amount for the Group has no expiry date under the current tax legislation in different countries/regions.

33. Insurance contract liabilities

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
At 1 January	**117,269**	104,723
Benefits paid	**(7,094)**	(15,373)
Claims incurred and movement in liabilities	**15,563**	27,919
At period/year end	**125,738**	117,269

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK$42,569 million (31 December 2019: HK$40,130 million) and the associated reinsurance assets of HK$52,499 million (31 December 2019: HK$48,614 million) are included in "Other assets" (Note 27).

34. Subordinated liabilities

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Subordinated notes – designated at fair value through profit or loss	**–**	12,954

Listed subordinated notes with aggregate principal amount of USD1,623 million, interest rate at 5.55% per annum payable semi-annually, has been fully repaid in February 2020. Amounts qualified as Tier 2 capital instruments for regulatory purposes are shown in Note 3.5(B). The carrying amount of subordinated notes designated at fair value through profit or loss as at 31 December 2019 was more than the amount that the Group would be contractually required to pay at maturity to the holders by HK$41 million.

35. Share capital

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Issued and fully paid: 10,572,780,266 ordinary shares	**52,864**	52,864

36. Other equity instruments

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Undated non-cumulative subordinated Additional Tier 1 capital securities	**23,476**	23,476

In September 2018, BOCHK issued USD3,000 million undated non-cumulative subordinated Additional Tier 1 capital securities. The capital securities are perpetual securities in respect of which there is no fixed redemption date and are not callable within the first 5 years. They have an initial rate of distribution of 5.90% per annum payable semi-annually which may be cancelled at the sole discretion of BOCHK. Dividend paid to other equity instrument holders in the first half of 2020 amounted to HK$689 million.

37. Notes to condensed consolidated cash flow statement

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

	Half-year ended 30 June 2020 HK$'m	Half-year ended 30 June 2019 HK$'m
Operating profit	**19,788**	20,848
Depreciation	**1,529**	1,402
Net charge of impairment allowances	**1,366**	793
Unwind of discount on impairment allowances	**(4)**	–
Advances written off net of recoveries	**(229)**	(106)
Interest expense on lease liabilities	**28**	27
Change in subordinated liabilities	**–**	227
Change in balances and placements with banks and other financial institutions with original maturity over three months	**(6,858)**	(11,380)
Change in financial assets at fair value through profit or loss	**28,839**	(13,061)
Change in derivative financial instruments	**6,916**	8,449
Change in advances and other accounts	**(98,424)**	(87,902)
Change in investment in securities	**(9,465)**	(181,429)
Change in other assets	**(36,728)**	(13,900)
Change in deposits and balances from banks and other financial institutions	**2,595**	(133,642)
Change in financial liabilities at fair value through profit or loss	**(8,348)**	3,540
Change in deposits from customers	**131,163**	122,427
Change in debt securities and certificates of deposit in issue	**(116)**	(8,661)
Change in other accounts and provisions	**34,132**	13,527
Change in insurance contract liabilities	**8,469**	8,277
Effect of changes in exchange rates	**2,799**	(3,617)
Operating cash inflow/(outflow) before taxation	**77,452**	(274,181)
Cash flows from operating activities included		
– interest received	**30,958**	33,813
– interest paid	**11,495**	12,679
– dividend received	**124**	124

37. Notes to condensed consolidated cash flow statement (continued)

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

	At 30 June 2020 HK$'m	At 30 June 2019 HK$'m
Cash and balances and placements with banks and other financial institutions with original maturity within three months	**358,862**	320,755
Treasury bills, certificates of deposit and other debt instruments with original maturity within three months		
– financial assets at fair value through profit or loss	**8,248**	3,307
– investment in securities	**19,287**	17,578
	386,397	341,640

38. 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 2020 HK$'m	At 31 December 2019 HK$'m
Direct credit substitutes	**3,856**	5,455
Transaction-related contingencies	**30,392**	29,080
Trade-related contingencies	**25,899**	27,865
Commitments that are unconditionally cancellable without prior notice	**487,710**	447,055
Other commitments with an original maturity of		
– up to one year	**14,269**	13,772
– over one year	**153,841**	160,575
	715,967	683,802
Credit risk-weighted amount	**69,684**	76,911

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.

39. Capital commitments

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

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Authorised and contracted for but not provided for	**172**	188
Authorised but not contracted for	**232**	72
	404	260

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

40. 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 2020 HK$'m	At 31 December 2019 HK$'m
Properties and equipment		
– Not later than one year	**530**	552
– One to two years	**349**	389
– Two to three years	**142**	187
– Three to four years	**21**	33
– Four to five years	**9**	1
– Later than five years	**6**	–
	1,057	1,162

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.

41. Segmental reporting

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

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

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

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

41. 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 2020								
Net interest income/(expense)								
– External	373	8,363	7,205	1,701	994	18,636	–	18,636
– Inter-segment	5,375	(1,755)	(3,045)	(8)	(567)	–	–	–
	5,748	6,608	4,160	1,693	427	18,636	–	18,636
Net fee and commission income/(expense)	3,339	1,960	115	(308)	528	5,634	(199)	5,435
Net insurance premium income	–	–	–	7,927	–	7,927	(11)	7,916
Net trading gain/(loss)	465	721	916	(26)	219	2,295	35	2,330
Net gain/(loss) on other financial instruments at fair value through profit or loss	–	–	151	49	(3)	197	5	202
Net gain on other financial assets	–	10	2,496	65	–	2,571	–	2,571
Other operating income	16	4	23	73	1,040	1,156	(692)	464
Total operating income	9,568	9,303	7,861	9,473	2,211	38,416	(862)	37,554
Net insurance benefits and claims and movement in liabilities	–	–	–	(8,811)	–	(8,811)	–	(8,811)
Net operating income before impairment allowances	9,568	9,303	7,861	662	2,211	29,605	(862)	28,743
Net charge of impairment allowances	(630)	(561)	(84)	(23)	(68)	(1,366)	–	(1,366)
Net operating income	8,938	8,742	7,777	639	2,143	28,239	(862)	27,377
Operating expenses	(4,609)	(1,584)	(562)	(247)	(1,449)	(8,451)	862	(7,589)
Operating profit	4,329	7,158	7,215	392	694	19,788	–	19,788
Net loss from disposal of/fair value adjustments on investment properties	–	–	–	–	(507)	(507)	–	(507)
Net loss from disposal/revaluation of properties, plant and equipment	(2)	–	–	–	(1)	(3)	–	(3)
Share of profits less losses after tax of associates and joint ventures	25	–	2	–	(81)	(54)	–	(54)
Profit before taxation	4,352	7,158	7,217	392	105	19,224	–	19,224
At 30 June 2020								
ASSETS								
Segment assets	460,942	1,025,662	1,446,472	164,982	163,478	3,261,536	(36,388)	3,225,148
Interests in associates and joint ventures	584	–	3	–	991	1,578	–	1,578
	461,526	1,025,662	1,446,475	164,982	164,469	3,263,114	(36,388)	3,226,726
LIABILITIES								
Segment liabilities	1,115,488	1,004,391	565,593	154,409	110,229	2,950,110	(36,388)	2,913,722
Half-year ended 30 June 2020								
Other information								
Capital expenditure	3	1	–	36	647	687	–	687
Depreciation	651	137	54	31	674	1,547	(18)	1,529
Amortisation of securities	–	–	112	177	31	320	–	320

41. 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 2019								
Net interest income/(expense)								
– External	4	7,564	9,547	1,580	1,208	19,903	–	19,903
– Inter-segment	6,881	(226)	(5,943)	(8)	(704)	–	–	–
	6,885	7,338	3,604	1,572	504	19,903	–	19,903
Net fee and commission income/(expense)	3,620	2,247	228	(440)	583	6,238	(192)	6,046
Net insurance premium income	–	–	–	9,406	–	9,406	(10)	9,396
Net trading gain/(loss)	386	713	979	(438)	162	1,802	27	1,829
Net (loss)/gain on other financial instruments at fair value through profit or loss	(1)	–	136	2,075	1	2,211	4	2,215
Net (loss)/gain on other financial assets	–	(2)	729	(11)	–	716	–	716
Other operating income	28	–	11	65	1,068	1,172	(671)	501
Total operating income	10,918	10,296	5,687	12,229	2,318	41,448	(842)	40,606
Net insurance benefits and claims and movement in liabilities	–	–	–	(11,437)	–	(11,437)	–	(11,437)
Net operating income before impairment allowances	10,918	10,296	5,687	792	2,318	30,011	(842)	29,169
Net (charge)/reversal of impairment allowances	(88)	(675)	(44)	(2)	16	(793)	–	(793)
Net operating income	10,830	9,621	5,643	790	2,334	29,218	(842)	28,376
Operating expenses	(4,430)	(1,556)	(570)	(239)	(1,575)	(8,370)	842	(7,528)
Operating profit	6,400	8,065	5,073	551	759	20,848	–	20,848
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	657	657	–	657
Net gain from disposal/revaluation of properties, plant and equipment	–	–	–	–	1	1	–	1
Share of profits less losses after tax of associates and joint ventures	54	–	1	–	(9)	46	–	46
Profit before taxation	6,454	8,065	5,074	551	1,408	21,552	–	21,552
At 31 December 2019								
ASSETS								
Segment assets	442,694	947,164	1,354,356	153,116	155,953	3,053,283	(28,859)	3,024,424
Interests in associates and joint ventures	559	–	1	–	1,072	1,632	–	1,632
	443,253	947,164	1,354,357	153,116	157,025	3,054,915	(28,859)	3,026,056
LIABILITIES								
Segment liabilities	1,079,821	907,381	521,210	143,011	96,000	2,747,423	(28,859)	2,718,564
Half-year ended 30 June 2019								
Other information								
Capital expenditure	35	1	1	21	1,139	1,197	–	1,197
Depreciation	561	110	50	27	654	1,402	–	1,402
Amortisation of securities	–	–	925	30	(34)	921	–	921

42. Assets pledged as security

As at 30 June 2020, the liabilities of the Group amounting to HK$8,915 million (31 December 2019: HK$15,862 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK$75,190 million (31 December 2019: HK$60,562 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$85,146 million (31 December 2019: HK$76,656 million) mainly included in "Financial assets at fair value through profit or loss" and "Investment in securities".

43. Significant related party transactions

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

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

General information of the parent companies:

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

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

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

The majority of transactions with BOC arise from money market activities. As at 30 June 2020, the related aggregate amounts due from and to BOC of the Group were HK$85,773 million (31 December 2019: HK$98,066 million) and HK$63,711 million (31 December 2019: HK$56,995 million) respectively. The aggregate amounts of income and expenses of the Group arising from these transactions with BOC for the first half of 2020 were HK$493 million (first half of 2019: HK$1,160 million) and HK$119 million (first half of 2019: HK$347 million) respectively.

Transactions with other companies controlled by BOC are not considered material.

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

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

43. Significant related party transactions (continued)

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

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

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

– inter-bank balance taking and placing;

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

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

– provision of fiduciary activities; and

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

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

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

	Half-year ended 30 June 2020 HK$'m	Half-year ended 30 June 2019 HK$'m
Income statement items		
Associates and joint ventures		
– Fee and commission income	**20**	–
– Interest expenses	**–**	2
– Fee and commission expenses	**–**	4
– Other operating expenses	**40**	41
Other related parties		
– Fee and commission income	**6**	5

	At 30 June 2020 HK$'m	At 31 December 2019 HK$'m
Balance sheet items		
Associates and joint ventures		
– Other assets	**6**	–
– Deposits and balances from banks and other financial institutions	**75**	96
– Deposits from customers	**139**	–
– Other accounts and provisions	**–**	1

43. Significant related party transactions (continued)

(d) Key management personnel

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

The compensation of key management personnel is detailed as follows:

	Half-year ended 30 June 2020 HK$'m	Half-year ended 30 June 2019 HK$'m
Salaries and other short-term employee benefits	**20**	18

44. 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 are shown as follows:

	At 30 June 2020				
			Non-bank private sector		
	Banks HK$'m	**Official sector HK$'m**	**Non-bank financial institutions HK$'m**	**Non-financial private sector HK$'m**	**Total HK$'m**
Chinese Mainland	**294,850**	**119,690**	**20,400**	**157,188**	**592,128**
Hong Kong	**10,015**	**82**	**47,530**	**404,733**	**462,360**
United States	**13,024**	**93,834**	**24,001**	**22,452**	**153,311**

	At 31 December 2019				
			Non-bank private sector		
	Banks HK$'m	Official sector HK$'m	Non-bank financial institutions HK$'m	Non-financial private sector HK$'m	Total HK$'m
Chinese Mainland	290,330	110,229	21,988	154,714	577,261
Hong Kong	6,842	96	44,230	362,148	413,316
United States	17,219	106,473	22,908	22,146	168,746

45. 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 2020		
	Items in the HKMA return	On-balance sheet exposure HK$'m	Off-balance sheet exposure HK$'m	Total exposure HK$'m
Central government, central government-owned entities and their subsidiaries and joint ventures	1	351,918	34,077	385,995
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	66,085	10,225	76,310
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	109,558	22,585	132,143
Other entities of central government not reported in item 1 above	4	32,198	4,777	36,975
Other entities of local governments not reported in item 2 above	5	578	–	578
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	89,016	7,940	96,956
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	1,811	–	1,811
Total	8	651,164	79,604	730,768
Total assets after provision	9	2,994,168		
On-balance sheet exposures as percentage of total assets	10	21.75%		

45. Non-bank Mainland exposures (continued)

		At 31 December 2019		
	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	310,795	43,519	354,314
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	65,697	13,247	78,944
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	102,300	21,580	123,880
Other entities of central government not reported in item 1 above	4	32,086	3,735	35,821
Other entities of local governments not reported in item 2 above	5	500	2	502
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	80,635	13,988	94,623
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	1,770	–	1,770
Total	8	593,783	96,071	689,854
Total assets after provision	9	2,800,915		
On-balance sheet exposures as percentage of total assets	10	21.20%		

46. Compliance with HKAS 34

The unaudited interim financial information for the first half of 2020 complies with HKAS 34 "Interim Financial Reporting" issued by the HKICPA.

47. Statutory accounts

The financial information relating to the year ended 31 December 2019 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 2019 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
LIU Liange#

Vice Chairman

WANG Jiang#	(appointment effective from 20 March 2020)
GAO Yingxin	(resignation effective from 25 May 2020)

Directors

LIN Jingzhen#	
SUN Yu#	(appointment effective from 20 March 2020)
CHENG Eva*	
CHOI Koon Shum*	
KOH Beng Seng*	
LAW Yee Kwan Quinn*	
TUNG Savio Wai-Hok*	

Non-executive Directors
* Independent Non-executive Directors

Senior Management

Chief Executive

GAO Yingxin	(resignation effective from 25 May 2020)

Chief Risk Officer
ZHUO Chengwen

Deputy Chief Executives
WANG Qi
YUAN Shu

Chief Operating Officer
ZHONG Xiangqun

Deputy Chief Executives
WANG Bing
QIU Zhikun

Chief Financial Officer
SUI Yang

Deputy Chief Executive
KUNG YEUNG Ann Yun Chi

Company Secretary

LUO Nan

Registered Office

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

Auditor

Ernst & Young

Share Registrar

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

ADR Depositary Bank

Citibank, N.A.
388 Greenwich Street
6th 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
CES Belt and Road Index Series

Stock Codes

Ordinary shares:

The Stock Exchange of Hong Kong Limited	2388
Reuters	2388.HK
Bloomberg	2388 HK

Level 1 ADR Programme:

CUSIP No.	096813209
OTC Symbol	BHKLY

Website

www.bochk.com

2. Interim dividend and closure of register of members

The Board has declared an interim dividend of HK$0.447 per share (2019: HK$0.545), payable on Wednesday, 30 September 2020 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 22 September 2020.

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to the interim dividend, from Thursday, 17 September 2020 to Tuesday, 22 September 2020 (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 Wednesday, 16 September 2020. Shares of the Company will be traded ex-dividend as from Tuesday, 15 September 2020.

3. Interest of substantial shareholders

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 30 June 2020, 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 2020.

4. Directors' interests in shares, underlying shares and debentures

As at 30 June 2020, the interests and short positions of the Directors and their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") are set out below:

The Company:

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

Notes:

1. Mr TUNG Savio Wai-Hok held 2,000 American Depositary Shares ("ADS") of the Company, and each ADS represents 20 ordinary shares of the Company.

2. Such shares represent approximately 0.0004% of the total issued shares of the Company.

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

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

Notes:

1. Such shares held by Mr SUN Yu represent approximately 0.00001% of the total issued H shares of BOC.

2. Such shares are held by the spouse of Dr CHOI Koon Shum.

3. Dr CHOI Koon Shum is deemed to be interested in the 1,120,000 shares held through Choi Koon Shum Education Foundation Limited by virtue of the SFO.

All the interests stated above represented long positions. Save as disclosed above, as at 30 June 2020, none of the Directors or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

5. Changes of information in respect of Directors

In accordance with Rule 13.51B(1) of the Listing Rules, the changes in information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules after the publication of the Company's Annual Report 2019 on 27 March 2020 up to 30 August 2020 (being the approval date of this Interim Report) are set out below:

(a) Mr WANG Jiang, Vice Chairman and Non-executive Director of the Company, has been appointed as Director of BOC (BVI) and BOCHKG with effect from 2 April 2020.

(b) Mr GAO Yingxin resigned as Executive Director, Vice Chairman and Chief Executive, member of each of the Strategy and Budget Committee and the Sustainability Committee of the Company and BOCHK with effect from 25 May 2020.

(c) Mr TUNG Savio Wai-Hok, Independent Non-executive Director of the Company, resigned as Director and a member of the Compensation Committee of Tech Data Corporation, a company previously listed on NASDAQ, with effect from 29 June 2020.

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

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

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

7. Audit Committee

The Audit Committee consists of Independent Non-executive Directors only. It is chaired by Mr TUNG Savio Wai-Hok. Other members include Madam CHENG Eva, Mr KOH Beng Seng and Mr LAW Yee Kwan Quinn.

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 and Corporate Governance Report"

The Company is committed to embracing and enhancing good corporate governance principles and practices. During the period under review, the Company has been in full compliance with all code provisions of the Corporate Governance Code and Corporate Governance Report as contained in Appendix 14 of the Listing Rules (the "Corporate Governance Code"). The Company has also complied with nearly all the recommended best practices set out in the Corporate Governance Code throughout the period. For further details, please refer to the section titled "Corporate Governance" contained in the Annual Report 2019 of the Company.

9. Compliance with the Codes for Securities Transactions by Directors

The Company has established and implemented the "Code for Securities Transactions by Directors" (the "Company's Code") to govern the Directors' dealings in securities transactions of the Company. Terms of the Company's Code are more stringent than the mandatory standards set out in the Model Code. Apart from the Directors' dealings in the securities of the Company, the Company's Code has also been applied to the Directors' dealings in the securities of BOC and BOC Aviation Limited (BOC's subsidiary) since their share listing on the Hong Kong Stock Exchange in June 2006 and June 2016 respectively as well as BOC International (China) Co, Ltd (BOC's associate) since its share listing on the Shanghai Stock Exchange in February 2020. Upon specific enquiry by the Company, all Directors confirmed that they had strictly complied with the provisions as set out in both the Company's Code and the Model Code throughout the period under review.

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

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

11. Interim Report

This Interim Report is available in both English and Chinese. A copy prepared in the language different from that in which you have received is available by writing to the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or email to bochk.ecom@computershare.com.hk.

This Interim Report is also available (in both English and Chinese) on the Company's website at www.bochk.com and the Stock Exchange's website at www.hkexnews.hk. You are encouraged to access the Interim Report and other corporate communications of the Company through these websites in lieu of receiving printed copies to help protect the environment. We believe that it is also the most efficient and convenient method of communication with our shareholders.

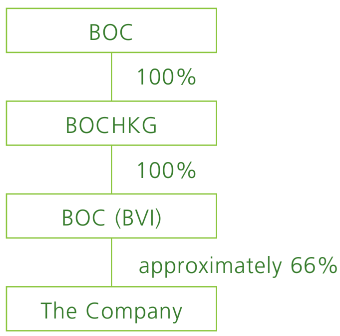
If you have any queries about how to obtain copies of this Interim Report or how to access those corporate communications on the Company's website, please call the Company's hotline at (852) 2846 2700.

12. Reconciliation between HKFRSs vs IFRSs/CASs

The Company understands that BOC, an intermediate holding company as well as controlling shareholder of the Company, will prepare and disclose consolidated financial information in accordance with IFRSs and CASs for which the Company and its subsidiaries will form part of the interim financial information. The requirements of CASs have substantially converged with HKFRSs and IFRSs.

The consolidated financial information of "BOC Hong Kong Group" for the periods disclosed by BOC in its interim financial information is not the same as the 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 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.

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 2020 HK$'m	Half-year ended 30 June 2019 HK$'m	**At 30 June 2020 HK$'m**	At 31 December 2019 HK$'m
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs	**16,161**	18,276	**313,004**	307,492
Add: IFRSs/CASs adjustments				
Restatement of carrying value of bank premises	**456**	437	**(33,801)**	(35,001)
Deferred tax adjustments	**(48)**	(74)	**5,801**	5,965
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRSs/CASs	**16,569**	18,639	**285,004**	278,456

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.

INDEPENDENT REVIEW REPORT

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

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 38 to 113, which comprises the condensed consolidated balance sheet of BOC Hong Kong (Holdings) Limited (the "Company") and its subsidiaries (the "Group") as at 30 June 2020 and the related condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six-month period then ended, and other 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" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made 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 HKICPA. 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 is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Ernst & Young
Certified Public Accountants
Hong Kong, 30 August 2020

APPENDIX

Subsidiaries of the Company

The particulars of subsidiaries are as follows:

Name	Place and date of incorporation/ operation	Issued share capital	Interest held	Principal activities
Directly held:				
Bank of China (Hong Kong) Limited	Hong Kong 16 October 1964	HK$43,042,840,858	100.00%	Banking business
BOC Group Life Assurance Company Limited	Hong Kong 12 March 1997	HK$3,538,000,000	51.00%	Life insurance business
BOCHK Asset Management (Cayman) Limited	Cayman Islands 7 October 2010	HK$283,000,000	100.00%	Investment holding
BOC Insurance (International) Holdings Company Limited	Hong Kong 6 June 2017	HK$100	100.00%	Investment holding
Indirectly held:				
BOC Credit Card (International) Limited	Hong Kong 9 September 1980	HK$565,000,000	100.00%	Credit card services
BOC Group Trustee Company Limited	Hong Kong 1 December 1997	HK$200,000,000	66.00%	Trustee services
BOCI-Prudential Trustee Limited	Hong Kong 11 October 1999	HK$300,000,000	42.24%*	Trustee services
Bank of China (Malaysia) Berhad	Malaysia 14 April 2000	RM760,518,480	100.00%	Banking business
China Bridge (Malaysia) Sdn. Bhd.	Malaysia 24 April 2009	RM1,000,000	100.00%	China visa application
Bank of China (Thai) Public Company Limited	Thailand 1 April 2014	Baht10,000,000,000	100.00%	Banking business
Bank of China (Hong Kong) Nominees Limited	Hong Kong 1 October 1985	HK$2	100.00%	Nominee services
Bank of China (Hong Kong) Trustees Limited	Hong Kong 6 November 1987	HK$3,000,000	100.00%	Trustee and agency services
BOC Financial Services (Nanning) Company Limited**	PRC 19 February 2019	Registered capital HK$60,000,000	100.00%	Financial operational services
BOCHK Financial Products (Cayman) Ltd.	Cayman Islands 10 November 2006	US$50,000	100.00%	Issuing structured notes
BOCHK Information Technology (Shenzhen) Co., Ltd.**	PRC 16 April 1990	Registered capital HK$70,000,000	100.00%	Property holding and investment

Subsidiaries of the Company (continued)

Name	Place and date of incorporation/ operation	Issued share capital	Interest held	Principal activities
BOCHK Information Technology Services (Shenzhen) Co., Ltd.**	PRC 26 May 1993	Registered capital HK$40,000,000	100.00%	Information technology services
Che Hsing (Nominees) Limited	Hong Kong 23 April 1980	HK$10,000	100.00%	Nominee services
Po Sang Financial Investment Services Company Limited	Hong Kong 23 September 1980	HK$335,000,000	100.00%	Gold trading and investment holding
Po Sang Securities and Futures Limited	Hong Kong 19 October 1993	HK$335,000,000	100.00%	Securities and futures brokerage
Sin Chiao Enterprises Corporation, Limited	Hong Kong 13 September 1961	HK$3,000,000	100.00%	Property holding and investment
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

Subsidiaries of the Company (continued)

Name	Place and date of incorporation/ operation	Issued share capital	Interest held	Principal activities
Smart Linkage Holdings Inc.	British Virgin Islands 13 February 2014	US$1	100.00%	Investment holding
Smart Union Capital Investments Ltd.	British Virgin Islands 3 January 2014	US$1	100.00%	Investment holding
Success Trend Development Ltd.	British Virgin Islands 18 February 2014	US$1	100.00%	Investment holding
Wise Key Enterprises Corp.	British Virgin Islands 18 February 2014	US$1	100.00%	Investment holding
BOCHK Asset Management Limited	Hong Kong 28 October 2010	HK$272,500,000	100.00%	Asset management
BOCHK Equity Investment Management (Shenzhen) Limited**	PRC 2 April 2019	Registered capital US$2,000,000	100.00%	Asset management

* 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.

Sin Chiao Enterprises Corporation, Limited has commenced members' voluntary winding up on 3 April 2020.

Che Hsing (Nominees) Limited has commenced members' voluntary winding up on 22 May 2020.

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
"Associates"	has the meaning ascribed to "associates" in the Listing Rules
"BOC"	Bank of China Limited, a joint stock commercial bank with limited liability established under the laws of the PRC, the H shares and A shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively
"BOC (BVI)"	BOC Hong Kong (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of BOCHKG
"BOCG Insurance"	Bank of China Group Insurance Company Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCHKG"	BOC Hong Kong (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCHK" or "the Bank"	Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of the Company
"BOCI"	BOC International Holdings Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCI-Prudential Manager"	BOCI-Prudential Asset Management Limited, a company incorporated under the laws of Hong Kong, in which BOCI Asset Management Limited, a wholly-owned subsidiary of BOC International Holdings Limited, and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOCI-Prudential Trustee"	BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong, in which BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOC Life"	BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOCG Insurance hold equity interests of 51% and 49% respectively
"BOC Malaysia"	Bank of China (Malaysia) Berhad, a wholly-owned subsidiary of BOCHK
"BOC Thailand"	Bank of China (Thai) Public Company Limited, a wholly-owned subsidiary of BOCHK
"Board" or "Board of Directors"	the Board of Directors of the Company
"CAS"	Chinese Accounting Standard for Business Enterprises

DEFINITIONS

Terms	Meanings
"CE"	Chief Executive
"CET1"	Common Equity Tier 1
"CFO"	Chief Financial Officer
"CIC"	China Investment Corporation
"CRO"	Chief Risk Officer
"CVA"	Credit Valuation Adjustment
"Central Huijin"	Central Huijin Investment Ltd.
"DCE"	Deputy Chief Executive
"DVA"	Debit Valuation Adjustment
"ECL"	Expected Credit Loss
"EV"	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

Terms	Meanings
"LCO"	the Legal & Compliance and Operational Risk Management Department
"LCR"	Liquidity Coverage Ratio
"LIBOR"	London Interbank Offered Rate
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MC"	the Management Committee
"MCO"	Maximum Cumulative Cash Outflow
"MPF"	Mandatory Provident Fund
"MPF Schemes Ordinance"	the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong, as amended
"Moody's"	Moody's Investors Service
"N/A"	Not applicable
"NII"	Net Interest Income Sensitivity Ratio
"NSFR"	Net Stable Funding Ratio
"ORSO schemes"	the Occupational Retirement Schemes under Occupational Retirement Schemes Ordinance, Chapter 426 of the Laws of Hong Kong
"OTC"	Over-the-counter
"PRC"	the People's Republic of China
"PVBP"	Price Value of a Basis Point
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"RMC"	the Risk Committee
"RMD"	the Risk Management Department
"RWA"	Risk-weighted Assets
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"SME"	Small and Medium-sized Enterprise
"STC"	Standardised (Credit Risk)
"STM"	Standardised (Market Risk)
"STO"	Standardised (Operational Risk)
"Standard & Poor's"	Standard & Poor's Ratings Services

DEFINITIONS

Terms	Meanings
"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

中銀香港(控股)有限公司
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