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

2021 INTERIM REPORT

Stock code: 2388

This version of the 2021 Interim Report will be replaced by the printed version available in mid September 2021.

CONTENTS

FINANCIAL HIGHLIGHTS

For the period	30 June 2021 HK$'m	30 June 2020 HK$'m
Net operating income before impairment allowances	**25,050**	28,743
Operating profit	**16,286**	19,788
Profit before taxation	**16,153**	19,224
Profit for the period	**13,591**	16,161
Profit attributable to equity holders of the Company and other equity instrument holders	**13,264**	15,898
Per share	**HK$**	HK$
Basic earnings per share	**1.1895**	1.4385
Dividend per share	**0.447**	0.447
At period/year end	**30 June 2021 HK$'m**	31 December 2020 HK$'m
Total assets	**3,834,870**	3,320,981
Issued and fully paid up share capital	**52,864**	52,864
Capital and reserves attributable to equity holders of the Company	**292,967**	290,302
Financial ratios for the period	**30 June 2021 %**	30 June 2020 %
Return on average total assets[1]	**0.76**	1.04
Return on average shareholders' equity[2]	**8.42**	10.43
Cost to income ratio	**30.27**	26.40
Average value of liquidity coverage ratio[3]		
First quarter	**134.09**	150.45
Second quarter	**134.20**	131.38
Financial ratios at period/year end	**30 June 2021 %**	31 December 2020 %
Loan to deposit ratio[4]	**65.05**	68.59
Quarter-end value of net stable funding ratio[3]		
First quarter	**124.90**	116.60
Second quarter	**118.50**	117.49
Total capital ratio[5]	**19.79**	22.10

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.

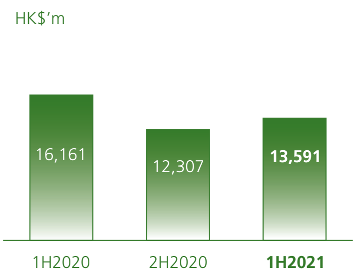
5. Total capital ratio is computed on the consolidated basis for regulatory purposes that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules.

MANAGEMENT DISCUSSION AND ANALYSIS

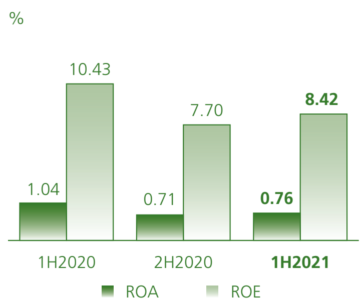
FINANCIAL PERFORMANCE AND CONDITIONS AT A GLANCE

The following table is a summary of the Group's key financial results for the first half of 2021 in comparison with the previous two half-year periods of 2020.

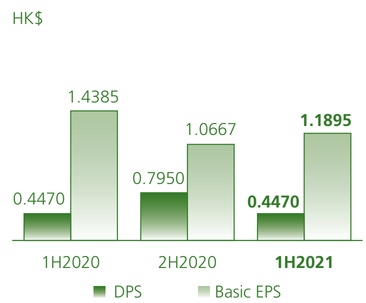
Profit for the period



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



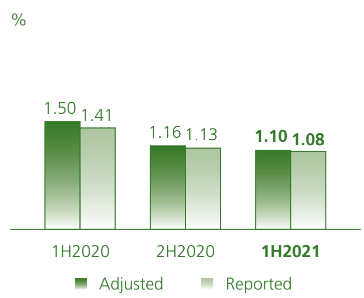
Basic Earnings Per Share ("Basic EPS") and Dividend Per Share ("DPS")



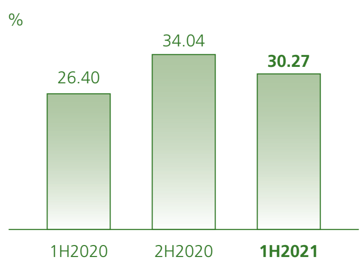
Profit for the period

- In the first half of 2021, profit for the period amounted to HK$13,591 million, representing an increase of 10.4% compared to the second half of 2020 and a decrease of 15.9% compared to the same period of the previous year.
- ROE and ROA was 8.42% and 0.76% respectively.
- Basic EPS was HK$1.1895. The interim dividend per share was HK$0.447.

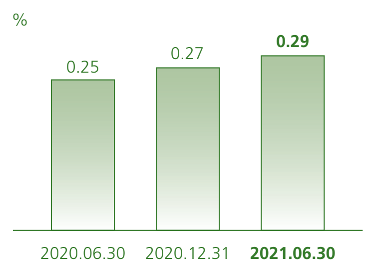
Net Interest Margin ("NIM")



Cost to Income Ratio



Classified or Impaired Loan Ratio[2]



Net interest margin ("NIM") narrowed amid falling market interest rates

- NIM was 1.08%. If the funding income or cost of foreign currency swap contracts[3] were included, NIM would have been 1.10%, down 40 basis points year-on-year, as a result of falling market interest rates. The Group proactively managed its assets and liabilities, resulting in solid growth in advances to customers and an improved mix of deposits from customers with shorter tenor of time deposits and a higher CASA ratio which led to an effective control of its costs of liabilities. All of which partially mitigated the aforementioned negative impact.

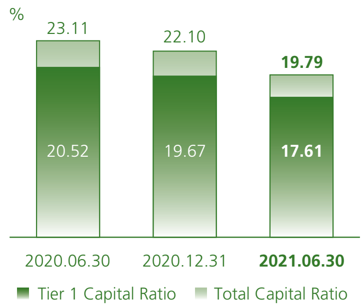
Maintained satisfactory cost efficiency by optimising resource allocation

- Cost to income ratio was 30.27%. While continuing to invest in its strategic priorities, the Group strengthened its cost management in order to enhance efficiency in resource allocation, thus maintaining its cost to income ratio at a satisfactory level relative to industry peers.

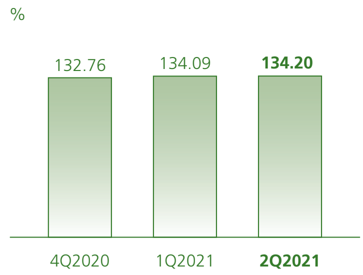
Maintained benign asset quality through prudent risk management

- The classified or impaired loan ratio was 0.29%. Adjusted for the impact of IPO financing, the ratio would have been 0.32%, continuing to outperform the market average.

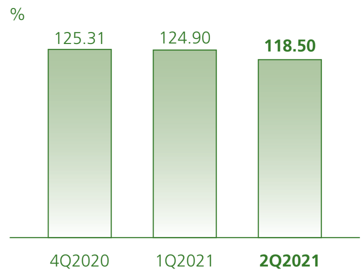
Capital Ratio



Average Value of Liquidity Coverage Ratio



Quarter-end Value of Net Stable Funding Ratio



Strong capital position to support solid business growth

- Tier 1 capital ratio was 17.61%, while total capital ratio was 19.79%. The IPO-related activities caused temporary drops in the capital ratios as at the end of June 2021.

Liquidity remained ample

- The average values of liquidity coverage ratio in the first and second quarter of 2021 were 134.09% and 134.20% respectively.
- Net stable funding ratio stood at 124.90% at the end of the first quarter of 2021 and 118.50% at the end of the second quarter of 2021 respectively. The IPO-related activities caused a temporary drop in the net stable funding ratio at the end of the second quarter of 2021.

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.

ECONOMIC BACKGROUND AND OPERATING ENVIRONMENT

The COVID-19 pandemic situation remained volatile in the first half of 2021, with China-US tensions and persistent geopolitical risks. The accommodative monetary policies maintained by advanced economies in the US and Europe accelerated economic activity. At the same time, the Chinese mainland effectively contained the pandemic, with major economic indicators registering relatively rapid growth and the economy mounting a resilient recovery. A deterioration of the pandemic situation in the Southeast Asian region led to further restrictive measures that adversely affected the region's economic recovery.

The Hong Kong economy returned to positive growth. Domestic demand improved as the pandemic situation was gradually brought under control, and the performance of Hong Kong's merchandise trade substantially improved owing to a rebound in global demand. However, Hong Kong's economic recovery was constrained by the severe effects of the pandemic on the global economic environment, resulting in a sharp decline in visitor arrivals and a persistently high unemployment rate.

In the first half of the year, the exchange rate of the Hong Kong dollar against the US dollar weakened slightly, but remained close to the strong-side Convertibility Undertaking. The aggregate balance in the banking sector was largely stable with ample liquidity in the market. The average 1-month HIBOR and 1-month LIBOR dropped from 0.85% and 0.52% respectively in 2020 to 0.12% and 0.11% respectively in the first half of 2021.

Stock market sentiment improved in Hong Kong in the beginning of 2021 amid anticipation of a global economic recovery, although the investment sentiment subsequently weakened in the second quarter. As at the end of June 2021, the Hang Seng Index had climbed 5.9% compared to the end of 2020. With secondary listings of China concept stocks being undertaken in Hong Kong, the total funds raised and average daily turnover of the stock market rose 107.7% and 60.1% respectively compared to the same period last year.

Despite the highly uncertain development of the pandemic situation, the Hong Kong property market gradually recovered with residential property prices rising from the end of last year amid the easing of monetary policies by central banks around the world, the continued low interest rate environment for the Hong Kong dollar, and the recovery of the Hong Kong economy. The HKSAR Government continued to implement demand-side management measures and the HKMA maintained prudent supervisory measures on mortgage loans, which helped banks to maintain stable asset quality in their mortgage businesses.

Despite these challenges in the macroeconomic environment, the banking industry continues to enjoy enormous development opportunities. The budget announced by the HKSAR Government in February 2021 included a target to implement Southbound Trading under Bond Connect within this year. Together with the publication of the Public Consultation of the Guangdong-Hong Kong-Macao Greater Bay Area Cross-Boundary Wealth Management Connect Pilot Scheme Implementation Details by the People's Bank of China in May, these will further promote mutual financial market access between the Chinese mainland and Hong Kong and expand market horizons for the Hong Kong banking industry. The 14th Five-Year Plan recognises high-quality and technological innovation as key imperatives for the development of the Chinese mainland economy. Related demand for investment and financing arising from it will not only create tremendous business opportunities for the Hong Kong banking industry, but will also promote the development of green finance. In addition, the national carbon emission trading scheme officially launched in July this year in the Chinese mainland will not only push forward green and low-carbon development, but also inject further impetus to the financial sector.

MANAGEMENT DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL REVIEW

Financial Highlights

HK$'m	**Half-year ended 30 June 2021**	Half-year ended 31 December 2020	Half-year ended 30 June 2020
Net operating income before impairment allowances	**25,050**	25,731	28,743
Operating expenses	**(7,582)**	(8,758)	(7,589)
Operating profit before impairment allowances	**17,468**	16,973	21,154
Operating profit after impairment allowances	**16,286**	15,632	19,788
Profit before taxation	**16,153**	14,359	19,224
Profit for the period	**13,591**	12,307	16,161
Profit attributable to equity holders of the Company	**12,576**	11,278	15,209

In the first half of 2021, operating income in the banking sector remained under pressure as the operating environment remained complex and challenging, stemming from a volatile COVID-19 pandemic situation and a continued low interest rate environment. During the reporting period, the Group's net operating income before impairment allowances amounted to HK$25,050 million, a decrease of HK$3,693 million or 12.8% year-on-year. This was mainly due to a year-on-year decrease in net interest income resulting from falling market interest rates. Nevertheless, the Group actively responded to a challenging market environment, captured market opportunities amid satisfactory investor sentiment in the beginning of the year, and stepped up its efforts to enhance its integrated service capabilities. Net fee and commission income grew year-on-year as a result, partially offsetting the decrease in net interest income. Operating expenses decreased slightly as a result of the Group's effort to engage in green banking practices and optimise resource allocation. Meanwhile, the net charge of impairment allowances decreased and a lower net loss was recorded from fair-value adjustments on investment properties. Profit for the period amounted to HK$13,591 million, a year-on-year decrease of HK$2,570 million or 15.9%. Profit attributable to equity holders was HK$12,576 million, a decrease of HK$2,633 million or 17.3% year-on-year.

As compared with the second half of 2020, the Group's net operating income before impairment allowances decreased by HK$681 million or 2.6%. This was mainly due to a decrease in net interest income resulting from falling market interest rates. At the same time, net fee and commission income increased, operating expenses decreased and the Group recorded a lower net loss from fair value adjustments on investment properties. As a result, the Group's profit for the period rebounded by HK$1,284 million or 10.4% compared to the second half of last year.

INCOME STATEMENT ANALYSIS

Net Interest Income and Net Interest Margin

HK$'m, except percentages	**Half-year ended 30 June 2021**	Half-year ended 31 December 2020	Half-year ended 30 June 2020
Interest income	**19,848**	20,992	28,936
Interest expense	**(3,906)**	(4,890)	(10,300)
Net interest income	**15,942**	16,102	18,636
Average interest-earning assets	**2,977,664**	2,823,333	2,651,178
Net interest spread	**1.02%**	1.07%	1.25%
Net interest margin	**1.08%**	1.13%	1.41%
Net interest margin (adjusted)*	**1.10%**	1.16%	1.50%

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

Net interest income amounted to HK$15,942 million in the first half of 2021. If the funding income or cost of foreign currency swap contracts# were included, net interest income would have decreased by 18.0% year-on-year to HK$16,254 million. This was mainly due to a narrowing of net interest margin, partially offset by growth in average interest-earning assets.

Average interest-earning assets expanded by HK$326,486 million or 12.3% year-on-year. Advances to customers and debt securities investments increased, driven by growth in deposits from customers.

If the funding income or cost of foreign currency swap contracts were included, net interest margin would have been 1.10%, down 40 basis points year-on-year. The decrease in net interest margin was mainly due to a narrowing of the Group's loan and deposit spread and a decline in the average yield of debt securities investments and other debt instruments, and interbank placements amid falling market interest rates. The Group proactively managed its assets and liabilities in response to the low interest rate environment, resulting in solid growth in advances to customers and an improved mix of deposits from customers with shorter tenor of time deposits and a higher CASA ratio which led to an effective control of its costs of liabilities, partially offsetting the negative impacts.

Compared with the second half of 2020, the Group's net interest income would have decreased by 1.8% if the funding income or cost of foreign currency swap contracts were included. This was mainly due to a narrowing of the loan and deposit spread and a decline in the average yield of debt securities investments and other debt instruments amid a further decline in market interest rates, both of which led to a narrowing of 6 basis points in net interest margin.

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

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

	Half-year ended 30 June 2021		Half-year ended 31 December 2020		Half-year ended 30 June 2020	
ASSETS	**Average balance HK$'m**	**Average yield %**	Average balance HK$'m	Average yield %	Average balance HK$'m	Average yield %
Balances and placements with banks and other financial institutions	**385,213**	**0.80**	396,933	0.72	305,597	1.09
Debt securities investments and other debt instruments	**970,458**	**1.27**	859,332	1.48	839,362	2.04
Advances to customers and other accounts	**1,604,278**	**1.52**	1,557,703	1.67	1,478,356	2.52
Other interest-earning assets	**17,715**	**0.70**	9,365	1.54	27,863	1.09
Total interest-earning assets	**2,977,664**	**1.34**	2,823,333	1.47	2,651,178	2.19
Non interest-earning assets	**606,975**	**–**	642,931	–	470,798	–
Total assets	**3,584,639**	**1.12**	3,466,264	1.20	3,121,976	1.86
LIABILITIES	**Average balance HK$'m**	**Average rate %**	Average balance HK$'m	Average rate %	Average balance HK$'m	Average rate %
Deposits and balances from banks and other financial institutions	**203,553**	**0.44**	200,291	0.36	197,300	0.77
Current, savings and time deposits	**2,263,622**	**0.30**	2,199,251	0.40	1,964,093	0.94
Subordinated liabilities	**–**	**–**	–	–	2,920	5.50
Other interest-bearing liabilities	**18,178**	**1.09**	21,452	1.03	36,464	1.40
Total interest-bearing liabilities	**2,485,353**	**0.32**	2,420,994	0.40	2,200,777	0.94
Shareholders' funds* and other non interest-bearing deposits and liabilities	**1,099,286**	**–**	1,045,270	–	921,199	–
Total liabilities	**3,584,639**	**0.22**	3,466,264	0.28	3,121,976	0.66

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

Net Fee and Commission Income

HK$'m	**Half-year ended 30 June 2021**	Half-year ended 31 December 2020	Half-year ended 30 June 2020
Securities brokerage	**2,189**	2,000	1,567
Loan commissions	**1,793**	921	1,389
Credit card business	**996**	935	924
Insurance	**734**	559	713
Funds distribution	**518**	455	442
Payment services	**374**	382	358
Trust and custody services	**374**	367	322
Bills commissions	**321**	313	278
Safe deposit box	**151**	153	153
Currency exchange	**58**	69	157
Others	**608**	563	495
Fee and commission income	**8,116**	6,717	6,798
Fee and commission expense	**(1,459)**	(1,310)	(1,363)
Net fee and commission income	**6,657**	5,407	5,435

In the first half of 2021, net fee and commission income amounted to HK$6,657 million, up HK$1,222 million or 22.5% year-on-year. This was mainly attributable to growth in commission income from securities brokerage, funds distribution and insurance of 39.7%, 17.2% and 2.9% respectively amid satisfactory market investor sentiment in early 2021. Commission income from credit card business and bills increased by 7.8% and 15.5% respectively and loan commissions was up 29.1%, as retail activity and import and export trade regained momentum following an improvement in the pandemic situation and the resumption of economic activity in Hong Kong. The Group recorded a 16.1% increase in income from trust and custody services by taking advantage of business opportunities arising from mutual market access schemes, further enriching its custodian products, optimising customer experience and strengthening cooperation with other onshore and offshore custodian banks. Commission income from payment services rose by 4.5% as a result of the Group's efforts to accelerate the development of its cash management business and satisfactory growth in its cash pooling business. However, commission income from currency exchange dropped 63.1% as global demand for banknotes remained at a relatively low level owing to the pandemic. Fee and commission expenses increased, mainly due to an increase in securities brokerage and credit card related expenses as a result of higher business volume.

Compared with the second half of 2020, net fee and commission income increased by HK$1,250 million or 23.1%, which was mainly attributable to growth in commission income from securities brokerage, insurance and funds distribution amid satisfactory market investor sentiment in the beginning of the year. Commission income from loans, credit card, bills and trust and custody services also increased as the economy gradually recovered. Meanwhile, fee and commission expenses increased mainly due to higher insurance and credit card related expenses.

Net Trading Gain

HK$'m	**Half-year ended 30 June 2021**	Half-year ended 31 December 2020	Half-year ended 30 June 2020
Foreign exchange and foreign exchange products	**2,164**	2,419	2,863
Interest rate instruments and items under fair value hedge	**(48)**	168	(787)
Equity and credit derivative instruments	**135**	146	4
Commodities	**103**	111	250
Total net trading gain	**2,354**	2,844	2,330

In the first half of 2021, the Group's net trading gain amounted to HK$2,354 million, an increase of HK$24 million or 1.0% year-on-year. If the funding income or cost of foreign currency swap contracts were excluded, net trading gain would have amounted to HK$2,042 million, an increase of 77.9% year-on-year, primarily due to a year-on-year decrease in net trading loss from interest rate instruments and items under fair value hedge. This decrease in net trading loss was a result of changes in the mark-to-market value of certain debt securities investments and interest rate instruments caused by market interest rate movements. Net trading gain from equity and credit derivative instruments increased by HK$131 million year-on-year, with higher income realised from equity-linked products amid satisfactory market investor sentiment earlier in the year. The decrease in net trading gain from commodities was primarily due to a lower gain from bullion transactions.

Compared with the second half of 2020, net trading gain decreased by HK$490 million or 17.2%. If the funding income or cost of foreign currency swap contracts were excluded, net trading gain would have decreased by 14.6% from the second half of last year. This was mainly attributable to changes in the mark-to-market value of certain debt securities investments and interest rate instruments caused by market interest rate movements.

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

HK$'m	**Half-year ended 30 June 2021**	Half-year ended 31 December 2020	Half-year ended 30 June 2020
Net gain on other financial instruments at fair value through profit or loss	**96**	1,757	202

Net gain on other financial instruments at fair value through profit or loss decreased by HK$106 million or 52.5% year-on-year. The change was mainly due to a drop in the mark-to-market gain of debt securities related investments of the Group's banking business, which more than offset the positive impact from the increase in the mark-to-market gain of BOC Life's debt securities related investments. The mark-to-market changes of BOC Life's abovementioned debt securities investments were offset by changes to its policy reserves, also attributable to market interest rate movements, which were reflected in changes in net insurance benefits and claims as well as movements in liabilities.

Compared with the second half of 2020, the change in net gain was mainly attributable to the mark-to-market changes of BOC Life's debt securities related investments caused by market interest rate movements.

Operating Expenses

HK$'m	**Half-year ended 30 June 2021**	Half-year ended 31 December 2020	Half-year ended 30 June 2020
Staff costs	**4,389**	5,077	4,384
Premises and equipment expenses (excluding depreciation and amortisation)	**579**	685	550
Depreciation and amortisation	**1,515**	1,511	1,529
Other operating expenses	**1,099**	1,485	1,126
Operating expenses	**7,582**	8,758	7,589

	At 30 June 2021	At 31 December 2020	At 30 June 2020
Staff headcount measured in full-time equivalents	**14,462**	14,915	14,867

Operating expenses amounted to HK$7,582 million, a decrease of HK$7 million or 0.1% year-on-year. The Group strengthened its cost management while continuing to invest in its strategic priorities. At the same time, the Group actively put its low-carbon and green operation initiatives into practice, optimised business flows and refined internal management, so as to enhance cost efficiency. The cost to income ratio was 30.27%, remaining at a satisfactory level relative to industry peers.

Staff costs increased by 0.1% year-on-year, remaining relatively stable.

Premises and equipment expenses increased by 5.3%, mainly due to increased investments in information technology.

Depreciation and amortisation decreased by 0.9%, mainly due to decreased depreciation charges on right-of-use assets and premises, which more than offset the increased depreciation charges on information technology.

Other operating expenses decreased by 2.4%, mainly due to a decrease in security, business travel, printing and cleaning expenses.

Compared with the second half of 2020, operating expenses decreased by HK$1,176 million or 13.4%. The decrease was mainly due to lower staff costs and a decrease in business promotion, security and maintenance expenses.

Net Charge of Impairment Allowances on Advances and Other Accounts

HK$'m	**Half-year ended 30 June 2021**	Half-year ended 31 December 2020	Half-year ended 30 June 2020
Stage 1	**40**	(67)	(831)
Stage 2	**(504)**	(682)	(72)
Stage 3	**(733)**	(429)	(408)
Net charge of impairment allowances on advances and other accounts	**(1,197)**	(1,178)	(1,311)

In the first half of 2021, the Group's net charge of impairment allowances on advances and other accounts amounted to HK$1,197 million, a decrease of HK$114 million or 8.7% year-on-year. Impairment allowances at Stage 1 recorded a net reversal of HK$40 million, as compared to a net charge of HK$831 million in the same period last year. The parameter values of the Group's expected credit loss model improved in the first half of 2021. The change was also attributable to there being a higher base for comparison as a result of impairment allowances made in the same period last year, when the Group prudently updated the parameter values of its expected credit loss model to take into consideration the outbreak of the COVID-19 pandemic, which led to increased uncertainty in the macroeconomic outlook. Impairment allowances at Stage 2 recorded a net charge of HK$504 million, an increase of HK$432 million, mainly to take into consideration the potential risks arising from clients under the pandemic relief measures. Impairment allowances at Stage 3 amounted to a net charge of HK$733 million, an increase of HK$325 million year-on-year, owing to new impairment allowances being made in response to the downgrading of certain corporate advances. The annualised credit cost of advances to customers was 0.15%, down 3 basis points from the same period of the previous year. As at 30 June 2021, the Group's total loan impairment allowances as a percentage of advances to customers was 0.58%, or 0.64% after adjusting for the impact of its IPO financing.

Compared with the second half of 2020, the Group's net charge of impairment allowances on advances and other accounts increased by HK$19 million, or 1.6%, mainly reflecting the downgrading of certain corporate advances.

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 Group's derivative financial instruments. Please refer to Note 37 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 2021		At 31 December 2020	
HK$'m, except percentages	**Amount**	**% of total**	Amount	% of total
Cash and balances and placements with banks and other financial institutions	**546,237**	**14.2**	463,711	14.0
Hong Kong SAR Government certificates of indebtedness	**197,650**	**5.2**	189,550	5.7
Securities investments and other debt instruments[1]	**1,054,051**	**27.5**	940,699	28.3
Advances and other accounts	**1,747,852**	**45.6**	1,500,416	45.2
Fixed assets and investment properties	**64,675**	**1.7**	65,296	2.0
Other assets[2]	**224,405**	**5.8**	161,309	4.8
Total assets	**3,834,870**	**100.0**	3,320,981	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 2021, significant IPO funds had been received by the Group as an IPO main receiving bank, causing temporary distortion to the balance of its assets and liabilities. Adjustments have been made to affected items in this Analysis of Assets and Liabilities to enable analysis on a comparable basis.

As at 30 June 2021, the total assets of the Group amounted to HK$3,834,870 million, an increase of HK$513,889 million or 15.5% from the end of last year. Cash and balances and placements with banks and other financial institutions increased by HK$82,526 million or 17.8%, mainly due to an increase in balances with banks. Securities investments and other debt instruments increased by HK$113,352 million or 12.0%, as the Group increased investments in government-related bonds and bills. Advances and other accounts rose by HK$247,436 million or 16.5%, with advances to customers growing by HK$247,089 million or 16.5% and trade bills increasing by HK$1,920 million or 19.5%. Other assets increased by HK$63,096 million or 39.1%, as the result of an increase in accounts receivable of clearing items due to IPO-related activities. Adjusted for the impact of IPO-related activities, the Group's total assets would have been HK$3,447,481 million, an increase of 3.8% compared with the prior year-end.

Advances to Customers

	At 30 June 2021		At 31 December 2020	
HK$'m, except percentages	**Amount**	**% of total**	Amount	% of total
Loans for use in Hong Kong	**1,212,638**	**69.5**	991,457	66.2
Industrial, commercial and financial	**743,681**	**42.6**	539,633	36.0
Individuals	**468,957**	**26.9**	451,824	30.2
Trade financing	**83,850**	**4.8**	66,497	4.4
Loans for use outside Hong Kong	**448,465**	**25.7**	439,910	29.4
Total advances to customers	**1,744,953**	**100.0**	1,497,864	100.0

In the first half of 2021, the Group captured opportunities from its three major markets of Hong Kong, the Greater Bay Area and Southeast Asia. It closely focused on customer needs to provide them with tailor-made services and credit facilities. The Group enhanced its services to local corporate and personal clients in order to meet loan demand of key customers. It made concerted efforts to develop its mortgage business by strengthening cooperation with real estate intermediaries in order to enhance and promote the property search and mortgage services available on its Home Expert mobile application, which enabled it to successfully capture mortgage volume. At the same time, the Group enhanced collaboration with BOC and reinforced marketing efforts to new clients and new industries. It also pushed forward integrated regional development, with its Southeast Asian entities achieving steady business growth. During the period, the Group remained the top mandated arranger in the Hong Kong and Macao syndicated loan market and held the top market position in terms of the total number of new mortgage loans in Hong Kong. In the first half of 2021, advances to customers grew by HK$247,089 million, or 16.5%, to HK$1,744,953 million, partly driven by IPO financing. Adjusted for IPO-related impact, advances to customers would have increased by HK$91,902 million, or 6.1%.

Loans for use in Hong Kong grew by HK$221,181 million or 22.3%. Adjusted for the impact of IPO financing, loans for use in Hong Kong would have increased by 6.7%.

- Lending to the industrial, commercial and financial sectors increased by HK$204,048 million or 37.8%, reflecting loan growth in property development, property investment, information technology, financial concerns, wholesale and retail trade, and IPO financing. Adjusted for the impact of IPO financing, lending to the industrial, commercial and financial sectors would have increased by 9.1%.

- Lending to individuals increased by HK$17,133 million, or 3.8%, mainly driven by growth in residential mortgage loans.

Trade financing increased by HK$17,353 million or 26.1%. Loans for use outside Hong Kong grew by HK$8,555 million or 1.9%, mainly driven by growth in loans for use in the Chinese mainland.

Loan Quality

HK$'m, except percentages	**At 30 June 2021**	At 31 December 2020
Advances to customers	**1,744,953**	1,497,864
Classified or impaired loan ratio	**0.29%**	0.27%
Total impairment allowances	**10,200**	9,172
Total impairment allowances as a percentage of advances to customers	**0.58%**	0.61%
Residential mortgage loans[1] – delinquency and rescheduled loan ratio[2]	**0.02%**	0.01%
Card advances – delinquency ratio[2]	**0.27%**	0.23%

	Half-year ended 30 June 2021	Half-year ended 30 June 2020
Card advances – charge-off ratio[3]	**1.58%**	1.88%

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

During the reporting period, certain industries continued to face challenges in light of the volatile COVID-19 pandemic situation and heightened uncertainty regarding the global economic recovery. The Group proactively strengthened its risk management systems for all types of risks and continuously enhanced its risk management so as to maintain solid asset quality. As at 30 June 2021, classified or impaired loans amounted to HK$5,077 million, an increase of HK$1,083 million from the end of last year. The classified or impaired loan ratio was 0.29%, up 0.02 percentage points from the end of last year. Adjusted for the impact of IPO financing, the classified or impaired loan ratio would have been 0.32%. The Group's total loan impairment allowances as a percentage of advances to customers was 0.58%, or 0.64% if adjusted for the impact of IPO financing. The combined delinquency and rescheduled loan ratio of residential mortgage loans was 0.02%. The charge-off ratio of card advances for the first half of 2021 was 1.58%, down 0.30 percentage points year-on-year.

Deposits from Customers

HK$'m, except percentages	At 30 June 2021 Amount	At 30 June 2021 % of total	At 31 December 2020 Amount	At 31 December 2020 % of total
Demand deposits and current accounts	**776,366**	**28.9**	310,226	14.2
Savings deposits	**1,190,778**	**44.4**	1,149,035	52.6
Time, call and notice deposits	**715,296**	**26.7**	724,448	33.2
Total deposits from customers	**2,682,440**	**100.0**	2,183,709	100.0

In the first half of 2021, the Group actively expanded its mid- to high-end customer base and strengthened cooperation with government authorities, large corporates and central banks by sustaining its e-payment, payroll, cash management and IPO receiving businesses, with a view to growing the scale of its current accounts and savings deposits. At the same time, the Group improved its deposit structure by capitalising on the consumer's preferences for wealth management, insurance, equities securities and structured products in the low interest rate environment, leading to solid growth in current accounts and savings deposits from both personal and corporate clients. As of 30 June 2021, total deposits from customers amounted to HK$2,682,440 million, an increase of HK$498,731 million or 22.8% from the end of last year, partly driven by IPO-related funds. Adjusted for IPO-related impact, total deposits from customers would have increased by 5.2%, with demand deposits and current accounts increasing by 25.8%, savings deposits increasing by 3.6%, and time, call and notice deposits decreasing by 1.3%. Adjusted for the impact of IPO-related funds, the CASA ratio was 68.8%, an increase of 2.0 percentage points from the end of last year.

Capital and Reserves Attributable to Equity Holders of the Company

HK$'m	At 30 June 2021	At 31 December 2020
Share capital	**52,864**	52,864
Premises revaluation reserve	**38,401**	38,048
Reserve for fair value changes	**202**	1,726
Regulatory reserve	**6,665**	4,780
Translation reserve	**(867)**	(503)
Retained earnings	**195,702**	193,387
Reserves	**240,103**	237,438
Capital and reserves attributable to equity holders of the Company	**292,967**	290,302

Capital and reserves attributable to equity holders of the Company amounted to HK$292,967 million as at 30 June 2021, an increase of HK$2,665 million or 0.9% from the end of last year. The premises revaluation reserve increased by 0.9%. Reserve for fair value changes decreased, mainly due to the impact of market interest rate movements on debt instruments at fair value through other comprehensive income. The regulatory reserve increased by 39.4%, mainly driven by growth in advances to customers. Retained earnings rose by 1.2% from the end of last year.

Capital Ratio

HK$'m, except percentages	**At 30 June 2021**	At 31 December 2020
Consolidated capital after deductions		
Common Equity Tier 1 capital	**225,551**	216,542
Additional Tier 1 capital	**23,476**	23,476
Tier 1 capital	**249,027**	240,018
Tier 2 capital	**30,786**	29,558
Total capital	**279,813**	269,576
Total risk-weighted assets	**1,413,929**	1,220,000
Common Equity Tier 1 capital ratio	**15.95%**	17.75%
Tier 1 capital ratio	**17.61%**	19.67%
Total capital ratio	**19.79%**	22.10%

As at 30 June 2021, Common Equity Tier 1 ("CET1") capital and Tier 1 capital had increased by 4.2% and 3.8% respectively from the end of last year, which was primarily attributable to profits recorded for the first half of 2021. Total capital increased by 3.8%, while total risk-weighted assets ("RWAs") increased by 15.9%, mainly driven by growth in advances to customers, partially attributable to the temporary impact from IPO financing. The CET1 capital ratio was 15.95% and Tier 1 capital ratio was 17.61%, while total capital ratio stood at 19.79%. The Group properly managed its capital plan on a continuous basis so as to maintain an appropriate capital level to support its sustainable business development while balancing returns to equity holders.

Liquidity Coverage Ratio and Net Stable Funding Ratio

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

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

The Group's liquidity position remained sound, with the average value of its liquidity coverage ratio and the quarter-end value of its net stable funding ratio exceeding the regulatory requirement for the first two quarters of 2021. Due to IPO-related activities, its net stable funding ratio experienced a temporary drop at the end of the second quarter of 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2021, the Group remained committed to its strategic goal of building a first-class regional banking group. It actively responded to arduous market challenges and strengthened the execution of its strategic plans. By steadily pushing forward its business priorities, the Group achieved satisfactory performance in its core businesses, with major financial indicators remaining at solid levels. It fostered environmental, social and governance ("ESG") concepts and actively promoted green finance so as to advance sustainable and high-quality development. The Group captured market opportunities and continued to develop its core market in Hong Kong. It also deepened cross-border collaboration and proactively supported the construction of the Guangdong-Hong Kong-Macao Greater Bay Area. It accelerated the development of its regional footprint in Southeast Asia and leveraged its regional synergies. At the same time, the Group pushed forward digital transformation while remaining customer-centric, and cautiously responded to the impacts of the pandemic so as to mitigate various risks.

Business Segment Performance

Profit before Taxation by Business Segment

	Half-year ended 30 June 2021		Half-year ended 30 June 2020	
HK$'m, except percentages	**Amount**	**% of total**	Amount	% of total
Personal Banking	**3,652**	**22.6**	4,352	22.6
Corporate Banking	**6,713**	**41.6**	7,158	37.2
Treasury	**5,141**	**31.8**	7,217	37.6
Insurance	**513**	**3.2**	392	2.0
Others	**134**	**0.8**	105	0.6
Total profit before taxation	**16,153**	**100.0**	19,224	100.0

Note: For additional segmental information, see Note 40 to the Interim Financial Information.

PERSONAL BANKING

Financial Results

Personal Banking achieved a profit before tax of HK$3,652 million in the first half of 2021, a decrease of HK$700 million or 16.1% year-on-year, mainly due to a decrease in net interest income, which was partially offset by an increase in net fee and commission income and a decrease in net charge of impairment allowances.

Net interest income decreased by 40.6%, mainly due to a narrowing of the deposit spread as a result of falling market interest rates, although this was partially offset by an improvement in the loan spread as well as growth in the average balance of deposits and loans. Net fee and commission income increased by 24.3%, mainly owing to a satisfactory increase in commission income from securities brokerage amid solid market investor sentiment in early 2021, which resulted in higher transaction volumes in the stock market, combined with a rise in commission income from insurance, loans and funds distribution. Net charge of impairment allowances amounted to HK$67 million, down HK$563 million year-on-year, due to a decrease in impairment allowances caused by an improvement in the parameter values of the Group's expected credit loss model.

Business Operations

Giving full play to online and offline competitive advantages and optimising the segmented customer service model

The Group continued to promote its premium Private Wealth service to high-end customers, offering diversified services including investment, wealth management, legacy planning, cross-border property purchase and luxury lifestyle benefits. Through an exclusive team of wealth management experts, the Group launched the RM Chat service for Private Wealth customers. This enabled customers to communicate with the service team instantly and carry out their banking transactions via mobile banking in a safe and convenient manner. The Group further expanded its customer base, with the number of Private Wealth customers as at the end of June 2021 recording double-digit percentage growth from the end of last year. In support of the 100% Personal Loan Guarantee Scheme introduced by HKMC Insurance Limited, the Group provided customers with a simple and convenient online personal loan application channel, with the aim of alleviating the cash-flow pressures of customers who were unemployed during the pandemic and assisting customers to tide over their economic difficulties. The Group used innovative technologies to build home purchase ecology scenarios and introduced a pioneering end-to-end seamless home purchasing service for its customers. By cooperating with large real estate agencies and mortgage intermediaries, it was able to provide property market indices as well as first and second-hand property information through its Home Expert mobile application, providing a solution to customer pain points in property search, property valuation, mortgage assessment and application using different home purchase platforms. In the first half of 2021, the monthly average number of online mortgage applications was more than 2.6 times last year's monthly average. The Group remained committed to developing the local customer segment so as to strengthen its core product advantages, thus achieving steady growth in deposits from customers and maintaining its top market position in terms of total number of new residential mortgage loans. During the period, BOCHK was awarded Excellent Brand of Property Purchase Planning – Banking Solutions and Excellent Brand of Securities Services – Banking in the Hong Kong Leaders' Choice 2021 organised by Metro Finance.

The Group's private banking business maintained steady growth. By enhancing its collaboration with other business units within the Group, it was able to strengthen its value chain for serving high-net-worth clients and family offices with professional private banking services. In line with the development of green finance and ESG standards, the Group enriched its exclusive private banking products and services in investment and wealth management. In addition, it continued to promote digitalisation, strengthen its talent pool and foster team-building so as to enhance its service capabilities for clients in Hong Kong, the Greater Bay Area and Southeast Asia. As at the end of June 2021, private banking's assets under management had increased 12.3% from the end of last year.

Accelerating transformation into a digital bank by promoting scenario-based product applications

The Group closely monitored changes in the market during the pandemic and accelerated its development into a digital bank. It actively responded to the HKSAR Government's efforts to build a smart city and pioneered the pilot adoption of "iAM Smart" mobile application, which enables mobile account opening using digital identity authentication. By allowing mobile account opening forms to be filled out automatically, the application spares customers the time and hassle involved in facial recognition and manual input of personal data, providing a new digitalised experience. The Group fully supported the HKSAR Government's issuance of iBonds by facilitating subscription via mobile banking, internet banking, investment hotlines and all of its branches so as to better meet the needs of different customers, over 80% of which subscribed through its electronic channels. To meet rapid growth in customer demand for online transactions, the Group launched "PlanAhead", a one-stop wealth planning service, on its mobile banking platform. This provided customers with professional asset allocation information and a variety of product solutions to assist them in planning for their financial goals at all stages of life, thus promoting the digital development of the Group's wealth management products. The Group remained committed to enhancing customer experience in e-payment services by further integrating mobile payments into customers' lifestyle scenario ecosystems. It strengthened cooperation with large property management companies in order to incorporate in-app payment options for property management fees in their estate management mobile applications, providing customers a brand new, safe payment method. In the first half of 2021, the total number of transactions conducted through mobile banking increased by over 60% year-on-year, while online transaction volumes of key investment products such as equity securities, IPO subscription and bonds also recorded notable year-on-year growth. During the period, BOCHK won the Bancassurer of the Year – Excellence Award in the Financial Institution Awards 2021 organised by *Bloomberg Businessweek (Chinese Edition)* and was recognised as Hong Kong's Best Digital Bank 2021 by *Asiamoney*.

Accelerating the development of digital branches and enhancing service channel capabilities

The Group strived to strengthen the core advantages arising from having Hong Kong's largest retail branch network and optimised its district service coverage strategy. By digitalising its branch services, the Group actively migrated high-frequency counter transactions to intelligent devices and was able to enhance branch productivity. The Group accelerated the construction and enhancement of its intelligent customer service capabilities through the "Bonnie" chatbot and online chat services, in order to facilitate the transition of customer services from manual to online. In the first half of 2021, the usage rate of the Group's intelligent chatbot increased by over 50% as compared to the same period last year, further enhancing service efficiency and accelerating customer service channel migration. In addition, it enhanced the service capabilities of its contact centre through artificial intelligence solutions such as speech analysis and word analysis, so as to further expand the application of its next-generation customer service platform.

Promoting integrated development and collaboration in the Greater Bay Area and strengthening the foundation for future regional business growth

The Group strengthened regional collaboration and optimised customer referral services among Hong Kong, the Greater Bay Area and Southeast Asia by enhancing process efficiency and improving customer experience, with the aim of providing integrated cross-border financial services. It actively responded to financial policies for the Guangdong-Hong Kong-Macao Greater Bay Area and continuously optimised its cross-border service experience in order to meet the spending, lifestyle and investment needs of Hong Kong residents in the Greater Bay Area. During the period, the Group constantly enhanced the customer experience of its Greater Bay Area Account Opening Service with the aim of fulfiling the day-to-day personal finance requirements of Hong Kong residents who travel, work or live in the Greater Bay Area. As at the end of June 2021, the accumulated number of related accounts opened stood at over 140,000, representing double-digit percentage growth from the end of last year. To support Hong Kong customers' demand for property purchase in the Greater Bay Area, the Group continuously improved its Greater Bay Area Personal Loan mortgage service, enhancing the customer experience across the full process of its payment and mortgage services. It actively made full preparations for the implementation of the cross-border "Wealth Management Connect" service so as to capture market opportunities in the Greater Bay Area. It enriched its regional wealth management services, with BOC Malaysia offering a number of new funds and bonds, and BOC Thailand and the Brunei Branch both introducing RMB cross-border salary direct remittance services. The Phnom Penh Branch launched the Wealth Management service, enabling preliminary service solutions for mutual brand recognition and common promotional offers sharing for Wealth Management across Hong Kong, Malaysia and Cambodia. The Group deepened its "mobile first" strategy by pushing forward mobile banking projects in the Brunei Branch and Jakarta Branch.

CORPORATE BANKING

Financial Results

Corporate Banking achieved a profit before tax of HK$6,713 million, a decrease of HK$445 million or 6.2% year-on-year, mainly due to a decrease in net interest income, which was partially offset by an increase in net fee and commission income and a decrease in net charge of impairment allowances.

Net interest income decreased by 17.3%, mainly due to a narrowing of the deposit spread as a result of falling market interest rates, although this was partially offset by growth in the average balance of deposits and loans. Net fee and commission income increased by 24.3%, mainly due to an increase in commission income from loans, trust and custody services, bills and payment services. Net charge of impairment allowances amounted to HK$346 million, down HK$215 million year-on-year, owing to a decrease in impairment allowances caused by an improvement in the parameter values of the Group's expected credit loss model.

Business Operations

Enhancing integrated service capabilities and steadily advancing corporate banking business development

The Group continued to push forward the deepening of its business transformation in response to changes in industry and customer needs, and strengthened its support to a number of key projects in Hong Kong, the Greater Bay Area and Southeast Asia with the aim of providing integrated and professional financial solutions. During the period, the Group developed key customers and projects by meeting customer needs and enhancing marketing efforts in new clients and new industries. 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. It also maintained its market leadership as an IPO main receiving bank in terms of the number of listings and total subscription funds on the Main Board of the Stock Exchange of Hong Kong. Business relationships with central banks, international financial organisations and sovereign agencies in various countries have been further consolidated. In addition, it further advanced its digital transformation and scenario construction by enhancing its technological innovation and application capabilities with a view to increasing business penetration and providing more convenient payment channels for customers through strengthened payment collection participation with government entities, transport, education, and the retail and catering sectors. Adhering to its sustainable development philosophy, the Group met clients' financial demands for low-carbon business transformation by constantly refining its range of sustainable development banking products. It issued "sustainable and smart living" themed green bonds, so as to support projects related to renewable energy, green building and clean transportation. The Group acted as a green finance advisor and helped clients to formulate green finance frameworks, with the aim of encouraging corporates to establish business models for sustainable development. BOCHK once again received the Excellent Brand of Green and Sustainable Corporate Banking Services in the Hong Kong Leaders' Choice 2021 organised by Metro Finance.

Proactively fulfiling corporate social responsibilities and advancing the development of inclusive finance

The Group continuously strengthened its support to local commercial and SME customers in Hong Kong by providing integrated and digitalised financial services with the aim of meeting customers' needs. It actively promoted different financial relief measures, including the implementation of guarantee products under the SME Financing Guarantee Scheme and enhancement measures to the Special 100% Loan Guarantee, both of which were launched by HKMC Insurance Limited. The Group also fully supported the Pre-approved Principal Payment Holiday Scheme launched by the HKMA, in order to help SMEs address business challenges arising from the adverse economic environment and navigate difficult times alongside them. In addition, the Group joined hands with the Hong Kong Quality Assurance Agency ("HKQAA") to promote the development of green finance, becoming the first bank to cooperate with the HKQAA's Green Loan e-Assessment platform and launching the SME Green Financing Incentive Scheme to encourage clients' business transformation towards sustainable development. The Group received the Best SME's Partner Award from the Hong Kong General Chamber of Small and Medium Business for the 14th consecutive year, demonstrating the esteem attributed to its high-quality SME services by the market.

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

The Group stepped up its efforts to develop its regional business and worked with its Southeast Asian entities to maintain stable business growth. In order to enhance the regional synergies of its Southeast Asian entities, the Group reinforced its integrated marketing efforts to actively expand large corporate customers in the region. To bolster cooperation in the Asia-Pacific region, BOCHK capitalised on its position as BOC's Asia-Pacific syndicated loan centre and arranged syndicated loans for large businesses in the Southeast Asian region, thus continuously strengthening its market influence. The Group continued to launch integrated marketing efforts for its corporate banking business, successfully expanding its key customer base and generating more business opportunities in large-scale customer deposits and loans, letters of credit and letters of guarantee. During the period, over 40 different products were successfully launched in the Southeast Asian region and the intelligent Global Transaction Banking ("iGTB") platform continued to be promoted among its Southeast Asian entities, paving the way for the enhancement of corporate banking's customer service capabilities in the region. Meanwhile, BOC Malaysia successfully conducted the first electronic letter of credit presentation for its clients in Malaysia via a blockchain electronic platform, while the Brunei Branch successfully launched a USD payroll service for its clients. In support of further business expansion in the Guangdong-Hong Kong-Macao Greater Bay Area, the Group actively responded to financial policies related to the Greater Bay Area and captured emerging market opportunities by continuing to deepen its cooperation with BOC's entities in the region under BOC's Greater Bay Area collaboration mechanism, thus giving full play to its synergistic advantages and meeting the cross-border financial needs of corporate clients by offering diversified products and services. In this way, it supported the development of key customers in the Chinese mainland, including those in the new infrastructure and biomedicine sectors, and contributed to financial interconnectivity within the Greater Bay Area. In addition, it supported the development of technological innovation industry by providing special marketing campaign and bespoke financial services to the Hong Kong Science Park, as well as strengthening cooperation with universities and scientific research institutions.

Constantly optimising products and services and consolidating its strong franchise in RMB business

The Group continued to improve the range of its corporate banking products and services in Hong Kong, the Greater Bay Area and Southeast Asia. It seized opportunities from RMB internationalisation, further strengthened RMB business cooperation with key customers, and maintained its traditional franchise in RMB cross-border business. The Group promoted the expansion of its key businesses, including cash management and trade financing, and shored up its market-leading position in cash pooling business and promoted Hong Kong as an ideal hub for corporate treasury activities. In recognition of its excellent and highly professional services, BOCHK was awarded Hong Kong Domestic Cash Management Bank of the Year for the eighth consecutive year, Hong Kong Domestic Trade Finance Bank of the Year for the third consecutive year and Hong Kong Domestic RMB Internationalisation Initiative of the Year for the first time by *Asian Banking & Finance*. BOCHK also received two awards from *The Asian Banker*, namely Best Transaction Bank in Hong Kong for the fourth time and Best Cash Management Bank in Hong Kong for the seventh time.

Continuously and steadily developing custody and trustee businesses

The Group captured opportunities from the Chinese government's orderly two-way opening of capital accounts and financial markets, as well as the continuous optimisation and refinement of mutual market access measures, and leveraged its strong franchise in cross-border businesses in order to constantly deepen customer relationships with institutional and corporate clients. It extended business support to innovative cross-border exchange traded funds ("ETF") in the Chinese mainland as well as new "Yulan bond" debt products. Meanwhile, it further enriched its corporate trust and agency product suite, made use of technology to improve the client journey and operations, and strengthened its collaboration in overseas markets with master custodians from the Chinese mainland. During the reporting period, the Group reached new heights in total assets under custody from institutional and corporate clients, monthly securities settlement volumes and Bond Connect custody assets, while its total number of Bond Connect clients continued to rank among the global top tier. As at the end of June 2021, total assets under custody of the Group amounted to HK$1,456.2 billion, an increase of 6.2% compared to the previous year-end.

BOCI-Prudential Trustee Limited ("BOCI-Prudential Trustee") continued in developing well-diversified income streams by successfully being appointed for several ORSO schemes by a number of large-scale institutional clients. It continued to invest in and enhance its electronic retirement scheme administration and asset servicing platforms and leveraged major social media platforms to facilitate its digital transformation. During the period, BOCI-Prudential Trustee launched five unit trust funds and was successfully appointed by a regional asset management company as the trustee, fund administrator, custodian, and registrar of its new Hang Seng Index ETF. At the end of June 2021, MPF assets under its trusteeship recorded a growth of 5.9% from the end of last year, continuing its top-five ranking in the MPF market. In addition, BOCI-Prudential Trustee received a number of fund awards at the 2021 MPF Awards organised by independent rating agency MPF Ratings, as well as at the Lipper Fund Awards Hong Kong 2021 organised by *Refinitiv*. My Choice MPF Scheme was also recognised as the Best MPF Scheme at the 2021 Morningstar Fund Awards Hong Kong, organised by Morningstar Investment Management Asia Limited.

TREASURY

Financial Results

Treasury recorded a profit before tax of HK$5,141 million, a decrease of HK$2,076 million or 28.8% year-on-year. This was primarily attributable to a lower net gain on other financial assets and a decrease in net trading gain of 22.4%, which were partially offset by an increase of 8.7% in net interest income owing to a drop in funding costs. The decrease in net trading gain was mainly due to a decrease in net gain from foreign currency swap contracts which was partially offset by changes in the mark-to-market value of certain debt securities investments and interest rate instruments caused by market interest rate movements.

Business Operations

Continuously enhancing service capabilities and steadily promoting regional development

The Group responded to market developments and continuously enhanced its service capabilities and the business efficiency of its online trading transactions, thus achieving satisfactory growth in client business. By actively capturing business opportunities, it promoted RMB product innovation and expanded RMB business scale. Committed to embracing technological innovation as a growth driver, the Group promoted the electronic, automatic and digital upgrade and transformation of its trading businesses, with income from corporate and institutional customers conducting online transactions in the first half of 2021 rising 14% year-on-year. In its Southeast Asian entities, the Group continuously deepened management by business units, refined the building blocks and optimised its management systems in order to uplift the service capabilities and market competitiveness of its Southeast Asian business and steadily push forward its regional development. During the period, the Group actively participated in the market quotation business of the Shanghai Gold Exchange, receiving the exchange's Outstanding International Member Award 2020.

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

The Manila Branch officially launched its RMB clearing bank service on 16 January 2021 to provide local participating banks with services such as RMB remittance and RMB banknotes, thus facilitating the use of RMB in the Philippines. In addition, the Manila Branch successfully introduced a two-way RMB remittance service for its clients, becoming the Group's first Southeast Asian entity to provide such a service. BOC Malaysia was granted direct participant qualification by the Cross-border Interbank Payment System ("CIPS") and successfully conducted its first RMB cross-currency swap business. The FXall Digital Transaction Platform was successfully rolled out in BOC Thailand and BOC Malaysia, with the Group completing the first RMB/local currency quotation transaction with major peers in the region. The Jakarta Branch's business volume of RMB salary direct remittance recorded year-on-year growth of 82%, maintaining its leading position among offshore entities. The Brunei Branch successfully conducted its first RMB bond investment business for clients. In addition, BOCHK received the Extraordinary Participant in Cross-border Payment and Clearing award in the CIPS Participants General Meeting organised by CIPS Co., Ltd. in recognition of its contribution towards the development of cross-border RMB business.

Adhering to a proactive but risk-aware investment strategy and optimising the portfolio mix of banking book investments

The Group closely monitored worldwide interest rate adjustments and continued to take a cautious approach to managing its banking book investments. It planned ahead and actively sought fixed income investment opportunities to enhance returns while remaining alert to risk. In the first half of 2021, the Group actively responded to interest rate changes with a view to achieving balanced growth in assets and liabilities while continuously enhancing the portfolio mix of its banking book investments.

Steady development in asset management business with client value creation

Despite the uncertain COVID-19 pandemic situation and volatile capital markets in the first half of the year, BOCHK Asset Management Limited ("BOCHK AM") adhered to its prudent development strategy and leveraged its professional investment service capabilities in order to achieve continuous client value creation and steady growth in assets under management. During the reporting period, BOCHK AM launched the BOCHK All Weather ESG Multi-Asset Fund, its first ESG fund authorised by Hong Kong's Securities and Futures Commission, which allows investors to capture ESG-related investment opportunities. At the same time, it actively developed its cross-border business, with the BOCHK All Weather Asian Bond Fund being approved by the China Securities Regulatory Commission for distribution in the Chinese mainland, making it BOCHK AM's third fund to participate in the Mainland-Hong Kong Mutual Recognition of Funds scheme. In recognition of its professional expertise, BOCHK AM was awarded Best RMB Manager and Best CNY Bonds, Offshore (5 Years) in the 2021 Best of the Best Awards by *Asia Asset Management*.

INSURANCE

Financial Results

In the first half of 2021, the Group's insurance segment proactively optimised its business and product structure, and recorded standard new premiums of HK$6,286 million, up 15.5% year-on-year. Profit before tax was up 30.9% year-on-year to HK$513 million, which was mainly attributable to an increase in investment income.

Business Operations

Giving full play to its competitive edges in online and offline services to meet diversified customer needs

In view of the COVID-19 pandemic's ongoing impact on insurance product sales, BOC Life constantly strengthened its business development via online channels. The standard new premium conducted via electronic channels increased by over 25% year-on-year. Implementing its strategy of diversifying distribution channels, BOC Life maintained its leading market position in bancassurance sales and proactively expanded its tied agency and broker channels. To push forward the transformation of its product mix, BOC Life launched the Forever Fortune Whole Life Insurance Plan to promote the development of products with high value and coverage. It reinforced its reputation as an expert in retirement wealth management and maintained its leading position in the Qualifying Deferred Annuity Policy market. Meanwhile, with both online and offline product sales, RMB standard new premium increased by over 65% year-on-year and accounting for over 40% of overall standard new premiums. During the period, BOC Life partnered with a top smartwatch brand to launch the Biological Age Model reward application, which aims to enhance client interactions by providing preventive healthcare management services and exclusive healthcare-related offers to policyholders.

Committed to promoting ESG initiatives for sustainable development

BOC Life is committed to supporting ESG initiatives and has invested in the 30-year green bonds issued by the HKSAR Government earlier this year. To promote social responsibility, BOC Life partnered with St. James' Settlement to launch the "Brave the Storm Together, Guard Our Green Future" CSR programme, through which it would donate HK$1,000 for every policy successfully issued under its Forever Wellbeing Whole Life Plan to support "Green Ladies & Green Little", a social enterprise of St. James' Settlement. BOC Life partnered with EC Healthcare to offer 10,000 free COVID-19 pre-vaccination health assessments to Hong Kong residents to help them prepare before receiving vaccines, with the aim of boosting Hong Kong's overall vaccination rates and fulfiling its social responsibility at the same time.

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

BOC Life maintained its leading position in Hong Kong's life insurance business and remained the market leader in RMB insurance and sales conducted via electronic channels. In recognition of its service quality and professional image, BOC Life received a number of local and regional awards including Outstanding Insurance Company at the High Flyers Awards 2020 organised by *Hong Kong Business*, and Outstanding Life Insurance Mobile Application Platform in the Fintech Awards 2020 organised by *etnet*.

SOUTHEAST ASIAN BUSINESS

The Group continued to pursue integrated regional development with the aim of building its Southeast Asian entities into mainstream foreign banks in their local markets. Over the past 30 years, China and the ASEAN have established a very close economic and trading relationship, becoming each other's largest trading partner. The implementation of the Regional Comprehensive Economic Partnership ("RCEP") will bring new momentum to economic and trade relations and investment cooperation between Southeast Asia and its regional partners. The ongoing development of the Belt and Road project, new economic areas and the expansion of the middle-class population in Southeast Asia have also enabled China and Southeast Asian countries to capture new opportunities brought about by technological revolution and industrial transformation, with cooperation emerging in the areas of smart cities, 5G, artificial intelligence, e-commerce, big data and blockchain. The Group's overall development prospect in the Southeast Asian region remains solid, while the attractiveness of RMB assets to overseas investors continues to open up new growth opportunities for the Group's regional business.

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

Following the successful operational launch of the Yangon Branch, the Group's Hanoi Representative Office also commenced business in Vietnam on 8 June. The new office has further enhanced the Group's network coverage in Vietnam, strengthened services to customers in the northern part of the country, and worked with Ho Chi Minh City Branch to achieve integrated business development from the south to the north of Vietnam. The Group deepened the implementation of its regional management model and continued to optimise management of its Southeast Asian entities. It continued to implement a "One Bank, One Strategy" differentiated operating model to promote the proactive development of each entity. With the aim of further enhancing regional operations, BOCHK made earnest efforts to centralise regional management and expedited the partial transfer of its regional operations to the Regional Operation Centre in Nanning.

The Group's Southeast Asian entities* recorded steady business growth. As at the end of June 2021, deposits from customers and advances to customers amounted to HK$62,647 million and HK$55,494 million respectively, up 9.4% and 2.6% from the end of last year. Amid falling market interest rates, net operating income before impairment allowances stood at HK$1,289 million, a drop of 1.2% year-on-year. As at the end of June 2021, the non-performing loan ratio was 1.75%, down 0.15 percentage points from the end of 2020.

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

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

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

DIGITAL TRANSFORMATION DEVELOPMENT

The Group continued to closely monitor market trends and remain customer-centric with the aim of comprehensively deepening its digital transformation and advancing the scenario-based application of innovative fintech. The acceleration of its digital transformation processes saw its front, middle and back offices undergo profound changes. Drawing on digital, intelligent and ecological support, the Group remained committed to strengthening infrastructure construction, deepening scenario-based open banking services, enhancing digitally-empowered businesses and optimising innovation mechanisms, thus laying a solid foundation for its long-term development.

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

The Group enhanced its mobile banking functionalities by providing customers with a new user interface design and improving its mobile security token function. Optical character recognition and facial recognition technologies were introduced to strengthen eKYC customer identity authentication, while artificial intelligence was introduced to perform real-time decision making and promote personalised banking services and information to different customers based on their behaviour. The Group remained committed to promoting intelligent, self-service and mobile services at its branches, and successfully launched the iService desktop version in five branches to enhance customers' self-service capabilities, which was well received by customers. The Group made functional enhancements to its iGTB platform and extended its coverage across the Southeast Asian region. A network risk monitoring system was introduced in order to continuously review network security levels, identify potential security risks arising from different aspects using safety score cards, and provide appropriate reinforcement recommendations. The Group also continued to construct its cloud system and deepened transformation related to information technology modernisation. During the period, the implementation of the Group's cloud platform, micro-service application architecture and technology operations model laid a solid foundation to support the future continuous delivery of rapid, reliable and scalable new application services, enable different business lines to quickly react to market changes, customer service requirements and open bank development, and advance the Group's digital transformation development strategy in all aspects.

Deepening scenario-based construction to achieve seamless banking services

The Group actively promoted open banking services across different kinds of payment scenarios related to government services, charity and education, transportation and consumer spending, in order to extend the coverage of its financial services. It facilitated cross-sector cooperation to accelerate fintech development and opened up access to more than 90 open Application Programme Interface ("API"). The Group joined hands with three major real estate agencies and mortgage intermediaries to launch an online real-time property valuation service and mortgage application service via open API. As at the end of June 2021, the online real-time property valuation service through open API had been used over 5.5 million times since launch. The Group also cooperated with two stock quotation platforms to offer its customers cross-platform mobile banking trading services for Hong Kong stocks, US stocks and A shares. The Group helped its customers to achieve their financial goals while making use of social media interactive marketing to promote its services to the mass market. It also supported the HKSAR Government's poverty alleviation measures by creating new online application channels for the Community Care Fund and assisting the government in accepting applications and distributing subsidies. The Group actively facilitated cooperation between schools and enterprises to encourage supply and demand matching, so as to provide full support to the digital transformation of the education sector in Hong Kong. BoC Bill continued to provide the market's most comprehensive digital billing and fund collection solutions, supporting the use of traditional bank cards, QR codes, FPS and Octopus card services. The Group was able to provide fund collection solutions to a number of charitable organisations following the launch of the BoC Bill e-Donation Platform. BoC Bill also provided a new integrated collection service for the HKSAR Government's 12,000 parking meters, supporting e-payment options through credit cards and QR codes, as well as remote extension of parking time using HKeMeter. As at the end of June 2021, the total number of merchants that have installed BoC Bill increased by 7.9% from the end of last year. The Group supported the HKSAR Government's HK$5,000 Consumption Voucher Scheme by providing a one-stop solution via BoC Bill for all kinds of merchants to capture business opportunities from the scheme, thus expanding its merchant coverage. Meanwhile, the geographical coverage of BoC Pay customers extended from the city centre to the outlying islands in every part of Hong Kong. BoC Pay is now used in Hong Kong's two main convenience stores, three major supermarkets and most well-known fast food chains, as well as for bill payments for services rendered by the government and public entities, and property management fees. As at the end of June 2021, the total number of BoC Pay users recorded a significant increase of 17.6% from the end of last year, while related transaction volumes achieved growth of 68.8% compared to the same period of the previous year. The number of customers with FPS accounts as at the end of June 2021 increased by 20.1% compared to the end of last year.

Enhancing digitally-empowered businesses to improve customer experience

The Group is committed to continually reshaping and refining its business processes with a view to enhancing operational efficiency, improving customer experience and strengthening product innovation. Robotic process automation ("RPA") technology was further extended within the Group's middle and back office operations, which effectively automated operational procedures, reduced processing times and enhanced employee productivity, improving related processing efficiency by 50%. The Group deepened digital empowerment by strengthening its cooperation with third-party platforms, introducing real-time shipping data to facilitate trade financing, and accelerating the digital transformation of its supply chain. It launched an electronic mortgage application platform so as to reduce the use of paper mortgage application forms. In addition, it gradually accelerated the automation of its operating procedures by enabling customer application data to be directly transmitted to its approval system, with over 90% of mortgage applications covered as at the end of June 2021. The Group also enhanced the operational efficiency of its property valuation process through the application of blockchain, which covered 99% of its total property valuations during the reporting period. The Group also implemented intelligent risk control applications including real-time risk control on different platforms such as personal internet banking and mobile banking, BoC Pay, BoC Bill, ATM transactions and remittance.

RISK MANAGEMENT

Banking Group

Overview

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

Risk management governance structure

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

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

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

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

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

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

Credit risk management

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

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

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

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

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

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

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

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

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

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

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

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

The Baseline scenario is prepared by our Economics & Strategic Planning Department. Historical data, economic trend, external forecast from governmental and non-governmental organisation, etc. are also used as benchmarks to ensure the scenario is reasonable and supportable. For the Good and Bad scenarios, the Group makes reference to the historical macroeconomics data.

The macroeconomic factors in the major countries/regions the Group operates such as Gross Domestic Product growth, Consumer Price Index, Property Price Index and Unemployment Rate are applied in the economic scenarios. These macroeconomic factors are considered to be important to the Group's ECL in statistical analysis and business opinion.

The probability weight assigned for each scenario reflects the Group's view for the economic environment, which implements the Group's prudent and consistent credit strategy of ensuring the adequacy of impairment allowance. A higher probability weight is assigned to the Baseline scenario to reflect the most likely outcome and a lower probability weight is assigned to the Good and Bad scenarios to reflect the less likely outcomes. As of June 2021, the probability weight of the Group's Baseline scenario is higher than the sum of probability weight of Good and Bad scenarios.

One of essential macroeconomic factors used by the Group to assess ECL:

Macroeconomic Factor	Scenario Weighted Value
2021 Hong Kong GDP Growth	3.05%

The calculation of ECL is affected by macroeconomic factors and economic scenarios. If more pessimistic macroeconomic factors are applied in ECL assessment or a higher probability weight is assigned to the Bad scenario, it would resulted in an increase in ECL. The Group reviews the macroeconomic factors used in the ECL model and the probability weight of economic scenarios on a quarterly basis according to the established mechanism.

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

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 three levels, and are approved by the RMC, senior management or the head of the respective business unit respectively. The treasury business units of BOCHK and subsidiaries (as for Group Limit) are required to conduct their business within approved market risk indicators and limits.

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

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

Interest rate risk management

Interest rate risk means the risks to a bank's earnings and economic value arising from movements in interest rate and term structures of the bank's asset and liability positions. The Group's interest rate risk exposures are mainly 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 ("EVE"), etc. The indicators and limits are classified into different levels, which are approved by the CFO, CRO, ALCO and RMC accordingly. Risk-taking business units are required to conduct their business within the boundary of the interest rate risk limits. Before launching a new product or business in the banking book, the relevant departments are required to go through a risk assessment process, which includes the assessment of underlying interest rate risk and consideration of the adequacy of current risk monitoring mechanism. Any material impact on interest rate risk noted during the risk assessment process will be submitted to the RMC for approval.

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

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

Liquidity risk management

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

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

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

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

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

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

In the liquidity stress test, institution specific, general market crisis and combined crisis scenarios have been set up, a combined crisis scenario is a combination of institution specific and general market crisis to assess the Group's capability to withstand a more severe liquidity crisis, with a more stringent set of assumptions being adopted. Stress test assumptions include the run-off rate of retail, wholesale and interbank deposits; the drawdown rate of loan commitments and trade-related contingent liabilities; the delinquency ratio and rollover rate of customer loans; and haircut of interbank placement and marketable securities. As at 30 June 2021, the Group was able to maintain a net cash inflow under the three stressed scenarios, indicating the Group has the ability to meet financing needs under stressed conditions. In addition, the Group has a policy in place to maintain a liquidity cushion which includes high quality or comparable quality marketable securities issued or guaranteed by sovereigns, central banks, public sector entities or multilateral development banks with 0% or 20% risk weight or marketable securities issued by non-financial corporate with a corresponding external credit rating of A- or above to ensure funding needs even under stressed scenarios. 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 2021.

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

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

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

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 2021 HK$'m**	(Unaudited) Half-year ended 30 June 2020 HK$'m
Interest income		**19,848**	28,936
Interest income calculated using the effective interest method		***19,520***	*28,202*
Others		***328***	*734*
Interest expense		**(3,906)**	(10,300)
Net interest income	5	**15,942**	18,636
Fee and commission income		**8,116**	6,798
Fee and commission expense		**(1,459)**	(1,363)
Net fee and commission income	6	**6,657**	5,435
Gross earned premiums		**13,919**	14,449
Gross earned premiums ceded to reinsurers		**(4,902)**	(6,533)
Net insurance premium income		**9,017**	7,916
Net trading gain	7	**2,354**	2,330
Net gain on other financial instruments at fair value through profit or loss	8	**96**	202
Net gain on other financial assets	9	**451**	2,571
Other operating income	10	**503**	464
Total operating income		**35,020**	37,554
Gross insurance benefits and claims and movement in liabilities		**(15,544)**	(16,723)
Reinsurers' share of benefits and claims and movement in liabilities		**5,574**	7,912
Net insurance benefits and claims and movement in liabilities	11	**(9,970)**	(8,811)
Net operating income before impairment allowances		**25,050**	28,743
Net charge of impairment allowances	12	**(1,182)**	(1,366)
Net operating income		**23,868**	27,377
Operating expenses	13	**(7,582)**	(7,589)
Operating profit		**16,286**	19,788
Net loss from disposal of/fair value adjustments on investment properties	14	**(22)**	(507)
Net loss from disposal/revaluation of properties, plant and equipment	15	**(22)**	(3)
Share of results after tax of associates and joint ventures		**(89)**	(54)
Profit before taxation		**16,153**	19,224
Taxation	16	**(2,562)**	(3,063)
Profit for the period		**13,591**	16,161
Profit attributable to:			
Equity holders of the Company and other equity instrument holders		**13,264**	15,898
Equity holders of the Company		**12,576**	15,209
Other equity instrument holders		**688**	689
Non-controlling interests		**327**	263
		13,591	16,161
Dividends	17	**4,726**	4,726
		HK$	HK$
Earnings per share			
Basic and diluted	18	**1.1895**	1.4385

The notes on pages 45 to 113 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	(Unaudited) Half-year ended 30 June 2021 HK$'m	(Unaudited) Half-year ended 30 June 2020 HK$'m
Profit for the period		**13,591**	16,161
Items that will not be reclassified subsequently to income statement:			
Premises:			
Revaluation of premises		**420**	(545)
Deferred tax		**(67)**	112
		353	(433)
Equity instruments at fair value through other comprehensive income:			
Change in fair value		**(271)**	(281)
Deferred tax		**(3)**	49
		(274)	(232)
Own credit risk:			
Change in fair value of own credit risk of financial liabilities designated at fair value through profit or loss		**–**	1
Deferred tax		**–**	–
		–	1
		79	(664)
Items that may be reclassified subsequently to income statement:			
Debt instruments at fair value through other comprehensive income:			
Change in fair value		**(1,322)**	4,429
Change in impairment allowances (credited)/charged to income statement	12	**(4)**	75
Release upon disposal/redemption reclassified to income statement	9	**(432)**	(2,513)
Amortisation of accumulated amount of fair value hedge adjustment reclassified to income statement		**7**	2
Deferred tax		**307**	(316)
		(1,444)	1,677
Currency translation difference		**(364)**	(370)
		(1,808)	1,307
Other comprehensive income for the period, net of tax		**(1,729)**	643
Total comprehensive income for the period		**11,862**	16,804
Total comprehensive income attributable to:			
Equity holders of the Company and other equity instrument holders		**11,758**	16,479
Equity holders of the Company		**11,070**	15,790
Other equity instrument holders		**688**	689
Non-controlling interests		**104**	325
		11,862	16,804

The notes on pages 45 to 113 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	(Unaudited) At 30 June 2021 HK$'m	(Audited) At 31 December 2020 HK$'m
ASSETS			
Cash and balances and placements with banks and other financial institutions	20	**546,237**	463,711
Financial assets at fair value through profit or loss	21	**60,530**	60,214
Derivative financial instruments	22	**37,263**	52,856
Hong Kong SAR Government certificates of indebtedness		**197,650**	189,550
Advances and other accounts	23	**1,747,852**	1,500,416
Investment in securities	24	**993,521**	880,485
Interests in associates and joint ventures		**1,389**	1,485
Investment properties	25	**18,451**	18,441
Properties, plant and equipment	26	**46,224**	46,855
Current tax assets		**89**	138
Deferred tax assets	32	**106**	95
Other assets	27	**185,558**	106,735
Total assets		**3,834,870**	3,320,981
LIABILITIES			
Hong Kong SAR currency notes in circulation		**197,650**	189,550
Deposits and balances from banks and other financial institutions		**331,608**	326,495
Financial liabilities at fair value through profit or loss	28	**13,030**	20,336
Derivative financial instruments	22	**36,926**	60,313
Deposits from customers	29	**2,682,440**	2,183,709
Debt securities and certificates of deposit in issue	30	**78**	426
Other accounts and provisions	31	**94,040**	71,050
Current tax liabilities		**5,038**	3,979
Deferred tax liabilities	32	**5,626**	5,964
Insurance contract liabilities	33	**146,141**	139,504
Total liabilities		**3,512,577**	3,001,326
EQUITY			
Share capital	34	**52,864**	52,864
Reserves		**240,103**	237,438
Capital and reserves attributable to equity holders of the Company		**292,967**	290,302
Other equity instruments	35	**23,476**	23,476
Non-controlling interests		**5,850**	5,877
Total equity		**322,293**	319,655
Total liabilities and equity		**3,834,870**	3,320,981

The notes on pages 45 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	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
Profit for the period	–	–	–	–	–	–	11,965	11,965	–	342	12,307
Upon declaration of dividend to other equity instrument holders	–	–	–	–	–	–	(687)	(687)	687	–	–
	–	–	–	–	–	–	11,278	11,278	687	342	12,307
Other comprehensive income:											
Premises	–	(977)	–	–	–	–	–	(977)	–	–	(977)
Equity instruments at fair value through other comprehensive income	–	–	117	–	–	–	–	117	–	45	162
Debt instruments at fair value through other comprehensive income	–	–	(84)	–	–	–	–	(84)	–	130	46
Currency translation difference	–	–	210	–	–	399	–	609	–	–	609
Total comprehensive income	–	(977)	243	–	–	399	11,278	10,943	687	517	12,147
Release upon disposal of equity instruments at fair value through other comprehensive income:											
Transfer	–	–	26	–	–	–	(26)	–	–	–	–
Deferred tax	–	–	(5)	–	–	–	–	(5)	–	(5)	(10)
Current tax	–	–	–	–	–	–	5	5	–	5	10
Transfer to retained earnings	–	–	–	–	(887)	–	887	–	–	–	–
Dividends	–	–	–	–	–	–	(4,726)	(4,726)	(687)	(83)	(5,496)
At 31 December 2020	52,864	38,048	1,726	–	4,780	(503)	193,387	290,302	23,476	5,877	319,655

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	Retained earnings HK$'m	Total HK$'m	Other equity instruments HK$'m	Non-controlling interests HK$'m	Total equity HK$'m
At 1 January 2021	52,864	38,048	1,726	–	4,780	(503)	193,387	290,302	23,476	5,877	319,655
Profit for the period	–	–	–	–	–	–	13,264	13,264	–	327	13,591
Upon declaration of dividend to other equity instrument holders	–	–	–	–	–	–	(688)	(688)	688	–	–
	–	–	–	–	–	–	12,576	12,576	688	327	13,591
Other comprehensive income:											
Premises	–	353	–	–	–	–	–	353	–	–	353
Equity instruments at fair value through other comprehensive income	–	–	(271)	–	–	–	–	(271)	–	(3)	(274)
Debt instruments at fair value through other comprehensive income	–	–	(1,224)	–	–	–	–	(1,224)	–	(220)	(1,444)
Currency translation difference	–	–	–	–	–	(364)	–	(364)	–	–	(364)
Total comprehensive income	–	353	(1,495)	–	–	(364)	12,576	11,070	688	104	11,862
Release upon disposal of equity instruments at fair value through other comprehensive income:											
Transfer	–	–	(35)	–	–	–	35	–	–	–	–
Deferred tax	–	–	6	–	–	–	–	6	–	6	12
Current tax	–	–	–	–	–	–	(6)	(6)	–	(6)	(12)
Transfer from retained earnings	–	–	–	–	1,885	–	(1,885)	–	–	–	–
Dividends	–	–	–	–	–	–	(8,405)	(8,405)	(688)	(131)	(9,224)
At 30 June 2021	52,864	38,401	202	–	6,665	(867)	195,702	292,967	23,476	5,850	322,293

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

The notes on pages 45 to 113 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Notes	**(Unaudited) Half-year ended 30 June 2021 HK$'m**	(Unaudited) Half-year ended 30 June 2020 HK$'m
Cash flows from operating activities			
Operating cash inflow before taxation	36(a)	**133,964**	77,452
Hong Kong profits tax paid		**(1,393)**	(4,640)
Overseas profits tax paid		**(176)**	(277)
Net cash inflow from operating activities		**132,395**	72,535
Cash flows from investing activities			
Additions of properties, plant and equipment		**(93)**	(439)
Proceeds from disposal of properties, plant and equipment		**6**	8
Additions of investment properties		**(6)**	(4)
Additions of intangible assets		**(313)**	–
Dividend received from associates and joint ventures		**4**	–
Net cash outflow from investing activities		**(402)**	(435)
Cash flows from financing activities			
Dividend paid to equity holders of the Company		**(8,405)**	–
Dividend paid to other equity instrument holders		**(688)**	(689)
Dividend paid to non-controlling interests		**(131)**	(115)
Payment for redemption of subordinated liabilities		**–**	(12,603)
Interest paid for subordinated liabilities		**–**	(350)
Payment of lease liabilities		**(361)**	(391)
Net cash outflow from financing activities		**(9,585)**	(14,148)
Increase in cash and cash equivalents		**122,408**	57,952
Cash and cash equivalents at 1 January		**456,058**	331,652
Effect of exchange rate changes on cash and cash equivalents		**131**	(3,207)
Cash and cash equivalents at 30 June	36(b)	**578,597**	386,397

The notes on pages 45 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 2020 and shall be read in conjunction with the Group's Annual Report for 2020.

Amendments that are relevant to the Group and are initially adopted for the financial year beginning on 1 January 2021

The Group has initially applied the following amendments for the financial year beginning on 1 January 2021:

- HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendments), "Interest Rate Benchmark Reform – Phase 2". The amendments address issues that might affect financial reporting when an entity replaces the old interest rate benchmark with alternative benchmark rates as a result of the IBOR Reform. The amendments complement those issued in 2019 and relate to:

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

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

  – disclosures – an entity will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates.

  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 an optional practical expedient allowing lessees to elect not to evaluate whether qualifying rent concessions are lease modifications and, instead, account for those rent concessions as if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic.

  The amendments were effective on 1 June 2020 and applicable to COVID-19-related rent concessions that reduce lease payments from 1 January 2020 to 30 June 2021. In April 2021, further amendment to HKFRS 16 was announced to extend the availability of the practical expedient so that it applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The Group has adopted 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.

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

(c) Standard, amendments and interpretation issued that are relevant to the Group but not yet mandatorily effective and have not been early adopted by the Group in 2021

Standard/ Amendments/ Interpretation	Content	Applicable for financial years beginning on/ after
HKAS 1 (Amendments)	Classification of Current or Non-current Liabilities	1 January 2023
HKAS 1 and HKAS 8 (Amendments)	Disclosure of Accounting Policies and Definition of Accounting Estimates	1 January 2023
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
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 2023
HK Int 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023

- HKAS 1 and HKAS 8 (Amendments), "Disclosure of Accounting Policies and Definition of Accounting Estimates". The amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. It is also clarified that accounting policy information is expected to be material, if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. Further, the amendments to HKAS 1 clarifies that immaterial accounting policy information are not required to be disclosed. If it is disclosed, it should not obscure material accounting policy information. To support the amendment, HKFRS Practice Statement 2 "Making Materiality Judgements" is also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

  The amendments to HKAS 8 clarify how companies should distinguish changes in accounting policies from changes in accounting estimates.

  The amendments are applied prospectively. 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, amendments and interpretation issued that are relevant to the Group but not yet mandatorily effective and have not been early adopted by the Group in 2021 (continued)*

- HKAS 12 (Amendments), "Deferred Tax related to Assets and Liabilities arising from a Single Transaction". The amendments narrow the scope of the initial recognition exemption of deferred tax assets and deferred tax liabilities in HKAS 12 so that an entity no longer applies the initial recognition exemption to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The amendments are applied by recognising deferred tax for all temporary differences related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, and are applied prospectively for other transactions. The application of the amendments will not have a material impact on the Group's financial statements.

- Please refer to Note 2.1(b) of the Group's Annual Report for 2020 for brief explanations of the remaining standard, amendments and interpretation.

(d) *Improvements to HKFRSs*

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

(e) *Comparative figures*

Certain comparative figures in the notes have been adjusted to conform with presentation in the current period, including the classification in Note 21 financial assets at fair value through profit or loss and Note 24 investment in securities.

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 2020.

3. Financial risk management

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

A summary of the Group's objectives, risk management governance structure, policies and processes for managing and the methods used to measure these risks is set out in Note 4 to the Financial Statements of the Group's Annual Report for 2020.

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

Credit-impaired 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 contractual reasons related to the borrower's financial difficulty, the Group has granted to the borrower a concession that it would not otherwise consider;
- Probable that the borrower will become bankrupt or undergo other financial reorganisation; or
- Other observable data indicating that there is a measurable decrease in the estimated future cash flows from such 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 2021			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Advances to customers				
Pass	1,706,445	26,463	–	1,732,908
Special mention	3,170	3,798	–	6,968
Substandard or below	–	–	5,077	5,077
	1,709,615	30,261	5,077	1,744,953
Trade bills				
Pass	11,746	–	–	11,746
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	11,746	–	–	11,746
Advances to banks and other financial institutions				
Pass	1,355	–	–	1,355
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	1,355	–	–	1,355
	1,722,716	30,261	5,077	1,758,054
Impairment allowances	(5,357)	(1,599)	(3,246)	(10,202)
	1,717,359	28,662	1,831	1,747,852

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

	At 31 December 2020			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Advances to customers				
Pass	1,466,646	20,352	–	1,486,998
Special mention	3,846	3,026	–	6,872
Substandard or below	–	–	3,994	3,994
	1,470,492	23,378	3,994	1,497,864
Trade bills				
Pass	9,826	–	–	9,826
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	9,826	–	–	9,826
Advances to banks and other financial institutions				
Pass	1,898	–	–	1,898
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	1,898	–	–	1,898
	1,482,216	23,378	3,994	1,509,588
Impairment allowances	(5,405)	(1,115)	(2,652)	(9,172)
	1,476,811	22,263	1,342	1,500,416

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

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

	Half-year ended 30 June 2021			
	Stage 1 HK$'m	**Stage 2 HK$'m**	**Stage 3 HK$'m**	**Total HK$'m**
Impairment allowances				
At 1 January 2021	**5,405**	**1,115**	**2,652**	**9,172**
Transfer to Stage 1	**103**	**(101)**	**(2)**	**–**
Transfer to Stage 2	**(84)**	**91**	**(7)**	**–**
Transfer to Stage 3	**(12)**	**(7)**	**19**	**–**
Changes arising from transfer of stage	**(69)**	**483**	**715**	**1,129**
Charge for the period	**1,693**	**343**	**187**	**2,223**
Reversal for the period	**(1,664)**	**(322)**	**(169)**	**(2,155)**
Write-offs	**–**	**–**	**(139)**	**(139)**
Recoveries	**–**	**–**	**45**	**45**
Exchange difference and others	**(15)**	**(3)**	**(55)**	**(73)**
At 30 June 2021	**5,357**	**1,599**	**3,246**	**10,202**
Charged to income statement (Note 12)				**1,197**

	Year ended 31 December 2020			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Impairment allowances				
At 1 January 2020	4,564	297	2,175	7,036
Transfer to Stage 1	96	(94)	(2)	–
Transfer to Stage 2	(166)	177	(11)	–
Transfer to Stage 3	(8)	(19)	27	–
Changes arising from transfer of stage	(76)	782	772	1,478
Charge for the year	2,894	104	300	3,298
Reversal for the year	(1,920)	(132)	(235)	(2,287)
Write-offs	–	–	(561)	(561)
Recoveries	–	–	136	136
Exchange difference and others	21	–	51	72
At 31 December 2020	5,405	1,115	2,652	9,172

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 2021		At 31 December 2020	
	Impaired HK$'m	**Classified or impaired HK$'m**	Impaired HK$'m	Classified or impaired HK$'m
Gross advances to customers	**5,077**	**5,077**	3,994	3,994
Percentage of gross advances to customers	**0.29%**	**0.29%**	0.27%	0.27%
Impairment allowances made in respect of such advances	**3,246**	**3,246**	2,652	2,652

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

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

	At 30 June 2021 HK$'m	At 31 December 2020 HK$'m
Current market value of collateral held against the covered portion of impaired advances to customers	**2,904**	3,046
Covered portion of impaired advances to customers	**1,544**	1,558
Uncovered portion of impaired advances to customers	**3,533**	2,436

As at 30 June 2021, there were no impaired trade bills and advances to banks and other financial institutions (31 December 2020: 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 2021		At 31 December 2020	
	Amount HK$'m	**% of gross advances to customers**	Amount HK$'m	% of gross advances to customers
Gross advances to customers which have been overdue for:				
– six months or less but over three months	**113**	**0.01%**	174	0.01%
– one year or less but over six months	**177**	**0.01%**	718	0.05%
– over one year	**2,698**	**0.15%**	2,137	0.14%
Advances overdue for over three months	**2,988**	**0.17%**	3,029	0.20%
Impairment allowances made in respect of such advances – Stage 3	**2,281**		2,332	

	At 30 June 2021 HK$'m	At 31 December 2020 HK$'m
Current market value of collateral held against the covered portion of such advances to customers	**1,448**	1,312
Covered portion of such advances to customers	**1,006**	913
Uncovered portion of such advances to customers	**1,982**	2,116

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

As at 30 June 2021, there were no trade bills and advances to banks and other financial institutions overdue for more than three months (31 December 2020: Nil).

3. Financial risk management (continued)

3.1 Credit risk (continued)

(A) Advances and other accounts (continued)

(c) Rescheduled advances

	At 30 June 2021		At 31 December 2020	
	Amount HK$'m	**% of gross advances to customers**	Amount HK$'m	% of gross advances to customers
Rescheduled advances to customers net of amounts included in "Advances overdue for more than three months"	**192**	**0.01%**	178	0.01%

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

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 2021					
	Gross advances to customers HK$'m	% covered by collateral or other security	Classified or impaired HK$'m	Overdue HK$'m	Impairment allowances – Stage 3 HK$'m	Impairment allowances – Stages 1 and 2 HK$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	155,058	25.77%	–	–	–	809
– Property investment	83,542	59.72%	113	152	32	254
– Financial concerns	25,558	0.68%	–	–	–	54
– Stockbrokers	111,359	7.43%	–	–	–	12
– Wholesale and retail trade	31,533	43.42%	195	258	108	342
– Manufacturing	45,164	9.44%	2	18	2	187
– Transport and transport equipment	73,872	21.37%	160	2	–	476
– Recreational activities	185	96.45%	–	–	–	–
– Information technology	28,980	0.66%	100	100	28	56
– Others	188,430	60.23%	28	257	14	449
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	28,475	99.29%	16	205	–	20
– Loans for purchase of other residential properties	326,062	99.94%	133	1,098	1	154
– Credit card advances	10,591	–	106	386	95	157
– Others	103,829	95.16%	122	499	74	334
Total loans for use in Hong Kong	1,212,638	57.63%	975	2,975	354	3,304
Trade financing	83,850	12.59%	803	688	630	208
Loans for use outside Hong Kong	448,465	5.02%	3,299	3,105	2,262	3,442
Gross advances to customers	1,744,953	41.95%	5,077	6,768	3,246	6,954

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 2020					
	Gross advances to customers HK$'m	% covered by collateral or other security	Classified or impaired HK$'m	Overdue HK$'m	Impairment allowances – Stage 3 HK$'m	Impairment allowances – Stages 1 and 2 HK$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	132,966	27.12%	–	1	–	803
– Property investment	64,768	67.95%	111	184	15	186
– Financial concerns	24,110	0.74%	–	–	–	54
– Stockbrokers	1,656	78.86%	–	–	–	3
– Wholesale and retail trade	30,523	43.12%	198	239	109	411
– Manufacturing	53,629	8.05%	8	9	4	290
– Transport and transport equipment	74,633	23.05%	260	–	–	598
– Recreational activities	198	9.90%	–	–	–	2
– Information technology	25,579	0.81%	97	99	13	33
– Others	131,571	47.23%	18	200	4	409
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	27,809	99.33%	18	183	–	17
– Loans for purchase of other residential properties	311,070	99.92%	140	1,332	1	137
– Credit card advances	10,959	–	106	366	95	151
– Others	101,986	94.43%	126	537	81	384
Total loans for use in Hong Kong	991,457	61.86%	1,082	3,150	322	3,478
Trade financing	66,497	15.36%	569	573	372	202
Loans for use outside Hong Kong	439,910	5.29%	2,343	2,217	1,958	2,840
Gross advances to customers	1,497,864	43.18%	3,994	5,940	2,652	6,520

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 2021 HK$'m	At 31 December 2020 HK$'m
Hong Kong	**1,487,507**	1,218,633
Chinese Mainland	**90,645**	112,527
Others	**166,801**	166,704
	1,744,953	1,497,864
Impairment allowances made in respect of the gross advances to customers – Stages 1 and 2		
Hong Kong	**4,379**	4,551
Chinese Mainland	**612**	656
Others	**1,963**	1,313
	6,954	6,520

Overdue advances

	At 30 June 2021 HK$'m	At 31 December 2020 HK$'m
Hong Kong	**4,917**	4,115
Chinese Mainland	**475**	567
Others	**1,376**	1,258
	6,768	5,940
Impairment allowances made in respect of the overdue advances – Stage 3		
Hong Kong	**1,701**	1,308
Chinese Mainland	**312**	320
Others	**889**	908
	2,902	2,536

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 2021 HK$'m	At 31 December 2020 HK$'m
Hong Kong	**2,973**	2,194
Chinese Mainland	**403**	404
Others	**1,701**	1,396
	5,077	3,994
Impairment allowances made in respect of the classified or impaired advances – Stage 3		
Hong Kong	**1,822**	1,410
Chinese Mainland	**310**	331
Others	**1,114**	911
	3,246	2,652

(B) Repossessed assets

The estimated market value of repossessed assets held by the Group as at 30 June 2021 amounted to HK$57 million (31 December 2020: HK$67 million). The repossessed assets comprise properties in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the proprietors concerned) for release in full or in part of the obligations of the borrowers.

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 2021 HK$'m	At 31 December 2020 HK$'m
Investment in securities at fair value through other comprehensive income		
– Stage 1		
Aaa	**91,958**	115,426
Aa1 to Aa3	**231,965**	153,601
A1 to A3	**438,460**	438,994
Lower than A3	**26,155**	26,555
Unrated	**16,161**	19,596
	804,699	754,172
– Stage 2		
Lower than A3	**158**	–
– Stage 3	**–**	–
	804,857	754,172
Of which: impairment allowances	**(257)**	(261)
Investment in securities at amortised cost		
– Stage 1		
Aaa	**55,928**	43,082
Aa1 to Aa3	**23,120**	6,730
A1 to A3	**70,497**	39,864
Lower than A3	**25,637**	23,923
Unrated	**6,621**	6,894
	181,803	120,493
– Stage 2		
Lower than A3	**397**	–
– Stage 3	**–**	–
	182,200	120,493
Impairment allowances	**(70)**	(62)
	182,130	120,431
Financial assets at fair value through profit or loss		
Aaa	**2,339**	1,095
Aa1 to Aa3	**15,787**	22,573
A1 to A3	**12,097**	8,412
Lower than A3	**9,748**	9,846
Unrated	**2,569**	2,070
	42,540	43,996

As at 30 June 2021, there were no overdue or impaired debt securities and certificates of deposit (31 December 2020: Nil). The preparation basis of the current period disclosure above has been refined to align with the credit risk management policy of the Group.

3. Financial risk management (continued)

3.1 Credit risk (continued)

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

In the first half of 2021, the vaccination programme has rolled out in various countries, economic activities are expected to recover gradually. While the COVID-19 pandemic is still evolving and recurring, the operating environment and financial situations of borrowers remain challenging. The Group has taken a series of risk control measures in response to the adverse impact and the uncertainty from the pandemic:

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

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

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

– The Group reviews the forward looking macroeconomic factors used in ECL model on a quarterly basis to reflect the progressive improvement of economic outlook. While the relief measures implemented by the governments of various countries have alleviated the default pressure of the affected borrowers under COVID-19 pandemic, the Group continues its close monitoring on those borrowers with multiple extensions of relief measures being granted, and additional impairment allowances have been made to address the potential higher default risk of this portfolio upon expiration of the relief measures.

The Group continues to closely monitor the situation brought by the COVID-19 pandemic on the economy and adopt prudent asset quality management to avoid significant deterioration in asset quality.

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	**2021**	**26.1**	**19.0**	**47.8**	**28.3**
	2020	38.7	17.5	44.1	30.6
VaR for foreign exchange risk	**2021**	**20.8**	**13.8**	**41.1**	**24.7**
	2020	27.5	6.5	29.3	14.8
VaR for interest rate risk in the trading book	**2021**	**17.8**	**6.2**	**26.4**	**13.8**
	2020	26.0	13.2	35.6	24.7
VaR for equity risk in the trading book	**2021**	**1.5**	**0.4**	**2.2**	**1.0**
	2020	0.8	0.3	2.9	0.8
VaR for commodity risk	**2021**	**5.6**	**0.0**	**22.7**	**9.2**
	2020	0.4	0.0	2.5	0.6

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 2021							
	Equivalent in million of HK$							
	US Dollars	**Pound Sterling**	**Japanese Yen**	**Euro**	**Renminbi**	**Australian Dollars**	**Other foreign currencies**	**Total foreign currencies**
Spot assets	**1,052,563**	**33,005**	**177,256**	**76,576**	**413,227**	**39,107**	**60,697**	**1,852,431**
Spot liabilities	**(922,537)**	**(25,629)**	**(6,517)**	**(39,020)**	**(416,460)**	**(28,215)**	**(60,652)**	**(1,499,030)**
Forward purchases	**743,383**	**23,021**	**10,147**	**41,472**	**300,489**	**19,284**	**58,223**	**1,196,019**
Forward sales	**(854,183)**	**(30,236)**	**(180,072)**	**(79,282)**	**(297,669)**	**(30,061)**	**(58,433)**	**(1,529,936)**
Net options position	**58**	**(31)**	**–**	**(10)**	**(420)**	**(41)**	**(35)**	**(479)**
Net long/(short) position	**19,284**	**130**	**814**	**(264)**	**(833)**	**74**	**(200)**	**19,005**

	At 31 December 2020							
	Equivalent in million of HK$							
	US Dollars	Pound Sterling	Japanese Yen	Euro	Renminbi	Australian Dollars	Other foreign currencies	Total foreign currencies
Spot assets	1,017,375	30,074	160,779	45,926	427,394	36,620	62,008	1,780,176
Spot liabilities	(877,494)	(25,986)	(8,006)	(27,974)	(412,245)	(30,815)	(60,400)	(1,442,920)
Forward purchases	617,715	23,737	18,050	39,254	365,271	15,063	54,352	1,133,442
Forward sales	(734,480)	(27,641)	(170,914)	(57,474)	(382,383)	(20,758)	(56,136)	(1,449,786)
Net options position	650	7	–	(2)	(406)	(1)	(1)	247
Net long/(short) position	23,766	191	(91)	(270)	(2,369)	109	(177)	21,159

3. Financial risk management (continued)

3.2 Market risk (continued)

(B) Currency risk (continued)

	At 30 June 2021					
	Equivalent in million of HK$					
	US Dollars	Baht	Malaysian Ringgit	Philippine Peso	Other foreign currencies	Total foreign currencies
Net structural position	**30,841**	**2,506**	**2,877**	**1,912**	**4,346**	**42,482**

	At 31 December 2020					
	Equivalent in million of HK$					
	US Dollars	Baht	Malaysian Ringgit	Philippine Peso	Other foreign currencies	Total foreign currencies
Net structural position	30,042	2,697	3,024	1,881	4,677	42,321

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 2021 and 31 December 2020. 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 2021						
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Non-interest bearing HK$'m	Total HK$'m
Assets							
Cash and balances and placements with banks and other financial institutions	400,071	14,824	28,033	1,417	–	101,892	546,237
Financial assets at fair value through profit or loss	6,276	11,508	9,494	8,883	11,130	13,239	60,530
Derivative financial instruments	–	–	–	–	–	37,263	37,263
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	197,650	197,650
Advances and other accounts	1,460,960	201,985	33,502	38,306	6,778	6,321	1,747,852
Investment in securities							
– At FVOCI	108,956	224,377	166,848	196,481	108,195	6,534	811,391
– At amortised cost	4,317	2,883	19,472	86,547	68,911	–	182,130
Interests in associates and joint ventures	–	–	–	–	–	1,389	1,389
Investment properties	–	–	–	–	–	18,451	18,451
Properties, plant and equipment	–	–	–	–	–	46,224	46,224
Other assets (including current and deferred tax assets)	13,561	–	–	–	–	172,192	185,753
Total assets	1,994,141	455,577	257,349	331,634	195,014	601,155	3,834,870
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	197,650	197,650
Deposits and balances from banks and other financial institutions	241,716	6,755	1,469	1,188	–	80,480	331,608
Financial liabilities at fair value through profit or loss	4,774	5,145	2,182	864	65	–	13,030
Derivative financial instruments	–	–	–	–	–	36,926	36,926
Deposits from customers	2,054,765	263,124	92,291	1,973	–	270,287	2,682,440
Debt securities and certificates of deposit in issue	–	78	–	–	–	–	78
Other accounts and provisions (including current and deferred tax liabilities)	12,608	4	99	1,047	361	90,585	104,704
Insurance contract liabilities	–	–	–	–	–	146,141	146,141
Total liabilities	2,313,863	275,106	96,041	5,072	426	822,069	3,512,577
Interest sensitivity gap	(319,722)	180,471	161,308	326,562	194,588	(220,914)	322,293

3. Financial risk management (continued)

3.2 Market risk (continued)

(C) Interest rate risk (continued)

	At 31 December 2020						
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Non-interest bearing HK$'m	Total HK$'m
Assets							
Cash and balances and placements with banks and other financial institutions	338,539	25,591	12,516	1,101	–	85,964	463,711
Financial assets at fair value through profit or loss	4,404	17,991	4,962	7,362	12,695	12,800	60,214
Derivative financial instruments	–	–	–	–	–	52,856	52,856
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	189,550	189,550
Advances and other accounts	1,247,621	163,297	36,230	40,454	6,438	6,376	1,500,416
Investment in securities							
– At FVOCI	130,866	213,464	100,434	192,840	116,568	5,882	760,054
– At amortised cost	5,253	3,836	14,834	37,825	58,683	–	120,431
Interests in associates and joint ventures	–	–	–	–	–	1,485	1,485
Investment properties	–	–	–	–	–	18,441	18,441
Properties, plant and equipment	–	–	–	–	–	46,855	46,855
Other assets (including current and deferred tax assets)	20,813	–	–	–	–	86,155	106,968
Total assets	1,747,496	424,179	168,976	279,582	194,384	506,364	3,320,981
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	189,550	189,550
Deposits and balances from banks and other financial institutions	226,861	565	1,322	1,243	–	96,504	326,495
Financial liabilities at fair value through profit or loss	11,551	4,346	3,690	387	362	–	20,336
Derivative financial instruments	–	–	–	–	–	60,313	60,313
Deposits from customers	1,575,155	246,117	110,992	1,715	–	249,730	2,183,709
Debt securities and certificates of deposit in issue	233	–	193	–	–	–	426
Other accounts and provisions (including current and deferred tax liabilities)	11,065	4	94	1,165	447	68,218	80,993
Insurance contract liabilities	–	–	–	–	–	139,504	139,504
Total liabilities	1,824,865	251,032	116,291	4,510	809	803,819	3,001,326
Interest sensitivity gap	(77,369)	173,147	52,685	275,072	193,575	(297,455)	319,655

3. Financial risk management (continued)

3.3 Liquidity risk

(A) Liquidity coverage ratio and net stable funding ratio

	2021	2020
Average value of liquidity coverage ratio		
– First quarter	**134.09%**	150.45%
– Second quarter	**134.20%**	131.38%

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

	2021	2020
Quarter-end value of net stable funding ratio		
– First quarter	**124.90%**	116.60%
– Second quarter	**118.50%**	117.49%

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

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

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis

The tables below analyse the Group's assets and liabilities as at 30 June 2021 and 31 December 2020 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2021							
	On demand HK$'m	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Indefinite HK$'m	Total HK$'m
Assets								
Cash and balances and placements with banks and other financial institutions	344,293	157,671	14,452	28,037	1,784	–	–	546,237
Financial assets at fair value through profit or loss	–	3,360	14,530	7,928	9,596	10,728	14,388	60,530
Derivative financial instruments	13,557	3,150	2,657	4,820	8,710	4,369	–	37,263
Hong Kong SAR Government certificates of indebtedness	197,650	–	–	–	–	–	–	197,650
Advances and other accounts	313,901	166,247	79,550	218,002	615,663	352,577	1,912	1,747,852
Investment in securities								
– At FVOCI	–	100,740	212,941	174,512	203,904	111,628	7,666	811,391
– At amortised cost	–	4,692	3,170	19,748	83,510	68,585	2,425	182,130
Interests in associates and joint ventures	–	–	–	–	–	–	1,389	1,389
Investment properties	–	–	–	–	–	–	18,451	18,451
Properties, plant and equipment	–	–	–	–	–	–	46,224	46,224
Other assets (including current and deferred tax assets)	48,614	97,513	1,349	6,631	19,602	10,142	1,902	185,753
Total assets	918,015	533,373	328,649	459,678	942,769	558,029	94,357	3,834,870
Liabilities								
Hong Kong SAR currency notes in circulation	197,650	–	–	–	–	–	–	197,650
Deposits and balances from banks and other financial institutions	235,811	86,385	6,755	1,469	1,188	–	–	331,608
Financial liabilities at fair value through profit or loss	–	4,774	5,148	2,182	862	64	–	13,030
Derivative financial instruments	9,288	2,270	2,114	4,729	12,020	6,505	–	36,926
Deposits from customers	1,967,725	357,327	263,124	92,291	1,973	–	–	2,682,440
Debt securities and certificates of deposit in issue	–	–	78	–	–	–	–	78
Other accounts and provisions (including current and deferred tax liabilities)	58,608	30,290	407	5,652	7,084	2,663	–	104,704
Insurance contract liabilities	51,782	449	1,171	8,842	25,147	58,750	–	146,141
Total liabilities	2,520,864	481,495	278,797	115,165	48,274	67,982	–	3,512,577
Net liquidity gap	(1,602,849)	51,878	49,852	344,513	894,495	490,047	94,357	322,293

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

	At 31 December 2020							
	On demand HK$'m	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Indefinite HK$'m	Total HK$'m
Assets								
Cash and balances and placements with banks and other financial institutions	368,078	56,425	25,217	12,134	1,857	–	–	463,711
Financial assets at fair value through profit or loss	–	4,490	17,863	4,459	7,241	12,114	14,047	60,214
Derivative financial instruments	15,506	3,614	6,190	8,887	12,101	6,558	–	52,856
Hong Kong SAR Government certificates of indebtedness	189,550	–	–	–	–	–	–	189,550
Advances and other accounts	225,736	40,664	82,601	183,549	622,363	344,001	1,502	1,500,416
Investment in securities								
– At FVOCI	–	125,613	199,644	108,713	201,587	116,176	8,321	760,054
– At amortised cost	–	5,575	4,119	14,620	36,100	58,219	1,798	120,431
Interests in associates and joint ventures	–	–	–	–	–	–	1,485	1,485
Investment properties	–	–	–	–	–	–	18,441	18,441
Properties, plant and equipment	–	–	–	–	–	–	46,855	46,855
Other assets (including current and deferred tax assets)	50,984	15,340	3,263	5,498	17,717	12,275	1,891	106,968
Total assets	849,854	251,721	338,897	337,860	898,966	549,343	94,340	3,320,981
Liabilities								
Hong Kong SAR currency notes in circulation	189,550	–	–	–	–	–	–	189,550
Deposits and balances from banks and other financial institutions	269,742	53,625	564	1,322	1,242	–	–	326,495
Financial liabilities at fair value through profit or loss	–	11,552	4,348	3,690	386	360	–	20,336
Derivative financial instruments	11,253	5,064	7,058	9,461	16,758	10,719	–	60,313
Deposits from customers	1,459,907	364,978	246,117	110,992	1,715	–	–	2,183,709
Debt securities and certificates of deposit in issue	–	233	–	193	–	–	–	426
Other accounts and provisions (including current and deferred tax liabilities)	49,267	16,950	1,960	2,988	7,146	2,682	–	80,993
Insurance contract liabilities	57,335	1,296	1,194	5,832	22,214	51,633	–	139,504
Total liabilities	2,037,054	453,698	261,241	134,478	49,461	65,394	–	3,001,326
Net liquidity gap	(1,187,200)	(201,977)	77,656	203,382	849,505	483,949	94,340	319,655

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

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

The above analysis in respect of insurance contract liabilities represents the estimated timing of net cash outflows resulting from recognised insurance contract liabilities on the balance sheet.

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

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

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

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

(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 2021 Total assets HK$'m	At 30 June 2021 Total equity HK$'m	At 31 December 2020 Total assets HK$'m	At 31 December 2020 Total equity HK$'m
BOC Group Trustee Company Limited	**200**	**200**	200	200
BOCI-Prudential Trustee Limited	**547**	**467**	553	498
China Bridge (Malaysia) Sdn. Bhd.	**10**	**4**	13	9
Bank of China (Hong Kong) Nominees Limited	**–**	**–**	–	–
Bank of China (Hong Kong) Trustees Limited	**11**	**11**	11	11
BOC Financial Services (Nanning) Company Limited	**206**	**46**	248	43
BOCHK Information Technology (Shenzhen) Co., Ltd.	**393**	**270**	387	265
BOCHK Information Technology Services (Shenzhen) Co., Ltd.	**430**	**363**	421	360
Che Hsing (Nominees) Limited*	**N/A**	**N/A**	–	–
Po Sang Financial Investment Services Company Limited	**362**	**345**	364	345
Po Sang Securities and Futures Limited	**877**	**402**	952	375
Sin Hua Trustee Limited	**5**	**5**	5	5
Billion Express Development Inc.	**–**	**–**	–	–
Billion Orient Holdings Ltd.	**–**	**–**	–	–
Elite Bond Investments Ltd.	**–**	**–**	–	–
Express Capital Enterprise Inc.	**–**	**–**	–	–
Express Charm Holdings Corp.	**–**	**–**	–	–
Express Shine Assets Holdings Corp.	**–**	**–**	–	–
Express Talent Investment Ltd.	**–**	**–**	–	–
Gold Medal Capital Inc.	**–**	**–**	–	–
Gold Tap Enterprises Inc.	**–**	**–**	–	–
Maxi Success Holdings Ltd.	**–**	**–**	–	–
Smart Linkage Holdings Inc.	**–**	**–**	–	–
Smart Union Capital Investments Ltd.	**–**	**–**	–	–
Success Trend Development Ltd.	**–**	**–**	–	–
Wise Key Enterprises Corp.	**–**	**–**	–	–

* Che Hsing (Nominees) Limited was dissolved on 16 February 2021.

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 2021 (31 December 2020: Nil).

There were also no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation where the methods of consolidation differ as at 30 June 2021 (31 December 2020: Nil).

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

(B) Capital ratio

The capital ratios are analysed as follows:

	At 30 June 2021	At 31 December 2020
CET1 capital ratio	**15.95%**	17.75%
Tier 1 capital ratio	**17.61%**	19.67%
Total capital ratio	**19.79%**	22.10%

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 2021 HK$'m	At 31 December 2020 HK$'m
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments	**43,043**	43,043
Retained earnings	**194,696**	184,230
Disclosed reserves	**45,881**	45,100
CET1 capital before regulatory deductions	**283,620**	272,373
CET1 capital: regulatory deductions		
Valuation adjustments	**(33)**	(24)
Other intangible assets (net of associated deferred tax liabilities)	**(1,510)**	(1,502)
Deferred tax assets (net of associated deferred tax liabilities)	**(102)**	(91)
Gains and losses due to changes in own credit risk on fair valued liabilities	**(23)**	(21)
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	**(49,736)**	(49,413)
Regulatory reserve for general banking risks	**(6,665)**	(4,780)
Total regulatory deductions to CET1 capital	**(58,069)**	(55,831)
CET1 capital	**225,551**	216,542
AT1 capital: instruments		
Qualifying AT1 capital instruments classified as equity under applicable accounting standards	**23,476**	23,476
AT1 capital	**23,476**	23,476
Tier 1 capital	**249,027**	240,018
Tier 2 capital: instruments and provisions		
Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**8,405**	7,322
Tier 2 capital before regulatory deductions	**8,405**	7,322
Tier 2 capital: regulatory deductions		
Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	**22,381**	22,236
Total regulatory adjustments to Tier 2 capital	**22,381**	22,236
Tier 2 capital	**30,786**	29,558
Total regulatory capital	**279,813**	269,576

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 2021	At 31 December 2020
Capital conservation buffer ratio	**2.500%**	2.500%
Higher loss absorbency ratio	**1.500%**	1.500%
Countercyclical capital buffer ratio	**0.820%**	0.790%

(C) Leverage ratio

The leverage ratio is analysed as follows:

	At 30 June 2021 HK$'m	At 31 December 2020 HK$'m
Tier 1 capital	**249,027**	240,018
Leverage ratio exposure	**3,546,256**	3,036,425
Leverage ratio	**7.02%**	7.90%

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. It also includes certain foreign exchange contracts with insignificant adjustments or calibrations made to observable market inputs.

– Level 3: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. This category includes equity investments, 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. Fair values of financial assets and liabilities (continued)

4.1 Financial instruments measured at fair value

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

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

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

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

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

Debt securities and certificates of deposit and other debt instruments

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

Asset backed securities

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

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

4.1 Financial instruments measured at fair value (continued)

Derivatives

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

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

(A) Fair value hierarchy

	At 30 June 2021			
	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	14	24,996	–	25,010
– Equity securities	41	–	–	41
– Other debt instruments	–	3,200	–	3,200
Other financial assets mandatorily classified at fair value through profit or loss (Note 21)				
– Debt securities and certificates of deposit	1,164	14,118	949	16,231
– Equity securities	3,491	147	–	3,638
– Fund	4,600	1,582	3,378	9,560
Financial assets designated at fair value through profit or loss (Note 21)				
– Debt securities and certificates of deposit	715	584	–	1,299
– Other debt instruments	–	1,551	–	1,551
Derivative financial instruments (Note 22)	97	37,166	–	37,263
Investment in securities at FVOCI (Note 24)				
– Debt securities and certificates of deposit	243,973	559,305	1,579	804,857
– Equity securities	2,809	1,460	2,265	6,534
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 28)				
– Trading liabilities	–	12,931	–	12,931
– Financial liabilities designated at fair value through profit or loss	–	99	–	99
Derivative financial instruments (Note 22)	6	36,920	–	36,926

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 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	–	26,817	–	26,817
– Equity securities	49	–	–	49
– Other debt instruments	–	3,300	–	3,300
Other financial assets mandatorily classified at fair value through profit or loss (Note 21)				
– Debt securities and certificates of deposit	–	15,026	846	15,872
– Equity securities	3,910	–	–	3,910
– Fund	4,934	1,183	2,724	8,841
Financial assets designated at fair value through profit or loss (Note 21)				
– Debt securities and certificates of deposit	720	587	–	1,307
– Other debt instruments	–	118	–	118
Derivative financial instruments (Note 22)	33	52,823	–	52,856
Investment in securities at FVOCI (Note 24)				
– Debt securities and certificates of deposit	258,764	493,776	1,632	754,172
– Equity securities	2,441	1,074	2,367	5,882
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 28)				
– Trading liabilities	–	20,336	–	20,336
– Financial liabilities designated at fair value through profit or loss	–	–	–	–
Derivative financial instruments (Note 22)	35	60,278	–	60,313

There were no financial asset and liability transfers between level 1 and level 2 for the Group during the first half of 2021 (31 December 2020: There were transfers of derivative financial assets of HK$15,498 million and derivative financial liabilities of HK$11,227 million from level 1 to level 2 for the Group during 2020 as a result of calibrations of market observable inputs on certain financial instruments. The impact arising from such calibrations was insignificant to the fair value measurement of the relevant financial instruments).

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

4.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items

	Half-year ended 30 June 2021				
	Financial assets				
	Other financial assets mandatorily classified at FVPL			Investment in securities at FVOCI	
	Debt securities HK$'m	Fund HK$'m	Derivative financial instruments HK$'m	Debt securities HK$'m	Equity securities HK$'m
At 1 January 2021	846	2,724	–	1,632	2,367
(Losses)/gains					
– Income statement					
– Net trading gain	–	–	–	–	–
– Net (loss)/gain on other financial instruments at fair value through profit or loss	(52)	234	–	–	–
– Other comprehensive income					
– Change in fair value	–	–	–	(53)	(113)
Additions	155	438	–	–	11
Disposals, redemptions and maturity	–	(18)	–	–	–
Transfer out of level 3	–	–	–	–	–
At 30 June 2021	949	3,378	–	1,579	2,265
Total unrealised (losses)/gains for the period included in income statement for financial assets held as at 30 June 2021					
– Net (loss)/gain on other financial instruments at fair value through profit or loss	(52)	234	–	–	–
	(52)	234	–	–	–

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

4.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

	Year ended 31 December 2020				
	Financial assets				
	Other financial assets mandatorily classified at FVPL			Investment in securities at FVOCI	
	Debt securities HK$'m	Fund HK$'m	Derivative financial instruments HK$'m	Debt securities HK$'m	Equity securities HK$'m
At 1 January 2020	2,252	1,474	11	1,867	2,154
Gains					
– Income statement					
– Net trading gain	–	–	146	–	–
– Net gain on other financial instruments at fair value through profit or loss	223	107	–	–	–
– Other comprehensive income					
– Change in fair value	–	–	–	191	213
Additions	194	1,143	–	–	–
Disposals, redemptions and maturity	(1,823)	–	–	(426)	–
Transfer out of level 3	–	–	(157)	–	–
At 31 December 2020	846	2,724	–	1,632	2,367
Total unrealised gains for the year included in income statement for financial assets held as at 31 December 2020					
– Net gain on other financial instruments at fair value through profit or loss	49	107	–	–	–
	49	107	–	–	–

As at 30 June 2021 and 31 December 2020, financial instruments categorised as level 3 are mainly comprised of debt securities, fund and unlisted equity shares.

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 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 2020 were due to change of valuation observability. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

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

Had all of the significant unobservable inputs applied on the valuation techniques favourably changed/unfavourably changed by 5% (31 December 2020: 5%), the Group's other comprehensive income would have increased/decreased by HK$104 million and HK$102 million, respectively (31 December 2020: increased/decreased by HK$55 million and HK$54 million, respectively).

4.2 Financial instruments not measured at fair value

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

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

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

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.

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 2021		At 31 December 2020	
	Carrying value HK$'m	**Fair value HK$'m**	Carrying value HK$'m	Fair value HK$'m
Financial assets				
Investment in securities at amortised cost (Note 24)	**182,130**	**186,690**	120,431	127,060
Financial liabilities				
Debt securities and certificates of deposit in issue (Note 30)	**78**	**78**	426	426

5. Net interest income

	Half-year ended 30 June 2021 HK$'m	Half-year ended 30 June 2020 HK$'m
Interest income		
Advances to customers, due from banks and other financial institutions	**13,652**	20,228
Investment in securities and financial assets at fair value through profit or loss	**6,134**	8,558
Others	**62**	150
	19,848	28,936
Interest expense		
Deposits from customers, due to banks and other financial institutions	**(3,807)**	(9,964)
Debt securities and certificates of deposit in issue	**(1)**	(1)
Subordinated liabilities	**–**	(80)
Lease liabilities	**(22)**	(28)
Others	**(76)**	(227)
	(3,906)	(10,300)
Net interest income	**15,942**	18,636

Included within interest income are HK$15,679 million (first half of 2020: HK$22,204 million) and HK$3,841 million (first half of 2020: HK$5,998 million), for financial assets measured at amortised cost and at fair value through other comprehensive income respectively.

Included within interest expense are HK$3,899 million (first half of 2020: HK$10,070 million) for financial liabilities that are not measured at fair value through profit or loss.

6. Net fee and commission income

	Half-year ended 30 June 2021 HK$'m	Half-year ended 30 June 2020 HK$'m
Fee and commission income		
Securities brokerage	**2,189**	1,567
Loan commissions	**1,793**	1,389
Credit card business	**996**	924
Insurance	**734**	713
Funds distribution	**518**	442
Payment services	**374**	358
Trust and custody services	**374**	322
Bills commissions	**321**	278
Safe deposit box	**151**	153
Currency exchange	**58**	157
Others	**608**	495
	8,116	6,798
Fee and commission expense		
Credit card business	**(639)**	(588)
Securities brokerage	**(265)**	(178)
Insurance	**(258)**	(233)
Others	**(297)**	(364)
	(1,459)	(1,363)
Net fee and commission income	**6,657**	5,435
Of which arise from:		
Financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	**1,965**	1,501
– Fee and commission expense	**(8)**	(3)
	1,957	1,498
Trust and other fiduciary activities		
– Fee and commission income	**476**	421
– Fee and commission expense	**(19)**	(14)
	457	407

7. Net trading gain

	Half-year ended 30 June 2021 HK$'m	Half-year ended 30 June 2020 HK$'m
Net gain/(loss) from:		
Foreign exchange and foreign exchange products	**2,164**	2,863
Interest rate instruments and items under fair value hedge	**(48)**	(787)
Commodities	**103**	250
Equity and credit derivative instruments	**135**	4
	2,354	2,330

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

	Half-year ended 30 June 2021 HK$'m	Half-year ended 30 June 2020 HK$'m
Net gain on other financial instruments mandatorily classified at fair value through profit or loss	**101**	71
Net (loss)/gain on financial instruments designated at fair value through profit or loss	**(5)**	131
	96	202

9. Net gain on other financial assets

	Half-year ended 30 June 2021 HK$'m	Half-year ended 30 June 2020 HK$'m
Net gain on disposal/redemption of investment in securities at FVOCI	**432**	2,513
Net gain on disposal/redemption of investment in securities at amortised cost	**10**	48
Others	**9**	10
	451	2,571

10. Other operating income

	Half-year ended 30 June 2021 HK$'m	Half-year ended 30 June 2020 HK$'m
Dividend income		
– From investment in securities at FVOCI derecognised during the period	**34**	21
– From investment in securities at FVOCI held at the end of the period	**134**	103
Gross rental income from investment properties	**284**	301
Less: Outgoings in respect of investment properties	**(26)**	(20)
Others	**77**	59
	503	464

Included in the "Outgoings in respect of investment properties" is HK$6 million (first half of 2020: HK$2 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 2021 HK$'m	Half-year ended 30 June 2020 HK$'m
Gross insurance benefits and claims and movement in liabilities		
Claims, benefits and surrenders paid	**(9,296)**	(7,413)
Movement in liabilities	**(6,248)**	(9,310)
	(15,544)	(16,723)
Reinsurers' share of benefits and claims and movement in liabilities		
Reinsurers' share of claims, benefits and surrenders paid	**6,820**	4,851
Reinsurers' share of movement in liabilities	**(1,246)**	3,061
	5,574	7,912
Net insurance benefits and claims and movement in liabilities	**(9,970)**	(8,811)

12. Net charge of impairment allowances

	Half-year ended 30 June 2021 HK$'m	Half-year ended 30 June 2020 HK$'m
Net (charge)/reversal of impairment allowances on:		
Advances and other accounts	**(1,197)**	(1,311)
Investment in securities		
– At FVOCI	**4**	(75)
– At amortised cost	**(8)**	(7)
	(4)	(82)
Others	**19**	27
Net charge of impairment allowances	**(1,182)**	(1,366)

13. Operating expenses

	Half-year ended 30 June 2021 HK$'m	Half-year ended 30 June 2020 HK$'m
Staff costs (including directors' emoluments)		
– Salaries and other costs	**4,114**	4,114
– Pension cost	**275**	270
	4,389	4,384
Premises and equipment expenses (excluding depreciation and amortisation)		
– Short-term leases, leases of low-value assets and variable lease payments	**6**	–
– Others	**573**	550
	579	550
Depreciation and amortisation	**1,515**	1,529
Auditor's remuneration		
– Audit services	**3**	3
– Non-audit services	**2**	3
Other operating expenses	**1,094**	1,120
	7,582	7,589

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

	Half-year ended 30 June 2021 HK$'m	Half-year ended 30 June 2020 HK$'m
Net loss from fair value adjustments on investment properties	**(22)**	(507)

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

	Half-year ended 30 June 2021 HK$'m	Half-year ended 30 June 2020 HK$'m
Net loss from disposal of equipment, fixtures and fittings	**(2)**	(1)
Net loss from revaluation of premises	**(20)**	(2)
	(22)	(3)

16. Taxation

Taxation in the income statement represents:

	Half-year ended 30 June 2021 HK$'m	Half-year ended 30 June 2020 HK$'m
Current tax		
Hong Kong profits tax		
– Current period taxation	**2,642**	3,028
– (Over)/under-provision in prior periods	**(233)**	2
	2,409	3,030
Overseas taxation		
– Current period taxation	**267**	259
– Under/(over)-provision in prior periods	**20**	(7)
	2,696	3,282
Deferred tax		
Origination and reversal of temporary differences and unused tax credits	**(134)**	(219)
	2,562	3,063

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2021. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2021 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 2021 HK$'m	Half-year ended 30 June 2020 HK$'m
Profit before taxation	**16,153**	19,224
Calculated at a taxation rate of 16.5% (2020: 16.5%)	**2,665**	3,172
Effect of different taxation rates in other countries/regions	**99**	56
Income not subject to taxation	**(135)**	(317)
Expenses not deductible for taxation purposes	**199**	284
Over-provision in prior periods	**(213)**	(5)
Foreign withholding tax	**60**	(13)
Others	**(113)**	(114)
Taxation charge	**2,562**	3,063
Effective tax rate	**15.9%**	15.9%

17. Dividends

	Half-year ended 30 June 2021		Half-year ended 30 June 2020	
	Per share HK$	**Total HK$'m**	Per share HK$	Total HK$'m
Interim dividend	**0.447**	**4,726**	0.447	4,726

At a meeting held on 30 August 2021, the Board declared an interim dividend of HK$0.447 per ordinary share for the first half of 2021 amounting to approximately HK$4,726 million. 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 2021.

18. Earnings per share

The calculation of basic earnings per share for the first half of 2021 is based on the consolidated profit for the period attributable to equity holders of the Company of approximately HK$12,576 million (first half of 2020: HK$15,209 million) and on the ordinary shares in issue of 10,572,780,266 shares (2020: 10,572,780,266 ordinary shares).

There was no dilution of earnings per share as no potential ordinary shares were in issue for the first half of 2021 (first half of 2020: 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 Asset Management, which are related parties of the Company.

The Group's total contributions made to the ORSO schemes for the first half of 2021 amounted to approximately HK$186 million (first half of 2020: approximately HK$188 million), after a deduction of forfeited contributions of approximately HK$6 million (first half of 2020: approximately HK$4 million). For the MPF Scheme, the Group contributed approximately HK$67 million (first half of 2020: approximately HK$66 million) for the first half of 2021.

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

	At 30 June 2021 HK$'m	At 31 December 2020 HK$'m
Cash	**19,107**	38,187
Balances with central banks	**158,224**	141,803
Placements with central banks maturing within one month	**18,778**	36,842
Placements with central banks maturing between one and twelve months	**5,139**	3,379
Placements with central banks maturing over one year	**1,163**	1,547
	183,304	183,571
Balances with other banks and other financial institutions	**166,962**	188,089
Placements with other banks and other financial institutions maturing within one month	**138,898**	19,588
Placements with other banks and other financial institutions maturing between one and twelve months	**37,354**	33,974
Placements with other banks and other financial institutions maturing over one year	**621**	310
	343,835	241,961
	546,246	463,719
Less: Impairment allowances		
– Stage 1	**(9)**	(8)
– Stage 2	**–**	–
– Stage 3	**–**	–
	546,237	463,711

21. Financial assets at fair value through profit or loss

	At 30 June 2021 HK$'m	At 31 December 2020 HK$'m
Securities		
Trading assets		
– Treasury bills	**12,367**	19,491
– Certificates of deposit	**1,840**	171
– Other debt securities	**10,803**	7,155
	25,010	26,817
– Equity securities	**41**	49
	25,051	26,866
Other financial assets mandatorily classified at fair value through profit or loss		
– Treasury bills	**1,164**	–
– Other debt securities	**15,067**	15,872
	16,231	15,872
– Equity securities	**3,638**	3,910
– Fund	**9,560**	8,841
	29,429	28,623
Financial assets designated at fair value through profit or loss		
– Certificates of deposit	**–**	–
– Other debt securities	**1,299**	1,307
	1,299	1,307
Total securities	**55,779**	56,796
Other debt instruments		
Trading assets	**3,200**	3,300
Financial assets designated at fair value through profit or loss	**1,551**	118
Total other debt instruments	**4,751**	3,418
	60,530	60,214

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

Total securities are analysed by place of listing as follows:

	At 30 June 2021 HK$'m	At 31 December 2020 HK$'m
Debt securities and certificates of deposit		
– Listed in Hong Kong	**22,221**	26,306
– Listed outside Hong Kong	**8,513**	8,133
– Unlisted	**11,806**	9,557
	42,540	43,996
Equity securities		
– Listed in Hong Kong	**2,874**	2,610
– Listed outside Hong Kong	**805**	1,265
– Unlisted	**–**	84
	3,679	3,959
Fund		
– Listed in Hong Kong	**476**	–
– Listed outside Hong Kong	**231**	491
– Unlisted	**8,853**	8,350
	9,560	8,841
Total securities	**55,779**	56,796

Total securities are analysed by type of issuer as follows:

	At 30 June 2021 HK$'m	At 31 December 2020 HK$'m
Sovereigns	**20,343**	26,207
Public sector entities	**744**	535
Banks and other financial institutions	**23,971**	20,935
Corporate entities	**10,721**	9,119
Total securities	**55,779**	56,796

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 2021 and 31 December 2020:

	At 30 June 2021		
	Contract/ notional amounts	Fair values	
		Assets	Liabilities
	HK$'m	HK$'m	HK$'m
Exchange rate contracts			
Spot, forwards and futures	**214,145**	**11,172**	**(7,061)**
Swaps	**1,303,596**	**10,780**	**(8,497)**
Options	**18,906**	**45**	**(37)**
	1,536,647	**21,997**	**(15,595)**
Interest rate contracts			
Futures	**1,458**	**2**	**(2)**
Swaps	**1,046,101**	**12,401**	**(18,680)**
Options	**1,148**	**–**	**–**
	1,048,707	**12,403**	**(18,682)**
Commodity contracts	**49,686**	**2,769**	**(2,555)**
Equity contracts	**3,512**	**94**	**(94)**
	2,638,552	**37,263**	**(36,926)**

	At 31 December 2020		
	Contract/ notional amounts	Fair values	
		Assets	Liabilities
	HK$'m	HK$'m	HK$'m
Exchange rate contracts			
Spot, forwards and futures	250,999	13,496	(9,914)
Swaps	1,157,985	18,667	(20,759)
Options	21,443	147	(136)
	1,430,427	32,310	(30,809)
Interest rate contracts			
Futures	488	–	–
Swaps	1,152,857	17,211	(26,218)
Options	5,845	–	–
	1,159,190	17,211	(26,218)
Commodity contracts	42,819	3,282	(3,246)
Equity contracts	2,526	53	(40)
	2,634,962	52,856	(60,313)

23. Advances and other accounts

	At 30 June 2021 HK$'m	At 31 December 2020 HK$'m
Personal loans and advances	**524,256**	458,577
Corporate loans and advances	**1,220,697**	1,039,287
Advances to customers	**1,744,953**	1,497,864
Less: Impairment allowances		
– Stage 1	**(5,355)**	(5,405)
– Stage 2	**(1,599)**	(1,115)
– Stage 3	**(3,246)**	(2,652)
	1,734,753	1,488,692
Trade bills	**11,746**	9,826
Advances to banks and other financial institutions	**1,355**	1,898
Less: Impairment allowances		
– Stage 1	**(2)**	–
– Stage 2	**–**	–
– Stage 3	**–**	–
	1,353	1,898
	1,747,852	1,500,416

As at 30 June 2021, advances to customers included accrued interest of HK$1,875 million (31 December 2020: HK$1,958 million).

24. Investment in securities

	At 30 June 2021 HK$'m	At 31 December 2020 HK$'m
Investment in securities at fair value through other comprehensive income		
– Treasury bills	**359,829**	334,480
– Certificates of deposit	**28,132**	46,029
– Other debt securities	**416,896**	373,663
	804,857	754,172
– Equity securities	**6,534**	5,882
	811,391	760,054
Investment in securities at amortised cost		
– Certificates of deposit	**2,205**	984
– Other debt securities	**179,995**	119,509
	182,200	120,493
Less: Impairment allowances		
– Stage 1	**(68)**	(62)
– Stage 2	**(2)**	–
– Stage 3	**–**	–
	(70)	(62)
	182,130	120,431
	993,521	880,485

24. Investment in securities (continued)

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

	At 30 June 2021 HK$'m	At 31 December 2020 HK$'m
Investment in securities at fair value through other comprehensive income		
Debt securities and certificates of deposit		
– Listed in Hong Kong	**289,032**	195,380
– Listed outside Hong Kong	**190,817**	158,283
– Unlisted	**325,008**	400,509
	804,857	754,172
Equity securities		
– Listed in Hong Kong	**3,153**	2,777
– Listed outside Hong Kong	**501**	496
– Unlisted	**2,880**	2,609
	6,534	5,882
	811,391	760,054
Investment in securities at amortised cost		
Debt securities and certificates of deposit		
– Listed in Hong Kong	**34,189**	28,050
– Listed outside Hong Kong	**89,738**	59,685
– Unlisted	**58,203**	32,696
	182,130	120,431
	993,521	880,485
Market value of listed securities at amortised cost	**126,996**	92,341

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

	At 30 June 2021 HK$'m	At 31 December 2020 HK$'m
Sovereigns	**498,225**	426,384
Public sector entities	**44,120**	26,363
Banks and other financial institutions	**287,422**	270,645
Corporate entities	**163,754**	157,093
	993,521	880,485

25. Investment properties

	Half-year ended 30 June 2021 HK$'m	Year ended 31 December 2020 HK$'m
At 1 January	**18,441**	20,110
Additions	**6**	9
Fair value losses	**(22)**	(1,622)
Reclassification from/(to) properties, plant and equipment (Note 26)	**26**	(56)
At period/year end	**18,451**	18,441

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 2021	**43,548**	**1,582**	**1,725**	**46,855**
Additions	**6**	**87**	**147**	**240**
Disposals	**(1)**	**(7)**	**(8)**	**(16)**
Revaluation	**400**	**–**	**–**	**400**
Depreciation for the period	**(572)**	**(281)**	**(359)**	**(1,212)**
Reclassification to investment properties (Note 25)	**(26)**	**–**	**–**	**(26)**
Impairment for the period	**–**	**(4)**	**–**	**(4)**
Exchange difference	**(3)**	**(4)**	**(6)**	**(13)**
Net book value at 30 June 2021	**43,352**	**1,373**	**1,499**	**46,224**
At 30 June 2021				
Cost or valuation	**43,352**	**6,961**	**2,969**	**53,282**
Accumulated depreciation and impairment	**–**	**(5,588)**	**(1,470)**	**(7,058)**
Net book value at 30 June 2021	**43,352**	**1,373**	**1,499**	**46,224**
The analysis of cost or valuation of the above assets is as follows:				
At 30 June 2021				
At cost	**–**	**6,961**	**2,969**	**9,930**
At valuation	**43,352**	**–**	**–**	**43,352**
	43,352	**6,961**	**2,969**	**53,282**

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 2020	46,342	3,331	1,929	51,602
Additions	91	1,232	561	1,884
Disposals	(2)	(13)	(10)	(25)
Revaluation	(1,766)	–	–	(1,766)
Depreciation for the year	(1,173)	(1,107)	(760)	(3,040)
Reclassification from investment properties (Note 25)	56	–	–	56
Transfer to other assets (Note 27)	–	(1,862)	–	(1,862)
Exchange difference	–	1	5	6
Net book value at 31 December 2020	43,548	1,582	1,725	46,855
At 31 December 2020				
Cost or valuation	43,548	7,006	3,001	53,555
Accumulated depreciation and impairment	–	(5,424)	(1,276)	(6,700)
Net book value at 31 December 2020	43,548	1,582	1,725	46,855
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2020				
At cost	–	7,006	3,001	10,007
At valuation	43,548	–	–	43,548
	43,548	7,006	3,001	53,555

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

There was no transfer of application software to other assets during the first half of 2021 (2020: Application software with net book value of HK$1,862 million, representing cost of HK$5,101 million and accumulated amortisation of HK$3,239 million, was transferred to other assets and presented as intangible assets on 31 December 2020).

27. Other assets

	At 30 June 2021 HK$'m	At 31 December 2020 HK$'m
Repossessed assets	**24**	23
Precious metals	**10,227**	10,697
Intangible assets	**1,872**	1,862
Reinsurance assets	**57,142**	55,672
Accounts receivable and prepayments	**116,293**	38,481
	185,558	106,735

28. Financial liabilities at fair value through profit or loss

	At 30 June 2021 HK$'m	At 31 December 2020 HK$'m
Trading liabilities		
– Short positions in Exchange Fund Bills and Notes	**12,931**	20,336
Financial liabilities designated at fair value through profit or loss		
– Repurchase agreements	**99**	–
	13,030	20,336

As at 30 June 2021, the carrying amount of financial liabilities designated at fair value through profit or loss was approximately the same as the amount that the Group would be contractually required to pay at maturity to the holders.

29. Deposits from customers

	At 30 June 2021 HK$'m	At 31 December 2020 HK$'m
Demand deposits and current accounts		
– Corporate	**685,211**	222,286
– Personal	**91,155**	87,940
	776,366	310,226
Savings deposits		
– Corporate	**520,267**	499,740
– Personal	**670,511**	649,295
	1,190,778	1,149,035
Time, call and notice deposits		
– Corporate	**445,813**	454,852
– Personal	**269,483**	269,596
	715,296	724,448
	2,682,440	2,183,709

30. Debt securities and certificates of deposit in issue

	At 30 June 2021 HK$'m	At 31 December 2020 HK$'m
At amortised cost		
– Certificates of deposit	–	233
– Other debt securities	78	193
	78	426

31. Other accounts and provisions

	At 30 June 2021 HK$'m	At 31 December 2020 HK$'m
Other accounts payable	91,913	68,682
Lease liabilities	1,510	1,710
Impairment allowances on loan commitments and financial guarantee contracts		
– Stage 1	507	594
– Stage 2	68	44
– Stage 3	42	20
	94,040	71,050

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 2021 and the year ended 31 December 2020 are as follows:

	Half-year ended 30 June 2021					
	Accelerated tax depreciation HK$'m	**Property revaluation HK$'m**	**Losses HK$'m**	**Impairment allowances HK$'m**	**Others HK$'m**	**Total HK$'m**
At 1 January 2021	**797**	**6,560**	**(46)**	**(1,153)**	**(289)**	**5,869**
(Credited)/charged to income statement (Note 16)	**(18)**	**(89)**	**8**	**13**	**(48)**	**(134)**
Charged/(credited) to other comprehensive income	**–**	**67**	**–**	**–**	**(304)**	**(237)**
Release upon disposal of equity instruments at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**(12)**	**(12)**
Exchange difference and others	**–**	**–**	**31**	**2**	**1**	**34**
At 30 June 2021	**779**	**6,538**	**(7)**	**(1,138)**	**(652)**	**5,520**

	Year ended 31 December 2020					
	Accelerated tax depreciation HK$'m	Property revaluation HK$'m	Losses HK$'m	Impairment allowances HK$'m	Others HK$'m	Total HK$'m
At 1 January 2020	756	6,997	–	(804)	(532)	6,417
Charged/(credited) to income statement	41	(140)	(15)	(349)	(48)	(511)
(Credited)/charged to other comprehensive income	–	(297)	–	–	253	(44)
Release upon disposal of equity instruments at fair value through other comprehensive income	–	–	(31)	–	32	1
Release upon redemption of financial liabilities designated at fair value through profit or loss	–	–	–	–	6	6
At 31 December 2020	797	6,560	(46)	(1,153)	(289)	5,869

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 2021 HK$'m	At 31 December 2020 HK$'m
Deferred tax assets	**(106)**	(95)
Deferred tax liabilities	**5,626**	5,964
	5,520	5,869

	At 30 June 2021 HK$'m	At 31 December 2020 HK$'m
Deferred tax assets to be recovered after more than twelve months	**(86)**	(112)
Deferred tax liabilities to be settled after more than twelve months	**6,237**	6,244
	6,151	6,132

As at 30 June 2021 and 31 December 2020, the Group has no unrecognised deferred tax assets in respect of tax losses. All of the amount for the Group has no expiry date under the current tax legislation in different countries/regions.

33. Insurance contract liabilities

	Half-year ended 30 June 2021 HK$'m	Year ended 31 December 2020 HK$'m
At 1 January	**139,504**	117,269
Benefits paid	**(8,885)**	(13,288)
Claims incurred and movement in liabilities	**15,522**	35,523
At period/year end	**146,141**	139,504

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK$44,645 million (31 December 2020: HK$45,615 million) and the associated reinsurance assets of HK$57,142 million (31 December 2020: HK$55,672 million) are included in "Other assets" (Note 27).

34. Share capital

	At 30 June 2021 HK$'m	At 31 December 2020 HK$'m
Issued and fully paid:		
10,572,780,266 ordinary shares	**52,864**	52,864

35. Other equity instruments

	At 30 June 2021 HK$'m	At 31 December 2020 HK$'m
Undated non-cumulative subordinated Additional Tier 1 capital securities	**23,476**	23,476

In September 2018, BOCHK issued USD3,000 million undated non-cumulative subordinated Additional Tier 1 capital securities. The capital securities are perpetual securities in respect of which there is no fixed redemption date and are not callable within the first 5 years. They have an initial rate of distribution of 5.90% per annum payable semi-annually which may be cancelled at the sole discretion of BOCHK. Dividend paid to other equity instrument holders in the first half of 2021 amounted to HK$688 million (first half of 2020: HK$689 million).

36. Notes to condensed consolidated cash flow statement

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

	Half-year ended 30 June 2021 HK$'m	Half-year ended 30 June 2020 HK$'m
Operating profit	**16,286**	19,788
Depreciation and amortisation	**1,515**	1,529
Net charge of impairment allowances	**1,182**	1,366
Unwind of discount on impairment allowances	**(13)**	(4)
Advances written off net of recoveries	**(94)**	(229)
Interest expense on lease liabilities	**22**	28
Change in balances and placements with banks and other financial institutions with original maturity over three months	**(715)**	(6,858)
Change in financial assets at fair value through profit or loss	**9,214**	28,839
Change in derivative financial instruments	**(7,794)**	6,916
Change in advances and other accounts	**(248,466)**	(98,424)
Change in investment in securities	**(83,865)**	(9,465)
Change in other assets	**(78,824)**	(36,728)
Change in deposits and balances from banks and other financial institutions	**5,113**	2,595
Change in financial liabilities at fair value through profit or loss	**(7,306)**	(8,348)
Change in deposits from customers	**498,731**	131,163
Change in debt securities and certificates of deposit in issue	**(348)**	(116)
Change in other accounts and provisions	**23,231**	34,132
Change in insurance contract liabilities	**6,637**	8,469
Effect of changes in exchange rates	**(542)**	2,799
Operating cash inflow before taxation	**133,964**	77,452
Cash flows from operating activities included		
– interest received	**19,875**	30,958
– interest paid	**4,270**	11,495
– dividend received	**168**	124

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

	At 30 June 2021 HK$'m	At 30 June 2020 HK$'m
Cash and balances and placements with banks and other financial institutions with original maturity within three months	**505,375**	358,862
Treasury bills, certificates of deposit and other debt instruments with original maturity within three months		
– financial assets at fair value through profit or loss	**12,833**	8,248
– investment in securities	**60,389**	19,287
	578,597	386,397

37. 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 2021 HK$'m	At 31 December 2020 HK$'m
Direct credit substitutes	**2,406**	2,487
Transaction-related contingencies	**32,941**	30,215
Trade-related contingencies	**28,162**	27,830
Commitments that are unconditionally cancellable without prior notice	**470,215**	511,975
Other commitments with an original maturity of		
– up to one year	**19,448**	20,416
– over one year	**173,712**	173,475
	726,884	766,398
Credit risk-weighted amount	**88,466**	87,517

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

38. Capital commitments

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

	At 30 June 2021 HK$'m	At 31 December 2020 HK$'m
Authorised and contracted for but not provided for	**238**	274
Authorised but not contracted for	**173**	70
	411	344

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

39. 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 2021 HK$'m	At 31 December 2020 HK$'m
Properties and equipment		
– Not later than one year	**489**	520
– One to two years	**273**	313
– Two to three years	**102**	101
– Three to four years	**13**	14
– Four to five years	**4**	10
– Later than five years	**–**	–
	881	958

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

40. 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.

40. 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 2021								
Net interest income/(expense)								
– External	2,034	6,133	5,104	1,791	880	15,942	–	15,942
– Inter-segment	1,382	(669)	(583)	(6)	(124)	–	–	–
	3,416	5,464	4,521	1,785	756	15,942	–	15,942
Net fee and commission income/(expense)	4,152	2,436	103	(410)	654	6,935	(278)	6,657
Net insurance premium income	–	–	–	9,028	–	9,028	(11)	9,017
Net trading gain	585	728	711	69	223	2,316	38	2,354
Net gain on other financial instruments at fair value through profit or loss	–	–	–	91	–	91	5	96
Net gain on other financial assets	–	6	384	51	10	451	–	451
Other operating income	24	1	29	123	967	1,144	(641)	503
Total operating income	8,177	8,635	5,748	10,737	2,610	35,907	(887)	35,020
Net insurance benefits and claims and movement in liabilities	–	–	–	(9,970)	–	(9,970)	–	(9,970)
Net operating income before impairment allowances	8,177	8,635	5,748	767	2,610	25,937	(887)	25,050
Net (charge)/reversal of impairment allowances	(67)	(346)	(11)	3	(761)	(1,182)	–	(1,182)
Net operating income	8,110	8,289	5,737	770	1,849	24,755	(887)	23,868
Operating expenses	(4,503)	(1,576)	(598)	(257)	(1,535)	(8,469)	887	(7,582)
Operating profit	3,607	6,713	5,139	513	314	16,286	–	16,286
Net loss from disposal of/fair value adjustments on investment properties	–	–	–	–	(22)	(22)	–	(22)
Net loss from disposal/revaluation of properties, plant and equipment	(1)	–	–	–	(21)	(22)	–	(22)
Share of results after tax of associates and joint ventures	46	–	2	–	(137)	(89)	–	(89)
Profit before taxation	3,652	6,713	5,141	513	134	16,153	–	16,153
At 30 June 2021								
ASSETS								
Segment assets	554,239	1,164,349	1,784,549	190,041	170,400	3,863,578	(30,097)	3,833,481
Interests in associates and joint ventures	646	–	6	–	737	1,389	–	1,389
	554,885	1,164,349	1,784,555	190,041	171,137	3,864,967	(30,097)	3,834,870
LIABILITIES								
Segment liabilities	1,187,177	1,478,853	602,941	178,658	95,045	3,542,674	(30,097)	3,512,577
Half-year ended 30 June 2021								
Other information								
Capital expenditure	9	–	–	73	477	559	–	559
Depreciation and amortisation	635	147	57	32	661	1,532	(17)	1,515

40. 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 results 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 31 December 2020								
ASSETS								
Segment assets	491,213	985,638	1,538,239	179,865	159,589	3,354,544	(35,048)	3,319,496
Interests in associates and joint ventures	603	–	9	–	873	1,485	–	1,485
	491,816	985,638	1,538,248	179,865	160,462	3,356,029	(35,048)	3,320,981
LIABILITIES								
Segment liabilities	1,159,255	1,013,145	601,497	168,463	94,014	3,036,374	(35,048)	3,001,326
Half-year ended 30 June 2020								
Other information								
Capital expenditure	3	1	–	36	647	687	–	687
Depreciation and amortisation	651	137	54	31	674	1,547	(18)	1,529

41. Assets pledged as security

As at 30 June 2021, the liabilities of the Group amounting to HK$10,888 million (31 December 2020: HK$15,293 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK$39,448 million (31 December 2020: HK$210 million) were secured by debt securities related to sale and repurchase arrangements. The amount of assets pledged by the Group to secure these liabilities was HK$50,388 million (31 December 2020: HK$15,570 million) mainly included in "Financial assets at fair value through profit or loss" and "Investment in securities".

42. 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 2021, the related aggregate amounts due from and to BOC were HK$163,113 million (31 December 2020: HK$188,781 million) and HK$170,401 million (31 December 2020: HK$110,389 million) respectively. The aggregate amounts of income and expenses of the Group arising from these transactions with BOC for the first half of 2021 were HK$760 million (first half of 2020: HK$493 million) and HK$118 million (first half of 2020: HK$119 million) respectively.

As at 30 June 2021, the related aggregate amounts due from and to subsidiaries of BOC were HK$1,559 million (31 December 2020: HK$405 million) and HK$7,112 million (31 December 2020: HK$5,657 million) respectively.

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

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

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

42. 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 2021 HK$'m	Half-year ended 30 June 2020 HK$'m
Income statement items		
Associates and joint ventures		
– Fee and commission income	**24**	20
– Other operating expenses	**35**	40
Other related parties		
– Fee and commission income	**7**	6

	At 30 June 2021 HK$'m	At 31 December 2020 HK$'m
Balance sheet items		
Associates and joint ventures		
– Other assets	**23**	11
– Deposits and balances from banks and other financial institutions	**33**	38
– Deposits from customers	**111**	124
– Other accounts and provisions	**–**	7

42. 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 2021 HK$'m	Half-year ended 30 June 2020 HK$'m
Salaries and other short-term employee benefits	**18**	20

43. International claims

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

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

	At 30 June 2021				
			Non-bank private sector		
	Banks HK$'m	**Official sector HK$'m**	**Non-bank financial institutions HK$'m**	**Non-financial private sector HK$'m**	**Total HK$'m**
Chinese Mainland	**369,637**	**123,460**	**25,877**	**143,783**	**662,757**
Hong Kong	**26,036**	**1,960**	**48,371**	**393,854**	**470,221**
United States	**18,934**	**102,400**	**17,673**	**20,570**	**159,577**

	At 31 December 2020				
			Non-bank private sector		
	Banks HK$'m	Official sector HK$'m	Non-bank financial institutions HK$'m	Non-financial private sector HK$'m	Total HK$'m
Chinese Mainland	384,517	134,057	24,283	151,545	694,402
Hong Kong	7,263	185	46,394	341,442	395,284
United States	10,575	136,361	16,957	21,578	185,471

44. Non-bank Mainland exposures

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

		At 30 June 2021		
	Items in the HKMA return	On-balance sheet exposure HK$'m	Off-balance sheet exposure HK$'m	Total exposure HK$'m
Central government, central government-owned entities and their subsidiaries and joint ventures	1	401,940	43,072	445,012
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	70,994	8,388	79,382
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	146,670	31,846	178,516
Other entities of central government not reported in item 1 above	4	30,161	5,102	35,263
Other entities of local governments not reported in item 2 above	5	1,084	18	1,102
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	77,972	7,862	85,834
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	1,488	2	1,490
Total	8	730,309	96,290	826,599
Total assets after provision	9	3,579,692		
On-balance sheet exposures as percentage of total assets	10	20.40%		

44. Non-bank Mainland exposures (continued)

		At 31 December 2020		
	Items in the HKMA return	On-balance sheet exposure HK$'m	Off-balance sheet exposure HK$'m	Total exposure HK$'m
Central government, central government-owned entities and their subsidiaries and joint ventures	1	349,405	36,110	385,515
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	69,104	11,230	80,334
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	109,921	23,386	133,307
Other entities of central government not reported in item 1 above	4	32,628	4,765	37,393
Other entities of local governments not reported in item 2 above	5	1,002	–	1,002
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	83,664	8,477	92,141
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	1,849	10	1,859
Total	8	647,573	83,978	731,551
Total assets after provision	9	3,067,224		
On-balance sheet exposures as percentage of total assets	10	21.11%		

45. Event after the balance sheet date

On 9 July 2021, the Group issued RMB1.5 billion "sustainable and smart living" themed green bonds, which was listed on The Stock Exchange of Hong Kong Limited, as part of the Group's USD15 billion Medium Term Note Programme. The themed green bonds are denominated in RMB, have a maturity of 2 years due in 2023, and bear a fixed interest rate of 2.8% per annum payable semi-annually in arrear. The issuance details had been set out in BOCHK's announcement dated 9 July 2021 and 12 July 2021.

46. Compliance with HKAS 34

The unaudited interim financial information for the first half of 2021 complies with HKAS 34 "Interim Financial Reporting" issued by the HKICPA.

47. Statutory accounts

The financial information relating to the year ended 31 December 2020 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 2020 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 Chairmen

LIU Jin#	(appointment effective from 3 August 2021)
SUN Yu	
WANG Jiang#	(resignation effective from 5 February 2021)

Directors
LIN Jingzhen#
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
SUN Yu

Chief Risk Officer

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

Deputy Chief Executives
WANG Qi
YUAN Shu

Chief Operating Officer
ZHONG Xiangqun

Deputy Chief Executive
WANG Bing

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

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor

Share Registrar

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

ADR Depositary Bank

Citibank, N.A.
388 Greenwich Street
13th Floor
New York, NY 10013
United States of America

Credit Ratings (Long Term)

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

Index Constituent

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

Stock Codes

Ordinary shares:

The Stock Exchange of Hong Kong Limited	2388
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 (2020: HK$0.447), payable on Thursday, 30 September 2021 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 21 September 2021.

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to the interim dividend, from Thursday, 16 September 2021 to Tuesday, 21 September 2021 (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, 15 September 2021. Shares of the Company will be traded ex-dividend as from Tuesday, 14 September 2021.

3. Interest of substantial shareholders

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 30 June 2021, the following parties had the following interests (as defined in the SFO) in the Company set opposite their respective names:

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

Notes:

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

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

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

All the interests stated above represented long positions. Apart from the disclosure above, according to the register maintained by the Company pursuant to section 336 of the SFO, BOCI Financial Products Limited had an interest in 143,522 shares which represented short positions. BOC and Central Huijin are deemed to be interested in such number of shares for the purpose of the SFO. Save as disclosed, no other interests or short positions were recorded in the register maintained by the Company under section 336 of the SFO as at 30 June 2021.

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

As at 30 June 2021, the interests and short positions of the Directors, Chief Executive and their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") are set out below:

The Company:

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

Notes:

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

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

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

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

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

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 2020 on 30 March 2021 up to 30 August 2021 (being the approval date of this Interim Report) are set out below:

(a) Mr LIU Jin has been appointed as Vice Chairman, Non-executive Director, a member of each of the Nomination and Remuneration Committee as well as the Strategy and Budget Committee of the Company and BOCHK with effect from 3 August 2021. Mr LIU has also been appointed as a Director of BOC (BVI) and BOCHKG with effect from 10 August 2021.

(b) Mr SUN Yu, Vice Chairman and Chief Executive of the Company, ceased to be Director of Hong Kong Interbank Clearing Limited with effect from 21 June 2021 and has been appointed as a member of Hong Kong Exchanges and Clearing Limited Risk Management Committee with effect from 1 July 2021.

(c) Dr CHOI Koon Shum, Independent Non-executive Director of the Company, is Chairman of Sunwah International Limited, which was delisted in Toronto and privatised on 14 June 2021. Also, the term of office of Dr CHOI as Chairman of The Advisory Committee on Agriculture and Fisheries of the HKSAR Government expired on 31 May 2021.

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 2020 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.

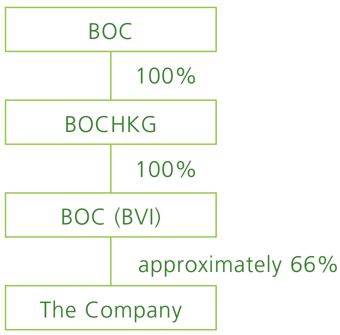
If you have any queries about how to obtain copies of this Interim Report or how to access those corporate communications on the Company's website, please call the Company's hotline at (852) 2846 2700.

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 interim consolidated financial information of the Group for the periods published by the Company pursuant to applicable laws and regulations in Hong Kong. There are two reasons for this.

First, the definitions of "BOC Hong Kong Group" (as adopted by BOC for the purpose of its own financial disclosure) and "Group" (as adopted by the Company in preparing and presenting its consolidated financial information) are different: "BOC Hong Kong Group" refers to BOCHKG and its subsidiaries, whereas "Group" refers to the Company and its subsidiaries (see the below organisation chart). Though there is difference in definitions between "BOC Hong Kong Group" and "Group", their financial results for the periods presented are substantially the same. This is because BOCHKG and BOC (BVI) are holding companies only and have no substantive operations of their own.



Second, the Group has prepared its interim financial information in accordance with HKFRSs; whereas the consolidated financial information reported to BOC is prepared in accordance with IFRSs and CASs respectively. There is a difference in the election of subsequent measurement basis of bank premises by the Group and by BOC respectively.

The Board considers that the best way to ensure that shareholders and the investing public understand the material differences between the interim consolidated financial information of the Group published by the Company on the one hand, and the consolidated financial information of BOC Hong Kong Group disclosed by BOC in its interim financial information on the other hand, is to present reconciliations of the profit after tax/net assets of the Group prepared under HKFRSs to the profit after tax/net assets of the Group prepared under IFRSs/CASs respectively for the periods presented.

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 2021 HK$'m	Half-year ended 30 June 2020 HK$'m	**At 30 June 2021 HK$'m**	At 31 December 2020 HK$'m
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs	**13,591**	16,161	**322,293**	319,655
Add: IFRSs/CASs adjustments				
Restatement of carrying value of bank premises	**454**	456	**(32,007)**	(32,110)
Deferred tax adjustments	**(80)**	(48)	**5,511**	5,534
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRSs/CASs	**13,965**	16,569	**295,797**	293,079

13. Regulatory Disclosures

The Regulatory Disclosures, together with the disclosures in this Interim Report, contained all the disclosures required by the Banking (Disclosure) Rules and Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules issued by the HKMA. The Regulatory Disclosures is available under the section "Regulatory Disclosures" on BOCHK's website at www.bochk.com.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

Introduction

We have reviewed the interim financial information set out on pages 39 to 113, which comprises the condensed consolidated balance sheet of BOC Hong Kong (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2021 and the 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 a summary of significant accounting policies 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" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 30 August 2021

APPENDIX

Subsidiaries of the Company

The particulars of subsidiaries are as follows:

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

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
Po Sang Financial Investment Services Company Limited	Hong Kong 23 September 1980	HK$335,000,000	100.00%	Gold trading and investment holding
Po Sang Securities and Futures Limited	Hong Kong 19 October 1993	HK$335,000,000	100.00%	Securities and futures brokerage
Sin Hua Trustee Limited	Hong Kong 27 October 1978	HK$3,000,000	100.00%	Trustee services
Billion Express Development Inc.	British Virgin Islands 7 February 2014	US$1	100.00%	Investment holding
Billion Orient Holdings Ltd.	British Virgin Islands 3 February 2014	US$1	100.00%	Investment holding
Elite Bond Investments Ltd.	British Virgin Islands 7 February 2014	US$1	100.00%	Investment holding
Express Capital Enterprise Inc.	British Virgin Islands 3 February 2014	US$1	100.00%	Investment holding
Express Charm Holdings Corp.	British Virgin Islands 7 February 2014	US$1	100.00%	Investment holding
Express Shine Assets Holdings Corp.	British Virgin Islands 3 January 2014	US$1	100.00%	Investment holding
Express Talent Investment Ltd.	British Virgin Islands 13 February 2014	US$1	100.00%	Investment holding
Gold Medal Capital Inc.	British Virgin Islands 3 January 2014	US$1	100.00%	Investment holding
Gold Tap Enterprises Inc.	British Virgin Islands 13 February 2014	US$1	100.00%	Investment holding
Maxi Success Holdings Ltd.	British Virgin Islands 7 February 2014	US$1	100.00%	Investment holding

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
BOC Equity Investment Management (Shenzhen) Limited**	PRC 2 April 2019	Registered capital US$5,000,000	100.00%	Asset management
Greater Bay Area Investment (GP) Limited	Hong Kong 4 February 2021	HK$1	100.00%	Investment holding

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

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

Che Hsing (Nominees) Limited was dissolved on 16 February 2021.

DEFINITIONS

In this 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 Asset Management"	BOCI-Prudential Asset Management Limited, a company incorporated under the laws of Hong Kong, in which BOCI Asset Management Limited, a wholly-owned subsidiary of BOC International Holdings Limited, and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOCI-Prudential Trustee"	BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong, in which BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOC Life"	BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOCG Insurance hold equity interests of 51% and 49% respectively
"BOC Malaysia"	Bank of China (Malaysia) Berhad, a wholly-owned subsidiary of BOCHK
"BOC Thailand"	Bank of China (Thai) Public Company Limited, a wholly-owned subsidiary of BOCHK

DEFINITIONS

Terms	Meanings
"Board" or "Board of Directors"	the Board of Directors of the Company
"CAS"	Chinese Accounting Standard for Business Enterprises
"CE"	Chief Executive
"CET1"	Common Equity Tier 1
"CFO"	Chief Financial Officer
"CIC"	China Investment Corporation
"CRO"	Chief Risk Officer
"CVA"	Credit Valuation Adjustment
"Central Huijin"	Central Huijin Investment Ltd.
"DCE"	Deputy Chief Executive
"DVA"	Debit Valuation Adjustment
"ECL"	Expected Credit Loss
"EVE"	Economic Value Sensitivity Ratio
"FCC"	the Financial Crime Compliance Department
"FIRB"	Foundation Internal Ratings-based
"Fitch"	Fitch Ratings
"FVOCI"	Fair value through other comprehensive income
"FVPL"	Fair value through profit or loss
"GDP"	Gross Domestic Product
"HIBOR"	Hong Kong Interbank Offered Rate
"HKAS"	Hong Kong Accounting Standard
"HKFRS"	Hong Kong Financial Reporting Standard
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HKMA"	Hong Kong Monetary Authority
"Hong Kong" or "Hong Kong SAR" or "HKSAR"	Hong Kong Special Administrative Region of the PRC
"IBOR reform"	Interest Rate Benchmark reform

Terms	Meanings
"ICAAP"	Internal Capital Adequacy Assessment Process
"IFRS"	International Financial Reporting Standard
"IMM"	Internal Models
"IT"	Information Technology
"LCO"	the Legal & Compliance and Operational Risk Management Department
"LCR"	Liquidity Coverage Ratio
"LIBOR"	London Interbank Offered Rate
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MC"	the Management Committee
"MCO"	Maximum Cumulative Cash Outflow
"MPF"	Mandatory Provident Fund
"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

DEFINITIONS

Terms	Meanings
"STC"	Standardised (Credit Risk)
"STM"	Standardised (Market Risk)
"STO"	Standardised (Operational Risk)
"Standard & Poor's"	Standard & Poor's Ratings Services
"Stock Exchange" or "Hong Kong Stock Exchange" or "Stock Exchange of Hong Kong"	The Stock Exchange of Hong Kong Limited
"the Company"	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong
"the Group"	the Company and its subsidiaries collectively referred as the Group
"US"	the United States of America
"VaR"	Value at Risk

中銀香港(控股)有限公司
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BOCHK Sustainability

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