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

Stock Code: 2388

Annual Report 2020

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

BOC Hong Kong (Holdings) Limited ("the Company") is one of the largest listed companies and commercial banking groups in Hong Kong, holding the entire equity interest of Bank of China (Hong Kong) Limited ("BOCHK"), its principal operating subsidiary. Bank of China ("BOC") established its foothold in Hong Kong in September 1917. Following the restructuring of the businesses of Bank of China Group's member banks in Hong Kong, the Company was incorporated in Hong Kong on 12 September 2001 and has been listed on the Main Board of the Stock Exchange of Hong Kong since 25 July 2002 with stock code "2388" and ADR OTC Symbol "BHKLY". BOC holds approximately 66.06% of the equity interest of the Company through BOC Hong Kong (BVI) Limited, an indirect wholly-owned subsidiary of BOC.

Capitalising on its advantages as a major commercial banking group in Hong Kong, BOCHK continues to increase local market penetration and actively expand its business in the Southeast Asian region. We strive to provide customers with comprehensive, professional and high-quality services. Entering into a new era of smart banking, we endeavour to become a customer-centric digital bank by enhancing customer experience with innovative technology and offering intelligent products and services.

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

We are actively pushing forward our regional development and expanding our business in the Southeast Asian region. With our branches and subsidiaries in Thailand, Malaysia, Vietnam, the Philippines, Indonesia, Cambodia, Laos, Brunei and Myanmar, we support customers in the region with professional and high-quality financial services. Through close cooperation with our parent bank BOC, we provide a full range of high-quality cross-border services to multinationals, cross-border customers, mainland enterprises going global, central banks and super-sovereign organisations.

As a leading commercial and internationalised regional bank deeply rooted in Hong Kong for over 100 years, we are committed to undertaking our corporate social responsibilities, promoting long-term and balanced sustainable development, and delivering greater value for our stakeholders and the community.

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Financial Highlights

	2020	2019
For the year	**HK$'m**	HK$'m
Net operating income before impairment allowances	**54,474**	58,444
Operating profit	**35,420**	39,755
Profit before taxation	**33,583**	40,088
Profit for the year	**28,468**	34,074
Profit attributable to equity holders of the Company and other equity instrument holders	**27,863**	33,574
Per share	**HK$**	HK$
Basic earnings per share	**2.5052**	3.0440
Dividend per share	**1.242**	1.537
At year-end	**HK$'m**	HK$'m
Total assets	**3,320,981**	3,026,056
Issued and fully paid up share capital	**52,864**	52,864
Capital and reserves attributable to equity holders of the Company	**290,302**	278,783
Financial ratios	**%**	%
Return on average total assets[1]	**0.86**	1.15
Return on average shareholders' equity[2]	**9.05**	11.51
Cost to income ratio	**30.01**	28.52
Loan to deposit ratio[3]	**68.59**	69.47
Average value of liquidity coverage ratio[4]		
First quarter	**150.45**	183.00
Second quarter	**131.38**	156.57
Third quarter	**130.98**	142.85
Fourth quarter	**132.76**	146.53
Quarter-end value of net stable funding ratio[4]		
First quarter	**116.60**	121.36
Second quarter	**117.49**	119.15
Third quarter	**115.30**	116.47
Fourth quarter	**125.31**	118.00
Total capital ratio[5]	**22.10**	22.89

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

2. Return on average shareholders' equity

   $= \frac{\text{Profit attributable to equity holders of the Company and other equity instrument holders}}{\text{Average of the beginning and ending balance of capital and reserves attributable to equity holders of the Company and other equity instruments}}$

3. Loan to deposit ratio is calculated as at year end. Loan represents gross advances to customers.
4. Liquidity coverage ratio and net stable funding ratio are computed on the consolidated basis which comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Liquidity) Rules.
5. Total capital ratio is computed on the consolidated basis for regulatory purposes that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules.

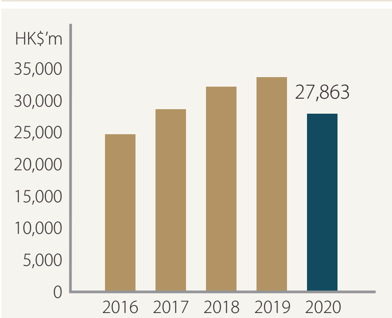
Five-Year Financial Summary

The financial information of the Group for the last five years commencing from 1 January 2016 is summarised below:

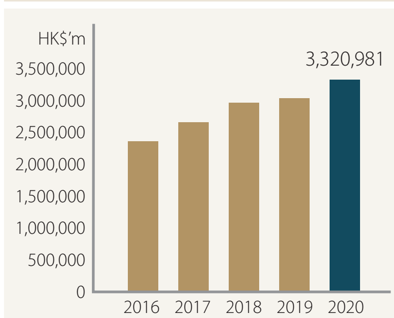
	2020	2019	2018	2017	2016
For the year	**HK$'m**	HK$'m	HK$'m	HK$'m	HK$'m
Net operating income before impairment allowances[1]	**54,474**	58,444	54,535	49,006	42,595
Operating profit[1]	**35,420**	39,755	38,087	34,103	29,482
Profit before taxation[1]	**33,583**	40,088	39,081	35,375	29,971
Profit for the year[1]	**28,468**	34,074	32,654	29,307	25,203
Profit attributable to equity holders of the Company and other equity instrument holders[1]	**27,863**	33,574	32,070	28,574	24,574
Per share	**HK$**	HK$	HK$	HK$	HK$
Basic earnings per share[1]	**2.5052**	3.0440	3.0333	2.7026	2.3243
At year-end	**HK$'m**	HK$'m	HK$'m	HK$'m	HK$'m
Advances and other accounts	**1,500,416**	1,412,961	1,282,994	1,191,554	1,008,025
Total assets	**3,320,981**	3,026,056	2,956,004	2,651,086	2,354,740
Daily average balance of total assets	**3,295,060**	2,971,200	2,817,151	2,571,216	2,398,318
Deposits from customers[2]	**2,183,709**	2,009,273	1,897,995	1,777,874	1,523,292
Total liabilities	**3,001,326**	2,718,564	2,670,631	2,402,463	2,120,186
Issued and fully paid up share capital	**52,864**	52,864	52,864	52,864	52,864
Capital and reserves attributable to equity holders of the Company	**290,302**	278,783	257,536	244,018	228,647
Financial ratios	**%**	%	%	%	%
Return on average total assets	**0.86**	1.15	1.16	1.24	2.36
Cost to income ratio[1]	**30.01**	28.52	27.88	28.26	29.37
Loan to deposit ratio	**68.59**	69.47	66.77	64.48	64.87

1. The financial information is from continuing operations.
2. Deposits from customers include structured deposits reported as "Financial liabilities at fair value through profit or loss".

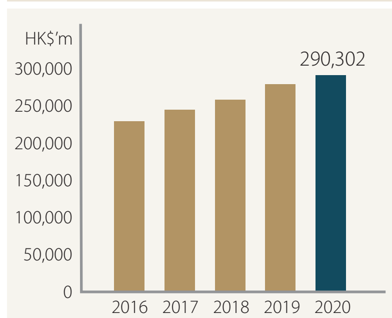
Profit attributable to equity holders of the Company and other equity instrument holders



Total assets



Capital and reserves attributable to equity holders of the Company



New Corporate Banking Experience


BoC Bill Integrated Billing Service
iGTB
Corporate Online Banking Services iGTB NET / iGTB MOBILE

Message from the Chairman

2020 was an extraordinary year in which the COVID-19 pandemic severely impacted the global economy, international trade shrank significantly and financial markets were highly turbulent. The world's developed economies adopted monetary easing and government debt levels reached historical highs. There was a stark increase in instability and uncertainty amid an increasingly complex international environment. Owing to its determined efforts to ensure stability on the six fronts and security in the six areas, China became the only country to achieve positive GDP growth among the world's major economies. This brought its 13th Five-Year Plan implementation to a successful conclusion. Hong Kong slipped into recession for the second consecutive year and suffered soaring unemployment. Thanks to the strong external trade performance of Chinese Mainland, Hong Kong staged an early recovery in goods exports while maintaining steady performance in both its property and financial markets.

During the year, BOCHK weathered all the challenges it has faced amid a complicated operating environment. Under the thoughtful planning and wise leadership of the Board of Directors, BOCHK proactively aligned itself with national development initiatives and BOC Group's growth strategy, and enthusiastically supported the lawful administration of the HKSAR Government. Leveraging its distinctive competitive advantages, BOCHK actively served the real economy, earnestly implemented measures against the COVID-19 outbreak and strictly adhered to its robust risk principles, resulting in market outperformance in major businesses and solid performance in key operating indicators.

In 2020, BOCHK continued to gain market share, growing customer loans by 7.3% to HK$1,497,864 million and customer deposits by 8.7% to HK$2,183,709 million. Risk indicators were stable and sound, with the non-performing loan ratio standing at 0.27% and the total capital ratio at 22.10%, sustaining our leading position among local peers. Our profit after tax for the year amounted to HK$28,468 million. The Board has recommended a final dividend of HK$0.795 per share. Together with the interim dividend, this takes our full-year dividend to HK$1.242 per share, translating to a payout ratio of 49.6%. I would like to take this opportunity to extend my heartfelt gratitude to all board members for their excellent contributions, to our entire staff for their diligence, to our customers for their patronage, and to our shareholders for their long-standing trust and support.

Making agile response and taking a proactive and supportive role for Hong Kong's prosperity in the past year. In face of the unexpected COVID-19 outbreak, BOCHK actively fulfilled its responsibilities as a major bank and led by example as the Chairman Bank of both the Hong Kong Association of Banks and the Chinese Banking Association of Hong Kong. We fully backed the pandemic control and prevention measures implemented by the HKSAR Government and supported Hong Kong's economic recovery. We were the first bank to launch five major financial relief measures, and fully supported the Special 100% Loan Guarantee under the SME Financing Guarantee Scheme of the HKSAR Government, and the Pre-approved Principal Payment Holiday Scheme under the HKMA, enabling us to navigate the difficult times alongside our customers. We also fully utilised our advantages in branch networks and financial technology to render strong support to the implementation of the HKSAR Government's Employment Support Scheme and Cash Payout Scheme, as well as its issuance of iBonds and Silver Bonds. We continued to pursue a customer-centric development strategy, deepened our local market commitment and promoted comprehensive service capabilities. We recorded steady growth in the number of mid to high-end customers and maintained a leading position in a number of business areas including new residential mortgage loans, syndicated loan arrangement in Hong Kong and Macao, IPO receiving bank business and cash pooling, etc., further enhancing our competitive advantages.

Playing an active role in the nation's opening up policy and making solid progress in regional business development in the past year. Inter-connection will undoubtedly be an important pathway for the future development of the global economy. As such, further economic opening up will be key to achieving high-quality growth for the country. Capitalising on the national strategy of high-level opening up, BOCHK made earnest efforts in regional business development. In Southeast Asia, our business presence was further optimised. We continued to boost service capabilities and met the needs of key customers and important projects, achieving remarkable improvements in our market position and franchise. In the Greater Bay Area, we further strengthened collaboration with our parent bank, and continuously improved key products and services such as the "GBA Account Opening Service". We made full preparations for the implementation of a cross-border "Wealth Management Connect" service and explored a financing service model for innovative technology companies. Leveraging our well-established RMB franchise, we captured opportunities arising from the further opening up of Mainland financial markets, and advanced our cross-border RMB business by setting up RMB business channels that link the Greater Bay Area, free trade zones and free-trade ports with Hong Kong and Southeast Asia. In 2020, BOCHK recorded a total transaction value of RMB282 trillion for offshore clearing, accounting for 75% of the global total.

Driving technological innovation to accelerate digitalisation in the past year. Banking service models have undergone profound changes owing to the rapid emergence of financial technologies such as artificial intelligence, blockchain, big data and 5G communications, which has prompted banks to pursue high-quality development. Led by a technology-driven strategy, BOCHK continued to promote digitalisation in a customer-centric manner. We catered to customers' needs in various contexts such as utility services, transportation and travel, day-to-day consumption, charity and education, etc., while also fostering cross-sector convergence via our open platform. We accelerated service channel digitalisation by using our mobile banking and intelligent Global Transaction Banking ("iGTB") platforms as key tools. We also deployed cutting-edge technologies to increase the efficiency of our business operations and risk management. Livi Bank, our virtual banking joint venture with Jardine Matheson Group and JD Technology, officially commenced operations, offering a brand-new banking experience that meets customers' daily needs.

Cementing the foundations for solid development through comprehensive enhancement of risk management, compliance and control in the past year. Risk management and compliance control is the lifeline of modern banking operations and the cornerstone of high-quality development. In face of a complex external environment in 2020, BOCHK strictly adhered to its bottom line in risk management and compliance. We stepped up the development of mechanisms and capacities related to risk pre-warning, risk prevention and control, and risk resolution, which enhanced the effectiveness of our overall risk management system. These efforts successfully achieved a dynamic and fine-calibrated balance between business growth and risk prevention, providing greater assurance and support to our high-quality business development.

Turning sustainability concepts into reality to support high-quality growth in the past year. The HKSAR Government has increasingly developed and promoted ESG-related policies and requirements in recent years, accelerating sustainable development. Led by the Sustainability Committee under the Board, BOCHK formulated and published its Sustainability Policy during the year. In support of the HKSAR Government and the HKMA's development initiatives in green finance, we provided green advisory services, underwrote green loans, launched green deposit products and facilitated ESG bond issuance as well as green funds. Fulfilling our responsibilities as a good corporate citizen, we attached high importance to the health and safety of our staff and customers and increased our charitable donations to the fight against the pandemic. Our efforts and achievements in ESG and preventing pandemic earned strong recognition from society. We were named "Best CSR Bank in Hong Kong" by *Asiamoney* for the third consecutive year, and were recognised as "Top Donor" and "Benefactor of the Year" by The Community Chest of Hong Kong. By closely following dynamic changes in market and regulatory environments, we optimised our governance structure and continuously enhanced our governance capabilities and standards, so as to protect the interests of our stakeholders and shareholders.

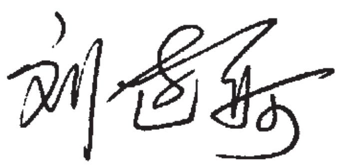
In May 2020, Mr GAO Yingxin resigned as Vice Chairman, Executive Director and Chief Executive of BOCHK, due to job change, and was succeeded by Mr SUN Yu in December. On behalf of the Board, I would like to express my sincere gratitude and utmost appreciation to Mr GAO for his valuable contributions during his tenure with BOCHK. I also warmly welcome Mr SUN to the Group. Given Mr SUN's extensive international exposure and abundant experience earned from a variety of local and overseas positions, I am certain that he will lead BOCHK to open a new chapter and push its development forward to new levels. Mr ZHUO Chengwen, Chief Risk Officer of the Group and acting Chief Executive during the interim period, ensured the smooth transition. On behalf of the Board, I express my heartfelt gratitude to Mr ZHUO.

In February 2021, Mr WANG Jiang resigned as Vice Chairman and Non-executive Director of BOCHK, due to job change. On behalf of the Board, I extend my deepest gratitude to Mr WANG for his contributions.

Looking to 2021, the global economy is now entering a critical stage in its recovery. The path to recovery remains unstable and uneven, as certain countries and territories have seen a resurgence in confirmed cases of COVID-19. The world's major economies are substantially increasing their fiscal deficit and debt levels, which will potentially create fluctuations in financial markets. As the post-pandemic era dawns, the world is set to enter into a period of volatility and reform. It is therefore essential for all countries to deepen collaboration in economic development and policy adjustment as well as global governance. All parties should pursue win-win solutions in searching for new drivers, developing innovative technologies and driving further opening up in business and trade affairs. Supported by the national economic policies of the dual circulation development pattern, the deepening construction of the Greater Bay Area and the advancement of the Belt and Road initiative, the Mainland economy will continue to enjoy positive long-term growth, which will provide ample room for Hong Kong's development. At the same time, a relatively fast recovery in the Southeast Asian economy, along with the closer regional trade cooperation heralded by the implementation of the RCEP, will also provide new opportunities for Hong Kong.

2021 marks the opening year of the 14th Five-Year Plan and the early stages of a new, reshaped development landscape. Standing at a historical juncture whereby the nation has achieved the first of the Two Centenary Goals, and in face of unprecedented shifts in the macro environment, we will embrace the challenges of a new environment, new changes and new requirements. BOCHK will adhere to a systematic concept, proactively align with BOC Group's strategic vision of building a first-class global banking group, undertake its mission of "bridging China and the world for the common good", and support the development of the real economy through the nation's dual circulation economic strategy. We will strengthen our service capabilities in relation to the Greater Bay Area and RCEP, capitalising on the advantages arising from the two-way opening up of Mainland financial markets. We will pursue the national goal of net-zero emissions by 2060 and meet the expectations and requirements of the HKSAR Government and regulators by practising green development. We will invest tremendous efforts in driving digitalisation, nurturing talent and building our corporate culture while maintaining robust risk management principles and preventing and mitigating financial risks, with a view to building a strong foundation for the solid long-term development of the Group.

Capitalising on the emergence of new development drivers and momentum, BOCHK will embark on a new stage of evolution. We will thoroughly manifest the new development concept and support the building of a new development landscape. Strictly adhering to these principles, we will proactively achieve high-quality growth, create value for all stakeholders and contribute to the economic prosperity and stability of Hong Kong.



LIU Liange
Chairman
Hong Kong, 30 March 2021

Message from the Chief Executive

The COVID-19 pandemic swept across the globe in 2020, threatening people's health and crippling the world economy. The pandemic deeply affected Hong Kong, leading to an economic recession and creating considerable difficulties for many industries. While the banking sector faced increased challenges in its operations and management, Hong Kong's banking system remained robust overall. The average liquidity coverage ratio and average capital adequacy ratio of major banks remained well above international regulatory requirements. Financial markets operated in an orderly manner, illustrating Hong Kong's solid advantages, strong resilience and abundant opportunities as an international financial centre. During the year, following the plans and decisions of the Board of Directors, BOCHK cautiously responded to changes and actively seized opportunities, while strengthening strategy implementation and exercising prudent risk management practices. As a result, we recorded steady growth in major businesses and enhanced regional synergies. In addition, we accelerated digital transformation and strengthened integrated service capabilities. At the same time, we remained committed to fulfilling our social responsibilities and making positive contributions to society. We supported community efforts against the pandemic and put green and sustainable development into practice.

The Group continued to achieve steady business growth and maintained solid financial indicators, although profitability was affected by the pandemic and economic downturn. As at 31 December 2020, the Group's total assets increased by 9.7% from the end of 2019 to HK$3,320,981 million. Total deposits from customers and total advances to customers grew to HK$2,183,709 million and HK$1,497,864 million respectively, up 8.7% and 7.3% from the end of last year, outpacing the corresponding average market growth rates. Driven by our leading payment and settlement products, the Group's low-or-no-interest CASA deposits grew by 31.8% compared to the end of last year, amounting to 66.8% of total deposits. Despite achieving continued expansion in business scale, the banking industry faced extraordinary challenges, with net interest margin ("NIM") further narrowing across the sector due to the global low-interest rate environment, and banks' provision for impaired assets also increasing due to the pandemic. Even we have not been spared from such trying circumstances. The Group's profit for the year amounted to HK$28,468 million, down 16.5% year-on-year. Return on average shareholders' equity ("ROE") of the Group was 9.05%. After adjusting for the swap-related impact, NIM was 1.33%, down 36 basis points year-on-year. However, the Group's financial indicators remained resilient. The cost to income ratio was 30.01%, remained well below the market average. The total capital ratio was 22.10% and the Tier 1 capital ratio was 19.67%, both above the market average. The Group maintained a healthy liquidity position, with the average value of liquidity coverage ratio ("LCR") standing at 136.39% while net stable funding ratio ("NSFR") at 125.31% as at the end of 2020, both exceeding regulatory requirements. The classified or impaired loan ratio was 0.27%, remaining below the average level of major peers.

The Group leveraged its financial strength to support efforts against the pandemic, working alongside various sectors of society to navigate the difficult times. In the face of the pandemic, one of our top priorities was to protect the health and safety of employees by bolstering public health protection measures and caring for employee wellbeing. We also strived to ensure continuous business operation and financial services provision. Moreover, we put in place various measures that helped to unite society against the pandemic. We took the lead in launching five financial support initiatives, promoted the Special 100% Loan Guarantee, and gave our full support to the Pre-approved Principal Payment Holiday Scheme introduced by the Hong Kong Monetary Authority, helping to ease customers' cash-flow pressures. We extended our support to a number of the government's anti-pandemic measures by providing related financial services, including facilitating payments for the HKSAR Government's Anti-epidemic Fund as well as the HK$10,000 Cash Payout Scheme. As part of our support efforts, we initiated a number of charitable projects and became the first bank in Hong Kong to make donations related to pandemic prevention and control. We donated a total of HK$15 million to charitable organisations such as The Community Chest of Hong Kong, Tung Wah Group of Hospitals and Po Leung Kuk, benefitting approximately 90,000 frontline health workers and over 70,000 people from disadvantaged communities. In recognition of the Group's contributions to Hong Kong's anti-pandemic efforts, we received the "Top Donor of the Year Award" and "Benefactor of the Year Award" from The Community Chest of Hong Kong in 2020. During the year, as the rotating chairman of the Hong Kong Association of Banks and the chairman of the Chinese Banking Association of Hong Kong, we coordinated industry efforts in the fight against the pandemic. Initiatives included introducing financial relief measures for citizens and enterprises, and providing job and internship opportunities for youth development in Hong Kong.

The Group continued to enhance its competitive advantages in professional services to capture market opportunities while supporting the recovery of the Hong Kong economy. As a major international financial centre providing abundant opportunities for enterprises and investors, Hong Kong remains the Group's core market. We continued to shine in RMB business, where many of our strengths lie. BOCHK cleared about 75% of the world's total offshore RMB transaction value. Seizing the opportunities arising from the listing of China Concept Stocks, our IPO receiving bank business maintained a leading market position. In the Hong Kong and Macao syndicated loan market, BOCHK remained the top mandated arranger for the 16th consecutive year. Taking advantage of Hong Kong as an ideal hub for corporate treasury activities, we secured market leadership in the cash pooling business. To support Hong Kong's establishment as a green financial centre, we launched the first phase of a green deposit scheme and grew our green loans by over 60% from last year-end. We also assisted our customers in issuing green bonds. Meanwhile, we captured the opportunities brought about by Hong Kong's development as an asset and wealth management centre for the Asia-Pacific region. Our mid to high-end personal banking customer base maintained double-digit growth. We claimed the top market share in terms of the number of new mortgages. To benefit people's livelihood and serve local communities, we also supported the development of inclusive finance. At present, more than 40% of our branches are located in or near public housing estates, offering greater convenience to the public.

The Group actively promoted digitalisation and technology-driven transformation to create an ecosystem with diverse financial scenarios. The pandemic has changed people's lifestyle and spending habits, resulting in the emergence of online business and the growing acceptance of digital finance. As we deepened digital customer engagement, the number of mobile banking customers grew by nearly 30% from the end of last year. The number of BoC Pay and BoC Bill customers both grew by about 80% respectively, while the Faster Payment System customer base expanded by more than 70% from the prior year-end. We made good progress in enhancing the integrated service capabilities of our diverse channels as well as promoting the intelligent development of our service outlets and operation system. All of these efforts enabled us to offer much greater banking convenience to customers. With a core focus on the establishment of an open banking ecosystem, we created diverse application scenarios in such areas as payment, education, property purchase and wealth management, to serve citizens' needs.

The Group continued to facilitate regional collaboration in the development of its Southeast Asian business network and cross-border financial business in the Greater Bay Area. BOCHK enhanced its role as a regional headquarters by stepping up its management of and support to its Southeast Asian entities. In 2020, the overall deposits and advances of our Southeast Asian entities increased by 1.2% and 7.4% respectively compared to the end of last year. Our regional network was further optimised. The Yangon Branch in Myanmar commenced operation. We were granted the approval to set up the Hanoi Representative Office in Vietnam. In addition, the Jakarta Branch received approval from the Indonesian regulatory authority to upgrade its status to Commercial Bank Based on Business Activities 3. We strived to foster RMB business innovation to promote RMB usage in the region. The Manila Branch officially launched its RMB clearing bank business in the Philippines in January 2021. To support the development of the Guangdong-Hong Kong-Macao Greater Bay Area, we continued to advance financial innovation. Consolidating our first-mover advantage, the number of customers registered for our Greater Bay Area account opening services increased by 40% from the end of last year to approximately 120,000. In addition, a cross-border mortgage loan was launched and piloted in cities such as Zhongshan and Zhuhai. Taking advantage of our enhanced business collaboration mechanism, we gave full support to our corporate customers for their business development in the area.

The Group applied bottom-line thinking and took a proactive approach to risk management to guard against various risks. We were able to implement effective risk control and management in response to market changes through enhanced forward-looking risk management and thorough analysis and assessment of financial markets. Asset quality remained benign with adequate provision coverage, as we strengthened our credit risk evaluation and portfolio assessment. In view of the heightened market uncertainties including the impact of the pandemic, we updated and refined our contingency planning by conducting scenario analyses and stress tests. At the same time, we continued to strengthen risk management in the region, enabling our Southeast Asian entities to continuously enhance their risk control and compliance management capabilities.

The Group is committed to fulfilling corporate social responsibilities as well as promoting green and sustainable development. In 2020, we supported close to 70 charitable projects. Among these projects, nearly 40 were funded through the BOCHK Centenary Charity Programme, which donated approximately HK$436 million and is expected to reach more than 1.5 million beneficiaries. We also encouraged employees to take part in charitable initiatives. During the year, more than 30 volunteering activities were initiated online and offline, with over 12,000 hours of volunteer service completed. To facilitate the Group's green and sustainable development, we enhanced our environmental, social and governance (ESG) structure and corporate culture, in line with the requirements set out by the Hong Kong Monetary Authority. In recognition of the Group's performance, we received a series of awards which further enhanced our brand image. These included "Strongest Bank in Hong Kong and Asia Pacific" by *The Asian Banker*, "Best Bank in Hong Kong (Chinese Financial Institutions)" by *FinanceAsia*, and "Best Bank for CSR in Hong Kong" for the third consecutive year by *Asiamoney*.

Looking ahead into 2021, the unveiling of the 14th Five-Year Plan will unlock more opportunities for Hong Kong to integrate into national development. As a participant in the "domestic circulation" and a promoter of both the "domestic and international circulations", Hong Kong will enjoy an even more distinct advantage as a "super connector". This will provide a promising future for the banking industry in jointly building the Belt and Road, serving the Greater Bay Area, and fostering fintech and green finance. The Group will focus on sustainable and high-quality development by devoting our efforts to growing the Hong Kong, Greater Bay Area and Southeast Asian markets. We will endeavour to strengthen regional management, bolster digital empowerment, and optimise service integration. We are intent on implementing our core strategies and strengthening strategy execution to create value for our shareholders, society and investors.

Finally, I would like to take this opportunity to report on changes to the senior management of the Group. Due to a change of job, Mr GAO Yingxin resigned as Vice Chairman and Chief Executive of the Group with effect from 25 May 2020. Under the leadership of Mr GAO over the past two years, the Group has delivered sound operating results that have laid a solid foundation for future development. This February, Mr ZHUO Chengwen resigned as Chief Risk Officer due to a change of job. During his tenure as Alternate Chief Executive of BOCHK, Mr ZHUO fulfilled his responsibilities with dedication, promoting the steady development of the Group. In addition, Mr QIU Zhikun resigned as Deputy Chief Executive of the Group on 20 October 2020 due to a change of job. On 28 February 2021, the Group appointed Mdm JIANG Xin as Chief Risk Officer. On behalf of all my colleagues, I would like to express our sincere gratitude to Mr GAO, Mr ZHUO and Mr QIU for their contributions to the Group and extend our warm welcome to Mdm JIANG.

Riding the currents, breaking the waves, and driven by an indomitable will to succeed, Bank of China has embarked on a new journey towards building a first-class global banking group. It is my great honour to be appointed as Vice Chairman and Chief Executive of the Group during this new stage of development. I would like to take this opportunity to express my gratitude to our customers, shareholders and various sectors of society for their long-standing support. I would also like to extend my heartfelt appreciation to the Board of Directors for their wise leadership, and to all my colleagues for their diligence and unremitting exertions. We are convinced that by drawing upon the Group's century-old strengths and rock-solid competitive advantages, as well as the concerted efforts and service excellence of all our colleagues, BOCHK will be able to bridge China and the world for the common good in an open, inclusive and collaborative manner, while steadily and continuously creating greater value for our stakeholders.

SUN Yu
Vice Chairman & Chief Executive
Hong Kong, 30 March 2021

New Wealth Management Experience

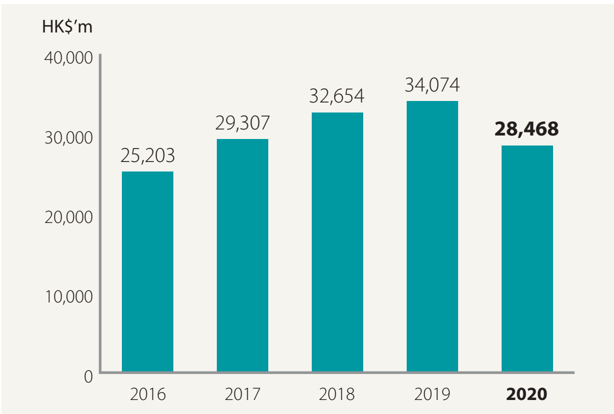

QR Cash
PRIVATE WEALTH
Private Wealth Service
Home Expert Mobile Application

Management Discussion and Analysis

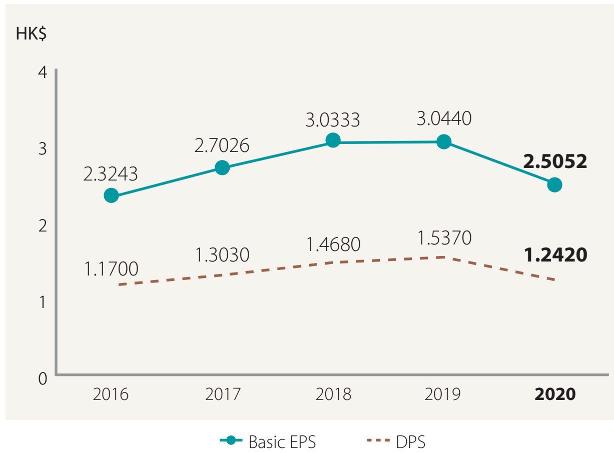
Financial Performance and Conditions at a Glance

The following table is a summary of the Group’s key financial results for 2020 and the previous four years. The average value of liquidity coverage ratio and net stable funding ratio for 2020 are reported on a quarterly basis.

Profit For The Year



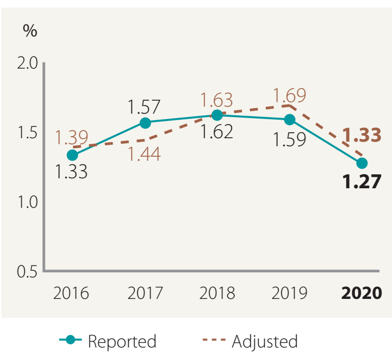
Basic Earnings Per Share (“Basic EPS”)[1] and Dividend Per Share (“DPS”)[2]



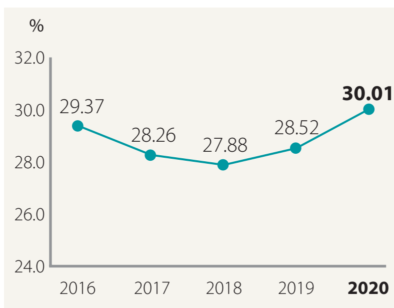
Profit for the year

- Profit for the year decreased by 16.5% year-on-year to HK$28,468 million. Return on average shareholders’ equity[3] (“ROE”) and return on average total assets[3] (“ROA”) stood at 9.05% and 0.86% respectively. Basic EPS was HK$2.5052. DPS was HK$1.2420.

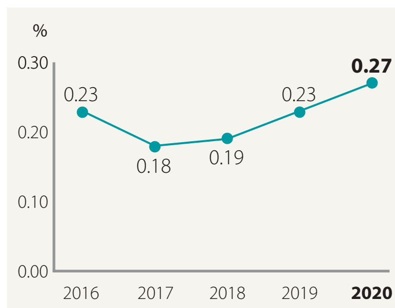
Net Interest Margin (“NIM”)



Cost to Income Ratio



Classified or Impaired Loan Ratio[4]



as at 31 December

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

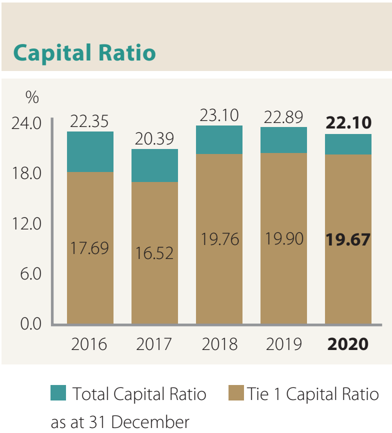
- NIM was 1.27%. If the funding income or cost of foreign currency swap contracts[5] were included, NIM would have been 1.33%, down 36 basis points year-on-year, as a result of falling market interest rates. The Group proactively managed its assets and liabilities in response to challenges in the market environment, resulting in solid growth in advances to customers and an improved mix of deposits from customers, partially offsetting the aforementioned negative impacts.

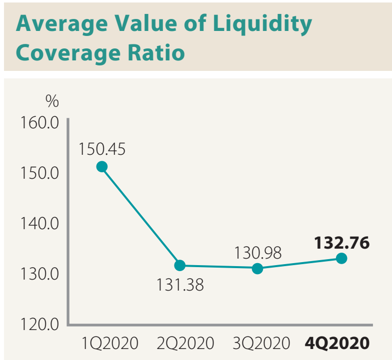
Enhancing operational efficiency through strengthened cost management

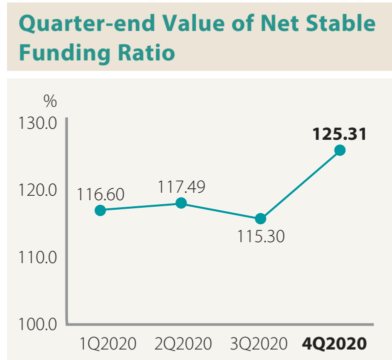
- Cost to income ratio was 30.01%. The Group strengthened cost management and ensured ongoing investment in its strategic priorities, maintaining its cost to income ratio at a satisfactory level relative to industry peers.

Maintaining solid asset quality through prudent risk management

- The classified or impaired loan ratio was 0.27%, remaining below the market average.







Strong capital position to support stable business growth

- Tier 1 capital ratio was 19.67%. Total capital ratio was 22.10%. Subordinated liabilities qualifying as Tier 2 capital instruments matured during the year.

Healthy liquidity position

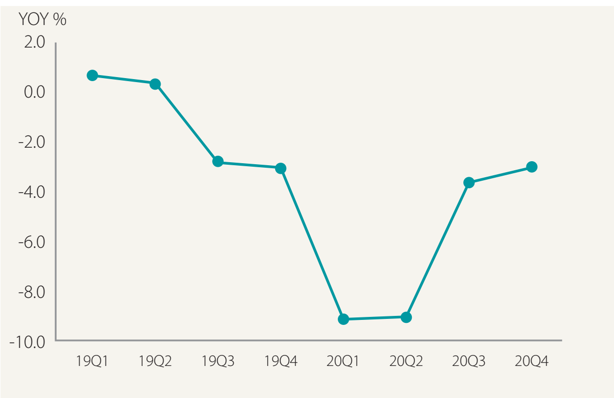
- The average value of the Group's liquidity coverage ratio and the quarter-end value of its net stable funding ratio exceeded regulatory requirements in each quarter of 2020.

1. Financial information is from continuing operations.
2. Excluding special dividend.
3. Return on average shareholders' equity and return on average total assets as defined in "Financial Highlights".
4. 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.
5. Foreign exchange swap contracts are normally used for the Group's liquidity management and funding activities. In foreign exchange swap contracts, the Group exchanges one currency (original currency) for another (swapped currency) at the spot exchange rate (spot transaction) and commits to reverse the spot transaction by exchanging the same currency pair at a future maturity date at a predetermined rate (forward transaction). In this way, surplus funds in the original currency are swapped into another currency for liquidity and funding purposes with minimal foreign exchange risk. The exchange difference (funding income or cost) between the spot and forward contracts is recognised as a foreign exchange gain or loss (as included in "net trading gain"), while the corresponding interest differential between the surplus funds in the original currency and swapped currency is reflected in net interest income.

Economic Background and Operating Environment

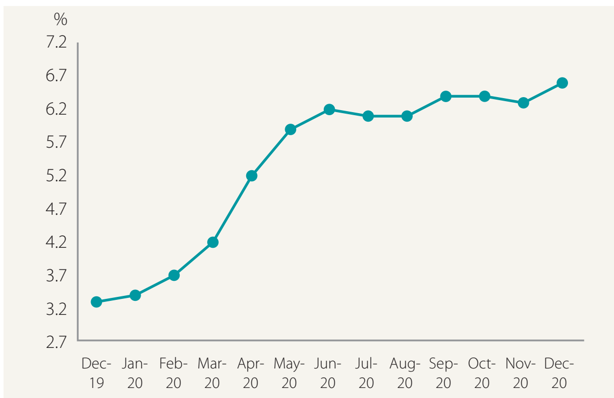
In 2020, the global economy was overwhelmed by the COVID-19 pandemic and fell into recession. At the same time, ongoing China-US tensions and rising political risks in certain countries increased uncertainty in the external environment. The US economy weakened and its labour market deteriorated amid the pandemic. In response, the Federal Reserve cut the federal funds rate to a range of 0 to 0.25%, resumed quantitative easing and enhanced credit support to enterprises. It also revised its forward guidance to allow inflation to run moderately above 2% for some time. The Eurozone economy was also affected by the pandemic, with the European Central Bank repeatedly increasing the scale of its asset purchases to cope with the headwinds. In the Mainland, the pandemic was brought under control earlier than in other countries. Following an economic contraction in the first quarter, the Mainland witnessed an orderly resumption of work and production, which led to positive economic growth from the second quarter onwards. Southeast Asian economies were also affected by the pandemic, with many countries cutting interest rates and introducing expansionary fiscal policies to ease the impacts of the economic downturn.

Hong Kong GDP Growth Rate



Source: HKSAR Census and Statistics Department

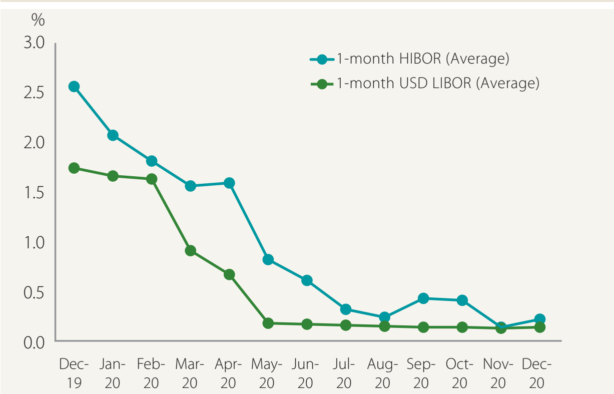
Hong Kong Unemployment Rate



Source: HKSAR Census and Statistics Department

The pandemic situation in Hong Kong was volatile throughout the year, which took a toll on Hong Kong's economy. Industries such as tourism, hotels, retail and imports and exports were severely affected by the travel restrictions and social distancing measures imposed, leading to a deep economic recession and a rise in the unemployment rate. The HKSAR Government introduced relief measures to cope with the challenges. This, coupled with a low interest rate environment, helped to alleviate the impact of the pandemic on the Hong Kong economy.

HIBOR and USD LIBOR



Source: Bloomberg

Movements in the exchange rate of the Hong Kong dollar against the US dollar repeatedly triggered the strong-side Convertibility Undertaking during the year. The Hong Kong Monetary Authority ("HKMA") sold Hong Kong dollars accordingly, thereby increasing the aggregate balance in Hong Kong's banking system, which amounted to HK$457.5 billion as at the end of 2020. The average 1-month HIBOR and 1-month LIBOR dropped from 1.89% and 2.22% respectively in 2019 to 0.85% and 0.52% respectively in 2020.

Regarding the Hong Kong stock market, the Hang Seng Index plummeted to its lowest level in over three years in late March. As countries around the world introduced proactive fiscal policies and central banks successively eased their monetary policies, global stock market performance rebounded and the decline in Hong Kong's stock market narrowed amid improving market sentiment. As at the end of 2020, the Hang Seng Index was down 3.4% compared with the end of the previous year. Against the backdrop of increased secondary listings by Chinese enterprises in Hong Kong, the total amount of funds raised and the average daily trading volume of the stock market jumped 63.7% and 48.6% respectively compared to the previous year.

In the property market, residential property prices were relatively stable given the widespread easing of monetary policies by central banks around the world and the persistently low interest rate environment for the Hong Kong dollar. The HKMA maintained prudent supervisory measures on mortgage loans, which helped banks to maintain stable asset quality in their mortgage businesses. Meanwhile, uncertainties arising from the economic downturn and the pandemic weakened rental demand for commercial properties, leading to a notable decline in the prices and transaction volumes of office and retail properties. The HKSAR Government announced the abolition of Double Stamp Duty on non-residential property transactions so as to mitigate the impact of the pandemic on the Hong Kong economy and local business activities.

Despite these challenges in the macroeconomic environment, the banking industry continues to enjoy enormous development opportunities. *The Opinions on Providing Financial Support for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area*, jointly published by authorities including the People's Bank of China ("PBOC") in May, along with the launch of the "Wealth Management Connect" pilot scheme for the Guangdong-Hong Kong-Macao Greater Bay Area in June, will promote mutual financial market access in the Greater Bay Area and expand market horizons for the Hong Kong banking industry. In addition, the HKSAR Chief Executive's Policy Address announced plans to expand the scope of stocks eligible for trading under the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, which is expected to add new impetus to Hong Kong's capital markets. In addition, the HKMA continues to deepen the implementation of "A New Era of Smart Banking" and to promote the phased growth of "Green and Sustainable Banking", which will give rise to more development opportunities for the banking industry.

Consolidated Financial Review

Financial Highlights

HK$'m, except percentages	2020	2019	Change (%)
Net operating income before impairment allowances	**54,474**	58,444	(6.8)
Operating expenses	**(16,347)**	(16,667)	(1.9)
Operating profit before impairment allowances	**38,127**	41,777	(8.7)
Operating profit after impairment allowances	**35,420**	39,755	(10.9)
Profit before taxation	**33,583**	40,088	(16.2)
Profit for the year	**28,468**	34,074	(16.5)
Profit attributable to equity holders of the Company	**26,487**	32,184	(17.7)

In 2020, the Group's profit for the year amounted to HK$28,468 million, a decrease of HK$5,606 million or 16.5% year-on-year. Profit attributable to equity holders was HK$26,487 million, a decrease of HK$5,697 million or 17.7% year-on-year. Net charge of impairment allowances increased year-on-year, as the result of a weakened macroeconomic outlook. Fair-value adjustments on investment properties recorded a net loss, as compared with a net gain last year. Net operating income before impairment allowances was HK$54,474 million, a decrease of HK$3,970 million or 6.8% year-on-year. This was mainly due to a year-on-year decrease in net interest income, resulting from falling market interest rates. Net fee and commission income fell moderately, mainly due to the impact of the COVID-19 pandemic and economic downturn. The Group captured market opportunities to dispose of certain debt securities investments and realised a higher net gain which partially offset the aforementioned decrease in income. The Group continued to invest in support of its long-term business growth. Operating expenses decreased by 1.9% on a year-on-year basis, reflecting the Group's ongoing commitment to invest in its strategic priorities, while always maintaining stringent cost control.

Second Half Performance

In the second half of 2020, the Group's net operating income before impairment allowances decreased by HK$3,012 million or 10.5%, compared to the first half of 2020, mainly due to a decrease in net interest income. Moreover, operating expenses increased from the first half of the year, while the net loss from fair-value adjustments on investment properties expanded. As a result, the Group's profit after taxation decreased by HK$3,854 million or 23.8% on a half-on-half basis.

Income Statement Analysis

Net Interest Income and Net Interest Margin

HK$'m, except percentages	2020	2019	Change (%)
Interest income	**49,928**	67,784	(26.3)
Interest expense	**(15,190)**	(27,261)	(44.3)
Net interest income	**34,738**	40,523	(14.3)
Average interest-earning assets	**2,737,726**	2,551,288	7.3
Net interest spread	**1.16%**	1.37%	
Net interest margin	**1.27%**	1.59%	
Net interest margin (adjusted)*	**1.33%**	1.69%	

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

Net interest income amounted to HK$34,738 million in 2020. If the funding income or cost of foreign currency swap contracts# were included, net interest income would have decreased by 15.6% year-on-year to HK$36,374 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$186,438 million or 7.3% year-on-year. Advances to customers increased, driven by growth in deposits from customers.

Net interest margin was 1.27%. If the funding income or cost of foreign currency swap contracts were included, net interest margin would have been 1.33%, down 36 basis points year-on-year. This was mainly due to falling market interest rates and intense market competition for deposits and loans, resulting in a narrowing of the loan and deposit spread. In addition, the average yield of debt securities investments and other debt instruments dropped and the contribution from net free funds decreased, which also adversely affected net interest margin. The Group proactively managed its assets and liabilities and gave full play to its competitive edges in customer base and regional development in response to challenges in the market environment, resulting in a solid growth in advances to customers and an improved deposit mix with a higher CASA ratio, partially offsetting the negative impacts.

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

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

	2020		2019	
ASSETS	Average balance HK$'m	Average yield %	Average balance HK$'m	Average yield %
Balances and placements with banks and other financial institutions	**351,515**	**0.88**	319,492	1.76
Debt securities investments and other debt instruments	**849,401**	**1.76**	864,637	2.36
Advances to customers and other accounts	**1,518,246**	**2.08**	1,345,060	3.06
Other interest-earning assets	**18,564**	**1.20**	22,099	2.58
Total interest-earning assets	**2,737,726**	**1.82**	2,551,288	2.66
Non interest-earning assets	**557,334**	**–**	419,912	–
Total assets	**3,295,060**	**1.51**	2,971,200	2.28

LIABILITIES	Average balance HK$'m	Average rate %	Average balance HK$'m	Average rate %
Deposits and balances from banks and other financial institutions	**198,804**	**0.56**	191,461	1.18
Current, savings and time deposits	**2,082,314**	**0.65**	1,865,178	1.26
Subordinated liabilities	**1,452**	**5.51**	13,093	5.49
Other interest-bearing liabilities	**28,917**	**1.27**	39,505	1.74
Total interest-bearing liabilities	**2,311,487**	**0.66**	2,109,237	1.29
Shareholders' funds* and other non interest-bearing deposits and liabilities	**983,573**	**–**	861,963	–
Total liabilities	**3,295,060**	**0.46**	2,971,200	0.92

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

Second Half Performance

If the funding income or cost of foreign currency swap contracts were included, the Group's net interest income would have decreased by HK$3,262 million or 16.5% compared to the first half of 2020. This was mainly due to a narrowing in net interest margin of 34 basis points to 1.16%, which was partially offset by growth in average interest-earning assets. The average yield of advances to customers and debt securities investments and other debt instruments dropped amid falling market interest rates. The Group proactively optimised its deposit mix and achieved a higher CASA ratio, resulting in lower deposit costs which partially offset the aforementioned negative impacts.

Net Fee and Commission Income

HK$'m, except percentages	2020	2019	Change (%)
Securities brokerage	**3,567**	2,113	68.8
Loan commissions	**2,310**	2,675	(13.6)
Credit card business	**1,859**	2,975	(37.5)
Insurance	**1,272**	2,111	(39.7)
Funds distribution	**897**	901	(0.4)
Payment services	**740**	716	3.4
Trust and custody services	**689**	651	5.8
Bills commissions	**591**	700	(15.6)
Safe deposit box	**306**	294	4.1
Currency exchange	**226**	599	(62.3)
Others	**1,058**	1,267	(16.5)
Fee and commission income	**13,515**	15,002	(9.9)
Fee and commission expense	**(2,673)**	(4,083)	(34.5)
Net fee and commission income	**10,842**	10,919	(0.7)

In 2020, net fee and commission income amounted to HK$10,842 million, down HK$77 million or 0.7% year-on-year. This was mainly due to the impact of the COVID-19 pandemic and economic downturn, which adversely affected the tourism, retail and trade sectors, resulting in a drop in commission income from currency exchange, credit card business and bills of 62.3%, 37.5% and 15.6% respectively. Commission income from insurance decreased by 39.7% amid lower sales volumes, as changes in market interest rates adversely affected returns of insurance products. Loan commissions also decreased by 13.6% as the number of large-scale financing projects dropped. However, commission income from securities brokerage increased by 68.8% amid increased stock market transaction volumes during the year. Assets under management ("AUM") relating to the Group's trust and custody business expanded as it captured business opportunities from mutual market access schemes, with related income increasing by 5.8%. Commission income from payment services was up 3.4% as a result of the Group's efforts to accelerate the development of its cash management business and the satisfactory growth in its cash pooling business. Fee and commission expenses fell, mainly due to a drop in credit card and insurance related expenses as a result of lower business volume.

Second Half Performance

Compared with the first half of 2020, net fee and commission income decreased by HK$28 million or 0.5%, which was mainly due to a decrease in commission income from loans, insurance and currency exchange. Commission income from securities brokerage increased amid higher transaction volumes in the stock market. Commission income from trust and custody services, bills, payment services, funds distribution and credit card business also grew. Fee and commission expenses decreased due to lower insurance related expenses.

Net Trading Gain

HK$'m, except percentages	2020	2019	Change (%)
Foreign exchange and foreign exchange products	5,282	4,931	7.1
Interest rate instruments and items under fair value hedge	(619)	(578)	(7.1)
Commodities	361	366	(1.4)
Equity and credit derivative instruments	150	81	85.2
Total net trading gain	5,174	4,800	7.8

Net trading gain amounted to HK$5,174 million, an increase of HK$374 million or 7.8% year-on-year. Net trading gain from foreign exchange and foreign exchange products increased by HK$351 million, which was primarily attributable to an increase in the mark-to-market value of foreign exchange products. Net trading loss from interest rate instruments and items under fair value hedge expanded year-on-year, primarily due to 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 commodities decreased, mainly due to a lower gain from bullion transactions. Net trading gain from equity and credit derivative instruments increased by HK$69 million, with higher income realised from equity-linked products. If the funding income or cost of foreign currency swap contracts were excluded, net trading gain would have increased by 58.2% year-on-year to HK$3,538 million.

Second Half Performance

Compared with the first half of 2020, net trading gain increased by HK$514 million or 22.1%. 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. If the funding income or cost of foreign currency swap contracts were excluded, net trading gain would have increased by 108.2% from the first half of the year to HK$2,390 million.

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

HK$'m, except percentages	2020	2019	Change (%)
Net gain on other financial instruments at fair value through profit or loss	1,959	3,243	(39.6)

Net gain on other financial instruments at fair value through profit or loss decreased by HK$1,284 million or 39.6% in 2020. The change was mainly due to a drop in the mark-to-market gain of BOC Life's debt securities related investments. The mark-to-market changes of the debt securities investments mentioned above were offset by changes to BOC Life's policy reserves, attributable to market interest rate movements, which were reflected in changes in net insurance benefits and claims as well as movements in liabilities.

Second Half Performance

A net gain of HK$1,757 million was recorded in the second half of the year, which was HK$1,555 million higher than the net gain recorded in the first half. This change was mainly attributable to the higher gain from BOC Life's equity securities and bond fund investments as the market was relatively stable in the second half of the year, which was partially offset by the decreased mark-to-market gain of its debt securities investments.

Operating Expenses

HK$'m, except percentages	2020	2019	Change (%)
Staff costs	**9,461**	9,364	1.0
Premises and equipment expenses (excluding depreciation)	**1,235**	1,542	(19.9)
Depreciation	**3,040**	2,881	5.5
Other operating expenses	**2,611**	2,880	(9.3)
Operating expenses	**16,347**	16,667	(1.9)

	At 31 December 2020	At 31 December 2019	Change (%)
Staff headcount measured in full-time equivalents	**14,915**	14,668	1.7

Operating expenses amounted to HK$16,347 million, a decrease of HK$320 million or 1.9% year-on-year. The Group continued to invest in support of its long-term business growth. While maintaining its ongoing investment in its strategic priorities, including digital transformation and fintech innovation, the Group strengthened its cost management in order to maintain operational efficiency. The cost to income ratio was 30.01%, which remained at a satisfactory level relative to industry peers.

Staff costs increased by 1.0% year-on-year, mainly due to annual salary increment and increased headcount. The increase was also due to higher staff allowances and welfare expenses.

Premises and equipment expenses decreased by 19.9%. Following the adoption of Hong Kong Financial Reporting Standard 16 ("HKFRS 16"), "Leases", leases for use of premises are accounted for as a right-of-use asset, with related rental expenses recognised as the depreciation of the right-of-use asset. However, some of the short-term leases, leases of low-value assets and variable lease payments continued to be recognised as rental expenses in 2019. Rental expenses decreased year-on-year subsequent to the expiration of these leases. The decrease in rental expenses was partially offset by the increase in maintenance expenses.

Depreciation increased by 5.5%, mainly due to the impact of HKFRS 16, and increased depreciation charges on premises. Investment in strategic priorities also led to an increase in depreciation charges on information technology.

Other operating expenses decreased by 9.3%, mainly due to a notable decrease in advertising and business promotional expenses, while other major business expenses also decreased.

Second Half Performance

Compared with the first half of 2020, operating expenses increased by HK$1,169 million or 15.4%. The increase was mainly due to higher staff costs, increased investment in information technology and charitable donations. Marketing and promotional activities also gradually resumed during the second half, leading to an increase in related expenses.

Net Charge of Impairment Allowances on Advances and Other Accounts

HK$'m, except percentages	2020	2019	Change (%)
Stage 1	**(898)**	(701)	28.1
Stage 2	**(754)**	21	N/A
Stage 3	**(837)**	(1,172)	(28.6)
Net charge of impairment allowances on advances and other accounts	**(2,489)**	(1,852)	34.4

Total Loan Impairment Allowances as a Percentage of Advances to Customers

	At 31 December 2020	At 31 December 2019
Total loan impairment allowances as a percentage of advances to customers	**0.61%**	0.50%

In 2020, the Group's net charge of impairment allowances on advances and other accounts amounted to HK$2,489 million, an increase of HK$637 million or 34.4% year-on-year. Impairment allowances at Stage 1 recorded a net charge of HK$898 million, up HK$197 million year-on-year. The outbreak of COVID-19 shocked the global economy, resulting in a year-on-year drop in GDP and a disruption in business activities which adversely affected the profitability and liquidity of the Group's corporate clients. The rise in the unemployment rate also affected the credit quality of the Group's retail clients. The Group prudently updated the parameter values of its expected credit loss model to take into consideration the increased uncertainty in macroeconomic outlook, resulting in an increase in the net charge of impairment allowances. Impairment allowances at Stage 2 recorded a net charge of HK$754 million, as compared to a net reversal of HK$21 million last year, mainly reflecting the impact of changes to the internal ratings of certain customers. Impairment allowances at Stage 3 amounted to a net charge of HK$837 million, a decrease of HK$335 million year-on-year, mainly due to the downgrading of certain corporate advances last year, resulting in a higher base for comparison. Credit cost of advances to customers was 0.16%, up 2 basis points year-on-year. As at 31 December 2020, the Group's total loan impairment allowances as a percentage of advances to customers was 0.61%.

Second Half Performance

Compared with the first half of 2020, the Group's net charge of impairment allowances on advances and other accounts decreased by HK$133 million. This was mainly because the parameter values of the expected credit loss model were relatively stable in the second half of the year as compared to those in the first half, and because of a relatively higher loan growth in the first half of the year.

Analysis of Assets and Liabilities

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

Asset Composition

	At 31 December 2020		At 31 December 2019		
HK$'m, except percentages	Amount	% of total	Amount	% of total	Change (%)
Cash and balances and placements with banks and other financial institutions	**463,711**	**14.0**	366,829	12.1	26.4
Hong Kong SAR Government certificates of indebtedness	**189,550**	**5.7**	163,840	5.4	15.7
Securities investments and other debt instruments[1]	**940,699**	**28.3**	886,846	29.3	6.1
Advances and other accounts	**1,500,416**	**45.2**	1,412,961	46.7	6.2
Fixed assets and investment properties	**65,296**	**2.0**	71,712	2.4	(8.9)
Other assets[2]	**161,309**	**4.8**	123,868	4.1	30.2
Total assets	**3,320,981**	**100.0**	3,026,056	100.0	9.7

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 the end of 2020, the total assets of the Group amounted to HK$3,320,981 million, an increase of HK$294,925 million or 9.7% compared with the prior year end. Cash and balances and placements with banks and other financial institutions increased by HK$96,882 million or 26.4%, mainly due to an increase in balances with banks and central banks. Securities investments and other debt instruments increased by HK$53,853 million or 6.1%, as the Group increased investments in government-related bonds. Advances and other accounts rose by HK$87,455 million or 6.2%, with advances to customers growing by HK$101,981 million or 7.3% and trade bills decreasing by HK$10,901 million or 52.6%. Other assets increased by HK$37,441 million or 30.2%, as a result of an increase in reinsurance assets and accounts receivable of clearing items.

Advances to Customers

HK$'m, except percentages	At 31 December 2020		At 31 December 2019		Change (%)
	Amount	% of total	Amount	% of total	
Loans for use in Hong Kong	**991,457**	**66.2**	924,734	66.3	7.2
Industrial, commercial and financial	**539,633**	**36.0**	515,548	37.0	4.7
Individuals	**451,824**	**30.2**	409,186	29.3	10.4
Trade financing	**66,497**	**4.4**	75,764	5.4	(12.2)
Loans for use outside Hong Kong	**439,910**	**29.4**	395,385	28.3	11.3
Total advances to customers	**1,497,864**	**100.0**	1,395,883	100.0	7.3

Striving to be customer-centric at all times, the Group continued to enhance services to its personal and corporate clients in Hong Kong in order to meet high-quality loan demand. It actively supported the HKSAR Government's launch of various relief measures by navigating difficult times alongside SMEs and personal customers. In addition, the Group enhanced cross-border collaboration and integrated marketing to seize opportunities arising from the loan needs of key industries and clients in the Greater Bay Area, while further leveraging its role as BOC's Asia-Pacific Syndicated Loan Centre to arrange syndicated loans for large local corporates in Southeast Asia. During the year, the Group remained the top mandated arranger in the Hong Kong-Macao syndicated loan market and captured the top market position in terms of the total number of new mortgage loans in Hong Kong. Advances to customers grew by HK$101,981 million, or 7.3%, to HK$1,497,864 million in 2020.

Loans for use in Hong Kong grew by HK$66,723 million or 7.2%.

- Lending to the industrial, commercial and financial sectors increased by HK$24,085 million or 4.7%, reflecting loans growth in property investment, manufacturing, transport and transport equipment and information technology.

- Lending to individuals increased by HK$42,638 million, or 10.4%, mainly driven by growth in residential mortgage loans.

Trade financing decreased by HK$9,267 million or 12.2%. Loans for use outside Hong Kong grew by HK$44,525 million or 11.3%, mainly driven by growth in loans for use in the Mainland and Southeast Asia.

Loan Quality

HK$'m, except percentages	At 31 December 2020	At 31 December 2019
Advances to customers	**1,497,864**	1,395,883
Classified or impaired loan ratio	**0.27%**	0.23%
Total impairment allowances	**9,172**	7,035
Total impairment allowances as a percentage of advances to customers	**0.61%**	0.50%
Residential mortgage loans[1] – delinquency and rescheduled loan ratio[2]	**0.01%**	0.01%
Card advances – delinquency ratio[2]	**0.23%**	0.27%

	2020	2019
Card advances – charge-off ratio[3]	**1.91%**	1.40%

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

In view of the ongoing COVID-19 pandemic and the complex and challenging external environment, the Group continuously enhanced its risk management and proactively strengthened its risk management systems for all types of risks. Asset quality remained benign during the year. As at 31 December 2020, classified or impaired loans amounted to HK$3,994 million, up HK$777 million from the end of last year. The classified or impaired loan ratio was 0.27%, up 0.04 percentage points from the end of last year. The combined delinquency and rescheduled loan ratio of residential mortgage loans was 0.01%. The charge-off ratio of card advances was 1.91%, up 0.51 percentage points year-on-year.

Deposits from Customers

HK$'m, except percentages	At 31 December 2020		At 31 December 2019		Change (%)
	Amount	% of total	Amount	% of total	
Demand deposits and current accounts	**310,226**	**14.2**	207,013	10.3	49.9
Savings deposits	**1,149,035**	**52.6**	900,009	44.8	27.7
Time, call and notice deposits	**724,448**	**33.2**	902,251	44.9	(19.7)
Total deposits from customers	**2,183,709**	**100.0**	2,009,273	100.0	8.7

In 2020, the Group continued to acquire local customers in Hong Kong by expanding its mid- to high-end customer base. It strengthened cooperation with government authorities, large corporates, major central banks, international financial institutions and sovereign funds through a diversified range of services, including payroll, e-payment and payment collection services. At the same time, it actively leveraged its role as a main receiving bank for IPOs and expanded its cash management and cash pooling business, leading to satisfactory growth in current accounts and savings deposits from both personal and corporate clients. At the end of 2020, total deposits from customers amounted to HK$2,183,709 million, an increase of HK$174,436 million or 8.7% from the end of last year. Demand deposits and current accounts increased by 49.9%. Savings deposits increased by 27.7%. Time, call and notice deposits decreased by 19.7%. The CASA ratio was 66.8%, an increase of 11.7 percentage points from the end of last year.

Capital and Reserves Attributable to Equity Holders of the Company

HK$'m, except percentages	At 31 December 2020	At 31 December 2019	Change (%)
Share capital	**52,864**	52,864	–
Premises revaluation reserve	**38,048**	39,458	(3.6)
Reserve for fair value changes	**1,726**	69	2,401.4
Reserve for own credit risk	**–**	(33)	100.0
Regulatory reserve	**4,780**	11,077	(56.8)
Translation reserve	**(503)**	(581)	13.4
Retained earnings	**193,387**	175,929	9.9
Reserves	**237,438**	225,919	5.1
Capital and reserves attributable to equity holders of the Company	**290,302**	278,783	4.1

Capital and reserves attributable to equity holders of the Company amounted to HK$290,302 million as at 31 December 2020, an increase of HK$11,519 million or 4.1% from the end of last year. The premises revaluation reserve decreased by 3.6%, reflecting a decrease in the valuation of commercial premises in 2020. Reserve for fair value changes increased, mainly driven by the impact of market interest rate movements on debt instruments at fair value through other comprehensive income. The regulatory reserve decreased by 56.8%, mainly due to the HKMA's relaxation of the regulatory reserve requirement, which also led to a corresponding increase in retained earnings. Retained earnings rose by 9.9% from the end of last year, mainly reflecting the profit achieved in 2020 after the distribution of dividends, and the reversal from regulatory reserve.

Capital Ratio

HK$'m, except percentages	At 31 December 2020	At 31 December 2019
Consolidated capital after deductions		
Common Equity Tier 1 capital	216,542	195,039
Additional Tier 1 capital	23,476	23,476
Tier 1 capital	240,018	218,515
Tier 2 capital	29,558	32,855
Total capital	269,576	251,370
Total risk-weighted assets	1,220,000	1,098,018
Common Equity Tier 1 capital ratio	17.75%	17.76%
Tier 1 capital ratio	19.67%	19.90%
Total capital ratio	22.10%	22.89%

As at 31 December 2020, Common Equity Tier 1 ("CET1") capital and Tier 1 capital increased by 11.0% and 9.8% respectively from the end of last year, which was primarily attributable to profits recorded for 2020 and the HKMA's relaxation of its regulatory reserve requirement. Total capital increased by 7.2%, as subordinated liabilities qualifying as Tier 2 capital instruments matured during the year, resulting in lower growth in total capital. Total risk-weighted assets ("RWAs") increased by 11.1% in 2020, mainly driven by growth in advances to customers and the impact of changes to the internal ratings of certain loan customers. The CET1 capital ratio was 17.75% and Tier 1 capital ratio was 19.67%, down 0.01 and 0.23 percentage points respectively from the end of 2019. Total capital ratio was 22.10%, down 0.79 percentage points from the prior year-end. The Group continued to review its capital structure and manage the growth of its RWAs so as to maintain an appropriate capital level to support its sustainable business development while balancing returns to equity holders.

Liquidity Coverage Ratio and Net Stable Funding Ratio

	2020	2019
Average value of liquidity coverage ratio		
First quarter	150.45%	183.00%
Second quarter	131.38%	156.57%
Third quarter	130.98%	142.85%
Fourth quarter	132.76%	146.53%

	2020	2019
Quarter-end value of net stable funding ratio		
First quarter	116.60%	121.36%
Second quarter	117.49%	119.15%
Third quarter	115.30%	116.47%
Fourth quarter	125.31%	118.00%

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

Business Review

Against the backdrop of a complex and challenging environment, the Group actively responded to changes in the market environment, strengthened the execution of its strategic plans and steadily pushed forward its business priorities. The Group continued to develop its core market in Hong Kong and fully supported the development of the real economy. It captured new opportunities from the Guangdong-Hong Kong-Macao Greater Bay Area with the aim of becoming cross-border customers' first-choice bank in the Greater Bay Area. The Group gave full play to its regional synergies in Southeast Asia and made use of its proven businesses to push forward its integrated regional development. It deepened the applications of scenario-based ecosystems and expedited its digital transformation. It also constantly optimised its environmental, social and governance ("ESG") structure and targets, and promoted green and sustainable development. At the same time, the Group closely monitored market changes and strengthened its risk and compliance control.

Business Segment Performance

Profit before Taxation by Business Segment

HK$'m, except percentages	2020	% of total	2019	% of total	Change (%)
Personal Banking	**11,017**	**32.8**	11,234	28.0	(1.9)
Corporate Banking	**13,035**	**38.8**	15,309	38.2	(14.9)
Treasury	**9,361**	**27.9**	12,064	30.1	(22.4)
Insurance	**854**	**2.5**	701	1.8	21.8
Others	**(684)**	**(2.0)**	780	1.9	N/A
Total profit before taxation	**33,583**	**100.0**	40,088	100.0	(16.2)

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

Personal Banking

Financial Results

Personal Banking achieved a profit before tax of HK$11,017 million in 2020, a decrease of HK$217 million or 1.9% year-on-year. This was mainly due to a decrease in net interest income, which resulted in a drop in net operating income, as well as an increase in net charge of impairment allowances. Operating expenses decreased, partially offsetting the negative impact.

Net interest income decreased by 2.5%, mainly due to a narrowing of the deposit spread as a result of falling market interest rates. This decrease was, however, partially offset by an improvement in the loan spread as well as growth in the average balance of loans and deposits. Net fee and commission income increased moderately by 0.2%, which was mainly attributable to a satisfactory increase in commission income from securities brokerage amid higher transaction volumes in the stock market, although this was partially offset by a drop in commission income from the insurance and credit card businesses. Net trading gain increased by 27.2%, owing to an increase in currency exchange income from customer transactions. Operating expenses were down 1.4%, mainly due to a decrease in business-related expenses. Net charge of impairment allowances amounted to HK$421 million, up HK$70 million year-on-year, owing to an increase in impairment allowances linked to heightened uncertainty in the macroeconomic outlook.

Business operations

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

The Group took the lead in launching a number of financial support and relief initiatives, including those to benefit livelihoods such as a principal repayment moratorium for mortgage loans, grace periods for insurance premium payments, and additional insurance protection, with the aim of offering multi-faceted support to individual customers affected by the pandemic and helping customers to navigate through difficult times. It collaborated with the HKSAR Government's HK$10,000 Cash Payout Scheme, using its mobile and internet banking channels as well as its 169 branches to assist the general public in registering for the scheme. In addition, it was the only bank to offer cheque encashment services for the scheme, helping individuals to register for and collect the payment conveniently. The Group fully supported the HKSAR Government's issuance of iBonds and Silver Bonds, facilitating subscription through its new mobile banking channel, internet banking, investment hotlines and all of its branches, so as to better meet the needs of different customers. It was the only agent bank for the One-off Allowance for New Arrivals from Low-income Families Programme under the Community Care Fund, providing electronic application forms and branch services for eligible customers to register for the programme. To meet the general public's financial needs while ensuring the safety of its customers and staff, the Group provided maximum branch services during the pandemic and extended e-channel service hours for account opening and certain other transactions. It also enriched the service scope of its e-channels, including launching a remote application service for its Qualifying Deferred Annuity Policy and Voluntary Health Insurance Scheme products, and broadening the range of insurance and investment products available online.

Giving full play to online and offline competitive advantages and optimising customer segment services

In response to customer needs, the Group adjusted its service channel strategy by successfully introducing mobile terminals in all branches and setting up eZones in its 181 branches, as well as piloting intelligent counters in certain branches, so as to enhance customer experience and provide customers with tailored online and offline services. During the year, in line with the launch of a brand new premium Private Wealth service for high-end customers, which, along with the newly launched Private Wealth Centre, the Group offers diversified services including investment, wealth management, legacy planning, cross-border property purchase and fashionable lifestyle benefits. Through an exclusive team of wealth management experts, the Private Wealth service provides high-end customers with supreme services by offering professional, exclusive and privileged services, products and experiences. The Group further expanded its customer base, with the number of mid- to high-end customers at the end of 2020 maintaining double-digit percentage growth from the end of last year. By continuously enriching and integrating data resources and strengthening its big data AI infrastructure, the Group offered bespoke products and services according to customers' preferences and behaviours, with a view to enhancing customer activation and loyalty. It remained committed to developing the local customer segment in order to strengthen its core product advantages, thus achieving steady growth in customer deposits, maintaining its top market position in terms of total number of new residential mortgage loans, and recording notable year-on-year growth in the online transaction volumes of key investment products such as equity securities and funds. During the year, BOCHK was awarded The Best Big Data or AI Initiative in the Excellence in Retail Financial Services International Awards 2020 by *The Asian Banker*.

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 high-net-worth clients and provide them and their families with professional private banking services. By integrating the development of green finance and environmental, social and governance standards into product design and services, the Group enriched its exclusive private banking products. In addition, it continued to promote digital development, expand its exclusive product range and build its talent pool. The number of customers continued to grow during the year. As at the end of 2020, private banking's AUM increased 14.3% from the previous year-end.

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

The Group closely monitored changes in the market environment during the pandemic and accelerated its development into a digital bank. To meet rapid growth in customer demand for online transactions, the Group adopted a mobile first strategy by enhancing the personal account opening service, payment, wealth management and cross-border service functions of its mobile banking so as to meet customer needs under various financial scenarios. It launched a new personalised design for mobile banking, introduced brand new features such as one-click binding with BoC Pay, QR cardless cash withdrawal and BoC Live, and enriched its online insurance products in order to provide a more personalised and convenient mobile banking experience to customers. In 2020, the total number of transactions conducted via mobile banking increased by over 70% year-on-year and the monthly average number of online mortgage applications was more than double that of last year. The Group remained committed to driving the application of innovative technologies towards delivering efficient and smart banking services. It utilised open Application Programme Interface ("API") technology to expand cross-platform business. In line with the HKMA's Phase II of Open API, it strengthened cooperation with third-party service providers to provide customers with a higher quality wealth management experience. The Group cooperated extensively with online real estate agency platforms, external economic and financial application softwares, product comparison websites and comprehensive service platforms to expand its cross-platform functions, including property purchase planning, securities and foreign exchange trading services and online loan application, and to enrich its product scenario-based applications. It launched a developers' portal and opened up access to more than 90 open APIs. During the year, BOCHK was awarded Mobile Banking & Payment Initiative of the Year – Hong Kong in *Asian Banking & Finance*'s Retail Banking Awards 2020.

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

The Group actively responded to financial policies for the Guangdong-Hong Kong-Macao Greater Bay Area and continuously optimised the cross-border services experience in order to meet the various spending, lifestyle and investment needs of Hong Kong residents in the Greater Bay Area. During the year, the Group continuously enhanced the customer experience of the Greater Bay Area Account Opening Service ("GBA Account Opening Service"), its Mainland personal account opening attestation service, by supporting a digital account opening application process, as well as allowing the use of Hong Kong mobile phone numbers for applications. Upon successful application, customers are able to link their account to e-wallets in the Mainland for instant handling of daily shopping, bill and online shopping payments. These service enhancements aim to fulfil the livelihood financial needs of Hong Kong residents who travel, work or live in the Greater Bay Area. The Group enriched BoC Pay's application scenarios in the Greater Bay Area with the launch of a cross-border personal remittance service that supports instant fund transfers. To support Hong Kong customers' demand for purchasing properties in the Greater Bay Area, the Group continuously optimised the Greater Bay Area Personal Loan mortgage service, which enhances the full process of service experience in property viewing, contract signing, payment and mortgage services. During the year, BOCHK was awarded Excellent Wealth Management Bank and Excellent Greater Bay Area Financial Service at the Financial Services Awards of Excellence 2020 by *Hong Kong Economic Journal*.

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

The Group continued to strengthen regional collaboration and optimise regional cross-border services. It expanded its cross-border attestation service to allow customers in Southeast Asian countries such as Indonesia, the Philippines, Vietnam and Brunei to open personal accounts with BOCHK and also BOCHK customers to open personal accounts with BOC Malaysia and BOC's entities in Macao, Australia and Canada and vice versa, with the aim of meeting customer demand for overseas property purchases, investments and study. The Group enriched its regional wealth management services, with BOC Malaysia offering a number of new funds and bonds, including its first RMB fund. It accelerated digital development in Southeast Asia and achieved steady progress in its regional mobile payment project, with BOC Malaysia participating in an instant fund transfer service through local payment system DuitNow and becoming the first local financial institution to launch cross-border UnionPay QR code payment service. BOC Thailand introduced PromptPay in its mobile and internet banking, enabling real-time interbank funds transfer within Thailand. The Vientiane Branch also introduced an interbank funds transfer function in its mobile banking. In order to address personal customers' banking needs for studying, employment, travel and property purchases in Southeast Asia, the Group launched the Personal Financial Services in Southeast Asia page on the BOCHK website.

Corporate Banking

Financial Results

Corporate Banking achieved a profit before tax of HK$13,035 million, a decrease of HK$2,274 million or 14.9% year-on-year, mainly due to a decrease in net interest income and net fee and commission income, which resulted in a drop in net operating income, and an increase in net charge of impairment allowances.

Net interest income decreased by 8.5%, 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 decreased by 10.6%, mainly owing to a drop in loan and bills commissions, which was partially offset by an increase in commission income from trust and custody services. Net charge of impairment allowances amounted to HK$1,877 million, up HK$492 million year-on-year, owing to heightened uncertainty in the macroeconomic outlook and changes in the internal rating of certain corporate customers.

Business Operations

Enhancing customer service capabilities and steadily advancing corporate banking business development

The Group continued to adhere to its customer-centric philosophy and pushed forward the deepening of its business transformation with the aim of meeting customers' needs, reinforcing integrated services and improving customer experience. To address the impact of the COVID-19 pandemic, it responded promptly to market changes, proactively explored business opportunities and continuously improved its regional and comprehensive service capabilities. During the year, the Group strengthened its support to a number of key projects in Hong Kong and Southeast Asia. It remained the top mandated arranger in the Hong Kong and Macao syndicated loan market for the 16th consecutive year and successfully underwrote a number of bond issues with significant market influence. The Group also actively promoted the advancement of green finance in order to ensure sustainable development. During the year, the Group received the Outstanding Award for Green Loan Structuring Advisor – Greatest Number of Green Loans (Verification) and the Outstanding Award for Green Bond Lead Manager – Greatest Number of Green Bonds (Financial Investment Industry) in the Hong Kong Sustainable Finance Awards 2020, held by the Hong Kong Quality Assurance Agency. Meanwhile, it maintained its market leadership as an IPO main receiving bank in terms of the number of main board listing projects. It also deepened its business relationships with the world's major central banks, international financial institutions and sovereign wealth funds. In addition, the Group further advanced its digital transformation and scenario-based applications by enhancing its technological innovation and application capabilities and strengthening cooperation with clients in e-payment and payment collection projects, in order to provide more convenient payment channels for customers in a number of areas including clothing, food, accommodation, necessities and transportation.

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

The Group continuously deepened its collaboration with high-quality local commercial and SME customers by enabling integrated digitalised and online financial services, undertaken with the aim of further enhancing customer experience. It also actively supported its SME customers in light of the pandemic. It took the lead in introducing five financial support initiatives to relieve the impacts of the pandemic, including a special loan scheme for SMEs featuring an express approval process, as well as a principal moratorium for mortgage loans. It collaborated with HKMC Insurance Limited to launch the Special 100% Loan Guarantee and various optimised measures for credit guarantee products under the SME Financing Guarantee Scheme. The Group also offered full support to the Pre-approved Principal Payment Holiday Scheme launched by the HKMA, in order to help SMEs to cope with business challenges and navigate difficult times alongside them. The Group and the Federation of Hong Kong Industries co-organised the BOCHK Corporate Environmental Leadership Awards Programme for the sixth consecutive year, with the aim of encouraging and rewarding enterprises in Hong Kong and the Pan-Pearl River Delta region to participate in environment friendly practices, promote green operations and support sustainable development. During the year, the Group received the Best SME's Partner Award from the Hong Kong General Chamber of Small and Medium Business for the 13th consecutive year, and the SME Banking Services Award for the second consecutive year in the Financial Services Awards of Excellence organised by *Hong Kong Economic Journal*, demonstrating the esteemed recognition of its quality services for SMEs 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 growth momentum with the prerequisite of appropriate risk control. In order to bolster regional cooperation in the Asia-Pacific region and enhance the regional synergies of its Southeast Asian entities, the Group reinforced its integrated marketing efforts with a focus on core customers and key projects. BOCHK capitalised on its position as BOC's Asia-Pacific syndicated loan centre and arranged syndicated loans for sizable businesses in the Southeast Asian region, thus deepening business relationships with local mainstream customers. Through regional collaborations, it was able to facilitate the design, marketing and implementation of sophisticated projects, such as cash management, in an integrated and professional manner. The Group began to roll out its intelligent Global Transaction Banking Platform ("iGTB") in its Southeast Asian entities, laying a solid foundation for the continuous growth of its regional transaction banking business. With continuous innovation in the product and service suite, BOC Thailand took the lead in introducing a new business model that supports third-party payment tools and successfully issued its first blockchain payment guarantee for a client. The Vientiane Branch successfully conducted its first Enterprise Resources Planning Integration ("ERP Integration") service. Moreover, the Group implemented an Asia-Pacific business collaboration mechanism with BOC Singapore Branch and Sydney Branch to further deepen and diversify cooperation, with the aim of exploring new opportunities in Asia-Pacific business. It continued to strengthen its partnerships with BOC's entities in the Greater Bay Area to bolster business collaboration on cross-border transactions, with a view to fulfilling the financial demands of key industries and target customers. With a focus on serving emerging industries, the Group strengthened support for the development of corporations in the technological innovation sector by providing diversified products and services, so as to contribute to financial interconnectivity within the Greater Bay Area.

Constantly optimising products and services and striving to uplift customer experience

The Group continued to improve the range of its corporate banking products in Hong Kong, the Greater Bay Area and Southeast Asia by enhancing its capabilities in online products and services. It further accelerated the development of its key businesses, including cash management, trade financing and treasury centre, and secured its market-leading position in the cash pooling business. In a bid to encourage diversification in financial product development and fintech innovation, the Group continuously enriched its digitalised products and services by launching the e+ product series for corporate customers, promoted and extended products and services to the Southeast Asian region through online service platforms, so as to comprehensively enhance customer experience. In recognition of its excellent and highly professional services, BOCHK was awarded Hong Kong Domestic Cash Management Bank of the Year for the seventh consecutive year and Hong Kong Domestic Trade Finance Bank of the Year for the second consecutive year by *Asian Banking & Finance*. It also received five awards from *The Asian Banker*, including Best Transaction Bank in Hong Kong for the third time, Best Cash Management Bank in Hong Kong for the sixth time, as well as Best ERP Integration Solution, Initiative, Application or Programme, Best Cash Management Project in Hong Kong and Best Shared Service Centre, all for the first time. In addition, a project that BOCHK co-organised with a mobile network provider to support the centralised management of global funds was awarded Best Treasury & Finance Strategies in Asia Pacific in the CT Awards by *CorporateTreasurer*.

Continuously and steadily developing custody and trustee businesses

The Group's custody business effectively responded to market challenges and captured opportunities from the Chinese government's mutual market access policies, enterprises "Going Global" and the development of the Greater Bay Area. As a result, total assets under custody from institutional and corporate clients reached new heights in the year and the total number of Bond Connect clients also continued to rank among the global top tier. Meanwhile, it further deepened its collaboration with Chinese investment enterprises and strengthened its business relationships with banks in the Chinese mainland in terms of overseas custody business. It also proactively enhanced its corporate trust and agency service capabilities, receiving positive feedback from clients. As at the end of 2020, the Group's total assets under custody exceeded HK$1,371.8 billion, an increase of 8.3% from the prior year-end. During the year, it was awarded the Bond Connect Top Custodian for the third time by Bond Connect Company Limited, and the Best Custodian QDII – China for the third time and the Best Custodian – Overall (Highly Commended) – China Offshore for the first time by *The Asset*.

The MPF business of BOCI-Prudential Trustee Limited ("BOCI-Prudential Trustee") maintained steady growth, with AUM at the end of 2020 increasing by 15% over the prior year-end, retaining its top tier position in the MPF market. During the year, BOCI-Prudential Trustee launched the BOCPT MPF e-Form app, which provides integrated one-stop online MPF services that enable members of the Tax Deductible Voluntary Contributions scheme and self-employed persons to complete their MPF applications online. In addition, it was appointed as trustee to a number of employee share award schemes, and it proactively partnered with international asset management companies to take advantage of the opportunities bestowed by the integration of Hong Kong, Shenzhen and the Greater Bay Area to expand its fund trustee business. In 2020, BOCI-Prudential Trustee received a number of awards, including multiple top prizes at the 2020 MPF Awards, organised by independent rating agency MPF Ratings and The Best MPF Scheme – Finalist at the 2020 Morningstar Fund Awards Hong Kong, organised by Morningstar Investment Management Asia Limited. In addition, it received a number of awards at the Lipper Fund Awards Hong Kong 2020 organised by *REFINITIV*, the Top Fund Awards 2020 organised by *Bloomberg Businessweek* and the Excellent Trustee & Management Services Award at the Financial Services Awards of Excellence 2020 organised by *Hong Kong Economic Journal*.

Treasury

Financial Results

Treasury recorded a profit before tax of HK$9,361 million, a decrease of HK$2,703 million or 22.4% year-on-year. This was primarily due to a decline in net interest income, net fee and commission income and net trading gain. Net gain on other financial assets increased, which partially offset the negative impact.

Net interest income decreased by 55.8%, which was mainly attributable to a drop in the average yield of debt securities investments and other debt instruments as well as interbank placements caused by falling market interest rates. Net trading gain decreased, primarily due to changes in the mark-to-market value of certain debt securities investments and interest rate instruments caused by market interest rate movements. The above changes were partially offset by a higher net gain on financial assets from the disposal of certain debt securities.

Business Operations

Continuously enhancing service capabilities and steadily promoting regional development

The Group actively responded to the business impact of the pandemic and vigorously promoted online business. It significantly enhanced its online trading transaction volume and service capabilities, achieving satisfactory growth in client business. By closely monitoring changes in the market environment and actively capturing business opportunities, the Group achieved good performance in its interest rate and precious metal businesses. During the year, it completed the upgrade and reform of its core trading system and constantly optimised its business processes, which in turn greatly improved its trade processing capabilities and service efficiency. The Group continuously enhanced its internal control mechanism and adhered to stringent risk management control, while achieving solid development in all businesses. In recognition of its treasury business performance, BOCHK was named Excellent Overseas Participant in Inter-bank FX Market by the China Foreign Exchange Trade System and Bond Connect Top FX Settlement Bank by Bond Connect Company Limited. BOCHK was also awarded Special Market Stability Contribution Reward in COVID-19 and Outstanding International Member Award by the Shanghai Gold Exchange, as well as Key Business Partner in FIC Market at the RMB Fixed Income & Currency Pan Asian Conference organised by HKEX.

By continuously enhancing its trading, sales, product development and risk control capabilities, as well as developing the building blocks for RMB business in regional financial markets, the Group was able to further improve its integrated regional and professional capabilities in customer service and product development. During the year, its Southeast Asian entities further enhanced their treasury product lines to support the internationalisation of RMB and promote direct quotation of RMB. With the approval of the PBOC, the Phnom Penh Branch became the first offshore quoting bank for RMB to Cambodia Riel ("KHR") in the regional market and the member of the China Foreign Exchange Trade System. It successfully completed the first CNY/KHR direct exchange trade for its clients.

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

BOC Malaysia was successfully authorised by the PBOC and the Central Bank of Malaysia to continue to serve as Malaysia's RMB clearing bank and local RMB settlement institution. Taking advantage of the fintech innovation supervision pilot policy launched by the PBOC, BOC Malaysia cooperated with BOC Guangxi Branch to process the first RMB inter-bank financing business and the first RMB trade financing cross-border transfer business in the Chinese mainland. The Manila Branch officially launched its RMB clearing bank service on 16 January 2021. In addition, the Hong Kong RMB Clearing Bank opened up a special green channel of the Cross-border Interbank Payment System in the Mainland during the 2020 Chinese New Year holidays. Through this channel, it was able to provide RMB clearing services for cross-border donations and payments for the procurement of infectious prevention resources, facilitating the timely transfer of funds. In April, the Hong Kong RMB Clearing Bank officially joined SWIFT's Global Payments Innovation ("gpi"), further enhancing the transparency and customer experience of RMB cross-border remittance.

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

The Group continued to take a cautious approach to managing its banking book investments. By closely tracking central banks' interest rate adjustments and planning ahead, it actively sought fixed income investment opportunities to enhance returns while remaining alert to risk. In 2020, the Group actively responded to interest rate changes in order to achieve balanced growth in assets and liabilities and continuously enhance the portfolio mix of its banking book investments.

Steadily expanding asset management business by capturing market opportunities

BOCHK Asset Management Limited ("BOCHK AM") maintained satisfactory growth momentum, achieving continuous value creation for customers and solid growth in AUM and profit after tax. As at the end of 2020, its AUM had increased by 46% compared to the prior year-end. During the year, BOCHK AM launched in June 2020 the 12th sub-fund of the BOCHK Wealth Creation Series, namely the BOCHK All Weather Asian High Yield Bond Fund, successfully capturing investment opportunities for clients. At the same time, it continued to expand its customer base and distribution channels while deepening business relationships with existing customers. Moreover, BOCHK AM exhibited sound investment performance, with the average returns of key fixed income funds, equity funds and investment portfolios outperforming the local market. It also achieved notable performance in its alternative investment business, generating attractive financial returns for its clients. In 2020, BOCHK AM was awarded Best RMB Manager and Best Offshore RMB Bond Performance (3 years) in the 2020 Best of the Best Awards by *Asia Asset Management*. In addition, the BOCHK All Weather Asian Bond Fund was awarded Best Fund over 3 Years – Bond Asia Pacific LC in the Lipper Fund Awards Hong Kong 2020 by *REFINITIV*.

Insurance

Financial Results

In 2020, the Group's insurance segment recorded a gross premium of HK$28,013 million, up 10.4% year-on-year. As adversely affected by the pandemic, its standard new premium for the year amounted to HK$11,344 million, down 17.8% year-on-year, and the value of new business was HK$1,115 million, a decrease of 12.8% year-on-year. However, profit before tax was up 21.8% year-on-year to HK$854 million, which was mainly attributable to an increase in net interest income and reinsurance income.

Business Operations

Promoting transformation of business mix to meet diversified customer needs

In view of the pandemic's impact on insurance products sales, BOC Life expedited its business development via online channels. It launched annuity products and online hospital cash refund plans via mobile banking in the first half of the year, and an online short-term insurance savings plan via internet banking in the second half of the year, thus achieving year-on-year growth of over 80% in annual standard new premium conducted via electronic channels. In addition, BOC Life further enhanced business development through its bancassurance channel in order to increase its market share, achieving satisfactory sales volume of insurance products distributed via bancassurance. To further promote the transformation of its product mix, it continued to launch whole life insurance plans with both savings and critical illness protection features, including the Forever Wellbeing Whole Life Plan and SmartUp Pro Whole Life Plan. BOC Life also continued to promote the development of products with high value and coverage, thus enhancing the value of new business margins. The Qualifying Deferred Annuity Policy ("QDAP") launched last year has been well received by customers, with BOC Life maintaining its leading market position in this product category. BOC Life was also the first insurance company to introduce an online application for QDAP. In the first half of the year, BOC Life collaborated with Bupa (Asia) Limited to offer customers a high-end Voluntary Health Insurance Scheme plan. In the second half of the year, BOC Life partnered with Quality HealthCare Medical Services Limited to launch the QHMS Wellness Online Shop, which enabled customers of designated plans to redeem healthcare products and services.

Living its customer-centric promise and navigating alongside customers through difficult times

BOC Life strongly adhered to its service mission of putting customers' interests first. It introduced a number of coverage additions and services tailored to customers' needs during the pandemic, including a hospital cash benefit for customers of life insurance plans who were diagnosed with COVID-19, as well as a special premium for a designated group of customers. In addition, BOC Life offered customers an extended grace period for premium payment to help those who might be affected by the pandemic. Furthermore, additional coverage was provided to customers of designated critical illness plans who were diagnosed with COVID-19. These benefits included cash benefits, admission to intensive care unit coverage and death benefits. These initiatives reflected BOC Life's commitment to corporate social responsibility and serving the community.

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

BOC Life maintained its leading position in Hong Kong's life insurance business and remained the market leader in RMB insurance. In recognition of its service quality and professional image, BOC Life received a number of local and regional awards, including Top-three Finalists of Outstanding Customer Services in the Hong Kong Insurance Awards 2020, organised by The Hong Kong Federation of Insurers and *South China Morning Post*, Outstanding Insurance Business – Outstanding Annuity Insurance Award and Outstanding Insurance Business – Outstanding Saving Insurance Award in the 2020 RMB Business Outstanding Awards, organised by Metro Finance and Hong Kong Ta Kung Wen Wei Media Group, Annuity Plan – Outstanding and Online Platform – Outstanding in the Financial Institution Awards 2020, organised by *Bloomberg Businessweek*, the Outstanding Customer Services Award in the GBA Insurance Award 2020 (HK Region) organised by Metro Finance, and the Standard of Excellence Award in the WebAward 2020 of the Web Marketing Association, and other enterprise awards.

Regional Business

The Group continued to pursue integrated regional development and provided strong support to its Southeast Asian entities, with the aim of building them into mainstream foreign banks in their local markets. In 2020, a breakthrough occurred as the Southeast Asian region became China's largest trading partner for the first time. The official signing of the Regional Comprehensive Economic Partnership ("RCEP") proposed by the ASEAN in November 2020 will further promote economic and trade relations and investment cooperation between Southeast Asia and its regional partners. The successful conclusion of the 17th China-ASEAN Expo and China-ASEAN Business and Investment Summit will lead to a higher level of cooperation between China and Southeast Asian countries in key areas such as strategic mutual trust, economic and trade cooperation, technological innovation and anti-pandemic cooperation, thereby creating more business opportunities in various sectors including the financial industry. In addition, the attractiveness of RMB assets to overseas investors continues to increase, which will open up new growth opportunities for the Group's regional business.

Enhancing regional business network layout and continuing to deepen integrated regional development

The Group was approved by the Central Bank of Myanmar to set up its Yangon Branch, which already commenced business. As a result, its regional business now covers nine countries in Southeast Asia. On 30 December 2020, the Group was approved by the State Bank of Vietnam to set up its Hanoi Representative Office, the establishment of which not only improves its institutional layout in Vietnam but also lays a solid foundation for business collaboration. The Group actively developed and implemented its regional management model and continuously enhanced its institutional management in the region. It steadily centralised the operations of its Southeast Asian businesses, with most of the regional operations becoming gradually centralised to BOCHK. The Group also accelerated the construction of its regional operation centre in Nanning, China, which effectively enhanced the business development and management capabilities of the Southeast Asian entities. On 1 March 2020, the Jakarta Branch was approved by the Indonesian regulatory authority to upgrade its status to Commercial Bank Based on Business Activities 3. It ranked first among all foreign banks in Indonesia in terms of overall operations in the Indonesian banking industry for two consecutive years, and was once again named Best Foreign Bank of the Year at the 2020 Best Indonesian Business Awards. Moreover, the Jakarta Branch was named Best Robust Foreign Bank in the Indonesia Best Bank Awards 2020 for the first time.

The Group's Southeast Asian entities* recorded steady business growth. As at the end of 2020, deposits from customers and advances to customers amounted to HK$57,289 million and HK$54,080 million respectively, up 1.2% and 7.4% from the end of last year. Amid falling market interest rates, net operating income before impairment allowances amounted to HK$2,501 million, a drop of 10.9% year-on-year. As at the end 2020, the non-performing loan ratio was 1.90%, up 0.39 percentage points from the end of 2019.

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

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

The Group steadily pushed forward the construction of its regional risk management framework by strengthening its Southeast Asian entities' credit risk management capacities. It continuously optimised its rating model for corporate customers and credit approval process so as to improve the efficiency of approval for key projects. It also strengthened its capability in non-performing loan collection and recovery and maintained benign asset quality by enhancing its risk monitoring and alert mechanisms to reduce risks in key industries, key customers and key businesses, and thus minimise new non-performing loans. Moreover, it comprehensively enhanced its Southeast Asian entities' risk management capabilities in market risk, interest rate risk and liquidity risk, while closely monitoring, timely assessing and actively responding to the impact of the pandemic on Southeast Asian markets and its entities. The Group continued to reinforce its risk management infrastructure in all aspects, including compliance, anti-money laundering and anti-fraud, and made use of systems and technical advantages to further strengthen its risk control capabilities.

Digital Transformation Development

The Group is engaged in deepening its application of innovative fintech and accelerating the digitalisation of its business processes so as to improve operational efficiency. Its digital transformation is driven by top-level design, in line with the established Digital Transformation Blueprint of BOCHK and the new IT 3-Year Plan (2019 – 2021). By focusing on the five key digital capabilities of innovation, agility, data application, mobility and regionalisation, it aims to establish three catalysing platforms, namely an intelligent platform, a digital platform and an open platform, to provide a stable, reliable and unified cornerstone for cloud technology and security governance. At the same time, the Group adheres to its customer-centric concept, actively promotes digital transformation processes and strengthens agile and innovative resources support mechanisms, organizational structures and corporate culture. To support digital transformation, it also actively acquired and cultivated innovative fintech talents, with the aim of gradually becoming a digital bank characterised by business ecologies, process digitalisation, intelligent operations, agile project management and cloud computing.

Building business ecologies

The Group actively deepened scenario-based applications and continuously promoted open banking services. Focusing on payment ecology scenarios in government services, transportation, consumer spending, charity and education, the Group launched a QR code payment collection service for the HKSAR Government, allowing it to achieve full coverage of bill payments for water, electricity, gas, rates and tax. It provided an electronic collection service using QR code for a bus company's entire fleet and launched payment services in major restaurants, supermarkets and other chain stores. An e-donation platform, the first of its kind in Hong Kong, was launched to provide solutions for charitable organisations seeking to process day-to-day donations. The Group also launched an ecosystem project, which was a pilot scheme for an e-education platform, partnering with a leading local e-education platform to create its first online lunch ordering scenario for students, which allowed seamless connection to BoC Bill payment service solutions. This project was well received and participated by a number of schools. In terms of e-payment services, the Group's FPS service introduced a direct debit function for batch processing in order to shorten the confirmation time for merchants' payment receivables, and supported the linking of Hong Kong ID cards to bank accounts for payment collections to further improve customer experience. The number of customers with linked accounts increased by 72.8% compared to the end of last year. The Group continued to provide comprehensive fund collection solutions to all kinds of enterprises, charitable organisations and government agencies through BoC Bill, including the use of traditional bank cards, QR codes, FPS and Octopus card services, to cover all industries relating to people's livelihood, with a year-on-year growth of 179.7% in QR code merchant acquiring volume. BoC Bill, together with BoC Pay, continued to support the transformation of industries engaged in livelihood-related payments and to promote the development of cashless payments in Hong Kong. The total number of BoC Pay users increased by 83.4% from the end of last year, while related transaction volumes also recorded a growth of 272% compared to the same period last year. The Group continued to innovate and optimise the BoC Pay customer experience by launching a cross-border P2P transfer function to support instant money transfer and the instant approval of virtual credit cards. At the same time, the Group facilitated cross-sector cooperation to expedite fintech development and opened up access to more than 90 open APIs. It joined hands with three major real estate agencies to launch an online real-time property valuation service and mortgage application service via API. The online real-time property valuation service via API was used over 3 million times up to the end of 2020. The Group also cooperated with two stock quoting platforms to offer cross-platform mobile banking stock trading services for Hong Kong stocks, US stocks and A shares. In addition, new fintech functions such as mobile banking app 5.0, online remote account opening and cardless cash withdrawals were introduced, and the registered users of mobile banking increased by 27.7% year-on-year.

Digitalising processes

To meet rapid growth in customer demand for online transactions, the Group adopted a mobile first strategy by expanding the personal account opening service of its mobile banking to non-BOCHK customers, which significantly shortened transaction times for basic banking services. Its property valuation process was optimised through the application of blockchain technology, which covered 97% of the Group's total property valuations in 2020, an increase of 13 percentage points compared to last year, enhancing customer experience and operational efficiency as well as reducing manpower resources and expenses. The Group constantly upgraded its intelligent Global Transaction Banking Platform (iGTB) with functional enhancements, increased its marketing efforts, and extended its services to the Southeast Asian region, so as to enhance its regional online service capabilities. It also stepped up its efforts to link eTradeConnect, an innovative trade finance platform in Hong Kong, with the trade finance platform of the PBOC, and completed the first batch of blockchain cross-border trade transactions and the first trade financing service with BOC Guangdong Branch and BOC Shenzhen Branch. At the same time, it actively cooperated with third-party platforms in areas such as blockchain for letter of credit and shipping data, so as to promote the deep integration of technology and trade finance and enhance its digitalisation capabilities in trade finance. Robotic process automation ("RPA") was further extended in the handling of middle and back office operational procedures, which effectively automated operational procedures, reduced business processing time and enhanced efficiency.

Moving towards intelligent operations

The Group introduced identity verification technology and continuously optimised facial recognition and optical character recognition ("OCR") technologies. The average pass rate of the facial recognition platform in the second half of the year increased by 2.8% compared to the first half of the year. Enhancements to the OCR system increased the average recognition efficiency rate by 45.5%, improving the efficiency and accuracy of remote account opening. The Group also introduced an electronic account opening application service for SMEs, enhancing account opening efficiency and customer experience. The new generation customer service platform allows an intelligent chatbot to answer customer queries, while constantly enriching the knowledge base, question design and scenario-based design of the intelligent chatbot by analysing customers' questions. More counter transactions at branches can now be performed using finger vein authentication services, which reduces manual verification on signatures and shortens transaction processing times. Artificial intelligence was used to enhance analysis capabilities, driving more precise marketing and higher response rates. The Group introduced an automatic loan approval model for retail SMEs and refined the automatic approval process for qualifying personal residential mortgage loan applications in order to improve approval efficiency. It accelerated the construction of intelligent customer services through intelligent chatbot and online chat services to facilitate the transition of customer services from physical to online. The usage of intelligent chatbot Bonnie has increased rapidly since its launch in December 2019, with customer interactions increasing fivefold in December 2020 as compared to December 2019, further accelerating customer service channel migration. During the year, in line with its business strategies and introduction of large-scale projects, the Group improved application of knowledge in different scenarios for the chatbot that effectively improved both the usage and accuracy of its knowledge base. It also constructed a bank-wide intelligent anti-fraud platform to enhance its capabilities in fraud case detection and remedy, and thus comprehensively strengthen anti-fraud risk management. In addition, it introduced behavioural cyber security defence tools to increase the early warning and response rate of abnormal and new cyber attacks. In response to the pandemic, a secure mobile office solution was introduced to support staff working from home and ensure continued business operations. In line with the Group's regional development strategy, it established a regional document imaging management platform to provide electronic file management for its Southeast Asian entities.

Adopting agile project management

The Group promoted the application of fintech and fully pushed forward the development of an agile mechanism and system. It deepened its agile organisational structure and conducted agile and effective approaches to coordinate, drive and implement innovative projects. The organisation of innovative activities and measures helped to boost employees' creative thinking and accelerated transformation for innovation. The Group established relevant human resources management systems to facilitate agile project operation, agile teams formation and inter-departmental collaborations. To enhance talent acquisition for technological innovation, the Group expanded its recruitment channels to attract talented professionals with expertise in big data and artificial intelligence. It established the Innovation and Digital Academy and launched a series of digital transformation and certified professional training courses to accelerate the development of fintech talent. It also pushed forward the comprehensive development of professional pathways and strengthened the cultivation of professional talent. "Encourage innovative thinking and build an agile culture that is responsive, collaborative and efficient" has been established as one of the key concepts underpinning the Group's corporate culture building efforts. The Group will continue to enhance employees' awareness of digital developments and build up an atmosphere of innovation and agile culture through videos, interviews with internal and external guests and online activities.

Moving towards cloud computing

The Group actively pushed forward the construction of its cloud-based system to expedite its transformation for IT modernisation. During the year, by conducting an in-depth analysis on mature and forward-looking cloud-based technological solutions in the market and integrating this into its development strategy for digital transformation, the Group was able to comprehensively formulated the technological solutions for its cloud-based system, a framework design based on micro-service application and technology enabled operations. The Group also formulated the implementation strategy to gradually migrate various banking services and applications to the cloud, paving the way for the development of a new generation of its enterprise-level IT architecture systems, processes and operational models using a distributed cloud-based platform in the future and forming a foundation for gradually moving towards a modern application architecture and a technological operation model. By continuously deepening the construction of its cloud-based system, it introduced a cloud-based agile development model for rapid, reliable, scalable and continuous delivery of new application services. This in turn will support all business lines in responding to market changes in a quick and agile manner, and boost progress towards meeting customer service requirements and developing open banking that will fully support its digital transformation development strategy.

Launching a virtual bank

Livi Bank Limited ("livi"), a joint venture virtual bank owned by BOC Hong Kong (Holdings) Limited, JD Technology and the Jardine Matheson Group, commenced business on 12 August 2020. Focusing on retail banking business at launch, livi provides a simple digital banking product offering that is secure and designed to address the everyday needs of Hong Kong customers. The livi app has been well received by customers. livi will continue to expand its product and service offering, work with business partners to build its ecosystems that benefit its customers' lifestyles, and introduce new product features to provide convenient, inclusive and smart banking services.

Outlook and Business Focus for 2021

Looking ahead, the global economy is expected to recover in 2021 following the severe recession brought about by the COVID-19 pandemic in 2020. However, overall economic prospects remain largely uncertain, as future growth trends will depend on the development of the pandemic, changes in the monetary and fiscal policy of major countries as well as the prevalence of geopolitical risks. The US economy is expected to rebound with support from an ultra-loose monetary policy and a proactive fiscal policy. The Chinese mainland is expected to maintain its lead in terms of economic recovery, but geopolitical risks may create uncertainty for its economic prospects. The Southeast Asian region will continue to be affected by global trade and market uncertainties. However, the signing of the RCEP agreement will help promote regional economic integration and trade liberalisation, leading to the steady growth of the regional economy. Meanwhile, Hong Kong's economy is expected to rebound in 2021 from the low levels of 2020. In light of the uncertainties arising from the pandemic, the Group will closely monitor changes in the market environment and the impact to its financial performance.

Striving to be customer-centric at all times, the Group will continue to develop the local market by reinforcing its customer base and business foundation in Hong Kong. It will deepen business relationships with the government and local blue-chip companies in a bid to become those client's main bank. The Group will also actively capture policy opportunities in the Guangdong-Hong Kong-Macao Greater Bay Area, actively engage in the development of strategic emerging industries in Shenzhen and tap into the potential of cross-border business. Moreover, it will proactively develop business relationships with Chinese and high-quality local enterprises in Southeast Asia, accelerate the delivery of featured products and services from Hong Kong, and sharpen the competitive advantages of its RMB business. At the same time, the Group will continue to optimise the construction of business ecologies for scenario-based application, in order to improve its personalised customer service capabilities and build an agile digital bank. It will construct an integrated platform for key businesses such as asset management, life insurance, private banking and treasury markets, and enhance its collaboration internally and externally, with the aim of continuously improving its regional integrated service capabilities. It will also strive to push forward the balanced development of its ESG priorities, vigorously promote inclusive finance and fully implement operational efficiency optimisation and cost-saving measures. In addition, the Group will continue to strengthen its risk management, human resources, culture and operating mechanisms in order to provide strong support for the implementation of its business strategies.

Credit Ratings

As at 31 December 2020	Long-term	Short-term
Standard & Poor's	A+	A-1
Moody's	Aa3	P-1
Fitch	A	F1+

Risk Management

Banking Group

Overview

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

Credit risk management

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

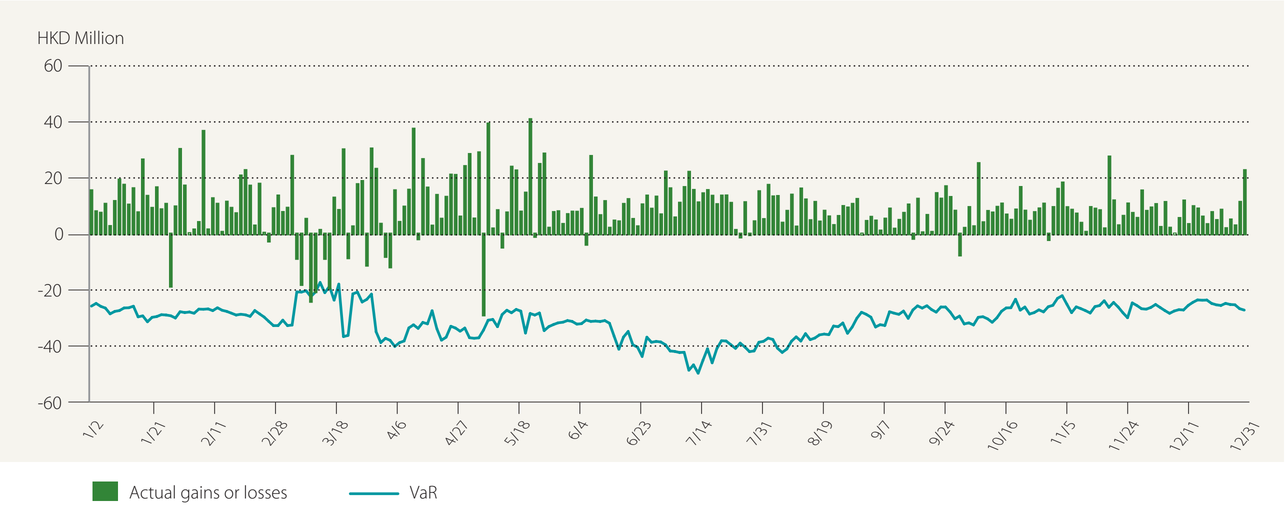
Market risk management

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

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

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

Daily Back-testing in 2020



There were two actual losses exceeding the VaR for the Group in 2020 as shown in the back-testing results. It was mainly due to unexpectedly high market volatility in March 2020 that the model failed to predict.

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, basis risk and option risk. For details of the Group's Interest Rate Risk Management, please refer to Note 4.2 to the Financial Statements.

Liquidity risk management

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

Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal process, people and system, or from external events. The risk is inherent in 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. The Asset and Liability Management Committee ("ALCO") periodically reviews the Group's capital structure and adjusts the capital mix where appropriate to maintain an optimal balance among risk, return and capital adequacy.

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

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 4.4 to the Financial Statements.

Interest rate risk management

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

Liquidity risk management

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

Credit risk management

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

- Default risk associated with bonds, notes and counterparties
- Credit spread widening as a result of credit migration (downgrade)
- Reinsurers' share of 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.

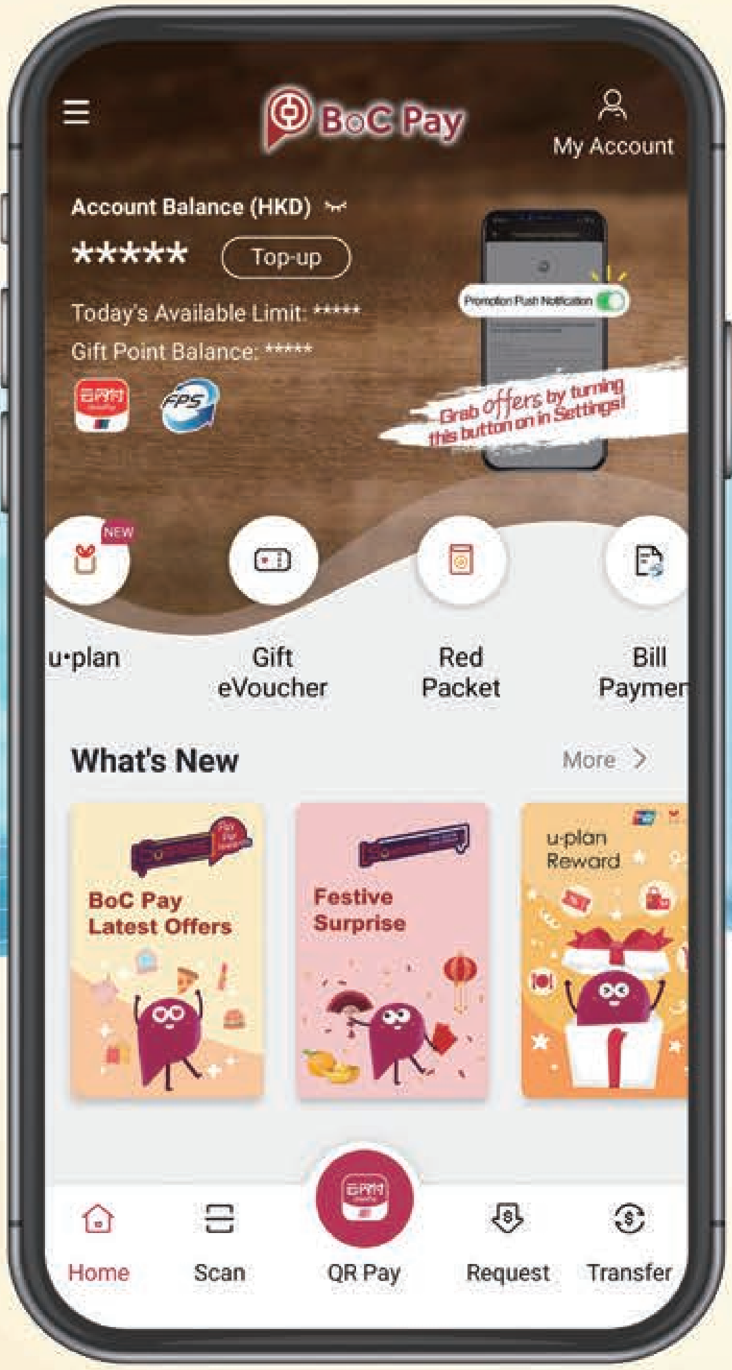
Equity price risk management

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.

New Payment Experience



BoC Pay
Easy-to-use Mobile Payment App

e-Donation Platform

Scan to Pay

Greater Bay Area Account Opening Service

Digital Payment Convenience across Borders

Phone Lai See

Corporate Information

Board of Directors

Chairman

LIU Liange#

Vice Chairman

SUN Yu	(appointment as Non-executive Director effective from 20 March 2020; re-designation as Executive Director and appointment as Vice Chairman effective from 23 December 2020)
WANG Jiang#	(appointment effective from 20 March 2020; resignation effective from 5 February 2021)
GAO Yingxin	(resignation effective from 25 May 2020)

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	(appointment effective from 23 December 2020)
GAO Yingxin	(resignation effective from 25 May 2020)

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	
QIU Zhikun	(resignation effective from 20 October 2020)

Chief Financial Officer

SUI Yang

Deputy Chief Executive

KUNG YEUNG Ann Yun Chi

Company Secretary

LUO Nan

Registered Office

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

Auditor

Ernst & Young
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

Website

www.bochk.com

Board of Directors and Senior Management

DIRECTORS

Mr LIU Liange

Aged 59

Chairman

Board appointments: Mr LIU is currently Chairman of the Board, Non-executive Director and Chairman of the Strategy and Budget Committee of the Company and BOCHK. He has been appointed as Non-executive Director of the Company and BOCHK since December 2018, Vice Chairman of the Company and BOCHK from December 2018 to July 2019 and Chairman of the Company and BOCHK since July 2019.

Positions and experience: Mr LIU has been appointed as Chairman of BOC since 5 July 2019 and was Vice Chairman of BOC from October 2018 to July 2019. He has been Executive Director of BOC since October 2018 and was President of BOC from August 2018 to June 2019. He was also the President of Shanghai RMB Trading Unit of BOC from October 2018 to November 2019. Mr LIU is currently Director of BOC (BVI) and BOCHKG. Prior to joining BOC in 2018, Mr LIU served as Vice Chairman and President of the Export-Import Bank of China from July 2015 to June 2018. Mr LIU served as Vice President of the Export-Import Bank of China from March 2007 to February 2015. He also served as Director of the African Export-Import Bank from September 2007 to February 2015, Chairman of the Board of Supervisors of Sino-Italian Mandarin Capital Partners from March 2009 to June 2015, and Chairman of the Board of Directors of Regional Credit Guarantee and Investment Facility (Asia) from March 2014 to May 2015. Mr LIU worked in the People's Bank of China for many years, and successively served as Deputy Director-General of the International Department of the People's Bank of China, President of the Fuzhou Central Sub-branch of the People's Bank of China and Director of the Fujian Branch of the State Administration of Foreign Exchange, Director General of the Anti-Money Laundering Bureau (the Security Bureau) of the People's Bank of China.

Qualifications: Mr LIU graduated from Graduate School of the People's Bank of China and received a Master's Degree in Economics in 1987. He holds the title of Senior Economist.

Mr SUN Yu

Aged 48

Vice Chairman and Chief Executive

Board appointments: Mr SUN has been re-designated as Executive Director and appointed as Vice Chairman and Chief Executive of the Company and BOCHK since December 2020. He is a member of each of the Strategy and Budget Committee and the Sustainability Committee. Prior to the re-designation, Mr SUN was a Non-executive Director and a member of the Risk Committee of the Company and BOCHK from March 2020 to December 2020.

Positions and experience: Mr SUN joined BOC in 1998. He served as the Executive Vice President of BOC from February 2019 to December 2020, and as Chief Overseas Business Officer of BOC from September 2018 to February 2019. From March 2015 to November 2018, Mr SUN served as General Manager of London Branch of BOC, CEO of Bank of China (UK) Limited, and also served as General Manager of London Trading Center of BOC from December 2015 to November 2018. Mr SUN previously served as Director of Global Financial Markets Department, Director of Financial Markets Unit (Client Business), Director of Financial Markets Unit (Securities Investments) and Deputy General Manager of the Shanghai Branch of BOC. He served as General Manager of Global Markets of BOCHK from July 2012 to December 2014. He served as Chairman of the Board of Directors of BOC Aviation Limited (listed in Hong Kong) from February 2019 to December 2020, President of Shanghai RMB Trading Unit of BOC from November 2019 to December 2020 and General Manager of Beijing Branch of BOC from December 2019 to December 2020.

Mr SUN holds other roles with the group currently, including Director of Bank of China (UK) Limited since March 2015, Chairman of the Board of Directors of Bank of China (UK) Limited since December 2018, Chairman of BOC Insurance (International) Holdings Company Limited and Chairman of BOCHK Charitable Foundation since December 2020, and Chairman of BOC Life since February 2021.

Mr SUN also holds a number of public offices in Hong Kong. He serves as Chairman of the Chinese Banking Association of Hong Kong, and sits on the Exchange Fund Advisory Committee, the Banking Advisory Committee, the Council of Treasury Markets Association, the General Committee of the Hong Kong General Chamber of Commerce, and the Belt and Road and Greater Bay Area Committee of the Hong Kong Trade Development Council. He is also Director of both Hong Kong Interbank Clearing Limited and Hong Kong Note Printing Limited, as well as Vice President of the Hong Kong Institute of Bankers, etc.

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

Mr LIN Jingzhen

Aged 55

Non-executive Director

Board appointments: Mr LIN was appointed as Non-executive Director of the Company and BOCHK in August 2018. He is a member of the Strategy and Budget Committee.

Positions and experience: Mr LIN is Executive Vice President of BOC since March 2018 and Executive Director of BOC since February 2019. He joined BOC in 1987. Mr LIN served as Deputy Chief Executive of the Company and BOCHK from May 2015 to January 2018. He served as General Manager of Corporate Banking Department from March 2014 to May 2015 and General Manager (Corporate Banking) of the Corporate Banking Unit of BOC from October 2010 to March 2014. He previously served as Deputy General Manager of Corporate Banking Department and Deputy General Manager of Corporate Banking Unit of BOC. Mr LIN served as Chairman of the Board of Directors of BOCI from April 2018 to December 2020. He has been serving as Chairman of BOC International (China) Co, Ltd (listed in Shanghai) since May 2018.

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

Mdm CHENG Eva

Aged 60

Independent Non-executive Director

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

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

Qualifications: Mdm CHENG holds a Bachelor's Degree in Social Sciences from University of Hong Kong.

Dr CHOI Koon Shum

Aged 63

Independent Non-executive Director

Board appointments: Dr CHOI was appointed as Independent Non-executive Director of the Company and BOCHK in June 2016. He is Chairman of the Nomination and Remuneration Committee and a member of each of the Strategy and Budget Committee and the Sustainability Committee.

Positions and experience: Dr CHOI is Chairman of Sunwah Group, Sunwah International Limited (listed in Toronto), Sunwah Kingsway Capital Holdings Limited (listed in Hong Kong) and Vietnam VinaCapital. He is also Independent Non-executive Director of Hui Xian Asset Management Limited, the Manager of Hui Xian Real Estate Investment Trust (listed in Hong Kong). Dr CHOI has extensive experience in food industry, real estate development, international trade as well as technology and finance related business.

Dr CHOI is a Standing Committee Member of the National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China. He also holds a number of public positions including Honorary President of the Chinese General Chamber of Commerce in Hong Kong, Standing Committee Member of the All-China Federation of Industry and Commerce, Chairman of Guangdong-HK-Macao Bay Area Entrepreneurs Union, Chairman of Professional Services Advancement Support Scheme Vetting Committee of the HKSAR Government, Chairman of The Advisory Committee on Agriculture and Fisheries of the HKSAR Government, Economic Advisor to the President of the Chinese Academy of Sciences, Founding Patron and Senior Advisor to the President of the Academy of Sciences of Hong Kong, Executive Director of the China Overseas Friendship Association, Council Member of the Hong Kong Trade Development Council, Founding Chairman of the Hong Kong-Vietnam Chamber of Commerce, Founding Chairman of the Hong Kong-Korea Business Council, Honorary Ambassador of Foreign Investment Promotion for the Republic of Korea, Chairman of the China-India Software Association, Chairman of the China Hong Kong Israel Technology Cooperation and Promotion Center and Chairman of the US-China Center for Research on Educational Excellence of the Michigan State University. Dr CHOI is a Court or Council Member of a number of universities including the Fudan University, the Nanjing University, United College of the Chinese University of Hong Kong and the Hong Kong Polytechnic University.

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

Mr KOH Beng Seng

Aged 70

Independent Non-executive Director

Board appointments: Mr KOH was appointed as Independent Non-executive Director of the Company and BOCHK in March 2006. He is Chairman of the Risk Committee and a member of each of the Audit Committee, the Nomination and Remuneration Committee and the Sustainability Committee.

Positions and experience: Mr KOH is currently Chief Executive Officer of Octagon Advisors Pte Ltd, a business and management consulting company based in Singapore. He is also Non-executive Chairman of Great Eastern Holdings Limited and Non-executive Director of Oversea-Chinese Banking Corporation Limited, both listed in Singapore. Mr KOH was formerly Director of Sing Han International Financial Services Limited and Hon Sui Sen Endowment CLG Limited. He was also Independent Non-executive Director of Singapore Technologies Engineering Ltd and United Engineers Limited, companies listed in Singapore. Mr KOH was Deputy President of United Overseas Bank ("UOB") and a member of UOB's Executive Committee from 2000 to 2004. During this period, he was in charge of UOB's operations, delivery channels, information technology, corporate services, risk management and compliance functions. Prior to that, Mr KOH has spent over 24 years at the Monetary Authority of Singapore where he made significant contributions to the development and supervision of the Singapore financial sector in his capacity as Deputy Managing Director, Banking & Financial Institutions Group. He has also served as Director of Chartered Semiconductor Manufacturing and as part-time adviser to the International Monetary Fund.

Qualifications: Mr KOH holds a Bachelor's Degree in Commerce from Nanyang University in Singapore and a Master's Degree in Business Administration from Columbia University in the United States.

Mr LAW Yee Kwan Quinn

Aged 68

Independent Non-executive Director

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

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

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

Mr TUNG Savio Wai-Hok

Aged 69

Independent Non-executive Director

Board appointments: Mr TUNG was appointed as Independent Non-executive Director of the Company and BOCHK in December 2005. He is Chairman of the Audit Committee and a member of each of the Nomination and Remuneration Committee, the Risk Committee, the Strategy and Budget Committee and the Sustainability Committee.

Positions and experience: Mr TUNG is currently Chairman of Investcorp Technology Partners and Senior Advisor of Investcorp. He previously served as Chief Investment Officer of Investcorp, and is one of the founding partners of Investcorp. Mr TUNG served as Director and a member of the Compensation Committee of Tech Data Corporation, a company previously listed on NASDAQ, until his resignation in June 2020. Before joining Investcorp in 1984, he worked for Chase Manhattan Bank for about 11 years, holding various positions in its front, middle and back offices and served in its offices in New York, Bahrain, Abu Dhabi and London. Mr TUNG has served on the boards of many of Investcorp portfolio companies, including Club Car, Circle K, Saks Fifth Avenue, Simmons Mattresses, Star Market, and Stratus Computer. He is also a board member and treasurer of the Aaron Diamond AIDS Research Center, an affiliate of Columbia University. Mr TUNG is a trustee emeritus and a member of the Columbia University Medical Center Board of Visitors.

Qualifications: Mr TUNG holds a BSc in Chemical Engineering from Columbia University of New York.

SENIOR MANAGEMENT

Mdm JIANG Xin

Aged 50

Chief Risk Officer

Mdm JIANG joined the Group in 2021. She is Chief Risk Officer of the Group, overseeing the Group's overall risk control and management, and BOCHK's Risk Management Department. Prior to joining the Group, Mdm JIANG was General Manager of Corporate Banking Department of BOC. Mdm JIANG joined BOC in 1993 and had held various positions including General Manager of e-Banking Department, General Manager of Channel Management Department, and General Manager of Qingdao Branch. Mdm JIANG has extensive experience in the financial industry with solid professional knowledge and an international vision. Mdm JIANG graduated from Sun Yat-sen University with a Bachelor's Degree in International Trade. She also obtained a Master's Degree in Business Administration at the University of Cambridge in the UK.

Mdm WANG Qi

Aged 58

Deputy Chief Executive

Mdm WANG joined the Group in 2018. She is Deputy Chief Executive of the Group, overseeing the Legal & Compliance and Operational Risk Management Department, as well as Financial Crime Compliance Department. Mdm WANG is also Director of BOC Life. Prior to joining the Group, she was General Manager and Chief Compliance Officer of Internal Control, Legal and Compliance Department of BOC. Mdm WANG has held various positions in BOC since she joined BOC in 1984. She served as Deputy General Manager of Legal Affairs Department, General Manager of Legal and Compliance Department, General Manager (Operational Risk Management) of Risk Management Department, and General Manager of Internal Control Department, etc. Mdm WANG has an international vision, a solid legal and compliance professional background as well as extensive management experience. Mdm WANG graduated from Peking University with a Bachelor's Degree in Economic Law. She also obtained a Master's Degree in Banking and Financial Development at the University of Pavia in Italy. She is an arbitrator of China International Economic and Trade Arbitration Commission (CIETAC).

Mr YUAN Shu

Aged 58

Deputy Chief Executive

Mr YUAN joined the Group in 2015. He is Deputy Chief Executive of the Group in charge of the financial market business, including Global Markets, Investment Management, Asset Management and other capital market-related businesses. He is Chairman of BOCHK Asset Management Limited and Director of BOC Insurance (International) Holdings Company Limited. Mr YUAN has over 30 years of experience in the industry with solid professional expertise and management experience. He has held different positions in the financial market businesses at Head Office and in various overseas branches of BOC. Mr YUAN joined the Trading Department of BOC in 1983, then held positions in the Paris and Tokyo branches, as well as the Trading Department and Global Financial Markets Department of BOC Head Office. Mr YUAN was Director (Trading) of the Global Financial Markets Department in 2006 and was promoted to General Manager (Trading) of the Financial Markets Unit in 2010. Prior to joining the Group as Deputy Chief Executive (Financial Markets) in November 2015, he served as General Manager of the Hong Kong Branch, BOC. Mr YUAN graduated from Renmin University of China majoring in International Finance.

Mr ZHONG Xiangqun

Aged 51

Chief Operating Officer

Mr ZHONG joined the Group in 2015. He is Chief Operating Officer of the Group, overseeing the Bank-wide Operation Department, Information Technology Department, Innovation and Optimisation Centre and Corporate Services Department. He is also Chairman of Livi Bank Limited and Director of BOCCC. Prior to joining the Group, Mr ZHONG served as General Manager of E-Finance Department of BOC in charge of the development of e-finance business, covering mobile payment, e-business, e-financing and big data application. Joining BOC in 1994, Mr ZHONG has held management positions in Information Technology Department, Personal Banking Unit, Card Centre and Innovation & Development Department, etc. He was Director of China UnionPay and a member of China Financial Standardisation Technical Committee. Mr ZHONG has solid expertise in information technology and cyber security as well as practical business experience. Mr ZHONG graduated from Peking University with a Bachelor's Degree in Information Science specialised in Software and a Master's Degree in Applied Mathematics.

Mr WANG Bing

Aged 49

Deputy Chief Executive

Mr WANG joined the Group in 2018. He is Deputy Chief Executive of the Group, overseeing Global Corporate Banking Department, Commercial Banking Department, Institutional Business Department, Transaction Banking Department, Custody and Trust Services, as well as the Southeast Asia Business. He is Director and Chairman of BOCI-Prudential Trustee as well as BOC Group Trustee Company Limited. Prior to joining the Group, Mr WANG served as General Manager of Jiangsu Branch of BOC. Since joining BOC in 1996, Mr WANG has held management positions in various institutions including Suzhou, Ningbo and Jiangsu branches. He served as Deputy General Manager of Jiangsu Branch and General Manager of Ningbo Branch, etc. He is innovative with sound professional capabilities in corporate banking as well as extensive business and management experience. Mr WANG graduated from Soochow University with a Bachelor's and Master's Degree in English. He also obtained a Master's Degree in Business Administration at the City University of London in the UK.

Mdm SUI Yang

Aged 47

Chief Financial Officer

Mdm SUI joined the Group in 2014. She is Chief Financial Officer of the Group, overseeing Financial Management Department, General Accounting and Accounting Policy Department, Treasury, as well as the Economics & Strategic Planning Department. Prior to joining the Group, Mdm SUI served as Deputy General Manager of Financial Management Department of BOC. She joined BOC in April 1997 and assumed various positions in Finance & Accounting Department of BOC including Assistant General Manager of Management Information System ("MIS") Centre and Finance & Accounting Department of BOC from August 2006 to March 2007, Assistant General Manager of MIS Centre of BOC from March 2007 to September 2008 and Deputy General Manager of MIS Centre of BOC from September 2008 to March 2011. Mdm SUI possesses extensive knowledge and experience in financial management. She obtained a Bachelor's Degree and a Master's Degree in Economics from the Central University of Finance & Economics (formerly the Central Institute of Finance and Banking), as well as a PhD Degree in Finance from Southwestern University of Finance and Economics. Mdm SUI is a member of the Chinese Institute of Certified Public Accountants.

Mrs KUNG YEUNG Ann Yun Chi

Aged 58

Deputy Chief Executive

Mrs KUNG joined the Group in 2007. She is Deputy Chief Executive of the Group in charge of Personal Banking and Wealth Management Department, Personal Digital Banking Product Department, Private Banking, BOCCC, Personal Banking Risk and Integrated Management Department as well as BOC Life. She is also Chairman of BOCCC and Director of BOC Insurance (International) Holdings Company Limited and BOC Life. Mrs KUNG joined BOCHK as Head of Channel Management in August 2007. She was appointed as Head of Personal Banking in April 2011, and was promoted to her current role in March 2015. Prior to joining the Group, Mrs KUNG had held various senior positions in Standard Chartered Bank (Hong Kong) Limited. With over 30 years of experience in the industry, Mrs KUNG possesses extensive knowledge in personal banking and a strong background in financial services. Mrs KUNG graduated from the University of Southern California in the United States of America where she obtained her Bachelor of Science Degree in Business Administration with a concentration in Accounting. In addition to business pursuits, Mrs KUNG plays an active role in the business community and public service in Hong Kong.

Report of the Directors

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2020.

Principal Activities

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

Business Review

For business review of the Group for the year, please refer to "Message from the Chairman", "Message from the Chief Executive", "Management Discussion and Analysis", "Corporate Governance" and "Sustainable Development" sections.

Results and Appropriations

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

The Board has recommended a final dividend of HK$0.795 per share, amounting to approximately HK$8,405 million, subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on Monday, 17 May 2021 (the "2021 AGM"). If approved, the final dividend will be paid on Thursday, 3 June 2021 to shareholders whose names appear on the Register of Members of the Company on Thursday, 27 May 2021. Together with the interim dividend of HK$0.447 per share declared in August 2020, the total dividend payout for 2020 would be HK$1.242 per share.

Closure of Register of Members for Entitlement to Attend and Vote at Annual General Meeting

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to attend and vote at the 2021 AGM, from Tuesday, 11 May 2021 to Monday, 17 May 2021 (both days inclusive), during which period no transfer of shares will be registered. In order to attend and vote at the 2021 AGM, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Monday, 10 May 2021. The 2021 AGM will be held at 2:00 p.m. on Monday, 17 May 2021.

Closure of Register of Members for Entitlement to Final Dividend

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to the proposed final dividend, from Monday, 24 May 2021 to Thursday, 27 May 2021 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Friday, 21 May 2021. Shares of the Company will be traded ex-dividend as from Thursday, 20 May 2021.

Donations

Charitable and other donations made by the Group during the year amounted to approximately HK$80 million.

Note: These donations do not include the donations and sponsorships made by BOCHK Charitable Foundation ("the Foundation". For details, please refer to the "Sustainable Development" section). The Foundation is a separate legal entity established in Hong Kong and is a charitable institution exempt from tax under the Inland Revenue Ordinance.

Shares Issued

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

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

Distributable Reserves

Distributable reserves of the Company as at 31 December 2020, calculated under Part 6 of the Hong Kong Companies Ordinance, amounted to approximately HK$16,421 million.

Five-year Financial Summary

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

Directors

The list of Directors of the Company is set out on page 54. The biographical details of the Directors and senior management are set out on pages 55 to 63. The term of office for each Non-executive Director is approximately three years.

Mr SUN Yu was appointed as Non-executive Director effective from 20 March 2020, re-designated from Non-executive Director to Executive Director and appointed as Vice Chairman and Chief Executive effective from 23 December 2020. Mr WANG Jiang was appointed as Vice Chairman and Non-executive Director effective from 20 March 2020 and resigned effective from 5 February 2021. Mr GAO Yingxin resigned as Executive Director, Vice Chairman and Chief Executive effective from 25 May 2020. The Board would like to express its sincere gratitude and the highest respect to Mr WANG Jiang and Mr GAO Yingxin for their valuable contributions during their tenure of office.

In accordance with Article 98 of the Articles of Association and pursuant to Code Provision A.4.2 of the Corporate Governance Code, the terms of office of Mr LIN Jingzhen, Dr CHOI Koon Shum and Mr LAW Yee Kwan Quinn will expire at the 2021 AGM. All the retiring Directors, being eligible, will offer themselves for re-election at the 2021 AGM.

A full list of the names of the directors of the Company's subsidiaries during the year ended 31 December 2020 is kept at the Company's registered office.

Directors' Service Contracts

No Director offering for re-election at the 2021 AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation other than the normal statutory compensation.

Directors' Interests in Transactions, Arrangements or Contracts

No transactions, arrangements or contracts of significance, in relation to the Group's business to which the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Interests in Competing Business

Mr LIU Liange and Mr LIN Jingzhen are Executive Directors of BOC. During the year, Mr WANG Jiang was Executive Director of BOC and Mr SUN Yu was Executive Vice President of BOC.

BOC is a joint stock commercial bank with limited liability, established under the laws of the PRC, providing a full range of commercial banking and other financial services through its associates throughout the world. Certain of the Group's operations overlap with and/or are complementary to those of BOC and its associates. To the extent that BOC or its associates compete with the Group, the Directors believe that the Group's interests are adequately protected by good corporate governance practices and the involvement of the Independent Non-executive Directors.

Further, the Board's Mandate also expressly provides that unless permissible under applicable laws or regulations, if a substantial shareholder or a Director has a conflict of interest in the matter to be considered by the Board, the matter shall not be dealt with by way of written resolutions, but a Board meeting attended by the Independent Non-executive Directors who have no material interest in the matter shall be held to deliberate on the same.

Save as disclosed above, none of the Directors is interested in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

Directors' Rights to Acquire Shares

At no time during the year was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' and Chief Executive's Interests in Shares, Underlying Shares and Debentures

As at 31 December 2020, 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:

	Number of shares/underlying shares held				Approximate % of the total issued shares
Name of Director	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)

	Number of shares/underlying shares held				Approximate % of the total issued H shares
Name of Director	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 31 December 2020, none of the Directors, Chief Executive or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Interest of Substantial Shareholders

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 31 December 2020, the following parties had the following interests (as defined in the SFO) in the Company set opposite their respective names:

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

Notes:

1. Following the reorganisation of BOC in August 2004, Central Huijin holds the controlling equity capital of BOC on behalf of the State. Accordingly, for the purpose of the SFO, Central Huijin is deemed to have the same interests in the Company as BOC.
2. BOC holds the entire issued shares of BOCHKG, which in turn holds the entire issued shares of BOC (BVI). Accordingly, BOC and BOCHKG are deemed to have the same interests in the Company as BOC (BVI) for the purpose of the SFO. BOC (BVI) beneficially held 6,984,175,056 shares of the Company.
3. BOC holds the entire issued shares of BOCI, which in turn holds the entire issued shares of BOCI Asia Limited and BOCI Financial Products Limited. Accordingly, BOC is deemed to have the same interests in the Company as BOCI Asia Limited and BOCI Financial Products Limited for the purpose of the SFO. BOCI Asia Limited had an interest in 24,479 shares of the Company and an interest in 72,000 shares held under physically settled equity derivatives while BOCI Financial Products Limited had an interest in 2,678 shares of the Company.

All the interests stated above represented long positions. Apart from the disclosure above, according to the register maintained by the Company pursuant to section 336 of the SFO, BOCI Financial Products Limited had an interest in 143,522 shares which represented short positions. BOC and Central Huijin are deemed to be interested in such number of shares for the purpose of the SFO. Save as disclosed, no other interests or short positions were recorded in the register maintained by the Company under section 336 of the SFO as at 31 December 2020.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Equity-linked Agreements

No equity-linked agreements were entered into by the Company during the year or subsisted at the end of the year.

Permitted Indemnity Provision

Pursuant to the Articles of Association, every Director shall be indemnified out of funds of the Company against all liabilities incurred by him/her to the extent permitted by the Hong Kong Companies Ordinance. The Company has maintained insurance for the benefit of the Directors against liability which may lawfully be insured by the Company.

Purchase, Sale or Redemption of the Company's Shares

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

Major Customers

During the year, the five largest customers of the Group accounted for less than 30% of the total of interest income and other operating income of the Group.

Connected Transactions

The Independent Non-executive Directors have reviewed the transactions which the Company disclosed in a public announcement on 23 December 2019 and confirmed that these transactions were:

(i) entered into in the ordinary and usual course of business of the Group;

(ii) conducted on normal commercial terms or better; and

(iii) entered into according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In accordance with paragraphs 14A.56 and 14A.71(6)(b) of the Listing Rules, the Board of Directors engaged the auditor of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the above continuing connected transactions. In accordance with paragraph 14A.57 of the Listing Rules, a copy of the auditor's letter has been provided by the Company to the Stock Exchange of Hong Kong.

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

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

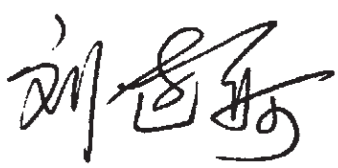
Auditor

The financial statements for the year 2020 have been audited by Messrs Ernst & Young ("EY").

EY will retire as auditor of the Company upon expiration of its current term of office at the close of the 2021 AGM to be held on Monday, 17 May 2021.

On 29 October 2020, the Board resolved to propose the appointment of Messrs PricewaterhouseCoopers as the new auditor of the Company to fill the vacancy immediately following the retirement of EY and to hold office until the conclusion of the next forthcoming annual general meeting of the Company, subject to the approval of the shareholders of the Company at the 2021 AGM.

On behalf of the Board



LIU Liange
Chairman
Hong Kong, 30 March 2021

Corporate Governance

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

The Company has been in full compliance with all code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules. The Company also complies with nearly all the recommended best practices set out in the Corporate Governance Code. In particular, the Company publishes quarterly financial and business reviews within one month after the end of the relevant quarter so that shareholders and investors can be kept up to date of the performance, financial positions and prospects of the Company on a timely basis.

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

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

Corporate Governance Policy

Policy Statement

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

Essential Principles

(1) Eminent Board

Authority	The Board is responsible for supervising the management of the business and affairs of the Group with due regard to maximising shareholder value and enhancing corporate governance standard of the Group. The Board is obliged to act honestly and in good faith and to make decisions objectively in the best interests of the Group and its shareholders as a whole.
Structure	The Company is led by a high caliber Board with strong representation of Independent Non-executive Directors. The Board has a well-balanced composition of the Executive Directors, Non-executive Directors and Independent Non-executive Directors. Both the number and percentage of Independent Non-executive Directors are well above the requirements set by relevant rules and regulations. All Directors are eminent individuals from diverse disciplines with extensive professional experience and are able to make objective judgement.
Roles of the Chairman and the Chief Executive	In order to promote balance of power, the roles of the Chairman and the Chief Executive are segregated. The Company benefits from the segregation as the Chairman can focus on leading the Board and monitoring corporate governance and shareholder issues, while the Chief Executive leads the Management to perform the day-to-day operations and affairs of the Company.
Board Committees	The Board has established five standing Board Committees which are delegated with different responsibilities to assist the Board in performing its duties. They are Audit Committee, Nomination and Remuneration Committee, Risk Committee, Strategy and Budget Committee as well as Sustainability Committee. Most of them are composed of a majority of Independent Non-executive Directors. Each of the Board Committees has a well-defined mandate with the roles and responsibilities delineated therein. The performance and effectiveness of these standing Board Committees are evaluated annually with a view to making further enhancement. Other Board Committees like Independent Board Committee and Search Committee will be formed as and when required under the appropriate circumstances.

(2) Prudent Risk Management

The Board recognises the need for risk control and management being a vital component of the business of the Group. The Board formulates and oversees the risk management strategies, and the related framework and policies with the assistance of the Risk Committee and other relevant Board Committee(s). The Management performs the daily risk management responsibilities of the Group under the guidance of the Risk Committee.

(3) Fair Remuneration System

The Company ensures that Directors' remuneration should be appropriate and reflect their duty and responsibility to fulfil the expectations of the shareholders and meet regulatory requirements. Directors' fees are subject to the approval of the shareholders. The Board, based on the recommendations of the Nomination and Remuneration Committee which is mainly responsible for ensuring the fairness and reasonableness of the overall human resources and remuneration strategies, approves the remuneration policies of the Group. No Director shall be involved in deciding his or her own remuneration.

(4) Effective Disclosure Mechanism

The Board reviews and monitors from time to time the effectiveness of the Group's disclosure process for reports, announcements and inside information. It encourages and takes necessary steps to disclose information in a timely manner and to ensure the information concerning the Group is expressed and communicated in a clear and objective manner that enables the shareholders and the public to appraise the position of the Group to make informed investment decisions.

(5) Upholding Shareholders' Rights

The Board respects the rights of shareholders as mandated by the articles of association of the Company (the "Articles of Association") and relevant applicable laws and regulatory requirements. The Board places utmost importance on maintaining effective communications with shareholders and also makes its best efforts to keep the shareholders informed of the business and affairs of the Company by maintaining various channels of communications and having direct dialogue with shareholders.

In addition, the shareholders also have the rights to obtain all publicly available information of the Company, propose a resolution at annual general meetings, nominate a person for election as a director, and make enquiries about the Company.

(6) Safeguarding Stakeholders' Interests

The Board has a fiduciary duty to protect and serve, with due care and consideration of, the interest of all stakeholders of the Company including but not limited to employees, customers, business partners, suppliers, regulators and the community. All the interests of stakeholders of the Company are further safeguarded by strictly complying with applicable laws and regulations as well as governance policies.

(7) Promoting Sustainability

The Company attaches great importance to sustainability. The Board is committed to undertaking corporate social responsibility and promoting the sustainable development of the economy, society and environment through strengthening relationship with its stakeholders. The Company consistently supports and participates in various activities that are conducive to sustainability, with a view to benefitting the current and next generations.

(8) Pursuit of "Good to Great"

The Board encourages the pursuit of "Good to Great". With the assistance of the Nomination and Remuneration Committee, the Board ensures that each Board Committee shall conduct regular self-assessment of its effectiveness, and based on the evaluation results, the Board gives such feedback, directions and guidance as may be necessary to enhance its efficiency and effectiveness.

Policy Goal

The Board and the senior management of the Company are responsible for adhering to the corporate governance principles and executing this policy. The Company seeks to manage its business in accordance with the well-defined corporate governance principles which provide a solid governance framework for excellent performance and sustainable growth.

Corporate Governance Framework

Responsibilities of the Board and the Management

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

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

Five physical Board meetings were held during the year. Major agenda items reviewed and approved included important matters such as the Group's strategies, business plans, financial budget, disclosure of financial results, sustainability policy and report, risk management and internal controls, as well as change in external auditor. The Board also discussed the preventive measures taken by the Company in response to the COVID-19 pandemic, the impacts on operation and business, the financial support initiatives launched to help enterprises navigate through the economic difficulties and the charitable works done. Besides physical meetings, the Board also approved written resolutions on certain matters, including changes of directors and senior management, relevant matters regarding the governance of the Sustainability Committee, and the precautionary measures for the general meetings held in 2020 in response to the applicable social distancing requirements. Supporting explanatory materials accompanying the written resolutions were sent to Directors to facilitate their understanding of the matters and assist them to make informed decisions.

During the year, the Board reviewed and approved amendments made to certain corporate governance related policies and procedures so as to align with the latest changes in regulatory requirements. The Board also reviewed the Company's compliance with the Corporate Governance Code and the disclosure in the Corporate Governance Report contained in the 2019 Annual Report.

Directors are entitled to seek, at the Group's expense, independent professional advice reasonably necessary for discharging their duties as Directors. The Company Secretary will make necessary arrangements when the Directors wish to seek such independent professional advice.

The Board authorises the Management to implement the strategies as approved by the Board. The Management is responsible for the day-to-day operations of the Group and reports to the Board. For this purpose, the Board has formulated clear written guidelines which stipulate the circumstances where the Management should report to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will conduct regular review on these authorisation and guidelines.

Roles of the Chairman and the Chief Executive

To avoid concentration of power in any single individual, the positions of the Chairman and the Chief Executive of the Company are held by two different individuals. Their roles are distinct, clearly established and stipulated in the Board's Mandate.

The Chairman is responsible for ensuring that the Board properly discharges its responsibilities and conforms to good corporate governance practices and procedures. In addition, as the Chairman of the Board, he is also responsible for ensuring that all Directors are properly briefed on all issues currently on hand, and that all Directors receive adequate, accurate and reliable information in a timely manner.

The Chief Executive is responsible for providing leadership for the whole management and implementing important policies and development strategies as adopted by the Board. Led by the Chief Executive, the Management Committee fulfils responsibilities including management of the Group's routine operation, implementation of business development strategies and realisation of the Group's long-term targets and strategies.

Board Committees

Taking into consideration the latest regulatory requirements, guidelines as well as market practices and international best practices, the Board has established five standing Board Committees to assist in performing its responsibilities, namely the Audit Committee, the Nomination and Remuneration Committee, the Risk Committee, the Strategy and Budget Committee and the Sustainability Committee. In addition, the Board will authorise an Independent Board Committee comprising all the Independent Non-executive Directors as and when required to review connected transactions (including continuing connected transactions) and make recommendations in accordance with relevant rules and regulations.

Each of the Board Committees has a well-defined Mandate and makes recommendations to the Board on relevant matters within its scope of responsibilities or makes decisions under appropriate circumstances in accordance with the power delegated by the Board. All Board Committees are assigned a professional secretarial department which ensures that the Board Committees have adequate resources to perform their duties effectively and properly. All Board Committees adopt the same governance process as the Board as far as possible and report regularly to the Board on their decisions and their recommendations. The Board and Board Committees will participate in the annual performance appraisal of those professional secretarial departments to warrant and enhance the services provided and ensure that adequate and efficient supports are provided to the Board and Board Committees. In addition, according to their respective Mandates, the Board and each of the Board Committees will evaluate and review their work process and effectiveness annually, with a view to identifying areas for further improvements.

The following chart sets out the Company's corporate governance framework:

Details including the Company's corporate governance principles and framework adopted by the Board, the composition of the Board and each of the Board Committees and their respective Mandates, Corporate Governance Policy, Shareholder Communication Policy and Information Disclosure Policy are available under the sub-section "Corporate Governance" of the section headed "About Us" on the Company's website at www.bochk.com.

Board of Directors

Composition and Terms of Office of the Board

As at the date of this Annual Report, the Board is composed of eight Directors, of whom one is Executive Director, two are Non-executive Directors and five are Independent Non-executive Directors. The Board maintains an appropriate level of checks and balances to ensure independence and objectivity of the decisions of the Board, as well as the impartial oversight of the Management. The Board acts honestly and in good faith so that decisions are made objectively and in the best interests of the Group with a view to delivering long-term and maximum shareholder value and fulfilling its corporate responsibility to other stakeholders of the Group.

Mr SUN Yu was (i) appointed as Non-executive Director and a member of the Risk Committee with effect from 20 March 2020; and (ii) re-designated from Non-executive Director to Executive Director, appointed as Vice Chairman and Chief Executive, as well as a member of each of the Strategy and Budget Committee and the Sustainability Committee, and ceased to be a member of the Risk Committee with effect from 23 December 2020. Mr WANG Jiang was appointed as Vice Chairman, Non-executive Director and a member of each of the Nomination and Remuneration Committee and the Strategy and Budget Committee with effect from 20 March 2020, and resigned from all the said positions with effect from 5 February 2021. Mr GAO Yingxin resigned as Executive Director, Vice Chairman and Chief Executive, as well as a member of each of the Strategy and Budget Committee and the Sustainability Committee with effect from 25 May 2020. Save as disclosed above, there are no other changes to the composition of the Board and Board Committees during the year and up to the date of this Annual Report.

All Non-executive Directors and Independent Non-executive Directors of the Company have been appointed for a fixed term of approximately three years, with formal letters of appointment setting out the key terms and conditions of their appointment. In accordance with Article 98 of the Articles of Association and pursuant to Code Provision A.4.2 of the Corporate Governance Code, the terms of office of Mr LIN Jingzhen, Dr CHOI Koon Shum and Mr LAW Yee Kwan Quinn will expire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Further details regarding the proposed re-election of Directors are set out in the section headed "Report of the Directors". In addition, the Company has also established a written and formal process for the appointment of the Independent Non-executive Directors to ensure that the appointment procedures are standardised, thorough and transparent.

Selection and Nomination of Board Members

The Company has in place relevant policies on the nomination of Board members. The Nomination and Remuneration Committee shall take into account the existing composition of the Board and the business requirements of the Group, follow the board diversity, independence of directors and other relevant supervisory and policy requirements and be responsible for the identification, selection and nomination of Board members.

The Company recognises the importance and benefits of board diversity. In order to promote the Board's effectiveness and standards of corporate governance, the Company has adopted the "Board Diversity Policy" which will be considered in identifying suitable and qualified candidates to be a Board member. The said policy provides that in designing the Board's composition, board diversity should be considered in a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, geographical location, professional experience, skills, knowledge and track records, etc., to ensure an appropriate diversity of skills, backgrounds and viewpoints. At the same time, all Board nominations and appointments are made on merit, in the context of the skills and experience the Board as a whole required. The various perspectives of Board diversity elements as mentioned above shall also be adequately considered during the selection process of new Board members.

Potential candidates of Executive Directors could be sourced and selected amongst the senior management. Potential candidates of Independent Non-executive Directors could be recruited through global selection. Pursuant to the provisions of the Articles of Association and relevant regulations, shareholders could also nominate a person other than a retiring Director for election as a Director (including Non-executive Director) at a general meeting. Where necessary, the Nomination and Remuneration Committee may appoint external advisors to assist in recruiting appropriate individuals. The Nomination and Remuneration Committee shall consider various factors in assessing the suitability of a proposed candidate for appointment as Board member, which include:

- Board diversity;
- Reputation of candidate;
- Professional knowledge and industrial experience of candidate;
- Commitment of candidate to devote sufficient time to discharge duties as a Board member; and
- Satisfaction of independence requirements of the Listing Rules and the "Policy on Independence of Directors" of the Company in the case of a candidate for Independent Non-executive Director.

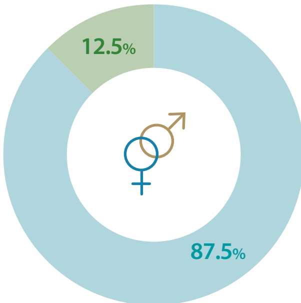
The Nomination and Remuneration Committee shall assess the candidates pursuant to the selection criteria, hold meetings to discuss and arrange interviews with the candidates where necessary, and make recommendation to the Board. The appointment of Directors shall be eventually approved by the Board and/or shareholders at general meetings.

For the Board members of the Company who were newly appointed in 2020 and the retiring Board members standing for re-election at 2020 annual general meeting of the Company, the Nomination and Remuneration Committee reviewed their biographical details against relevant requirements under the Listing Rules and the selection criteria set out in the Company's nomination policies of Board members and considered they have the required character, integrity and professional knowledge and experience to continue fulfilling their role and contributing to the Company and the diversity of the Board.

Under the current board membership, all Directors possess extensive experience in banking and/or management. In addition, over one-third of them are Independent Non-executive Directors, who possess experience in banking and financial industry as well as expertise in strategic development and risk management. The Company has received from each of the Independent Non-executive Directors an annual confirmation of his/her independence by reference to the "Policy on Independence of Directors" of the Company. Based on the information available to the Company, it considers that all of the Independent Non-executive Directors are independent. Mr KOH Beng Seng and Mr TUNG Savio Wai-Hok, who have served on the Board for more than nine years, have continued to make significant contributions to the Company by offering valuable guidance from their areas of expertise and extensive experience in business strategy, banking operation, risk management, governance as well as accounting and finance, all of which are relevant to the Group's business. It is considered that the length of service of Mr KOH and Mr TUNG has not affected their independence, given both of them have consistently demonstrated strong independence in judgement and have provided effective oversight of the Management during their tenure. Moreover, all Directors have disclosed to the Company their significant commitments and have undertaken and confirmed that they are able to devote sufficient time to the affairs of the Company. Biographical details of the professional experience, skills and knowledge of the Board members are set out in the section headed "Board of Directors and Senior Management" and are available under the sub-section "Organisation" of the section headed "About Us" on the Company's website at www.bochk.com.

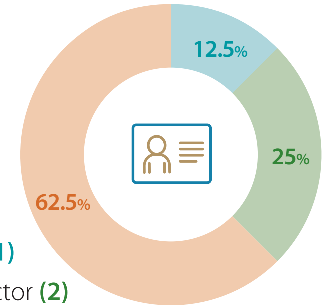
An analysis of the Board's composition as at the date of this Annual Report is set out below:

Gender



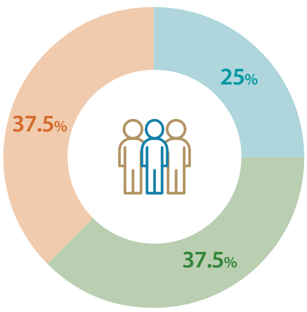
- Male (7)
- Female (1)

Designation



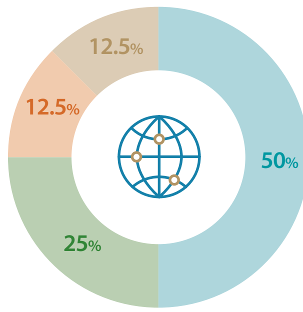
- Executive Director (1)
- Non-executive Director (2)
- Independent Non-executive Director (5)

Age Group



- 45-55 (2)
- 56-65 (3)
- Over 65 (3)

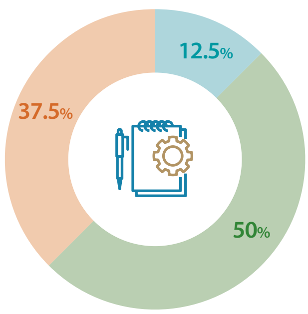
Geographical Location



- Hong Kong (4)
- China (2)
- Singapore (1)
- United States (1)

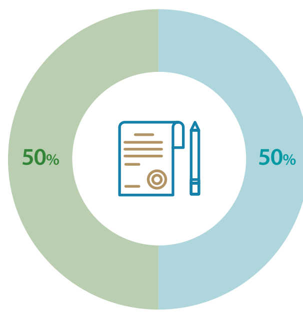
Directorship with the Company

(Number of years)



- Less than 1 year (1)
- 1-6 years (4)
- Over 6 years (3)

Attendance rate at Board meetings in 2020*



- 100% (4)
- Below 90% (4)

* Attendance rates of Mr WANG Jiang and Mr GAO Yingxin, who resigned as a Director with effect from 5 February 2021 and 25 May 2020 respectively, are excluded.

Mr LIU Liange and Mr LIN Jingzhen are Executive Directors of BOC. During the year, Mr WANG Jiang was Executive Director of BOC, and Mr SUN Yu was Executive Vice President of BOC until his resignation took effect from 23 December 2020. Save as disclosed above, there are no other relationships between the Board members, including financial, business, family or other material relationships.

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

Directors' Liability Insurance Policy

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

Self-evaluation of the Board

During the year, the Board conducted annual self-evaluation pursuant to the "Regulations on Self-Evaluation of the Board and Individual Evaluation of the Directors". With the endorsement of the Nomination and Remuneration Committee, the annual self-evaluation questionnaire was distributed to Directors for completion. Based on the completed questionnaire, the Company analysed the results and a report delineated the results and recommendation has been submitted to the Board for review and consideration.

Review of Effectiveness of the Individual Directors

During the year, the Company has also engaged an external professional consultant to conduct independent review of the effectiveness of the individual Directors. A questionnaire was distributed to all Directors for their completion and included Directors' self-assessment in areas such as their time commitment and participation, interaction and communication with senior management, as well as evaluation of other members of the Board and Board Committees, and other factors that impact director effectiveness. Based on the completed questionnaire and other available information, the external consultant assessed the effectiveness of individual Directors and prepared a report setting out its observations and recommendations, which has been submitted to the Board for review and follow-up.

Directors' Training and Professional Development

To ensure the newly appointed Directors have adequate understanding of the Company's business operations and to enable all Directors to update their knowledge regularly so as to provide informed recommendation and advice and make contribution to the Company, the Board has established a set of written policies specifying guidelines on Directors' induction upon appointment and continuous training.

The Company arranges appropriate Directors' induction through the use of induction handbook, face-to-face meetings and other means, and in accordance with the needs of individual Directors. Topics include but not limited to:

- governance structure;
- standing agenda of the Board;
- regulatory requirements on corporate governance;
- focus of concern of regulators; and
- business operation, development plan and focus of internal control.

The Company also provides regular updates to Board members on material changes to regulatory requirements applicable to the Directors and the Group on a timely basis; and the Company arranges regular meetings with the Management to facilitate the understanding of its latest business development. In addition, Board members are encouraged to participate actively in continuous training programmes. The Company also arranges relevant professional training programmes for Board members at the Company's expense.

During the year, all Directors have participated in continuous professional development to develop and refresh their knowledge and skills in accordance with Code Provision A.6.5 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules. In 2020, the Company invited expert to conduct a seminar titled "The Leadership and Supervisory Role of the Board of Directors in Environmental, Social and Governance (ESG)" to the Directors and the senior management, discussing areas such as ESG development trends locally and overseas, best industry practice, and recommendations for ESG enhancement.

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

- green and sustainable banking;
- capacity building for future banking;
- anti-money laundering;
- anti-corruption and anti-bribery;
- ESG reporting and disclosures;
- risk management and internal control;
- corporate governance;
- banking industry development trend; and
- fintech development in the Greater Bay Area, etc.

The Directors' records of annual training information have been entered in the register of directors' training records maintained and updated by the Company from time to time. As at year end, the participation of all Directors in continuous professional development is summarised as follows:

Directors Note		Corporate Governance/ ESG Development/ Regulatory Updates	Risk Management and Internal Control	Banking Industry Development Trend
Non-executive Directors				
Mr LIU Liange		✓	✓	✓
Mr LIN Jingzhen		✓	✓	✓
Mr WANG Jiang	*(resigned with effect from 5 February 2021)*	✓	✓	✓
Independent Non-executive Directors				
Mdm CHENG Eva		✓	✓	✓
Dr CHOI Koon Shum		✓	✓	✓
Mr KOH Beng Seng		✓	✓	✓
Mr LAW Yee Kwan Quinn		✓	✓	✓
Mr TUNG Savio Wai-Hok		✓	✓	✓
Executive Director				
Mr SUN Yu	*(re-designated as Executive Director with effect from 23 December 2020)*	✓	✓	✓

Note: The training records for Mr GAO Yingxin who resigned during the year are not included herein. Please refer to the section headed "Composition and Terms of Office of the Board" under "Board of Directors" for details of changes in Directors during the year and up to the date of this Annual Report.

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

Five Board meetings were held during 2020 with an average attendance rate of 87%. Regular meeting schedule for the year was prepared and approved by the Board in the preceding year. Formal notices of regular Board meetings were sent to all Directors at least 14 days before the date of the scheduled meetings, and Board agenda and meeting materials of sufficient quality were despatched to all Board members for review at least seven days prior to the scheduled meetings. Board agenda of each meeting was approved by the Chairman following consultation with other Board members and the senior management. Members of the senior management were regularly invited to attend the Board meetings to make presentation and answer questions that the Directors might have. Draft and final versions of Board minutes were sent to all Directors for their comment and record respectively within a reasonable period after the meetings were held.

The Board also received monthly reports with information on the Group's latest financial and operating performance. Accordingly, the Directors can have a balanced assessment of the Group's performance, position and prospects throughout the year. In addition, the Directors received, on a regular basis, thematic reports regarding the Company's precautionary measures taken against COVID-19, professional services and products rendered to customers, active participation in anti-pandemic charity activities as well as the pandemic support work of Southeast Asian institutions.

In addition, in order to facilitate open discussion with all the Independent Non-executive Directors, the Chairman met with all the Independent Non-executive Directors in the absence of other Directors and the senior management. Relevant practice has been incorporated in the Working Rules of the Board.

Details of respective Directors' attendance at the Board meetings, Board Committee meetings, annual general meeting and extraordinary general meeting in 2020 are set out as follows:

Directors	Number of meetings attended/Number of meetings convened during Directors' term of office							
		Board Committees					General Meetings	
	Board	Audit Committee	Nomination and Remuneration Committee	Risk Committee	Strategy and Budget Committee	Sustainability Committee	Annual General Meeting	Extraordinary General Meeting
Number of meetings held during the year	5	5	2	4	4	2	1	1
Non-executive Directors								
Mr LIU Liange *(Chairman)*	4/5	–	–	–	3/4	–	1/1	1/1
Mr LIN Jingzhen	4/5	–	–	–	3/4	–	1/1	1/1
Mr WANG Jiang *(resigned with effect from 5 February 2021)*	3/5	–	2/2	–	3/4	–	1/1	1/1
Independent Non-executive Directors								
Mdm CHENG Eva	5/5	5/5	–	–	4/4	2/2	1/1	1/1
Dr CHOI Koon Shum	4/5	–	2/2	–	3/4	2/2	1/1	1/1
Mr KOH Beng Seng	5/5	5/5	2/2	4/4	–	2/2	1/1	1/1
Mr LAW Yee Kwan Quinn	5/5	5/5	–	4/4	–	2/2	1/1	1/1
Mr TUNG Savio Wai-Hok	5/5	5/5	2/2	4/4	4/4	2/2	1/1	1/1
Executive Director								
Mr SUN Yu *(Vice Chairman and Chief Executive)* Note	4/5	–	–	3/4	–	–	1/1	1/1
Mr GAO Yingxin *(resigned with effect from 25 May 2020)*	2/2	–	–	–	1/1	–	–	–
Average Attendance Rate	87%	100%	100%	94%	83%	100%	100%	100%

Note: Mr SUN Yu was (i) appointed as Non-executive Director and a member of the Risk Committee with effect from 20 March 2020; and (ii) re-designated from Non-executive Director to Executive Director, appointed as Vice Chairman and Chief Executive, as well as a member of each of the Strategy and Budget Committee and the Sustainability Committee, and ceased to be a member of the Risk Committee with effect from 23 December 2020.

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

Before the outbreak of COVID-19, the Company used to arrange informal events for Board members and the senior management to facilitate their communication and interactions. For example, the Company would organise working meals from time to time, with Board members and the senior management invited to join and share insights on the Company's business and strategic issues. Board retreat would also be organised for Directors (in particular the Independent Non-executive Directors) to gain a good understanding of the Company's regional business and operations and enhance communication with the senior management. Some of these activities might resume in 2021, depending on the latest development on the pandemic.

Board Committees

Audit Committee

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

Composition

Mr TUNG Savio Wai-Hok (Chairman)
Mdm CHENG Eva
Mr KOH Beng Seng
Mr LAW Yee Kwan Quinn

Main duties

- integrity of financial statements and financial reporting process
- monitoring of risk management and internal control systems
- effectiveness of internal audit function and performance appraisal of the General Manager of Group Audit
- appointment of external auditor and assessment of its qualification, independence and performance and, with authorisation of the Board and shareholders at general meeting, determination of its remuneration
- periodic review and annual audit of the Company's and the Group's financial statements, and financial and business review
- compliance with applicable accounting standards as well as legal and regulatory requirements on financial disclosures
- corporate governance framework of the Group and implementation thereof

Major works performed during the year (included the review and, where applicable, approval of)

- the Company's financial statements for the year ended 31 December 2019 and the annual results announcement that were recommended to the Board for approval
- the Company's interim financial statements for the six months ended 30 June 2020 and the interim results announcement that were recommended to the Board for approval
- the Company's announcements on quarterly financial and business review for the period ended 31 March 2020 and 30 September 2020 that were recommended to the Board for approval
- the audit reports and report on internal control recommendations submitted by external auditor, the audit reports submitted by internal audit, and the on-site examination reports issued by regulators
- the proposed appointment of external auditor, the fees payable to external auditor for the annual audit, interim review and other non-audit services
- the Group's audit plan for next year and key areas identified
- the organisation structure, deployment of human resources and pay level of the Internal Audit, its budget for next year
- annual review of the effectiveness of the internal audit function
- the 2019 performance appraisal and next year's key performance indicators for the General Manager of Group Audit and the Group Audit
- the annual review of the effectiveness of the Group's risk control and internal control systems
- annual review of the "Policy on External Auditor Management", the "Policy on Staff Reporting of Irregularities" and the "Internal Audit Charter"

Nomination and Remuneration Committee

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

Composition	Main duties
Dr CHOI Koon Shum (Chairman) Mr KOH Beng Seng Mr TUNG Savio Wai-Hok	• review of overall human resources strategies of the Group • selection and nomination of Directors, Board Committee members and Senior Management • regular monitoring and review of structure, size and composition (including but not limited to gender, age, cultural and educational background, ethnicity, geographical location, professional experience, skills, knowledge and track records, etc.) of the Board and Board Committees • review of the effectiveness of the Board and Board Committees • ensuring the participation in training and continuous professional development of Directors and Senior Management • review and recommendation of remuneration strategy and incentive framework of the Group • setting of the remuneration of Directors, Board Committee members, Senior Management and Key Personnel **Major works performed during the year (included the approval, review and proposal to the Board)** • consideration of the matters relating to the appointment and changes of Directors and Board Committee members • consideration of the matters relating to the appointment, removal and remuneration of the Executive Director and Senior Management • performance appraisal result of the Executive Director and Senior Management for year 2019 • proposal on staff bonus for year 2019 and salary adjustment for year 2020 for the Group, including Senior Management • key performance indicators of the Group and the Senior Management for year 2021 • proposal on human resources budget of the Group for year 2021 • coordination and oversight of the annual performance evaluation of the Board, Board Committees and individual Directors • annual review of the major human resources and remuneration policies • annual review of the “Policy on Independence of Directors” and the “Policy on Directors’ Remuneration”

Risk Committee

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

Composition

Mr KOH Beng Seng (Chairman)
Mr LAW Yee Kwan Quinn
Mr TUNG Savio Wai-Hok

Main duties

- formulation of the risk appetite and risk management strategy of the Group and determination of the Group's risk profile
- identification, assessment and management of material risks faced by various business units of the Group
- review and assessment of the adequacy and effectiveness of the Group's risk management policies, systems and internal controls
- review and monitoring of the Group's capital management
- review and approval of the Group's target balance sheet
- review and monitoring of the Group's compliance with risk management policies, systems and internal controls, including the Group's compliance with prudential, legal and regulatory requirements governing the businesses of the Group
- review and approval of high-level risk-related policies of the Group
- review and approval of significant or high risk exposures or transactions
- review of risk management reports, including risk exposure reports, model development and validation reports, and credit risk model performance reports

Major works performed during the year

- review and approval of key risk management policies of the Group, including the Group's risk appetite, the Risk Management Policy Statement, the Capital Management Policy, the Stress Test Policy, and a range of risk management policies covering credit risk, market risk, liquidity risk, interest rate risk, operational risk, legal risk, compliance risk, technology risk, strategic risk and reputation risk, etc.
- review and approval of the proposal for the annual review of the Group's recovery plan, the risk adjustment method for group bonus funding mechanics, the results of risk adjustment of the Group and the proposal for the amendment of the credit asset impairment methodology
- review and approval of the Group's operating plans, including the Group's target balance sheets, the investment plans and portfolio key risk indicators, as well as risk management limits
- review of risk management reports, including the Group's risk management report, the institutional money laundering risk assessment report, the business continuity plans and the proposal for implementation during the COVID-19 outbreak, the reports on the Group's credit risk exposures and the asset quality of the credit portfolios, the report on the information technology and cybersecurity, the report on artificial intelligence and big data application management, the report on outsourcing management, the report on fraud risk management, credit risk and market risk model validation reports, credit risk model performance reports, etc.

Strategy and Budget Committee

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

Composition	Main duties
Mr LIU Liange[1] (Chairman) Mr SUN Yu[2] Mr LIN Jingzhen[1] Mdm CHENG Eva[3] Dr CHOI Koon Shum[3] Mr TUNG Savio Wai-Hok[3]	• review of the Group's medium to long-term strategic plan for Board's approval • monitoring of the Group's implementation of medium to long-term strategy, providing guidance on strategy direction for the management • review of major investments, capital expenditure and strategic commitments of the Group, and making recommendations to the Board • review and monitoring of the Group's regular/periodic (including annual) business plan • review of budget for Board's approval and monitoring of performance against budgeted targets **Major works performed during the year** • review of the Group's capital injection to Southeast Asian entities for Board's approval • receipt of and discussion on the Group's plan on the reform of interest rate benchmarks • receipt of and discussion on the business situation, product and marketing plan and next development roadmap of the subsidiaries • receipt of and discussion on the Group's plan on digital transformation, innovative transformation programmes and implementation progress of key projects • review and monitoring of the implementation of 2020 Financial Budget and Business Plan of the Group, and also review and endorsement of the Financial Budget and Business Plan of the Group submitted by the Management for the year 2021 and recommendation of the same to the Board

Notes:
1. Non-executive Director
2. Executive Director and appointed as a member of the Strategy and Budget Committee with effect from 23 December 2020
3. Independent Non-executive Director

Sustainability Committee

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

Composition	Main duties
Mdm CHENG Eva[1] (Chairman) Mr SUN Yu[2] Dr CHOI Koon Shum[1] Mr KOH Beng Seng[1] Mr LAW Yee Kwan Quinn[1] Mr TUNG Savio Wai-Hok[1]	• review of the Group's sustainability strategies, goals and priorities as well as material sustainability related policies • review of environmental, social and governance issues which are material to the Group and the related measures • oversight of the Group's sustainability performance • oversight of corporate culture of the Group and review of related policies • determination of the appropriate reporting principles and boundaries and review of the Sustainability Report **Major works performed during the year** • oversight of the formulation and implementation of the Group's sustainability strategies • oversight of the Group's materiality assessment mechanism and the related work progress • review of the 2019 Sustainability Report for Board's approval • review of the Group's sustainability related policies, including the "Sustainability Policy", and recommendation of the same to the Board for approval • review of sustainability related reports, including the "Report on Bank Culture Building" and the "Report on Annual Review of the Staff Code of Conduct" • supervision and review of the various sustainability measures taken by the Group

Notes:
1. Independent Non-executive Director
2. Executive Director and appointed as a member of the Sustainability Committee with effect from 23 December 2020

Directors' Securities Transactions

The Company has established and implemented the "Code for Securities Transactions by Directors" (the "Company's Code") to govern the Directors' dealings in securities transactions of the Company. Terms of the Company's Code are more stringent than the mandatory standards set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" as contained in Appendix 10 of the Listing Rules. Apart from the Directors' dealings in the securities of the Company, the Company's Code has also been applied to the Directors' dealings in the securities of BOC and BOC Aviation Limited (BOC's subsidiary) since their share listing on the Stock Exchange of Hong Kong in June 2006 and June 2016 respectively as well as BOC International (China) Co, Ltd (BOC's associate) since its share listing on the Shanghai Stock Exchange in February 2020.

Upon specific enquiry by the Company, all Directors confirmed that they had strictly complied with the provisions as set out in both the Company's Code and the said Model Code throughout the year 2020.

Directors' Remuneration

Pursuant to the "Policy on Directors' Remuneration" adopted by the Company, when recommendation of the remuneration of Directors is made, the Nomination and Remuneration Committee should benchmark against companies of comparable business type or scale, the role (chairmanship or membership) they played, job nature and workload at both the Board and Board Committee levels (including frequency of meetings and nature of agenda items) in order to compensate Directors fairly. The remuneration of Directors is subject to regular review based on market practices, regulatory requirements and inflation, etc. No individual Director is allowed to participate in the procedures for deciding his/her individual remuneration package. The remuneration of the Independent Non-executive Directors is not linked with the performance of the Company. Information relating to the remuneration of each Director for 2020 is set out in Note 21 to the Financial Statements. The present scale of Director's fees, including additional fees for membership of Board Committees, is given below:

Board of Directors:	
All Directors	HK$400,000 p.a.
Board Committees:	
Chairman	HK$100,000 p.a.
Other Committee members	HK$50,000 p.a.

Note: For the year ended 31 December 2020, all Non-executive Directors (excluding Independent Non-executive Directors) and Executive Directors have not received their Directors' fees as mentioned above.

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

Remuneration and Incentive Mechanism

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

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

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

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

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

  - "Key Personnel": The employees whose individual business activities involve the assumption of material risk which may have significant impact on risk exposure, or whose individual responsibilities are directly and materially linked to the risk management, or those who have direct influence to the profit, including heads of material business lines, heads of major subsidiaries, senior executives of Southeast Asian entities, head of trading, as well as heads of risk control functions.

- **Determination of the Remuneration Policy**

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

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

1. **Performance Management Mechanism**

   The Group has put in place a performance management mechanism to formalise the performance management at the levels of the Group, units and individuals. The annual targets of the Group will be cascaded down under the framework of balanced scorecard whereby the performance of the "Senior Management" and different units (including business units, risk control units and other units) would be assessed from the perspectives of financial, customer, building blocks/key tasks, human capital, risk management and compliance. For individual staff at different levels, annual targets of the Group will be tied to their job requirements through the performance management mechanism. Performance of individuals will be appraised on their achievement against targets, their contribution towards performance of their units, fulfilment of risk management duties and compliance and adherence to the Group's corporate culture, etc. Not only is target accomplishment taken into account, but also the values-based behaviours and sufficient risk management during the course of work, ensuring prudent operation and sustainable development of the Group.

2. **Risk Adjustment of Remuneration**

   To put the principle of aligning performance and remuneration with risk into practice, based on "The Risk Adjustment Method", the key risk modifiers of BOCHK have been incorporated into the performance management mechanism of the Group. Credit risk, market risk, interest rate risk, liquidity risk, operational risk, legal risk, compliance risk and reputation risk form the framework of "The Risk Adjustment Method". The size of the bonus pool of the Group is calculated according to the risk adjusted performance results approved by the Board and is subject to the Board's discretion. This method ensures the Group to fix the Group's bonus pool after considering risk exposures and changes and to maintain effective risk management through the remuneration mechanism.

3. **Performance-based and Risk-adjusted Remuneration Management**

The remuneration of staff is composed of "fixed remuneration" and "variable remuneration". The proportion of one to the other for individual staff members depends on job grades, roles, responsibilities and functions of the staff with the prerequisite that balance has to be struck between the fixed and variable portion. Generally speaking, the higher the job grades and/or the greater the responsibilities, the higher will be the proportion of variable remuneration so as to encourage the staff to follow the philosophy of prudent risk management and sound long-term financial stability.

Every year, the Group will conduct periodic review on the fixed remuneration of the staff with reference to various factors like remuneration strategy, market pay trend and staff salary level, and will determine the remuneration based on the affordability of the Group as well as the performance of the Group, units and individuals. As mentioned above, performance assessment criteria include quantitative and qualitative factors, as well as financial and non-financial indicators.

According to the "BOCHK Group Bonus Funding Policy", the size of the bonus pool of the Group is determined by the Board on the basis of the financial performance of the Group and the achievement of non-financial strategic business targets under the long-term development of the Group. Thorough consideration is also made to the risk factors in the determination process. The size of the bonus pool is reached based on pre-defined formulaic calculations but the Board can make discretionary adjustment to it if deemed appropriate under prevailing circumstances. When the Group's performance is relatively weak (e.g. failed to meet the threshold performance level), no bonus will be paid out that year in principle. However, the Board reserves the rights to exercise its discretion.

As far as individual units and individual staff are concerned, allocation of the variable remuneration is closely linked to the performance of the units, and that of each individual staff as well as the unit he/she is attaching to, and the assessment of which should include risk modifiers. The performance and remuneration arrangement of risk control personnel are determined by the achievement of their core job responsibilities, independent from the business they oversee; for front-line risk controllers, a cross-departmental reporting and performance management system is applied to ensure the suitability of performance-based remuneration. Within the acceptable risk level of the Group, the better the performance of the unit and the individual staff, the higher will be the variable remuneration for the individual staff. The allocation of variable remuneration to staff should also consider individual behaviour comprehensively. For behaviour which is positive and adhering to the Group's corporate culture, the variable remuneration should be tilted forward; for misconduct or behaviour which is negative and not adhering to the Group's corporate culture, the variable remuneration should be forfeited or reduced.

4. **Linking the payout of the variable remuneration with the time horizon of the risk to reflect the long-term value creation of the Group**

To work out the principle of aligning remuneration with the time horizon of risk and to ensure that sufficient time is allowed to ascertain the associated risk and its impact before the actual payout, payout of the variable remuneration of staff is required to be deferred in cash if such amount reaches certain prescribed threshold. The Group adopts a progressive approach towards deferral. The longer the time horizon of risk in the activities conducted by the staff and the higher amount of the variable remuneration, the higher will be the proportion of deferral. Deferral period lasts for three years.

The vesting of the deferred variable remuneration is linked with the long term value creation of the Group. The vesting conditions are closely linked to the annual performance of the Group in the next three years and the individual behaviour of the staff concerned. When the Group's performance has met the threshold requirement, the deferred variable remuneration would be vested following the corresponding schedule. However, if a staff is found to have committed fraud, or any financial or non-financial factors used in performance measurement or variable pay determination are later proven to have been manifestly worse than originally understood in a particular year, or individual behaviour/management style poses negative impacts to the business unit and even the Group, including but not limited to improper or inadequate risk management, significant incident and economic loss incurred by improper management, etc., the unvested portion of the deferred variable remuneration of the relevant staff would be forfeited.

- **Annual Review of Remuneration Policy**

  The Remuneration Policy of the Group is subject to annual review with reference to changes in external regulatory requirements, market conditions, organisational structure and risk management requirements, etc. Due to changes in organisational structure and job establishment, the Group reviewed the position lists of "Senior Management", "Key Personnel" etc. as delineated in the "BOCHK Group Remuneration and Incentive Policy".

- **External Remuneration Consultant**

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

- **Disclosure on Remuneration**

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

External Auditor

Upon the recommendation of the Audit Committee, the Board will propose that PricewaterhouseCoopers be appointed as the new auditor of the Company at the Company's 2021 annual general meeting. Subject to shareholders' authorisation, the Board will authorise the Audit Committee to determine the remuneration of PricewaterhouseCoopers. Pursuant to the "Policy on External Auditor Management" adopted by the Board, the Audit Committee reviewed and was satisfied with the independence and professionalism of PricewaterhouseCoopers based on the principles and standards set out in the said Policy that were in line with international best practices. Ernst & Young, the existing auditor of the Company, will retire upon expiration of its current term of office at the Company's 2021 annual general meeting.

For 2020, the fee paid or payable by the Group to Ernst & Young was HK$44 million (2019: HK$41 million), of which HK$29 million (2019: HK$28 million) related to audit services and HK$15 million (2019: HK$13 million) related to other services (mainly including tax-related and advisory services). The Audit Committee was satisfied that the non-audit services in 2020 did not affect the independence of Ernst & Young.

Risk Management and Internal Control

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

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

The Group conducts an annual review of the effectiveness of its risk management and internal control systems covering all material controls, including financial, operational and compliance controls as well as risk management. The review is conducted by reference to the guidelines and definitions given by the regulatory and professional bodies for the purpose of assessing five different internal control elements, namely, the control environment, risk assessment, control activities, information and communication, and monitoring. The assessment covers all the major internal controls and measures, including financial, operational and compliance controls as well as risk management functions. The review also considers the adequacy of resources, staff qualifications and experience and training of the Group's accounting, financial reporting and internal audit functions. The review is coordinated by the Group's internal audit which, after the Management and various business departments have performed their self-assessment and the Management has confirmed the effectiveness of the relevant systems, carries out an independent examination and other post-assessment work on the review process and results. The results of the 2020 review, which have been reported to the Audit Committee and the Board, revealed that the Group's risk management and internal control systems were effective and adequate.

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

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

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

- the Group has various risk management and human resources policies. There are specific units and personnel that are responsible for handling reputation, strategic, legal, compliance, credit, market, operational, liquidity and interest rate risks. There are also procedures and internal controls for the handling and dissemination of inside information. The Group has set up mechanisms to identify, evaluate and manage all the major risks, and has established corresponding internal control procedures as well as processes for resolving internal control defects. (Details about the Group's risk management are provided on pages 46 to 51 of this Annual Report);

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

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

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

The Group is committed to upholding good corporate governance practices and the internal control system of all subsidiaries are reviewed regularly. During the year of 2020, continuous improvements on the organisation structure and segregation of duty, the risk management policy and procedure, and the enhancement of disclosure transparency have been undertaken by the Group. In response to internal and external changes in global economic condition, operating environment, regulatory requirement and business development, the Group has implemented a series of measures and undertaken an on-going review on the effectiveness of the internal control mechanism. In 2020, areas for improvement have been identified and appropriate measures have been implemented.

Communication with Shareholders

The Board attaches a high degree of importance to continuous communication with shareholders, particularly through direct dialogue with them at the Company's annual general meetings. Shareholders are encouraged to actively participate in such meetings.

Mr LIU Liange (Chairman of the Company and the Strategy and Budget Committee), Mr TUNG Savio Wai-Hok (Chairman of the Audit Committee and the Independent Board Committee (ad hoc committee established to review the continuing connected transactions)), Dr CHOI Koon Shum (Chairman of the Nomination and Remuneration Committee), Mr KOH Beng Seng (Chairman of the Risk Committee) and Mdm CHENG Eva (Chairman of the Sustainability Committee) were present at the Company's 2020 annual general meeting and extraordinary general meeting held on 29 June 2020 at Grand Ballroom, The Lobby Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wan Chai, Hong Kong. Representatives of Ernst & Young, the auditor, and Luk Fook Capital (HK) Limited (formerly Able Capital Partners Limited), the independent financial adviser engaged in connection with the continuing connected transactions, were also present at the Company's 2020 annual general meeting and extraordinary general meeting respectively to respond to enquiries raised by shareholders. Save as disclosed above, all other Directors including Mr WANG Jiang (resigned with effect from 5 February 2021), Mr SUN Yu (re-designated as Executive Director and appointed as Vice Chairman and Chief Executive with effect from 23 December 2020), Mr LIN Jingzhen and Mr LAW Yee Kwan Quinn were also present at the meetings.

In the interest of the health and safety of the shareholders attending general meetings during the COVID-19 situation and taking into consideration the various social distancing measures as strongly advised by the HKSAR Government, the Company had reviewed the meeting venue area at the hotel and had arranged to limit physical attendance at both general meetings to 150 shareholders by way of pre-registration. In addition, the Company had newly launched live webcast for the general meetings so that shareholders could view the proceedings of the meetings and submit questions online instead of attending the meetings in person. Shareholders were also strongly recommended to appoint the chairman of the general meetings as proxy to vote in order to exercise their voting rights. Moreover, the Company is committed to undertaking corporate social responsibility and has enhanced the arrangement by making charitable donations to The Community Chest Anti-NCP Rainbow Fund as an alternative to distribution of corporate gifts to shareholders at the general meetings held in 2020 in order to help people in need.

Summary of the resolutions passed at the Company's 2020 annual general meeting and extraordinary general meeting as well as the percentage of votes cast in favour are as follows:

Resolutions	Percentage Voted For
2020 Annual General Meeting	
Approval of audited financial statements and the Reports of the Directors and of the Auditor	99.99%
Declaration of final dividend	99.92%
Re-election of Directors	98.25% to 99.81%
Re-appointment of Auditor	99.24%
Grant of general mandate to issue shares	85.62%
Grant of general mandate to buy back shares	99.89%
Extension of the general mandate to issue shares by adding the number of shares bought back	86.00%
Extraordinary General Meeting	
Approval of the Continuing Connected Transactions and the New Caps	99.99%

Further details of the voting results are available under the sub-section "Stock Exchange Announcements" of the section headed "Investor Relations" on the Company's website at www.bochk.com.

As disclosed in the 2019 Annual Report of the Company, in view of the investors' concern regarding the potential dilution of the shareholder value arising from the exercise of power pursuant to the grant of a general mandate to issue shares to the Board, the Board has voluntarily reduced the general mandate to issue shares of up to 5% of the total number of shares in issue as compared to the 20% limit permitted under the Listing Rules in the event that the issue of shares is solely for cash and not related to any acquisition of assets for approval by the shareholders at the 2020 annual general meeting. The Board would also recommend the threshold of up to 5% of the total number of shares in issue (subject to adjustment in case of any subdivision and consolidation of shares after the passing of the relevant resolution) at the 2021 annual general meeting for approval by shareholders.

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

- the Board will not exercise the mandate at a discount that will result in significant dilution of shareholder value. In the exercise of such power to issue shares for cash, the Board will have regard to factors such as the Group's total capital ratio, and in particular, its Tier 1 capital, cost and benefit of raising Tier 2 capital, need for cash for the Group's business development, the principle that shareholders should be treated equally and the alternative of conducting a rights issue; and

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

All the resolutions to be proposed at the Company's 2021 annual general meeting will be voted on by poll. Accordingly, the Company will engage Computershare Hong Kong Investor Services Limited, the Company's Share Registrar, to act as the scrutineer for such purpose. The results of the poll voting will be posted on the Stock Exchange's website and the Company's website as soon as practicable following conclusion of the vote-counting for shareholders' information.

Besides, in order that shareholders can have a better understanding of the agenda items to be discussed at the 2021 annual general meeting and to encourage their active participation so that exchange of views and communication can be further enhanced, the Company will provide detailed information on the 2021 annual general meeting in a circular to shareholders which will include introduction to the proposed resolutions to be approved at the annual general meeting, information on the retiring Directors who are eligible for re-election, proposed amendments to the existing Articles of Association, as well as information on voting, live webcast and other issues relating to the 2021 annual general meeting in the form of "Frequently Asked Questions".

Shareholders' Rights

Shareholders are entitled to convene an extraordinary general meeting, propose a resolution at an annual general meeting, and propose a person for election as a Director. Please see the detailed procedures as follows:

- **the way in which shareholders can convene an extraordinary general meeting:**

  Any shareholder(s) holding not less than 5% of total voting rights of all the shareholders who have a relevant right to vote may request the Board to convene an extraordinary general meeting. The request, duly signed by the shareholder(s) concerned, must clearly state the general nature of the business to be dealt with at the meeting and may include the text of the proposed resolution. Such request must be deposited at the registered office of the Company, 53rd Floor, Bank of China Tower, 1 Garden Road, Hong Kong. The Company would take appropriate actions and make necessary arrangements in accordance with the requirements under sections 566 to 568 of the Hong Kong Companies Ordinance once a valid request is received.

- **the procedures for proposing a resolution at an annual general meeting:**

  The following shareholders are entitled to request the Company to give notice of a resolution that may properly be moved at an annual general meeting of the Company:

  (a) shareholders representing at least 2.5% of the total voting rights of all the shareholders who have a relevant right to vote; or

  (b) at least 50 shareholders who have a relevant right to vote.

  The request identifying the proposed resolution, duly signed by the shareholders concerned, must be deposited at the registered office of the Company, 53rd Floor, Bank of China Tower, 1 Garden Road, Hong Kong not less than six weeks before the annual general meeting, or if later, the time at which notice is given of that meeting. The Company would take appropriate actions and make necessary arrangements in accordance with the requirements under sections 615 and 616 of the Hong Kong Companies Ordinance once valid documents are received.

- **the procedures for Director's nomination and election by shareholders:**

  If a shareholder wishes to propose a person other than a retiring Director for election as a Director at a general meeting, the shareholder should lodge at the registered office of the Company (53rd Floor, Bank of China Tower, 1 Garden Road, Hong Kong): (a) a notice in writing signed by such shareholder (other than the proposed person) duly qualified to attend and vote at the meeting of his/her intention to propose such person for election; (b) a notice signed by the proposed person indicating his/her willingness to be elected; and (c) a sum reasonably sufficient to meet the Company's expenses in giving effect thereto.

  The period during which the aforesaid notices may be given will be at least seven days. Such period will commence on the day after the despatch of the notice of the general meeting for which such notices are given and end no later than seven days prior to the date of such general meeting. The Company would take appropriate actions and make necessary arrangements in accordance with the requirements under Article 99 of the Articles of Association once valid notices and the aforesaid sum are received.

Further shareholder information is set out in the section headed "Investor Relations". Shareholders are welcome to send in any written enquiries to the Board for the attention of the Company Secretary either by post to the registered office of the Company at 53rd Floor, Bank of China Tower, 1 Garden Road, Hong Kong or by way of email to investor_relations@bochk.com. The Company Secretary would direct the enquiries received to appropriate Board member(s) or the Chairman of the Board Committee(s) who is in charge of the areas of concern referred therein for further handling. The Board, assisted by the Company Secretary, would make its best efforts to ensure that all such enquiries are addressed in a timely manner.

Dividend Policy

The primary objectives of the Company's dividend policy are to comply with regulatory requirements, support its ongoing business development by providing adequate capital while balancing shareholders' long term and short term interests. Unless under special circumstances, the Board maintains a payout ratio within the range of 40% to 60%. The Company periodically reviews the dividend policy by considering multiple factors, among which are changes of regulatory requirements, economic and business environments.

Disclosure of Information

The Company recognises the importance of timely and effective disclosure of information and formulates policies, procedures and controlling measures on information disclosure (including inside information) in accordance with the requirements under applicable laws, regulations and regulatory requirements which include the Securities and Futures Ordinance, the Listing Rules and the HKMA's Supervisory Policy Manual.

The Group has established controlling measures for the oversight of business and corporate development of the Group to enable prompt identification and escalation of any inside information by all departments/units. The Management Committee reviews relevant information submitted and assesses its possible impact, and reports the result to the Board. The Board will assess and determine whether it is inside information, and whether it is appropriate to disclose the inside information after consideration of relevant circumstances and regulatory requirements.

The Information Disclosure Policy requires that heads of relevant departments/units should restrict access to the inside information to a limited number of employees on a need-to-know basis during the escalation process and maintain a list of insider employees for senior management's inspection from time to time. The Group provides regular refreshment courses on the Information Disclosure Policy to employees to ensure those employees are fully conversant of their obligations under the said policy.

Details of the Information Disclosure Policy have been posted on the Company's website at www.bochk.com.

Directors' Responsibility Statement in relation to Financial Statements

The following statement should be read in conjunction with the auditor's statement of their responsibilities as set out in the auditor's report. The statement aims to distinguish the responsibilities of the Directors and the auditor in relation to the financial statements.

The Directors are required by the Hong Kong Companies Ordinance to prepare financial statements, which give a true and fair view of the state of affairs of the Company. The financial statements should be prepared on a going concern basis unless it is considered inappropriate. The Directors are responsible for ensuring that the accounting records kept by the Company at any time reasonably and accurately reflect the financial position of the Company, and that the financial statements comply with the requirements of the Hong Kong Companies Ordinance. The Directors also have duties to take reasonable and practicable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors consider that in preparing the financial statements, the Company has adopted appropriate accounting policies which have been consistently applied and supported by reasonable judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

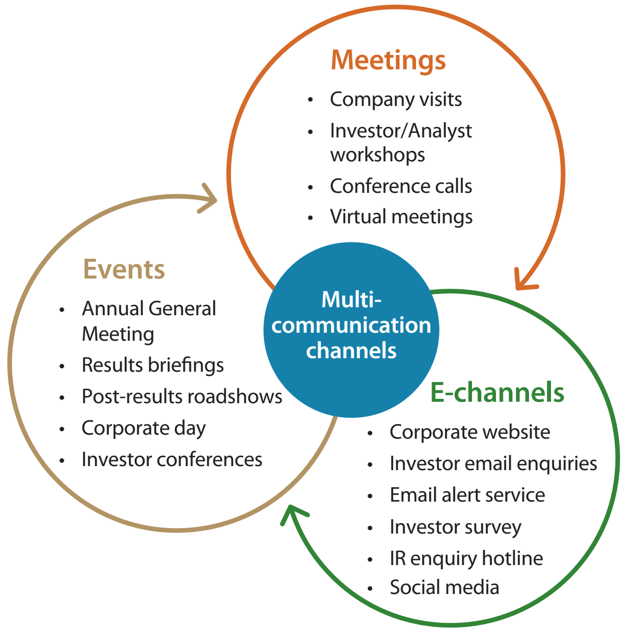
Investor Relations

Investor Relations Policy and Guidelines

The Company recognises the fundamental importance of maintaining effective communication with its existing and potential investors. We aim to provide clear and timely information that is reasonably required to make a fair investment decision with regard to the Company's equity and debt securities. We also highly value investor feedback and comments for the formulation of the Company's growth strategies to ensure its sustainable development and enhance shareholder value.

Investor Relations Programmes

The objectives of the Company's investor relations programmes are to promote, through various channels, timely and effective communication with the investment community to enhance their knowledge and understanding of the Company's development and strategies. The investment community refers to existing and potential investors of the Company's securities, analysts and securities market professionals. The Company's securities include both equity securities and debt securities.



The Company's investor relations strategies and programmes are formulated and overseen by the Investor Relations Committee, which is chaired by the Company's Chief Executive and comprises members of the senior management. The Investor Relations Division of the Board Secretariat, which reports directly to the Board, is responsible for the implementation of these strategies and acts as an intermediary between the Company and the investment community. Both the Board and the Committee evaluate the effectiveness of the investor relations programmes on a regular basis.

The Company's senior management is highly supportive and actively involved in investor relations activities. We communicate with the investment community in meetings, conferences and road-shows during which we discuss general public information, including disclosed financial information and historical data, markets and product strategies, business strengths and weaknesses, growth opportunities and threats. Any topic will be discussed so long as it is not considered to be material non-public information.

Information Disclosure Policy

The Company attaches high importance to the principles of information disclosure with regard to timeliness, fairness and transparency, and proactively discloses information that may have an impact on investment decision-making. In accordance with relevant legislation and statutory requirements, the Company has prepared an Information Disclosure Policy, which is available on the Company's website for public reference. The policy contains clear guidelines to ensure the following:

1. information disclosure is in compliance with the Listing Rules and other regulatory requirements;

2. all communications with the public, including the investment community and the media, follow the principles of timeliness, fairness, truthfulness, accuracy and compliance; and

3. effective monitoring of procedures for information disclosure is in place.

Access to Corporate Information

The Investor Relations section of the Company's website (www.bochk.com) provides shareholders and investors with access to information on the Company's latest developments according to the principles of the Information Disclosure Policy. These include information in relation to the Company's key developments, interim and annual results as well as quarterly financial and business review updates. Members of the public can access important announcements through the Stock Exchange of Hong Kong. The website also includes regulatory disclosure information that complies with the applicable requirements set out in the Banking (Disclosure) Rules as stipulated by the Hong Kong Monetary Authority.

The Investor Relations section also includes information on credit ratings, shares and dividends, as well as a corporate calendar with dates of important events.

Shareholders and investors are encouraged to view the Company's corporate materials online to support environmental conservation. The Investor Relations website also includes an e-mail alert service to provide corporate updates on the Company's financial performance and latest developments. Shareholders and other interested parties may register on the website to receive updates by email.

Overview of Investor Relations Activities in 2020

In 2020, the Company continued its efforts to provide effective channels for communication with the investment community.

Annual General Meeting and Extraordinary General Meeting

In the interest of the health and safety of the shareholders attending general meetings during the COVID-19 situation and taking into consideration the various social distancing measures as strongly advised by the HKSAR Government, the Company had reviewed the meeting venue area at the hotel and had arranged to limit physical attendance at both the Annual General Meeting and the Extraordinary General Meeting held on 29 June 2020 to 150 shareholders by way of pre-registration. In addition, the Company had newly launched live webcast for the said general meetings so that shareholders could view the proceedings of the meetings and submit questions online instead of attending the meetings in person.

At the Annual General Meeting held in June 2020, Chairman of the Board, Chairmen and members of the Audit Committee, the Nomination and Remuneration Committee, the Risk Committee, the Strategy and Budget Committee as well as the Sustainability Committee respectively, the Company's senior management and external auditor were present to respond to questions and comments from shareholders. A total of 56 registered shareholders and 28 authorised proxies holding an aggregate of 8,387,224,314 shares, representing 79.33% of the Company's total number of shares in issue, were present. Minutes of the 2020 Annual General Meeting were made available to shareholders on the Company's website.

At the Extraordinary General Meeting held in June 2020, Chairman of the Board, Chairman and members of the Independent Board Committee, the Company's senior management and the independent financial adviser engaged in connection with the continuing connected transactions and the new caps were present to respond to questions and comments from shareholders. A total of 56 registered shareholders and 17 authorised proxies holding an aggregate of 1,344,314,041 shares, representing 12.71% of the Company's total number of shares in issue, were present. All relevant connected persons abstained from voting on the resolution at the said meeting. Minutes of the Extraordinary General Meeting were made available to shareholders on the Company's website.

Results Announcements

Due to the COVID-19 development, at the Company's 2019 annual results announcement and 2020 interim results announcement, the Company's senior management conducted briefings via "webcast + teleconferences" with analysts and the press to apprise them of the Company's strategy implementation, operating results, business development and outlook as well as to answer their questions. The public could access the results announcements, presentation materials, webcasts, financial data pack and transcripts of analyst briefing sessions on the Company's website and kept themselves updated with the latest financial and earnings performances of the Company. At the same time, the Company proactively leveraged social platforms and announced results via Weixin, YouTube and LinkedIn so as to further broaden communications channels with investors.

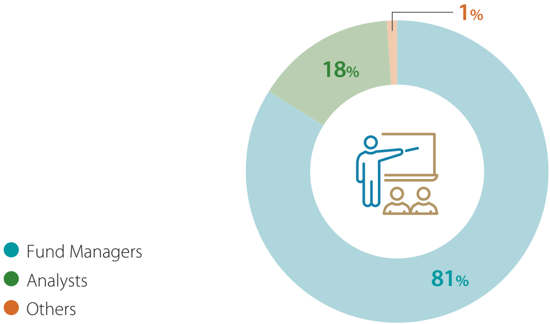
In addition to the interim and annual results announcements, the Company published quarterly financial and business reviews to keep shareholders up-to-date about the Company's performance and financial position.

Communication with the Investment Community

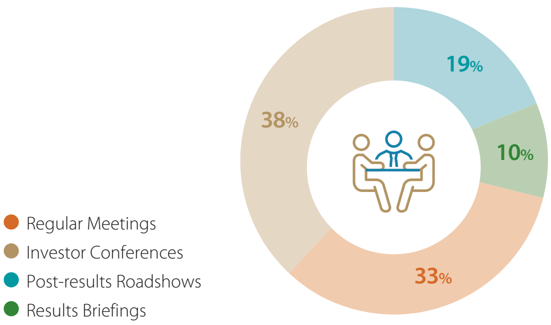
In 2020, the Company had held 110 meetings with investors and analysts across the world, with a total attendance of over 520. These meetings, which aim to give investors a better understanding of the Company's strategies and new business initiatives as well as to engage them in active discussion on the Company's ESG development, were held through virtual results briefings, post-results road-shows, investor conferences, regular meetings and conference calls. The Company was widely covered by 14 securities research institutions, among which a good number of them ascribed "Buy" rating to the Company and named it as preferred stock in the sector. The Company expanded investor base and optimised its geographical distribution by proactively making use of virtual meeting and interacting with local institutional investors and those across the Mainland, the North America, Europe, Australia and other Asian regions covering a wide number of financial centres including Hong Kong, Beijing, Shanghai, Shenzhen, New York, Toronto, London, Oslo, Geneva, Tokyo, Singapore, Kuala Lumpur, Abu Dhabi, Sydney, etc., which earned positive reaction from the investment community.

In addition to that, through emails, direct dialogue, survey and investor feedback, the Company continued to promote two-way communication. The responses received from investors enabled the Company to better understand its market focus which helped formulate its investor relations plan and continually improve its investor relations practices.

Investor Meetings by Category



Investors Met by Event



Going Forward

Under the principles of timeliness, fairness and transparency, the Company will continue to pursue proactive investor relations practices, including effective investor relations programmes to keep the investment community adequately informed of the Company's present and future development. The Company will also benchmark its programmes against best practices for continuous improvement and more efficient communication with the investment community.

Investor Relations Contact

Enquiries can be directed to:

Investor Relations Division BOC Hong Kong (Holdings) Limited 53rd Floor, Bank of China Tower 1 Garden Road, Hong Kong	Telephone: (852) 2826 6314 Facsimile: (852) 2810 5830 E-mail: investor_relations@bochk.com

Shareholder Information

Financial Calendar 2021

Major Events	Dates
Announcement of 2020 annual results	30 March (Tuesday)
Latest time for lodging transfers for entitlement to attend and vote at the 2021 Annual General Meeting	10 May (Monday) 4:30 p.m.
Book closure period (both days inclusive)	11 May (Tuesday) to 17 May (Monday)
Latest time for lodging proxy forms for the 2021 Annual General Meeting	14 May (Friday) 2:00 p.m.
2021 Annual General Meeting	17 May (Monday) 2:00 p.m.
Last day in Hong Kong for dealing in the Company's shares with entitlement to final dividend	18 May (Tuesday)
Ex-dividend date	20 May (Thursday)
Latest time for lodging transfers for entitlement to final dividend	21 May (Friday) 4:30 p.m.
Book closure period (both days inclusive)	24 May (Monday) to 27 May (Thursday)
Record date for final dividend	27 May (Thursday)
Final dividend payment date	3 June (Thursday)
Announcement of 2021 interim results	Mid to late August

Annual General Meeting

The 2021 Annual General Meeting will be held at 2:00 p.m. on Monday, 17 May 2021 at Grand Ballroom, The Lobby Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wan Chai, Hong Kong.

Share Information

Listing and Stock Codes

Ordinary Shares		Level 1 ADR Programme	
The Company's ordinary shares are listed and traded on The Stock Exchange of Hong Kong Limited ("HKEX").		The Company maintains a Level 1 ADR facility for its ADSs. Each ADS represents 20 ordinary shares of the Company.	
Stock codes		Stock codes	
HKEX	2388	CUSIP No.	096813209
Reuters	2388.HK	OTC Symbol	BHKLY
Bloomberg	2388 HK		

Market Capitalisation and Index Recognition

As at 31 December 2020, the Company's market capitalisation was HK$248.5 billion, among the top 40 leading stocks on the Main Board of Hong Kong Stock Exchange in terms of market capitalisation. Given the Company's market capitalisation and liquidity, its shares are a constituent of Hang Seng Index, MSCI Index, and FTSE Index series. In addition, the Company is a constituent of Hang Seng Corporate Sustainability Index Series and Hang Seng High Dividend Yield Index, which recognises its favorable performance in related areas.

Debt Securities

Issuer	:	Bank of China (Hong Kong) Limited, a wholly-owned and principal subsidiary of the Company
Listing	:	The Notes are listed and traded on The Stock Exchange of Hong Kong Limited

Subordinated Notes

Description	:	Bank of China (Hong Kong) Limited 5.90% Undated Non-cumulative Subordinated Additional Tier 1 Capital Securities	
Issue size	:	US$3,000 million	
Stock codes	:	HKEX	5163
		ISIN	US06428YAA47 (Regulation S)
			US06428JAA79 (Rule 144A)
		Bloomberg	AU4771195 (Regulation S)
			AU4771229 (Rule 144A)

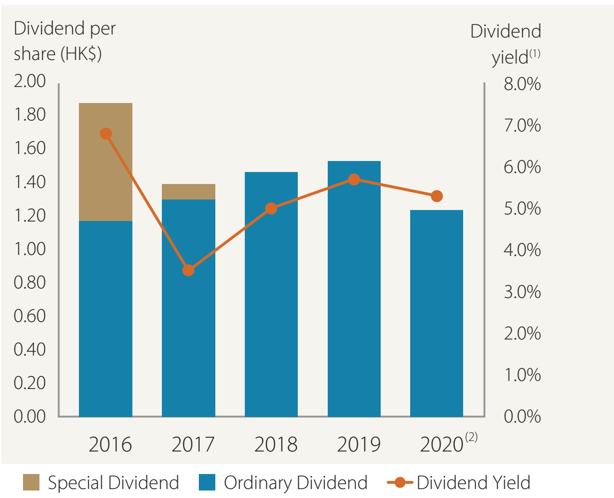
Share Price and Trading Information

Share price (HK$)	2020	2019	2018
Closing price at year end	23.50	27.05	29.10
Highest trading price during the year	28.90	35.90	42.15
Lowest trading price during the year	20.05	25.05	28.50
Average daily trading volume (m shares)	13.08	11.66	10.85
Number of ordinary shares issued (shares)		10,572,780,266	
Public float		Approximately 34%	

Dividends

The Board of Directors has recommended a final dividend of HK$0.795 per share, which is subject to the approval of shareholders at the 2021 Annual General Meeting. With the interim dividend per share of HK$0.447 paid during 2020, the total dividend per share will amount to HK$1.242 for the full year.

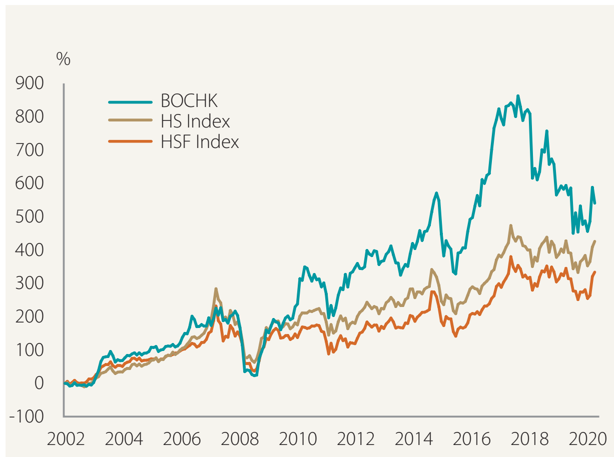
Dividend Per Share and Dividend Yield[1]



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

(2) 2020 proposed final dividend will be subject to shareholders' approval at the Company's forthcoming Annual General Meeting.

Total Shareholder Return since Initial Public Offering



Source: Bloomberg

Total shareholder return is measured by share price appreciation and reinvested dividends.

Credit Ratings (long-term)

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

Shareholding Structure and Shareholder Base

As at 31 December 2020, the Company had 10,572,780,266 shares in issue of which approximately 34% was held by the public and 0.13% was held in the form of ADSs. The Company's 70,268 registered shareholders were distributed in various parts of the world, including Asia, Europe, North America and Australia. Apart from BOC, the Company is not aware of any major shareholders with a shareholding of more than 5% which has to be reported under the SFO.

During the year, the shareholder structure of the Company remained stable. The following table shows the distribution of ownership according to the register of members which includes registered shareholders and shareholders recorded in the participant shareholding report generated from the Central Clearing and Settlement System as at 31 December 2020:

Category	Number of registered shareholders	% of registered shareholders	Number of shares held by registered shareholders	Approximate % of total issued shares
Individuals	70,146	99.83	219,341,182	2.07
Institutions, corporates and nominees Note	121	0.17	3,412,361,328	32.28
Bank of China Group Note	1	0.00	6,941,077,756	65.65
Total	70,268	100.00	10,572,780,266	100.00

Note:
As recorded in the register maintained by the Company pursuant to section 336 of the SFO, the total number of shares held by Bank of China Group was 6,984,274,213 shares, representing approximately 66.06% of the total number of shares in issue of the Company as at 31 December 2020. This figure included certain numbers of shares held for Bank of China Group in the securities account opened with BOCI Securities Limited, a participant of the Central Clearing and Settlement System. Accordingly, these shares are included under the category of "Institutions, corporates and nominees".

Shareholder Enquiries

For any enquiries or requests relating to shareholder's shareholding, e.g. change of personal details, transfer of shares, loss of share certificates and dividend warrants, etc., please send in writing to:

Hong Kong	Computershare Hong Kong Investor Services Limited 17M Floor, Hopewell Centre 183 Queen's Road East, Wan Chai, Hong Kong Telephone: (852) 2862 8555 Facsimile: (852) 2865 0990 Online Feedback Platform: www.computershare.com/hk/en/online_feedback
USA	Citibank Shareholder Services P.O. Box 43077, Providence, Rhode Island 02940-3077, USA Telephone: 1-877-248-4237 (toll free) 1-781-575-4555 (outside USA) E-mail: citibank@shareholders-online.com

Other Information

This Annual Report is available in both English and Chinese. A copy prepared in the language different from that in which you have received is available by writing to the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or email to bochk.ecom@computershare.com.hk. This Annual Report is also available (in both English and Chinese) on the Company's website at www.bochk.com and the Stock Exchange's website at www.hkexnews.hk. You are encouraged to access the corporate communications of the Company through these websites in lieu of receiving printed copies to help protect the environment. We believe that it is also the most efficient and convenient method of communication with our shareholders.

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

Sustainable Development

As a leading commercial and internationalised regional bank deeply rooted in Hong Kong for over a century, we are committed to promoting the long-term development of Hong Kong and consolidating and enhancing its status as an international financial centre. We aim to promote the balanced and sustainable development of the places in which we operate, and to deliver greater value for our stakeholders and the community at large. During the year, we continued to integrate the three major elements of environmental, social and governance (ESG) into the Group's overall strategic development planning, formulated and enhanced relevant policies, and actively promoted our sustainable development work. We highly value the concerns and opinions of our stakeholders and have therefore implemented a number of sustainable development initiatives, which have been widely recognised by various sectors of society.

The Group has been named "Best Bank for CSR in Hong Kong" by Asiamoney for three consecutive years; selected as a constituent stock of the Hang Seng Corporate Sustainability Index Series for eleven consecutive years, and rated "AA" for four years in a row. In 2020, our ESG performance was rated "AA" by rating agency MSCI ESG Research LLC for the fifth consecutive year. During the year, we were granted the 2019/2020 "Top Donor" and "Benefactor of the Year" awards by The Community Chest of Hong Kong. We have also been recognised as a Caring Company by the Hong Kong Council of Social Service since 2003. Other awards received in 2020 include the "Financial Services Awards of Excellence 2020 - Excellent Sustainability CSR Award" granted by the Hong Kong Economic Journal. This section mainly introduces the implementation of the Group's sustainable development initiatives in 2020. For details, please refer to the Company's Sustainability Report.

MSCI ESG RATINGS AA

CCC	B	BB	BBB	A	AA	AAA

BEST BANK AWARDS 2020 ASIAMONEY

BEST BANK FOR CSR IN HONGKONG

信報財經新聞 金融服務卓越大獎2020 Financial Services Awards of Excellence

15 years+ 商界展關懷 caringcompany

Awarded by The Hong Kong Council of Social Service 香港社會服務聯會頒發

Hang Seng Corporate Sustainability Index Series Member 2020-2021

Fully Supportive Measures in Response to the Pandemic

In 2020, the Novel Coronavirus (COVID-19) pandemic raged across the globe. The economic downturn and rising unemployment rate affected many industries in Hong Kong. The Group responded in an agile manner, pioneering a series of anti-pandemic financial services support measures in the market that actively responded to the HKSAR Government's measures to "support enterprises, safeguard jobs, stimulate the economy and relieve people's burden", with the aim of helping individual and corporate customers who were severely affected by the pandemic to overcome difficulties.

BOCHK management visited branches and offices multiple times to inspect the implementation of pandemic prevention measures, so as to ensure a safe working environment.

SUSTAINABLE DEVELOPMENT

The Group has always put the safety of customers and employees first. We adopted a series of pandemic prevention and hygiene measures to ensure the safe sanitation of branches and office premises. Meanwhile, arrangements such as "separated working", a work shift system, working from home etc., were implemented to minimise the risk of infection.

The Group took the lead in donating a total of HK$15 million to The Community Chest, Tung Wah Group of Hospitals and Po Leung Kuk to support frontline pandemic prevention control staff, medical staff, COVID-19 patients and their families, and the underprivileged in Hong Kong, helping them to fight against the virus.

The Group's Southeast Asian entities also donated funds and medical supplies to the Mainland and local governments and charities to fight against the pandemic:

BOC Thailand donating pandemic prevention materials to Chinese students in Thailand.

The Jakarta Branch donating anti-pandemic funds to the Indonesian government.

Donating anti-pandemic funds to Daw Khin Kyi Hospital in Myanmar.

The Vientiane Branch donating anti-pandemic funds to the Laos government.

The Ho Chi Minh City Branch sending donated materials to the Chinese mainland.

BOC Malaysia donating 2 million medical gloves to the Chinese mainland.

Promoting Economic Development and Financial Inclusion

The Group leveraged its advantages as a major commercial banking group in Hong Kong to increase local market penetration and actively expand its business in the Southeast Asian region. We strived to provide customers with comprehensive, professional and high-quality services.

During the year, the Group strengthened regional collaboration and proactively aligned to national strategies such as the Belt and Road initiative, the development of the Guangdong-Hong Kong-Macao Greater Bay Area and RMB internationalisation, offering full support to the development of the real economy.

Sponsoring the fifth "Belt and Road Summit" which was successfully held.

Customers
↑83%
BoC Pay

Greater Bay Area Account Opening
↑40%

Our "Greater Bay Area Account Opening" service was well received, with the number of customers increasing by 40% compared to the beginning of the year. Meanwhile, our cross-border mortgage service "Greater Bay Area Loan" provided an enhanced customer experience. BoC Pay has been integrated into residents' daily life in the Greater Bay Area. The number of BoC Pay customers increased by 83% compared to beginning of the year while the number of transactions grew threefold.

We continued to proactively support inclusive finance. With the most extensive local service network in Hong Kong, we are able to offer diversified and convenient banking and financial services to all different sectors of society.

We supported the Cash Payout Scheme and the Allowance Programme under Community Care Fund of the HKSAR Government, helping citizens to apply for and receive funds.

Our e-Donation Platform provided charitable organisations with an effective solution for online fundraising during the COVID-19 outbreak.

We launched a number of technology-driven service innovations, offering new, digitalised solutions for customer service, financial products, service delivery and operational management:

Mobile account opening service extended to 10 countries and regions outside Hong Kong

Mobile banking platform offers more than 20 banking and insurance services

We officially launched Livi Bank Limited, our joint venture with Jingdong Digits Technology Holding Co., Ltd. and Jardine Matheson Group, to bring a brand-new virtual banking experience to customers.

SUSTAINABLE DEVELOPMENT

We assisted the HKSAR Government in launching the Subsidy Scheme for the Promotion of Contactless Payment in Public Markets, to help minimise the risk of virus transmission.

Our Intelligent Global Transaction Banking Platform (iGTB) provides customers with a full spectrum of online transaction banking services, which allowed corporate clients to maintain normal operations during the pandemic.

Green Finance and Promoting Environmental Protection

The Group understands that financial institutions play an important role in supporting environmental sustainability and advocates environmentally responsible business practices. We have integrated environmental protection into our bank policies and actively promote green financial services. We have also adopted various measures to reduce the environmental impact from our operations and to protect the environment and natural ecology.

We launched the first RMB Corporate Green Time Deposit in Hong Kong in order to promote the transition to a low-carbon economy, and acted as a green advisor for the arrangement of multiple green loans. At the end of the year, the balance of the Group's green loans had increased by 63% compared to the prior year-end. We launched a global environmental fund with Pictet Asset Management, so as to support Hong Kong's marine conservation. In addition, we currently offer 10 ESG funds approved by the Securities and Futures Commission to promote sustainable development. We also sponsored and participated in the "Hong Kong Green Finance Association Annual Forum" for the third consecutive year.

Balance of green loans

↑63%

We actively implement green offices, green operations and green procurement. We encourage our customers to choose online banking and consolidated e-statement services, with the customer penetration rate exceeding 50% during the year. We also supported and organised a series of activities for customers and employees to put environmental protection into practice.

Online banking and e-statement services customer penetration rate

>50%

We Jointly hosted the "BOCHK Corporate Environmental Leadership Awards" with the Federation of Hong Kong Industries. More than 800 corporates have participated in 2020.

During the year, we purchased from China Light and Power 300,000 kWh of electricity produced from local renewable sources, to support the development of renewable energy in Hong Kong.

In support of the "Towards Carbon Neutrality" programme which encourages young people to practise low-carbon lifestyles. Students took part in an online ceremony.

Funding the "Human and Nature Inclusion Programme" which helped develop young people's interest in nature ecology and conservation.

Contributing to Community and Sharing Success

The BOCHK Charitable Foundation (the "Foundation") was established in 1994. Over the years, BOCHK and the Foundation have actively supported and participated in various charitable activities, with total donations reaching more than HK$1.3 billion. In 2020, we sponsored nearly 70 charity projects, including around 30 regular projects that benefitted those in need by offering a total number of more than 2 million services, and around 40 newer projects using the net proceeds from the Centenary Commemorative Banknote, a sum of over HK$430 million, which are expected to reach a total of over 1.5 million beneficiaries.

Poverty Alleviation and Care for Society

Since 2016, we have cooperated with Food Angel by sponsoring the establishment of "Food Station" and "Food Distribution Vehicles" to help elderly and low-income people in grassroots communities to eliminate hunger with nutritious food. We have also sponsored the Tung Wah Group of Hospitals' hot meal service for the elderly to relieve their financial stress and enhance their quality of life. In 2020, the total number of food assistance services the Group provided that benefitted people reached more than 1.84 million.

Food assistance services provided

>1.84 *million*

SUSTAINABLE DEVELOPMENT

In 2020, we donated to the Chinese YMCA of Hong Kong in order to support the launch of a project to improve the living environment of subdivided unit families. We also sponsored Po Leung Kuk to install barrier-free facilities and improve home environments for low-income elderly and disabled people, so that they can live in safe and comfortable homes.

We sponsored Hong Chi Association to launch a professional training programme that will establish a qualification accreditation framework for people with intellectual disabilities, to enhance their capability to serve society and empower them with self-reliance. We also donated to the Hong Kong Single Parents Association to provide training courses for women from grassroots communities, in order to enhance their ability to participate in community building and promote gender equality.

We continued to subsidise Kwong Wah Hospital and Tung Wah Hospital under the Tung Wah Group of Hospitals to provide free consultations related to bone injury and Chinese medicine to outpatients from grassroots communities. We also supported Po Leung Kuk to provide emergency medical subsidies for Chinese and Western medicines, as well as dental clinics, for patients from grassroots communities. During the year, the total number of services provided that benefitted people amounted to more than 200,000.

number of services

>200,000

Youth Development

Champion works from a photo competition of the PoNeteens

We sponsored Tung Wah Group of Hospitals to launch the "PoNeteens — Healthy Internet Use Project", which supports young people and their families in combatting improper online information and addiction problems. The total number of services provided that benefitted people reached about 120,000 during the year. A photo competition was organised on PoNeteens and was well received by the participants.

We donated to the Endeavour Education Centre and the Our Hong Kong Foundation in support of the various activities to strengthen Hong Kong youth's understanding of Chinese history and culture and establish an accurate understanding of our history and nation. These initiatives benefitted more than 1,500 young people during the year.

We provided scholarships and bursaries to students in ten local universities and supported the "Future Stars - Upward Mobility Scholarship" programme launched by the Commission on Poverty. In addition, we donated to the University of Yangon in Myanmar to set up scholarships and bursaries.

Donation Ceremony of BOC- University of Yangon Scholarship Program (photo above), the benefitted students are deeply delighted (photo below).

Sporting Activities and the Arts

We continued to sponsor the "Inter-Secondary Schools Sports Competition (Hong Kong Island and Kowloon)" in an effort to promote sports development among secondary students, while also fostering a sense of sportsmanship embodied by a proactive attitude and an unremitting drive for improvement. We also sponsored the BOCHK Youth Development Programme organised by the Hong Kong Fencing Association to help young people cultivate a positive outlook on life. We supported the Mental Health and Communication Support Project for youth by Social Workers Across Borders and Hong Kong Growth Education Association, with the aim of enhancing students' mental health and encourage a spirit of teamwork through floor curling. The total number of activities these programmes held that benefitted young people amounted to more than 40,000.

We donated to the Hong Kong String Orchestra in support of the Lion Rock Can Do Spirit Music Exchange Programme, which enables young musicians to showcase the diversity of Hong Kong's mix of Chinese and Western music, as well as to convey a positive spirit.

Serving Community

Advocating the "Everyone Can Volunteer" concept, we established five new volunteer teams during the year, including teams for Caring, Community, Education, Youth and Environmental Protection.

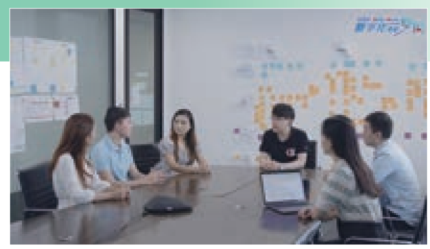
5,300 volunteers

>30 volunteer activities

>12,000 hours of volunteer service

Caring for Employees and Adopting a People-oriented Approach

The Group considers our employees to be our most precious assets. Based on our people-oriented philosophy, we constantly enhance our human resources management system so as to attract, identify, nurture and retain talent. We are committed to providing a harmonious, diverse and friendly working environment for our employees and helping them to realise their potential.



During the COVID-19 pandemic period, we reassured staff that there would be no layoffs; provided employees with anti-pandemic materials and subsidies, additional medical coverage and annual leave extension arrangements, and continued to optimise employee benefits.

≈ **1,400**

real-time virtual training classes

We attach great importance to on-the-job training and development for employees, and continuously optimise the establishment of Personal Banking Academy, Operational Excellence Academy, Corporate Banking Academy as well as Innovation and Technology Academy. During the year, we held nearly 1,400 real-time virtual training classes and launched 500 e-learning and videos to promote the mutual development of employees and the Group.

≈ **500**

e-learning and videos

In 2020, we carried out extensive corporate culture building activities, and organised our "BOCHK Ideation Contest" around the theme of "InnoVenture" to encourage employees to be creative and innovative.

Awards and Recognition

With our solid financial strength and outstanding business performance, the Group earned various industry awards which further reinforced our leading market position. In addition, guided by our customer-centric principle, we won accolades in recognition of our achievements in enhancing customer experience through continuous product and service innovation as well as channel optimisation. We are also highly commended for our commitment to foster sustainable development of the economy, society and the environment.

THE ASIAN BANKER
STRONGEST BANK
IN HONG KONG AND ASIA PACIFIC 2020
by balance sheet

Financial Strength and Corporate Governance

- Strongest Bank in Hong Kong and Asia Pacific ***(The Asian Banker)***
- Hong Kong: Best Bank (Chinese Financial Institutions) ***(FinanceAsia)***
- Listed Company Awards of Excellence 2020 (Blue Chip) ***(Hong Kong Economic Journal)***

Regional Development

- Jakarta Branch – 2020 Infobank Awards: 2019 Financial Performance Excellence Award ***(infobank)***
- Jakarta Branch – 2020 Best Foreign Bank in Indonesia ***(Bisnis Indonesia)***
- Jakarta Branch – Best Foreign Bank ***(Warta Ekonomi)***
- Vientiane Branch – 2019 Banking Industry Operation Excellence Award ***(Bank of the Lao P.D.R)***

Service Excellence

- Best Transaction Bank in Hong Kong, Best Cash Management Bank in Hong Kong, Best ERP Integration Solution, Initiative, Application or Programme, Best Cash Management Project in Hong Kong, and Best Shared Service Centre ***(The Asian Banker)***
- Hong Kong Domestic Trade Finance Bank of the Year, and Hong Kong Domestic Cash Management Bank of the Year ***(Asian Banking & Finance)***
- Rank No. 1 as mandated arranger in the Hong Kong and Macao syndicated loan market for 16 consecutive years ***(Basis Point)***

- Best Custodian QDII – China, and Best Custodian – Overall (Highly Commended) – China offshore ***(The Asset)***
- Best Cash Pooling Solution – Highly Commended ***(Treasury Management International)***
- CT Awards – Best Treasury & Finance Strategies in Asia Pacific ***(CorporateTreasurer)***

Service Excellence (continued)

- Best Overseas Treasury Management Bank, and Best Shared Service Platform Award ***(Treasury China)***
- Best SME's Partner Award for 13 consecutive years ***(The Hong Kong General Chamber of Small and Medium Business)***
- Bond Connect Top FX Settlement Bank, and Bond Connect Top Custodian ***(Bond Connect Company Limited)***
- Offshore Institutional Investor Excellence ***(National Interbank Funding Center)***
- Offshore Institutional Investor Excellence Award ***(China Central Depository & Clearing Co., Ltd)***
- Special Market Stability Contribution Reward in COVID-19 ***(Shanghai Gold Exchange)***
- "9+2" Guangdong-Hong Kong-Macao Greater Bay Area (GBA) Development Awards: GBA Outstanding Contribution Award (Corporate), and Best GBA Financial Services Award ***(Ta Kung Wen Wei Media Group Business Development Limited)***
- Financial Institution Awards 2020: Bancassurer of the Year – Outstanding ***(Bloomberg Businessweek)***

BOC Life

- Financial Institution Awards 2020: Annuity Plan – Outstanding ***(Bloomberg Businessweek)***
- The Hong Kong Insurance Awards 2020: Top-three finalists of Outstanding Customer Services ***(The Hong Kong Federation of Insurers*** and ***South China Morning Post)***

BOCHK Asset Management

- 2020 Best of the Best Awards: Best Offshore RMB Bond Performance (3 years) and Best RMB Manager ***(Asia Asset Management)***
- Lipper Fund Awards Hong Kong 2020: Best Fund over 3 Years – Bond Asia Pacific LC ***(REFINITIV)***

BOCI-Prudential Trustee

- Several awards from the 2020 MPF Awards including 5-Year Consecutive Gold Ratings, and MPF Ratings 2020 Gold Rated Schemes – My Choice MPF Scheme ***(MPF Ratings)***
- Lipper Fund Awards Hong Kong 2020: Best Fund over 3 Years and Best Fund over 5 Years – Equity Greater China, Best Fund over 3 Years – Equity Hong Kong ***(REFINITIV)***

Innovative Technology

- Excellence in Retail Financial Services International Awards 2020 – Best Big Data or AI Initiative ***(The Asian Banker)***
- Asian Banking & Finance Retail Banking Awards 2020: Mobile Banking & Payment Initiative of the Year – Hong Kong ***(Asian Banking & Finance)***
- Shenzhen-Hong Kong Fintech Award 2019: 2019 Shenzhen Financial Innovation Award – First Prize ***(Hong Kong Monetary Authority*** and ***Shenzhen Municipal Financial Regulatory Bureau)***

BOC Life

- Financial Institution Awards 2020: Online Platform – Outstanding ***(Bloomberg Businessweek)***

Sustainable Development

- Best Bank Awards 2020: Best Bank for CSR in Hong Kong for three consecutive years ***(Asiamoney)***
- 2019/2020 Top Donor of the Year, and Benefactor of the Year Award ***(The Community Chest of Hong Kong)***
- Rated AA on environmental, social and governance-related performance for five consecutive years ***(MSCI ESG Research LLC)***

- Awarded Caring Company Logo for 18 consecutive years ***(The Hong Kong Council of Social Service)***
- Outstanding Award for Green Loan Structuring Advisor – Greatest Number of Green Loans (Verification), and Outstanding Award for Green Bond Lead Manager – Greatest Number of Green Bonds (Financial Investment Industry) ***(HKQAA)***
- Manila Branch – 2020 CSR Award (First Prize) ***(Embassy of China in the Philippines)***

Talent Development Management

- The 13th HKIB Outstanding Financial Management Planner Awards: Top Nominations Award ***(The Hong Kong Institute of Bankers)***
- Best Talent Acquisition & Onboarding Strategy Award – Grand, and Best L&D Technology Implementation Award – Grand ***(CTgoodjobs)***
- Financial Institution Awards 2020: Training Academy – Excellence ***(Bloomberg Businessweek)***

BOC Life

- HR Distinction Awards 2020 ***(Human Resources)***:
  Excellence in Employee Development – Gold
  Excellence in Organisation Development – Silver
  Excellence in Talent Management – Silver

Contact Us

Bank of China (Hong Kong)

Enquiry Hotline

Contents	Telephone
Personal Customer Service Hotline	(852) 3988 2388
24-hour *Wealth Management* Service Hotline	(852) 3988 2888
24-hour *Enrich Banking* Service Hotline	(852) 3988 2988
Corporate Customer Service Hotline	(852) 3988 2288

Contents	Telephone
BOC Credit Card Hotline	(852) 2853 8828
BOC Credit Card Lost Card Reporting Hotline	(852) 2544 2222
ATM Card Hotline	(852) 2691 2323
BOC Express Cash Customer Service Hotline	(852) 2108 3611

Branch Locator

www.bochk.com/en/branch.html

Internet Banking and Mobile Banking

Internet Banking:
www.bochk.com

Mobile Banking:

iGTB Corporate Internet Banking and Mobile Banking

Corporate Internet Banking:
igtb.bochk.com

Corporate Mobile Banking:

iOS

Android

BoC Pay Mobile App

BoC Bill Integrated Billing Service

Social Media

BOCHK_Banking

BOCHK_CC

YouTube 中銀香港BOCHK

www.youtube.com/user/bankofchinahk

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Independent Auditor's Report

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

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

Opinion

We have audited the consolidated financial statements of BOC Hong Kong (Holdings) Limited (the "Company") and its subsidiaries (the "Group") set out on pages 125 to 290, which comprise the consolidated balance sheet as at 31 December 2020, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters:	How our audit addressed the key audit matters:
Impairment assessment of advances to customers Refer to significant accounting policies in Note 2.14, critical accounting estimates and judgements in applying accounting policies in Note 3.1, and disclosures on credit risk and loan impairment allowances in Note 4.1 and Note 25 to the financial statements. The Group has adopted a forward-looking "expected-loss" impairment model to recognise the expected credit losses ("ECL") of its advances to customers. The assessment of credit risk and the measurement of ECL are required to be based on unbiased and probability-weighted possible outcomes, and reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions. Significant management judgements and estimates are involved in the development and the application of models and the choices of inputs in the calculation of ECL, including: 1) segmentation of financial assets according to credit risk characteristics; 2) estimation of probability of defaults, loss given defaults, exposure at defaults and macroeconomic factor forecasts; 3) criteria on significant credit deterioration; and 4) selection of forward-looking macroeconomic scenarios and their probability weightings. As at 31 December 2020, gross advances to customers amounted to HK$1,497,864 million, representing 45.1% of total assets; and the impairment allowance for advances to customers amounted to HK$9,172 million, representing 90.0% of total impairment allowance on financial instruments. In view of the significance of the impairment allowance recorded by the Group and the management judgements and estimates involved, impairment assessment of advances to customers is considered a key audit matter.	We obtained an understanding of the Group's credit management and practices and evaluated the Group's impairment methodology, including the management judgement over the segmentation of portfolio, the criteria on significant credit deterioration and the measurement approach of expected credit losses. We tested the design and the operating effectiveness of the key controls over the processes of credit assessment, loan classification, stage classification and calculation of impairment allowances. Our control testing on the loan impairment process included an evaluation of the governance over the use of economic scenarios and the system interfaces of inputs or other data sources such as internal loan gradings and probability of default. We adopted a risk-based sampling approach for our loan review procedures. We selected samples based on risk characteristics of individual items including the industry and geographic location of the operations of borrowers, internal loan grading and past due history. We formed an independent view on the loan staging through reviewing the borrowers' detailed information about their financial performance, recoverable cash flows, valuation of collaterals and other available information. For the impairment allowance as at 31 December 2020, we performed testing on the relevant data quality by sample checking to the relevant data source and re-computed management's calculation of the impairment allowance. In addition, we assessed management's consideration of forward-looking information including macroeconomic factor forecasts and probability weighted economic scenarios. For Stage 3 advances, on a sample basis we re-calculated the impairment allowance with consideration of recoverable cash flows and valuation of collaterals. In connection with the COVID-19 pandemic, we expanded our loan review samples' selection criteria and assessed the loan classification, changes of internal rating and loan staging taking into account the additional risk control measures implemented by management. In addition, we assessed the forward-looking macroeconomic factor forecasts and probability weighted economic scenarios adopted by management considering the uncertainties in economic conditions due to COVID-19. We also evaluated and tested the design and operating effectiveness of the Group's key controls related to disclosures on credit risk in Note 4.1 to the financial statements, and assessed the adequacy of disclosures for compliance with the relevant accounting standards.

Key audit matters:	How our audit addressed the key audit matters:
Valuation of financial instruments	
Refer to significant accounting policies in Note 2.12, critical accounting estimates and judgements in applying accounting policies in Note 3.2, and disclosures on fair values of financial instruments in Notes 5.1 and 5.2 to the financial statements. The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques, in particular those requiring significant observable inputs other than quoted prices and significant unobservable inputs, involve management using subjective judgements and assumptions. With different valuation techniques and assumptions applied, the valuation results can vary significantly. As at 31 December 2020, the Group's financial assets and liabilities measured at fair value amounted to HK$873,124 million and HK$80,649 million respectively, representing 26.3% and 2.7% of total assets and total liabilities respectively. Financial instruments which had significant observable inputs other than quoted prices in the valuation were categorised within level 2 of the fair value hierarchy, whereas financial instruments which had significant unobservable inputs in the valuation were categorised within level 3 of the fair value hierarchy. Higher degree of uncertainty was involved in valuation of financial instruments categorised within level 3 of the fair value hierarchy. As at 31 December 2020, the Group's financial assets measured at fair value which were categorised within level 2 and level 3 amounted to HK$594,704 million and HK$7,569 million respectively, representing 68.1% and 0.9% of the Group's financial assets measured at fair value, respectively.	We evaluated and tested the design and operating effectiveness of key controls related to the valuation of financial instruments, including independent price verification, independent model validation and approval. We focused on the valuation methodologies and assumptions of financial instruments that were classified as level 2 and level 3 in the fair value hierarchy. We involved our valuation specialists in evaluating the valuation techniques, inputs and assumptions through comparison with the valuation techniques that are commonly used in the market, the validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources. We also evaluated and tested the design and operating effectiveness of the Group's key controls related to the fair value disclosures in Notes 5.1 and 5.2 to the financial statements, and assessed the adequacy of disclosures for compliance with the relevant accounting standards.

Key audit matters:	How our audit addressed the key audit matters:
Recognition of deferred tax assets	
Refer to significant accounting policies in Note 2.24, critical accounting estimates and judgements in applying accounting policies in Note 3.4, and disclosures on deferred taxation in Note 36 to the financial statements. As at 31 December 2020, the Group recognised deferred tax assets of HK$1,153 million relating to temporary differences arising from impairment allowances, HK$46 million relating to temporary differences arising from tax losses and HK$289 million relating to other temporary differences and tax credits. The majority of other temporary differences and tax credits related to tax credits recoverable from the tax authorities in Hong Kong under double tax treaty arrangements, arising from withholding income taxes payable in other jurisdictions on certain income. Application for such tax credits will be made to the tax authorities in Hong Kong after the corresponding withholding income taxes payable are settled and evidenced by respective payment receipts issued from the corresponding tax authorities. These deferred tax assets, where required by accounting standards, were offset against and included within deferred tax liabilities as shown in Note 36 to the financial statements. The recognition of the deferred tax assets involved significant management judgements and assumptions, based upon the estimation of available tax credits and the likelihood of recovering the tax assets recognised.	Our audit procedures included, amongst others, the involvement of our tax specialists to assist in evaluating the judgements and assumptions adopted by management to determine the recognition and recoverability of the deferred tax assets, in light of current tax laws. We also assessed management's estimates of the Group's entitlement to the tax credits and examined correspondences between the Group and relevant tax authorities. In addition, we also assessed the adequacy of disclosures in Note 36 to the financial statements with respect to compliance with the relevant accounting standards.

Key audit matters:	How our audit addressed the key audit matters:
Valuation of insurance contract liabilities	
Refer to significant accounting policies in Note 2.20, critical accounting estimates and judgements in applying accounting policies in Note 3.3, and disclosures on insurance risk and insurance contract liabilities in Note 4.4 and Note 37 to the financial statements. As at 31 December 2020, the Group, through its consolidated subsidiary BOC Group Life Assurance Company Limited, had insurance contract liabilities amounting to HK$139,504 million, representing 4.6% of the Group's total liabilities. The measurement of insurance contract liabilities involved significant judgements over uncertain future outcomes, mainly the estimated ultimate total settlement value of insurance contract liabilities, including any guarantees provided to policyholders. Economic assumptions, such as investment return and associated discount rates, and operating assumptions, such as mortality and morbidity, were the key inputs used to estimate these insurance contract liabilities as reported in the consolidated balance sheet.	We used our actuarial specialists to assist in the performance of our audit procedures. These included a review of the product features and the methodology used in valuing the insurance contract liabilities in accordance with the relevant regulations and accounting requirements. We also tested the internal controls performed by management over the valuation process. We also assessed the economic assumptions and operating assumptions used in the insurance contract liabilities valuation with reference to market data and policyholder experience and assessed the accuracy of the calculation of policy reserves through performing independent recalculation. In addition, we assessed the validity of the Group's liability adequacy test under HKFRS 4 – Insurance Contracts. Our assessment included an evaluation of management's projected cash flows based on relevant product features. We tested the associated assumptions by comparing with industry experience data. We also assessed the adequacy of disclosures on insurance risk in Note 4.4 to the financial statements with respect to compliance with the relevant accounting standards.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is LEE Shun Yi, Jasmine.

Ernst & Young

Ernst & Young
Certified Public Accountants
Hong Kong, 30 March 2021

Consolidated Income Statement

For the year ended 31 December	Notes	2020 HK$'m	2019 HK$'m
Interest income		**49,928**	67,784
Interest income calculated using the effective interest method		***48,755***	*65,150*
Others		***1,173***	*2,634*
Interest expense		**(15,190)**	(27,261)
Net interest income	6	**34,738**	40,523
Fee and commission income		**13,515**	15,002
Fee and commission expense		**(2,673)**	(4,083)
Net fee and commission income	7	**10,842**	10,919
Gross earned premiums		**27,990**	25,345
Gross earned premiums ceded to reinsurers		**(9,530)**	(6,933)
Net insurance premium income		**18,460**	18,412
Net trading gain	8	**5,174**	4,800
Net gain on other financial instruments at fair value through profit or loss	9	**1,959**	3,243
Net gain on other financial assets	10	**4,572**	824
Other operating income	11	**896**	1,015
Total operating income		**76,641**	79,736
Gross insurance benefits and claims and movement in liabilities		**(34,113)**	(29,927)
Reinsurers' share of benefits and claims and movement in liabilities		**11,946**	8,635
Net insurance benefits and claims and movement in liabilities	12	**(22,167)**	(21,292)
Net operating income before impairment allowances		**54,474**	58,444
Net charge of impairment allowances	13	**(2,707)**	(2,022)
Net operating income		**51,767**	56,422
Operating expenses	14	**(16,347)**	(16,667)
Operating profit		**35,420**	39,755
Net (loss)/gain from disposal of/fair value adjustments on investment properties	15	**(1,622)**	282
Net loss from disposal/revaluation of properties, plant and equipment	16	**(63)**	(1)
Share of results after tax of associates and joint ventures	27	**(152)**	52
Profit before taxation		**33,583**	40,088
Taxation	17	**(5,115)**	(6,014)
Profit for the year		**28,468**	34,074

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December	Notes	2020 HK$'m	2019 HK$'m
Profit attributable to:			
Equity holders of the Company and other equity instrument holders		**27,863**	33,574
Equity holders of the Company		**26,487**	32,184
Other equity instrument holders		**1,376**	1,390
Non-controlling interests		**605**	500
		28,468	34,074
Dividends	18	**13,131**	16,250
		HK$	HK$
Earnings per share			
Basic and diluted	19	**2.5052**	3.0440

The notes on pages 133 to 290 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December	Notes	2020 HK$'m	2019 HK$'m
Profit for the year		**28,468**	34,074
Items that will not be reclassified subsequently to income statement:			
Premises:			
Revaluation of premises	29	**(1,707)**	1,064
Deferred tax	36	**297**	(133)
		(1,410)	931
Equity instruments at fair value through other comprehensive income:			
Change in fair value		**(91)**	(180)
Deferred tax		**21**	2
		(70)	(178)
Own credit risk:			
Change in fair value of own credit risk of financial liabilities designated at fair value through profit or loss		**1**	(45)
Deferred tax		**–**	7
		1	(38)
		(1,479)	715
Items that may be reclassified subsequently to income statement:			
Debt instruments at fair value through other comprehensive income:			
Change in fair value		**6,311**	6,672
Change in impairment allowances charged to income statement	13	**100**	20
Release upon disposal/redemption reclassified to income statement	10	**(4,503)**	(854)
Amortisation of accumulated amount of fair value hedge adjustment reclassified to income statement		**89**	8
Deferred tax		**(274)**	(936)
		1,723	4,910
Currency translation difference		**239**	262
		1,962	5,172
Other comprehensive income for the year, net of tax		**483**	5,887
Total comprehensive income for the year		**28,951**	39,961
Total comprehensive income attributable to:			
Equity holders of the Company and other equity instrument holders		**28,109**	38,886
Equity holders of the Company		**26,733**	37,496
Other equity instrument holders		**1,376**	1,390
Non-controlling interests		**842**	1,075
		28,951	39,961

The notes on pages 133 to 290 are an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December	Notes	2020 HK$'m	2019 HK$'m
ASSETS			
Cash and balances and placements with banks and other financial institutions	22	**463,711**	366,829
Financial assets at fair value through profit or loss	23	**60,214**	85,193
Derivative financial instruments	24	**52,856**	31,027
Hong Kong SAR Government certificates of indebtedness		**189,550**	163,840
Advances and other accounts	25	**1,500,416**	1,412,961
Investment in securities	26	**880,485**	801,653
Interests in associates and joint ventures	27	**1,485**	1,632
Investment properties	28	**18,441**	20,110
Properties, plant and equipment	29	**46,855**	51,602
Current tax assets		**138**	116
Deferred tax assets	36	**95**	63
Other assets	30	**106,735**	91,030
Total assets		**3,320,981**	3,026,056
LIABILITIES			
Hong Kong SAR currency notes in circulation	31	**189,550**	163,840
Deposits and balances from banks and other financial institutions		**326,495**	267,889
Financial liabilities at fair value through profit or loss	32	**20,336**	19,206
Derivative financial instruments	24	**60,313**	32,921
Deposits from customers	33	**2,183,709**	2,009,273
Debt securities and certificates of deposit in issue	34	**426**	116
Other accounts and provisions	35	**71,050**	80,624
Current tax liabilities		**3,979**	7,992
Deferred tax liabilities	36	**5,964**	6,480
Insurance contract liabilities	37	**139,504**	117,269
Subordinated liabilities	38	**–**	12,954
Total liabilities		**3,001,326**	2,718,564

As at 31 December	Notes	2020 HK$'m	2019 HK$'m
EQUITY			
Share capital	39	**52,864**	52,864
Reserves		**237,438**	225,919
Capital and reserves attributable to equity holders of the Company		**290,302**	278,783
Other equity instruments	40	**23,476**	23,476
Non-controlling interests		**5,877**	5,233
Total equity		**319,655**	307,492
Total liabilities and equity		**3,320,981**	3,026,056

The notes on pages 133 to 290 are an integral part of these financial statements.

Approved by the Board of Directors on 30 March 2021 and signed on behalf of the Board by:

LIU Liange
Director

SUN Yu
Director

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company											
		Reserves										
	Share capital HK$'m	Premises revaluation reserve HK$'m	Reserve for fair value changes HK$'m	Reserve for own credit risk HK$'m	Regulatory reserve* HK$'m	Translation reserve HK$'m	Merger reserve** HK$'m	Retained earnings HK$'m	Total HK$'m	Other equity instruments HK$'m	Non-controlling interests HK$'m	Total equity HK$'m
At 1 January 2019	52,864	38,527	(4,116)	5	10,496	(832)	350	160,242	257,536	23,476	4,361	285,373
Profit for the year	–	–	–	–	–	–	–	33,574	33,574	–	500	34,074
Upon declaration of dividend to other equity instrument holders	–	–	–	–	–	–	–	(1,390)	(1,390)	1,390	–	–
	–	–	–	–	–	–	–	32,184	32,184	1,390	500	34,074
Other comprehensive income:												
Premises	–	931	–	–	–	–	–	–	931	–	–	931
Equity instruments at fair value through other comprehensive income	–	–	(171)	–	–	–	–	–	(171)	–	(7)	(178)
Own credit risk	–	–	–	(38)	–	–	–	–	(38)	–	–	(38)
Debt instruments at fair value through other comprehensive income	–	–	4,328	–	–	–	–	–	4,328	–	582	4,910
Currency translation difference	–	–	11	–	–	251	–	–	262	–	–	262
Total comprehensive income	–	931	4,168	(38)	–	251	–	32,184	37,496	1,390	1,075	39,961
Release upon disposal of equity instruments at fair value through other comprehensive income:												
Transfer	–	–	21	–	–	–	–	(21)	–	–	–	–
Deferred tax	–	–	(4)	–	–	–	–	–	(4)	–	(3)	(7)
Current tax	–	–	–	–	–	–	–	4	4	–	3	7
Acquisition of entity under common control	–	–	–	–	–	–	(728)	–	(728)	–	–	(728)
Transfer from retained earnings	–	–	–	–	581	–	378	(959)	–	–	–	–
Dividends	–	–	–	–	–	–	–	(15,521)	(15,521)	(1,390)	(203)	(17,114)
At 31 December 2019	52,864	39,458	69	(33)	11,077	(581)	–	175,929	278,783	23,476	5,233	307,492

	Attributable to equity holders of the Company											
		Reserves										
	Share capital HK$'m	Premises revaluation reserve HK$'m	Reserve for fair value changes HK$'m	Reserve for own credit risk HK$'m	Regulatory reserve* HK$'m	Translation reserve HK$'m	Merger reserve** HK$'m	Retained earnings HK$'m	Total HK$'m	Other equity instruments HK$'m	Non-controlling interests HK$'m	Total equity HK$'m
At 1 January 2020	52,864	39,458	69	(33)	11,077	(581)	-	175,929	278,783	23,476	5,233	307,492
Profit for the year	-	-	-	-	-	-	-	27,863	27,863	-	605	28,468
Upon declaration of dividend to other equity instrument holders	-	-	-	-	-	-	-	(1,376)	(1,376)	1,376	-	-
	-	-	-	-	-	-	-	26,487	26,487	1,376	605	28,468
Other comprehensive income:												
Premises	-	(1,410)	-	-	-	-	-	-	(1,410)	-	-	(1,410)
Equity instruments at fair value through other comprehensive income	-	-	(6)	-	-	-	-	-	(6)	-	(64)	(70)
Own credit risk	-	-	-	1	-	-	-	-	1	-	-	1
Debt instruments at fair value through other comprehensive income	-	-	1,422	-	-	-	-	-	1,422	-	301	1,723
Currency translation difference	-	-	161	-	-	78	-	-	239	-	-	239
Total comprehensive income	-	(1,410)	1,577	1	-	78	-	26,487	26,733	1,376	842	28,951
Release upon disposal of equity instruments at fair value through other comprehensive income:												
Transfer	-	-	96	-	-	-	-	(96)	-	-	-	-
Deferred tax	-	-	(16)	-	-	-	-	-	(16)	-	(16)	(32)
Current tax	-	-	-	-	-	-	-	16	16	-	16	32
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	-	-	-	-	(6,297)	-	-	6,297	-	-	-	-
Dividends	-	-	-	-	-	-	-	(15,214)	(15,214)	(1,376)	(198)	(16,788)
At 31 December 2020	52,864	38,048	1,726	-	4,780	(503)	-	193,387	290,302	23,476	5,877	319,655

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

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

The notes on pages 133 to 290 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December	Notes	2020 HK$'m	2019 HK$'m
Cash flows from operating activities			
Operating cash inflow/(outflow) before taxation	41(a)	**152,274**	(267,976)
Hong Kong profits tax paid		**(9,304)**	(100)
Overseas profits tax paid		**(350)**	(627)
Net cash inflow/(outflow) from operating activities		**142,620**	(268,703)
Cash flows from investing activities			
Additions of properties, plant and equipment		**(1,323)**	(1,450)
Proceeds from disposal of properties, plant and equipment		**11**	1
Additions of investment properties	28	**(9)**	(35)
Additions of associates and joint ventures	27	**(6)**	(1,100)
Dividend received from associates and joint ventures	27	**3**	3
Acquisition of entity under common control		**–**	(728)
Net cash outflow from investing activities		**(1,324)**	(3,309)
Cash flows from financing activities			
Dividend paid to equity holders of the Company		**(15,214)**	(15,521)
Dividend paid to other equity instrument holders		**(1,376)**	(1,390)
Dividend paid to non-controlling interests		**(198)**	(203)
Payment for redemption of subordinated liabilities	41(b)	**(12,603)**	–
Interest paid for subordinated liabilities	41(b)	**(350)**	(707)
Payment of lease liabilities	41(b)	**(733)**	(644)
Net cash outflow from financing activities		**(30,474)**	(18,465)
Increase/(decrease) in cash and cash equivalents		**110,822**	(290,477)
Cash and cash equivalents at 1 January		**331,652**	626,126
Effect of exchange rate changes on cash and cash equivalents		**13,584**	(3,997)
Cash and cash equivalents at 31 December	41(c)	**456,058**	331,652

The notes on pages 133 to 290 are an integral part of these financial statements.

Notes to the Financial Statements

1. Principal activities

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of banking and related financial services.

The Company is a limited liability company incorporated and listed in Hong Kong. The address of its registered office is 53/F, Bank of China Tower, 1 Garden Road, Hong Kong.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs is a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, precious metals at fair value, investment properties which are carried at fair value and premises which are carried at fair value or revalued amount less accumulated depreciation and accumulated impairment losses. Disposal group and repossessed assets held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in Notes 2.2 and 2.25 respectively.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the Management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Amendments that are initially adopted for the financial year beginning on 1 January 2020

Amendments	Content	Applicable for financial years beginning on/after	Currently relevant to the Group
HKAS 1 and HKAS 8 (Amendments)	Definition of Material	1 January 2020	Yes
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Interest Rate Benchmark Reform	1 January 2020	Yes
HKFRS 3 (Amendments)	Definition of a Business	1 January 2020	Yes
HKFRS 16 (Amendments)	COVID-19-Related Rent Concessions	1 June 2020	Yes

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

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

  The amendments have been applied retrospectively. Note 24 provides information about the hedging relationships for which the Group has applied the reliefs set out in the amendments. The application of the amendments does not have a material impact on the Group's financial statements.

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

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Amendments that are initially adopted for the financial year beginning on 1 January 2020 (continued)

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

(b) Standard, amendments and interpretation issued that are not yet mandatorily effective and have not been early adopted by the Group in 2020

Standard/Amendments/ Interpretation	Content	Applicable for financial years beginning on/after	Currently relevant to the Group
HKAS 1 (Amendments)	Classification of Current or Non-current Liabilities	1 January 2023	Yes
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022	Yes
HKAS 28 (2011) and HKFRS 10 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined	Yes
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022	Yes
HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform – Phase 2	1 January 2021	Yes
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022	Yes
HKFRS 17	Insurance Contracts	1 January 2023	Yes
HK Int 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023	Yes

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standard, amendments and interpretation issued that are not yet mandatorily effective and have not been early adopted by the Group in 2020 (continued)

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

- HKAS 1 (Amendments), "Classification of Current or Non-current liabilities". The amendments aim to promote consistency in applying the requirements by helping entities determine whether, in the balance sheet, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt an entity might settle by converting it into equity. The amendments are applied retrospectively. Early adoption is permitted. The Group is considering the impact of the amendments on the Group's financial statements.

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

- HKAS 28 (2011) and HKFRS 10 (Amendments), "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture". The amendments address an acknowledged inconsistency between the requirements in HKAS 28 (2011) and those in HKFRS 10, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments are to be applied prospectively and early application is permitted. The application of the amendments will not have a material impact on the Group's financial statements.

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standard, amendments and interpretation issued that are not yet mandatorily effective and have not been early adopted by the Group in 2020 (continued)

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

- 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 an alternative benchmark rate as a result of the IBOR Reform. The amendments complement those issued in 2019 and relate to:

  – changes to contractual cash flows – a company 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 rate;

  – hedge accounting – a company 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 an alternative benchmark rate will be separately identifiable within a period of 24 months, it can designate the alternative reference rate as a non-contractually specified risk component even if it is not separately identifiable at the designation date; and

  – disclosures – a company 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 are applied retrospectively, except regarding designation of hedging relationships. The comparatives are not restated. Early application is permitted. The Group is considering the financial impact of the amendments on the Group's financial statements.

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standard, amendments and interpretation issued that are not yet mandatorily effective and have not been early adopted by the Group in 2020 (continued)

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

- HKFRS 17, "Insurance Contracts". HKFRS 17 and the Amendments issued in October 2020, aims at replacing the current insurance contracts standard HKFRS 4, an interim standard that leads to highly divergent accounting practices that exist in the insurers' local jurisdictions. The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts, with an objective to ensure that an entity provides relevant information that faithfully represents insurance contracts. Early application of the standard is permitted but only if the entity also applies HKFRS 9. The Group is considering the financial impact of the standard and the timing of its application.

- HK Int 5 (2020), "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause". This interpretation is revised as a consequence of HKAS 1 (Amendments), "Classification of Current or Non-current Liabilities" issued in August 2020, to align the corresponding wordings with no change in conclusion. The amendments are applied retrospectively. Early adoption is permitted. The Group is considering the impact of the interpretation and the timing of its application.

(c) Improvements to HKFRSs

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

2. Significant accounting policies (continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31 December 2020.

(1) Subsidiaries

Subsidiaries are entities (including structured entities), directly or indirectly, controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Group the current ability to direct the relevant activities of the investee). When the Group has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including: (a) the contractual arrangement with the other vote holders of the investee; (b) rights arising from other contractual arrangements; and (c) the Group's voting rights and potential voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interests; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment in that former subsidiary retained; reclassifies the amounts previously recognised in other comprehensive income to the income statement or retained earnings, as appropriate, on the same basis as directly disposed of the related assets or liabilities; recognises any resulting differences as gain or loss in the income statement.

If the Group is committed by the Board to a sale plan involving loss of control of a subsidiary (a disposal group) that is unlikely to be withdrawn or changed significantly, the Group shall classify all the assets and liabilities of that subsidiary as held for sale only when the following criteria are met on or before the end of the reporting period: (i) the carrying amount will be recovered principally through a sale transaction rather than through continuing use; (ii) the subsidiary is available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of its kind and its sale must be highly probable, including a high probability of shareholders' approval, if needed; (iii) an active programme to locate a buyer at a reasonable price has been initiated and to complete the sale within one year, regardless of whether the Group will or will not retain a non-controlling interest after the sale. Disposal group (other than investment properties and financial instruments) is initially recognised and subsequently remeasured at the lower of its carrying amount and fair value less costs to sell. Properties, plant and equipment classified as held for sale are not depreciated.

2. Significant accounting policies (continued)

2.2 Consolidation (continued)

(1) Subsidiaries (continued)

(i) Business combinations not under common control

Acquisitions of businesses not under common control are accounted for using the acquisition method. The consideration transferred in a business combination is the fair values at the acquisition date of the assets transferred, the liabilities incurred (including contingent consideration arrangement) and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are expensed in the income statement as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If after assessment, the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held interest in the acquiree (if any), the excess is recognised immediately in the income statement as a gain on bargain. Subsequently, goodwill is subject to impairment testing at least annually.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at fair value at the acquisition date and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. The measurement period does not exceed one year from the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

2. Significant accounting policies (continued)

2.2 Consolidation (continued)

(1) Subsidiaries (continued)

(ii) Business combinations under common control

For a combination with a company under common control, the merger accounting method will be applied. The principle of merger accounting is a way to combine companies under common control as though the business of the acquiree had always been carried out by the acquirer. The Group's consolidated financial statements represent the consolidated results, consolidated cash flows and consolidated financial position of the Group as if any such combination had occurred from the date when the Company and the acquiree first came under common control (i.e. no fair value adjustment on the date of combination is required). The difference between the consideration and carrying amount at the time of combination is recognised in equity. The effects of all transactions between the Group and the acquiree, whether occurring before or after the combination, are eliminated in preparing the consolidated financial statements of the Group. Comparative amounts are presented as if the acquiree had been combined at the beginning of the previous reporting period. The transaction costs for the combination will be expensed in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable. Dividend income from subsidiaries is recognised in the income statement when the right to receive payment is established.

(2) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests without change of control as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recognised in equity. Gains or losses on disposals to non-controlling interests are also recognised in equity.

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

2. Significant accounting policies (continued)

2.2 Consolidation (continued)

(3) Associates and joint ventures

An associate is the entity over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The Group's investments in associates and joint ventures include goodwill, net of accumulated impairment loss and any related accumulated foreign currency translation difference.

The Group's share of the post-acquisition profits or losses of associates or joint ventures is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The accumulated post-acquisition movements are adjusted against the cost of the investment. When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognise further losses unless the Group has incurred obligations or made payments on behalf of the associates or joint ventures.

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

If the ownership interest in an associate or a joint venture is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to the income statement or retained earnings, where appropriate.

2. Significant accounting policies (continued)

2.3 Segmental reporting

The operating result of segments are reported in a manner consistent with the internal reporting provided to the Management Committee, which is the chief operating decision maker of the Group, that allocates resources and assesses the performance of operating segments. Income and expenses directly associated with each segment are included in determining operating segment performance.

2.4 Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

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

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

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

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

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

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

2. Significant accounting policies (continued)

2.5 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and through the use of valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

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

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

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

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

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

2. Significant accounting policies (continued)

2.5 Derivative financial instruments and hedge accounting (continued)

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as effective fair value hedges are recognised in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

When fair value hedge accounting is applied to financial instruments carried at amortised costs, the carrying values of the hedged items are adjusted for changes in fair value that are attributable to the interest rate risk being hedged with the derivative instruments rather than carried at amortised cost, such carrying value adjustment is recognised in the income statement together with the changes in fair value of the hedging derivatives.

If the hedge relationship no longer meets the criteria for hedge accounting or is terminated for reasons other than derecognition, e.g. due to repayment of the hedged item, the unamortised carrying value adjustment (the difference between the carrying value of the hedged item at the time of termination and the value at which it would have been carried had the hedge never existed) to the hedged item is amortised to the income statement over the remaining life of the hedged item by the effective interest method. If the hedged item is derecognised, the unamortised carrying value adjustment is recognised immediately in the income statement.

For fair value hedge relationships where the hedged items are debt instruments carried at FVOCI, changes in fair value are recorded in the income statement whilst hedge accounting is in place. When the hedge relationship no longer meets the criteria for hedge accounting or is terminated for reasons other than derecognition, the cumulative effective hedged portion of fair value change recognised in the income statements are amortised by the effective interest method back to the revaluation reserve. If the hedged item is derecognised, the unamortised cumulative effective hedged portion of fair value change recognised in the income statement are reclassified to revaluation reserve immediately.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any accumulated gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the accumulated gain or loss that was reported in equity is immediately reclassified to the income statement.

2. Significant accounting policies (continued)

2.5 Derivative financial instruments and hedge accounting (continued)

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. A gain or loss on the effective portion of the hedging instrument is recognised in other comprehensive income and accumulated in equity; a gain or loss on the ineffective portion is recognised immediately in the income statement. Accumulated gains and losses previously recognised in other comprehensive income are reclassified to the income statement upon disposal of the foreign operation as part of the gain or loss on disposal.

2.6 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.7 Income and expense

(1) Interest income and expense

Interest income and expense are recognised in the income statement for all financial assets carried at amortised cost and fair value through other comprehensive income, and financial liabilities using the effective interest method. Similar interest income and expense arising from non-derivative financial assets and liabilities carried at fair value through profit or loss are determined using similar method, but excluding their transaction costs.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument (e.g. prepayment options or incentives relating to residential mortgage loans) but does not consider future credit losses. The calculation includes fees, premiums or discounts and basis points paid or received between parties to the contract, and directly attributable origination fees and costs which represent an integral part of the effective yield.

For all hedge transactions where interest rate is the hedged risk, interest income or interest expense from hedged instruments such as fixed rate debt securities or fixed rate subordinated notes are disclosed on a net basis together with net interest income/expense arising from the hedging instrument such as interest rate swap.

2. Significant accounting policies (continued)

2.7 Income and expense (continued)

(2) Non-interest income and expense

Income from service is recognised when the Group fulfils its performance obligation, either over time or at a point in time on a basis when a customer obtains control of the service.

Fee income from services are recognised over time at a fixed or variable price on a systematic basis over the life of the agreement when the contract requires services to be provided over time such as account service and credit card fees, or recognised at a point in time under transaction-based arrangements when service has been fully provided to the customer such as broking services and loan syndication arrangement.

Dividend income is recognised when the right to receive payment is established.

The accounting policies for insurance premium income are disclosed in Note 2.20.

2.8 Financial assets

The Group classifies its financial assets into one of the following measurement categories at initial recognition as subsequently measured at: fair value through profit or loss ("FVPL"), amortised cost and fair value through other comprehensive income ("FVOCI"). The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instruments, or the election of fair value option. All financial assets are recognised initially at fair value. Except for financial assets carried at FVPL, all transaction costs of financial assets are included in their initial carrying amounts.

(1) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets designated at fair value through profit or loss at inception, or financial assets mandatorily required to be measured at fair value through profit or loss, including those held for trading.

A financial asset which has been acquired or incurred principally for the purpose of selling in the short term or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking is classified as held for trading. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

A financial asset, other than those held for trading or mandatorily measured at fair value, will be designated as a financial asset at FVPL, if it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring the financial assets or recognising the gains and losses on them on different bases, and is so designated by the Management.

These assets are recognised initially at fair value, with transaction costs taken directly to the income statement, and are subsequently re-measured at fair value.

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

2. Significant accounting policies (continued)

2.8 Financial assets (continued)

(2) Financial assets at amortised cost

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

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

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

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

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

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

2. Significant accounting policies (continued)

2.9 Financial liabilities

The Group classifies its financial liabilities under the following categories: trading liabilities, financial liabilities designated at fair value through profit or loss, deposits, debt securities and certificates of deposit in issue, subordinated liabilities, and other liabilities. All financial liabilities are classified at inception and recognised initially at fair value, and in the case of financial liability not at fair value through profit or loss, plus or minus transaction costs.

(1) Trading liabilities

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

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

A financial liability can be designated at fair value through profit or loss if it is so designated at inception. Financial liabilities so designated include certain certificates of deposit in issue and certain deposits received from customers that are embedded with derivatives. A financial liability is so designated if it meets one of the following criteria:

- eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring the financial liabilities or recognising the gains and losses on them on different bases; or

- applies to a group of financial assets, financial liabilities or both that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Group is provided internally on that basis to the key management; or

- relates to financial liabilities containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial liabilities.

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

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

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

2. Significant accounting policies (continued)

2.10 Financial guarantee contracts and undrawn loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a contract between the holder and the debtor.

Financial guarantee contracts are initially recognised as financial liabilities at fair value on the date the guarantees were given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of (i) an ECL provision as set out in Note 2.14 and (ii) the amount initially recognised less, where appropriate, accumulated amortisation recognised over the life of the guarantee on a straight-line basis. Any changes in the liability relating to financial guarantee contracts are taken to the income statement.

Undrawn loan commitments are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. These contracts are in the scope of the ECL requirements as set out in Note 2.14.

The ECL provision for financial guarantees and loan commitments are reported under "Other accounts and provisions" in the financial statements.

2.11 Recognition, derecognition and modification of financial instruments

Purchases and sales of financial assets subsequently measured at FVPL, securities measured at FVOCI and amortised costs are recognised on the trade date, the date on which the Group purchases or sells the assets. Loans and advances and other financial assets are recognised when cash is advanced to the counterparties. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group either continues to recognise the transferred financial asset to the extent of its continuing involvement if control remains or derecognise it if there is no retained control. If the contractual cashflow of financial instruments measured at amortised cost or FVOCI are renegotiated or modified, the modified contractual cashflow should be discounted using the original effective interest rate, and compared with the original amortised cost before impairment. If the difference is material, the original financial instrument should be derecognised and then re-recognised with the present value aforementioned. Otherwise, the difference is adjusted to the original carrying value and accounted for in the profit or loss.

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

2. Significant accounting policies (continued)

2.11 Recognition, derecognition and modification of financial instruments (continued)

Securities and bills sold to a counterparty with an obligation to repurchase at a pre-determined price on a specified future date under a repurchase agreement are referred to as repos. Securities and bills purchased from a counterparty with an obligation to re-sell to the counterparty at a pre-determined price on a specified future date under a resale agreement are referred to as reverse repos.

Repos or securities lending are initially recognised as due to banks, placements from banks and other financial institutions, as appropriate, at the actual amount of cash received from the counterparty. Financial assets given as collateral for repurchase agreements are not derecognised and are recorded as investment in securities or financial assets at FVPL. Reverse repos or securities borrowings with a "hold-to-collect" business model and contractual cash flow of solely payments of principal and interest on the principal outstanding are initially recognised in the balance sheet as cash and due from banks or placements with banks and other financial institutions, as appropriate, at the actual amount of cash paid to the counterparty. Financial assets received as collateral under reverse repurchase agreements are not recognised on the balance sheet. The difference between the sale and the repurchase price is recognised as interest income or interest expense over the life of the agreements using the effective interest method.

2.12 Fair value measurement

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

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

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

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

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

2. Significant accounting policies (continued)

2.13 Precious metals

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

2.14 Impairment of financial assets

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

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

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

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

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

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

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

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within 12 months after the reporting date; or
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

2. Significant accounting policies (continued)

2.14 Impairment of financial assets (continued)

The Group will account for expected credit losses within the next 12 months as Stage 1 when those financial instruments are initially recognised; and to recognise lifetime expected credit losses as Stage 2 when there has been significant increases in credit risk since initial recognition. Lifetime expected credit losses will be recognised for credit-impaired financial instruments as Stage 3 if one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred and interest will then be accrued net of the impairment amount of the respective Stage 3 financial assets.

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

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

- failure to make payments of principal or interest 30 days after their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

2. Significant accounting policies (continued)

2.14 Impairment of financial assets (continued)

The Group considers that a financial instrument is credit-impaired when there is observable data about:

- significant financial difficulty incurred by the debtor;
- a breach of contract, such as a default or delinquency in principal or interest payment;
- for economic or legal reasons related to the debtor's financial difficulty, the Group has granted to the debtor a concession that it would not otherwise consider;
- probable that the debtor will become bankrupt or undergo other financial reorganisation; or
- other observable data indicating that there is a measurable decrease in the estimated future cash flows from such advances.

The Group considers on an individual basis both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all relevant financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI, for which the loss allowance is recorded in the fair value reserve.

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

When a financial asset is uncollectible, it is written off against the gross carry amount of the financial asset and the related allowance for impairment losses. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. The assets written off are still subject to enforcement activity. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses in the income statement.

2. Significant accounting policies (continued)

2.15 Impairment of investments in subsidiaries, associates, joint ventures and non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Potential indications of impairment may include significant adverse changes in the technological, market, economic or legal environment in which the assets operate or whether there has been a significant or prolonged decline in value below their cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Impairment of intangible assets with indefinite useful life are tested for impairment annually.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impaired assets are reviewed for possible reversal of the impairment at each reporting date.

In the Company's balance sheet, impairment testing of the investment in a subsidiary, associate or joint venture is also required upon receiving dividend from that entity if the dividend exceeds the total comprehensive income of that entity concerned in the period the dividend is declared or if the carrying amount of that entity in the Company's balance sheet exceeds the carrying amount of that entity's net assets including goodwill in its consolidated balance sheet.

2.16 Investment properties

Properties (including right-of-use assets arising from leases over leasehold land on which properties are situated), that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the companies in the Group, are classified as investment properties. Properties leased out within group companies are classified as investment properties in individual companies' financial statements and as premises in consolidated financial statements.

Investment properties are recognised initially at cost, including related transaction costs. After initial recognition, investment properties are measured at fair value.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The work in progress item is stated at fair value. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Any changes in fair value are recognised directly in the income statement.

If an investment property becomes owner-occupied, it is reclassified as premises, and its fair value at the date of reclassification becomes its cost for accounting purposes. If an item of premises becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in other comprehensive income as a revaluation of premises under HKAS 16 "Property, Plant and Equipment". However, if a fair value gain reverses a previous revaluation loss or impairment loss classified under premises, the gain is recognised in the income statement up to the amount previously debited.

2. Significant accounting policies (continued)

2.17 Properties, plant and equipment

Properties (including right-of-use assets arising from leases over leasehold land on which properties are situated) are mainly branches and office premises. Premises are stated at fair value based on periodic, at least annually, valuations by external independent valuers less any subsequent accumulated depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. In the intervening periods, the directors review the carrying amount of premises, by reference to the open market value of similar properties, and adjustments are made when there has been a material change.

Increases in the carrying amount arising on revaluation of premises are credited to the premises revaluation reserve through other comprehensive income. Decreases that offset previous increases of the same individual asset are charged against premises revaluation reserve through other comprehensive income; all other decreases are expensed in the income statement. Any subsequent increases are credited to the income statement up to the amount previously debited, and then to the premises revaluation reserve. Upon disposal of premises, the relevant portion of the premises revaluation reserve realised in respect of previous valuations is released and transferred from the premises revaluation reserve to retained earnings.

All plant and equipment and right-of-use assets other than leasehold land (see Note 2.19) are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition and installation of the items.

Subsequent costs are included in an asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The item is stated at cost less impairment until it begins to generate economic benefits, then the item is subsequently measured according to the measurement basis of its respective assets class. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred or provided for.

Depreciation is calculated on the straight-line method to write down the cost or revalued amount of such assets over their estimated useful lives as follows:

- Properties — Over the life of government land leases
- Plant and equipment — 2 to 15 years
- Right-of-use asset — Shorter of useful lives and lease terms

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

2. Significant accounting policies (continued)

2.17 Properties, plant and equipment (continued)

At the end of each reporting period, both internal and external sources of information are considered to determine whether there is any indication that properties, plant and equipment are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such an impairment loss is recognised in the income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Impairment loss is reversed through the premises revaluation reserve or the income statement as appropriate.

Gains or losses on disposals are determined as the difference between the net disposal proceeds and the carrying amount, relevant taxes and expenses. These are recognised in the income statement on the date of disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained earnings and is not reclassified to the income statement.

2.18 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance owned and controlled by the Group, mainly computer application software. Intangible assets are stated at acquisition cost less accumulated amortisation and impairment.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

- Capitalised computer application software: 3 to 5 years

Both the period and method of amortisation are reviewed annually.

Gains or losses on disposals are determined as the difference between the net disposal proceeds and the carrying amount, relevant taxes and expenses. These are recognised in the income statement on the date of disposal.

2. Significant accounting policies (continued)

2.19 Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use over the contract period.

(1) As a lessee

On the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, after taking into account payments to be made in the optional period if the extension option is reasonably certain to be exercised, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate.

After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using a constant periodic rate of interest. Variable lease payments that do not depend on an index or a rate are not included in the measurement of the lease liability and hence are charged to income statement in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, then discounted to its present value, and less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Note 2.17), and adjusted when the lease liabilities are remeasured except for the following types of right-of-use asset:

- right-of-use assets that meet the definition of investment property are carried at fair value in accordance with Note 2.16; and
- right-of-use assets related to leasehold land and buildings that do not meet the definition of investment property and where the Group is the registered owner of the leasehold interest are carried at revalued amount in accordance with Note 2.17.

2. Significant accounting policies (continued)

2.19 Leases (continued)

(1) As a lessee (continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or a rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change of lease terms, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in income statement if the carrying amount of the right-of-use asset has been reduced to zero.

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

(2) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying asset to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised on a straight-line basis over the lease term.

2.20 Insurance and investment contracts

(1) Insurance and investment contract classification, recognition and measurement

The Group follows the local regulatory requirements to measure the liabilities of its insurance contracts and investment contracts with the discretionary participation feature ("DPF").

The Group issues insurance contracts, which are contracts that transfer significant insurance risk and may also transfer financial risk. As a general guideline, the Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefit payable if the insured event did not occur. The Group issues long term business insurance contracts, which insure events covered by life policies (for example death, survival, or total permanent disability) over a long duration. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised. In addition, the Group issues investment contracts. Investment contracts transfer financial risk with no significant insurance risk. They contain a DPF which entitles the holders to receive additional benefits (supplement to guaranteed benefits) that are likely to be significant based on the performance and return of a specified pool or type of contracts.

Linked long term insurance contracts with embedded derivatives (which are closely related to the host insurance contracts) linking payments on the contract to units of the investment funds which the Group has invested with the consideration received from the contract holders, the liability is adjusted for all changes in the fair value of the underlying assets, and includes a liability for contractual benefits that are expected to be incurred in the future which is recorded when the premiums are recognised.

2. Significant accounting policies (continued)

2.20 Insurance and investment contracts (continued)

(1) Insurance and investment contract classification, recognition and measurement (continued)

Retirement scheme management category I contracts are classified as investment contracts. They also include an investment guarantee element in the determination of the credit rate to policyholders' accounts. The liability for these contracts is determined using a retrospective calculation method which represents an account balance based on the premiums received to date plus interest or bonus credited to the policyholders less policy charges.

Retirement scheme management category III insurance contracts, as defined in the Insurance Ordinance, insure events associated with the cessation of employment due to death. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised. The portion of the premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability, which is included in insurance liabilities.

Premiums are recognised as revenue when they become payable by the contract holders before the deduction of commissions and are gross of any taxes or duties levied on the premium. Benefits and claims are recorded as an expense when they are incurred.

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirement for insurance contracts as noted above are classified as reinsurance contracts held.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These reinsurance assets consist of short-term amounts due from reinsurers as well as longer term receivables that are dependent on the expected claims and benefits arising from the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

(2) Liability adequacy tests

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administrative expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the consolidated income statement, with a provision established for losses arising from the liability adequacy tests.

2. Significant accounting policies (continued)

2.21 Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise balances with original maturity less than three months from the date of acquisition, including cash, balances with banks and other financial institutions, short-term bills and notes classified as investment securities and certificates of deposit.

2.22 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.23 Employee benefits

(1) Retirement benefit costs

The Group contributes to defined contribution retirement schemes under either recognised ORSO schemes or MPF schemes that are available to the Group's employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries for the ORSO schemes and in accordance with the MPF rules for MPF schemes. The retirement benefit scheme costs are charged to the income statement as incurred and represent contributions payable by the Group to the schemes. Contributions made by the Group that are forfeited by those employees who leave the ORSO scheme prior to the full vesting of their entitlement to the contributions are used by the Group to reduce the existing level of contributions or to meet its expenses under the trust deed of the ORSO schemes.

The assets of the schemes are held in independently-administered funds separate from those of the Group.

(2) Leave entitlements

Employee entitlements to annual leave and sick leave are recognised when they accrue to employees. A provision is made for the estimated liability for unused annual leave and the amount of sick leave expected to be paid as a result of services rendered by employees up to the end of the reporting period.

Compensated absences other than sick leave and special approved annual leave are non-accumulating; they lapse if the current period's entitlement is not used in full. Except for unexpired annual leave, they do not entitle employees to a cash payment for unused entitlement on leaving the Group.

(3) Bonus plans

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans that are expected to be settled longer than twelve months will be discounted if the amounts are significant.

2. Significant accounting policies (continued)

2.24 Current and deferred income taxes

Tax expenses for the period comprise current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income. In this case, the tax is also recognised in other comprehensive income.

Income tax payable on profits, based on the applicable tax law enacted or substantially enacted at the end of the reporting period in each jurisdiction where the Company and its subsidiaries, associates and joint ventures operate and generate taxable income, is recognised as a current income tax expense in the period in which profits arise.

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

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

2. Significant accounting policies (continued)

2.25 Repossessed assets

Repossessed assets are initially recognised at the lower of their fair value less costs to sell and the amortised cost of the related outstanding loans on the date of repossession, and the related loans and advances together with the related impairment allowances are derecognised from the balance sheet. Subsequently, repossessed assets are measured at the lower of their cost and fair values less costs to sell and are reported as "non-current assets held for sale" included in "Other assets".

2.26 Fiduciary activities

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are excluded from these financial statements, as they are not assets of the Group.

2.27 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised as a provision but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When the inflow is virtually certain, it will be recognised as an asset.

2.28 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if that party (i) controls, jointly controls or has significant influence over the Group; (ii) is a member of the same financial reporting group, such as parents, subsidiaries and fellow subsidiaries; (iii) is an associate or a joint venture of the Group or parent reporting group; (iv) is a key management personnel of the Group or parents; (v) is subject to common control with the Group; (vi) is an entity in which a person identified in (iv) controls; and (vii) provides key management personnel services to the Group or its parent. Related parties may be individuals or entities.

3. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the carrying amounts of assets and liabilities within the next reporting period. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to changes in essential estimates and judgements, which affect the carrying amount of assets and liabilities, are set out below. The effects of changes to either the key assumptions or other estimation uncertainties are presented below if it is practicable to determine. It is possible that actual results may require material adjustments to the estimates referred to below.

3.1 Impairment of financial assets

The Group reviews its credit portfolios to assess impairment at least on a quarterly basis. Under HKFRS 9, the measurement of impairment losses across all categories of financial asset requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes of which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models. The choice of variable inputs and their interdependencies involves a series of assumptions. ECL models are developed by leveraging on the parameters implemented under Basel II Internal Ratings-Based ("IRB") models and internal models, where feasible and available. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit rating models, which assign Probability of Defaults to the individual ratings. Please refer to CRE of section 7 of the Group's Regulatory Disclosures for 2020 for a description of the Group's internal models;

- The Group's significant credit deterioration criteria (including internal credit rating downgrade, days past due, drop in Mark-to-Market and qualitative assessment) for assessing whether the financial assets' impairment allowances should be measured on a lifetime ECL basis;

- The segmentation of financial assets according to credit risk characteristics (portfolios including Sovereign, Bank, Corporates, Retail Small Medium-sized Enterprise, Residential Mortgage Loan and Credit Card) when their ECLs are assessed on a collective basis;

- Development of ECL models, including the determination of macroeconomic factor forecasts (including Gross Domestic Product growth, Consumer Price Index, Property Price Index and Unemployment Rate) and the effect on Probability of Defaults, Loss Given Defaults and Exposure at Defaults; and

- Selection of forward-looking macroeconomic scenarios (including three independent scenarios i.e. good, baseline and bad) and their probability weightings.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Carrying amounts of loans and advances and investment in securities as at 31 December 2020 are shown in Notes 25 and 26 respectively.

3. Critical accounting estimates and judgements in applying accounting policies (continued)

3.2 Fair values of derivative financial instruments and other financial instruments

The fair values of derivative financial instruments and other financial instruments that are not quoted in active markets are determined by using valuation techniques. Valuation techniques used include the use of recent arm's length transactions, discounted cash flows analysis and models with built-in functions available in externally acquired financial analysis or risk management systems widely used by the industry such as option pricing models, and other commonly used market pricing models. To the extent practical, the models use observable data. In addition, valuation adjustments may be adopted if factors such as credit risk are not considered in the valuation models. Management judgement and estimates are required for the selection of appropriate valuation parameters, assumptions and modelling techniques.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date. Further details will be discussed in Note 5.

3.3 Estimate of future benefit payments and premiums arising from long term insurance contracts

In determining the Group's long-term business fund liabilities (a component of insurance contract liabilities), the Group follows the Insurance (Determination of Long-Term Liabilities) Rules and makes prudent assumptions which include appropriate margins for adverse deviation of the relevant factors. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on population statistics or reinsurance information, adjusted where appropriate to reflect the Group's own experience and relevant reinsurance arrangements. For contracts that insure the risk of longevity, appropriate prudent allowances are made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS, SARS, avian flu and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Group has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.

Were the number of deaths and morbidity in future years to differ by 10% (2019: 10%) from the Management's estimate, the long-term business fund liability would increase by approximately HK$264 million (2019: approximately HK$197 million), which accounts for 0.29% (2019: 0.26%) of the liability. In this case, it is assumed there is no relief arising from reinsurance contracts held.

For linked long term insurance contracts with a life cover component, it is assumed that the Group will be able to increase mortality risk charges in future years in line with emerging mortality experience.

3. Critical accounting estimates and judgements in applying accounting policies (continued)

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

Estimates are also made as to future investment income arising from the assets backing long term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. Were the average future investment returns to decrease by 50 basis points (2019: 50 basis points) from the Management's estimates, the long-term business fund liability would increase by approximately HK$1,316 million (2019: approximately HK$1,668 million). In this case, it is assumed there is no relief arising from reinsurance contracts held.

The Group has also assessed whether a provision for expense is necessary in accordance with the Insurance Ordinance. A provision for expense is the amount required to meet the total net cost that would likely be incurred in fulfilling contracts if the Group were to cease to transact new business 12 months after the valuation date. As at 31 December 2020, no provision for maintenance expenses was provided (2019: Nil).

A resilience reserve was set up and included in long term business fund liabilities in accordance with the Insurance (Determination of Long-Term Liabilities) Rules to provide a prudent provision against the effects of possible future changes to the value of the assets to meet the liabilities. The resilience reserve was set up based on the appointed actuary's advice of a 12 basis points (2019: 26 basis points) change in market yield of the underlying assets and valuation interest rates. The amount of resilience reserve set up depends on the degree of change in interest rate assumed.

3.4 Deferred tax assets

Deferred tax assets on unused tax losses and unused tax credits are recognised and the determination of the amount to be recognised requires significant management judgement. Deferred tax asset on unused tax losses are recognised to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits. For deferred tax assets on unused tax credits, judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the estimation of available tax credits and the possibility to recover such deferred tax assets recognised.

3.5 Determination of lease terms of leases

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to renew the leases for additional terms of three to nine years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option on the lease commencement date. During the evaluation, the Group considers all relevant factors that create an economic incentive for it to exercise the renewal option. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

Carrying amounts of right-of-use assets as at 31 December 2020 are shown in Note 29.

4. Financial risk management

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

Financial risk management framework

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

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

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

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

4. Financial risk management (continued)

Financial risk management framework (continued)

The Group has put in place appropriate internal control systems, including the establishment of an organisation structure that sets clear lines of authority and responsibility for monitoring compliance with policies, procedures and limits. Proper reporting lines also provide sufficient independence of the control functions from the business areas, as well as adequate segregation of duties throughout the organisation which helps to promote an appropriate internal control environment.

Product development and risk monitoring

To ensure the effectiveness of risk assessment and monitoring, the Group has a comprehensive product development and risk monitoring system where roles and responsibilities of all related units are clearly defined and proper due diligence processes on product development are in place.

In accordance with the strategic objectives set by the Board and the Management, respective product management units are responsible for formulating business and product development plans, and proceeding to specific product development activities. The department of strategic development shall ensure the plans are aligned with the Group's overall strategies. Departments that are responsible for risk management, legal, compliance and finance, etc. are accountable for review of the risk assessment results.

Apart from product development, respective product management units shall work closely with relevant risk evaluating departments to identify and assess the risks of new products. Risk evaluating departments shall conduct independent review on the risk assessment results and the corresponding risk management measures. Products can only be launched upon completion of the product due diligence process to the satisfaction of all risk evaluating departments.

A prudent approach is adopted in offering treasury products to our clients. All new treasury products require approval from a special committee before launching.

4.1 Credit risk

Credit risk is the risk of loss that a customer or counterparty is unable to or unwilling to meet its contractual obligations. Credit risk exists in the trading book and banking book, as well as from on- and off-balance sheet transactions of the Group. It arises principally from lending, trade finance and treasury businesses.

Credit risk management framework

The Group has formulated a comprehensive set of credit risk management policies and procedures, and appropriate credit risk limits to manage and control credit risk that may arise. These policies, procedures and credit risk limits are regularly reviewed and updated to cope with changes in market conditions and business strategies.

The Group's organisation structure establishes a clear set of authority and responsibility for monitoring compliance with policies, procedures and limits.

4. Financial risk management (continued)

4.1 Credit risk (continued)

Credit risk management framework (continued)

The Chief Credit Officer, who reports directly to the CRO, takes charge of credit risk management and is also responsible for the control of credit risk exposures of subsidiaries in line with the credit risk management principles and requirements set by the Group. Various units of the Group have their respective credit risk management responsibilities. Business units act as the first line of defence in risk management. The Risk Management Department ("RMD"), which is independent from the business units, is responsible for the day-to-day management of credit risks and provides an independent due diligence through identifying, measuring, monitoring and controlling credit risk to ensure an effective checks and balances, as well as drafting, reviewing and updating credit risk management policies and procedures. It is also responsible for the design, development and maintenance of the Group's internal rating system and ensures the system complies with the relevant regulatory requirements. Back offices are responsible for credit administration, providing operations support and supervision on the implementation of prerequisite terms and conditions of credit facilities.

In accordance with the Group's operating principle, the Group's principal subsidiaries have to formulate their own credit risk policies that are consistent with those of the Group's core principle. These subsidiaries are required to submit their risk management reports to the Group's Management on a regular basis.

The Board of Directors delegates credit approval authority to the CE. The CE can further delegate to the subordinates within his limit authorised by the Board of Directors. The Group sets the limits of credit approval authority according to the credit business nature, rating, the level of transaction risk, and the extent of the credit exposure.

Credit risk measurement and control

In view of the rapidly changing market conditions, the Group has been continuously revisiting its credit strategies and conducting rigorous reviews on the concerned portfolios.

Advances

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

The Group also uses loan grades, obligor ratings and loss estimates (if applicable) to support credit monitoring, reporting and analysis of credit risk information. For non-retail exposures, more frequent rating review and closer monitoring are required for higher-risk customers. For retail exposures, monthly updated internal ratings and loss estimates are used for credit monitoring on a portfolio basis. More comprehensive review is required for obligors being identified under high-risk pools.

4. Financial risk management (continued)

4.1 Credit risk (continued)

Credit risk measurement and control (continued)

Advances (continued)

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

RMD provides regular credit management information reports and ad hoc reports to the MC, RMC and Board of Directors to facilitate their continuous monitoring of credit risk.

In addition, the Group identifies credit concentration risk by industry, geography, customer or counterparty. The Group monitors changes to every counterparties credit risk, quality of the credit portfolio and credit risk concentrations, and reports regularly to the Group's Management.

The Group adopts loan grading criteria which divide credit assets into five categories with reference to the HKMA's guidelines, as below:

"Pass" represents loans where the borrower is current in meeting its repayment obligations and full repayment of interest and principal is not in doubt.

"Special Mention" represents loans where the borrower is experiencing difficulties which may threaten the Group's recoverability of the loan principal and interest. Ultimate loss is not expected at this stage but could occur if adverse conditions persist.

"Substandard" represents loans where the borrower displays a definable weakness that is likely to jeopardise repayment.

"Doubtful" represents loans where collection in full is improbable and the Group expects to sustain a loss of principal and/or interest, taking into account the net realisable value of the collateral.

"Loss" represents loans which are considered uncollectible after all collection options (such as the realisation of collateral or the institution of legal proceedings) have been exhausted.

Debt securities and derivatives

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

Settlement risk arises mainly from foreign exchange transactions with counterparties and also from derivative transactions in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty or customer to cover all settlement risks arising from the Group's market transactions on any single day.

4. Financial risk management (continued)

4.1 Credit risk (continued)

Expected Credit Loss ("ECL") Methodology

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

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

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

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

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

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

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

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.

4. Financial risk management (continued)

4.1 Credit risk (continued)

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

The probability 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 is assigned to the Baseline scenario to reflect the most likely outcome and a lower probability is assigned to the Good and Bad scenarios to reflect the less likely outcomes. As of December of 2020, 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 factor 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 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.

Collateral held as security and other credit enhancements

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

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

As at 31 December 2020, the fair value of collateral held by the Group that was permitted to sell or re-pledge in the absence of default by the borrower amounted to HK$5,168 million (2019: HK$6,335 million). The Group had not sold or re-pledged such collateral (2019: Nil). These transactions are conducted under terms that are usual and customary to reverse repurchase and securities borrowing agreements.

4. Financial risk management (continued)

4.1 Credit risk (continued)

(A) Credit exposures

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

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

Balances and placements with banks and other financial institutions

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

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

Collateral is generally not sought on debt securities.

Derivative financial instruments

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

Advances and other accounts, contingent liabilities and commitments

The general types of collateral are disclosed on page 172. Advances and other accounts, contingent liabilities and commitments are collateralised to the extent considered appropriate by the Group taking account of the risk assessment of individual exposures. The collateral coverage of advances to customers is analysed on pages 182 to 183. The components and nature of contingent liabilities and commitments are disclosed in Note 42. Regarding the commitments that are unconditionally cancellable without prior notice, the Group would assess the necessity to withdraw the credit line in case where the credit quality of a borrower deteriorates. For contingent liabilities and commitments, 13.25% (2019: 14.20%) were covered by collateral as at 31 December 2020.

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts

Gross advances and other accounts before impairment allowances are summarised by product type as follows:

	2020 HK$'m	2019 HK$'m
Advances to customers		
Personal		
– Mortgages	**340,587**	298,914
– Credit cards	**10,981**	14,688
– Others	**107,009**	102,272
Corporate		
– Commercial loans	**972,790**	904,245
– Trade finance	**66,497**	75,764
	1,497,864	1,395,883
Trade bills	**9,826**	20,727
Advances to banks and other financial institutions	**1,898**	3,387
	1,509,588	1,419,997

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.

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

Evidence that an advance is credit-impaired include observable data about the following events:

– Significant financial difficulty incurred by the borrower;

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

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

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

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

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

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

	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

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

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

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

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

	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
Charged to income statement (Note 13)				2,489

	2020			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Gross amount				
At 1 January 2020	1,412,567	4,213	3,217	1,419,997
Transfer to Stage 1	1,207	(1,197)	(10)	–
Transfer to Stage 2	(22,369)	22,384	(15)	–
Transfer to Stage 3	(804)	(403)	1,207	–
Net change in exposures	87,260	(1,628)	62	85,694
Write-offs	–	–	(561)	(561)
Exchange difference and others	4,355	9	94	4,458
At 31 December 2020	1,482,216	23,378	3,994	1,509,588

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

	2019			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Impairment allowances				
At 1 January 2019	3,748	546	1,130	5,424
Transfer to Stage 1	154	(143)	(11)	–
Transfer to Stage 2	(26)	103	(77)	–
Transfer to Stage 3	(15)	(184)	199	–
Changes arising from transfer of stage	(131)	84	1,216	1,169
Charge for the year	2,368	50	342	2,760
Reversal for the year	(1,536)	(155)	(386)	(2,077)
Write-offs	–	–	(462)	(462)
Recoveries	–	–	213	213
Exchange difference and others	2	(4)	11	9
At 31 December 2019	4,564	297	2,175	7,036
Charged to income statement (Note 13)				1,852

	2019			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Gross amount				
At 1 January 2019	1,277,879	8,152	2,387	1,288,418
Transfer to Stage 1	3,103	(2,614)	(489)	–
Transfer to Stage 2	(1,783)	1,927	(144)	–
Transfer to Stage 3	(1,048)	(729)	1,777	–
Net change in exposures	134,837	(2,507)	140	132,470
Write-offs	–	–	(462)	(462)
Exchange difference and others	(421)	(16)	8	(429)
At 31 December 2019	1,412,567	4,213	3,217	1,419,997

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

(a) Impaired advances

Impaired advances to customers are analysed as follows:

	2020		2019	
	Impaired HK$'m	Classified or impaired HK$'m	Impaired HK$'m	Classified or impaired HK$'m
Gross advances to customers	**3,994**	**3,994**	3,217	3,217
Percentage of gross advances to customers	**0.27%**	**0.27%**	0.23%	0.23%
Impairment allowances made in respect of such advances	**2,652**	**2,652**	2,175	2,175

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

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

	2020 HK$'m	2019 HK$'m
Current market value of collateral held against the covered portion of impaired advances to customers	**3,046**	2,187
Covered portion of impaired advances to customers	**1,558**	1,011
Uncovered portion of impaired advances to customers	**2,436**	2,206

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

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

(b) Advances overdue for more than three months

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

	2020		2019	
	Amount HK$'m	% of gross advances to customers	Amount HK$'m	% of gross advances to customers
Gross advances to customers which have been overdue for:				
– six months or less but over three months	**174**	**0.01%**	145	0.01%
– one year or less but over six months	**718**	**0.05%**	836	0.06%
– over one year	**2,137**	**0.14%**	948	0.07%
Advances overdue for over three months	**3,029**	**0.20%**	1,929	0.14%
Impairment allowances made in respect of such advances – Stage 3	**2,332**		1,651	

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

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

	2020 HK$'m	2019 HK$'m
Current market value of collateral held against the covered portion of such advances to customers	**1,312**	487
Covered portion of such advances to customers	**913**	315
Uncovered portion of such advances to customers	**2,116**	1,614

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

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

(c) Rescheduled advances

	2020		2019	
	Amount HK$'m	% of gross advances to customers	Amount HK$'m	% of gross advances to customers
Rescheduled advances to customers net of amounts included in "Advances overdue for more than three months"	**178**	**0.01%**	239	0.02%

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

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

(d) Concentration of advances to customers

(i) Sectoral analysis of gross advances to customers

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

	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

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

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

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

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

	2020		2019	
	New impairment allowances HK$'m	**Classified or impaired loans written off HK$'m**	New impairment allowances HK$'m	Classified or impaired loans written off HK$'m
Loans for use in Hong Kong				
Individuals				
– Loans for purchase of other residential properties	**52**	**–**	50	–

(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

	2020 HK$'m	2019 HK$'m
Hong Kong	**1,218,633**	1,124,812
Chinese Mainland	**112,527**	126,075
Others	**166,704**	144,996
	1,497,864	1,395,883
Impairment allowances made in respect of the gross advances to customers – Stages 1 and 2		
Hong Kong	**4,551**	3,228
Chinese Mainland	**656**	492
Others	**1,313**	1,140
	6,520	4,860

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

(d) Concentration of advances to customers (continued)

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

Overdue advances

	2020 HK$'m	2019 HK$'m
Hong Kong	**4,115**	4,341
Chinese Mainland	**567**	607
Others	**1,258**	925
	5,940	5,873
Impairment allowances made in respect of the overdue advances – Stage 3		
Hong Kong	**1,308**	975
Chinese Mainland	**320**	423
Others	**908**	489
	2,536	1,887

Classified or impaired advances

	2020 HK$'m	2019 HK$'m
Hong Kong	**2,194**	1,766
Chinese Mainland	**404**	507
Others	**1,396**	944
	3,994	3,217
Impairment allowances made in respect of the classified or impaired advances – Stage 3		
Hong Kong	**1,410**	1,132
Chinese Mainland	**331**	436
Others	**911**	607
	2,652	2,175

4. Financial risk management (continued)

4.1 Credit risk (continued)

(C) Repossessed assets

During the year, the Group obtained assets by taking possession of collateral held as security. The nature and carrying value of these assets held as at 31 December are summarised as follows:

	2020 HK$'m	2019 HK$'m
Industrial properties	5	–
Residential properties	18	7
	23	7

The estimated market value of repossessed assets held by the Group as at 31 December 2020 amounted to HK$67 million (2019: HK$33 million). The repossessed assets comprise properties in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the proprietors concerned) for release in full or in part of the obligations of the borrowers.

When the repossessed assets are not readily convertible into cash, the Group may consider the following alternatives:

– adjusting the selling prices

– selling the loans together with the assets

– arranging loan restructuring

4. Financial risk management (continued)

4.1 Credit risk (continued)

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

Balances and placements with banks and other financial institutions before impairment allowances are analysed by internal credit grade and stage classification as follows:

	2020			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Central banks				
Pass	183,571	–	–	183,571
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	183,571	–	–	183,571
Other banks and other financial institutions				
Pass	241,961	–	–	241,961
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	241,961	–	–	241,961
	425,532	–	–	425,532
Impairment allowances	(8)	–	–	(8)
	425,524	–	–	425,524

4. Financial risk management (continued)

4.1 Credit risk (continued)

(D) Balances and placements with banks and other financial institutions (continued)

	2019			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Central banks				
Pass	163,019	–	–	163,019
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	163,019	–	–	163,019
Other banks and other financial institutions				
Pass	184,785	–	–	184,785
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	184,785	–	–	184,785
	347,804	–	–	347,804
Impairment allowances	(3)	–	–	(3)
	347,801	–	–	347,801

4. Financial risk management (continued)

4.1 Credit risk (continued)

(D) Balances and placements with banks and other financial institutions (continued)

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

	2020			
	Stage 1 HK$'m	**Stage 2 HK$'m**	**Stage 3 HK$'m**	**Total HK$'m**
At 1 January 2020	**3**	**–**	**–**	**3**
Changes arising from transfer of stage	**–**	**–**	**–**	**–**
Net charge for the year	**5**	**–**	**–**	**5**
Exchange difference and others	**–**	**–**	**–**	**–**
At 31 December 2020	**8**	**–**	**–**	**8**
Charged to income statement (Note 13)				**5**

	2019			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
At 1 January 2019	15	–	–	15
Changes arising from transfer of stage	–	–	–	–
Net reversal for the year	(12)	–	–	(12)
Exchange difference and others	–	–	–	–
At 31 December 2019	3	–	–	3
Credited to income statement (Note 13)				(12)

As at 31 December 2020, there were no overdue or impaired balances and placements with banks and other financial institutions (2019: Nil).

4. Financial risk management (continued)

4.1 Credit risk (continued)

(E) Debt securities and certificates of deposit

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

	2020 HK$'m	2019 HK$'m
Investment in securities at fair value through other comprehensive income		
– Stage 1		
Aaa	**115,426**	105,381
Aa1 to Aa3	**153,601**	171,367
A1 to A3	**438,994**	358,381
Lower than A3	**26,555**	24,952
Unrated	**19,596**	24,621
	754,172	684,702
– Stage 2	**–**	–
– Stage 3	**–**	–
	754,172	684,702
Of which: impairment allowances	**(261)**	(160)
Investment in securities at amortised cost		
– Stage 1		
Aaa	**43,082**	57,569
Aa1 to Aa3	**6,730**	4,687
A1 to A3	**39,864**	26,263
Lower than A3	**23,923**	15,956
Unrated	**6,894**	6,554
	120,493	111,029
– Stage 2	**–**	–
– Stage 3	**–**	–
	120,493	111,029
Impairment allowances	**(62)**	(46)
	120,431	110,983
Financial assets at fair value through profit or loss		
Aaa	**1,095**	3,030
Aa1 to Aa3	**22,573**	28,350
A1 to A3	**8,412**	18,779
Lower than A3	**9,846**	11,834
Unrated	**2,070**	6,111
	43,996	68,104

4. Financial risk management (continued)

4.1 Credit risk (continued)

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

Reconciliation of impairment allowances for debt securities and certificates of deposit is as follows:

	2020			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Investment in securities at fair value through other comprehensive income				
At 1 January 2020	160	–	–	160
Changes arising from transfer of stage	–	–	–	–
Net charge for the year	100	–	–	100
Exchange difference and others	1	–	–	1
At 31 December 2020	261	–	–	261
Charged to income statement (Note 13)				100
Investment in securities at amortised cost				
At 1 January 2020	46	–	–	46
Changes arising from transfer of stage	–	–	–	–
Net charge for the year	16	–	–	16
At 31 December 2020	62	–	–	62
Charged to income statement (Note 13)				16

4. Financial risk management (continued)

4.1 Credit risk (continued)

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

	2019			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Investment in securities at fair value through other comprehensive income				
At 1 January 2019	140	–	–	140
Changes arising from transfer of stage	–	–	–	–
Net charge for the year	20	–	–	20
Exchange difference and others	–	–	–	–
At 31 December 2019	160	–	–	160
Charged to income statement (Note 13)				20
Investment in securities at amortised cost				
At 1 January 2019	29	–	–	29
Changes arising from transfer of stage	–	–	–	–
Net charge for the year	17	–	–	17
At 31 December 2019	46	–	–	46
Charged to income statement (Note 13)				17

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

4. Financial risk management (continued)

4.1 Credit risk (continued)

(F) Loan commitments and financial guarantee contracts

Loan commitments and financial guarantee contracts are analysed by internal credit grade and stage classification as follows:

	2020			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Loan commitments and financial guarantee contracts				
Pass	**760,490**	**3,007**	**–**	**763,497**
Special mention	**1,640**	**1,225**	**–**	**2,865**
Substandard or below	**–**	**–**	**36**	**36**
	762,130	**4,232**	**36**	**766,398**

	2019			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Loan commitments and financial guarantee contracts				
Pass	680,769	477	–	681,246
Special mention	1,769	749	–	2,518
Substandard or below	–	–	38	38
	682,538	1,226	38	683,802

4. Financial risk management (continued)

4.1 Credit risk (continued)

(F) Loan commitments and financial guarantee contracts (continued)

Reconciliation of impairment allowances for loan commitments and financial guarantee contracts is as follows:

	2020			
	Stage 1 HK$'m	**Stage 2 HK$'m**	**Stage 3 HK$'m**	**Total HK$'m**
At 1 January 2020	**535**	**22**	**20**	**577**
Transfer to Stage 1	**13**	**(13)**	**–**	**–**
Transfer to Stage 2	**(3)**	**3**	**–**	**–**
Transfer to Stage 3	**–**	**–**	**–**	**–**
Changes arising from transfer of stage	**(12)**	**35**	**–**	**23**
Net charge/(reversal) for the year	**57**	**(3)**	**–**	**54**
Exchange difference and others	**4**	**–**	**–**	**4**
At 31 December 2020	**594**	**44**	**20**	**658**
Charged to income statement (Note 13)				**77**

	2019			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
At 1 January 2019	375	20	43	438
Transfer to Stage 1	14	(13)	(1)	–
Transfer to Stage 2	(2)	2	–	–
Transfer to Stage 3	–	–	–	–
Changes arising from transfer of stage	(12)	11	–	(1)
Net charge/(reversal) for the year	161	1	(25)	137
Exchange difference and others	(1)	1	3	3
At 31 December 2019	535	22	20	577
Charged to income statement (Note 13)				136

4. Financial risk management (continued)

4.1 Credit risk (continued)

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

The prolonged COVID-19 pandemic has caused significant adverse impact to the global economy during 2020. While the pandemic remains volatile, the operating and financial situations of borrowers will continue to suffer from pressure. 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 underwriting standards of the loans under relief measures are consistent with other credits and the repayment terms are revised on commercial basis. Therefore, loans under relief measures do not automatically trigger the migration to Stage 2 and Stage 3, and are not classified as rescheduled advances.

- As the implementation of quarantine measures, several industries are severely hit, including Trading, Retail, Aviation, Tourism (including hospitality), Catering, Entertainment etc. The Group has conducted 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 were also assessed, vulnerable borrowers were identified and put into the watchlist for on-going close monitoring. The loan classification and internal ratings of these borrowers were reviewed according to their latest situation.

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

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

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

4. Financial risk management (continued)

4.2 Market risk

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

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

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

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

(A) VaR

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

4. Financial risk management (continued)

4.2 Market risk (continued)

(A) VaR (continued)

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

	Year	At 31 December HK$'m	Minimum for the year HK$'m	Maximum for the year HK$'m	Average for the year HK$'m
VaR for all market risk	**2020**	**27.4**	**17.5**	**50.1**	**31.1**
	2019	26.6	17.6	52.3	31.0
VaR for foreign exchange risk	**2020**	**27.8**	**6.5**	**30.8**	**21.1**
	2019	9.3	7.2	21.1	12.7
VaR for interest rate risk in the trading book	**2020**	**10.1**	**5.8**	**35.6**	**18.5**
	2019	25.3	9.8	41.6	21.3
VaR for equity risk in the trading book	**2020**	**0.8**	**0.3**	**2.9**	**1.0**
	2019	0.7	0.2	2.5	0.8
VaR for commodity risk	**2020**	**2.5**	**0.0**	**11.2**	**1.8**
	2019	1.7	0.2	43.7	16.1

Note:
1. Structural FX positions have been excluded.

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

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

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

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

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

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

4. Financial risk management (continued)

4.2 Market risk (continued)

(B) Currency risk

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

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

	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**

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

4. Financial risk management (continued)

4.2 Market risk (continued)

(B) Currency risk (continued)

	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**

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

(C) Interest rate risk

Interest rate risk means the risks to a bank's earnings and economic value arising from movements in interest rate and term structures of the bank's asset and liability positions. The Group's interest rate risk exposures are mainly 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 ALCO exercises its oversight of interest rate risk in accordance with the "BOCHK Group Banking Book Interest Rate Risk Management Policy" approved by the RMC. The RMD is responsible for the Group's interest rate risk management. With the cooperation of the Financial Management Department and Investment Management, etc., RMD assists the ALCO to perform day-to-day interest rate risk management. Its roles include, but are not limited to, the formulation of management policies, selection of methodologies, setting of risk indicators and limits, assessment of target balance sheet, monitoring of the compliance with policies and limits, and submission of interest rate risk management reports to senior management and the RMC, etc.

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

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

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

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.

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

The Group is principally exposed to HK Dollar, US Dollar and Renminbi in terms of interest rate risk. As at 31 December 2020, if market interest rates had a 100 basis point parallel shift of the yield curve with other variables held constant, the sensitivities on net interest income over a twelve-month period and on reserves for the Group would have been as follows:

	Impact on net interest income over the next twelve months at 31 December		Impact on reserves at 31 December	
	2020 HK$'m	2019 HK$'m	**2020 HK$'m**	2019 HK$'m
100 basis point parallel up of yield curve				
Total	**2,623**	2,356	**(9,393)**	(7,589)
Of which:				
HK Dollar	**4,164**	3,594	**(677)**	(309)
US Dollar	**178**	(352)	**(5,263)**	(4,647)
Renminbi	**(1,437)**	(615)	**(2,627)**	(2,017)
100 basis point parallel down of yield curve				
Total	**(2,623)**	(2,359)	**9,393**	7,589
Of which:				
HK Dollar	**(4,164)**	(3,594)	**677**	309
US Dollar	**(178)**	352	**5,263**	4,647
Renminbi	**1,437**	615	**2,627**	2,017

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

In a parallel shift up of 100 basis points of yield curve, the overall impact on net interest income of the above currencies is positive in 2020. Reserves of the Group would have been reduced because of the expected reduction in valuation of the debt securities portfolio and relevant interest rate derivatives under hedge accounting due to a parallel shift up of 100 basis points in the yield curve. The positive impact on net interest income is increased and the reduction of reserves is increased compared with 2019 because the size and duration of the debt securities portfolio in capital market increased.

In a parallel shift down of 100 basis points of yield curve, the overall impact on net interest income of the above currencies is negative in 2020. Reserves of the Group would have been increased because of the expected increase in valuation of the debt securities portfolio and relevant interest rate derivatives under hedge accounting due to a parallel shift down of 100 basis points in the yield curve. The negative impact on net interest income is increased and the reserves is increased compared with 2019 because the size and duration of the debt securities portfolio in capital market increased.

The sensitivities above are for illustration only and are based on several assumptions, including, but not limited to, the change in the correlation between interest rates of relevant currencies, parallel movement of interest rates, the absence of actions that would be taken to mitigate the impact of interest rate risk, the effectiveness of hedge accounting, all positions being assumed to run to maturity, behavioural assumptions of products in which the actual repricing date differs from the contractual repricing date or products without contractual maturity. The above exposures form only a part of the Group's overall interest rate risk exposures.

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

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

	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
Subordinated liabilities	–	–	–	–	–	–	–
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

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

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

4. Financial risk management (continued)

4.3 Liquidity risk

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

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

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

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

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

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

In accordance with the requirements of Supervisory Policy Manual LM-2 "Sound Systems and controls for Liquidity Risk Management" issued by the HKMA, the Group has implemented a behaviour model and assumptions of cash flow analysis and stress test to enhance the Group's cash flow analysis under both normal and stressed conditions. In cash flow analysis under normal circumstances, assumptions have been made relating to on-balance sheet items (such as deposits from customers) and off-balance sheet items (such as loan commitments). According to various characteristics of the assets, liabilities and off-balance sheet items, the Group forecasts the future cash flow based on the contractual maturity date and the assumptions of customer behaviour and balance sheet changes. The Group establishes the MCO indicator which predicts the future 30 days maximum cumulative net cash outflow in normal situations based on the above assumptions, to assess if the Group has sufficient financing capacity to meet the cash flow gap in order to achieve the objective of continuing operations. As at 31 December 2020, before taking the cash inflow through the sale of outstanding marketable securities into consideration, BOCHK's 30-day cumulative cash flow was a net cash inflow, amounting to HK$186,303 million (2019: HK$116,071 million) and was in compliance with the internal limit requirements.

In the liquidity stress test, institution specific, general market crisis and combined crisis scenarios have been set up, a combined crisis scenario is a combination of institution specific and general market crisis to assess the Group's capability to withstand a more severe liquidity crisis, with a more stringent set of assumptions being adopted. Stress test assumptions include the run-off rate of retail, wholesale and interbank deposits; the drawdown rate of loan commitments and trade-related contingent liabilities; the delinquency ratio and rollover rate of customer loans; and haircut of interbank placement and marketable securities. As at 31 December 2020, the Group was able to maintain a net cash inflow under the three stressed scenarios, indicating the Group has the ability to meet financing needs under stressed conditions. In addition, the Group has a policy in place to maintain a liquidity cushion which includes high quality or comparable quality marketable securities issued or guaranteed by sovereigns, central banks, public sector entities or multilateral development banks with 0% or 20% risk weight or marketable securities issued by non-financial corporate with a corresponding external credit rating of A- or above to ensure funding needs even under stressed scenarios. As at 31 December 2020, the liquidity cushion (before haircut) of BOCHK was HK$645,716 million (2019: HK$531,388 million). A contingency plan is being established which details the conditions to trigger the plan based on stress test results and early warning indicators, the action plans and relevant procedures and responsibility of relevant departments.

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

The Group, being classified as a category 1 authorised institution by the HKMA, is required to calculate the LCR and NSFR on a consolidated basis in accordance with the Banking (Liquidity) Rules. The Group is required to maintain a LCR and NSFR not less than 100% in 2020.

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

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

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

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(A) Liquidity coverage ratio and net stable funding ratio

	2020	2019
Average value of liquidity coverage ratio		
– First quarter	**150.45%**	183.00%
– Second quarter	**131.38%**	156.57%
– Third quarter	**130.98%**	142.85%
– Fourth quarter	**132.76%**	146.53%

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

	2020	2019
Quarter-end value of net stable funding ratio		
– First quarter	**116.60%**	121.36%
– Second quarter	**117.49%**	119.15%
– Third quarter	**115.30%**	116.47%
– Fourth quarter	**125.31%**	118.00%

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

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

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

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(B) Maturity analysis

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

	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
Subordinated liabilities	–	–	–	–	–	–	–	–
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

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

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

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

The above analysis in respect of insurance contract liabilities represents the estimated timing of net cash outflows resulting from recognised insurance contract liabilities on the balance sheet as at 31 December.

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(C) Analysis of undiscounted cash flows by contractual maturities

(a) Non-derivative cash flows

The tables below summarise the cash flows of the Group as at 31 December for non-derivative financial liabilities by remaining contractual maturity.

	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$'m	Total HK$'m
Financial liabilities						
Hong Kong SAR currency notes in circulation	189,550	–	–	–	–	189,550
Deposits and balances from banks and other financial institutions	323,387	568	1,342	1,251	–	326,548
Financial liabilities at fair value through profit or loss	11,552	4,349	3,698	409	342	20,350
Deposits from customers	1,824,955	246,406	111,817	1,754	–	2,184,932
Debt securities and certificates of deposit in issue	233	–	194	–	–	427
Subordinated liabilities	–	–	–	–	–	–
Lease liabilities	62	115	480	1,023	134	1,814
Other financial liabilities	50,820	282	144	7	6	51,259
Total financial liabilities	2,400,559	251,720	117,675	4,444	482	2,774,880

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(C) Analysis of undiscounted cash flows by contractual maturities (continued)

(a) Non-derivative cash flows (continued)

	2019					
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Total HK$'m
Financial liabilities						
Hong Kong SAR currency notes in circulation	163,840	–	–	–	–	163,840
Deposits and balances from banks and other financial institutions	264,111	1,275	903	1,688	–	267,977
Financial liabilities at fair value through profit or loss	2,845	6,066	9,291	777	406	19,385
Deposits from customers	1,569,226	297,100	141,446	4,696	–	2,012,468
Debt securities and certificates of deposit in issue	–	117	–	–	–	117
Subordinated liabilities	–	12,991	–	–	–	12,991
Lease liabilities	61	116	465	1,162	181	1,985
Other financial liabilities	62,267	234	243	4	6	62,754
Total financial liabilities	2,062,350	317,899	152,348	8,327	593	2,541,517

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(C) Analysis of undiscounted cash flows by contractual maturities (continued)

(b) Derivative cash flows

The tables below summarise the cash flows of the Group by remaining contractual maturity as at 31 December for derivative financial liabilities that will be settled on a net basis, together with all derivative financial instruments that will be settled on a gross basis regardless of whether the contract is in an asset or liability position. The amounts disclosed in the tables are the contractual undiscounted cash flows, except for certain derivatives which are disclosed at fair value.

The Group's derivative financial instruments that will be settled on a net basis mainly include interest rate swaps whereas derivative financial instruments that will be settled on a gross basis mainly include currency forwards and currency swaps.

	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$'m**	**Total HK$'m**
Derivative financial liabilities settled on a net basis	**(12,478)**	**(1,828)**	**(6,454)**	**(15,829)**	**(2,184)**	**(38,773)**
Derivative financial instruments settled on a gross basis						
Total inflow	**431,862**	**356,732**	**369,126**	**128,138**	**5,646**	**1,291,504**
Total outflow	**(433,394)**	**(357,868)**	**(369,544)**	**(127,575)**	**(5,573)**	**(1,293,954)**

	2019					
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Total HK$'m
Derivative financial liabilities settled on a net basis	(10,065)	(766)	(2,531)	(7,443)	(1,614)	(22,419)
Derivative financial instruments settled on a gross basis						
Total inflow	597,812	437,128	683,988	110,867	1,163	1,830,958
Total outflow	(597,256)	(433,179)	(683,873)	(110,726)	(1,167)	(1,826,201)

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(C) Analysis of undiscounted cash flows by contractual maturities (continued)

(c) Off-balance sheet items

Loan commitments

The contractual amounts of the Group's off-balance sheet financial instruments as at 31 December 2020 that the Group commits to extend credit to customers and other facilities amounted to HK$705,866 million (2019: HK$621,402 million). Those loan commitments can be drawn within one year.

Financial guarantee contracts

Financial guarantees and other financial facilities of the Group as at 31 December 2020 amounting to HK$60,532 million (2019: HK$62,400 million) are maturing no later than one year.

4.4 Insurance risk

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

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

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

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

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

4. Financial risk management (continued)

4.4 Insurance risk (continued)

(A) Process used to decide on assumptions

In determining the long term business fund liabilities, the Group follows the Insurance (Determination of Long Term Liabilities) Rules and makes prudent assumptions which include appropriate margins for adverse deviation of the relevant factors. It takes account of all prospective liabilities as determined by the policy terms and conditions for each existing contract, taking credit for premiums payable after the valuation date. The determination of liability is based on current assumptions made as at the valuation date as to mortality rates and morbidity rates, and takes into account of various appropriate discount rates, and with due regard to the reasonable expectation of policyholders. A prudent margin for adverse deviations is included in the assumptions.

The assumptions adopted for the insurance liabilities disclosed in this note are summarised as follows:

Mortality and morbidity

The amount of liability in respect of any category of contract shall, where relevant, be determined on the basis of prudent rates of mortality and morbidity, plus a margin for adverse deviation. The assumptions used for the determination of future liabilities are based on population statistics or reinsurance information, adjusted where appropriate to reflect the Group's own experience and relevant reinsurance arrangements.

Interest rates adopted for valuation purposes

Homogeneous life insurance policies are grouped into segments and are matched by specific assets. The duration of liabilities under each segment is calculated for valuation purposes.

Investment guarantee of investment contract with discretionary participating feature

The amount of the liability in respect of the investment guarantee provided by the investment contract with discretionary participation feature is determined by stochastic analysis based on historical economic data to reflect the value-at-risk at 99% confidence level.

Acquisition expense

The acquisition expense assumptions used for determination of future liabilities are based on the Group's own experience. The Group has changed the acquisition expense assumptions for new business written based on updated expense experience of the Group.

(B) Change in assumptions

The Group has updated the lapse assumptions to reflect the Group's own experience, and the interest rates adopted for the valuation purposes to reflect the changes in the market interest rates and the yields of investment portfolio backing the policy liabilities. The valuation interest rate assumptions used for the year end valuation purpose were in the range of 0% to 3.04% in 2020 (2019: 0% to 3.29%).

4. Financial risk management (continued)

4.4 Insurance risk (continued)

(C) Sensitivity analysis

The following table presents the sensitivity of the long-term business fund liabilities to movements in the key assumptions used in the estimation of insurance liabilities:

Sensitivity analysis – life and annuity insurance contracts:

		Decrease in profit after tax due to changes in insurance liabilities	
Scenario	Change in variable	**2020 HK$'m**	2019 HK$'m
Worsening of mortality and morbidity	10%	**(221)**	(164)
Lowering of interest rate	50 basis points	**(1,099)**	(1,393)

The above analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated, for example, changes in interest rate and in market values; and changes in lapses and in future mortality and morbidity.

Sensitivity analysis on linked long term insurance contracts, retirement scheme management category III insurance contracts, and retirement scheme management category I investment contracts with "DPF":

The reserves on retirement scheme management category III insurance contracts, retirement scheme management category I investment contracts with "DPF" and non-unitised reserve on linked long term insurance contracts are insignificant to the whole portfolio, and no sensitivity analysis has been performed. The insurance liabilities for these three components contributed to less than 0.1% of the total insurance liabilities at the balance sheet date.

For unit-linked fund liabilities (unitised reserve), the liabilities are backed by the unit-linked fund asset values.

Among linked long term insurance contracts, there are contracts with minimum guaranteed death benefits that expose the Group to the risk arising from declines in the value of underlying investments. This may increase the Group's net exposure to mortality risk.

4.5 Capital management

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

4. Financial risk management (continued)

4.5 Capital management (continued)

The Group has developed and maintained a sound framework of policies and controls on capital management to support the development of the Group's business and to meet the statutory capital adequacy ratio. The ALCO monitors the Group's capital adequacy. The Group has complied with all the statutory capital requirements of the HKMA for the reported periods in respect of banking operation as further elaborated below.

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

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

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

The Group has continued to adopt an internal capital adequacy assessment process ("ICAAP") to comply with the HKMA's requirements in the Supervisory Policy Manual "Supervisory Review Process" in 2020. Based on the HKMA's guidelines on Pillar II, ICAAP has been initiated to assess the extra capital needed to cover the material risks not captured or not adequately captured under Pillar I, and therefore minimum Common Equity Tier 1 capital ratio, minimum Tier 1 capital ratio and minimum Total capital ratio are determined. Meanwhile, operating ranges for the aforementioned capital ratios have also been established which enable the flexibility for future business growth and efficiency of capital utilisation. The Group considers this ICAAP as an on-going process for capital management and periodically reviews and adjusts its capital structure where appropriate in relation to the overall risk profile.

In addition, the capital plan of the Group is drawn up annually and then submitted to the Board for approval after endorsement of the ALCO. The plan is built up by assessing the implications of various factors upon capital adequacy such as the business strategies, return on equity, risk appetite, credit rating, as well as regulatory requirements. Hence, the future capital requirement is determined and capital sources are identified also. The plan is to ensure the Group maintains adequate capital and appropriate capital structure which align with its business development needs, thereby achieving an optimal balance among risk, return and capital adequacy.

(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.

4. Financial risk management (continued)

4.5 Capital management (continued)

(A) Basis of regulatory consolidation (continued)

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

Name	2020 Total assets HK$'m	2020 Total equity HK$'m	2019 Total assets HK$'m	2019 Total equity HK$'m
BOC Group Trustee Company Limited	**200**	**200**	200	200
BOCI-Prudential Trustee Limited	**553**	**498**	612	483
China Bridge (Malaysia) Sdn. Bhd.	**13**	**9**	56	36
Bank of China (Hong Kong) Nominees Limited	**–**	**–**	–	–
Bank of China (Hong Kong) Trustees Limited	**11**	**11**	12	11
BOC Financial Services (Nanning) Company Limited	**248**	**43**	173	42
BOCHK Information Technology (Shenzhen) Co., Ltd.	**387**	**265**	401	255
BOCHK Information Technology Services (Shenzhen) Co., Ltd.	**421**	**360**	418	348
Che Hsing (Nominees) Limited	**–**	**–**	1	1
Po Sang Financial Investment Services Company Limited	**364**	**345**	364	345
Po Sang Securities and Futures Limited	**952**	**375**	664	373
Sin Chiao Enterprises Corporation, Limited*	**N/A**	**N/A**	6	6
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.	**–**	**–**	–	–

* Sin Chiao Enterprises Corporation, Limited was dissolved on 28 December 2020.

4. Financial risk management (continued)

4.5 Capital management (continued)

(A) Basis of regulatory consolidation (continued)

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

There were no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation as at 31 December 2020 (2019: Nil).

There were also no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation where the methods of consolidation differ as at 31 December 2020 (2019: Nil).

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

(B) Capital ratio

The capital ratios are analysed as follows:

	2020	2019
CET1 capital ratio	**17.75%**	17.76%
Tier 1 capital ratio	**19.67%**	19.90%
Total capital ratio	**22.10%**	22.89%

4. Financial risk management (continued)

4.5 Capital management (continued)

(B) Capital ratio (continued)

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

	2020 HK$'m	2019 HK$'m
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments	**43,043**	43,043
Retained earnings	**184,230**	164,113
Disclosed reserves	**45,100**	51,309
CET1 capital before regulatory deductions	**272,373**	258,465
CET1 capital: regulatory deductions		
Valuation adjustments	**(24)**	(65)
Other intangible assets (net of associated deferred tax liabilities)	**(1,502)**	–
Deferred tax assets (net of associated deferred tax liabilities)	**(91)**	(62)
Gains and losses due to changes in own credit risk on fair valued liabilities	**(21)**	237
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	**(49,413)**	(52,459)
Regulatory reserve for general banking risks	**(4,780)**	(11,077)
Total regulatory deductions to CET1 capital	**(55,831)**	(63,426)
CET1 capital	**216,542**	195,039
AT1 capital: instruments		
Qualifying AT1 capital instruments classified as equity under applicable accounting standards	**23,476**	23,476
AT1 capital	**23,476**	23,476
Tier 1 capital	**240,018**	218,515
Tier 2 capital: instruments and provisions		
Capital instruments subject to phase-out arrangements from Tier 2 capital	**–**	2,505
Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**7,322**	6,743
Tier 2 capital before regulatory deductions	**7,322**	9,248
Tier 2 capital: regulatory deductions		
Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	**22,236**	23,607
Total regulatory adjustments to Tier 2 capital	**22,236**	23,607
Tier 2 capital	**29,558**	32,855
Total regulatory capital	**269,576**	251,370

4. Financial risk management (continued)

4.5 Capital management (continued)

(B) Capital ratio (continued)

The capital buffer ratios are analysed as follows:

	2020	2019
Capital conservation buffer ratio	**2.500%**	2.500%
Higher loss absorbency ratio	**1.500%**	1.500%
Countercyclical capital buffer ratio	**0.790%**	1.552%

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

(C) Leverage ratio

The leverage ratio is analysed as follows:

	2020 HK$'m	2019 HK$'m
Tier 1 capital	**240,018**	218,515
Leverage ratio exposure	**3,036,425**	2,799,606
Leverage ratio	**7.90%**	7.81%

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

5. Fair values of assets and liabilities

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

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

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

– Level 3: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. This category includes equity investment, debt instruments and certain OTC derivative contracts with significant unobservable components. It also includes properties with significant adjustments made to observable market inputs.

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

5.1 Financial instruments measured at fair value

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

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

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

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

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

The 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.

Derivatives

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

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

Subordinated liabilities

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

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(A) Fair value hierarchy

	2020			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Financial assets				
Trading assets (Note 23)				
– Debt securities and certificates of deposit	–	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 23)				
– 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 23)				
– Debt securities and certificates of deposit	720	587	–	1,307
– Other debt instruments	–	118	–	118
Derivative financial instruments (Note 24)	33	52,823	–	52,856
Investment in securities at FVOCI (Note 26)				
– 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 32)				
– Trading liabilities	–	20,336	–	20,336
Derivative financial instruments (Note 24)	35	60,278	–	60,313
Subordinated liabilities (Note 38)				
– Subordinated notes	–	–	–	–

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(A) Fair value hierarchy (continued)

	2019			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Financial assets				
Trading assets (Note 23)				
– Debt securities and certificates of deposit	133	37,457	–	37,590
– Equity securities	37	–	–	37
– Other debt instruments	–	5,297	–	5,297
Other financial assets mandatorily classified at fair value through profit or loss (Note 23)				
– Debt securities and certificates of deposit	–	25,271	2,252	27,523
– Equity securities	2,618	–	–	2,618
– Fund	5,705	1,958	1,474	9,137
Financial assets designated at fair value through profit or loss (Note 23)				
– Debt securities and certificates of deposit	708	2,283	–	2,991
– Other debt instruments	–	–	–	–
Derivative financial instruments (Note 24)	11,674	19,342	11	31,027
Investment in securities at FVOCI (Note 26)				
– Debt securities and certificates of deposit	197,156	485,679	1,867	684,702
– Equity securities	2,680	1,134	2,154	5,968
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 32)				
– Trading liabilities	–	19,206	–	19,206
Derivative financial instruments (Note 24)	9,717	23,204	–	32,921
Subordinated liabilities (Note 38)				
– Subordinated notes	–	12,954	–	12,954

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. There were no other significant financial asset and liability transfers between level 1 and level 2 for the Group during the year (2019: Nil).

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items

	2020				
	Financial assets				
	Other financial assets mandatorily classified at FVPL			Investment in securities at FVOCI	
	Debt securities and certificates of deposit HK$'m	Fund HK$'m	Derivative financial instruments HK$'m	Debt securities and certificates of deposit HK$'m	Equity securities HK$'m
At 1 January 2020	2,252	1,474	11	1,867	2,154
Gains					
– 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 into level 3	–	–	–	–	–
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 trading gain	–	–	–	–	–
– Net gain on other financial instruments at fair value through profit or loss	49	107	–	–	–
	49	107	–	–	–

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

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

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

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

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

The fair values of unlisted FVOCI equity shares are determined with reference to (i) latest market transaction price; or (ii) multiples of comparable listed companies, such as average of the price/sales ratios of comparables; or (iii) dividend discount model calculation of the underlying equity investments; or (iv) net asset value, if neither appropriate comparables nor dividend discount model calculation is available or applicable. The fair value is positively correlated to the market transaction price, price/sales ratios of appropriate comparables, forecasted stream of future dividend payout or net asset values, and is negatively correlated to the discount rate used in the average of price/sales ratios of comparables or dividend discount model.

Had all of the significant unobservable inputs applied on the valuation techniques favourably changed/ unfavourably changed by 5% (2019: 5%), the Group's other comprehensive income would have increased/ decreased by HK$55 million and HK$54 million, respectively (2019: HK$98 million and HK$93 million, respectively).

5. Fair values of assets and liabilities (continued)

5.2 Financial instruments not measured at fair value

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

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

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

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 5.1. Besides, a discounted cash flow model is used for certain securities at amortised cost based on a current yield curve appropriate for the remaining term to maturity.

Deposits from customers

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

Debt securities and certificates of deposit in issue

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

5. Fair values of assets and liabilities (continued)

5.2 Financial instruments not measured at fair value (continued)

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

	2020		2019	
	Carrying value HK$'m	**Fair value HK$'m**	Carrying value HK$'m	Fair value HK$'m
Financial assets				
Investment in securities at amortised cost (Note 26)	**120,431**	**127,060**	110,983	114,241
Financial liabilities				
Debt securities and certificates of deposit in issue (Note 34)	**426**	**426**	116	116

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

	2020			
	Level 1 HK$'m	**Level 2 HK$'m**	**Level 3 HK$'m**	**Total HK$'m**
Financial assets				
Investment in securities at amortised cost	**957**	**122,887**	**3,216**	**127,060**
Financial liabilities				
Debt securities and certificates of deposit in issue	**–**	**426**	**–**	**426**

	2019			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Financial assets				
Investment in securities at amortised cost	1,002	111,556	1,683	114,241
Financial liabilities				
Debt securities and certificates of deposit in issue	–	116	–	116

5. Fair values of assets and liabilities (continued)

5.3 Non-financial instruments measured at fair value

The Group uses valuation techniques or quoted market prices in active market to determine the fair value of non-financial instruments.

Investment properties and premises

The Group's properties can be divided into investment properties and premises. All of the Group's investment properties and premises were revalued as at year end. This year, the valuations were carried out by an independent firm of chartered surveyors, Knight Frank Petty Limited, who have among their staff Fellow and Members of The Hong Kong Institute of Surveyors with recent experience in the locations and categories of properties being valued. The Group's Management had discussions with the surveyors on the valuation methods, valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date. Except for a site redevelopment of investment property that has been commenced during the year using the residual approach valuation, there has been no change in valuation methods during the year and the methods used are consistent with last year.

(i) Valuation methods and inputs used in Level 2 fair value measurements

The fair value of properties classified as Level 2 is determined using either the market comparison approach by reference to recent sales price of comparable properties or the income capitalisation approach by reference to market rent and capitalisation rate, with appropriate adjustments to reflect the differences between the comparable properties and the subject properties. These adjustments are considered as insignificant to the entire measurement.

The Group's properties are located in Hong Kong, certain major cities in the mainland, Thailand and Malaysia where the property markets are considered active and transparent. Sales price, market rent and capitalisation rate of comparable properties are generally observable either directly or indirectly in these markets.

(ii) Information about Level 3 fair value measurements

The fair value of all of the Group's properties classified as Level 3, except for the bank vault, is determined using either the market comparison approach or the income capitalisation approach, adjusted for a premium or a discount specific to the features of the Group's properties compared to the comparable properties.

The fair value of the bank vault is determined using the depreciated replacement cost approach as no direct comparable is available given the specialised nature of the property. The major inputs are the market value of the existing land, the current cost of replacing the property and the depreciation rate. Appropriate adjustments are made to reflect the specialised nature of the property.

5. Fair values of assets and liabilities (continued)

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

Investment properties and premises (continued)

(ii) Information about Level 3 fair value measurements (continued)

The valuation methods and significant unobservable inputs used in the fair value measurement of the Group's properties classified as Level 3 are as follows:

	Valuation method	Significant unobservable inputs	Weighted average	Relationship of unobservable inputs to fair value
Bank vault	Depreciated replacement cost approach	Depreciation rate	2% (2019: 2%) per year	The higher the depreciation rate, the lower the fair value.
		Premium on specialised nature of the property	+15% (2019: +15%) to building cost	The higher the premium, the higher the fair value.
Other properties	Market comparison approach or income capitalisation approach	Premium/(discount) on features of the property compared to comparable properties	-8% (2019: -11%)	The higher the premium, the higher the fair value. The higher the discount, the lower the fair value.

Premium/(discount) on features of a property is determined after taken into account various factors, such as time for market movement, location, accessibility, building age/condition, floor level, size, layout, etc., with reference to the differences in features with comparable properties.

For the fair value of the investment property with a redevelopment plan, it is measured on a redevelopment basis by adopting residual approach which is a valuation method generally used to value development of lands. Gross Development Value ("GDV") is first determined using market comparison approach by reference to recent transactions of comparable properties and adjusted for a premium or a discount specific to the quality of the Group's development compared to the comparable properties. The ultimate fair value of the redevelopment is the residual value after deducting the present value of the development costs (including professional fees, demolition cost, constructions cost etc.) and developer's profit from the present value of the GDV. The higher the GDV, the higher the fair value; the higher the development costs and the discount rate, the lower is the fair value.

Precious metals

The fair values of precious metals are determined by obtaining quoted market prices in active market or market quote with certain adjustments.

5. Fair values of assets and liabilities (continued)

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

(A) Fair value hierarchy

	2020			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Non-financial assets				
Investment properties (Note 28)	–	697	17,744	18,441
Properties, plant and equipment (Note 29)				
– Premises	–	2,601	40,947	43,548
Other assets (Note 30)				
– Precious metals	–	10,697	–	10,697

	2019			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Non-financial assets				
Investment properties (Note 28)	–	396	19,714	20,110
Properties, plant and equipment (Note 29)				
– Premises	–	1,020	45,322	46,342
Other assets (Note 30)				
– Precious metals	6,542	2,719	–	9,261

There were transfers of HK$5,721 million of precious metals from level 1 to level 2 for the Group during 2020 as a result of calibrations of market observable inputs on precious metals. The impact arising from such calibrations was insignificant to the fair value measurement of precious metals. There were no other non-financial asset transfers between level 1 and level 2 for the Group during the year (2019: Nil).

5. Fair values of assets and liabilities (continued)

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

(B) Reconciliation of level 3 items

	2020	
	Non-financial assets	
		Properties, plant and equipment
	Investment properties HK$'m	Premises HK$'m
At 1 January 2020	19,714	45,322
Losses		
– Income statement		
– Net loss from fair value adjustments on investment properties	(1,622)	–
– Net loss from revaluation of premises	–	(57)
– Other comprehensive income		
– Revaluation of premises	–	(1,720)
Depreciation	–	(1,157)
Additions	9	87
Transfer into level 3	–	–
Transfer out of level 3	(277)	(1,608)
Reclassification	(80)	80
Exchange difference	–	–
At 31 December 2020	17,744	40,947
Total unrealised losses for the year included in income statement for non-financial assets held as at 31 December 2020		
– Net loss from fair value adjustments on investment properties	(1,622)	–
– Net loss from revaluation of premises	–	(57)
	(1,622)	(57)

5. Fair values of assets and liabilities (continued)

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

(B) Reconciliation of level 3 items (continued)

	2019	
	Non-financial assets	
		Properties, plant and equipment
	Investment properties HK$'m	Premises HK$'m
At 1 January 2019	19,316	45,349
Gains		
– Income statement		
– Net gain from fair value adjustments on investment properties	274	–
– Net gain from revaluation of premises	–	11
– Other comprehensive income		
– Revaluation of premises	–	1,023
Depreciation	–	(1,141)
Additions	32	133
Transfer into level 3	36	173
Transfer out of level 3	(136)	(35)
Reclassification	192	(192)
Exchange difference	–	1
At 31 December 2019	19,714	45,322
Total unrealised gains for the year included in income statement for non-financial assets held as at 31 December 2019		
– Net gain from fair value adjustments on investment properties	274	–
– Net gain from revaluation of premises	–	11
	274	11

The transfer of properties into and out of level 3 is due to change in the premium/(discount) on features applied between the subject and comparable properties during the year. Premium/(discount) on features is determined with reference to differences in features between the subject properties and the comparable properties recently transacted in the market. As comparable properties that come from recent market transactions may be different in each year, the premium/(discount) on features applied between the subject and comparable properties would change from year to year accordingly. As a result, the significance of adjustments made to observable market inputs may vary and lead to the transfer of properties into and out of level 3.

6. Net interest income

	2020 HK$'m	2019 HK$'m
Interest income		
Advances to customers, due from banks and other financial institutions	**34,744**	46,766
Investment in securities and financial assets at fair value through profit or loss	**14,960**	20,448
Others	**224**	570
	49,928	67,784
Interest expense		
Deposits from customers, due to banks and other financial institutions	**(14,743)**	(25,856)
Debt securities and certificates of deposit in issue	**(2)**	(79)
Subordinated liabilities	**(80)**	(719)
Lease liabilities	**(54)**	(55)
Others	**(311)**	(552)
	(15,190)	(27,261)
Net interest income	**34,738**	40,523

Included within interest income are HK$38,633 million (2019: HK$50,884 million) and HK$10,122 million (2019: HK$14,266 million) for financial assets measured at amortised cost and at fair value through other comprehensive income respectively.

Included within interest expense are HK$14,947 million (2019: HK$26,174 million) for financial liabilities that are not measured at fair value through profit or loss.

7. Net fee and commission income

	2020 HK$'m	2019 HK$'m
Fee and commission income		
Securities brokerage	**3,567**	2,113
Loan commissions	**2,310**	2,675
Credit card business	**1,859**	2,975
Insurance	**1,272**	2,111
Funds distribution	**897**	901
Payment services	**740**	716
Trust and custody services	**689**	651
Bills commissions	**591**	700
Safe deposit box	**306**	294
Currency exchange	**226**	599
Others	**1,058**	1,267
	13,515	15,002
Fee and commission expense		
Credit card business	**(1,179)**	(2,044)
Securities brokerage	**(415)**	(255)
Insurance	**(405)**	(849)
Others	**(674)**	(935)
	(2,673)	(4,083)
Net fee and commission income	**10,842**	10,919
Of which arise from:		
Financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	**2,588**	3,141
– Fee and commission expense	**(9)**	(12)
	2,579	3,129
Trust and other fiduciary activities		
– Fee and commission income	**888**	841
– Fee and commission expense	**(30)**	(28)
	858	813

8. Net trading gain

	2020 HK$'m	2019 HK$'m
Net gain/(loss) from:		
Foreign exchange and foreign exchange products	**5,282**	4,931
Interest rate instruments and items under fair value hedge	**(619)**	(578)
Commodities	**361**	366
Equity and credit derivative instruments	**150**	81
	5,174	4,800

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

	2020 HK$'m	2019 HK$'m
Net gain on other financial instruments mandatorily classified at fair value through profit or loss	**1,838**	2,976
Net gain on financial instruments designated at fair value through profit or loss	**121**	267
	1,959	3,243

10. Net gain on other financial assets

	2020 HK$'m	2019 HK$'m
Net gain on disposal/redemption of investment in securities at FVOCI	**4,503**	854
Net gain/(loss) on disposal/redemption of investment in securities at amortised cost	**62**	(47)
Others	**7**	17
	4,572	824

Gain on disposal of investment in securities at amortised cost due to credit deterioration amounted to HK$98 million (2019: loss of HK$6 million).

11. Other operating income

	2020 HK$'m	2019 HK$'m
Dividend income		
– From investment in securities at FVOCI derecognised during the year	**36**	18
– From investment in securities at FVOCI held at the end of the year	**199**	238
Gross rental income from investment properties	**587**	660
Less: Outgoings in respect of investment properties	**(61)**	(60)
Others	**135**	159
	896	1,015

Included in the "Outgoings in respect of investment properties" is HK$4 million (2019: HK$1 million) of direct operating expenses related to investment properties that were not let during the year.

12. Net insurance benefits and claims and movement in liabilities

	2020 HK$'m	2019 HK$'m
Gross insurance benefits and claims and movement in liabilities		
Claims, benefits and surrenders paid	**(14,036)**	(16,644)
Movement in liabilities	**(20,077)**	(13,283)
	(34,113)	(29,927)
Reinsurers' share of benefits and claims and movement in liabilities		
Reinsurers' share of claims, benefits and surrenders paid	**8,371**	5,859
Reinsurers' share of movement in liabilities	**3,575**	2,776
	11,946	8,635
Net insurance benefits and claims and movement in liabilities	**(22,167)**	(21,292)

13. Net charge of impairment allowances

	2020 HK$'m	2019 HK$'m
Net (charge)/reversal of impairment allowances on:		
Advances and other accounts	**(2,489)**	(1,852)
Balances and placements with banks and other financial institutions	**(5)**	12
Investment in securities		
– At FVOCI	**(100)**	(20)
– At amortised cost	**(16)**	(17)
	(116)	(37)
Loan commitments and financial guarantee contracts	**(77)**	(136)
Others	**(20)**	(9)
Net charge of impairment allowances	**(2,707)**	(2,022)

14. Operating expenses

	2020 HK$'m	2019 HK$'m
Staff costs (including directors' emoluments)		
– Salaries and other costs	**8,916**	8,849
– Pension cost	**545**	515
	9,461	9,364
Premises and equipment expenses (excluding depreciation)		
– Short-term leases, leases of low-value assets and variable lease payments	**11**	201
– Others	**1,224**	1,341
	1,235	1,542
Depreciation (Note 29)	**3,040**	2,881
Auditor's remuneration		
– Audit services	**29**	28
– Non-audit services	**14**	10
Other operating expenses	**2,568**	2,842
	16,347	16,667

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

	2020 HK$'m	2019 HK$'m
Net (loss)/gain from fair value adjustments on investment properties (Note 28)	**(1,622)**	282

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

	2020 HK$'m	2019 HK$'m
Net loss from disposal of equipment, fixtures and fittings	**(4)**	(7)
Net (loss)/gain from revaluation of premises (Note 29)	**(59)**	6
	(63)	(1)

17. Taxation

Taxation in the income statement represents:

	2020 HK$'m	2019 HK$'m
Current tax		
Hong Kong profits tax		
– Current year taxation	**5,412**	5,741
– Over-provision in prior years	**(180)**	(90)
	5,232	5,651
Overseas taxation		
– Current year taxation	**419**	643
– Over-provision in prior years	**(25)**	(135)
	5,626	6,159
Deferred tax		
Origination and reversal of temporary differences and unused tax credits (Note 36)	**(511)**	(145)
	5,115	6,014

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

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

	2020 HK$'m	2019 HK$'m
Profit before taxation	**33,583**	40,088
Calculated at a taxation rate of 16.5% (2019: 16.5%)	**5,541**	6,615
Effect of different taxation rates in other countries/regions	**75**	166
Income not subject to taxation	**(410)**	(1,028)
Expenses not deductible for taxation purposes	**461**	592
Utilisation of previously unrecognised tax losses	**(10)**	(2)
Over-provision in prior years	**(205)**	(225)
Foreign withholding tax	**(110)**	125
Others	**(227)**	(229)
Taxation charge	**5,115**	6,014
Effective tax rate	**15.2%**	15.0%

18. Dividends

	2020		2019	
	Per share HK$	**Total HK$'m**	Per share HK$	Total HK$'m
Interim dividend paid	**0.447**	**4,726**	0.545	5,762
Proposed final dividend	**0.795**	**8,405**	0.992	10,488
	1.242	**13,131**	1.537	16,250

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

At a meeting held on 30 March 2021, the Board proposed to recommend to the Annual General Meeting on 17 May 2021 a final dividend of HK$0.795 per ordinary share for the year ended 31 December 2020 amounting to approximately HK$8,405 million. This proposed final dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2021.

19. Earnings per share

The calculation of basic earnings per share for the year ended 31 December 2020 is based on the consolidated profit for the year attributable to equity holders of the Company of approximately HK$26,487 million (2019: HK$32,184 million) and on the ordinary shares in issue of 10,572,780,266 shares (2019: 10,572,780,266 ordinary shares).

There was no dilution of earnings per share as no potential ordinary shares were in issue for the year ended 31 December 2020 (2019: Nil).

20. 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.

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 year ended 31 December 2020 amounted to approximately HK$375 million (2019: approximately HK$358 million), after a deduction of forfeited contributions of approximately HK$10 million (2019: approximately HK$10 million). For the MPF Scheme, the Group contributed approximately HK$132 million (2019: approximately HK$118 million) for the year ended 31 December 2020.

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

(a) Directors' and senior management's emoluments

(i) Directors' emoluments

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

	2020				
	Directors' fee HK$'000	Basic salaries, allowances and benefits in kind HK$'000	Bonus HK$'000	Other payments# HK$'000	Total HK$'000
Executive Directors					
SUN Yu (Chief Executive) Note 1	–	140	31	–	171
GAO Yingxin (Chief Executive) Note 2	–	3,041	1,636	–	4,677
	–	3,181	1,667	–	4,848
Non-executive Directors					
LIU Liange	–	–	–	–	–
WANG Jiang Note 1	–	–	–	–	–
LIN Jingzhen	–	–	–	–	–
CHENG Eva*	600	–	–	–	600
CHOI Koon Shum*	600	–	–	–	600
KOH Beng Seng*	650	–	–	–	650
LAW Yee Kwan Quinn*	550	–	–	–	550
TUNG Savio Wai-Hok*	700	–	–	–	700
	3,100	–	–	–	3,100
	3,100	3,181	1,667	–	7,948

Note 1: Appointed during the year.
Note 2: Resigned during the year.

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

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

(i) Directors' emoluments (continued)

	2019				
	Directors' fee HK$'000	Basic salaries, allowances and benefits in kind HK$'000	Bonus HK$'000	Other payments# HK$'000	Total HK$'000
Executive Directors					
GAO Yingxin (Chief Executive)	–	7,142	4,247	–	11,389
LI Jiuzhong	–	1,008	533	–	1,541
	–	8,150	4,780	–	12,930
Non-executive Directors					
LIU Liange	–	–	–	–	–
LIN Jingzhen	–	–	–	–	–
CHENG Eva*	502	–	–	–	502
CHOI Koon Shum*	551	–	–	–	551
KOH Beng Seng*	601	–	–	–	601
LAW Yee Kwan Quinn*	404	–	–	–	404
TUNG Savio Wai-Hok*	651	–	–	–	651
CHEN Siqing	–	–	–	–	–
	2,709	–	–	–	2,709
	2,709	8,150	4,780	–	15,639

* Independent Non-executive Directors

\# Including the contributions to pension scheme for directors, inducement to join the Group and the compensation for the loss of office paid to or receivable by directors.

There were no directors waived emoluments for the year ended 31 December 2020 (2019: Nil).

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

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

(ii) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year do not include any (2019: one) directors. The emoluments payable to the five (2019: four) individuals during the year are as follows:

	2020 HK$'m	2019 HK$'m
Basic salaries and allowances	**26**	17
Bonus	**10**	10
Contributions to pension schemes	**1**	1
	37	28

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

	Number of individuals	
	2020	2019
HK$6,500,001 to HK$7,000,000	**1**	2
HK$7,000,001 to HK$7,500,000	**2**	–
HK$7,500,001 to HK$8,000,000	**1**	2
HK$8,500,001 to HK$9,000,000	**1**	–

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

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

(iii) Senior management's emoluments

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

	Number of individuals	
	2020	2019
HK$0 to HK$500,000	**1**	–
HK$500,001 to HK$1,000,000	**–**	1
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**–**	1
HK$3,500,001 to HK$4,000,000	**1**	–
HK$4,500,001 to HK$5,000,000	**1**	–
HK$5,000,001 to HK$5,500,000	**2**	2
HK$5,500,001 to HK$6,000,000	**1**	2
HK$6,000,001 to HK$6,500,000	**1**	1
HK$6,500,001 to HK$7,000,000	**1**	–
HK$7,000,001 to HK$7,500,000	**1**	–
HK$7,500,001 to HK$8,000,000	**1**	1
HK$11,000,001 to HK$11,500,000	**–**	1

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

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

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

- Key Personnel: The employees whose individual business activities involve the assumption of material risk which may have significant impact on risk exposure, or whose individual responsibilities are directly and materially linked to the risk management, or those who have direct influence to the profit, including heads of material business lines, heads of major subsidiaries, senior executives of Southeast Asian entities, head of trading, as well as heads of risk control functions.

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

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

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

(i) Remuneration awarded during financial year

	2020		2019	
	Senior Management HK$'m	**Key Personnel HK$'m**	Senior Management HK$'m	Key Personnel HK$'m
Fixed remuneration				
Cash-based	**45**	**153**	42	146
Of which: deferred	**–**	**–**	–	–
Variable remuneration				
Cash-based	**18**	**60**	19	89
Of which: deferred	***5***	***13***	*5*	*23*
Total remuneration	**63**	**213**	61	235
Number of employees				
Fixed remuneration	**13**	**58**	12	59
Variable remuneration	**13**	**57**	12	58

(ii) Special payments

	2020		2019	
	Senior Management HK$'m	**Key Personnel HK$'m**	Senior Management HK$'m	Key Personnel HK$'m
Sign-on awards	**–**	**3**	–	–
Number of employees	**–**	**2**	–	–

There were no guaranteed bonuses and severance payments to Senior Management and Key Personnel for the year ended 31 December 2020 (2019: Nil).

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

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

(iii) Deferred remuneration

	2020				
	Total amount of outstanding deferred remuneration HK$'m	**Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment HK$'m**	**Total amount of amendment during the year due to ex post explicit adjustments HK$'m**	**Total amount of amendment during the year due to ex post implicit adjustments HK$'m**	**Total amount of deferred remuneration paid out in the financial year HK$'m**
Senior Management					
Cash	**10**	**10**	**–**	**–**	**(5)**
Key Personnel					
Cash	**36**	**36**	**–**	**–**	**(19)**
Total	**46**	**46**	**–**	**–**	**(24)**

	2019				
	Total amount of outstanding deferred remuneration HK$'m	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment HK$'m	Total amount of amendment during the year due to ex post explicit adjustments HK$'m	Total amount of amendment during the year due to ex post implicit adjustments HK$'m	Total amount of deferred remuneration paid out in the financial year HK$'m
Senior Management					
Cash	10	10	–	–	(5)
Key Personnel					
Cash	42	42	–	–	(14)
Total	52	52	–	–	(19)

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

	2020 HK$'m	2019 HK$'m
Cash	**38,187**	19,028
Balances with central banks	**141,803**	150,249
Placements with central banks maturing within one month	**36,842**	9,541
Placements with central banks maturing between one and twelve months	**3,379**	2,444
Placements with central banks maturing over one year	**1,547**	785
	183,571	163,019
Balances with other banks and other financial institutions	**188,089**	75,518
Placements with other banks and other financial institutions maturing within one month	**19,588**	81,101
Placements with other banks and other financial institutions maturing between one and twelve months	**33,974**	28,166
Placements with other banks and other financial institutions maturing over one year	**310**	–
	241,961	184,785
	463,719	366,832
Impairment allowances		
– Stage 1	**(8)**	(3)
– Stage 2	**–**	–
– Stage 3	**–**	–
	463,711	366,829

23. Financial assets at fair value through profit or loss

	2020 HK$'m	2019 HK$'m
Securities		
Trading assets		
– Treasury bills	**1,349**	21,025
– Certificates of deposit	**171**	2,953
– Other debt securities	**25,297**	13,612
	26,817	37,590
– Equity securities	**49**	37
	26,866	37,627
Other financial assets mandatorily classified at fair value through profit or loss		
– Certificates of deposit	**–**	2
– Other debt securities	**15,872**	27,521
	15,872	27,523
– Equity securities	**3,910**	2,618
– Fund	**8,841**	9,137
	28,623	39,278
Financial assets designated at fair value through profit or loss		
– Certificates of deposit	**–**	–
– Other debt securities	**1,307**	2,991
	1,307	2,991
Total securities	**56,796**	79,896
Other debt instruments		
Trading assets	**3,300**	5,297
Financial assets designated at fair value through profit or loss	**118**	–
Total other debt instruments	**3,418**	5,297
	60,214	85,193

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

Total securities are analysed by place of listing as follows:

	2020 HK$'m	2019 HK$'m
Debt securities and certificates of deposit		
– Listed in Hong Kong	**26,306**	14,901
– Listed outside Hong Kong	**8,133**	14,036
– Unlisted	**9,557**	39,167
	43,996	68,104
Equity securities		
– Listed in Hong Kong	**2,610**	1,500
– Listed outside Hong Kong	**1,265**	1,155
– Unlisted	**84**	–
	3,959	2,655
Fund		
– Listed outside Hong Kong	**491**	–
– Unlisted	**8,350**	9,137
	8,841	9,137
Total securities	**56,796**	79,896

Total securities are analysed by type of issuer as follows:

	2020 HK$'m	2019 HK$'m
Sovereigns	**26,207**	30,812
Public sector entities	**535**	1,526
Banks and other financial institutions	**20,935**	33,665
Corporate entities	**9,119**	13,893
Total securities	**56,796**	79,896

24. Derivative financial instruments and hedge accounting

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

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

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

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

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

(a) Derivative financial instruments

The Group trades derivative products (both exchange-traded and OTC) mainly for customer business. The Group strictly follows risk management policies and requirements in providing derivative products to our customers and in trading of derivative products in the interbank market.

Derivatives are also used to manage the interest rate risk of the banking book. A derivative instrument must be included in the approved product list before any transactions for that instrument can be made. There are limits to control the notional amount of exposure arising from derivative transactions, and the maximum tenor of the deal is set. Every derivative transaction must be input into the relevant system for settlement, mark-to-market revaluation, reporting and control.

24. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

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

	2020		
	Contract/ notional amounts HK$'m	Fair values	
		Assets HK$'m	Liabilities 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)**
Credit derivative contracts	**–**	**–**	**–**
	2,634,962	**52,856**	**(60,313)**

24. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

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

(b) Hedge accounting

Fair value hedges

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

Possible sources of ineffectiveness are as follows:

– Increase or decrease in the amounts of hedged items or hedging instruments;

– Significant changes in counterparties' credit risk.

24. Derivative financial instruments and hedge accounting (continued)

(b) Hedge accounting (continued)

Fair value hedges (continued)

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

	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$'m**	**Total HK$'m**
Interest rate swaps	**1,875**	**2,011**	**8,382**	**61,441**	**37,545**	**111,254**

	2019					
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Total HK$'m
Interest rate swaps	849	1,575	6,065	67,336	38,066	113,891

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

	2020			
		Fair values		
	Contract/ notional amounts HK$'m	**Assets HK$'m**	**Liabilities HK$'m**	**Change in fair value used for recognising hedge ineffectiveness HK$'m**
Derivative financial instruments				
Interest rate swaps	**111,254**	**50**	**(6,196)**	**(4,074)**

	2019			
		Fair values		
	Contract/ notional amounts HK$'m	Assets HK$'m	Liabilities HK$'m	Change in fair value used for recognising hedge ineffectiveness HK$'m
Derivative financial instruments				
Interest rate swaps	113,891	330	(2,632)	(3,714)

24. Derivative financial instruments and hedge accounting (continued)

(b) Hedge accounting (continued)

Fair value hedges (continued)

The amounts relating to hedged items are as follows:

	2020		
	Carrying amounts HK$'m	**Accumulated amount of fair value hedge adjustment included in the carrying amounts HK$'m**	**Change in value used for recognising hedge ineffectiveness HK$'m**
Investment in securities			
Debt securities	**119,092**	**6,538**	**4,302**

	2019		
	Carrying amounts HK$'m	Accumulated amount of fair value hedge adjustment included in the carrying amounts HK$'m	Change in value used for recognising hedge ineffectiveness HK$'m
Investment in securities			
Debt securities	118,224	2,813	3,921

Hedge ineffectiveness recognised is as follows:

	2020 HK$'m	2019 HK$'m
Net trading gain	**228**	207

24. Derivative financial instruments and hedge accounting (continued)

(c) IBOR reform

The HKAS 39, HKFRS 7 and HKFRS 9 (Amendments), "Interest Rate Benchmark Reform" modify some specific hedge accounting requirements. During the period of uncertainty arising from phasing-out of interest rate benchmarks with an alternative nearly risk-free interest rate ("RFR"), the entities that apply these hedge accounting requirements can assume that the interest rate benchmarks on which the hedged cash flows and cash flows of the hedging instrument are based are not altered as a result of IBOR reform. The Group has adopted the amendments for the financial year beginning on 1 January 2020.

The Group has fair value hedge accounting relationships that are exposed to different interbank offered rates, predominantly US Dollar LIBOR. External progress on the transition to RFRs is being monitored, with the objective of ensuring a smooth transition for the Group's hedge accounting relationships. The specific issues arising will vary with the details of each hedging relationship, but may arise due to the transition of existing products included in the designation, a change in expected volumes of products to be issued, a change in contractual terms of new products issued, or a combination of these factors. Some hedges may need to be de-designated and new relationships entered into, while others may survive the market-wide benchmarks reform.

The hedged items that are affected by the adoption of the temporary exceptions in hedge accounting relationships are debt securities which are presented in the consolidated balance sheet as "Investment in securities". When identifying the hedged items that are affected by the adoption of the temporary exception, judgement has been exercised by the Group in determining when uncertainty is expected to be resolved and therefore when the temporary exceptions will cease to apply. As at 31 December 2020, the Group believed that the uncertainty continued to exist and so the temporary exceptions apply to all of the Group's hedge accounting relationships that reference benchmarks subject to reform or replacement.

The contract/notional amounts of interest rate derivatives designated in hedge accounting relationships represent the extent of the risk exposure managed by the Group that is directly affected by market-wide benchmarks reform and impacted by the temporary exceptions, which is presented as below:

	2020 Contract/ notional amounts HK$'m
Interest rate swaps	**104,022**

In October 2020, HKICPA issued HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendments), "Interest Rate Benchmark Reform – Phase 2". The Group will adopt the amendments for the financial year beginning on 1 January 2021.

25. Advances and other accounts

	2020 HK$'m	2019 HK$'m
Personal loans and advances	**458,577**	415,874
Corporate loans and advances	**1,039,287**	980,009
Advances to customers	**1,497,864**	1,395,883
Less: Impairment allowances		
– Stage 1	**(5,405)**	(4,563)
– Stage 2	**(1,115)**	(297)
– Stage 3	**(2,652)**	(2,175)
	1,488,692	1,388,848
Trade bills	**9,826**	20,727
Less: Impairment allowances		
– Stage 1	**–**	(1)
– Stage 2	**–**	–
– Stage 3	**–**	–
	9,826	20,726
Advances to banks and other financial institutions	**1,898**	3,387
	1,500,416	1,412,961

As at 31 December 2020, advances to customers included accrued interest of HK$1,958 million (2019: HK$2,751 million).

26. Investment in securities

	2020 HK$'m	2019 HK$'m
Investment in securities at fair value through other comprehensive income		
– Treasury bills	**122,583**	234,284
– Certificates of deposit	**46,029**	51,167
– Other debt securities	**585,560**	399,251
	754,172	684,702
– Equity securities	**5,882**	5,968
	760,054	690,670
Investment in securities at amortised cost		
– Certificates of deposit	**984**	1,526
– Other debt securities	**119,509**	109,503
	120,493	111,029
– Impairment allowances		
Stage 1	**(62)**	(46)
Stage 2	**–**	–
Stage 3	**–**	–
	120,431	110,983
	880,485	801,653

26. Investment in securities (continued)

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

	2020 HK$'m	2019 HK$'m
Investment in securities at fair value through other comprehensive income		
Debt securities and certificates of deposit		
– Listed in Hong Kong	**195,265**	69,523
– Listed outside Hong Kong	**150,153**	187,072
– Unlisted	**408,754**	428,107
	754,172	684,702
Equity securities		
– Listed in Hong Kong	**2,777**	3,207
– Listed outside Hong Kong	**496**	607
– Unlisted	**2,609**	2,154
	5,882	5,968
	760,054	690,670
Investment in securities at amortised cost		
Debt securities and certificates of deposit		
– Listed in Hong Kong	**28,050**	19,664
– Listed outside Hong Kong	**59,685**	55,151
– Unlisted	**32,696**	36,168
	120,431	110,983
	880,485	801,653
Market value of listed securities at amortised cost	**92,341**	77,394

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

	2020 HK$'m	2019 HK$'m
Sovereigns	**426,384**	357,468
Public sector entities	**26,363**	46,790
Banks and other financial institutions	**270,645**	221,098
Corporate entities	**157,093**	176,297
	880,485	801,653

26. Investment in securities (continued)

The movements in investment in securities are summarised as follows:

	2020	
	At fair value through other comprehensive income HK$'m	**At amortised cost HK$'m**
At 1 January 2020	**690,670**	**110,983**
Additions	**1,149,390**	**58,961**
Disposals, redemptions and maturity	**(1,102,401)**	**(49,850)**
Amortisation	**478**	**260**
Change in fair value/fair value hedge adjustment	**10,537**	**(15)**
Net charge of impairment allowances	**–**	**(16)**
Exchange difference	**11,380**	**108**
At 31 December 2020	**760,054**	**120,431**

	2019	
	At fair value through other comprehensive income HK$'m	At amortised cost HK$'m
At 1 January 2019	489,542	109,496
Additions	1,038,569	18,740
Disposals, redemptions and maturity	(847,685)	(16,558)
Amortisation	2,663	(90)
Change in fair value/fair value hedge adjustment	10,371	42
Net charge of impairment allowances	–	(17)
Exchange difference	(2,790)	(630)
At 31 December 2019	690,670	110,983

The Group has designated certain equity securities as equity securities at fair value through other comprehensive income. The fair value through other comprehensive income designation was made because these are held for strategic investments. Investments include subordinated Additional Tier 1 securities, listed and unlisted equity shares.

The Group derecognised certain equity securities at fair value through other comprehensive income with fair value of HK$2,289 million (2019: HK$1,076 million) during the year. The derecognition was made because of portfolio rebalancing and the redemption by issuer.

27. Interests in associates and joint ventures

	2020 HK$'m	2019 HK$'m
At 1 January	**1,632**	483
Additions	**6**	1,100
Share of results	**(126)**	94
Share of tax	**(26)**	(42)
Dividend received	**(3)**	(3)
Exchange difference	**2**	–
At 31 December	**1,485**	1,632

The particulars of the Group's associates and joint ventures, all of which are unlisted, are as follows:

Name	Place of incorporation and operation	Issued share capital	Interest held	Principal activities
BOC Services Company Limited	PRC	Registered capital RMB50,000,000	45%	Credit card back-end service support
FutureX Innovation Limited	Cayman Islands	US$1	20%	Investment holding
Golden Harvest (Cayman) Limited	Cayman Islands	US$100	49%	Investment holding
Joint Electronic Teller Services Limited	Hong Kong	HK$10,026,000	19.96%	Operation of a private inter-bank message switching network in respect of ATM services
Livi Bank Limited	Hong Kong	HK$2,500,000,000	44%	Banking business
Sunac Realtor Capital Limited	Cayman Islands	US$1	20%	Investment holding
盈進智能製造（深圳）投資中心（有限合夥）	PRC	Paid in capital RMB9,500,000	52.63%	Investment holding

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

28. Investment properties

	2020 HK$'m	2019 HK$'m
At 1 January	**20,110**	19,684
Additions	**9**	35
Fair value (loss)/gain (Note 15)	**(1,622)**	282
Reclassification (to)/from properties, plant and equipment (Note 29)	**(56)**	109
At 31 December	**18,441**	20,110

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

	2020 HK$'m	2019 HK$'m
Held in Hong Kong		
On long-term lease (over 50 years)	**4,720**	5,005
On medium-term lease (10 to 50 years)	**13,362**	14,743
Held outside Hong Kong		
On medium-term lease (10 to 50 years)	**328**	330
On short-term lease (less than 10 years)	**31**	32
	18,441	20,110

As at 31 December 2020, investment properties were included in the balance sheet at valuation carried out at 31 December 2020 on the basis of their fair value by an independent firm of chartered surveyors, Knight Frank Petty Limited. The fair value represents the price that would be received to sell each investment property in an orderly transaction with market participants at the measurement date.

29. Properties, plant and equipment

	Premises HK$'m	Equipment, fixtures and fittings HK$'m	Right-of-use assets HK$'m	Total HK$'m
Net book value at 1 January 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 (Note 14)	**(1,173)**	**(1,107)**	**(760)**	**(3,040)**
Reclassification from investment properties (Note 28)	**56**	**–**	**–**	**56**
Transfer to other assets (Note 30)	**–**	**(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**

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.

29. Properties, plant and equipment (continued)

	Premises HK$'m	Equipment, fixtures and fittings HK$'m	Right-of-use assets HK$'m	Total HK$'m
Net book value at 1 January 2019	46,390	3,045	1,757	51,192
Additions	147	1,303	877	2,327
Disposals	–	(8)	–	(8)
Revaluation	1,070	–	–	1,070
Depreciation for the year (Note 14)	(1,157)	(1,013)	(711)	(2,881)
Reclassification to investment properties (Note 28)	(109)	–	–	(109)
Exchange difference	1	4	6	11
Net book value at 31 December 2019	46,342	3,331	1,929	51,602
At 31 December 2019				
Cost or valuation	46,342	11,487	2,640	60,469
Accumulated depreciation and impairment	–	(8,156)	(711)	(8,867)
Net book value at 31 December 2019	46,342	3,331	1,929	51,602
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2019				
At cost	–	11,487	2,640	14,127
At valuation	46,342	–	–	46,342
	46,342	11,487	2,640	60,469

29. Properties, plant and equipment (continued)

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

	2020 HK$'m	2019 HK$'m
Held in Hong Kong		
On long-term lease (over 50 years)	**12,904**	13,735
On medium-term lease (10 to 50 years)	**30,292**	32,243
Held outside Hong Kong		
On long-term lease (over 50 years)	**75**	75
On medium-term lease (10 to 50 years)	**277**	289
	43,548	46,342

As at 31 December 2020, premises were included in the balance sheet at valuation carried out at 31 December 2020 on the basis of their fair value by an independent firm of chartered surveyors, Knight Frank Petty Limited. The fair value represents the price that would be received to sell each premises in an orderly transaction with market participants at the measurement date.

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

	2020 HK$'m	2019 HK$'m
(Decrease)/increase in valuation (charged)/credited to income statement (Note 16)	**(59)**	6
(Decrease)/increase in valuation (charged)/credited to other comprehensive income	**(1,707)**	1,064
	(1,766)	1,070

As at 31 December 2020, the net book value of premises that would have been included in the Group's balance sheet had the premises been carried at cost less accumulated depreciation and impairment losses was HK$8,748 million (2019: HK$8,715 million).

30. Other assets

	2020 HK$'m	2019 HK$'m
Repossessed assets	**23**	7
Precious metals	**10,697**	9,261
Intangible assets	**1,862**	–
Reinsurance assets	**55,672**	48,614
Accounts receivable and prepayments	**38,481**	33,148
	106,735	91,030

31. Hong Kong SAR currency notes in circulation

The Hong Kong SAR currency notes in circulation are secured by deposit of funds in respect of which the Hong Kong SAR Government certificates of indebtedness are held.

32. Financial liabilities at fair value through profit or loss

	2020 HK$'m	2019 HK$'m
Trading liabilities		
– Short positions in Exchange Fund Bills and Notes	**20,336**	19,206

33. Deposits from customers

	2020 **HK$'m**	2019 HK$'m
Demand deposits and current accounts		
– Corporate	**222,286**	138,646
– Personal	**87,940**	68,367
	310,226	207,013
Savings deposits		
– Corporate	**499,740**	400,903
– Personal	**649,295**	499,106
	1,149,035	900,009
Time, call and notice deposits		
– Corporate	**454,852**	517,080
– Personal	**269,596**	385,171
	724,448	902,251
	2,183,709	2,009,273

34. Debt securities and certificates of deposit in issue

	2020 **HK$'m**	2019 HK$'m
At amortised cost		
– Certificates of deposit	**233**	116
– Other debt securities	**193**	–
	426	116

35. Other accounts and provisions

	2020 **HK$'m**	2019 HK$'m
Other accounts payable	**68,682**	78,197
Lease liabilities	**1,710**	1,850
Impairment allowances on loan commitments and financial guarantee contracts		
– Stage 1	**594**	535
– Stage 2	**44**	22
– Stage 3	**20**	20
	71,050	80,624

36. Deferred taxation

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

The major components of deferred tax (assets)/liabilities recorded in the balance sheet, and the movements during the year are as follows:

	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 (Note 17)	**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**

	2019					
	Accelerated tax depreciation HK$'m	Property revaluation HK$'m	Losses HK$'m	Impairment allowances HK$'m	Others HK$'m	Total HK$'m
At 1 January 2019	706	6,991	–	(724)	(1,478)	5,495
Charged/(credited) to income statement (Note 17)	50	(127)	–	(80)	12	(145)
Charged to other comprehensive income	–	133	–	–	927	1,060
Release upon disposal of equity instruments at fair value through other comprehensive income	–	–	–	–	7	7
At 31 December 2019	756	6,997	–	(804)	(532)	6,417

36. Deferred taxation (continued)

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

	2020 HK$'m	2019 HK$'m
Deferred tax assets	**(95)**	(63)
Deferred tax liabilities	**5,964**	6,480
	5,869	6,417

	2020 HK$'m	2019 HK$'m
Deferred tax assets to be recovered after more than twelve months	**(112)**	(43)
Deferred tax liabilities to be settled after more than twelve months	**6,244**	6,971
	6,132	6,928

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

37. Insurance contract liabilities

	2020 HK$'m	2019 HK$'m
At 1 January	**117,269**	104,723
Benefits paid	**(13,288)**	(15,373)
Claims incurred and movement in liabilities	**35,523**	27,919
At 31 December	**139,504**	117,269

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK$45,615 million (2019: HK$40,130 million) and the associated reinsurance assets of HK$55,672 million (2019: HK$48,614 million) are included in "Other assets" (Note 30).

38. Subordinated liabilities

	2020 HK$'m	2019 HK$'m
Subordinated notes		
– designated at fair value through profit or loss	–	12,954

Listed subordinated notes with aggregate principal amount of USD1,623 million, interest rate at 5.55% per annum payable semi-annually, has been fully repaid in February 2020. Amounts qualified as Tier 2 capital instruments for regulatory purposes are shown in Note 4.5(B). The carrying amount of subordinated notes designated at fair value through profit or loss as at 31 December 2019 was more than the amount that the Group would be contractually required to pay at maturity to the holders by HK$41 million.

39. Share capital

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

40. Other equity instruments

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

In September 2018, BOCHK issued USD3,000 million undated non-cumulative subordinated Additional Tier 1 capital securities. The capital securities are perpetual securities in respect of which there is no fixed redemption date and are not callable within the first 5 years. They have an initial rate of distribution of 5.90% per annum payable semi-annually which may be cancelled at the sole discretion of BOCHK. Dividend paid to other equity instrument holders in 2020 amounted to HK$1,376 million (2019: HK$1,390 million).

41. Notes to consolidated cash flow statement

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

	2020 **HK$'m**	2019 HK$'m
Operating profit	**35,420**	39,755
Depreciation	**3,040**	2,881
Net charge of impairment allowances	**2,707**	2,022
Unwind of discount on impairment allowances	**(8)**	(4)
Advances written off net of recoveries	**(425)**	(249)
Interest expense on lease liabilities	**54**	55
Change in subordinated liabilities	**–**	370
Change in balances and placements with banks and other financial institutions with original maturity over three months	**3,800**	9,276
Change in financial assets at fair value through profit or loss	**21,655**	(16,657)
Change in derivative financial instruments	**5,563**	5,926
Change in advances and other accounts	**(89,591)**	(131,579)
Change in investment in securities	**(49,999)**	(201,861)
Change in other assets	**(13,863)**	(12,466)
Change in deposits and balances from banks and other financial institutions	**58,606**	(109,091)
Change in financial liabilities at fair value through profit or loss	**1,130**	3,671
Change in deposits from customers	**174,436**	113,477
Change in debt securities and certificates of deposit in issue	**310**	(9,337)
Change in other accounts and provisions	**(9,527)**	19,025
Change in insurance contract liabilities	**22,235**	12,546
Effect of changes in exchange rates	**(13,269)**	4,264
Operating cash inflow/(outflow) before taxation	**152,274**	(267,976)
Cash flows from operating activities included		
– interest received	**51,764**	67,383
– interest paid	**17,674**	26,168
– dividend received	**235**	256

41. Notes to consolidated cash flow statement (continued)

(b) Reconciliation of liabilities arising from financing activities

	2020 HK$'m	2019 HK$'m
Subordinated liabilities		
At 1 January	**12,954**	13,246
Cash flows:		
Payment for redemption of subordinated liabilities	**(12,603)**	–
Interest paid for subordinated liabilities	**(350)**	(707)
	(12,953)	(707)
Non-cash changes:		
Change in fair value of own credit risk (credited)/charged to other comprehensive income	**(1)**	45
Exchange difference	**(39)**	(72)
Other changes	**39**	442
At 31 December	**–**	12,954

	2020 HK$'m	2019 HK$'m
Lease liabilities		
At 1 January	**1,850**	1,743
Cash flows:		
Payment of lease liabilities	**(733)**	(644)
Non-cash changes:		
Additions	**549**	696
Disposal	**(10)**	–
Other changes	**54**	55
At 31 December	**1,710**	1,850

41. Notes to consolidated cash flow statement (continued)

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

	2020 **HK$'m**	2019 HK$'m
Cash and balances and placements with banks and other financial institutions with original maturity within three months	**423,563**	322,876
Treasury bills, certificates of deposit and other debt instruments with original maturity within three months		
– financial assets at fair value through profit or loss	**3,303**	6,627
– investment in securities	**29,192**	2,149
	456,058	331,652

42. Contingent liabilities and commitments

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

	2020 **HK$'m**	2019 HK$'m
Direct credit substitutes	**2,487**	5,455
Transaction-related contingencies	**30,215**	29,080
Trade-related contingencies	**27,830**	27,865
Commitments that are unconditionally cancellable without prior notice	**511,975**	447,055
Other commitments with an original maturity of		
– up to one year	**20,416**	13,772
– over one year	**173,475**	160,575
	766,398	683,802
Credit risk-weighted amount	**87,517**	76,911

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

43. Capital commitments

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

	2020 HK$'m	2019 HK$'m
Authorised and contracted for but not provided for	**274**	188
Authorised but not contracted for	**70**	72
	344	260

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

44. Operating lease commitments

As lessor

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

	2020 HK$'m	2019 HK$'m
Properties and equipment		
– Not later than one year	**520**	552
– One to two years	**313**	389
– Two to three years	**101**	187
– Three to four years	**14**	33
– Four to five years	**10**	1
– Later than five years	**–**	–
	958	1,162

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

45. Litigation

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

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

46. Segmental reporting

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

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

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

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

46. Segmental reporting (continued)

	Personal Banking HK$'m	Corporate Banking HK$'m	Treasury HK$'m	Insurance HK$'m	Others HK$'m	Subtotal HK$'m	Eliminations HK$'m	Consolidated HK$'m
Year ended 31 December 2020								
Net interest income/(expense)								
– External	2,014	14,846	12,623	3,437	1,818	34,738	–	34,738
– Inter-segment	10,955	(1,352)	(8,840)	(13)	(750)	–	–	–
	12,969	13,494	3,783	3,424	1,068	34,738	–	34,738
Net fee and commission income/(expense)	7,092	3,522	253	(626)	1,262	11,503	(661)	10,842
Net insurance premium income	–	–	–	18,482	–	18,482	(22)	18,460
Net trading gain	1,004	1,311	2,012	259	435	5,021	153	5,174
Net gain/(loss) on other financial instruments at fair value through profit or loss	–	–	208	1,743	(3)	1,948	11	1,959
Net gain on other financial assets	–	7	4,376	189	–	4,572	–	4,572
Other operating income	18	5	80	123	2,055	2,281	(1,385)	896
Total operating income	21,083	18,339	10,712	23,594	4,817	78,545	(1,904)	76,641
Net insurance benefits and claims and movement in liabilities	–	–	–	(22,167)	–	(22,167)	–	(22,167)
Net operating income before impairment allowances	21,083	18,339	10,712	1,427	4,817	56,378	(1,904)	54,474
Net charge of impairment allowances	(421)	(1,877)	(87)	(36)	(286)	(2,707)	–	(2,707)
Net operating income	20,662	16,462	10,625	1,391	4,531	53,671	(1,904)	51,767
Operating expenses	(9,684)	(3,427)	(1,269)	(537)	(3,334)	(18,251)	1,904	(16,347)
Operating profit	10,978	13,035	9,356	854	1,197	35,420	–	35,420
Net loss from disposal of/fair value adjustments on investment properties	–	–	–	–	(1,622)	(1,622)	–	(1,622)
Net loss from disposal/revaluation of properties, plant and equipment	(3)	–	–	–	(60)	(63)	–	(63)
Share of results after tax of associates and joint ventures	42	–	5	–	(199)	(152)	–	(152)
Profit/(loss) before taxation	11,017	13,035	9,361	854	(684)	33,583	–	33,583
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
Year ended 31 December 2020								
Other information								
Capital expenditure	29	8	1	52	1,803	1,893	–	1,893
Depreciation	1,274	281	107	64	1,349	3,075	(35)	3,040
Amortisation of securities	–	–	406	162	170	738	–	738

46. Segmental reporting (continued)

	Personal Banking HK$'m	Corporate Banking HK$'m	Treasury HK$'m	Insurance HK$'m	Others HK$'m	Subtotal HK$'m	Eliminations HK$'m	Consolidated HK$'m
Year ended 31 December 2019								
Net interest income/(expense)								
- External	7	16,406	18,551	3,265	2,294	40,523	–	40,523
- Inter-segment	13,300	(1,665)	(9,995)	(18)	(1,622)	–	–	–
	13,307	14,741	8,556	3,247	672	40,523	–	40,523
Net fee and commission income/(expense)	7,077	3,939	457	(1,322)	1,166	11,317	(398)	10,919
Net insurance premium income	–	–	–	18,433	–	18,433	(21)	18,412
Net trading gain/(loss)	789	1,389	3,098	(911)	371	4,736	64	4,800
Net (loss)/gain on other financial instruments at fair value through profit or loss	(1)	–	346	2,889	1	3,235	8	3,243
Net gain on other financial assets	–	17	754	53	–	824	–	824
Other operating income	101	2	45	126	2,083	2,357	(1,342)	1,015
Total operating income	21,273	20,088	13,256	22,515	4,293	81,425	(1,689)	79,736
Net insurance benefits and claims and movement in liabilities	–	–	–	(21,292)	–	(21,292)	–	(21,292)
Net operating income before impairment allowances	21,273	20,088	13,256	1,223	4,293	60,133	(1,689)	58,444
Net charge of impairment allowances	(351)	(1,385)	(9)	(7)	(270)	(2,022)	–	(2,022)
Net operating income	20,922	18,703	13,247	1,216	4,023	58,111	(1,689)	56,422
Operating expenses	(9,820)	(3,394)	(1,186)	(515)	(3,441)	(18,356)	1,689	(16,667)
Operating profit	11,102	15,309	12,061	701	582	39,755	–	39,755
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	282	282	–	282
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	(5)	–	–	–	4	(1)	–	(1)
Share of results after tax of associates and joint ventures	137	–	3	–	(88)	52	–	52
Profit before taxation	11,234	15,309	12,064	701	780	40,088	–	40,088
At 31 December 2019								
ASSETS								
Segment assets	442,694	947,164	1,354,356	153,116	155,953	3,053,283	(28,859)	3,024,424
Interests in associates and joint ventures	559	–	1	–	1,072	1,632	–	1,632
	443,253	947,164	1,354,357	153,116	157,025	3,054,915	(28,859)	3,026,056
LIABILITIES								
Segment liabilities	1,079,821	907,381	521,210	143,011	96,000	2,747,423	(28,859)	2,718,564
Year ended 31 December 2019								
Other information								
Capital expenditure	48	4	2	45	2,263	2,362	–	2,362
Depreciation	1,205	233	102	57	1,284	2,881	–	2,881
Amortisation of securities	–	–	2,547	59	(33)	2,573	–	2,573

47. Offsetting financial instruments

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

	2020					
				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial assets HK$'m	Gross amounts of recognised financial liabilities set off in the balance sheet HK$'m	Net amounts of financial assets presented in the balance sheet HK$'m	Financial instruments HK$'m	Cash collateral received HK$'m	Net amount HK$'m
Assets						
Derivative financial instruments	35,570	–	35,570	(28,032)	(3,314)	4,224
Reverse repurchase agreements	1,284	–	1,284	(1,284)	–	–
Securities borrowing agreements	3,300	–	3,300	(3,300)	–	–
Other assets	19,737	(14,300)	5,437	–	–	5,437
	59,891	(14,300)	45,591	(32,616)	(3,314)	9,661

	2020					
				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial liabilities HK$'m	Gross amounts of recognised financial assets set off in the balance sheet HK$'m	Net amounts of financial liabilities presented in the balance sheet HK$'m	Financial instruments HK$'m	Cash collateral pledged HK$'m	Net amount HK$'m
Liabilities						
Derivative financial instruments	48,805	–	48,805	(28,032)	(16,858)	3,915
Repurchase agreements	210	–	210	(210)	–	–
Other liabilities	15,454	(14,300)	1,154	–	–	1,154
	64,469	(14,300)	50,169	(28,242)	(16,858)	5,069

47. Offsetting financial instruments (continued)

	2019					
				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial assets HK$'m	Gross amounts of recognised financial liabilities set off in the balance sheet HK$'m	Net amounts of financial assets presented in the balance sheet HK$'m	Financial instruments HK$'m	Cash collateral received HK$'m	Net amount HK$'m
Assets						
Derivative financial instruments	30,995	–	30,995	(22,120)	(2,271)	6,604
Reverse repurchase agreements	3,138	–	3,138	(3,138)	–	–
Securities borrowing agreements	2,900	–	2,900	(2,900)	–	–
Other assets	12,622	(11,547)	1,075	–	–	1,075
	49,655	(11,547)	38,108	(28,158)	(2,271)	7,679

	2019					
				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial liabilities HK$'m	Gross amounts of recognised financial assets set off in the balance sheet HK$'m	Net amounts of financial liabilities presented in the balance sheet HK$'m	Financial instruments HK$'m	Cash collateral pledged HK$'m	Net amount HK$'m
Liabilities						
Derivative financial instruments	32,748	–	32,748	(22,120)	(7,159)	3,469
Repurchase agreements	562	–	562	(562)	–	–
Other liabilities	13,427	(11,547)	1,880	–	–	1,880
	46,737	(11,547)	35,190	(22,682)	(7,159)	5,349

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

48. Assets pledged as security

As at 31 December 2020, the liabilities of the Group amounting to HK$15,293 million (2019: HK$15,862 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK$210 million (2019: HK$60,562 million) were secured by debt securities related to sale and repurchase arrangements. The amount of assets pledged by the Group to secure these liabilities was HK$15,570 million (2019: HK$76,656 million) mainly included in "Financial assets at fair value through profit or loss" and "Investment in securities".

49. Transfers of financial assets

The transferred financial assets of the Group below that do not qualify for derecognition are debt securities held by counterparties as collateral under sale and repurchase agreements.

	2020		2019	
	Carrying amount of transferred assets HK$'m	**Carrying amount of associated liabilities HK$'m**	Carrying amount of transferred assets HK$'m	Carrying amount of associated liabilities HK$'m
Repurchase agreements	**231**	**210**	590	562

50. Loans to directors

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

	2020 HK$'m	2019 HK$'m
Aggregate amount of relevant transactions outstanding at year end	**–**	–
Maximum aggregate amount of relevant transactions outstanding during the year	**–**	–

51. 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.

51. Significant related party transactions (continued)

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

General information of the parent companies:

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

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

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

The majority of transactions with BOC arise from money market activities. As at 31 December 2020, the related aggregate amounts due from and to BOC of the Group were HK$188,781 million (2019: HK$98,066 million) and HK$110,389 million (2019: HK$56,995 million) respectively. The aggregate amounts of income and expenses of the Group arising from these transactions with BOC for the year ended 31 December 2020 were HK$1,037 million (2019: HK$1,971 million) and HK$157 million (2019: HK$478 million) respectively. The related party transactions above constitute connected transactions as defined in Chapter 14A of the Listing Rules but under exemption from its disclosure requirement.

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

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

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

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.

51. Significant related party transactions (continued)

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

The 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:

	2020 HK$'m	2019 HK$'m
Income statement items		
Associates and joint ventures		
– Fee and commission income	**43**	4
– Interest expenses	**1**	17
– Fee and commission expenses	**–**	6
– Other operating expenses	**80**	84
Other related parties		
– Fee and commission income	**12**	11
Balance sheet items		
Associates and joint ventures		
– Other assets	**11**	–
– Deposits and balances from banks and other financial institutions	**38**	96
– Deposits from customers	**124**	–
– Other accounts and provisions	**7**	1

The related party transactions in respect of the other operating expenses arising from associates and joint ventures above constitute connected transactions as defined in Chapter 14A of the Listing Rules and the required disclosures are provided in "Connected transactions" on pages 291 to 292.

(d) Key management personnel

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

The compensation of key management personnel for the year ended 31 December is detailed as follows:

	2020 HK$'m	2019 HK$'m
Salaries and other short-term employee benefits	**55**	53

52. International claims

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

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

	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**

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

53. 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.

	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%**		

53. Non-bank Mainland exposures (continued)

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

54. Balance sheet and statement of changes in equity

(a) Balance sheet

As at 31 December	2020 HK$'m	2019 HK$'m
ASSETS		
Bank balances with a subsidiary	**1,474**	1,754
Investment in securities	**1,412**	1,483
Investment in subsidiaries	**55,322**	55,322
Amounts due from a subsidiary	**7,403**	10,114
Investment in associates and joint ventures	**1,100**	1,100
Other assets	**2**	4
Total assets	**66,713**	69,777
LIABILITIES		
Amounts due to a subsidiary	**2**	3
Total liabilities	**2**	3
EQUITY		
Share capital	**52,864**	52,864
Reserves	**13,847**	16,910
Total equity	**66,711**	69,774
Total liabilities and equity	**66,713**	69,777

Approved by the Board of Directors on 30 March 2021 and signed on behalf of the Board by:

LIU Liange
Director

SUN Yu
Director

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

(b) Statement of changes in equity

		Reserves		
	Share capital HK$'m	Reserve for fair value changes HK$'m	Retained earnings HK$'m	Total equity HK$'m
At 1 January 2019	52,864	(1,863)	14,330	65,331
Profit for the year	–	–	20,604	20,604
Other comprehensive income:				
Equity instruments at fair value through other comprehensive income	–	(640)	–	(640)
Total comprehensive income	–	(640)	20,604	19,964
Dividends	–	–	(15,521)	(15,521)
At 31 December 2019	52,864	(2,503)	19,413	69,774
At 1 January 2020	**52,864**	**(2,503)**	**19,413**	**69,774**
Profit for the year	**–**	**–**	**12,222**	**12,222**
Other comprehensive income:				
Equity instruments at fair value through other comprehensive income	**–**	**(71)**	**–**	**(71)**
Total comprehensive income	**–**	**(71)**	**12,222**	**12,151**
Dividends	**–**	**–**	**(15,214)**	**(15,214)**
At 31 December 2020	**52,864**	**(2,574)**	**16,421**	**66,711**

55. Principal subsidiaries

The particulars of all direct and indirect subsidiaries of the Company are set out in "Appendix – Subsidiaries of the Company". The following is a list of principal subsidiaries as at 31 December 2020:

Name	Place of incorporation and operation	Issued share capital	Interest held	Principal activities
Bank of China (Hong Kong) Limited	Hong Kong	HK$43,042,840,858	*100%	Banking business
BOC Group Life Assurance Company Limited	Hong Kong	HK$3,538,000,000	*51%	Life insurance business
BOC Credit Card (International) Limited	Hong Kong	HK$565,000,000	100%	Credit card services
Bank of China (Malaysia) Berhad	Malaysia	RM760,518,480	100%	Banking business
Bank of China (Thai) Public Company Limited	Thailand	Baht10,000,000,000	100%	Banking business
Po Sang Securities and Futures Limited	Hong Kong	HK$335,000,000	100%	Securities and futures brokerage

* Shares held directly by the Company

The particulars of a subsidiary with significant non-controlling interests are as follows:

BOC Group Life Assurance Company Limited

	2020	2019
Proportion of ownership interests and voting rights held by non-controlling interests	**49%**	49%

	2020 HK$'m	2019 HK$'m
Profit attributable to non-controlling interests	**424**	332
Accumulated non-controlling interests	**5,587**	4,951
Summarised financial information:		
– total assets	**179,865**	153,116
– total liabilities	**168,463**	143,011
– profit for the year	**866**	678
– total comprehensive income for the year	**1,349**	1,853

56. Ultimate holding company

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

57. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 30 March 2021.

Unaudited Supplementary Financial Information

1. Regulatory Disclosures

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

This Annual Report and the Regulatory Disclosures are prepared according to the Group's disclosure policy. The disclosure policy sets out a robust mechanism for the Group's disclosures of financial information on a legitimate and compliant basis. It depicts the principles and internal control measures to ensure the timeliness, fairness, accuracy, integrity, completeness and legitimacy of financial disclosures.

2. Connected transactions

In 2020, BOCHK, a wholly-owned subsidiary of the Company, and its subsidiaries engaged on a regular basis in the usual course of their business in numerous transactions with BOC and its Associates. As BOC is the Company's controlling shareholder and therefore a connected person of the Company, all such transactions constituted connected transactions for the purposes of the Listing Rules. The Group is subject to the control of the State Council of the PRC Government through China Investment Corporation ("CIC"), its wholly-owned subsidiary Central Huijin Investment Ltd. ("Central Huijin"), and BOC in which Central Huijin has controlling equity interests. Central Huijin is the ultimate controlling shareholder of the Company. Central Huijin has accepted PRC Government's authorisation in carrying out equity investment in core financial enterprises. For the purposes of this report, therefore, Central Huijin and its Associates have not been treated as connected persons to the Company.

The transactions fell into the following two categories:

1. exempted transactions entered into in the ordinary and usual course of business and under normal commercial terms or better. Such transactions were (1) fully exempted from shareholders' approval, annual review and all disclosure requirements and/or (2) exempted from shareholders' approval requirement by virtue of Rules 14A.76 and 14A.87 to 14A.101 of the Listing Rules;

2. certain continuing connected transactions conducted pursuant to the Services and Relationship Agreement entered into among, inter alia, the Company and BOC dated 6 July 2002 (as amended and supplemented from time to time, which has been amended for a period of three years commencing 1 January 2020), whereas BOC has agreed to, and agreed to procure its Associates to, enter into all future arrangements with the Group on an arm's length basis, on normal commercial terms and at rates no less favourable than those offered to independent third parties, in relation to certain areas including, among others, information technology services, training services, physical bullion agency services, correspondent banking arrangements, treasury transactions, provision of insurance and syndicated loans, and the Company has agreed to, and agreed to procure its subsidiaries to, enter into all future arrangements on the same basis, provided that the rates offered by the Group to BOC and its Associates will be no more favourable than those offered to independent third parties. The Services and Relationship Agreement has also been last amended to allow for the provision of insurance agency and insurance referral services between BOC and its Associates and the Group. On 23 December 2019 the Company made an announcement (the "Announcement") in accordance with Rule 14A.35 of the Listing Rules, and has got the approval from the independent shareholders on 29 June 2020. The Announcement listed those continuing connected transactions that exceeded the de minimus threshold and set out caps in respect of such transactions for 2020-2022. These transactions were conducted in the ordinary and usual course of its business and on normal commercial terms or better. Details of these continuing connected transactions are set out below and are described in the announcements which may be viewed at the Company's website. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

2. Connected transactions (continued)

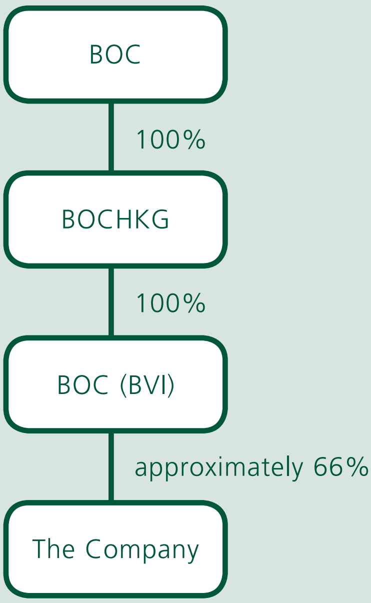
Type of Transaction	2020 Cap (HK$'m)	2020 Actual Amount (HK$'m)
Information Technology Services	1,000	137
Property Transactions	1,000	179
Bank-note Delivery	1,000	72
Provision of Insurance Cover	1,000	344
Card Services	1,000	77
Custody Business	1,000	57
Contact Centre Services	1,000	80
Securities Transactions	5,000	316
Fund Distribution Transactions	5,000	61
Insurance Agency and Insurance Referral	5,000	1,069
Investment Products Transactions	200,000	1,580
Asset Management and Referral Services	5,000	152
Foreign Exchange Transactions	5,000	96
Derivatives Transactions	5,000	460
Trading of Financial Assets	200,000	4,440
Inter-bank Capital Markets	200,000	21,355

3. Reconciliation between HKFRSs vs IFRSs/CASs

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

The consolidated financial information of "BOC Hong Kong Group" for the periods disclosed by BOC in its consolidated financial statements is not the same as the consolidated financial information of the Group for the periods published by the Company pursuant to applicable laws and regulations in Hong Kong. There are two reasons for this.

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



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

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

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

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

(a) Restatement of carrying value of bank premises

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

(b) Deferred tax adjustments

These represent the deferred tax effect of the aforesaid adjustments.

Profit after tax/net assets reconciliation

HKFRSs vs IFRSs/CASs

	Profit after tax		Net assets	
	2020 HK$'m	2019 HK$'m	**2020 HK$'m**	2019 HK$'m
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs	**28,468**	34,074	**319,655**	307,492
Add: IFRSs/CASs adjustments				
Restatement of carrying value of bank premises	**959**	885	**(32,110)**	(35,001)
Deferred tax adjustments	**(119)**	(129)	**5,534**	5,965
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRSs/CASs	**29,308**	34,830	**293,079**	278,456

Appendix

Subsidiaries of the Company

The particulars of subsidiaries are as follows:

Name	Place and date of incorporation/ operation	Issued share capital	Interest held	Principal activities
Directly held:				
Bank of China (Hong Kong) Limited	Hong Kong 16 October 1964	HK$43,042,840,858	100.00%	Banking business
BOC Group Life Assurance Company Limited	Hong Kong 12 March 1997	HK$3,538,000,000	51.00%	Life insurance business
BOCHK Asset Management (Cayman) Limited	Cayman Islands 7 October 2010	HK$283,000,000	100.00%	Investment holding
BOC Insurance (International) Holdings Company Limited	Hong Kong 6 June 2017	HK$100	100.00%	Investment holding
Indirectly held:				
BOC Credit Card (International) Limited	Hong Kong 9 September 1980	HK$565,000,000	100.00%	Credit card services
BOC Group Trustee Company Limited	Hong Kong 1 December 1997	HK$200,000,000	66.00%	Trustee services
BOCI-Prudential Trustee Limited	Hong Kong 11 October 1999	HK$300,000,000	42.24%*	Trustee services
Bank of China (Malaysia) Berhad	Malaysia 14 April 2000	RM760,518,480	100.00%	Banking business
China Bridge (Malaysia) Sdn. Bhd.	Malaysia 24 April 2009	RM1,000,000	100.00%	China visa application
Bank of China (Thai) Public Company Limited	Thailand 1 April 2014	Baht10,000,000,000	100.00%	Banking business
Bank of China (Hong Kong) Nominees Limited	Hong Kong 1 October 1985	HK$2	100.00%	Nominee services
Bank of China (Hong Kong) Trustees Limited	Hong Kong 6 November 1987	HK$3,000,000	100.00%	Trustee and agency services
BOC Financial Services (Nanning) Company Limited**	PRC 19 February 2019	Registered capital HK$60,000,000	100.00%	Financial operational services
BOCHK 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
Che Hsing (Nominees) Limited	Hong Kong 23 April 1980	HK$10,000	100.00%	Nominee services
Po Sang Financial Investment Services Company Limited	Hong Kong 23 September 1980	HK$335,000,000	100.00%	Gold trading and investment holding
Po Sang Securities and Futures Limited	Hong Kong 19 October 1993	HK$335,000,000	100.00%	Securities and futures brokerage
Sin 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

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

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

Sin Chiao Enterprises Corporation, Limited was dissolved on 28 December 2020.

BOCHK Financial Products (Cayman) Ltd. was dissolved on 29 December 2020.

BOCHK Equity Investment Management (Shenzhen) Limited has changed company's name to BOC Equity Investment Management (Shenzhen) Limited on 4 December 2020.

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

Definitions

In this Annual Report, unless the context otherwise requires, the following terms shall have the meanings set out below:

Terms	Meanings
"ADR"	American Depositary Receipt
"ADS(s)"	American Depositary Share(s)
"ALCO"	the Asset and Liability Management Committee
"AT1"	Additional Tier 1
"ATM"	Automated Teller Machine
"Associates"	has the meaning ascribed to "associates" in the Listing Rules
"BOC"	Bank of China Limited, a joint stock commercial bank with limited liability established under the laws of the PRC, the H shares and A shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively
"BOC (BVI)"	BOC Hong Kong (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of BOCHKG
"BOCCC"	BOC Credit Card (International) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK
"BOCG Insurance"	Bank of China Group Insurance Company Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCHKG"	BOC Hong Kong (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCHK" or "the Bank"	Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of the Company
"BOCI"	BOC International Holdings Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCI-Prudential Asset Management"	BOCI-Prudential Asset Management Limited, a company incorporated under the laws of Hong Kong, in which BOCI Asset Management Limited, a wholly-owned subsidiary of BOC International Holdings Limited, and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOCI-Prudential Trustee"	BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong, in which BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOC Life"	BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOCG Insurance hold equity interests of 51% and 49% respectively
"BOC Malaysia"	Bank of China (Malaysia) Berhad, a wholly-owned subsidiary of BOCHK
"BOC Thailand"	Bank of China (Thai) Public Company Limited, a wholly-owned subsidiary of BOCHK
"Board" or "Board of Directors"	the Board of Directors of the Company
"CAS"	Chinese Accounting Standard for Business Enterprises
"CE"	Chief Executive
"CET1"	Common Equity Tier 1
"CFO"	Chief Financial Officer
"CIC"	China Investment Corporation

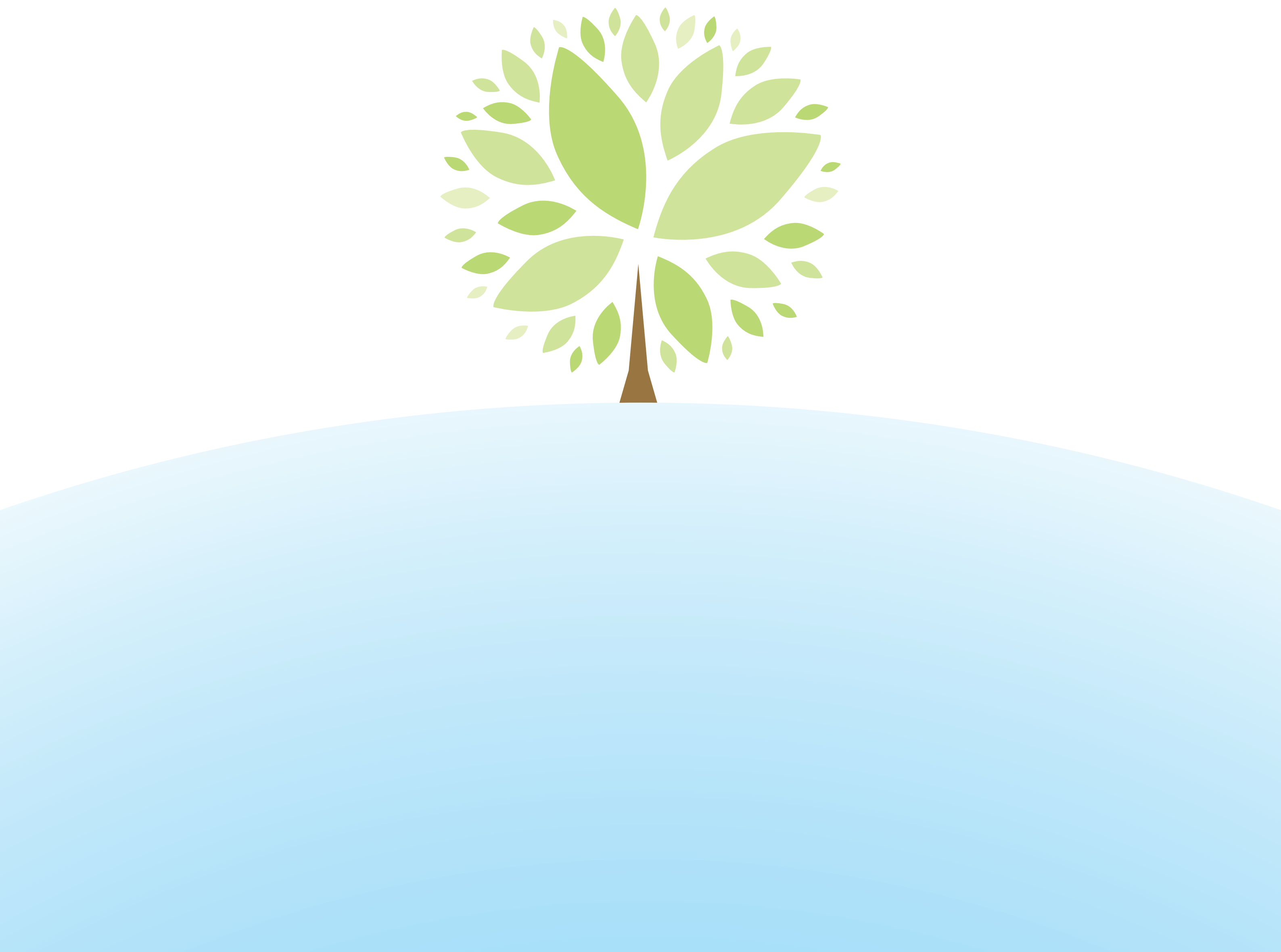
Terms	Meanings
"CRO"	Chief Risk Officer
"CVA"	Credit Valuation Adjustment
"Central Huijin"	Central Huijin Investment Ltd.
"DCE"	Deputy Chief Executive
"DVA"	Debit Valuation Adjustment
"ECL"	Expected Credit Loss
"EV"	Economic Value Sensitivity Ratio
"FCC"	the Financial Crime Compliance Department
"FIRB"	Foundation Internal Ratings-based
"Fitch"	Fitch Ratings
"FVOCI"	Fair value through other comprehensive income
"FVPL"	Fair value through profit or loss
"GDP"	Gross Domestic Product
"HIBOR"	Hong Kong Interbank Offered Rate
"HKAS"	Hong Kong Accounting Standard
"HKFRS"	Hong Kong Financial Reporting Standard
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HKMA"	Hong Kong Monetary Authority
"Hong Kong" or "Hong Kong SAR" or "HKSAR"	Hong Kong Special Administrative Region of the PRC
"IBOR reform"	Interest Rate Benchmark reform
"ICAAP"	Internal Capital Adequacy Assessment Process
"IFRS"	International Financial Reporting Standard
"IMM"	Internal Models
"IT"	Information Technology
"LCO"	the Legal & Compliance and Operational Risk Management Department
"LCR"	Liquidity Coverage Ratio
"LIBOR"	London Interbank Offered Rate
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MC"	the Management Committee
"MCO"	Maximum Cumulative Cash Outflow
"MPF"	Mandatory Provident Fund
"MPF Schemes Ordinance"	the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong, as amended
"Moody's"	Moody's Investors Service

DEFINITIONS

Terms	Meanings
"N/A"	Not applicable
"NII"	Net Interest Income Sensitivity Ratio
"NSFR"	Net Stable Funding Ratio
"ORSO schemes"	the Occupational Retirement Schemes under Occupational Retirement Schemes Ordinance, Chapter 426 of the Laws of Hong Kong
"OTC"	Over-the-counter
"PD"	Probability of Default
"PRC"	the People's Republic of China
"PVBP"	Price Value of a Basis Point
"QDII"	Qualified Domestic Institutional Investors
"RFR"	Risk-free interest rate
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"RMC"	the Risk Committee
"RMD"	the Risk Management Department
"RWA"	Risk-weighted Assets
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"SME"	Small and Medium-sized Enterprise
"STC"	Standardised (Credit Risk)
"STM"	Standardised (Market Risk)
"STO"	Standardised (Operational Risk)
"Standard & Poor's"	Standard & Poor's Ratings Services
"Stock Exchange" or "Hong Kong Stock Exchange" or "Stock Exchange of Hong Kong"	The Stock Exchange of Hong Kong Limited
"the Company"	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong
"the Group"	the Company and its subsidiaries collectively referred as the Group
"US"	the United States of America
"VaR"	Value at Risk

Be Environmentally Friendly for Our Better Future

This annual report is printed on elemental chlorine free paper with varnishing, an environmentally friendly technique, on the cover. We strive to protect the environment and promote sustainable development for the betterment of our future generations.



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