CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED

REPORT OF THE BOARD OF DIRECTORS AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2021

Contents

REPORT OF THE BOARD OF DIRECTORS

The directors have pleasure in submitting their annual report together with the audited consolidated financial statements for the year ended December 31, 2021.

Principal place of business

China Construction Bank (Asia) Corporation Limited ("the Bank") is a licensed bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 28/F, CCB Tower, 3 Connaught Road Central, Central, Hong Kong.

Principal activities

The principal activities of the Bank and its subsidiaries (collectively referred to as "the Group") are the provision of a range of banking and related financial services through the Bank's branches and subsidiaries. Other particulars of the Bank's subsidiaries are set out in Note 29 to the consolidated financial statements.

An analysis of the Group's performance for the year by operating segments is set out in Note 20 to the financial statements.

Consolidated financial statements

The profit of the Group for the financial year ended December 31, 2021 and the state of the Bank's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 10 to 128.

Dividends

The directors do not recommend the payment of a final dividend for the year ended December 31, 2021 (2020: HKD Nil).

Share capital

Details of share capital of the Bank are set out in Note 43 to the consolidated financial statements. There were no movements during the year.

Charitable donations

During the year, charitable donations made by the Group amounted to HKD241,620 (2020: HKD351,000).

Certificates of deposit and medium term note issued

During the year, no certificates of deposit and medium term notes were issued by the Bank.

Other equity instruments issued

During the year, no other equity instruments were issued by the Bank.

Details of the other equity instruments are set out in Note 44 to the consolidated financial statement.

Equity linked agreements

During the year, the Bank has not entered into any equity-linked agreement under Companies (Directors' Report) Regulation (Cap 622D).

Directors

(a) Directors of the Bank

The directors of the Bank during the year and up to the date of the report were:

MOU Naimi (Chairman)	(appointed on April 26, 2021)
ZHANG Jun (Vice Chairman)	
Miranda KWOK Pui Fong	
MAO Yumin	
FENG Xilai	
LI Min	(appointed on April 26, 2021)
LORD LEVENE OF PORTSOKEN Peter Keith	
WONG Kai Man BBS, JP	
AUYEUNG Rex Pak-kuen JP	
FOK Glenn	
ZHANG Gengsheng	(cessation of appointment on April 26, 2021)

Pursuant to Clause 111(3) of the Bank's Articles of Association, Ms. Miranda KWOK Pui Fong, Mr. FOK Glenn and Mr. FENG Xilai shall retire from office and being eligible offer themselves for re-election at the forthcoming annual general meeting of the Bank for three years up to the date of the annual general meeting of year 2025. Ms. Miranda KWOK Pui Fong, Mr. FOK Glenn and Mr. FENG Xilai will offer themselves for re-election.

Pursuant to Clause 111(3)(iii) and 111(4) of the Bank's Articles of Association, the term of office of LORD LEVENE OF PORTSOKEN Peter Keith and Mr. WONG Kai Man will be expired respectively at the forthcoming annual general meeting of the Bank. LORD LEVENE OF PORTSOKEN Peter Keith shall retire as Independent Non-executive Directors of the Bank at the forthcoming annual general meeting of the Bank. Moreover, the Bank confirmed that Mr. WONG Kai Man has performed his duty of loyalty and care with exceptional diligence during his services and fulfilled the independence requirements of director of the Bank, the extension of term of office of Mr. Wong is proposed at the forthcoming annual general meeting of the Bank for an additional year to the date of the annual general meeting of year 2023.

Other remaining directors of the Bank shall remain in office for an ensuring year.

Mr. ZHANG Gengsheng ceased to be Non-Executive Director of the Bank on April 26, 2021. Mr. ZHANG Gengsheng confirmed that he has no disagreement with the Board and nothing relating to the affairs of the Bank needed to be brought to the attention of the shareholder of the Bank.

(b) Directors of the Bank's subsidiaries

During the year and up to the date of this report, Mr. ZHANG Jun and Ms. Miranda KWOK Pui Fong are also directors of certain subsidiaries of the Bank. Other directors of the Bank's subsidiaries during the year and up to the date of this report include:

CHENG Tat Kin (Alias: Joseph)	
LI Sai Cheong (Alias: Ernest)	
LIN Ju	(resigned on November 8, 2021 related to different subsidiaries)
YING Jian Jia	(resigned on December 24, 2021)
WU Jian	
YI Ou	(resigned on November 26, 2021 related to different subsidiaries)
LIU Huifen	(appointed on May 1, 2021 related to different subsidiaries)
LAI King Lun	
LAI Wing Fai	(resigned on May 1, 2021)
TING Chak Sum	(appointed on May 1, 2021)
YEUNG Sin Chor Jason	(appointed on August 23, 2021)
WAT Wing Kam	(appointed on November 8, 2021 related to different subsidiaries)
CHENG Lai Ching	(appointed on November 8, 2021 related to different subsidiaries)
YE Lin	(appointed on November 26, 2021 related to different subsidiaries)

Directors' material interests in transactions, arrangements and contracts

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Bank, or any of its holding companies, subsidiaries, fellow subsidiaries or joint venture company was a party, and in which a director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' interests in shares and debentures

At no time during the year was the Bank, or any of its holding companies, subsidiaries, fellow subsidiaries or joint venture company a party to any arrangement to enable the directors of the Bank to hold any interests in the shares or debentures of, the Bank or its specified undertakings or any other body corporate.

Management contracts

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

Permitted indemnity provisions

The Articles of Association provides that every director, secretary or other officer of the Bank shall be entitled to be indemnified by the Bank against all costs, charges, losses, expenses and liabilities incurred by him in the execution and/or discharge of his duties and/or the exercise of his powers and/or otherwise in relation to or in connection with his duties, powers or office. The Bank has maintained appropriate directors and officers liability insurance which provides personal protection for the directors and management against any financial loss arising from the potential exposures associated with supervising or managing the Bank.

Compliance with Hong Kong Banking (Disclosure) Rules

The consolidated financial statements for the year ended December 31, 2021 comply with the applicable disclosure provisions of the Banking (Disclosure) Rules.

Auditor

The consolidated financial statements have been audited by Ernst & Young who retire and being eligible, offer themselves for re-appointment.

By order of the board of directors

MOU Naimi
Chairman and Non-Executive Director

Hong Kong, March 25, 2022

Ernst & Young
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Quarry Bay, Hong Kong

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Independent auditor's report
To the members of China Construction Bank (Asia) Corporation Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of China Construction Bank (Asia) Corporation Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 10 to 128, which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

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

Independent auditor's report
To the members of China Construction Bank (Asia) Corporation Limited
(Incorporated in Hong Kong with limited liability)

Key audit matters (continued)

Key audit matter	**How our audit addressed the key audit matter**
Allowances for Expected Credit Losses on Advances to Customers	
Refer to significant accounting policies in Note 4(c)(xv), and disclosures on credit risk in Note 8(a) and Note 23 to the consolidated financial statements. The Group has adopted a forward-looking expected loss impairment model to recognise expected credit losses ("ECLs") in respect of advances to customers. The assessment of credit risk and the measurement of ECLs are required to be based on unbiased and probability-weighted possible outcomes, and reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions. Significant management judgement and estimates are involved in the development and the application of complex models and the choices of inputs in the calculation of ECLs, including: - segmentation of financial assets according to credit risk characteristics - criteria to determine whether a significant increase in credit risk has occurred - determination of the ECL stage, estimation of probability of default, loss given default, exposure at default and discount rates - selection of forward-looking macroeconomic scenarios and their probability weightings As at 31 December 2021, gross advances to customers amounted to HK$303.1 billion, representing 61% of total assets; and the ECL allowances for advances to customers amounted to HK$3.1 billion, representing 86% of the total ECL allowances for financial instruments. In view of the significance of ECL allowances and the management judgement and estimates involved, the ECL allowances for advances to customers are considered a key audit matter.	We obtained an understanding of the Group's credit management policies and procedures, including measurement and recognition of ECLs. We read the minutes of the Group's Risk Management Committee, Credit Committee, and Special Assets Management Committee meetings, to understand ECL model governance and monitoring and the approval of the internal credit risk ratings and assumptions used in the ECL model. We performed walkthroughs of credit management processes and evaluated the Group's impairment methodology, including management judgement in respect of the segmentation of portfolio, the criteria on significant credit deterioration and the measurement approach of expected credit losses. We assessed the design and tested the operating effectiveness of the key controls over the systems and processes of credit assessment, loan classification, stage classification and calculation of ECL allowances, taking into consideration the implications of the COVID-19 pandemic and related relief measures. Our testing of the loan impairment processes' controls included, amongst others, an evaluation of the governance in respect of the selection and probability weightings of economic scenarios and the controls over data input. For the ECL allowances as at 31 December 2021, we performed testing on the completeness and accuracy of the data used in the ECL calculation by comparing the individual loan data to the relevant data source on a sample basis; evaluating the calculation logic and data processing; and recomputing management's calculation of the ECL allowances. We engaged our modelling specialists in evaluating the impairment methodology and model enhancements. We assessed the appropriateness of the ECL model used by management in determining impairment allowances, including changes made to forward-looking macroeconomic scenarios due to the ongoing COVID-19 pandemic, by evaluating the key parameters and assumptions adopted in the model. The key parameters and assumptions included ECL stages, probability of default, loss given default, exposure at default, and probability weighted economic scenarios. In addition, for the corporate lending portfolio, we adopted a risk-based sampling approach to perform loan review procedures, with focus on high-risk industries including the Mainland China real estate sector and those impacted by COVID-19, in order to assess the appropriateness of management's credit risk rating and ECL staging by reviewing the borrowers' financial performance, valuation of collateral and other available information. As part of our loan review procedures, we selected samples of credit-impaired loans and advances and assessed their stage 3 ECL allowances by evaluating the timing and means of realisation of collateral, the forecast of recoverable cash flows, the viability of recovery plans under COVID-19 and other credit enhancements. We also evaluated the design and tested the operating effectiveness of the Group's key controls related to disclosures on credit risk.

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of financial instruments	
Refer to significant accounting policies in Note 4(c)(xvii), and disclosures on fair values and the valuation hierarchy of financial instruments in Note 9 to the consolidated financial statements. The Group has applied valuation techniques to determine the fair value of financial instruments that do not have quoted prices in active markets. These valuation techniques, in particular those that include significant unobservable inputs, involve management using subjective judgements and assumptions. Valuation results can vary significantly under different valuation techniques or assumptions. Financial instruments that do not have quoted prices in active markets are classified as level 2 or level 3 in the fair value hierarchy. In view of the complexity and significant management judgement involved in the determination of fair value for level 2 and level 3 financial instruments, the valuation of financial instruments is considered as a key audit matter. As at 31 December 2021, the Group's financial assets and liabilities measured at fair value amounted to HK$98,138 million and HK$1,270 million, respectively, representing 19.7% and 0.3% of total assets and total liabilities, respectively. As at 31 December 2021, HK$42,028 million and HK$82 million of the Group's financial assets measured at fair value were categorised within level 2 and level 3, respectively.	We obtained an understanding of the Group's financial instrument valuation policies and procedures, including recognition and measurement of valuation adjustments. We evaluated the design and tested the operating effectiveness of key controls over valuation and model approval. We focused on the valuation methodologies and assumptions of financial instruments that were classified as level 2 and level 3 in the fair value hierarchy. We involved our valuation specialists in evaluating the valuation techniques, inputs and assumptions through comparison with the valuation techniques that are commonly used in the market, benchmarking of observable inputs using external market data, comparison with valuation outcomes obtained from various pricing sources, and performing independent valuation for a sample of level 2 financial instruments and all level 3 financial instruments. We also evaluated the design and tested the operating effectiveness of the Group's key controls related to disclosures on fair value.

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Independent auditor's report
To the members of China Construction Bank (Asia) Corporation Limited
(Incorporated in Hong Kong with limited liability)

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Tso Pui Sze.

Ernst & Young
Certified Public Accountants
Hong Kong
25 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED DECEMBER 31, 2021
(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

	Note	**2021**	2020
Interest income		**7,371,956**	10,268,385
Interest expense		**(2,154,410)**	(4,877,622)
Net interest income	11	**5,217,546**	5,390,763
Fees and commission income		**2,067,403**	2,013,935
Fees and commission expense		**(172,980)**	(113,236)
Net fees and commission income	12	**1,894,423**	1,900,699
Net trading income	13	**454,853**	488,618
Net gains from financial instruments designated at fair value through profit or loss	14	**33,040**	22,697
Net gains from disposal of financial assets measured at fair value through other comprehensive income		**227,087**	380,538
Other operating income	15	**59,372**	65,939
Total operating income		**7,886,321**	8,249,254
Operating expenses	16	**(3,261,312)**	(3,350,981)
Operating profit before impairment losses		**4,625,009**	4,898,273
Net charge on expected credit losses	17	**(745,163)**	(435,492)
Net charge on impairment on other assets		**-**	(1,195)
Operating profit		**3,879,846**	4,461,586
(Losses) / Gains on disposal of fixed assets		**(1,284)**	1,454
Share of profit of joint venture	31	**61,306**	56,995
Profit before taxation		**3,939,868**	4,520,035
Taxation	19	**(610,139)**	(770,674)
Profit for the year		**3,329,729**	3,749,361

The accompanying notes are the integral part of these consolidated financial statements.

CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

	2021	2020
Profit for the year	**3,329,729**	3,749,361
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Debt instruments measured at fair value through other comprehensive income:		
Changes in fair value recognised during the year	**(80,861)**	10,061
Reclassification adjustments for amounts transferred to profit or loss	**(150,302)**	(79,606)
Expected credit losses recognised in profit or loss	**79,240**	(34,165)
Tax effect	**39,436**	11,388
Item that may not be reclassified subsequently to profit or loss:		
Equity instruments designated at fair value through other comprehensive income:		
Changes in fair value recognised during the year	**(145,792)**	119,340
Other comprehensive income for the year, net of tax	**(258,279)**	27,018
Total comprehensive income for the year	**3,071,450**	3,776,379

The accompanying notes are the integral part of these consolidated financial statements.

CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

	Note	2021	2020
ASSETS			
Cash and balances with banks and central banks	21	**46,771,963**	54,039,149
Placements with banks	22	**32,615,687**	30,213,346
Advances to customers and trade bills	23	**300,234,658**	281,464,455
Financial assets measured at fair value through profit or loss	24	**5,426,820**	9,108,802
Financial assets measured at fair value through other comprehensive income	25	**91,812,256**	65,510,224
Other assets measured at amortised cost	26	**9,712,527**	14,317,688
Derivative financial instruments	27	**898,617**	1,916,804
Interest in a joint venture	31	**1,902,166**	1,900,860
Deferred tax assets	32	**612,011**	424,473
Fixed assets	33	**2,445,555**	2,527,817
Right-of-use assets	34	**1,753,365**	2,014,852
Other assets	36	**3,104,592**	11,066,968
Total assets		**497,290,217**	474,505,438
LIABILITIES			
Deposits and balances with banks	37	**24,930,501**	16,077,644
Deposits from customers	38	**377,196,845**	369,420,713
Financial assets sold under repurchase agreements	39	**6,769,447**	-
Financial liabilities designated at fair value through profit or loss	40	**515,253**	418,299
Other debt securities issued	41	**736,578**	1,912,429
Derivative financial instruments	27	**755,073**	2,222,274
Lease liabilities	35	**1,298,508**	1,552,237
Current tax payable	32	**385,068**	143,498
Deferred tax liabilities	32	**18,875**	19,677
Other liabilities	42	**4,944,987**	5,414,102
Total liabilities		**417,551,135**	397,180,873
EQUITY			
Share capital	43	**28,827,843**	28,827,843
Other equity instruments	44	**15,589,333**	15,589,333
Reserves	45	**35,321,906**	32,907,389
Total equity		**79,739,082**	77,324,565
Total equity and liabilities		**497,290,217**	474,505,438

Approved and authorised for issue by the Board of Directors on March 25, 2022.

MOU Naimi
Chairman and Non-Executive Director

ZHANG Jun
Vice Chairman and Chief Executive Officer

The accompanying notes are the integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2021
(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

	Note	Share capital	Other equity instruments	General reserve	Investment revaluation reserve	Regulatory reserve	Other reserve	Merger reserve	Retained earnings	Total
Balance as at January 1, 2021		**28,827,843**	**15,589,333**	**750,956**	**423,621**	**656,248**	**15,913**	**62,262**	**30,998,389**	**77,324,565**
Changes in equity for 2021:										
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,329,729**	**3,329,729**
Other comprehensive income, net of tax		**-**	**-**	**-**	**(258,279)**	**-**	**-**	**-**	**-**	**(258,279)**
Total comprehensive income for the year		**-**	**-**	**-**	**(258,279)**	**-**	**-**	**-**	**3,329,729**	**3,071,450**
Coupon paid for other equity instruments		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(656,933)**	**(656,933)**
Regulatory reserve		**-**	**-**	**-**	**-**	**(275,396)**	**-**	**-**	**275,396**	**-**
Balance as at December 31, 2021		**28,827,843**	**15,589,333**	**750,956**	**165,342**	**380,852**	**15,913**	**62,262**	**33,946,581**	**79,739,082**
Balance as at January 1, 2020		28,827,843	11,712,840	750,956	396,603	649,984	15,913	62,262	27,848,243	70,264,644
Changes in equity for 2020:										
Profit for the year		-	-	-	-	-	-	-	3,749,361	3,749,361
Other comprehensive income, net of tax		-	-	-	27,018	-	-	-	-	27,018
Total comprehensive income for the year		-	-	-	27,018	-	-	-	3,749,361	3,776,379
Issuance of other equity instruments	44	-	3,876,493	-	-	-	-	-	-	3,876,493
Coupon paid for other equity instruments		-	-	-	-	-	-	-	(592,951)	(592,951)
Regulatory reserve		-	-	-	-	6,264	-	-	(6,264)	-
Balance as at December 31, 2020		28,827,843	15,589,333	750,956	423,621	656,248	15,913	62,262	30,998,389	77,324,565

The accompanying notes are the integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

	Note	**2021**	2020
Net cash inflow/(outflow) from operations	50(a)	**21,593,809**	(2,677,464)
Hong Kong Profit Tax paid		**(514,541)**	(1,665,508)
Withholding tax paid		**(2,780)**	(2,500)
Net cash inflow/(outflow) from operating activities		**21,076,488**	(4,345,472)
Purchase of financial assets measured at fair value through other comprehensive income		**(82,764,436)**	(67,859,371)
Purchase of other assets measured at amortised cost		**(3,187,519)**	(14,196,183)
Proceeds received from redemption and disposal of financial assets measured at fair value through other comprehensive income		**57,934,327**	78,690,215
Proceeds received from redemption and disposal of other assets measured at amortised cost		**11,770,490**	13,446,544
Proceeds from disposal of fixed assets		**18**	4,616
Purchase of property and equipment	33	**(211,429)**	(218,407)
Dividend received from a joint venture	31	**60,000**	70,000
Dividends received from listed and unlisted investments		**4,306**	5,512
Net cash (outflow)/inflow from investing activities		**(16,394,243)**	9,942,926
Issuance of other equity instruments		**-**	3,876,650
Cost paid for issuance for other equity instruments		**-**	(157)
Coupon paid for other equity instruments		**(656,933)**	(592,951)
Principal portion of lease payments	35	**(260,921)**	(256,690)
Net cash (outflow)/inflow from financing activities		**(917,854)**	3,026,852
Increase in cash and cash equivalents		**3,764,391**	8,624,306
Cash and cash equivalents as at January 1		**60,800,808**	51,473,628
Effect of foreign exchange rate changes		**81,651**	702,874
Cash and cash equivalents as at December 31	50(b)	**64,646,850**	60,800,808
Cash flows from operating activities include:			
Interest received		**7,450,083**	10,677,864
Interest paid		**(2,191,857)**	(6,130,796)
Interest paid – interest portion of lease payments	35	**(42,658)**	(57,261)

The accompanying notes are the integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

1 General information

China Construction Bank (Asia) Corporation Limited ("the Bank") is a licensed bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 28/F, CCB Tower, 3 Connaught Road Central, Central, Hong Kong.

The principal activities of the Bank and its subsidiaries (together referred to as "the Group") are the provision of a range of banking and related financial services through the Bank's branches and subsidiaries.

The consolidated financial statements for the year ended December 31, 2021 comprise the Group and the Group's interest in a joint venture. The consolidated financial statements were approved by the Board of Directors on March 25, 2022.

2 Statement of compliance

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collectively include all 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 Hong Kong Companies Ordinance (Cap.622).

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Bank. Note 5 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 and the Bank for the current and prior accounting periods reflected in these consolidated financial statements.

3 Basis of preparation

The Group presents its consolidated statement of financial position in order of liquidity based on the Group's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. The Group uses the calendar year as the accounting year, which is from January 1 to December 31.

(a) Going concern

These financial statements are prepared on a going concern basis, as the directors are satisfied that the Group and parent company have the resources to continue in business for the foreseeable future. In making this assessment, the directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis except that: (i) financial instrument measured at fair value through profit or loss ("FVPL") are measured at fair value; (ii) financial assets measured at fair value through other comprehensive income ("FVOCI") are measured at fair value; (iii) derivative financial instruments are measured at fair value; (iv) the carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged; (v) certain non-financial assets are measured at its cost. The measurement basis of major assets and liabilities are further explained in Note 4.

(c) Functional and presentation currency

These financial statements are presented in Hong Kong Dollars, unless otherwise stated, rounded to the nearest thousand, which is the functional currency of the Group.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

3 Basis of preparation (continued)

(d) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgments that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 6.

(e) Offsetting

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position except when HKFRS netting criteria are met.

(f) Local regulatory reporting

In preparing the capital adequacy ratios of the Group, they are prepared according to the basis of consolidation for regulatory purposes. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank and all its subsidiaries and a joint venture whereas the latter excludes CCB Securities Limited ("CCBS"), CCB Nominees Limited ("CCBN") and CCB (Asia) Trustee Company Limited ("CCBT") which conduct non-banking related business.

Details of the subsidiaries which are not included in consolidation for regulatory purposes are as follows:

		Total assets		Total equity	
Name of company	Principal activities	**December 31, 2021**	December 31, 2020	**December 31, 2021**	December 31, 2020
CCBS	Securities brokerage business	**907,085**	1,352,694	**624,889**	629,785
CCBN	Custodian and nominees services	**40,545**	39,952	**39,768**	39,804
CCBT	Trustee and custodian business	**107,226**	83,610	**92,338**	75,780

4 Summary of significant accounting policies

(a) Consolidated financial statements

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group has the power over the activities of the entity, and is exposed to, or has the rights to the variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. The Group is considered to control another entity if, in addition to ongoing involvement with the entity, it had a key role in establishing the entity or in bringing together relevant counterparties so the transaction that is the purpose of the entity could occur. The Group is generally not considered to control another entity if the only involvement with the entity is merely administrative.

The financial results and performance of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. When preparing the consolidated financial statements, the Group makes necessary adjustments on the accounting period and accounting policies of subsidiaries to comply with those of the Group.

Intragroup balances and transactions, and any profits or losses arising from intragroup transactions are eliminated in full in preparing the consolidated financial statements.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in the consolidated statement of profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as a joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the consolidated statement of profit or loss.

In the Bank's statement of financial position, its investments in subsidiaries are stated at cost less impairment losses, if any.

(ii) Associates and joint arrangements

An associate is an enterprise in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policy decisions.

A joint arrangement is an arrangement of which two or more parties have joint control. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

4 Summary of significant accounting policies (continued)

(a) Consolidated financial statements (continued)

(ii) Associates and joint arrangements (continued)

Interests in associates or joint ventures are accounted for using the equity method in the consolidated financial statements. Under the equity method, the interest in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of profit or loss outside operating profit and represents profit or loss after tax and noncontrolling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of profit or loss.

(iii) Unconsolidated structured entities

Unconsolidated structured entities are entities that do not meet consolidation criteria explained in Note 4(a)(i) as above. The Group's interest in these entities varies depending on the type and nature of the entities.

The Group does not consolidate structured entities if it does not have the power to control the investment decisions or it is not exposed to significant variable returns of structured entities.

4 Summary of significant accounting policies (continued)

(b) Translation of foreign currency transactions

Foreign currency transactions are, on initial recognition, translated into the functional currency at the spot exchange rates at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated into the functional currency at the spot exchange rates at that date. The resulting exchange differences are recognised in "Net trading income". Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currency using the spot exchange rates at the transaction dates. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the spot exchange rates at the dates the fair values are determined; exchange differences are recognised in the consolidated statement of profit or loss as trading income, except for the differences arising from the translation of financial instruments measured at fair value through other comprehensive income, which are recognised in other comprehensive income.

(c) Financial instruments

(i) Initial recognition

All financial assets and financial liabilities are recognised in the consolidated statement of financial position, when and only when, the Group becomes a party to the contractual provisions of the instrument.

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price.

(ii) Measurement

At initial recognition, the Group measures a financial instrument at its fair value plus, in the case of a financial instrument not at FVPL, transaction costs that are directly attributable to the acquisition or issue of the financial instrument. Transaction costs for financial instruments carried at FVPL are expensed immediately in the consolidated statement of profit or loss.

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost
- FVOCI
- FVPL

The Group classifies and measures its derivatives and trading portfolios at FVPL. The Group may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading or derivative instruments or the fair value designation is applied.

(iii) Financial instruments measured at amortised cost

The Group measures most loans and advances to banks and customers and some debt securities at amortised cost only if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

4 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(iii) Financial instruments measured at amortised cost (continued)

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

- The risks that affect the performance of the business model and, in particular, the way those risks are managed; and
- How managers of the business are compensated, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected.

The expected frequency, value and timing of sales are also important aspects of the Group’s assessment. The business model assessment is based on reasonably expected scenarios without taking “worst case” or “stress case” scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Group assesses the contractual terms of the financial asset to identify whether they meet the SPPI test.

‘Principal’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset.

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

(iv) Derivatives

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, equity price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract;
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors; and
- It is settled at a future date.

The Group enters into derivative transactions with various counterparties. These include interest rate swaps, currency swaps, equity swaps, foreign exchange contracts and options on foreign currencies. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The notional amount and fair value of such derivatives are disclosed separately in Note 27. Changes in the fair value of derivatives are included in “Net trading income”. Hedge accounting disclosures are provided in Note 28.

4 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) Derivatives (continued)

Credit valuation adjustments ("CVAs") and debit valuation adjustments ("DVAs") are applied to the Group's OTC derivatives. These adjustments reflect market factors movement, expectations of counterparty creditworthiness and the Group's own credit spread respectively. They are mainly determined for each counterparty and are dependent on expected future values of exposures, default probabilities and recovery rates. For the year ended December 31, 2021 and December 31, 2020, the changes in the fair value of own credit risk of financial liabilities designated at FVTPL was considered to be immaterial.

(v) Embedded derivatives

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract for classification and measurement purposes. Otherwise, the embedded derivatives are treated as separate derivatives when:

- Their economic characteristics and risks are not closely related to those of the host contract;
- A separate instrument with the same terms would meet the definition of a derivative; and
- The hybrid contract is not measured at FVPL.

The Group presents the structured deposits, which contain both deposit and derivative components, as "Financial liabilities designated at FVPL" in the consolidated statement of financial position since they are managed and their performance evaluated on a fair value basis. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

(vi) Financial instruments held for trading

The Group classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit-making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the consolidated statement of financial position at fair value. Changes in fair value, interest and dividend income or expense is recognised in "Net Trading Income" according to the terms of the contract, or when the right to payment has been established.

This classification is included debt securities and trading loans with customers that have been acquired principally for the purpose of selling or repurchasing in the near term.

4 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(vii) Financial instruments measured at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under HKFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria is met. Such designation is determined on an instrument-by-instrument basis:

- The use of the designation removes or significantly reduces an accounting mismatch; or
- When a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on the fair value basis, in accordance with a documented risk management or investment strategy; or
- The liabilities contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in profit or loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Group's own credit risk. Such changes in fair value are recorded in the own credit reserve through OCI and do not get recycled to profit or loss. Interest earned on assets mandatorily required to be measured at FVPL is recorded using the contractual interest rate. Dividend income from equity instruments measured at FVPL is recorded in the consolidated statement of profit or loss as "Other operating income" when the right to the payment has been established.

(viii) Debt instruments measured at FVOCI

The Group classifies debt instruments at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in the consolidated statement of profit or loss in the same manner as for other assets measured at amortised cost. The ECL calculation for debt instruments at FVOCI is explained in Note 4(c)(xv). On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to the consolidated statement of profit or loss.

(ix) Equity instruments designated at FVOCI

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under HKAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in the consolidated statement of profit or loss as "Other operating income" when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to an impairment assessment.

4 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(x) Letters of credit, financial guarantees and undrawn loan commitments

The Group issues letters of credit, financial guarantees and other credit commitments. Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and other credit commitments, where the loan agreed to be provided is on market terms, are not recorded on in the consolidated statement of financial position. The nominal values of these instruments together with the corresponding ECL are disclosed in Note 48. Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of profit or loss, and an ECL allowance as set out in Note 48.

The premium received is recognised in the consolidated statement of profit or loss as "Net fees and commission income" on a straight line basis over the life of the guarantee.

(xi) Financial assets held under resale agreements and financial assets sold under repurchase agreements

Financial assets held under resale agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the consolidated statement of financial position. Assets held under resale agreements are not recognised. Assets sold under repurchase agreements continue to be recognised in the consolidated statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expense respectively.

(xii) Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

(xiii) Other equity instruments

Securities, including Additional Tier 1 Capital instruments, which carry a discretionary coupon and have no fixed maturity or redemption date are classified as "Other equity instruments". Interest payments on these securities are recognised as distributions from equity in the period in which they are declared.

(xiv) Derecognition

The Group derecognises a financial asset if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the contractual rights to receive the cash flows of the financial asset have been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of transfer of cash flows and transfers substantially all the risks and rewards of ownership of the financial asset.

4 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(xiv) Derecognition (continued)

A transfer only qualifies for derecognition if either:

- The Group has transferred substantially all the risks and rewards of the asset; or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Group's continuing involvement, in which case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

The difference between the carrying amount of the financial asset derecognised and the consideration received and the cumulative changes in fair value previously recognised in investment revaluation reserve are recognised in the consolidated statement of profit or loss. Any cumulative changes in fair value previously recognised in equity investment securities designated as FVOCI is not recognised in profit or loss on derecognition but recognised in OCI.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the Group has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

The financial liability is derecognised only when: (i) the underlying present obligation specified in the contracts is discharged, cancelled or expired; or (ii) an agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the consolidated statement of profit or loss. Any cumulative changes in fair value of financial liabilities designated under the fair value option that are attributable to a reporting entity's own credit risk are recognised in OCI and these amounts are not transferred to profit or loss upon derecognition.

4 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(xv) Impairment of financial assets

The Group recognises expected credit losses ("ECL") for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts.

The ECL allowance is based on the credit losses expected to arise over the life of the asset ("lifetime ECL"), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit losses ("12-month ECL").

The 12-month ECL is the portion of lifetime ECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both lifetime ECL and 12-month ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Group's ECL are grouped into Stage 1, Stage 2, Stage 3 and Purchased or originated credit impaired ("POCI"), as described below:

Stage 1: When financial assets are first recognised, the Group recognises an allowance based on 12-month ECL. Stage 1 loans also include facilities where the credit risk has improved and the financial assets have been reclassified from Stage 2.

Stage 2: When financial assets have shown a significant increase in credit risk since origination, the Group records an allowance for the lifetime ECL. Stage 2 financial assets also include facilities, where the credit risk has improved and the financial assets have been reclassified from Stage 3.

Stage 3: Financial assets considered credit-impaired. The Group records an allowance for the lifetime ECL.

POCI: POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. The ECL allowance is only recognised or released to the extent that there is a subsequent change in the expected credit losses.

4 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(xv) Impairment of financial assets (continued)

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

- Credit-impaired

  The Group determines that a financial instrument is credit-impaired and in stage 3 satisfies the criteria described in Note 8(a)(x)(2).

  Interest income is recognised by applying the EIR to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

  For loss provision measured at the amount equivalent to the lifetime expected credit losses of the financial instrument previously, if, at the end of the current reporting period, the financial instrument is no longer having significant increase in credit risk since the initial recognition, the Group measures its loss provision based on the amount of its expected credit losses for the next 12 months, and the reversal of the loss provision arising from it is recognised in the consolidated statement of profit or loss for the current reporting period.

  If, in a subsequent period, the amount of the impairment loss on financial assets decreased and the decrease in expected credit losses, the previously recognised impairment loss was reversed. The amount of the reversal was recognised in the consolidated statement of profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeded the amortised cost at the date of the reversal had the impairment not been recognised.

- Movement between stages

  Financial assets can be transferred between the different categories (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit-impairment as described above. Rescheduled loans that are not POCI will continue to be in stage 3 until certain specific conditions are met by the end of the observation period of normally 6 months, with the approval from management.

- Significant increase in credit risk

  An assessment of whether credit risk has increased significantly is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly have experienced a significant increase in credit risk, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The detail is described in Note 8(a)(x)(1).

- Unimpaired and without significant increase in credit risk

  ECL resulting from default events that are possible within the next 12 months ("12-month ECL") are recognised for financial instruments that remain in Stage 1.

4 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(xv) Impairment of financial assets (continued)

- Measurement of ECL

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL takes into account the time value of money.

In general, the Group calculates ECL using three main components, PD, a loss given default ("LGD") and the exposure at default ("EAD").

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively. The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

The ECL for stage 3 financial assets is determined on an individual basis. At the end of each reporting period, the Group recognises the amount of the change in lifetime expected credit losses as an impairment loss in the consolidated statement of profit or loss.

The Group's method of measuring expected credit losses of financial instruments reflects the following elements:
(i) unbiased weighted average probability determined by the results of evaluating a range of possible outcomes;
(ii) time value of money;
(iii) reasonable and evidence-based information about past events, current conditions, and future economic forecasts that are available at no additional cost or effort at the end of the reporting period.

- Debt instrument measured at FVOCI

The ECL for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the consolidated statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

- Loan commitments and letters of credit

When estimating lifetime ECL for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECL is calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within "Other liabilities".

4 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(xv) Impairment of financial assets (continued)

- Financial guarantee contracts

The Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of profit or loss, and the ECL provision. For this purpose, the Group estimates ECL based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the scenarios. The ECL related to financial guarantee contracts are recognised within "Other liabilities".

- Rescheduled loans

Loans are identified as rescheduled and classified as credit-impaired when the contractual payment terms are modified due to significant credit distress of the borrower. Rescheduled loans remain classified as credit-impaired until certain specific conditions are met by the end of the observation period of normally 6 months, with the approval from management.

A loan that is rescheduled is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the terms of an existing agreement are modified such that the rescheduled loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances are considered to be POCI and will continue to be disclosed as rescheduled loans.

- Write-off

When the Group determined that a loan has no reasonable prospect of recovery after the Group had completed all the necessary legal or other proceedings, the loan is written off against its allowance for impairment losses. If in a subsequent period the loan written off is recovered, the amount recovered will be recognised in the consolidated statement of profit or loss through impairment losses.

- Period over which ECL is measured

Expected credit losses is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Group is exposed to credit risk. Where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the Group's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the Group remains exposed to credit risk that is not mitigated by credit risk management actions. If the Group cannot separately identify the ECL on the undrawn commitment component from those on the drawn commitment, the ECL on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined ECL exceed the gross carrying amount of the loan, the ECL are recognised as a provision.

- Forward-looking information

The Group incorporates forward-looking information in the measurement of ECL. The mechanism of the model incorporation is discussed in Note 8(a)(x)(4).

4 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(xvi) Hedge accounting

As a part of its risk management, the Group has identified a series of risk categories with corresponding hedging strategies using derivative instruments.

Transactions that are entered into in accordance with the Group's hedging objectives but do not qualify for hedge accounting, are referred to in these financial statements as economic hedge relationships.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined).

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Disclosures of the Group's hedge accounting are set out in Note 28.

Fair value hedge

In accordance with its wider risk management, it is the Group's strategy to apply fair value hedge accounting to keep interest rate sensitivities within its established limits. Applying fair value hedge accounting enables the Group to reduce fair value fluctuations of fixed rate financial assets as if they were floating rate instruments linked to the attributable benchmark rates. From a hedge accounting point of view, the Group designates the hedged risk as the exposure to changes in the fair value of a recognised financial asset or liability that is attributable to a particular risk and could affect profit or loss. The Group only hedges changes due to interest rates, which are typically the most significant component of the overall fair value change.

In accordance with its hedging strategy, the Group matches the principal of the hedging instruments to the principal of the hedged items. The Group uses pay fixed/receive floating interest rate swaps to hedge its fixed rate debt instruments.

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognised in the consolidated statement of profit or loss as "Net trading income". In addition, the cumulative change in the fair value of the hedged item attributable to the hedged risk is recognised in the consolidated statement of profit or loss as "Net trading income", and also recorded as part of the carrying value of the hedged item in the consolidated statement of financial position.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the consolidated statement of profit or loss over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the consolidated statement of profit or loss.

4 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(xvii) Fair value measurement

If there is an active market for financial instruments, the fair value of financial instruments is based on the prices within the bid-ask spread that are most representative of fair value in the circumstances, and without any deduction for transaction costs that may occur on sales or disposals. A quoted price is from an active market where price information is readily and regularly available from an exchange, dealer, industry group or pricing service agency and that price information represents actual and regularly occurring orderly transactions.

If a quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include the price used by market participants in an orderly transaction, reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The Group selects valuation techniques that are commonly accepted by market participants for pricing the instruments and these techniques have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. Periodically, the Group reviews the valuation techniques and tests them for validity. Detail of fair value measurement is described in Note 9.

(xviii) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position when the Group has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

4 Summary of significant accounting policies (continued)

(d) Fixed assets

Fixed assets are assets held by the Group for the conduct of business and are expected to be used for more than one year. Construction in progress is the property and equipment under construction, which is transferred to fixed assets when ready for its intended use.

(i) Cost

Fixed assets are initially recognised at cost. The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of a self-constructed fixed asset comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Where the individual components of an item of fixed asset have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognised as separate fixed assets.

Subsequent costs, including the cost of replacing part of an item of fixed assets, are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. Expenditures relating to ordinary maintenance of fixed assets are recognised in the consolidated statement of profit or loss.

(ii) Depreciation

Depreciation is calculated to write-off to profit or loss the cost of items of fixed assets, less their estimated residual value, if any, using the straight-line method over their estimated useful lives. Impaired fixed assets are depreciated net of accumulated impairment losses. No depreciation is provided on construction in progress.

The estimated useful lives of respective fixed assets are as follows:

Types of assets	Estimated useful lives
- Leasehold land classified as Right-of-use asset	the unexpired term of lease
- Buildings (over interests in leasehold land classified as Right-of-use asset)	shorter of 50 years or according to the remaining lease terms
- Leasehold improvements	shorter of 7 years or according to the remaining lease terms
- Furniture and equipment	3 - 6 years
- Equipment classified as Right-of-use asset	period of lease term, ranging from 1 year to 10 years

The Group reviews the estimated useful life and the depreciation method applied at least once a financial year.

(iii) Disposal

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the fixed asset and are recognised in the consolidated statement of profit or loss on the date of retirement or disposal.

4 Summary of significant accounting policies (continued)

(e) Right-of-use assets and Lease Liabilities

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a 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 obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

As a lessee
The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under HKFRS 16, the Group recognises “Right-of-use assets” and “Lease liabilities” for most leases i.e. these leases are on-balance sheet.

The Group decided to apply recognition exemptions to short-term leases and leases of low-value assets. The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The depreciation policy of the Group’s Right-of-use assets is described in Note 4(d)(ii). The Right-of-use assets are presented within Note 34 and are subject to impairment in line with the Group’s policy as described in Note 4(h).

At the commencement date of the lease, the Group recognises “Lease liabilities” measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

As a lessor
Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in the consolidated statement of profit or loss. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

When the Group is an intermediate lessor, a sublease is classified as a finance lease or operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the on-balance sheet recognition exemption, the Group classifies the sublease as an operating lease.

(f) Intangible assets

Intangible assets are initially recognised at cost. Intangible assets that have an indefinite estimated useful life are tested for impairment annually. Intangible assets that have a finite estimated useful life are carried at cost less any accumulated depreciation and accumulated impairment losses.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 4(h).

4 Summary of significant accounting policies (continued)

(g) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Repossessed assets are recognised and reported in "Other assets" in the consolidated statement of financial position when the Group intends to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower.

When the Group seizes assets to compensate for the losses of loans and advances and interest receivable, the repossessed assets are initially recognised at fair value, plus any taxes paid for the seizure of the assets, litigation fees and other expenses incurred for collecting the repossessed assets. Repossessed assets are recognised at the carrying value, net of allowance for impairment losses.

(h) Allowances for impairment losses on non-financial assets

At the end of each reporting period, the Group assesses whether there is any indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's ("CGU") fair value less costs of disposal ("FVLCOD") and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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 the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. In addition, the Group also makes management judgements in estimating the fair value which involve significant unobservable inputs and were subject to substantial uncertainty. If the actual fair value of such asset is lower than management's estimate, additional impairment charge would be required.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to the the consolidated statement of profit or loss, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

If, in a subsequent period, the amount of impairment loss of the non-financial assets/CGUs decreases and the decrease can be linked objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

(i) Employee benefits

Employee benefits are all forms of consideration given and compensations incurred by the Group in exchange for services rendered by employees or the termination of the employment relationship. Employee benefits are recognised as a liability in the period in which the associated services are rendered by its employees, with a corresponding increase in cost of relevant assets or the expenses in the consolidated statement of profit or loss. Where payment or settlement is deferred and the effect of discount would be material, these amounts are stated at their present values in the consolidated statement of financial position.

The Group contributes to defined contribution retirement schemes under either recognised Occupational Retirement Scheme ("ORSO") or Mandatory Provident Fund Schemes ("MPF") that are available to employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the funds do not hold sufficient assets to pay all employees the benefits relating to employee service in current or prior periods.

4 Summary of significant accounting policies (continued)

(j) Provisions and contingent liabilities

A provision is recognised in the consolidated statement of financial position if, as the result of a past event, the Group has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows.

A potential obligation arising from a past transaction or event whose existence can only be confirmed by the occurrence or non-occurrence of future uncertain events; or a present obligation that arises from past transactions or events where it is not probable that an outflow of economic benefits is required to settle the obligation or the amount of the obligation cannot be measured reliably, is disclosed as a contingent liability unless the probability of outflow of economic benefit is remote.

(k) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. A financial instrument issued is an equity instrument if, and only if, both conditions (i) and (ii) below are met: (i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and (ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

(l) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group as the guarantor (the "issuer") to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs when a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in "Other liabilities" and subsequently measured at the higher of the amount determined in accordance with the expected credit loss model under HKFRS 9 Financial Instruments or the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15 Revenue from Contracts with Customers. The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognised in the consolidated statement of financial position if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

Loan commitments provided by the Group are measured as the amount of the loss allowance as described in Note 8(a)(xi). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

4 Summary of significant accounting policies (continued)

(m) Income recognition

The Group recognises revenue when control of a good or service transfers to a customer. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The Group recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group applies the following steps in its revenue recognition:

Step 1: Identify the contract(s) with a customer;
Step 2: Identify the performance obligations in the contract;
Step 3: Determine the transaction price;
Step 4: Allocate the transaction price to the performance obligations in the contract; and
Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

(i) Interest income

Interest income and expense for interest bearing financial instruments are recognised in profit or loss using the effective interest method. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to gross carrying amount of the financial asset or the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL. The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any ECL allowance.

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for ECL allowance.

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

4 Summary of significant accounting policies (continued)

(m) Income recognition (continued)

(ii) Fees and commission income

Fees and commission income is earned from a diverse range of services provided by the Group to its customers and is recognised as the related services are performed.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customers.

- *Fee and commission income from providing services where performance obligations are satisfied over time*

  Performance obligations satisfied over time include asset management, custody and other services, where the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. These include fee and commission income from services where performance obligations are satisfied over time including asset management fee, credit facilities fees, loan syndication fees and custody fees.

- *Fee and commission income from providing services where performance obligations are satisfied at a point in time*

  Services provided where the Group's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These include fees and commissions arising from investment services, securities and insurance brokerage services, credit card service, remittance, settlement, loan syndication fees and account management fees.

(iii) Finance income from finance leases and hire purchase contracts

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(iv) Dividend income

Dividend income from unlisted equity investments is recognised in the consolidated statement of profit or loss on the date when the Group's right to receive payment is established. Dividend income from a listed equity investment is recognised when the share price of the investment goes ex-dividend.

Dividends on equity instruments designated at FVOCI that clearly represents a recovery of part of the cost of the investment are presented in OCI.

4 Summary of significant accounting policies (continued)

(n) Income tax

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. 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 also arises from unused tax losses and unused tax credits. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Current income tax and movements in deferred tax balances 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 OCI or directly in equity, respectively.

At the end of each reporting period, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirements of tax laws. The Group also considers the possibility of realisation and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

(o) Cash equivalents

Cash equivalents are short-term, highly liquid 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.

(p) Related parties

If the Group has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises.

The Group’s related parties include but are not limited to the following:

(i) The Bank’s immediate and ultimate parent companies;
(ii) The Bank’s subsidiaries;
(iii) Other entities which are controlled by the Bank’s immediate and ultimate parent companies;
(iv) An investor who has joint control over the Group;
(v) An investor who can exercise significant influence over the Group;
(vi) Associates of the Group;
(vii) Entities under joint arrangement with the Group;
(viii) Principal individual investors of the Group, and close family members of such individuals (principal individual investors are the individual investors who have the power, directly or indirectly, to control, jointly control or exercise significant influence over another party);
(ix) Key management personnel of the Group and close family members of such individuals (key management personnel represent those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of that entity);
(x) Key management personnel of the Group’s parents and close family members of such individuals;
(xi) Other entities that are controlled or jointly controlled by the Group’s principal individual investors, key management personnel, or close family members of such individuals;
(xii) A post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group; and
(xiii) Other entities, or any member of a Group of which it is a part, provides key management personnel services to the Group or the Group’s immediate and ultimate parent companies.

4 Summary of significant accounting policies (continued)

(q) Operating segments

The identification of operating segments of the Group is on the basis of internal reports that are regularly reviewed by the Executive Committee of the Board of Directors in order to allocate resources to the segment and assess its performance. On the basis of the operating segments, the Group identifies the reportable segments, using a combination of factors including products and services, geographical areas, regulatory environments etc., which the management has chosen for organisation. The operating segments that meet the specified criteria have been aggregated, and the operating segments that meet quantitative thresholds have been reported separately.

The amount reported for each operating segment item is the measure reported to the chief operating decision makers for the purposes of allocating resources to the segment and assessing its performance. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the consolidated financial statements of the Group.

5 Changes in Accounting Policies

(a) Amendment to HKFRS 16 COVID-19 related rent concessions beyond 30 June 2021

Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. In March 2021, the International Accounting Standards Board amended IFRS 16 to extend the availability of the practical expedient by one year (2021 amendment). The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before June 30, 2022; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment retrospectively applies to annual reporting periods beginning on or after April 1, 2021.

The Group has early adopted the amendment on January 1, 2021 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the COVID-19 pandemic for the year ended December 31, 2021.

(b) Interest Rate Benchmark Reform Phase 2 amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16

Interest Rate Benchmark Reform Phase 2 Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 (“the Phase 2 Amendments”) was issued in August 2020. The Phase 2 Amendments provide the following changes in respect of financial instruments that are directly required by the Reform:

- A practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted;
- Reliefs from discontinuing hedge relationships;
- Temporary relief from having to meet the separately identifiable requirement when a risk-free rates (“RFR”) instrument is designated as a hedge of a risk component; and
- Additional HKFRS 7 disclosures.

5 Changes in Accounting Policies (continued)

(b) Interest Rate Benchmark Reform Phase 2 amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 (continued)

IBOR transition

Despite the wide application of Interbank Offered Rate ("IBOR") in the financial contracts, the current mechanism of determining interbank offered rates has long been criticized as inadequate and inherently subject to subjectivity due to its heavy reliance on "expert judgement" during the submission of the quotes by the panel banks.

Over the past few years, the Financial Stability Board ("FSB") has been working with authorities and standard-setting bodies to develop reform proposals to enhance the robustness of interest rate benchmarks. In July 2017, the UK's Financial Conduct Authority ("FCA") preliminarily announced that it will no longer persuade or require panel banks to submit rates for the London interbank offered rate ("LIBOR") after 2021. In March 2021, FCA decided to postpone the dates that panel bank submissions for some of USD LIBOR settings will cease, and finally announced that all LIBOR settings will either cease to be provided by any administrator or no longer be representative as below:

- December 31, 2021 – for all Sterling ("GBP"), Euro ("EUR"), Swiss Franc ("CHF") and Japanese Yen ("JPY") settings, and the 1-week and 2-month US Dollar ("USD") settings; and
- June 30, 2023 – for the remaining USD settings (i.e. USD overnight, 1-month, 3-month, 6-month and 12-month)

To ensure smooth transition from IBORs, the Group has established a working group to oversee and drive the IBOR transition to alternative reference rates ("ARRs"). The working group is led by Deputy Chief Executive and is comprised of representatives from the business divisions, Treasury Division, Finance Division, Risk Management Division and other related divisions. The Group has outlined a transition strategy planning with well specified timeline. By schedule, the Group has completed IBOR transition impact assessment and backbook migration plan, and made a good progress in many areas, including but not limited to system enhancement, client outreach and contract remediation.

Risks arising from IBOR transition

The transition from IBORs to ARRs creates uncertainty in terms of changes in fair value of financial instruments. The asymmetric adoption of ARRs across assets and liabilities also creates basis risk that needs to be managed proactively. In response, the Group has established effective risk control and management frameworks in order to monitor and manage the risks arising out of the IBOR transition.

In addition to the financial risks resulting from the transition to ARRs, the Group has also been actively managing the legal and conduct risks that arise from the selling activities of new ARR benchmark products and amendments of existing LIBOR contracts that are potentially subject to cessation risks.

The Group has organized an extensive series of trainings covering up-to-date IBOR transition information, new product selling, client communication, backbook exposure and contract remediation management tactics to frontline staff, and has a range of tools and playbooks in place to facilitate the smooth engagement, communication with clients, and to help increase clients' awareness on transition actions and risks. Substantial efforts have also been put into the negotiation and modification of the outstanding LIBOR contracts with the clients to include adequate, effective provisions to protect against the cessation of the LIBOR benchmark rate.

The Group is dedicated to facilitate the orderly transition from IBOR to the new ARRs and to uphold our clients, market counterparties' interests throughout the transition process. The Group will continue to press ahead on the remediation of in-scope contracts and exposures in the Group's portfolio, proactively manage and mitigate the associated risk of the transition in 2021 and onwards.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

5 Changes in Accounting Policies (continued)

(b) Interest Rate Benchmark Reform Phase 2 amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 (continued)

Financial instruments impacted by IBOR reform

Amendments to HKFRSs issued in October 2020 (Interest Rate Benchmark Reform Phase 2) represents the second phase of the project on the effects of interest rate benchmark reform, addressing issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of reform.

Under these amendments, changes made to a financial instrument that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

The table below presents the impact on financial instruments that are required but have yet to transition to alternative benchmark rates before their maturity, disaggregated by significant interest rate benchmark subject to interest rate benchmark reform.

	December 31, 2021	
	Non derivative financial assets – carrying amount	Derivatives nominal amount
USDLIBOR (1 month)	**8,807,889**	**-**
USDLIBOR (3 month)	**14,908,427**	**5,332,026**
USDLIBOR (6 month)	**1,665,413**	**1,477,203**
	25,381,729	**6,809,229**

The above table represents non derivative financial assets on the basis of their gross carrying amount excluding the allowances of ECL. There were no outstanding non derivative financial liabilities that are required but have yet to transition to alternative benchmark rates as at December 31, 2021.

6 Critical accounting estimates and judgments

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

(a) Measurement of ECL allowances for financial assets

The measurement of the expected credit loss allowances for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions, as the credit risk exposure varies with changes in future economic and market conditions, credit behavior (e.g., the likelihood of customers defaulting and the resulting losses), expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Group measures credit risk using PD, EAD and LGD. This is similar to the approach used for the purposes of measuring expected credit losses under HKFRS 9. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 8(a), which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

The level of judgements and estimation uncertainty of ECL has increased since the outbreak of COVID-19 starting early 2020. More judgements have been applied in the following aspects:

- Identification of customers with increasing credit risk due to the worsened economic environment triggering update in the assessment criteria for significant increase in credit risk; and
- Design, selection and determination of the weighting of the economic scenarios given the rapidly changing economic conditions.

Detailed information about the judgements and estimates made by the Group in the above areas and the impacts from COVID-19 to ECL measurement is set out in Note 8(a)(x).

(b) Deferred tax assets

Deferred tax assets on unused tax losses and unused tax credits are recognised and the determination of the amount to be recognised requires significant management judgement. Deferred tax asset on unused tax losses are recognised to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits. For deferred tax assets on unused tax credits, judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the estimation of available tax credits and the possibility to recover such deferred tax assets recognised.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

6 Critical accounting estimates and judgments (continued)

(c) Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk of both the Group and counterparty, funding value adjustments, correlation and volatility.

(d) Unconsolidated structured entities

The most significant judgement made in preparing the Group's unconsolidated financial statements is the determination that the Group exercises its power as agent, rather than principal, in respect of funds that it manages and therefore does not have control over them. A parent controls another entity when it has power over the investee, exposure to variable returns from it, and is able to use its power to affect the level of returns. The Group typically has power over the funds that it manages through its investment management and other agreements with them. Additionally, the Group invests in units of the funds and therefore must determine whether it is acting primarily as a principal (that is, on its own behalf) or as an agent (that is, on behalf of the other investors) in exercising its power over the funds. Because agents exercise power on behalf of principals from whom the power has been delegated, they do not have power themselves and therefore do not have control. In assessing whether it is agent or principal, the Group considers a number of factors, including the scope of its decision-making over the funds' relevant activities, rights held by investors and others, remuneration that it earns from the funds, and the Group's exposure to variable returns from all sources (including fees and units held) for each fund.

7 Possible impact of amendments, new standards and interpretations issued that are relevant to the Group but not yet effective

The Group has not applied the following new and revised HKFRSs and HKASs that have been issued that are relevant to the Group but are not yet effective, in preparing these consolidated financial statements.

Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use, which effective for annual period beginning on or after January 1, 2022.
Amendments to HKAS 37	Onerous Contracts Cost of Fulfilling a Contract, which effective for annual period beginning on or after January 1, 2022.
Amendments to HKFRS 3	Reference to the Conceptual Framework, which effective for annual period beginning on or after January 1, 2022.
Annual Improvement to HKFRS 2018-2020	Amendments to HKFRS 1, HKFRS 9, illustrative Examples accompanying HKFRS 16 and HKAS 41, which effective for annual period beginning on or after January 1, 2022.
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current, which effective for annual period beginning on or after January 1, 2023.
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies, which effective for annual period beginning on or after January 1, 2023.
Amendments to HKAS 8	Definition of Accounting Estimates, which effective for annual period beginning on or after January 1, 2023.
Amendments to HKAS 12	Deferred tax related to Asset and Liabilities arising from a Single Transaction, which effective for annual period beginning on or after January 1, 2023.
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, which effective date is to be determined.

7 Possible impact of amendments, new standards and interpretations issued that are relevant to the Group but not yet effective (continued)

None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

Amendments to HKAS 16 "Property, Plant and Equipment: Proceeds before Intended Use"

Amendments to HKAS 16 prohibit entities from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

Amendments to HKAS 37 "Onerous Contracts – Costs of Fulfilling a Contract"

Amendments to HKAS 37 specify that the "cost of fulfilling" a contract comprises the "costs that relate directly to the contract". The costs that relate directly to a contract include both incremental costs and an allocation of other costs that relate directly to fulfilling contracts.

Amendments to HKFRS 3 "Reference to the Conceptual Framework"

Amendments to HKFRS 3 are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements issued in 1989 with a reference to the Conceptual Framework for Financial Reporting issued in March 2018, without significantly changing its requirements. The amendments add an exception to the recognition principle of HKFRS 3 to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities, and clarify that contingent assets do not qualify for recognition at the acquisition date.

Annual Improvements to HKFRSs 2018-2020 Cycle

Annual Improvements to HKFRSs 2018-2020 Cycle was issued in May 2020. Those amendments affect HKFRS 1 "First-time Adoption of International Financial Reporting Standards", HKFRS 9 "Financial Instruments", HKAS 41 "Agriculture" and HKFRS 16 "Leases".

Amendments to HKAS 1 "Classification of Liabilities as Current or Non-current"

The amendments to HKAS 1 specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

Amendments to HKAS 1 and HKFRS Practice Statement 2 "Disclosure of Accounting Policies"

Amendments to HKAS 1 and HKFRS Practice Statement 2 aim to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

To support this amendment, the HKICPA also amended HKFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

7 Possible impact of amendments, new standards and interpretations issued that are relevant to the Group but not yet effective (continued)

Amendments to HKAS 8 "Definition of Accounting Estimates"

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

Amendments to HKAS 12 "Deferred tax related to Asset and Liabilities arising from a Single Transaction"

Amendments to HKAS 12 require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities.

HKFRS 10 "Consolidated Financial Statements" and HKAS 28 "Investments in Associates and Joint Ventures"

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The effective date of these amendments is to be determined.

8 Financial risk management

The Group derives the majority of its revenue from managing risk from customer transactions. Effectively assessing and managing all types of risk is central to the success of the Group. Apart from a prudent risk culture, the Group has established risk governance, structure, risk management processes including policies and procedures for the identification, measurement, control and monitoring of credit, liquidity, operational, market and capital risks, by means of which risk and return are evaluated with the goal of producing sustainable revenue and reducing income volatilities.

The Board of Directors of the Bank, with the assistance of the Risk Committee, provides effective oversight over the affairs of the Group, the governance framework and practices through delegation of authority to the functional committees and the senior management. The Risk Committee regularly reviews the Group's Risk Appetite Statement and recommend for the Board's approval. The Chief Executive Officer is responsible for overseeing all lines of businesses within the Group, supported by the Executive Committee of the Board of Directors comprising the senior management members. In addition, led by the senior management members, the functional committees including the Risk Management Committee, the Asset and Liability Committee ("ALCO"), the Fintech Committee, Credit Committee, and Internal Control, Compliance and Operations Committee approve policies and procedures formulated by various working committees and functional management to identify, analyse, manage and control credit risk, market risk, liquidity risk, operational risk and capital risks through the use of reliable and up-to-date management and information systems. Policies and procedures are updated on an ongoing basis to reflect changes in markets, products and industry best practices. The internal auditors also perform risk-based audits to ensure the soundness of governance and compliance with the relevant policies and procedures.

The Group has established policies and procedures to govern the launch of new products and services. A functional committee, the Product Innovation and Approval Committee, is delegated by the Executive Committee of the Board of Directors to review and approve new product and service. Comprising of management members from key functional areas, the functional committee convenes meetings to assess and discuss product proposals of the Group. This aims to ensure that risks are properly identified and effective control measures are in place to mitigate any risks involved prior to the roll-out of any new products or services.

In addition, the Group also has established policies and procedures for the Safety Production Committee to lead the safety production of the Bank. The function committee convenes meetings to mainly implements decision-making and safety production policy policies for safety production, laws and regulations. This main to ensure the safety production management, operational procedures and emergency plans are in place.

(a) Credit risk

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. Credit risk exists in the Group's loans, leases, credit cards, trade finance and treasury transactions. There is also credit risk in off-balance sheet financial arrangements such as loan commitments, trade-related contingencies and transaction-related contingencies. The Group has appointed the intermediate holding company, China Construction Bank Corporation ("CCBC"), as its credit adviser. Risk Management Division is responsible for providing centralised management and control of different types of risks including credit risk, whereas Credit Division is responsible for handling credit approval matters. Both divisions are independent of the business units, and supervised by the Deputy Chief Executive overseeing Risk Management. In addition, functional committees, namely Risk Management Committee and Credit Committee are set up under the Executive Committee and the Risk Committee to provide guidance in the respective risk areas. The Risk Management Committee is a central forum for overseeing the Group's overall asset quality as well as resolving all the important risk or governance issues on credit risk, operational risk, market risk, liquidity risk, interest rate risk, strategic risk and reputation risk. It is chaired by the Deputy Chief Executive overseeing Risk Management, and the other members are the Head of Risk Management Division, the Head of Credit Division, the Head of Legal and Compliance Division, the Head of Finance Division, the Deputy Head of Risk Management Division supervising Operational Risk and the Head of Market Risk. The Credit Committee is responsible for loan quality maintenance, authority delegation, credit related policy-making and maintenance, credit approval and credit risk management issues. It is chaired by the Deputy Chief Executive overseeing Risk Management, and the other members are the Head of Risk Management Division, Head of Credit Division, Deputy Head of Risk Management Division, Deputy Head of Credit Division, Chief Approver and designated individual credit approver(s).

8 Financial risk management (continued)

(a) Credit risk (continued)

In 2021, the COVID-19 pandemic is still continuing, and the global economy is going through a tough recovery. The Group will be continuously monitoring the development of COVID-19 and actively managing the credit risks under extreme economic hardship. At present, the COVID-19 pandemic still remains, the economic outlook has a high degree of uncertainty, economic recovery is in the face of difficult challenges, the Group will regularly update the credit risk assessment indicators and economic scenarios, considering the negative impact of the pandemic to customer's credit risk, and will be continuously monitoring and managing the potential credit risk.

Nevertheless, the Group's asset quality still maintained stable by continuing to uphold stringent credit acceptance criteria and prudent credit monitoring and control measures to protect the Group's exposures. This was also supported by regular and ad hoc portfolio reviews with a forward looking approach to early detect any weaknesses in the portfolio or warning signals to strengthen the overall credit risk management.

Overall, credit risks of the Group are managed through the following processes:

- Ensuring the Group's risk profile is in line with the risk appetite and strategies set by the Group;
- Establishing credit policies and procedures of the Group and issuing lending and monitoring guidelines to credit officers and business units. Credit policies and procedures are constantly revisited and updated whenever warranted to accommodate portfolio development, market changes and regulatory requirements;
- Making appropriate lending authority delegation via the Credit Committee according to the risk, size and nature of the transactions;
- Maintaining the internal risk rating system for measurement of credit risk exposures. The Group adopts a two dimensional risk rating methodology for the corporate portfolio, for which risk ratings are assigned to the obligor and facility separately. This system provides granularity in the rating scale and hence more refined risk differentiation for better risk and reward analysis and enhanced risk quantification. For a certain part of the consumer portfolio, in-house scoring models are also adopted to measure the credit risk involved;
- Monitoring and controlling large exposures, connected lending, product and industry concentration based on established policies and internal risk limits to ensure prudent credit decisions are made and that the Group complies with statutory requirements and supervisory guidelines;
- Monitoring criticised loans and managing recoveries of problem assets. Collection and problem asset management are separately handled by specialised teams with the relevant experience and expert knowledge;
- Assessing ECL allowances regularly to ensure the adequacy of impairment allowances;
- Managing and monitoring the Group's loan quality;
- Supervising the stress-testing programme to provide a forward-looking assessment of the Group's risk exposures under stressed conditions, and enable the Group to project tail risks on a bank-wide basis, to quantify such potential losses and the impact on the Group in terms of profitability, liquidity and capital adequacy; and
- Co-ordinating and driving credit related initiatives throughout the Group to ensure compliance with regulatory requirements.

(i) Credit risk for advances

In addition to underwriting standards, the Group manages credit risks through an effective and prudent credit approval process. In making credit recommendations and decisions, only officers with appropriate banking experience and product knowledge are delegated with credit approval authorities. There is a regular portfolio review process to ensure quality of the credit decisions made, to identify negative trends which need attention or actions, and to ensure adherence to existing policies and procedures.

In the approval process, the credit officers assess the purpose and structure of the loan, the ability of a particular borrower or counterparty to service the proposed facilities, as well as the nature of the underlying collateral where applicable. Credit approval guidelines are issued from time to time to enhance the credit acceptance process as appropriate.

8 Financial risk management (continued)

(a) Credit risk (continued)

(i) Credit risk for advances (continued)

The Group categorises its loans and leases into either consumer or corporate and commercial credits and monitors their risks separately as discussed below:

- Consumer credits are grouped by products and their risk attributes for purposes of evaluating credit risk, and on-going monitoring of asset quality. Standard credit underwriting criteria are established and exceptional approvals for deviations from such criteria are required and monitored; and
- Corporate and commercial credits are evaluated for customers' default risk, taking into consideration the related credit enhancements. To support the credit assessment, internal risk ratings will be assigned to customers. These risk ratings are monitored regularly and updated upon any changes in the borrower's or counterparty's financial position, repayment ability and the related credit enhancements.

(ii) Credit risk for treasury transactions

The credit risk of the Group's investment in debt securities and treasury hedging transactions is managed by the use of both internal and external credit ratings and credit limits set on individual counterparties. Internal and external credit ratings, and news on each counterparty are closely tracked and monitored.

(iii) Credit-related commitments

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are therefore subject to the same credit approval, portfolio maintenance and collateral requirements as for customers applying for loans.

(iv) Collateral and other credit enhancements

The Group obtains collateral in respect of loans advanced to mitigate the credit risk of the transactions and has established policies and guidelines on the eligibility and valuation of collateral and other credit enhancements. However, the approval of credits will be based on the assessment of debt servicing ability rather than solely dependent on collateral or other credit enhancements. The main collateral types and credit enhancements include charges over properties, standby letters of credit issued by banks, securities, deposits, account receivables and guarantees.

(v) Risk concentration

The Group sets various risk limits to control exposure to countries, individual counterparties, industries, intra-group exposures and loan portfolios to avoid excessive risk concentration.

(vi) Credit review and audit

The internal auditors conduct periodic reviews and independent audits of the Group's credit portfolio and credit risk management process. The purpose is to ensure due compliance with established credit policies and procedures, and to evaluate the effectiveness of the credit management process and control mechanism. The results of these reviews and audits are regularly reported to the Audit Committee at the Board of Directors level for effective oversight and monitoring.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

8 Financial risk management (continued)

(a) Credit risk (continued)

(vii) Maximum exposures

	2021	2020
Credit risk exposures relating to assets in consolidated statement of financial position by class are as follows:		
Cash and balances with banks and central banks	**46,771,963**	54,039,149
Placements with banks	**32,615,687**	30,213,346
Advances to customers and trade bills	**300,234,658**	281,464,455
Financial assets measured at fair value through profit or loss	**5,426,820**	9,108,802
Financial assets measured at fair value through other comprehensive income – debt investments	**91,683,618**	65,235,794
Other assets measured at amortised cost	**9,712,527**	14,317,688
Derivative financial instruments	**898,617**	1,916,804
Other assets	**3,104,592**	11,066,968
Credit risk exposures relating to items not included in consolidated statement of financial position are as follows:		
Financial guarantees	**5,884,862**	7,082,381
Loan commitments and other credit related commitments	**100,317,497**	98,727,931
	596,650,841	573,173,318

The above table shows the maximum credit risk exposure to the Group as at December 31, 2021 and December 31, 2020, without taking account of any collateral held, master netting agreements or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts. For letters of guarantee issued, the maximum exposure to credit risk is the maximum amount that the Group could be required to pay if the guarantees are called upon. For loan commitments and other credit related liabilities that are irrevocable over the life of the respective facilities or revocable in the event of a significant adverse change, the maximum exposure to credit risk is disclosed as the full amount of the committed facilities sought on these balances.

8 Financial risk management (continued)

(a) Credit risk (continued)

(vii) Maximum exposures (continued)

The table below describes the nature of collateral held and their financial effect by class of financial asset:

Cash and balances with banks and central banks and placements with banks	These exposures are generally considered to be low risk due to the nature of the counterparties. Collateral is generally not sought on these balances.
Advances to banks	These exposures are generally considered to be low risk due to the nature of the counterparties. Collateral is generally not sought on these balances.
Advances to customers and trade bills	These exposures are secured, partially secured or unsecured depending on the type of customers and the products offered to them. Types of collaterals include residential properties, other properties, standby letters of credit acceptable to the Group and bank deposits, etc. Other credit enhancements mainly represent recognised guarantee. Analysis of gross advances to customers covered by collateral is listed in Unaudited Supplementary Financial Information Note 1.
Financial assets measured at fair value through other comprehensive income	The fair values of these securities have reflected the credit risk. No collateral is sought directly from the issuer or the counterparty.
Other assets measured at amortised cost	The amortised costs of these securities have reflected the credit risk. No collateral is sought directly from the issuer or the counterparty.
Derivative financial instruments	Master netting agreements are typically used to enable the effects of derivative assets and liabilities with the same counterparty to be offset if both the Group and the counterparty elect to settle on a net basis or in the event of default of either party.
Contingent liabilities and commitments	The components and nature of contingent liabilities and commitments are disclosed in Note 48. Regarding the commitments that are unconditionally cancellable without prior notice, the Group would assess the necessity to withdraw the credit line in case the credit quality of a borrower deteriorates. Accordingly, these commitments do not expose the Group to significant credit risk. The exposure on commitments that are not unconditionally cancellable including letter of credit, letter of guarantee issued and other loan commitments and credit related liabilities are secured, partially secured or unsecured depending on the type of customers and the products offered to them.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

8 Financial risk management (continued)

(a) Credit risk (continued)

(viii) Collateral and other credit enhancements held against financial assets

Advances to customers and trade bills

As at December 31, 2021, the estimated fair value of the collateral and other credit enhancements held against lifetime ECL credit-impaired advances to customers and trade bills is $1,006,744 (2020: $2,069,885).

Collateral mainly includes residential properties, commercial and industrial properties and debt securities.

Derivative financial instruments

The International Swaps and Derivatives Association ("ISDA") Master Agreement is our preferred agreement for documenting derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter ("OTC") products is conducted, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or another pre-agreed termination event occurs. It is common, and the Group's preferred practice, for the parties to execute a Credit Support Annex ("CSA") in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties to mitigate the counterparty risk inherent in outstanding positions. The majority of our CSAs are with financial institutional clients.

(ix) Repossession of collateral

As at December 31, 2021 and December 31, 2020, the Group obtained assets by taking possession of collateral with the carrying amount as follows:

	2021	2020
Nature of collateral		
Residential properties	-	1,635
	-	1,635

(x) Expected credit loss measurement

HKFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition and summarised as below:

A financial instrument that is not credit-impaired on initial recognition is classified under Stage 1 and has its credit risk continuously monitored by the Group. If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3.

Financial instruments in Stage 1 have their ECL measured at the amount equal to the portion of lifetime expected credit losses that result from possible default events within the next 12 months. Instruments in Stage 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. A key and fundamental concept in measuring ECL in accordance with HKFRS 9 is that forward looking information should be considered. Separately, for purchased or originated credit-impaired financial assets, since those financial assets are credit-impaired on initial recognition, their ECL is always measured on a lifetime basis.

The financial instruments are measured internally by their internal credit ratings ranging from 1 to 19 based on the borrowers' repayment ability and likelihood of individual counterparties being default. Then, as part of internal key management reporting, the Group maps the internal credit ratings by their credit quality at Stage 1 (Normal), Stage 2 (Special-mentioned), Stage 3 (Sub-standard, Doubtful and Loss) respectively.

8 Financial risk management (continued)

(a) Credit risk (continued)

(x) Expected credit loss measurement (continued)

(1) Significant increase in credit risk ("SICR")

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analyses, which is based on the Group's historical experience, expert judgement and forward-looking information.

The Group uses below criteria for determining whether there has been a significant increase in credit risk:

- Notch downgrade;
- Special Mention;
- Qualitative indicators;
- Internal Rating 15 or below;
- Early warning customers for non-retail loan customers with significant or moderate credit risk deterioration;
- With overdue payment for non-retail loans; and
- 30 days past due for retail loans.

For notch downgrade, the objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing the credit ratings of corresponding obligor between two dates, i.e. the reporting date and the initial recognition date of the exposure ("Notch Difference").

The Notch Difference is re-estimated for each obligor at the reporting date, whenever it exceeds the relative notch difference threshold, SICR is identified. The average notch downgraded of each obligor to be identified as SICR is 5.

Qualitative Indicators

If the borrower is on the watch list and meets one or more of following criteria:

- Significant increase in credit spread;
- Significant adverse change in business, financial and/or economic conditions in which the borrower operates;
- Actual or expected significant adverse change in operating results of the borrower; and/or
- Early signs of liquidity problems such as delay in servicing of trade creditors/loans.

The assessment of SICR is performed on an annual basis at a portfolio level for all financial instruments held by the Group. In relation to wholesale financial instruments, where a watch list is used to monitor credit risk, this assessment is performed at the counterparty level on a periodic basis. The criteria used to identify SICR are monitored and reviewed on an annual basis.

Quantitative Indicators

A financial instrument is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on the contractual payments. For the year ended December 31, 2021, the respective indicator for non-retail exposures was adjusted to 1 day past due to reflect a tightening measure on credit risk. When the respective overdue payments of the non-retail loan gets repaid (i.e, day past due is reset to 0), a 180-day observation period is required for potential upgrade consideration.

The Group did not use the low credit risk exemption for any financial instruments in the years ended December 31, 2021 and December 31, 2020.

8 Financial risk management (continued)

(a) Credit risk (continued)

(x) Expected credit loss measurement (continued)

(2) Definition of default and credit-impaired assets

The Group defines a financial instrument as in default and credit-impaired, when it meets one or more of the following criteria:

- Borrower is more than 90 days past due on its contractual payments;
- Significant financial difficulty of the borrower or issuer;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons and in relation to the borrower's or issuer's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
- Restructure of the borrowing terms as a result of deterioration of the financial position;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- Significant decrease in market value of the collateral and the repayment ability of borrowers are in doubt;
- Disappearance of an active market for financial assets because of significant financial event of borrowers;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including adverse changes in the payment status of borrowers in the Group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices in the relevant area, or adverse changes in industry conditions that affect the borrowers in the Group;
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower or issuer;
- A significant or prolonged decline in the fair value of an investment below its cost; and/or
- Other objective evidence indicating there is an impairment of the financial asset.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the Group's expected loss calculations.

(3) Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL allowance is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. The Group will account for expected credit losses within the next 12 months as Stage 1 and to recognise lifetime expected credit losses as Stage 2 when there has been a SICR since initial recognition. Lifetime ECL will be also recognised for credit-impaired financial instruments as Stage 3. ECL are the discounted product of the PD, EAD and LGD, defined as follows:

The PD represents the likelihood of a borrower defaulting on its financial obligation.

EAD is based on the amounts the Group expected to be owed at the time of default.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of EAD.

The 12-month ECL is determined by projecting the PD, LGD and EAD for each individual exposure or collective segment. These three components are multiplied together. This effectively calculates an ECL for the coming 12-months, which is then discounted back to the reporting date. The discount rate used in ECL calculation is the original effective interest rate or an approximation thereof. The lifetime ECL is developed by summing all ECL throughout the expected lifetime of the financial instruments. The expected lifetime is determined by historical data for revolving products or actual remaining tenor for instalment products.

8 Financial risk management (continued)

(a) Credit risk (continued)

(x) Expected credit loss measurement (continued)

(3) Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)

For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" or "utilisation rate", which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and are based on analysis of the Group's historical default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book value due to forced sales, time to repossession and recovery costs observed; and
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and price.

Forward-looking economic information is also included in determining the 12-month ECL and lifetime ECL. These assumptions vary by product type.

(4) Forward-looking information incorporated in the ECL models

The calculation of ECL incorporates forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the external economic data provider on a monthly basis and provide the best estimate view of the economy over next five years. After five years, to project the economic variables out of the full remaining lifetime of each instrument, a static approach has been used. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact of these variables have had historically on default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the Group adopts other possible scenarios, upside and downside economic scenarios, along with scenario weightings. The scenario weightings are determined by a combination of statistical analysis and expert judgement, taking account of the range of possible outcomes of each chosen scenario. The assessment of SICR is performed using the Notch Difference based on qualitative and quantitative indicators. This determines whether a financial instrument is in Stage 1, Stage 2 or Stage 3 and hence whether 12-month ECL or lifetime ECL should be recorded. After such assessment, the Group measures ECL as either a probability weighted 12-month ECL (Stage 1) or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying the resulted ECL by the appropriate scenario weighting.

The Group regularly reviews the scenarios used for calculating ECL to reflect changes in the economic outlook and other factors that may influence the credit environment. Due to the outbreak of COVID-19, the impact to global economy is devastating. An alternative bad scenario is included in addition to the base, upside and downside scenarios to better reflect the extreme downside economic situation as most of the macroeconomic factors has been breaking the worst records in history due to the COVID-19.

For the year ended December 31, 2021, the average weight of upside, base, downside and alternative bad scenarios are 0.03, 0.62, 0.25 and 0.10 (2020: 0.03, 0.68, 0.23 and 0.06).

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

8 Financial risk management (continued)

(a) Credit risk (continued)

(x) Expected credit loss measurement (continued)

(4) Forward-looking information incorporated in the ECL models (continued)

Economic variable assumptions

The most significant period-end assumptions of these economic factors used for the ECL estimate as at December 31, 2021 and December 31, 2020 are set out below. The variables are the average of probability weighted values between Years 2022 - 2026 and between Years 2021 - 2025 respectively:

	2021	2020
Hong Kong GDP Growth Rate	**+2.70%**	+3.91%
Hong Kong Residential Property Price Index	**+1.06%**	+1.89%
Hong Kong Unemployment Rate	**4.77%**	4.13%

Sensitivity analysis

The Hong Kong Residential Property Price Index has been identified as the significant economic variables affecting ECL and the sensitivity of this economic factor has been demonstrated as below:

	Increase/ (decrease) in ECL allowances amount	
	2021	2020
House price index		
Decrease by 10%	**46,737**	30,391
Increase by 10%	**(42,770)**	(27,932)

Sensitivity analysis for probability weighted average for Good, Bad, Alternative Bad and Base Scenarios:

As at December 31, 2021

	% change in ECL allowances
	2021
Probability Weighted Average Sensitivity	
Shifting 5% probability from Base Scenario to Good Scenario	**-1.28%**
Shifting 5% probability from Base Scenario to Bad Scenario	**+3.65%**
Shifting 5% probability from Base Scenario to Alternative Bad Scenario	**+6.96%**

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

8 Financial risk management (continued)

(a) Credit risk (continued)

(x) Expected credit loss measurement (continued)

(4) Forward-looking information incorporated in the ECL models (continued)

As at December 31, 2020

	% change in ECL allowances
	2020
Probability Weighted Average Sensitivity	
Shifting 5% probability from Base Scenario to Good Scenario	-0.58%
Shifting 5% probability from Base Scenario to Bad Scenario	+4.14%
Shifting 5% probability from Base Scenario to Alternative Bad Scenario	+7.29%
Shifting the probability assigned for Alternative Bad Scenario to Bad Scenario	-4.67%

The Group conducted a sensitivity analysis of shifting the probability assigned for alternative bad scenario to bad scenario in prior year to reflect the % change in ECL allowances arising from the addition of an alternative bad scenario for calculating ECL for the year ended December 31, 2020.

As at December 31, 2021, sensitivity analysis of the change in the SICR assessments assuming the non-retail loan exposures meeting the greater than or equal to 1 day past due criteria (including the non-retail loan exposures fall into 180 days observation period with no more overdue payment) transfer back from Stage 2 to Stage 1:

	Increase/ (decrease) in ECL allowances amount
	2021
ECL Stages Sensitivity	
Non-retail loan exposures meeting above criteria transfer from Stage 2 to Stage 1	**(1,584)**

As at December 31, 2020, sensitivity analysis of the change in the SICR assessments assuming the non-retail exposures meeting the 10 days past due criteria transfer back from Stage 2 to Stage 1:

	Increase/ (decrease) in ECL allowances amount
	2020
ECL Stages Sensitivity	
Non-retail exposures with 10 days past due transfer from Stage 2 to Stage 1	(3)

ECL stages sensitivity is conducted to reflect the impact on ECL allowances amount arising from the change in the SICR assessments. The sensitivity analysis in prior year is not directly comparable to that of current year.

8 Financial risk management (continued)

(a) Credit risk (continued)

(x) Expected credit loss measurement (continued)

(5) Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are considered homogeneous. In performing this grouping, there must be sufficient information for the Group to achieve statistical credibility. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below:

Retail – Groupings for collective measurement
Credit Rating Band/Day Past Due
Product type (e.g. residential mortgage, overdraft, credit card loan)

Wholesale – Groupings for collective measurement
Credit Rating band
Customer Type & Product Type

The following exposures are assessed individually:

Retail
Stage 3 loans - Credit-impaired or repossession

Wholesale
Stage 3 facilities - Credit-impaired or repossession

The appropriateness of grouping is monitored and reviewed on periodic basis by the Risk Management Division.

(6) Impacts from COVID-19

The global economy has been worsened since the outbreak of COVID-19 starting early January 2020. The Group has been continuously monitoring the impact of its developments and has been managing the credit risks arisen as a result of the deteriorating economy due to the global pandemic. With the expectations that the COVID-19 pandemic is likely to persist, the economic conditions are still subject to high uncertainty in the future depending on the pace of the recovery from the pandemic. The criteria for SICR assessments and the economic scenarios have been regularly updated with considerations of the negative impacts on the credit risk of the customers and the likelihood of further economic downturn. The Group will continuously monitor and manage the economic impact of the COVID-19 and the credit risk arisen.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

8 Financial risk management (continued)

(a) Credit risk (continued)

(xi) Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality (in accordance with Note 8(a)(x)) and by staging:

As at December 31, 2021	Gross carrying/notional amount							
	Normal	Special mentioned	Sub-standard	Doubtful	Loss	Total	ECL allowances	Net amount
On balance sheet:								
Placements with banks at amortised cost – stage 1	**32,615,687**	**-**	**-**	**-**	**-**	**32,615,687**	**-**	**32,615,687**
Advances to customers and trade bills at amortised cost:								
Stage 1	281,369,510	-	-	-	-	281,369,510	(1,273,348)	280,096,162
Stage 2	17,250,950	2,581,348	-	-	-	19,832,298	(887,923)	18,944,375
Stage 3	-	-	1,153,036	467,537	320,151	1,940,724	(901,400)	1,039,324
Advances to customers	**298,620,460**	**2,581,348**	**1,153,036**	**467,537**	**320,151**	**303,142,532**	**(3,062,671)**	**300,079,861**
Stage 1	154,436	-	-	-	-	154,436	(16)	154,420
Stage 2	383	-	-	-	-	383	(6)	377
Trade bills	**154,819**	**-**	**-**	**-**	**-**	**154,819**	**(22)**	**154,797**
Other financial assets measured at amortised cost:								
Cash and balances with banks and central banks – stage 1	**46,773,312**	**-**	**-**	**-**	**-**	**46,773,312**	**(1,349)**	**46,771,963**
Stage 1	9,681,975	-	-	-	-	9,681,975	(8,685)	9,673,290
Stage 2	39,358	-	-	-	-	39,358	(121)	39,237
Other assets measured at amortised cost	**9,721,333**	**-**	**-**	**-**	**-**	**9,721,333**	**(8,806)**	**9,712,527**

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

8 Financial risk management (continued)

(a) Credit risk (continued)

(xi) Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality (in accordance with Note 8(a)(x)) and by staging: (continued)

As at December 31, 2021 (continued)	Gross carrying/notional amount							
	Normal	Special mentioned	Sub-standard	Doubtful	Loss	Total	ECL allowances	Net amount
On balance sheet: (continued)								
Other financial assets measured at amortised cost: (continued)								
Other assets – Stage 1	**3,104,902**	**-**	**-**	**-**	**-**	**3,104,902**	**(310)**	**3,104,592**
Stage 1	91,249,361	-	-	-	-	91,249,361	(114,958)	91,134,403
Stage 2	562,895	-	-	-	-	562,895	(10,406)	552,489
Financial assets measured at fair value through other comprehensive income	**91,812,256**	**-**	**-**	**-**	**-**	**91,812,256**	**(125,364)**	**91,686,892**
Total gross carrying amount - on balance sheet	**482,802,769**	**2,581,348**	**1,153,036**	**467,537**	**320,151**	**487,324,841**	**(3,198,522)**	**484,126,319**
Off balance sheet:								
Financial guarantees, loan commitments and other credit related commitments	**106,202,359**	**-**	**-**	**-**	**-**	**106,202,359**	**(351,726)**	**105,850,633**
Total nominal amount - off balance sheet	**106,202,359**	**-**	**-**	**-**	**-**	**106,202,359**	**(351,726)**	**105,850,633**
Total at as December 31, 2021	**589,005,128**	**2,581,348**	**1,153,036**	**467,537**	**320,151**	**593,527,200**	**(3,550,248)**	**589,976,952**

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

8 Financial risk management (continued)

(a) Credit risk (continued)

(xi) Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality (in accordance with Note 8(a)(x)) and by staging: (continued)

As at December 31, 2020	Gross carrying/notional amount							
	Normal	Special mentioned	Sub-standard	Doubtful	Loss	Total	ECL allowances	Net amount
On balance sheet:								
Placements with banks at amortised cost – stage 1	30,215,249	-	-	-	-	30,215,249	(1,903)	30,213,346
Advances to customers and trade bills at amortised cost:								
Stage 1	259,239,368	-	-	-	-	259,239,368	(1,063,287)	258,176,081
Stage 2	18,299,061	3,559,947	-	-	-	21,859,008	(713,775)	21,145,233
Stage 3	-	-	2,689,232	516,343	77,423	3,282,998	(1,171,579)	2,111,419
Advances to customers	277,538,429	3,559,947	2,689,232	516,343	77,423	284,381,374	(2,948,641)	281,432,733
Trade bills – stage 1	31,723	-	-	-	-	31,723	(1)	31,722
Other financial assets measured at amortised cost:								
Cash and balances with banks and central banks – stage 1	54,039,682	-	-	-	-	54,039,682	(533)	54,039,149
Stage 1	14,290,932	-	-	-	-	14,290,932	(11,884)	14,279,048
Stage 2	39,127	-	-	-	-	39,127	(487)	38,640
Other assets measured at amortised cost	14,330,059	-	-	-	-	14,330,059	(12,371)	14,317,688

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

8 Financial risk management (continued)

(a) Credit risk (continued)

(xi) Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality (in accordance with Note 8(a)(x)) and by staging: (continued)

As at December 31, 2020 (continued)	Gross carrying/notional amount							
	Normal	Special mentioned	Sub-standard	Doubtful	Loss	Total	ECL allowances	Net amount
On balance sheet: (continued)								
Other financial assets measured at amortised cost: (continued)								
Stage 1	11,065,333	-	-	-	-	11,065,333	-	11,065,333
Stage 3	-	-	-	1,635	-	1,635	-	1,635
Other assets	11,065,333	-	-	1,635	-	11,066,968	-	11,066,968
Stage 1	63,935,647	-	-	-	-	63,935,647	(37,726)	63,897,921
Stage 2	1,574,577	-	-	-	-	1,574,577	(7,952)	1,566,625
Financial assets measured at fair value through other comprehensive income	65,510,224	-	-	-	-	65,510,224	(45,678)	65,464,546
Total gross carrying amount - on balance sheet	452,730,699	3,559,947	2,689,232	517,978	77,423	459,575,279	(3,009,127)	456,566,152
Off balance sheet:								
Financial guarantees, loan commitments and other credit related commitments	105,810,312	-	-	-	-	105,810,312	(319,440)	105,490,872
Total nominal amount - off balance sheet	105,810,312	-	-	-	-	105,810,312	(319,440)	105,490,872
Total at as December 31, 2020	558,541,011	3,559,947	2,689,232	517,978	77,423	565,385,591	(3,328,567)	562,057,024

8 Financial risk management (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group may not be able to fund the increase in assets or meet obligations as they fall due without incurring unacceptable losses. This may be caused by market disruption or liquidity squeeze whereby the Group may only unwind specific exposures at significantly discounted values.

The purpose of liquidity management is to ensure sufficient cash flows to meet all financial commitments and to capitalise on opportunities for business expansion. This includes the Group's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to comply with the statutory liquidity ratio, and to make new loans and investments as opportunities arise. To achieve this purpose, the Group adopts a prudent risk appetite in setting liquidity risk tolerance. Risk appetite is set in the form of liquidity risk limits and metric framework.

The Group has established a set of liquidity risk management policies which set out the liquidity risk management framework of the Group according to the requirements of HKMA's Supervisory Policy Manuals "Regulatory Framework for Supervision of Liquidity Risk (LM1)" and "Sound Systems and Controls for Liquidity Risk Management (LM2)".

Liquidity risk management framework

The Board of Directors is ultimately responsible for having an effective liquidity risk management framework in place. Risk Committee ("RC") is one of the committees set up under the Board. The duties of RC are to approve a risk management framework that is sound and in line with the Group's business objectives and risk profile, to approve key liquidity risk management policies and to ensure that the liquidity management framework and policies are duly implemented and maintained by the Group.

Risk Management Committee ("RMC") is set up under the Risk Committee and the Executive Committee to oversee the Group's overall asset quality as well as to resolve all important risk-related or governance issues including those on liquidity risk. The RMC is responsible for providing guidance and overseeing the Group's liquidity risk management strategy and development; reviewing or approving liquidity risk management policies and reviewing the Group's liquidity risk position.

Asset and Liability Committee ("ALCO") is a functional committee set up under the Executive Committee to oversee the liquidity risk management in light of the business strategy.

Regular meetings of various committees are held to review the compliance status of liquidity measurements and the needs for change in strategy and policy. Daily liquidity management is performed by the Treasury. Risk Management Division is responsible for the daily monitoring of the liquidity limits and measurements, and submission of regular reports of the liquidity profile to the RC, RMC and ALCO. Internal Audit periodically performs independent reviews to ensure effectiveness of the Group's liquidity risk management framework and implementation of the established policies.

Funding strategies

The objective of the Group's funding strategy is to strive for a balance between business growth opportunities and funding stability. The Group seeks to maintain diversified and stable funding sources with an appropriate mix of liabilities including customer deposits, interbank borrowings, issuance of negotiable certificates of deposit and debt instruments.

The annual budgeted statement of financial position of the Group, which contains a plan for the composition of various sources of liabilities, is approved by the Board of Directors in each calendar year. Various considerations such as the target business growth, market sentiment, target financial ratios and regulatory requirements would be taken into account in the process of budgeting.

To manage currency mismatch and avoid over-reliance on the currency swap market, the Group sets limits on swapped fund ratios of major currency positions which are subject to daily monitoring. The swapped fund ratios limit the extent of one currency's assets being funded by other currencies through the swap market.

The funding support provided by China Construction Bank Head Office is one of the key sources of liquidity backstop during times of liquidity stress.

8 Financial risk management (continued)

(b) Liquidity risk (continued)

Liquidity cushion

The extent of the Group's maturity mismatch and the sufficiency of liquidity cushion are governed by various liquidity metrics and measurement tools such as maturity mismatch limits and liquidity stress test.

The marketability of the Group's liquidity cushion is periodically reviewed in keeping with market conditions. The size of the liquidity cushion being maintained must be sufficient to meet intraday payments and settlement obligations on a timely basis under both normal and stressed conditions.

Stress scenario analysis

Liquidity Stress Testing is regularly conducted to project the Group's cash flows under stress scenarios for evaluation of the sufficiency of the liquidity cushion. The stress scenarios cover institution-specific crisis scenario, general market crisis scenario and combined crisis scenario. The cash flows under each stress scenario are determined by applying a set of prescribed stress assumptions to the Group's cash flow projection. Customer behavioural patterns of some products including customer deposits are applied in the stress test. The stress test results are regularly reported to the RC, RMC and ALCO. The definition of liquidity cushion being held by the Group is consistent with the definition of High Quality Liquid Assets and other marketable debt securities for purposes of determining the Group's Liquidity Coverage Ratio. The liquidity cushion should be able to cover projected cash outflows under various prescribed stress scenarios.

Contingency Funding Plan ("CFP")

The Group has a CFP that sets out the Group's strategies for identifying the occurrence of a liquidity event and the operational procedures for addressing such emergency situation if it really takes place. The CFP contains a set of early warning indicators that helps to identify any emerging liquidity risks at an early stage. The CFP also includes detailed action steps and properly assigned responsibilities within the liquidity risk management framework. The list of potential funding sources, with due consideration of their reliability, priority, likely impact on market perception and the expected available time during liquidity crisis, is included.

The Group has not entered into any agreement or arrangement under which the Group has to fulfil contingent funding obligations.

(i) Maturity analysis

The maturity analysis lists out the assets and liabilities by their remaining maturities into different time buckets. The gap amount for each time bucket represents the liquidity exposure after netting the assets and liabilities maturing in the same bucket. The Group maintains daily gap limits to manage liquidity risk. For some liabilities without prescribed maturity date such as demand deposits from customers, the liabilities are listed in the bucket of "Repayable on Demand", resulting in a larger negative gap in this time bucket. The Group considers this as an inherent risk to a consumer and commercial bank that offers demand deposit products to customers. By experience demand deposits have stable outstanding and the negative gap does not materialise into an immediate outflow of liquidity. However, to mitigate the liquidity risk, inter-bank and other borrowing facilities, as well as contingency funding plan are in place to cover withdrawals at unexpected levels of demand. Apart from customer deposits, the Group has other sources to fund the earning assets, such as inter-bank borrowings, debt securities issued, funding support from the parent bank and the Bank's share capital.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

8 Financial risk management (continued)

(b) Liquidity risk (continued)

(i) Maturity analysis (continued)

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

As at December 31, 2021	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated	Total
Assets								
Cash and balances with banks and central banks	13,167,116	33,604,847	-	-	-	-	-	46,771,963
Placements with banks	-	-	12,667,686	4,264,944	15,683,057	-	-	32,615,687
Advances to customers and trade bills	1,243,448	80,603,888	26,560,418	43,783,473	101,502,249	46,541,182	-	300,234,658
Financial assets measured at fair value through profit or loss	-	680,136	737	2,717,374	747,950	1,238,155	42,468	5,426,820
Financial assets measured at fair value through other comprehensive income	-	2,704,269	20,680,921	15,966,972	43,293,592	9,037,864	128,638	91,812,256
Other assets measured at amortised cost	-	3,904,135	2,373,035	393,979	3,041,378	-	-	9,712,527
Derivative financial instruments	-	372,705	320,299	170,490	20,291	14,832	-	898,617
Interest in a joint venture	-	-	-	-	-	-	1,902,166	1,902,166
Deferred tax assets	-	-	-	-	-	-	612,011	612,011
Fixed assets	-	-	-	-	-	-	2,445,555	2,445,555
Right-of-use assets	-	42	13	28,996	218,490	980,288	525,536	1,753,365
Other assets	68	2,609,104	113,407	291,673	-	-	90,340	3,104,592
Total assets	14,410,632	124,479,126	62,716,516	67,617,901	164,507,007	57,812,321	5,746,714	497,290,217

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

8 Financial risk management (continued)

(b) Liquidity risk (continued)

(i) Maturity analysis (continued)

The table below sets out the maturity profile of assets and liabilities analysed by the remaining period to repayment as at the reporting date: (continued)

As at December 31, 2021 (continued)	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated	Total
Liabilities								
Deposits and balances with banks	3,912,429	1,563,553	17,114,594	2,339,925	-	-	-	24,930,501
Deposits from customers	134,778,760	100,972,730	120,278,360	21,142,077	24,918	-	-	377,196,845
Financial assets sold under repurchase agreements	-	612,447	2,350,076	3,806,924	-	-	-	6,769,447
Financial liabilities designated at fair value through profit or loss	-	434,868	61,031	19,354	-	-	-	515,253
Other debt securities issued	-	-	-	3,611	732,967	-	-	736,578
Derivative financial instruments	-	150,675	316,616	168,700	21,012	98,070	-	755,073
Lease liabilities	-	24,326	40,627	176,917	676,207	380,431	-	1,298,508
Current tax payable	-	-	-	385,068	-	-	-	385,068
Deferred tax liabilities	-	-	-	-	-	-	18,875	18,875
Other liabilities	-	652,926	106,216	1,550,657	-	-	2,635,188	4,944,987
Total liabilities	138,691,189	104,411,525	140,267,520	29,593,233	1,455,104	478,501	2,654,063	417,551,135
Net assets/(liabilities) gap	(124,280,557)	20,067,601	(77,551,004)	38,024,668	163,051,903	57,333,820	3,092,651	79,739,082
Of which:								
Debt securities included in:								
- Financial assets measured at fair value through other comprehensive income	-	2,704,269	20,680,921	15,966,972	43,293,592	9,037,864	-	91,683,618
- Other assets measured at amortised cost	-	3,904,135	2,373,035	393,979	3,041,378	-	-	9,712,527

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

8 Financial risk management (continued)

(b) Liquidity risk (continued)

(i) Maturity analysis (continued)

The table below sets out the maturity profile of assets and liabilities analysed by the remaining period to repayment as at the reporting date: (continued)

As at December 31, 2020	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated	Total
Assets								
Cash and balances with banks and central banks	21,711,553	32,327,596	-	-	-	-	-	54,039,149
Placements with banks	-	-	12,088,944	301,656	17,822,746	-	-	30,213,346
Advances to customers and trade bills	2,843,057	66,852,101	20,439,365	49,755,422	100,288,384	41,286,126	-	281,464,455
Financial assets measured at fair value through profit or loss	-	183,526	-	4,661,247	2,956,438	1,214,958	92,633	9,108,802
Financial assets measured at fair value through other comprehensive income	-	3,484,768	7,233,696	21,200,055	24,426,212	8,891,063	274,430	65,510,224
Other assets measured at amortised cost	-	999,953	4,769,316	4,766,259	3,782,160	-	-	14,317,688
Derivative financial instruments	-	581,874	380,348	781,585	141,369	31,628	-	1,916,804
Interest in a joint venture	-	-	-	-	-	-	1,900,860	1,900,860
Deferred tax assets	-	-	-	-	-	-	424,473	424,473
Fixed assets	-	-	-	-	-	-	2,527,817	2,527,817
Right-of-use assets	-	-	982	21,885	328,437	1,135,997	527,551	2,014,852
Other assets	1,759	10,644,061	50,192	243,756	166	1,635	125,399	11,066,968
Total assets	24,556,369	115,073,879	44,962,843	81,731,865	149,745,912	52,561,407	5,873,163	474,505,438

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

8 Financial risk management (continued)

(b) Liquidity risk (continued)

(i) Maturity analysis (continued)

The table below sets out the maturity profile of assets and liabilities analysed by the remaining period to repayment as at the reporting date: (continued)

As at December 31, 2020 (continued)	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated	Total
Liabilities								
Deposits and balances with banks	2,027,726	13,794,370	255,548	-	-	-	-	16,077,644
Deposits from customers	136,182,889	91,276,912	123,008,221	18,952,691	-	-	-	369,420,713
Financial liabilities designated at fair value through profit or loss	-	241,574	114,317	62,408	-	-	-	418,299
Other debt securities issued	-	-	-	1,199,669	712,760	-	-	1,912,429
Derivative financial instruments	-	439,666	505,528	813,779	262,410	200,891	-	2,222,274
Lease liabilities	-	25,770	42,830	187,965	899,102	396,570	-	1,552,237
Current tax payable	-	-	-	143,498	-	-	-	143,498
Deferred tax liabilities	-	-	-	-	-	-	19,677	19,677
Other liabilities	-	1,317,315	53,182	1,404,632	-	-	2,638,973	5,414,102
Total liabilities	138,210,615	107,095,607	123,979,626	22,764,642	1,874,272	597,461	2,658,650	397,180,873
Net assets/(liabilities) gap	(113,654,246)	7,978,272	(79,016,783)	58,967,223	147,871,640	51,963,946	3,214,513	77,324,565
Of which:								
Debt securities included in:								
- Financial assets measured at fair value through other comprehensive income	-	3,484,768	7,233,696	21,200,055	24,426,212	8,891,063	-	65,235,794
- Other assets measured at amortised cost	-	999,953	4,769,316	4,766,259	3,782,160	-	-	14,317,688

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

8 Financial risk management (continued)

(b) Liquidity risk (continued)

(ii) Undiscounted cash flows by contractual maturities

The following table details the remaining contractual maturities at the reporting date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date to pay:

As at December 31, 2021	**Repayable on demand**	**1 month or less**	**3 months or less but over 1 month**	**1 year or less but over 3 months**	**5 years or less but over 1 year**	**Over 5 years**	**Undated**	**Total**
Non-derivative financial liabilities								
Deposits and balances with banks	3,912,429	1,564,237	17,124,401	2,344,852	-	-	-	24,945,919
Deposits from customers	134,778,760	100,981,809	120,294,134	21,150,153	25,144	-	-	377,230,000
Financial assets sold under repurchase agreements	-	621,507	2,461,635	4,359,789	-	-	-	7,442,931
Financial liabilities designated at fair value through profit or loss	-	434,868	61,031	19,354	-	-	-	515,253
Other debt securities issued	-	-	-	33,570	792,885	-	-	826,455
Lease liabilities	-	26,750	45,380	196,693	745,837	402,396	-	1,417,056
Current tax payable	-	-	-	385,068	-	-	-	385,068
Deferred tax liabilities	-	-	-	-	-	-	18,875	18,875
Other liabilities	-	652,926	106,216	1,550,657	-	-	2,635,188	4,944,987
	138,691,189	104,282,097	140,092,797	30,040,136	1,563,866	402,396	2,654,063	417,726,544
Cash inflow/(outflow) of derivatives settled on a net basis	-	(243,879)	(28,829)	(760)	(45,448)	-	-	(318,916)
Cash flow of derivatives settled on a gross basis								
- Inflow	-	112,516,886	37,349,496	22,675,281	6,394,231	148	-	178,936,042
- Outflow	-	(112,276,468)	(37,318,303)	(22,689,894)	(6,426,268)	(1,550)	-	(178,712,483)
Contingent liabilities and commitments								
- Financial guarantees	170,240	260,919	798,652	2,710,844	1,914,207	30,000	-	5,884,862
- Loan commitments and other credit commitment	42,932,545	710,016	5,013,267	27,583,266	23,804,311	274,092	-	100,317,497

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

8 Financial risk management (continued)

(b) Liquidity risk (continued)

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

The following table details the remaining contractual maturities at the reporting date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date to pay: (continued)

As at December 31, 2020	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated	Total
Non-derivative financial liabilities								
Deposits and balances with banks	2,027,726	13,794,383	255,551	-	-	-	-	16,077,660
Deposits from customers	136,182,889	91,284,369	123,028,691	18,985,643	-	-	-	369,481,592
Financial liabilities designated at fair value through profit or loss	-	241,574	114,317	62,408	-	-	-	418,299
Other debt securities issued	-	-	-	1,275,862	800,218	-	-	2,076,080
Lease liabilities	-	30,204	51,528	224,330	878,658	586,340	-	1,771,060
Current tax payable	-	-	-	143,498	-	-	-	143,498
Deferred tax liabilities	-	-	-	-	-	-	19,677	19,677
Other liabilities	-	1,317,315	53,182	1,404,632	-	-	2,638,973	5,414,102
	138,210,615	106,667,845	123,503,269	22,096,373	1,678,876	586,340	2,658,650	395,401,968
Cash inflow/(outflow) of derivatives settled on a net basis	-	(237,905)	(50,219)	(224,590)	42,421	(54,852)	-	(525,145)
Cash flow of derivatives settled on a gross basis								
- Inflow	-	63,853,021	26,039,275	27,557,155	5,498,378	1,845,684	-	124,793,513
- Outflow	-	(63,694,739)	(26,198,610)	(27,651,743)	(5,343,454)	(32,652)	-	(122,921,198)
Contingent liabilities and commitments								
- Financial guarantees	347,557	423,323	575,666	3,155,315	2,550,520	30,000	-	7,082,381
- Loan commitments and other credit commitment	44,338,056	772,124	3,020,955	25,487,273	24,952,185	157,338	-	98,727,931

8 Financial risk management (continued)

(c) Market risk

Market risk management by the Group

Market risk is the risk of loss arising from adverse changes in market rates and prices such as foreign exchange rates and interest rates and prices of debt securities. Market risk arises from both the Group's trading and non-trading business. A trading book consists of positions in financial instruments held either with trading intent or in order to hedge other elements of the trading book. Non-trading book records those financial instruments which are not included in the trading book. The Group's exposure to market risk arises from its day-to-day activities associated with loans, deposits, securities held for liquidity purposes and trading activities.

The Group's Risk Management Committee is responsible for overseeing the market risk of the Group. The Group's market risk framework comprises market risk management policies and control procedures with appropriate delegation of market risk limits.

The Group's trading activities are primarily related to foreign exchange and money market transactions. The Group manages its exposure to market risk through the establishment of various trading limits and the risk exposure is calculated by the Bank system and externally developed risk engine. Trading book position is monitored by both end-of-day and intraday reports. Any excess will be promptly investigated and communicated with Treasury and then reported to RMC. In addition to the overall limits, documented trading policies and procedures define acceptable boundaries within which traders can execute transactions in their assigned markets. The limits, policies and procedures, and risk measurement methodology are updated and reviewed at least annually and seek for RMC's approval to make sure the controls are sound and valid.

Value-at-Risk ("VaR") for the Group

VaR is a technique which estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time horizon and to a given level of confidence. The Group uses VaR to measure and report the market risk position, which covers the overall FX and the trading book interest rate risk exposures. The Group sets up total VaR limit to control the market risk exposure. The standalone interest rate VaR and foreign exchange VaR are also reported below for reference. The Group adopts historical simulation approach to calculate VaR at a 99% confidence level for a one-day holding period.

The table below shows the VaR for the Group:

	2021	2020
VaR	**1,513**	1,081
VaR for interest rate risk	**1,404**	1,120
VaR for foreign exchange risk	**458**	252

(i) Currency risk

Currency risk management by the Group

The Group's foreign currency positions arise from treasury activities and foreign exchange dealing to support the commercial and consumer banking operations. The Group has formulated a foreign exchange policy in managing the Group's foreign exchange risk. The foreign currency positions are managed within established limits, including open risk position limits.

In addition to adopting VaR to measure foreign exchange risk, a stress testing programme was developed to assess the potential loss that the Group may incur from the foreign exchange positions. The stress testing programme incorporates sensitivity analysis on changes in foreign exchange rates with various degree of severity. The methodology and assumptions of stress testing programme are properly documented, and approved by the Executive Committee and reviewed by the Risk Committee, with its update at least once a year or when the portfolio or the market conditions changes significantly.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

8 Financial risk management (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

The following table indicates the currency concentration of the Group's assets and liabilities:

As at December 31, 2021	HKD	USD	EUR	RMB	Others	Total
Assets						
Cash and balances with banks and central banks	10,715,043	30,287,889	213,240	4,830,325	725,466	46,771,963
Placements with banks	13,505,459	12,479,679	-	6,630,549	-	32,615,687
Advances to customers and trade bills	186,482,738	80,305,717	8,781,859	11,285,328	13,379,016	300,234,658
Financial assets measured at fair value through profit or loss	1,757,170	1,369,931	-	2,299,719	-	5,426,820
Financial assets measured at fair value through other comprehensive income	21,892,078	45,216,791	1,411,056	23,292,331	-	91,812,256
Other assets measured at amortised cost	5,893,599	3,574,167	-	244,761	-	9,712,527
Derivative financial instruments	823,872	67,756	6,989	-	-	898,617
Interest in a joint venture	1,902,166	-	-	-	-	1,902,166
Deferred tax assets	612,011	-	-	-	-	612,011
Fixed assets	2,445,493	62	-	-	-	2,445,555
Right-of-use assets	1,753,365	-	-	-	-	1,753,365
Other assets	1,602,181	1,118,304	24,342	350,334	9,431	3,104,592
Spot assets	249,385,175	174,420,296	10,437,486	48,933,347	14,113,913	497,290,217

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

8 Financial risk management (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

The following table indicates the currency concentration of the Group's assets and liabilities: (continued)

As at December 31, 2021 (continued)	**HKD**	**USD**	**EUR**	**RMB**	**Others**	**Total**
Liabilities						
Deposits and balances with banks	5,045,538	16,957,008	622,677	2,241,418	63,860	24,930,501
Deposits from customers	200,387,185	109,038,334	7,276,760	53,022,884	7,471,682	377,196,845
Financial assets sold under repurchase agreements	2,294	6,154,736	-	612,417	-	6,769,447
Financial liabilities designated at fair value through profit and loss	145,807	53,243	26,027	204,002	86,174	515,253
Other debt securities issued	2,717	-	-	733,861	-	736,578
Derivative financial instruments	660,088	84,514	10,471	-	-	755,073
Lease liabilities	1,298,508	-	-	-	-	1,298,508
Current tax payable	382,959	7	-	2,102	-	385,068
Deferred tax liabilities	18,875	-	-	-	-	18,875
Other liabilities	4,042,796	620,226	20,891	250,034	11,040	4,944,987
Spot liabilities	211,986,767	132,908,068	7,956,826	57,066,718	7,632,756	417,551,135
Forward purchases	59,511,215	64,589,783	1,122,300	29,230,973	2,708,856	157,163,127
Forward sales	(32,839,255)	(90,279,569)	(3,595,305)	(20,974,572)	(9,200,197)	(156,888,898)

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(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

8 Financial risk management (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

The following table indicates the currency concentration of the Group's assets and liabilities: (continued)

As at December 31, 2020	HKD	USD	EUR	RMB	Others	Total
Assets						
Cash and balances with banks and central banks	33,931,420	8,617,769	568,175	10,314,292	607,493	54,039,149
Placements with banks	7,501,787	6,208,237	-	16,503,322	-	30,213,346
Advances to customers and trade bills	168,874,112	79,881,892	16,503,163	5,891,208	10,314,080	281,464,455
Financial assets measured at fair value through profit or loss	8,536,355	100,397	633	471,417	-	9,108,802
Financial assets measured at fair value through other comprehensive income	19,487,274	35,070,386	679,770	10,272,794	-	65,510,224
Other assets measured at amortised cost	9,042,892	5,034,658	-	240,138	-	14,317,688
Derivative financial instruments	1,865,628	38,188	12,755	233	-	1,916,804
Interest in a joint venture	1,900,860	-	-	-	-	1,900,860
Deferred tax assets	424,473	-	-	-	-	424,473
Fixed assets	2,527,817	-	-	-	-	2,527,817
Right-of-use assets	2,014,852	-	-	-	-	2,014,852
Other assets	9,858,606	1,162,091	3,673	30,322	12,276	11,066,968
Spot assets	265,966,076	136,113,618	17,768,169	43,723,726	10,933,849	474,505,438

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

8 Financial risk management (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

The following table indicates the currency concentration of the Group's assets and liabilities: (continued)

As at December 31, 2020 (continued)	HKD	USD	EUR	RMB	Others	Total
Liabilities						
Deposits and balances with banks	13,789,733	784,510	3,452	1,324,389	175,560	16,077,644
Deposits from customers	186,023,595	122,440,535	11,353,834	42,288,188	7,314,561	369,420,713
Financial liabilities designated at fair value through profit and loss	274,432	88,078	578	580	54,631	418,299
Other debt securities issued	-	-	-	1,912,429	-	1,912,429
Derivative financial instruments	1,780,982	413,885	27,407	-	-	2,222,274
Lease liabilities	1,552,237	-	-	-	-	1,552,237
Current tax payable	141,416	14	-	2,068	-	143,498
Deferred tax liabilities	19,677	-	-	-	-	19,677
Other liabilities	4,695,177	667,876	23,391	14,043	13,615	5,414,102
Spot liabilities	208,277,249	124,394,898	11,408,662	45,541,697	7,558,367	397,180,873
Forward purchases	19,898,018	60,066,039	927,891	34,378,358	6,723,059	121,993,365
Forward sales	(16,189,091)	(55,710,754)	(7,287,714)	(32,620,164)	(10,097,686)	(121,905,409)

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

8 Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk

Interest rate risk management by the Group

The Group's interest rate exposure arises from the positions in the banking book and proprietary trading. The interest rate risk exposure in the banking book arises from its normal course of banking activities, such as lending, accepting deposits, investing in securities for liquidity purposes and issuance of debts as needed to fund assets. The governing objective in interest rate risk management is to minimise the potential significant loss as a result of changes in interest rates. Interest rate risk is managed on a daily basis by the Treasury Division within the limits approved by the Risk Management Committee. The instruments used to manage interest rate risk include interest rate swaps and other derivatives. The RMD assists the RMC to perform day-to-day monitoring and interest rate risk management.

The Group is exposed to two major sources of interest rate risk in banking book ("IRRBB"), namely, gap risk and basis risk.

Gap risk is the risk arising from changes in the interest rates on instruments of different maturities. The extent of gap risk depends on whether changes to the term structure of interest rates occur consistently across the yield curve (parallel risk) or differentially by period (nonparallel risk). The Group uses forward rate agreements and interest rate swaps to mitigate the gap risk. The Group generally monitors mismatches by 19 time buckets from next day to over 20 years.

Basis risk arises from different pricing basis of assets and liabilities, which results in changes in the yield on assets and cost of liabilities by different amount within the same repricing period. For example, loan assets are being tied to the Hong Kong dollar prime rate, and deposit liabilities tied to the Hong Kong Interbank Offer Rate ("HIBOR"). Basis risk primarily occurs in the Group's Hong Kong dollar books. The Group has established stress testing programme to assess the potential erosion of net interest income that the Group may incur from basis risk.

The Group mainly uses earnings approach, economic value approach, VaR and stress tests to assess the interest rate risk under adverse circumstances. Apart from gap risk and basis risk, the IRRBB stress-testing has further incorporated option risk and credit spread risk. For interest rate risk monitoring purpose, the Risk Management Committee reviews the stress-testing results from time to time.

Change of 100 basis points in interest rates would change the Group's profit for the year and retained earnings as follows:

	Increase/(decrease) in the Group's profit for the year and retained earnings	
	2021	2020
Increase by 100 basis points	**215,747**	292,412
Decrease by 100 basis points	**(215,747)**	(292,412)

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

8 Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The carrying amounts of derivative financial instruments, which are principally used to reduce the Group's exposure to interest rate movements, are under the heading "Non-interest bearing".

Interest rate repricing gap as at December 31, 2021

	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with banks and central banks	33,215,085	13,556,878	-	-	-	-	46,771,963
Placements with banks	6,205,955	19,641,086	4,264,945	2,503,701	-	-	32,615,687
Advances to customers and trade bills	191,927,269	86,335,065	12,707,338	9,188,667	76,319	-	300,234,658
Financial assets measured at fair value through profit or loss	2,915,979	458,433	2,009,940	-	-	42,468	5,426,820
Financial assets measured at fair value through other comprehensive income	30,916,171	52,612,214	8,155,232	-	-	128,639	91,812,256
Other assets measured at amortised cost	3,977,229	5,417,421	317,877	-	-	-	9,712,527
Derivative financial instruments	-	-	-	-	-	898,617	898,617
Interest in a joint venture	-	-	-	-	-	1,902,166	1,902,166
Deferred tax assets	-	-	-	-	-	612,011	612,011
Fixed assets	-	-	-	-	-	2,445,555	2,445,555
Right-of-use assets	-	-	-	-	-	1,753,365	1,753,365
Other assets	-	-	-	-	-	3,104,592	3,104,592
Total assets	269,157,688	178,021,097	27,455,332	11,692,368	76,319	10,887,413	497,290,217

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

8 Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate repricing gap as at December 31, 2021 (continued)

	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Non-interest bearing	Total
Liabilities							
Deposits and balances with banks	1,381,275	20,820,451	2,728,775	-	-	-	24,930,501
Deposits from customers	230,147,527	123,130,476	23,893,924	24,918	-	-	377,196,845
Financial assets sold under repurchase agreements	612,447	3,806,924	2,350,076	-	-	-	6,769,447
Financial liabilities designated at fair value through profit or loss	515,253	-	-	-	-	-	515,253
Other debt securities issued	-	-	736,578	-	-	-	736,578
Derivative financial instruments	-	-	-	-	-	755,073	755,073
Lease liabilities	-	-	-	-	-	1,298,508	1,298,508
Current tax payable	-	-	-	-	-	385,068	385,068
Deferred tax liabilities	-	-	-	-	-	18,875	18,875
Other liabilities	-	-	-	-	-	4,944,987	4,944,987
Total liabilities	232,656,502	147,757,851	29,709,353	24,918	-	7,402,511	417,551,135
Net repricing gap	36,501,186	30,263,246	(2,254,021)	11,667,450	76,319		

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

8 Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate repricing gap as at December 31, 2020

	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with banks and central banks	32,327,595	21,711,554	-	-	-	-	54,039,149
Placements with banks	4,999,486	15,221,398	301,656	9,690,806	-	-	30,213,346
Advances to customers and trade bills	201,183,029	53,225,661	16,343,786	10,657,156	54,823	-	281,464,455
Financial assets measured at fair value through profit or loss	2,474,163	2,115,017	4,426,989	-	-	92,633	9,108,802
Financial assets measured at fair value through other comprehensive income	10,319,640	25,733,379	29,182,775	-	-	274,430	65,510,224
Other assets measured at amortised cost	999,953	9,310,714	4,007,021	-	-	-	14,317,688
Derivative financial instruments	-	-	-	-	-	1,916,804	1,916,804
Interest in a joint venture	-	-	-	-	-	1,900,860	1,900,860
Deferred tax assets	-	-	-	-	-	424,473	424,473
Fixed assets	-	-	-	-	-	2,527,817	2,527,817
Right-of-use assets	-	-	-	-	-	2,014,852	2,014,852
Other assets	-	-	-	-	-	11,066,968	11,066,968
Total assets	252,303,866	127,317,723	54,262,227	20,347,962	54,823	20,218,837	474,505,438

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

8 Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate repricing gap as at December 31, 2020 (continued)

	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Non-interest bearing	Total
Liabilities							
Deposits and balances with banks	13,794,614	2,275,278	7,752	-	-	-	16,077,644
Deposits from customers	226,408,216	123,067,650	19,944,847	-	-	-	369,420,713
Financial liabilities designated at fair value through profit or loss	418,299	-	-	-	-	-	418,299
Other debt securities issued	-	-	1,912,429	-	-	-	1,912,429
Derivative financial instruments	-	-	-	-	-	2,222,274	2,222,274
Lease liabilities	-	-	-	-	-	1,552,237	1,552,237
Current tax payable	-	-	-	-	-	143,498	143,498
Deferred tax liabilities	-	-	-	-	-	19,677	19,677
Other liabilities	-	-	-	-	-	5,414,102	5,414,102
Total liabilities	240,621,129	125,342,928	21,865,028	-	-	9,351,788	397,180,873
Net repricing gap	11,682,737	1,974,795	32,397,199	20,347,962	54,823		

8 Financial risk management (continued)

(d) Capital management

Being an authorised institution incorporated in Hong Kong, the Bank is regulated by the HKMA who sets and monitors capital requirements for the Bank as well as the consolidated position for the banking subsidiaries as prescribed by the HKMA. A non-banking financial subsidiary, CCBS, is subject to the supervision and capital requirements of the Hong Kong Securities and Futures Commission.

According to the Banking (Capital) Rules ("Capital Rules"), the Group is required to maintain adequate regulatory capital and capital buffers to support credit risk, market risk and operational risk.

In addition to meeting the regulatory requirements, the Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between higher shareholder returns and the advantages and security afforded by a sound capital position, and, when necessary, makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of the capital adequacy ratios and capital buffers as calculated in accordance with the Capital Rules and the Group's policy on the management of capital is updated regularly to incorporate latest regulatory requirements.

The Group maintains a policy on internal capital adequacy assessment process ("ICAAP") that sets out the methodologies, assumptions and techniques in assessing the capital requirements on the residual risks that are not covered by the Capital Rules and establishing the internal capital targets.

Throughout the years ended December 31, 2021 and December 31, 2020, the Group has complied with the capital requirements imposed by the HKMA. Additional information is disclosed in the Bank's Regulatory Disclosure.

9 Fair value measurement

(a) 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 hierarchy method:

Level 1: fair values measured using quoted market prices (unadjusted) in active markets for identical financial instruments.

Level 2: fair values measured using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). 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.

Level 3: fair values 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 differences between the instruments.

Where available, the most suitable measure for fair value is the quoted market prices in an active market. In the absence of active markets for most of the unlisted securities and OTC 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 (i.e. Market Comparable Approach) by using observable and comparable market parameters or market prices provided by counterparties. Independent price verification or reasonableness check is performed if fair values are determined by reference to externally quoted prices.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

9 Fair value measurement (continued)

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

Options and equity swaps traded OTC are valued using broker quotes price. The fair value of foreign exchange contracts are valued by observable foreign exchange rates and forward points at the reporting date. Other derivative financial instruments, including interest rate swaps and currency swaps, are valued through estimated future cash flows and discounting with appropriate yield curves.

For structured deposits, this class of instruments includes certain deposits received from customers that are embedded with derivatives. The valuation of the underlying deposits is derived by using net present value of expected cash flow taking the Group's own credit risk into account. The valuation method of the embedded derivative is the same as other derivatives mentioned as above.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised:

As at December 31, 2021	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through profit or loss				
Fund investments	-	42,468	-	42,468
Certificates of deposit	-	2,170,429	-	2,170,429
Trading loans	-	2,903,914	-	2,903,914
Other debt instruments	161,574	148,435	-	310,009
Financial assets measured at fair value through other comprehensive income				
Treasury bills/bonds	21,040,074	19,897,777	-	40,937,851
Certificates of deposit	38,959	1,340,439	-	1,379,398
Other debt securities	34,740,582	14,625,787	-	49,366,369
Equity shares	46,686	-	81,952	128,638
Derivative financial instruments				
Exchange rate contracts				
Forwards	-	766,029	-	766,029
Options purchased	-	1	-	1
Interest rate swaps	-	115,086	-	115,086
Currency swaps	-	16,949	-	16,949
Equity swaps	-	552	-	552
	56,027,875	42,027,866	81,952	98,137,693
Liabilities				
Financial liabilities designated at fair value through profit or loss	-	515,253	-	515,253
Derivative financial instruments				
Exchange rate contracts				
Forwards	-	518,173	-	518,173
Options written	-	915	-	915
Interest rate swaps	-	202,772	-	202,772
Currency swaps	-	15,459	-	15,459
Equity swaps	-	17,754	-	17,754
	-	1,270,326	-	1,270,326

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(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

9 Fair value measurement (continued)

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

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised: (continued)

As at December 31, 2020	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through profit or loss				
Fund investments	27,572	65,061	-	92,633
Certificates of deposit	-	471,417	-	471,417
Trading loans	-	8,544,752	-	8,544,752
Financial assets measured at fair value through other comprehensive income				
Treasury bills/bonds	9,949,431	18,364,062	-	28,313,493
Certificates of deposit	-	4,017,378	-	4,017,378
Other debt securities	18,552,575	14,352,348	-	32,904,923
Equity shares	46,809	-	227,621	274,430
Derivative financial instruments				
Exchange rate contracts				
Forwards	-	1,780,639	-	1,780,639
Options purchased	-	10,514	-	10,514
Interest rate swaps	-	51,517	-	51,517
Currency swaps	-	72,921	-	72,921
Equity swaps	-	1,213	-	1,213
	28,576,387	47,731,822	227,621	76,535,830
Liabilities				
Financial liabilities designated at fair value through profit or loss	-	418,299	-	418,299
Derivative financial instruments				
Exchange rate contracts				
Forwards	-	1,693,429	-	1,693,429
Options written	-	11,182	-	11,182
Interest rate swaps	-	441,029	-	441,029
Currency swaps	-	66,305	-	66,305
Equity swaps	-	10,329	-	10,329
	-	2,640,573	-	2,640,573

There were no significant transfers between instruments in Level 1 and Level 2 for the year ended December 31, 2021 and December 31, 2020.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

9 Fair value measurement (continued)

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

Reconciliation of Level 3 items

	2021	2020
Financial assets measured at FVOCI - Unlisted equity securities		
As at January 1	**227,621**	114,678
Change in fair value recognised in other comprehensive income	**(145,669)**	112,943
As at December 31	**81,952**	227,621

As at December 31, 2021 and December 31, 2020, financial assets categorised as Level 3 are unlisted equity securities. The fair values of unlisted equity securities are determined with reference to multiples of comparable listed companies in the market, such as price/earnings ratios of comparables, or EV/EBITDA ratios per Bloomberg. The fair value is positively correlated to these market comparable parameters. Had the earning of the underlying equity investments increased/decreased by 5%, the Group's other comprehensive income would have increased/decreased by $4,097 (2020: $11,380).

Information about Level 3 fair value measurements

As at December 31, 2021, the valuation method and significant unobservable inputs used in the fair value measurement of the Group's financial assets classified as Level 3 are as follows:

	Valuation model used	Significant unobservable valuation inputs parameters	Average	Relationship of unobservable inputs to fair value
Unlisted equity securities	Market-comparable approach	Earnings multiples (price/earnings ratios)	17.36 (2020: 22.40)	The higher the ratio, the higher the fair value
		EV/EBITDA multiples	9.42 (2020: 6.49)	The higher the multiple, the higher the fair value
		Marketability discount	40% (2020: 40%)	The higher the discount, the lower the fair value

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

Financial assets and liabilities that are not presented at their fair value on the consolidated statement of financial position mainly represent cash and balances with banks and central banks, placements with banks, advances to customers and trade bills, and other assets measured at amortised cost. These financial assets are measured at amortised cost less ECL. Financial liabilities not presented at their fair value on the consolidated statement of financial position mainly represent deposits and balances of banks, deposits from customers, financial assets sold under repurchase agreements and other debt securities issued. These financial liabilities are measured at amortised cost.

i) Cash and balances with banks and central banks, Placements with banks, Financial assets sold under repurchase agreements

These balances are mainly priced at market interest rates and mature within one year. Accordingly, the carrying values approximate the fair values. The differences between fair values and carrying amounts of these financial instruments are not presented on the Group's consolidated statement of financial position.

ii) Advances to customers and trade bills

Majority of the advances to customers and trade bills are on floating rate terms, bear interest at prevailing market interest rate. Accordingly, their carrying values approximate the fair values.

iii) Other assets measured at amortised cost and other debt securities issued

The fair value of securities measured at amortised cost is determined using the same approach as those securities measured at fair value. Further details are described in Note 26 and Note 41.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

10 Offsetting financial assets and financial liabilities

(a) Financial assets

The following financial assets are subject to offsetting, enforceable master netting arrangements or similar agreements:

As at December 31, 2021

				Related amounts not offset in the consolidated statement of financial position		
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivative financial assets	**934,435**	**(35,818)**	**898,617**	**(471)**	**(82,175)**	**815,971**
Other assets	**214,230**	**(164,188)**	**50,042**	**-**	**-**	**50,042**
	1,148,665	**(200,006)**	**948,659**	**(471)**	**(82,175)**	**866,013**

As at December 31, 2020

				Related amounts not offset in the consolidated statement of financial position		
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivative financial assets	1,951,321	(34,517)	1,916,804	(1,216,864)	(255,267)	444,673
Other assets	687,785	(578,863)	108,922	-	-	108,922
	2,639,106	(613,380)	2,025,726	(1,216,864)	(255,267)	553,595

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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10 Offsetting financial assets and financial liabilities (continued)

(b) Financial liabilities

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements:

As at December 31, 2021

				Related amounts not offset in the consolidated statement of financial position		
	Gross amounts of recognised financial liabilities	**Gross amounts of recognised financial assets set off in the consolidated statement of financial position**	**Net amounts of financial liabilities presented in the consolidated statement of financial position**	**Financial instruments**	**Cash collateral advanced**	**Net amount**
Derivative financial liabilities	**790,891**	**(35,818)**	**755,073**	**(471)**	**642,941**	**1,397,543**
Financial assets sold under repurchase agreements	**6,769,447**	**-**	**6,769,447**	**(6,769,447)**	**-**	**-**
Other liabilities	**221,689**	**(164,188)**	**57,501**	**-**	**-**	**57,501**
	7,782,027	**(200,006)**	**7,582,021**	**(6,769,918)**	**642,941**	**1,455,044**

As at December 31, 2020

				Related amounts not offset in the consolidated statement of financial position		
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Financial instruments	Cash collateral advanced	Net amount
Derivative financial liabilities	2,256,791	(34,517)	2,222,274	(1,216,864)	728,548	1,733,958
Other liabilities	605,672	(578,863)	26,809	-	-	26,809
	2,862,463	(613,380)	2,249,083	(1,216,864)	728,548	1,760,767

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, 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 such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement 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.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

11 Net interest income

	2021	2020
Interest income		
Interest income calculated using the effective interest rate		
Placements and advances to banks	**656,004**	1,250,001
Advances to customers and trade bills	**5,288,687**	7,311,947
Financial assets measured at fair value through other comprehensive income	**1,308,431**	1,424,406
Other assets measured at amortised cost	**118,834**	282,031
Total interest income	**7,371,956**	10,268,385
Interest expense		
Interest expense arising from financial liabilities that are not measured at fair value through profit or loss		
Deposits and balances with banks	**(103,253)**	(134,229)
Deposits from customers	**(1,936,199)**	(4,605,478)
Other debt securities issued	**(72,300)**	(80,654)
	(2,111,752)	(4,820,361)
Interest expense arising from lease liabilities	**(42,658)**	(57,261)
Total interest expense	**(2,154,410)**	(4,877,622)
Net interest income	**5,217,546**	5,390,763

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

12 Net fees and commission income

	2021	2020
Fees and commission income		
Investment services	**282,445**	236,144
Securities broking and related services	**180,704**	157,031
Insurance	**309,682**	239,801
Remittance, settlement and account management fees	**156,452**	143,959
Fees received from intermediate holding company (Note 47)	**477,057**	606,472
Trade finance	**35,776**	33,593
Cards	**146,726**	133,622
Credit facilities	**477,217**	462,045
Others	**1,344**	1,268
Total fees and commission income	**2,067,403**	2,013,935
Fees and commission expense		
Cards	**(88,002)**	(46,700)
Brokerage	**(7,956)**	(7,471)
Fees paid to intermediate holding company and fellow subsidiaries (Note 47)	**(13,385)**	(12,504)
Settlement accounts	**(14,245)**	(12,477)
Others	**(49,392)**	(34,084)
Total fees and commission expense	**(172,980)**	(113,236)
Net fees and commission income	**1,894,423**	1,900,699

The fees and commission income above includes income of $645,859 (2020: $629,369) and expenses of $165,024 (2020: $105,765) relating to financial assets and financial liabilities not measured at fair value through profit or loss.

13 Net trading income

	2021	2020
Net gains/(losses) from trading activities		
Foreign exchange	**588,171**	414,088
Interest rate derivatives	**(189,376)**	(102,330)
Other debt instruments	**54,952**	171,351
Other trading	**(240)**	5,929
	453,507	489,038
Other trading income		
Hedge ineffectiveness on fair value hedge	**1,346**	(420)
Net trading income	**454,853**	488,618

There was no net trading income relating to other assets measured at amortised cost in the current year (2020: a net income of $2,855).

"Foreign exchange" under "Net trading income" includes a net gain of $326,585 (2020: a net gain of $190,460) arising from gains and losses from spot and forward contracts, options, and the income and costs from foreign exchange swaps contracts which were used for economically hedging the assets and liabilities of the Group and net translation gains and losses on foreign currency denominated assets and liabilities.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

14 Net gains from financial instruments designated at fair value through profit or loss

	2021	2020
Net gains from structured deposits	**33,040**	22,697

15 Other operating income

	2021	2020
Dividend income		
Unlisted	**3,250**	4,354
Listed	**1,056**	1,158
	4,306	5,512
Operating leases income	**30,492**	31,873
Others	**24,574**	28,554
Total	**59,372**	65,939

16 Operating expenses

	2021	2020
Staff costs		
Salaries and other benefits	**1,866,739**	1,927,822
Pension and provident fund costs	**89,735**	95,299
	1,956,474	2,023,121
General and administrative expenses		
Rental expenses	**92,754**	105,502
Other premises and equipment	**136,367**	127,076
Marketing expenses	**168,760**	201,387
Auditors' remuneration	**6,440**	6,109
Professional fees	**74,099**	69,493
Other operating expenses	**250,530**	249,838
	728,950	759,405
Depreciation		
Fixed assets	**292,813**	283,664
Right-of-use assets	**283,075**	284,791
	575,888	568,455
Total	**3,261,312**	3,350,981

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

17 Net charge on expected credit losses

	2021	2020
New allowances charged, net of allowance releases	**779,096**	461,695
Recoveries of amounts previously written off	**(33,933)**	(26,203)
Net charge on expected credit losses	**745,163**	435,492
Attributable to:		
Balances with banks and central banks and placements with banks	**(1,103)**	(3,811)
Advances to customers and trade bills	**637,549**	418,498
Financial assets measured at fair value through other comprehensive income	**79,686**	(34,363)
Other assets measured at amortised cost	**(3,565)**	(12,686)
Other assets	**310**	(413)
Loan and other credit related commitments	**32,286**	68,267
Net charge on expected credit losses	**745,163**	435,492

18 Benefits and interests of directors

(a) Directors' emoluments

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

	2021	2020
Fees	**2,816**	2,817
Salaries	**10,598**	9,580
Discretionary bonuses	**4,894**	3,956
Contributions to provident fund	**973**	945
Total	**19,281**	17,298

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Bank, or any of its holding companies, subsidiaries, fellow subsidiaries or joint venture was a party and in which a director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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19 Taxation

(a) Taxation in the consolidated statement of profit or loss represents:

	2021	2020
Current tax – Hong Kong Profits Tax		
Provision for the year	**748,284**	693,431
Under-provision in respect of prior years	**49,183**	194
	797,467	693,625
Current tax – Overseas		
Provision for the year	**49**	104
Withholding tax for the year	**2,913**	2,737
	2,962	2,841
Deferred tax		
Origination and reversal of temporary differences	**(190,290)**	74,208
	610,139	770,674

The provision of Hong Kong Profits Tax for 2021 is calculated at 16.5% (2020: 16.5%) of the estimated assessable profits for the year. Taxation for overseas transactions are charged at the appropriate current rates of taxation ruling in the countries in which the transactions took place.

For the year ended December 31, 2021, the effective income tax rate was 15.49% (2020: 17.05%).

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

	2021	2020
Profit before taxation	**3,939,868**	4,520,035
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	**650,078**	745,806
Income not subject to taxation	**(32,015)**	(21,114)
Expenses not deductible for taxation purposes	**25,098**	42,948
Tax effect of Utilization of temporary difference previously not recognized	**(86,581)**	-
Under-provision in prior years	**49,183**	194
Overseas withholding tax	**2,913**	2,737
Other	**1,463**	103
Actual tax expense	**610,139**	770,674

20 Segmental information

(a) Reportable segments

The Group manages its businesses by divisions, which are organised by products services and customer types. In a manner consistent with the way in which information is reported internally to the executive management for the purposes of resource allocation and performance assessment, the Group has presented the following four reportable segments.

(i) Corporate, institutional and commercial banking

This segment mainly represents the provision of a range of financial products and services to corporations, financial institutions and small and medium sized enterprises. The products and services mainly include commercial loans, syndicated loans, commercial mortgages, trade financing, foreign exchange and deposit-taking activities.

(ii) Consumer banking

This segment mainly represents the provision of a range of financial products and services to individual customers. The products and services mainly comprise residential mortgages, personal loans, credit cards, auto-financing, deposit-taking activities, foreign exchange, wealth management, insurance and securities agency services.

(iii) Treasury & management pool

This segment covers the Bank's treasury operations and management of shareholders' funds. The Treasury Division enters into inter-bank money market transactions and invests in debt instruments. It also trades in debt instruments, derivatives and foreign currency for its own account and carries out customer driven derivatives such as foreign currency transactions. Its function also includes the management of the Group's overall liquidity position, including the issuance of certificates of deposit.

(iv) Others

This segment mainly represents investments in premises, subsidiaries and others.

Segment assets and liabilities are mainly composed of placement with banks, advances to banks and customers, investment securities, derivatives financial instruments, deposits and balances with banks, deposits from customers and other debt securities issued.

Revenue and expenses are allocated to the reportable segments with reference to interest income and fee and commission income generated by these segments and the expenses incurred by these segments or which otherwise arise from the depreciation or amortisation of assets attributable to these segments.

The primary revenue stream of the Group is derived from net interest income and net fees and commission income. The executive management relies to a large extent on net interest income and net fees and commission income in managing its business. Hence, net interest income and net fees and commission income for all reportable segments are presented under segmental information.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

20 Segmental information (continued)

(a) Reportable segments (continued)

	2021					
	Corporate, institutional and commercial banking	Consumer banking	Treasury & management pool	Others	Inter-segment elimination	Total
Net interest income	2,575,741	1,492,360	1,152,934	(3,489)	-	5,217,546
Net fees and commission income	681,681	694,852	(16,288)	534,178	-	1,894,423
Total operating income						
– External	4,978,296	517,232	1,799,899	590,894	-	7,886,321
– Inter-segment	(1,484,183)	1,763,224	(279,024)	(17)	-	-
Total operating income	3,494,113	2,280,456	1,520,875	590,877	-	7,886,321
Depreciation	(108,127)	(352,729)	(22,439)	(92,593)	-	(575,888)
Total operating expenses	(894,084)	(1,648,943)	(232,025)	(486,260)	-	(3,261,312)
Operating profit before impairment losses	2,600,029	631,513	1,288,850	104,617	-	4,625,009
(Charge on)/release of expected credit losses and other impairment	(690,256)	(53,422)	(1,185)	(300)	-	(745,163)
Non-operating income/(losses)	-	(411)	-	60,433	-	60,022
Profit before taxation	1,909,773	577,680	1,287,665	164,750	-	3,939,868
As at December 31, 2021						
Total assets	275,485,726	58,825,099	154,748,345	9,122,483	(891,436)	497,290,217
Total liabilities	176,540,895	208,883,414	29,186,961	3,831,301	(891,436)	417,551,135

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(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

20 Segmental information (continued)

(a) Reportable segments (continued)

	2020					
	Corporate, institutional and commercial banking	Consumer banking	Treasury & management pool	Others	Inter-segment elimination	Total
Net interest income	2,561,418	1,649,351	1,184,678	(4,684)	-	5,390,763
Net fees and commission income	627,250	624,491	(10,047)	659,005	-	1,900,699
Total operating income						
– External	6,123,821	(1,301,981)	2,705,385	722,029	-	8,249,254
– Inter-segment	(2,499,729)	3,681,502	(1,177,680)	(4,093)	-	-
Total operating income	3,624,092	2,379,521	1,527,705	717,936	-	8,249,254
Depreciation	(100,216)	(338,101)	(17,084)	(113,054)	-	(568,455)
Total operating expenses	(861,482)	(1,718,520)	(164,571)	(606,408)	-	(3,350,981)
Operating profit before impairment losses	2,762,610	661,001	1,363,134	111,528	-	4,898,273
(Charge on)/release of expected credit losses and other impairment	71,434	(546,358)	38,937	(700)	-	(436,687)
Non-operating income/(losses)	(330)	(853)	-	59,632	-	58,449
Profit before taxation	2,833,714	113,790	1,402,071	170,460	-	4,520,035
As at December 31, 2020						
Total assets	254,616,898	50,515,763	161,806,511	8,365,027	(798,761)	474,505,438
Total liabilities	152,399,368	222,385,383	18,333,997	4,860,886	(798,761)	397,180,873

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

20 Segmental information (continued)

(b) Geographical information

The following table sets out information about the geographical location of the Group's total operating income, profit before taxation, total assets, total liabilities, specified non-current assets, contingent liabilities and commitments. The geographical location of customers is based on the location at which the services were provided. Segment assets or liabilities are based on the geographical location of the asset or liabilities. Specified non-current assets comprise fixed assets, right-of-use assets and interest in a joint venture and the geographical location is based on the physical location of the asset for fixed assets, and the location of the operation to which they are allocated for intangible assets, interest in a joint venture.

	Total operating income	**Profit before taxation**	**Total assets**	**Total liabilities**	**Specified non-current assets**	**Contingent liabilities and commitments**
As at December 31, 2021						
Hong Kong (place of domicile)	**7,886,321**	**3,939,868**	**497,290,217**	**417,551,135**	**6,101,086**	**106,202,359**

	Total operating income	Profit before taxation	Total assets	Total liabilities	Specified non-current assets	Contingent liabilities and commitments
As at December 31, 2020						
Hong Kong (place of domicile)	8,249,254	4,520,035	474,505,438	397,180,873	6,443,529	105,810,312

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

21 Cash and balances with banks and central banks

	2021	2020
Cash on hand	**247,195**	254,603
Balances with banks	**2,566,858**	2,338,132
Balances with central banks	**10,353,090**	19,118,818
Placements with banks maturing within one month	**33,606,169**	32,328,129
Gross cash and balances with banks and central banks	**46,773,312**	54,039,682
Less: Expected credit loss allowances		
Stage 1: 12-month ECL	**(1,349)**	(533)
Net cash and balances with banks and central banks	**46,771,963**	54,039,149

22 Placements with banks

	2021	2020
Maturing between one and twelve months	**16,932,630**	12,392,508
Maturing over twelve months	**15,683,057**	17,822,741
Gross placements with banks	**32,615,687**	30,215,249
Less: Expected credit loss allowances		
Stage 1: 12-month ECL	**-**	(1,903)
Net placements with banks	**32,615,687**	30,213,346

23 Advances to customers and trade bills

	2021	2020
Advances to customers		
Gross advances to corporate customers	**242,837,588**	232,888,557
Gross advances to personal customers	**60,304,944**	51,492,817
Gross advances to customers	**303,142,532**	284,381,374
Less: Expected credit loss allowances		
Stage 1: 12-month ECL	**(1,273,348)**	(1,063,287)
Stage 2: Lifetime ECL but not credit-impaired	**(887,923)**	(713,775)
Stage 3: Lifetime ECL and credit-impaired	**(901,400)**	(1,171,579)
Net advances to customers	**300,079,861**	281,432,733
Trade bills		
Gross trade bills	**154,819**	31,723
Less: Expected credit loss allowances		
Stage 1: 12-month ECL	**(16)**	(1)
Stage 2: Lifetime ECL but not credit-impaired	**(6)**	-
Net trade bills	**154,797**	31,722
Net advances to customers and trade bills	**300,234,658**	281,464,455

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

23 Advances to customers and trade bills (continued)

(a) Movement in gross carrying amount and expected credit loss allowances on advances to customers and trade bills

Reconciliation of changes in gross carrying amount and expected credit loss allowances on advances to customers and trade bills for the year ended December 31, 2021. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 8(a)(x).

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance
Balance as at January 1, 2021	259,271,091	1,063,288	21,859,008	713,775	3,282,998	1,171,579	284,413,097	2,948,642
Transfer to stage 1: 12-month ECL	4,777,242	176,392	(4,777,122)	(176,302)	(120)	(90)	-	-
Transfer to stage 2: lifetime ECL not credit-impaired	(2,129,128)	(23,917)	2,796,864	72,161	(667,736)	(48,244)	-	-
Transfer to stage 3: lifetime ECL credit-impaired	(139,348)	(7,095)	(14,307)	(9,387)	153,655	16,482	-	-
New financial assets originated or purchased*	92,208,697	362,106	7,818,598	355,764	123,378	10,880	100,150,673	728,750
Financial assets that have been derecognised	(72,464,608)	(269,475)	(7,850,360)	(212,478)	(394,015)	(58,602)	(80,708,983)	(540,555)
Write-offs	-	-	-	-	(557,436)	(557,436)	(557,436)	(557,436)
Recoveries of amounts previously written-offs	-	-	-	-	-	33,933	-	33,933
Net remeasurements (Including changes in risk parameters)	-	(24,789)	-	144,414	-	332,883	-	452,508
Foreign exchange and other movements	-	(3,146)	-	(18)	-	15	-	(3,149)
Balance as at December 31, 2021	281,523,946	1,273,364	19,832,681	887,929	1,940,724	901,400	303,297,351	3,062,693

* During the period, all advances to customers and trade bills were initially classified in Stage 1 and were not considered as credit-impaired at the time of origination or purchase. Some were subsequently transferred into Stage 2 or Stage 3 based on the result of credit assessments.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

23 Advances to customers and trade bills (continued)

(a) Movement in gross carrying amount and expected credit loss allowances on advances to customers and trade bills (continued)

Reconciliation of changes in gross carrying amount and expected credit loss allowances on advances to customers and trade bills for the year ended December 31, 2020. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 8(a)(x).

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance
Balance as at January 1, 2020	284,757,413	1,299,588	7,343,338	905,420	855,989	502,175	292,956,740	2,707,183
Transfer to stage 1: 12-month ECL	61,087	22,828	(56,728)	(18,401)	(4,359)	(4,427)	-	-
Transfer to stage 2: lifetime ECL not credit-impaired	(8,746,853)	(58,106)	8,746,932	58,321	(79)	(215)	-	-
Transfer to stage 3: lifetime ECL credit-impaired	(2,813,367)	(136,308)	(75,019)	(34,094)	2,888,386	170,402	-	-
New financial assets originated or purchased*	138,129,003	279,684	11,806,672	217,033	29,818	8,876	149,965,493	505,593
Financial assets that have been derecognised	(152,116,192)	(386,602)	(5,906,187)	(842,385)	(283,515)	(76,674)	(158,305,894)	(1,305,661)
Write-offs	-	-	-	-	(203,242)	(203,242)	(203,242)	(203,242)
Recoveries of amounts previously written-offs	-	-	-	-	-	26,203	-	26,203
Net remeasurements (Including changes in risk parameters)	-	36,617	-	427,964	-	748,532	-	1,213,113
Foreign exchange and other movements	-	5,587	-	(83)	-	(51)	-	5,453
Balance as at December 31, 2020	259,271,091	1,063,288	21,859,008	713,775	3,282,998	1,171,579	284,413,097	2,948,642

* During the period, all advances to customers and trade bills were initially classified in Stage 1 and were not considered as credit-impaired at the time of origination or purchase. Some were subsequently transferred into Stage 2 or Stage 3 based on the result of credit assessments.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

23 Advances to customers and trade bills (continued)

(a) Movement in change in expected credit loss on advances to customers and trade bills (continued)

As at December 31, 2021, the retail and wholesale portfolios represented $883,107 and $2,179,586 or 29% and 71% (2020: $980,229 and $1,968,413 or 33% and 67%), respectively, of the total expected credit loss allowances on advances to customers and trade bills as at December 31, 2021. The measurement of expected credit loss allowances for retail and wholesale portfolios is under the same modelling framework by applying different risk parameters.

During the year the movement of the retail portfolio is mainly driven by the consideration of countercyclical measures in the economic environment. The movement of the wholesale portfolio is driven by the change in risk parameters from considering the countercyclical measures in the economic environment, the newly originated assets and the assets that have been derecognised during the year.

(b) Impaired advances to customers and trade bills and ECL allowances

As at December 31, 2021 and December 31, 2020, impaired advances to customers and ECL allowances are analysed as follows:

	2021	**% of gross advances**	2020	% of gross advances
Gross impaired advances	**1,940,724**	**0.64**	3,282,998	1.15
Less: Expected credit loss allowances	**(901,400)**		(1,171,579)	
	1,039,324		2,111,419	
Gross individually assessed impaired advances	**1,876,923**	**0.62**	3,219,546	1.13
Less: Expected credit loss allowances	**(856,828)**		(1,127,581)	
	1,020,095		2,091,965	
Net realisable value of collateral held against the impaired advances	**991,676**		2,069,885	

As at December 31, 2021 and December 31, 2020, there were no impaired trade bills.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

23 Advances to customers and trade bills (continued)

(c) Net investment in finance leases and hire purchase contracts

Advances to customers include net investments in equipment leased to customers under finance leases and hire purchase contracts having the characteristics of finance leases. The contracts usually run for an initial period of 1 to 25 years. The total minimum lease payments receivable and their present value as at December 31, 2021 and December 31, 2020 are as follows:

	2021	2020
Total minimum lease payments	**4,310,474**	4,451,569
Unearned future finance income on finance leases	**(218,028)**	(259,420)
Present value of the minimum lease payments	**4,092,446**	4,192,149
Expected credit loss allowances		
Stage 1: 12-month ECL	**(19,244)**	(8,051)
Stage 2: Lifetime ECL but not credit-impaired	**(960)**	(1,337)
Stage 3: Lifetime ECL and credit-impaired	**(425)**	(996)
Expected credit loss allowances	**(20,629)**	(10,384)
Net investments	**4,071,817**	4,181,765

The residual maturity analysis of the minimum lease payments and present value of the minimum lease payments as at December 31, 2021 and December 31, 2020 are analysed as follows:

	2021	2020
Total minimum lease payments		
Within one year	**1,071,580**	1,101,844
In the first to second year, inclusive	**785,165**	808,604
In the second to third year, inclusive	**525,339**	541,470
In the third to fourth year, inclusive	**326,546**	310,177
In the fourth to fifth year, inclusive	**170,207**	165,007
Over five years	**1,431,637**	1,524,467
	4,310,474	4,451,569

	2021	2020
Present value of the minimum lease payments		
Within one year	**1,016,713**	1,044,598
In the first to second year, inclusive	**736,801**	757,751
In the second to third year, inclusive	**489,478**	503,652
In the third to fourth year, inclusive	**304,174**	288,116
In the fourth to fifth year, inclusive	**161,213**	155,275
Over five years	**1,384,067**	1,442,757
	4,092,446	4,192,149

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24 Financial assets measured at fair value through profit or loss

	2021	2020
Fund investments issued by non-bank financial institutions	**42,468**	92,633
Certificates of deposit issued by banks	**2,170,429**	471,417
Other debt securities issued by banks and other financial intuitions	**276,142**	-
Other debt securities issued by corporates	**33,867**	-
Trading loans	**2,903,914**	8,544,752
	5,426,820	9,108,802
Analysed by place of listing:		
Listed in Hong Kong		
Certificates of deposit	**2,170,429**	471,417
Other debt securities	**151,805**	-
	2,322,234	471,417
Listed outside Hong Kong		
Fund investments	**-**	27,572
Other debt securities	**158,204**	-
	158,204	27,572
Unlisted		
Fund investments	**42,468**	65,061
Trading loans	**2,903,914**	8,544,752
	2,946,382	8,609,813
	5,426,820	9,108,802

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

25 Financial assets measured at fair value through other comprehensive income

	2021	2020
Financial assets measured at fair value through other comprehensive income		
Debt investments		
Treasury bills/ bonds issued by central banks/governments	**40,937,851**	28,313,493
Certificates of deposit issued by banks	**1,379,398**	4,017,378
Other debt securities issued by		
Banks and non-bank financial institutions	**32,759,857**	25,368,010
Corporates	**16,606,512**	7,536,913
	91,683,618	65,235,794
Financial assets designated at fair value through other comprehensive income		
Equity investments		
Equity shares issued by corporates	**128,638**	274,430
	91,812,256	65,510,224
Analysed by place of listing:		
Listed in Hong Kong		
Debt investments	**50,060,248**	28,500,556
Listed outside Hong Kong		
Debt investments	**10,505,848**	8,613,694
Equity investments	**46,686**	46,809
	10,552,534	8,660,503
Unlisted		
Debt investments	**31,117,522**	28,121,544
Equity investments	**81,952**	227,621
	31,199,474	28,349,165
	91,812,256	65,510,224

Under the Group's business strategy, the equity investments are made for being members of the electronic payment system in Hong Kong and are held for long term purpose. These investments are designated at FVOCI. Management had no intention to dispose of these investments as at December 31, 2021.

For the year ended December 31, 2021, there was no gross balance of financial assets measured at FVOCI transfer from Level 1 to Level 2 that resulted in significant changes to the ECL allowances (2020: $1,582,616).

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

25 Financial assets measured at fair value through other comprehensive income (continued)

(a) Movement in change in expected credit loss allowances on financial assets measured at fair value through other comprehensive income

The following table shows the reconciliation from the opening balance to the closing balance of the expected credit loss allowances on financial assets measured at fair value through other comprehensive income. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 8(a)(x).

	Stage 1	**Stage 2**	**Stage 3**	
	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**
Balance as at January 1, 2021	**37,726**	**7,952**	**-**	**45,678**
Transfer to stage 1: 12-month ECL	**7,952**	**(7,952)**	**-**	**-**
Transfer to stage 2: lifetime ECL not credit-impaired	**-**	**-**	**-**	**-**
Transfer to stage 3: lifetime ECL credit-impaired	**-**	**-**	**-**	**-**
New financial assets originated or purchased	**81,503**	**10,406**	**-**	**91,909**
Financial assets that have been derecognised	**(11,840)**	**-**	**-**	**(11,840)**
Write-offs	**-**	**-**	**-**	**-**
Recoveries of amounts previously written-offs	**-**	**-**	**-**	**-**
Net remeasurements (Including changes in risk parameters)	**(603)**	**-**	**-**	**(603)**
Foreign exchange and other movements	**220**	**-**	**-**	**220**
Balance as at December 31, 2021	**114,958**	**10,406**	**-**	**125,364**

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance as at January 1, 2020	80,041	-	-	80,041
Transfer to stage 1: 12-month ECL	-	-	-	-
Transfer to stage 2: lifetime ECL not credit-impaired	(6,795)	6,795	-	-
Transfer to stage 3: lifetime ECL credit-impaired	-	-	-	-
New financial assets originated or purchased	23,922	-	-	23,922
Financial assets that have been derecognised	(52,341)	-	-	(52,341)
Write-offs	-	-	-	-
Recoveries of amounts previously written-offs	-	-	-	-
Net remeasurements (Including changes in risk parameters)	(7,418)	1,186	-	(6,232)
Foreign exchange and other movements	317	(29)	-	288
Balance as at December 31, 2020	37,726	7,952	-	45,678

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

26 Other assets measured at amortised cost

	2021	2020
Treasury bills issued by central banks	**5,882,095**	6,199,472
Other debt securities issued by		
Banks and non-bank financial institutions	**3,480,091**	6,145,073
Corporates	**359,147**	1,985,514
	9,721,333	14,330,059
Less: Expected credit loss allowances		
Stage 1: 12-month ECL	**(8,685)**	(11,884)
Stage 2: Lifetime ECL but not credit-impaired	**(121)**	(487)
	9,712,527	14,317,688
Analysed by place of listing:		
Listed in Hong Kong	**3,525,747**	3,857,639
Listed outside Hong Kong	**-**	473,823
Unlisted	**6,195,586**	9,998,597
	9,721,333	14,330,059
Market value:		
Listed	**3,540,384**	4,380,154
Unlisted	**6,194,577**	10,012,088
	9,734,961	14,392,242

The fair value of other assets measured at amortised cost is based on quoted market bid prices. The following tables show the fair value hierarchy for other assets measured at amortised cost with fair values, which measured using fair value hierarchy method as disclosed in Note 9(a):

As at December 31, 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Other assets measured at amortised cost	**6,696,713**	**3,038,248**	**-**	**9,734,961**
As at December 31, 2020				
Other assets measured at amortised cost	4,140,124	10,252,118	-	14,392,242

There were no overdue financial investments as at December 31, 2021 and December 31, 2020 for the Group. The Group did not hold any asset-backed securities, mortgage-backed securities and collateralised debt obligations.

For the year ended December 31, 2021 and December 31, 2020, there were no significant movements in the gross balances of other assets measured at amortised cost that resulted in significant changes to the expected credit loss allowances.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

26 Other assets measured at amortised cost (continued)

(a) Movement in change in expected credit loss allowances on other assets measured at amortised cost

The following table shows the reconciliation from the opening balance to the closing balance of the expected credit loss allowances on other assets measured at amortised cost. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 8(a)(x).

	Stage 1	**Stage 2**	**Stage 3**	
	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**
Balance as at January 1, 2021	**11,884**	**487**	**-**	**12,371**
Transfer to stage 1: 12-month ECL	**-**	**-**	**-**	**-**
Transfer to stage 2: lifetime ECL not credit-impaired	**-**	**-**	**-**	**-**
Transfer to stage 3: lifetime ECL credit-impaired	**-**	**-**	**-**	**-**
New financial assets originated or purchased	**492**	**-**	**-**	**492**
Financial assets that have been derecognised	**(3,247)**	**-**	**-**	**(3,247)**
Write-offs	**-**	**-**	**-**	**-**
Recoveries of amounts previously written-offs	**-**	**-**	**-**	**-**
Net remeasurements (Including changes in risk parameters)	**(498)**	**(368)**	**-**	**(866)**
Foreign exchange and other movements	**54**	**2**	**-**	**56**
Balance as at December 31, 2021	**8,685**	**121**	**-**	**8,806**

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance as at January 1, 2020	25,057	-	-	25,057
Transfer to stage 1: 12-month ECL	-	-	-	-
Transfer to stage 2: lifetime ECL not credit-impaired	(479)	479	-	-
Transfer to stage 3: lifetime ECL credit-impaired	-	-	-	-
New financial assets originated or purchased	5,766	-	-	5,766
Financial assets that have been derecognised	(13,717)	-	-	(13,717)
Write-offs	-	-	-	-
Recoveries of amounts previously written-offs	-	-	-	-
Net remeasurements (Including changes in risk parameters)	(4,705)	10	-	(4,695)
Foreign exchange and other movements	(38)	(2)	-	(40)
Balance as at December 31, 2020	11,884	487	-	12,371

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

27 Derivative financial instruments

Derivatives include forward, swap and option transactions undertaken by the Group in the foreign exchange, interest rate and equity markets. The Group uses derivatives for trading activities and sale to customers as risk management products. These positions are actively managed through entering into offsetting deals with external parties to ensure the Group's net exposures are within acceptable risk levels. No significant proprietary positions were maintained by the Group as at the reporting date. The Group also uses these derivatives in the management of its own asset and liability portfolios and structural positions.

The following table provides an analysis of the notional amounts, carrying amounts and credit risk weighted amounts of derivatives of the Group as at the reporting date.

	December 31, 2021				December 31, 2020			
	Notional amount	**Fair value assets**	**Fair value liabilities**	**Credit risk weighted amount**	Notional amount	Fair value assets	Fair value liabilities	Credit risk weighted amount
Exchange rate contracts								
Forwards	**153,481,644**	**766,029**	**518,173**	**1,016,831**	118,818,571	1,780,639	1,693,429	587,027
Options purchased	**1,176**	**1**	**-**	**-**	90,085	10,514	-	1,314
Options written	**385,771**	**-**	**915**	**234**	305,644	-	11,182	792
Interest rate swaps	**17,908,209**	**115,086**	**202,772**	**188,419**	17,659,707	51,517	441,029	60,433
Currency swaps	**3,681,483**	**16,949**	**15,459**	**83,449**	3,174,794	72,921	66,305	98,275
Equity swaps	**166,200**	**552**	**17,754**	**7,417**	217,973	1,213	10,329	1,621
	175,624,483	**898,617**	**755,073**	**1,296,350**	140,266,774	1,916,804	2,222,274	749,462

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

28 Hedge accounting

(a) Fair value hedge

The Group uses interest rate swaps to hedge against change in fair value of financial assets and financial liabilities arising from movements in market interest rates.

As at December 31, 2021 and December 31, 2020, the amounts relating to items designated as hedging instruments are as follows:

	2021		
		Carrying Amount	
	Notional amount	**Assets**	**Liabilities**
Derivative financial instruments			
Interest rate swaps	**11,312,254**	**91,368**	**179,464**

	2020		
		Carrying Amount	
	Notional amount	Assets	Liabilities
Derivative financial instruments			
Interest rate swaps	10,902,287	1,464	386,098

As at December 31, 2021 and December 31, 2020, the amounts relating to hedged items are as follows:

	2021	
	Carrying amount	**Accumulated amount of fair value hedge adjustment included in the carrying amount**
Assets:		
Financial assets measured at FVOCI	**15,139,476**	**23,983**

	2020	
	Carrying amount	Accumulated amount of fair value hedge adjustment included in the carrying amount
Assets:		
Financial assets measured at FVOCI	11,288,322	334,646

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

28 Hedge accounting (continued)

(a) Fair value hedge (continued)

The below table sets out the changes in the fair value of the hedged items and hedging instruments for the year ended December 31, 2021 and December 31, 2020, used as the basis for recognising ineffectiveness:

		2021		
		Gains/(losses) attributable to the hedged risk		**Hedge ineffectiveness**
Hedged items	**Hedging instruments**	**Hedged items**	**Hedging instruments**	
Fair value hedge relationship				
Assets				
Financial assets measured at FVOCI	Interest rate swaps	**(310,633)**	**311,979**	**1,346**
Net gains/(losses) from hedging activities		**(310,633)**	**311,979**	**1,346**

		2020		
		Gains/(losses) attributable to the hedged risk		Hedge ineffectiveness
Hedged items	Hedging instruments	Hedged items	Hedging instruments	
Fair value hedge relationship				
Assets				
Financial assets measured at FVOCI	Interest rate swaps	213,943	(214,363)	(420)
Net gains/(losses) from hedging activities		213,943	(214,363)	(420)

The table below summarises the notional amounts of the hedging instruments by remaining contractual maturity:

	1 month or less	**3 months or less but over 1 month**	**1 year or less but over 3 months**	**5 years or less but over 1 year**	**Over 5 years**	**Total**
As at December 31, 2021						
Derivative financial instruments						
Interest rate swaps	**389,826**	**4,038,587**	**441,048**	**3,819,271**	**2,623,522**	**11,312,254**
As at December 31, 2020						
Derivative financial instruments						
Interest rate swaps	-	116,277	4,027,060	5,185,334	1,573,616	10,902,287

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

29 Subsidiaries

Particulars of the Group's subsidiaries as at December 31, 2021 are as follows:

Name of company	Place of incorporation and place of business	Particulars of issued shares held	Percentage held		Principal activities
			Directly	Indirectly	
CCB Nominees Limited ("CCBN")	Hong Kong	HKD6,000,000 of 600,000 ordinary shares	100%	-	Custodian and nominees services
CCB Securities Limited ("CCBS")	Hong Kong	HKD500,000,000 of 500,000,000 ordinary shares	100%	-	Securities brokerage business
CCB (Asia) Trustee Company Limited ("CCBT")	Hong Kong	HKD10,000,000 of 100,000 ordinary shares	100%	-	Trustee and custodian business
CCB (Asia) Insurance Broker Limited ("CCBIB")	Hong Kong	HKD10,000,000 of 10,000,000 ordinary shares	100%	-	Insurance broker services
CCB Properties (Hong Kong) Holdings Limited ("CCBPHK")	Hong Kong	HKD1 of 1 ordinary share	100%	-	Investment holding
Better Chief Limited ("BCL")	Hong Kong	HKD100 of 100 ordinary shares	-	100%	Property investment
Hong Kong (SAR) Hotel Limited ("HKSAR Hotel")	Hong Kong	HKD10,000 of 10,000 ordinary shares	-	100%	Hotel operation and management

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the Bank does not differ from the proportion of ordinary shares held. There was no non-controlling interest for both years for all of the subsidiaries.

30 Unconsolidated structured entities

Unconsolidated structured entities of the Group include asset management plans and wealth management products held for investment purposes which are established by the Group for providing wealth management services to customers and earning management fee income in return.

As at December 31, 2021 and December 31, 2020, the key nature and risk associated with the Group's interest in unconsolidated structured entities are set out below:

	2021	2020
Total assets	**864,808**	2,406,938
Total liabilities	**258**	51,663
The Group's interest in financial assets at fair value through profit or loss	**42,468**	92,633
The Group's maximum exposure	**42,468**	92,633

For the year ended December 31, 2021 and December 31, 2020, the management fee income derived from these unconsolidated structured entities held by the Group was $3,742 (2020: $8,080).

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

31 Interest in a joint venture

	2021	2020
As at January 1	**1,900,860**	1,913,865
Share of profits	**61,306**	56,995
Dividend	**(60,000)**	(70,000)
As at December 31	**1,902,166**	1,900,860

The joint venture listed below has share capital consisting solely of ordinary shares, which is held indirectly by the Group. Particulars of the joint venture as at December 31, 2021 are as follows:

Name of company	Place of business/ Place of incorporation	Particulars of issued and paid up capital	Percentage of ownership held by the Group	Principal activities	Nature of relationship	Measurement method
Diamond String Limited	Hong Kong	HKD10,000 of 10,000 ordinary shares	50%	Property investment	Note	Equity

Note: Diamond String Limited's principal activity is property investment and it is strategic to the Group's activities, as it holding property for the Bank's operation. Diamond String Limited is a private company and there is no quoted market price available for its shares.

There was dividend of $60,000 paid by Diamond String Limited to the Group for the year ended December 31, 2021 (2020: $70,000).

(a) Contingent liabilities, guarantees and commitments in respect of joint venture

There were no contingent liabilities, guarantees and commitments relating to the Group's interest in Diamond String Limited as at December 31, 2021 and December 31, 2020.

(b) Summarised financial information for a joint venture

The summarised financial information for Diamond String Limited which is accounted for using the equity method as at December 31, 2021 and December 31, 2020 is set out as below:

	2021	2020
Current		
Other current assets	**369,080**	302,909
Total current assets	**369,080**	302,909
Financial liabilities	**(912,068)**	(24,112)
Other current liabilities	**(83)**	(227)
Total current liabilities	**(912,151)**	(24,339)
Non-current		
Financial assets	**73,077**	67,990
Other assets	**1,480,505**	1,551,401
Total non-current assets	**1,553,582**	1,619,391
Financial liabilities	**(860,120)**	(1,751,502)
Other liabilities	**(33,895)**	(32,575)
Total non-current liabilities	**(894,015)**	(1,784,077)
Net assets	**116,496**	113,884

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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31 Interest in a joint venture (continued)

(c) Summarised statement of comprehensive income for the year ended December 31, 2021 and December 31, 2020

	2021	2020
Revenue	**259,640**	271,976
Depreciation and amortisation	**(55,927)**	(56,084)
Interest income	**1,746**	2,228
Interest expense	**(20,206)**	(36,578)
Profit before taxation	**151,775**	141,210
Income tax expense	**(29,163)**	(27,220)
Profit for the year & total comprehensive income	**122,612**	113,990

(d) Reconciliation of summarised financial information presented to the carrying amount of its interest in a joint venture

Summarised financial information	**2021**	2020
Net assets as at January 1	**113,884**	139,894
Profit for the year	**122,612**	113,990
Dividend paid	**(120,000)**	(140,000)
Net assets as at December 31	**116,496**	113,884
Interest in a joint venture @ 50%	**58,248**	56,942
Fair value adjustment of investment in property held by the joint venture at the acquisition date	**1,843,918**	1,843,918
Carry amount of interest in a joint venture as at December 31	**1,902,166**	1,900,860

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

32 Income tax in the consolidated statement of financial position

(a) Current tax payable

	2021	2020
Provision for Hong Kong Profits Tax for the year	**748,284**	693,431
Provisional Profits Tax paid	**(514,541)**	(1,665,508)
Balance of Profits Tax provision relating to prior years	**72,709**	995,603
	306,452	23,526
Provision for tax in the Mainland China	**78,616**	119,972
Current tax payable	**385,068**	143,498

(b) Deferred tax assets and deferred tax liabilities

	2021	2020
Deferred tax assets recognised in the consolidated statement of financial position	**612,011**	424,473

	2021	2020
Deferred tax liabilities recognised in the consolidated statement of financial position	**18,875**	19,677

As at December 31, 2021 and December 31, 2020, the majority of the deferred tax assets and deferred tax liabilities recognised will be recovered after twelve months.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

32 Income tax in the consolidated statement of financial position (continued)

(b) Deferred tax assets and deferred tax liabilities (continued)

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the years are as follows:

	Impairment allowances	Accelerated tax depreciation	Investment revaluation reserve	Provision for staff bonus	Mainland withholding tax	Others	Total
As at January 1, 2020	423,680	(33,411)	(28,217)	7,115	179,366	(154)	548,379
Charged to the consolidated statement of profit or loss	(67,850)	(5,794)	-	(175)	-	-	(73,819)
Credited to the consolidated statement of other comprehensive income	-	-	11,388	-	-	-	11,388
Other	-	-	-	-	(61,475)	-	(61,475)
As at December 31, 2020 & January 1, 2021	**355,830**	**(39,205)**	**(16,829)**	**6,940**	**117,891**	**(154)**	**424,473**
Charged to the consolidated statement of profit or loss	**81,201**	**11,563**	**-**	**96,724**	**-**	**-**	**189,488**
Credited to the consolidated statement of other comprehensive income	**-**	**-**	**39,436**	**-**	**-**	**-**	**39,436**
Other	**-**	**-**	**-**	**-**	**(41,384)**	**(2)**	**(41,386)**
As at December 31, 2021	**437,031**	**(27,642)**	**22,607**	**103,664**	**76,507**	**(156)**	**612,011**

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Accelerated tax depreciation	Tax losses	Others	Total
As at January 1, 2020	(2,259)	9,976	(27,005)	(19,288)
Charged to the consolidated statement of profit or loss	(389)	-	-	(389)
As at December 31, 2020 & January 1, 2021	**(2,648)**	**9,976**	**(27,005)**	**(19,677)**
Charged to the consolidated statement of profit or loss	**(787)**	**(6,630)**	**8,219**	**802**
As at December 31, 2021	**(3,435)**	**3,346**	**(18,786)**	**(18,875)**

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

33 Fixed assets

The carrying amounts of the Group's fixed assets and the movements during the year are as follows:

	Buildings	**Leasehold improvements**	**Furniture and equipment**	**Total**
Cost:				
As at January 1, 2021	**2,818,069**	**607,343**	**1,376,594**	**4,802,006**
Additions	**-**	**65,601**	**145,828**	**211,429**
Disposals	**-**	**(63,876)**	**(49,918)**	**(113,794)**
As at December 31, 2021	**2,818,069**	**609,068**	**1,472,504**	**4,899,641**
Accumulated depreciation:				
As at January 1, 2021	**680,895**	**512,565**	**1,080,729**	**2,274,189**
Charge for the year	**77,754**	**34,627**	**180,432**	**292,813**
Disposals	**-**	**(63,009)**	**(49,907)**	**(112,916)**
As at December 31, 2021	**758,649**	**484,183**	**1,211,254**	**2,454,086**
Net book value:				
As at December 31, 2021	**2,059,420**	**124,885**	**261,250**	**2,445,555**

	Buildings	Leasehold improvements	Furniture and equipment	Total
Cost:				
As at January 1, 2020	2,818,069	592,255	1,221,247	4,631,571
Additions	-	40,626	177,781	218,407
Disposals	-	(25,538)	(22,434)	(47,972)
As at December 31, 2020	2,818,069	607,343	1,376,594	4,802,006
Accumulated depreciation:				
As at January 1, 2020	603,122	494,085	939,753	2,036,960
Charge for the year	77,773	43,546	162,345	283,664
Disposals	-	(25,066)	(21,369)	(46,435)
As at December 31, 2020	680,895	512,565	1,080,729	2,274,189
Net book value:				
As at December 31, 2020	2,137,174	94,778	295,865	2,527,817

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

34 Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land	**Buildings**	**Equipment**	**Total**
As at January 1, 2021	**527,551**	**1,462,191**	**25,110**	**2,014,852**
Additions	**-**	**111,183**	**-**	**111,183**
Remeasurement	**-**	**(89,525)**	**(70)**	**(89,595)**
Depreciation charge for the year	**(2,015)**	**(272,298)**	**(8,762)**	**(283,075)**
As at December 31, 2021	**525,536**	**1,211,551**	**16,278**	**1,753,365**

	Leasehold land	Buildings	Equipment	Total
As at January 1, 2020	529,566	1,659,885	33,699	2,223,150
Additions	-	80,641	494	81,135
Remeasurement	-	(4,642)	-	(4,642)
Depreciation charge for the year	(2,015)	(273,693)	(9,083)	(284,791)
As at December 31, 2020	527,551	1,462,191	25,110	2,014,852

35 Lease liabilities

The carrying amounts of lease liabilities and the movements during the year are as follows:

	2021	2020
As at January 1	**1,552,237**	1,736,851
Additions	**103,221**	76,565
Remeasurement	**(96,029)**	(4,489)
Interest expense	**42,658**	57,261
Payments	**(303,579)**	(313,951)
As at December 31	**1,298,508**	1,552,237
Total lease liabilities		
Current	**241,870**	256,566
Non-current	**1,056,638**	1,295,671
	1,298,508	1,552,237

(a) Group as lessee

The Group has entered into future lease arrangements with landlords for various buildings, and the terms of the leases range from 1 to 12 years.

The Group has several lease contracts that include extension options. Management makes an overall assessment in determining whether these extension options are reasonably certain to be exercised. For the year ended December 31, 2021 and December 31, 2020, management has considered to exercise certain extension options available in the lease contracts which have commenced, and therefore, all future cash outflows to which the Group is potentially exposed have already been reflected in the measurement of lease liabilities.

The Group also has certain leases of storage room with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the “short-term lease” and “lease of low-value assets” recognition exemptions for these leases.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

35 Lease liabilities (continued)

(a) Group as lessee (continued)

As at December 31, 2021 and December 31, 2020, the Group had total future lease payments for lease committed but not yet commenced falling due as follows:

	2021	2020
Within one year	**-**	746
In the first to second year, inclusive	**-**	381
In the second to third year, inclusive	**-**	39
	-	1,166

(b) Maturity analysis – contractual undiscounted cash flows

	As at December 31	
	2021	2020
Within one year	**268,823**	306,062
In the first to second year, inclusive	**233,098**	274,115
In the second to third year, inclusive	**192,060**	240,981
In the third to fourth year, inclusive	**162,629**	198,441
In the fourth to fifth year, inclusive	**158,050**	165,121
Over five years	**402,396**	586,340
Total undiscounted cash flows	**1,417,056**	1,771,060

(c) The amount recognised in profit or loss in relation to leases are as follows:

	For the year ended December 31	
	2021	2020
Interest expenses on leases liabilities (Note 11)	**42,658**	57,261
Variable lease payments not included in the measurement of lease liabilities	**-**	1,341
Expenses relating to short term leases	**1,104**	1,380
Expenses relating to leases of low value assets	**59**	384

36 Other assets

	2021	2020
Settlement accounts	**1,272,242**	1,099,401
Customer liability under acceptances	**221,736**	242,648
Money market trade date receivables	**-**	8,000,000
Accounts receivables	**571,347**	605,935
Repossessed assets	**-**	1,801
Refundable deposits	**744,498**	842,504
Prepaid expenses	**139,194**	85,133
Others	**155,575**	189,546
	3,104,592	11,066,968

The fair value of other assets approximately equals their carrying amounts.

For the year ended December 31, 2021 and December 31, 2020, there were no significant movements in the gross balances of other assets that resulted in significant changes to the expected credit loss allowances.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

36 Other assets (continued)

(a) Movement in change in expected credit loss allowances on other assets

The following table shows the reconciliation from the opening balance to the closing balance of the expected credit loss allowances on other assets. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 8(a)(x).

	Stage 1	**Stage 2**	**Stage 3**	
	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**
Balance as at January 1, 2021	**-**	**-**	**-**	**-**
Transfer to stage 1: 12-month ECL	**-**	**-**	**-**	**-**
Transfer to stage 2: lifetime ECL not credit-impaired	**-**	**-**	**-**	**-**
Transfer to stage 3: lifetime ECL credit-impaired	**-**	**-**	**-**	**-**
New financial assets originated or purchased	**310**	**-**	**-**	**310**
Financial assets that have been derecognised	**-**	**-**	**-**	**-**
Write-offs	**-**	**-**	**-**	**-**
Recoveries of amounts previously written-offs	**-**	**-**	**-**	**-**
Net remeasurements (Including changes in risk parameters)	**-**	**-**	**-**	**-**
Foreign exchange and other movements	**-**	**-**	**-**	**-**
Balance as at December 31, 2021	**310**	**-**	**-**	**310**

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance as at January 1, 2020	16	92	305	413
Transfer to stage 1: 12-month ECL	-	-	-	-
Transfer to stage 2: lifetime ECL not credit-impaired	-	-	-	-
Transfer to stage 3: lifetime ECL credit-impaired	-	-	-	-
New financial assets originated or purchased	-	-	-	-
Financial assets that have been derecognised	(16)	(92)	(305)	(413)
Write-offs	-	-	-	-
Recoveries of amounts previously written-offs	-	-	-	-
Net remeasurements (Including changes in risk parameters)	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Balance as at December 31, 2020	-	-	-	-

* During 2021 and 2020, all other assets were initially classified in Stage 1 and were not considered as credit-impaired at the time of origination or purchase. Some were subsequently transferred into Stage 2 or Stage 3 based on the result of credit assessments.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

37 Deposits and balances with banks

	2021	2020
Deposits from banks	**3,912,429**	2,027,727
Takings from banks	**21,018,072**	14,049,917
	24,930,501	16,077,644

38 Deposits from customers

	2021	2020
Demand deposits and current accounts	**32,945,883**	29,256,487
Savings deposits	**101,312,218**	105,643,877
Time and call deposits	**242,420,180**	233,381,001
Other deposits	**518,564**	1,139,348
	377,196,845	369,420,713

39 Financial assets sold under repurchase agreements

Financial assets sold under repurchase agreements by underlying assets are shown as follows:

	2021	2020
Debt investments		
Debt securities issued by		
Banks and non-bank financial institutions	**3,642,193**	-
Corporates	**3,127,254**	-
	6,769,447	-

40 Financial liabilities designated at fair value through profit or loss

	2021	2020
Structured deposits	**515,253**	418,299

As at December 31, 2021 and December 31, 2020, the carrying amount of financial liabilities designated at FVPL was approximately the same as the amount of the Group would be contractually required to pay at maturity to the holders. During the years, the changes in the fair value of the structured deposits attributable to changes in own credit risk are considered insignificant.

41 Other debt securities issued

	2021	2020
Other debt securities issued at amortised cost	**736,578**	1,912,429

As at December 31, 2021, the fair values of other debt securities issued at amortised cost were $757,427 (2020: $1,957,513). The fair value measurement is disclosed in Note 9(a).

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

42 Other liabilities

	2021	2020
Settlement accounts	**293,641**	737,952
Accounts payables	**468,153**	410,568
Acceptances outstanding	**221,736**	242,648
Accrued salaries and welfare	**673,925**	560,861
Amounts due to intermediate holding companies	**2,652,794**	2,746,069
Debt securities trade date payables	**36,547**	-
Accrued expenses	**30,289**	15,926
Cash collateral received (Note 10(a))	**82,175**	255,267
Expected credit loss allowances on loan and other credit related commitments (Note 48(b))	**351,726**	319,440
Others	**134,001**	125,371
	4,944,987	5,414,102

The fair value of other liabilities, except for expected credit loss allowances on loan commitments, approximately equals to their carrying amount.

43 Share capital

	2021	2020
Issued and fully paid		
162,776,068 (2020: 162,776,068) HKD ordinary shares	**6,511,043**	6,511,043
440,000,000 (2020: 440,000,000) RMB ordinary shares	**22,316,800**	22,316,800
	28,827,843	28,827,843

44 Other equity instruments

Nominal value	Description	2021	2020
USD1 billion	Fixed rate perpetual capital instrument callable from December 29, 2022	7,811,732	7,811,732
USD0.5 billion	Fixed rate perpetual capital instrument callable from December 13, 2024	3,901,108	3,901,108
USD0.5 billion	Fixed rate perpetual capital instrument callable from March 26, 2025	3,876,493	3,876,493
		15,589,333	15,589,333

On December 29, 2017 the Bank issued undated non-cumulative subordinated capital instruments with a face value of USD1 billion (equivalent to HKD7.81 billion) net of related issuance costs. The additional tier 1 capital instruments are undated and bear a 4.70% coupon until the first call date on December 29, 2022. The coupon will be reset every five years if the additional tier 1 capital instruments are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus a fixed initial spread.

On December 13, 2019 the Bank issued undated non-cumulative subordinated capital instruments with a face value of USD0.5 billion (equivalent to HKD3.90 billion) net of related issuance costs. The additional tier 1 capital instruments are undated and bear a 4.31% coupon until the first call date on December 13, 2024. The coupon will be reset every five years if the additional tier 1 capital instruments are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus a fixed initial spread.

44 Other equity instruments (continued)

On March 26, 2020 the Bank issued undated non-cumulative subordinated capital instruments with a face value of USD0.5 billion (equivalent to HKD3.88 billion) net of related issuance costs. The additional tier 1 capital instruments are undated and bear a 3.18% coupon until the first call date on March 26, 2025. The coupon will be reset every five years if the additional tier 1 capital instruments are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus a fixed initial spread.

These additional tier 1 capital instruments are perpetual and subordinated, and the coupon payments may be cancelled at the sole discretion of the Group. The capital instruments will be written down at the point of non-viability on the occurrence of a trigger event as defined in the Banking (Capital) Rules. They rank higher than ordinary shares in the event of a winding-up.

45 Reserves

(a) General reserve

General reserve is appropriated from the retained earnings for future use.

(b) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of financial assets measured at fair value through other comprehensive income until the financial assets are derecognised and is dealt with in accordance with the accounting policies adopted for the measurement of these financial assets at fair value.

(c) Regulatory reserve

Regulatory reserve comprises reserves maintained in accordance with Hong Kong regulations. At Group level, it includes a regulatory reserve of $380,852 (December 31, 2020: $656,248) to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movement in this reserve is made directly through retained earnings and in consultation with HKMA.

(d) Other reserve

Other reserve is used to record the corresponding amount of the share options and bonus rewards granted by the former parent company to the Bank’s employees. The options and rewards granted are classified as equity-settled share-based payments and the amount recognised in other reserve represents capital contribution from its former parent company and is not distributable.

(e) Merger reserve

Merger reserve arises as a result of the acquisition of a majority of the corporate banking business (“Acquired Business”) of CCB Hong Kong Branch (“HKBR”). This amount represented the difference between the net book value of the Acquired Business and the consideration paid.

(f) Retained earnings

The Bank and its financial subsidiaries are required to maintain minimum capital adequacy ratios under their respective regulatory jurisdictions. The minimum capital requirements could therefore potentially restrict the amount of retained earnings available for distribution to the shareholders.

All reserves, except for general reserve and retained earnings, are not available for distribution.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

46 Statement of Financial Position and reserve movement of the Bank

(a) Statement of Financial Position of the Bank as at December 31, 2021 and December 31, 2020

	2021	2020
ASSETS		
Cash and balances with banks and central banks	**46,771,863**	54,039,049
Placements with banks	**32,615,687**	30,213,346
Advances to customers and trade bills	**300,234,658**	281,462,244
Financial assets measured at fair value through profit or loss	**5,384,352**	9,016,169
Financial assets measured at fair value through other comprehensive income	**91,812,256**	65,510,224
Other assets measured at amortised cost	**9,712,527**	14,317,688
Derivative financial instruments	**898,617**	1,916,804
Investments in subsidiaries	**526,000**	526,000
Deferred tax assets	**612,011**	424,473
Fixed assets	**2,210,365**	2,284,592
Right-of-use assets	**1,278,790**	1,539,685
Other assets	**3,220,395**	11,405,227
Total assets	**495,277,521**	472,655,501
LIABILITIES		
Deposits and balances of banks	**24,930,501**	16,077,644
Deposits from customers	**378,098,748**	370,214,995
Financial assets sold under repurchase agreements	**6,769,447**	-
Financial liabilities designated at fair value through profit or loss	**515,253**	418,299
Other debt securities issued	**736,578**	1,912,429
Derivative financial instruments	**755,073**	2,222,274
Lease liabilities	**1,298,494**	1,552,182
Current tax payable	**379,443**	132,580
Other liabilities	**2,423,353**	3,175,126
Total liabilities	**415,906,890**	395,705,529
EQUITY		
Share capital	**28,827,843**	28,827,843
Other equity instruments	**15,589,333**	15,589,333
Reserves	**34,953,455**	32,532,796
Total equity	**79,370,631**	76,949,972
Total equity and liabilities	**495,277,521**	472,655,501

Approved and authorised for issue by the Board of Directors on March 25, 2022.

MOU Naimi
Chairman and Non-Executive Director

ZHANG Jun
Vice Chairman and Chief Executive Officer

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

46 Statement of Financial Position and reserve movement of the Bank (continued)

(b) Reserve movement of the Bank

Details of the changes in the Bank's reserve between the beginning and the end of the year are set out below:

	General reserve	**Investment revaluation reserve**	**Regulatory reserve**	**Other reserve**	**Merger reserve**	**Retained earnings**	**Total**
Balance as at January 1, 2021	**750,956**	**423,621**	**656,248**	**15,913**	**62,262**	**30,623,796**	**32,532,796**
Changes in equity for 2021:							
Profit for the year	**-**	**-**	**-**	**-**	**-**	**3,335,871**	**3,335,871**
Other comprehensive income, net of tax	**-**	**(258,279)**	**-**	**-**	**-**	**-**	**(258,279)**
Total comprehensive income for the year	**-**	**(258,279)**	**-**	**-**	**-**	**3,335,871**	**3,077,592**
Coupon paid for other equity instruments	**-**	**-**	**-**	**-**	**-**	**(656,933)**	**(656,933)**
Regulatory reserve	**-**	**-**	**(275,396)**	**-**	**-**	**275,396**	**-**
Balance as at December 31, 2021	**750,956**	**165,342**	**380,852**	**15,913**	**62,262**	**33,578,130**	**34,953,455**

	General reserve	Investment revaluation reserve	Regulatory reserve	Other reserve	Merger reserve	Retained earnings	Total
Balance as at January 1, 2020	750,956	396,603	649,984	15,913	62,262	27,562,675	29,438,393
Changes in equity for 2020:							
Profit for the year	-	-	-	-	-	3,660,336	3,660,336
Other comprehensive income, net of tax	-	27,018	-	-	-	-	27,018
Total comprehensive income for the year	-	27,018	-	-	-	3,660,336	3,687,354
Coupon paid for other equity instruments	-	-	-	-	-	(592,951)	(592,951)
Regulatory reserve	-	-	6,264	-	-	(6,264)	-
Balance as at December 31, 2020	750,956	423,621	656,248	15,913	62,262	30,623,796	32,532,796

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

47 Material related party transactions

During the year, the Group entered into transactions with related parties in the normal course of its banking business including lending, acceptance and placements of inter-bank deposits, correspondent banking transactions, rental transactions, securities brokerage and derivative transactions. The transactions were priced at the relevant market rates at the time of each transaction.

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

	Intermediate holding companies (Note 51)		Fellow subsidiaries		Joint venture	
	2021	2020	**2021**	2020	**2021**	2020
Interest income	**548,926**	930,797	**54,762**	81,943	**-**	-
Interest expense	**81,616**	114,898	**1,657**	9,942	**23,182**	32,384
Fees and commission income (Note 12)	**477,057**	606,472	**109**	2,207	**-**	-
Fees and commission expense (Note 12)	**13,385**	12,504	**-**	-	**-**	-
Other operating income	**30,019**	30,726	**14,780**	14,848	**-**	-
Operating expenses	**2,407**	2,939	**-**	-	**107,669**	106,214

Fees and commission income mainly represented the fees received from intermediate holding company for advisory and support services provided.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

47 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: (continued)

	Intermediate holding companies (Note 51)		Fellow subsidiaries		Joint venture	
	2021	2020	**2021**	2020	**2021**	2020
Amounts due from:						
Cash and balances with banks and central banks	**6,313,023**	11,264,099	**-**	-	**-**	-
Placements with banks	**32,615,687**	25,838,568	**-**	-	**-**	-
Advances to customers and trade bills	**148,279**	-	**1,934,907**	2,964,694	**-**	-
Financial assets measured at fair value through other comprehensive income	**-**	-	**234,187**	1,169,005	**-**	-
Other assets measured at amortised cost	**246,799**	240,140	**-**	-	**-**	-
Derivative financial instruments	**135,029**	239,696	**-**	-	**-**	-
Right-of-use assets	**-**	-	**-**	-	**674,379**	803,841
Other assets	**517,562**	8,613,731	**4,410**	8,050	**-**	-
Amounts due to:						
Deposits and balances with banks	**19,693,136**	14,429,085	**3,297**	33,965	**-**	-
Deposits from customers	**-**	-	**5,414,818**	4,964,425	**-**	-
Derivative financial instruments	**112,139**	134,089	**-**	-	**-**	-
Lease liabilities	**-**	-	**-**	-	**733,482**	861,779
Other liabilities	**2,652,794**	2,746,069	**-**	287	**19,494**	16,672
Contingencies and commitments:						
Transaction-related contingencies	**7,039**	6,111	**-**	-	**-**	-
Other commitments	**-**	-	**2,081,335**	1,185,252	**-**	-
Derivative financial instruments: (notional amount)						
Exchange rate contracts	**68,481,507**	8,596,842	**-**	-	**-**	-
Interest rate swaps	**966,559**	1,011,822	**-**	-	**-**	-
Currency swaps	**621,437**	671,174	**-**	-	**-**	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

47 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: (continued)

The Group may enter into transactions with entities directly or indirectly owned by the Mainland China government through its government authorities, agencies, affiliations and other organisations ("state-owned entities") in the normal course of business. These transactions are entered into on terms similar to those that would have been entered into with non state-owned entities. These transactions include but are not limited to:

- Lending and deposit taking;
- Inter-bank balances taking and placing;
- Insurance and securities agency;
- Custody services;
- Sale, purchase, underwriting and redemption of bonds;
- Purchase, sale and leases of property and other assets; and
- Rendering and receiving of utilities and other services.

The Group's pricing and approval processes for major products and services do not depend on whether the customers or counterparties are state-owned entities. Having due regard to the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(b) Directors and key management personnel

During the year, the Group provided credit facilities to and accepted deposits from the directors and key management personnel of the Group and its holding companies and their close family members and companies controlled or significantly influenced by them. The credit facilities and deposits were provided and taken in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing, or where applicable, with other employees. These transactions did not involve more than the normal risk of collectability or present other unfavourable features.

	2021	2020
Loans	**24,643**	16,051
Interest income earned	**313**	148
Deposits	**304,072**	349,416
Interest expense paid	**7,763**	3,083
Compensation - salaries and other short-term benefits	**30,855**	28,797

(c) Loans to Directors

Particulars of loans to directors disclosed pursuant to Section 383(1)(d) of the Hong Kong Companies Ordinance (Cap.622) and Part 3 of the Companies (Disclosure of Information about Benefit of Director) Regulation:

	2021	2020
Aggregate amount in respect of principal and interest as at December 31	**24,643**	16,050
The maximum aggregate amount outstanding in respect of principal and interest during the year	**36,118**	31,517

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

48 Contingent liabilities, commitments and leasing arrangement

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments to extend credit:

	2021	2020
Direct credit substitutes	**101,818**	371,050
Transaction-related contingencies	**4,531,319**	5,097,298
Trade-related contingencies	**1,251,725**	1,614,033
Other commitments		
which are unconditionally cancellable or automatically cancellable due to the deterioration in the credit worthiness of the borrower	**56,675,692**	55,023,274
with an original maturity under one year	**1,741,383**	2,306,442
with an original maturity over one year	**41,900,422**	41,398,215
	106,202,359	105,810,312

Contingent liabilities and commitments are credit-related instruments which include letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for the loans. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client defaults. As the facilities may expire without being drawn upon, the contract amounts do not represent expected future cash flows.

(a) Operating leases – Group as lessor

The Group has entered into operating leases, as a lessor, on the usage of the Group's office premises rental. These leases have terms of between 1 and 3 years. Rental income recognised by the Group for the year ended December 31, 2021 was $46,970 (2020: $31,873).

Future minimum lease payments under non-cancellable operating leases as at December 31 were, as follows:

	2021	2020
Within one year	**26,839**	18,445
After one year but within two years, inclusive	**15,924**	-
After two years but within three years, inclusive	**4,865**	-
	47,628	18,445

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

48 Contingent liabilities, commitments and leasing arrangement (continued)

(b) Movement in change in expected credit loss allowances on loan and other credit related commitments

The following table shows the reconciliation from the opening balance to the closing balance of the expected credit loss allowances on loan and other credit related commitments. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 8(a)(x).

	Stage 1	**Stage 2**	**Stage 3**	
	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**
Balance as at January 1, 2021	**238,308**	**81,132**	**-**	**319,440**
Transfer to stage 1: 12-month ECL	**27,713**	**(27,713)**	**-**	**-**
Transfer to stage 2: lifetime ECL not credit-impaired	**(1,437)**	**1,437**	**-**	**-**
Transfer to stage 3: lifetime ECL credit-impaired	**(426)**	**(275)**	**701**	**-**
New commitments originated or purchased*	**47,886**	**865**	**-**	**48,751**
Commitments that have been derecognised	**(52,189)**	**(11,956)**	**-**	**(64,145)**
Write-offs	**-**	**-**	**-**	**-**
Recoveries of amounts previously written-offs	**-**	**-**	**-**	**-**
Net remeasurements (Including changes in risk parameters)	**17,779**	**29,872**	**(701)**	**46,950**
Foreign exchange and other movements	**680**	**50**	**-**	**730**
Balance as at December 31, 2021	**278,314**	**73,412**	**-**	**351,726**

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance as at January 1, 2020	207,870	43,303	-	251,173
Transfer to stage 1: 12-month ECL	-	-	-	-
Transfer to stage 2: lifetime ECL not credit-impaired	(1,841)	1,841	-	-
Transfer to stage 3: lifetime ECL credit-impaired	-	-	-	-
New commitments originated or purchased*	174,444	75,224	-	249,668
Commitments that have been derecognised	(103,774)	(43,303)	-	(147,077)
Write-offs	-	-	-	-
Recoveries of amounts previously written-offs	-	-	-	-
Net remeasurements (Including changes in risk parameters)	(40,471)	4,067	-	(36,404)
Foreign exchange and other movements	2,080	-	-	2,080
Balance as at December 31, 2020	238,308	81,132	-	319,440

* During 2021 and 2020, all loan commitments were initially classified in Stage 1 and were not considered as credit-impaired at the time of origination or purchase. Some were subsequently transferred into Stage 2 or Stage 3 based on the result of credit assessments.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

49 Capital commitments

Capital commitments outstanding as at December 31, not provided for in the consolidated financial statements are as follows:

	2021	2020
Expenditure contracted but not provided for	**88,878**	82,054
Expenditure authorised but not contracted for	**67,421**	71,929
	156,299	153,983

50 Notes to consolidated statement of cash flows

(a) Reconciliation of operating profit to net cash outflow from operations

	2021	2020
Operating activities		
Operating profit	**3,879,846**	4,461,586
Adjustments for:		
Dividend income	**(4,306)**	(5,512)
Depreciation	**575,888**	568,455
Net charges on expected credit losses	**745,163**	435,492
Written-off of loans and advances, net of recoveries	**(523,498)**	(177,039)
Amortisation of premium/discount on financial assets measured at fair value through other comprehensive income	**113,269**	(33,167)
Amortisation of premium/discount on other assets measured at amortised cost	**(1,794)**	(48,520)
Amortisation of discount on other debt securities issued	**1,023**	1,264
Fair value adjustments	**(20,125)**	(178,429)
Effect of foreign exchange rate changes	**(865,282)**	(1,943,023)
	3,900,184	3,081,107
(Increase)/decrease in operating assets		
Balances and placements with banks with original maturity beyond three months and balances with central banks	**3,253,758**	9,107,478
Gross advances to banks	**-**	1,919,518
Gross advances to customers and trade bills	**(18,884,254)**	8,543,647
Financial assets measured at fair value through profit or loss with original maturity beyond three months	**3,975,734**	1,899,444
Derivative financial instruments	**1,018,187**	(9,036)
Other assets	**7,962,066**	(7,482,477)
	(2,674,509)	13,978,574
Increase/(decrease) in operating liabilities		
Deposits and balance with banks	**8,852,857**	8,168,519
Financial assets sold under repurchase agreements	**6,769,447**	-
Deposits from customers	**7,776,132**	(25,777,424)
Derivative financial instruments	**(1,467,201)**	1,223,868
Other debt securities issued	**(1,176,874)**	(4,304,514)
Financial liabilities designated at fair value through profit or loss	**129,994**	313,894
Other liabilities	**(516,221)**	638,512
	20,368,134	(19,737,145)
	21,593,809	(2,677,464)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

50 Notes to consolidated statement of cash flows (continued)

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

	2021	2020
Gross cash and balances with banks and central banks	**46,773,312**	54,039,682
Placements with banks with original maturity within three months	**12,415,322**	6,761,126
Financial assets measured at fair value through profit or loss with original maturity within three months	**306,667**	-
Financial assets measured at fair value through other comprehensive income with original maturity within three months	**1,247,251**	-
Other assets measured at amortised cost with original maturity within three months	**3,904,298**	-
	64,646,850	60,800,808

(c) Reconciliation with the consolidated statement of financial position

	2021	2020
Cash and balances with banks and central banks (Note 21)	**46,771,963**	54,039,149
Placements with banks (Note 22)	**32,615,687**	30,213,346
Financial assets measured at fair value through profit or loss (Note 24)	**5,426,820**	9,108,802
Financial assets measured at fair value through other comprehensive income (Note 25)	**91,812,256**	65,510,224
Other assets measured at amortised cost (Note 26)	**9,712,527**	14,317,688
Amounts shown in consolidated statement of financial position	**186,339,253**	173,189,209
Less: Amounts with an original maturity beyond three months		
Placements with banks	**(20,200,365)**	(23,454,127)
Financial assets measured at fair value through profit or loss	**(5,120,153)**	(9,108,802)
Financial assets measured at fair value through other comprehensive income	**(90,565,860)**	(65,510,634)
Other assets measured at amortised cost	**(5,817,036)**	(14,330,059)
Expected credit loss allowances	**11,011**	15,221
Cash and cash equivalents in the consolidated statement of cash flows	**64,646,850**	60,800,808

(d) Analysis of changes in financing activities during the year

	Lease liabilities
Balance as at January 1, 2021	**1,552,237**
Cash outflow from financing activities	**(260,921)**
Interest expense	**42,658**
Interest paid classified as operating cash flow	**(42,658)**
Non-cash movement related to lease liabilities	**7,192**
Balance as at December 31, 2021	**1,298,508**

	Lease liabilities
Balance as at January 1, 2020	1,736,851
Cash outflow from financing activities	(256,690)
Interest expense	57,261
Interest paid classified as operating cash flow	(57,261)
Non-cash movement related to lease liabilities	72,076
Balance as at December 31, 2020	1,552,237

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

50 Notes to consolidated statement of cash flows (continued)

(e) Non-cash investing and financing activities

The Group's major non-cash investing and financing activities include gain on disposal of fixed assets and share of profit of a joint venture in 2021. During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of $111,183 (2020: $81,135) and $103,221 (2020: $76,565), respectively.

51 Assets pledged as collaterals

Transferred financial assets not qualifying for full derecognition and their associated financial liabilities

	2021	
	Carrying amount of transferred assets	**Carrying amount of associated liabilities (Note 39)**
Repurchase agreements	**7,265,741**	**6,769,447**

The financial assets shown above include amounts transferred to third parties that do not qualify for derecognition are mainly debt securities held by counterparties as collateral under repurchase agreements. As the substance of these transactions is secured borrowings, the collateral assets continue to be recognised in full as financial assets measured at fair value through comprehensive income and the related liabilities, reflecting the Group's obligation to repurchase the transferred assets for a fixed price at a future date, are also recognised on the statement of financial position. As a result of these transactions, the Group is unable to use, sell or repledge the transferred assets for the duration of the transactions. The Group remains exposed to interest rate risk, credit risk and market risk on these pledged instruments. The counterparty's recourse is not limited to the transferred assets.

52 Immediate parent and ultimate controlling party

At December 31, 2021 and December 31, 2020, the Bank's immediate parent is CCB Overseas Holdings Limited ("CCBOHL"), a company incorporated in Hong Kong. CCBOHL is controlled by CCBC. Central Huijin Investment Ltd. is the controlling party of CCBC, and is a wholly-owned subsidiary of China Investment Corporation which is a wholly state-owned investment and management company. The Group's intermediate parent, CCBC, which is a listed bank incorporated in the Mainland China, produces financial statements available for public use.

53 Comparatives

Certain comparative figures have been adjusted to conform with the presentation and disclosures in the current year.

54 Events after the reporting period

There are no significant events after the reporting period.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

The notes to the consolidated financial statements and the following unaudited supplementary information are prepared to comply with the Banking (Disclosure) Rules.

1 Overdue and rescheduled assets

(a) Gross advances to customers, advances to banks and trade bill overdue for more than three months:

	As at December 31, 2021		As at December 31, 2020	
		% on total advances to customers		% on total advances to customers
Six months or less but over three months	**9,766**	**0.00**	532,808	0.19
One year or less but over six months	**264,226**	**0.09**	41,692	0.01
Over one year	**469,139**	**0.15**	118,176	0.04
Total gross amount of advances overdue for more than three months	**743,131**	**0.24**	692,676	0.24
Expected credit loss allowances made in respect of the above overdue advances	**702,654**		412,890	
Net realisable value of collateral held against the overdue advances	**118,678**		161,187	
Covered portion of overdue advances	**118,678**		161,187	
Uncovered portion of overdue advances	**624,453**		531,489	
	743,131		692,676	

As at December 31, 2021, collaterals held with respect of overdue advances to customers are mainly commercial properties and residential properties (2020: industrial and commercial properties and residential properties).

As at December 31, 2021 and December 31, 2020, there were no trade bill overdue for more than three months.

(b) Rescheduled advances to customers, advances to banks and trade bill:

	2021		2020	
		% on total advances to customers		% on total advances to customers
Rescheduled advances to customers	**60,912**	**0.02**	69,290	0.02

Rescheduled advances are those advances which have been restructured or renegotiated because of deterioration in the financial position of the borrower, or the inability of the borrower to meet the original repayment schedule and for which the revised payment terms are non-commercial to the Bank. The rescheduled advances are stated net of any advances that have subsequently become overdue for over three months and reported as overdue advances as above.

As at December 31, 2021 and December 31, 2020, there were no rescheduled advances to banks and trade bills.

(c) Other overdue and rescheduled assets

As at December 31, 2021 and December 31, 2020, there were no other overdue and rescheduled assets, other than the above mentioned.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2021
(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

2 Segmental information

(a) Gross advances to customers

(i) Gross advances to customers by industry sectors at as December 31, 2021 and December 31, 2020, are as below:

	2021		2020	
	Outstanding balance	**% of advances covered by collateral**	Outstanding balance	% of advances covered by collateral
Advances for use in Hong Kong				
Industrial, commercial and financial				
Property development	**19,366,960**	**90.06**	16,637,039	89.37
Property investment	**27,023,353**	**92.24**	26,025,290	89.38
Financial concerns	**36,069,234**	**22.22**	38,265,535	29.22
Stockbrokers	**1,620,000**	**37.04**	1,695,339	29.49
Wholesale and retail trade	**5,506,145**	**86.52**	4,633,315	86.85
Manufacturing	**6,583,844**	**77.10**	7,785,393	77.76
Transport and transport equipment	**10,542,598**	**64.16**	6,906,945	74.92
Recreational activities	**1,836,934**	**0.63**	14,021	100.00
Information technology	**3,961,728**	**72.45**	5,196,353	56.22
Others	**17,737,014**	**75.14**	17,907,185	76.42
	130,247,810		125,066,415	
Individuals				
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**1,457**	**100.00**	2,230	100.00
Loans for the purchase of other residential properties	**35,334,745**	**100.00**	26,697,270	99.98
Credit card advances	**3,599,555**	**0.00**	3,880,087	0.00
Others	**15,423,053**	**27.00**	14,959,019	26.39
	54,358,810		45,538,606	
Trade finance	**3,116,180**	**78.10**	3,069,805	77.31
Advances for use outside Hong Kong	**115,235,121**	**53.82**	110,364,506	58.84
Accrued interest receivables	**339,430**		373,765	
Gross advances to customers	**303,297,351**		284,413,097	

3 Corporate governance

The Bank has complied with the requirements set out on the Supervisory Policy Manual Module, CG-1 "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the Hong Kong Monetary Authority.

There are five special committees and one sub-committee under the Board of Directors, namely Executive Committee, Strategy and Corporate Governance Committee, Audit Committee, Nomination and Remuneration Committee, Risk Committee and Compliance Sub-Committee under the Risk Committee. There are seven key functional committees, of which Asset and Liability Committee, Fintech Committee and Safe Production Committee directly report to Executive Committee, while Risk Management Committee, Credit Committee, Product Innovation and Approval Committee and Internal Control, Compliance jointly report to Executive Committee and Risk Committee.

(a) Board of Directors

The Board of Directors has the ultimate responsibilities to the shareholders, depositors, creditors, employees, other stakeholders, and banking supervisors of the Group in ensuring that the business and operational functions of the Group are managed in a prudent, professional and competent manner and in conformity with relevant laws and regulations. Key specialised committees are established to be responsible to and report to the Board of Directors, and assist the Board of Directors in performing its duties according to the authorisation of the Board of Directors. The functional committees are established to ensure that such operational functions, as well as efficient management of the main types of risk arising out of the business, are effectively carried out. The Board of Directors held four meetings in 2021.

The key functions and powers of the Board of Directors are set out below:

- Determining the Bank's development strategy, and supervising its implementation;
- Deciding on the business plan, investment plan and risk capital distribution plan of the Bank;
- Preparing annual financial budget and final accounts of the Bank;
- Preparing profit distribution plan and planning for making up losses of the Bank;
- Preparing plans for the increase or reduction of the Bank's share capital, issuance of the Bank's convertible bonds, subordinated bonds, corporate bonds or other negotiable securities and listing;
- Preparing plans for the Bank's major acquisitions;
- Preparing plans for merger, division, dissolution and liquidation of the Bank;
- Deciding on the Bank's equity investment, bond investment, asset acquisition, asset disposal, asset written-off, asset mortgage, other non-commercial banking business guarantees and external donations;
- Deciding on the setting up of the Bank's internal management divisions;
- Deciding on the setting up of subsidiaries;
- According to the shareholder's requirements, appointing or removing the chief executive officer (include the alternate chief executive) of the Bank, senior executive vice president, executive vice president and other senior management members and determining their remuneration, reward and penalty;
- Formulating the Bank's basic management systems, and supervising the implementation of these systems;
- Deciding on risk management policies and internal control policies of the Bank, formulating risk management system and internal control system of the Bank, and supervising the implementation of such systems;
- Reviewing the Bank's sustainability strategies, goals and priorities as well as material sustainability related policies and the environmental, social and governance issues which are material to the Bank and the related measures, and overseeing the Bank's sustainability performance;
- Making proposal for the engagement, dismissal or retention of auditors to the Shareholders' General Meeting, and determine their remuneration and related arrangements;
- Receiving and reviewing work reports of the Bank's senior management, and supervising, checking and assessing his/her work and adopting accountability system;
- Assessing and evaluating the duty performance of directors and senior management members, the Board of Directors and its individual Special Committee;
- Regularly evaluating and continuously improving corporate governance of the Bank, and conducting a regular evaluation of the performance of the Board of Directors;

3 Corporate governance (continued)

(a) Board of Directors (continued)

- Assessing the ongoing suitability of each director at least annually, taking into account the director's performance during the meetings of the board and, where relevant, its special committees, and other relevant factors as appropriate, where the performance of individual director does not meet expectations or there is serious concern on a director's integrity, the Board of Directors should take timely and appropriate action; propose to the shareholders the arrangement on the re-appointment of directors;
- Formulating the amendments to the Articles of Association of the Bank and the Procedural Rules for Board of Directors of the Bank, and formulating other systems, rules and measures of the Board of Directors;
- Formulating the capital planning and relevant systems on capital adequacy ratio assessment and management of the Bank, and supervising the implementation of such systems;
- Formulating systems for the management of accounting consolidation of the Bank and its subsidiaries, and supervising the implementation of such systems;
- Delegating all or any part of the authorities given by the shareholder to the Chairman or Chief executive officer of the Bank and allowing the Chairman or Chief executive officer of the Bank to further delegate all or part of his/her authority to other personnel of the Bank provided that the aforesaid delegation should be made by way of authorisation document; and
- Exercising other functions and powers vested by laws, regulations, rules, and relevant provisions of the relevant regulatory authorities, and the Articles of Association as well as those authorised by the Bank's ultimate sole shareholder, CCBC, and/or the Shareholders' General Meeting.

Members of the Board of Directors, who come from a variety of different backgrounds, have a diverse range of business, banking and professional expertise. As at December 31, 2021, the Board of Directors comprises two Executive Directors and eight Non-Executive Directors. Of the eight Non-Executive Directors, four are independent Non-Executive Directors ("independent directors").

In order to promote sustainable development and to diversify the composition of the Board of Directors, the Bank has in place a policy on the selection and appointment of directors. For nomination of directors, the Board of Directors shall consider both capabilities and professional ethics of the candidates, and at the same time, take into account the requirement of board diversity. The candidates should be complementary including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service of persons with diversify backgrounds. The final decision shall be based on the candidates' overall competence and possible contributions to the Board. The Nomination and Remuneration Committee is responsible for reviewing and supervising the implementation of the selection and appointment policy for directors which is approved by the Board of Directors.

(b) Executive Committee

The Executive Committee is responsible to the Board of Directors. The main duties and powers of the Executive Committee are:

- Matters assigned by the Board of Directors:
  - Research and formulate the Bank's specific measures to better implement the relevant policies and guidelines of shareholder and the Board of Directors;
  - Prepare and propose matters which are required to be submitted to the Board of Directors for approval or discussion, including:
    - Significant investment or asset disposal;
    - Capital arrangement proposals, capital planning and allocation guidelines;
    - Any subsidiaries established in any countries;
    - Any programs of medium term bonds or listed warrants;
    - Report the potential impacts of significant changes in internal rating policies and rating override cases;
    - Report on the scope and performance of internal control systems yearly;
    - Recovery Plan;
    - Engagement, retention or dismissal of external auditors; and
    - Other matters requiring approval by the Board of Directors.

3 Corporate governance (continued)

(b) Executive Committee (continued)

- Matters assigned by the Board of Directors: (continued)
  - Review and approve the composition and terms of reference of functional committees directly reporting to Executive Committee, including:
    – Asset and Liability Committee;
    – Fintech Committee;
    – Safe Production Committee;
    – Risk Management Committee;
    – Credit Committee;
    – Product Innovation and Approval Committee; and
    – Internal Control, Compliance and Operations Committee.
  - Approve matters that exceed the authority of functional committees and working committees/working units but within the authority delegated by the Board of Directors to Executive Committee;
  - Review and approve the Resolution Planning Core Information Collection Policy; and
  - Other matters assigned by the Board of Directors for review or handling.
- Matters of Business Management:
  - Analyse the macroeconomic situations and policy environment, conduct thematic research on strategic topics and formulate strategic plans;
  - Direct asset and liability management;
  - Direct system development of internal management and control;
  - Review or approve the Bank's major management systems and regulations, including but not limited to the systems of the committees directly reporting to Executive Committee;
  - Study and review the Bank's schemes of organizational structure and functional committees' setup, as well as allocation of divisional functions;
  - Review the annual financial budgeting and financial reports;
  - Supervise the operations of internal rating systems;
  - Approve matters related to significant fixed asset acquisitions, significant finance expenditures, as well as charity donations made by the Bank;
  - Decide compromised compensation in significant cases, the compensation expenditures in significant litigation and penalty matters from external regulators within the authorization from the Board of Directors; and
  - Handle/review other management matters of importance.
- Matters of Authorization and Human Resources Management:
  - Determine and revise functional committees' and senior management's authority and delegation of authority;
  - Study and review the employments of General Manager, Deputy General Manager, and ad-hoc staff, and the adjustments of division of responsibilities among members of senior management;
  - Investigate and review the assessments and corresponding rewards and punishments for representatives of each line of business and division;
  - Decide to use the title of the Bank to report, compliment, and grant honors to group(s) or individual(s); and
  - Handle/review other matters of authorization and human resources management.

According to the terms of reference of the Executive Committee, the Executive Committee shall be composed of executive directors and all executive vice presidents of the Bank. The Executive Committee held twenty meetings in 2021.

3 Corporate governance (continued)

(c) Strategy and Corporate Governance Committee

The Strategy and Corporate Governance Committee is responsible to the Board of Directors and the main duties and powers of the Strategy and Corporate Governance Committee are:

- Preparing the Bank's strategy and development plan, supervising and evaluating the implementation of plan, and providing suggestions to the Board of Directors;
- Examining the Bank's annual operation plan and fixed asset investment budget, and submitting them to the Board of Directors for consideration;
- Examining the report on implementation of annual operation plan and fixed asset investment budget;
- Evaluating coordinative development of various businesses, and providing suggestions to the Board of Directors;
- Examining significant organisational adjustment and institutional scheme of the Bank, and providing suggestions to the Board of Directors;
- Examining major investment and financing plan of the Bank, and providing suggestions to the Board of Directors;
- Supervising the implementation of the relevant resolutions of the Shareholders' General Meetings and board meetings;
- Regularly receiving and reviewing the reports of senior management and making suggestions on operation management, as well as formulating rules for implementation to facilitate execution;
- Ensuring that the Bank has committed adequate efforts, time and resources according to compliance requirements;
- Formulating and regularly reviewing whether the Bank is in compliance with the laws, regulations and codes on corporate governance, and making suggestions to the Board of Directors; and
- Other matters authorised by the Board of Directors.

According to the terms of reference of the Strategy and Corporate Governance Committee, the Strategy and Corporate Governance Committee shall be composed of at least three directors. The Chairman of the Strategy and Corporate Governance Committee shall be taken by the Chairman of the Board of Directors. Members other than the Chairman of the Strategy and Corporate Governance Committee shall be appointed by the Board of Directors. The Strategy and Corporate Governance Committee held four meetings in 2021.

(d) Audit Committee

The Audit Committee serves as the "eyes and ears" to the Board of Directors in monitoring compliance with the Group's policies and other internal and statutory regulations. It provides oversight of the Group's internal and external auditors and thereby assists the Board of Directors in providing independent review of the effectiveness of the financial reporting process and internal control system of the Group.

The main duties and powers of the Audit Committee are:

- Supervising financial reports of the Bank, and examining the Bank's accounting information and disclosure of its major events;
- Supervising and evaluating internal control of the Bank, including internal rating systems related issues of the Bank;
- Supervising and evaluating external audit work of the Bank, proposing to the Board of Directors on engagement or replacement of independent audit firm, and responsible for the communication and co-ordination between external auditors and internal auditors;
- Paying attention to improper acts which may occur, reviewing and ensuring the Bank with proper arrangements in place for fair and independent investigation of improper acts and for appropriate follow-up actions.
- Approving the appointment or dismissal of the head of internal audit division, participating in the assessment of the person in charge of the internal audit division;
- Approving the internal audit charter prepared by the internal audit division and its regular updates;
- Receiving and reviewing the work report of the person in charge of the internal audit division; inspecting, monitoring and assessing the internal audit function;

3 Corporate governance (continued)

(d) Audit Committee (continued)

- Urging the management to provide adequate resources to and appropriate standing of internal auditors;
- Reporting to the Board of Directors its work and maintaining communication and co-operation with other special committees;
- Discussing the problems faced in during the financial audit and suggestions, and any matters proposed by the auditor for discussion (without the presence of the management at the meeting);
- Reviewing and approving the scope of audit and its frequency, the internal audit plan and the needs for human and financial resources after identifying the coverage of business risks;
- Reviewing the audit report and ensuring that the senior management (together with the monitoring division) take actions as necessary to tackle the internal control weaknesses, areas that do not comply with the laws, regulations and policies, or issues identified by other auditors/internal audit division in a timely manner;
- Reporting to the Board of Directors significant audit findings, and making relevant suggestions;
- Engaging intermediary agencies to provide professional advisory services and assist the Audit Committee in making professional judgment; and
- Other matters authorised by the Board of Directors.

According to the terms of reference of the Audit Committee, the Audit Committee shall consist of at least three directors, shall only be composed of non-executive directors, the majority of whom shall be independent directors, and as a whole shall have adequate experience in audit practices, financial reporting and accounting and shall possess a collective balance of skills and expertise. Members of the Audit Committee shall be appointed by the Board of Directors. The Chairman of the Audit Committee shall be appointed for the Audit Committee to take charge of the work of the Audit Committee. The Chairman of the Audit Committee shall be an independent director with a background in accounting, banking, or other relevant financial industry. To ensure independence, the Chairman of the Audit Committee shall not be the Chairman of the Board of Directors or of any other committee. The Chairman of the Audit Committee shall be elected by more than half of the members of the Audit Committee. The Audit Committee held four meetings in 2021.

(e) Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible to the Board of Directors and the main duties and powers of the Nomination and Remuneration Committee are:

- Organising the formulation of standards and procedures for the election of directors and senior management members of the Bank, and submitting the proposed procedures and standards to the Board of Directors for approval;
- Proposing to the Board of Directors on candidates for directors and chief executive officer (include the alternate chief executive) of the Bank;
- Proposing to the Board of Directors on candidates for members of various special committees of the Board of Directors;
- Reporting to the Board of Directors the resignation or retirement of the members of the Board of Directors and special committees of the Board of Directors, and proposing to the Board of Directors for acceptance and approval;
- Examining the candidates for senior management members of the Bank nominated in accordance with rules of shareholder and making suggestions to the Board of Directors;
- Formulating development plans for the senior management members of the Bank and fostering plans for the key backup talents;
- Making recommendations in respect of the Bank's remuneration policy and practices to the Board of Directors to ensure the remuneration policy is consistent with the legal and regulatory requirements;
- Organising the preparation of performance evaluation methods and remuneration plan for directors of the Bank, and submitting them to the Board of Directors for review;
- Organising the preparation of performance evaluation methods and remuneration plan for senior management members of the Bank and submitting them to the Board of Directors for approval;
- Organising performance evaluation on directors, proposing the distribution of remuneration for directors, and submitting it to the Board of Directors for review;

3 Corporate governance (continued)

(e) Nomination and Remuneration Committee (continued)

- Organising performance evaluation on the senior management members, proposing the plan for distribution of remuneration for senior management members, key personnel and heads of control functions, and submitting it to the Board of Directors for approval;
- Supervising the implementation of the Bank's performance evaluation system;
- Ensuring a regular (at least annual) review of the Bank's remuneration system and its operation is conducted independently of management and the result is submitted to the Hong Kong Monetary Authority as required;
- Reporting to the Board of Directors any material issues in relation to the remuneration system on a regular basis;
- Reviewing corporate level's remuneration adjustments and performance-based bonus with reference to the corporate goals and objectives resolved by the Board of Directors from time to time, assessing whether such bonus involves any unidentified business interests, and submitting it to the Board of Directors for approval;
- Proposing to the Board of Directors on the change, appointment or re-appointment of directors and the succession plan of directors;
- Selecting suitably qualified and experienced individuals as candidates for directors, reviewing the resume of candidates for directors and evaluate the qualification of the candidates for directors in accordance with Section 3 of the Corporate Governance Document – Supplementary Policy, submitting proposal of appointment of directors to the Board of Directors for approval;
- Reviewing on whether existing individual director remains qualified for his/her post on a regular basis (at least annually. If a director ceases to be qualified or fails to fulfil his/her responsibilities, reporting details and recommending the appropriate action should be taken to the Board of Directors;
- Recommending to the Board of Directors on the appointment and cessation of senior management; strategic personnel structure adjustment plans; or personnel adjustment plans that required to be submitted to the regulatory authorities;
- Examining and approving relevant compensation to the executive directors and senior management members for loss or termination of office or appointment to ensure such compensation is consistent with provisions of relevant contracts; if it fails to abide by the relevant agreements, relevant compensation shall be proper and reasonable, and recommending the compensation plans to the Board of Directors;
- Examining the compensation to non-executive directors and independent directors for loss or termination of office or cease of appointment to ensure such compensation is proper and consistent with relevant laws and regulations, and recommending the compensation plans to the Board of Directors;
- Examining and approving compensation for dismissing or removing relevant directors due to their misconduct to ensure such arrangement is consistent with provisions of relevant agreement; if it fails to comply with the relevant agreements, relevant compensation shall be reasonable and proper, and recommending the compensation plans to the Board of Directors;
- Reporting its decisions or suggestions to the Board of Directors unless such report is not allowed by laws or supervisory regulations;
- Reviewing the structure, size and composition of the Board of Directors (including skills, knowledge and experience), and putting forth recommendations on proposed adjustment of the Board of Directors to implement corporate strategy of the Bank;
- Regularly reviewing the contribution required from a director to perform his/her duties and powers to the Bank, and whether he/she is spending sufficient time performing them;
- Advising and assisting the Board of Directors in establishing the Bank's culture and behavioural standards that promote prudent risk-taking and fair treatment of customers;
- Formulating or reviewing important human resources management policies, and submitting them to the Board of Directors for approval; and
- Other matters authorised by the Board of Directors.

According to the terms of reference of the Nomination and Remuneration Committee, the Nomination and Remuneration Committee shall be composed of at least three directors, majority of whom shall be independent directors. Members of the Nomination and Remuneration Committee shall be appointed by the Board of Directors. The Chairman of the Nomination and Remuneration Committee shall be taken by an independent director, and shall be elected by all members of the Nomination and Remuneration Committee and reported to the Board of Directors for approval. The Nomination and Remuneration Committee held four meetings in 2021.

3 Corporate governance (continued)

(f) Risk Committee

The Risk Committee is responsible to advise the Board of Directors in carrying out its risk management responsibilities, in order to ensure an adequate oversight of the Bank's overall risk management framework and to promote regular and transparent communications within the organisation in respect of bank-wide risk management issues.

The main duties and powers of the Risk Committee are:

- Examining the Bank's key risk management policies according to the overall strategy of the Bank, and supervising and evaluating implementation and effectiveness of these policies;
- Reviewing and recommending the risk appetite framework, the narrative, risk appetite thresholds of the Bank's risk appetite statement to the Board of Directors for approval; reviewing the performance of the Bank relative to the established thresholds on a quarterly basis;
- Reviewing and recommending the recovery plan to the Board of Directors for approval;
- Approving the key policies of internal rating systems, ensuring compliance with regulatory requirements on the design and procedures of internal rating systems, quantification of risk parameters, IT system and data management, validation and application of internal rating; and exercising the oversight in implementation of these policies;
- Reviewing the effectiveness of internal rating systems on an annual basis;
- Approving other key matters in relation to internal rating systems;
- Providing guideline to the formulation of risk management system of the Bank;
- Supervising and evaluating the setting, organisation and effect of risk management division, and making recommendations for improvement;
- Reviewing the Bank's risk report including strict compliance with any related prudential, statutory and regulatory limits and relevant requirements, as well as material risk exposures approved by the senior management members/Committee members; carrying out regular evaluation on the Bank's risk position; and giving opinions on the improvement of the Bank's risk management;
- Evaluating relevant work of senior management of the Bank in charge of risk management;
- Supervising the compliance of core businesses, management systems and major operation activities of the Bank;
- Discussing the risk management strategies of the Bank based on the existing laws/regulations/regulatory requirements with due regard to its own business scale, nature and complexity etc., and making suggestions to the Board of Directors;
- Ensuring that comprehensive and integrated management is adopted with respect to the definition, identification and management of major risks:
  - Formulating a set of definitions applicable to the whole entity with respect to different types of risks faced by the Bank;
  - Comprehensively monitoring existing risks across the entity where the entity covers all branches under the Group where the Bank has management rights; and
  - Ensuring that potential risks involved in the Bank's existing and new businesses are effectively identified, understood and assessed.
- Approving the risk management framework that is in line with the Bank's business objectives, risk appetite and profile, and ensuring that the framework is duly implemented and maintained by the senior management members:
  - Monitoring and reviewing the risk governance structure of the Bank and approving the key risk management policies; ensuring the sound operation of risk management and various internal control functions; whether in terms of decision-making or reporting structure, maintaining effective independence from the business divisions that involve risks; possessing adequate power, resources, professional knowledge and expertise to perform its duties;
  - Approving the policy level limits; and
  - Ensuring that the Bank has a sound stress-testing system and reviewing the results of stress-testing program.
- Regularly reviewing the risk management framework to ensure the Bank has a suitable structural system to manage its risks arising in the course of business development and arising from the changes in external market environments;
- Ensuring that the information system and its infrastructure are provided with adequate resources to cope with the Bank's risk management and reporting needs;

3 Corporate governance (continued)

(f) Risk Committee (continued)

- Regularly review and approve the Bank's fair valuation policies; exercise oversight over the implementation of effective valuation processes and procedures in accordance with these approved policies; ensure any fair valuation issues raised are reviewed and properly addressed; review the governance structure regularly to ensure it remains appropriate;
- Provide guidance on the Bank's risk management framework on climate risk, review the Bank's risk management on climate risk issues; and
- Other matters authorised by the Board of Directors.

According to the terms of reference of the Risk Committee, members of the Risk Committee shall be appointed by the Board of Directors. The Risk Committee shall be composed of at least three directors and collectively possess relevant technical expertise and experience in risk disciplines, the majority of whom shall be independent directors. The Chairman shall be an independent director with a background in accounting, banking or other relevant financial industry or expertise in risk management. The Chairman shall not be the same person as the Chairman of the Board of Directors or of any other committee. The Chairman shall be elected by all members of the Risk Committee and reported to the Board of Directors for approval. Other than members of the Committee, the Deputy Chief Executive overseeing risk management, Chief Financial Officer, Chief Compliance Officer, Head of Risk Management, Head of Legal and Compliance, and Head of Internal Audit of the Bank shall sit in on meetings of the Committee as ex officio members. The Committee held four meetings in 2021.

(g) Compliance Sub-Committee under Risk Committee

The Compliance Sub-Committee under Risk Committee ("Sub-Committee") is responsible to the Risk Committee and the main duties and powers of the Sub-Committee are:

- Reviewing and approving the compliance policy of the Bank;
- Receiving and reviewing the report on the implementation of compliance policies to ensure that compliance risks are effectively managed;
- Providing guideline to the formulation of the compliance risk framework of the Bank;
- Supervising and evaluating the setting, organisation and effect of Legal and Compliance Division, and making recommendations for improvement;
- Approving the appointment of the Head of Legal and Compliance Division;
- Reviewing the on-site examination report of the Hong Kong Monetary Authority and reporting the significant findings to the Risk Committee;
- Reviewing the Bank's legal and compliance report including, but not limited to, reporting of (a) regulatory incidents, (b) regulatory developments, (c) regulatory examinations, (d) progress of compliance reviews, (e) progress of the HKMA driven control self-assessments, (f) anti-money laundering activities and related controls, and (g) progress of litigation cases affecting the Bank;
- Ensuring that the compliance function is provided with adequate resources; and
- Other matters authorised by the Risk Committee.

According to the terms of reference of the Sub-Committee, the Sub-Committee shall be composed of three directors, all or majority of whom shall be non-executive directors. Members of the Sub-Committee shall be nominated and appointed by the Risk Committee. The adjustment and replacement of members of the Sub-Committee shall be decided by the Risk Committee. The Chairman of the Sub-Committee shall be appointed by the Risk Committee to take charge of the work of the Sub-Committee. The Sub-Committee held four meetings in 2021.

3 Corporate governance (continued)

(h) Asset and Liability Committee

The Asset and Liability Committee ("ALCO") is a functional committee under the Executive Committee. Its main function is to base on the annual business plan, financial budgets, strategic development targets and risk appetite approved by the Board to formulate strategies over the Bank's asset and liability structure and capital allocation, and to ensure the Bank's business is operated within the acceptable risk tolerance level, so as to achieve the annual and strategic development goals approved by the Board.

ALCO members include Deputy Chief Executive overseeing Finance Division as the Chairperson, Vice Chairman and Chief Executive Officer, President & Executive Director, Deputy Chief Executives, Chief Banking Officer, the Head of Finance Division, Risk Management Division, Credit Division, Treasury Division, Data Management and Marketing Division, e-Banking Division, Corporate Banking Division, Institutional Banking Division, Commercial Banking Division, Transaction Banking & Capital Market Division, Consumer Banking Division, Private Banking Division and Credit Card & Consumer Finance Division.

(i) Fintech Committee (formerly known as: Information Technology Committee)

The Fintech Committee is set up to act as a functional committee under the Executive Committee with the following scope and responsibilities:

- Formulate the bank's financial technology strategic plan, working mechanism and various development measures; and ensure that the bank's financial technology strategy is consistent with Head Office;
- Implement the work requirements from Head Office, the Governments, and regulatory agencies on financial technology, and promote the construction of major special projects tasks;
- Approve major financial technology policies and governance/ regulations;
- Review data governance policies, popularize data culture, and promote data capacity constructions;
- Formulate relevant resource allocation policies, coordinate financial technology R&D, operation and maintenance and supporting resources, and coordinate financial technology innovation resources;
- Coordinate and solve major problems encountered in the development of financial technology and data governance, integrate the audit reports of internal and external audit institutions, and the supervision reports of external regulatory agencies, analyse and evaluate the effectiveness of the Bank's financial technology policies, and make suggestions for improving the system and measures;
- Promote research and application of new technologies, explore the establishment of a sustainable financial technology innovation model; and promote the operation of the Bank's financial technology innovation mechanism;
- Approve the application for new/reconstructed large-scale projects (therefore total project investment over HKD10 million (inclusive));
- Responsible for determining annual strategic projects, promoting the implementation of strategic projects, coordinating and advancing the resolution of major project issues;
- Guide and promote the bank's financial technology risk management,
- Evaluate the results of financial technology application and overall financial technology service performance;
- Ensure that financial technology control is in place and comply with relevant policies, guidelines and governance structures formulated by local regulatory agencies and the Head Office;
- Supervise the Data Governance Committee, and manage the implementation, resources and performance of data governance; and
- Other important matters to be undertaken by the committee.

3 Corporate governance (continued)

(i) Fintech Committee (formerly known as: Information Technology Committee) (continued)

Membership of the Fintech Committee is appointed by the Senior Management. Currently, the Committee consists of twenty-four members with the Chief Executive as the Chairperson, Deputy Chief Executive overseeing Fintech Division, Deputy Chief Executive overseeing Data Management and Marketing Division, Deputy Chief Executive overseeing Consumer Banking Division, Deputy Chief Executive overseeing Operations Division as the Vice Chairperson. Other members are Head of Fintech Division, Head of Data Management and Marketing Division, Head of Product Innovation Management Division, Head of eBanking Division, Head of Operations Division, Head of Risk Management Division, Head of Legal & Compliance Division, Head of Finance Division, Head of Human Resources Division, Head of Consumer Banking Division, Head of Credit Card and Consumer Finance Division, Head of Private Banking Division, Head of Corporate Banking I Division, Head of Corporate Banking II Division, Head of Commercial Banking Division, Head of Institutional Banking Division, Head of Treasury Division and Overseas Fintech Centre Representative, while Head of Internal Audit Division is non-voting member and Fintech Division Representative is the secretary to the Committee.

(j) Risk Management Committee

The Risk Management Committee is set up as a functional committee to assist both the Executive Committee and the Risk Committee in the oversight of risk management matters. The Risk Management Committee acts as a central forum for overseeing the Bank's overall asset quality as well as resolving all important risk related or governance issues on credit risk, operational risk, market risk, liquidity risk, interest rate risk, strategic risk and reputation risk. In addition, two working committees namely Special Assets Management Committee and Operational Risk Management Committee are established under the Risk Management Committee. The major responsibilities of the Risk Management Committee include:

- Ensure a comprehensive and integrated management approach is adopted within the Bank with respect to the definition, identification and management of major risks;
- Ensure the Bank's risk profile is in line with the risk appetite and strategies set under the direction of the Executive Committee, the Risk Committee as well as China Construction Bank Corporation (the Bank's Credit Advisor);
- Ensure the risk management framework is properly implemented and maintained and is adequate for the scale and complexity of the Bank's business operation;
- Approve or review new or major changes in risk policies and processes to ensure they adequately accommodate the updated market conditions, economic trends and specific risk profiles/factors of the Bank, as well as due compliance of any relevant laws and regulations;
- Approve or review various risk limits, parameters and thresholds, as well as risk assessment tools to ensure pertinent risks are addressed/mitigated;
- Approve the Terms of Reference for the working committees under the RMC, namely Special Assets Management Committee and Operational Risk Management Committee;
- Act as a central forum to review, discuss and resolve matters across different risk areas;
- Approve or review major risk assessment/monitoring reports from respective risk areas and committees of the Bank;
- Ensure the effectiveness and continuity of the operation of internal rating systems and effective integration of internal rating systems into the daily credit risk management processes by monitoring the performance and risk prediction of the application and reviewing the results of validation on a regular basis;
- Approve credit programs with legal and compliance considerations;
- Oversee overall asset quality of the Bank through exceptional reporting and trend analysis as deemed appropriate by the Credit Committee;
- Approve or review stress testing related matters including stress testing policies, stress testing limits/ triggers, the results of the stress-testing programme and any necessary remedial actions as reported by stress testing function;
- Approve the Annual Business Continuity Report;
- Approve or review operational risk issues including operational risk management tools, results of monitoring of key operational risk controls and other critical operational risk management related matters as reported by the Operational Risk Management Committee and respective operational management functions;
- Review the risk positions and trends of the Bank, etc.;
- Review material issues relating to impairment allowances as reported by the Special Asset Management Committee; and
- Facilitate the regular reporting of respective risk areas to the Risk Committee and/or the Executive Committee.

3 Corporate governance (continued)

(j) Risk Management Committee (continued)

The Risk Management Committee is chaired by the Deputy Chief Executive overseeing Risk Management, and members include the Head of Risk Management Division, the Head of Credit Division, the Head of Legal and Compliance Division, Head of Finance Division, Deputy Head of Risk Management Division supervising Operational Risk and Head of Market Risk.

(k) Credit Committee

The Credit Committee acts as a functional committee to assist both the Executive Committee and the Risk Committee on loan quality maintenance, authority delegation, credit related policy-making and maintenance, credit approval and credit risk management issues. The major responsibilities of the Credit Committee include:

- Oversee overall credit quality of the Bank;
- Ensure that the Bank's credit risk profile is in line with the risk appetite and strategies set under the direction of the Risk Management Committee, the Executive Committee and the Risk Committee;
- Approve or review new or major changes in credit related policies and processes to ensure that they adequately accommodate the updated market conditions, economic trends as well as due compliance of any relevant laws and regulations;
- Approve or review various credit related risk limits, parameters and thresholds, as well as credit programs, products, risk assessment tools to ensure pertinent risks are addressed/mitigated;
- Approve new and changes in delegation of approval authorities; and
- Review and approve credit actions or applications.

The Credit Committee is chaired by the Deputy Chief Executive overseeing Risk Management or the Chief Risk Officer or Head of Risk Management Division, and members include the Head of Credit Division, the Deputy Head of Risk Management Division and designated individual credit approver(s).

(l) Product Innovation and Approval Committee

The Product Innovation and Approval Committee is established to oversee product development and management. The Committee provides an independent risk and compliance forum in the form of the Product Risk and Compliance Approval Meeting to conduct the review and approval of products and services as defined in the New Product Approval Policy. This committee is charged with the responsibility for:

- Reviewing and approving new product development and the requests regarding the engagement in new products as well as modified products that fall into the definitions as stated in the New Product Approval Policy;
- Ensuring that the major risk dimensions of new products are properly identified and analysed by the product owners in accordance with the New Product Approval Policy and relevant law, regulations and supervisory guidance, and effective control measures are properly proposed to address the risks;
- Reviewing and approving the New Product Approval Policy;
- Reviewing and approving investment and insurance products and third-party product providers; and
- Facilitating the regular reporting of respective risk areas to the Risk Committee.

According to the terms of reference of the Product Innovation and Approval Committee, the members of the Product Risk and Compliance Approval Meeting include the Chief Executive Officer as the Chairperson, the Deputy Chief Executive overseeing Risk Management and the Chief Risk Officer or the Head of Risk Management Division as Co-chairpersons. Members include heads of the Legal and Compliance Division, Finance Division, Operations Division, Credit Division as well as Information Systems Division.

3 Corporate governance (continued)

(m) Internal Control, Compliance and Operations Committee

The Internal Control, Compliance and Operations Committee is the functional committee under the Executive Committee and the Risk Committee to assist both the Executive Committee and the Risk Committee to identify and assess the risk of compliance, internal control function and adequacy of operations of the Bank. This committee is charged with the responsibility for:

- Providing advice and proposal to the Management regarding major compliance and internal control issues;
- Identifying and evaluating the Bank's overall compliance risks or significant internal control defects so as to monitor and control the identified risks and defects;
- Reviewing and approving the annual compliance plan, annual reports concerning the implementation of the plans, main rules and regulations that affect the Bank, and significant non-compliance matters, significant fraud incidents and/or suspicious transactions or activities;
- Reviewing the adequacy and efficiency of the internal control system and ensuring fit and proper rectification measures;
- Approving membership and Terms of Reference for the AML Committee and Investment and Insurance Working Unit;
- Approving Annual Plan for Investment and Insurance Quality of Assurance of Consumer Banking and Investment Products Risk Rating Model submitted from the AML Committee or the Investment and Insurance Working Unit;
- Define responsible parties to set up operational policies, procedures and guidelines pertaining to all business activities of the Bank to ensure on-going operational efficiency, cost-effectiveness and adequate controls, as well as compliance with all applicable regulatory and operational risk management requirements and standards;
- Review delegation of operational authorities to staff of different levels so as to ensure responsible staff will discharge daily duties and responsibilities in a legitimate and adequately controlled manner;
- Reviewing and approving standard service charges and fees in relation to payments, products and services offered by the Bank to ensure fairness and market competitiveness;
- Formulating and approving management policy and guidelines to ensure the effective operation and sufficient monitoring of outsourced activities to ensure due compliance with all relevant regulatory and corporate guidelines and standards;
- Approving the account opening at the third-party financial institutions and the highest trading limit of all the Bank's channels; and
- Facilitating regular reporting of important matters monitored and discussed to the Risk Committee.

According to the terms of reference of the Internal Control, Compliance and Operations Committee, the Deputy Chief Executive in charge of Compliance and Operations shall be appointed as the Chairman of the Committee. Other members of the Committee shall be comprised of Head of Corporate Banking Divisions, Head of Institutional Banking Division, Head of Treasury Division, Head of Consumer Banking Division, Head of Commercial Banking Division, Head of Private Banking Division, Head of Transaction Banking and Capital Market Division, Head of Operations Division, Head of Fintech Division, Head of Finance Division, Head of Risk Management Division, Head of Legal and Compliance Division, Head of Credit Card and Consumer Finance Division, Head of e-Banking Division, Head of Product Innovation Management Division and Head of Data Management and Marketing Division.

4 Risk management

Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Group recognises the risk as a distinct risk which is inherent in every aspect of the Group's businesses and activities which should be managed in a structured and systematic manner.

The Group implements a centralised risk management framework and formulates operational risk management policy to provide a bank-wide definition of operational risks and set out the requirements on the identification, assessment, reporting, monitoring and mitigation of operational risk. The Board level Risk Committee is responsible for the oversight of risk matters including operational risk. The Risk Management Committee is the executive body to assist the Risk Committee in the daily management of operational risk related issues including the review and approval of operational risk management policies, discussion and resolution of operational risk matters as well as the supervision of the Bank's business continuity process.

The Group implements the "Three Lines of Defence" in its operational risk management framework. Every unit, business and supporting units alike, are functioning as the first line of defence responsible for its own operational risk management in carrying out their daily activities. Operational Risk under Risk Management Division, Legal and Compliance Division together with certain units involved in management of internal process, people and system are the second line of defence responsible for the design and implementation of the operational risk management policies, mechanism, tools and methodologies in their responsible areas. Internal Audit is the third line of defence which conducts periodic reviews and independent audits of the Group's operational risk management process. The purpose is to ensure due compliance with established operational risk management policies and procedures, and to evaluate the effectiveness of the operational risk management process and control mechanism. The results of these reviews and audits are regularly reported to the Board level Audit Committee for effective oversight and monitoring.

The Group regularly reviews and enhances the Business Continuity Plan of all critical banking services. It also maintains data processing back-up sites and facilities to support business operations during disastrous events. To ensure practicality of the plan, drills on contingency plans for certain critical business functions are performed annually with satisfactory results.