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

Stock Code: 2388

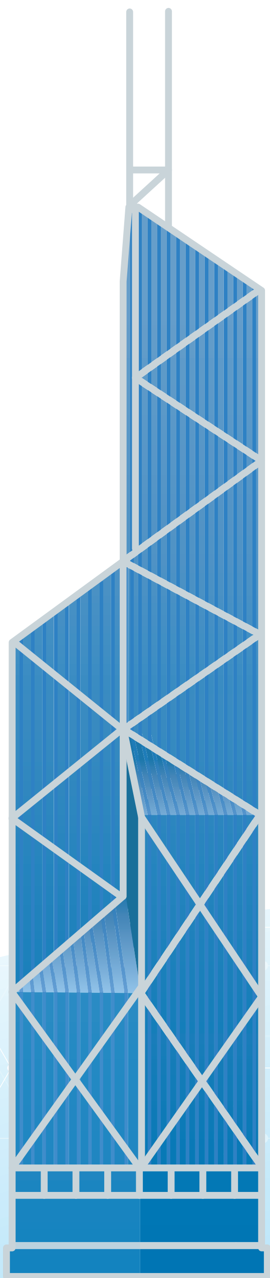
Annual Report 2019

Build a Top-class, Full-service and Internationalised Regional Bank

This version of the 2019 Annual Report will be replaced by the printed version available around mid April 2020.

Our Strategic Goal is to

Build a Top-class, Full-service and Internationalised Regional Bank



Our Core Values are

- Responsibility
- Integrity
- Professionalism
- Innovation
- Prudence
- Performance

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.

BOCHK's strategic goal is to "Build a Top-class, Full-service and Internationalised Regional Bank". Capitalising on its advantages as a major commercial banking group in Hong Kong, BOCHK aims 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. 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, including more than 190 branches, 280 automated banking centres, over 1,000 self-service machines, and 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. Entering into a new era of smart banking, we adhere to the "Technology-based and Innovation-driven" strategy and strive to enhance customer experience with intelligent products and services, in order to become a customer-centric digital bank.

To align with the overseas development strategy of BOC Group, we are actively driving our regional development. With our branches and subsidiaries in Thailand, Malaysia, Vietnam, the Philippines, Indonesia, Cambodia, Laos and Brunei, we support customers in the region with professional and high-quality financial services. Through close collaboration 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.

Contents

Financial Highlights

	2019	2018
For the year	**HK$'m**	HK$'m
Net operating income before impairment allowances	**58,444**	54,535
Operating profit	**39,755**	38,087
Profit before taxation	**40,088**	39,081
Profit for the year	**34,074**	32,654
Profit attributable to equity holders of the Company and other equity instrument holders	**33,574**	32,070
Per share	**HK$**	HK$
Basic earnings per share	**3.0440**	3.0333
Dividend per share	**1.537**	1.468
At year-end	**HK$'m**	HK$'m
Total assets	**3,026,056**	2,956,004
Issued and fully paid up share capital	**52,864**	52,864
Capital and reserves attributable to equity holders of the Company	**278,783**	257,536
Financial ratios	**%**	%
Return on average total assets[1]	**1.15**	1.16
Return on average shareholders' equity[2]	**11.51**	12.26
Cost to income ratio	**28.52**	27.88
Loan to deposit ratio[3]	**69.47**	66.77
Average value of liquidity coverage ratio[4]		
First quarter	**183.00**	134.33
Second quarter	**156.57**	146.39
Third quarter	**142.85**	141.44
Fourth quarter	**146.53**	160.23
Quarter-end value of net stable funding ratio[4]		
First quarter	**121.36**	118.98
Second quarter	**119.15**	118.82
Third quarter	**116.47**	122.24
Fourth quarter	**118.00**	124.41
Total capital ratio[5]	**22.89**	23.10

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

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. Deposit represents deposits from customers including structured deposits reported as "Financial liabilities at fair value through profit or loss".
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.
6. The Group has applied the merger accounting method in the preparation of financial statements for the combination with entity under common control in 2019. The comparative information for the year 2018 has been restated accordingly.

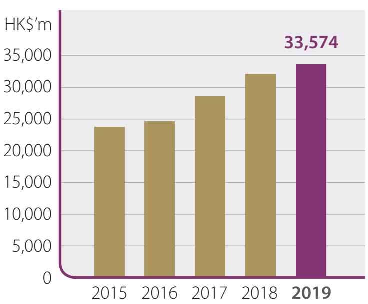
Five-Year Financial Summary

The financial information of the Group for the last five years commencing from 1 January 2015 is summarised below:

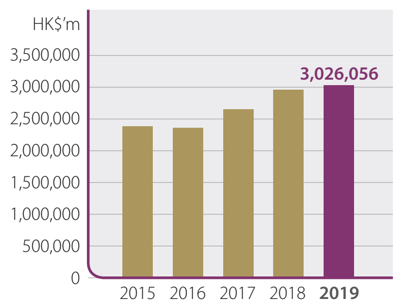
	2019	2018	2017	2016	2015
For the year	**HK$'m**	HK$'m	HK$'m	HK$'m	HK$'m
Net operating income before impairment allowances[1]	**58,444**	54,535	49,006	42,595	40,181
Operating profit[1]	**39,755**	38,087	34,103	29,482	27,815
Profit before taxation[1]	**40,088**	39,081	35,375	29,971	28,575
Profit for the year[1]	**34,074**	32,654	29,307	25,203	24,289
Profit attributable to equity holders of the Company and other equity instrument holders[1]	**33,574**	32,070	28,574	24,574	23,757
Per share	**HK$**	HK$	HK$	HK$	HK$
Basic earnings per share[1]	**3.0440**	3.0333	2.7026	2.3243	2.2470
At year-end	**HK$'m**	HK$'m	HK$'m	HK$'m	HK$'m
Advances and other accounts	**1,412,961**	1,282,994	1,191,554	1,008,025	928,871
Total assets	**3,026,056**	2,956,004	2,651,086	2,354,740	2,382,815
Daily average balance of total assets	**2,971,200**	2,817,151	2,571,216	2,398,318	2,327,436
Deposits from customers[2]	**2,009,273**	1,897,995	1,777,874	1,523,292	1,418,058
Total liabilities	**2,718,564**	2,670,631	2,402,463	2,120,186	2,182,650
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	**278,783**	257,536	244,018	228,647	194,750
Financial ratios	**%**	%	%	%	%
Return on average total assets	**1.15**	1.16	1.24	2.36	1.19
Cost to income ratio[1]	**28.52**	27.88	28.26	29.37	28.90
Loan to deposit ratio	**69.47**	66.77	64.48	64.87	63.37

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".
3. The Group has applied the merger accounting method in the preparation of financial statements for the combination with entity under common control in 2019. The comparative information for the year 2018 has been restated accordingly. However, the financial information prior to year 2018 had not been restated as the difference before and after restatement is insignificant.

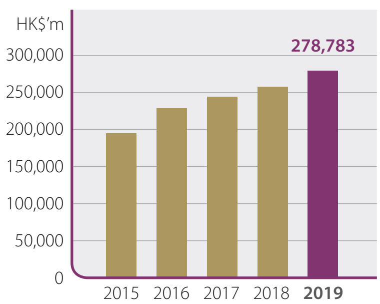
Profit attributable to equity holders of the Company and other equity instrument holders



Total assets



Capital and reserves attributable to equity holders of the Company



DRIVING Digital Transformation

Build a Top-class, Full-service and Internationalised Regional Bank

ACCELERATING Regional Development

SUPPORTING Greater Bay Area Development

ENHANCING Business Development in Hong Kong

Message from the Chairman

2019 witnessed a notable downturn in the global economy amid unstable international trade frictions. As would be expected, monetary policies became more accommodative in response. However, we were also pleased to note that more countries and regions have acted to counter deglobalisation in an open and cooperative fashion. Regional integration gradually became a core growth driver for countries' economic and trade cooperation, gaining particularly strong traction in Asia, which captured an increasing share of global trade.

2019 also marked the 70th anniversary of the establishment of the People's Republic of China. Facing a complex environment and greater risks and challenges both at home and abroad, China maintained its path of "seeking progress while maintaining stability". In terms of national development, the economy was generally stable, with development quality enhanced in a steady manner and core targets comfortably achieved. These conditions helped to lay a solid foundation for building a moderately prosperous society in all respects. In Hong Kong, a gloomy world economic outlook and ongoing China-US trade friction continued to depress external demand. Moreover, local social unrest drastically weakened the tourism and retail sectors, as well as investment demand, sending Hong Kong into a technical recession.

In spite of these external pressures, BOCHK pushed forward its strategic goal of "Building a Top-class, Full-service and Internationalised Regional Bank". Under the Board's wise leadership and meticulous planning, we worked diligently to forge new breakthroughs and developments both operationally and strategically. In 2019, BOCHK's annual profit hit a new high of HK$34,074 million, representing a growth of 4.3% year-on-year. Return on average shareholders' equity and return on average total assets were 11.51% and 1.15% respectively. We remained well capitalised with a total capital adequacy ratio of 22.89%. The Board has proposed a final dividend of HK$0.992 per share for 2019. Together with the interim dividend, our full-year total dividend would therefore be HK$1.537 per share, representing an increase of HK 6.9 cents per share year-on-year, and a dividend payout ratio of 50.5%. I would like to take this opportunity to extend my heartfelt gratitude to our directors for their remarkable contributions, our staff for their dedication, our customers for their loyalty and trust, and our shareholders for their long-standing support.

We actively supported national strategic initiatives and cemented our regional competitive strengths. In response to serious blockages in multilateral trade mechanisms, China advanced its opening-up to the outside world, paving the way for win-win cooperation through the Belt and Road initiative. New growth potential was unleashed by the successive announcements of the *Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area* and the *Outline of the Integrated Regional Development of the Yangtze River Delta*, which advocate innovation and structural adjustment. In particular, financial markets on the mainland became increasingly connected with their international counterparts owing to the further implementation of two-way opening-up policies. As part of its strategy to drive business growth in Southeast Asia, BOCHK proactively participated in the Belt and Road initiative, and acquired new experiences in managing regional business for BOC Group. We further refined our regional business layout and deepened our differentiated regional business management model. Our efforts yielded marked improvements in the service capabilities and operating revenues of our Southeast Asian entities. At the same time, we vigorously leveraged our RMB clearing bank status in Hong Kong, Malaysia and the Philippines to drive RMB internationalisation. Our RMB business leadership was further solidified, with 70% of all global offshore RMB clearing volumes in 2019 handled by BOCHK. We also sharpened our competitive advantages by committing full support to the development of the Greater Bay Area, where we continued to collaborate with our parent bank BOC to drive interconnectivity and to make consumption, payment, property purchase and investment easier for outbound Hong Kong residents. In addition, we proactively tapped into cross-border demand by providing a diverse range of financial services to the high-tech manufacturing sector and strategic emerging industries in the Guangdong-Hong Kong-Macao region, the Beijing-Tianjin-Hebei region, the Yangtze River Delta and free trade zones on the mainland.

We remained deeply devoted to the local market and continued to offer our full support to Hong Kong's prosperity and stability, which we have always taken to be our long-term responsibility after more than a century of growth and service to Hong Kong. Having started a new chapter in our history, BOCHK continued to pursue a customer-centric strategy while stepping up transformation and service innovation, further cementing our leading position in Hong Kong. In our personal banking business, we retained our market leadership in mortgage loans and saw continuous growth in the number of mid and high-end customers, as well as a rising proportion of cross-border customers. In our corporate banking business, we sustained our top ranking in the Hong Kong and Macao syndicated loan business, as well as in IPO receiving bank and cash pooling businesses for the local market. We also proactively provided financial support to Hong Kong's infrastructure construction, and helped to maintain its status as an international financial centre. In our financial markets business, we further enhanced our edge in featured businesses, strengthened the market position of our banknotes business and exploited opportunities in cross-border business. In response to the economic downturn that took hold in the second half of 2019 and the novel coronavirus outbreak that began early this year, BOCHK took the initiative to launch a variety of financial service and relief measures to help individual and corporate customers navigate difficult times.

Message from the Chairman

We stepped up digital transformation to facilitate fintech development in Hong Kong. Against the backdrop of a subdued global economic recovery, we saw new breakthroughs in industry reforms and revolutionary technologies. Thriving high-tech industries such as 5G mobile technologies and artificial intelligence, will have the potential to introduce substantial growth drivers to the global economy. Riding on this trend, BOCHK adopted a proactive approach to technological changes and digitalisation. By promoting an innovative culture and business agility, we successfully improved our efficiency, services and quality using technological means. Meanwhile, we also strengthened our IT infrastructure and promoted the application of big data, artificial intelligence, blockchain and biometrics, further solidifying the foundations of our digital banking transformation. We actively built ecosystems partnerships with a focus on driving changes in our payment business, and embedding ourselves in the customer journey, in a bid to connect financial services to the real economy. We invested tremendous effort in enhancing digitalisation and automation in our operations, and making them more intelligent, as well as building an integrated and intelligent platform for our regional operations.

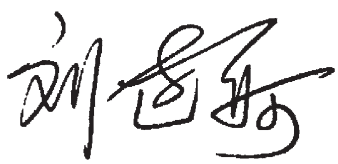
We actively fulfilled our corporate social responsibility and established a governance framework for ESG development. Deeply rooted in Hong Kong, BOCHK has always been committed to serving society while caring about its country. During the reporting period, we made positive contributions to Hong Kong's economy by following national strategies, and demonstrated our value by meeting our social responsibilities. As a result, BOCHK was widely recognised for its efforts, being named "Best Bank for CSR in Hong Kong" by *Asiamoney* for the second consecutive year in 2019. During the year, BOCHK enhanced its support to Hong Kong's green finance development, promoted financial inclusion and increased donations to charitable organisations. We aimed to improve people's livelihood by investing in youth development, benefitting citizens in grassroots communities and supporting minorities in society. In cooperation with its charitable foundation, BOCHK sponsored a total of more than 40 charity projects in the period. At the same time, we also launched the "BOCHK Centenary Charity Programme", through which we donated the entire net proceeds of HK$627 million obtained from sales of the "Bank of China (Hong Kong) Centenary Commemorative Banknote" to local charitable causes.

During the social unrest in Hong Kong in the second half of 2019, certain BOCHK's branches and self-service facilities were subjected to varying degrees of vandalism. Despite these difficulties, our staff united together and consistently delivered high-quality financial services to the public, demonstrating incredible professionalism and sacrifice. As we face the novel coronavirus outbreak in 2020, BOCHK has strived to ensure the safety and health of its staff, as well as maintaining undisrupted services to the public. We have also donated HK$15 million to aid the fight against epidemic.

Stringent and lawful compliance undergirds our continued existence and operations as a listed bank. BOCHK has always upheld a high standard of corporate governance and endeavours to maintain a sound corporate governance mechanism. In 2019, the Company closely followed the latest regulatory and market developments and continuously refined its governance structure. We fully leveraged the capacity and positive contributions of our independent directors, and refined the integrated monitoring and management of our subsidiaries, further improving our governance standards. Based on our close tracking of developments in regulatory requirements and international best practices, we formulated the green and sustainable development strategy, took the lead in setting up a Sustainability Committee under the Board, and formed a clear ESG governance structure and objectives, with a view to promoting a customer-centric service culture and ensuring the steady and sustainable development of the Bank. At the same time, our Board composition was further strengthened with the appointments of Mr WANG Jiang as Vice Chairman of BOCHK, Mr SUN Yu as Non-executive Director of BOCHK and Mr LAW Yee Kwan Quinn as Independent Non-executive Director of BOCHK. Mr CHEN Siqing and Mr LI Jiuzhong resigned as directors due to a change of work. I would like to take this opportunity to extend our warm welcome to Mr WANG, Mr SUN and Mr LAW, and express our sincere gratitude to Mr CHEN and Mr LI for their contributions to BOCHK.

Looking ahead into 2020, the global economy remains mired in a process of deep consolidation following the 2008 global financial crisis. Long-term development conflicts remain unresolved and new problems continue to surface. Against this background, the world is facing stronger downward pressures on growth, more concentrated financial system risks and more divergent economic landscape across nations. While the unexpected outbreak of novel coronavirus in early 2020 will weigh upon economic growth, China's long-term positive growth trend remains unchanged. In front of the economic headwinds both externally and internally, Hong Kong government launched a series of relief measures to support enterprises, employment and general livelihood, while increasing expenditure on infrastructure building and technological innovation. These positive factors will serve to stabilise Hong Kong's economic trajectory. Meanwhile, new developments such as the central government's 16 measures to benefit Hong Kong, deepening international cooperation through the Belt and Road initiative, the comprehensive advancement of ASEAN-Hong Kong economic and trade relationships, and the further opening-up of mainland's capital markets and financial industries, will provide new impetus and opportunities to Hong Kong and the banking sector.

In 2020, BOCHK will firmly pursue its strategic goal of "Building a Top-class, Full-service and Internationalised Regional Bank" and unswervingly follow its new development philosophy by boosting its vitality, becoming more agile and making key breakthroughs. We will increase our proactive involvement in the construction of the Greater Bay Area and the implementation of the Belt and Road initiative. We will strive to achieve greater success by remaining dynamic throughout the reform process, and advance towards the goal of becoming a world-class bank in the new era, so as to make greater contributions to the long-term stability and prosperity of Hong Kong.



LIU Liange
Chairman
Hong Kong, 27 March 2020

Message from the Chief Executive

In 2019, growth momentum in the global economy weakened while China-US trade negotiations made slow progress. Hong Kong was impacted by weak external demand and domestic social unrest. Despite encountering unprecedented difficulties and challenges in its operation management and business development, BOCHK earnestly carried out the plans and decisions of the Board of Directors and continued to pursue its strategic goal of "Building a Top-class, Full-service and Internationalised Regional Bank". We remained united in the face of various challenges, and expedited technological innovation and digital transformation, striving to achieve high-quality growth and sustainable development. We endeavour to provide financial services to the public and our communities while maintaining sound operation.

The Group achieved steady growth in profitability alongside relatively rapid business expansion, with financial indicators remaining solid. In 2019, the Group's profit grew to HK$34,074 million, up 4.3% year-on-year. As of 31 December 2019, the Group's total assets increased by 2.4% from the end of 2018 to HK$3,026,056 million. Total deposits from customers and total advances to customers grew to HK$2,009,273 million and HK$1,395,883 million respectively, up 5.9% and 10.2% from the end of last year, outpacing the corresponding average market growth rates. Return on average shareholders' equity ("ROE") of the Group was 11.51%. Adjusted for swap-related impact, net interest margin was 1.69%, up 6 basis points year-on-year. The cost to income ratio of 28.52% remained well below the market average. The total capital ratio was 22.89% and the Tier 1 capital ratio was 19.90%, both above the market average. Our liquidity remained ample, with liquidity indicators exceeding regulatory requirements. The classified or impaired loan ratio was 0.23%, which continued to be below the market average.

The Group is committed to strengthening its core capabilities in digitalisation in order to push forward its business transformation. Taking a top-down approach to promoting the development of digital banking, we formulated a blueprint for BOCHK's digital transformation as well as an IT 3-Year Plan. We adhered to "technology-led" strategy and leverage fintech to empower our business. We strengthened the application of biometric authentication. Finger vein authentication has now been extended to all of BOCHK's automated and iService teller machines in Hong Kong. We carried out data governance planning and completed the first phase of the construction of BOCHK's digital management platform. Our property valuation process has been optimised through the application of blockchain technology, which is now used in approximately 85% of our property valuations, with over 70,000 cases processed in total since its application. We became the first bank in Hong Kong to connect via API to eTradeConnect, a blockchain-based trade finance platform facilitated by the Hong Kong Monetary Authority ("HKMA"). In order to build an open platform for cross-industry integration, we have opened up access to more than 90 Open APIs and worked with more than 130 partners.

We made good progress in driving innovative payment solutions, and facilitated the construction of an ecosystem covering key areas such as government services, charity, education, daily consumption and transport. To facilitate mobile payment for clothing, food, accommodation and transport, we provided a comprehensive service solution by integrating a variety of existing payment instruments with FPS as a core infrastructure. We launched an e-Donation platform, the first of its kind in Hong Kong, to provide solutions for charities to process donations. The Group is committed to promoting cross-border financial innovation, market connectivity and resource flow within the Guangdong-Hong Kong-Macao Greater Bay Area. To that end, we became the first bank to launch a pilot mainland personal account opening attestation service for Hong Kong residents, facilitating the linking of mobile apps in the Chinese mainland for digital payment. As of the end of 2019, the total number of applicants exceeded 90,000. We upgraded our Mobile Banking, with enhanced features for investment, insurance, payment, credit card and remittance. The total number of personal mobile banking active users increased by 36.9% compared to the prior year-end and over 80% of transactions were conducted via digital channels, up 4 percentage points year-on-year. To facilitate the transition from traditional service platforms to online, we actively promoted the digitalisation of our service outlets, built an omni-channel synergistic service model, sharpened our digital capabilities and established integrated mobile service platforms for personal and corporate customers. At the same time, we launched innovative services such as the Global Transaction Banking Platform, online account opening for personal customers, a virtual assistant and upgraded Mobile Banking. We built a smart operation system in which Robotic Process Automation ("RPA") and Optical Character Recognition ("OCR") technology are applied in middle and back office operations so as to improve efficiency and enhance operational risk management.

We established an innovative mechanism, an organisational structure and a corporate culture that all align with our digital transformation strategy. We also organised cross-departmental agile project teams. To step up our efforts to nurture fintech talents, we participated in the HKMA's Fintech Career Accelerator Scheme and organised the "BOCHK Hackathon" to identify and bring in promising fintech innovators. In March 2019, Livi VB Limited, a joint venture formed with JD Digits and Jardine Matheson, was among the first financial institutions in Hong Kong to be granted a virtual banking licence.

The Group leveraged its professional service capabilities to fully support Hong Kong's economic and financial development. BOCHK remained the top mandated arranger in the Hong Kong and Macao syndicated loan market, and maintained a market-leading position in the IPO main receiving bank business. We continued our efforts to solidify Hong Kong's position as a global offshore RMB business hub, with the RMB business volumes cleared via BOCHK accounting for 70% of the world's total offshore RMB business volumes. Our RMB insurance business sustained its leading market share for the ninth consecutive year. We served as the top underwriter for new mortgage loans. BOCHK is committed to supporting Hong Kong's development as a hub for corporate treasury centres. We secured market leadership in cash pooling business, with our customer base further expanded. We supported local SMEs by promoting the SME Financing Guarantee Scheme ("SFGS") introduced by the HKSAR Government and by launching a number of relief initiatives to help ease SMEs' cash flow pressures. The total amount approved for the SFGS in 2019 increased by nearly five times compared to last year. In addition, the Hong Kong Financial Research Institute of Bank of China was established as Bank of China's first overseas research institute. The institute aims to strengthen collaboration and the sharing of global research resources with Bank of China, further empowering us to continue our active role in maintaining Hong Kong's long-term prosperity and stability.

Message from the Chief Executive

The Group expedited its regional development and achieved satisfactory results in its integrated operation in Southeast Asia. With the completion of the acquisition of BOC Vientiane Branch, the Group now has extended its operation to eight countries in Southeast Asia. As of the end of 2019, customer deposits and loans of the Group's Southeast Asian entities increased by 18.3% and 26.7% respectively from the end of the previous year, while net operating income before impairment allowances increased by 16.4% year-on-year. On 21 September 2019, BOC Financial Services (Nanning) Co., Ltd. was officially established following a plaque unveiling ceremony. This signified a new milestone in the centralisation of the Group's operations in Southeast Asia. In addition, we actively promoted the use of RMB in Southeast Asia. BOC Manila Branch was officially appointed by the People's Bank of China ("PBOC") as the clearing bank for RMB business in the Philippines. In addition to its role as the clearing bank for RMB business in Malaysia, BOC Malaysia was designated as the RMB clearing bank for Labuan, an offshore financial centre in Malaysia.

The Group applied bottom-line thinking to risk management and remained committed to guarding against various risks. We closely monitored financial markets and strengthened situation analysis while properly mitigating the impacts of the China-US trade negotiations and conditions in Hong Kong. The analysis and monitoring of the operating conditions of customers in affected industries was further enhanced. Risk management plans and measures were formulated in an effort to support our customers through this difficult time. BOCHK optimised the management of its assets, liabilities and liquidity, and continued to refine its liquidity stress tests and plans to ensure its capability to meet payment obligations under different scenarios. We attached great importance to implementing effective anti-money laundering management and compliance control. The effectiveness of our regional risk management and service capabilities continued to enhance. We strictly adhered to regulatory requirements to ensure lawful operation.

During the social unrest that continued for months in Hong Kong, certain BOCHK branches and self-service facilities were subjected to varying degrees of vandalism. Through concerted efforts of every member of the Group, we were able to overcome these challenges, respond actively and minimise the impact of the violent incidents as much as we could. BOCHK ensured the safety of its customers and employees, the security of bank assets and customer information, and the continued normal operation of the Bank. During this period, the majority of our branches remained open to the public apart from some that had to be closed temporarily for repairs. We would like to express our heartfelt thanks to our customers and people from various sectors of the community for demonstrating their concern, understanding and support to BOCHK in so many ways during this trying time.

The Group is committed to fulfilling its corporate social responsibilities and promoting green and sustainable development. During the year, we announced to donate in full the net proceeds of HK$627 million from the sale of the BOCHK Centenary Commemorative Banknote to local charitable causes. Of this, HK$200 million was dedicated to supporting a number of charitable projects in cooperation with the Community Chest of Hong Kong, Tung Wah Group of Hospitals and Po Leung Kuk. As for the remaining HK$427 million, an open call was launched for charitable project proposals. The Group was awarded "Best Bank for CSR in Hong Kong" by *Asiamoney* for the second consecutive year. The Group formulated a green and sustainable financial plan that further optimised its ESG governance structure, while integrating the concept of sustainable development into its core values and corporate culture. At the same time, we have stepped up our efforts in developing sustainable financial products such as green bonds, green loans and green investments. We actively assisted customers in the issuance of green bonds as an adviser.

In 2020, the risks arising from global geopolitical tensions and the potential impact of various countries' increasingly internally-oriented policies remain relatively severe. The China-US trade negotiations and the domestic situation in Hong Kong will be the key factors affecting Hong Kong's economic and financial stability. The COVID-19 outbreak since the beginning of the year has been hindering Hong Kong's economic growth to some extent. However, the more challenges we face, the more we need to work together to overcome them. BOCHK took the lead in launching financial support initiatives during the epidemic, and will continue to explore more effective measures to help local enterprises and communities navigate through the difficult times during this economic downturn. As always, with challenges come opportunities. The HKMA continued to push forward its seven initiatives of "New Era of Smart Banking", which will drive forward fintech development. It also announced plans to promote green and sustainable development, which will create positive momentum for green businesses such as green bonds, green loans and green funds. The ongoing development of the Belt and Road Initiative and the signing of the Regional Comprehensive Economic Partnership ("RCEP") provide new opportunities for the economy of Southeast Asia. Meanwhile, the Central Government promulgated 16 measures to benefit Hong Kong. These measures will further help Hong Kong people purchase properties, invest, live, work, start businesses, and access medical treatments in the Greater Bay Area, as well as driving demand for cross-border financial services such as mortgage, wealth management and payment. As the country further accelerates the opening up of its capital markets, Hong Kong, which serves as a hub providing foreign investors with access to the mainland, will benefit from increasing opportunities in businesses including asset management, custody services and institutional business. New opportunities will arise for Hong Kong's banking industry as the country advances the two-way opening up of its financial industry, including relaxing restrictions on foreign companies' shareholdings and business activities, and continuing to enhance the mutual financial market access between the mainland and Hong Kong. With the PBOC's efforts to expand the use of RMB in cross-border and international transactions, especially in neighbouring countries and in countries along the Belt and Road, Hong Kong will continue to play its role as an RMB business hub.

BOCHK will continue to relentlessly pursue its strategic goals and execute its strategic plans in line with the approach of "boosting vitality, enhancing agility and achieving breakthroughs in key areas". We will strengthen the foundations of our future growth, accelerate business transformation, expedite the digitalisation of the Bank, enhance our regional development capabilities, holding to the risk management bottom line, and contribute to the economic and social development of Hong Kong by promoting high-quality and sustainable development.

In closing, I would like to take this opportunity to report certain changes in the Group's senior management. On 12 November 2019, the Group appointed Mr ZHUO Chengwen as Chief Risk Officer. On 8 July 2019, the Group appointed Mr QIU Zhikun as Deputy Chief Executive, overseeing the Group's strategic planning and Southeast Asian business. On behalf of all my colleagues, I warmly welcome Mr ZHUO Chengwen and Mr QIU Zhikun to the Group.

I earnestly believe that through the concerted efforts of our committed, united and innovative colleagues, BOCHK will seize the opportunities that lie amidst the challenges and achieve breakthroughs in reform. Together, we will forge ahead on the road to building a top-class, full-service and internationalised regional bank.

GAO Yingxin
Vice Chairman & Chief Executive
Hong Kong, 27 March 2020

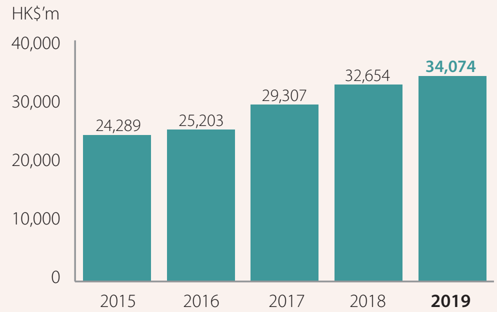
Management Discussion and Analysis

Following the completion of the acquisition of Bank of China Limited, Vientiane Branch ("BOC Vientiane Branch") on 21 January 2019, the Group has applied the merger accounting method for the combination of entity under common control in the preparation of its financial statements. The comparative information for 2018 has been restated accordingly. The above transaction is referred to as the "acquisition" in this Management Discussion and Analysis.

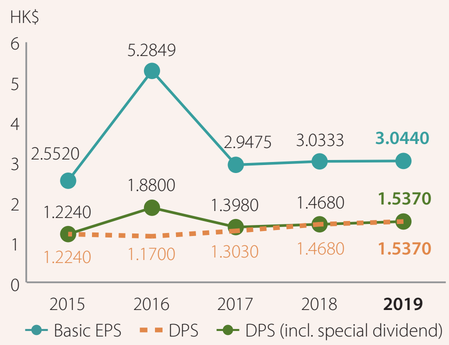
Financial Performance and Conditions at a Glance

The following table is a summary of the Group's key financial results for 2019 and the previous four years. The average value of liquidity coverage ratio and net stable funding ratio for 2019 are reported on a quarterly basis.

Profit For The Year[1]



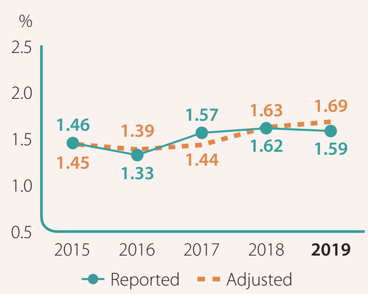
Basic earnings Per Share ("Basic EPS")[1] and Dividend Per Share ("DPS")



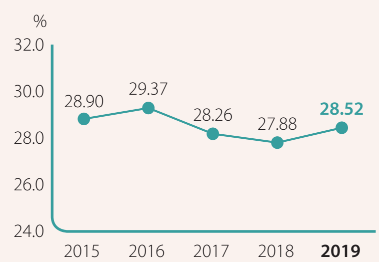
Profit for the year

- Profit for the year increased by 4.3% year-on-year to HK$34,074 million. Return on average shareholders' equity[2] ("ROE") and return on average total assets[2] ("ROA") stood at 11.51% and 1.15% respectively. Basic EPS was HK$3.0440. DPS was HK$1.5370.

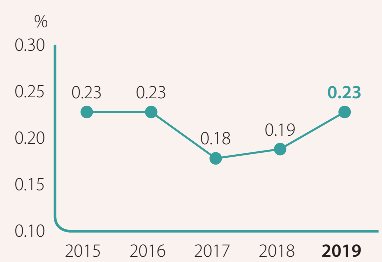
Net Interest Margin ("NIM")[1,4]



Cost to Income Ratio[1]



Classified or Impaired Loan Ratio[1,3]



as at 31 December

Steady improvement in adjusted net interest margin ("NIM") through proactive asset and liability management

- NIM was 1.59%. If the funding income or cost of foreign currency swap contracts[4] were included, NIM would have been 1.69%, up 6 basis points year-on-year, as a result of the Group capturing opportunities from rising market interest rates and proactively managing its assets and liabilities.

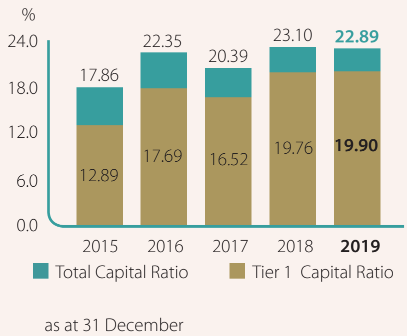
Maintaining high operational efficiency through flexible resource allocation

- The Group's cost to income ratio was 28.52%, maintaining its cost efficiency at a solid level relative to industry peers.

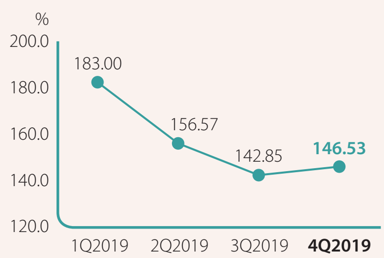
Maintaining benign asset quality through prudent risk management

- The Group's classified or impaired loan ratio was 0.23%, well below the market average.

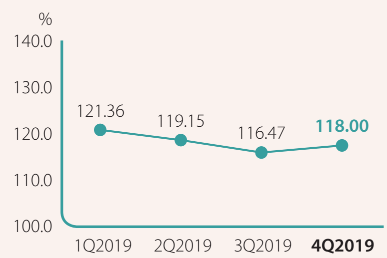
Capital Ratio



Average Value of Liquidity Coverage Ratio



Quarter-end Value of Net Stable Funding Ratio



Strong capital position to support stable business growth

- Total capital ratio was 22.89%. Tier 1 capital ratio was 19.90%, up 0.14 percentage points from that at the prior year-end.

Sound liquidity position

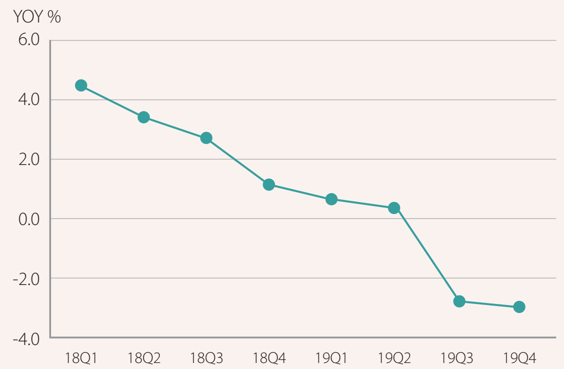
- The average value of liquidity coverage ratio and the quarter-end value of net stable funding ratio exceeded regulatory requirements in each quarter of 2019.

1. The Group has applied the merger accounting method for the combination of entity under common control in the preparation of its financial statements in 2019. The comparative information for 2018 has been restated accordingly. However, financial information prior to 2018 has not been restated as the difference before and after restatement is insignificant.
2. Return on average shareholders' equity and return on average total assets as defined in "Financial Highlights".
3. 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.
4. 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

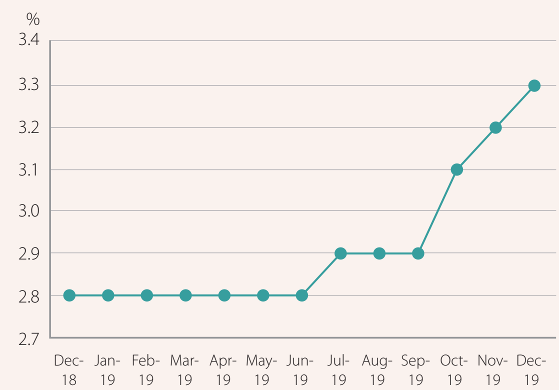
In 2019, the global economy exhibited slower growth amid a more cautious outlook. There were increased uncertainties in the external environment, including ongoing China-US trade friction and the unpredictable progress of Brexit. The US economy maintained moderate growth momentum, despite the weakening of its investment and trade performance. At the same time, the US Federal Reserve shifted towards a more dovish monetary policy stance. The Eurozone economy continued to record modest growth with sluggish inflation amid rising political tensions in certain countries, while the European Central Bank shifted to a more accommodative monetary policy. The Chinese government strengthened policy support to ensure a reasonable growth rate, with the Mainland economy achieving year-on-year economic growth of 6.1%. The economic fundamentals of the Southeast Asia region remained solid, with continued robust momentum in foreign direct investment.

Hong Kong Real GDP Growth Rate



Source: HKSAR Census and Statistics Department

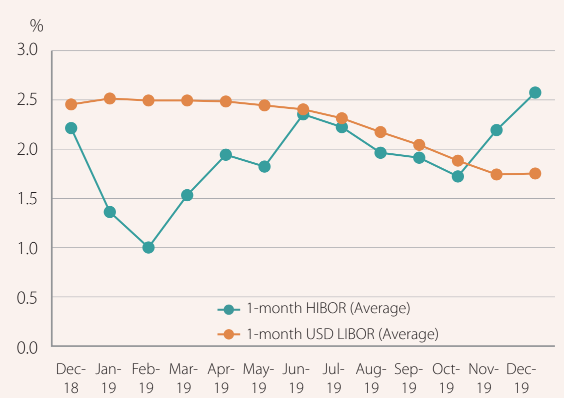
Hong Kong Unemployment Rate



Source: HKSAR Census and Statistics Department

Hong Kong's economy was subdued, owing to both domestic and external headwinds. The slowing global economy and China-US trade friction took a toll on its external trade performance, while social unrest in Hong Kong itself posed challenges to the local tourism and retail sectors. Domestic consumption and investment demand weakened, while the unemployment rate started to rise. Hong Kong's economy has entered a technical recession, with GDP shrinking by 1.2% year-on-year in 2019. However, the HKSAR government announced several rounds of relief measures that, coupled with the accommodative shifts in the monetary stance of the world's major central banks, partially alleviated the downward pressures on Hong Kong's economy.

HIBOR and USD LIBOR



Source: Bloomberg

In 2019, Hong Kong dollar interbank rates remained volatile and stayed on an upward trend year-on-year. The average 1-month HIBOR rose from 1.34% in 2018 to 1.89% in 2019. The average 1-month LIBOR rose from 2.02% to 2.22% over the same period. The USD yield curve inverted at some points during the year, but subsequently returned to normal after the US Federal Reserve made three rate cuts totalling 75 basis points in the second half of 2019.

Hong Kong's stock market experienced relatively high volatility during the year. In the first half of 2019, global financial markets received a boost from the US Federal Reserve's move to a more dovish monetary stance. However, the Hong Kong stock market experienced a correction from the beginning of May onwards, against a backdrop of heightened China-US trade friction and the outbreak of social unrest in Hong Kong. It gradually rebounded later in the year, after market sentiment was boosted by the improving outlook for China-US phase-one trade agreement negotiations. As at the end of 2019, the Hang Seng Index was up 9.1% compared with the end of 2018. However, the average daily trading volume of the stock market declined compared to the previous year.

Private residential property prices declined from peak levels during the year, but nevertheless recorded an increase of 5.3% from the end of 2018. In October 2019, the HKSAR government's Policy Address raised the cap on the value of properties eligible for a mortgage loan of maximum coverage of 90% loan-to-value ratio under the Mortgage Insurance Programme, which once stimulated property prices and transaction volumes. Total annual transaction numbers for residential properties increased by 4.5% from 2018. Meanwhile, the HKMA maintained prudent supervisory measures on mortgage loans, which helped banks to maintain sound asset quality in their mortgage businesses.

Despite these challenges in the macro environment, the banking industry continues to enjoy enormous development opportunities. During the year, the Chinese government introduced and implemented a series of financial opening and RMB internationalisation measures, including the removal of shareholding limits on financial institutions for foreign investors, total assets requirements, and investment quotas for Qualified Foreign Institutional Investors ("QFII") and Renminbi Qualified Foreign Institutional Investors ("RQFII"), as well as taking steps to deepen and refine mutual market access. All of these measures enhanced the connections between the Hong Kong and the Mainland stock markets. At the same time, Morgan Stanley Capital International Index ("MSCI") carried out a phased increase in the weighting of China's A shares in the MSCI index and Chinese onshore bonds were added to the Bloomberg Barclays Global Aggregate Index, contributing to the steady development of Hong Kong's offshore RMB business. 16 new measures related to the Guangdong-Hong Kong-Macao Greater Bay Area were announced in November 2019, with a view to supporting the livelihood and business startup needs of Hong Kong people living in mainland cities within the Greater Bay Area by meeting their demands for all types of cross-border financial services. Enactment of the Free Trade Agreement ("FTA") signed between Hong Kong and ASEAN not only provided business opportunities and encouraged trade investments, but also accelerated related industry development and optimised the layout of the industry chain in the region.

Consolidated Financial Review

The comparative information for 2018 has been restated following the Group's application of the merger accounting method in the preparation of its financial statements as a result of the acquisition made in 2019.

Financial Highlights

HK$'m, except percentages	2019	(Restated) 2018	Change (%)
Net operating income before impairment allowances	**58,444**	54,535	7.2
Operating expenses	**(16,667)**	(15,206)	9.6
Operating profit before impairment allowances	**41,777**	39,329	6.2
Operating profit after impairment allowances	**39,755**	38,087	4.4
Profit before taxation	**40,088**	39,081	2.6
Profit for the year	**34,074**	32,654	4.3
Profit attributable to equity holders of the Company	**32,184**	32,070	0.4

In 2019, the Group's profit for the year amounted to HK$34,074 million, an increase of HK$1,420 million or 4.3% year-on-year. Profit attributable to equity holders was HK$32,184 million, an increase of HK$114 million or 0.4% year-on-year. Net operating income before impairment allowances was HK$58,444 million, an increase of HK$3,909 million or 7.2% year-on-year. Net interest income rose, having benefited from rising market interest rates and the proactive management of the Group's assets and liabilities. The net trading gain of the banking business increased, while a higher net gain was recorded from the disposal of certain debt securities. This income growth was partially offset by a drop in net fee and commission income, owing to lower commission income from securities brokerage and funds distribution amid weakened investor sentiment. Operating expenses increased as a result of the Group's ongoing investment in supporting its long-term business expansion while maintaining cautious cost control. Net charge of impairment allowances increased year-on-year while the net gain from fair-value adjustments on investment properties decreased on a year-on-year basis.

Second Half Performance

In the second half of 2019, the Group's net operating income before impairment allowances increased by HK$106 million or 0.4%, compared to the first half of 2019. This was primarily attributable to an increase in net interest income and to the net trading gain of the banking business, which was partially offset by a decrease in net fee and commission income and a net gain from the disposal of debt securities. Moreover, operating expenses and net charge of impairment allowances increased from the first half of the year, while a net loss was recorded from fair-value adjustments on investment properties. As a result, the Group's profit after taxation decreased by HK$2,478 million or 13.6% on a half-on-half basis.

Income Statement Analysis

The comparative information of the following income statement analysis has been restated to conform to the current year's presentation.

Net Interest Income and Net Interest Margin

HK$'m, except percentages	2019	(Restated) 2018	Change (%)
Interest income	**67,784**	61,865	9.6
Interest expense	**(27,261)**	(22,364)	21.9
Net interest income	**40,523**	39,501	2.6
Average interest-earning assets	**2,551,288**	2,437,652	4.7
Net interest spread	**1.37%**	1.44%	
Net interest margin	**1.59%**	1.62%	
Net interest margin (adjusted)*	**1.69%**	1.63%	

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

Net interest income amounted to HK$40,523 million in 2019. If the funding income or cost of foreign currency swap contracts# were included, net interest income would have increased by 8.4% year-on-year. The increase was mainly driven by improvement in net interest margin and growth in average interest-earning assets.

Average interest-earning assets expanded by HK$113,636 million or 4.7% year-on-year. The increase in deposits from customers led to an increase in advances to customers, debt securities investments and other debt instruments.

Net interest margin was 1.59%. If the funding income or cost of foreign currency swap contracts were included, net interest margin would have been 1.69%, up 6 basis points year-on-year. Market interest rates rose year-on-year, which led to an increase in the average yield of advances to customers, net funding income of foreign currency swap contracts and contribution from net free funds. During the year, the Group proactively managed its deposit pricing and structure, keeping the growth of deposit costs under control amid intensified market competition.

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:

ASSETS	2019 Average balance HK$'m	2019 Average yield %	(Restated) 2018 Average balance HK$'m	(Restated) 2018 Average yield %
Balances and placements with banks and other financial institutions	**341,707**	**1.82**	416,376	1.90
Debt securities investments and other debt instruments	**864,637**	**2.36**	783,911	2.39
Advances to customers	**1,322,845**	**3.06**	1,219,803	2.86
Other interest-earning assets	**22,099**	**2.58**	17,562	2.13
Total interest-earning assets	**2,551,288**	**2.66**	2,437,652	2.54
Non interest-earning assets	**419,912**	**–**	379,499	–
Total assets	**2,971,200**	**2.28**	2,817,151	2.20

LIABILITIES	2019 Average balance HK$'m	2019 Average rate %	(Restated) 2018 Average balance HK$'m	(Restated) 2018 Average rate %
Deposits and balances from banks and other financial institutions	**191,461**	**1.18**	226,237	1.10
Current, savings and time deposits	**1,865,178**	**1.26**	1,726,241	1.03
Subordinated liabilities	**13,093**	**5.49**	18,237	5.44
Other interest-bearing liabilities	**39,505**	**1.74**	55,080	1.95
Total interest-bearing liabilities	**2,109,237**	**1.29**	2,025,795	1.10
Shareholders' funds* and other non interest-bearing deposits and liabilities	**861,963**	**–**	791,356	–
Total liabilities	**2,971,200**	**0.92**	2,817,151	0.79

* 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 increased by 4.1% compared with the first half of 2019, mainly driven by the growth in average interest-earning assets. Net interest margin remained at 1.69%. The average yield of advances to customers and debt securities investments and other debt instruments decreased in the second half of the year amid declining market interest rates. The aforementioned negative impact was partially offset by a simultaneous drop in deposit costs.

Net Fee and Commission Income

HK$'m, except percentages	2019	(Restated) 2018	Change (%)
Credit card business	**2,975**	3,441	(13.5)
Loan commissions	**2,675**	2,613	2.4
Securities brokerage	**2,113**	2,769	(23.7)
Insurance	**2,111**	1,546	36.5
Funds distribution	**901**	929	(3.0)
Payment services	**716**	681	5.1
Bills commissions	**700**	739	(5.3)
Trust and custody services	**651**	633	2.8
Currency exchange	**599**	590	1.5
Safe deposit box	**294**	285	3.2
Others	**1,267**	1,292	(1.9)
Fee and commission income	**15,002**	15,518	(3.3)
Fee and commission expense	**(4,083)**	(4,206)	(2.9)
Net fee and commission income	**10,919**	11,312	(3.5)

In 2019, net fee and commission income amounted to HK$10,919 million, down HK$393 million or 3.5% year-on-year. This was mainly due to decreases in commission income from securities brokerage and funds distribution of 23.7% and 3.0% respectively, amid subdued investor sentiment which led to decreases in transaction volume in the stock and fund market. Commission income from the Group's credit card business was down 13.5%, due to a weakening in retail sales in Hong Kong. Bills commissions also decreased by 5.3%, as a result of a year-on-year decline in Hong Kong's total volume of exports and imports. The Group seized market opportunities and continued to optimise its sales channels and customer services, which led to steady growth in a number of areas. Commission income from insurance business increased by 36.5%, owing to an uptick in sales volumes driven by the Group's continuous efforts to promote product and service innovation in insurance during the year and thus effectively facilitate customers' financial planning needs. Commission income from payment services was up 5.1%, as the Group accelerated the development of its cash pooling and cash management businesses. Assets under management ("AUM") relating to the Group's trust and custody business continued to grow, with related income increasing by 2.8%. Meanwhile, loan commissions increased, and income from currency exchange and safe deposit box also rose. Fee and commission expenses were down 2.9% year-on-year, mainly due to lower credit card business and securities brokerage related expenses.

Second Half Performance

Compared with the first half of 2019, net fee and commission income decreased by HK$1,173 million or 19.4%. The half-on-half decrease was primarily due to slackening economic growth and weakened investor and consumer sentiment in the second half of the year. Commission income from securities brokerage, insurance, funds distribution, loans, credit card business and currency exchange decreased, while that of payment services, trust and custody services and safe deposit box increased. The decrease in fee and commission expenses resulted from lower credit card business and securities brokerage related expenses.

Net Trading Gain

HK$'m, except percentages	2019	(Restated) 2018	Change (%)
Foreign exchange and foreign exchange products	**4,931**	2,716	81.6
Interest rate instruments and items under fair value hedge	**(578)**	50	N/A
Commodities	**366**	184	98.9
Equity and credit derivative instruments	**81**	140	(42.1)
Total net trading gain	**4,800**	3,090	55.3

Net trading gain amounted to HK$4,800 million, an increase of HK$1,710 million or 55.3% year-on-year. Net trading gain from foreign exchange and foreign exchange products increased by HK$2,215 million, which was primarily attributable to an increase in net gain from foreign currency swap contracts. Interest rate instruments and items under fair value hedge recorded a net trading loss, as compared with a net trading gain in the same period last year. This was primarily due to mark-to-market changes to certain debt securities investments and interest rate instruments caused by market interest rate movements. Net trading gain from commodities increased, mainly due to a higher gain from bullion transactions. Net trading gain from equity and credit derivative instruments decreased, with the decline in income from equity-linked products. If the funding income or cost of foreign currency swap contracts were excluded, net trading gain would have decreased by 21.0% year-on-year.

Second Half Performance

Compared with the first half of 2019, net trading gain increased by HK$1,142 million or 62.4%, mainly reflecting the mark-to-market changes of certain foreign exchange products and interest rate instruments. If the funding income or cost of foreign currency swap contracts were excluded, net trading gain would have increased by 158.9% from the first half of the year.

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

HK$'m, except percentages	2019	(Restated) 2018	Change (%)
Net gain/(loss) on other financial instruments at fair value through profit or loss	**3,243**	(1,282)	N/A

The Group recorded a net gain of HK$3,243 million on other financial instruments at fair value through profit or loss in 2019, compared to a net loss of HK$1,282 million in 2018. The change was mainly attributable to the mark-to-market gain (as compared with a mark-to-market loss in 2018) of BOC Life's debt securities investments, caused by market interest rate movements, together with a net gain (as compared with a net loss in 2018) in its equity securities and bond fund investments. The mark-to-market changes of the debt securities investments mentioned above were offset by changes in BOC Life's policy reserves, as reflected in changes in net insurance benefits and claims as well as movements in liabilities, which were also attributable to market interest rate movements.

Second Half Performance

A net gain of HK$1,028 million was recorded in the second half of the year, which was HK$1,187 million lower than the net gain recorded in the first half. This change was mainly attributable to the lower mark-to-market gain of BOC Life's debt securities investments, together with a decreased gain from its equity securities and bond fund investments, in the second half of the year.

Operating Expenses

HK$'m, except percentages	2019	(Restated) 2018	Change (%)
Staff costs	**9,364**	8,642	8.4
Premises and equipment expenses (excluding depreciation)	**1,542**	1,862	(17.2)
Depreciation	**2,881**	2,066	39.4
Other operating expenses	**2,880**	2,636	9.3
Total operating expenses	**16,667**	15,206	9.6

	At 31 December 2019	(Restated) At 31 December 2018	Change (%)
Staff headcount measured in full-time equivalents*	**14,668**	14,084	4.1

* The comparative information of staff headcounts measured in full-time equivalents as at 31 December 2018 has been restated to enable analysis on a comparable basis.

Total operating expenses amounted to HK$16,667 million, an increase of HK$1,461 million or 9.6% year-on-year, owing to the Group's ongoing investment in human resources management, the enhancement of its fintech service innovations and its support of key businesses and projects, all undertaken with the aim of further enhancing the Group's overall service competitiveness. The cost to income ratio was 28.52%, with the Group maintaining cost efficiency at a solid level relative to industry peers.

Staff costs increased by 8.4% year-on-year, mainly due to annual salary increment and increased headcount. The Group also launched a series of initiatives related to employee remuneration and benefits, resulting in an increase in related expenses.

Premises and equipment expenses decreased by 17.2%. From 1 January 2019 onwards, the Group adopted Hong Kong Financial Reporting Standard 16 ("HKFRS 16"), "Leases". Under this new standard, 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. As a result, rental expenses dropped. This decline was partially offset by increased investments in information technology.

Depreciation increased by 39.4%, mainly due to the adoption of HKFRS 16, and increased depreciation charges on premises and information technology infrastructure.

Other operating expenses rose by 9.3%, mainly due to an increase in business promotional expenses related to the credit card and payment businesses, as well as a rise in advertising and communication expenses.

Second Half Performance

Compared with the first half of 2019, total operating expenses increased by HK$1,611 million or 21.4%, mainly due to higher staff costs and expenses resulting from increased investments in digital transformation and information technology, as well as business promotions.

Net Charge of Impairment Allowances on Advances and Other Accounts

HK$'m, except percentages	2019	(Restated) 2018	Change (%)
Stage 1	**(701)**	162	N/A
Stage 2	**21**	(336)	N/A
Stage 3	**(1,172)**	(1,009)	16.2
Total net charge of impairment allowances on advances and other accounts	**(1,852)**	(1,183)	56.6

Total Loan Impairment Allowances as a Percentage of Advances to Customers

	At 31 December 2019	(Restated) At 31 December 2018
Total loan impairment allowances as a percentage of advances to customers	**0.50%**	0.43%

In 2019, the Group's net charge of impairment allowances on advances and other accounts amounted to HK$1,852 million, an increase of HK$669 million or 56.6% year-on-year. Impairment allowances at Stage 1 recorded a net charge of HK$701 million, mainly driven by loan growth and the impact of changes to the parameter values of the expected credit loss model to account for changes in macroeconomic outlook during the year, as compared to a net reversal in the previous year due to the upgrading of certain customers. Impairment allowances at Stage 2 recorded a net reversal of HK$21 million, as compared to a net charge of HK$336 million last year, mainly reflecting the impact of changes in the internal rating of certain customers. Impairment allowances at Stage 3 amounted to HK$1,172 million, an increase of HK$163 million year-on-year, owing to new impairment allowances being made in response to the downgrading of certain corporate advances. As at 31 December 2019, the Group's total loan impairment allowances as a percentage of advances to customers was 0.50%.

Second Half Performance

Compared with the first half of 2019, the Group's net charge of impairment allowances on advances and other accounts increased by HK$418 million. This increase mainly related to the downgrading of certain customers and the impact of changes to the parameter values of the expected credit loss model to take into account changes in macroeconomic outlook in the second half of the year.

Analysis of Assets and Liabilities

The table below summarises the Group's asset composition. The comparative figures as of 31 December 2018 have been restated to conform to the current year's presentation. 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 of the Group.

Asset Composition

	At 31 December 2019		(Restated) At 31 December 2018		
HK$'m, except percentages	**Amount**	**% of total**	Amount	% of total	Change (%)
Cash and balances and placements with banks and other financial institutions	**366,829**	**12.1**	433,299	14.7	(15.3)
Hong Kong SAR Government certificates of indebtedness	**163,840**	**5.4**	156,300	5.3	4.8
Securities investments and other debt instruments[1]	**886,846**	**29.3**	899,967	30.4	(1.5)
Advances and other accounts	**1,412,961**	**46.7**	1,282,994	43.4	10.1
Fixed assets and investment properties	**71,712**	**2.4**	69,119	2.3	3.8
Other assets[2]	**123,868**	**4.1**	114,325	3.9	8.3
Total assets	**3,026,056**	**100.0**	2,956,004	100.0	2.4

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.

In accordance with the principle of balanced and sustainable development, the Group continued to optimise the management of its assets and liabilities. The total assets of the Group amounted to HK$3,026,056 million, an increase of HK$70,052 million or 2.4% compared with the end of 2018. Cash and balances and placements with banks and other financial institutions decreased by HK$66,470 million or 15.3%, mainly due to a decrease in balances with banks. Securities investments and other debt instruments decreased by HK$13,121 million or 1.5%. Advances and other accounts rose by HK$129,967 million or 10.1%, with advances to customers growing by HK$128,648 million or 10.2% and trade bills increasing by HK$3,366 million or 19.4%.

Advances to Customers

HK$'m, except percentages	At 31 December 2019 Amount	At 31 December 2019 % of total	(Restated) At 31 December 2018 Amount	(Restated) At 31 December 2018 % of total	Change (%)
Loans for use in Hong Kong	**924,734**	**66.3**	841,720	66.4	9.9
Industrial, commercial and financial	**515,548**	**37.0**	492,712	38.9	4.6
Individuals	**409,186**	**29.3**	349,008	27.5	17.2
Trade finance	**75,764**	**5.4**	65,437	5.2	15.8
Loans for use outside Hong Kong	**395,385**	**28.3**	360,078	28.4	9.8
Total advances to customers	**1,395,883**	**100.0**	1,267,235	100.0	10.2

In 2019, the Group actively developed its local and cross-border businesses. It seized opportunities arising from the loan needs of large corporates, high-quality commercial clients and SME customers in Hong Kong. It expanded and optimised the digital business processes of its mortgage business and enhanced the service quality of its mortgage centres. It strengthened collaboration with BOC entities in the Mainland so as to build an integrated marketing and service system. At the same time, the Group strengthened collaborative marketing with its Southeast Asian entities in order to acquire high-quality local clients, and successfully participated in a number of major financing projects in Southeast Asia. Advances to customers grew by HK$128,648 million, or 10.2%, to HK$1,395,883 million in 2019.

Loans for use in Hong Kong grew by HK$83,014 million or 9.9%:

- Lending to the industrial, commercial and financial sectors increased by HK$22,836 million or 4.6%, reflecting growth in property development, financial concerns and information technology, as well as wholesale and retail trade.

- Lending to individuals increased by HK$60,178 million, or 17.2%. Residential mortgage loans (excluding those under government-sponsored home purchasing schemes) grew by 13.7% while other individual loans increased by 24.4%, mainly driven by an increase in loans for property refinancing.

Trade financing increased by HK$10,327 million or 15.8%. Loans for use outside Hong Kong grew by HK$35,307 million or 9.8%, mainly driven by growth in loans for use in the Mainland and Southeast Asia.

Loan Quality

HK$'m, except percentages	At 31 December 2019	(Restated) At 31 December 2018
Advances to customers	**1,395,883**	1,267,235
Classified or impaired loan ratio	**0.23%**	0.19%
Total impairment allowances	**7,035**	5,419
Total impairment allowances as a percentage of advances to customers	**0.50%**	0.43%
Residential mortgage loans[1] – delinquency and rescheduled loan ratio[2]	**0.01%**	0.01%
Card advances – delinquency ratio[2]	**0.27%**	0.19%

	2019	2018
Card advances – charge-off ratio[3]	**1.40%**	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 2019, the Group proactively strengthened its management measures for various types of risks and continuously enhanced its regional risk management so as to maintain benign asset quality. As at 31 December 2019, classified or impaired loans amounted to HK$3,217 million, up HK$834 million from the end of last year, while the classified or impaired loan ratio was 0.23%, up 0.04 percentage points from the end of last year.

The credit quality of the Group's residential mortgage loans and card advances remained stable. The combined delinquency and rescheduled loan ratio of residential mortgage loans was 0.01% as at 31 December 2019. The charge-off ratio of card advances remained stable at 1.40%.

Deposits from Customers

HK$'m, except percentages	At 31 December 2019 Amount	At 31 December 2019 % of total	(Restated) At 31 December 2018 Amount	(Restated) At 31 December 2018 % of total	Change (%)
Demand deposits and current accounts	**207,013**	**10.3**	207,812	11.0	(0.4)
Savings deposits	**900,009**	**44.8**	854,117	45.0	5.4
Time, call and notice deposits	**902,251**	**44.9**	833,867	43.9	8.2
	2,009,273	**100.0**	1,895,796	99.9	6.0
Structured deposits	**–**	**–**	2,199	0.1	(100.0)
Total deposits from customers	**2,009,273**	**100.0**	1,897,995	100.0	5.9

In 2019, the Group continued to step up efforts to expand its mid- to high-end customer base and strengthened cooperation with clients in relation to e-channel payment solutions, in a bid to enlarge the scale of its deposits. At the same time, the Group optimised its deposit structure. The Group was able to support growth in deposits by expanding its employee payroll service offering, including payroll, wealth management and integrated payment service solutions, and leveraging its role as the main receiving bank for IPOs as well as its cash management and settlement businesses. At the end of 2019, total deposits from customers amounted to HK$2,009,273 million, an increase of HK$111,278 million or 5.9% from the end of the previous year. Demand deposits and current accounts decreased by 0.4%. Savings deposits increased by 5.4%. Time, call and notice deposits were up 8.2%.

Capital and Reserves Attributable to Equity Holders of the Company

HK$'m, except percentages	At 31 December 2019	(Restated) At 31 December 2018	Change (%)
Share capital	**52,864**	52,864	–
Premises revaluation reserve	**39,458**	38,527	2.4
Reserve for fair value changes	**69**	(4,116)	N/A
Reserve for own credit risk	**(33)**	5	N/A
Regulatory reserve	**11,077**	10,496	5.5
Translation reserve	**(581)**	(832)	30.2
Merger reserve	**–**	350	(100.0)
Retained earnings	**175,929**	160,242	9.8
Reserves	**225,919**	204,672	10.4
Capital and reserves attributable to equity holders of the Company	**278,783**	257,536	8.3

Capital and reserves attributable to equity holders of the Company amounted to HK$278,783 million as at 31 December 2019, an increase of HK$21,247 million or 8.3% from the end of 2018. Retained earnings rose by 9.8% from the end of last year, mainly reflecting the profit achieved in 2019 after the distribution of dividends. The premises revaluation reserve increased by 2.4%, reflecting an increase in the valuation of the Group's premises in 2019. The reserve for fair value changes moved from a deficit to a surplus, mainly driven by market interest rate movements. The regulatory reserve increased by 5.5%, mainly driven by growth in advances to customers. The merger reserve as at 31 December 2018 arose, owing to the Group's application of the merger accounting method in relation to its combination with BOC Vientiane Branch.

Capital Ratio

HK$'m, except percentages	At 31 December 2019	At 31 December 2018
Consolidated capital after deductions		
Common Equity Tier 1 capital	**195,039**	180,202
Additional Tier 1 capital	**23,476**	23,476
Tier 1 capital	**218,515**	203,678
Tier 2 capital	**32,855**	34,393
Total capital	**251,370**	238,071
Total risk-weighted assets	**1,098,018**	1,030,815
Common Equity Tier 1 capital ratio	**17.76%**	17.48%
Tier 1 capital ratio	**19.90%**	19.76%
Total capital ratio	**22.89%**	23.10%

As at 31 December 2019, the Group's Common Equity Tier 1 ("CET1") capital and Tier 1 capital increased by 8.2% and 7.3% respectively, which was primarily attributable to the profits net of dividends recorded for 2019. The Group remains committed to balancing growth in risk-weighted assets ("RWAs") with enhancement in returns. Total RWAs increased by 6.5% in 2019, mainly driven by loan growth. The CET1 capital ratio was 17.76% and Tier 1 capital ratio was 19.90%, up 0.28 and 0.14 percentage points respectively from the end of 2018. Total capital ratio was 22.89%. The Group has established a long-term capital plan to continuously review its capital structure and manage the growth of its RWAs, with the aim of maintaining an appropriate capital level to meet regulatory requirements, support the long-term business development of the Group and realise returns to its equity holders.

Liquidity Coverage Ratio and Net Stable Funding Ratio

	2019	2018
Average value of liquidity coverage ratio		
First quarter	**183.00%**	134.33%
Second quarter	**156.57%**	146.39%
Third quarter	**142.85%**	141.44%
Fourth quarter	**146.53%**	160.23%

	2019	2018
Quarter-end value of net stable funding ratio		
First quarter	**121.36%**	118.98%
Second quarter	**119.15%**	118.82%
Third quarter	**116.47%**	122.24%
Fourth quarter	**118.00%**	124.41%

The Group's liquidity position remained sound, with the average value of its liquidity coverage ratio and the quarter-end value of its net stable funding ratio exceeding the regulatory requirement for all four quarters of 2019.

Business Review

In 2019, the Group remained committed to its strategy of building a top-class, full-service and internationalised regional bank. It actively responded to changes in the market environment and seized market opportunities to steadily push forward its business priorities, with its major financial indicators remaining at solid levels. Striving to be customer-centric at all times, it continued to develop the local market in Hong Kong and accelerated innovation-led transformation. The Group was actively involved in developing business opportunities in the Guangdong-Hong Kong-Macao Greater Bay Area, and endeavoured to consolidate its leading market position for major businesses in the area by optimising its integrated business systems. It deepened the integration of its Southeast Asian entities and enhanced regional synergies and development quality. It expedited its digital and innovation-driven development and enhanced the application of fintech in its products and services. Moreover, the Group remained dedicated to cultivating its bank culture to ensure balanced and sustainable development.

Business Segment Performance

Profit before Taxation by Business Segment

HK$'m, except percentages	2019	% of total	2018	(Restated) % of total	Change (%)
Personal Banking	**11,234**	**28.0**	10,261	26.2	9.5
Corporate Banking	**15,309**	**38.2**	14,426	36.9	6.1
Treasury	**12,064**	**30.1**	11,553	29.6	4.4
Insurance	**701**	**1.8**	937	2.4	(25.2)
Others	**780**	**1.9**	1,904	4.9	(59.0)
Total profit before taxation	**40,088**	**100.0**	39,081	100.0	2.6

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$11,234 million in 2019, an increase of HK$973 million or 9.5% year-on-year. Net operating income rose, mainly driven by an increase in net interest income, which more than offset the impact from the increase in operating expenses and the net charge of impairment allowances.

Net interest income increased by 16.8%, mainly driven by the growth in the average balance of deposits and loans along with an improvement in the deposit spread. The increase was, however, partially set off by the narrowing loan spread. Net fee and commission income increased by 2.6%, as insurance commission income increased in line with a higher business volume. However, commission income from securities brokerage and funds distribution decreased amid the weakened investor sentiment in the market, partially offsetting the above-mentioned income growth. Operating expenses were up 11.3%, mainly due to an increase in staff costs and depreciation of the right-of-use asset. The net charge of impairment allowances amounted to HK$351 million, an increase of HK$228 million year-on-year, mainly reflected the impact of loan growth and changes to the parameter values of the expected credit loss model to account for changes in macroeconomic outlook.

Business operations

Striving to be customer-oriented and continuously refining customer structure

The Group continued to adopt a customer-centric strategy during the year. As part of its efforts to promote financial inclusion, BOCHK removed service fees for its personal integrated banking services and general banking accounts, effective from 1 August 2019. Based on careful observation of customers' preferences and behaviours, it promoted a holistic wealth planning service and offered an all-round asset allocation analysis and portfolio solution to mid- to high-end customers. It strengthened its big data analysis capabilities, developed its digital marketing team and implemented a big data platform powered by machine learning to comprehensively enhance its data productivity and decision-making intelligence. In order to meet mid- to high-end customers' needs, the Group offered exclusive value-added services, including hosting the Wealth Management Expo 2019, thus enhancing its brand recognition.

The Group's private banking business maintained steady growth. Through its transformation into a regional bank, the Group was able to serve high-net-worth clients from Hong Kong, the Mainland and Southeast Asia. In line with the development of green finance and environmental, social and governance standards, the Group enriched its exclusive private banking products and services and strengthened its talent pool and teams so as to better serve regional high-net-worth clients and family offices. In addition, it reinforced its customer-centric approach by developing its digital capabilities with the aim of enhancing its customisation systems and improving customer management and investment portfolio analysis. As at the end of 2019, the AUM of the Group's private banking business had increased by 24.3% compared to the end of 2018.

Promoting integrated development and collaboration in the Greater Bay Area and expanding featured cross-border services

The Group actively pushed forward integrated development and collaboration in the Guangdong-Hong Kong-Macao Greater Bay Area by focusing on the financial services needs of residents in Guangdong, Hong Kong and Macao, including account opening, payment services and financing. In 2019, BOCHK became the first bank in Hong Kong to launch a mainland personal account opening attestation service, allowing Hong Kong residents to open mainland personal accounts without having to travel to the Mainland, and continued to refine its cross-border RMB remittance packages. As at the end of 2019, there were over 90,000 related applications. The BoC Pay mobile application's cross-border retail payment function was enhanced to allow Hong Kong residents to make payments more easily across the Greater Bay Area. With the launch of BOCHK WeChat public account and through continuous improvement to the cross-border functions of this account, the Group strived to offer its cross-border customers a market-leading platform for accessing banking services and related information. As at the end of 2019, the total number of cross-border mid- to high-end customers had increased by 26.8% from the end of the previous year. During the year, BOCHK received the Outstanding GBA Financial Business – Innovative Cross-border Financial Services Award, jointly organised by Metro Finance and Hong Kong Ta Kung Wen Wei Media Group, and was honoured with the Sing Tao Service Awards 2019 – Greater Bay Area Banking Service Award by *Sing Tao Daily*.

Steadily advancing regional development in Southeast Asia

The Group continued to enhance the development of its personal banking business in the Southeast Asia region, successfully expanding its personal banking service network to Thailand, Malaysia, Vietnam, the Philippines, Indonesia, Cambodia, Laos and Brunei. Based on the characteristics of different countries, the Group continued to refine its business organisation structure and managed its regional products in a systematic and orderly manner. It strengthened "mobile first" digital infrastructure support to its Southeast Asian entities with the launch of a new regional version of mobile banking in BOC Thailand, BOC Malaysia, Ho Chi Minh City Branch, Manila Branch, Phnom Penh Branch and Vientiane Branch, thus unifying its mobile banking brand across the region. The Group continued to enhance its wealth management services and officially launched Wealth Management in BOC Malaysia, offering new funds and bonds. Jakarta Branch became the first bank to distribute RMB insurance products in its local market. The Group also strengthened collaboration with its Southeast Asian entities and launched a cross-border attestation service allowing customers to open BOCHK personal accounts with BOC Malaysia, Jakarta Branch and Manila Branch.

Promoting digital product transformation so as to accelerate customer migration to online transactions

The Group strived to promote fintech innovation and pushed forward the digitalisation of its business processes and the digital integration of high-frequency customer transactions. During the year, it utilised open Application Programme Interface ("API") to extend cross-platform cooperation and launched a developers' portal, opening up access to more than 90 open APIs. The Group strengthened cooperation with third party service providers, online real estate agency platforms, external economic and financial applications as well as product comparison websites so as to expand its cross-platform functions, including property purchase planning, securities and foreign exchange trading services and online loan application. The Group's credit card business continued to introduce new payment methods in order to make inroads into the small amount and high frequency cash payment market. It enriched the application scenarios of BoC Pay in order to meet customer need for high-frequency payments and further expanded its service coverage to non-BOCHK customers, thus allowing more customers in Hong Kong to enjoy convenient digital payments. To meet the rapid growth in customer demand for online transactions, the Group adopted the concept of "mobile first" and enhanced both the design and functionality of its mobile banking platform to upgrade investment, insurance, payment, credit cards and remittance-related services. As at the end of 2019, the number of mobile banking registered customers and active customers grew by 35.7% and 36.9% respectively compared to the end of the previous year. During the year, BOCHK received a number of awards from *The Asian Banker*, including being recognised as Best Retail Bank in Hong Kong for the third time in its International Excellence in Retail Financial Services Awards, and winning Best Data Analytics Initiative, Application or Programme, Best Blockchain Initiative, Application or Programme and Digital Wallet of the Year in Hong Kong in *The Asian Banker*'s Excellence in Retail Financial Services Awards – Hong Kong, and was awarded Mobile Banking Initiative of the Year – Hong Kong by *Asian Banking & Finance*, in recognition of its performance in the personal banking industry.

Optimising products and services and consolidating competitive advantages

The Group devoted great efforts to acquiring deposits and optimising deposit tenors. Striving to become its customers' main bank, it grew its current account and savings deposit businesses via payroll services, wealth management and integrated payment solutions, with large-scale marketing campaigns targeted at the employee payroll services of well-known large corporations, mainland enterprises, social welfare organisations, schools and small retail enterprises. Regarding its loan business, the Group strengthened its mortgage business for new residential properties and Home Ownership Scheme flats in the primary market, accelerated the development of its digital mortgage business processes and enhanced the service quality and network coverage of its mortgage centres. As a result of these initiatives, the Group captured its top market position in terms of the total number of new residential mortgage loans and maintained the largest market share in the reverse mortgage market. In its fee and commission business, the Group enriched its range of investment products with a focus on retirement planning and protection. To address the overseas investment demands of mid- to high-end customers and cross-border customers, it promoted its US stock trading service by further enhancing the US stocks online investment customer journey in its online and mobile banking. In addition, to support the deferred annuity policy and Voluntary Health Insurance Scheme promoted by the HKSAR government, the Group enhanced innovation in its insurance products and services portfolio by integrating the concepts of retirement planning and health protection. The structural transformation of annuity and whole life insurance allowed the Group to further fulfil customers' financial planning needs, thus contributing to solid growth in insurance fee income.

Corporate Banking

Financial Results

Corporate Banking achieved a profit before tax of HK$15,309 million, an increase of HK$883 million or 6.1% year-on-year. Net operating income rose, mainly driven by the increase in net interest income, which more than offset the impact from the increase in operating expenses and the net charge of impairment allowances.

Net interest income increased by 12.7%, mainly attributable to the growth in the average balance of loans and deposits, coupled with improvement in the deposit spread. Net fee and commission income increased by 1.7%, with higher loan commissions, which was partially offset by decreases in commission income from bills and insurance. Net trading gain decreased by 3.4%, owing to a drop in currency exchange income from customer transactions. Operating expenses were up 6.7%, mainly due to an increase in staff costs and depreciation of the right-of-use asset. The net charge of impairment allowances amounted to HK$1,385 million, an increase of HK$601 million year-on-year, owing to impairment allowances being made in response to the downgrading of certain corporate advances. There was a lower base in the same period last year when there was an improvement in the internal rating of certain corporate advances, resulting in a reversal of impairment allowances.

Business operations

Expanding the core customer base and providing bespoke services

The Group remained committed to achieving high-quality development by meeting the demands of key customer groups for integrated financial solutions, including BOC's global strategic clients and large corporates from Hong Kong, Southeast Asia and other overseas countries. It devoted efforts to optimising its business structure and enhancing its service capabilities. By continuously improving its regional and comprehensive service capacities, the Group was able to support a number of high-quality projects. It also enhanced cooperation with clients in e-payment platforms in order to provide bespoke cash management and funding-pool management, leading to stable growth in deposits and loans. It remained the top mandated arranger in the Hong Kong and Macao syndicated loan market and successfully underwrote a number of bond issues with significant market influence. By keeping up with market changes, the Group actively promoted the advancement of green finance, including the underwriting of green bonds and loans. The Group retained its market leadership as an IPO main receiving bank in terms of the number of main board listing projects. In addition, it maintained good business relationships with the world's major central banks and sovereign wealth funds so as to provide them with comprehensive financial services. At the same time, the Group promoted technological innovation and digital transformation. With the aim of deepening scenario-based applications and integrating into the market ecology, it strengthened cooperation with the HKSAR government, colleges, universities and various institutions, and promoted e-payment and payment collection projects so as to provide more convenient payment channels, thus enhancing the brand image of the Group's payment services.

Proactively implementing a series of measures to support the development of its commercial and SME customer base

The Group continued to improve its services to local commercial customers in Hong Kong by providing e-payment services, integrated payment and settlement solutions, and treasury products and services. Acting in concert with the HKSAR government's policy to promote the launch of measures to support local SMEs, it introduced the Special SME Loan Scheme which features an express approval process, in order to alleviate pressure on SMEs' operations and working capital. The Group also collaborated extensively with HKMC Insurance Limited to launch the "90% Guarantee product" under the SME Financing Guarantee Scheme, which aims to increase access to financing for smaller-sized enterprises, businesses with relatively little operating experience as well as professionals seeking to set up their own practices. The Group optimised services for start-up enterprises by launching the "Business Lite" account service. This service simplifies account opening requirements and waives monthly charges and the minimum deposit balance requirement, with the aim of facilitating easier account opening for start-up enterprises and overseas enterprises investing in Hong Kong. In addition, the Group promoted BoC Bill, an integrated payment collection service, offering various common types of online and offline payment tools, and optimising functions to cater for different payment scenarios related to transportation, livelihood, public utilities payment and charity donations, to help merchants better cope with their daily operations, and became the first Chinese bank to connect to the MTR payment system. The Group joined hands with the Federation of Hong Kong Industries to organise the BOCHK Corporate Environmental Leadership Awards Programme for the fifth consecutive year, with the aim of encouraging commercial customers operating in Hong Kong and the Pan-Pearl River Delta region to promote green operations, recognise environmental pioneers and pursue sustainable growth. During the year, BOCHK received the SME Banking Services Award at the Financial Services Awards of Excellence 2019, as well as Guangdong-Hong Kong-Macao Greater Bay Area Commercial Banking Services and Business Financial Services awards at the SME Partner Awards of Excellence 2019, both organised by *Hong Kong Economic Journal*. BOCHK also won the Best SME's Partner Gold Award 2019 from Hong Kong General Chamber of Small and Medium Business.

Promoting business development in Southeast Asia and the Greater Bay Area and giving full play to its synergistic advantages

The Group accelerated the improvement of its regional management capabilities, established a regional relationship manager system with a focus on high-value customers, and continued to promote the integrated management of customer development and project marketing in order to drive the collaborative development of its Southeast Asian entities. It continued to acquire major "Belt and Road" related projects, Chinese "Going Global" enterprises, large corporates and family-owned enterprises in Southeast Asia and successfully participated in a number of major infrastructure projects in the region. It further integrated competitively proven products and services from Hong Kong into its Southeast Asian entities' local franchises, to help them expand into the local mainstream markets and establish business cooperation with global and regional large corporates. During the year, the Group actively supported official thematic activities to promote economic and trade cooperation by assisting and participating in the arrangement of diplomatic activities such as the Belt and Road Forum for International Cooperation and the China International Import Expo, organised by the Chinese government. This had the effect of enhancing BOCHK's brand image and business development in Southeast Asia. In order to capture the enormous business opportunities arising from the development of the Guangdong-Hong Kong-Macao Greater Bay Area, the Group continued to strengthen its collaboration with BOC's entities in the Greater Bay Area. It established an integrated marketing and services system and increased support for key regions and target customers, with a view to providing a full range of financial services to support the mutual access of infrastructures within the Greater Bay Area and boosting the development of corporates within the area's technological innovation sector.

Constantly enhancing products and services to fully improve customer experience

The Group continuously upgraded its integrated service capabilities in Hong Kong, the Greater Bay Area and Southeast Asia so as to provide customers with various scenario-based integrated service solutions. It also accelerated the regional development of its key businesses, including cash pooling, treasury centre, cash management and trade finance. Dedicated to its customer-centric philosophy, the Group bolstered the development of online and digitalised services and launched the Global Transaction Banking Platform, so as to enhance customer experience and improve customer satisfaction. During the year, the Group established "eTrade Connect", a brand-new trade finance platform in Hong Kong which connects to the trade finance platform of the People's Bank of China, in a bid to encourage fintech innovation and diversification in the development of cross-border financial products. In recognition of its excellent and highly professional services, BOCHK was named Best Transaction Bank in Hong Kong for the second time and Best Cash Management Bank in Hong Kong for the fifth time by *The Asian Banker*. BOCHK was also awarded Hong Kong Domestic Trade Finance Bank of the Year and Hong Kong Domestic Cash Management Bank of the Year (for the sixth consecutive year) by *Asian Banking & Finance*.

Continuously developing custody and trustee businesses and launching issuer services

The Group's custody business captured opportunities from the Chinese government's respective mutual market access policies, "Going Global" enterprises and the development of the Greater Bay Area. It effectively responded to market challenges and constantly strengthened its cooperation with local and overseas institutions. By devising customised service solutions, it helped clients to resolve operational pain points in both over-the-counter and exchange-traded securities investments. Both total assets under custody and the asset size of Bond Connect reached new peaks. For the second consecutive year, BOCHK was awarded Bond Connect Top Custodian by the Bond Connect Company Limited. As at the end of 2019, the Group's total assets under custody amounted to HK$1,266.9 billion, an increase of 15.3% from the prior year-end. During the year, the Group also demonstrated its commitment to broadening its service range by launching a brand-new product platform, offering corporate trust and agency services to debt securities issuers. This new platform received a satisfactory market response and provided issuance, lodgment and payment services for a number of central bank notes.

As at the end of 2019, the AUM of MPF assets of BOCI-Prudential Trustee Limited ("BOCI-Prudential Trustee") had recorded a steady increase of 18.0% from the end of the previous year. In support of the initiative promoted by the HKSAR government, BOCI-Prudential Trustee launched the Tax Deductible Voluntary Contributions scheme as scheduled, and made innovative technological improvements to its MPF services, with (i) launch of a brand new website design and AI chatbot service to improve customer experience, (ii) incorporation of facial and fingerprint recognition features in its MPF App to safeguard the security of online MPF accounts, and (iii) introduction of "BOCPT My Choice e-Onboarding", a new application to streamline the MPF application process. In an effort to open up new business opportunities with large multinational asset management firms, BOCI-Prudential Trustee optimised the business processes and system functionalities of its unit trust fund business. Meanwhile, it constantly stepped up efforts to promote product innovation. It was among the first batch of fund administration service providers to introduce money market fund products that feature faster payment of redemption proceeds. BOCI-Prudential Trustee partnered with a number of overseas electronic fund settlement platforms to enhance its transfer agency capability, thus improving the efficiency and competitiveness of its unit trust fund service. In 2019, BOCI-Prudential Trustee received numerous accolades, including multiple awards at The 2019 MPF Awards, organised by MPF Ratings, an independent rating agency. It was awarded the Excellent Trustee & Management Services Award at the Financial Services Awards of Excellence 2019, organised by *Hong Kong Economic Journal*; the Best Group Over 3 Years – Overall, the Best Group Over 3 Years – Bond and a Fund Award at the Lipper Hong Kong Fund Awards 2019, organised by *Refinitiv*; as well as a number of fund awards at the Top Fund Awards 2019 organised by *Bloomberg Businessweek* and the Fund of the Year Awards 2019 organised by *Benchmark*.

TREASURY

Financial Results

Treasury recorded a profit before tax of HK$12,064 million, an increase of HK$511 million or 4.4% year-on-year. The growth was driven by an increase in net trading gain and net gain on other financial assets, which more than offset the decrease in net interest income.

Net interest income decreased by 21.9%, which was mainly attributable to the rise in funding costs. Net trading gain grew by HK$2,358 million, mainly attributable to an increase in net gain from foreign currency swap contracts, which was partially offset by the mark-to-market changes of certain debt securities investments and interest rate instruments caused by market interest rate movements. Net gain on other financial assets increased by HK$750 million, as a higher net gain was recorded from the disposal of certain debt securities.

Business Operations

Continuously enhancing trading and service capabilities

The Group deepened its research on market developments and actively responded to market changes. It closely monitored customer demand and optimised its business structure. By strengthening its team building and sharpening its service capabilities, the Group was able to grow its treasury business for customers. During the year, it enhanced business innovation and actively explored future developments in market ecology. It increased investment in systems and continued to enhance system functionalities in order to steadily improve its electronic trading capabilities. The Group also optimised internal control and conducted stringent control of business risks. In recognition of its treasury business performance, BOCHK was named Best Currency Swap Member and received the Opening Contribution Award from the China Foreign Exchange Trade System. It also received the Outstanding International Member Award from Shanghai Gold Exchange and was named Hong Kong Domestic Foreign Exchange Bank of the Year by *Asian Banking & Finance*. It was awarded Top Sellside Firms in Secondary Market – Government bonds – HKD, Top Arrangers – Investors' Choice for Primary Issues – Government bonds – HKD and Top Sellside Firms in Secondary Market – Corporate bonds – HKD by *The Asset*, 2019 Best Certificates of Deposit and Bond Issuance Dealer by China Development Bank Hong Kong Branch and Key Business Partner in FIC Market at the 6th Annual RMB Fixed Income & Currency Conference, organised by HKEX.

Consolidating advantages in banknotes business

The Group fully leveraged its strong franchise in banknotes business to ensure smooth and adequate supply, winning customers' trust and consolidating its competitive advantages and market position. It actively expanded its wholesale banknotes business globally, achieving satisfactory results in Southeast Asia through steady improvements in client base and business scale. By strengthening its cooperation with mainland financial institutions, the Group further improved the footprint of its foreign currency banknotes business in the Mainland. Meanwhile, it continued to strengthen its risk management and improve business processes, leading to continuous improvements in its overall business capabilities.

Leveraging its strong franchise in RMB Clearing Business to expand the depth and breadth of its cross-border business development

In April 2019, in order to aid the continuous improvement of the cross-border settlement business of Bond Connect, the Hong Kong Renminbi Clearing Bank upgraded its cross-border settlement function to support cross-border fund settlement for the negotiable certificate of deposit primary market under Bond Connect. This expanded the depth and breadth of the cross-border bond business and reinforced the leading position of BOCHK in the offshore RMB market. BOCHK received the Prize for Innovative Business Promotion (Bond Connect Business) 2018 from the Shanghai Clearing House in recognition of its contribution towards the cross-border settlement business of Bond Connect. During the year, Manila Branch was appointed as the RMB Clearing Bank of the Philippines. BOC Thailand assisted a Thai asset management company to become a Qualified Foreign Institutional Investor in RMB. Ho Chi Minh City Branch facilitated the first cross-border RMB entrusted settlement transaction in a non-border area of Vietnam, signifying a major breakthrough for Vietnamese RMB usage. Jakarta Branch cooperated with an Indonesian life insurance company to initiate and launch RMB insurance products in the local market. In addition, the Group completed BOCHK's first RMB settlement transaction in Myanmar.

Strengthening the Southeast Asia treasury business and advancing regional development

The Group actively pushed forward its regional development strategy and accelerated the implementation of a series of management tasks, achieving satisfactory progress. By continuously improving talent development in the treasury business, the Group enhanced its Southeast Asian entities' capabilities in dealing, marketing, products and risk management in order to solidify their business foundation and establish integrated regional service capabilities for its financial markets business. To support its Southeast Asian entities in acquiring target clients, the Group increased its efforts in market research and business development analysis, and actively captured market opportunities through its diversified range of products, distribution channels and professionalism. As a result, it successfully participated in a number of key projects in the region. Meanwhile, the Group's treasury business expanded further, with BOC Thailand completing its first RMB/Baht foreign exchange forward transaction, BOC Malaysia completing its first interest rate swap transaction, Ho Chi Minh City Branch completing its largest EUR/USD spot transaction since its establishment, and Manila Branch completing its first direct exchange between the RMB and Peso.

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

In response to market volatility, the Group continued to take a cautious approach to managing its banking book investments by closely monitoring market changes. It planned ahead and actively sought investment opportunities to enhance return while remaining alert to risk. During the year, the Group adjusted its investment portfolio in order to respond to changes in interest rates and achieve solid returns.

Achieving steady growth in asset management business and proactive expansion in product offerings

In 2019, BOCHK Asset Management Limited ("BOCHK AM") actively captured market opportunities and achieved further expansion on many fronts. As a result, both the investment performance of its products and its own profitability reached historic highs. As at the end of 2019, its AUM had grown more than 20% compared to the previous year-end. During the year, BOCHK AM promoted innovation in fund products and launched new public funds, including the BOCHK All Weather Belt and Road Bond Fund and the BOCHK All Weather Greater Bay Area Strategy Fund. The latter is the first bond fund in Hong Kong to adopt a Greater Bay Area investment theme and the first public fund in the world to provide a Macau Pataca currency share class. As a result, it was awarded Most Innovative New Fund Award – Hong Kong 2019 by *International Finance*. BOCHK AM also launched private bond funds with fixed maturities so as to meet client needs. It deepened business relationships with existing clients and further strengthened its sales network. It also continued to collaborate with BOC's entities in the Mainland and the Group's Southeast Asian entities to expand its cross-border and Southeast Asian businesses. In addition, BOCHK AM set up a wholly-owned subsidiary company in Qianhai, Shenzhen in 2019. This company is registered with the Asset Management Association of China as a private equity and venture capital fund manager.

Insurance

Financial Results

In 2019, the Group's insurance segment achieved a gross premium of HK$25,366 million, up 21.5% year-on-year. The standard new premium was HK$13,806 million, an increase of 49.4% year-on-year. The value of new business was HK$1,280 million, an increase of 10.2% year-on-year. Profit before tax was HK$701 million, down 25.2% year-on-year, which was mainly attributable to the increase in insurance reserve caused by the drop in market interest rates. This decrease was, however, partially offset by increased fair value gain on invested assets and higher net interest income.

Business Operations

Advancing product innovation and strengthening service support

In support of the tax deductible Voluntary Health Insurance Scheme ("VHIS") and Qualified Deferred Annuity Policy promoted by the HKSAR government, BOC Life joined the first batch of insurers in introducing relevant products to the market in April 2019, including the BOC Life Standard VHIS, BOC Life Deferred Annuity (Fixed Term) and BOC Life Deferred Annuity (Lifetime), with a view to offering products with protections that better meet customers' needs. During the year, the iTarget 3 Years Savings Insurance Plan was simultaneously launched on BOCHK's mobile and internet banking platforms for the first time, while the iProtect 10 Years Insurance Plan was launched on BOCHK's mobile banking platform. Both of these products provide customers with a simple and convenient application service, and received encouraging responses from the market. In addition, BOC Life launched Forever Glorious ULife Plan II and Luminous Prime ULife Plan to improve service support for high-end customers, thus enhancing the value of new business and long-term profitability.

Introducing proactive applications of insurtech to improve customer experience

In 2019, BOC Life launched a Live Chat service that enables customers to be redirected to customer service ambassadors via its official Facebook page, WeChat Official Account and corporate website, as well as introducing a Digital Sales Assistant in its customer service centre, thus allowing customers to make enquiries easily and simply. The addition of policy binding and policy information functions to the WeChat Official Account further strengthened BOC Life's customer service support and communications. BOC Life also launched a smart self-service kiosk service during the year, with the inaugural Life Insurance Self-Service Counter kiosk installed at the BOCHK China Hong Kong City Branch in Tsim Sha Tsui, thus fostering interactions with visitors from the Greater Bay Area.

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

The Group maintained its leading position in Hong Kong's life insurance business and remained the market leader in the RMB insurance business. In recognition of its service quality and professional image, BOC Life received a number of local and regional awards, including the Outstanding Insurance Business – Annuity Award (Hong Kong China) in the 2019 RMB Business Outstanding Awards, jointly organised by Metro Finance and Hong Kong Ta Kung Wen Wei Media Group; the GBA Insurance Award 2019 (HK Region): Outstanding Customer Services Award (Life Insurance) from Metro Finance; the Award for Innovative Management in Financial Industries: Gold Stevie® Winner and Award for Innovation in Human Resources Management, Planning & Practice: Gold Stevie® Winner presented by the Asia-Pacific Stevie® Awards; the Financial Services Awards of Excellence 2019 – Life Insurance from the *Hong Kong Economic Journal*; the Customer Service Excellence Award: Customer Service Counter Team – Merit Award from the Hong Kong Association for Customer Service Excellence; and the Cross Border Insurance Services – Excellence and Annuity Plan – Excellence award in *Bloomberg Businessweek*'s Financial Institution Awards 2019.

Regional Business

Enhancing regional development strategies with the aim of building Southeast Asian entities into mainstream foreign banks in their local markets

Southeast Asia is a core focus of China's Belt and Road initiative, a market for RMB internationalisation and a target region for Chinese enterprises' "Going Global" efforts. The regional economy has remarkable development potential, supported by strong private consumption, infrastructure investment and ongoing foreign investment inflow. Meanwhile, the Regional Comprehensive Economic Partnership ("RCEP") is expected to bring more frequent trading activities and each country has pushed forward for digital transformation. The Group adopted BOC's development strategy and pushed forward its steadfast goal of building a top-class, full-service and internationalised regional bank. Accelerating its deployment in Southeast Asia, the Group crafted distinct development strategies for each of its Southeast Asian entities with the aim of gradually establishing differentiated competitive advantages, all with a focus on serving "Going Global" enterprises and large corporates in the region. The Group has developed a strong franchise and deep market-oriented management experience through a century of service in Hong Kong. Acting as the regional hub for Southeast Asia, the Group fully leveraged these advantages and introduced its competitively proven products and services, advanced technology and management, and professional talent teams from Hong Kong to Southeast Asian entities. By extending BOCHK's competitive advantages in funding, products, management and talent, the Group was able to upgrade its competitiveness and development quality in the Southeast Asia region. As a result of these regional integration efforts, Jakarta Branch ranked fifth in terms of overall operations in the Indonesian banking industry in 2018, as well as ranking first among all foreign banks in Indonesia. Moreover, Jakarta Branch was named the Best Foreign Bank of the Year in the 2019 Best Indonesian Business Awards.

Deepening Southeast Asian regional management and pushing forward integrated regional development

The Group successfully completed the acquisition of the Laos Business of BOC on 21 January 2019. BOCHK's Southeast Asian business now covers eight countries including Thailand, Malaysia, Vietnam, the Philippines, Indonesia, Cambodia, Laos and Brunei. The Group deepened the logical integration of the business mechanisms, systems, personnel and culture of its Southeast Asian entities. It accelerated the development of its regional management model of front, middle and back offices and steadily pushed forward the model's implementation and operation according to differentiated development and management strategies. The frontline units further refined their differentiated regional customer segmentation, business positioning and management models, so as to implement integrated operational and management objectives. The middle office units strengthened the regional risk control capabilities of the Southeast Asian entities, in order to effectively improve their management of credit risk, internal control and compliance and anti-money laundering capabilities. The back offices enhanced regional administration and resource support in order to improve the operational capacity and information technology system connectivity of the Group's back office operations across Southeast Asia.

The Group's Southeast Asian business achieved satisfactory results in 2019. Net operating income before impairment allowances of its Southeast Asian entities* was HK$2,807 million, a growth of 16.4% year-on-year. As at the end of 2019, deposits from customers and advances to customers amounted to HK$56,582 million and HK$50,354 million, up 18.3% and 26.7% respectively from the end of 2018. The non-performing loan ratio was 1.51%, up 0.38 percentage points from the end of 2018.

- 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, the balance of deposits from customers and advances to customers represented the consolidated data which were prepared in accordance with Hong Kong Financial Reporting Standards. Non-performing loan ratio was calculated in accordance with local regulatory requirements.

Promoting regional risk management to achieve healthy and sustainable development, using the Three Lines of Defense and Take-the-Most-Stringent-Approach principle

The Group promoted regional risk management on the basis of the Three Lines of Defense and the Take-the-Most-Stringent-Approach principle. It established a uniform regional risk management system, actively pushed forward the full implementation of its risk management framework and stepped up the construction of the management structure and personnel deployment of its Southeast Asian entities. It comprehensively strengthened its Southeast Asian entities' management of credit risk, launched a credit rating system applicable to Southeast Asian regional customers, and strengthened Southeast Asian market research and investigation of high-value customers and major projects so as to improve approval efficiency. The Group also strengthened its management of internal control and compliance by closely monitoring market and liquidity risk in the Southeast Asian market, so as to enhance its Southeast Asian entities' ability to cope with emergencies and thus lay a solid foundation for high-quality development built on enhanced risk compliance and control capabilities. The Group continued to push forward the implementation of its Southeast Asian entities' anti-money laundering systems, conducting regional anti-money laundering measures under the most stringent regulatory requirements and enhancing communications with regulatory bodies so as to ensure compliance with the regulatory requirements of the HKMA and local authorities, and to operate in accordance with the standards stipulated by the Group.

Fintech and Innovation

Adhering to the concept of "technology-based and innovation-driven development", the Group kept pace with fintech development trends and made increased investments to expedite its transformation into a digital bank. By applying innovative technology such as big data, artificial intelligence ("AI"), blockchain, biometric technology, open API and robotic process automation ("RPA") in financial products, service processes, operations management and risk control, the Group was able to improve its service levels and continuously strengthen customer stickiness.

In line with the HKMA's preparations to bring Hong Kong into a new era of smart banking, the Group took the lead in launching an open API project in January 2019. At the same time, it promoted open API interfaces in accordance with the HKMA's framework, allowing third party service providers to provide real-time banking information to clients using BOCHK's open APIs. It continuously strengthened its biometric applications, with finger vein authentication coverage now extending to all of BOCHK's automated teller machines in Hong Kong as well as BOCHK iService. In addition, the Group introduced the Global Transaction Banking Platform, providing corporate clients with all-in-one regional integrated online banking services. The Group has built a new generation of mobile banking services, utilising enhanced voice search and wealth management functions and integrated with big data technology and personalisation elements. It also constructed an intelligent customer service platform to support pioneering uses of mobile phones and the Group's future business development. A blockchain-based system now covers approximately 85% of the Group's property valuation transactions, and RPA technology has been gradually introduced to handle middle and back office operational procedures, which effectively improved operational efficiency and reduced operational risks. It also completed Jakarta Branch's IT Applications On-shoring Project in Indonesia, the construction of a scaled-down overseas core banking system, the expansion of the production centre and the building of a new disaster recovery centre for Jakarta Branch. The Group is committed to continually reshaping and refining its business processes with a view to enhancing operational efficiency, improving customer experience and strengthening product innovation and service capabilities. It stepped up its efforts to promote innovative elements in its products, services and business models. With the formation of inter-departmental agile project teams, the Group was able to respond to market changes effectively, to undertake innovation-driven strategic research, and to deepen scenario-based applications of fintech, thereby enhancing its competitiveness. In addition, the Group is dedicated to fostering fintech talent. During the year, it hosted the BOCHK Hackathon 2019 and organised a series of workshops with the aim of encouraging young people to participate and promote innovation in Hong Kong's banking industry and to integrate technological innovations, such as artificial intelligence, the internet of things, natural language processing, cloud applications and big data, in the banking industry.

The Group optimised coverage of its integrated collection platform, BoC Bill, by providing comprehensive payment and settlement solutions such as QR code (including UnionPay QR code and FPS scanning code), contactless and traditional credit card transactions to different types of enterprises in Hong Kong. Its coverage has been extended to a vast number of retail outlets in Hong Kong, with the aim of pioneering a new era in payment behavior and assisting SMEs to enhance their competitiveness. At the same time, the Group continuously upgraded the functionalities of BoC Pay, the first mobile application provided by a bank to focus on payment solutions. BoC Pay now supports non-BOCHK customers to open smart payment accounts, and offers real-time redemption of bonus points for payment as well as friend referrals. Focusing on meeting customers' general livelihood needs, BoC Pay allows customers to scan and pay at a number of local merchants and to make daily payments through FPS in Hong Kong. It also supports UnionPay QR code payments to more than 15 million merchants in the Mainland, including more than 1 million merchants in the Greater Bay Area. During the year, both the total number of users and transaction volumes increased.

In recognition of its innovative achievements in technology and IT development, BOCHK received the 2018 Shenzhen Fintech Innovation Award – Third Prize and 2018 Shenzhen Fintech Initiatives Award – Third Prize, jointly organised by the HKMA and Shenzhen Municipal Financial Regulatory Bureau; the FinTech (Banking, Insurance & Capital Market) Silver Award in the Hong Kong ICT Awards 2019, organised by the Office of the Government Chief Information Officer of the Hong Kong SAR Government and various trade and industry organisations in Hong Kong; the Awards of Excellence – FinTech Bank in the Financial Services Awards of Excellence 2019 organised by *Hong Kong Economic Journal*, and Excellent Brand of Greater Bay Area FinTech Services in the Hong Kong Leaders' Choice 2019 organised by Metro Finance.

Launching a virtual bank

On 27 March 2019, Livi VB Limited ("Livi"), a joint venture company owned by BOC Hong Kong (Holdings) Limited ("the Company"), Jingdong Digits Technology Holding Co., Ltd. ("JD Digits") and Jardine Matheson Group ("Jardines"), was granted a banking licence by the HKMA to conduct virtual banking business. The Company, JD Digits (through its subsidiary JD New Orbit Technology (Hong Kong) Limited) and Jardines (through its subsidiary JSH Virtual Ventures Holdings Limited) have made a total joint initial investment of HK$2.5 billion, with shareholdings of 44%, 36% and 20% respectively.

The Group collaborated with JD Digits and Jardines to actively support preparations for Livi's business commencement, making satisfactory progress. In the retail banking business, Livi will target local offline retail outlets to provide convenient banking, inclusive banking and smart banking services. In the SME business, it will introduce supply chain financing services to provide SME customers with convenient and efficient financing services.

Outlook and Business Focus for 2020

The global economic outlook for 2020 remains uncertain, given it dependency on the future development of global trade tensions, the monetary policy stance of major central banks, and the impact of COVID-19. The International Monetary Fund forecasts that global economic growth will most likely dip below last year's levels. The US economy is expected to shift to a slower pace of expansion as the economic boost from a previous round of tax cuts has now faded. The Mainland will be affected by the outbreak of COVID-19 in the near term, but the trend of keeping a good momentum of steady growth over a mid- to longer term does not change. Despite uncertainties in the global trade and market environment, the Southeast Asian regional economy is expected to grow steadily, supported by strong private consumption, infrastructure investment and ongoing foreign investment inflow to the region's manufacturing sector.

Hong Kong's economic outlook is expected to be affected by China-US trade frictions, the increasingly accommodative monetary policies of major economies, and the downside risks facing the global economy. Hong Kong banking operations will be challenged by slowing economic growth, intensifying market competition and increasing downward pressure on net interest margin. Nevertheless, Hong Kong possesses unique advantages and will continue to play a vital role in the reform and opening-up of the new era in the Mainland. Major national strategies, including the steadily progressing development plan for the Guangdong-Hong Kong-Macao Greater Bay Area and the acceleration of mainland capital account liberalisation, will provide more development opportunities for the banking industry in Hong Kong. In addition, the HKMA's seven measures to drive industry transformation towards a new era of smart banking, plus initiatives to promote green and sustainable finance, will create favourable conditions for the business development of Hong Kong banks. The HKSAR government's 2019 Policy Address put forward more than 220 specific measures with a focus on addressing people's livelihood issues, including land supply and housing policies, as well as arrangements for cooperation between Guangdong and Hong Kong and the nurturing of young talent in the technology sector. This will create a solid foundation for the long-term development of Hong Kong and provide long-term business opportunities for the banking industry.

In view of the opportunities and challenges ahead, the Group remains committed to "Building a Top-class, Full-service and Internationalised Regional Bank" by actively responding to market changes, adhering to prudent risk management and actively developing core businesses, so as to achieve healthy and sustainable development in each of its businesses. In addition, the Group will build a sustainable culture that delivers greater value for all stakeholders and integrate that culture into each of its business segments.

The Group will remain committed to developing the local market, cultivating agility in product innovation through digital transformation, adopting fintech solutions to enhance market responsiveness and building an innovative digital bank while always adhering to its customer-centric philosophy. At the same time, with the aim of expanding its customer base and comprehensively enhancing customer experience and satisfaction, the Group will integrate its banking services into corporate and personal customers' ecosphere through the provision of scenario-based financial services, diversified services and featured services. In addition, the Group will capture opportunities arising from the Chinese government's 16 new measures on the Guangdong-Hong Kong-Macao Greater Bay Area, with a focus on facilitating people's needs for livelihood convenience and cross-border financial services and on assisting Hong Kong's professionals to expand their businesses in the Greater Bay Area and increase the competitiveness of their products and services. The Group will also seize opportunities from the newly-enacted FTA between Hong Kong and ASEAN, the implementation of various ASEAN countries' economic strategies and the imminent ratification of the RCEP, in order to accelerate the expansion of key products to its Southeast Asian entities, deepen the development of RMB-related business, and enhance the quality and efficiency of its regional development in a comprehensive manner.

The outbreak of the COVID-19 since early January 2020 has taken a phased toll on the economy, and thus likely has impacted, to a certain extent, the Group's asset quality and returns from certain businesses. The magnitude of the COVID-19 impact depends on the progress of prevention and containment of the epidemic, its duration and the implementation of related economic measures. The Group will continuously and closely monitor the developments of COVID-19, evaluate and proactively address its impact on the Group's financial position and performance. As of the date of this report, such evaluation is still in progress.

Credit Ratings

As at 31 December 2019	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.

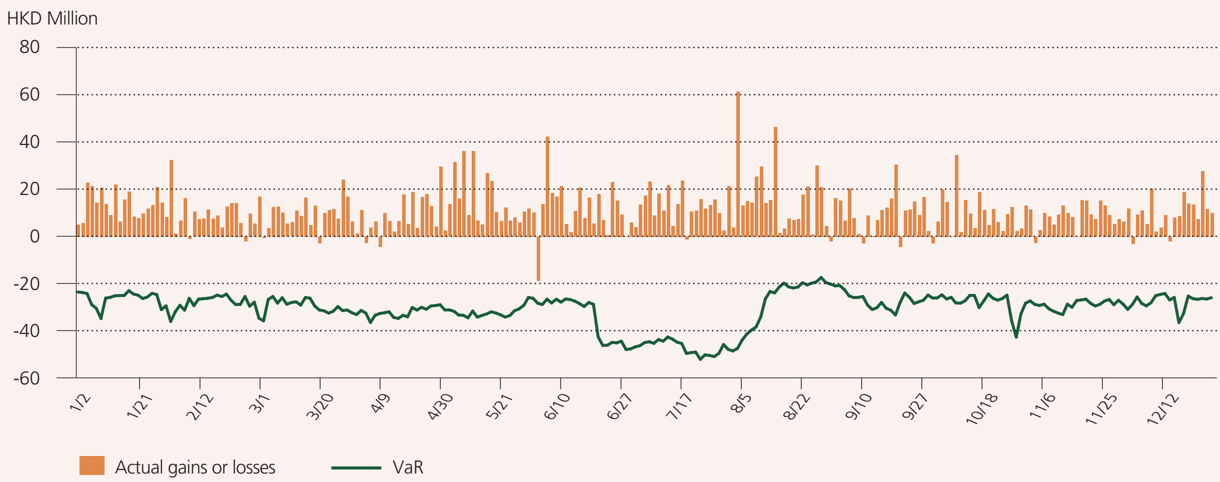
Market risk management

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 2019



There was no actual loss exceeding the VaR for the Group in 2019 as shown in the back-testing results.

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 or stressed scenarios; and to survive with net positive cumulative cash flow in extreme 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, Information Technology 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 and financial crimes including 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.

Corporate Information

Board of Directors

Chairman

LIU Liange#	(appointment as Chairman effective from 5 July 2019)
CHEN Siqing#	(resignation effective from 28 April 2019)

Vice Chairmen

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

Directors

LIN Jingzhen#	
SUN Yu#	(appointment effective from 20 March 2020)
CHENG Eva*	
CHOI Koon Shum*	
KOH Beng Seng*	
LAW Yee Kwan Quinn*	(appointment effective from 13 March 2019)
TUNG Savio Wai-Hok*	
LI Jiuzhong	(resignation effective from 15 March 2019)

Non-executive Directors
* Independent Non-executive Directors

Senior Management

Chief Executive
GAO Yingxin

Deputy Chief Executive
WANG Qi

Chief Risk Officer

ZHUO Chengwen	(appointment effective from 12 November 2019)
LI Jiuzhong	(resignation effective from 15 March 2019)

Deputy Chief Executive
YUAN Shu

Chief Operating Officer
ZHONG Xiangqun

Deputy Chief Executives

WANG Bing	
QIU Zhikun	(appointment effective from 8 July 2019)

Chief Financial Officer
SUI Yang

Deputy Chief Executive
KUNG YEUNG Ann Yun Chi

Company Secretary

LUO Nan

Registered Office

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

Auditor

Ernst & Young

Share Registrar

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

ADR Depositary Bank

Citibank, N.A.
388 Greenwich Street
6th Floor
New York, NY 10013
United States of America

Website

www.bochk.com

Board of Directors and Senior Management

DIRECTORS

Mr LIU Liange

Aged 58

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 WANG Jiang

Aged 56

Vice Chairman

Board appointments: Mr WANG was appointed as Vice Chairman and Non-executive Director of the Company and BOCHK in March 2020. He is a member of each of the Nomination and Remuneration Committee and the Strategy and Budget Committee.

Positions and experience: Mr WANG has been Vice Chairman and Executive Director of BOC since January 2020 and President of BOC since December 2019. Prior to joining BOC in 2019, Mr WANG served as vice-governor of Jiangsu Province from July 2017 to November 2019. He served as Executive Vice President of Bank of Communications Co., Ltd from August 2015 to July 2017. Mr WANG worked in China Construction Bank Corporation ("CCB") for many years, and successively served as Deputy General Manager of Shandong Branch of CCB, General Manager of Hubei Branch of CCB, and General Manager of Shanghai Branch of CCB.

Qualifications: Mr WANG graduated from Shandong Economics College in 1984, and obtained his Doctoral Degree in Economics from Xiamen University in 1999. He holds the title of Researcher.

Mr GAO Yingxin

Aged 57

Vice Chairman and Chief Executive

Board appointments: Mr GAO is Vice Chairman, Chief Executive, and a member of each of the Strategy and Budget Committee and the Sustainability Committee of the Company and BOCHK. He was Executive Director of the Company and BOCHK from May 2007 to March 2015, as well as Non-executive Director and a member of the Risk Committee of the Company and BOCHK from March 2015 to December 2017. He has been re-designated as Executive Director of the Company and BOCHK since January 2018.

Positions and experience: Mr GAO joined BOC in 1986. He was Executive Vice President of BOC from May 2015 to January 2018, Executive Director of BOC from December 2016 to January 2018. He has held a number of positions in various domestic and overseas institutions of BOC Group, including General Manager of Corporate Banking at BOC Head Office, and President and Chief Operating Officer of BOCI, among others. Mr GAO was Deputy Chief Executive (Corporate Banking) of the Company and BOCHK from February 2005 to March 2015. He also holds other roles with BOCHK Group currently, including Chairman of BOC Life and Chairman of BOCHK Charitable Foundation. Mr GAO holds a number of public offices. He serves as Chairman of the Hong Kong Association of Banks, the Hong Kong Chinese Enterprises Association and the Chinese Banking Association of Hong Kong, and sits on the Exchange Fund Advisory Committee, the Banking Advisory Committee, Human Resources Planning Commission of the HKSAR, and the Hong Kong Trade Development Council. He is also Chief Supervisor of Asian Financial Cooperation Association, Director of Hong Kong Interbank Clearing Limited, as well as Vice President of The Hong Kong Institute of Bankers, etc.

Qualifications: Mr GAO graduated from the East China University of Science and Technology with a Master's Degree in Engineering in 1986.

Mr LIN Jingzhen

Aged 54

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 has been serving as Chairman of the Board of Directors of BOCI since April 2018 and Chairman of BOC International (China) Co, Ltd (listed on the Shanghai Stock Exchange on 26 February 2020) 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.

Mr SUN Yu

Aged 47

Non-executive Director

Board appointments: Mr SUN was appointed as Non-executive Director of the Company and BOCHK in March 2020. He is a member of the Risk Committee.

Positions and experience: Mr SUN has been Executive Vice President of BOC since February 2019. Mr SUN joined BOC in 1998. He served as Chief Overseas Business Officer 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 Department of BOCHK from July 2012 to December 2014. Mr SUN has concurrently served as 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 the Board of Directors of BOC Aviation Limited (listed in Hong Kong) since February 2019, President of Shanghai RMB Trading Unit of BOC since November 2019 and General Manager of Beijing Branch of BOC since December 2019.

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

Mdm CHENG Eva

Aged 59

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 62

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 Chairman 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, 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, Hong Kong China's Representative of Asia Pacific Economic Co-operation (APEC) Business Advisory Council and 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, and Honorary Doctor of Law by the University of Alberta in Canada in 2015.

Mr KOH Beng Seng

Aged 69

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 (appointment effective from 1 October 2019), 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 67

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") 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.

Mr TUNG Savio Wai-Hok

Aged 68

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 was appointed Director and a member of the Compensation Committee of Tech Data Corporation, a company listed on NASDAQ. 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 Rockefeller 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 WANG Qi

Aged 57

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. Prior to joining the Group, Mdm WANG 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 ZHUO Chengwen

Aged 49

Chief Risk Officer

Mr ZHUO re-joined the Group in 2019. He is Chief Risk Officer of the Group, responsible for the Group's overall risk control and management, and oversees BOCHK's Risk Management Department. Mr ZHUO joined BOC in 1995 and had since held a number of management roles in the Finance and Accounting Department. In February 2006, Mr ZHUO was appointed as Deputy General Manager of New York Branch. In April 2008, he assumed the position of Deputy General Manager of the Financial Management Department at BOC. In June 2009, Mr ZHUO joined the Group as Chief Financial Officer. In December 2014, he was appointed as General Manager of the Financial Management Department at BOC. In June 2016, Mr ZHUO assumed the position of Chief Executive and Executive Director of BOCG Insurance. Mr ZHUO has worked in the financial industry for more than 20 years with solid professional knowledge and extensive practical experience. Mr ZHUO graduated from Peking University with a Bachelor's Degree and Master's Degree in Economics. He later obtained a Master's Degree in Business Administration from the City University of New York. He is a member of the Chinese Institute of Certified Public Accountants, the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr YUAN Shu

Aged 57

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 50

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 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 48

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, as well as Custody and Trust Services. 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.

Mr QIU Zhikun

Aged 50

Deputy Chief Executive

Mr QIU joined the Group in 2019. He is Deputy Chief Executive of the Group in charge of the Economics & Strategic Planning Department/Hong Kong Financial Research Institute of Bank of China, as well as the Southeast Asia Business. Prior to joining the Group, Mr QIU was General Manager of Singapore Branch of BOC. Mr QIU had held various positions in BOC since he joined BOC in 1992. He served as Head of American Division, Assistant General Manager and Deputy General Manager of Overseas Institutions Management Department, General Manager of Johannesburg Branch of BOC as well as Chairman of JSC AB (Bank of China Kazakhstan), etc. Mr QIU had long been performing management duties for the BOC Group's overseas institutions, and possesses an international perspective as well as extensive management experience. Mr QIU graduated from the University of International Relations with a Bachelor of Law. He also obtained a Master of Economics from the Renmin University of China.

Mdm SUI Yang

Aged 46

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 and Treasury. 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 57

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 Vice 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 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 2019.

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 121.

The Board has recommended a final dividend of HK$0.992 per share, amounting to approximately HK$10,488 million, subject to the approval of shareholders at the forthcoming annual general meeting to be held on Monday, 29 June 2020. If approved, the final dividend will be paid on Thursday, 16 July 2020 to shareholders whose names appear on the Register of Members of the Company on Thursday, 9 July 2020. Together with the interim dividend of HK$0.545 per share declared in August 2019, the total dividend payout for 2019 would be HK$1.537 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 Annual General Meeting of the Company, from Monday, 22 June 2020 to Monday, 29 June 2020 (both days inclusive), during which period no transfer of shares will be registered. In order to attend and vote at the Annual General Meeting of the Company, 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 Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Friday, 19 June 2020. The Annual General Meeting of the Company will be held at 2:00 p.m. on Monday, 29 June 2020.

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, 6 July 2020 to Thursday, 9 July 2020 (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 Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Friday, 3 July 2020. Shares of the Company will be traded ex-dividend as from Thursday, 2 July 2020.

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 2019, calculated under Part 6 of the Hong Kong Companies Ordinance, amounted to approximately HK$19,413 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 49. The biographical details of the Directors and senior management are set out on pages 50 to 59. The term of office for each Non-executive Director is approximately three years.

Mr LAW Yee Kwan Quinn was appointed as Independent Non-executive Director effective from 13 March 2019. Mr LIU Liange was appointed as Chairman effective from 5 July 2019. Mr WANG Jiang was appointed as Vice Chairman and Non-executive Director effective from 20 March 2020. Mr SUN Yu was appointed as Non-executive Director effective from 20 March 2020. Mr LI Jiuzhong resigned as Executive Director and Chief Risk Officer effective from 15 March 2019. Mr CHEN Siqing resigned as Chairman and Non-executive Director effective from 28 April 2019. The Board would like to express its sincere gratitude and the highest respect to Mr CHEN Siqing and Mr LI Jiuzhong 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 GAO Yingxin, Mr KOH Beng Seng and Mr TUNG Savio Wai-Hok will expire at the forthcoming annual general meeting. All the retiring Directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. Further, pursuant to Article 102 of the Articles of Association, any Director appointed by the Board shall hold office only until the next following general meeting or the next following annual general meeting, and shall then be eligible for re-election at such meeting. Accordingly, the terms of office of Mr WANG Jiang and Mr SUN Yu, who were appointed on 20 March 2020, will expire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

A full list of the names of the directors of the Company's subsidiaries during the year ended 31 December 2019 is kept at the Company's registered office.

Directors' Service Contracts

No Director offering for re-election at the forthcoming annual general meeting 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, Mr WANG Jiang and Mr LIN Jingzhen are Executive Directors of BOC (Mr LIN has been appointed as such position with effect from 3 February 2019), and Mr SUN Yu is Executive Vice President of BOC. During the year, Mr CHEN Siqing was Executive Director 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 2019, 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				
Name of director	Personal interests	Family interests	Corporate interests	Total	Approximate % of the total issued shares
TUNG Savio Wai-Hok	40,000[1]	–	–	40,000	0.00%[2]

Notes:
1. Mr TUNG Savio Wai-Hok held 2,000 American Depositary Shares ("ADS") of the Company, and each ADS represents 20 ordinary shares of the Company.
2. Such shares represent approximately 0.0004% of the total issued shares of the Company.

Associated corporation of the Company:

Bank of China Limited (H Shares)

	Number of shares/underlying shares held				
Name of director	Personal interests	Family interests	Corporate interests	Total	Approximate % of the total issued H shares
GAO Yingxin	1,100	–	–	1,100	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 GAO Yingxin represent approximately 0.000001% of the total issued H shares of BOC.
2. Such shares are held by the spouse of Dr CHOI Koon Shum.
3. Dr CHOI Koon Shum is deemed to be interested in the 1,120,000 shares held through Choi Koon Shum Education Foundation Limited by virtue of the SFO.
4. Interests in H shares of BOC of the Directors who were appointed after year end are not included herein.

All the interests stated above represented long positions. Save as disclosed above, as at 31 December 2019, 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 2019, 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 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 2019.

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 14 December 2016 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 2019 have been audited by Ernst & Young who will retire and offer themselves for re-appointment at the 2020 annual general meeting.

On behalf of the Board

LIU Liange
Chairman
Hong Kong, 27 March 2020

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.

Corporate Governance

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 (which was newly established in December 2019). 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, risk management and internal controls, continuing connected transactions and relevant new caps, as well as the establishment of the Sustainability Committee. Besides physical meetings, the Board also approved written resolutions on certain matters, including changes of directors and senior management, and relevant matters regarding the establishment of virtual bank. 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 various 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 2018 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.

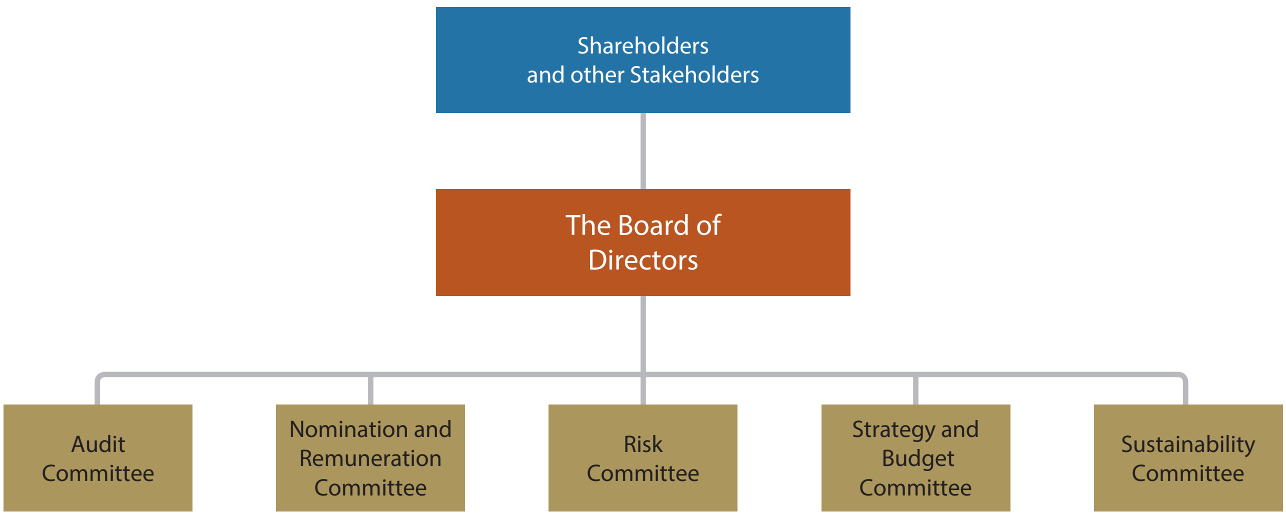
The Chief Executive is responsible for providing leadership for the whole management and implementing important policies and development strategies as adopted by the Board. Led by the Chief Executive, the Management Committee fulfils responsibilities including management of the Group's routine operation, 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 10 Directors, of whom one is Executive Director, four 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 LAW Yee Kwan Quinn was appointed as Independent Non-executive Director and a member of each of the Audit Committee and the Risk Committee with effect from 13 March 2019. Mr LI Jiuzhong resigned as Executive Director and Chief Risk Officer with effect from 15 March 2019. Mr CHEN Siqing resigned as Chairman of the Board, Non-executive Director and a member of the Nomination and Remuneration Committee with effect from 28 April 2019. Mr LIU Liange was appointed as Chairman of the Board with effect from 5 July 2019. Dr CHOI Koon Shum was appointed as a member of the Strategy and Budget Committee and ceased to be a member of the Audit Committee with effect from 30 October 2019. The Board newly established the Sustainability Committee on 23 December 2019 and appointed Mdm CHENG Eva as Chairman of the Sustainability Committee, while other members are Mr GAO Yingxin, Dr CHOI Koon Shum, Mr KOH Beng Seng, Mr LAW Yee Kwan Quinn and Mr TUNG Savio Wai-Hok. 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. Mr SUN Yu was appointed as Non-executive Director and a member of the Risk Committee with effect from 20 March 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 GAO Yingxin, Mr KOH Beng Seng and Mr TUNG Savio Wai-Hok will expire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. Further, pursuant to Article 102 of the Articles of Association, any Director appointed by the Board shall hold office only until the next following general meeting or the next following annual general meeting of the Company, and shall then be eligible for re-election at such meeting. Accordingly, the terms of office of Mr WANG Jiang and Mr SUN Yu, who were appointed on 20 March 2020, 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:

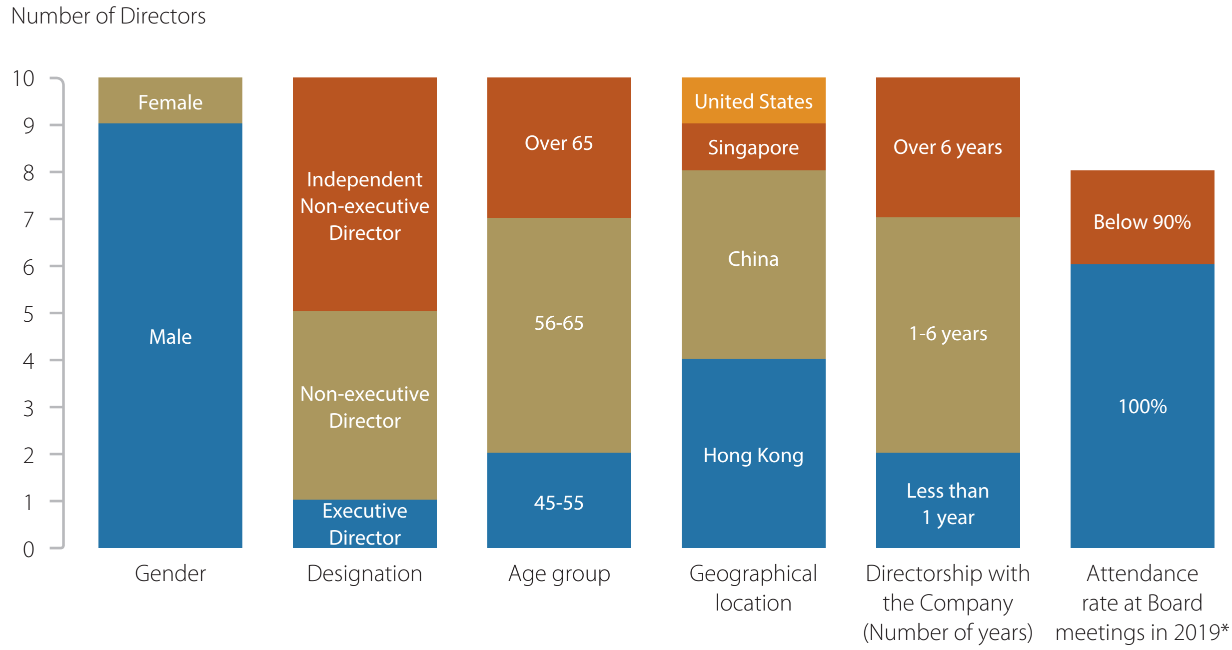
- Board diversity;
- Reputation of candidate;
- Professional knowledge and industrial experience of candidate;
- Commitment of candidate to devote sufficient time to discharge duties as a Board member; and
- Satisfaction of independence requirements of the Listing Rules and the "Policy on Independence 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 member of the Company who was newly appointed in 2019 and the retiring Board members standing for re-election at 2019 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. 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:



* Mr WANG Jiang and Mr SUN Yu were appointed as Non-executive Directors with effect from 20 March 2020. Accordingly, attendance rate at Board meetings in 2019 is not applicable to them.

Mr LIU Liange, Mr WANG Jiang and Mr LIN Jingzhen are Executive Directors of BOC, and Mr SUN Yu is Executive Vice President of BOC. 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 Board's Mandate 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 2019, the Company invited expert to conduct seminar to the Directors and the senior management with regard to data driven business in Southeast Asia.

Furthermore, each of the Directors has received a series of training locally or overseas as he/she thought fit. During the year, they attended briefings, meetings, seminars, forums and conferences organised by the Company or regulatory authorities, including relevant training for directors provided by the HKMA and the Stock Exchange which covered ESG governance and reporting, climate risk and climate finance, management of talent risk, as well as analysis of global economic and financial situation. Other areas of training received by the Directors included:

- risk management and internal control;
- business conduct, anti-corruption and ethical standards;
- anti-money laundering;
- corporate governance;
- developments of technology;
- regulatory updates;
- banking industry development trend; and
- economic developments 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/ Regulatory Updates	Risk Management and Internal Control	Banking Industry Development Trend
Non-executive Directors			
Mr LIU Liange	✓	✓	✓
Mr LIN Jingzhen	✓	✓	✓
Independent Non-executive Directors			
Mdm CHENG Eva	✓	✓	✓
Dr CHOI Koon Shum	✓	✓	✓
Mr KOH Beng Seng	✓	✓	✓
Mr LAW Yee Kwan Quinn *(appointed with effect from 13 March 2019)*	✓	✓	✓
Mr TUNG Savio Wai-Hok	✓	✓	✓
Executive Director			
Mr GAO Yingxin	✓	✓	✓

Note: The training records for those Directors who resigned during the year and were appointed after year end 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 Meeting

Five Board meetings were held during 2019 with an average attendance rate of 93%. 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. 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, Directors can have a balanced assessment of the Group's performance, position and prospects throughout the year.

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 and annual general meeting in 2019 are set out as follows:

	Number of meetings attended/Number of meetings convened during Directors' term of office					
		Board Committees[1]				General Meeting
Directors[2]	Board	Audit Committee	Nomination and Remuneration Committee	Risk Committee	Strategy and Budget Committee	Annual General Meeting
Number of meetings held during the year	5	5	2	4	4	1
Non-executive Directors						
Mr LIU Liange *(Chairman) (appointed as Chairman with effect from 5 July 2019)*	4/5	–	–	–	2/4	1/1
Mr LIN Jingzhen	5/5	–	–	–	4/4	0/1
Mr CHEN Siqing *(resigned with effect from 28 April 2019)*	1/2	–	1/1	–	–	–
Independent Non-executive Directors						
Mdm CHENG Eva	5/5	5/5	–	–	4/4	1/1
Dr CHOI Koon Shum[3]	4/5	3/4	2/2	–	1/1	1/1
Mr KOH Beng Seng	5/5	5/5	2/2	4/4	–	1/1
Mr LAW Yee Kwan Quinn *(appointed with effect from 13 March 2019)*	5/5	5/5	–	4/4	–	1/1
Mr TUNG Savio Wai-Hok	5/5	5/5	2/2	4/4	4/4	1/1
Executive Directors						
Mr GAO Yingxin *(Vice Chairman and Chief Executive)*	5/5	–	–	–	4/4	1/1
Mr LI Jiuzhong[4] *(resigned with effect from 15 March 2019)*	N/A	–	–	–	–	–
Average Attendance Rate	93%	96%	100%	100%	90%	88%

Notes:
1. The Sustainability Committee was established on 23 December 2019, and no meeting was held from the date of establishment to the year-end date.
2. The attendance records for Directors who were appointed after year end 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.
3. Dr CHOI Koon Shum was appointed as a member of the Strategy and Budget Committee and ceased to be a member of the Audit Committee with effect from 30 October 2019.
4. During the period from 1 January 2019 to 15 March 2019, no Board meeting was held and Mr LI Jiuzhong was not a member of any Board Committees.

Apart from formal Board meetings and annual general meeting, 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.

Moreover, the Company has arranged, on a regular basis, other informal events for the Board members and the senior management to facilitate their communication and interactions. For example, the Company has organised working meals from time to time, and Board members and the senior management have been invited to join and share insights on the Company's business and strategic issues. Further, a board retreat to Jakarta has also been held during the year to enhance communication between the Board and the senior management.

Board Committees

Audit Committee

The Audit Committee comprised four members at the end of the year, 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 2018 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 2019 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 2019 and 30 September 2019 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 2018 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 comprised three members at the end of the year, all of whom are Independent Non-executive Directors. Its composition, main duties and major works performed during the year are as follows:

Composition

Dr CHOI Koon Shum (Chairman)
Mr KOH Beng Seng
Mr TUNG Savio Wai-Hok

Main duties

- 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
- regular review of code of conduct applicable to employees

Major works performed during the year (included the approval, review and proposal to the Board)

- consideration of the matters relating to changes of Directors and Board Committee members
- consideration of the matters relating to the appointment, removal and remuneration of Senior Management
- performance appraisal result of the Executive Director and Senior Management for year 2018
- proposal on staff bonus for year 2018 and salary adjustment for year 2019 for the Group, including Senior Management
- key performance indicators of the Group and the Senior Management for year 2020
- proposal on human resources budget of the Group for year 2020
- coordination and oversight of the annual self-evaluation of the Board and individual evaluation of the Directors
- implementation of the HKMA bank culture reform
- formulation, review and amendment on the major human resources and remuneration policies
- annual review of the “Policy on Independence of Directors”, the “Policy on Directors’ Remuneration” and the “Staff Code of Conduct”

Risk Committee

The Risk Committee comprised three members at the end of the year, 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 key reports, including risk exposure reports, model development and validation reports, and credit risk model performance reports

Major tasks performed during the year

- review and approval of key risk management policies of the Group, including the risk appetite, the "Operating Principles", the "Risk Management Policy Statement", the "Capital Management Policy", the "Financial Instruments Valuation Policy", the "Risk Data Aggregation and Risk Reporting Policy", the "Policy for Validating Internal Rating Systems", the "Anti-Money Laundering and Counter-Terrorist Financing Policy", the "Product Development and Risk Monitoring Management Policy", the "Connected Transactions Management Policy", the "Sharing and Use of Credit Data Management Policy", the "Data Management Policy", the "Stress Test Policy" and stress test scenarios, and a range of risk management policies covering credit risk, market risk, liquidity risk, interest rate risk, operational risk, legal, compliance and reputation risk, strategic 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 for 2018, the proposal for the implementation of new regulatory guideline for interest rate risk in banking book and the recalibration of Middle Market Probability of Default model
- 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 various risk management reports, including the Group's risk management report, the report on regulatory requirements for Cyber Security and our initiatives, the 2018 institutional money laundering risk assessment report, the report on the Group's business continuity management, the report on loss-absorbing capacity regulatory requirement and preparation work progress, credit risk and market risk model validation reports, credit risk model performance reports, etc.
- monitoring and review of all measures taken by the Management against the possible impact of the social unrest on the Group

Strategy and Budget Committee

The Strategy and Budget Committee comprised six members at the end of the year, 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

Mr LIU Liange[1] (Chairman)
Mr GAO Yingxin[2]
Mr LIN Jingzhen[1]
Mdm CHENG Eva[3]
Dr CHOI Koon Shum[4]
Mr TUNG Savio Wai-Hok[3]

Main duties

- 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 medium and long-term development strategy plan and IT three-year planning for Board's approval
- review of the Group's capital injection to Southeast Asian entities and other subsidiaries for Board's approval
- review of the Group's sustainability strategy plan for Board's approval
- receipt of and discussion on the Group's plan on the reform of interest rate benchmark
- receipt of and discussion on the progress update of the subsidiaries, and the situation of development, opportunities and challenges of fintech
- review and monitoring of the implementation of 2019 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 2020 and recommendation of the same to the Board

Notes:

1. Non-executive Director
2. Executive Director
3. Independent Non-executive Director
4. Independent Non-executive Director and appointed as member of the Strategy and Budget Committee with effect from 30 October 2019

Sustainability Committee

The Sustainability Committee was established on 23 December 2019 and comprised six members, including five Independent Non-executive Directors as well as the Executive Director and Chief Executive of the Company. The Committee did not hold any meeting from the date of establishment to the year-end date. The composition and main duties of the Committee are as follows:

Composition	Main duties
Mdm CHENG Eva[1] (Chairman) Mr GAO Yingxin[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 • review on the assessment and feedback mechanisms to foster and maintain sound corporate culture • review on the effectiveness of the overall enhancement initiatives pursued by the Group, including code of conduct applicable to employees

Notes:
1. Independent Non-executive Director
2. Executive Director

Ad Hoc Committee

The Board established an ad hoc Independent Board Committee during the year with details as follows:

Independent Board Committee

An Independent Board Committee was set up during the year to review the continuing connected transactions and the new caps between the Group on the one hand and BOC and its associates on the other hand, for the three years ending 31 December 2022.

The Committee comprised all the Independent Non-executive Directors and was chaired by Mr TUNG Savio Wai-Hok. The Committee has engaged Able Capital Partners Limited as the independent financial adviser. On the basis of Able Capital Partners Limited's advice and recommendations, the Committee has been satisfied that the continuing connected transactions are entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and the continuing connected transactions and the annual caps imposed on such transactions for the three years ending 31 December 2022 are in the interests of the Company and its shareholders as a whole and are fair and reasonable so far as the independent shareholders are concerned. The Committee also recommends the proposed annual caps of the continuing connected transactions to the Board and the independent shareholders. As the annual caps for certain categories of continuing connected transactions represent 5% or more of the applicable percentage ratios as defined in the Listing Rules, such transactions are subject to the approval of the independent shareholders of the Company. For such purpose, an extraordinary general meeting is scheduled to be held immediately after the annual general meeting of the Company on 29 June 2020. Shareholders can refer to the circular issued by the Company dated 16 January 2020 and notice of the extraordinary general meeting to be issued by the Company in April 2020 for details on the continuing connected transactions and the extraordinary general meeting respectively. Shareholders can also view and download the aforesaid documents from the Company's website at www.bochk.com.

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 2019.

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 2019 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 2019, 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

Pursuant to the "Policy on External Auditor Management" adopted by the Board, the Audit Committee reviewed and monitored and was satisfied with the independence and objectivity of Ernst & Young, the Group's external auditor, and the effectiveness of its audit procedures, based on the principles and standards set out in the said Policy that were in line with international best practices. Upon the recommendation of the Audit Committee, the Board will propose that Ernst & Young be re-appointed as auditor of the Group at the Company's 2020 annual general meeting. Subject to shareholders' authorisation, the Board will authorise the Audit Committee to determine the remuneration of Ernst & Young. For 2019, the fee paid or payable by the Group to Ernst & Young was HK$41 million (2018: HK$51 million), of which HK$28 million (2018: HK$28 million) related to audit services and HK$13 million (2018: HK$23 million) related to other services (mainly including tax-related and advisory services). The Audit Committee was satisfied that the non-audit services in 2019 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 2019 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 43 to 48 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 2019, 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 2019, 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 (the then Vice Chairman of the Company at the time of the Company's 2019 annual general meeting and Chairman of the Strategy and Budget Committee), Mr TUNG Savio Wai-Hok (Chairman of the Audit Committee), Dr CHOI Koon Shum (Chairman of the Nomination and Remuneration Committee) and Mr KOH Beng Seng (Chairman of the Risk Committee) were present at the Company's 2019 annual general meeting held on 16 May 2019 at Grand Ballroom, The Lobby Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wan Chai, Hong Kong, as well as Ernst & Young, the auditor, were also present at the Company's 2019 annual general meeting to respond to enquiries raised by shareholders. Mr LIN Jingzhen was unable to attend the meeting due to other business engagements. Save as disclosed above, all other Directors including Mr GAO Yingxin, Mdm CHENG Eva and Mr LAW Yee Kwan Quinn were also present at the meeting.

Summary of the resolutions passed at the Company's 2019 annual general meeting and the percentage of votes cast in favour are as follows:

Resolutions	Percentage Voted For
Approval of audited financial statements and the Reports of the Directors and of the Auditor	99.99%
Declaration of final dividend	99.99%
Re-election of Directors	89.48% to 99.88%
Re-appointment of Auditor	99.17%
Grant of general mandate to issue shares	85.55%
Grant of general mandate to buy back shares	99.95%
Extension of the general mandate to issue shares by adding the number of shares bought back	85.79%

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 2018 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 2019 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 2020 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 2020 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 2020 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 2020 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, as well as information on voting and other issues relating to the 2020 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 to 616 of the Hong Kong Companies Ordinance once valid documents are received.

- **the procedure 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 2019

In 2019, the Company continued its efforts to provide effective channels for communication with the investment community.

Annual General Meeting

At the Annual General Meeting held in May 2019, Vice Chairmen of the Board, Chairmen and members of the Audit Committee, the Nomination and Remuneration Committee, the Risk Committee and the Strategy and Budget Committee respectively, the Company's senior management and external auditor were present to respond to questions and comments from shareholders. A total of 1,801 registered shareholders and 673 authorised proxies holding an aggregate of 8,605,002,328 shares, representing 81.39% of the Company's total number of shares in issue, were present. Minutes of the 2019 Annual General Meeting were made available to shareholders on the Company's website.

Results Announcements

At the Company's 2018 annual results announcement and 2019 interim results announcement, the senior management led by the Chief Executive conducted briefings with analysts and the press to apprise them of the Company's operating and financial results, business strategies and outlook. The presentation materials, announcements, webcasts, financial data pack and transcripts of analyst briefing sessions were available to the public on the Company's website so as to allow investors to closely follow the Company's latest financial data release and communication at the results briefings.

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.

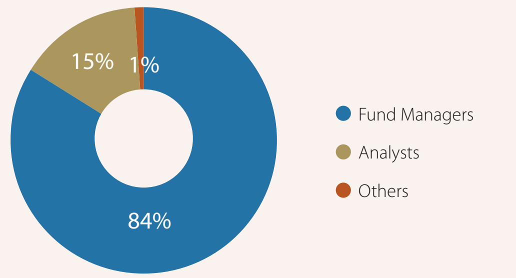
Investor Relations

Communication with the Investment Community

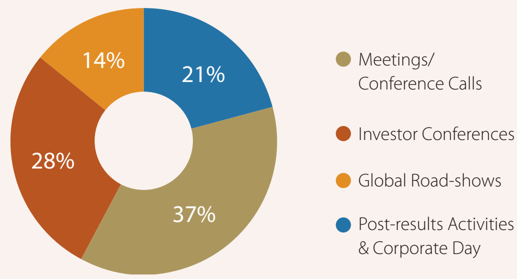
In 2019, the Company held approximately 160 meetings with equity investors and analysts across the world, with a total attendance of over 500. These meetings, which were conducted to give investors a better understanding of the Company's strategies and new business initiatives, were held during global road-shows, investor conferences, company visits and conference calls. The Company was widely covered by 15 securities research institutions. In order to expand investor base, optimise its geographical distribution and capture the increasing popularity of the Mutual Market Access programme between the Mainland and Hong Kong, the Company proactively conducted visits to institutional investors across the Mainland, the U.S, Europe and Asia covering a wide range of locations including Beijing, Shanghai, Shenzhen, New York, Boston, London, Tokyo, Singapore etc., which earned positive reaction from the investment community.

The Company continued to maintain close communication with the market. In June, it organised a thematic corporate day event – "Century Service of BOC, Makes Living Easier Across GBA", which attracted more than 30 participants from the buy-side and sell-side community with lively discussion at the scene. 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 2020

Major Events	Dates
Announcement of 2019 annual results	27 March (Friday)
Latest time for lodging transfers for entitlement to attend and vote at the 2020 Annual General Meeting and Extraordinary General Meeting	19 June (Friday) 4:30 p.m.
Book closure period (both days inclusive)	22 June (Monday) to 29 June (Monday)
Latest time for lodging proxy forms for the 2020 Annual General Meeting and Extraordinary General Meeting	26 June (Friday) 2:00 p.m.
2020 Annual General Meeting and Extraordinary General Meeting	29 June (Monday) 2:00 p.m. and 2:30 p.m. or immediately after conclusion of the 2020 Annual General Meeting, whichever is later
Last day in Hong Kong for dealing in the Company's shares with entitlement to final dividend	30 June (Tuesday)
Ex-dividend date	2 July (Thursday)
Latest time for lodging transfers for entitlement to final dividend	3 July (Friday) 4:30 p.m.
Book closure period (both days inclusive)	6 July (Monday) to 9 July (Thursday)
Record date for final dividend	9 July (Thursday)
Final dividend payment date	16 July (Thursday)
Announcement of 2020 interim results	Mid to late August

Annual General Meeting

The 2020 Annual General Meeting will be held at 2:00 p.m. on Monday, 29 June 2020 at Grand Ballroom, The Lobby Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wan Chai, Hong Kong.

Investor Relations

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 2019, the Company's market capitalisation was HK$2,860 billion, among the top 25 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, FTSE and CES Belt and Road 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 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 5.55% Subordinated Notes due 2020	
Issue size	:	US$2,500 million*	
Stock codes	:	HKEX	4316
		ISIN	USY1391CAJ00 (Regulation S)
			US061199AA35 (Rule 144A)
		Bloomberg	EI1388897

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)

* U.S.$876,749,000 in aggregate principal amount of the notes were redeemed and cancelled on 14 September 2018. U.S.$1,623,251,000 of the aggregate principal amount of notes remain outstanding.

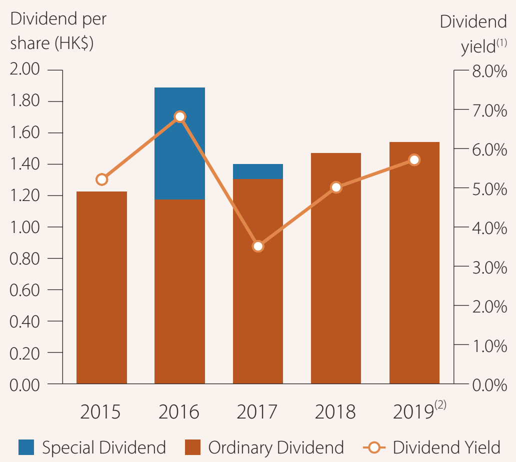
Share Price and Trading Information

Share price (HK$)	2019	2018	2017
Closing price at year end	27.05	29.10	39.60
Highest trading price during the year	35.90	42.15	40.50
Lowest trading price during the year	25.05	28.50	27.65
Average daily trading volume (m shares)	11.66	10.85	11.63
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$0.992 per share, which is subject to the approval of shareholders at the 2020 Annual General Meeting. With the interim dividend per share of HK$0.545 paid during 2019, the total dividend per share will amount to HK$1.537 for the full year.

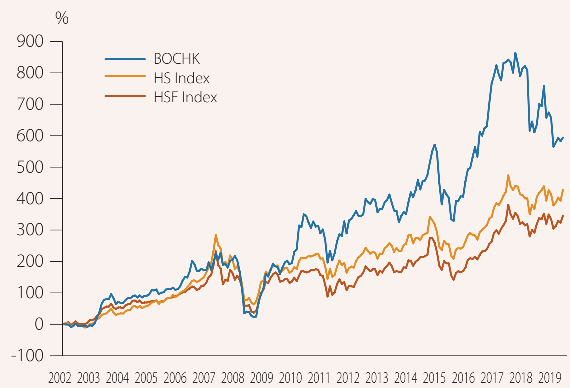
Dividend Per Share and Dividend Yield(1)



(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) 2019 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 2019, the Company had 10,572,780,266 shares in issue of which approximately 34% was held by the public and 0.29% was held in the form of ADSs. The Company's 72,216 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 2019:

Category	Number of registered shareholders	% of registered shareholders	Number of shares held by registered shareholders	Approximate % of total issued shares
Individuals	72,094	99.83	218,909,284	2.07
Institutions, corporates and nominees [Note]	121	0.17	3,412,793,226	32.28
Bank of China Group [Note]	1	0.00	6,941,077,756	65.65
Total	72,216	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 2019. 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 E-mail: hkinfo@computershare.com.hk
USA	Citibank, N.A. 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 firmly rooted in Hong Kong for over a century, we have a deep responsibility to promote Hong Kong's long-term development, consolidate and enhance the city's status as an international financial centre, and pursue sustainable development in the places in which we operate. During the year, we combined the three major elements of environment, social and governance (ESG) performance within the Group's overall strategic development planning, and continuously improve our sustainable development governance structure and mechanism. We established the Sustainability Committee under the Board of Directors to actively promote the Group's sustainable development. We value the concern and opinions of our various stakeholders and have implemented a number of sustainable development initiatives that have been widely recognised by various sectors of the community.

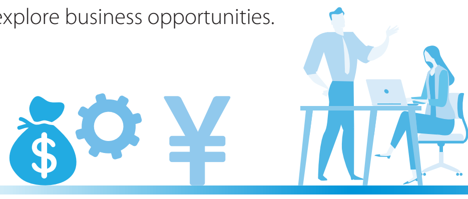
In 2019, the Group received the "Best Bank for CSR in Hong Kong" award from Asiamoney for the second consecutive year, and was selected as a constituent stock of the "Hang Seng Corporate Sustainability Index Series" for the tenth consecutive year, and had been rated AA for three years in a row. Our ESG performance was rated "AA" by the rating agency MSCI ESG Research LLC for the fourth consecutive year. Since 2003, we have been recognised as a "Caring Company" by the Hong Kong Council of Social Service for 17 consecutive years. We were also awarded the "Financial Services Awards of Excellence - Sustainable Corporate Social Responsibility" by the Hong Kong Economic Journal.

This section gives an overview of the Group's sustainability initiatives during 2019. For details, please refer to the Group's Sustainability Report.

Promoting Economic Development and Financial Inclusion

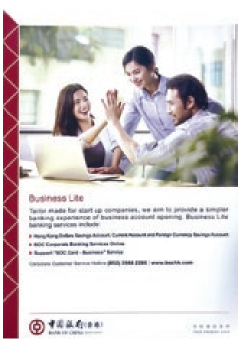
With the goal of "Building a Top-class, Full-service and Internationalised Regional Bank", the Group leverages its advantages as a major commercial banking group in Hong Kong to increase local market penetration and expand its business in the Southeast Asian region, striving to provide customers with comprehensive, professional and high-quality services.

The Group sponsored the forth "Belt and Road Summit" and "Asian Financial Forum" jointly organised by the Hong Kong SAR Government and the Hong Kong Trade Development Council; the "Bond Connect Anniversary Summit 2019" organised by Bond Connect Company Limited; the "Hong Kong Fintech Week" organised by InvestHK, and the "RMB Fixed Income & Currency Pan-Asian Conference" organised by Hong Kong Exchanges and Clearing Limited, to promote cooperation and exchange among enterprises in the region and to explore business opportunities.



The Group strives to offer convenient banking services to all sectors of the community. We are the first to launch an attestation service that enables customers to open mainland accounts without leaving Hong Kong, as well as linking their accounts with mainstream e-payment platforms on the mainland. Leveraging our extensive branch network, we expand service coverage for SMEs and provided convenient financing service. We launch the "Business Lite" service to simplify account opening procedures for new companies. This service facilitates account opening for start-up enterprises and overseas enterprises investing in Hong Kong. Our electronic platform "E-Donate" provides donation collection services for charities, effectively reducing their management costs and facilitating citizen donations.

BoC Pay



livi

During the year, our virtual bank Livi VB Limited ("livi"), a joint venture between the Group, Jingdong Digits Technology Holding Co., Ltd. and Jardine Matheson Group, was granted a banking licence by the Hong Kong Monetary Authority. To accelerate innovation in products and fintech, to promote financial inclusion, and to offer better customer experience, livi is looking forward to delivering a simple, reliable and secure banking experience that can be accessed easily and complements customers' everyday lives.

Conserving Resources and Protecting the Environment

The Group understands that financial institutions have a significant influence on environmental sustainability, and as such we advocate environmentally responsible business practices. To cope with the increasingly severe climate change situation, we reduce our resource usage, enhance resource efficiency and use renewable energy to minimise the potential environmental impacts and risks arising from our business operations and to promote sustainable development.

We encourage our customers to choose electronic statements in order to reduce paper consumption. As of the end of 2019, over 1.9 million customers have opted to receive consolidated e-statements, an increase of more than 30% over last year.

1.9 million customers have opted to receive consolidated e-statements

To vigorously promote green finance, we actively assist customers in the issuance of green bonds, and act as a green consultant. As of the end of 2019, BOCHK's balance of green and sustainability-linked loan have increased almost eightfold compared with the previous year-end.

We sponsored the "Hong Kong Green Finance Association Annual Forum" organised by the Hong Kong Green Finance Association for the second consecutive year, with the aim of exploring new opportunities for cooperation in green finance.

We jointly host the **BOCHK Corporate Environmental Leadership Awards** alongside the Federation of Hong Kong Industries. This year, the programme engaged more than 760 corporate participants.

Successfully encouraging corporates to complete
2,600
environmental projects

Annual Electricity Consumption
381 gigawatt-hours
= the annual electricity consumption of over 110,000 average three-person households in Hong Kong

Annual Water Usage
13 million cubic metres
= the volume of nearly 7,000 standard 50-metre swimming pools

Annual Waste
630 million tonnes
= the weight of over 1.8 million fully-loaded Boeing 777-300ER passenger aircrafts

Recycled Materials
2.4 million tonnes
= the weight of over 160,000 double-decker buses

Emissions
280,000 tonnes
= the carbon dioxide absorbed by more than 12 million trees every year

BOCHK supports the CLP Power's "Renewable Energy Certificate" scheme. In 2019 we purchased 250,000 kWh of electricity produced locally by renewable energy sources to support the development of renewable energy in Hong Kong.

The Group donated to the "Conservation Alliance" of Ocean Park Conservation Foundation, Hong Kong, which raises funds for programmes that support wildlife conservation and research in Asia.

In support of the Polar Museum Foundation in implementing its "Human and Nature Inclusion Programme", we aim to develop young people's respect for nature and interest in nature conservation, and to help them respond positively to various future environmental and social challenges.

Sharing and Caring for Social Harmony

The BOCHK Charitable Foundation (the "Foundation") was established in 1994. Over the years, BOCHK and the Foundation have actively contributed to charity activities in various fields, with a total donation of more than HK$770 million. In 2019, we sponsored more than 40 charity projects, including those supporting the disadvantaged, youth development, environmental protection and carbon reduction, sporting activity and the arts. reaching more than 3 million beneficiaries.

> 3 million beneficiaries

In celebration of the 100th anniversary of Bank of China's service to Hong Kong, BOCHK issued the "Bank of China (Hong Kong) Centenary Commemorative Banknote" ("Commemorative Banknote") in 2017, receiving an enthusiastic response from the public. During the year, we announced that the net proceeds of HK$627 million from sales of the Commemorative Banknote have been donated through the "BOCHK Centenary Charity Programme". Of the total net proceeds, HK$100 million has been allocated through The Community Chest of Hong Kong, while Tung Wah Group of Hospitals and Po Leung Kuk each receiving HK$50 million donation from the programme. The remaining HK$427 million will be used to fund projects selected through an open call for proposals from eligible local charities. It is expected that these charity projects will be launched in 2020.

The net proceeds of HK$627 million from sales of the Commemorative Banknote have been donated for local charity purpose

Sustainable Development

Poverty Alleviation and Care for Society

We sponsored the "Food Angel x BOC Food Rescue and Assistance Project". During the year, we added two "Food Rescue Vehicles" equipped with thermal insulation to distribute meal boxes, soups and food packs to underprivileged communities in several remote areas such as Sai Kung and Sheung Shui.

Since the Food Angel Project was launched,

>1.5 million beneficiaries

To help more patients, we donated to organisations including the Hospital Authority, Tung Wah Group of Hospitals and Po Leung Kuk respectively, by procuring a new model of vehicle for mobile blood donation, providing emotional support services for children and their parents in grassroots communities, and launching two Chinese Medicine Mobile Clinics.

We sponsored the "Hospital Authority New Year Run" of the Hospital Authority Charitable Foundation; the "PHAB Walk for Integration X Sports Day" of the Hong Kong PHAB Association; and the "ACCA Community Day" of the Association of Chartered Certified Accountants, to support those in need.

Disaster Relief and Donation

To help the two groups of victims of a severe tsunami and flood respectively, we donated twice to the Indonesian Red Cross with 200 million Indonesian Rupiah.

We donated to Cambodia to support rescue work related to a building collapse in Sihanoukville, and to assist the local government in carrying out various rescue and rehabilitation work.

To help the Lao people affected by a rare occurrence of large-scale flood in the southern-central part of the country, we donated to the Lao Red Cross assisting the people to overcome the difficulties they faced.

Educational Aid to Support Youth Development

We co-organised the "BOCHK Hackathon" with Hong Kong Science and Technology Park, with the theme "Unleash our Future, Starting with FinTech", inspiring and encouraging the younger generation to embrace their dreams through creativity and fintech in the banking industry. The contest attracted a total of 90 teams to join.

We supported Our Hong Kong Foundation and the Endeavour Education Centre to carry out activities that strengthen Hong Kong youth's understanding of Chinese history and culture, and our country's development.

We organised the "Youth Exchange in the Mainland" and participated in the "Scheme on Corporate Summer Internship on the Mainland and Overseas" to broaden the horizons of young people and encourage them to think about their future development.

Diversified Activities and Promotion of Culture

As the Chief Charity Partner, BOCHK fully supported "A Journey Through Springtime Along the River", a Hong Kong exhibition that was co-organised by the Palace Museum and Phoenix TV. This exhibition attracted a tremendous number of Hong Kong people and visitors from the mainland and overseas.

We supported the "Music Integrates" programme of the Hong Kong Chinese Orchestra; the "Budding Hong Kong Talents Programme" of Musicus Society and the "Lion Rock Can Do Spirit" Music Exchange Programme of Hong Kong String Orchestra, to cultivate local musical talent. It is expected that more than 90,000 people will be benefited each year.

Expected
90,000 people
will be benefited each year

We invited our customers and over a thousand of the underprivileged to visit and provided about 90 staff volunteers to offer guided tours.

Adopting a People-oriented Approach and Caring for Employees

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

As of the end of 2019, the Group had

14,600 employees

Culture is the soul of an enterprise. The Group attaches great importance to the development of corporate culture, and carried out extensive corporate culture promotion activities during the year, encouraging all employees to actively implement the Group's core values:

擔當 RESPONSIBILITY

誠信 INTEGRITY

專業 PROFESSIONALISM

創新 INNOVATION

穩健 PRUDENCE

績效 PERFORMANCE

We encourage our employees to take part in inter-departmental exchanges. Exchange opportunities in the mainland and overseas are also arranged to enrich employees' business knowledge and broaden their horizons.

Employees are encouraged to be creative and innovative. This year, we organised our "BOCHK Ideation Contest" around the theme of "Technology-based and Innovation-driven Development" to complement the Group's digitalisation strategy.

In 2019, our volunteer team completed

42,000 hours

of volunteer service

Received the "Gold Award for Volunteer Service - Organisation" honour

for **10** consecutive years

The Group encourages our employees to participate in volunteer activities. In 2019, our volunteer team completed over 42,000 hours of volunteer service, receiving the "Award of 10,000 hours for Volunteer Service", the "Merit Award for Highest Service Hour Award (Private Organisations – Category 1)" and, for the tenth consecutive year, the "Gold Award for Volunteer Service - Organisation" honour from the Social Welfare Department.

We advocate work-life balance, and organise a series of recreational activities for our employees.

Awards and Recognition

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

Financial Strength and Corporate Governance

- Best Retail Bank in Hong Kong ***(The Asian Banker)***
- Hong Kong: Best Bank (Chinese Financial Institutions) ***(FinanceAsia)***
- Best Bank – Offshore ***(The Asset)***
- Listed Company Award of Excellence (Blue Chip) ***(Hong Kong Economic Journal)***

- "Stability+Profitability" 2019 Best Foreign Bank in Indonesia ***(Bisnis Indonesia)***
- 2019 Infobank Awards: 2018 Best Performing Indonesian Banks ***(infobank)***
- Bank Excellence Award ***(Government of Laos)***
- Star of the Year 2019 ***(Chinese Enterprises Association in Brunei)***

Service Excellence

- Best Transaction Bank in Hong Kong and Best Cash Management Bank in Hong Kong ***(The Asian Banker)***

- Hong Kong Domestic Trade Finance Bank of the Year, Hong Kong Domestic Cash Management Bank of the Year, and Hong Kong Domestic Foreign Exchange Bank of the Year ***(Asian Banking & Finance)***
- Rank No. 1 as mandated lead arranger in the Hong Kong and Macao syndicated loan market for 15 consecutive years ***(Basis Point)***
- The Asset Benchmark Research Awards 2019 : Top Sellside Firms in Secondary Market – Government Bonds – HKD, Top Arrangers – Investors' Choice for Primary Issues – Government Bonds – HKD and Top Sellside Firms in Secondary Market – Corporate Bonds – HKD ***(The Asset)***
- Best SME's Partner Gold Award 2019 ***(The Hong Kong General Chamber of Small and Medium Business)***
- Outstanding Import & Export Industry Partner Award 2019 ***(The Hong Kong Chinese Importers' & Exporters' Association)***

Awards and Recognition

- Excellence Enterprise Award ***(Lao National Chamber of Commerce and Industry)***
- Best Currency Swap Member and Opening Contribution Award ***(China Foreign Exchange Trade System)***
- Offshore Institutional Investor Excellence ***(National Interbank Funding Center)***

- Offshore Institutional Investor Excellence Award ***(China Central Depository & Clearing Co., Ltd)***
- Outstanding International Member Award ***(Shanghai Gold Exchange)***
- 2019 Best Certificates of Deposit and Bond Issuance Dealer ***(China Development Bank Hong Kong Branch)***
- Over-the-Counter Derivatives Clearing Member of the Year (Cross Currency Swap) ***(Hong Kong Exchanges and Clearing Limited)***
- Bond Connect Top Custodian ***(Bond Connect Company Limited)***
- Prize for Innovative Business Promotion (Bond Connect Business) 2018 ***(Shanghai Clearing House)***

BOC Life

- 2019 BENCHMARK Wealth Management Awards: Client Support – Best-in-Class ***(BENCHMARK)***

BOCHK Asset Management

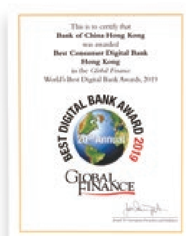
- Fund of the Year Awards 2019: Best-in-Class House Award – China Fixed Income, and The Manager of the Year Award – China Fixed Income ***(BENCHMARK)***
- 2019 Best of the Best Awards: Best China Fund House in Hong Kong and Best Offshore RMB Bond Performance (3 years) ***(Asia Asset Management)***
- Most Innovative New Fund Award – Hong Kong 2019: BOCHK All Weather Greater Bay Area Strategy Fund ***(International Finance)***

BOCI-Prudential Trustee

- Several awards from The 2019 MPF Awards including 5-Year Consecutive Gold Ratings and MPF Ratings' 2019 Gold Rated Schemes – My Choice MPF Scheme ***(MPF Ratings)***
- Lipper Hong Kong Fund Awards 2019 ***(REFINITIV)***:
  Best Group Over 3 Years – Overall
  Best Group Over 3 Years – Bond
  My Choice MPF Scheme: Best Fund Over 5 Years – Bond HKD

Innovative Technology

- World's Best Digital Bank Awards 2019: Best Consumer Digital Bank Hong Kong ***(Global Finance)***
- Excellence in Retail Financial Services Awards – Hong Kong ***(The Asian Banker)***:
  Best Data Analytics Initiative, Application or Programme
  Best Blockchain Initiative, Application or Programme
  Digital Wallet of the Year in Hong Kong



- Retail Banking Awards 2019: Mobile Banking Initiative of the Year – Hong Kong ***(Asian Banking & Finance)***

- Hong Kong ICT Awards 2019: Fintech (Banking, Insurance & Capital Market) Silver Award ***(Office of the Government Chief Information Officer, Hong Kong)***
- Shenzhen-Hong Kong Fintech Award 2018: 2018 Shenzhen Fintech Innovation Award – Third Prize, and 2018 Shenzhen Fintech Initiatives Award – Third Prize ***(Hong Kong Monetary Authority** and **Shenzhen Municipal Financial Regulatory Bureau)***

Sustainable Development

- Best Bank Awards 2019: Best Bank for CSR in Hong Kong ***(Asiamoney)***
- Best CSR Bank – Malaysia 2019 ***(Global Business Outlook)***
- A constituent of the ***Hang Seng Corporate Sustainability Index*** and ***Hang Seng (Mainland and HK) Corporate Sustainability Index*** for 10 consecutive years and a constituent of the ***Hang Seng Corporate Sustainability Benchmark Index*** for 9 consecutive years
- Rated AA on environmental, social and governance-related performance ***(MSCI ESG Research LLC)***
- Awarded Caring Company Logo for 17 consecutive years ***(The Hong Kong Council of Social Service)***
- Gold Award for Volunteer Service – Organisation for 10 consecutive years, The Award of 10,000 Hours for Volunteer Service and Merit Award for Highest Service Hour Award (Private Organisations – Category 1) ***(Social Welfare Department)***

Talent Development Management

- HR Distinction Awards 2019: Excellence in Learning & Development – Silver ***(Human Resources)***
- Asia Recruitment Awards 2019 ***(Human Resources)***:
  Best Graduate Recruitment Programme – Gold
  Best Internship Programme – Gold
  Best Management Trainee Programme – Silver
  Best Mass Recruitment – Bronze
- Hong Kong Banking Industry Talent Development Awards Programme: HKIB Talent Development Award (Category I) ***(The Hong Kong Institute of Bankers)***
- Best Corporate Financial Education Leadership of the Year, Gold Award for Corporate Financial Education Leadership and Accredited Professional Financial Planning Firm ***(Institute of Financial Planners of Hong Kong)***

BOC Life

- HR Distinction Awards 2019 ***(Human Resources)*** :
  Excellence in Employee Development – Silver
  Excellence in Talent Management – Bronze
  Excellence in HR Strategic Plan – Bronze
- Gold Stevie® Winner – Award for Innovative Management in Financial Industries and Gold Stevie® Winner – Award for Innovation in Human Resources Management, Planning & Practice ***(Asia-Pacific Stevie® Awards)***
- Good MPF Employer 5 Years, e-Contribution Award and MPF Support Award ***(Mandatory Provident Fund Schemes Authority)***

Contact Us

Bank of China (Hong Kong)

Enquiry Hotline

Contents	Telephone	Contents	Telephone
Personal Customer Service Hotline	(852) 3988 2388	BOC Credit Card Hotline	(852) 2853 8828
24-hour *Wealth Management* Service Hotline	(852) 3988 2888	BOC Credit Card Lost Card Reporting Hotline	(852) 2544 2222
24-hour *Enrich Banking* Service Hotline	(852) 3988 2988	ATM Card Hotline	(852) 2691 2323
Corporate Customer Service Hotline	(852) 3988 2288	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:

Social Media

BOCHK_Banking

BOCHK_CC

YouTube 中銀香港BOCHK

www.youtube.com/user/bankofchinahk

BoC Pay Mobile App

BoC Bill Integrated Billing Service

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 121 to 287, which comprise the consolidated balance sheet as at 31 December 2019, 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 2019, 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 2019, gross advances to customers amounted to HK$1,395,883 million, representing 46.1% of total assets; and the impairment allowance for advances to customers amounted to HK$7,035 million, representing 89.7% 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 2019, 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. 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.

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 that include 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 2019, the Group's financial assets and liabilities measured at fair value amounted to HK$806,890 million and HK$65,081 million respectively, representing 26.7% and 2.4% of total assets and total liabilities respectively. Financial instruments which had significant unobservable inputs in the valuation, and hence were categorised within level 3 of the fair value hierarchy, involved a higher degree of uncertainty in their valuation. As at 31 December 2019, 71.7% and 1.0% of the Group's financial assets measured at fair value were categorised within level 2 and level 3, 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.

Key audit matters:	How our audit addressed the key audit matters:
Recognition of deferred tax assets	
Refer to significant accounting policies in Note 2.23, 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 2019, the Group recognised deferred tax assets of HK$804 million relating to temporary differences arising from impairment allowances and HK$532 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 on such tax credits will be made to the tax authorities in Hong Kong after the corresponding withholding income taxes payable is 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 possibility to recover such deferred 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 HKAS 12 – Income Taxes.

Key audit matters:	How our audit addressed the key audit matters:
Valuation of insurance contract liabilities	
Refer to significant accounting policies in Note 2.19, critical accounting estimates and judgements in applying accounting policies in Note 3.3, and disclosures on insurance contract liabilities in Note 37 to the financial statements. As at 31 December 2019, the Group, through its consolidated subsidiary BOC Group Life Assurance Company Limited, had insurance contract liabilities amounting to HK$117,269 million, representing 4.3% 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.

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, related safeguards.

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, 27 March 2020

Consolidated Income Statement

For the year ended 31 December	Notes	2019 HK$'m	(Restated) 2018 HK$'m
Interest income		**67,784**	61,865
Interest expense		**(27,261)**	(22,364)
Net interest income	6	**40,523**	39,501
Fee and commission income		**15,002**	15,518
Fee and commission expense		**(4,083)**	(4,206)
Net fee and commission income	7	**10,919**	11,312
Gross earned premiums		**25,345**	20,858
Gross earned premiums ceded to reinsurers		**(6,933)**	(6,735)
Net insurance premium income		**18,412**	14,123
Net trading gain	8	**4,800**	3,090
Net gain/(loss) on other financial instruments at fair value through profit or loss	9	**3,243**	(1,282)
Net gain on other financial assets	10	**824**	19
Other operating income	11	**1,015**	981
Total operating income		**79,736**	67,744
Gross insurance benefits and claims and movement in liabilities		**(29,927)**	(21,236)
Reinsurers' share of benefits and claims and movement in liabilities		**8,635**	8,027
Net insurance benefits and claims and movement in liabilities	12	**(21,292)**	(13,209)
Net operating income before impairment allowances		**58,444**	54,535
Net charge of impairment allowances	13	**(2,022)**	(1,242)
Net operating income		**56,422**	53,293
Operating expenses	14	**(16,667)**	(15,206)
Operating profit		**39,755**	38,087
Net gain from disposal of/fair value adjustments on investment properties	15	**282**	906
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	16	**(1)**	18
Share of profits less losses after tax of associates and joint ventures	27	**52**	70
Profit before taxation		**40,088**	39,081
Taxation	17	**(6,014)**	(6,427)
Profit for the year		**34,074**	32,654

Consolidated Income Statement

For the year ended 31 December	Notes	2019 HK$'m	(Restated) 2018 HK$'m
Profit attributable to:			
Equity holders of the Company and other equity instrument holders		**33,574**	32,070
Equity holders of the Company		**32,184**	32,070
Other equity instrument holders		**1,390**	–
Non-controlling interests		**500**	584
		34,074	32,654
Dividends	18	**16,250**	15,521
		HK$	HK$
Earnings per share			
Basic and diluted	19	**3.0440**	3.0333

The notes on pages 129 to 287 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December	Notes	2019 HK$'m	(Restated) 2018 HK$'m
Profit for the year		**34,074**	32,654
Items that will not be reclassified subsequently to income statement:			
Premises:			
Revaluation of premises	29	**1,064**	2,136
Deferred tax	36	**(133)**	(298)
		931	1,838
Equity instruments at fair value through other comprehensive income:			
Change in fair value		**(180)**	(846)
Deferred tax		**2**	14
		(178)	(832)
Own credit risk:			
Change in fair value of own credit risk of financial liabilities designated at fair value through profit or loss		**(45)**	25
Deferred tax		**7**	–
		(38)	25
		715	1,031
Items that may be reclassified subsequently to income statement:			
Debt instruments at fair value through other comprehensive income:			
Change in fair value		**6,672**	(2,581)
Change in impairment allowances charged to income statement	13	**20**	14
Release upon disposal/redemption reclassified to income statement	10	**(854)**	(26)
Amortisation of accumulated amount of fair value hedge adjustment reclassified to income statement		**8**	17
Deferred tax		**(936)**	505
		4,910	(2,071)
Currency translation difference		**262**	(98)
		5,172	(2,169)
Other comprehensive income for the year, net of tax		**5,887**	(1,138)
Total comprehensive income for the year		**39,961**	31,516
Total comprehensive income attributable to:			
Equity holders of the Company and other equity instrument holders		**38,886**	31,441
Equity holders of the Company		**37,496**	31,441
Other equity instrument holders		**1,390**	–
Non-controlling interests		**1,075**	75
		39,961	31,516

The notes on pages 129 to 287 are an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December	Notes	2019 HK$'m	(Restated) 2018 HK$'m
ASSETS			
Cash and balances and placements with banks and other financial institutions	22	**366,829**	433,299
Financial assets at fair value through profit or loss	23	**85,193**	300,929
Derivative financial instruments	24	**31,027**	34,912
Hong Kong SAR Government certificates of indebtedness		**163,840**	156,300
Advances and other accounts	25	**1,412,961**	1,282,994
Investment in securities	26	**801,653**	599,038
Interests in associates and joint ventures	27	**1,632**	483
Investment properties	28	**20,110**	19,684
Properties, plant and equipment	29	**51,602**	49,435
Current tax assets		**116**	65
Deferred tax assets	36	**63**	270
Other assets	30	**91,030**	78,595
Total assets		**3,026,056**	2,956,004
LIABILITIES			
Hong Kong SAR currency notes in circulation	31	**163,840**	156,300
Deposits and balances from banks and other financial institutions		**267,889**	376,980
Financial liabilities at fair value through profit or loss	32	**19,206**	15,535
Derivative financial instruments	24	**32,921**	30,880
Deposits from customers	33	**2,009,273**	1,895,796
Debt securities and certificates of deposit in issue	34	**116**	9,453
Other accounts and provisions	35	**80,624**	59,437
Current tax liabilities		**7,992**	2,516
Deferred tax liabilities	36	**6,480**	5,765
Insurance contract liabilities	37	**117,269**	104,723
Subordinated liabilities	38	**12,954**	13,246
Total liabilities		**2,718,564**	2,670,631

As at 31 December	Notes	2019 HK$'m	(Restated) 2018 HK$'m
EQUITY			
Share capital	39	**52,864**	52,864
Reserves		**225,919**	204,672
Capital and reserves attributable to equity holders of the Company		**278,783**	257,536
Other equity instruments	40	**23,476**	23,476
Non-controlling interests		**5,233**	4,361
Total equity		**307,492**	285,373
Total liabilities and equity		**3,026,056**	2,956,004

The notes on pages 129 to 287 are an integral part of these financial statements.

Approved by the Board of Directors on 27 March 2020 and signed on behalf of the Board by:

LIU Liange
Director

GAO Yingxin
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 2018, as previously reported	52,864	36,689	(1,774)	–	9,474	(728)	1,062	144,059	241,646	–	4,499	246,145
Effect of merger of entity under common control	–	–	–	–	–	21	350	25	396	–	–	396
At 1 January 2018, as restated	52,864	36,689	(1,774)	–	9,474	(707)	1,412	144,084	242,042	–	4,499	246,541
Profit for the year	–	–	–	–	–	–	–	32,070	32,070	–	584	32,654
Other comprehensive income:												
Premises	–	1,838	–	–	–	–	–	–	1,838	–	–	1,838
Equity instruments at fair value through other comprehensive income	–	–	(787)	–	–	–	–	–	(787)	–	(45)	(832)
Own credit risk	–	–	–	25	–	–	–	–	25	–	–	25
Debt instruments at fair value through other comprehensive income	–	–	(1,607)	–	–	–	–	–	(1,607)	–	(464)	(2,071)
Currency translation difference	–	–	27	–	–	(125)	–	–	(98)	–	–	(98)
Total comprehensive income	–	1,838	(2,367)	25	–	(125)	–	32,070	31,441	–	75	31,516
Release upon disposal of equity instruments at fair value through other comprehensive income:												
Transfer	–	–	30	–	–	–	–	(30)	–	–	–	–
Deferred tax	–	–	(5)	–	–	–	–	–	(5)	–	(2)	(7)
Current tax	–	–	–	–	–	–	–	5	5	–	2	7
Release upon redemption of financial liabilities designated at fair value through profit or loss:												
Transfer	–	–	–	(20)	–	–	–	20	–	–	–	–
Current tax	–	–	–	–	–	–	–	(3)	(3)	–	–	(3)
Acquisition of entities under common control	–	–	–	–	–	–	(2,168)	–	(2,168)	–	–	(2,168)
Transfer from retained earnings	–	–	–	–	1,022	–	1,106	(2,128)	–	–	–	–
Issue of other equity instruments	–	–	–	–	–	–	–	–	–	23,476	–	23,476
Dividends	–	–	–	–	–	–	–	(13,776)	(13,776)	–	(213)	(13,989)
At 31 December 2018	52,864	38,527	(4,116)	5	10,496	(832)	350	160,242	257,536	23,476	4,361	285,373

	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, as previously reported	52,864	38,527	(4,116)	5	10,496	(853)	–	160,147	257,070	23,476	4,361	284,907
Effect of merger of entity under common control	–	–	–	–	–	21	350	95	466	–	–	466
At 1 January 2019, as restated	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

* 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 entities under common control.

The notes on pages 129 to 287 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December	Notes	2019 HK$'m	(Restated) 2018 HK$'m
Cash flows from operating activities			
Operating cash (outflow)/inflow before taxation	41(a)	**(267,976)**	274,083
Hong Kong profits tax paid		**(100)**	(7,106)
Overseas profits tax paid		**(627)**	(630)
Net cash (outflow)/inflow from operating activities		**(268,703)**	266,347
Cash flows from investing activities			
Additions of properties, plant and equipment		**(1,450)**	(1,175)
Proceeds from disposal of properties, plant and equipment		**1**	6
Additions of investment properties	28	**(35)**	(13)
Additions of associates and joint ventures	27	**(1,100)**	–
Dividend received from associates and joint ventures	27	**3**	4
Acquisition of entities under common control		**(728)**	(2,168)
Net cash outflow from investing activities		**(3,309)**	(3,346)
Cash flows from financing activities			
Dividend paid to equity holders of the Company		**(15,521)**	(13,776)
Dividend paid to other equity instrument holders		**(1,390)**	–
Dividend paid to non-controlling interests		**(203)**	(213)
Proceeds from issuance of other equity instruments		**–**	23,476
Payment for redemption of subordinated liabilities	41(b)	**–**	(7,211)
Interest paid for subordinated liabilities	41(b)	**(707)**	(1,087)
Payment of lease liabilities	41(b)	**(644)**	N/A
Net cash (outflow)/inflow from financing activities		**(18,465)**	1,189
(Decrease)/increase in cash and cash equivalents		**(290,477)**	264,190
Cash and cash equivalents at 1 January		**626,126**	382,136
Effect of exchange rate changes on cash and cash equivalents		**(3,997)**	(20,200)
Cash and cash equivalents at 31 December	41(c)	**331,652**	626,126

The notes on pages 129 to 287 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 2.24 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) Standard, amendments and interpretation that are initially adopted for the financial year beginning on 1 January 2019

Standard/ Amendments/ Interpretation	Content	Applicable for financial years beginning on/after	Currently relevant to the Group
HKAS 19 (2011) (Amendments)	Plan Amendment, Curtailment or Settlement	1 January 2019	No
HKAS 28 (2011) (Amendments)	Long-term Interests in Associates and Joint Ventures	1 January 2019	Yes
HKFRS 16	Leases	1 January 2019	Yes
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments	1 January 2019	Yes

- HKAS 28 (2011) (Amendments), "Long-term Interests in Associates and Joint Ventures". The amendments clarify that long-term interests such as preference shares or shareholder's loans, to which the equity method shall not be applied, are in the scope of both HKFRS 9 and HKAS 28 and explain that HKFRS 9 is applied independently before the allocation of losses under the equity method. The amendments are applied retrospectively, but restatement of prior periods is not required. The application of the amendments does not have a material impact on the Group's financial statements.

- HKFRS 16, "Leases". HKFRS 16 supersedes the existing standard and interpretations related to leases. Significant changes to lessees' accounting are introduced, with the distinction between operating and finance leases removed. Lessees account for all leases in a similar way as the finance lease accounting under HKAS 17, i.e. the lessees recognise and measure the corresponding "right-of-use" asset and lease liability at the commencement date (the date when the underlying asset is available for use by lessees) of the lease by discounting the total future lease payment. Subsequently, the lessees recognise interest expense through the unwinding of the lease liability, and the expense on the depreciation of the right-of-use asset, instead of recognising as rental expenses under operating leases before the implementation of HKFRS 16. As a practical expedient, the lessees can elect not to apply this accounting model to short-term leases not more than 12 months and leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term. There are no significant changes to the lessors' accounting requirements as compared with HKAS 17. The requirements of HKFRS 16 are summarised as follows:

  Lease liability is the discounted present value of the future cash flow of the lease payments of a lease contract, after taking into account payment to be made in optional period if the extension option is reasonably certain to be exercised, using the lessees' incremental borrowing rate at the commencement date of the lease as discount rate.

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standard, amendments and interpretation that are initially adopted for the financial year beginning on 1 January 2019 (continued)

Right-of-use asset is generally measured at the amount of the lease liability plus initial direct costs, estimated dismantling or restoring cost and adjusted by prepaid lease payments. The right-of-use asset is subsequently measured at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any remeasurement of the lease liability.

After the commencement date, the carrying value of lease liability will be increased to reflect the unwinding of discount through interest expense and will be reduced to reflect the lease payments made. The lease liability will also be remeasured if there is any modification to the lease contract. A right-of-use asset is depreciated by straight-line method from commencement date to the end of lease term. In case there is a purchase option that is expected to be exercised, then the right-of-use asset will be depreciated to the end of the useful life of the underlying asset.

The Group has elected to use the modified retrospective approach for the adoption of HKFRS 16 and recognised the cumulative effect of the initial application by initially recognising the opening balances of the right-of-use assets and lease liabilities at 1 January 2019 with no restatement of the comparative information. The initial application has affected lease contracts that are previously classified as operating leases.

The first time application of HKFRS 16 resulted in the initial recognition of lease liabilities (recorded under "Other accounts and provisions" in the balance sheet) of HK$1,743 million and right-of-use assets (recorded under "Properties, plant and equipment" in the balance sheet) of HK$1,757 million respectively, mainly related to lease of properties. The difference between lease liabilities and right-of-use assets is related to the adjustment arising from prepaid or accrued rent as at the initial adoption date. Initial direct costs were not included in the opening adjustment of right-of-use assets as permitted by the transition practical expedient of the standard. Furthermore, single discount rates have been applied to group of lease contracts with same or similar asset category, same lease terms and originated from the same economic environment. Lease contracts expired in one year from date of initial adoption of the standard are accounted for as short-term leases as described above.

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standard, amendments and interpretation that are initially adopted for the financial year beginning on 1 January 2019 (continued)

The operating lease commitments as at 31 December 2018 are reconciled as follows to the recognised lease liabilities under HKFRS 16 as at 1 January 2019:

Difference between operating lease commitments and lease liabilities	HK$'m
Operating lease commitments at 31 December 2018	1,428
Discounted present value using the incremental borrowing rates of the Group at the date of initial adoption	1,308
– Recognition exemption for short-term leases	(81)
– Leases with contract signed but not yet effective	(117)
– Extension options reasonably certain to be exercised	641
– Others	(8)
Lease liabilities at 1 January 2019	**1,743**

The Group also holds interests in government land leases in Hong Kong and the Mainland of which the lease payments have been paid, and had been classified as finance lease and capitalised as real estates before the adoption of HKFRS 16. So far as the impact on the adoption of HKFRS 16 is concerned, the Group is not required to make any adjustments or reclassification at the date of initial application of HKFRS 16 on leasehold lands and the properties located on top, other than identifying their carrying amounts in the disclosure notes of the corresponding assets. There is no impact on the opening balance of equity.

- HK(IFRIC) – Int 23, "Uncertainty over Income Tax Treatments". The interpretation specifies how an entity should reflect and measure the effects of uncertainty in accounting for income taxes by determining how probable that a taxation authority will accept an uncertain tax treatment. The interpretation is applied on a modified retrospective basis. The application of this interpretation does not have a material impact on the Group's financial statements.

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standard and amendments issued that are not yet mandatorily effective and have not been early adopted by the Group in 2019

Standard/ 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 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 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 17	Insurance Contracts	1 January 2021	Yes

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

- 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 are to be applied prospectively and early application is permitted. The application of these 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 these amendments will 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 some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are to be applied retrospectively and early application is permitted. The application of this amendment 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 and amendments issued that are not yet mandatorily effective and have not been early adopted by the Group in 2019 (continued)

- 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 are to be applied prospectively and early application is permitted. The application of this amendment will not have a material impact on the Group's financial statements.

- HKFRS 17, "Insurance Contracts". HKFRS 17 aims at replacing the current insurance contracts standard HKFRS 4, an interim standard that leads to highly divergent accounting practices that exist in the insurers' local jurisdictions. The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts, with an objective to ensure that an entity provides relevant information that faithfully represents insurance contracts. Early application of the standard is permitted but only if the entity also applies HKFRS 9 and HKFRS 15. In November 2018, the International Accounting Standards Board ("IASB") tentatively decided to defer the effective date of IFRS 17 by one year to reporting periods beginning on or after 1 January 2022. At the time of issuance of financial statements, the changes to the effective date have not yet been finalised by the IASB. It is expected that the final change to the effective date will also be adopted by the HKICPA to HKFRS 17. The Group is considering the financial impact of the standard and the timing of its application.

(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 2019.

(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.

2. Significant accounting policies (continued)

2.4 Foreign currency translation (continued)

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.

2.5 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).

2. Significant accounting policies (continued)

2.5 Derivative financial instruments and hedge accounting (continued)

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.

(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.

2. Significant accounting policies (continued)

2.5 Derivative financial instruments and hedge accounting (continued)

(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.

(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. Significant accounting policies (continued)

2.7 Interest income and expense and fee and commission income and expense

Interest income and expense are recognised in the income statement for all financial assets and financial liabilities using the effective interest method.

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.

Fee and commission income and expenses that are not an integral part of the effective yield are recognised on an accrual basis ratably over the period when the related service is provided, such as administrative fee, asset management fee and custody services fee. Loan syndication fees are recognised as revenue when the related syndication arrangement has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as applicable to the other participants.

2. Significant accounting policies (continued)

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.

2. Significant accounting policies (continued)

2.9 Financial liabilities (continued)

(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.

2.10 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 and derecognition 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.

2. Significant accounting policies (continued)

2.11 Recognition and derecognition of financial instruments (continued)

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.

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 economic best 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.

2. Significant accounting policies (continued)

2.12 Fair value measurement (continued)

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.

2.13 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.

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.

2. Significant accounting policies (continued)

2.14 Impairment of financial assets (continued)

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.

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 (including a loan commitment and financial guarantee) 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 making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising securities (if any is held); or (ii) the financial asset is 90 days past due. The Group considers 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.

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 on 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.

2. Significant accounting policies (continued)

2.14 Impairment of financial assets (continued)

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.

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 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.

When a financial asset is uncollectible, it is written off against 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.

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 cost less impairment and is included in the carrying amount of investment properties. Once the item begins to generate economic benefits, it is then measured 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.

2. Significant accounting policies (continued)

2.16 Investment properties (continued)

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.

Policy prior to 1 January 2019

Properties 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. Land held under operating lease is classified and accounted for as investment property when the rest of the definition of investment property is met.

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 2.18) 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.

2. Significant accounting policies (continued)

2.17 Properties, plant and equipment (continued)

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.

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. Significant accounting policies (continued)

2.18 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 the effective interest method. 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) 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)

2.18 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 separately in the statement of financial position.

(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. Significant accounting policies (continued)

2.18 Leases (continued)

Policy prior to 1 January 2019

As a lessee

(1) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The total payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. Contingent rental payable is recognised as an expense in the accounting period in which it is incurred.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place. Rental income from operating leases is recognised on a straight-line basis over the lease term.

(2) Finance leases

Leases of assets where lessee has obtained substantially all the risks and rewards of ownership are classified as finance leases. Government land leases in Hong Kong are classified as finance leases as the present value of the minimum lease payments (i.e. transaction price) of the land amounted to substantially all of the fair value of the land as if it were freehold.

Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant periodic rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are included in other liabilities. Investment properties acquired under finance leases are carried at their fair value.

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

2. Significant accounting policies (continued)

2.19 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)

2.19 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)

2.20 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.

2.21 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.

2.22 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)

2.23 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)

2.24 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".

2.25 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.

2.26 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.

2.27 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 2019 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 similar risk and default 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 2019 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

The fair values of derivative financial instruments that are not quoted in active markets are determined by using valuation techniques. Valuation techniques used include 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. 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 modeling techniques. Further details will be discussed in Note 5.

Carrying amounts of derivative financial instruments as at 31 December 2019 are shown in Note 24.

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% (2018: 10%) from the Management's estimate, the long term business fund liability would increase by approximately HK$197 million (2018: approximately HK$163 million), which accounts for 0.26% (2018: 0.24%) 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.

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 (2018: 50 basis points) from the Management's estimates, the long term business fund liability would increase by approximately HK$1,668 million (2018: approximately HK$1,189 million). In this case, it is assumed there is no relief arising from reinsurance contracts held.

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)

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 2019, no provision for maintenance expenses was provided (2018: 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 26 basis points (2018: 31 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 2019 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 ensures various risks are properly managed and controlled in the course of conducting business. The Group has a robust risk management organisational structure with a comprehensive set of policies and procedures to identify, measure, monitor and control various risks that may arise. These risk management policies and procedures are regularly reviewed and updated to reflect changes in markets and business strategies. Various groups of risk takers assume their respective responsibilities for risk management.

The Board of Directors, representing the interests of shareholders, is the highest decision-making authority of the Group and has the ultimate responsibility for risk management. The Board, with the assistance of its committees, has the primary responsibility for the formulation of risk management strategies 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 Chief Risk Officer ("CRO") assists the CE in fulfilling his responsibilities for the day-to-day management of risks. The CRO is responsible for initiating new risk management strategies, projects and measures in response to regulatory changes that will enable the Group to better monitor and manage any risks that may arise from time to time from new businesses, products and changes in the operating environment. The CRO is also responsible for reviewing material risk exposures or transactions within his delegated authority. In accordance with the principle of setting the hierarchy of risk management policies approved by the Board, senior management is also responsible for approving the detailed risk management policies of their responsible areas.

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

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

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. The Risk Management Department ("RMD"), which is independent from the business units, is responsible for the day-to-day management of credit risks and has the primary responsibility for providing 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. 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 and counterparty. The Group monitors changes to counterparty credit risk, quality of the credit portfolio and credit risk concentrations, and reports regularly to the Group's Management.

The Group 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 position. 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.

4. Financial risk management (continued)

4.1 Credit risk (continued)

Credit risk measurement and control (continued)

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.

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 and loan commitments are classified in one of the three stages.

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

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

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

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

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

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

4. Financial risk management (continued)

4.1 Credit risk (continued)

Expected Credit Loss ("ECL") Methodology (continued)

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

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

The probability 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. The probabilities assigned are updated in each quarter.

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 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 2019, 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$6,335 million (2018: HK$5,322 million). The Group had not sold or re-pledged such collateral (2018: 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 171. 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, 14.20% (2018: 13.37%) were covered by collateral as at 31 December 2019.

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:

	2019 HK$'m	2018 HK$'m
Advances to customers		
Personal		
– Mortgages	**298,914**	256,723
– Credit cards	**14,688**	15,640
– Others	**102,272**	82,256
Corporate		
– Commercial loans	**904,245**	847,179
– Trade finance	**75,764**	65,437
	1,395,883	1,267,235
Trade bills	**20,727**	17,361
Advances to banks and other financial institutions	**3,387**	3,822
	1,419,997	1,288,418

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

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

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:

	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)

	2018			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Advances to customers				
Pass	1,254,766	5,019	–	1,259,785
Special mention	1,934	3,133	–	5,067
Substandard or below	–	–	2,383	2,383
	1,256,700	8,152	2,383	1,267,235
Trade bills				
Pass	17,357	–	–	17,357
Special mention	–	–	–	–
Substandard or below	–	–	4	4
	17,357	–	4	17,361
Advances to banks and other financial institutions				
Pass	3,822	–	–	3,822
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	3,822	–	–	3,822
	1,277,879	8,152	2,387	1,288,418
Impairment allowances	(3,748)	(546)	(1,130)	(5,424)
	1,274,131	7,606	1,257	1,282,994

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:

	2019			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Impairment allowances				
At 1 January 2019, as previously reported	3,740	546	1,130	5,416
Effect of merger of entity under common control	8	–	–	8
At 1 January 2019, as restated	3,748	546	1,130	5,424
Transfer to Stage 1	154	(143)	(11)	–
Transfer to Stage 2	(26)	103	(77)	–
Transfer to Stage 3	(15)	(184)	199	–
Changes arising from transfer of stage	(131)	84	1,216	1,169
Other changes (including new assets and derecognised assets)	832	(105)	(44)	683
Write-offs	–	–	(462)	(462)
Recoveries	–	–	213	213
Unwind of discount on impairment allowances	–	–	(4)	(4)
Exchange difference	2	(4)	15	13
At 31 December 2019	4,564	297	2,175	7,036
Charged to income statement (Note 13)				1,852

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
Gross amount				
At 1 January 2019, as previously reported	1,277,349	8,152	2,387	1,287,888
Effect of merger of entity under common control	530	–	–	530
At 1 January 2019, as restated	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	–
New assets, further lending, derecognised assets and repayments	134,837	(2,507)	136	132,466
Write-offs	–	–	(462)	(462)
Exchange difference	(421)	(16)	12	(425)
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)

	2018			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Impairment allowances				
At 1 January 2018, as previously reported	3,689	651	618	4,958
Effect of merger of entity under common control	3	–	–	3
At 1 January 2018, as restated	3,692	651	618	4,961
Transfer to Stage 1	267	(253)	(14)	–
Transfer to Stage 2	(38)	53	(15)	–
Transfer to Stage 3	(7)	(240)	247	–
Changes arising from transfer of stage	(241)	293	815	867
Other changes (including new assets and derecognised assets)	79	43	194	316
Write-offs	–	–	(834)	(834)
Recoveries	–	–	120	120
Unwind of discount on impairment allowances	–	–	(1)	(1)
Exchange difference	(4)	(1)	–	(5)
At 31 December 2018	3,748	546	1,130	5,424
Charged to income statement (Note 13)				1,183

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

	2018			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Gross amount				
At 1 January 2018, as previously reported	1,189,595	3,958	2,107	1,195,660
Effect of merger of entity under common control	378	–	–	378
At 1 January 2018, as restated	1,189,973	3,958	2,107	1,196,038
Transfer to Stage 1	1,477	(1,449)	(28)	–
Transfer to Stage 2	(4,868)	4,884	(16)	–
Transfer to Stage 3	(599)	(275)	874	–
New assets, further lending, derecognised assets and repayments	94,666	1,071	285	96,022
Write-offs	–	–	(834)	(834)
Exchange difference	(2,770)	(37)	(1)	(2,808)
At 31 December 2018	1,277,879	8,152	2,387	1,288,418

(a) Impaired advances

Impaired advances to customers are analysed as follows:

	2019		2018	
	Impaired HK$'m	**Classified or impaired HK$'m**	Impaired HK$'m	Classified or impaired HK$'m
Gross advances to customers	**3,217**	**3,217**	2,383	2,383
Percentage of gross advances to customers	**0.23%**	**0.23%**	0.19%	0.19%
Impairment allowances made in respect of such advances	**2,175**	**2,175**	1,126	1,126

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.

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Advances and other accounts (continued)

(a) Impaired advances (continued)

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

	2019 HK$'m	2018 HK$'m
Current market value of collateral held against the covered portion of impaired advances to customers	**2,187**	2,988
Covered portion of impaired advances to customers	**1,011**	1,511
Uncovered portion of impaired advances to customers	**2,206**	872

As at 31 December 2019, there were no impaired trade bills (2018: HK$4 million), and advances to banks and other financial institutions (2018: Nil).

(b) Advances overdue for more than three months

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

	2019		2018	
	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	**145**	**0.01%**	443	0.04%
– one year or less but over six months	**836**	**0.06%**	309	0.02%
– over one year	**948**	**0.07%**	310	0.02%
Advances overdue for over three months	**1,929**	**0.14%**	1,062	0.08%
Impairment allowances made in respect of such advances				
– Stage 3	**1,651**		828	

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)

	2019 HK$'m	2018 HK$'m
Current market value of collateral held against the covered portion of such advances to customers	**487**	849
Covered portion of such advances to customers	**315**	349
Uncovered portion of such advances to customers	**1,614**	713

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 2019, there were no trade bills (2018: HK$4 million) and advances to banks and other financial institutions overdue for more than three months (2018: Nil).

(c) Rescheduled advances

	2019		2018	
	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"	**239**	**0.02%**	280	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.

	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)

	2018					
	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	126,328	20.51%	–	–	–	543
– Property investment	50,223	80.51%	37	117	–	44
– Financial concerns	21,239	0.91%	–	–	–	37
– Stockbrokers	1,171	95.73%	–	–	–	1
– Wholesale and retail trade	38,147	34.46%	21	127	3	179
– Manufacturing	51,093	10.57%	136	148	134	87
– Transport and transport equipment	66,256	27.37%	867	17	9	150
– Recreational activities	1,675	1.90%	–	–	–	2
– Information technology	18,006	1.27%	1	220	1	107
– Others	118,574	38.43%	9	166	7	269
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	11,150	99.80%	18	166	–	4
– Loans for purchase of other residential properties	243,963	99.92%	65	1,534	–	58
– Credit card advances	15,613	–	135	558	118	150
– Others	78,282	86.84%	60	634	52	397
Total loans for use in Hong Kong	841,720	56.20%	1,349	3,687	324	2,028
Trade financing	65,437	19.37%	206	232	194	124
Loans for use outside Hong Kong	360,078	8.80%	828	970	608	2,141
Gross advances to customers	1,267,235	40.83%	2,383	4,889	1,126	4,293

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:

	2019		2018	
	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				
Industrial, commercial and financial				
– Property development	**370**	**–**	337	–
Individuals				
– Loans for purchase of other residential properties	**50**	**–**	27	–

(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

	2019 HK$'m	2018 HK$'m
Hong Kong	**1,124,812**	1,008,102
Chinese Mainland	**126,075**	127,348
Others	**144,996**	131,785
	1,395,883	1,267,235
Impairment allowances made in respect of the gross advances to customers – Stages 1 and 2		
Hong Kong	**3,228**	2,798
Chinese Mainland	**492**	529
Others	**1,140**	966
	4,860	4,293

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

	2019 HK$'m	2018 HK$'m
Hong Kong	**4,341**	3,752
Chinese Mainland	**607**	257
Others	**925**	880
	5,873	4,889
Impairment allowances made in respect of the overdue advances – Stage 3		
Hong Kong	**975**	407
Chinese Mainland	**423**	84
Others	**489**	445
	1,887	936

Classified or impaired advances

	2019 HK$'m	2018 HK$'m
Hong Kong	**1,766**	1,485
Chinese Mainland	**507**	197
Others	**944**	701
	3,217	2,383
Impairment allowances made in respect of the classified or impaired advances – Stage 3		
Hong Kong	**1,132**	490
Chinese Mainland	**436**	107
Others	**607**	529
	2,175	1,126

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:

	2019 HK$'m	2018 HK$'m
Residential properties	**7**	10

The estimated market value of repossessed assets held by the Group as at 31 December 2019 amounted to HK$33 million (2018: HK$23 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:

	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**

	2018			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Central banks				
Pass	171,020	–	–	171,020
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	171,020	–	–	171,020
Other banks and other financial institutions				
Pass	240,302	–	–	240,302
Special mention	–	–	–	–
Substandard or below	–	–	–	–
	240,302	–	–	240,302
	411,322	–	–	411,322
Impairment allowances	(15)	–	–	(15)
	411,307	–	–	411,307

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:

	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	**–**	**–**	**–**	**–**
Other changes (including new assets and derecognised assets)	**(12)**	**–**	**–**	**(12)**
Exchange difference	**–**	**–**	**–**	**–**
At 31 December 2019	**3**	**–**	**–**	**3**
Credited to income statement (Note 13)				**(12)**

	2018			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
At 1 January 2018	83	–	–	83
Changes arising from transfer of stage	–	–	–	–
Other changes (including new assets and derecognised assets)	(70)	–	–	(70)
Exchange difference	2	–	–	2
At 31 December 2018	15	–	–	15
Credited to income statement (Note 13)				(70)

As at 31 December 2019, there were no overdue or impaired balances and placements with banks and other financial institutions (2018: 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.

	2019 HK$'m	2018 HK$'m
Investment in securities at fair value through other comprehensive income		
– Stage 1		
Aaa	**105,381**	87,036
Aa1 to Aa3	**171,367**	148,944
A1 to A3	**358,381**	206,957
Lower than A3	**24,952**	28,482
Unrated	**24,621**	14,195
	684,702	485,614
– Stage 2	**–**	–
– Stage 3	**–**	–
	684,702	485,614
Of which: impairment allowances	**(160)**	(140)
Investment in securities at amortised cost		
– Stage 1		
Aaa	**57,569**	55,745
Aa1 to Aa3	**4,687**	4,628
A1 to A3	**26,263**	29,833
Lower than A3	**15,956**	12,271
Unrated	**6,554**	7,048
	111,029	109,525
– Stage 2	**–**	–
– Stage 3	**–**	–
	111,029	109,525
Impairment allowances	**(46)**	(29)
	110,983	109,496
Financial assets at fair value through profit or loss		
Aaa	**3,030**	3,846
Aa1 to Aa3	**28,350**	24,326
A1 to A3	**18,779**	17,538
Lower than A3	**11,834**	7,514
Unrated	**6,111**	1,850
	68,104	55,074

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:

	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	–	–	–	–
Other changes (including new assets and derecognised assets)	20	–	–	20
Exchange difference	–	–	–	–
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	–	–	–	–
Other changes (including new assets and derecognised assets)	17	–	–	17
Write-offs	–	–	–	–
At 31 December 2019	46	–	–	46
Charged to income statement (Note 13)				17

4. Financial risk management (continued)

4.1 Credit risk (continued)

(E) Debt securities and certificates of deposit (continued)

	2018			
	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 2018	127	–	–	127
Changes arising from transfer of stage	–	–	–	–
Other changes (including new assets and derecognised assets)	14	–	–	14
Exchange difference	(1)	–	–	(1)
At 31 December 2018	140	–	–	140
Charged to income statement (Note 13)				14
Investment in securities at amortised cost				
At 1 January 2018	17	–	45	62
Changes arising from transfer of stage	–	–	–	–
Other changes (including new assets and derecognised assets)	12	–	–	12
Write-offs	–	–	(45)	(45)
At 31 December 2018	29	–	–	29
Charged to income statement (Note 13)				12

As at 31 December 2019, there were no impaired or overdue debt securities and certificates of deposit (2018: 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:

	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**

	2018			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
Loan commitments and financial guarantee contracts				
Pass	603,513	2,900	–	606,413
Special mention	1,017	367	–	1,384
Substandard or below	–	–	91	91
	604,530	3,267	91	607,888

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:

	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)**
Other changes (including new assets and derecognised assets)	**161**	**1**	**(25)**	**137**
Exchange difference	**(1)**	**1**	**3**	**3**
At 31 December 2019	**535**	**22**	**20**	**577**
Charged to income statement (Note 13)				**136**

	2018			
	Stage 1 HK$'m	Stage 2 HK$'m	Stage 3 HK$'m	Total HK$'m
At 1 January 2018	331	21	–	352
Transfer to Stage 1	14	(14)	–	–
Transfer to Stage 2	(1)	1	–	–
Transfer to Stage 3	(1)	–	1	–
Changes arising from transfer of stage	(12)	12	22	22
Other changes (including new assets and derecognised assets)	49	–	20	69
Exchange difference	(5)	–	–	(5)
At 31 December 2018	375	20	43	438
Charged to income statement (Note 13)				91

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

(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	**2019**	**26.6**	**17.6**	**52.3**	**31.0**
	2018	26.0	24.1	45.8	33.0
VaR for foreign exchange risk	**2019**	**9.3**	**7.2**	**21.1**	**12.7**
	2018	15.9	10.7	27.1	18.0
VaR for interest rate risk in the trading book	**2019**	**25.3**	**9.8**	**41.6**	**21.3**
	2018	13.0	12.9	43.0	26.4
VaR for equity risk in the trading book	**2019**	**0.7**	**0.2**	**2.5**	**0.8**
	2018	0.3	0.2	7.0	1.6
VaR for commodity risk	**2019**	**1.7**	**0.2**	**43.7**	**16.1**
	2018	9.6	0.8	9.7	3.1

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.

	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

	2018							
	Equivalent in million of HK$							
	US Dollars	Pound Sterling	Japanese Yen	Euro	Renminbi	Australian Dollars	Other foreign currencies	Total foreign currencies
Spot assets	867,526	26,486	23,821	33,069	560,809	38,679	63,410	1,613,800
Spot liabilities	(879,874)	(16,358)	(7,125)	(17,729)	(320,961)	(23,991)	(63,990)	(1,330,028)
Forward purchases	1,121,467	22,996	54,990	55,338	454,667	14,107	74,958	1,798,523
Forward sales	(1,107,713)	(33,076)	(71,582)	(70,369)	(693,728)	(28,786)	(73,864)	(2,079,118)
Net options position	1,312	(9)	(66)	(217)	(696)	(33)	4	295
Net long/(short) position	2,718	39	38	92	91	(24)	518	3,472

4. Financial risk management (continued)

4.2 Market risk (continued)

(B) Currency risk (continued)

	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**

	2018					
	Equivalent in million of HK$					
	US Dollars	Baht	Malaysian Ringgit	Philippine Peso	Other foreign currencies	Total foreign currencies
Net structural position	28,122	2,301	2,769	1,608	1,812	36,612

(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.

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

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.

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 2019, 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	
	2019 HK$'m	2018 HK$'m	**2019 HK$'m**	2018 HK$'m
100 basis point parallel up of yield curve				
Total	**2,356**	2,539	**(7,589)**	(5,138)
Of which:				
HK Dollar	**3,594**	3,157	**(309)**	(358)
US Dollar	**(352)**	9	**(4,647)**	(3,022)
Renminbi	**(615)**	(472)	**(2,017)**	(1,441)
100 basis point parallel down of yield curve				
Total	**(2,359)**	(2,543)	**7,589**	5,138
Of which:				
HK Dollar	**(3,594)**	(3,158)	**309**	358
US Dollar	**352**	(9)	**4,647**	3,022
Renminbi	**615**	472	**2,017**	1,441

Note: The comparative information of impact on net interest income for the year 2018 has been restated due to the behavioural assumption change of non-maturity deposit and other relevant products since the implementation of the revised IRRBB Supervisory Policy Manual IR-1 in July 2019.

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 2019. 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 decreased and the reduction of reserves is increased compared with 2018 because the size and duration of the debt securities portfolio in capital market is 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 2019. 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 decreased and the increase of reserves is increased compared with 2018 because the size and duration of the debt securities portfolio in capital market is 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.

	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)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

	2018						
	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	305,438	36,385	20,853	–	–	70,623	433,299
Financial assets at fair value through profit or loss	245,659	11,264	8,178	12,187	15,897	7,744	300,929
Derivative financial instruments	–	–	–	–	–	34,912	34,912
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	156,300	156,300
Advances and other accounts	1,041,818	165,225	27,422	34,612	5,482	8,435	1,282,994
Investment in securities							
– At FVOCI	53,051	81,555	110,700	159,917	80,391	3,928	489,542
– At amortised cost	751	1,676	11,099	58,406	37,564	–	109,496
Interests in associates and joint ventures	–	–	–	–	–	483	483
Investment properties	–	–	–	–	–	19,684	19,684
Properties, plant and equipment	–	–	–	–	–	49,435	49,435
Other assets (including current and deferred tax assets)	7,491	–	–	–	–	71,439	78,930
Total assets	1,654,208	296,105	178,252	265,122	139,334	422,983	2,956,004
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	156,300	156,300
Deposits and balances from banks and other financial institutions	356,095	6,206	118	460	–	14,101	376,980
Financial liabilities at fair value through profit or loss	3,274	8,820	1,761	1,160	520	–	15,535
Derivative financial instruments	–	–	–	–	–	30,880	30,880
Deposits from customers	1,321,733	235,953	166,630	5,284	–	166,196	1,895,796
Debt securities and certificates of deposit in issue	3,480	4,813	1,160	–	–	–	9,453
Other accounts and provisions (including current and deferred tax liabilities)	9,406	–	–	–	–	58,312	67,718
Insurance contract liabilities	–	–	–	–	–	104,723	104,723
Subordinated liabilities	–	–	–	13,246	–	–	13,246
Total liabilities	1,693,988	255,792	169,669	20,150	520	530,512	2,670,631
Interest sensitivity gap	(39,780)	40,313	8,583	244,972	138,814	(107,529)	285,373

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

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

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

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

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

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

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 2019, 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$116,071 million (2018: HK$93,439 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 2019, 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 2019, the liquidity cushion (before haircut) of BOCHK was HK$531,388 million (2018: HK$447,175 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.

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 2019.

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.

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

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.

(A) Liquidity coverage ratio and net stable funding ratio

	2019	2018
Average value of liquidity coverage ratio		
– First quarter	**183.00%**	134.33%
– Second quarter	**156.57%**	146.39%
– Third quarter	**142.85%**	141.44%
– Fourth quarter	**146.53%**	160.23%

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.

	2019	2018
Quarter-end value of net stable funding ratio		
– First quarter	**121.36%**	118.98%
– Second quarter	**119.15%**	118.82%
– Third quarter	**116.47%**	122.24%
– Fourth quarter	**118.00%**	124.41%

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.

	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

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

	2018							
	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	300,427	75,634	36,385	20,457	396	–	–	433,299
Financial assets at fair value through profit or loss	–	243,201	8,448	8,495	15,956	16,323	8,506	300,929
Derivative financial instruments	11,303	3,282	4,025	5,909	6,965	3,428	–	34,912
Hong Kong SAR Government certificates of indebtedness	156,300	–	–	–	–	–	–	156,300
Advances and other accounts	178,403	53,549	51,931	158,880	579,083	259,797	1,351	1,282,994
Investment in securities								
– At FVOCI	–	44,818	52,143	115,304	192,058	81,110	4,109	489,542
– At amortised cost	–	508	1,921	10,500	58,768	37,292	507	109,496
Interests in associates and joint ventures	–	–	–	–	–	–	483	483
Investment properties	–	–	–	–	–	–	19,684	19,684
Properties, plant and equipment	–	–	–	–	–	–	49,435	49,435
Other assets (including current and deferred tax assets)	32,098	17,389	446	1,595	13,193	14,195	14	78,930
Total assets	678,531	438,381	155,299	321,140	866,419	412,145	84,089	2,956,004
Liabilities								
Hong Kong SAR currency notes in circulation	156,300	–	–	–	–	–	–	156,300
Deposits and balances from banks and other financial institutions	241,851	128,345	6,206	118	460	–	–	376,980
Financial liabilities at fair value through profit or loss	–	3,274	8,823	1,762	1,159	517	–	15,535
Derivative financial instruments	8,260	4,081	3,181	5,836	6,560	2,962	–	30,880
Deposits from customers	1,062,147	425,782	235,953	166,630	5,284	–	–	1,895,796
Debt securities and certificates of deposit in issue	–	3,480	4,813	1,160	–	–	–	9,453
Other accounts and provisions (including current and deferred tax liabilities)	39,040	18,443	1,896	1,276	7,056	7	–	67,718
Insurance contract liabilities	36,873	566	686	1,994	17,692	46,912	–	104,723
Subordinated liabilities	–	–	275	–	12,971	–	–	13,246
Total liabilities	1,544,471	583,971	261,833	178,776	51,182	50,398	–	2,670,631
Net liquidity gap	(865,940)	(145,590)	(106,534)	142,364	815,237	361,747	84,089	285,373

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

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

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

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

	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**

	2018					
	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	156,300	–	–	–	–	156,300
Deposits and balances from banks and other financial institutions	370,344	6,226	154	556	–	377,280
Financial liabilities at fair value through profit or loss	3,279	8,850	1,801	1,238	560	15,728
Deposits from customers	1,488,233	236,892	168,931	5,426	–	1,899,482
Debt securities and certificates of deposit in issue	3,485	4,837	1,179	–	–	9,501
Subordinated liabilities	–	353	353	13,064	–	13,770
Other financial liabilities	48,088	172	107	6	7	48,380
Total financial liabilities	2,069,729	257,330	172,525	20,290	567	2,520,441

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.

	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)

	2018					
	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	(8,983)	(884)	(2,338)	(5,061)	(1,002)	(18,268)
Derivative financial instruments settled on a gross basis						
Total inflow	792,298	383,269	643,870	133,033	4,683	1,957,153
Total outflow	(793,147)	(382,112)	(641,036)	(133,384)	(4,660)	(1,954,339)

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 2019 that the Group commits to extend credit to customers and other facilities amounted to HK$621,402 million (2018: HK$545,794 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 2019 amounting to HK$62,400 million (2018: HK$62,094 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 the 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 mortality and 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 3.29% in 2019 (2018: 0% to 3.72%).

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:

Scenario	Change in variable	Decrease in profit after tax due to changes in insurance liabilities 2019 HK$'m	2018 HK$'m
Worsening of mortality and morbidity	10%	**(164)**	(136)
Lowering of interest rate	50 basis points	**(1,393)**	(993)

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 2019. 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".

4. Financial risk management (continued)

4.5 Capital management (continued)

(A) Basis of regulatory consolidation (continued)

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.

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

Name	2019		2018	
	Total assets HK$'m	**Total equity HK$'m**	Total assets HK$'m	Total equity HK$'m
BOC Group Trustee Company Limited	**200**	**200**	200	200
BOCI-Prudential Trustee Limited	**612**	**483**	506	464
China Bridge (Malaysia) Sdn. Bhd.	**56**	**36**	38	31
Bank of China (Hong Kong) Nominees Limited	**–**	**–**	–	–
Bank of China (Hong Kong) Trustees Limited	**12**	**11**	15	15
BOC Financial Services (Nanning) Company Limited	**173**	**42**	N/A	N/A
BOCHK Information Technology (Shenzhen) Co., Ltd.	**401**	**255**	377	242
BOCHK Information Technology Services (Shenzhen) Co., Ltd.	**418**	**348**	377	336
Che Hsing (Nominees) Limited	**1**	**1**	1	1
Po Sang Financial Investment Services Company Limited	**364**	**345**	364	346
Po Sang Securities and Futures Limited	**664**	**373**	657	553
Sin Chiao Enterprises Corporation, Limited	**6**	**6**	6	6
Sin Hua Trustee Limited	**5**	**5**	7	6
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.	**–**	**–**	–	–

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 2019 (2018: 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 2019 (2018: 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:

	2019	2018
CET1 capital ratio	**17.76%**	17.48%
Tier 1 capital ratio	**19.90%**	19.76%
Total capital ratio	**22.89%**	23.10%

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:

	2019 HK$'m	2018 HK$'m
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments	**43,043**	43,043
Retained earnings	**164,113**	153,501
Disclosed reserves	**51,309**	45,367
CET1 capital before regulatory deductions	**258,465**	241,911
CET1 capital: regulatory deductions		
Valuation adjustments	**(65)**	(9)
Deferred tax assets (net of associated deferred tax liabilities)	**(62)**	(82)
Gains and losses due to changes in own credit risk on fair valued liabilities	**237**	141
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	**(52,459)**	(51,263)
Regulatory reserve for general banking risks	**(11,077)**	(10,496)
Total regulatory deductions to CET1 capital	**(63,426)**	(61,709)
CET1 capital	**195,039**	180,202
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	**218,515**	203,678
Tier 2 capital: instruments and provisions		
Capital instruments subject to phase-out arrangements from Tier 2 capital	**2,505**	5,010
Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**6,743**	6,315
Tier 2 capital before regulatory deductions	**9,248**	11,325
Tier 2 capital: regulatory deductions		
Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	**23,607**	23,068
Total regulatory adjustments to Tier 2 capital	**23,607**	23,068
Tier 2 capital	**32,855**	34,393
Total regulatory capital	**251,370**	238,071

4. Financial risk management (continued)

4.5 Capital management (continued)

(B) Capital ratio (continued)

The capital buffer ratios are analysed as follows:

	2019	2018
Capital conservation buffer ratio	**2.500%**	1.875%
Higher loss absorbency ratio	**1.500%**	1.125%
Countercyclical capital buffer ratio	**1.552%**	1.418%

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:

	2019 HK$'m	2018 HK$'m
Tier 1 capital	**218,515**	203,678
Leverage ratio exposure	**2,799,606**	2,733,653
Leverage ratio	**7.81%**	7.45%

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, certain exchange-traded derivative contracts and precious metals.

– 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 precious metals and properties with insignificant adjustments 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. Specific controls include verification of observable pricing inputs; review and approval for new models and changes to models; calibration and back-testing of models against observed market transactions; analysis and investigation of significant daily valuation movements; review of significant unobservable inputs and valuation adjustments. Significant valuation issues are reported to senior management, Risk Committee and Audit Committee.

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

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

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.

Financial liabilities designated at fair value through profit or loss

This class of instruments includes certain deposits received from customers that are embedded with derivatives. The plain vanilla contracts are valued in the similar way described in previous debt securities section. The fair value of structured deposits is derived from the fair value of the underlying deposit by using discounted cash flow analysis taking the Group's own credit risk into account, and the fair value of the embedded derivatives determined as described in the paragraph above on derivatives.

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

	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
– Fund	–	–	–	–
– 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
– Financial liabilities designated at fair value through profit or loss	–	–	–	–
Derivative financial instruments (Note 24)	9,717	23,204	–	32,921
Subordinated liabilities (Note 38)				
– Subordinated notes	–	12,954	–	12,954

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(A) Fair value hierarchy (continued)

	2018			
	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	334	31,783	–	32,117
– Equity securities	2	–	–	2
– Fund	3	–	–	3
– Other debt instruments	–	4,634	–	4,634
Other financial assets mandatorily classified at fair value through profit or loss (Note 23)				
– Debt securities and certificates of deposit	–	17,877	1,909	19,786
– Equity securities	1,010	–	–	1,010
– Fund	3,477	2,337	915	6,729
Financial assets designated at fair value through profit or loss (Note 23)				
– Debt securities and certificates of deposit	691	2,480	–	3,171
– Other debt instruments	–	233,477	–	233,477
Derivative financial instruments (Note 24)	11,356	23,549	7	34,912
Investment in securities at FVOCI (Note 26)				
– Debt securities and certificates of deposit	68,013	415,983	1,618	485,614
– Equity securities	2,599	185	1,144	3,928
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 32)				
– Trading liabilities	–	13,336	–	13,336
– Financial liabilities designated at fair value through profit or loss	–	2,199	–	2,199
Derivative financial instruments (Note 24)	8,417	22,463	–	30,880
Subordinated liabilities (Note 38) – Subordinated notes	–	13,246	–	13,246

There were no significant financial asset and liability transfers between level 1 and level 2 for the Group during the year (2018: Nil).

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items

	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)

	2018				
	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 2018	1,982	513	–	1,674	812
Gains/(losses)					
– Income statement					
– Net trading gain	–	–	7	–	–
– Net (loss)/gain on other financial instruments at fair value through profit or loss	(73)	37	–	–	–
– Other comprehensive income					
– Change in fair value	–	–	–	(56)	296
Additions	–	489	–	–	36
Disposals, redemptions and maturity	–	(124)	–	–	–
Transfer into level 3	–	–	–	–	–
Transfer out of level 3	–	–	–	–	–
At 31 December 2018	1,909	915	7	1,618	1,144
Total unrealised gains/(losses) for the year included in income statement for financial assets held as at 31 December 2018					
– Net trading gain	–	–	7	–	–
– Net (loss)/gain on other financial instruments at fair value through profit or loss	(73)	37	–	–	–
	(73)	37	7	–	–

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 2019 and 2018, 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 2019 were due to change of valuation observability. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

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

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.

	2019		2018	
	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)	**110,983**	**114,241**	109,496	108,352
Financial liabilities				
Debt securities and certificates of deposit in issue (Note 34)	**116**	**116**	9,453	9,454

The following tables show the fair value hierarchy for financial instruments with fair values disclosed.

	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**

	2018			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Financial assets				
Investment in securities at amortised cost	2,475	104,296	1,581	108,352
Financial liabilities				
Debt securities and certificates of deposit in issue	–	9,454	–	9,454

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% (2018: 2%) per year	The higher the depreciation rate, the lower the fair value.
		Premium on specialised nature of the property	+15% (2018: +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	-11% (2018: -6%)	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

	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**

	2018			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Non-financial assets				
Investment properties (Note 28)	–	368	19,316	19,684
Properties, plant and equipment (Note 29)				
– Premises	–	1,041	45,349	46,390
Other assets (Note 30)				
– Precious metals	3,012	3,590	–	6,602

There were no non-financial asset transfers between level 1 and level 2 for the Group during the year (2018: 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

	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

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)

	2018	
	Non-financial assets	
		Properties, plant and equipment
	Investment properties HK$'m	Premises HK$'m
At 1 January 2018	19,310	43,114
Gains		
– Income statement		
– Net gain from fair value adjustments on investment properties	881	–
– Net gain from revaluation of premises	–	21
– Other comprehensive income		
– Revaluation of premises	–	2,068
Depreciation	–	(1,065)
Additions	13	90
Transfer into level 3	–	234
Transfer out of level 3	–	–
Reclassification	(888)	888
Exchange difference	–	(1)
At 31 December 2018	19,316	45,349
Total unrealised gains for the year included in income statement for non-financial assets held as at 31 December 2018		
– Net gain from fair value adjustments on investment properties	881	–
– Net gain from revaluation of premises	–	21
	881	21

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

	2019 HK$'m	2018 HK$'m
Interest income		
Advances to customers, due from banks and other financial institutions	**46,766**	42,738
Investment in securities and financial assets at fair value through profit or loss	**20,448**	18,753
Others	**570**	374
	67,784	61,865
Interest expense		
Deposits from customers, due to banks and other financial institutions	**(25,856)**	(20,301)
Debt securities and certificates of deposit in issue	**(79)**	(517)
Subordinated liabilities	**(719)**	(992)
Lease liabilities	**(55)**	N/A
Others	**(552)**	(554)
	(27,261)	(22,364)
Net interest income	**40,523**	39,501

Included within interest income are HK$50,884 million (2018: HK$46,543 million) and HK$13,887 million (2018: HK$11,434 million), before hedging effect, for financial assets measured at amortised cost and at fair value through other comprehensive income respectively.

Included within interest expense are HK$26,174 million (2018: HK$21,125 million), before hedging effect, for financial liabilities that are not measured at fair value through profit or loss.

7. Net fee and commission income

	2019 HK$'m	2018 HK$'m
Fee and commission income		
Credit card business	**2,975**	3,441
Loan commissions	**2,675**	2,613
Securities brokerage	**2,113**	2,769
Insurance	**2,111**	1,546
Funds distribution	**901**	929
Payment services	**716**	681
Bills commissions	**700**	739
Trust and custody services	**651**	633
Currency exchange	**599**	590
Safe deposit box	**294**	285
Others	**1,267**	1,292
	15,002	15,518
Fee and commission expense		
Credit card business	**(2,044)**	(2,545)
Insurance	**(849)**	(344)
Securities brokerage	**(255)**	(323)
Others	**(935)**	(994)
	(4,083)	(4,206)
Net fee and commission income	**10,919**	11,312
Of which arise from:		
Financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	**3,141**	3,124
– Fee and commission expense	**(12)**	(23)
	3,129	3,101
Trust and other fiduciary activities		
– Fee and commission income	**841**	818
– Fee and commission expense	**(28)**	(27)
	813	791

8. Net trading gain

	2019 HK$'m	2018 HK$'m
Net gain/(loss) from:		
Foreign exchange and foreign exchange products	**4,931**	2,716
Interest rate instruments and items under fair value hedge	**(578)**	50
Commodities	**366**	184
Equity and credit derivative instruments	**81**	140
	4,800	3,090

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

	2019 HK$'m	2018 HK$'m
Net gain/(loss) on other financial instruments mandatorily classified at fair value through profit or loss	**2,976**	(1,839)
Net gain on financial instruments designated at fair value through profit or loss	**267**	557
	3,243	(1,282)

10. Net gain on other financial assets

	2019 HK$'m	2018 HK$'m
Net gain on disposal/redemption of investment in securities at FVOCI	**854**	26
Net loss on disposal/redemption of investment in securities at amortised cost	**(47)**	(4)
Others	**17**	(3)
	824	19

Loss on disposal of investment in securities at amortised cost due to credit deterioration amounted to HK$6 million (2018: gain of HK$27 million).

11. Other operating income

	2019 HK$'m	2018 HK$'m
Dividend income		
– From investment in securities at FVOCI derecognised during the year	**18**	22
– From investment in securities at FVOCI held at the end of the year	**238**	191
Gross rental income from investment properties	**660**	654
Less: Outgoings in respect of investment properties	**(60)**	(73)
Others	**159**	187
	1,015	981

Included in the "Outgoings in respect of investment properties" is HK$1 million (2018: 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

	2019 HK$'m	2018 HK$'m
Gross insurance benefits and claims and movement in liabilities		
Claims, benefits and surrenders paid	**(16,644)**	(18,292)
Movement in liabilities	**(13,283)**	(2,944)
	(29,927)	(21,236)
Reinsurers' share of benefits and claims and movement in liabilities		
Reinsurers' share of claims, benefits and surrenders paid	**5,859**	6,867
Reinsurers' share of movement in liabilities	**2,776**	1,160
	8,635	8,027
Net insurance benefits and claims and movement in liabilities	**(21,292)**	(13,209)

13. Net charge of impairment allowances

	2019 HK$'m	2018 HK$'m
Net (charge)/reversal of impairment allowances on:		
Advances and other accounts	**(1,852)**	(1,183)
Balances and placements with banks and other financial institutions	**12**	70
Investment in securities		
– At FVOCI	**(20)**	(14)
– At amortised cost	**(17)**	(12)
	(37)	(26)
Loan commitments and financial guarantee contracts	**(136)**	(91)
Others	**(9)**	(12)
Net charge of impairment allowances	**(2,022)**	(1,242)

14. Operating expenses

	2019 HK$'m	2018 HK$'m
Staff costs (including directors' emoluments)		
– Salaries and other costs	**8,849**	8,173
– Pension cost	**515**	469
	9,364	8,642
Premises and equipment expenses (excluding depreciation)		
– Rental of premises	**N/A**	772
– Short-term leases, leases of low-value assets and variable lease payments	**201**	N/A
– Information technology	**805**	632
– Others	**536**	458
	1,542	1,862
Depreciation (Note 29)	**2,881**	2,066
Auditor's remuneration		
– Audit services	**28**	28
– Non-audit services	**10**	20
Other operating expenses	**2,842**	2,588
	16,667	15,206

Contingent rent included in the "Rental of premises" amounted to HK$51 million in 2018.

15. Net gain from disposal of/fair value adjustments on investment properties

	2019 HK$'m	2018 HK$'m
Net gain from fair value adjustments on investment properties (Note 28)	**282**	906

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

	2019 HK$'m	2018 HK$'m
Net loss from disposal of equipment, fixtures and fittings	**(7)**	(6)
Net gain from revaluation of premises (Note 29)	**6**	24
	(1)	18

17. Taxation

Taxation in the income statement represents:

	2019 HK$'m	2018 HK$'m
Current tax		
Hong Kong profits tax		
– Current year taxation	**5,741**	5,630
– Over-provision in prior years	**(90)**	(65)
	5,651	5,565
Overseas taxation		
– Current year taxation	**643**	806
– Over-provision in prior years	**(135)**	(27)
	6,159	6,344
Deferred tax		
Origination and reversal of temporary differences and unused tax credits (Note 36)	**(145)**	83
	6,014	6,427

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 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:

	2019 HK$'m	2018 HK$'m
Profit before taxation	**40,088**	39,081
Calculated at a taxation rate of 16.5% (2018: 16.5%)	**6,615**	6,448
Effect of different taxation rates in other countries/regions	**166**	131
Income not subject to taxation	**(1,028)**	(691)
Expenses not deductible for taxation purposes	**592**	335
Utilisation of previously unrecognised tax losses	**(2)**	–
Over-provision in prior years	**(225)**	(92)
Foreign withholding tax	**125**	296
Others	**(229)**	–
Taxation charge	**6,014**	6,427
Effective tax rate	**15.0%**	16.4%

18. Dividends

	2019		2018	
	Per share HK$	**Total HK$'m**	Per share HK$	Total HK$'m
Interim dividend paid	**0.545**	**5,762**	0.545	5,762
Proposed final dividend	**0.992**	**10,488**	0.923	9,759
	1.537	**16,250**	1.468	15,521

At a meeting held on 30 August 2019, the Board declared an interim dividend of HK$0.545 per ordinary share for the first half of 2019 amounting to approximately HK$5,762 million.

At a meeting held on 27 March 2020, the Board proposed to recommend to the Annual General Meeting on 29 June 2020 a final dividend of HK$0.992 per ordinary share for the year ended 31 December 2019 amounting to approximately HK$10,488 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 2020.

19. Earnings per share

The calculation of basic earnings per share for the year ended 31 December 2019 is based on the consolidated profit for the year attributable to equity holders of the Company of approximately HK$32,184 million (2018: HK$32,070 million) and on the ordinary shares in issue of 10,572,780,266 shares (2018: 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 2019 (2018: 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 Manager, which are related parties of the Company.

The Group's total contributions made to the ORSO schemes for the year ended 31 December 2019 amounted to approximately HK$358 million (2018: approximately HK$343 million), after a deduction of forfeited contributions of approximately HK$10 million (2018: approximately HK$10 million). For the MPF Scheme, the Group contributed approximately HK$118 million (2018: approximately HK$93 million) for the year ended 31 December 2019.

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:

	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 Note 2	–	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* Note 1	404	–	–	–	404
TUNG Savio Wai-Hok*	651	–	–	–	651
CHEN Siqing Note 2	–	–	–	–	–
	2,709	–	–	–	2,709
	2,709	8,150	4,780	–	15,639

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)

	2018				
	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)	–	6,530	4,018	–	10,548
LI Jiuzhong	–	4,846	2,490	–	7,336
	–	11,376	6,508	–	17,884
Non-executive Directors					
LIU Liange	–	–	–	–	–
LIN Jingzhen	–	–	–	–	–
CHENG Eva*	500	–	–	–	500
CHOI Koon Shum*	592	–	–	–	592
KOH Beng Seng*	642	–	–	–	642
TUNG Savio Wai-Hok*	692	–	–	–	692
CHEN Siqing	–	–	–	–	–
REN Deqi	–	–	–	–	–
LIU Qiang	–	–	–	–	–
	2,426	–	–	–	2,426
	2,426	11,376	6,508	–	20,310

* 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 2019 (2018: 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 include one (2018: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2018: three) individuals during the year are as follows:

	2019 HK$'m	2018 HK$'m
Basic salaries and allowances	**17**	12
Bonus	**10**	9
Contributions to pension schemes	**1**	1
	28	22

Emoluments paid to or receivable by individuals during the year with reference to their tenure are within the following bands:

	Number of individuals	
	2019	2018
HK$6,500,001 to HK$7,000,000	**2**	1
HK$7,000,001 to HK$7,500,000	**–**	1
HK$7,500,001 to HK$8,000,000	**2**	1

(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	
	2019	2018
HK$0 to HK$500,000	**–**	2
HK$500,001 to HK$1,000,000	**1**	1
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**1**	–
HK$5,000,001 to HK$5,500,000	**2**	2
HK$5,500,001 to HK$6,000,000	**2**	1
HK$6,000,001 to HK$6,500,000	**1**	–
HK$7,000,001 to HK$7,500,000	**–**	2
HK$7,500,001 to HK$8,000,000	**1**	–
HK$10,500,001 to HK$11,000,000	**–**	1
HK$11,000,001 to HK$11,500,000	**1**	–

21. Directors', senior management's and key personnel's emoluments (continued)

(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.

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

	2019		2018	
	Senior Management HK$'m	**Key Personnel HK$'m**	Senior Management HK$'m	Key Personnel HK$'m
Fixed remuneration				
Cash-based	**42**	**146**	36	133
Of which: deferred	–	–	–	–
Variable remuneration				
Cash-based	**19**	**89**	16	81
Of which: deferred	*5*	*23*	*5*	*21*
Total remuneration	**61**	**235**	52	214
Number of employees				
Fixed remuneration	**12**	**59**	11	52
Variable remuneration	**12**	**58**	11	52

(ii) Special payments

There were no guaranteed bonuses, sign-on awards and severance payments to Senior Management and Key Personnel for the year ended 31 December 2019 (2018: 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

	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)**

	2018				
	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	33	33	–	–	(12)
Total	43	43	–	–	(17)

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

	2019 HK$'m	2018 HK$'m
Cash	**19,028**	21,992
Balances with central banks	**150,249**	158,355
Placements with central banks maturing within one month	**9,541**	9,572
Placements with central banks maturing between one and twelve months	**2,444**	2,697
Placements with central banks maturing over one year	**785**	396
	163,019	171,020
Balances with other banks and other financial institutions	**75,518**	120,084
Placements with other banks and other financial institutions maturing within one month	**81,101**	66,064
Placements with other banks and other financial institutions maturing between one and twelve months	**28,166**	54,154
	184,785	240,302
	366,832	433,314
Impairment allowances		
– Stage 1	**(3)**	(15)
– Stage 2	**–**	–
– Stage 3	**–**	–
	366,829	433,299

23. Financial assets at fair value through profit or loss

	2019 HK$'m	2018 HK$'m
Securities		
Trading assets		
– Treasury bills	**21,025**	16,301
– Certificates of deposit	**2,953**	623
– Other debt securities	**13,612**	15,193
	37,590	32,117
– Equity securities	**37**	2
– Fund	**–**	3
	37,627	32,122
Other financial assets mandatorily classified at fair value through profit or loss		
– Certificates of deposit	**2**	2
– Other debt securities	**27,521**	19,784
	27,523	19,786
– Equity securities	**2,618**	1,010
– Fund	**9,137**	6,729
	39,278	27,525
Financial assets designated at fair value through profit or loss		
– Certificates of deposit	**–**	–
– Other debt securities	**2,991**	3,171
	2,991	3,171
Total securities	**79,896**	62,818
Other debt instruments		
Trading assets	**5,297**	4,634
Financial assets designated at fair value through profit or loss	**–**	233,477
Total other debt instruments	**5,297**	238,111
	85,193	300,929

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

Total securities are analysed by place of listing as follows:

	2019 HK$'m	2018 HK$'m
Debt securities and certificates of deposit		
– Listed in Hong Kong	**14,901**	13,556
– Listed outside Hong Kong	**14,036**	14,436
– Unlisted	**39,167**	27,082
	68,104	55,074
Equity securities		
– Listed in Hong Kong	**1,500**	468
– Listed outside Hong Kong	**1,155**	544
	2,655	1,012
Fund		
– Listed in Hong Kong	**–**	339
– Unlisted	**9,137**	6,393
	9,137	6,732
Total securities	**79,896**	62,818

Total securities are analysed by type of issuer as follows:

	2019 HK$'m	2018 HK$'m
Sovereigns	**30,812**	26,397
Public sector entities	**1,526**	1,720
Banks and other financial institutions	**33,665**	26,385
Corporate entities	**13,893**	8,316
Total securities	**79,896**	62,818

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:

	2019		
	Contract/ notional amounts HK$'m	Fair values Assets HK$'m	Fair values Liabilities 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)**

	2018		
	Contract/ notional amounts HK$'m	Fair values Assets HK$'m	Fair values Liabilities HK$'m
Exchange rate contracts			
Spot, forwards and futures	363,072	12,711	(8,901)
Swaps	1,721,302	12,373	(12,143)
Options	29,715	158	(64)
	2,114,089	25,242	(21,108)
Interest rate contracts			
Futures	20,242	1	(39)
Swaps	1,047,515	9,312	(8,428)
Options	1,566	1	(1)
	1,069,323	9,314	(8,468)
Commodity contracts	28,782	239	(1,184)
Equity contracts	2,998	117	(119)
Credit derivative contracts	392	–	(1)
	3,215,584	34,912	(30,880)

24. Derivative financial instruments and hedge accounting (continued)

(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.

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.

The table below summarises the contract/notional amounts of the hedging instruments as at 31 December by remaining contractual maturity.

	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**

	2018					
	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	235	78	10,808	70,258	34,845	116,224

The amounts relating to items designated as hedging instruments are as follows:

	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)

	2018			
	Contract/ notional amounts HK$'m	Fair values		Change in fair value used for recognising hedge ineffectiveness HK$'m
		Assets HK$'m	Liabilities HK$'m	
Derivative financial instruments				
Interest rate swaps	116,224	2,038	(477)	612

The amounts relating to hedged items are as follows:

	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 and certificates of deposit	**118,224**	**2,813**	**3,921**

	2018		
	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 and certificates of deposit	115,598	(2,233)	(273)

Hedge ineffectiveness recognised is as follows:

	2019 HK$'m	2018 HK$'m
Net trading gain	**207**	339

25. Advances and other accounts

	2019 HK$'m	2018 HK$'m
Personal loans and advances	**415,874**	354,619
Corporate loans and advances	**980,009**	912,616
Advances to customers	**1,395,883**	1,267,235
Less: Impairment allowances		
– Stage 1	**(4,563)**	(3,747)
– Stage 2	**(297)**	(546)
– Stage 3	**(2,175)**	(1,126)
	1,388,848	1,261,816
Trade bills	**20,727**	17,361
Less: Impairment allowances		
– Stage 1	**(1)**	(1)
– Stage 2	**–**	–
– Stage 3	**–**	(4)
	20,726	17,356
Advances to banks and other financial institutions	**3,387**	3,822
	1,412,961	1,282,994

As at 31 December 2019, advances to customers included accrued interest of HK$2,751 million (2018: HK$2,338 million).

26. Investment in securities

	2019 HK$'m	2018 HK$'m
Investment in securities at fair value through other comprehensive income		
– Treasury bills	**234,284**	122,462
– Certificates of deposit	**51,167**	34,849
– Other debt securities	**399,251**	328,303
	684,702	485,614
– Equity securities	**5,968**	3,928
	690,670	489,542
Investment in securities at amortised cost		
– Certificates of deposit	**1,526**	18
– Other debt securities	**109,503**	109,507
	111,029	109,525
– Impairment allowances		
Stage 1	**(46)**	(29)
Stage 2	**–**	–
Stage 3	**–**	–
	110,983	109,496
	801,653	599,038

26. Investment in securities (continued)

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

	2019 HK$'m	2018 HK$'m
Investment in securities at fair value through other comprehensive income		
Debt securities and certificates of deposit		
– Listed in Hong Kong	**69,523**	67,888
– Listed outside Hong Kong	**187,072**	187,903
	256,595	255,791
– Unlisted	**428,107**	229,823
	684,702	485,614
Equity securities		
– Listed in Hong Kong	**3,207**	2,599
– Listed outside Hong Kong	**607**	185
– Unlisted	**2,154**	1,144
	5,968	3,928
	690,670	489,542
Investment in securities at amortised cost		
Debt securities and certificates of deposit		
– Listed in Hong Kong	**19,664**	19,249
– Listed outside Hong Kong	**55,151**	54,225
	74,815	73,474
– Unlisted	**36,168**	36,022
	110,983	109,496
	801,653	599,038
Market value of listed securities at amortised cost	**77,394**	73,086

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

	2019 HK$'m	2018 HK$'m
Sovereigns	**357,468**	185,331
Public sector entities	**46,790**	44,984
Banks and other financial institutions	**221,098**	208,060
Corporate entities	**176,297**	160,663
	801,653	599,038

26. Investment in securities (continued)

The movements in investment in securities are summarised as follows:

	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**

	2018	
	At fair value through other comprehensive income HK$'m	At amortised cost HK$'m
At 1 January 2018, as previously reported	542,706	76,230
Effect of merger of entity under common control	–	790
At 1 January 2018, as restated	542,706	77,020
Additions	727,971	46,371
Disposals, redemptions and maturity	(772,469)	(13,674)
Amortisation	1,357	240
Change in fair value/fair value hedge adjustment	(3,674)	(26)
Net charge of impairment allowances	–	(12)
Exchange difference	(6,349)	(423)
At 31 December 2018	489,542	109,496

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$1,076 million (2018: HK$3,149 million) during the year. The derecognition was made because of portfolio rebalancing and the redemption by issuer.

27. Interests in associates and joint ventures

	2019 HK$'m	2018 HK$'m
At 1 January	**483**	417
Additions	**1,100**	–
Share of results	**94**	103
Share of tax	**(42)**	(33)
Dividend received	**(3)**	(4)
At 31 December	**1,632**	483

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 VB Limited	Hong Kong	HK$2,500,000,000	44%	Banking business
Sunac Realtor Capital Limited	Cayman Islands	US$1	20%	Investment holding

Livi VB Limited became a joint venture of the Group on 18 March 2019.

Sunac Realtor Capital Limited became a joint venture of the Group on 12 November 2019.

28. Investment properties

	2019 HK$'m	2018 HK$'m
At 1 January	**19,684**	19,669
Additions	**35**	13
Fair value gains (Note 15)	**282**	906
Reclassification from/(to) properties, plant and equipment (Note 29)	**109**	(904)
At 31 December	**20,110**	19,684

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	2019 HK$'m	2018 HK$'m
Held in Hong Kong		
On long-term lease (over 50 years)	**5,005**	4,691
On medium-term lease (10 to 50 years)	**14,743**	14,635
Held outside Hong Kong		
On long-term lease (over 50 years)	**–**	86
On medium-term lease (10 to 50 years)	**330**	244
On short-term lease (less than 10 years)	**32**	28
	20,110	19,684

As at 31 December 2019, investment properties were included in the balance sheet at valuation carried out at 31 December 2019 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 2019, as previously reported	46,390	3,040	–	49,430
Effect of merger of entity under common control	–	5	–	5
Net book value at 1 January 2019, as restated	46,390	3,045	–	49,435
Effect of adoption of HKFRS 16	–	–	1,757	1,757
At 1 January 2019, after adoption of HKFRS 16	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)

	Premises HK$'m	Equipment, fixtures and fittings HK$'m	Total HK$'m
Net book value at 1 January 2018, as previously reported	44,329	2,939	47,268
Effect of merger of entity under common control	–	7	7
Net book value at 1 January 2018, as restated	44,329	2,946	47,275
Additions	94	1,081	1,175
Disposals	(4)	(8)	(12)
Revaluation	2,160	–	2,160
Depreciation for the year (Note 14)	(1,092)	(974)	(2,066)
Reclassification from investment properties (Note 28)	904	–	904
Exchange difference	(1)	–	(1)
Net book value at 31 December 2018	46,390	3,045	49,435
At 31 December 2018			
Cost or valuation	46,390	10,511	56,901
Accumulated depreciation and impairment	–	(7,466)	(7,466)
Net book value at 31 December 2018	46,390	3,045	49,435
The analysis of cost or valuation of the above assets is as follows:			
At 31 December 2018			
At cost	–	10,511	10,511
At valuation	46,390	–	46,390
	46,390	10,511	56,901

29. Properties, plant and equipment (continued)

The carrying value of premises is analysed based on the remaining terms of the leases as follows:

	2019 HK$'m	2018 HK$'m
Held in Hong Kong		
On long-term lease (over 50 years)	**13,735**	13,774
On medium-term lease (10 to 50 years)	**32,243**	32,267
Held outside Hong Kong		
On long-term lease (over 50 years)	**75**	6
On medium-term lease (10 to 50 years)	**289**	266
On short-term lease (less than 10 years)	**–**	77
	46,342	46,390

As at 31 December 2019, premises were included in the balance sheet at valuation carried out at 31 December 2019 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:

	2019 HK$'m	2018 HK$'m
Increase in valuation credited to income statement (Note 16)	**6**	24
Increase in valuation credited to other comprehensive income	**1,064**	2,136
	1,070	2,160

As at 31 December 2019, 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$8,715 million (2018: HK$8,598 million).

30. Other assets

	2019 HK$'m	2018 HK$'m
Repossessed assets	**7**	10
Precious metals	**9,261**	6,602
Reinsurance assets	**48,614**	45,898
Accounts receivable and prepayments	**33,148**	26,085
	91,030	78,595

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

	2019 HK$'m	2018 HK$'m
Trading liabilities		
– Short positions in Exchange Fund Bills and Notes	**19,206**	13,336
Financial liabilities designated at fair value through profit or loss		
– Structured deposits (Note 33)	**–**	2,199
	19,206	15,535

As at 31 December 2018, the carrying amount of financial liabilities designated at fair value through profit or loss was approximately the same as the amount that the Group would be contractually required to pay at maturity to the holders.

33. Deposits from customers

	2019 HK$'m	2018 HK$'m
Current, savings and other deposit accounts (per balance sheet)	**2,009,273**	1,895,796
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 32)	**–**	2,199
	2,009,273	1,897,995
Analysed by:		
Demand deposits and current accounts		
– Corporate	**138,646**	144,985
– Personal	**68,367**	62,827
	207,013	207,812
Savings deposits		
– Corporate	**400,903**	337,932
– Personal	**499,106**	516,185
	900,009	854,117
Time, call and notice deposits		
– Corporate	**517,080**	487,934
– Personal	**385,171**	348,132
	902,251	836,066
	2,009,273	1,897,995

34. Debt securities and certificates of deposit in issue

	2019 HK$'m	2018 HK$'m
At amortised cost		
– Certificates of deposit	**116**	–
– Other debt securities	**–**	9,453
	116	9,453

35. Other accounts and provisions

	2019 HK$'m	2018 HK$'m
Other accounts payable	**78,197**	58,999
Lease liabilities	**1,850**	N/A
Impairment allowances on loan commitments and financial guarantee contracts		
– Stage 1	**535**	375
– Stage 2	**22**	20
– Stage 3	**20**	43
	80,624	59,437

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:

	2019				
	Accelerated tax depreciation HK$'m	Property revaluation HK$'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)

	2018				
	Accelerated tax depreciation HK$'m	Property revaluation HK$'m	Impairment allowances HK$'m	Others HK$'m	Total HK$'m
At 1 January 2018	693	6,649	(739)	(977)	5,626
Charged to income statement (Note 17)	13	44	15	11	83
Charged/(credited) to other comprehensive income	–	298	–	(519)	(221)
Release upon disposal of equity instruments at fair value through other comprehensive income	–	–	–	7	7
At 31 December 2018	706	6,991	(724)	(1,478)	5,495

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:

	2019 HK$'m	2018 HK$'m
Deferred tax assets	**(63)**	(270)
Deferred tax liabilities	**6,480**	5,765
	6,417	5,495

	2019 HK$'m	2018 HK$'m
Deferred tax assets to be recovered after more than twelve months	**(43)**	(60)
Deferred tax liabilities to be settled after more than twelve months	**6,971**	7,011
	6,928	6,951

As at 31 December 2019, the Group has not recognised deferred tax assets in respect of tax losses amounting to HK$9 million (2018: HK$23 million). Of the amount, HK$9 million (2018: HK$9 million) for the Group has no expiry date and none of the amount for the Group is scheduled to expire within six years (2018: HK$14 million) under the current tax legislation in different countries/regions.

37. Insurance contract liabilities

	2019 HK$'m	2018 HK$'m
At 1 January	**104,723**	103,229
Benefits paid	**(15,373)**	(17,479)
Claims incurred and movement in liabilities	**27,919**	18,973
At 31 December	**117,269**	104,723

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK$40,130 million (2018: HK$37,940 million) and the associated reinsurance assets of HK$48,614 million (2018: HK$45,898 million) are included in "Other assets" (Note 30).

38. Subordinated liabilities

	2019 HK$'m	2018 HK$'m
Subordinated notes		
– designated at fair value through profit or loss	**12,954**	13,246

In 2010, BOCHK issued listed subordinated notes with an aggregate amount of USD2,500 million, interest rate at 5.55% per annum payable semi-annually, due February 2020. In September 2018, USD877 million in principal amount of subordinated notes were purchased and redeemed by BOCHK and cancelled pursuant to the terms and conditions of the notes. USD1,623 million of the aggregate principal amount of subordinated notes remain outstanding. 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 (2018: HK$260 million).

39. Share capital

	2019 HK$'m	2018 HK$'m
Issued and fully paid:		
10,572,780,266 ordinary shares	**52,864**	52,864

40. Other equity instruments

	2019 HK$'m	2018 HK$'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 2019 amounted to HK$1,390 million.

41. Notes to consolidated cash flow statement

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

	2019 HK$'m	2018 HK$'m
Operating profit	**39,755**	38,087
Depreciation	**2,881**	2,066
Net charge of impairment allowances	**2,022**	1,242
Unwind of discount on impairment allowances	**(4)**	(1)
Advances written off net of recoveries	**(249)**	(714)
Investment in securities written off	**–**	(45)
Interest expense on lease liabilities	**55**	N/A
Change in subordinated liabilities	**370**	521
Change in balances and placements with banks and other financial institutions with original maturity over three months	**9,276**	6,707
Change in financial assets at fair value through profit or loss	**(16,657)**	29,801
Change in derivative financial instruments	**5,926**	(1,535)
Change in advances and other accounts	**(131,579)**	(92,269)
Change in investment in securities	**(201,861)**	11,052
Change in other assets	**(12,466)**	(4,214)
Change in deposits and balances from banks and other financial institutions	**(109,091)**	153,423
Change in financial liabilities at fair value through profit or loss	**3,671**	(4,185)
Change in deposits from customers	**113,477**	118,850
Change in debt securities and certificates of deposit in issue	**(9,337)**	(12,188)
Change in other accounts and provisions	**19,025**	5,896
Change in insurance contract liabilities	**12,546**	1,494
Effect of changes in exchange rates	**4,264**	20,095
Operating cash (outflow)/inflow before taxation	**(267,976)**	274,083
Cash flows from operating activities included		
– interest received	**67,383**	59,429
– interest paid	**26,168**	19,911
– dividend received	**256**	213

41. Notes to consolidated cash flow statement (continued)

(b) Reconciliation of liabilities arising from financing activities

	2019 HK$'m	2018 HK$'m
Subordinated liabilities		
At 1 January	**13,246**	21,048
Cash flows:		
Payment for redemption of subordinated liabilities	**–**	(7,211)
Interest paid for subordinated liabilities	**(707)**	(1,087)
	(707)	(8,298)
Non-cash changes:		
Change in fair value of own credit risk charged/(credited) to other comprehensive income	**45**	(25)
Exchange difference	**(72)**	59
Other changes	**442**	462
At 31 December	**12,954**	13,246

	2019 HK$'m
Lease liabilities	
Effect of adoption of HKFRS 16	**1,743**
Cash flows:	
Payment of lease liabilities	**(644)**
Non-cash changes:	
Additions	**696**
Other changes	**55**
At 31 December	**1,850**

41. Notes to consolidated cash flow statement (continued)

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

	2019 HK$'m	2018 HK$'m
Cash and balances and placements with banks and other financial institutions with original maturity within three months	**322,876**	380,082
Treasury bills, certificates of deposit and other debt instruments with original maturity within three months		
– financial assets at fair value through profit or loss	**6,627**	239,020
– investment in securities	**2,149**	7,024
	331,652	626,126

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.

	2019 HK$'m	2018 HK$'m
Direct credit substitutes	**5,455**	6,533
Transaction-related contingencies	**29,080**	29,292
Trade-related contingencies	**27,865**	26,269
Commitments that are unconditionally cancellable without prior notice	**447,055**	404,337
Other commitments with an original maturity of		
– up to one year	**13,772**	10,189
– over one year	**160,575**	131,268
	683,802	607,888
Credit risk-weighted amount	**76,911**	68,508

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:

	2019 HK$'m	2018 HK$'m
Authorised and contracted for but not provided for	**188**	215
Authorised but not contracted for	**72**	35
	260	250

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:

	2019 HK$'m	2018 HK$'m
Land and buildings		
– Not later than one year	**552**	540
– One to two years	**389**	300
– Two to three years	**187**	114
– Three to four years	**33**	1
– Four to five years	**1**	–
	1,162	955

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.

Several products/businesses have been reclassified among operating segments in accordance with the latest management model of the Group. Comparative amounts have been restated to conform with current year presentation.

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 profits less losses 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

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 2018								
Net interest income/(expense)								
– External	1,366	15,743	17,062	3,055	2,275	39,501	–	39,501
– Inter-segment	10,030	(2,664)	(6,105)	(31)	(1,230)	–	–	–
	11,396	13,079	10,957	3,024	1,045	39,501	–	39,501
Net fee and commission income/(expense)	6,899	3,874	432	(667)	1,145	11,683	(371)	11,312
Net insurance premium income	–	–	–	14,142	–	14,142	(19)	14,123
Net trading gain/(loss)	784	1,438	740	(244)	314	3,032	58	3,090
Net gain/(loss) on other financial instruments at fair value through profit or loss	9	–	513	(1,811)	(1)	(1,290)	8	(1,282)
Net (loss)/gain on other financial assets	–	(3)	4	18	–	19	–	19
Other operating income	48	2	16	155	2,075	2,296	(1,315)	981
Total operating income	19,136	18,390	12,662	14,617	4,578	69,383	(1,639)	67,744
Net insurance benefits and claims and movement in liabilities	–	–	–	(13,209)	–	(13,209)	–	(13,209)
Net operating income before impairment allowances	19,136	18,390	12,662	1,408	4,578	56,174	(1,639)	54,535
Net charge of impairment allowances	(123)	(784)	(3)	(5)	(327)	(1,242)	–	(1,242)
Net operating income	19,013	17,606	12,659	1,403	4,251	54,932	(1,639)	53,293
Operating expenses	(8,820)	(3,180)	(1,107)	(465)	(3,273)	(16,845)	1,639	(15,206)
Operating profit	10,193	14,426	11,552	938	978	38,087	–	38,087
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	906	906	–	906
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	(4)	–	–	(1)	23	18	–	18
Share of profits less losses after tax of associates and joint ventures	72	–	1	–	(3)	70	–	70
Profit before taxation	10,261	14,426	11,553	937	1,904	39,081	–	39,081
At 31 December 2018								
ASSETS								
Segment assets	379,233	887,900	1,438,436	132,417	140,682	2,978,668	(23,147)	2,955,521
Interests in associates and joint ventures	422	–	1	–	60	483	–	483
	379,655	887,900	1,438,437	132,417	140,742	2,979,151	(23,147)	2,956,004
LIABILITIES								
Segment liabilities	1,038,805	839,505	616,437	124,085	74,946	2,693,778	(23,147)	2,670,631
Year ended 31 December 2018								
Other information								
Capital expenditure	26	5	–	10	1,147	1,188	–	1,188
Depreciation	567	144	108	16	1,231	2,066	–	2,066
Amortisation of securities	–	–	1,502	114	(19)	1,597	–	1,597

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.

	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

47. Offsetting financial instruments (continued)

	2018					
				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	34,827	–	34,827	(19,855)	(3,299)	11,673
Reverse repurchase agreements	2,764	–	2,764	(2,764)	–	–
Securities borrowing agreements	2,200	–	2,200	(2,200)	–	–
Other assets	13,384	(9,213)	4,171	–	–	4,171
	53,175	(9,213)	43,962	(24,819)	(3,299)	15,844

	2018					
				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	30,662	–	30,662	(19,855)	(2,165)	8,642
Repurchase agreements	25,617	–	25,617	(25,617)	–	–
Other liabilities	9,907	(9,213)	694	–	–	694
	66,186	(9,213)	56,973	(45,472)	(2,165)	9,336

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 2019, the liabilities of the Group amounting to HK$15,862 million (2018: HK$11,891 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK$60,562 million (2018: HK$65,617 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$76,656 million (2018: HK$78,230 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.

	2019		2018	
	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	**590**	**562**	26,079	25,617

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:

	2019 HK$'m	2018 HK$'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 2019, the related aggregate amounts due from and to BOC of the Group were HK$98,066 million (2018: HK$158,881 million) and HK$56,995 million (2018: HK$137,562 million) respectively. The aggregate amounts of income and expenses of the Group arising from these transactions with BOC for the year ended 31 December 2019 were HK$1,971 million (2018: HK$2,878 million) and HK$478 million (2018: HK$581 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.

The transactions with BOC disclosed in Note 56 also constitute connected transactions as defined in Chapter 14A of the Listing Rules and announcement had been made by the Group on 4 December 2018 and 28 December 2018.

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:

	2019 HK$'m	2018 HK$'m
Income statement items		
Associates and joint ventures		
– Fee and commission income	**4**	–
– Interest expenses	**17**	–
– Fee and commission expenses	**6**	11
– Other operating expenses	**84**	82
Other related parties		
– Fee and commission income	**11**	11
Balance sheet items		
Associates and joint ventures		
– Deposits and balances from banks and other financial institutions	**96**	–
– Other accounts and provisions	**1**	7

The related party transactions in respect of the fee and commission expenses and 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 288 to 289.

(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:

	2019 HK$'m	2018 HK$'m
Salaries and other short-term employee benefits	**53**	45

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:

	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**

	2018				
			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	333,781	362,253	22,430	143,578	862,042
Hong Kong	8,084	–	37,312	315,370	360,766
United States	18,044	79,573	25,133	21,818	144,568

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.

		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%		

53. Non-bank Mainland exposures (continued)

		2018		
	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	292,682	37,793	330,475
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	60,506	13,060	73,566
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	93,286	18,961	112,247
Other entities of central government not reported in item 1 above	4	27,618	630	28,248
Other entities of local governments not reported in item 2 above	5	88	–	88
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	70,926	8,677	79,603
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	2,214	379	2,593
Total	8	547,320	79,500	626,820
Total assets after provision	9	2,752,643		
On-balance sheet exposures as percentage of total assets	10	19.88%		

54. Balance sheet and statement of changes in equity

(a) Balance sheet

As at 31 December	2019 HK$'m	2018 HK$'m
ASSETS		
Bank balances with a subsidiary	**1,754**	1,861
Investment in securities	**1,483**	2,123
Investment in subsidiaries	**55,322**	55,322
Amounts due from a subsidiary	**10,114**	6,026
Investment in associates and joint ventures	**1,100**	–
Other assets	**4**	1
Total assets	**69,777**	65,333
LIABILITIES		
Amounts due to a subsidiary	**3**	2
Total liabilities	**3**	2
EQUITY		
Share capital	**52,864**	52,864
Reserves	**16,910**	12,467
Total equity	**69,774**	65,331
Total liabilities and equity	**69,777**	65,333

Approved by the Board of Directors on 27 March 2020 and signed on behalf of the Board by:

LIU Liange
Director

GAO Yingxin
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 2018	52,864	(1,100)	12,071	63,835
Profit for the year	–	–	16,035	16,035
Other comprehensive income:				
Equity instruments at fair value through other comprehensive income	–	(763)	–	(763)
Total comprehensive income	–	(763)	16,035	15,272
Dividends	–	–	(13,776)	(13,776)
At 31 December 2018	52,864	(1,863)	14,330	65,331
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**

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 2019:

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 Company Limited

	2019	2018
Proportion of ownership interests and voting rights held by non-controlling interests	**49%**	49%

	2019 HK$'m	2018 HK$'m
Profit attributable to non-controlling interests	**332**	420
Accumulated non-controlling interests	**4,951**	4,083
Summarised financial information:		
– total assets	**153,116**	132,417
– total liabilities	**143,011**	124,085
– profit for the year	**678**	857
– total comprehensive income for the year	**1,853**	(182)

56. Application of merger accounting

On 21 January 2019, the Branch Interests in Bank of China Limited, Vientiane Branch in Laos was transferred from BOC to BOCHK for a total consideration of HK$728 million in cash. BOC Vientiane Branch and BOCHK are both under the common control of BOC before and after the combination. The Group has applied the merger accounting method in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA in the preparation of financial statements. The comparative amounts have been restated accordingly as if the business of BOC Vientiane Branch had always been carried out by the Group.

The statements of the adjustments to the consolidated equity as at 31 December are as follows:

	2019			
	Before combination HK$'m	**Entity under common control HK$'m**	**Adjustment HK$'m**	**After combination HK$'m**
Share capital	**52,864**	**350**	**(350)**	**52,864**
Merger reserve	**–**	**–**	**(378)**	**(378)**
Retained earnings and other reserves	**226,096**	**201**	**–**	**226,297**
	278,960	**551**	**(728)**	**278,783**
Other equity instruments	**23,476**	**–**	**–**	**23,476**
Non-controlling interests	**5,233**	**–**	**–**	**5,233**
	307,669	**551**	**(728)**	**307,492**

	2018			
	Before combination HK$'m	Entity under common control HK$'m	Adjustment HK$'m	After combination HK$'m
Share capital	52,864	350	(350)	52,864
Merger reserve	–	–	350	350
Retained earnings and other reserves	204,206	116	–	204,322
	257,070	466	–	257,536
Other equity instruments	23,476	–	–	23,476
Non-controlling interests	4,361	–	–	4,361
	284,907	466	–	285,373

57. 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.

58. Comparative amounts

In respect of the transfer of the Branch Interests in Bank of China Limited, Vientiane Branch in Laos from BOC on 21 January 2019 as explained in Note 56, the Group has applied merger accounting method for the business combination under common control. Comparative amounts in the financial statements have been restated as if the business of BOC Vientiane Branch had always been carried out by the Group.

59. Events after the balance sheet date

The outbreak of the novel coronavirus disease (COVID-19) since early January 2020 has taken a phased toll on the economy, and thus likely has impacted, to a certain extent, the Group's asset quality and returns from certain businesses. The magnitude of the COVID-19 impact depends on the progress of prevention and containment of the epidemic, its duration and the implementation of related economic measures. The ECL of the Group at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. The Group will continuously and closely monitor the developments of COVID-19, evaluate and proactively address its impact on the Group's financial position and performance. As of the date of this report, such evaluation is still in progress.

60. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 27 March 2020.

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 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 2019, 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 2017), 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 (i) for the provision of business development, investment products and asset management and referral services between BOC and its Associates and the Group; (ii) the provision of computer systems and information technology services between BOC and its Associates and the Group; and (iii) the provision of support and services by BOC and its Associates to BOCHK's branches and subsidiaries in the Southeast Asian region when they become branches and subsidiaries of BOCHK. On 14 December 2016 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 28 June 2017. The Announcement listed those continuing connected transactions that exceeded the de minimus threshold and set out caps in respect of such transactions for 2017-2019. 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)

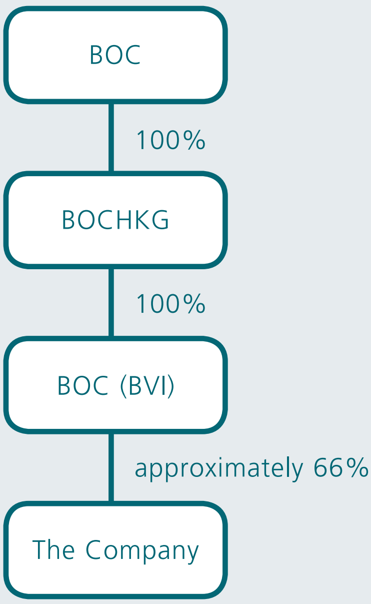
Type of Transaction	2019 Cap (HK$'m)	2019 Actual Amount (HK$'m)
Information Technology Services	**1,000**	**210**
Property Transactions	**1,000**	**171**
Bank-note Delivery	**1,000**	**316**
Provision of Insurance Cover	**1,000**	**275**
Card Services	**1,000**	**218**
Custody Business	**1,000**	**54**
Contact Centre Services	**1,000**	**84**
Business Development Services	**1,000**	**3**
Securities Transactions	**10,000**	**171**
Fund Distribution Transactions	**10,000**	**23**
Insurance Agency	**10,000**	**1,134**
Investment Products Transactions	**350,000**	**694**
Asset Management and Referral Services	**10,000**	**57**
Foreign Exchange Transactions	**10,000**	**838**
Derivatives Transactions	**10,000**	**(559)**
Trading of Financial Assets	**350,000**	**13,027**
Inter-bank Capital Markets	**350,000**	**10,661**

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	
	2019 HK$'m	2018 HK$'m	**2019 HK$'m**	2018 HK$'m
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs	**34,074**	32,654	**307,492**	285,373
Add: IFRSs/CASs adjustments				
Restatement of carrying value of bank premises	**885**	825	**(35,001)**	(35,082)
Deferred tax adjustments	**(129)**	(132)	**5,965**	5,965
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRSs/CASs	**34,830**	33,347	**278,456**	256,256

Appendix

Subsidiaries of the Company

The particulars of subsidiaries are as follows:

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

Subsidiaries of the Company (continued)

Name	Place and date of incorporation/ operation	Issued share capital	Interest held	Principal activities
Sin Chiao Enterprises Corporation, Limited	Hong Kong 13 September 1961	HK$3,000,000	100.00%	Property holding and investment
Sin Hua Trustee Limited	Hong Kong 27 October 1978	HK$3,000,000	100.00%	Trustee services
Billion Express Development Inc.	British Virgin Islands 7 February 2014	US$1	100.00%	Investment holding
Billion Orient Holdings Ltd.	British Virgin Islands 3 February 2014	US$1	100.00%	Investment holding
Elite Bond Investments Ltd.	British Virgin Islands 7 February 2014	US$1	100.00%	Investment holding
Express Capital Enterprise Inc.	British Virgin Islands 3 February 2014	US$1	100.00%	Investment holding
Express Charm Holdings Corp.	British Virgin Islands 7 February 2014	US$1	100.00%	Investment holding
Express Shine Assets Holdings Corp.	British Virgin Islands 3 January 2014	US$1	100.00%	Investment holding
Express Talent Investment Ltd.	British Virgin Islands 13 February 2014	US$1	100.00%	Investment holding
Gold Medal Capital Inc.	British Virgin Islands 3 January 2014	US$1	100.00%	Investment holding
Gold Tap Enterprises Inc.	British Virgin Islands 13 February 2014	US$1	100.00%	Investment holding
Maxi Success Holdings Ltd.	British Virgin Islands 7 February 2014	US$1	100.00%	Investment holding
Smart Linkage Holdings Inc.	British Virgin Islands 13 February 2014	US$1	100.00%	Investment holding
Smart Union Capital Investments Ltd.	British Virgin Islands 3 January 2014	US$1	100.00%	Investment holding
Success Trend Development Ltd.	British Virgin Islands 18 February 2014	US$1	100.00%	Investment holding
Wise Key Enterprises Corp.	British Virgin Islands 18 February 2014	US$1	100.00%	Investment holding
BOCHK Asset Management Limited	Hong Kong 28 October 2010	HK$272,500,000	100.00%	Asset management
BOCHK Equity Investment Management (Shenzhen) Limited**	PRC 2 April 2019	Registered capital US$2,000,000	100.00%	Asset management

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

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

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 Manager"	BOCI-Prudential Asset Management Limited, a company incorporated under the laws of Hong Kong, in which BOCI Asset Management Limited, a wholly-owned subsidiary of BOC International Holdings Limited, and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOCI-Prudential Trustee"	BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong, in which BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOC Life"	BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOCG Insurance hold equity interests of 51% and 49% respectively
"BOC Malaysia"	Bank of China (Malaysia) Berhad, a wholly-owned subsidiary of BOCHK
"BOC Thailand"	Bank of China (Thai) Public Company Limited, a wholly-owned subsidiary of BOCHK
"Board" or "Board of Directors"	the Board of Directors of the Company
"CAS"	Chinese Accounting Standard for Business Enterprises
"CE"	Chief Executive
"CET1"	Common Equity Tier 1
"CFO"	Chief Financial Officer
"CIC"	China Investment Corporation
"CRO"	Chief Risk Officer
"CVA"	Credit Valuation Adjustment
"Central Huijin"	Central Huijin Investment Ltd.

Terms	Meanings
"DCE"	Deputy Chief Executive
"DVA"	Debit Valuation Adjustment
"ECL"	Expected Credit Loss
"EV"	Economic Value Sensitivity Ratio
"FCC"	the Financial Crime Compliance Department
"FIRB"	Foundation Internal Ratings-based
"Fitch"	Fitch Ratings
"FVOCI"	Fair value through other comprehensive income
"FVPL"	Fair value through profit or loss
"GDP"	Gross Domestic Product
"HIBOR"	Hong Kong Interbank Offered Rate
"HKAS"	Hong Kong Accounting Standard
"HKFRS"	Hong Kong Financial Reporting Standard
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HKMA"	Hong Kong Monetary Authority
"Hong Kong" or "Hong Kong SAR" or "HKSAR"	Hong Kong Special Administrative Region of the PRC
"ICAAP"	Internal Capital Adequacy Assessment Process
"IFRS"	International Financial Reporting Standard
"IMM"	Internal Models
"IT"	Information Technology
"LCO"	the Legal & Compliance and Operational Risk Management Department
"LCR"	Liquidity Coverage Ratio
"LIBOR"	London Interbank Offered Rate
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MC"	the Management Committee
"MCO"	Maximum Cumulative Cash Outflow
"MPF"	Mandatory Provident Fund
"MPF Schemes Ordinance"	the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong, as amended
"Moody's"	Moody's Investors Service
"N/A"	Not applicable
"NII"	Net Interest Income Sensitivity Ratio
"NSFR"	Net Stable Funding Ratio
"ORSO schemes"	the Occupational Retirement Schemes under Occupational Retirement Schemes Ordinance, Chapter 426 of the Laws of Hong Kong
"OTC"	Over-the-counter
"PD"	Probability of Default
"PRC"	the People's Republic of China

Definitions

Terms	Meanings
"PVBP"	Price Value of a Basis Point
"QDII"	Qualified Domestic Institutional Investors
"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

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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.

中銀香港(控股)有限公司
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