



上海銀行(香港)
Bank of Shanghai (Hong Kong)

BANK OF SHANGHAI (HONG KONG) LIMITED

**DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

CONTENTS

	Page(s)
Report of the directors	1
Independent auditor's report	4
Consolidated statement of profit or loss and other comprehensive income	7
Consolidated statement of financial position	8
Consolidated statement of changes in equity	10
Consolidated statement of cash flows	11
Notes to the consolidated financial statements	12
Corporate Governance Report (unaudited)	92

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

REPORT OF THE DIRECTORS

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2023.

Principal place of business

Bank of Shanghai (Hong Kong) Limited (the Company) is a restricted licence bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 34th Floor, Champion Tower, 3 Garden Road, Central, Hong Kong.

Principal activities

The principal activities of the Company are to provide financial services to corporations and individuals. The principal activities and other particulars of the Company's subsidiaries are stated in Note 19 to the financial statements.

Transfer to reserves

The loss attributable to shareholders of HK\$727,594,000 (2022: loss of HK\$600,987,000) has been transferred to reserves. Other movements in reserves are shown in the consolidated statement of changes in equity on page 10.

Recommended dividend

The directors do not recommend payment of a final dividend for the financial year ended 31 December 2023 (2022: Nil).

Share capital

Details of the movements in share capital of the Company are set out in Note 28(b) to the financial statements. There was no shares movement during the year.

Charitable donations

No charitable and other donations were made by the Group during the financial year (2022: Nil).

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

REPORT OF THE DIRECTORS (CONTINUED)

Directors

The directors of the Company during the financial year and up to the date of this report were:

Non-Executive Directors and Chairman

Li Xiaohong (Nominated on 22 February 2024)
Lin Liqun (Ceased on 31 August 2023)

Non-Executive Director

Ye Zhengxiang (Appointed on 9 January 2024)

Executive Director

Chen Xuanqiang

Independent Non-Executive Directors

Tsien James Steed
Fong Wo, Felix
Sun Po Yuen (Appointed on 11 April 2023)

Directors of subsidiaries

The names of directors who had served on the board of the Company's subsidiaries during the financial year and up to the date of this report were:

An, Qi
Chan, Ho Sun Sunny (Ceased on 1 August 2023)
Chen, Tao (Ceased on 1 August 2023)
Chen Xuanqiang
Du, Jian (Ceased on 1 August 2023)
Guo, Chuhua (Ceased on 31 March 2023)
Li, Mao
Li, Xiaohong
Lin, Liqun (Ceased on 1 August 2023)
Liu, Ting (Appointed on 6 November 2023)
Ma, Yijia
Mao, Yanmin (Appointed on 31 March 2023)
Peng, Xiaoxuan
Qian, Manman (Appointed on 1 August 2023)
Wang, Jian
Wu, Jun
Ye, Zhengxiang (Appointed on 31 August 2023)
Yu, Luning (Appointed on 6 November 2023)
Zhang, Cui E (Ceased on 31 Mar 2023)
Zhu, Shouyuan

There being no provision in the Company's articles of association in connection with the retirement of directors, all existing directors continue in office for the following year.

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

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

REPORT OF THE DIRECTORS (CONTINUED)

Directors' interests in transactions, arrangements or contracts

No transaction, arrangement or contract of significance to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company or an entity connected with a director had a material interest, subsisted at the end of the year or at any time during the year.

Management contracts

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

Indemnity of directors

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the Company is currently in force and was in force throughout this year.

Auditors

The consolidated financial statements have been audited by PricewaterhouseCoopers (PwC) who retire and, being eligible, offer themselves for re-appointment.

By order of the board

Chen Xuanqiang
Director
Hong Kong, 30 April 2024

**Independent auditor's report to the members of
Bank of Shanghai (Hong Kong) Limited**
(Incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of Bank of Shanghai (Hong Kong) Limited (the "Company") and its subsidiaries (the "Group"), which are set out on pages 7 to 91, comprise:

- the consolidated statement of financial position as at 31 December 2023;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policies and other explanatory information.

Our opinion

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 2023, 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

**Independent auditor's report to the members of
Bank of Shanghai (Hong Kong) Limited**
(Incorporated in Hong Kong with limited liability)

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the Report of the directors and Corporate Governance Report, but does not include 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 Directors and the Audit Committee 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible 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. We report our opinion 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.

**Independent auditor's report to the members of
Bank of Shanghai (Hong Kong) Limited**
(Incorporated in Hong Kong with limited liability)

As part of an audit in accordance with HKSAs, we exercise professional judgment 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 April 2024

BANK OF SHANGHAI (HONG KONG) LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023
(EXPRESSED IN HONG KONG DOLLARS)

	Note	2023 \$'000	2022 \$'000
Interest income	6	1,700,948	1,043,543
Interest expense	6	(1,181,592)	(527,147)
Net interest income		<u>519,356</u>	<u>516,396</u>
Fee and commission income	7	150,652	275,673
Fee and commission expense	7	(13,419)	(16,735)
Net fee and commission income		<u>137,233</u>	<u>258,938</u>
Net (loss)/income from financial instruments measured at fair value	8(a)	(44,894)	65,096
Net loss from investment securities	8(b)	(12,013)	(392,819)
Other operating income		229	442
Total operating income		<u>599,911</u>	<u>448,053</u>
Operating expenses	9	(208,771)	(231,324)
Operating profit before impairment losses		<u>391,140</u>	<u>216,729</u>
Allowances for credit and other losses	10	(1,055,234)	(856,460)
Loss before taxation		<u>(664,094)</u>	<u>(639,731)</u>
Taxation	12(a)	(63,500)	38,744
Loss for the year		<u>(727,594)</u>	<u>(600,987)</u>
Other comprehensive income for the year, net of tax	13		
<i>Item that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation differences for subsidiaries	13(a)	(14,810)	(42,294)
Net movement in revaluation reserve	13(b)	(46,210)	(30,078)
Total comprehensive income for the year		<u><u>(788,614)</u></u>	<u><u>(673,359)</u></u>

The notes on pages 12 to 91 form part of these financial statements.

BANK OF SHANGHAI (HONG KONG) LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023
(EXPRESSED IN HONG KONG DOLLARS)

	Note	2023 \$'000	2022 \$'000
Assets			
Cash and balances with banks and central bank	14	842,085	1,357,023
Placements with and advances to banks	15	115,600	499,981
Financial assets at fair value through profit and loss		781,049	981,877
Derivative financial assets	30	53,375	16,426
Loans and advances to customers	16(a)	21,196,452	15,565,537
Investment securities	17	8,990,097	9,703,324
Investment in associates	18	5,857	4,658
Property and equipments	20	24,800	51,690
Intangible assets	21	2,258	2,932
Current tax recoverable	24(a)	34,191	34,191
Deferred tax assets	24(b)	256,321	351,729
Other assets	22	489,246	453,388
TOTAL ASSETS		32,791,331	29,022,756
Liabilities			
Deposits from customers	23	16,266,253	10,560,680
Deposits from banks		4,192,420	6,800,864
Financial assets sold under repurchase agreement		769,097	—
Derivative financial liabilities	30	52,032	179,940
Certificates of deposit and other debt securities issued	25	4,944,322	6,392,779
Current tax payable	24(a)	63,195	84,082
Lease liabilities	26	22,252	47,505
Short-term borrowings		207,612	399,583
Other liabilities	27	586,494	386,531
TOTAL LIABILITIES		27,103,677	24,851,964

BANK OF SHANGHAI (HONG KONG) LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2023
(EXPRESSED IN HONG KONG DOLLARS)

	Note	2023 \$'000	2022 \$'000
Capital and reserves	28		
Share capital	28(a)	6,305,476	4,000,000
Retained profits		(248,734)	478,860
Other reserves		(369,088)	(308,068)
TOTAL EQUITY		<u>5,687,654</u>	<u>4,170,792</u>
TOTAL EQUITY AND LIABILITIES		<u><u>32,791,331</u></u>	<u><u>29,022,756</u></u>

Approved and authorised for issue by the board of directors on 30 April 2024

)	
)	
)	
Chen Xuanqiang)	
)	Directors
)	
)	
)	
Sun Po Yuen)	

The notes on pages 12 to 91 form part of these financial statements.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023
(EXPRESSED IN HONG KONG DOLLARS)

	Note	Share capital \$'000	Retained profits \$'000	Revaluation reserve \$'000	Regulatory reserve \$'000	Capital contribution \$'000	Exchange reserve \$'000	Total \$'000
Balance as at 1 January 2022		4,000,000	1,079,847	(381,261)	–	129,874	15,691	4,844,151
Loss for the year		–	(600,987)	–	–	–	–	(600,987)
Other comprehensive income	13(a)	–	–	(30,078)	–	–	(42,294)	(72,372)
Total comprehensive income		–	(600,987)	(30,078)	–	–	(42,294)	(673,359)
Transfers	28(d)	–	–	–	–	–	–	–
Balance as at 31 December 2022 and 1 January 2023		4,000,000	478,860	(411,339)	–	129,874	(26,603)	4,170,792
Loss for the year		–	(727,594)	–	–	–	–	(727,594)
Other comprehensive income	13(a)	–	–	(46,210)	–	–	(14,810)	(61,020)
Total comprehensive income		–	(727,594)	(46,210)	–	–	(14,810)	(788,614)
Issuance of new ordinary shares	28(a)	2,305,476	–	–	–	–	–	2,305,476
Transfers	28(d)	–	–	–	–	–	–	–
		2,305,476	(727,594)	(46,210)	–	–	(14,810)	1,516,862
Balance as at 31 December 2023		6,305,476	(248,734)	(457,549)	–	129,874	(41,413)	5,687,654

The notes on pages 12 to 91 form part of these financial statements.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023
(EXPRESSED IN HONG KONG DOLLARS)

	Note	2023 \$'000	2022 \$'000
Net cash outflow from operating activities	33(a)	(1,869,676)	(2,740,105)
Investing activities			
Proceeds from sales and redemption of investment securities		8,572,790	17,153,911
Purchases of property and equipments and intangible assets	20, 21	(1,230)	(4,165)
Purchase of investment securities		(9,676,863)	(15,728,683)
Sale of interests in associates		(1,316)	433
Interest received from investment securities		212,436	326,823
Net cash (outflow)/ inflow from investing activities		(894,183)	1,748,319
Financing activities			
Proceeds from the issuance of new ordinary shares	28(b)	2,305,476	—
Proceeds from other debt securities	33(d)	2,741,710	—
Redemption of other debt securities	33(d)	(3,900,829)	—
Interest paid for the other debt securities		(48,909)	(48,951)
Net proceeds from short-term borrowings		(191,971)	93,407
Interest paid for short-term borrowings		(44,345)	(10,716)
Capital element of lease rental paid		(25,319)	(25,536)
Interest element of lease rental paid		(757)	(1,307)
Net cash inflow from financing activity		835,056	6,897
Decrease in cash and cash equivalents		(1,928,803)	(984,889)
Cash and cash equivalents at 1 January		2,889,578	3,874,467
Effects of foreign exchange rate changes		(2,968)	—
Cash and cash equivalents at 31 December	33(b)	957,807	2,889,578

The notes on pages 12 to 91 form part of these financial statements.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN HONG KONG DOLLARS)

1 GENERAL INFORMATION AND MATERIAL ACCOUNTING POLICIES

(a) General information

The principal activities of the Group are to provide financial services to corporations and individuals.

Founded in 2013, Bank of Shanghai (Hong Kong) Limited (the “Company” or the “Bank”), a wholly owned subsidiary of Bank of Shanghai Co., Limited, is a restricted license bank incorporated and domiciled in Hong Kong with the registered office and principal place of business at 34th Floor, Champion Tower, 3 Garden Road, Central, Hong Kong. The Company and its wholly owned subsidiary, BOSCI International Company Limited (the “BOSCI”) (together the “Group”), a licensed corporation in Hong Kong under Securities and Futures Ordinance, provide banking, financial and related activities to corporate and individual clients.

Principal activities and other particulars of the Group’s subsidiaries are set out in Note 19 to the financial statements.

Before 1 July 2022, for regulatory reporting purposes, the Company is required to compute its capital adequacy ratios and leverage ratio on unconsolidated basis that is different from the basis of consolidation for accounting purposes. As a result of the review of the scope of consolidation for regulatory purposes, the Bank is required to calculate the key prudential ratios on both unconsolidated and consolidated basis with effective from 1 July 2022. The basis is set out in the Note 3(a) to the Regulatory Disclosure Statements. The disclosures of capital adequacy ratios, leverage ratio and liquidity maintenance ratio as required by Banking (Disclosure) Rules are available in the section of Regulatory Disclosures on our website.

(b) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. Material accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(c) Basis of preparation

The consolidated financial statements for the year ended 31 December 2023 comprise the Company and its subsidiaries (together the Group).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

1 GENERAL INFORMATION AND MATERIAL ACCOUNTING POLICIES (CONTINUED)

(c) Basis of preparation (continued)

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- debt and equity securities (see Note 1(f));
- derivative financial instruments (see Note 1(f)); and
- financial liabilities at fair value through profit and loss (see Note 1(f)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have material effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

Adoption of new and revised accounting standards

The HKICPA has issued a number of new / revised standards that are effective for financial years beginning on or after 1 January 2023. The Group has made an assessment of these new / revised standards and considered that they either have no material impact on the Group's consolidated financial statements or are not relevant to the Group's operations.

Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2023

Up to the date of issue of these financial statements, the HKICPA has issued a number of new or amended standard, which are not yet effective for the year ended 31 December 2023 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

1 GENERAL INFORMATION AND MATERIAL ACCOUNTING POLICIES (CONTINUED)

(c) Basis of preparation (continued)

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, <i>Presentation of financial statements:</i> <i>Classification of liabilities as current or non-current</i>	1 January 2024
Amendments to HKAS 1, <i>Presentation of financial statements:</i> <i>Non-current Liabilities with Covenants</i>	1 January 2024
Amendments to HKFRS 16, <i>Leases: Lease Liability in a Sale and Leaseback</i>	1 January 2024

The amendments and interpretations effective for future periods do not have a significant impact on the Group's consolidated financial statements.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 1(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

1 GENERAL INFORMATION AND MATERIAL ACCOUNTING POLICIES (CONTINUED)

(e) Associates (continued)

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 1(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees, any impairment losses for the year and the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income are recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

(f) Financial instruments

Initial recognition

Purchases and sales of all financial assets are recognised on the date that the Group enters into the contractual arrangements with counterparties. When the Group acts as a trustee or in a fiduciary capacity for assets it does not directly control or benefit from, except for the trust accounts for client monies (Note 1(l)), the assets and the corresponding income belonging to a customer are excluded from the financial statements. Financial assets are initially recognised at fair value, which is generally the transaction price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

1 GENERAL INFORMATION AND MATERIAL ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (continued)

Classification and subsequent measurement

Financial assets are categorised financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (“FVOCI”) and at fair value through profit or loss (“FVPL”). The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

Contractual cash flow characteristic mainly refer to whether the assets constitute a “basic lending arrangement” where their contractual cash flows represent solely payments of principal and interest (“SPPI”).

- Debt instruments are measured at amortised cost when they are in a “hold to collect” (“HTC”) business model and have contractual cash flows that are SPPI in nature. The objective of a HTC business model is to collect contractual principal and interest cash flows. Sales are incidental to the objective and expected to be either insignificant or infrequent.
- Debt instruments are measured at fair value through other comprehensive income (FVOCI) when they are in a “hold to collect & sell” (“HTC&S”) business model and have cash flows that are SPPI in nature. Both the collection of contractual cash flows and sales are integral to achieving the objective of the HTC&S business model.

Unrealised gains or losses on FVOCI debt instruments are recorded in other comprehensive income and accumulated in FVOCI reserves. When they are sold, the accumulated fair value adjustments in FVOCI are reclassified to profit or loss as “Net income from investment securities”.

- Debt instruments are measured at fair value through profit or loss (FVPL) when:
 - i. the assets are not SPPI in nature;
 - ii. the assets are not part of a “HTC” or “HTC & S” business model; or
 - iii. the assets are designated at FVPL so as to eliminate or significantly reduce the measurement or recognition inconsistencies that would otherwise arise from measuring assets or liabilities on different bases.

Realised and unrealised gains or losses on FVPL financial assets, are taken to “Net income from financial instruments measured at fair value” in the Statement of Comprehensive Income in the period they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

1 GENERAL INFORMATION AND MATERIAL ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (continued)

Classification and subsequent measurement (continued)

- Subsequent changes in fair value of non-trading equity instruments can be taken through profit or loss or other comprehensive income, as elected. Other than dividend income, gains and losses on FVOCI equity instruments are recorded in other comprehensive income and accumulated in FVOCI reserves, and are not reclassified to profit or loss upon derecognition.
- Derivatives (including derivatives embedded in financial liabilities but separated for accounting purposes) are also classified as held for trading unless they are designated as hedging instruments. Derivatives are classified as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivatives other than those designated as hedging instruments in cash flow or net investment hedges are included in "Net income from financial instruments measured at fair value".

Reclassification of financial assets

Reclassification of financial assets are prohibited unless the Group changes its business model for managing financial assets. In practice, this is expected to be infrequent.

Determination of fair value

The fair value of financial asset is the price that would be received if the asset is sold in an orderly transaction between market participants at the measurement date. Fair value is generally estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. Where applicable, a valuation reserve or pricing adjustment is applied to arrive at the fair value. The determination of fair value is considered a material accounting policy for the Group and further details are disclosed in Note 5(e) on fair value measurements.

Offsetting

Financial assets and liabilities are presented in net when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle them on a net basis, or realise the asset and settle the liability simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

1 GENERAL INFORMATION AND MATERIAL ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when they have been transferred together with substantially all risks and rewards of ownership.

The Group enters into certain transactions where it transfers financial assets recognised on its statement of financial position but retains either all or a portion of the risks and rewards of the transferred financial assets. In such cases, the transferred financial assets are not derecognised from the statement of financial position. This also includes certain transactions where control over the financial asset is retained.

(g) Right-of-use assets, property and equipments

The following items of right-of-use assets (RoU), property and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 1(k)):

- RoU assets arising from leases over freehold or leasehold properties where the Group is not the registered owner of the property interest; and
- items of plant and equipment, including right-of-use assets arising from leases of underlying equipment (see Note 1(i)).

Gains or losses arising from the retirement or disposal of RoU asset or item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of RoU assets and property and equipments, less their estimated residual value, if any, using the straight-line method over the estimated useful lives as follows:

- | | |
|--|--|
| – Leasehold improvements | Shorter of the lease term or their estimated useful lives to the Group, being no more than 50 years after the date of completion |
| – Furniture, computer and other equipments | 2 – 5 years |
| – Motor vehicles | 4 – 5 years |

Where parts of an item of RoU asset or property and equipments have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

1 GENERAL INFORMATION AND MATERIAL ACCOUNTING POLICIES (CONTINUED)

(h) Intangible assets

Intangible assets included software and club membership. Intangible assets are stated in the statement of financial position at cost less accumulated amortisation and impairment losses (see Note 1(k)).

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

– Software	1 – 5 years
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Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to definite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(i) Leased asset

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.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At 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 which, for the Group are primarily office furniture. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

1 GENERAL INFORMATION AND MATERIAL ACCOUNTING POLICIES (CONTINUED)

(i) Leased asset (continued)

(i) As a lessee (continued)

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. 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 rate are not included in the measurement of the lease liability and hence are charged to profit or loss 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, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 1(g) and 1(k)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or 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 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 profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(j) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collaterals through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrowers, repossessed assets are reported in "Other assets". The Group does not hold the repossessed assets for its own use.

Repossessed assets are recorded at the lower of the amount of the related loans and advances and fair value less costs to sell at the date of repossession, and the related loans and advances together with the related impairment allowances are derecognised from the consolidated statement of financial position. They are not depreciated or amortised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

1 GENERAL INFORMATION AND MATERIAL ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets

Impairment for financial assets

The Group recognises loss allowance for expected credit loss (“ECL”) on all financial assets, except for financial assets classified or designated as FVPL and equity securities, which are not subject to impairment assessment. Off-balance sheet items that are subject to ECL include financial guarantees and undrawn loan commitments.

The ECL is measured using an approach which classifies financial assets into three stages, each of which is associated with an ECL requirement that is reflective of the assessed credit risk profile. A financial asset is classified under:

- Stage 1, if it was not credit-impaired upon origination, and there has not been a significant increase in its credit risk. The ECL of a Stage 1 financial asset will be the credit loss that is expected to result from a default occurring over the next 12 months;
- Stage 2, if it was not credit-impaired upon origination but has subsequently experienced a significant increase in credit risk. The ECL of a Stage 2 financial asset will be the credit loss that is expected over the expected remaining life of the financial asset;
- Stage 3, if it has been credit-impaired with objective evidence of default. The assessed ECL for a Stage 3 financial asset is also the credit loss that is expected over the expected remaining life of the financial asset.

The impairment requirements of HKFRS 9 require management judgements, estimates and assumptions, particularly in the areas discussed below.

Measurement of ECLs

ECLs are probability-weighted estimates of credit losses determined by evaluating a range of possible outcomes and taking into account past events, current conditions and assessments of future economic conditions. The measurement of ECL is based primarily on the product of the instrument’s probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”) discounted using the Effective Interest Rate to the reporting date.

Expected Life

When measuring the ECL for Stage 2 assets, cashflows over the expected remaining life of the financial asset are considered. For most financial instruments, this is the same as the remaining contractual life which represents the maximum contractual period over which the Group is exposed to the credit risk of the customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

1 GENERAL INFORMATION AND MATERIAL ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

Assessment of significant increase in credit risk

The analysis underpinning the assessment of whether a financial asset has experienced a significant increase in credit risk since origination is multi-factor in nature, with a range of qualitative and quantitative parameters taken into consideration.

Financial assets are deemed to have experienced a significant increase in credit risk when: (1) observed changes in the probability of default, as measured in the downgrade in internal credit risk rating for each obligor between initial recognition and reporting date, are more than pre-specified thresholds; (2) exposures are placed on certain categories of internal credit for closer scrutiny of developing credit issues;

In any event, all exposures that are more than 30 days past due are considered to have demonstrated a significant increase in credit risk and are classified as Stage 2.

A Stage 2 exposure can be upgraded to Stage 1 if it is assessed that there is assurance of a sustainable improvement in its credit profile.

Definition of default for credit-impaired financial assets

Exposures are classified as Stage 3 if deemed to be credit-impaired or have suffered objective evidence of default as at the reporting date. The definition of default that is applied upon adoption of HKFRS 9 is consistent with that specified in the Basel regulatory capital rules.

The Group assesses whether there is evidence that a financial asset or a group of financial assets is impaired at the end of each reporting period, The Group carries out regular and systematic reviews of all credit facilities extended to customers. The criteria that the Group uses to determine whether there is evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor, including breach of covenants and/ or financial conditions;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- Granting of a concession to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, that the Group would not otherwise consider;
- High probability of bankruptcy or other financial reorganisation of the borrower.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

1 GENERAL INFORMATION AND MATERIAL ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

Definition of default for credit-impaired financial assets (continued)

In any event, all exposures that are 90 days past due or more are classified under Stage 3.

A Stage 3 exposure can be upgraded to Stage 2 if there are reasonable grounds to conclude that the obligor is able to service future principal and interest payments on the credit facility in accordance with the restructured terms.

Management overlay and judgements

Additional considerations that are assessed to have been inadequately addressed in the ECL model estimates are addressed through the application of a management overlay framework. This incorporates considerations such as: (1) potential loss assessments on watchlist cases, based on expert credit judgement; (2) observed model limitations; and (3) thematic events.

ECL adjustments arising from the exercise of the management overlay are subject to a robust review and governance process.

Credit judgment is an integral part of ECL quantification in view of the close integration with the credit risk management process of the Group. This includes, for example, risk rating assignment, watchlist process, as well as input into the assessment of significant increase in credit risk, expected remaining life and macroeconomic forecast.

Impairment for non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the property and equipments and intangible assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

1 GENERAL INFORMATION AND MATERIAL ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

Impairment for non-financial assets (continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset exceeds its recoverable amount. The carrying amount of the asset is adjusted to an extent that the carrying value of the asset will not be reduced below its individual fair value less costs of disposal, if measurable, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks and central bank, and short-term, highly liquid inter-bank placements and investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and balances with banks and central bank, placements with banks and investment securities.

Two subsidiaries of the Group maintain trust accounts with authorized institutions to clients' monies arising from their normal course of the regulated business activities. The Group has classified the balance within cash and bank balances in the statement of financial position and recognised the corresponding payables to respective clients and other institutions on the grounds that it is liable for any loss or misappropriation of clients' monies.

(m) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

1 GENERAL INFORMATION AND MATERIAL ACCOUNTING POLICIES (CONTINUED)

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

1 GENERAL INFORMATION AND MATERIAL ACCOUNTING POLICIES (CONTINUED)

(n) Income tax (continued)

Current tax balances and deferred tax balances, and movements therein are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group or the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group or the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Loan commitments, letters of credit, financial guarantees and provisions

(i) Loan commitments

Loan commitments are not financial instruments and are not recognised on statement of financial position but are disclosed as off-balance sheet in accordance with HKAS 37. They form part of the disclosures in Note 31. Upon a loan draw-down, the amount of the loan is accounted for as described in Note 1(f).

(ii) Letters of credit

Letters of credit are recorded off-balance sheet as contingent liabilities upon issuance, and corresponding payables to the beneficiaries and receivables from the applicants are recognised on-balance sheet upon acceptance of the underlying documents.

(iii) Financial guarantees

A financial guarantee is initially recognised in the financial statements at fair value on the date the guarantee is given. Financial guarantees are subsequently measured at the higher of:

- The amount of the ECL (Note 1(k)), and
- The unamortised portion of the fees that were received on initial recognition. The fee is recognised over time as income in accordance with the principles in Note 1(p).

Off-balance sheet credit exposures are managed for credit risk in the same manner as financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

1 GENERAL INFORMATION AND MATERIAL ACCOUNTING POLICIES (CONTINUED)

(o) Loan commitments, letters of credit, financial guarantees and provisions (continued)

(iv) Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of asset 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.

Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

(p) Revenue recognition

The Group has applied the five-step approach as prescribed in HKFRS 15 in assessing the nature of each revenue stream. Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Interest income

Interest income for all interest-bearing financial instruments is recognised in the profit or loss on a time proportion basis using the effective interest method as prescribed by HKFRSs.

The calculation includes significant fees and transaction costs that are an integral to the effective interest rate, as well as premiums or discounts.

For impaired loans, the accrual of interest income based on the original terms of the loan is discontinued, but any increase in the present value of impaired loans due to the passage of time is reported as interest income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

1 GENERAL INFORMATION AND MATERIAL ACCOUNTING POLICIES (CONTINUED)

(p) Revenue recognition (continued)

(ii) Fee and commission income

The Group earns fee and commission income from a diverse range of products and services provided to its customers.

Fee and commission income are recognised when the Group has satisfied its performance obligation in providing the promised products and services to the customer, and are recognised based on contractual rates agreed with customers, net of expected waivers based on historical experience, and net of expenses directly related to it. The Group generally satisfies its performance obligation and recognises the fee and commission income on the following basis:

- Transaction-based fee and commission income is recognised on the completion of the transaction. Such fees include underwriting fee, brokerage fees, and fees related to the completion of corporate finance transactions.
- For a service that is provided over a period of time, fee and commission income is recognised on time proportion basis over the period during which the related service is provided or credit risk is undertaken. This basis of recognition most appropriately reflects the nature and pattern of provision of these services to the customers over time. Fees for these services can be billed to customers in advance or periodically over time. Such fees include the income from issuance of financial guarantees and loan agency service fees.

The Group does not provide any significant credit terms to customers for the above products and services.

Directly related expenses typically include brokerage fees and commission paid, but do not include expenses for services delivered over a period (such as service contracts) and other expenses that are not specifically related to fee and commission income transactions.

(iii) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment is quoted ex-dividend.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

1 GENERAL INFORMATION AND MATERIAL ACCOUNTING POLICIES (CONTINUED)

(q) Repurchase agreements

Repurchase agreements (“Repos”) are arrangements where the Group sold the securities but subject to a commitment to repurchase or redeem the securities at a pre-determined price. The securities are retained on the balance sheet as the Group retains substantially all the risk and rewards of ownership. The consideration received is recorded as financial liabilities in “financial assets sold under repurchase agreement”.

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(s) Related parties

(a) A person, or a close member of that person’s family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group’s parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

1 GENERAL INFORMATION AND MATERIAL ACCOUNTING POLICIES (CONTINUED)

(s) Related parties (continued)

- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 ADOPTION OF ACCOUNTING POLICIES

The Group has applied the following amendments to HKFRSs issued by the HKICPA which are effective for the financial year beginning on 1 January, 2023 to these financial statements for the current accounting period:

- Amendments to HKAS 1, Presentation of financial statements and HKFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies
- Amendments to HKAS 8, Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates
- Amendments to HKAS 12, Income taxes: Deferred tax related to assets and liabilities arising from a single transaction
- Amendments to HKAS 12, Income taxes: International Tax Reform – Pillar Two Model Rules

The amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

3 CRITICAL ACCOUNTING ESTIMATES

The Group's accounting policies and use of estimates are integral to the reported results. Certain accounting estimates require management's judgement in determining the appropriate methodology for valuation of assets and liabilities. Procedures are in place to ensure that methodologies are reviewed and revised as appropriate. The Group believes its estimates for determining the valuation of its financial assets and liabilities are appropriate.

The following is a brief description of the Group's critical accounting estimates that involve management's valuation judgement.

(a) Impairment of financial assets

It is the Group's policy to recognise, through charges against profit, allowances in respect of estimated and inherent credit losses in its portfolio as described in Note 1(k).

ECLs are probability-weighted amounts determined by evaluating a range of possible outcomes and taking into account past events, current conditions and assessments of future economic conditions, which will necessarily involve the use of judgement Including:

- The Group's internal credit rating model, which assigns probability of defaults to all accounts.
- The Group's significant credit determination criteria for assessing whether the financial assets impairment allowances should be measured on a lifetime ECL basis,
- The identification of macro-economic factors impacting the default rate of our portfolio through statistical regression analysis of the variables on a proxy portfolio given the limited default data of the Group.
- The determination of the three economic scenarios (base, good and bad) with reference to three different levels of the macro-economic factors and the assignment of the weighting on each scenario, which are determined by a combination of statistical analysis and expert credit judgement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

3 CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

(a) Impairment of financial assets (continued)

- The addition of Covid-19 scenario on top of the three economic scenario to take into account of the possible impact on the economic environment under Covid-19. The weighting of this scenario is determined by management judgements with reference to the various relevant factors identified that have major impact on the economic environment.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcome may be significantly different to those projected. The level of estimation uncertainty and judgement has increased because of the outbreak of Covid-19, including significant judgements relating to:

- The identification of the appropriate source of the forecast macro-economic factors as the existing source of the forecast may not be updated and keep abreast of the unprecedented volatile economic change under the impact of the Covid-19.
- The weighting assigned to the good, base, bad and Covid-19 scenario, and actual outcomes of the economic forecast as there are high uncertainty over the effectiveness of the pandemic measures, including the possible emergence of new variants of the virus still under the control of the developed vaccines.
- The estimation of the economic effects of the scenarios on ECL, as there is limited observable historical trend that can be reflected in the models that will actually represent the effects of the economic changes of the severity and speed brought about by the Covid-19 outbreak.

However, the forecasts are considered as the best estimate of the possible outcomes and chosen scenarios are the appropriately representative of the possible scenarios at that point of the time.

Credit judgement is an integral part of ECL quantification in view of the close integration with the credit risk management process of the Group, including management overlay. With the subsequent detailed analysis of the impact of the Covid-19 in the Group's portfolio (especially the sectors directly affected by Covid-19), the gradual reflection of the impact of pandemic on the customers' financials and business performance and the review of the ECL model and parameters, the management overlay has been removed in the year-end of the financials. However, the ECL model is still sensitive to the rapid change of the macro-economic factors. The Group has internal governance in place to regularly monitor management judgemental adjustments to reduce the inappropriate volatility of the ECL figures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

3 CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

(a) Impairment of financial assets (continued)

In estimating specific allowances under HKFRS 9, the Group assesses the gap between borrowers' obligations to the Group and their repayment ability. The assessment takes into account various factors, including the economic or business outlook, the future profitability of the borrowers and the liquidation value of collateral. Such assessment requires considerable judgement.

The general allowances under HKFRS 9 are determined after taking into account historical data and management's assessment of the current economic and credit environment.

(b) Fair value of financial instruments

The majority of the Group's financial instruments reported at fair value are based on quoted and observable market prices or on internally developed models that are based on independently sourced market parameters.

The fair value of financial instruments without an observable market price in a liquid market may be determined using valuation models. The choice of model requires significant judgement for complex products.

Policies and procedures have been established to facilitate the exercise of judgement in determining the risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors used in the valuation process.

Please refer to Note 5(e) for details on valuation process and the fair value hierarchy of the Group's financial instruments measured at fair value.

(c) Income taxes

Judgement is involved in determining the group-wide provision for income taxes. The Group recognises liabilities for expected tax issues based on reasonable estimates of whether additional taxes will be due. Note 24 provides details of the Group's deferred tax assets / liabilities.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

4 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2023 \$'000	2022 \$'000
Assets			
Cash and balances with banks and central bank		643,488	1,087,683
Placements with and advances to banks		23,370	499,981
Financial assets at fair value through profit and loss		149,241	36,672
Derivative financial assets		53,375	16,426
Loans and advances to customers		21,196,452	15,565,537
Investment securities		7,655,551	7,191,467
Investment in subsidiaries	19	1,000,000	780,000
Property and equipments		21,525	45,078
Intangible assets		2,192	2,750
Current tax recoverable		34,191	34,191
Deferred tax assets		71,178	91,496
Other assets		288,898	304,550
TOTAL ASSETS		<u>31,139,461</u>	<u>25,655,831</u>
Liabilities			
Deposits from customers		16,513,971	11,320,503
Deposits from banks		4,192,420	6,800,864
Financial assets sold under repurchase agreement		769,097	–
Derivative financial liabilities		52,032	179,940
Certificates of deposit issued		2,285,774	2,494,218
Lease liabilities		18,736	40,541
Other liabilities		385,617	215,138
TOTAL LIABILITIES		<u>24,217,647</u>	<u>21,051,204</u>
Capital and reserves			
	28(b)		
Share capital		6,305,476	4,000,000
Retained profits		621,170	615,588
Other reserves		(4,832)	(10,961)
TOTAL EQUITY		<u>6,921,814</u>	<u>4,604,627</u>
TOTAL EQUITY AND LIABILITIES		<u>31,139,461</u>	<u>25,655,831</u>

Approved and authorised for issue by the board of directors on 30 April 2024

)	
)	
)	
Chen Xuanqiang)	
)	Directors
)	
)	
Sun Po Yuen)	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial and operational risks and those activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The most important types of financial risks are credit risk, market risk and liquidity risk. Market risk includes currency risk, interest rate and price risk.

Taking risk is core to the financial business, and the financial and operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks so as to set appropriate risk limits and controls, and to monitor the risks and adhere to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to cope with changes in markets, products and industry best practice.

Risk management functions are carried out by the specialised committees, management committees and the functional departments under the oversight of the Board of Directors (the "Board"). The Board provides guiding principles and directives for overall risk management including necessary policies covering the important risks as described below.

The Group has adopted a "Three Lines of Defense" risk management structure. The first line of defense comprises the Group's business units, which are responsible for the management of the risks that they incur in the course of their activities. The Risk Management Department and Compliance Department provide independent oversight over the risk takers as the second line of defense. Reporting directly to the Audit Committee, the Group's Internal Audit Department serves as the third line of defense.

The Board, through Audit Committee, assesses the effectiveness of the Group's risk management and internal control systems which cover all material controls, including financial, operational and compliance controls. The Group has established an Audit Committee with specific written Terms of Reference which deal clearly with its authority and duties. The Terms of Reference of the Audit Committee have included the duties set out in the Corporate Governance Policy, with appropriate modifications where necessary. The Internal Audit Department assists the Audit Committee in its oversight of the Group's overall risk management and internal control systems by conducting periodic reviews to assess the adequacy of the Group's risk management framework, control, and governance processes as designed by the first and second lines of defense.

Pursuant to a risk based approach, the Group's Internal Audit Department prepares an annual audit plan to determine the extent, nature and frequency of audit assignments every year. The Internal Audit Department conducts independent reviews of control mechanism over various operations and activities according to the plan. The senior management of the Group and regulator may also engage Internal Audit Department to conduct ad-hoc and specific reviews from time to time. Significant audit findings and the implementation status of audit recommendations are reported to the Audit Committee at least twice each year.

There were no material changes to the policies and practices for the management of risk in 2023. The management actively managing the risks resulting from the volatile economic environment and its impact on our customers and operations during 2023 as well as other key risks described in this section.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk

Credit risk is the potential losses caused by obligor's inability to fulfil their contractual debt obligations. It arises from lending, treasury, derivatives and other activities undertaken by the Group. Credit exposures arise principally in loans and advances and debt securities in the Group's asset portfolio. There is also credit risk in off-balance sheet financial arrangements such as loan commitments.

The Group has established core procedures to foster its credit discipline in accordance with its credit policies.

The Group's approach to credit risk management focuses on monitoring and managing credit portfolios. Regular portfolio analysis is conducted to track the asset quality and determine credit underwriting strategies on an ongoing basis. The Group's exposures to individuals, counterparties and products are subject to various risk control limits which are reviewed and approved from time to time. The senior management of the Group evaluates and approves new product proposals, credit criteria for new account relationship, and sets appropriate limits. As a rule, credit quality takes precedence over opportunistic business development.

Facility requests are processed in the prescribed format, and those conforming to defined credit criteria are approved within the delegated credit approval authorities in compliance with established policies, standards and procedures. The Group's credit risk is being mitigated by taking security in secured lending transactions. Credit exceptions to established underwriting criteria must be approved by the officers or committees with sufficient exception approval authority. Exceptions are documented, tracked or reported to senior management/committees for review on a regular basis.

All credit exposures are subject to stringent collection, classification and charge-off policies. In addition, the Group applies ECL model to determine the appropriate level of impairment allowances.

(i) Maximum exposure

The table below shows the maximum exposure to credit risk at the reporting date without taking account of any collaterals held or other credit enhancements. For on-balance sheet assets, the exposures shown below are based on the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities or revocable in the extent of significant adverse change, the maximum exposure to credit risk is disclosed as the full amount of the committed facilities sought on these balances.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) Maximum exposure (continued)

	2023 \$'000	2022 \$'000
Cash and balances with banks and central bank	842,085	1,357,023
Placements with and advances to banks	115,600	499,981
Financial assets at fair value through profit and loss	781,049	981,877
Derivative financial assets	53,375	16,426
Loans and advances to customers	21,196,452	15,565,537
Investment securities	8,990,097	9,703,324
Investment in associates	5,857	4,658
Current tax recoverable	34,191	34,191
Other assets	489,246	453,388
Loan commitments and other credit related commitments	5,100,454	5,583,844
	<u>37,608,406</u>	<u>34,200,249</u>

Credit risk mitigation, collaterals and other credit enhancement

The Group uses a variety of techniques to reduce the credit risk arising from its lending activities. Enforceable legal documentation establishes the Group's direct, irrevocable and unconditional recourse to any collaterals, security or other credit enhancement provided. The table below describes the nature of collaterals held and their financial effect by class of financial asset:

Balances and placements with banks and central bank	:	These exposures are generally considered to be low risk due to the nature of the counterparties. Collaterals is generally not sought on these balances.
Derivative financial assets	:	Master netting agreements are typically used to enable the effects of derivative financial assets and liabilities with the same counterparty to be offset in case of default.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) Maximum exposure (continued)

Credit risk mitigation, collaterals and other credit enhancement (continued)

Loans and advances to customers : These exposures are secured, partially secured or unsecured depending on the type of customers and the products offered to them. Collaterals accepted by the Group includes residential properties, commercial real estates, share listed on a recognised stock exchange, standby letter of credit issued by banks accepted by the Group, bank deposits, etc.

Contingent liabilities and commitments : The components and the nature of contingent liabilities and commitments are disclosed in Note 31. For commitments that are unconditionally cancellable, the Group would assess whether the credit facilities should be withdrawn whenever the Group is aware of the deterioration of borrower's credit quality. Accordingly, these commitments do not expose the Group to significant credit risk.

For commitments that are not unconditionally cancellable, including letter of credit issued and other credit facilities, they are secured, partially secured or unsecured depending on the type of customers and the products offered to them.

(ii) Credit quality of loans and advances and placements with banks

As at 31 December 2023 and 2022, all placements with banks were neither past due nor impaired. Note 16(e) provides information on credit quality of the loans and advances to customers.

(iii) Credit quality of investment securities

The following table presents an analysis of investment securities by rating agency designation at the reporting date, based on Standard and Poor's Rating Services, Moody's Investors Services or Fitch Ratings, to the respective issues of the investment securities. In the absence of such issue ratings, the ratings designated for the issuers are reported. If there are different ratings for the same securities, the securities are reported against the lowest rating.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit quality of investment securities (continued)

	2023 \$'000	2022 \$'000
AA+ to A-	7,097,024	6,965,975
BBB+ to BBB-	855,178	1,106,309
BB+ or below	896,898	1,457,282
Unrated	140,997	173,758
	<u>8,990,097</u>	<u>9,703,324</u>

(iv) Enforceable netting arrangements or similar agreements

For the financial assets and liabilities subject to enforceable netting arrangements or similar agreements, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of enforceable netting arrangements or similar agreements, financial assets and liabilities will be settled on a gross basis. However, each party to the master netting arrangement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

These agreements include derivative master agreements (including the International Swaps and Derivatives Association Master Agreement), etc. The collaterals received and placed under these agreements are generally conducted under terms that are in accordance with normal market practices.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iv) Enforceable netting arrangements or similar agreements (continued)

The tables below present details of financial instruments subject to enforceable netting arrangements and similar agreements.

As at 31 December 2023

	Gross amounts of recognised financial assets \$'000	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position \$'000	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position \$'000	Net amounts of financial assets presented in the consolidated statement of financial position \$'000	Related amounts not set off in the consolidated statement of financial position		Net amount \$'000
					Financial instruments \$'000	Cash collaterals received \$'000	
Derivative financial assets	<u>53,375</u>	<u>–</u>	<u>53,375</u>	<u>(27,434)</u>	<u>(23,799)</u>	<u>2,142</u>	

As at 31 December 2023

	Gross amounts of recognised financial liabilities \$'000	Gross amounts of recognised financial assets set off in the consolidated statement of financial position \$'000	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position \$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position \$'000	Related amounts not set off in the consolidated statement of financial position		Net amount \$'000
					Financial instruments \$'000	Cash collaterals pledged \$'000	
Derivative financial liabilities	<u>52,032</u>	<u>–</u>	<u>52,032</u>	<u>(27,434)</u>	<u>(24,099)</u>	<u>499</u>	

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iv) Enforceable netting arrangements or similar agreements (continued)

As at 31 December 2022

	Gross amounts of recognised financial assets \$'000	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position \$'000	Net amounts of financial assets presented in the consolidated statement of financial position \$'000	Related amounts not set off in the consolidated statement of financial position		
				Financial instruments \$'000	Cash collaterals received \$'000	Net amount \$'000
Derivative financial assets	16,426	–	16,426	(8,990)	–	7,436

As at 31 December 2022

	Gross amounts of recognised financial liabilities \$'000	Gross amounts of recognised financial assets set off in the consolidated statement of financial position \$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position \$'000	Related amounts not set off in the consolidated statement of financial position		
				Financial instruments \$'000	Cash collaterals pledged \$'000	Net amount \$'000
Derivative financial liabilities	179,940	–	179,940	(8,990)	(133,553)	37,397

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

- (v) Forward-looking information incorporated in ECL model

Economic variable assumptions

The Bank adopts a two Macro economic factors model for assessing forward-looking adjustment with the forecasts of real GDP growth rate of China and US. The macroeconomic factors are maintained based on statistical data tests and expert judgement to ensure that relevant factors could be taken into consideration in the ECL models.

Scenario applied on the Bank

Scenario – Good / Base / Bad and Historical Scenario COVID-19 are determined based on the underlying assumptions described in the below table. In particular, Scenario – Base refers to a set of macroeconomic forecasts from reputable economic research institutions, Scenario Good / Bad are calculated based on different confidence interval of economic forecasts and Scenario COVID-19 is a historical scenario of 2020.

Underlying assumptions of the scenario

- Scenario – Good

This scenario is determined by applying the upper bound of 95% confidence interval of the macroeconomic forecasts into calculation.

- Scenario – Base

Forward-looking macroeconomic factors are a key component of the macroeconomic outlook. This scenario is based on a set of macroeconomic forecasts sourced from reputable economic research institutions.

- Scenario – Bad

This scenario is determined by applying the lower bound of 95% confidence interval of the macroeconomic forecasts into calculation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(v) Forward-looking information incorporated in ECL model (continued)

- Historical Scenario – COVID-19

This scenario is determined by using actual macroeconomic data of the worst year (i.e. 2020). +2.27% and -3.51% for China and US GDP growth respectively are applied into calculation.

Period-end assumptions used for the ECL estimate are set out as below.

		China		US	
		2023	2022	2023	2022
Real GDP Growth Rate (%)	Good	9.99	9.67	6.79	6.88
	Base	4.89	5.30	0.65	0.40
	Bad	-0.22	0.93	-5.49	-6.08

Scenario probabilities

To derive the scenario probabilities, an economic state analysis is performed by using historical data that covers peaks and troughs of economic cycles to ensure the calculated result stay unbiased and consideration of various factors for the possible impact of COVID-19. Moreover, to capture latest developments of the market and economy, assessments are performed by Risk Management with expert judgement exercised for the determination of the probability weightings application to the three scenarios.

The weightings assigned to normal Scenario Good (10%) / Base (80%) / Bad (10%) and COVID-19 Scenario were 85% and 15% respectively as at 31st December 2023 for the Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk

Market risk is the risk of loss on assets, liabilities and commitments arising from the net effect of changes in market rates, such as foreign exchange rates and interest rates.

The Group entered into foreign exchange, interest rate and money market transactions, primarily for the purpose of hedging, funding or deployment of surplus liquidity. Financial instruments entered into in respect of the above objectives mainly include forward foreign exchange contracts, money market transactions and interest rate swap transactions.

(i) Currency risk

The Group takes on exposure due to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board set limits on the level of certain foreign exchange exposures, which were managed by Treasury Department and monitored by Risk Management Department. The Group employs forward foreign currency exchange contracts, if applicable, to maintain its overall foreign currency exposure within such currency limit. The table below summarises the Group's exposures to foreign currency exchange rate risks that are recorded in the statement of financial position.

The following table indicates the currency concentration of the assets and liabilities at carrying amounts in Hong Kong dollars equivalent, categorised by original currency.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(i) Currency risk (continued)

At 31 December 2023

	HKD \$'000	USD \$'000	EUR \$'000	RMB \$'000	Others \$'000	Total \$'000
Assets						
Cash and balances with banks and central bank	36,790	646,002	14,359	131,246	13,688	842,085
Placements with and advances to banks	13,159	102,441	–	–	–	115,600
Financial assets at fair value through profit and loss	–	260,928	–	520,121	–	781,049
Derivative financial assets	–	8,799	–	44,576	–	53,375
Loans and advances to customers	8,646,660	9,066,818	1,003,000	2,479,974	–	21,196,452
Investment securities	3,180,371	3,443,542	–	2,366,184	–	8,990,097
Investment in associate	–	–	–	5,857	–	5,857
Property and equipments	21,677	–	–	3,123	–	24,800
Intangible assets	2,253	–	–	5	–	2,258
Current tax recoverable	34,191	–	–	–	–	34,191
Deferred tax assets	196,393	–	–	59,928	–	256,321
Other assets	127,468	196,822	5,951	158,894	111	489,246
Total assets	12,258,962	13,725,352	1,023,310	5,769,908	13,799	32,791,331
Deposits from customers	3,552,583	11,379,453	18,028	1,295,185	21,004	16,266,253
Deposits from banks	600,000	3,592,420	–	–	–	4,192,420
Financial assets sold under repurchase agreement	129,912	639,185	–	–	–	769,097
Derivative financial liabilities	–	24,104	–	27,928	–	52,032
Certificates of deposit and other debt securities issued	–	4,506,558	–	437,764	–	4,944,322
Current tax payable	46,429	–	–	16,766	–	63,195
Lease liabilities	18,837	–	–	3,415	–	22,252
Short-term borrowings	–	–	–	207,612	–	207,612
Other liabilities	104,823	348,684	1	132,953	33	586,494
Total liabilities	4,452,584	20,490,404	18,029	2,121,623	21,037	27,103,677
	7,806,378	(6,765,052)	1,005,281	3,648,285	(7,238)	5,687,654

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(i) Currency risk (continued)

At 31 December 2022

	HKD \$'000	USD \$'000	EUR \$'000	RMB \$'000	Others \$'000	Total \$'000
Assets						
Cash and balances with banks and central bank	171,829	909,673	867	262,637	12,017	1,357,023
Placements with and advances to banks	499,981	–	–	–	–	499,981
Financial assets at fair value through profit and loss	–	146,636	–	835,241	–	981,877
Derivative financial assets	–	11,254	–	5,172	–	16,426
Loans and advances to customers	6,784,106	7,980,551	476,835	324,045	–	15,565,537
Investment securities	1,293,504	6,477,472	–	1,932,348	–	9,703,324
Investment in associates	–	–	–	4,658	–	4,658
Property and equipments	45,406	–	–	6,284	–	51,690
Intangible assets	2,926	–	–	6	–	2,932
Current tax recoverable	34,191	–	–	–	–	34,191
Deferred tax assets	331,607	–	–	20,122	–	351,729
Other assets	39,673	340,572	1,532	71,121	490	453,388
Total assets	9,203,223	15,866,158	479,234	3,461,634	12,507	29,022,756
Liabilities						
Deposits from customers	3,095,894	6,682,383	22,724	709,918	49,761	10,560,680
Deposits from banks	275,000	5,849,361	–	676,503	–	6,800,864
Financial assets sold under repurchase agreement	–	–	–	–	–	–
Derivative financial liabilities	–	15,813	–	164,127	–	179,940
Certificates of deposit and other debt securities issued	–	5,062,950	–	1,329,829	–	6,392,779
Current tax payable	46,392	–	–	37,690	–	84,082
Lease liabilities	40,697	–	–	6,808	–	47,505
Short-term borrowings	–	–	–	399,583	–	399,583
Other liabilities	59,727	115,633	1	210,745	425	386,531
Total liabilities	3,517,710	17,726,140	22,725	3,535,203	50,186	24,851,964
Net long/(short) position	5,685,513	(1,859,982)	456,509	(73,569)	(37,679)	4,170,792

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(ii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow interest rate risk. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board set limits on the level of mismatch of interest rate repricing that may be undertaken, which were managed by Treasury Department and monitored by Risk Management Department daily.

As at 31 December 2023, if market interest rates were 1% higher while other variables maintained constant, profit before taxation for the year would have been \$154 million higher (2022: \$91 million higher). If market interest rates were 1% lower while other variables held constant, profit before taxation for the year would have been \$154 million lower (2022: \$91 million lower).

The table below summarises the Group's exposure to interest rate risk. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

At 31 December 2023

	Within 1 month \$'000	Over 1 month but within 3 months \$'000	Over 3 months but within 1 year \$'000	Over 1 year but within 5 years \$'000	Over 5 years \$'000	Non-interest bearing \$'000	Total \$'000
Assets							
Cash and balances with banks and central bank	222,801	–	–	–	–	619,284	842,085
Placements with and advances to banks	76,088	39,512	–	–	–	–	115,600
Financial assets at fair value through profit and loss	–	–	–	149,241	111,687	520,121	781,049
Derivative financial assets	–	–	–	–	–	53,375	53,375
Loans and advances to customers	11,365,516	836,207	3,946,703	5,048,026	–	–	21,196,452
Investment securities	1,697,285	689,304	3,347,452	2,756,709	369,040	130,307	8,990,097
Investment in associate	–	–	–	–	–	5,857	5,857
Property and equipments	–	–	–	–	–	24,800	24,800
Intangible assets	–	–	–	–	–	2,258	2,258
Current tax recoverable	–	–	–	–	–	34,191	34,191
Deferred tax assets	–	–	–	–	–	256,321	256,321
Other assets	211,746	123,170	41,443	6,812	–	106,075	489,246
Total assets	13,573,436	1,688,193	7,335,598	7,960,788	480,727	1,752,589	32,791,331
Liabilities							
Deposits from customers	3,336,114	5,629,146	6,910,513	390,480	–	–	16,266,253
Deposits from banks	–	1,427,633	1,483,826	1,280,961	–	–	4,192,420
Financial assets sold under repurchase agreement	–	769,097	–	–	–	–	769,097
Derivative financial liabilities	–	–	–	–	–	52,032	52,032
Certificates of deposit and other debt securities issued	–	485,191	4,459,131	–	–	–	4,944,322
Current tax payable	–	–	–	–	–	63,195	63,195
Lease liabilities	2,118	4,242	15,848	44	–	–	22,252
Short-term borrowings	42,731	164,881	–	–	–	–	207,612
Other liabilities	69,527	103,053	220,033	–	–	193,881	586,494
Total liabilities	3,450,490	8,583,243	13,089,351	1,671,485	–	309,108	27,103,677
	10,122,946	(6,895,050)	(5,753,753)	6,289,303	480,727	1,443,481	5,687,654

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

At 31 December 2022

	Within 1 month \$'000	Over 1 month but within 3 months \$'000	Over 3 months but within 1 year \$'000	Over 1 year but within 5 years \$'000	Over 5 years \$'000	Non- interest bearing \$'000	Total \$'000
Assets							
Cash and balances with banks and central bank	1,169,185	–	–	–	–	187,838	1,357,023
Placements with and advances to banks	500,000	–	–	–	–	(19)	499,981
Financial assets at fair value through profit and loss	–	167,758	333,392	146,636	106,132	227,959	981,877
Derivative financial assets	–	–	–	–	–	16,426	16,426
Loans and advances to customers	11,942,430	3,717,754	611,162	–	–	(705,809)	15,565,537
Investment securities	1,744,594	1,663,648	2,914,857	3,342,842	37,383	–	9,703,324
Investment in associates	–	–	–	–	–	4,658	4,658
Property and equipments	–	–	–	–	–	51,690	51,690
Intangible assets	–	–	–	–	–	2,932	2,932
Current tax recoverable	–	–	–	–	–	34,191	34,191
Deferred tax assets	–	–	–	–	–	351,729	351,729
Other assets	226,575	66,162	54,833	42,488	–	63,330	453,388
Total assets	15,582,784	5,615,322	3,914,244	3,531,966	143,515	234,925	29,022,756
Liabilities							
Deposits from customers	3,327,585	4,045,666	3,187,429	–	–	–	10,560,680
Deposits from banks	1,275,399	4,235,222	1,290,243	–	–	–	6,800,864
Financial assets sold under repurchase agreement	–	–	–	–	–	–	–
Derivative financial liabilities	–	–	–	–	–	179,940	179,940
Certificates of deposit and other debt securities issued	–	540,990	5,851,789	–	–	–	6,392,779
Current tax payable	–	–	–	–	–	84,082	84,082
Lease liabilities	273	2,356	6,158	19,982	18,736	–	47,505
Short-term borrowings	56,375	174,082	169,126	–	–	–	399,583
Other liabilities	30,342	109,459	72,535	–	–	174,195	386,531
Total liabilities	4,689,974	9,107,775	10,577,280	19,982	18,736	438,217	24,851,964
Net repricing gap	10,892,810	(3,492,453)	(6,663,036)	3,511,984	124,779	(203,292)	4,170,792

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

Liquidity risk is the risk that the Group may not be able to maintain sufficient funding to meet its financial obligations as they fall due. This may be caused by market disruption or liquidity squeeze whereby the Group may only unwind specific exposures at significantly discounted values. The Group adopts a prudent risk appetite in setting liquidity risk tolerance. Risk appetite is set in the form of liquidity risk limit and metrics.

The Asset and Liability Committee (“ALCO”) is a management committee delegated by the Board to oversee the liquidity risk of the Group. ALCO is responsible for reviewing and approving liquidity risk management strategies and, with the delegation to the Market Risk Division, monitoring the Group’s liquidity position.

Monitoring and reporting takes the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. Sources of liquidity are reviewed to maintain a diversification of providers, products and terms.

Liquidity stress testing is regularly conducted to project the Group’s cash flow condition under stress scenarios and evaluate the sufficiency of liquidity. The stress test results are regularly reported to the ALCO.

Treasury Department is responsible for the day-to-day liquidity management, includes:

- day-to-day funding management by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or provision of funds to be borrowed by customers;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- managing the concentration and profile of debt maturities; and
- monitoring unmatched medium-term assets, the level and type of undrawn lending commitments and the impact of contingent liabilities.

Market Risk Division and the Finance Department produce relevant liquidity reports for internal monitoring and regulatory reporting purpose.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

(i) Maturity analysis

The table below shows the maturity profile of assets and liabilities analysed by the remaining period to repayment as at the reporting date:

At 31 December 2023

	Repayable on demand \$'000	Within 1 month \$'000	Over 1 month but within 3 months \$'000	Over 3 months but within 1 year \$'000	Over 1 year but within 5 years \$'000	Over 5 years \$'000	Undated \$'000	Total \$'000
Assets								
Cash and balances with banks and central bank	842,150	–	–	–	–	–	(65)	842,085
Placement with and advances to banks	–	76,147	39,512	–	–	–	(59)	115,600
Financial assets at fair value through profit and loss	–	–	–	–	37,860	223,068	520,121	781,049
Derivative financial assets	–	–	–	–	–	–	53,375	53,375
Loans and advances to customers	185,368	11,342,020	866,393	4,070,215	4,732,456	–	–	21,196,452
Investment securities	–	83,431	11,921	332,485	6,931,584	1,500,676	130,000	8,990,097
Investment in associate	–	–	–	–	–	–	5,857	5,857
Property and equipments	–	–	–	–	–	–	24,800	24,800
Intangible assets	–	–	–	–	–	–	2,258	2,258
Current tax recoverable	–	–	–	34,191	–	–	–	34,191
Deferred tax assets	–	–	–	–	–	–	256,321	256,321
Other assets	1,394	170,723	27,192	25,298	117,961	42,691	103,987	489,246
Total assets	1,028,912	11,672,321	945,018	4,462,189	11,819,861	1,766,435	1,096,595	32,791,331
Liabilities								
Deposits from customers	–	3,336,114	5,629,146	6,910,512	390,481	–	–	16,266,253
Deposits from banks	–	1,280,960	1,427,634	1,483,826	–	–	–	4,192,420
Financial assets sold under repurchase agreement	–	–	769,097	–	–	–	–	769,097
Derivative financial liabilities	–	–	–	–	–	–	52,032	52,032
Certificates of deposit and other debt securities issued	–	–	485,191	4,459,131	–	–	–	4,944,322
Current tax payable	–	–	–	63,195	–	–	–	63,195
Lease liabilities	–	2,118	4,242	15,511	381	–	–	22,252
Short-term borrowings	–	42,732	164,880	–	–	–	–	207,612
Other liabilities	91	86,598	113,627	141,766	181,503	–	62,909	586,494
Total liabilities	91	4,748,522	8,593,817	13,073,941	572,365	–	114,941	27,103,677
Net liquidity gap	1,028,821	6,923,799	(7,648,799)	(8,611,752)	11,247,496	1,766,435	981,654	5,687,654

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

(i) Maturity analysis (continued)

At 31 December 2022

	Repayable on demand \$'000	Within 1 month \$'000	Over 1 month but within 3 months \$'000	Over 3 months but within 1 year \$'000	Over 1 year but within 5 years \$'000	Over 5 years \$'000	Undated \$'000	Total \$'000
Assets								
Cash and balances with banks and central bank	1,357,118	–	–	–	–	–	(95)	1,357,023
Placements with and advances to banks	–	500,000	–	–	–	–	(19)	499,981
Financial assets at fair value through profit and loss	–	–	167,758	333,392	146,636	106,132	227,959	981,877
Derivative financial assets	–	–	–	–	–	–	16,426	16,426
Loans and advances to customers	–	4,456,800	854,837	5,354,745	4,710,547	–	188,608	15,565,537
Investment securities	–	1,744,594	1,663,649	2,914,857	3,342,841	37,383	–	9,703,324
Investment in associates	–	–	–	–	–	–	4,658	4,658
Property and equipments	–	–	–	–	–	–	51,690	51,690
Intangible assets	–	–	–	–	–	–	2,932	2,932
Current tax recoverable	–	–	–	34,191	–	–	–	34,191
Deferred tax assets	–	–	–	–	–	–	351,729	351,729
Other assets	711	70,473	77,552	67,822	45,550	–	191,280	453,388
Total assets	1,357,829	6,771,867	2,763,796	8,705,007	8,245,574	143,515	1,035,168	29,022,756
Liabilities								
Deposits from customers	–	3,327,585	4,045,666	3,187,429	–	–	–	10,560,680
Deposits from banks	–	1,275,399	3,454,266	2,071,199	–	–	–	6,800,864
Financial assets sold under repurchase agreement	–	–	–	–	–	–	–	–
Derivative financial liabilities	–	–	–	–	–	–	179,940	179,940
Certificates of deposit and other debt securities issued	–	–	540,990	5,851,789	–	–	–	6,392,779
Current tax payable	–	–	–	84,082	–	–	–	84,082
Lease liabilities	–	2,080	4,169	18,917	22,339	–	–	47,505
Short-term borrowings	–	56,375	174,082	169,126	–	–	–	399,583
Other liabilities	–	42,510	111,230	94,466	109,612	–	28,713	386,531
Total liabilities	–	4,703,949	8,330,403	11,477,008	131,951	–	208,653	24,851,964
Net liquidity gap	1,357,829	2,067,918	(5,566,607)	(2,772,001)	8,113,623	143,515	826,515	4,170,792

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

(ii) Undiscounted cash flows by contractual maturities

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and derivative financial instruments by remaining contractual maturities at the reporting date, and also the cash flows payable in respect of other off-balance sheet items by the earliest date they could be called. The amounts disclosed in the table were the contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating based on rates prevailing at the reporting date), whereas the Group manages the inherent liquidity risk based on expected undiscounted cash flows.

At 31 December 2023

	Within 1 month \$'000	Over 1 month but within 3 months \$'000	Over 3 months but within 1 year \$'000	Over 1 year but less than 5 years \$'000	Total \$'000	Carrying amount \$'000
Deposits from customers	3,393,397	5,738,049	7,225,354	455,388	16,812,188	16,266,253
Deposits from banks	1,300,510	1,472,653	1,547,452	–	4,320,615	4,192,420
Financial assets sold under repurchase agreement	–	770,297	–	–	770,297	769,097
Certificates of deposit and other debt securities issued	–	490,840	4,754,985	–	5,245,825	4,944,322
Lease liabilities	2,138	4,276	15,572	391	22,377	44,057
Short-term borrowings	199	54,455	165,406	–	220,060	207,612
Other liabilities	17,163	23,872	1,251	85,724	128,010	128,011
	<u>4,713,407</u>	<u>8,554,442</u>	<u>13,710,020</u>	<u>541,503</u>	<u>27,519,372</u>	<u>26,551,772</u>
Derivatives cash flow settled on a net basis	<u>(56)</u>	<u>178</u>	<u>4,844</u>	<u>3,378</u>	<u>8,344</u>	
Derivatives cash flow settled on a gross basis						
Total inflow	3,372,128	2,095,986	3,370,171	–	8,838,285	
Total outflow	(3,389,186)	(2,062,897)	(3,401,305)	–	(8,853,388)	
	<u>(17,058)</u>	<u>33,089</u>	<u>(31,134)</u>	<u>–</u>	<u>(15,103)</u>	
Other off-balance sheet items (Notes 31)						
Loan commitments and other credit related commitments	<u>5,100,454</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>5,100,454</u>	

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

(ii) Undiscounted cash flows by contractual maturities (continued)

At 31 December 2022

	Within 1 month \$'000	Over 1 month but within 3 months \$'000	Over 3 months but within 1 year \$'000	Over 1 year but less than 5 years \$'000	Total \$'000	Carrying amount \$'000
Non-derivative financial liabilities						
Deposits from customers	3,344,068	4,102,455	3,300,269	–	10,746,792	10,560,680
Deposits from banks	1,296,167	3,511,454	2,151,857	–	6,959,478	6,800,864
Financial assets sold under repurchase agreement	–	–	–	–	–	–
Certificates of deposit and other debt securities issued	–	582,722	5,914,578	–	6,497,300	6,392,779
Lease liabilities	2,117	4,237	19,135	21,997	47,486	47,505
Short-term borrowings	57,271	203,844	169,887	–	431,002	399,583
Other liabilities	11,516	22,473	–	110,634	144,623	144,623
	<u>4,711,139</u>	<u>8,427,185</u>	<u>11,555,726</u>	<u>132,631</u>	<u>24,826,681</u>	<u>24,346,034</u>
Derivative cash flow settled on a net basis	<u>–</u>	<u>280</u>	<u>4,767</u>	<u>2,453</u>	<u>7,500</u>	
Derivative cash flow settled on a gross basis						
Total inflow	3,866,960	3,894,897	2,139,938	156,191	10,057,986	
Total outflow	(3,901,938)	(3,991,356)	(2,188,722)	(153,346)	(10,235,362)	
	<u>(34,978)</u>	<u>(96,459)</u>	<u>(48,784)</u>	<u>2,845</u>	<u>(177,376)</u>	
Other off-balance sheet items (Note 31)						
Loan commitments and other credit related commitments	5,583,844	–	–	–	5,583,844	
Financial guarantees and other credit related contingent liabilities	–	–	–	–	–	
	<u>5,583,844</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>5,583,844</u>	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Capital management

Being an authorised institution incorporated in Hong Kong, the Group is regulated by the Hong Kong Monetary Authority (“HKMA”) which sets and monitors capital requirements for the Group.

The HKMA has issued the Banking (Capital) Rules, which require the Group to maintain adequate regulatory capital to support credit risk, market risk and operational risk.

In addition to meeting the regulatory requirements, the Group’s primary objective in managing its capital is to ensure the Group’s ability to continue as a going concern so that it can continue to provide returns and benefits to shareholder and other stakeholders. To achieve the targeted return, products and services are priced to commensurate with the level of risk and funds are acquired at a reasonable cost.

The Group regularly reviews and manages its capital structure to maintain a balance between shareholder returns and security afforded by a capital position, and makes adjustments to the capital structure in light of any significant changes in economic conditions.

The Group monitors its capital structure with due consideration of the capital adequacy ratio as calculated in accordance with the Banking (Capital) Rules. The Group has adopted the Standardised (Credit Risk) Approach in calculating credit risk for non-securitisation exposures.

Throughout the years of 2023 and 2022, the Group fully complied with the capital requirements imposed by the HKMA.

(e) Fair value of financial assets and liabilities

(i) Financial assets and liabilities measured at fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: fair value measured using quoted market prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: fair value measured using valuation techniques based on observable inputs, either directly or indirectly. This category includes quoted prices in active markets for similar financial instruments, or quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Fair value of financial assets and liabilities (continued)

(i) Financial assets and liabilities measured at fair value (continued)

- Level 3: fair value measured using significant unobservable inputs. This category includes inputs to valuation techniques not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

Where available, the most suitable measure for fair value is the quoted market price. In absence of organised secondary markets for most of the unlisted securities and over-the-counter derivatives, direct market prices of these financial instruments may not be available. The fair values of such instruments are therefore calculated based on established valuation techniques using current market parameters or market prices provided by counterparties.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the reporting date. For other derivative financial instruments, the Group uses estimated discounted cash flows to determine their fair value and the discount rate used is a discount rate at the end of reporting period applicable for an instrument with similar terms and conditions.

The table below analyses financial instruments, measured at fair value as at 31 December 2023, by the level in the fair value hierarchy into which the fair value treatment is categorised:

	2023			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Recurring fair value measurements				
<i>Assets</i>				
Financial assets at fair value through profit and loss	–	260,928	520,121	781,049
Derivative financial assets (Note 30)	–	53,575	–	53,375
Investment securities at fair value through other comprehensive income (Note 17)	774,561	5,580,588	–	6,355,149
	<u>774,561</u>	<u>5,580,588</u>	<u>–</u>	<u>6,355,149</u>
<i>Liabilities</i>				
Derivative financial liabilities (Note 30)	–	52,032	–	52,032
	<u>–</u>	<u>52,032</u>	<u>–</u>	<u>52,032</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Fair value of financial assets and liabilities (continued)

(i) Financial assets and liabilities measured at fair value (continued)

	2022			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Recurring fair value measurements				
<i>Assets</i>				
Financial assets at fair value through profit and loss	–	146,635	835,242	981,877
Derivative financial assets (Note 30)	–	16,426	–	16,426
Investment securities at fair value through other comprehensive income (Note 17)	2,024,301	4,749,279	–	6,773,580
	<u>2,024,301</u>	<u>4,749,279</u>	<u>–</u>	<u>6,773,580</u>
<i>Liabilities</i>				
Derivative financial liabilities (Note 30)	–	179,940	–	179,940
	<u>–</u>	<u>179,940</u>	<u>–</u>	<u>179,940</u>

During the years of 2023 and 2022, there were no transfers of financial instruments between Level 1 and Level 2. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The fair value of the investment securities in Level 2 is determined using broker quotes as at the end of the reporting period.

Valuation of financial instruments with significant unobservable inputs

The fair value of financial assets at fair value through profit and loss in Level 3 is determined using the most recent transactions. As at 31 December 2023, it is estimated that with all other variable held constant, an increase/decrease in the price of same products by 5% would have increased/decreased the Group's equity by \$26 million (2022: \$28 million).

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Fair value of financial assets and liabilities (continued)

(i) Financial assets and liabilities measured at fair value (continued)

The movement during the period in the balance of these Level 3 fair value measurements are as follows:

	Convertible bonds \$'000	Return of beneficial interest \$'000	Unlisted equity investments \$'000	Total \$'000
At 1 January 2022	284,241	571,091	36,484	891,816
Addition	174,082	199,749	34,546	408,377
Disposal/redemption for the products	(184,535)	(175,089)	–	(359,624)
Net surplus/(deficit) on revaluation	(46,802)	1,849	(2,555)	(47,508)
Exchange difference	(7,125)	(47,479)	(3,215)	(57,819)
At 31 December 2022	<u>219,861</u>	<u>550,121</u>	<u>65,260</u>	<u>835,242</u>
At 1 January 2023	219,861	550,121	65,260	835,242
Addition	–	–	3,458	3,458
Disposal/redemption for the products	–	(160,780)	(424)	(161,204)
Net surplus/(deficit) on revaluation	(132,254)	(25,338)	20,102	(137,490)
Exchange difference	(4,826)	(12,324)	(2,735)	(19,885)
At 31 December 2023	<u>82,781</u>	<u>351,679</u>	<u>85,661</u>	<u>520,121</u>
At 31 December 2023 & 31 December 2022				
Total gains or losses for the period reclassified from other comprehensive income on disposal	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
At 31 December 2023				
Total gains or losses for the period included in profit or loss for assets held during the reporting period:				
– Net income from financial instruments measured at fair value	<u>(131,640)</u>	<u>(1,656)</u>	<u>20,102</u>	<u>(113,194)</u>
At 31 December 2022				
Total gains or losses for the period included in profit or loss for assets held during the reporting period:				
– Net income from financial instruments measured at fair value	<u>(41,367)</u>	<u>62,707</u>	<u>(2,555)</u>	<u>18,785</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Fair value of financial assets and liabilities (continued)

(i) Financial assets and liabilities measured at fair value (continued)

The fair values of financial instruments in Level 3 as at 31 December 2023 are determined by their respective valuation techniques as follows:

– Wealth management products from banks	Most recent market transactions or market comparable investment
– Convertible bonds	Discounted cashflow analysis
– Return of beneficial interest	Discounted cashflow analysis, most recent market transactions or market comparable investment
– Unlisted equity investment	Most recent market transactions or market comparable investment, net asset approach and cost approach

(ii) Financial assets and liabilities not measured at fair value

Financial assets and liabilities that are presented not at their fair value on the Group's consolidated statement of financial position and the Group's statement of financial position mainly represent cash and balances with banks and central bank, placements with and advances to banks, loans and advances to customers and investment securities at amortised costs. These financial assets are measured at amortised cost less impairment. Financial liabilities not presented at their fair value on the Group's consolidated statement of financial position and the Group's statement of financial position mainly represent deposits from banks, deposits from customers, financial assets sold under repurchase agreement and certificates of deposit and other debt securities issued. These financial liabilities are measured at amortised cost.

The Group assessed that the differences between fair values and carrying amounts of those financial assets and liabilities presented on the Group's and the Company's statement of financial position not at their fair values are minimal as most of the Group's and the Company's financial assets and liabilities are either short-term or priced at floating rates, except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Fair value of financial assets and liabilities (continued)

(ii) Financial assets and liabilities not measured at fair value (continued)

	Carrying amounts at 31 December 2023 \$'000	Fair value at 31 December 2023 \$'000	Fair value measurements as at 31 December 2023 categorised into		
			Level 1	Level 2	Level 3
			\$'000	\$'000	\$'000
Assets					
Investments securities at amortised cost, net of ECL (Note 17)	2,634,948	2,351,738	–	2,351,738	–
Liabilities					
Other debt securities issued at amortised cost (Note 25)	2,733,363	2,733,363	–	2,733,363	–
	Carrying amounts at 31 December 2022 \$'000	Fair value at 31 December 2022 \$'000	Fair value measurements as at 31 December 2022 categorised into		
			Level 1	Level 2	Level 3
			\$'000	\$'000	\$'000
Assets					
Investments securities at amortised cost, net of ECL (Note 17)	2,929,744	2,537,383	–	2,537,383	–
Liabilities					
Other debt securities issued at amortised cost (Note 25)	3,898,561	3,797,399	–	3,797,399	–

(f) Transfers of financial assets

The Group enters into transactions in the normal course of business which transfers recognised financial assets directly to third party. All these transfers resulted in full derecognition of the financial assets concerned as the Group transferred its contractual right to receive cash flows from these financial assets, or retained the rights but assumed an obligation to pass on the cash flows from these financial assets, and transferred substantially all the risks and rewards from financial assets. The risks included credit, interest rate, currency, prepayment and other price risks.

As at 31 December 2023 and 2022, there were no outstanding transferred financial assets in which the Group had a continuing involvement that were derecognised in their entirety.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

6 NET INTEREST INCOME

	2023 \$'000	2022 \$'000
Interest income		
Interest income calculated using the effective interest method		
– Balances and placements with banks	48,336	18,742
– Loans and advances to customers	1,174,647	628,971
– Investment securities	419,820	378,064
– Others	58,145	17,766
	<u>1,700,948</u>	<u>1,043,543</u>
Interest expense		
Interest expense arising from financial liabilities that are not measured at fair value through profit or loss		
– Deposits from banks	(318,905)	(152,649)
– Deposits from customers	(625,885)	(210,786)
– Certificates of deposit and other debt securities issued	(205,440)	(123,354)
– Others	(31,362)	(40,358)
	<u>(1,181,592)</u>	<u>(527,147)</u>
Net interest income	<u>519,356</u>	<u>516,396</u>

The interest income accrued on impaired financial assets and on unwinding of discount on loan impairment allowances amounted to HK\$20,702,000 for 2023 (2022: HK\$10,740,000).

Include within interest income is HK\$1,700,948,000 (2022: HK\$1,043,543,000) earned from financial assets and financial liabilities that are not recognised at fair value through profit or loss.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

7 NET FEE AND COMMISSION INCOME

	2023 \$'000	2022 \$'000
Fee and commission income		
– Credit facilities	8,946	16,805
– Trade services	2,744	2,033
– Corporate advisory	137,725	235,780
– Asset management	772	17,215
– Brokerage	2	2
– Others	463	3,838
	<u>150,652</u>	<u>275,673</u>
Fee and commission expense	<u>(13,419)</u>	<u>(16,735)</u>
Net fee and commission income	<u><u>137,233</u></u>	<u><u>258,938</u></u>

All the fee and commission income of HK\$150,652,000 (2022: HK\$275,673,000) and fee and commission expense of HK\$13,419,000 (2022: HK\$16,735,000) for the year ended 31 December 2023 arose from financial assets and financial liabilities that were not measured at fair value through profit or loss.

Net fee and commission income arose from trust or other fiduciary activities in which the Group held or invested on behalf of its customers for the years ended 31 December 2023 was HK\$772,000 (2022: HK\$17,215,000).

8 NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE AND NET LOSS FROM INVESTMENT SECURITIES

(a) Net (loss)/income from financial instruments measured at fair value

	2023 \$'000	2022 \$'000
Foreign exchange	51,087	37,661
Interest rate and others	<u>(95,981)</u>	<u>27,435</u>
	<u><u>(44,894)</u></u>	<u><u>65,096</u></u>

The foreign exchange gain in 2023 included the translation loss of HK\$23 million (2022: translation loss of HK\$67 million) on those Renminbi (RMB) assets funded by the Company's capital denominated in RMB (which is recorded on these financial statements at historical exchange rate) due to change in exchange rate of RMB against HKD. Excluding this translation loss, trading income from normal foreign exchange activities was HK\$74 million (2022: HK\$105 million).

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

8 NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE AND NET LOSS FROM INVESTMENT SECURITIES (CONTINUED)

(b) Net loss from investment securities

	2023 \$'000	2022 \$'000
Investment securities measured at amortised cost	–	(660)
Investment securities at fair value through other comprehensive income	(12,013)	(392,159)
	<u>(12,013)</u>	<u>(392,819)</u>

9 OPERATING EXPENSES

	Note	2023 \$'000	2022 \$'000
Staff costs			
– Salaries and other benefits		110,895	138,386
– Pension and provident fund costs		3,704	6,151
		<u>114,599</u>	<u>144,537</u>
Premises and equipment expenses excluding depreciation			
– Variable lease payments not included in the measurement of lease liabilities		58	53
– Maintenance and office facility expenses		3,857	4,135
– Others		1,663	1,557
		<u>5,578</u>	<u>5,745</u>
Auditor's remuneration		1,981	1,732
Depreciation of property and equipments	20	1,721	1,585
Amortisation of right-of-use ("RoU") assets	20	25,666	25,788
Amortisation of intangible assets	21	1,261	2,436
Legal and professional fees		25,185	13,855
IT and system expenses		13,075	12,864
Data subscription fees		7,369	7,167
Other operating expenses		12,336	15,615
		<u>88,594</u>	<u>81,042</u>
		<u>208,771</u>	<u>231,324</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

10 ALLOWANCES FOR CREDIT AND OTHER LOSSES

(a) Net impairment charge / (release) to the statement of profit or loss

	Note	2023 HK\$'000	2022 HK\$'000
Cash and balances with banks and central bank	14	(30)	21
Placements with and advances to banks	15	40	(636)
Loans and advances to customers	16(b)	377,647	407,574
Investment securities		622,677	443,513
Other assets	22	48,143	177
Off-balance sheet credit exposures	27	6,757	5,811
		<u>1,055,234</u>	<u>856,460</u>

(b) Movement in impairment allowances

The table below shows the movements in Stage 3 ECL and Stage 1 & 2 ECL during the year.

	Balance at 1 January HK\$'000	Charge to / (release from) statement of comprehensive income HK\$'000	Recoveries HK\$'000	Write-off HK\$'000	Exchange and other movements HK\$'000	Balance at 31 December HK\$'000
2023						
Stage 3 Expected Credit Losses ("ECL")						
Loans and advances to customers	505,000	311,385	–	(556,649)	(19,682)	240,054
Investment securities	676,373	584,068	–	(259,177)	–	1,001,264
Other assets	16,561	48,887	–	(1,078)	(201)	64,169
Off-balance sheet credit exposures	–	4,789	–	–	(17)	4,772
Total specific allowances	<u>1,197,934</u>	<u>949,129</u>	<u>–</u>	<u>(816,904)</u>	<u>(19,900)</u>	<u>1,310,259</u>
Stage 1&2 ECL						
Cash and balances with banks and central bank	95	(30)	–	–	–	65
Placements with and advances to banks	19	40	–	–	–	59
Loans and advances to customers	200,809	66,262	–	–	–	267,071
Investment securities	132,127	38,609	–	–	–	170,736
Other assets	847	(744)	–	–	(19)	84
Off-balance sheet credit exposures	15,730	1,968	–	–	–	17,698
Total general allowances	<u>349,627</u>	<u>106,105</u>	<u>–</u>	<u>–</u>	<u>(19)</u>	<u>455,713</u>
Total allowances for credit and other losses	<u>1,547,561</u>	<u>1,055,234</u>	<u>–</u>	<u>(816,904)</u>	<u>(19,919)</u>	<u>1,765,972</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

10 ALLOWANCES FOR CREDIT AND OTHER LOSSES (CONTINUED)

(b) Movement in impairment allowances (continued)

	Balance at 1 January HK\$'000	Charge to / (release from) statement of comprehensive income HK\$'000	Recoveries HK\$'000	Write-off HK\$'000	Exchange and other movements HK\$'000	Balance at 31 December HK\$'000
2022						
Stage 3 Expected Credit Losses ("ECL")						
Loans and advances to customers	109,907	405,223	–	–	(10,130)	505,000
Investment securities	279,063	397,310	–	–	–	676,373
Other assets	17,763	(662)	–	–	(540)	16,561
	<u>406,733</u>	<u>801,871</u>	<u>–</u>	<u>–</u>	<u>(10,670)</u>	<u>1,197,934</u>
Stage 1&2 ECL						
Cash and balances with banks and central bank	74	21	–	–	–	95
Placements with and advances to banks	655	(636)	–	–	–	19
Loans and advances to customers	198,458	2,351	–	–	–	200,809
Investment securities	85,924	46,203	–	–	–	132,127
Other assets	–	839	–	–	8	847
Off-balance sheet credit exposures	9,919	5,811	–	–	–	15,730
	<u>295,030</u>	<u>54,589</u>	<u>–</u>	<u>–</u>	<u>8</u>	<u>349,627</u>
Total general allowances	<u>295,030</u>	<u>54,589</u>	<u>–</u>	<u>–</u>	<u>8</u>	<u>349,627</u>
Total allowances for credit and other losses	<u>701,763</u>	<u>856,460</u>	<u>–</u>	<u>–</u>	<u>(10,662)</u>	<u>1,547,561</u>

The following table explains the changes in ECL allowances under HKFRS 9:

	Stage 1 ECL \$'000	Stage 2 ECL \$'000	Stage 3 ECL \$'000	Total \$'000
Balance at 1 January 2023	216,765	132,862	1,197,934	1,547,561
Allowance for credit and other losses				
Transfer to / (from)				
– Stage 1	–	–	–	–
– Stage 2	(4,153)	8,810	(4,657)	–
– Stage 3	(17,334)	(31,501)	48,835	–
	<u>(21,487)</u>	<u>(22,691)</u>	<u>44,178</u>	<u>–</u>
New provisions charge	99,850	50,433	904,951	1,055,234
Net write-offs	–	–	(816,904)	(816,904)
Effect of foreign currency movements	(19)	–	(19,900)	(19,919)
Balance at 31 December 2023	<u>295,109</u>	<u>160,604</u>	<u>1,310,259</u>	<u>1,765,972</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

10 ALLOWANCES FOR CREDIT AND OTHER LOSSES (CONTINUED)

(b) Movement in impairment allowances (continued)

	Stage 1 ECL \$'000	Stage 2 ECL \$'000	Stage 3 ECL \$'000	Total \$'000
Balance at 1 January 2022	218,931	76,099	406,733	701,763
Allowance for credit and other losses Transfer to / (from)				
– Stage 1	(13,499)	3,926	9,573	–
– Stage 2	–	(5,648)	5,648	–
– Stage 3	–	–	–	–
	<u>(13,499)</u>	<u>(1,722)</u>	<u>15,221</u>	<u>–</u>
New provisions charge	11,325	58,485	786,650	856,460
Net write-offs	–	–	–	–
Effect of foreign currency movements	<u>8</u>	<u>–</u>	<u>(10,670)</u>	<u>(10,662)</u>
Balance at 31 December 2022	<u><u>216,765</u></u>	<u><u>132,862</u></u>	<u><u>1,197,934</u></u>	<u><u>1,547,561</u></u>

11 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2023 \$'000	2022 \$'000
Fees	1,089	1,100
Other emoluments	2,617	2,555
Contribution to provident fund	–	–
	<u>3,706</u>	<u>3,655</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

12 TAXATION

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2023 \$'000	2022 \$'000
Current tax		
Hong Kong Profits Tax		
– Provision for the year	(143)	231
– Under/(over)-provision in prior year	–	–
	<u>(143)</u>	<u>231</u>
Taxation outside Hong Kong		
– Withholding tax in the People's Republic of China	85	4
– Provision for the year	29,333	59,995
– Under/(over)-provision in prior year	–	(34)
	<u>29,418</u>	<u>59,965</u>
Deferred tax		
Origination and reversal of temporary differences (Note 24(b))	<u>34,225</u>	<u>(98,940)</u>
	<u>63,500</u>	<u>(38,744)</u>

The provision for Hong Kong Profits Tax for 2023 is calculated at 16.5% (2022: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime (2022: The Company is a qualifying corporation under the two-tiered Profit Tax rate regime).

The provision for Hong Kong Profits Tax for 2023 of this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for the Company was calculated at the different basis in 2022.

The provision for Hong Kong Profits Tax for 2023 is taken into account a reduction granted by the Hong Kong SAR Government of 100% of the tax payable for the year of assessment 2022-23 subject to a maximum reduction of HK\$6,000 for each business (2022: a maximum reduction of HK\$10,000 was granted for the year of assessment 2021-22 and was taken into account in calculating the provision for 2022).

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

12 TAXATION (CONTINUED)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2023 \$'000	2022 \$'000
Loss before taxation	(664,094)	(639,731)
Notional tax on loss before taxation, calculated under Hong Kong Profits Tax two-tiered rate regime	(109,576)	(105,556)
Tax effect of income/expense not subject to taxation	(13,989)	(3,243)
Tax effect of unused current year tax loss not recognised	77,285	13,431
Utilisation of tax loss previously not recognised	61,199	(25,868)
Over-provision in prior year	–	(34)
Effect of different tax rates of subsidiaries operating in other jurisdiction	24,076	66,235
Others	24,505	16,291
Actual tax expense	63,500	(38,744)

13 OTHER COMPREHENSIVE INCOME

(a) Tax effects relating to each component of other comprehensive income

	2023			2022		
	Before tax amount \$'000	Tax expense \$'000	Net-of-tax amount \$'000	Before tax amount \$'000	Tax expense \$'000	Net-of-tax amount \$'000
Foreign currency translation differences for subsidiaries	(14,790)	(20)	(14,810)	(42,189)	(105)	(42,294)
Net movements in revaluation reserve (Note 13(b))	14,722	(60,932)	(46,210)	(80,324)	50,246	(30,078)
Other comprehensive income	(68)	(60,952)	(61,020)	(122,513)	50,141	(72,372)

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

13 OTHER COMPREHENSIVE INCOME (CONTINUED)

(b) Components of other comprehensive income

	2023 \$'000	2022 \$'000
Financial assets at fair value through other comprehensive income:		
Changes in fair value recognised during the year	2,709	(472,483)
Reclassification adjustments for amounts transferred to profit or loss upon disposal (Note 8(b))	12,013	392,159
Net deferred tax (debited)/credited to revaluation reserve (Note 24(b))	(60,932)	50,246
	<u>(46,210)</u>	<u>(30,078)</u>
Net movement in revaluation reserve during the year recognised in other comprehensive income	<u>(46,210)</u>	<u>(30,078)</u>

14 CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	2023 \$'000	2022 \$'000
Balances with banks	821,754	1,197,510
Balance with central bank	20,396	159,608
	<u>842,150</u>	<u>1,357,118</u>
Allowance for credit and other losses at stage 1	(65)	(95)
Net cash and balances with banks and central bank	<u>842,085</u>	<u>1,357,023</u>

15 PLACEMENTS WITH AND ADVANCES TO BANKS

	2023 \$'000	2022 \$'000
Gross placements with and advances to banks		
– maturing within one month	76,147	500,000
– maturing between one month and twelve months	39,512	–
	<u>115,659</u>	<u>500,000</u>
Allowance for credit and other losses at stage 1	(59)	(19)
Net placements with and advances to banks	<u>115,600</u>	<u>499,981</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

16 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

	2023 \$'000	2022 \$'000
Gross loans and advances to customers	21,703,577	16,271,346
Less: Allowance for credit and other losses		
– Stage 1 & 2 ECL (Note 16(b))	(267,071)	(200,809)
– Stage 3 ECL (Note 16(b))	(240,054)	(505,000)
	<u>21,196,452</u>	<u>15,565,537</u>
Comprising		
– Trade bills	–	–
– Loans	<u>21,196,452</u>	<u>15,565,537</u>
	<u>21,196,452</u>	<u>15,565,537</u>

(b) Loans and advances to customers by credit quality

As at 31 December 2023	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
Neither past due nor impaired				
– Pass	21,131,922	–	–	21,131,922
– Special Mention	–	146,233	–	146,233
Past due but not impaired ^(a)	–	–	–	–
Impaired	–	–	425,422	425,422
Allowance for credit and other losses	(260,724)	(6,347)	(240,054)	(507,125)
	<u>20,871,198</u>	<u>139,886</u>	<u>185,368</u>	<u>21,196,452</u>
As at 31 December 2022	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
Neither past due nor impaired				
– Pass	15,200,312	–	–	15,200,312
– Special Mention	–	176,617	–	176,617
Past due but not impaired ^(a)	–	–	–	–
Impaired	–	–	894,417	894,417
Allowance for credit and other losses	(181,119)	(19,690)	(505,000)	(705,809)
	<u>15,019,193</u>	<u>156,927</u>	<u>389,417</u>	<u>15,565,537</u>

(a) The past due but not impaired assets are classified as “Pass”.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Gross loans and advances to customers by industry sector

	2023		2022	
	\$'000	% of gross advances covered by collaterals	\$'000	% of gross advances covered by collaterals
Gross loans and advances to customers for use in Hong Kong				
Industrial, commercial and financial sectors				
– property development	357,615	–	1,418,786	31.8
– property investment	914,230	–	615,440	100.0
– financial concerns	6,184,232	12.3	4,886,848	8.6
– wholesale and retail trade	849,679	–	369,854	81.1
– manufacturing	1,923,180	35.6	1,124,158	41.4
– transport and transport equipment	2,718,114	–	199,934	–
– electricity and gas	1,108,285	–	198,460	–
– others	2,129,105	–	741,366	51.8
	<u>16,184,440</u>	8.9	<u>9,554,846</u>	27.6
Individuals	<u>10,000</u>	–	<u>30,619</u>	–
Total gross loans and advances for use in Hong Kong	<u>16,194,440</u>	8.9	<u>9,585,465</u>	27.5
Trade finance	300,248	–	309,952	4.3
Gross loans and advances for use outside Hong Kong	<u>5,208,889</u>	16.6	<u>6,375,929</u>	9.3
Gross loans and advances to customers	<u><u>21,703,577</u></u>	10.6	<u><u>16,271,346</u></u>	19.9

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) Segmental analysis of loans and advances to customers by geographical area

Loans and advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when a loan is guaranteed by a party located in an area that is different from that of the counterparty.

	Gross loans and advances to customers \$'000	Impaired loans and advances (Stage 3) \$'000	Overdue loans and advances \$'000	Stage 3 ECL \$'000	Stage 1 & 2 ECL \$'000
At 31 December 2023					
– Hong Kong	12,607,535	45,846	45,846	(24,299)	(186,207)
– Mainland China	8,021,164	379,576	379,576	(215,755)	(67,630)
– Others	1,074,878	–	–	–	(13,234)
	<u>21,703,577</u>	<u>425,422</u>	<u>425,422</u>	<u>(240,054)</u>	<u>(267,071)</u>
At 31 December 2022					
– Hong Kong	6,705,872	227,825	227,825	(129,618)	(107,066)
– Mainland China	9,076,944	666,592	666,592	(375,382)	(84,666)
– Others	488,530	–	–	–	(9,077)
	<u>16,271,346</u>	<u>894,417</u>	<u>894,417</u>	<u>(505,000)</u>	<u>(200,809)</u>

(e) Gross loans and advances to customers by credit quality

	2023 \$'000	2022 \$'000
Pass	21,131,922	15,200,312
Special mention	146,233	176,617
Substandard	325,576	540,000
Doubtful	45,846	354,417
Loss	54,000	–
	<u>21,703,577</u>	<u>16,271,346</u>

The above table shows the grading according to the loan classification system as defined by the HKMA.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

17 INVESTMENT SECURITIES

	2023	2022
	\$'000	\$'000
Investment securities measured at amortised cost		
– at stage 1	2,339,098	2,408,440
– at stage 2	187,650	310,082
– at stage 3	804,324	670,828
Of which: past due and impaired	804,324	670,828
Allowance for credit and other losses		
– at stage 1	(533)	(849)
– at stage 2	(84,305)	(79,207)
– at stage 3	(611,286)	(379,550)
Of which : past due and impaired	(611,286)	(379,550)
	<u>2,634,948</u>	<u>2,929,744</u>
	-----	-----
Investment securities at fair value through other comprehensive income		
– at stage 1	6,084,904	6,607,211
– at stage 2	235,016	62,526
– at stage 3	35,229	103,843
Of which: past due and impaired	35,229	103,843
	<u>6,355,149</u>	<u>6,773,580</u>
	-----	-----
	<u>8,990,097</u>	<u>9,703,324</u>
	=====	=====
Analysed by type of securities:		
Government bills, notes and bonds	774,562	2,239,621
Certificate of deposit	1,450,768	3,378,707
Debt securities	6,764,767	4,084,996
	<u>8,990,097</u>	<u>9,703,324</u>
	=====	=====
Analysed by issuers:		
– Sovereigns	774,562	2,239,621
– Public sector entities	1,147,373	169,245
– Banks	4,960,895	4,312,472
– Corporates	2,107,267	2,981,986
	<u>8,990,097</u>	<u>9,703,324</u>
	=====	=====
Analysed by listing status:		
– Listed in Hong Kong	1,172,563	1,906,360
– Listed outside Hong Kong	2,568,693	1,902,515
– Unlisted	5,248,841	5,894,449
	<u>8,990,097</u>	<u>9,703,324</u>
	=====	=====

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

18 INVESTMENT IN ASSOCIATES

Information of associate that is not individually material:

	2023 \$'000	2022 \$'000
Carrying amount of individually immaterial associates in the consolidated financial statements	5,857	4,658

19 INVESTMENT IN SUBSIDIARIES

	2023 \$'000	2022 \$'000
Unlisted shares, at cost		
At 1 January and 31 December	1,000,000	780,000

Particulars of the major operating subsidiaries at 31 December 2023 are as follows:

Name of Companies	Place of incorporation and place of business	Particulars of issued shares held	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
BOSC International Company Limited (BOSCI)*	Hong Kong	100,000,000 shares of HK\$10 each	100%	100%	–	Investment banking
BOSC International Securities Limited*	Hong Kong	100,000,000 shares of HK\$1 each	100%	–	100%	Securities brokerage
BOSC International Asset Management Limited*	Hong Kong	10,000,000 shares of HK\$1 each	100%	–	100%	Asset Management
BOSC International Investment Limited*	Hong Kong	1,000,000 shares of HK\$1 each	100%	–	100%	Investment trading
BOSCI Financial Products Limited*	Hong Kong	10,000,000 shares of HK\$1 each	100%	–	100%	Financial product investment business
BOSC International (Shenzhen) Company Limited*	People's Republic of China	200,980,000 shares of RMB\$1 each	100%	–	100%	Corporate advisory
BOSC International Advisory (Shenzhen) Company Limited*	People's Republic of China	10,000,000 shares of RMB\$1 each	100%	–	100%	Corporate advisory

* The proportion of voting rights in these subsidiaries did not differ from the proportion of ordinary shares held. There was no non-controlling interest in these subsidiaries.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

20 PROPERTY AND EQUIPMENTS

Details of movement of property and equipments are as follows:

	Leasehold improvements \$'000	Furniture, computer and other equipments \$'000	Motor vehicles \$'000	RoU assets – properties and office equipment \$'000	Total \$'000
Cost:					
At 1 January 2022	22,442	24,686	3,012	87,262	137,402
Additions	33	2,763	–	777	3,573
Write-off	–	(217)	–	(525)	(742)
Exchange adjustments	–	(196)	(100)	(1,007)	(1,303)
At 31 December 2022	22,475	27,036	2,912	86,507	138,930
At 1 January 2023	22,475	27,036	2,912	86,507	138,930
Additions	–	643	–	–	643
Write-off	–	(1)	–	–	(1)
Exchange adjustments	–	(57)	(29)	(447)	(533)
At 31 December 2023	22,475	27,621	2,883	86,060	139,039
Accumulated depreciation:					
At 1 January 2022	(22,373)	(22,828)	(2,512)	(13,235)	(60,948)
Charge for the year	(41)	(1,218)	(326)	(25,788)	(27,373)
Write-off	–	218	–	307	525
Exchange adjustments	–	68	173	315	556
At 31 December 2022	(22,414)	(23,760)	(2,665)	(38,401)	(87,240)
At 1 January 2023	(22,414)	(23,760)	(2,665)	(38,401)	(87,240)
Charge for the year	(35)	(1,480)	(206)	(25,666)	(27,387)
Write-off	–	1	–	–	1
Exchange adjustments	–	51	28	308	387
At 31 December 2023	(22,449)	(25,188)	(2,843)	(63,759)	(114,239)
Net book value:					
At 31 December 2023	26	2,433	40	22,301	24,800
At 31 December 2022	61	3,276	247	48,106	51,690

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

21 INTANGIBLE ASSETS

	2023 \$'000	2022 \$'000
Software	1,908	2,582
Club membership	350	350
	<u>2,258</u>	<u>2,932</u>

Details of movement of intangible assets are as follows:

	2023 \$'000	2022 \$'000
Cost:		
At 1 January	26,454	25,085
Additions	587	1,369
At 31 December	<u>27,041</u>	<u>26,454</u>
Accumulated amortisation:		
At 1 January	(23,522)	(21,086)
Charge for the year	(1,261)	(2,436)
At 31 December	<u>(24,783)</u>	<u>(23,522)</u>
Net book value:		
At 31 December	<u>2,258</u>	<u>2,932</u>

During 2023 and 2022, there was no impairment on intangible assets.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

22 OTHER ASSETS

	2023 \$'000	2022 \$'000
Interest receivables (Note a)	324,991	211,844
Collaterals placed (Note b)	34,050	178,214
Fees receivable	124	985
Prepaid expenses	4,982	15,766
Accounts receivable (Note c)	117,203	39,366
Others	7,896	7,213
	<u>489,246</u>	<u>453,388</u>

Note a: Included Stage 3 ECL of interest receivable of HK\$1,747,000 associated with loans and advances to customers at stage 3 (2022: HK\$1,134,000).

Note b: Mainly relates to cash collaterals placed in respect of derivative financial liabilities.

Note c: Included Stage 3 ECL of accounts receivable of HK\$62,422,000 associated with loans and advances to customers and investment securities at stage 3 (2022: HK\$15,427,000).

23 DEPOSITS FROM CUSTOMERS

	2023 \$'000	2022 \$'000
Deposits from customers		
– Time, call and notice deposits	16,266,253	10,560,680
	<u>16,266,253</u>	<u>10,560,680</u>

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current tax in the consolidated statement of financial position represents:

	2023 \$'000	2022 \$'000
Provision for Hong Kong Profits Tax for the year	–	(34,191)
Provisional Profits Tax paid	37	(4,794)
	<u>37</u>	<u>(38,985)</u>
Balance of profit tax provision relating to prior years	12,201	51,186
Provision of overseas tax	16,766	37,690
	<u>29,004</u>	<u>49,891</u>
Representing:		
Current tax payable	63,195	84,082
Current tax recoverable	(34,191)	(34,191)
	<u>29,004</u>	<u>49,891</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets and liabilities recognised:

	Depreciation allowances in excess of the related depreciation \$'000	Amortisation of intangible assets \$'000	Impairment allowance \$'000	Others \$'000	Revaluation of investment securities \$'000	Unused tax losses \$'000	Total \$'000
At 1 January 2022	(2,121)	601	(48,929)	(3,169)	(89,851)	(59,179)	(202,648)
Credited to consolidated statement of profit or loss and other comprehensive income (Note 12(a))	286	(176)	(8,459)	1,145	(18,518)	(73,218)	(98,940)
Credited to revaluation fair value reserve	–	–	–	105	(50,246)	–	(50,141)
At 31 December 2022	<u>(1,835)</u>	<u>425</u>	<u>(57,388)</u>	<u>(1,919)</u>	<u>(158,615)</u>	<u>(132,397)</u>	<u>(351,729)</u>
At 1 January 2023	(1,835)	425	(57,388)	(1,919)	(158,615)	(132,397)	(351,729)
Credited to consolidated statement of profit or loss and other comprehensive income (Note 12(a))	68	(111)	(17,469)	(11,464)	(28,793)	91,994	34,225
Credited to revaluation fair value reserve	–	–	–	20	61,163	–	61,183
At 31 December 2023	<u>(1,767)</u>	<u>314</u>	<u>(74,857)</u>	<u>(13,363)</u>	<u>(126,245)</u>	<u>(40,403)</u>	<u>(256,321)</u>

Representing:

	2023 \$'000	2022 \$'000
Net deferred tax assets	(256,321)	(351,729)
Net deferred tax liabilities	–	–
	<u>(256,321)</u>	<u>(351,729)</u>

The Group has not recognised deferred tax asset in respect of tax losses of HK\$1,084,803,000 (2022: HK\$245,504,000). The tax losses do not expire under tax legislation.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

25 CERTIFICATES OF DEPOSIT AND OTHER DEBT SECURITIES ISSUED

	2023 \$'000	2022 \$'000
Certificates of deposit issued at amortised cost	2,210,959	2,494,218
Other debt securities issued at amortised cost (Note 33(d))	2,733,363	3,898,561
	<u>4,944,322</u>	<u>6,392,779</u>

The Group, through one of its subsidiaries, issued bonds with notional amounts of U.S.\$140,000,000 on 28 June 2023. The bonds are fully subscribed and bear a coupon rate of 5.75 percent per annum. The bonds would be matured in 2024.

The Group, through one of its subsidiaries, issued bonds with notional amounts of U.S.\$110,000,000 on 12 July 2023. The bonds are fully subscribed and bear a coupon rate of 5.75 percent per annum. The bonds would be matured in 2024.

The Group, through one of its subsidiaries, issued bonds with notional amounts of U.S.\$100,000,000 on 13 July 2023. The bonds are fully subscribed and bear a coupon rate of 5.75 percent per annum. The bonds would be matured in 2024.

26 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods:

	At 31 December 2023		At 31 December 2022	
	Present value of the minimum lease payments \$'000	Total minimum lease payments \$'000	Present value of the minimum lease payments \$'000	Total minimum lease payments \$'000
Within 1 year	21,872	22,096	25,166	25,856
After 1 year but within 2 years	202	211	21,960	22,187
After 2 years but within 5 years	178	181	379	391
	<u>380</u>	<u>392</u>	<u>22,339</u>	<u>22,578</u>
	<u>22,252</u>	22,488	<u>47,505</u>	48,434
Less: total future interest expenses		(236)		(929)
Present value of lease liabilities		<u>22,252</u>		<u>47,505</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

26 LEASE LIABILITIES (CONTINUED)

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2023 \$'000	2022 \$'000
Depreciation of right-of-use assets by class of underlying asset:		
Lease of office premises and equipments (Note 20)	25,666	25,788
Interest on lease liabilities	683	1,149
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	187	171
	<u>25,856</u>	<u>27,108</u>

27 OTHER LIABILITIES

	2023 \$'000	2022 \$'000
Interest payables	392,613	212,335
Accounts payable	3,334	2,804
Accrued expenses	19,949	10,010
Provision for short-term employee benefits	10,320	18,032
Collateral received	27,334	–
Others (Note a)	132,944	143,350
	<u>586,494</u>	<u>386,531</u>

Note a: Included allowance for credit and other losses of HK\$22,470,000 (2022: HK\$15,730,000).

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

28 CAPITAL AND RESERVES

(a) Share capital

	2023		2022	
	No. of shares \$'000	HK\$'000	No. of shares \$'000	HK\$'000
Ordinary shares, issued and fully paid:				
At 1 January	360,439	4,000,000	360,439	4,000,000
Issuance of new shares	230,547	2,305,476	–	–
At 31 December	<u>590,986</u>	<u>6,305,476</u>	<u>360,439</u>	<u>4,000,000</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regards to the Company's residual assets.

On 10 January 2023, the Company issued 230,547,550 ordinary shares at, fully paid HK\$10 each to its immediate and ultimate holding company, Bank of Shanghai Co. Limited.

(b) Movement in components of equity at Company level

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital \$'000	Retained profits \$'000	Revaluation reserve \$'000	Regulatory reserve \$'000	Total \$'000
Balance at 1 January 2022	4,000,000	838,533	16,981	–	4,855,514
Total comprehensive income	–	(222,945)	(27,942)	–	(250,887)
Transfer from regulatory reserve	–	–	–	–	–
Balance at 31 December 2022	<u>4,000,000</u>	<u>615,588</u>	<u>(10,961)</u>	<u>–</u>	<u>4,604,627</u>
Balance at 1 January 2023	4,000,000	615,588	(10,961)	–	4,604,627
Total comprehensive income	–	5,582	6,129	–	11,711
Issuance of new ordinary shares	2,305,476	–	–	–	2,305,476
Transfer from regulatory reserve	–	–	–	–	–
Balance at 31 December 2023	<u>6,305,476</u>	<u>621,170</u>	<u>(4,832)</u>	<u>–</u>	<u>6,921,814</u>

(c) Dividends

	2023 \$'000	2022 \$'000
Dividend approved or paid during the year	<u>–</u>	<u>–</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

28 CAPITAL AND RESERVES (CONTINUED)

(d) Nature and purpose of reserves

(i) Revaluation reserve

This comprises the cumulative net change in the fair value and the allowance for ECLs for investment securities at fair value through other comprehensive income until the financial assets are derecognised and is dealt with in accordance with the accounting policies in Note 1(f).

(ii) Retained profits

The Group is required to maintain minimum capital adequacy ratio set by the HKMA. The minimum capital requirements could therefore potentially restrict the amount of retained profits available for distribution to the shareholders.

(iii) Regulatory reserve

The regulatory reserve is maintained in accordance with Hong Kong Banking regulations. At 31 December 2023, no regulatory reserve (2022: Nil) was required to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movement in this reserve was made directly through retained profits after consultation with the HKMA. The regulatory reserve is non-distributable.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 1(r).

(v) Capital contribution

The capital contribution comprises the surplus over the fair value given by the ultimate holding company of the Group upon transactions with the Group.

29 MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Group entered into transactions with related parties in the normal course of business including accepting and placement of inter-bank deposits, conducting correspondent banking and foreign exchange transactions. All these related party transactions were priced at the relevant market rates at the time of each transaction.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

29 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

- (a) The amount of material related party transactions during the year and outstanding balances at the reporting date are set out below:

	Immediate holding company	
	2023	2022
	\$'000	\$'000
Consolidated statement of profit or loss and other comprehensive income:		
Interest income	26	40
Interest expense	(239,850)	(72,253)
Net fee and commission income	2,930	2,715
Net loss from investment securities (note a)	–	(229,178)
Other operating expense	(2,834)	(3,000)
Consolidated statement of financial position:		
Amounts due from:		
– Cash and balances with banks and central bank	13,918	9,243
– Other assets	1,486	2,911
– Property and equipments	2,843	5,852
Amounts due to:		
– Deposits from banks	2,577,171	3,436,207
– Certificates of deposit and other debt securities issued	2,733,363	–
– Other liabilities	214,038	130,402
– Lease liabilities	3,133	6,287
	<u> </u>	<u> </u>

Note a: The Group disposed investment securities of an nominal amount of US\$40,700,000 to ultimate holding company during 2022. (2023: Nil). The consideration for the disposal represented the prevailing market price at the time of the disposal.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

29 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Directors and key management personnel

During the year, the Group did not provide any credit facilities nor accept any deposits from the directors and key management personnel of the Group and its holding companies as well as their close family members and companies controlled or significantly influenced by them.

Remunerations, for key management personnel, including amounts paid to the Group's directors as disclosed in Note 11, are as follows:

	2023 \$'000	2022 \$'000
Salaries and other benefits	15,692	12,132
Contribution to provident fund	992	730
Variable bonuses	1,031	621
Of which: deferred	229	–
	<u> </u>	<u> </u>

30 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives entered into by the Group include foreign exchange forward and swap contracts. The Group used these derivatives in its own assets and liabilities management and also sold these products to customers as normal banking activities. For these transactions entered into with customers, they were actively managed through offsetting deals with external parties to ensure the Group's net exposures were within acceptable level of risk. No significant proprietary positions were maintained by the Group at 31 December 2023 and 2022.

Credit risk-weighted amount refers to the amount as computed in accordance with the Banking (Capital) Rules and depends on the status of the counterparty and the residual maturity of the transaction. The risk-weight factor for derivatives outstanding at 31 December 2023 ranged from 20% to 50% (2022: 20% to 50%).

Derivative financial instruments are presented in net when there is a legally enforceable right to set off the recognised amounts, and there is an intention to settle them on a net basis or realise the asset and settle the liability simultaneously. As at 31 December 2023, no derivative financial instruments have fulfilled the above criteria, therefore no derivative financial instruments were offset on the consolidated statement of financial position (2022: Nil).

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

30 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Derivatives – held for trading

	2023			2022		
	Notional amount HK\$'000	Derivative financial assets HK\$'000	Derivative financial liabilities HK\$'000	Notional amount HK\$'000	Derivative financial assets HK\$'000	Derivative financial liabilities HK\$'000
Exchange rate contracts						
– Spot and forward	8,807,054	45,459	52,032	10,057,986	9,242	179,940
Interest rate contracts						
– Swap	156,192	7,916	–	117,143	7,184	–
	<u>8,963,246</u>	<u>53,375</u>	<u>52,032</u>	<u>10,175,129</u>	<u>16,426</u>	<u>179,940</u>

31 CONTINGENT LIABILITIES AND COMMITMENTS

	2023 \$'000	2022 \$'000
Contract amounts		
– Direct credit substitutes	–	–
– Trade-related contingencies	–	–
– Transaction-related contingencies	45,413	–
– Other commitments		
– which are unconditionally cancellable	4,169,565	5,361,528
– with an original maturity under one year	–	–
– with an original maturity over one year	885,476	222,316
	<u>5,100,454</u>	<u>5,583,844</u>
Credit risk-weighted amounts	<u>451,821</u>	<u>111,158</u>

Contingent liabilities and commitments are credit related instruments. The risk involved in these credit-related instruments is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn and the customer would be in default. As the facilities may expire without being drawn, the contract amounts do not represent expected future cash flows.

The risk-weight factor for the computation of credit risk-weighted amounts range from 0% to 100%.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

32 LOANS TO DIRECTORS AND ENTITIES CONNECTED WITH DIRECTORS

Loans to directors of the Company and entities connected with directors, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2023 \$'000	2022 \$'000
Aggregate amount in respect of principal and interest as at 31 December	—	—
	<u>—</u>	<u>—</u>
The maximum aggregate amount outstanding in respect of principal and interest during the year	—	—
	<u>—</u>	<u>—</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

33 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of loss before taxation to net cash inflow from operating activities

	Note	2023 \$'000	2022 \$'000
Loss before taxation		(664,094)	(639,731)
Adjustments for:			
Interest income	6	(1,700,948)	(1,043,543)
Interest expense	6	1,181,592	527,147
Depreciation of property and equipments	9	1,721	1,585
Amortisation of right-of-use assets	9	25,666	25,788
Amortisation of intangible assets	9	1,261	2,436
Impairment charges	10	1,055,234	856,460
Net income from investment securities		12,013	392,819
Interest received		1,207,626	596,352
Interest paid		(833,473)	(252,094)
Elimination of exchange differences and other non cash items		110,535	175,936
		<u>397,133</u>	<u>643,155</u>
Operating profit before changes in working capital		397,133	643,155
Change in financial assets at fair value through profit or loss		208,604	255,353
Change in financial assets sold under repurchase agreement		769,097	–
Change in balances and placements with and advances to banks with original maturity beyond three months		49	250
Change in gross loans and advances to customers		(5,975,318)	2,605,646
Change in other assets		31,058	(187,836)
Change in deposits from customers		5,705,573	(3,468,635)
Change in deposits from banks		(2,608,444)	2,545,647
Change in certificates of deposit issued		(351,341)	(4,926,359)
Change in other liabilities		12,855	(150,423)
		<u>(1,810,734)</u>	<u>(2,683,202)</u>
Cash (used) from operating activities		(1,810,734)	(2,683,202)
Hong Kong Profits Tax paid		–	(4,794)
Tax paid outside Hong Kong		(58,942)	(52,109)
		<u>(1,869,676)</u>	<u>(2,740,105)</u>
Net cash outflow from operating activities		<u>(1,869,676)</u>	<u>(2,740,105)</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

33 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Cash and cash equivalents in the consolidated statement of cash flows:

	2023 \$'000	2022 \$'000
Gross cash and balances with banks and central bank (Note 14)	842,150	1,357,118
Less: Balances with banks for segregated accounts	(2)	(50)
Gross placements with and advances to banks with original maturity within three months (Note 15)	115,659	500,000
Investment securities with original maturity within three months	–	1,032,510
	<u>957,807</u>	<u>2,889,578</u>

(c) Reconciliation with the consolidated statement of financial position:

	2023 \$'000	2022 \$'000
Gross cash and balances with banks and central bank (Note 14)	842,150	1,357,118
Gross placements with and advances to banks (Note 15)	115,659	500,000
Investment securities (Note 17)	9,686,221	10,162,930
Amounts shown in the consolidated statement of financial position	<u>10,644,030</u>	<u>12,020,048</u>
Less: Balances, gross placements with and advances to banks and investment securities with original maturity beyond three months	(9,686,221)	(9,130,420)
Less: Balances with banks for segregated accounts	(2)	(50)
	<u>957,807</u>	<u>2,889,578</u>

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

33 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(d) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash change. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities.

	Share capital (Note 28) \$'000	Other debt securities issued at amortised cost (Note 25) \$'000	Short-term borrowings \$'000	Lease Liabilities (Note 26) \$'000	Total \$'000
At 1 January 2022	4,000,000	3,882,979	306,176	72,556	8,261,711
Changes from financing cash flow:					
Net proceeds from short-term borrowings	–	–	93,407	–	93,407
Capital element of lease rentals paid	–	–	–	(25,536)	(25,536)
Interest element of lease rentals paid	–	–	–	(1,307)	(1,307)
Interest paid	–	(48,951)	(10,716)	–	(59,667)
Total changes from financing cash flow	–	(48,951)	82,691	(26,843)	6,897
Increase in lease liabilities from entering new lease during the period	–	–	–	777	777
Decrease in lease liabilities from early termination of lease during the period	–	–	–	(228)	(228)
Interest expense	–	57,943	10,716	1,307	69,966
Exchange difference	–	6,590	–	(64)	6,526
Total other changes	–	64,533	10,716	1,792	77,041
At 31 December 2022 and 1 January 2023	4,000,000	3,898,561	399,583	47,505	8,345,649

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

33 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(d) Reconciliation of liabilities arising from financing activities: (continued)

	Share capital (Note 28) \$'000	Other debt securities issued at amortised cost (Note 25) \$'000	Short-term borrowings \$'000	Lease Liabilities (Note 26) \$'000	Total \$'000
Changes from financing cash flow:					
Proceeds from the issuance of new ordinary shares	2,305,476	–	–	–	2,305,476
Redemption from the other debt securities	–	(3,900,829)	–	–	(3,900,829)
Proceeds from the other debt securities	–	2,741,710	–	–	2,741,710
Net proceeds from short-term borrowings	–	–	(191,971)	–	(191,971)
Capital element of lease rentals paid	–	–	–	(25,319)	(25,319)
Interest element of lease rentals paid	–	–	–	(757)	(757)
Interest paid	–	(48,909)	(44,345)	–	(93,254)
Total changes from financing cash flow	2,305,476	(1,208,028)	(236,316)	(26,076)	835,056
Interest expense	–	55,157	44,345	757	100,259
Exchange difference	–	(12,327)	–	66	(12,261)
Total other changes	–	42,830	44,345	823	87,998
At 31 December 2023	6,305,476	2,733,363	207,612	22,252	9,268,703

34 IMMEDIATE AND ULTIMATE HOLDING COMPANY

As at 31 December 2023, the Company's immediate and ultimate holding company is Bank of Shanghai Co., Limited, which is incorporated in the People's Republic of China. Bank of Shanghai Co., Limited produces financial statements available for public access.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

35 EVENTS AFTER REPORTING PERIOD

There is no material litigation expected to result in a significant adverse effect on the financial position of the Group, either collectively or individually. Management believes that adequate provisions have been made in respect of such litigation.

On 22 March 2024, the Bank issued 32,200,000 fully-paid ordinary shares at HK\$10 each to its wholly-owned subsidiary, BOSC International Company Limited.

36 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board of Directors on 30 April 2024.

CORPORATE GOVERNANCE REPORT (UNAUDITED)

The following information is disclosed as part of the accompanying information to the financial statements and does not form part of the audited financial statements

1 CORPORATE GOVERNANCE

The Bank fully complied with, in all material aspects, throughout the year with the module on “Corporate Governance of Locally Incorporated Authorized Institutions” issued by the HKMA.

(a) Corporate Governance Policy

The Bank recognizes the importance of robust corporate governance and high standards of corporate governance and maintains an effective corporate governance framework to ensure effective oversight and strong accountability of the Board and senior management. The established well-structured corporate governance framework directs and provides the business ethical conduct of the Bank, thereby protects and upholds the interests of shareholders as a whole in a sustainable manner.

(b) Governance Framework

The Board is at the core of the Bank’s corporate governance framework and responsible for the leadership and control of the Bank to promote its success and continuing growth. The Board is responsible for providing high-level guidance and effective oversight of the management.

The Board is mainly responsible for reviewing and approving the Bank’s strategic and business plans and guiding policies whilst day-to-day management of the Bank’s affairs and implementation of its strategy and policy initiatives are delegated to the Chief Executive Officer and the senior management who operate in accordance with the Board’s approved policies and delegated limits of authority. The Board also establish a number of Board Level Committees (i.e. Audit Committee, Remuneration and Nomination Committee, Risk and Compliance Committee and Executive Committee) and delegate the authority to the Executive Committee to establish Management Level Committees (i.e. Credit Committee, Asset and Liability Committee, Operations and Technology Committee, AML Committee and Environmental, Social and Governance Committee) to help the Chief Executive Officer and the senior management oversee the daily operations of the Bank.

All these committees have specific terms of reference in order to ensure that the committees will discharge their responsibilities properly and to report regularly to the Board when appropriate, their recommendations and decisions.

(c) The Board

The Board shall provide high-level guidance and direction for the on-going development of the Bank. The most significant responsibilities are to:

- i. Review, approve and monitor the objectives, strategies and business plan;
- ii. Review and monitor the performance against the annual business plan with corrective action to be taken as needed; and

CORPORATE GOVERNANCE REPORT (UNAUDITED) (CONTINUED)

1 CORPORATE GOVERNANCE (CONTINUED)

(c) The Board (continued)

- iii. Decide the capital structure and dividend policy.

The Board shall ensure that an effective risk management framework and internal control system are in place. The most significant responsibilities are to:

- i. Review and approve the Bank's risk appetite statement lay down risk management strategies and approve risk management framework to ensure that it is adequate and consistent;
- ii. Review and approve capital management strategy, capital adequacy, liquidity risk strategy, market risk strategy as well as balance sheet management;
- iii. Review and approve the key risk policies in relation to Bank's recovery plan, connected lending, large exposure and industry concentration policies and the predetermined limits and threshold, liquidity policy statement, contingency funding plan and strategic plan formulating and approving process and procedure;
- iv. Endorse the establishment of Business Continuity Planning (BCP) policy and processes, and review the annual statement of BCP.
- v. Ensure the internal control systems are effective and the Bank's operations are properly controlled and comply with policies approved by the Board as well as any applicable laws and regulations; and
- vi. Approve the appointment, resignation and removal of external auditors upon the recommendation of Audit Committee.

The Board shall ensure and monitor that the Bank conducts its business and affairs with high degree of integrity and ethical values through the implementation of appropriate policies, guidelines and standards. The Board should set and adhere to professional standards and corporate values that promote ethical and responsible professional behavior amongst the Bank's staff (including senior management and members of the board). The Board is responsible for the Bank's corporate governance and overall compliance with and adherence to the applicable laws and regulations.

The Board shall ensure the competency of the Chief Executive Officer and senior management in running the operation of the Bank in a sound and efficient manner. The Board needs to:

- i. Approve the appointment and termination of the Chief Executive Officer and Deputy/Assistant and Alternate Chief Executive Officer(s); and
- ii. Approve the Bank's Remuneration Policy and remuneration packages of the Chief Executive Officer and Deputy/Assistant and Alternate Chief Executive Officer(s);
- iii. Approve the appointment to, and removal from, the composition of the Executive Committee.
- iv. Approve the management succession plan of the Bank.

CORPORATE GOVERNANCE REPORT (UNAUDITED) (CONTINUED)

1 CORPORATE GOVERNANCE (CONTINUED)

(c) The Board (continued)

With the assistance of the Remuneration and Nomination Committee, the Board shall ensure the Remuneration Policy is consistent with the Bank's ethical values, objectives, strategies and control environment.

The Board shall ensure the effectiveness of the Audit Committee in fulfilling its responsibilities. The Board needs to:

- i. Review and approve the Terms of Reference prepared by the Audit Committee; and
- ii. Obtain regular reporting by the Audit Committee with regard to the works performed by the Audit Committee, including any significant findings identified in the Bank's internal control systems and progress made by the senior management in implementing any remedial actions to address the deficiencies.

(d) Profiles of Directors

Name	Role in BOSHK	Qualifications	Other Directorships and executive positions held
Mr. Lin Liqun	Non-Executive Director and Chairman (ceased on 31 August 2023)	EMBA, China Europe International Business School	Director, BOSC International Company Limited
Ms. Li Xiaohong	Non-Executive Director (appointed as Director of BOSHK on 11 January 2019) Chairman (nominated as Chairman on 22 February 2024)	Doctor of Laws, Jilin University EMBA of China Europe International Business School	Board Secretary, Bank of Shanghai Co., Limited Chairwoman, BOSC International Company Limited
Mr. Ye Zhengxiang	Non-Executive Director (appointed as Director of BOSHK on 9 January 2024)	MBA, Shanghai University of Finance and Economics	Director, BOSC International Company Limited
Mr. Chen Xuanqiang	Executive Director & CEO (appointed to act as director on 10 December 2021)	Bachelor Degree in Economics, Shenzhen University	Non-Executive Director, BOSC International Company Limited

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

CORPORATE GOVERNANCE REPORT (UNAUDITED) (CONTINUED)

1 CORPORATE GOVERNANCE (CONTINUED)

(d) Profiles of Directors (continued)

Name	Role in BOSHK	Qualifications	Other Directorships and executive positions held
Prof. Tsien James Steed	Independent Non-Executive Director (appointed as Director of BOSHK on 11 April 2023)	Honorary Professor, Hong Kong Baptist University Adjunct Professor, Hang Seng University of Hong Kong Chartered Manager & Companion, The Chartered Management Institute, UK Honorary Fellow, Hong Kong Baptist University Honorary Member, University Court, Hong Kong Baptist University Member, The Hong Kong Institute of Bankers Executive Program for International Managers, The Graduate School of Business, Columbia University, New York, U.S.A. Member, The Chartered Institute of Bankers, UK Diploma in Business Management (with distinction), Hong Kong Baptist College	Vice Chairman, University Council, Hang Seng University of Hong Kong
Richard Sun, JP	Independent Non-Executive Director	Honorary Fellow, Hong Kong Polytechnic University Fellow, ACCA Member, HKICPA	Justice of Peace, HKSAR Governing Committee member, Hong Kong Polytechnic University Foundation Member of Endowed Professorship Scheme Advisory Committee, Hong Kong Polytechnic University Senior Advisor, Chartwell Capital Ltd Independent Non-Executive Director, FWD Group Holdings Ltd

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

CORPORATE GOVERNANCE REPORT (UNAUDITED) (CONTINUED)

1 CORPORATE GOVERNANCE (CONTINUED)

(d) Profiles of Directors (continued)

Name	Role in BOSHK	Qualifications	Other Directorships and executive positions held
Mr. Fong Wo, Felix	Independent Non-Executive Director	Bachelor of Engineering, Dean's honour (McMaster University, Canada)	Independent Non-Executive Director, Greenland Hong Kong Holdings Limited
		Juris Doctor (Osgoode Hall Law School, Canada)	Independent Non-Executive Director, Guangdong Land Holdings Limited
		Member of the law societies of Hong Kong, Ontario and England	Independent Non-Executive Director, Howkingtech International Holding Limited
		China-Appointed Attesting Officer in Hong Kong appointed by the Ministry of Justice of China	Independent Non-Executive Director, Vesync Co Ltd
		Solicitor, The High Court of Hong Kong	Independent Non-Executive Director, Television Broadcasts Limited
		Solicitor, The Law Society of United Kingdom	Director, Smartcheer Limited
			Director, Smartcheer One Limited
			Director, Smartcheer Two Limited
			Director, Smartcheer Three Limited
			Director, Lafontaine Holdings Inc.
		Director, Basic Law Institute Limited	
		Director, Hong Kong Economic Exchange Company Limited	
		Consultant, King & Wood Mallesons	

CORPORATE GOVERNANCE REPORT (UNAUDITED) (CONTINUED)

1 CORPORATE GOVERNANCE (CONTINUED)

(e) Committees' functions and composition

The Board has ultimate and overall responsibility for the corporate governance of the Company.

To assist its performance of the role, the following committees are established:

(i) Audit Committee

The Audit Committee reviews and monitors the effectiveness of the internal control system of the Bank, exercises oversight over objectivity, credibility and integrity of the financial reporting and other mandatory professional reporting requirements, and the work of the internal and external auditors. The Committee consists of one non-executive director and three independent non-executive directors, and it is chaired by one of the independent non-executive directors. 4 Audit Committee meetings were held during 2023.

(ii) Remuneration and Nomination Committee

The Remuneration and Nomination Committee exercises oversight of the overall remuneration matters of the Bank in consistence with its culture, strategy and control environment. The Committee should make recommendations in respect of Remuneration Policy and practices to the Board. The Remuneration and Nomination Committee should ensure that the levels of remuneration should be sufficient and appropriate to attract and retain the necessary talents in order to provide a stable and efficient operation of the Bank. In addition to the above, the Committee is responsible to identify individuals suitably qualified to become board members and propose to the board on the selection of individuals nominated for directorship. It also make recommendations to the Board on appointment or re-appointment of directors and succession planning for directors, in particular the Chairman and the Chief Executive Officer. The Committee may also undertake board performance evaluation to assist the board in reviewing the efficiency and effectiveness of the functioning of the board. Furthermore, the Committee is responsible for promoting the corporate culture by setting an appropriate tone from the top and establishing the Bank's culture and behavioural standards that promote prudent risk-taking and fair treatment of customers.

The Committee consists of two non-executive directors and three independent non-executive directors, and it remains to be chaired by one of the independent non-executive directors. 1 Remuneration and Nomination Committee meeting was held during 2023.

(iii) Risk and Compliance Committee

The Risk and Compliance Committee is established with formal and clear delegation of authority by the Board and be provided with sufficient resources to perform their duties. The objective of the Risk and Compliance Committee is to have a sound understanding of the Bank's business activities and their associated risks and thus to ensure that these risk are properly managed within the framework of full compliance. The Committee consists of three independent non-executive directors, one non-executive director and one executive director, and it is chaired by one of the independent non-executive directors. 4 Risk and Compliance Committee meetings were held during 2023.

CORPORATE GOVERNANCE REPORT (UNAUDITED) (CONTINUED)

1 CORPORATE GOVERNANCE (CONTINUED)

(e) Committees' functions and composition (continued)

(iv) Executive Committee

The Executive Committee assists the Board in conducting and managing the day-to-day business and affairs of the Company. The Committee consists of Chief Executive Officer, Head of Corporate Banking and Institutional Banking, Chief Risk Officer, Head of Treasury and Head of Finance, and it is chaired by the Chief Executive Officer. 8 Executive Committee meetings were held during 2023.

(v) Credit Committee

Credit Committee is responsible for credit management and exercises oversight of overall credit quality of the Bank. The Committee consists of the Chief Executive Officer, Chief Risk Officer, Head of Corporate Banking, Head of Institutional Banking, Head of Finance and senior staff of Credit Risk Division, and it is chaired by the Chief Risk Officer. 12 regular Credit Committee meetings were held during 2023.

(vi) Asset and Liability Committee

Asset and Liability Committee is responsible for managing liquidity risk and asset and liability management. The Committee consists of the Chief Executive Officer, Head of Treasury, Senior Executives overseeing the business functions, Head of Operations, Chief Risk Officer and Head of Finance, and it is chaired by the Chief Executive Officer. 5 Asset & Liability Committee meetings were held during 2023.

(vii) Operations and Technology Committee

Operations and Technology Committee is responsible for rationalizing, streamlining and sanctioning the front to back operations process flow plus control to ensure the operations efficiency, control and customer services; reviewing and approving standard service charges and fees of products and services, solution suggestion and resolution to any operations risk issue(s); strategizing the long and medium term information technology plan; sanctioning the bank-wide information and/or technology risk management policy(es); evaluate and ensure the overall cost and effectiveness of information technology system(s) deployed. The Committee comprises of Chief Executive Officer (Chairman), Senior Executives overseeing the business functions, Head of IT, Head of Operations, Chief Risk Officer, Head of Finance; Head of Legal and Compliance and Head of Treasury. 4 Operation and Technology Committee meetings were held during 2023.

CORPORATE GOVERNANCE REPORT (UNAUDITED) (CONTINUED)

1 CORPORATE GOVERNANCE (CONTINUED)

(e) Committees' functions and composition (continued)

(viii) Anti-Money Laundering Committee

Anti-Money Laundering Committee ("AML Committee") is responsible for supervising the overall activities relating to the prevention and detection of money laundering and terrorist financing of the bank, ensuring the continuous effectiveness in prevention and detection controls and identifying areas of high vulnerability to money laundering and terrorist financing. The Committee, chaired by the Head of Legal and Compliance, consists of the Chief Executive Officer, Acting Head of Legal and Compliance, Chief Risk Officer, Senior Executives overseeing the business functions, Head of Information Technology and Head of Operations. 4 Anti-Money Laundering Committee meetings were held during 2023.

(ix) Environment, Social and Governance Committee

Environment, Social and Governance ("ESG") Committee is responsible for reviewing, evaluating and approving the design of green and/or sustainable finance product structures, features, product terms and conditions including pricing, borrower eligibility criteria, and any material changes to it; oversight of the Bank's effective implementation of the sustainable finance product framework, including governance over sustainable lending activities and the Green Asset Pool; oversight of the Bank's effective implementation of risk management processes and controls to mitigate risks related to green and/or sustainable finance products, including greenwashing risks; and alignment with the Bank's business strategy; reporting and escalation. The Committee consists of the Chief Executive Officer, Chief Risk Officer, Senior Executives overseeing the business functions, Head of Treasury, Head of Legal & Compliance, Head of Business Control & Supporting Team and Head of Finance, and it is chaired by the Chief Executive Officer. 2 ESG Committee meetings were held during 2023.

(f) The approach for recruitment and selection of members of the board

Remuneration and Nomination Committee provides oversight of the overall remuneration and nomination matters of the Bank in consistence with its culture, strategy and control environment. Remuneration and Nomination Committee is responsible for identifying individuals suitably qualified to become board members and propose to the board on the selection of individuals nominated for directorship. The appointment of Directors will be considered and approved by the Board based on the nomination of the Remuneration and Nomination Committee. Approval from the HKMA will also be obtained in accordance with the Banking Ordinance.

In order to promote the Board's efficiency and standards of corporate governance, a number of aspects will be considered to identify suitable and qualified candidates to be a Board member, including but not limited to gender, age, cultural and educational background, ethnicity, geographical location, professional experience, skills and knowledge, etc. At the same time, all Board appointments are made on merit, in the context of the skills and experience the Board as a whole required and the various perspectives of Board diversity elements as mentioned above shall also be adequately considered. All Directors possess appropriate experience, competence and personal and professional integrity to discharge their responsibilities effectively.

CORPORATE GOVERNANCE REPORT (UNAUDITED) (CONTINUED)

2 DISCLOSURE ON REMUNERATION

The Company fully complied with, in all material aspects, the requirements set out in the Supervisory Policy Manual module CG-5, namely “Guideline on a Sound Remuneration System” issued by the HKMA.

The Remuneration and Nomination Committee is established with specific terms of reference and its membership consists of 3 independent non-executive directors and 2 non-executive directors. The Remuneration and Nomination Committee meets at least once a year to review and make recommendations to the Board of Directors (the “Board”) of the Company on the overall remuneration policy and structure, specific remuneration packages and compensation arrangement relating to the appointment of Senior Management and Key Personnel, and on the formulation of the remuneration policy applicable to all employees of the Company. All remuneration actions and decisions made by the Remuneration and Nomination Committee are reported to the Board for ratification. In 2023, the assessment of the Bank’s remuneration system was conducted. There were changes made to the remuneration policy with regards to the payout of variable remuneration so as to achieve effective alignment of incentives awards to the time horizon of risks.

The Board and the Remuneration and Nomination Committee provide oversight of the overall remuneration administration of the Company to ensure consistency with its culture, strategy, risk tolerance and control environment. The Remuneration and Nomination Committee reviews the remuneration policy and system at least on an annual basis to ensure the Company’s effective human resources management.

For the purpose of this disclosure, the Senior Management and Key Personnel mentioned in this section are defined according to the “Guideline on a Sound Remuneration System” issued by the HKMA.

Senior Management comprises Chief Executive, Assistant Chief Executives, Alternate Chief Executives and members of the Executive Committee and other staff directly reporting to the Chief Executive, who are responsible for the oversight of the Company’s strategy or activities or material business lines. Key Personnel refers to staff responsible for duties or activities which involves the assumption of material risks or taking on of material exposures on behalf of the Company.

Design and Structure of the Remuneration Process

The remuneration system of the Company is designed to motivate employee behaviour that supports the Company’s overall business goals and objectives, long-term financial soundness and effective risk management. It aims to create long-term value for the Company and to align the remuneration of employees with the Company’s profitability and time horizon of risks.

The remuneration package comprises fixed salary and variable remuneration. The objective is to ensure the package is competitive in the market so as to attract, retain and motivate the right talents. The proportion of variable remuneration shall vary according to the staff’s roles and responsibilities, as well as performance.

CORPORATE GOVERNANCE REPORT (UNAUDITED) (CONTINUED)

2 DISCLOSURE ON REMUNERATION (CONTINUED)

Fixed remuneration includes base salary, fixed allowances and year-end guaranteed pay (if applicable). Variable remuneration, mainly discretionary cash bonus payment, is awarded based on the overall performance of the Company, the relevant business unit and the individual staff member, taking into consideration of the full range of current and potential short-term and longer-term risks connected with the activities of staff which may affect the performance of the Company.

Performance Management and Consideration of Relevant Risks in the Remuneration Process

Performance of individual staff member is assessed against a number of pre-defined and measurable performance goals. The goals are determined according to the job responsibilities and areas of contribution covering both financial and non-financial factors. Financial factors include quantitative measures such as profit, revenue, business turnover or volume. Non-financial factors include criteria such as strict adherence to the code of conduct, internal control policies, compliance requirement and risk management standard. The non-financial factors constitute a significant part of an employee's overall performance measurement. The size and allocation of variable remuneration take into account the full range of current and potential risks associated with the functions and activities conducted by the relevant employee.

The overall and balanced quality of staff performance is therefore measured and determined not only by financial achievements but also non-financial indicators which form an integral part of the performance management system. For staff within risk control functions, they have to achieve their specific divisional and individual key performance indicators independent of the performance of the business areas which they oversee.

Deferral of Variable Remuneration

Payment of performance-based bonus is subject to deferral mechanism.

The key principles are:

- Deferral should apply when performance-based bonus amount is considered “significant”;
- Deferral amount needs to be meaningful;
- The award of deferral bonus shall be subject to a vesting period and pre-defined vesting conditions. The vesting period shall not less than 3 years and aligned with the nature and risks of business, activities undertaken by the employees and the time frame during which the risks from the activities are likely to be realized.

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2023

CORPORATE GOVERNANCE REPORT (UNAUDITED) (CONTINUED)

2 DISCLOSURE ON REMUNERATION (CONTINUED)

Remuneration Awarded to Senior Management and Key Personnel

	2023	2022
Number of Senior Management and Key Personnel	<u>11</u>	<u>8</u>
	\$'000	\$'000
Fixed remuneration (see Note below)		
– Cash	16,684	12,862
Variable remuneration		
– Cash	1,031	621
Of which: deferred	<u>229</u>	<u>–</u>

Note: Fixed remuneration included employee's annual salary, allowances and employer's contribution to provident fund. Variable remuneration comprised of discretionary cash bonus only.

No guaranteed bonus, sign-on bonus or severance payment were made to the Senior Management and Key Personnel in 2022 and 2023.

Deferred Remuneration

	(a) Total amount of outstanding deferred remuneration \$'000	(b) Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment \$'000	(c) Total amount of amendment during the year due to ex post explicit adjustments (Resignation) \$'000	(d) Total amount of amendment during the year due to ex post implicit adjustments \$'000	(e) Total amount of deferred remuneration paid out in the financial year \$'000
2023					
Deferred and retained remuneration					
Senior Management and Key Personnel					
Cash	229	229	–	–	–
Shares	–	–	–	–	–
Cash-linked instruments	–	–	–	–	–
Other	–	–	–	–	–
Total	<u>229</u>	<u>229</u>	<u>–</u>	<u>–</u>	<u>–</u>